

14th European-Japanese Conference
BUILDING CLOSER COOPERATION IN A TROUBLED WORLD
Bruxelles, 30/III-1/IV/1993

- a. "Agenda"
- b. "List of participants"
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- d. "Bibliographical information"
1. "Reorganizing Western alliance cooperation: America, Europe and Japan : a prescription for collective Pax Americana"/ Jean-Pierre Lehmann
2. "Keeping East Asia pacific"/ Gerald Segal
3. "A Japanese viewpoint on the global trading system: regionalism, competition and cooperation"/ Takatoshi Ito
4. "European monetary disunion"/ Pierre Jacquet
5. "European security: unfinished business and unanswered questions"/ Robert Cooper
6. "European security problems: a Japanese perspective"/ Yutaka Akino

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8 GIUGNO 1993	
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XIVTH EUROPEAN-JAPANESE CONFERENCE

BUILDING CLOSER COOPERATION IN A TROUBLED WORLD

At Château de la Hulpe, Brussels

March 30 - April 1, 1993

AGENDA

Tuesday, March 30, 1993

- 7:15 p.m. Bus departs from Hotel Sheraton (Place Rogier 3, B-1210 Brussels, Tel. 224-3111, Fax 224-3456) for Château Sainte-Anne (Rue du Vieux Moulin 103, Brussels, Tel. 660 2900, Fax 673 2491)
- 8:00 p.m. Opening Dinner at Château Sainte-Anne

Wednesday, March 31, 1993

- 8:15 a.m. Bus departs from Hotel Sheraton for Château de la Hulpe (chaussée de Bruxelles, 111, 1310 La Hulpe, tel. 653-6404, Fax 652-0581)
- 9:30-12:30 p.m. **First Session: Reorganizing Western Alliance Cooperation: America, Europe, and Japan**
- The View from Japan**
Amb. Koji Watanabe, Japanese Ambassador to Italy
- The View from Europe**
Prof. Jean-Pierre Lehman, Director,
European Institute of Japanese Studies, Stockholm
- 12:30-2:00 p.m. Informal Luncheon
- 2:30-5:30p.m. **Second Session: Perspectives for East Asia and the Pacific Region**
- The View from Japan**
Akira Kojima
Senior Editor and International News Editor
Nihon Keizei Shimbun
- The View from Europe**
Dr. Gerald Segal, Senior Research Fellow,
IISS, London
- 5:30 p.m. Bus departs from Château de la Hulpe for Hotel Sheraton
- 7:30 p.m. Bus departs from Hotel Sheraton for Restaurant "La Maison du Cygne" (Grand Place, 9, B-1000 Brussels, Tel. 511 8244, Fax 514-3148)
- 8:00 p.m. Dinner at Restaurant "La Maison du Cygne"

Thursday, April 1, 1993

8:15 a.m. Bus departs from Hotel Sheraton for Château de la Hulpe

9:30-12:30 **Third Session: Developments in Europe**

The Future of European Integration: Perspectives from Europe and Japan

Dr. Pierre Jacquet
Deputy Director, IFRI

Prof. Takatoshi Ito
Professor of Economics
Hitotsubashi University

The New Security Challenges in Europe: Perspectives from Europe and Japan

Robert Cooper
Foreign and Commonwealth Office, London

Prof. Yutaka Akino
Associate Professor of International Relations
University of Tsukuba

12:30-2:00 p.m. Informal Luncheon

2:30-4:00 p.m. **Fourth Session: European-Japanese Relations:
State of Affairs and Perspectives**

A View from Japan	Oral presentation
A View From Europe	Oral presentation

4:15 p.m. Address by Sir Leon Brittan,
Vice-President, Commission of the European
Communities

6:00 p.m. Conference disperses

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List of European Participants

Sir Leon Brittan	Vice-President, Commission of the European Communities, Brussels
Dr. Christoph Bertram	<i>DIE ZEIT</i> , Hamburg
Robert Cooper	Foreign and Commonwealth Office, London
Marcel Depasse	European Advisor, THE SURUGA BANK, LTD., Brussels
Emilio Fernández-Castano	Chef de Cabinet to State Secretary for European Affairs, Madrid
Francesco Fornasari	FIAT SpA, Turino
Wolfgang Ischinger	Head of Planning Staff, Ministry of Foreign Affairs, Bonn
Dr. Pierre Jacquet	Associate Director, Institut Français des Relations Internationales, Paris
Dr. Marie-Hélène Labbé	Institut d'Etudes Politiques de Paris
Prof. Jean-Pierre Lehmann	Director, The European Institute of Japanese Studies, Stockholm
Prof. Dr. Hanns W. Maull	Professor of Foreign Policy and International Relations, University of Trier Co-Director of the German Society for Foreign Policy, Bonn
Simon Nuttall	Director, East-Asian Affairs, Directorate-General of External Relations, Commission of the European Communities, Brussels
John Roper	Director, Institute for Security Studies, Western European Union, Paris
Dr. Gerald Segal	Senior Fellow, International Institute for Strategic Studies, London
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XIV EUROPEAN-JAPANESE CONFERENCE
BUILDING CLOSER COOPERATION IN A TROUBLED WORLD

Château de la Hulpe, Brussels

March 30 - April 1, 1993

List of Japanese Participants

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After studying Law and Political Science at the universities of Berlin, Paris and Bonn (1957-67), Mr. Bertram has been a Research Associate of the International Institute for Strategic Studies (IISS) in London (1967-69). He became Assistant Director of the IISS in 1969 and has been Director of that organization from 1974-1982. From 1969-70, Mr. Bertram has also been a Member of the Planning Staff for the German Ministry of Defence.

SIR LEON BRITTAN has been Vice-President of the Commission of the European Communities since 1989. He had responsibility for competition Policy and Financial Institutions until the end of 1992. Since January 1993 he has been responsible for External Economic Affairs and Trade Policy.

Educated at Haberdashers' Aske's School, Cambridge and Yale, Sir Leon was called to the Bar in 1972, became a QC in 1978 and a Bencher of the Inner Temple in 1983. He was knighted in 1989. In 1974 he entered Parliament as Member for Cleveland and Whitby, holding various shadow posts. Following the general election in 1979, Sir Leon was appointed Minister of State at the Home Office. In 1981 he joined the Cabinet as Chief Secretary to the Treasury, became Home Secretary in 1983 and was Secretary of State for Trade and Industry from 1985 to 1986. In 1983, following boundary changes, Sir Leon was elected MP for Richmond, North Yorkshire, which he remained until he took up his present post in Brussels.

ROBERT COOPER is a political counsellor at the British Embassy in Bonn. He graduated from Worcester College, Oxford, with a BA in philosophy, politics and economics. He received his MA in international relations from the University of Pennsylvania.

Mr. Cooper entered the British diplomatic service in 1970 and spent until 1971 at the Foreign and Commonwealth Office. After two years of language study, he joined the British Embassy in Tokyo (1973-77) and went back to the Foreign and Commonwealth Office from 1977-82. Having worked for the Bank of England from 1982-84, he joined the UK Representation to the European Community in Brussels (1984-87). Mr. Cooper has been Head of the Far Eastern Department (1987-89) and Head of Policy Planning Staff (1989-92) in the Foreign and Commonwealth Office.

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Mr. Depasse retired from the Belgian Diplomatic Service in 1988 having held various position in the Foreign Ministry. He was Attaché to the Belgian Embassy in Washington (1952-55); Secretary at the Belgian Embassy in Moscow (1957-60); Director of the Scientific Division (1960-62) and later Director of the Middle East Division (1971-74) in the Ministry of Foreign Affairs Brussels; Minister, Deputy Head of Mission at the Belgian Embassy in Rome (1974-76); Ambassador in Singapore (1976-1979) and Tokyo (1985-1988), and Ambassador in charge of the negotiation of the treaties on waterways with the Netherlands in Brussels (1980-84).

Mr. Depasse has also been the assistant of the Belgian Commissioner for Atomic Energy in Brussels (1955-57); Director of the European Space Research Organization in Paris (1962-71); a Permanent Representative to the Disarmament Conference in Geneva (1984-85); advisor to the President of the Liaison Committee of the Cement Industries of the European Community (1988-92); and Head of the Belgian Delegation to the Western European Union Committee on Space (1989-91).

EMILIO FERNÁNDEZ-CASTANO Y DIAZ-CANEJA is Chef de Cabinet to the State Secretary for European Affairs in Madrid.

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YOICHI FUNABASHI is a diplomatic correspondent and columnist for the Asahi Shimbun, a leading Japanese daily.

He has covered politics and economics in Japan for twenty-five years and has been the Asahi correspondent in Washington, D.C. and Beijing, and a Nieman Fellow at Harvard University. Mr. Funabashi was an Ushiba Fellow in 1986 and was a fellow at the International Institute of Economics in 1987. Mr. Funabashi is the author of several books, including The Theory of Economic Security (1978), Neibu-Inside China, (1983), The U.S.-Japan Economic Entanglement-the Inside Story, (1987) and Nihon Senryaku Sengen (Civilian Manifesto), editor and author (1991). Winner of the Suntory Humanities Award, 1983. He was also awarded the 1985 Vaughn-Ueda Prize - often called Japan's Pulitzer Prize - for the coverage of the U.S.-Japan economic friction, the Yoshino Sakuzo Award in 1988 for his book Managing the Dollar: From the Plaza to the Louvre, and the Ishibashi Tanzan Prize in 1992 for his articles "Japan and the New World Order" for Foreign Affairs and "Japan and America: Global Partnership" for Foreign Policy.

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Reorganizing Western Alliance Cooperation
--America, Europe, and Japan--

March 31, 1993

Koji Watanabe

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Reorganizing Western Alliance Cooperation:
America, Europe & Japan —
A Prescription for Collective *Pax Americana*

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The European Institute of Japanese Studies
Stockholm School of Economics

XVth European-Japanese Hakone Conference

Château de la Hulpe, Belgium
31 March 1993

The Position in 1993



"Cooperation" is not necessarily the term that readily comes to mind in observing the current state of relations between America, Europe and Japan. Nor indeed can any of the three regions be said to be in particularly "outward-looking" mode. Introversion with an apparent knee-jerk tendency to a more conflictual than cooperative stance seem to be the more prevailing ethos. The dominant characteristic of the global environment is that of regionalism, which will be the major theme of this paper. There is both a contradiction and an exacerbated tension between a recognized need to achieve coordination, to accelerate centripetal forces of global problem solving -- the Uruguay Round, the Rio Conference, etc, -- and the momentum of centrifugal forces.

The genesis of the centrifugal forces lies, of course, primarily in economics. The European Community and the North Americans are in the process of establishing *de jure* regional economic entities. So far as Japan is concerned, the greater intra-regional economic integration of the Asia Pacific region is increasingly becoming a *de facto* reality. Whether ultimately Asia will also establish a formal economic regional structure remains to be seen.

While the contradiction and tension between the centripetal and centrifugal forces are clearly operational and visible, to leave it at that would be both a simplification and a misrepresentation of reality. To be sure, what one is also observing simultaneously is the intensification of centrifugal forces within the centrifugal forces. Especially in the cold climate of the recession of the early nineties, politicians are prone to concentrate on domestic issues and to protect vested interests.

Popular support for NAFTA, with the possible exception of the Mexicans, may perhaps be described as underwhelming. The very fact that this "free trade" treaty contains some two-thousand pages speaks for itself. Canada itself is rife with its own domestic centrifugal forces. The fact that NAFTA represents a major precedent, namely the only case so far of a developing country engaging in a free trade agreement with a major industrialized power, is, on the surface, quite impressive.

At the same time, however, the differences in virtually all respects between the United States and Mexico are stark and not unexpectedly have led to pressure groups of various sorts -- environmentalists, labour unions, etc -- urging revisions and/or safeguards to the treaty. Furthermore, NAFTA, as Michael Aho (1) has pointed out, 'is not the end of the process, but only the beginning'. Among the many questions that will be posed in the years ahead, assuming that NAFTA is indeed ratified, is the possible extension of the agreement to other Latin American countries.

In Europe, the much heralded "millennium of 1992" ultimately turned out to be somewhat of a nightmare. The chaos of the ERM, the Danish rejection of Maastricht, the whisker with which the treaty was passed in France, the growing revolt of the Euro-sceptics in Britain, the acrimony directed at the Bundesbank, the political paralysis borne of corruption in Italy, etc, etc, hardly a happily united Europe make.

Major differences between countries on issues ranging from economic monetary union, border controls, the social charter, prevail. While efforts are concentrated on the means of deepening the Community, intensive negotiations proceed on the question of widening the membership, though here again opinions are divided not simply among the members of the Community, but within the electorate of the candidate states. For example, while the Swedish government energetically proceeds with negotiations to have Sweden join the European Community, polls indicate that the majority of popular opinion remains opposed.

The greatest European crises, however, emerge from the consequences of the collapse of the Soviet Empire. The unification of Germany, while leading to the realization of a long-cherished national dream, has opened a Pandora's box of social and political turmoil, and of acute, seemingly intractable, economic problems. The "emancipation" of the Central and Eastern European states from the Soviet yoke has resulted, not by any stretch of the imagination in the "end of history", but, as

Hanns Maull (2) has written, 'the world moved from the *anni mirabiles* of 1989 and 1990 back into history with a vengeance'. This has been most dramatically manifested in the widespread xenophobia and ethnic warfare that has erupted. With the economic prospects of most of the countries being dismal, or worse, one has a simultaneous spiralling escalation of political violence and social disintegration.

What has been especially galling has been the manifest European inability of getting its act together, for example, in the face of the carnage in former Yugoslavia on the one hand, but also in formulating a coherent economic and trade policy in respect to virtually all these newly emancipated countries on the other. The Central and Eastern European states are encouraged to liberalize their economies, but discouraged from exporting their produce to member states of the Community. Thus, while divisions exist within the European Community on a broad range of critical issues related to the single market, divisions also permeate the capitals of Europe in regard to responses to meeting the daunting challenge posed by the collapse of the Soviet Union and the alarming spillover effects that have inundated the wasteland that it has left in its wake.

And the most daunting challenge of all is, of course, Russia itself. Hyper-inflation, economic chaos, popular nationalism, the disposal of a military arsenal, moral bankruptcy, rampant gangsterism, inadequate administrative structures, an antiquated infrastructure, political turmoil, separatist movements, the increasingly uncertain future of Boris Yeltsin, are among the various ills that plague the country and the consequences of which could be devastating. The resurgence of Russian imperialism is by no means a scenario to be lightly dismissed. There is certainly at this stage no answer to the "Russian question" -- partly, of course, because it is not yet clear what the question is.

The magnitude of the Russian questions on the one hand, and the proclivity for Euro-centricism on the other, can, among other things, be illustrated by the fact that while Europeans are keen that Moscow should be invited to join the forthcoming G-7 meeting in Tokyo, no consideration is being given to the arguably equally urgent question of what to do about Beijing. As Gerald Segal (3) has pointed out, 'if the criterion for attendance at G-7 gatherings is the size of a country's market economy, then China deserves a seat well before Russia'. The Chinese economy certainly figures somewhere in the top league of nations, indeed by some measurements it is already in third position, and in terms of total size of GNP due to surpass Japan in the early part of the next century. The failure of Europe to absorb the realities of China is a reflection of Euro-centric myopia, provincialism, consequently the antithesis of globalism.

Meanwhile in East Asia, the association of the term "dynamism" with the Asia Pacific Region has now become somewhat of a cliché: throughout the seventies and eighties East Asian growth rates outranked those of the rest of the world by significant margins and this pattern is set to continue through the nineties. Economists drool and Asians proudly point to the fact that whereas trans-Pacific trade overtook trans-Atlantic trade in the course of the previous decade, thus announcing

a seemingly irreversible shift of the centre of economic gravity from the Atlantic to the Pacific, the evidence appears all the more compelling in that intra-Pacific trade, ie trade between the countries of the Asia Pacific region, has in this decade achieved greater volume than trans-Pacific trade. The enunciation in Bangkok in January of the "Miyazawa doctrine" was intended, *inter alia*, to put a Tokyo stamp on a growing economic Pan-Asianist pattern.

The centrifugal forces in East Asia, however, are powerful and arguably the most dangerous. For one thing, Japan retains a highly ambivalent and uncomfortable position in Asia. This refers partly to the problem of coming to terms with the war. Furthermore, however, while undoubtedly Japan plays in many respects a preeminent role in Asia, including as the region's major investor, its major source of official development assistance, and as a transferor of technology, its markets remain difficult for most Asian producers of manufactured goods to penetrate: hence, Japan has a chronic trade surplus with most countries of the Asia Pacific region, which, therefore, still depend on the American market, with which, in turn, they tend to run trade surpluses.

Dislocations of various sorts punctuate practically all dimensions of the region. China is economically buoyant, politically uncertain, geopolitically unpredictable, and with seeming territorial irredentist instincts, notably in the South China sea. The questions relating to the Korean peninsula, including the possible eventual re-unification of North and South, remain unanswered, while in the meantime Pyongyang is feared to be installing a nuclear arsenal. Will it be war, will it be peace, alternatively how long can the *status quo* be maintained? And the quagmire of Cambodia risks precipitating further regional instability.

The "success" of East Asia has been uneven. Some of the poorest countries of the world, Laos, Burma, are situated in East Asia, others, eg the Philippines, remain basket-cases of underdevelopment. There are gaping discrepancies between regions within the same country, eg a rich and prospering Bangkok in contrast to the outlying provinces, or between the coastal areas of China and the hinterland. There are also ethnic differences and tensions, especially in South East Asia where the entrepreneurial drive and creation of wealth of the Overseas Chinese stand in contrast to the poorer and more lethargic conditions of the "native" populations, eg the *bumiputra* in Malaysia, the *pribumi* in Indonesia, etc.

While there is a context in East Asia of centrifugal forces and tensions, there is no institutional framework for addressing, let alone seeking to solve, them: ie no forum comparable to NATO, the CSCE, etc. The current intensive arms race in Asia is occurring in a political vacuum. While Japan, as indicated above, provides economic leadership up to a point, neither does it provide, nor is it in a position to provide, political leadership. As to a broader military role, not only is this currently opposed by popular opinion in Japan -- the time and Herculean efforts required to get the PKO bill through the Diet illustrates the point -- but that particular option remains virulently opposed by all East Asian countries. If the collapse of the Russian empire is the burning question *par excellence* in Europe, the recent, rapid, somewhat

remarkable resurgence of the Chinese Empire, as an economic, political, cultural and military power, represents the greatest unknown in Asia -- but not just in Asia.

A point that should also be noted in this context, and more than just in passing, is that in recent decades the West has had great difficulty coping and coming to terms with Japan. Since its military defeat in 1945, however, Japan's challenge to the West has been exclusively economic. China, by contrast, is a nuclear power, it is massively increasing spending on conventional weapons, it will soon repossess Hong Kong and is seeking to integrate Taiwan, its sphere of influence extends to the Overseas Chinese communities in South-East Asia of approximately 40 million people, who in turn virtually control the economies of countries such as Indonesia, Malaysia and Thailand. It retains a totalitarian form of government. And it has an axe to grind. The scars of foreign humiliations extending as far back as the Opium wars are still prominently there. The Atlantic has been talking about the twenty-first century being the "Pacific Century" for now at least a decade, but by no means is it clear that it has been doing anything to prepare for its imminent arrival.

While there is obviously much more to be said about the position in 1993, the tensions between centripetal forces and centrifugal forces on the one hand, and the centrifugal forces within the centrifugal forces, on the other, seem to provide a basic framework for the current environment in which the three major global actors are operating. And clearly dominating this framework are the opposite directions in which Russia and China are headed, namely the collapse of the former with all the perilous uncertainties that arise, and the militant resurgence of the latter, with all the perilous uncertainties that equally arise.

Annual get-togethers *à la G-7*, the somewhat more pronounced and coherent role of the United Nations, etc, notwithstanding, the spirit of cooperation, as suggested in the first sentence of this paper, is not necessarily a conspicuous characteristic of the current relationship between America, Europe and Japan. The tendency is rather to focus almost exclusive attention on the home or near-home ground. This tendency also naturally fosters a greater drift towards protectionism.

Especially weak is the relationship between Europe and Japan. Europe tends to sit on the sidelines as Washington and Tokyo engage in various discussions, harmonious, acrimonious, or somewhere in between, observing what has become a US-Japan *pas-de-deux*, without any major initiative of seeking to transform the global economic and political relationship into a *ménage à trois*. That attitudes between Europeans and Japanese should be characterized primarily by mutual suspicion is hardly surprising in light of the poor quantity and quality of Euro-Japanese communications. The fact that Chancellor Helmut Kohl, leader of the world's third and Europe's biggest economic power was in Japan in February of this year, the world's second and currently Asia's dominant economic power, for the first time in seven years, may not tell it all, but nevertheless certainly tells a great deal.

To say that in the current global context there is a vacuum possibly goes well beyond the inexcusable bounds of banality. The intention in saying this here, however, refers not only to the more obvious developments of the collapse of the Soviet Empire, the consequent end of the cold-war, of the bi-polar super-powers, the possible, or at least alleged, retrenchment tendencies of the United States, and so on, but arguably to something more philosophical.

While in the concluding paragraphs of the previous section consideration was given to the varied destinies and uncertainties of the Russian and Chinese empires, there are also uncertainties attached to the direction of the American empire, even if clearly of not comparable cataclysmic proportions. If the term "collapse" applies to the Russian empire, and possibly "resurgence" to the Chinese empire, the word "decline" has come to be frequently associated with the situation regarding the United States. Indeed, as much as American "imperialism", military, economic and ideological, may have been attacked in the sixties and seventies in most parts of the globe, the current anxiety is that of American military and political disengagement and economic retrenchment.

In the early seventies, the combination of the rapid and unseemly retreat from Vietnam on the external front and Watergate on the domestic front led foreigners to lose confidence in the United States and Americans to lose confidence in themselves. The political and economic convulsions that attended the soap-opera exit of Richard Nixon fuelled the flames and the imagination of "Washington burning". Jimmy Carter's administration, at the time, seemed to epitomize the malaise, exacerbated by the humiliations experienced at the hands of the Ayatollah Khomeini and his new régime in Teheran. Decline in the economic and social domains came to be associated with seeming impotence in geopolitical affairs.

For the first time in their history, Americans began to contemplate foreign models, as illustrated, for example, in the landmark publication by Ezra Vogel in 1979 of Japan as Number One: Lessons for America. While the until recently seemingly inexorable growing economic and technological strength of Japan has become a familiar part of the global landscape, and while Americans have also come to accept that they stand to gain from learning from Japan, nevertheless, the effect on Americans of Vogel's book at the time was that of a very cold shower indeed.

Although the arguments about the Reagan era are many (4), for the purposes of the subject under discussion here, the primary one is that for all the brouhaha associated with especially the early years of his administration, the intention, and, initially the seeming success, in raising the Stars & Stripes, of restoring confidence, pride, and so on, was that it was the wrong act in the wrong place at the wrong time. The Reagan act, in other words, was all about geopolitics -- the military build-up, the staring into the eye-ball of the "evil empire", etc. What Reagan failed to understand, or so the argument runs, and one which equally applies to his successor George Bush, was that the paradigm was changing, namely from

geopolitics to geoeconomics. The geopolitical fanfare, therefore, ultimately weakened America in the context of the "real" world. The evidence can be seen, of course, in the massive twin deficits that were accumulated and that have both become and symbolize a major source of weakness, indeed of crippling proportions.

The metaphor that comes to mind is that of an individual who exhausts himself shadow-boxing, so that when it comes time to confront the substance, the necessary energy has been drained. One way of looking at the September 1985 Group of Five meeting at the New York Plaza Hotel is that of a defeat on the geoeconomic battlefield: "The dollar is dead, long live the Yen!". Hence, while the geopolitical balance of power remained in play and leading shortly afterwards to Washington's crushing victory -- or to Moscow's crushing defeat, depending on the eye of the observer -- the geoeconomic balance of power, on the other hand, was tilting, to some extent in the direction of Germany, overwhelmingly in the direction of Japan.

As Irangate and other foibles marred the closing years of the Reagan administration and as the lacklustre Bush got on to the saddle, the "decline" of the United States was increasingly presented as both a glaring reality and a self-fulfilling prophesy. While the Iraq war may appear as somewhat of a counter current to this gist, ultimately it is almost astonishing how after all the razzmatazz of Desert Storm, the impact, certainly among the American electorate, proved little more than a puff of smoke. The Iraq war, therefore, appeared as yet again a variation, albeit initially at least with a certain degree of *brio*, on a geopolitical theme, and consequently a diversion from the more sombre tune of the "current realities".

