

The Political Economy of Asia after the Cold War

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The last two years have witnessed profound and exciting international political events, above all the much-heralded end of the Cold War. These events have irrevocably transformed the politics of Europe, but their effects on East Asia are not as profound as one might have thought. First, Soviet, American, and Japanese foreign policy in Asia have not been fundamentally altered by the events of the last two years. The main "loser" has been China, which will be forced to define a new regional role for itself.

Second, regional conflicts were never as closely coupled with the U.S.-Soviet rivalry as the cold warriors liked to think. As a result, their resolution is likely to hinge on local and regional forces rather than the change in the overall strategic balance. Some will be resolved, some, including the division of the Korean peninsula, could show a resilience that extends into the post-war period.

Finally, patterns of economic cooperation and conflict in the region were never contingent on the state of U.S. -Soviet relations unless we look back to the very origins of the policy of containment. More recently, the policy agenda has been dominated by forces that have been at work for several decades, namely the rapid

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economic expansion in the region, continuing economic integration, and the trade and investment conflicts with the United States that have been associated with those developments. With the waning of the cold war, the main economic and even strategic issue is whether the international economy will fragment into competing blocs, with an Asian bloc grouped around Japan. For a number of reasons, I find this development unlikely.

I. Soviet Interests in Asia

We can begin by asking about the effects of the decline of the Soviet Union on the foreign policy of the major powers, beginning with the Soviet Union itself. Gorbachev had already announced the Soviet Union's interest in an expanded role in East Asia in his well-known Vladivostok speech. This policy thrust thus pre-dates 1989, and is not likely to change. To the contrary, the decentralization of power to the Russian republic, and within the Russian republic itself, will spawn new local initiatives for trade and investment with East Asian partners, including particularly Korea and Japan which are geographically situated to participate in such ventures. Such sub-regional initiatives have already been advanced.

The problem is that the very conditions which make such initiatives more pressing from the perspective of the Soviet Union make them less attractive for potential trade and investment partners. As the East European countries have discovered to their dismay, the Soviet Union is broke. Moreover, its trade and payments system is in virtual disarray. This winter, the country will become even more dependent on outside assistance. Thus while the Soviet Union has an interest in expanding exports in order to import, its export capacity has been damaged by the general disorganization of the economy, gold reserves, an old standby, have been badly depleted and foreign exchange reserves are limited and dwindling. It will therefore rely heavily on foreign credits.

Bad economic conditions also give the Soviet Union an interest in attracting foreign direct investment, but the risks are high. The absence of clear rules governing for-

eign investment, profit repatriation, and property rights persist, and the failed coup has not reduced the more profound uncertainty surrounding political developments. The visible and well-publicized foreign investments that have taken place remain small relative to Soviet targets.

Of course, where risk is high, there is also the possibility for high returns and longer-term gains. Moreover, the possible complementarities between resource-poor East Asian countries and resource-rich Siberia are obvious. Yet resource development projects are notoriously costly, as the Japanese have found out. There will no doubt be new initiatives to open Soviet East Asia to the rest of the region, but these developments are likely to move slowly. In any case, they do not represent a departure from a past policy; indeed, the Soviet Union had attempted such initiatives prior to the invasion of Afghanistan.

II. The Strategic Decline of China

The Soviet Union's decline has had its most profound effect on China, the strategic significance of which has declined sharply. This deflation of power has two sources, one geo-political, one ideological. China has always conceived of itself as a global power, in part on the basis of its size, "third worldist" foreign policy, and Security Council membership. In fact, China is basically a regional power whose global significance was elevated beginning in the 1970s as a result of the conflict between the Soviet Union and the United States. The U.S. rapprochement with China was built on the belief that China provided the U.S. some counterweight to the Soviets in the Far East. That rationale for a close Sino-American relationship has disappeared, and even the staunchly pro-China Bush administration has found it difficult to construct a new one, particularly after the Tiananmen massacre.

The second source of Chinese weakness is ideological. China had always sought to steer an ideological "third way" between the Soviet Union and the United States, in part through championing Third World causes. The Soviet Union's swift turn to more market-oriented economic policy makes it more difficult to locate such a "third way".

China's reaction to the profound changes in Eastern Europe and the Soviet Union was to stick even more stubbornly to socialism. Yet the attraction of socialism in the developing world has been in decline for over a decade, irrevocably altered by the economic shocks of the 1980s. Recent events have, of course, shrunk the socialist camp even further, and China thus finds itself unintentionally allied with the few remaining "holdout" Communist regimes, such as Cuba and North Korea.