The great success of and subsequent frequent reference to Paul Kennedy's The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000 (1987) can no doubt in great part be attributed to the fact that it brilliantly both reflected and inspired the spirit of the times. While a few American intellectuals, notably Joseph Nye in Bound to Lead: The Changing Nature of American Power (1990), sought to buck the trend, nevertheless the scene in the United States increasingly became one of wallowing in this self-perception of the inevitability of the continued erosion of America's social and economic conditions and hence international position. For, along with all the key indicators of loss of competitiveness -- market share, trade deficits, technological lag, etc -- the moral diseases -- drugs, aids, illiteracy, etc -- added social insult to economic injury.

The fact that the name of the game appeared to have changed, and that the United States appeared to be losing out, was met in a not inconsiderable number of quarters abroad, notably in Japan, by a somewhat undisguised degree of *Schadenfreude*. The publication of the book by Shintaro Ishihara and Akio Morita, The Japan that Can Say 'No' (1987) was the tip of the iceberg of an increasingly condescending, not to say contemptuous, attitude towards a debilitating United States. The diagnosis that the problems of the American economic system of capitalism were possibly systemic gained greater intellectual credence with the publication of a proliferating number of books and articles on the subject (5).

Thus, the hoopla following the fall of the Berlin Wall and all the breathtaking events that subsequently unfolded in Central and Eastern Europe faded rapidly, not only because of the carnage that occurred in parts of the collapsing empire, nor because of the realization of the fathomless uncertainties that had to be faced and the immense costs that had to be borne, but also because of the continued crises of confidence, direction and leadership.

And these crises, in turn, reflect the confusion in this *fin de siècle* transition to chaotic uncertainty, where, again, the resounding geopolitical victory gained by the United States appears Pyrrhic in the light of the perceived sustained retreat on the geoeconomic battlefield. Paul Kennedy's thesis effectively addressed the contradiction between geopolitical commitments and the economic means to sustain them. Paul Kennedy, as a professor of history, analyses, diagnoses, but does not seek to prescribe. A more recent trend, however, has been that of seeking to translate the analysis into policy and to extract prescription from the diagnosis.

And it is in this context that greater attention began to focus on the emergence of "geoeconomics". Edward Luttwak, The New Geo-Economics (1992), describes it as 'the logic of conflict in the grammar of commerce', where the goal is 'the conquest or protection of desirable roles in the world economy' (6). There is at this stage no readily identifiable school of 'geo-economists', but increasingly a coterie of like-minded people who speak and write in somewhat bellicose terms about the global economic, and especially technological, battlefield. This "showdown" spirit can, for example, be gleaned from one of its more profound and articulate protagonists, Laura d'Andrea Tyson, Chairman of Bill Clinton's Council of Economic Advisers. In Who's Bashing Whom? Trade Conflict in High-Technology Industries (1992), she throws down the gauntlet:

"the question facing the United States isn't whether to address these barriers [of free-trade in high-technology products] unilaterally, but how to do so efficaciously" (7).

While the American "geoeconomists" -- who, it should be clear, do not necessarily identify with this particular label -- are out to attack, or, as they would put it, "counter-attack" all foreign interlopers, not surprisingly their major *bête noire* has been Japan. Clyde Prestowitz in Trading Places: How America Allowed Japan to Take the Lead (1988) provides an incisive analysis of the driving forces lying behind Japan's growing competitive edge, which is followed by a forceful prescription which ultimately boils down to "if you can't beat them, join them". In other words, Japan is a neo-mercantilist state, its geoeconomic goals are fuelled by an industrial policy that targets key technological sectors, the United States is no longer in a position to call the tune, hence survival dictates that, even if only as a defense mechanism, comparable policies need to be adopted. Arresting the economic decline, reversing the trend of technological lag, reconquering market-share, redressing the trade and investment imbalance, become not only the measured objectives of fighting it out in the geoeconomic battlefield, but ones that can only be realized by the assertive and aggressive usage of policy instruments.

The tension, therefore, that was noted in the current global environment between centripetal and centrifugal forces becomes further exacerbated by the perceived shift in the paradigm of the balance of power, namely where political power pales in the shadow of economic power. Thus the spirit in certain increasingly influential circles in Washington might be encapsulated by paraphrasing the New Testament: "what matters to man if he should win the cold-war, but lose his semiconductors".

Regionalism: Trends and Perils

complement or impetus?

The eighties saw the coinage of terms such as the "Global Village", the "Borderless World", and other generally meaningless utterances of wishful-thinking piety. The labyrinthine circles of the seemingly endless Uruguay Round bear ineloquent testimony to the inability of the world's trading powers to get their act together. We may be living, as we are often reminded, in an "inter-dependent" world, but the theory of discourse is not clearly manifested in the practice of actions.

Rhetorical protestations to the contrary notwithstanding, defensive protection is undoubtedly a driving force behind the establishment of the single European market and of the North American Free Trade Association. Similarly, a motivation lying behind the various initiatives emanating in East Asia, notably those of Malaysian Prime Minister Dr Mahathir Mohammed, is what may be termed a reactive defensive protection: ie "if you Europeans and Americans set up trade blocs, then so will we Asians".

A critical and too often overlooked point to note, indeed to emphasize, is the degree to which conventional wisdom and parlance have slipped into imposing on the world a triangular shape. The consultant of McKinsey Japan, Ken-ichi Ohmae, introduced the term the "Triad" to define the major axes, or pillars, of the world economy, namely the United States, Europe and Japan {Triad Power: The Coming Shape of Global Competition (1985)}. As the newly industrialized economies (NIEs) of Asia began making an increasingly noted mark on the world economy, as some of the countries of ASEAN recorded impressive growth rates, as China's reform programme gathered momentum, the Asia Pacific Region came to be grafted on to the Japanese leg of the triangle.

For all practical purposes, the "world economy" today refers pretty much exclusively to either the rich, the United States, Europe and Japan, or to the rapidly growing richer, namely the more dynamic economies of East Asia, but excludes the rest of humanity. In other words, as fashionable as it was in the sixties and, to some extent, still in the seventies, to focus attention and concern on the "Third World", the degree to which the poor countries have recently become obliterated from the vision of policy makers, opinion leaders and intellectuals is both remarkable and perilous.

Part of the explanation for this phenomenon surely must lie in the

paradigmatic transformation from geopolitics to geoeconomics. In the days of the cold-war, Morocco, Egypt, Ethiopia, Zaire, Honduras, Nicaragua, etc, represented, or could represent, important pawns on the geopolitical chess-board. By contrast, on the new geo-economic chess-board, they are not, to coin a phrase, worth a row of beans. The policy of making friends with and influencing Third World leaders, no matter how obnoxious, or worse, they may be, in remote parts of the globe, the main means of which was the provision of money, lots-and-lots of sophisticated weapons, and other forms of support, seemed to make sense in the midst of the military and ideological battlefield. The strategic focus and emphasis in the geoeconomic age concentrates on issues relating to markets and investments as a means of gaining global economic competitive advantage.

Two examples can be given to illustrate this point. For decades Mobutu of Zaire was not only propped up, but indeed lavished with riches and estates, because in the Western perspective, no matter how venal and cruel a man he may be, he was "one of us". In the cold-war climate, the balance of power against the Soviet Union required that Mobutu be kept as a means of keeping Zaire on the "right side". In the new game, neither Mobutu, nor for that matter Zaire, are players, hence not only can Mobutu be abandoned to his fate, which is a good thing, but so can the millions of Zairois, which is callous and ultimately will prove costly.

A country which offers perhaps one of the most interesting manifestations of having been on the geopolitical centre-stage, and now rapidly moving on to catching more than a glitter of the limelight of the new geoeconomic stage is Vietnam. Having achieved noticeable success in its economic reform and development policy of *dô'i môt'i*, and partly by virtue of being associated with the phenomenon of Asia Pacific dynamism, Vietnam is gaining the reputation of being a credible contender for becoming one of the next "little-dragons". The decision of Tokyo to resume official development assistance to the country, the recent visit of François Mitterrand, the near certainty of Washington soon lifting its embargo can surely not be ascribed, respectively, to (i) altruistic sentiments of helping a poor Asian brother, (ii) renewing historical and cultural ties emanating from the legacy of colonialism, (iii) wishing by-gones to be by-gones following the brutal war that ended now two decades ago. The reality is that Vietnam is perceived as being a potentially lucrative prize in the geoeconomic game.

The setting, therefore, is one where the nations that have nothing to bring to the geoeconomic table will be ignored. The American intervention in Somalia, as welcome, even if quixotic, as it may be, is no more than a fire-fighting exercise, driven by an atavistic interventionistic instinct to "right wrongs" on the one hand, but also and undoubtedly a reflection of humanitarian altruism inspired by massive television exposure on the other.

Without wishing to present too apocalyptic a vision of the world's "have-not" nations, there can be little doubt that there will be more Somalias and more Bosnias. While the world has never been in its entirety a particularly cosy place, the combined forces of demographic, environmental, ideological and racial

pressures are mounting to cauldron proportions. In his latest publication, Preparing for the Twenty-First Century (1993), Paul Kennedy concentrates the mind on the trends and implications of the world's current and future population growth, including the fact that some 95% of that growth will occur overwhelmingly in so-called developing countries. Adopting an avowedly Malthusian stance, Kennedy argues that although ultimately Thomas Malthus' spectre failed to materialize in the England of the nineteenth century due to unexpected advances in technology, the mathematics of the current and projected demographic quantum leap in the developing countries cannot envisage a comparable technological "repeat-performance" going into the twenty-first century.

Whatever the outcome into the twenty-first century may be, even in the shorter term the problem with many of the "developing" countries refers not simply to the fact that they are not, in fact, developing, whether technologically, economically, or socially, but that they are not modern. Western Europe, North America, Japan and the more advanced nations of East Asia, have their share of atavism, prejudice, hatred, irrationality, and so on, and without by any means wishing to underestimate their ugliness or potential for harm, it remains nevertheless the case that they can be contained, generally to greater rather than lesser extent, albeit with exceptions such as Northern Ireland. In spite of the atrocious brutality of recent racist explosions in Germany, for example, the resurgence of a Nazi state remains a highly unlikely scenario. The greater social stability and comparative harmony of the advanced nations may no doubt be attributed more to the more solid and modern character of the political and administrative structures, than to a higher moral code.

The situation, however, in a great number of the "non-developing" countries is one of administrative and political disorder, which in the context of growing demographic pressures and economic disintegration leads to such violent manifestations as "ethnic-cleansing", religious fanaticism, etc. And if all that were not enough, the risks of nuclear proliferation increase, on the one hand, while the more conventional arms race can remain well nourished by the sale of weapons, aircraft carriers, missiles, and other assorted paraphernalia that are being dumped by former member republics of the Soviet Union. The world unfortunately, but realistically, looks like being more dangerous and uglier than it was. Consequently, the blinkers of the current geoeconomic vision urgently need to be removed.

The new geoeconomic order, as has been suggested, is in essence characterized by centrifugal forces of economic regionalism, which, in turn, are increasingly manifested in cultural divisions and clashes between the main protagonists. The terminology this leads to includes concepts such as "fair vs unfair", "level vs unlevel playing-fields", "structural impediments", and so forth. While these can remain at a reasonable level of civility, descending to the gutter appears too often tempting, as, for example, in the anti-Japanese vituperations of former French prime minister Edith Cresson, or the attacks by Japanese politicians on Americans, especially those from ethnic minorities, and so depressingly and dangerously on. The trade imbalances, the accusations and counter-accusations of

cheating, the retaliatory measures either simply threatened or actually undertaken, eg of the Super-301 vintage, feed into popular emotional reactions which can prove expedient opportunities for politicians looking to curry electoral favour. There emerges, therefore, a self-generating escalation of economic, political and cultural hostility between the three major players of the world economy.

Furthermore, the regional settings, certainly of the European Community and Japan, provide contrasts that have the potential of acting as exacerbatory factors. Economically, as noted earlier, Japan's East Asian neighbours are doing well, indeed, in comparison to the rest of the world, exceedingly well. The European Community's neighbours, by way of contrast, are, for the most part, basket cases of economic underdevelopment. The East Asian economies attractively invite inward investment, the returns on which can justifiably be felt to be not only secure, but plentiful. The East European economies, on the other hand, are, at their very best, far riskier investment propositions.

The Western Europeans, however, cannot ignore Central and Eastern Europe, as they may choose to ignore the more distant outposts of the "non-developing" world, for the simple and obvious reason of geographic proximity. Thus, for example, the recently enunciated Miyazawa doctrine of concentrating on Asia can be perceived in European eyes as an act of Japanese insensitivity and hubris on the one hand, while resentment is built up against Tokyo for failing to cooperate in the economic reconstruction of Russia and other former states of the Soviet Union on the other. The Russo-Japanese dispute over the Northern Territories, consequently, takes the proportion of a trivial pursuit in a situation where the stakes are very high.

As Western Europe's trade deficit with Japan has increased in the course of the last two years by the staggering amount of some 65%, coupled with the seemingly intractable problem of unemployment, the accusation of both "social dumping" and export offensives against Japanese manufacturers, and the perception of Tokyo failing to carry its weight in the reconstruction of the post-cold war order, the scope for aggravated tension becomes not inconsiderable. And these particular malignant effects must be set in a context where there is virtually no established framework for a Euro-Japanese dialogue, apart from multilateral structures such as G-7 or the GATT.

In so far as American foreign policy under the Clinton administration is concerned, the jury for the time being is still out. The general mood, however, is one of defensive aggressiveness -- Laura d'Andrea Tyson describes herself as a "cautious activist". The attitude towards the European Community may be described as one of suspiciousness. As the authors of an article in a recent issue of International Affairs (8) noted: 'The image of a Fortress Europe following Japan's example to discriminate against American business and American goods is prominent among Washington policy-makers'. The initial salvoes across the Atlantic on the trade front hardly augur well for the future. French intransigence on agriculture will further envenom the atmosphere on the commodity front, while the Airbus affair will


have a comparable effect in the high-tech arena.

While the gloves may come off in possible Euro-American confrontations, by no means does this leave Japan off the hook. As Laura d'Andrea Tyson noted, 'although ... differences exist between the United States and Europe, they pale in comparison with those between American and Japanese capitalism' (9). As with Europe, albeit at a much more acute level, the recently massively escalating bilateral trade deficit with Japan will inevitably exacerbate tensions. Also, no matter how much the rhetoric of the Clinton-Gore campaign focused on domestic issues, the realities of being the United States have rapidly engulfed the new administration either in sustaining foreign policy initiatives undertaken by the previous administration, eg seeking a settlement in the Middle East and maintaining the troops in Somalia, or embarking on new, even if initially limited ventures, such as the airdrop on Bosnia. Thus, even in a post-cold war setting, the burdens on the United States will remain awesome and uneasy questions about a greater Japanese role in burden-sharing will not go away.

As things currently stand, the image of the "global village" represents little more than a pie in the sky. The potential for intensified confrontation is significant and politically exploitable. This becomes all the more the case when, as is the situation currently in Europe and Japan, if less so in the United States, the economies are gripped by recession. Scape-goating becomes an instinctive knee-jerk reaction. Furthermore, the centrifugal forces within the regions provide added incentive for mutual suspicion and confrontation. Thus, as the former Soviet empire goes further down the abyss, greater pressure is exerted on Japan to provide financial support. In the East Asian neck of the woods, on the other hand, as Tokyo watches with a degree of alarm the apparent powerful economic and geopolitical resurgence of China, and all efforts are deployed at "taming the tiger" -- eg the recent visit of the Japanese Emperor to China -- the prospect of outside interference from Washington or European capitals over human rights in China comes to be resented not only by Beijing, but also by Tokyo.

The current geoeconomics, therefore, portend far more in the direction of regionalist scenarios than global economic and political integration. Regionalist blocs may come to represent in the late twentieth century what nationalist states represented in the late nineteenth century. These can either take the form of three mutually hostile entities, or, possibly worse, an alliance of two of the blocs ganging up on the third.

Towards a Collective Pax Americana



The fact that the geopolitical framework of the four-and-a-half decades or so that followed the end of World War Two no longer applies by no means should be interpreted as the end of political conflict. The collapse of the Soviet empire, the resurgence of the Chinese empire, the arms race in Asia, the militant atavism of fundamentalist Islam, the political corruption and anarchy that prevail in many parts

of the world, the extreme fragility of many of the societies and economies of Eastern Europe, Latin America, the Middle East, not to mention the chaos of Africa, demographic pressures, environmental crises, racial violence, represent some of the challenges facing the universe. And in the meantime, while the world is burning, Americans and Europeans argue about oil-seeds, Japanese and Europeans about automobiles, Americans and Japanese about semiconductors, etc. And it is in that context that excessive concentration on geoeconomics is very dangerous indeed.

The most critical point that needs to be recognized is the quite simple one that there is no alternative to American power. "Cooperation", therefore, must be conceptualized and determined pretty much exclusively in terms of how Japan and Europe will ensure the maintenance of *Pax Americana*. This is not to deny that the United States is in a phase of decline. Of course it is. But whereas in an ideal scenario it might be suggested that the United States should prop itself back up by pulling its own shoe-laces -- and to some extent this is what the Clinton administration is trying to do -- reality requires that, to quote the Beatles, Washington will need a little bit of help from its friends.

The fact that there is no alternative to the United States would seem obvious. While Japan over the course of the last decade may have significantly bolstered its position as a geoeconomic global superpower -- and no doubt has achieved a considerable degree of international leverage through "money power" -- not only is it in no position to play a global geopolitical role, it is not even in a position of playing such a role on a regional basis. And although Europe as an entity or individual European nations may still sit at the international political table, the reality is that Europe has weakened as both a geopolitical and geoeconomic global force and that there is no prospect of this position being reversed.

In the post-1945 setting, the United States provided enormous assistance to both Japan and Europe. Neither would have been able to accomplish what they have were it not for the massive amount of capital and technology that the Americans poured into Japan and Europe and for the fact that in so doing the United States not only allowed its market to be wide open, for Europeans and Japanese to sell their goods, but also threw open the doors of its universities so that Japanese, Europeans, Koreans, Taiwanese, and all others, could learn and acquire from Americans skills in science, engineering and management. The fact that the American motivation for doing these things may have been generated more by enlightened self-interest than by altruism may be the case, but the argument here is that for Europe and Japan to work energetically for the maintenance of *Pax Americana* can also clearly and emphatically fall in the category of enlightened self-interest.

The position at present is that both Europeans and Japanese want to have their American pie and eat it. They want to go on scoring victories against the United States on the geoeconomic battlefield, but pressure Americans at the same time to remain active and virtually solo players on the geopolitical battlefield. On the latter score, the position of France and the United Kingdom may be more conciliatory and supportive, but that of Germany, Italy and Japan, in particular,

leaves much to be desired. The fact, for example, much trumpeted by Tokyo that some \$11 billion were produced to assist in the war against Iraq must not obscure the reality that the contribution was hardly spontaneous and that it was also hardly welcomed by Japanese popular opinion.

In recognising, therefore, that when it comes to political problems virtually anywhere in the world requiring humanitarian, diplomatic or military initiatives, only the United States can be counted on, and in also recognising the fact that the United States is undoubtedly overstretched in the sense that it no longer has the economic means to sustain this role, and finally in recognising that the relations between Europe and the United States and between Japan and the United States are marred by economic tensions, it follows that something or someone has got to give. For the sake of seeking to sustain a degree of global order, the trends leading to the regionalist scenario must be reversed.

To be sure, no suggestion is being made here that the United States represents an unblemished model of global leadership or that the "American dream" of distant days can be resuscitated. The contention rather is that while the United States may have many weaknesses, at the end of the day Europeans and Japanese have to work with and support the United States we have, rather than the United States we would like to have. Until and unless Europe and Japan are prepared to assume a far greater share of the global geopolitical burden -- which, as we have indicated, is a most improbable scenario -- efforts must be directed at propping up America, not at bringing it down.

Furthermore, the arrival of a new administration in Washington provides a clear window of opportunity for a more intelligent and constructive dialogue with the United States. Having said that while by no means does the United States represent an unblemished model of global leadership, the same would apply to its new president, Bill Clinton. There are, however, three inter-related things about Clinton that seem to justify the sense of cautious optimism regarding the prospects of intelligent and constructive dialogue. The first is that Clinton has a much more realistic vision of the limitations of American power and of the interplay between the forces of geoeconomics and geopolitics. The second is that in rather stark contrast with his two predecessors, he thinks and he reads books. The third is that Clinton represents a new generation of Americans who in their youth beheld with anxiety and opposed the past excessive arrogant abuses of American power.

At the same time, Europeans and Japanese must be sensitive to the domestic political pressures and constraints in which Clinton is and will be operating. "America-bashing", therefore, will not only prove counter-productive, but it also risks leading to the United States retreating into its shell, leaving Japan and Europe to cope with problems they are not in a position to cope with. Being "sensitive" to the United States is not something that comes naturally to either Japanese or Europeans, but that will have to change. To prevent the United States from becoming either isolationist or unilateralist, or a combination of both, Europe and Japan must engage in a multilateral effort, but one which should aim to recognize and

legitimize the reality that the United States must remain *primus inter pares*.

In the first place, therefore, a constructive armistice urgently needs to be declared on the geoeconomic battlefield. Armistice does not mean defeat or total retreat. In other words, this would by no means seek to imply that, for instance, Japan would give up competing to make the world's fastest super-computers or that Europe should abandon seeking to develop the next generation of jumbo jets. It does mean, however, that concessions will need to be made, in certain instances urgent steps will need to be taken, and especially that Tokyo and Brussels should be seen to take initiatives and act pro-actively, rather than grudgingly and reactively.

For starters and to state the most obvious, the Uruguay round needs to be rapidly settled. The fact that it has now been unresolved for so long represents a continuing festering boil in the global economy. While the successful completion of the Uruguay round is an imperative condition in bringing about the armistice on the geoeconomic battlefield, at the same time it must also be recognized, as Michael Aho puts it (10), that 'most of the issues under negotiation are yesterday's issues, not today's or tomorrow's'. The completion of the round should effectively close the doors on past contentions, but it does not represent a clear beacon for the new dawn of the global order going into the twenty-first century. Were Europe and Japan to take the initiative in making the necessary concessions on the agricultural front, this would, among other things, pave the way for a far more positive atmosphere in Washington in regard to its own policies in international trade.

Beyond that, however, and in recognition of the global geoeconomic and geopolitical matrix described earlier, it was noted that while on the geoeconomic front East Asia is without doubt the world's regional champion, on the geopolitical front it is fraught with tense uncertainties. Western Europe, by contrast, may be somewhat more lagging, indeed sluggish, in so far as economics are concerned, but all the current traumas notwithstanding, it is far more secure in geopolitics.

In other words, not only, as pointed out earlier, is there a framework in Europe, especially in the form of NATO, but furthermore, while implosions, civil wars and other forms of domestic political unrest may, indeed unfortunately almost certainly will, continue to characterize the condition of the recently decolonized countries of the Soviet Empire, there is no prospect of war breaking out between European countries. In East Asia, on the other hand, there is no regional framework, ie no NATO, there is far more risk of war between states (eg including between North and South Korea), hence the continued presence of the United States is essential, for a withdrawal would leave a vacuum to be filled either by an unwilling, unready and unwanted Japan, or by China.

Turmoil in East Asia would by no means have purely regional implications, but global ones. Thus, not only does Asia require the maintenance of the American presence, but Europe requires the maintenance of the American presence in Asia. In recognising the dichotomy between the global geopolitical demand for the United States and the much more limited supply of America's

economic capabilities, it follows that in the light of what has been said above, Europe should either be prepared to assume entirely its own defense or the entire costs of America's military presence and/or actions in Europe.

In so far as Japan is concerned, while Tokyo may not always be prepared to admit it, the reality remains that the post cold-war environment and the tumultuous developments and trends in East Asia, especially in respect to China, make it more and not less dependent on the United States. For whatever reason, while Japan has been remarkably successful at making money throughout the world, it has not been particularly successful in making friends, including and perhaps especially among its Asian neighbours. As Richard Holbrooke (11) has pointed out, '[the Japanese] must remember two unpleasant and rarely voiced truths: they remain generally unpopular overseas, and the United States is still Japan's best friend, and perhaps at times its only friend'. While there are a number of nationalist and pan-Asianist voices to be heard in Japan, *realpolitik*, among other considerations, dictate that Tokyo's regional interests, indeed survival, can only be achieved by securing the continuation of the US-Japan Security Treaty, which, as Yoichi Funabashi (12) states, 'can continue to function as such and help stabilize the Asian-Pacific framework'.

Here again, however, in the context of the current environment and especially in light of the United States' dwindling resources, it is simply impossible, and certainly highly selfish, for Tokyo continuing to expect that it can have a free lunch, or, as it is more frequently referred to, a free ride. Without ignoring the fact that Japan has done more in recent years, whether the cheque for the war effort in Iraq or the increase in ODA -- making Japan the world's major source of aid to developing countries -- from a broader perspective and in view of the wealth that Japan has amassed thanks to American protection, the country's contribution does remain at the proverbial peanuts level.

The major initiative required by Japan in bringing about an armistice on the geoeconomic battlefield is, of course, to open its market. It is not the place here, nor is there space, to go into the myriad reasons as to why the Japanese market remains impenetrable to foreign manufactured imports, and while accepting that many barriers have been removed, the imbalances nevertheless not only in trade, but even more importantly in outward and inward investments, are causing serious dislocations to the international economic order. On the inward foreign investment front, to cite only one example, whereas in 1990 the *per capita* ratio for the United States was \$1626, \$2047 for the United Kingdom, and \$472 for Germany -- but the German market can of course be entered from investments located in other parts of the European Community -- it was a mere \$80 for Japan. As Joseph Nye (13) puts it, 'foreign firms are handicapped in their ability to export goods to or invest in their Japanese competitors' home market, but not vice versa'.

Japanese officials are increasingly prone to expressing grave irritation at the pressures and accusations brought to bear against Japan by Americans and Europeans in regard to trade and investment matters. It is undoubtedly the case that at times these pressures and accusations can appear to be somewhat bellicose and

excessive interference in the country's domestic affairs. The point being made here, however, is not that outsiders should tell Japan how to go about opening its market, as was the case, for example, in the structural impediments initiatives (SII) talks, but that Tokyo should just go ahead and ... do it. There may be costs associated with the kind of dramatic and very accelerated market opening measures that are required, but the point being stressed here is that the costs of an American withdrawal from East Asia or the costs of protracted engagements, as opposed to an armistice, on the geo-economic battlefield will, ultimately, be much higher for everybody, but Japan in particular.

Japan is also in a position to assist in the preservation of *Pax Americana* in another important way. While it is true, as indicated above, that Japan's contribution to ODA has significantly increased in recent years, at the same time it remains the case that (a) the increase is somewhat artificial in that ODA is calculated in dollars and hence reflects the appreciation of the yen, and that (b) Japanese aid still tends to be primarily dispensed in Asia. Japan could, in fact should, play a much more active role in other parts of the world, including Latin America, Africa, and the Middle East. The absence of any negative historical legacy between Japan and the countries of these regions, in contrast to the situation in Asia, and hence the absence of colonial "hang-ups" on the part of Africans, Latin Americans and Arabs in regard to Japan, provide a framework for a constructive role.

Hence, while Japan is number one in absolute terms of ODA, it is fairly low in the Development Assistance Committee (DAC) league when it comes to relative share of overseas aid to GNP. In 1990 Japan's share of aid to GNP was a paltry 0.31% compared to Germany's 0.42%, France's 0.51%, let alone the Netherlands' 0.94% or Sweden's 0.9%. The share of the United States is much smaller, including than Japan's, but this is clearly compensated not only by America's military commitment in various parts of the globe, its diplomatic initiatives, but also for remaining still a comparative haven for refugees from all parts of the world. Furthermore, the high proportion of foreigners in American universities, as compared to Europe, and much more so to Japan, also represents a major contribution to the outside world.

As Yoichi Funabashi (14) has argued, 'Japan should give higher priority to four values as foreign policy goals: to act as a model for, and lend assistance to, poorer countries in their own efforts for economic and democratic development; international peacekeeping; promotion of human rights; and environmental protection'. In fact, aid can cover all four of these areas, however, targets should be quantified. In keeping with Tokyo's current ambition to remain a non-military power, and to avoid risking being the recipient of aspersions cast about enjoying free rides, Japan might consider emulating the Swedish example and thereby seeking to increase, say by 1998, its aid to the same figure of 0.9% of GNP. The fact that much Western aid has been to some extent motivated by ideological considerations within a cold-war context, but that Japan tends to have a much more pragmatic approach to these issues, should, among other positive benefits to be derived from greater Japanese contributions, result in a better management and hence better returns

for developing countries from Japanese aid policies.

In exchange for Japan opening its market and playing a more proactive role in global affairs and thereby meaningfully contributing to the maintenance of *Pax Americana*, the West should also recognize in spirit and in letter the shifts in the global centre of economic and cultural activity. Just as the West no longer is the uncontested leader on the economic front, nor is it the uncontested leader on the cultural front. Thus, as suggested earlier on, while no doubt urgent and profound attention has to be paid to Russia, it would be wrong, myopic and failing to recognize reality not to pay far greater attention to China. Also, consideration should now be given not only to inviting Korea to join the OECD, but also perhaps to begin preparing its greater incorporation in global economic decision making, eg by also inviting it to be represented at the G-7 -- which makes sense since Korea will probably overtake Britain and Italy in GNP by the end of this decade or the beginning of the next. In other words, if the West is right to expect Japan to globalize, the United States and Europe must equally be prepared to "Asianize".

These seem to be the most critical issues facing America, Europe and Japan in reorganizing the Western alliance. It has to be recognized that in certain respects the world has changed a good deal, that the geoeconomics have altered, that the centre of gravity has shifted to the Western Pacific, that the United States is experiencing decline. At the same time, it must also be recognized that the end of the cold-war by no means represents the end of the world needing the United States to continue playing its role, even if on a somewhat more *sotto voce* basis, as world leader. The United States, therefore, must be actively, intelligently, effectively supported by Europe and Japan not, as stressed, through altruism or sheer gratitude for "good old Uncle Sam", but out of enlightened self-and-global-interest. For, the bottom line is still very much that *Pax Americana* = *Pax Mundi*.

Notes

- 1] C Michael Aho, "America and the Pacific century: trade conflict or cooperation", International Affairs, volume 69, number 1, January 1993, p.25.
- 2] Hanns W Maull, "Europe and the changing global agenda", in Jonathan Story, ed, The New Europe: Politics, Government and Economy since 1945, Blackwell, Oxford, 1993, p.140.
- 3] Gerald Segal, "The Group of Seven Should Be Paying More Attention to China", International Herald Tribune, 25 February 1993.
- 4] For a particularly incisive analysis of the legacy of 'Reaganomics', see chapter 2, "America Backwards: l'Amérique à Reculons", in Michel Albert, Capitalisme Contre Capitalisme, Editions du Seuil, Paris, 1991.
- 5] See, for example: Michel Albert, *op cit*; Michael Porter, The Competitive Advantage of Nations, The Free Press, New York, 1990; Robert Reich, The Work of Nations: Preparing Ourselves for 21st Century Capitalism, Alfred A Knopf, New York, 1992; Lester Thurow, Head to Head: The Coming Economic Battle Among Japan, Europe, and America, William Morrow, New York, 1992.
- 6] Edward N Luttwak, "For War, Read Trade", Times Literary Supplement, 26 February 1993, p.7.
- 7] Laura D'Andrea Tyson, Who's Bashing Whom? Trade Conflict in High-Technology Industries, Institute for International Economics, Washington DC, 1992, p.2.
- 8] Phil Williams, Paul Hammond and Michael Brenner, "Atlantis lost, Paradise regained? The United States and Western Europe after the Cold War", International Affairs, volume 69, number 1, January 1993, p. p.7.
- 9] Laura D'Andrea Tyson, *op cit*, p.6.
- 10] C Michael Aho, *op cit*, p.36.
- 11] Richard Holbrooke, "Japan and the United States: Ending the Unequal Partnership", Foreign Affairs, volume 70, number 5, Winter 1991/92, p.57.
- 12] Yoichi Funabashi, "Japan and the New World Order", Foreign Affairs, volume 70, number 5, Winter 1991/92, p.68.
- 13] Joseph S Nye, Jr, "Coping with Japan", Foreign Policy, No 89, Winter 1992/93, p. 105. On the various issues related to the imbalances of trade and investment with Japan, see also: Dennis J Encarnation, Rivals Beyond Trade:

America Versus Japan in Global Competition, Cornell University Press, Ithaca, 1992; Paul Krugman, ed, Trade with Japan: Has the Door Opened Wider?, The University of Chicago Press, 1991; Edward J Lincoln, Japan's Unequal Trade, The Brookings Institution, Washington DC, 1990.

14] Yoichi Funabashi, *op cit*, p.66.

ASIA IN CHANGING GLOBAL CONDITIONS

AKIRA KOJIMA

(NIHON KEIZAI SHIMBUN, NIKKEI)

1: INTRODUCTION

Economic stagnation, over population and consequent social instability used to characterize Asia. But post World War 2 Japan, ANIEs (Hong Kong, Korea, Singapore and Chinese Taipei) since 1970's and then ASEAN countries (Malaysia, Indonesia, Thailand, Brunei and the Philippines), In the latter half of 1980's in particular, all have shown remarkable economic performance as well as social stability to the extent that such general stereotyped perception is now being forced to be largely modified. ANIES and a part of ASEAN are now constituting so called DAE (Dynamic Asian Economies).

World Bank's 1988 estimates tell that Asian population will reach 4.5 billion in the year 2050, which will be some 48% of the world total. Presently, Asia has the population of 2.5 billion, 51% of the world total. Namely, population concentration to Asia will remain another half century. The per capita income for Asia is now only one third of world average. And Asia makes only 20% of world production. However, if only Asia continues to have annual growth number just 2% higher than world average, its per capita income can catch up with the world average level by the middle of next century.

When recent trend is simply extrapolated, such a catch-up can be realized much earlier. Life is not simple. But, Asia seems to have acquired strong economic dynamism. Economic growth and development accompany structural changes in

industry, trade and investment patterns which did not exist in the past.

This paper tries to examine the recent structural character of Asian economic dynamism and its global implications.

Japan's attitudes towards Asian neighbours must also be examined. In Japan, partly because of her becoming sick of economic conflicts and so called *Japan bashing* by Western economic powers, new emerging sentiment can be detected which is described as *Japan's Asia Shift* or *Re-Asianization*.

Another interest is the impact of global geopolitical or sometimes called geo-economic changes to Asia. They include the dramatic end of the Cold War, re-defining process of American policy towards Asia, emerging economic regionalism and trade protectionism, uncertain future of China's economic reform and her open door policy.

In many points, the process of ending of the Cold War in Asia and its impact to it is basically different from that in Europe. With its economic dynamism, Asia has great opportunities as well as new challenges, particularly in political and security areas.

2: ASIA AS A GROWTH CENTER

At the APEC Ad Hoc Group Meeting on August 1992, a special study report on Asia-Pacific economy was disclosed and it attracted a big attention of APEC member countries as well as non member ones. The report analyzes the trade and investment interdependence of the region and its economic structure. It is full of optimism. (1)

This kind of optimism can be supported by recent economic performance in the region. In the 1960's the US, Japan and other developed economies enjoyed high growth. In the 1970's, however, these developed economies decelerated and con-

(1) *Vision for the Economy of the Asia-Pacific Region in the Year 2000 and the Tasks Ahead*, APEC Ad Hoc Economic Group Meeting, August 1992

versely ANIEs and ASEAN countries began to show high growth. Lately, China also joined to the high growth economies. As is shown clearly in Chart①, Asia's economic growth performance has been much better than world average.

The striking characteristic of recent growth achievement is that it accompanied very basic structural changes.

First, the countries increased interdependence in trade and foreign direct investment.

Second, deregulation policies in these countries offered them chances to make the most of externality of technology, capital(foreign direct investment), trade(external demand).

Third, in the process of increasing interdependence, countries began to import more and more goods and services among each other. One country's import creates jobs and income for exporting countries. This means an increase in purchasing power of exporting countries and it in turn creates larger import markets for other countries.

Fourth, Asian economies seem to have acquire some kind of immunity from economic recession of developed countries.

Fifth, we are seeing a marked trend toward greater trans-Pacific trade. Besides rapidly increasing interdependence within East Asia. It should not be overlooked that these economies have expanded trade with other parts of the Asia-Pacific, with North America and Oceania(Total trade between North America and the other APEC countries) in particular.

As regards trade, in 1980 trans-Pacific trade was only slightly greater than trans-Atlantic trade (Total trade between North America and the EC countries). In 1990, however, it had expanded to 1.5 times that of trans-Atlantic. As for foreign direct investment, trans-Pacific investment increased its ratio to trans-Atlantic investment from only 19% in 1980 to 57% in 1989.

3: FOREIGN DIRECT INVESTMENT

In most of Asian economies, foreign direct investment flow into them have shown a remarkable increase in the latter half of 1980's. Combined impact of deregulation policy on the part of recipient Asian countries and exchange rates changes after 1985 can be regarded as the main accelerator of such foreign direct investment flow. (Chart(2), Table ①)

The Plaza Accord at the G 5 Finance Ministers-Central Bankers' Meeting in September 1985 created a watershed in the exchange rates' relations of major countries. Japanese Yen showed an appreciation vis-a-vis US dollar by the margin of almost 100% in a short period of time of a year or so. This *EN-DAKA* (high exchange rate of Yen) triggered foreign direct investment by Japanese companies especially manufacturers to ANIEs like Hong Kong, Korea, Chinese Taipei.

This exchange rate change (Yen's appreciation) weakened price competitiveness of Japanese industries. So as to survive, they were forced to find overseas production locations where labour cost became comparatively even more lower than that in Japan. ANIEs were chosen as such locations of offshore production.

But soon after Korean and Taiwanese currencies began to be appreciated vis-a-vis US dollar. This happened through external pressure. Actually, ANIEs invited criticism from US and EC countries for their exploitation of cheaper currency rates and for export driven economic growth. Until that time, these Asian currencies had linked with US dollar and the Plaza Accord made these currencies similarly cheaper as US dollar against Yen and EC currencies. Such exchange relations made ANIEs more competitive and their trade balance in large surplus.

G 7 Finance Ministers' meeting in February 1986 was a divide in their approach toward to ANIEs. ANIEs were also thrown into the process of economic adjustment initially tried among G 5 or G 7 industrial countries. (2)

(2) A. Kojima, *CHOUSEI-NO-JIDAI* (The Period of Adjustment), pp. 366-373 ,

Shueisha, 1989

In this process of adjustment, ANIEs began to increase foreign direct investment to comparatively cheaper labour countries, ASEAN economies, as is shown in table ② and ③. It has been a chain reaction type of a series of continued adjustment process, very unique to Asian economies.

Different from EC countries whose development stages are more or less similar, Asian region is rich in diversity in terms of its natural resource endowments, population, development stages and income levels. This diversity has been harnessed to deepen economic interdependence and to maintain the high growth of the region through complementarity and chain reaction type of flow of investment, technology and capital.

It used to be regarded that this kind of Asian diversity was a cause of Asian stagnation and instability. But with exchange rates and flow of direct investment, technology and information as parameters, such diversity is now creating economic dynamism in the region.

4: IMPACT OF US ECONOMIC RECOVERING EFFORTS

The year 1985 was a symbolic year for Asia as well as the world community in general. This was a year when US turned into net debtor country status for the first time ever in 71 years, when Mikhail Gorbachev came into power replacing Konstantin Chernenko as general secretary of the Soviet Communist Party(which soon turned out to be the beginnig of the process of ending the Cold War). EC Commission's adoption of a white paper setting out a plan for market unification starting January 1993 also happened in the same year, 1985. The US government launched new trade initiatives by introducing a new approach known as self initiation of section 301 of 1974 Trade Act.

Asia's four dragons began to be seen as *New Japans*, and were thereafter put into the process of global economic adjustment.

On the part of US, she was forced to do some fundamental efforts to re-structure her economy. 1985 Plaza Accord was a necessary and inevitable instru-

ment in such a process.

US must reduce twin deficits of trade and budget. To do so, She must look for a export-led economy scenario. Some proud Americans tend to decline this kind of scenario by saying that it is just developing economies' one. Yet, with ever more increasing balance of net external debt and lasting huge current and trade imbalances, her policy course is limited. By internal efforts to put her house in order, or by any other additional efforts in the area of external policies, simple mathematics tell that US economy must, from some point, be supported by external demand. Its implication to the rest of the world is that deflationary demand impact will continue to come out from US. This will be a new world from past and present when US market was and is a net engine of world economy in a sense that the rest of the world could and can enjoy net trade surpluses with US.

Japan Center For Economic Research (*NIHON KEIZAI KENKYU SENTO*) made an interesting econometric simulation. (table④)

The outcome is that if US reduces her budget deficit in an aggressive way, its negative impact to ANIEs and ASEAN GNP will be by no means small. But if US efforts are supported by Japan's domestic demand expansion, the impact can be mitigated importantly.

Actually US government is starting serious effort to expand her exports. Former President George Bush stressed that US must target *EXPORT SUPER-POWER* while maintaining military super power position. President Clinton emphasized the importance of America to be *Trade Super Power* in the dialogue with Boeing company workers in Seattle in February 1993.

President Clinton reiterated the importance of export in his lecture at American University February 26, 1993. (3)

We are woven inextricably into the fabric of a global economy. Open and competitive commerce will enrich us as a nation. We must compete, not

retreat. Our exports are especially important to us. As bad as the recent recession was, it would have gone on for twice as long had it not been for what we were able to sell to other nations.

It is time for us to make trade a priority element of American security. Trade policy will be part of an integrated economic program, not just something we use to compensate for the lack of a domestic agenda. We must enforce our trade laws and our agreements with all the tools and energy at our disposal.

Against such background, Asian economies are trying to be prepared to make their economies less dependent upon US market.

Already, through market mechanism with exchange rates as parameter and through respective countries' policy efforts like opening of their markets, Asia has become increasingly less and less dependent on US and other markets than those of Asian region. (chart ③, ④)

Chart③ shows that Asian economic growth is determined increasingly more by something else other than world economic growth rate. This became especially so from the middle point of 1980's. Chart① also supports this explanation. (4)

Economic interdependence within Asian region is at the background of this important change. Asian economies are creating its internal and self breeding mechanism of growth and development.

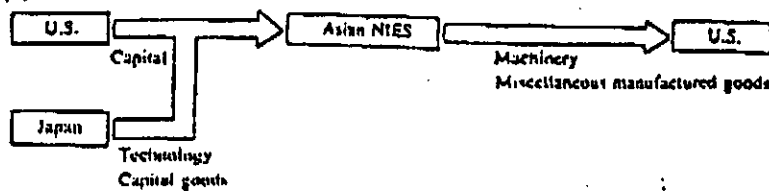
Asian trade structure began to show dynamic change already from around the 1980's. We should pay more attention to the changes in the trade structures of the ANIEs and ASEAN nations under their remarkable economic growth, throughout the 1980's. In examining the changes in the ANIEs trade structure, to begin with, there exists some analytical convenience of separating the decade into three period. (5)

(4) Nomura Search, NRI. February 1993. pp 12-13

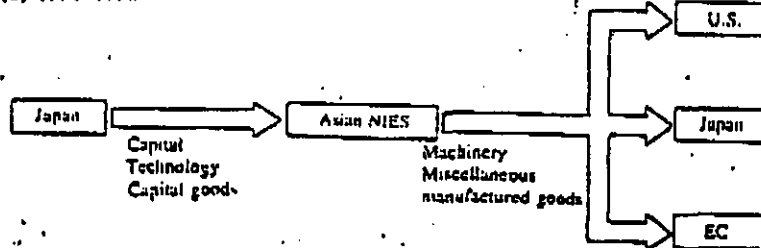
(5) MITI's white paper on International Trade, 1992

Changes in the Division of Work in Asia

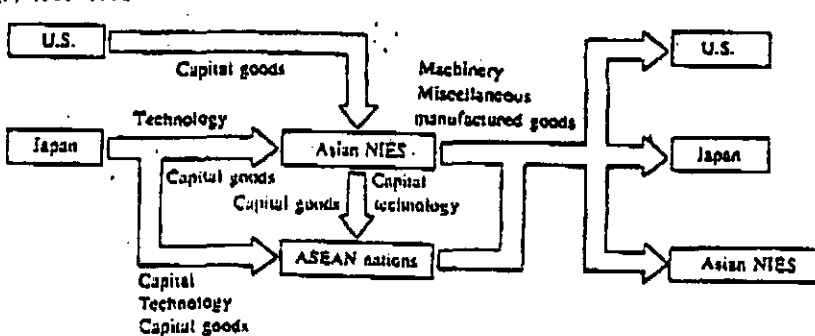
(1) Pre-1985



(2) 1986-1988



(3) 1989-1990



a: Pre-1985 Increasing Dependence on the US Market

In the pre-1985 period, the ANIEs increased exports, mainly machinery and miscellaneous manufactured goods, to the US while increasing imports of machinery from Japan. From early on in their economic expansion, these economies generally adopted export-oriented industrialization policy scenario by (a) fostering domestic industries, (b) adjusting their industrial structures, (c) promoting technological advancement through active investment into equipment and introduction of foreign capital, and (d) building up of industrial infrastructure.

The rapid economic growth in the first half of the 1980's was supported by *Reaganomics* which created the ballooning of US domestic demand, more open to overseas exporters through super strong US dollar exchange rate. *Reaganomics*, by consequence, forced US manufacturers to relocate their production process abroad for more out-sourcing. This process of US industries helped the ANIEs

economies through increased technology and capital transfers. The US direct investment in Asia at this time was aiming at re-export to the US parent companies. Actually some 75% of the products made by US affiliates in Asia were exported to the US.

Another trend in this pre-1985 period was the expanded influence on the economic growth of ANIEs of technology transfers and capital goods supply by Japanese corporations.

b: 1986-88 Rapid Increase in Trade Volume

In this period, Asian exports increased markedly in volume, with a broader range of destinations. Imports also soared due to bigger appetite for Japanese and US made machinery needed for industrialization and its upgrading. The Plaza Accord of 1985 made a turning point or watershed. Japanese corporations began to transfer production to ANIEs, to South Korea and Taiwan in particular.

Foreign direct investment is the process of exporting and importing comparative advantages and it changes trade patterns. ANIEs exports to Japan increased from 7.6% of Japan's total imports in 1985 to 13.3% in 1988. They also expanded their exports, mainly machinery, to the US market. Their share in the US market increased from 11.6% in 1985 to 14.4% in 1988.

c: 1989-90 ANIEs' Market Expansion

The ANIEs economies began to show stagnant exports of miscellaneous manufactured goods, marked increase in imports and expanding trade within other Asian countries.

Export slow down is a consequence of combined impacts of over-heated economies of ANIEs themselves (general inflation, wage increase), stronger competitiveness of ASEAN nations, and change in currency exchange rates' relations between ANIEs and ASEAN economies.

On import side, we also detect some basic change. Increased domestic markets of the ANIEs economies began to absorb imports more and more from within Asia. ANIEs' direct investment to ASEAN nations with lower wage rates enhanced this process of having more absorbing capability. This was also a process of seeing work sharing system between the ANIEs and ASEAN nations.

Asian economy may continue the c-type of structural change in trade and work sharing possibly with some accelerated way just because of even tougher efforts on the part of the US to revitalize her economy.

5: UNCERTAIN ELEMENTS FOR ASIAN ECONOMIES

a) Open Regionalism (?)

US and EC countries seem to be much concerned with the nature of the emerging Asian economic region. Some may see it moving towards exclusive trading and economic block.

As is symbolized by US hostile reaction to the initial EAEG (East ASIAN Economic Group) concept launched by Prime Minister Mahathier of Malaysia, they tend to see it exclusive.

My observation, however, is just different from that school. Though it is true that the countries in this region have begun to have more and more confidence in the future of their countries as they actually experience and feel their successful economic performance in the past decade or so, such confidence can keep outward-looking posture which has existed traditionally.

The countries in Asian region recognize why they have realized economic success. Is not simply home made. It was largely supported by external factors like open and free market of the US, foreign direct investment into their economies which happened partly by market opening policy and economic deregulation policy of themselves. Market mechanism in Asia began to function more through

economic deregulation and freer flow of direct investment, technology and capital.