These strategic setbacks have not had any fundamental effect on the leadership's "two-track" strategy of economic reform, namely, continued domination of the Communist party coupled with pragmatic and gradual economic reforms. In the United States, a number of analysts think that this strategy is unsustainable, and have pointed to a number of recent reversals in the reform program. They believe that the program will ultimately collapse under a combination of internal political and economic pressures and foreign hostility.

Unfortunately, this is wishful thinking. The "two track" strategy of authoritarian politics and increasingly market-oriented politics succeeded for long periods of time in other East Asian developing countries. Whether we like it or not, the pragmatic reform efforts of the Chinese seem to have yielded higher economic returns than the spasmodic policy course of the Soviet Union. Indeed, the Chinese leadership sees the Soviet Union as a negative model of how not to undertake reform, and a justification for their contention that economic reforms should precede political reforms.

Moreover, the external reaction to the events of June 1989 has been more political than economic. Tourism suffered substantially after Tiananmen, but foreign investment has remained robust and the Bush administration proved successful in securing continued most-favored nation status for China, despite strong opposition.

This combination of strategic decline and continuing economic reform are likely to result in a subtle shift in China's foreign policy towards greater emphasis on economic questions and regional issues.

III. Japan's Foreign Policy : The Continuing Dominance of Economics

The effect of the weakening of the Soviet Union on Japanese foreign policy has been surprisingly small. The issue of the Kueriles constitutes a thorn in the side of Soviet-Japanese relations, and the Soviet Union's current weakness has expanded Japanese bargaining power on this issue. Certainly, political and economic relations will improve. But it is important not to lose sight of the larger picture: the core of Japanese foreign policy in the region has always been economic, and the opportunities for Japanese interactions with Soviet East Asia must be seen in the light of a fairly long run.

Yet there is one important, if indirect, way in which the changes in both the Soviet Union and the United States are affecting Japanese thinking about its foreign policy. The core of Japanese grand strategy has been its link with the United States. The reconstruction of Japan and its integration into the Western system was a key component of the American strategy of containing the Soviet Union. With the Soviet threat reduced, and with the U.S. unlikely to view China as a strategic problem, this raises the question of how Japan will define her underlying security interests.

One line of thinking is that the reduced Soviet threat should lead to a reduction in Japan's security concerns, and may even undercut the rationale for an American military presence in Japan. Yet if the United States actually reduces its military presence in the region, either as a result of budget cuts or as a result of political pressures from the region, as in the Philippines, Japanese thinking is likely to move in exactly the opposite direction: Japan might feel compelled to increase its military spending.

The increase in Japanese military spending over the last decade, it could be argued, were partly pushed on Tokyo by the Reagan and Bush administrations. But there were also voices within Japan's international relations community, even if in a minority, who believe that Japan's new economic stature will never translate into real power and influence without an expanded military capability. The internal pressure for Japan to spend more money on defense could increase sharply if China or the Korean peninsula are viewed as potentially unstable. The actual implications of marginal increases in Japanese defense spending are probably not substantively important, but they could be a source of unease in the rest of the region.

IV. The United States : the Persistence of Regional Conflicts

What effects have change in the Soviet Union had for American policy in East Asia? The largest change has already been mentioned; a revision in the perception of China's importance. Beyond that important development, the changes are less pronounced than might have been expected. They are mostly indirect, and the result of sub-regional and national developments rather than events in the Soviet Union. This can be seen by reviewing several recent regional issues of interest to the United States.

Beginning in Southeast Asia, there is the ongoing problem of the Cambodia question. Events in this arena have been affected by changes in the Soviet Union in two ways, one indirect, one more direct. First, the decline in the importance of the Chinese has made it more difficult for the U.S. to support the Chinese position; in any case, there is even some thaw now in relations between Vietnam and China. Second, changes in the Soviet Union have freed (or perhaps more accurately, forced) Vietnam to undertake economic, if not political, reforms.

As a settlement edges closer, the United States will come under pressure to revise its policy toward Vietnam. In the past, I would argue that this policy has been driven by three factors: a strategic calculus that involved the Chinese-Soviet-Vietnamese triangle; the effort to pressure Vietnam by holding out the tacit promise of assistance, including from the multilateral development banks; and the MIA issue. The strategic changes described above have reduced the first rationale, and if a settlement is reached, the U.S. has little reason not to back expanded assistance to Vietnam, which appears quite earnest in its reform effort. The only blocking issues then becomes the MIA question, which unfortunately has high electoral salience and could threaten normalization given the upcoming elections. If a settlement is reached, however, there is a strong potential for Cambodia, Vietnam, and Laos to become closely integrated with the region on the basis of expanded foreign investment and the

types of reforms that other Southeast Asian countries have been making in the ten years.