Actually, emerging and seeming economic region or economic group in Asia is not the political creation, not the creation of central governments. It was created over time through market, namely through daily business and commercial transactions by private business. Non existence of the Treaty of Rome type of official regional agreements may clearly show a different nature of this economic region, different EC arrangement. It also means that they do not have common external trade policy. When one country in the region makes some market opening concession through bilateral trade negotiation with some other country outside the region, US for example, same conditions can be applied to all countries in and out of the region.

Increasing interdependence has been happening through market. Robert A. Scalapino rightly describes Asian region(s) as NETS (natural economic territories). (6)

b) Political Stability Issue

Again, different from the ending process of Cold War in East Europe and former USSR, communist or socialist countries try to maintain centrally controlled political system as before while taking sometimes aggressive opening policy in the area of economy.

Chinese leader, Deng Xiaoping, is trying hard to introduce what is called *Socialism-Market Economy* (that sounds self contradictory definition) by saying "Never miss a golden opportunity of development".

Vietnam, which was clearly abandoned by former patron (USSR) because of her

(6) Robert A. Scalapino, *The U.S. and Asia: Future Prospects*, Foreign Affairs.

economic bankruptcy, is introducing economic reform plan while keeping communist political system. Vietnam is even approaching to ASEAN countries to be included as its member.

This kind of approach is showing so far better results with higher economic growth, more technology transfer and foreign direct investment into them, the future is rather cloudy. As living standard increases countries may tend to face increase of demand on the part of the public for political freedom. The test is yet to come in China, Vietnam and some other non democratic countries.

When western democracies try hard to enforce democracy in those countries, their future will be more cloudy. The US-China relationship may be the case in point in this respect. US Secretary of State, Warren Christopher explained her policy toward China. (7)

In Asia, we confront many challenges and opportunities. (As for US policy toward China) On one hand, there is a booming economy based increasingly on free market principles. On the other hand, we cannot ignore continuing reports of Chinese exports of sensitive military technology to troubled areas, widespread violations of human rights, or abusive practices that have contributed to a \$ 17.00 million trade imbalance between our two nations. Our policy is to facilitate a peaceful evolution of China from communism to democracy by encouraging the forces of economic and political liberalization in that great country.

As for North Korea which was abandoned both by Russia and China, she is still sticking to a risky and dangerous policy of keeping controlled economy as well as communist government. Recent international dispute over alleged nuclear development. Future political as well as economic bankruptcy is at question.

7) Warren Christopher, remarks at the Senate Foreign Relations Committee during his confirmation hearing January 13, 1993

Such situation makes future of Korean Peninsular extremely dark.

c) Security Situation

The Security issue in Asia is fairly complex because of differences in the nature of security conditions in Asia, different from Europe after the end of Cold War.

Even during the period of Cold War, confrontation over security issue in Asia was not necessarily that of East and West(communism vs. capitalism). The threats sometimes were not even external but more often internal ones like domestic political and social instability.(8) This is because countries in Asia have rather short history of independence after so many years of colonized condition. The naturally had governability problem of their people.

External threats were often something to do with regional hegemony rather than ideological rivalry.

So the end of Cold War does not necessarily assure regional security. Rather, it poses now new troublesome issue of expanding military expenditure in many of Asian countries.

Not *Peace Dividend* but horrible *Dividend of Weapon* is going to be a serious issue in this region. Economically almost bankrupted Russia, who is unable to have smooth conversion of military production to civilian production, tends to depend upon weapon export. Many of Asian countries can afford to buy weapons as the have purchasing power.

During the four years period up to 1992, total import of weapons of Asia(Sou-th Asia included) amounted 60.1 billion US dollars. As of this total, 27 billion dollars were supplied by Russia, 21.2 billion dollars by the US and 3.5 billion dollars by China. End of the Cold War and disarmament policy may leads to more weapon trade. This is alarming.

d) Regional Security Framework (Collective Security)

Asian countries, ASEAN nations in particular, are thinking more seriously about regional security issues. ASEAN originally had the implicit principle to avoid involvement in power politics and tried to keep distance away from it.

This was because of their interest more in respective domestic unification after independence from colonial control. Their support to American military presence had long been only implicit in spite of the fact that it contributed much to the security of the region after World War 2.

In this respect, new approach adopted by the Foreign Ministers' conference of ASEAN countries held in Manila July 1992 can be described as a watershed as it officially and explicitly recognized the importance of keeping American military presence in South East Asia. The Ministers went further to agreement that ASEAN starts to study seriously about collective security in the region.

ASEAN is now concerned about military and security vacuum being created by the end of Cold War and consequent gradual withdrawal of American military power from this area. Under new American administration, scaling down of defense expenditure will be continued with lessening of big security threat and domestic budgetary and economic restraints as the background.

ASEAN does not want to see the vacuum be filled either by China or Japan.

(8) Masahide Shibusawa, Zakaria Hazi Ahmad and Brian Bridges, *Pacific Asia in the 1990s*, Routledge, 1991

Yuji Suzuki, Chapter 3, *AJIA WA DOU KAWARUKA (Future of Asia)*, edited by

T. Nakanishi, *Nihon keizai Shinbun*, 1993

6: ASIAN IDENTITY

Despite all the differences amongst countries in this region economically, politically and culturally, gradual emergence of some kind of Asian identity amongst them can be detected. This kind of self recognition was supported by stronger self confidence coming from their economic achievements and the new realities of economic interdependence with ever rising tide since the 1980's.

Such awareness was strengthened partly by having as catalyzers other regional unification movement in Europe and apparent protectionist trend in Europe and the US.

In most of the cases, such sentiment can be said as natural rather than deliberate and strategic. Some people in Europe and the US tend to see it as a ominous sign of Asia trying to constitute exclusive and more or less rigid arrangements only for themselves. This is not the case.

It is rather curious or unusual that the countries in Asia have not had any regional security or political arrangements covering the whole region. ASEAN framework was so designed that each member country try to keep her own resilience and try not to be involved in international power politics. It is only at the silver jubilee anniversary of 1992 that ASEAN Foreign Ministers' conference when it agreed officially for the first time ever since its establishment to be involved to collective security type of regional cooperation.

During the Cold War period, Asia did not have NATO type security arrangement covering the whole region. Only some network of many bilateral type of arrangements existed. Most of them were bilateral ones with the US as is rightly described by James Baker. (9)

What has fostered stability and secured economic dynamism in East Asia for the past four decades is a loose network of bilateral alliances with

(9) James A. Baker, *America in Asia*, Foreign Affairs, Winter 1991/92

the United States at its core. Our military presence, our commitment, our reassurance has constituted the balancing wheel of an informal, yet highly effective, security structure that emerged after World War 2 and endured throughout the Cold War years.

To visualize the architecture of US engagement in the region, imagine a fan spread wide, with its base in North America and radiating west across the Pacific.

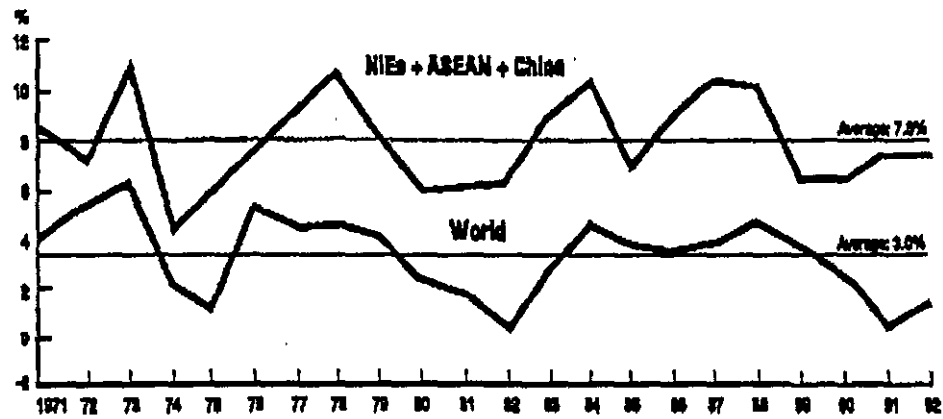
While natural economic territories(NET) are being created in Asia, some countries seem to have begun to be concerned about Greater China as some call the rapid integration of South China, Hong Kong and Taiwan which rests on a dynamic network of Chinese entrepreneurs who manage huge amount dollar capital.

So called overseas Chinese are investing massively to continental China as she introduces open up policy in the area of economy. As this is supported by natural and somewhat instinctive feeling based on blood relation and a band of hominids (or territorial society), other people are quick to try to find some exclusive nature or hegemonial elements of Greater China.

Overseas Chinese population is as large as 55 million. Some Chinese say that they no more need Japan money or Western money as overseas Chinese have enough financial resources.

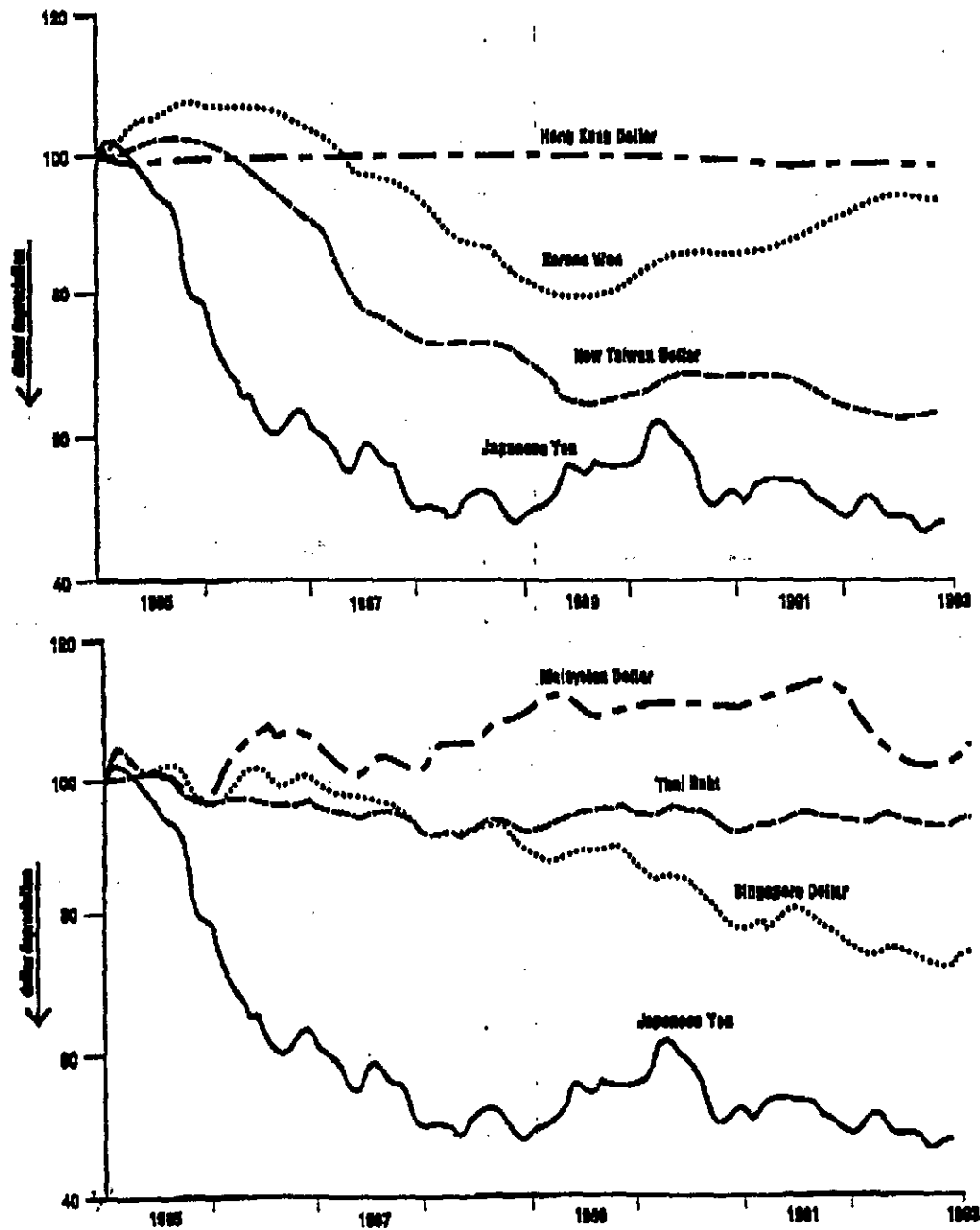
As for identity, general Asian identity as well as such ethnic identity are emerging. Its implications to Asia itself and the rest of the world is yet to be seen.

■ Growth Rates of Asia and the World



Sources: IMF, *International Financial Statistics*, and various national statistics, NRI

■ Movement of US Dollar Against NIEs and ASEAN Currencies



The Development of Deregulation in Asia

Taiwan	Republic of Korea	Singapore	Malaysia	Indonesia	Thailand
Revision of the foreign investment regulations—open policy toward service investment (5/1986)		Favorable treatment toward corporations which established business headquarters in Singapore (6/1986—incremental)	Conditional relaxation of foreign capital regulation—Allowing 100% foreign capital participation, relaxation of limits on foreigners employment (10/1986)	Expansion of business period allowance for foreign capital (5/1986) Tariff cut on raw material (10/1986) Conditional equal treatment between domestic corporation and foreign capital (5/1986)	Relaxing of encouragement criteria (10/1986); Reduction of minimum investment amount from 5 million bahts to 1 million bahts; Extension of period of exemption from corporate tax, 3-8 years to 5-8 years (10/1986)
Liberalization of foreign exchange control—\$5 million ceiling for overseas remittance by an individual or a company; flexible adjustment for emergency (7/1987)	Cut to \$50,000 in reduction criteria and foreign capital investment in medium- to small-sized corporations (7/1987) Expansion of foreign capital limitation (liberalization ratio 76.3% to 78.9%)(2/1987) Authorization of joint management in advertising business (7/1987)	Corporate tax rate cut from 40% to 33% (from 1987 tax year) Favorable treatment after expiration of the Pioneer Status (special treatment for pioneer industry)	Elucidation of guideline for investment tax subtraction (8/1987) Extension of the period of corporate tax exemption for export industries (5 to 10 years); extension of incentives for reinvestment (11/1987)	Opening for foreign capital in export industries (2/1987) Relaxing of conditions on capital localization duties (Burmah) (2/1987) Relaxation of conditions for foreign capital to be treated equally with domestic corporations (2/1987) Simplification of investment procedures (8/1987) Expansion of areas for foreign capital investment (5/1987)	Revision in investment encouragement areas, division of all prefectures into three areas (9/1987)
Amendment of the Securities and Exchange Act—40% ceiling for participation of foreign capital (5/1988) Adoption of Negative List (5/1988) announcing 73.2% as degree of liberalization	Conditional authorization of joint management in insurance business (1/1988)	Strengthening favorable treatment in R&D by service industry (from 1988 tax year)	Relaxation of restrictions on foreign capital participation (8/1988) Expansion of maximum limit to domestic sales MIDA procedure simplification and reinforcement of MIDA (9/1988)	Lifting of ban on wholesale business activities by foreign corporations (11/1988 deregulation policy package)	
The third modification for overseas remittance: \$1 million ceiling within a year (8/1989)	Expansion of fields for foreign capital participation in manufacturing business (7/1989)		Expansion of favorable treatment in tax system (2/1989)	Relaxation of minimum investment requirements to a quarter million dollars (5/1989)	Same as above; 1st region—6 prefectures, 2nd region—10 prefectures, 3rd region—57 prefectures (from 1/1989) (9/1988)
The promulgation of Indirect Investment and Technical Cooperation with the Mainland Control Act (10/1990)	Authorization of \$100 million as maximum foreign capital investment in manufacturing business (1/1990) Authorization of foreign capital participation in cosmetic and communication industries (7/1990)	Introduction of authorized overseas traders (AOT) arrangement; reduction of the corporate tax rate from 31% to 10% (3/1990)	Favorable treatment measure for OHQ (5/1990)		Shift to an IMP Article 8 country; relaxation of regulations on foreign-exchange and capital transaction (5/1990) Reinforcing favorable treatment, including tariff reduction by 50% on machinery except for categories 84 and 85 (10/1990)
Expansion of authorized list of articles of investment in the mainland (4/1991)	Relaxation of the Guidance on Economic Cooperation with the North by Private Corporations (3/1991)			Deregulation package (6/1991)	Cut in import tax ratio on computers and automobiles (7/1991)

Source: Terumasa Nakazishi, ed.

wa dōr Kawarizō (How Asia Changes), Tokyo: Japan Economic J., 1993.

Foreign Direct Investment in the ASEAN Countries

(U.S. \$ millions)

	Year	Malaysia	Thailand	Indonesia	Philippines	Total
NIES	1989	543	2,011	1,197	322	4,075
	1990	1,001	2,696	2,598	384	6,679
	1991	957	1,583	1,981	68	4,522
Japan	1989	393	3,524	769	157	4,843
	1990	658	2,754	2,241	306	5,911
	1991	423	1,760	929	210	3,321
United States	1989	47	569	348	111	1,056
	1990	69	1,091	153	59	1,372
	1991	232	1,130	276	87	1,725
World	1989	1,255	7,996	4,719	804	14,774
	1990	2,367	8,029	8,750	961	20,047
	1991	2,019	4,987	8,778	783	16,568

Note: Amounts in local currency converted to U.S. \$ using respective year's average exchange rate

Sources: Malaysia: MIDA (approval basis, manufacturing industries only)
Indonesia: BKPM (approval basis, excluding oil, natural gas, and finance)
Thailand: BOI (approval basis)
Philippines: BOI (approval basis)

Taiwan's Overseas Direct Investment (approval basis)

(U.S. \$ thousands)

	Thailand	Malaysia	Singapore	Philippines	Indonesia	U.S.	Others	Total
1959-85	9,474	7,299	9,299	10,113	25,775	117,189	35,772	214,921
1986	5,810	-	434	71	1,780	45,867	2,849	56,911
1987	5,366	5,831	1,301	2,640	950	70,058	16,605	102,751
1988	11,886	2,708	6,433	36,212	1,923	123,335	36,239	218,736
1989	51,504	158,646	5,209	66,312	311	508,732	140,172	930,986
1990	149,397	184,885	47,622	123,607	61,871	428,690	556,135	1,552,207
1959-90 Accumulative	233,537	359,369	70,298	238,955	92,610	1,293,911	787,772	3,076,452

Sources: Investment Commission, Ministry of Economic Affairs, Republic of China, *Statistics on Overseas Chinese and Foreign Investment, Technical Cooperation, Outward Investment, and Outward Technical Cooperation of the Republic of China*

Impacts of U.S. Macroeconomic Adjustment on Japan, ANIEs, and ASEAN
(percentage changes in GNPs from no-adjustment case)

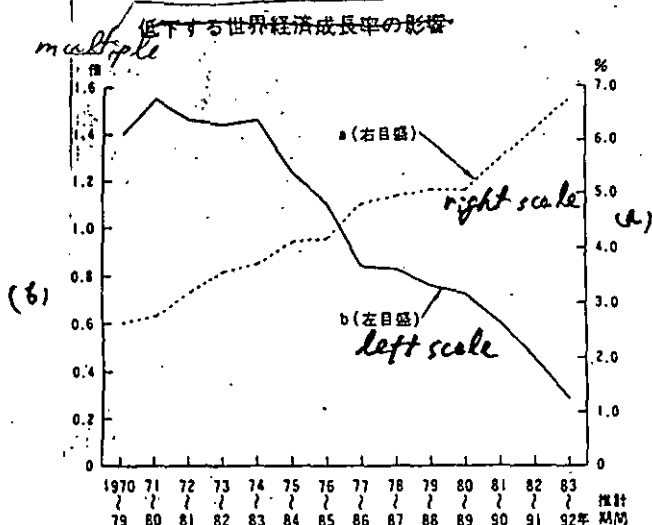
	1992	1995	1998	2000
1. Reduction of U.S. Deficit Budget				
U.S.	-2.0	-1.1	-2.5	-3.7
Japan	-1.8	-1.1	-1.4	-1.0
NIEs	-1.5	-1.7	-3.6	-4.7
ASEAN	-0.5	-1.2	-2.7	-3.7
2. Reduction of U.S. Deficit Budget + Relaxed Monetary Policy				
U.S.	-1.0	0.5	-2.0	-4.6
Japan	1.5	-1.9	-1.5	-0.9
NIEs	-0.1	1.1	-3.1	-6.0
ASEAN	0.3	1.6	-2.3	-5.3
3. Reduction of U.S. Deficit Budget + Relaxed Monetary Policy + Expansion of Japan's Domestic Demand				
U.S.	-0.8	0.8	-1.9	-4.5
Japan	-0.1	-0.4	0.6	0.5
NIEs	0.8	2.1	-1.3	-4.0
ASEAN	1.7	2.6	-0.9	-3.5

- Notes:** (1) "Reduction of U.S. budget deficit" means reduction of its proportion to real GNP by 2% starting in 1991.
 (2) "Reduction of U.S. budget deficit" + "Relaxed monetary policy" means 3% expansion of money supply in the U.S. along with the above (1).
 (3) "Reduction of U.S. budget deficit" + "Relaxed monetary policy" + "Expansion of Japan's domestic demand" means, aside from the above two, 1% expansion of Japan's fiscal expenditure's proportion to Japan's real GNP by 1%.

Sources: Japan Center for Economic Research, *Asia in the World*, April, 1990.

Chart ③
7/3

Declining trend of Asian growth on World economic growth.



※注/NIEs, ASEAN 4 各国(アジア)の平均成長率を以下の式により、70~79年、71~80年、...83~92年の期間で、世界経済成長率を使って推計した

$$\text{アジア経済成長率} = a + b \times \text{世界経済成長率}$$

bは、世界経済成長率に対するアジア経済成長率の弾性値、aは、アジア経済成長率のうち、世界経済成長率以外の要因で決定される部分を表す。上図は、推計期間の推移に応じた、aとbの変化を表す

※出所/ROMUKA RESEARCH

Asia: NIEs + ASEAN (4)
average growth ratio

Asian growth ratio = $a + b \times \text{World economic growth ratio}$

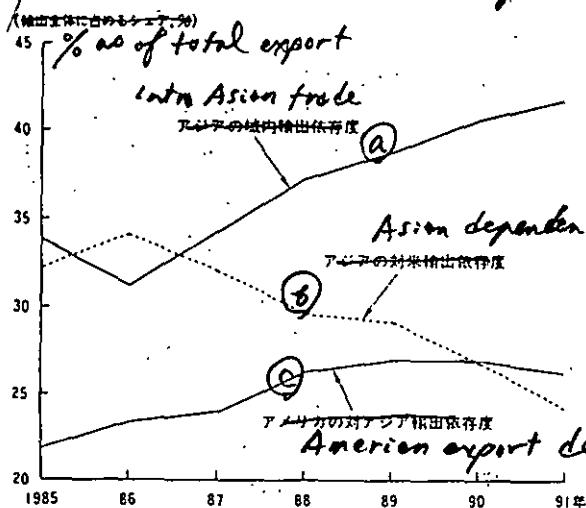
(b = elasticity of Asian economic growth ratio as against World economic growth rate.)

a = Asian economic growth rate which can be explained by world growth rate

Chart ④
7/8

重要性増す域内貿易

Increasing trend of intra Asian trade



※注/アジア=日本+NIEs+ASEAN+中国

※出所/IMF "Direction of Trade" にもとづいて製は経企研作成
ROMUKA RESEARCH, 1993.7.24

Asia: Japan + NIEs + ASEAN + China

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Keeping East Asia pacific

Gerald Segal (Senior Fellow at the International Institute for Strategic Studies and editor of The Pacific Review).

In the 1980s, East Asians used to deride Europeans for their eurosclerosis. But then came the euphoria of the end of the Cold War and Project 1992, and the East Asians realized they were wrong. But as we move into the mid-1990s, East Asians are working themselves into a sense of Schadenfreude, as more people die in wars in Europe than anywhere else, and the train to European federalism is shunted into the sidings. But just as the 1980s-style derision proved erroneous, so the 1990s-style Schadenfreude is premature. Not that Europeans do not face major challenges, but East Asians have far more cause to worry about how to keep the Pacific pacific than they are willing to admit.

Part of the cause of these differing perceptions is the European (and American) tendency to exaggerate issues in order to confront them, while East Asian political culture tends to do the opposite. Thus, please indulge one European (at least a mid-Atlanticist's) view of the often hidden challenges to keeping East Asia pacific.

Retreat of the outside powers

With the lifting of the overlay of Cold War international relations, one tends to reveal an older pattern of power set centuries earlier. And yet it is not so simple in East Asia. It has been several hundred years since East Asia has had "normal", or at least "natural" international relations. As European imperialism plundered its way around the region in search of trade, it demolished what was left of the old international order. By the time Britain forced China to open its doors and the United States then did the same to Japan, it had long been apparent that East Asians no longer controlled their international relations.¹ The old pattern--essentially degrees of Chinese domination--was long gone.

Thus the starting point for any assessment of post-Cold War East Asia is that unlike Europe, East Asians have to look much further back into history to find a natural pattern of international relations. Europeans, even in living memory, recall a system of sovereign states. East Asians need to open their (much doctored) history books where they will find stories of how their forebears adjusted to Chinese preeminence. Now, as in the pre-Magellan period, East Asians can no longer blame outside powers for their predicament.²

The retreat of the last two outside powers is still not fully complete, and in both the Russian and American cases there are good reasons why it is unlikely to ever be altogether achieved. Russia is at least as much a natural power in the Pacific as Australia (or Canada or the United States). Although its territory is

¹ Alain Peyrefitte, The Collision of Two Civilizations. (London: Harper/Collins, 1993).

² Gerald Segal, Rethinking the Pacific (Oxford: Clarendon Press, 1990).

sparsely populated and disputed in small part with Japan and China, no one argues that Russia does not have a border with Korea and China in Northeast Asia.

But Russian power used to stretch much further. In earlier centuries it touched California and only a few years ago it had major bases in Vietnam and was rumoured to be seeking allies in the South Pacific. Now that its ships are rusting in port, its hardware cannot be used for lack of fuel, and its order of battle is depleted by the failure to conscript soldiers, few can doubt that Russian military power is in retreat. True, Russia remains a major nuclear weapons power, but the utility of such firepower is uncertain.

While Russian military power has shrunk in Europe as well, its political influence remains much stronger in Europe than in East Asia. Now that Russia is gone from Southeast Asia, there are few political issues in the region that require a Russian role. Only in Northeast Asia, where Russia remains a local power, is it important to consult with Moscow. But even here, Russian retreat has meant influence being exerted (for example on North Korea) by the withdrawal of influence. It is Russian non-action on the Northern Territories that so infuriates Japan. Only in its relations with China is there something that can be called a "positive" Russian policy following the disintegration of the Soviet Union. But the 300-plus years of Sino-Russian relations suggests a tense relationship that is shaped primarily by the internal strength of the two powers.³

It is also a calculation of internal priorities that has drawn the other outside power--the United States--back across the Pacific to reconsider its position after the

³ For a survey of these issues as the Soviet Union was dying see Gerald Segal, The Soviet Union and the Pacific (Boston: Harper Collins for the Royal Institute of International Affairs, 1990).

Cold War. The United States had been a Pacific power for far less time than Russia, although at its peak it was far more integrated with the region. But in recent years the United States has drawn down its forces and readjusted its basing strategy, in a policy mostly determined by Washington's reassessment of its interests and capabilities. Despite the rhetoric about management of global interests, few can doubt that we will see much more drastic cuts in American deployments.⁴

Of course, the United States remains economically closely integrated with East Asia. While it is true that the share of American trade with East Asia continues to increase, East Asians see the United States as a somewhat less important market than it once was. Especially when East Asians run trade surpluses with the United States, the upshot of these trends is to deepen American distrust of East Asians and make East Asians less willing to bend to the American will.

In the absence of a defining American rationale--such as the Cold War--for staying closely engaged in East Asian affairs, American disengagement is likely to continue. If East Asians are able to manage their own international affairs, then the departure of the United States might make little difference. But what if the challenge of change is too great?

⁴ Jonathan Pollack, "The United States: Holding the Ring" in Adelphi Papers No. 275, Spring 1993.

The China Challenge

Perhaps it should not have been such a surprise that one of the most important post-Cold War trends in East Asia is the rise of China. Historians are certainly not surprised to see the Chinese Phoenix back on course to becoming the most powerful state in East Asia. What is more, even with a slower GDP growth rate than the 12.8% in 1992, China is set to become the world's largest economy after the year 2010.⁵ This is not to say that Japan is irrelevant as an engine of economic growth in the region. Far from it. But if Japan hoped to take over from the United States as the major power in the region, then it is becoming increasingly clear that it now has little chance of success.

Of course, China will be a very different sort of economic power than Japan. As a continental economy, trade may well have a different role for Chinese growth than it did for Japan. But much of China's growth has so far been achieved by its coastal regions which have often acted more as separate and smaller economies for whom foreign trade is vital. As a still relatively poor country, China's economy will dominate when it is still much less highly developed than that of Japan or the NICs.

The rise of China will have a number of implications. For one thing, Japan and other East Asians will have to decide how to do business with China. Traditionally China has been able to set the agenda in its relations with East Asians. But it is hard to believe that Japan will (or should) be content to be guided by China. Will Japan then seek closer relations with other East Asians? Will it seek

⁵ Details on the economic calculations, using purchasing power parities, in The Economist survey of China, "When China Awakes" 28 November 1993.

closer relation with the United States? Will it even make common cause with Russia? Japan, like many in East Asia has tough choices to make.

The choices are all the harder because until recently, and for most people, still, the perception is that Japan is the main challenge as the rising power. Just as it is hard to accept that Russia is far less important in the post-Cold War world, so it is hard to accept that Japan will not be as daunting as it once appeared. The difficulties in thinking about the China challenge is increased by a traditional worry in East Asia about confronting a China that has for so long dominated their history. It may be easier to talk about out-of-date issues--such as the role of Japan--than face the new reality. It may also be easier for many non-East Asians to talk about Japan rather than China, because for the time being China is a less important trade partner and the threat it poses is far more to other East Asians than to Europeans or Americans. Indeed, is it just a conspiracy theory to believe that Europeans and Americans have an interest in building up China as a counter-weight to Japan and the NICs?

But it would be short-sighted, even for Europeans and Americans, to hope to use China in this way. Far more sensible to deal with the China challenge before it becomes too difficult. The key lies in the very basis of Chinese growth--regionalism. Deng Xiaoping has discovered that by allowing the different parts of China to find their own way in the international market economy that the total Chinese economy can grow.⁶ But decentralization has its risks, especially for a country like China that has been so often divided, even in this century. There is already evidence that by

⁶ David Goodman and Gerald Segal eds, China in the Nineties (Oxford: Clarendon, 1991).

encouraging economic decentralization, problems are arising in the armed forces where centralization is the rule.⁷

China is not about to fall apart like the Soviet Union, but like the Russian empire, there are fissures that can provide opportunities for outsiders. At a minimum, foreigners wishing to do business with China can play off one region against the other. Decentralization might even offer opportunities for the likes of Hong Kong and Taiwan who wish to get better political terms in negotiations with Peking.⁸ This is not to mention the potential problems in Central Asia, Mongolia and Tibet. In short, so long as China's strength depends on decentralization, it has a weakness that offers outsiders some hope of controlling China.

NETs and Sovereignty

The decentralization of China has been both a part of a wider trend in East Asia, and encouragement to it. It is increasingly apparent that an important percentage of East Asian economic growth has been of a process whereby Natural Economic Territories (NETs) have been created.⁹ The most famous NET is that which links Hong Kong and Taiwan with Guangdong and Fujian. The webs of interdependence grow more intense all the time. Hong Kong capital employs over

⁷ See People's Daily 10 February 1993 in British Broadcasting Corporation/ Summary of World Broadcasts/Far East/1612/B2/5-6 and Liberation Army Daily on 7 January 1993 in 1610/B2/2-3. This also the subject of a major research project underway at the International Institute for Strategic Studies.

⁸ Asia Research Centre, Murdoch University, Southern China in Transition. (Canberra: AGPS, 1993) and Gerald Segal, The Fate of Hong Kong (London: Simon & Schuster, 1993).

⁹ Robert Scalapino, "Northeast Asia-Prospects for Cooperation" The Pacific Review Vol.5 No.2, 1992.

three million Chinese in Guangdong and as the Chinese provinces grow rich, they in turn invest in Hong Kong. Thus China is now a net investor in Hong Kong, and it becomes increasingly hard to tell whose money is being invested. With overseas Chinese operating in informal networks, the NETs grow more complex. They also expand outward to connect with Chinese who recently left Hong Kong for Canada, Australia or the United States.¹⁰

Other NETs, real or hoped-for, are evident around the East Asian rim. In the northeast there is the proposed Tumen river scheme, but further south there is growing South Korean investment in Shandong that uses Russian raw materials. Japanese investment is increasingly seen in Shanghai and up the Yangtze river basin. In 1992, 200 of the 700 Japanese enterprises in China were in the Dalian region.¹¹ In Southeast Asia the most developed NET is that which links Singapore with neighbouring parts of Malaysia, although to some extent Singapore's role in ASEAN can be said to constitute the web of a wider netting.

The weaving of NETs is a remarkable sign of economic interdependence and complex political pragmatism. In a region where it was not so long ago that communists and non-communists were at war, the integration of China in so many complex ways is a remarkable success. Indeed, such interdependence strengthens the argument of those who say that China can be tied into regional prosperity in sufficiently numerous ways as to make it a malleable partner.

It is certainly important that such NETs demonstrate the attractions of interdependence, if only because the resulting prosperity is what makes China

¹⁰ Southern China in Transition.

¹¹ Walter Arnold, "Japan and the Development of Shanghai's Pudong Area" in The Pacific Review Vol.5 No.3, 1992 and China News Analysis No.1479, 15 February 1992.

worry less about the consequent loss of sovereignty. And yet one might worry about the longer term political consequences of such NETs. Does China really appreciate how much loss of control over its economy it has suffered, and does it realize the potential political consequences? China feels that interdependence makes the capitalist world more likely to give it better trading terms. China expects that prolonged contact with Hong Kong and Taiwan will allow it to learn the tricks of capitalism and eventually make political reunification more likely.

And yet the reality of these NETs has been to change China more than China changes others. After a decade-or-so of building a NET in southern China, Peking finds itself even more dependent on Hong Kong. As the national growth strategy (and political legitimacy of the regime) is based on regional growth, the dependence on Hong Kong and Taiwan deepens. What is more, China's south becomes contaminated by Hong Kong and Taiwan politics. At least part of the recent fracas between Britain and China over Hong Kong has something to do with Chinese anxiety about what greater democracy in the colony might do to change China's political system. Similarly, closer relations with Taiwan only makes southern China more willing to pull out of Peking's orbit than it makes Taiwan willing to accept rule from China. In short, the creation of NETs is part of the risk of Chinese regionalism.

It is also part of a wider international trend which minimizes the importance of state sovereignty for those who become more economically developed. The EC, even in its slower trot to federalism, is a vivid demonstration of this trend. The United States is also involved as its multinationals export far more from East Asia to America than the total of the East Asian's trade surplus with the United States. With more than half the trade among OECD states done within individual

multinational corporations, it becomes increasingly hard for individual states to manage the global economy.¹²

As China ties in to the NETs of East Asia, it too becomes wrapped up in the complex interdependence. If China believed that a large trade surplus with the United States would increase its clout in the global market economy, the tough-minded American trade negotiators in 1992 demonstrated otherwise. China has failed to win its trade rows with the United States because China needs to export too much for it to risk growth by entering into a trade war. Will China continue to bend as it grows richer and stronger?¹³ The optimists about international interdependence argue that China will have no choice. But one must worry that this is just a phase that China knows it must go through in order to get rich enough to stand up to pressure. One remains uncertain whether China is a non status quo power and whether it will be weak enough for long enough in order to wean it away from revanchism. One recalls in the 1930s how Japan used arguments about the dangers of economic interdependence to support war in China and elsewhere in East Asia for strategic resources. There is ample evidence that economic interdependence, given the wrong political circumstances, can make war more, not less likely.

¹² De Anne Julius, Global Companies and Public Policy. (London: Pinter for the Royal Institute of International Affairs, 1990).

On this debate see Simon Long, "The Tree That Wants to be Still" in The Pacific Review Vol.5, No.2, 1992.

Unsettled Territorial Disputes

It is therefore a cause of much concern that East Asia has a range of unsettled territorial disputes. To be sure, a number of them seem barely alive, most notably those between Southeast Asian states. China and Japan as well as China and Korea have disputes that have been smothered for decades. While these conflicts may flicker into life, this does not seem likely, even in the medium term.

Then there is something like the Russo-Japanese conflict over the Northern Territories. This is also not a candidate for flaring into a major military fire, but in continuing to carry political significance, it remains an important issue. While it makes virtually no strategic importance whether the Northern Territories are returned to Japan, it does matter that Japan continues to feel estranged from Russia at a time of major change in the balance of power. Although Russia and Japan are ever likely to feel much warmth for each other, they may need each other if it does emerge that China is the major power in the region. Given a more hostile China, Japan and Russia will need each other both economically and militarily. While this has not been the pattern in the past, in the past there has never been a strong China, a weak Russia, and an advanced Japan.

In effect there are only three important territorial disputes that have the potential to lead to imminent military conflict.¹⁴ One must begin with that volatile mixture in Korea of a civil war and the remnants of the Cold War. Add in an often "crazy state" such as North Korea with a looming succession struggle and collapsing economy, and one has a recipe for tension. Stir the pot with worry about a North Korean nuclear weapons capability and the heat rises. Add pressure from

¹⁴ it is hard to construct a sensible scenario for major combat in Cambodia leading to a dispute that spills over international frontiers.

China and Russia and some say the boiling point is not far off. Even if the optimists are right and we will end up with a unified Korea before the century is out, it is hard to be sanguine about the risks of getting from here to there without a crisis.

Further down the rim there is the problem of the linked fates of Hong Kong and Taiwan. We have already suggested why the stakes are so high and the outcomes so uncertain. The question is not just whether China can unify itself on its own term, but whether China itself will remain unified. The deconstruction of China is not just a matter of semantics, it is about the basic shape of East Asian international relations. As recent events surrounding Hong Kong amply demonstrate, Peking does not always put economic rationality ahead of what it sees as issues of sovereignty and national pride. Once again, uncertainty over leadership succession adds additional worry. How would China react if Taiwan drifted to more formal independence? How would it view such an event if it was triggered by unrest in Hong Kong?

We already have some evidence of how China weighs economic and political factors in the way it handles the disputes in the South China Sea.¹⁵ Even if one grants that China genuinely believes the disputed water and rocks is rightfully theirs, it often sails close to the wind of international crisis in pursuing their claims. In 1974 when China took the Paracel islands, it did so at low political cost because the victim was a dying South Vietnam. In 1988, a unified but unloved Vietnam was China's victim in the Spratly islands. Even in 1992 China managed to take more territory from Vietnam because no power was anxious to upset China by blocking its changes to the status quo. The ASEAN states failed to take anything that

¹⁵ Mark Valencia, "Resolving the Spratly Dispute" in The Pacific Review Vol.6 No.2, 1993.

passes for robust action, and needless to say no one else would come to their defence if the ASEAN states would not articulate their concerns. This East Asian tendency to avoid confrontation leaves China free to pursue its claims when it has the capabilities.

As China's naval power grows, and as it acquires aircraft and in-flight re-fuelling that give it increased loiter time over the disputed waters, there can be little doubt that China will continue to take the territory it claims. If one feels that the territory rightly belongs to China and/or that it makes little difference whether it uses forces to take what it claims, then there is little to worry about. If one does oppose Chinese action yet worries about hurting the dragon's feelings, then one can be said to deserve the fate of most appeasers. In the end, some decision must be taken about whether to confront China's calculations of its territorial ambitions.

One might also recognize that China's use of the military instrument is not just about unsettled territorial claims, it is also about unsettled scores from history.¹⁶ China tried to "punish" Vietnam in a brief border war in 1979 (suffering some 25,000 dead in the process) not because it wanted to redraw the frontier, but more because it wanted to teach Vietnam a lesson about defying Chinese policy in Indochina. Although it took China more than a decade to humiliate Vietnam into withdrawing from Cambodia, the lesson was finally learned.¹⁷ When one looks around China's rim, there are a whole range of countries who have crossed China in recent centuries and with whom scores need to be settled. India has already been humiliated and Russia did it to itself. Japan would seem to be an obviously

¹⁶ For a review of these issues see Gerald Segal, Defending China (Oxford: Clarendon Press, 1985).

¹⁷ Michael Williams, Vietnam at the Crossroads (London: Pinter for the Royal Institute of International Affairs, 1992).

unsettled problem, but which will require much more Chinese growth before it is ready to confront the issue.

So far, the states of East Asia have proven unable to ease the military tensions in their region short of outright victory for one side. The sole exception--the war in Korea--still festers. But in Vietnam, the communists triumphed. In various phases in Indochina, wars were fought to a bloody conclusion. In the South China Sea, China continues to take what it can when it can. No arms control or collective security has stopped the triumph of military power. Perhaps it is for that reason that the local states have recently resorted to building up their own arsenals. This de-facto, but intensely complex arms race, has turned East Asia into the largest arms market in the world. It may be, as in Cold War Europe, that the arms are bought but not used except for deterrence. But as the range and lethality of the equipment expands, the increasingly wealthy states of East Asia are able to sustain a far larger buildup than in the past. In 1992 alone the tension in the region was enhanced when China acquired SU-27 aircraft from Russia, which made it easier for Taiwan to then pick up F-16s from the United States and Mirage 2000-5s from France. Japan, most uncharacteristically, warned China not to acquire an aircraft carrier, with the implicit warning that to do so might make Japan more likely to lift its self-imposed ban on acquiring offensive weapons.

The self-help security system that comes from such individual attempts to reinforce deterrence will probably leave little room for arms control. In all probability the arms race will include East Asians seeking more advanced indigenous defence industries. Japan and China are already well down this road, although China is seeking upgrades through cooperation with Russia. Taiwan, South Korea and ASEAN states are seeking and finding American and European partners. The

upshot will be greater independence in the acquisition of the tools of war. It may also mean less willingness to seek international security cooperation. At a minimum, most states will not find their defence burdens easing (while they do elsewhere), and at worst some may go to war.¹⁸

Unsettled Political Systems

Part of the reason for East Asian Schadenfreude about post-Cold War Europe is based on the relative absence of conflict based on ethnicity in East Asia. When one describes the Korean conflict as a civil war, it is a very different form of war than what is called civil war in the former Yugoslavia. No state has anything like the ethnic patchworks evident in the Bosnia, Macedonia, the Caucasus or even much of Africa or Central Asia. Malaysia is the exception that proves the rule in East Asia, especially as Singapore has long since left the federation and tension remains under control because of ASEAN and even the Five Power Defence Arrangement.¹⁹

And yet the political systems of East Asia may be unsettled in different ways. As we move further from the end of Cold War history it becomes increasingly clear that political systems are not all on a single track. Francis Fukuyama worries about whether there will be outlets for megalothymia, but that is only part of the reason to worry about future political struggles.²⁰ A more important trend, and one

¹⁸ Andrew Mack and Desmond Ball, "The Military Build-up in Asia-Pacific" in The Pacific Review in Vol.5 No.3, 1992 and Gerald Segal "Managing New Arms Races in Asia/Pacific" in The Washington Quarterly Vol.15 No.3, Summer 1992.

¹⁹ Tim Huxley, "Singapore and Malaysia: The Precarious Balance" in The Pacific Review Vol.4 No.3, 1991.

²⁰ Francis Fukuyama, The End of History and the Last Man (London: Penguin, 1992), especially chapters 20, 21 and 31.

especially evident in East Asia, is the evolution of political cultures that reshape the politics, economics and even security of states. When policy makers discuss the Structural Impediments Initiative they are actually dealing with core cultural differences of political and economic systems. The argument used to be made that as Japan and the NICs develop, they will become more like the Atlantic world. Yet, with the passage of decades, and now the different ways in which communism has died in Europe and Asia, this argument is far harder to sustain.²¹

Needless to say it remains difficult to define the differences between what is sometimes called the Confucian world and that of the mid-Atlantic. Differences within both groups are obvious, but they are not as great as the differences between East and West.²² Some might attribute the core difference to the fact that the Atlantic world had an Enlightenment and East Asians never did. The legacy is an East Asian strain to authoritarian and personality-based government and a concern with consensual politics. The Enlightenment led to greater concern with individual rights and eventually law-based rather than righteousness-based government. For these reasons, those in the Atlantic world will naturally view most East Asian countries as ruled by relatively undemocratic means, or at least by a form of political pluralism that is very different from their own. The prevalence of

²¹ Gerald Segal et.al, Openness and Foreign Policy Reform in Communist States (London: Routledge for the Royal Institute of International Affairs, 1992) and Gilbert Rozman ed, Dismantling Communism (Baltimore: Johns Hopkins University Press, 1992).

²² Robert Lloyd George, The East West Pendulum (London: Woodhead-Faulkner, 1992).

one-party rule, corruption, and de-facto state manipulation of markets, are perceived as evidence of the important political differences.²³

Thus the East Asian political culture means that structural impediments to dealing with other parts of what is loosely known as the West, will continue. For these reasons, dialogue across the Atlantic will usually be easier than across the Pacific or across Eurasia.²⁴ It also suggests limits to which the likes of Australia or Russia can grow close to Asian East Asians.

Needless to say, these are difficult issues to untangle with any certainty. It may be that the "end of history" school is really correct and East Asian systems are simply evolving more slowly. Under such circumstances the increasing pace of democratization in Taiwan and South Korea in recent years is evidence that the gap with other parts of the West is shrinking and the tension between differential rates of change in economic and political systems is easing. For similar reasons, but with very different effect, it might even be suggested that as the Japanese economy matures and grows more slowly, the old Japanese political order is cracking and more political pluralism is on its way. China too will find that its rapid economic reform will ensure that political liberalism follows, even though the East Europeans put political reform ahead of its economic sibling.

Either way, the unsettling process of political change in East Asia, as in Eastern Europe, must be a cause of concern about regional stability. Few can doubt that major political adjustments are necessary as economic growth

²³ On these differences in the business world see Bill Emmott, Japan's Global Reach (London: Century Business, 1992) and Tim Jackson, Turning Japanese (London: Harper\Collins, 1993).

²⁴ For variations on these issues see the ever-controversial Lester Thurow, Head to Head (N.Y.: William Morrow, 1992).

continues. In China this will be complicated by leadership succession in an essentially authoritarian state.²⁵ In Japan and the NICs the political adjustment may come as economic growth begins to slow, thereby restricting the amount of wealth available to buy off dissent.²⁶ And what if the Confucian values of hard-work, thrift and consensual politics begins to break down? Will East Asians develop a taste for nationalism as a refuge, or even just a greater tendency to adopt protectionist trade measures? Unlike the Europeans who at least have an alphabet soup of multilateral organizations for coping with such nationalism, East Asians are virtually home alone.

Why Don't East Asians Cooperate?

Many of the problems identified above would matter far less if there was extensive evidence that East Asians had a mechanism for coping with uncertainty and change. Europeans have variations on many of the problems but they also have a well-established habit of dialogue, arms control, and even collective security. East Asians have no significant multilateral cooperation in security and only the barest of signs that a form of cooperation might be developing on economic and political issues.²⁷

²⁵ Michael Swaine, The Military and Political Succession in China (Santa Monica: RAND Corp, 1992).

²⁶ On these wider sociological issues see a special of The Pacific Review on "The New Rich in Asia", Vol.5 No.4, 1992.

²⁷ For a comprehensive review of the economic and security efforts see Geoffrey Wiseman, "Common Security in the Asia-Pacific Region" in The Pacific Review Vol.5 No.1, 1992 and Richard Higgott, "Rethinking Pacific Economic Cooperation" in The Pacific Review Vol.6 No.2, 1993.

The reasons for the failure to develop a multilateral approach are numerous. Because the United States was keen to keep control of its allies and keep the Soviet Union and China at bay, it served as the hub of a network of bilateral alliances. Another factor is the absence of any tradition of multilateralism, except that imposed through Chinese or Japanese hegemony. Political culture is also a powerful explanatory force in that the absence of a law-based tradition makes it harder to develop and use international institutions. With a political culture that is averse to facing unpleasant realities in a direct fashion in order to resolve problems, bilateralism is preferred to multilateralism. Some have also suggested that the relative absence of like-minded policy communities in the region is a major problem, although this seems to be more derived from the deeper explanations.

In short, there is little fertile soil in which multilateralism might grow. There is also a concern about who might lead such a process. Now that the one country that might have done so, the United States, is drawing-down its presence in the region, especially in security policy, it is both more necessary and less likely that the United States will assume that leadership role. China and Japan would certainly oppose each other taking on such a role. Talk of a Yen Bloc, an East Asian answer to NAFTA or even the EC, have been much mooted but seem to drift further from reality as time goes by. Not only is Japan less in a position to lead than it once was, it is also increasingly clear that the main issues confronting East Asians are really global in nature. Completing the GATT round will be far more useful to East Asians than the establishment of a Yen Bloc, especially as Japan and many of the NICs expand their investment in Europe faster than in East Asia. Japan invested more in Britain alone in 1990 than in all of Asia.

Those determined to be optimistic can fool themselves into being cheered by recent events. Japan, South Korea and the United States have now begun multilateral talks about the Korean peninsula. The ASEAN states are now willing to talk about security at their summits and at their "bilateral" post-ministerial meetings with interested outsiders. APEC has not died although it has failed to tackle any significant issue apart from squabbles over membership. Indeed, the problem is that none of these efforts have come to grips with any of the important issues threatening prosperity and stability in East Asia. Worst of all, this nearly invisible snail's pace of multilateralism is taking place at a time of such rapid international change as to make it irrelevant to the real world. It can be seen as worse than useless because it provides an illusion of activity at a time when real action is required.

This is not to say that East Asia needs a CSCA equivalent to a CSCE or even an EAU equivalent to the WEU. The hopes for an EAC equivalent to the EC are nothing near credible. The European and even the NAFTA experience suggests the need to start slowly and on a smaller scale to build habits of dialogue on common interests. Events in the EC in 1992 demonstrate the folly of building institutions and hoping that the sense of common interest and political support will follow when it is time to buy the furniture. Unless East Asians demonstrate, for example, that cooperation in a version of a 2+4 arrangement for Korea or an effective confidence building regime in the South China Sea can be created, there is little hope of building real multilateral security more broadly in the region. The a la carte approach might also be applied to economic cooperation, but it is hard to see how it would be more effective than putting energy into such tasks as completing the GATT round. It is all very well for ASEAN to remove tariffs on snow-

ploughs, but it is an act that suggests the poverty of the process of cooperation rather than its good prospects.

In the end, one worries about the fate of East Asia in part because East Asians do not seem to worry enough together about their own fate. There is a palpable sense of people closing their eyes in the hope that all will be well in the end. This passivity is derived from multiple sources. It comes from a recent tradition of relying on outsiders to order their international affairs. It is enhanced by a cultural predilection to avoid open conflict. It is supported by outsiders such as the United States and the EC who do not want to see real regional cooperation. It is sustained by a sense that the region has done so well in recent decades that there is no need to rock the boat. Perhaps the notion of "market forces" has been adopted in this passive sense, even if it is less observed in the way in which economies are run.

It may also be that Japan and China--the two local powers essential to any real effort to come to grips with uncertainties in the region--have for their own reasons, blocked real multilateralism. Japan may have been playing a long game in the past, waiting for the death of the Soviet Union and the retreat of the United States. But it is now realizing that it missed the opportunity to shape the region to its own liking as China rapidly rises on the horizon. Perhaps Japan never had the domestic system that might have made such leadership possible. But the upshot is that as China rises to fill the vacuum of power, it too has little reason to allow regional cooperation that might only hamper its freedom of manoeuvre. Perhaps, if non-Chinese East Asians wake up soon enough, they will realize that they have both the need and the ability to build real multilateralism before China imposes it on

them. East Asians may well find that both the United States and the EC might be happier to support this kind of multilateralism.

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A Japanese viewpoint on the global trading system: Regionalism, Competition and Cooperation

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Introduction

Last year, we have witnessed drastic changes in international trade and finance. Attempts to ratify the Maastricht treaty have met an unexpected defeat in Denmark and have resulted in only a marginal victory in France. Turmoils in the European currency markets resulted in devaluations of several currencies and forced U.K. Sterling and Italian Lira out of the European Rate Mechanism (ERM). These events put the prospect of a single currency under the Maastricht treaty in serious doubt. Despite the setback in the monetary unification attempt, EC has achieved a common market on January 1, 1993.

Also in 1992, the United States, Canada, and Mexico signed the North America Free Trade Agreement (NAFTA). This agreement potentially create a large free trade area which rivals the EC common market.

With the EC and NAFTA in place, Japan and Asia, and also Australia, seem to be left behind in the wake of regionalism. If NAFTA free trade zone turns out to become a protectionist fortress, despite its pledge to be an open zone, then Japan and Asian countries will

feel immediate impacts. Fearing this possibility, Japan and countries in Asia are wondering the future of the trading regime.

The world trading regime is coming to a dangerous turning point, as the EC, the US, and Japan cannot agree on the road toward free trade and a drive toward the Uruguay Round has stalled.

Protectionism

The EC has kept various protectionist measures against Japanese electronics and automobiles, which has attracted less attention in Japan than automobile VER and semiconductor agreement with the United States.

The EC and the US have complained to Japan about Japan's large trade surpluses, which reached a record high in 1992. Although the yen has been appreciating in the last two months, it would take a more drastic change, both the exchange rate and domestic stimulation, to shrink Japan's large surpluses.

A Japanese view on the US administration is mixed. Its focus on the domestic economy is seen by the Japanese as good, because finally the right agenda will be pursued by the US Administration. The Japanese economic ministries should welcome the fact that the new U.S. Administration appears to be following Japanese advice put forward in the SII, which was mutually agreed.

A worse scenario for Japan would be if the US threatened to put up import barriers unilaterally in order to obtain a guarantee of market shares of various products in Japan, as was in the semiconductor agreement.

Both the EC and Japan have a fear that the US administration may turn to protectionism,

as apparent signals of this direction are abundant from steel dumping duties, threats issued to the EC over farm subsidies and airbus subsidies.

These fears and complaints may be summarized as the following table.

Complaints Matrix

\to from\	EC	Japan	US
EC		Large trade surpluses Closed market US-Japan colusion	Unilateral action US-Japan colusion
Japan	Protectionist measures (VER)		Unilateral action Auto VER
US	Farm subsidies Airbus subsidies Dumping(steel, etc)	Large trade surpluses Closed market Dumping(steel, etc)	

I still remain hopeful about the new Administration's policy toward Japan and Asia, despite strong worries in the region. My optimism is two-fold. First, this is the first time since the late 1970s that the White House, the Senate, and the House have been occupied by the same party. With cooperation, there is little need for a scapegoat. Second, if White House-Congress cooperation works well, economic policy measures will be targeted on the domestic economy, which is at the heart of the matter.

Protection does not help domestic industries in the long run. Putting up import barriers not only hurts American consumers but also downstream industries. The experience of Voluntary Export Restraints (VERs) showed that they help the survival of domestic competitors, but they do not really revive the protected industry. There is little evidence, if any, that U.S.

companies in the automobiles, textile, and steel industries used the extra rents earned by VERs into innovations or for research and development.

The US has been right in calling for the lifting of import bans, for lower tariffs, and for a change in government procurement procedures in Japan. However, the new managed trade approach exemplified in the semiconductor agreement would only increase the tension between America and Asia. It has already produced a strong anti-American sentiment in Japan. The loss of public support for pan-Pacific cooperation will be detrimental in the long run.

High saving and investment together with a budget balanced by higher taxes (a small sacrifice for future generations) are the engines of growth. When modern machines are combined with trained workers, exports follow. Priority should be placed on a package of incentives for saving and investment and then some kind of revenue enhancing measures to fill the fiscal gap. This is what many Asian countries have practiced.

EC, NAFTA and regionalism

Regionalism is another worry. Japan and Asian countries are fearful that Europe and North America will become fortresses and that Asia will be left out.

EC effectively became a single market, with many transition clauses and safeguards, on January 1, this year. However, its full impact on the world trade, or any difference from the past, is unclear. It is also unclear whether EC will expand to Eastern Europe. An extension to EFTA countries, with contributions from those countries to the infrastructure funds -- essentially an access charge to the common market -- is also a significant development. Surprisingly, these developments have attracted less attention in Japan than the formation and implication of NAFTA. Probably, it is a reflection of less importance in Japan's trades with

Europe than North America.

Although NAFTA (North American Free Trade Agreement) is said to be open to nations in other regions, it is not clear how this might work. Inviting a small number of countries from Asia into NAFTA would be a mistake as it further increase a suspicion that NAFTA is created for the benefit of the US and that Asia is to be divided and left out. Although not many Asian policy makers subscribe to the proposal by Prime Minister Mahatir of Malaysia to to form a regional economic grouping excluding the United States and Australia, the strong opposition issued by the United States left people in Asia puzzled: how could the US, an architect of NAFTA, object to movement toward an Asian free trade zone?

The economic links among the three economic regions, EC, North America and Asia, is a key to dynamic economic growth in the world. Trades among the three regions should not be disturbed by political rifts. One of the rationale behind regionalism is the apparent failure of the GATT. It would be far more desirable to push vigorously to conclude the Uruguay Round (and Japan should have been more active in this regard rather than hiding under the table hoping that the US and Europe would fail to reach an agreement). Japan, which stands to gain most from wider free trade, did not show enough willingness to sacrifice a small number of rice fields for bigger gains in the world system. Japan, which often criticizes the unilateral imposition of managed trade by the US, should have put much mmore effort into multilateral trade negotiations.

3. Global Security

Although the Cold War is over in Europe, it is not in Asia. Germany is united but the two Koreas are still apart and unfriendly. China and Vietnam are still totalitarian regimes,

although the market economy seems to be spreading and flourishing. Russia and Japan cannot even sign peace treaty to end the Second World War, because of the disputes over the four Kurile islands. Territorial disputes in Asia are not limited to these four islands. As the regional fights continue in the former Yugoslavia, and the political power struggle continues in Russia, the three economic powers -- EC, Japan and the US -- also share the burden of obtaining political stability in the world. A reform in the United Nations, such as additional seats in the Security Council and formation of the permanent UN troops and their greater role, should be considered.

In the mean time, the U.S. troops in Asia and several bilateral treaties have been an anchor for peace in Asia. Until a new framework for security in Asia is created, U.S. troop are essential. Any major pull-back which is not requested by the host country would be a great mistake. The Japanese government pays more than \$3 billion annually to support U.S. troops stationed in Japan. There may be budgetary pressure to to scale down US forces in the world, but the Asian region should not have to bear the brunt of this.

4. Conclusion

What is needed badly is a EC-US-Japan vision of how world trade and security should be maintained and enhanced. GATT should not be abandoned for regionalism or unilateralism. EC and Japan share a common interest in seeking a global mechanism to support free and expanding trade. They also would benefit to strengthen GATT, or creating an international organization for arbitration of international trade disputes, especially frequent U.S. charges against dumping and subsidies.

We should not make a mistake in building a new world order, so that a history does not

repeat itself. Lessons from the past (the tragedy of Sarajevo), 1930s (protectionism after the worldwide recessions), and 1940s (a cold war, and failure of ratifying International Trade Organization which would have strengthened GATT) should be learnt and we should proceed carefully in the 1990s.

It is all too clear that the three economic regions will gain by promoting more trades, by overcoming domestic problems, such as farmers and some ailing manufacturing sectors. The world trading regime and financial intergration should be enhanced with a clear vision of where we should be heading, and should not be hampered by policial convenience to cater domestic pressure groups. I hope that both EC and Japan, in cooperation with the United States, take political initiatives to build a new world order.

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A major monetary crisis has erupted in Europe in September 1993 and threatens the process of European monetary cooperation, with larger potential implications on European integration itself. It may seem a paradox that this crisis occurs at a time when the twelve have achieved two major successes: first, the advent of the Single European Market on schedule; second, the preparation of a new treaty of European Union, whose centerpiece is a European economic and monetary union (EMU), to be achieved at the latest by January 1, 1999. While that treaty still needs ratification and before it even gets a chance of starting to be implemented, it already looks obsolete and has lost almost all credibility.

Crises have been a constant feature of European integration. A crisis plays an important pedagogical role, because it reveals that the former pre-crisis apparatus for cooperation was inadequate, and highlights that more is needed. It also increases the costs of non-cooperation to the point when governments feel a strong common interest in rescuing the spirit and letter of cooperation. It therefore may play a much positive role in promoting further European integration. Yet, it is a dangerous course of action, because there is no guarantee that the crisis will not escalate and get out of hand before it can be solved through increased cooperation. It may therefore signal an abrupt change of regime. The dangers today appear all the larger that by historical standards this is the worst European crisis since the creation of the European Community in 1957. Two major countries, including one of the original signatories of the Rome treaty, have opted out of the Exchange rate mechanism (ERM) of the European monetary system (EMS). Seldom has the temptation to resort to economic and

monetary nationalism to solve collective problems been so large. Nor is it a purely European problem. The end of the cold war in fact put a renewed, uncontained emphasis on the extent of economic conflicts and rivalry among former allies. A central question for the European Community has to be whether the Maastricht conception is appropriate to face the new international challenges of the post Cold-war era, both in the economic and political as well as military sphere. The EC today faces explosive forces, due to the economic conjuncture, the difficulty of organizing international relations among triad members, and the challenge of Central and Eastern Europe transition.

This paper first argues that the current EMS is bound to be increasingly unstable and open to speculative pressures, and, if left unattended, will either collapse or be very costly to maintain. It draws in a second section the implications for exchange rate management in the Community. In a third section, the paper further suggests that the French economic policy, based on maintaining the French franc-D-Mark link, may well have to be abandoned shortly. This would signal the demise of the EMS altogether and throw the objective of EMU by the year 1999 into oblivion. The paper emphasizes the joint French and German responsibility in preserving the achievements of European integration. The concluding section sums up the paper and looks at the future of European integration.

The EMS in crisis.

Textbook economics suggests that a system of quasi-fixed but adjustable exchange rates is bound to be unstable when capital is very mobile. The reason is that national monetary autonomy is not compatible with both exchange rate fixity and perfect capital mobility. It opens the possibility of a change in monetary and exchange rate policy and invites speculation. Declarations of intent, even backed by years of "wise"

behavior, are not likely to be sufficient to rule out speculative attacks on the currency. The point is that even if authorities did not have in mind any change of policy, heavy speculation may increase for them the cost of not changing policy, and therefore increase the likelihood of an originally undesired change. Hence, speculation is bound time and again to "test" in this way the resolve of governments. This is apparently a zero sum game, in which the speculators either win the day, or lose their shirts. In both cases, however, the social costs are high, whether speculation is successfully countered or not. Stabilizing such a system in the face of recurrent speculative crises or likelihood of crises involves a high cost. The short term interest rate differential that has opened between France and Germany since September, 1993 gives an illustration of such cost.

Up to September, 1993, this analysis was largely discounted outside the economics profession (and, actually, even sometimes within the profession), because the EMS had proved increasingly stable. After a period of repeated realignments in the early 1980s, the EMS had indeed in the later part of the decade come to function as a monetary union before the date, a system of adjustable rates whose implicit rule was that they should never be adjusted. This even came as the US dollar entered a period of prolonged weakness, from 1985 on, thus creating strains within the EMS¹. A major reason for stability was that governments had shown through clear action that they were ready to subordinate economic policy to the maintenance of exchange rates. That determination looked all the more credible that it brought undisputable results in terms of convergence toward low inflation in most member countries, and that the general climate in terms of economic growth looked relatively favorable. Later, the Delors Report in 1989, the actual beginning of phase one of EMU on July 1st, 1990, sanctioned by a complete freedom of capital movements among Member States, and the preparation of the International Governmental Conference on EMU, further

¹ A weak dollar used to tend to weaken more against the D-mark than it did against weaker currencies of the Exchange rate mechanism, thus tending to strengthen the D-mark against these currencies.

anchored the credibility of the EMS and made it appear as a natural stage towards ultimate EMU. While, in principle, exchange rates still could be changed, the implicit rule was that they would only be modified under extreme circumstances, and these were not expected to materialize.

This approach collapsed with the Danish "no" and the French lack of enthusiasm when the referendum toward the ratification of the Maastricht treaty was held on September 21, 1993. It was realized that the costs of maintaining the current level of exchange rates, while Germany was experiencing the high fiscal costs of unification, and other countries had to suffer higher interest rates than their economic situation would warrant, could soon be judged intolerable in some countries, including France. Suddenly, the Maastricht process and timing looked overly optimistic. Convergence criteria were judged inappropriate given the deterioration of the economic and fiscal situation in many countries. Doubts are the best invitation to speculation, and, indeed, speculation took place on a large scale.

The September crisis forcefully validates the textbook case made above. It is simply naïve to believe that a victory over speculation today would rule out speculation tomorrow. And yet, this is what governments have embarked on believing or pretending to believe. In March, 1993, the crisis is not yet over. It may be surmounted, depending on whether interest rates will go down far enough and fast enough in Germany; but even if respite comes, it will be temporary only: lower interest rates are a necessary, but not a sufficient, condition, to improve the economic situation in Member countries. Structural problems crucially need to be addressed, and, as long as exchange rates still can be changed and structural problems persist, the possibility will remain that a change in the exchange rate might be preferred to costly structural action. The only qualification to that assessment would be that the return of a high rate of growth and of employment would restore confidence and hide the structural problems. But this may be too much to hope for in the current circumstances.

The September crisis is also often said to suggest that it was a mistake to stick to misaligned exchange rates. Had the Pound and the Lira been devalued earlier, the story says, there would have been no reason to speculate against them and a major crisis could have been avoided. This is logically impeccable, but may in fact be too simple. First, there is a problem of credibility. A devaluation gives an indication to markets that the country remains ready to resort to exchange rate changes rather than pursue other adjustment policies. This is likely to increase the frequency of speculative crises. Second, the UK had entered the EMS specifically to allow the external constraint to help restore domestic policy credibility and fight inflation. The basic idea there is that the currency is likely to be overvalued, because inflation is higher domestically than abroad, but that this overvaluation will be corrected not through a nominal exchange rate change, but by a decline in the rate of domestic inflation. A devaluation signals both a defeat and an abandonment of that strategy. The defect in the UK strategy was that price inflation indeed went down, but wages still increased too much. As a result, companies' profits were squeezed and they had to lay off. Hence, the sizeable reduction in inflation was accompanied by a dramatic increase in unemployment. This is why the Pound remained blatantly overvalued. It remains to be seen whether the response to the September crisis, namely to float the Pound, will lead to better results. Recent wage moderation is likely to help defuse the inflationary pressures coming from a much depreciated currency.

European monetary cooperation at a crossroads

If one accepts that the EMS is inherently unstable in the face of free capital mobility, then the logical conclusion is that European countries must give up something: either free capital mobility, or fixed exchange rate, or national monetary autonomy. Capital controls are a feature of the past, and would not resist technological sophistication. In addition, capital mobility is crucial to the free cross-border trade in financial services

and to the ability of European financial institutions to compete worldwide. It is a central part of the Single European market, and the likelihood is that it will not be undone. Abandoning national monetary autonomy corresponds to EMU, while abandoning fixed exchange rates corresponds to generalized floating among Member States. As a half-way house, the EMS is not a valid, stable option. Europe therefore faces a choice between floating on the one hand, and monetary union on the other. The Delors Report and the Maastricht treaty clearly chose to preserve exchange rate fixity and capital mobility, deliberately abandoning the pretense to national monetary sovereignty. Sticking to national monetary autonomy will imply floating : this *also* applies to Germany. Promoting monetary union in Europe will imply for Germany the abandonment of monetary sovereignty. The country will have to accept that it is no longer German inflationary pressures but European inflationary pressures that ought to shape European monetary policy. It is understandable that the Bundesbank would resist that change as long as it can. But there is a good political case for arguing that the German government should move faster, with a limited group of countries, including France, toward a joint, non-inflationary determination of European monetary policy.

What would be the consequences of floating? They should not be underestimated. Floating opens the door to competitive depreciations, to the use of the exchange rate to export unemployment or inflation. As such, it is a source of conflict and it also obfuscates price signals among the countries that float against each other. As a result, and especially in a group of countries so tightly integrated as the EC countries are, the likely impact would be a decrease in investment spending, and a rise in protectionist pressures. This could be the experience of the 1930s all over again, and, indeed, the debate over monetary nationalism in the 1930s was partly cast in these terms². It is

² See, for example, Friedrich A. von Hayek, "Monetary Nationalism and International Stability", Publications of the Graduate Institute of International Studies, Geneva, N° 18, 1937.

hard to believe that this would have no consequence on the Single European market. It might indeed open a protracted process of European dis-integration.

The likelihood that the Maastricht process can now unfold as scheduled seems very small. It would rest on an interest rate reduction in Germany that would come fast enough and be sufficiently large, and on a resumption of economic growth and job creation. Even then, respecting the criteria set out by the treaty, notably in terms of budget deficits (which must be less than 3 % of GDP) would still be a tall order. If the demise of the EMS and floating is to be avoided, a new initiative is needed. The *statu quo* is not likely to deliver lasting monetary stability in Europe.

A call for leadership

Such an initiative must involve France and Germany, possibly in cooperation with other countries. Its feasibility looks, however, limited at best.

A new, overwhelming, majority has just been elected at the French parliament. It finds itself in a peculiar political and economic situation. On the political front, because presidential elections will come in 1995 at the latest, it has at most two years to convince the electorate that their choice was the right one. The presidential campaign is already open, and an economic policy that relies on a slow, gradual, process of improvement may well elicit strong opposition from within the majority itself. The new majority was able to play down its divisions on economic policy during the electoral campaign. It now has no obvious incentive to hide them any further and they might well come out into the open.

Potential divisions will be strengthened by the dismal economic conjuncture. While France was largely able to regain economic policy credibility, unemployment has reached a high level, and its structure is a source of deep concern, with a high rate of

youth unemployment and a rise in the proportion of long-term unemployed. This threatens to create social difficulties and increased exclusion of several categories of people. Job creation depends on a high rate of economic growth, which is simply not there. While a reduction in interest rates would by itself not be sufficient, it is certainly called for, since real interest rates in France, which are about 8 % are unsustainably high.

Given this situation, the temptation will increase to argue that France (and the countries that stick to a tight link with the D-mark), should not be alone to pay the costs of maintaining the EMS, especially when these costs are born by a weak economy in which unemployment is the number one problem. Without a political sign that Germany is also willing to contribute, floating might increasingly appear as a wise option. This is well known to investors worldwide, and increases the likelihood of disruptive speculation. The natural outcome would be the demise of the EMS, and the opening of a new era of high uncertainty over European cooperation.

Floating allows countries to choose the level of their short-term interest rate, and would have the advantage of immediately delivering much lower domestic short term rates. For a country like France, there should be no real loss of credibility: who else in Europe today is more "credible"? Inflationary pressures from a weakened currency would be there, but could be dealt with by an appropriate economic policy based on medium-term deficit reduction. They are not an issue in the short term because the economy is so weak. Besides, France could and should deal with this potential risk by first changing the statutes of the Central Bank, giving it full independence and a clear priority in the fight against inflation. Hence, properly managed, floating may increasingly appear as a politically and economically potent option.

As argued above, the risk to the fabric of European cooperation would be high. Something needs to be done very early to defuse that risk and save what can be saved

of the process of European monetary union. This implies for France an early move to give independence to its Central Bank, so that it can respectfully turn to Germany and request cooperation. This implies, for Germany, a political determination to promote monetary cooperation, probably against the Bundesbank will (as was the case when the EMS was created). The aim should be to exercise monetary policy jointly through a strengthened monetary committee involving the Banque de France, the Bundesbank, and possibly the central banks of Benelux countries. Exchange rates should be irrevocably fixed, and margins of fluctuation disposed of (or at least substantially reduced). Such a move would (1) defuse the risk of speculation; (2) allow interest rates in Europe to better reflect the economic situation of member countries, without endangering the European inflation target; (3) restore confidence and promote economic growth, even though structural adjustment, and an improvement in the flexibility of labor markets would still be called for; (4) preserve and strengthen monetary cooperation in Europe, and revive the prospect of a single currency by the end of the decade.

Such an initiative could be made compatible with the Maastricht treaty. Without it, the treaty would soon be dead. With it, the process of EMU would receive a new impetus, and be put back on track by leading countries. The fear of a "two-speed" Europe is widely misplaced. First, there are already several speeds in terms of economic development and living standards within the Community. Is it not illusory to believe that these inequalities would be bridged more easily if monetary union does not take place at all? The demise of monetary cooperation in Europe would arguably lead to much more inequality than a situation in which the close monetary cooperation of a small number of countries restores the basis for a successful economic cooperation among all member states. Second, the idea that EMU should be done at 12 or not be done at all is not convincing: some countries would suffer much by entering a monetary union with low inflation countries, but to wait until inflation rates have converged rests on wishful thinking. Convergence takes place within a framework. The

EMS was such a framework, with Germany at the center. It is today in danger, and must be replaced by an equivalent system with a core group of countries at the center, that have achieved *de facto* monetary union among them, and will help promote anti-inflationary discipline and cooperation within the whole Community. It is, however, a lacuna of the Maastricht treaty that monetary relations between EMU countries and non-EMU EC Member States are not clearly specified. But the EMU-part of the Maastricht treaty can still provide the main thrust of a monetary constitution for Europe.

Concluding remarks

There is an urgent need for political leadership to restore the spirit of European monetary cooperation. The likelihood that the EMS can survive the current tensions, and survive until Germany has unilaterally found its way out of its current problems, looks increasingly small. Even if the *statu quo* was finally working out, with substantial, gradual interest rate reductions in Germany bringing relief to the country's partners within the EMS before the situation is judged economically and politically untenable in these countries, the credibility of the EMU process has been severely damaged and needs close attention.

We have argued here that a joint, bold French-German initiative was needed. It would amount to effectively share monetary sovereignty, possibly with other Benelux countries. This would not be to the Bundesbank to decide, but indeed to the German government and parliament. The legitimate German fears about inflation would be mitigated both by an early, if already belated, move toward central bank independence in France, and by a clear mandate given to the joint monetary committee in charge of managing monetary policy to deliver low average inflation among the members of the agreement. This would calm speculation, make the current risk premia on interest rates disappear, and provide immediate relief in member countries. It would make the

perceived costs of moving toward EMU more palatable. Short of such an initiative, another post-mortem on EMU might soon have to be written.

With hindsight, it is now clear that the Maasticht process can be interpreted as a speculative bubble of European integrationism. European integration should not be allowed to become an ideology, resting on the recurrent invocation of union while the actual content of union is never properly defined and the purpose in creating such union is not clearly addressed. There are pragmatic reasons why Europe should move toward EMU : stable exchange rates are needed to a proper functioning of the Single market, not primarily for undisputable economic reasons because some economists will argue that free trade is compatible with floating, but for political reasons, because floating will lead to tensions, mistrust and protectionist pressures; and the combination of stable exchange rate and free capital mobility requires monetary union. It is now necessary to recall these reasons and highlight the fact that EMU does not require political union, however defined, and that wanting to achieve too much before the reasons appear clearly enough may be counterproductive.

More globally, the Community will have to show increased flexibility in dealing with the new problems of the post-cold-war world. The issue of widening, to EFTA countries but also to Central and Eastern European countries, is already high on the agenda. A clear signal must be given to Central and Eastern Europe that they will be welcomed into the Community in a foreseeable future. Ultimate membership is the source of hope that they need if they are to be able to undertake a costly and lengthy reform process. A new initiative is needed to organize a credible process of ultimate membership, involving reforms both in these countries and also in terms of market opening in EC countries. But the belief that it is necessary to deepen at twelve before enlargement has become largely obsolete. It was arguably valid when the EC was seen as a bulwark against Soviet expansionism and a European messenger of Western ideology. Today, the central question is peaceful management of economic

interdependence. That calls for an ultimate deepening of economic cooperation worldwide, but can best be undertaken first on a regional basis, and by separating the different dimensions of economic cooperation, namely trade and money. Full cooperation ultimately requires free trade (or at least highly predictable trade) and stable exchange rates, but it must be accepted that all countries will not feel the need to proceed at the same pace toward these objectives. Anchoring cooperation in Europe requires a small number of countries to take leadership, to prove economic union feasible and desirable. Now that the ultimate political meaning of the Western alliance has been weakened, the economic objective is the most potent one to promote peace and prosperity among European nations. European economic integration is a learning process about managing economic interdependence.

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EUROPEAN SECURITY: UNFINISHED BUSINESS AND UNANSWERED QUESTIONS

The great American philosopher Orville Quine begins one of his essays with the question "what exists?" and answers "Everything". We might ask of European Security: "what has changed?" The answer is the same: "Everything".

It was easier to write about European Security five or ten years ago. Then one could discuss numbers of troops, tanks, states of readiness, missiles, their range and war heads. We hear less of these subjects today: troop numbers are discussed most often in the context of cuts or of withdrawals; occasionally we hear about agreements to reduce numbers of missiles or warheads. Usually, when we do so we yawn. And yet, in spite of this unmilitary environment, in one corner of Western Europe a horrifying and destructive war continues; and European forces are deployed there, though in peace keeping and humanitarian rather than combat roles.

Has Europe ever before experienced such a radical change in such a short time? Perhaps the French Revolution offers the only precedent.* At a time of such change, when almost everything must change with the times, the first and greatest challenge is the need for intellectual clarity. While we wait for a new Burke we need to think everything through from first principles: threats, security policies, institutions, the role and purpose of armed forces.

* Some - eg. Professor Furet - might suggest that the processes which dominated 1989 began, in some sense, in 1789: Nationalism and socialism being the twin legacies of the French Revolution.

Threats

The first question must be: what about the threat: the one we spent forty years preparing against, containing and finally eliminating. Has it gone or does a residual Russian threat remain? Russia may be chaotic and unstable; it may still have a considerable military capacity but the idea of a Russian invasion of western Europe is now so distant that we cannot reasonably base policies on it. Think what such a threat would mean. If we want to imagine it we must think first of Russia setting its internal house in order, probably reorganising its forces (many of whom today spend more time looking for food supplies than in military training). Then it would have to conquer or form an alliance with Ukraine, and then reconquer Eastern Europe - whose occupation for 40 years turned out to be an unprofitable exercise and from which Russian troops have only recently departed. And then it would risk a nuclear war by invading western Europe. All of this is difficult enough to imagine but, even more difficult, we also have to imagine a reason why the Russians should ever want to invade. Of course the world is full of surprises but one can hardly base a policy on such a scenario. The fact that western governments are willing to give economic assistance to Russia suggests that they also do not regard that country either as an enemy or even as a potential enemy.

Those who disagree with the thought in the paragraph above should probably stop reading here. They will see no need for change in forces, institutions or mind set. Before, however, we go on to the massive consequences of this change we should look at the other threats to Western European security.

First is the threat of proliferation. This requires an essay in itself. Here only a few of the most salient points can be noted. The first is the dangers consequent on proliferation: the more countries that have nuclear weapons the greater is the risk that they will be used. It took both sides in the Cold War a number of years to evolve the stabilizing and even

co-operative strategies of the Cold War. It is said for example that when US Marines landed in Lebanon, in 1958 the only shells available in the US fleet for covering fire (fortunately not employed) were nuclear tipped. If the US in its early nuclear days could produce a Douglas MacArthur or a Curtis LeMay, what should we expect of countries in the Middle East? These are often despotic, unpredictable and secretive at the best of times. The possibility that one or more might acquire nuclear capability is surely Europe's single biggest security concern. There seems no alternative to a strengthened vigilance, reinforced by a stronger IAEA, still more rigorous controls on nuclear materials, and a continuation of the NPT regime. It should be remarked in passing that the NPT regime has been in many respects a notable success, and the recent accession of France, China, and especially South Africa gives considerable hope for the future. On the other hand, time is on the side of the proliferators, and examples of Iraq and North Korea show that loop holes remain to be closed. On the subject of loop holes Europeans ought to be concerned about the large quantities of fissile material in the Soviet Union, some part of which has a weapons potential. For the time being all the stories about fissile material being available for sale have proved false but can we be sure this will always be so?

In a slightly different category come two other concerns:

The first is the ambiguous position of Ukraine with respect to the nuclear weapons on its territory. This variant on proliferation is also unacceptable in today's world. The second concern is that of the possibility of a Chernobyl type nuclear accident in Eastern Europe or the Soviet Union. Although distant from the normal scope of security questions such a possibility still poses a serious threat to Western Europe. It has proved extremely difficult to overcome to the many obstacles to implementing the G7 communique on this point.

Non proliferation concerns poses a challenge on several fronts: we need to redirect our thinking on nuclear issues to make this the central aim. The nuclear powers in particular will have to re-examine some of the fundamentals of their position. All countries may need to redirect resources in quite radical ways towards this problem. There are some hopeful signs that these changes are already slowly beginning. ?

A second new category of security concern for Western Europe countries is that of instability on Europe's borders. It shows just how new this kind of security problem is that analysts seem not yet to be sure whether or not it really is a security threat. Some argue, for example, that Serbian aggression must be stopped now just as Hitler should have been stopped in 1938. Could a victorious Serbia pose a wider threat? It is not impossible, though it does not seem likely. Others argue that it is the example of aggression that is dangerous and that by not taking military action in the Balkans against it we are storing up trouble for ourselves elsewhere, perhaps closer to home. And yet it is striking that - so far at least - no one has been prepared to take this sort of military action. Is this merely procrastination, wishful thinking, cowardice? Or is it the case, that whatever the newspaper columnists may argue, governments do not really see the war in Yugoslavia as a threat to their basic security. If this is the case we must surely ask ourselves whether instability on Europe's borders really is a security concern - after all one cannot get much more unstable than the former Yugoslavia; or in what circumstances would instability become a real threat.

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And yet, even if (and I stress "if") instability such as that in the former Yugoslavia does not pose a direct threat it certainly poses large costs. Loss of production, loss of trade, probable debt write offs are only the beginning. Peace keeping and humanitarian relief do not come free, nor does coping with refugee flows. And there is perhaps also a sort of moral cost in sitting impotent while terrible

violence takes place only a short distance from one's borders. What we should do to prevent further such problems is surely a central policy concern.

Moreover it is in the nature of instability that one cannot be sure what it will bring. The war in Yugoslavia may yet, in quite unpredictable ways, bring real threats to Western security. So, in some unforeseeable fashion, might trouble in Central Europe, perhaps related to Hungarian minorities. Such problems do not look likely at the moment but if they did arise the moral, financial and possibly, even security, costs would be great. In comparison some modest expenditure of effort on prevention would surely be worthwhile.

Security

The lack of military detail in discussions of security follows from the fact that today most European countries conceive their security primarily in political terms. The end of the Cold war came about through political change rather than military victory; and it is political consolidation in East that is the most important item on the security agenda today. Political change in this case means domestic political change and the task of exerting influence from outside is not an easy one.

Nevertheless, through the Cold War the West did exert an influence, both on the external and on domestic politics in the East. First it remained ready, and visibly ready, to defend itself: the firmness displayed in the Berlin airlift and the subsequent Berlin crises laid the basis for the long haul of containment. Much later European willingness to deploy new nuclear weapons (the Euro-missiles, twin track decisions etc) in the face of a massive campaign against them - a campaign which was at least partly orchestrated and paid for by Moscow - was probably one of the decisive factors in the timing of the end of the Cold War.

And yet, although this background of defensive robustness was important, it could not in itself bring about political change in Eastern Europe and the Soviet Union. That could come about only from within. But in that process also the West was influential. What mattered however was less what the West did than what the West was. Example may conquer where armies fail. It was, first of all, economically successful: the massive power of the American economy, the German and Japanese economic miracles, the contrast between North and South Korea, the dynamism of the Community's single market programme - all of these demonstrated the failure of State socialism and also created a deepening fear in the East of being left out and left behind. Secondly the West, with all its faults, provided a model of a free society: jeans and pop music, which were among the most popular Western cultural exports to the former Soviet bloc are not necessarily the worst representatives of that freedom. Other social trends such as the rise of ecological concerns in the West also had an effect and in many cases were closely associated with reform movements in the East. The CSCE played a role in transmitting information and legitimising the values of a free society. Thirdly the example of the way the West conducted its foreign relations may also have had some impact. Even if NATO was misrepresented and misunderstood it was clearly different from the Warsaw pact; and among neighbouring European states the European Community was attractive as a model of co-operation without coercion.*

- * A second point, not immediately relevant to the subject of this paper but perhaps of interest to Japanese participants is the thought that, in the Pacific, the example of Japan as an economic success and a civilian power has also exercised a profound and lasting influence. What Japan is may also be more influential than what it does.

These points about the past contain lessons for the future. Foreign relations (and so security policy too) is something which plays on the surface of domestic politics. For Western European countries security will depend a great deal on what sort of states emerge from the transition in the East. Security must therefore be conceived primarily in political terms - ie. the first safeguard of security is good political relations; but those political relations will also depend on the nature of the states we are dealing with. (In the long run democracies cannot have good political relations with authoritarian regimes).

*not only
political
defence
and cooperation*

The greater salience of political relationships over military hardware is also reflected within the Atlantic Alliance. Here three things are striking: first the rapid reduction of American force levels in Europe. Most observers expect US force levels to go down to a level roughly a quarter of the 350,000 man Cold War deployment. This is a dramatic change but no one appears to be taking it too tragically: what matters is the United States' political commitment to European security rather than any precise number of troops. All the consequences of changes such as these, happening as they do with dazzling rapidity, are hard to foresee: but it is difficult to believe that the Alliance will remain quite the same in the way it works with such a great alteration in the balance between Europe and America.

The second striking development is the growth of purely European security institutions. So far not all of them are very convincing. The WEU does not yet look like a major force in the security field. It is equally true that many uncertainties surround the Franco-German Corps; likewise the commitment of the Maastricht Treaty to an eventual Common Defence Policy, together with the more distant possibility of a Common Defence. What is surely not in doubt however is the long term wish of all European countries that the political and economic integration brought about by the European Community should also be expressed in defence relationships.

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Secretary of State James Baker is reported to have asked of the WEU "yes, but will it fight?" The same question might be put of the other creations of the European imagination. In many, if not all cases, the realistic answer will be "Not yet". That does not mean however that these institutions are useless or a mistake, only that their development remains incomplete.

The third demonstration that security in Europe is now conceived first of all in political terms is in NATO's outreach programme. The NACC has become a major centre of NATO activity and is the Alliance's contribution to reducing tension, to military reform and to co-operation among former enemies: in short, a massive confidence building measure.

These examples of the more political focus of security institutions are only a part of the picture and perhaps not the most important part. The other side of the coin is the security focus of political institutions. Leading these is the European Community which has a clear security motivation in its Association Agreements with Eastern Europe, and in its rather more ambiguous promises of membership for some Central European states. The establishment of the EBRD, bilateral, and multi-lateral aid programmes (including those through the IMF and IBRD) all have at least a partial security motivation. So does the constant round of visits to and from capitals especially Moscow. In many cases the security motivation is not explicit, but the priority given by all West European countries and the United States to establishing good political relations with former communist countries speaks for itself. Governments are following instinct but that instinct is based above all on security concerns.

It seems paradoxical that this paper - like many others on the subject of European security - focuses on institutional dilemmas, and talks about good political relations as a way to achieve security. And yet at this time a horrifying war is underway in the former Yugoslavia. But institutions and

political relations have also played an important part in the way European countries have responded to the Yugoslav problem. In particular, for better or for worse, EC members have done their best to keep roughly together in their response. This has not always been easy: different members of the EC have been subject to very different pressures from domestic opinion. The result has never been elegant and has sometimes been obviously unsuccessful. Nevertheless - to return my theme - today security presents itself above all in political terms. If, in military terms, the first priority is to defend your home base in political terms the first priority must be to maintain your own institutions and to maintain good political relations with neighbours and partners. In that sense the European Community's response may be said to have gone to heart of its security concerns. In that sense also the apparently tedious debate about the shape of European and Atlantic institutions lies at the core of European security. The miracles of the post war period have been created and fostered by multilateral institutions. Keeping these in good repair, the EC NATO, the UN, the GATT, the IMF, the CSCE - making sure they adapt to changed circumstances is the key to the future as well as to the past.

Institutions

Hence dilemma at the back of everyone's mind. Is an alliance without a threat sustainable in the long term? For all the talk about the Alliance being based on common values and principles - which are certainly of great importance - it is hard to believe that NATO would have been so durable, so important, so central to all its members' defence policies if there had been no threat. A common threat created common interests and a structure for common security. The absence of a common threat seems likely to lead to different dreams and different worries. Different emphases and different priorities will surely develop according to the geographical situation and the political disposition of each country. The paradox is, that everyone wants to keep the Alliance but

everyone also wonders if it will survive as an active and important institution, in the absence of a threat. Nobody wishes to return to the days of "every nation for itself and God for all of us"*, or to American isolation from Europe. But when we are faced, not with the simple all or nothing question which the Soviet threat posed, but instead with the more ambiguous dilemmas of Yugoslavia we react to them differently. Each of us has our own particular perspectives, our own historical memories and our own separate foreign policy making processes. Out of this come reactions which are unpredictable and are most unlikely to be identical. Can an Alliance survive a series of such dilemmas?

One answer to this problem is the answer of European Union: to provide an internal logic for an alliance, based on common interests, common objectives - ultimately a common Foreign Policy. This internal cement would substitute for the external unifying force provided earlier by the Soviet threat. We have to ask ourselves, however, whether this will do the trick: first, even under the CFSP regime of the Maastricht treaty foreign policies will remain essentially separate - and both the Gulf and the Yugoslav crises have shown that European countries are still capable of defining their interests and objectives in different ways. Perhaps in the long run a full Political Union with a single foreign policy will be achieved, but for the moment that seems distant and it is not clear that all the voters of Europe are yet ready for it. Secondly the European answer to the problem of an Alliance without an enemy does not explain (or at least not clearly) how the transatlantic nature of the alliance will be maintained.

* Lord Canning following the Congress of Verona, 1822

And yet strangely, although its central Cold War rationale has gone the Alliance has never been more useful. Alliance infrastructure, Alliance equipment, Alliance operating procedures and Alliance habits played a vital role in the Gulf War. In Yugoslavia General Morillon commands what is in reality a NATO headquarters team, modified and transported to Yugoslavia; NATO AWACs monitor aircraft activity over Yugoslavia feeding information direct to UN Headquarters.

These two operations may in fact give us some clues about the future. First it is striking that both operations are coalition operations - though countries contributing forces are not the same. Second, as noted above, both make some use of NATO software (procedures) etc though neither is a NATO operation. Thirdly both are conducted under the authority of the United Nations though the nature of the operations and their objectives are very different.

The first and last of these points are related in that both are answers to the problem of legitimising foreign military activity. For most countries (even for the United States) it is probably important to be seen to be acting in good company. Coalitions themselves help legitimise foreign military activity abroad. If a country acts on its own its motives are much more likely to be questioned abroad; and at home politicians will ask why others are not sharing the burden. There is good reason to suppose therefore that future wars or peace keeping operations (whether under UN authority or not) will be coalition operations. But for coalitions to work effectively they need the experience of training together and they need the ability to operate a joint command.

So far NATO has played a vital role in this but - as experience already shows - the making of coalitions for particular contingencies is unpredictable. It may be useful in the future to have a range of options and a range of experience available: the WEU and the Franco-German Corps may be relevant in this context. But perhaps we should also look

more widely: an ability to operate smoothly with contingents from the (former) neutral countries of Europe and the former Warsaw Pact countries could also be useful. And now that Japan is going to involve itself in UN peace keeping operations perhaps there will also be a case for some joint activity between European and Japanese forces in this field. It may strengthen NATO if we see it not as a single supreme defence organisation but as the centre of a network facilitating defence co-operation; in this context NATO's outreach programme is particularly important. Should it not consider reaching out both further and deeper?

This leads to another dilemma that NATO will some day have to confront: whether it should accept new members. The dilemma is that, if the Alliance is about common values and principles - democracy, free markets and the rule of law should it not welcome new members who accept those principles. If nothing else the fact that the European Community - which has defence aspirations - is likely to enlarge to include non members of NATO, will raise this question. The other side of this dilemma is that security - as I argued above - depends first on good political relations: these could well be damaged by extending the Alliance in a way that seemed obviously to exclude some states, even implying a hostility towards them. Indeed the right approach for the future may well be to aim to make both the Alliance and the EC less exclusive.

Finally it is worth asking ourselves where the institutional centre of gravity on security questions will lie in the future. In the past it has lain above all in Washington and Brussels (NATO). Will it in the future be in Brussels (EC/WEU), Brussels (NATO) or elsewhere? NATO will certainly have a role but it may increasingly be more a technical/military one with less of a political focus. The EC will also have a role but the condition of its being an important one is that it should find mechanisms to achieve real transatlantic co-operation. However I would prefer to propose two other possibilities: one a near certainty, the other a hope. The

near certainty is that the UN will have an important role. It may not be too much to say that the UN is already a major centre for transatlantic consultation on security issues, one that helpfully brings the Russians in too. Since the UN is one of few remaining pre-Cold War institutions in existence it is perhaps not surprising that it should suddenly shine in a post Cold War world.

The hope is that the CSCE will increasingly play an effective role in European security. Now endowed with some more useful structures - a Secretary General and a Commissioner for Minorities - the CSCE is tackling some difficult, thankless but wilful problems on the Former Soviet Union. In Europe where security is seen primarily in political terms it would be appropriate if Vienna joined New York as one of the focal points for security activity.

The Armed Forces

One way of focusing the security debate is to ask what the armed forces are for today. In the past this question was easy to answer: we faced a clearly defined threat which itself helped define the size and shape of our armed forces as well as their central purpose. But having thought for so long about defence as the main purpose of our armed forces we are now at something of a loss: National (or perhaps one day community) defence remains a role for our armed forces but it is by no means the most likely role. The first line of defence used to be the armed forces: now it is the promotion of stability and good political relations. We need therefore to give more thought to the other ways in which the armed forces may be employed.

At the same time we have to ask ourselves the fundamental question of when, in any case, they ought to be employed. Previously this has been easy to answer: the forces were primarily for self defence. That needed no justification and so the forces themselves need no justification. The use of

armed forces for purposes other than the defence of national territory is much more problematic and needs much more careful thought: and if today such use may become the main employment for the armed forces that prompts some much more fundamental questioning.

The size of the mental leap required probably varies from country to country: for Britain perhaps the change is not so great as for some other European countries. In British defence policy the defence of national territory has always been an objective at one remove. The preservation of balance in Europe, achieved sometimes by military intervention sometimes by financial subsidy sometimes by alliances has always been at the heart of British policy: the notion that defending national interest and national security is something that can take place far away is something that people in Britain may be more accustomed to than people elsewhere. In Germany for example, a country which has been on the Alliance front line for forty years the ideas of National self defence and alliance defence coincided. Sending troops abroad is associated in Germany with aggression rather than with defence. In France for other, different reasons the idea of national defence has played a prominent part in thinking over the last forty years. Today we see some move to substitute the idea of European defence: this does nothing to solve the problems of force planning since Western Europe as a whole is no more under threat than individual states are.

Meanwhile that lack of a clear definition of the role of the armed forces is bringing about a series of defence cuts across the Alliance. These are paradoxical in that in almost every case the decisions are taken nationally with little or no real discussion of how the resulting forces will fit into an Alliance strategy (The Alliance does have a strategy: but in the absence of a threat it is not clear that many really believe in it.) This might be taken as evidence of a renationalisation of defence: however, if it is renationalisation (which is doubtful since joint force

planning was always more an inspiration than a reality) it is little to do with defence since in many cases the resulting forces would hardly be capable of national defence. In fact to perform any useful role at all they will have to operate with others. Both political and practical imperatives therefore point to the fact that future military actions will almost always be in coalitions.

The often incoherent process of reductions make it all the more important that we return to the original question posed above: in what circumstances is it legitimate to use armed force? One answer comes easily enough: in the defence of National territory. This can be extended to include the territory of allies. But for the moment no alliance territory seems likely to come under threat.

A second answer is that forces can be used to defend things other than territory: they may for example be used to defend interests. Essentially that is what coalition forces were doing in the Gulf. In this case admittedly these were also operating under the legal authority of the UN Security Council, and they were defending important principles as well as National interests: but does anyone doubt that the war would have taken place even if there had been no Security Council Resolution? It can be necessary and legitimate to defend interests abroad, though the occasions are not frequent and judgements about them have to be made carefully

Thirdly forces could be used to defend principles: that is what is suggested for example in the case of the former Yugoslavia where there are calls for the use of force to prevent or reverse "ethnic cleansing" to punish or deter the acquisition of territory by force. Normally such a use of force should be supported by a Security Council Resolution: it would be paradoxical to defend international legal principles without the backing of international law; but perhaps in extreme cases - if the Security Council was for some reason blocked - a group of nations might decide to act

on their own. Like the defence of interest the defence of principle is also something that should be considered carefully - most aggression in history has been justified in the name of some spurious principle or other. This case also remains, for the most part, theoretical since there seem to be no historical examples of force being used for the defence of principle in such a purely altruistic way.

Finally force, or at least the armed forces, may be used for the purposes of peace keeping and for the facilitation or delivery of humanitarian aid. Such deployments are increasingly frequent and cover a wide variety of cases from the small presence on the Iran/Iraq border, the multi-national forces in the Sinai, UNIFIL in the Lebanon, UNFICYP in Cyprus. These are mostly classical peace keeping operations policing an agreed line. In Cambodia we have a larger scale operation with more complex objectives; in Yugoslavia troops are deployed on both peace keeping and humanitarian relief. In Somalia we find another variant and in Northern and Southern Iraq yet another. The variety of such deployments seems infinite and the political military and moral complexities involved are also considerable. In particular the question of when such forces should be withdrawn rarely receives a clear answer: both success and failure can prevent withdrawal: Success because, once peace is established with the help of a peace keeping force, who will take the risk of removing it: Failure because unless the failure is total withdrawal would almost certainly make things worse. But if we are to maintain a willingness to continue peace keeping operations we will surely have, sometimes, to accept failure.

This is only one of the questions about peace keeping: the problems of financing, timing, rules of engagement, the composition of forces, organisation of headquarters, to name only a few also need attention. In fact a whole body of doctrine needs to be created.

Among these main possible uses of armed forces today: territorial defence, defence of National interests abroad, defence of International principles, humanitarian and peace keeping roles we need to decide which are likely to be the most important, and what sorts of troops and equipment we need for them. Territorial defence would call for an emphasis on heavy divisions, defence of interests (or principles) abroad for heavy lift. Peace keeping forces are likely to be lighter with a large logistics and communications component. They might also require a higher ratio of officers to men. The question "what sort of forces?" can also be asked in a second way: it is reasonable to ask conscripts to defend their motherland, but for the long range defence of interest a professional army appears more appropriate; and for peace keeping or the defence of principles might volunteer not be most suitable?

Conclusion

The intention of this paper was to invite questions rather than to answer them. It is worth noting in conclusion however that many of the problems and policy questions that Europe confronts may find an echo in Japan.

Japan also facing the same absence of threat as Western Europe. Rather in advance of Europe it has placed good political relations with its largest neighbour (China) at the forefront of its security policy. Some of the questions about alliances that Europe is grappling with may also be reflected in different ways in Japanese alliance policies in the next decade. And finally Japan has to deal with the same dilemmas as Europe over legitimacy of the use of force and the sort of armed forces it wants. There is much to be said for maintaining dialogue on all these issues.

ROBERT COOPER

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EUROPEAN SECURITY PROBLEMS: A JAPANESE PERSPECTIVE

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1. PROBLEMS OF EUROPEAN SECURITY

Integrating the East

The most pressing problem for Europe is to overcome the Sovietization of the Eastern European states and all that implies: economic misdevelopment, cultural isolation, militarization, and distortion/ideologization of their foreign policies. The task is to help their systemic transition and to give a favorable external environment. Short-term affiliation with, and long-term integration into, the West's political, economic and security structures is often referred in short-hand simply as the normalization of inter-state relations in Europe. The disciplinary functions of blocs has made way for competition by the East European states in seeking integration with the West and jostling among themselves as they redefine their national interests, a process complicated by competition among Western institutions to organize future inter-state relations in Europe.

The process of regime consolidation and state-building has emotional reverberations, especially in the foreign and security policy spheres, which must be taken into account. New possibilities for self-determination and national sovereignty require symbolic behavior, to which populations are very sensitive. National sovereignties have sometimes been fought for, sometimes just delivered by the stork. Slovenian and Croatian secession may be read as a radical solution to frustration at Yugoslavia's inability to reform itself

economically. Thus national self-determination was invoked in order to be able to compete for Europe's resources. But Byelorussia or Moldova had their sovereignty handed to them overnight. How they persuade their populations of the need for integration into the West will be very different.

Coping with new threats

Organized state-sponsored violence is less likely than sheer break-down and chaos, especially in the East. Even if Russia goes autocratic, the main security concern for the West could remain threats not emanating from overtly antagonistic powers. Following is a list of possible threats facing the West:

1) Nuclear weapons in the former USSR: (under lock and key or dubious command-and-control, verification regimes needed, and cash to help dismantle warheads)

2) Long-range missiles capable of hitting Europe from the Middle East or the Maghreb states, used for nuclear, chemical or biological blackmail:

3) Proliferation of missile technology and the Russian scientific brain-drain: (remedies are inspections, observance of NPT, a better future for Russian scientists)

4) Terrorism, especially advertising ethnic grievances of would-be secessionists: (the weapons of the weak and the desperate, which paradoxically threaten Europe more than strong states do)

5) The blocking of Europe's extra-continental supply routes, especially the oil sea-lanes; or regional instability in the Middle East:

6) Ethnic conflicts in Eastern Europe: (the Baltic States, Ukraine, Moldova, especially centering around Hungarian minorities)

7) Ethnic and religious wars in Central Asia belonging to CSCE; (especially Uzbekistan)

8) Mass migrations from the East, or from North Africa: (this needs a coordinated European refugee and asylum policy; distinctions between political and economic refugees will become blurred if the FSU situation gets worse; the farther East you go, the more

problematic border controls become, since the historical legitimacy of those borders becomes increasingly problematic)

Respositioning institutions

The most common argument in favor of NATO is that it is needed to prevent the renationalization of defence planning. The coordination of task specialization, under an integrated military command, was supposed to save money and streamline defence. However, countries like Germany or Belgium have already abandoned alliance discipline by announcing unilateral troop reductions in line with domestic budgetary concerns. But NATO's credibility should not rest mainly on a political integrative function. As long as NATO is NATO, it is a cannon, and it still needs muscle as well as a central nervous system.

NATO has to revamp itself. The "Strategic Review" at the July 1990 London Summit called for a rapid reaction corps of lighter units for "out-of-area." The North Atlantic Cooperation Council (NACC) was formed. The December 1992 Oslo summit offered NATO expertise and material for peacekeeping if mandated by CSCE. Will NATO be the "secular arm" of CSCE? This might be a useful combination between what is still old muscle and a new brain. Will this brain transplant be possible and ethical?

WEU is supposed to become, perhaps after 1996, the defense component of the EC. Its membership should define the EC core members, especially if there is a multi-track EC. It is meant to be built up from the Franco-German Corps of 35,000, which is still a ghost. It will almost certainly remain a hollow corps, since it has no agreed doctrine or interoperable equipment. Nevertheless, it is supposed to be the base on which the build WEU multinational forces, although enthusiasm for it dropped when people realized that to transfer WEU from paper to reality would cost money. The French and Germans disagree on the WEU. The Elysée wants it to replace NATO, while Bonn calls it "the European pillar of NATO," a "bridge" between NATO and EC -- whatever that may

mean. Possibly the Euro-Atlantic Treaty could be renegotiated in 1995 between North America and WEU, under a NATO roof.

The problem is that the Treaty of Maastricht envisages a "common foreign and security policy," to which WEU would be a servant. I think this is a mirage. "European security and defence identity" is taking a blow as the EC fails to agree on policy towards ex-Yugoslavian republics, including Macedonia.

European security has been evolving from 1) antagonistic or military security (NATO vs WP), through 2) common security (CSBMs) to 3) collective security (partnership against common threats) and 4) comprehensive security, according to Michael Lucas's formula.¹

Yet tremendous efforts are the price for securing the stages of 3) and 4). In order to maintain and promote these main pillars of the European security except 1), the creative integration of the existent institutions or at least a clearer division of labor among them is necessary.

2. HOW TO COPE WITH RUSSIA AND ITS "NEAR ABROAD"

The biggest post-Cold War challenge to the new European security is still to come from what used to be the Soviet Union. The creation of a new security system when Russia recedes from European politics provides both a plus and a minus; it is easy to create a new one, but this may also be easily ephemeral after the hibernation of Russia.

Yeltsin's task is made harder by the fact that his struggle to build the critical mass for transition is being played out against a backdrop of huge changes in Russia. The Yeltsin-Khasbulatov drama is only part of a larger drama on the Russian stage. At the same

¹ Michael R. Lucas, "The Challenges of Helsinki II" in ed. Ian M. Cuthbertson, Redefining the CSCE: Challenges and Opportunities in the New Europe (Special Report/Institute for EastWest Studies, 1992), pp. 259-260.

time Russia is undergoing two other processes: *state-building*, in the face of a possible break-up of the Federation; and *nation-building*, in the face of a widespread loss of identity in Russia, with no clearly distinct neighbors among the Newly-Independent States (NIS) to provide a strong contrast by which Russia can easily distinguish and define itself. Successful transition could only be possible if accompanied by successful state-building and the establishment of clear boundaries by which Russia's national identity can differentiate itself from the outside world.

While the year of 1992 was the culmination of rampant nationalism, 1993 will probably witness the comeback of integrating forces in the former USSR. Therefore the correlations between centrifugal power and centripetal power will be "precariously" dynamic in 1993. The struggle between forces for integration and forces for disintegration might be heightened particularly in the vast areas between Russia on the one hand and the NIS, Eastern Europe, the Middle East and South Asia on the other. This could be a "dangerous belt" not only for Moscow but also for the whole world. The possible turmoil could be easily beyond Moscow's containment capabilities. The West's support and even guidance for Moscow in this area is very much needed.

1941 Analogy

We know that the internal and external difficulties Russia faces today are tremendous and appalling. In October, November and December 1941, the Red Army stood with Moscow at its back and fought off Hitler's tanks. Their orders, direct from Stalin, were famous: Don't retreat an inch -- behind you is Moscow. 51 years later exactly, Stalin's words were consciously echoed by Sergei Shakhrai, Deputy Prime Minister in charge of nationality problems, speaking in North Ossetia last December. The occasion was when Yeltsin made his last-ditch efforts to fend off a spill-over of the Caucasian civil war into Russia. Shakhrai, sent to rule under a state of emergency, put his foot down, and his words struck a chord with everyday Russians: We are not going to retreat an inch -- behind us is Russia.

The enemy is not in the form of tanks or snipers, but the perception that Russia as a

state is evaporating. This enemy is deadly contagious. Yet "assistance from the Allies" has been virtually non-existent. Russia is under siege as was Moscow in 1941. Today reformist Russia needs help from "the Allies" very badly. To help Yeltsin requires real, visible commitment and a sense of partnership in warding off impending evil. Russo-Allied relations in the latter half of 1941 is in retrospect a crucial period which influenced the Stalin's perception of the outside environment thereafter. Due to the political struggle in Moscow between the two branches of state power Russia has substantially lost glory (Superpower status) and ideas (ideology), has been unsuccessful in forging her national identity, and is losing her body power as a state. In a nutshell, Moscow is cornered. This means Moscow is seeing the outside world through a distorting prism, which narrows its criteria for judging the seriousness of help from abroad.

The most interventionist option in 1941 was to send allied forces into Russia, for which Stalin asked Churchill. By sending their own forces into Russia to fight shoulder-to-shoulder with the Red Army, the allies would create a spirit of partnership and demonstrate a level of commitment which would augur well for cooperation after the evil days were past. Great Britain did not, however, support this level of commitment. As long as Russia was able to tie down German soldiers in the East, Great Britain favored supplying Russia with weapons and heavy armaments to conduct the struggle alone. When Stalin learnt this, his view of the British as fair-weather friends hardened. Experiences such as these built up Stalin's Cold War vision of the world.

These two stances are analogous to assistance strategies to Russia today. The first is a commitment to engagement in Yeltsin's struggle, a constructive intervention which requires financing and even sacrifice but which pays handsomely in the future. The second is a more luke-warm form of support for Russia, whoever is in power. Token measures will be met with token aid. If Yeltsin is toppled from the power, -- to reprocess an old communist joke -- Russia will pretend to reform, and the West will pretend to help her.

Three Moscows

In thinking of how to cope with the former Soviet Union, there are two variables; the course and character of leadership in Moscow (to be formulated after the late April referendum, or after the Presidential as well as Parliament elections perhaps in this fall) and the future institutional composition of the CIS (to be crystallized by the ratification of the Minsk CIS Charter at the latest by 22/1/94). The possible outcomes of the current power struggle in Moscow which would result from the referendum or elections are:

MOSCOW 1: continuation of radical reform and pro-Western diplomacy by Yeltsin.

MOSCOW 2: the institutionalization of the current stymied situation -- a pro-reformist President Yeltsin burdened with the task of taming a recalcitrant but legitimate parliament (This time the leadership is most likely to have a salient corporatist inclination and some sort of step-by-step orientation in the domestic reform arena, while in the security and foreign policy sphere it could be more self-assertive, self-conscious of being a great power, patriarchal or even patronizing towards its "near neighbors", and if a particular environment is not favorable it could be easily tempted to resort to a tit-for-tat type of responsive tactics.)

MOSCOW 3: a post-Yeltsin leadership with anti-reformist tenets and an isolationist foreign policy outlook -- the image being a slightly lean bear having a porcupine's skin.

MOSCOW 1 might adopt a security policy of balancing against threat -- the perception of hostile *intentions*. This is based upon the assumption that Russia faces no power antagonistic towards her, but threat will certainly come to her from "Near Abroad" on her western and southern borders.

There are indications that a policy of "sandwiching" the eastern part of the "dangerous belt" between Russia and a more stable Central Europe may be developing, as for example the newly signed agreement between Hungary and Russia. As a security strategy, if properly mediated politically, it holds great promise by way of minimizing uncontrolled and unforeseen outbreaks of violence in this part of the "dangerous belt". In order to contain the southern part of the "dangerous belt" Moscow needs 1) its own combat formations in the region 2) a series of countries with which Russia can "sandwich" the "belt". Both 1) and 2) will, however, not be available to Moscow for some time in the future. Moscow now is frantically searching for allies here; the West, Japan, China, India, Pakistan, Syria, Israel, Saudi Arabia.

After 20 months of unflinching orientation towards political and economic reform, Russia led by Moscow 1, far from being a country to be contained, is one to be brought out and cultivated. Having ridden and mastered the dangerous waves of 1992, post-communist Russia's most dangerous year, she deserves a change of attitude from the West. If there are international behavioral regimes to be instituted, their goal must be to stabilize the dangerous belts around Russia. Russia must be the West's partner in developing and implementing these policies, and not the policies' object.

MOSCOW 2

Moscow 1 is the West's best-scenario outcome, but Moscow 2 is the most likely, and the West should be prepared for it. It requires essentially the same Western response as Moscow 1. The schizophrenic domestic situation will lead to a mixture of perceptions contributing to Russian foreign and security policy formulation. As a result, the policy itself will be a mixture of power-balancing and threat-balancing, where power means the perception of superior *capabilities*. Certainly some Great Power thinking will re-enter the power-balancing equation, but the threat-balancing component means that the West, by its actions, can still influence policy development in Moscow. To use its influence to the greatest extent, the West should not differentiate its foreign policy strategy towards Moscow 1 and Moscow 2, although they might represent different Russian domestic scenarios.

Just before the current Congress of People's Deputies, Yeltsin issued a statement reaffirming that Russia should be recognized as the ex-USSR's policing power. This was a message to the CIS and leaders and conservative elements of parliament, but equally one to the West. Without a viable security arrangement for the ex-USSR, Moscow 2 will be forced to play the role Yeltsin was outlining.

If Yeltsin's domestic reform converges more with the centrist course, then in most of the CIS capital cities forces in line with the Civic Union will be much more influential than in Moscow. The CIS summit will likely be a place where Yeltsin is pressurized further to the policy of economic gradualism. In return, non-Russian CIS countries would have to demonstrate sensitivity to Russian sensibilities about her strategically "vital interests" and respect for the Russian diaspora. Otherwise, Russia could cut the CIS off, especially by demanding world prices for oil and by stopping sending rubles. The former USSR might at least temporarily be stabilized. But I don't think that Russia with this Moscow 2 can support herself and its entouges without the serious attempt at continued radical reform.

The West must not overreact to the increasingly assertive policy towards its "Near Abroad" and "Distant Abroad" by Moscow 2. It should work constructively with Russia to reduce threat perception. It should support legitimate regime creation in Central Asia, and retain the aim of incorporating East Central Europe into the West, beginning with the Visegrad 4 and keeping open to Baltic participation. But with Moscow 2 there must be formulae not to antagonize Russia, which means perhaps the promotion of three-way dialogue – Russia, the West and East Central Europe – on non-provocative ways of extending these countries substantial security coverage. Unilateral Russian policing, however, is not acceptable. CSCE, which has envisaged mandating CIS peacekeeping (however inefficient that has been so far), remains the best forum to come to some sort of cooperative arrangement. Bearing in mind that Moscow 2 will be in a dynamic stymie, the West's prompt, visible help and involvement is vitally important.

MOSCOW 3

A Russia led by Moscow 3, besieged at home by domestic inter-ethnic problems and religious antagonisms, severe economic depression and emerging social and financial inequalities, would perhaps all too easily allow its fears to spill over into the international sphere, to perceive threat and a hostile environment outside. Moscow 3 will adopt a military doctrine of balancing against power instead of against threats. Then the West will be forced to return to its Containment thinking -- the call for a coordinated Western approach, introducing comprehensive behavioral regimes towards Russia -- will be appropriate after all.

Certainly the relations of Moscow 3 with the "Near Abroad" will deteriorate. Especially Baltic States, Ukraine, Moldova will move in the direction of "full" independence from the former USSR. But they will surely suffer daunting political instabilities and economic free-fall, their transition from a socialist system will be easily halted without proper Western assistance to and involvement in them. The problems emanating from Russian minorities, Russian troops stationing in their territories, energy supply and non-existent defence-security alliance systems for them are the most pressing problems.

While the problem of coping with "the independent" country-group of the "Near Abroad" ("Distant Abroad" to the West) is too untenable for the West to solve unilaterally, the problem of a possible total collapse of a Russia with Moscow 3 and the countries remaining in CIS might be far beyond the West's ability to contain.

iai ISTITUTO AFFARI INTERNAZIONALI - ROMA
n° Inv. <u>13114</u>
<u>8 GIU. 1993</u>
BIBLIOTECA

Philanthropy should 80% of
UN peace keeping budget
^{which is}
(75% of total budget)

"collective security" can be made to work
(but cost?) (complex?)

Intellectuals as NGOs

Christoph

Task oriented foreign policy
not Philanthropy

new mechanisms / structures

(Hendry '6-7
Committee with
a number of
people ...)

bilateral emphasis

1.

Cooperation

where?

- under
- world trade conflicts
- Russia

But - regional cooperation can be ineffective
but doesn't work -

UN has an obligation not to fail
and argues: is that a realistic
answer for the future as it was
in effect a consequence of a
particular situation?

Amer

Russia



This is not
the idealism

and probably other

less organized regions

(full - South East Asia?)

Russia

14

In a more fragmented world
relationship between USA and Russia may
be seen ^{not} as a partnership but
as a threat -

Under

Ben of a type - Ben stable ①

Wolander

Selective engagement / an interest for US

and to do without representation

(but is it true,
didn't Japan become
exactly the way we both?)

selection is
a recent

discrimination
is the new
value

public, but to
anise
discrimination as
come
merged

Runo - Japan
(coming to do)

fridge (not only but
but POWs)

plus opposite develop policy
(under \leftrightarrow energy)

The "face of
demol"

Elusivity
paradox

technology helps
but it costs
the money
And
results

too much
"distance"
between
center of the
empire and
regions of
troubles

the economy
even an appearance
is limited - its
management / value
effects

Depends - is
one of the few
positive developments
(in the real world)

- This means that we have to find a different way

Peace conference was not peace
— of course but the responsibilities
(and defense) were clear
it has more to do with making the
will peace (and history is a form
of peace)

US presence in East Asia?

but: will it deal
with NK? or else...

Disadvantage of Tri lateralism ?

Re answer

Christoph.

hold hot

too ~~anyone~~ ^{few} built on the ~~idea~~ of global
power of local - ~~idea~~ ^{effort}
drinks / the

one thinking

in fact ~~drinks~~ / ~~relates~~
with ~~more~~ ^{to}

geo-economy: and negative?
eprosion is only a threat?
the enforcement ~~power~~ of the
center and

Brantford

too much ~~distance~~ ^{in the}
the ~~area~~ ^{temples}

"of the ~~eprosion~~
sphere of power"

which has
enlarged too
much

technology helps to reduce distance
but not ~~distance~~ ^{interests}
can be useful way to not ~~down~~
reduce distance

Regulation
the whole and
it may not necessarily be more efficient
but it will reduce pressures on the
small system (cumulative effects)

A ~~problem~~

is there

it doesn't fit into
regions - is a ~~Region~~
global challenge
US ~~regional~~ / but
also ~~help~~ ^{it is}
to ~~the~~ ^{outside of}

How to deal with NK? if IT collapse ...

~~TH~~
Ch. 2 esp. 2. de?

COO-COFFEE
COFFEE-COO

China change will be bloody

IL SUNG
KIM JONG IL

~~NA~~ régime

Global effect
China effect
Japan effect

~~IAEA~~
IAEA
meets on
T/231

a) Action against
N.K.
time urgent;

b) can we hit the régime?
c) what china can ask in return?

High degree of interdependence is
unprecedented, for East Asia

Economic sanctions - may be delayed to
back the UN military to make
them effective.

1/ interdependence grows . . .

What they may ask . . . ?

Economic status

?

But - if there is a way

the . . . ?

FROM NATO TO NALO

From a NORTH ATLANTIC TREATY
ORGANISATION to a

~~NOW AVAILABLE TRANSPORT (AND
SERVICES) ORGANIZATION~~

~~NORTH ATLANTIC~~ NOW AVAILABLE
LOGISTIC ORGANIZATION

Walt interested in F-6 spectrum on E. Term -

importance of an intrinsically
stable system ~~X~~ ~~other~~ ~~X~~ + which
of course will be dominant, but
to a point, while any other Euph
will be dominanty present

The "M" word
has in fact a better
"P" word equivalent
(Professional)

Shasta

660 2900 1526

Heaps 6536404

Intervention - colleges - laws etc.
US "political" commitment to defense
is not enough

- not for deterring defense
- not for leadership
- not for maintaining NATO

Members matter

Will the Europe fight? The question
is: how can we have other Europeans,
in addn to F and B, that will
fight? — D Europe is a
credible answer —

~~By the way, NATO, becomes~~

NATO, becoming more political
and "intervention-oriented"
need a degree of political union
completely different ~~to~~ ^{of the best}
one - The ~~to~~ ^{political} present discussion
nothing of NATO cannot be
made then and doesn't work
better than the European one -

National defence expenditure

and armaments

Russia as a partner

(both in Russian 1 and 2 as
friendly, but more or less effective
in Russian 3 also, but on
a more "informal" basis -

→ Ukraine? no photo entente

Soh

Non subject to
to sanctions

Vets → UN can start again to "vets"
around (ex. China)

National planning → a picture
of Resolut but it
is facilitated by NATO

and it may require ^{options} ~~prepar~~
by force - Russia will be needed
both in the case of N. Korea or Ukraine -

Runo:

(1 out? better)

Verone? no ins & blight

Carion

(but that will make Runo

present: non polyphasic

but 1 of principal other

needed, Runo is also

needed for both cores

well 5 Verone

(~~Verone?~~)

Done?

Templemy

204 reported 4

Direct evidence
Threat - difficult to identify
but ~~surveys~~ but lot of
possible contingencies - - -

still doubt that it is really
a frequent enough without us
danger.

- ① The US presence
- ② The enlargement (and hole)
- ③ (more-closely at its dinner
MAD "beliefs" etc morning - Japan?)

④ MAD to
Kung - need to buy more
plans of defense
(tangle - the
MAD is "not
help")

MAD force
effectiveness: very
limited
Horse trading
in almost
no money
information

Kung and
rumbles
more and
more urgent

Points

- maintaining common rules = in Trade (2000)
 - avoid Russia breaking down
 - Economic evolution / political stagnation
(China problems)
-

Status of Euro/Japanese relations

being heavily low

divided we
stand
united we fall