The impact of china's declining strategic significance can also be seen in Washington's willingness to risk relations with Beijing in order to support Taiwan's entry into the GATT. The real danger across the Taiwan Straits, however, comes from independence forces within Taiwan itself that have been unleashed as a result of political liberalization. This movement has resulted in some of the most harsh Chinese statements on the Taiwan question in recent years.

Yet the likely effects of domestic developments on Taiwan should not be exaggerated. On the one hand, the Taiwanese electorate is relatively sophisticated, and it is not clear that voters prefer the uncertainty of openly pro-independence politicians to the ambiguity of the status quo. Second, it is not clear what China could do even if such pro-independence forces were to gain ground. The U.S., of course, prefers that the status quo be maintained, but its sympathies for the integrity of Taiwan are clear. Perhaps the clearest sign of the likely path of the Chinese-Taiwanese relationship is in the growing foreign direct investment from Taiwan, which has continued to grow despite political developments.

It could be argued that developments in the Soviet Union have indirectly affected U.S. relations with the Philippines, since they undercut the rationale for retaining the bases at Clark and Subic. In fact, however, the controversy is of much longer standing, and its most recent incarnation, it can be traced to the 1987 Philippine Constitution. Philippine opinion was divided on the issue; public opinion polls showed a strong "pro-base, anti-treaty" sentiment among the public at large, a position that called for tougher bargaining and more money from the United States. But a slim majority of Senators took a more anti-U.S. position, Aquino badly mismanaged the politics of the issue domestically, and now the only remaining issue is the length of the phase-out.

This brings us to U.S. relations with Korea. These have recently been dominated by the problems surrounding the probability that North Korea is developing a nuclear capability, but the underlying issue raised by the events of 1989 was of course more profound: was there a possibility that Korea would emulate Germany and unite? Can

the events in Europe and the Soviet Union have a demonstration effect in Asia?

It is difficult for outsiders to discuss this issue in Korea, since their views of the question tend to differ so profoundly from that of Koreans. Many in Korea think that unification is only blocked by the continued U.S. presence, or by the desire of right-wing politicians to manipulate the security threat to their own advantage. The sad fact of the matter is that unification is blocked primarily by the profound differences that have developed between the two societies over the last forty years of separation, and the nature of the regime in the North.

It is important to keep in mind how unification occurred in Germany. It did not occur through negotiations, through gradual functional and economic integration, through U.N. membership and mediation, or through any of the other schemes that have been advanced for Korean unification. Of course, political initiatives—namely Willy Brandt's Ostpolitik, on which Roh Tae Woo has consciously based his Nordpolitik—helped relieve tensions in central Europe and had a number of positive economic advantages. But it is critical to remember this was not the route to unification.

Unification occurred as a result of the complete political collapse of the ruling class in one country - Eastern Germany—and its outright integration into the other Germany. Moreover, it should be remembered that Eastern Germany was much more culturally integrated into Western Europe than North Korea is into East Asia. For example, over 70 percent of all East Germans could watch West German television. Thus while some read Eastern European developments as providing some hope for Korean unification, I see little evidence that this is the case.

Nor will removal of American nuclear weapons from Korea substantially affect the prospects for unification. It will perhaps give the U.S. and the South a temporary bargaining chip in the ongoing negotiation over the North's nuclear capability, a "negotiation" that both the U.S. and the ROK would have much preferred to avoid. It could provide the basis for detente on the peninsula. But neither of these developments are likely to lead toward unification, even of the loosest federal sort. Unfortunately, the cold war is alive and well on the Korean peninsula despite developments in the Soviet Union, proof that the legacies of the cold war can outlast the cold war itself. While there is some hope for detente, unification is only likely to

occur through the kind of cataclysmic events that no one is likely to be able to predict.

V. Regional Blocs?

Even prior to the demise of the European socialist bloc and the transformation of the Soviet Union, analysts of the international political economy had been concerned with growing competition among the major industrial powers. The question was raised of whether the world trade and payments system might fragment along regional lines, creating new faults in international politics. The reasons for this fear were several. First, multilateralism seemed stalled. The Uruguay Round negotiations faced a variety of difficulties, from American and European intransigence over certain key issues, agriculture in particular, but also because of the sheer complexity of negotiations that covered such a wide agenda. These problems were compounded by the fact that the GATT required consensus among a relatively large number of heterogeneous actors, including developing countries which sought concessions on a number of sensitive issues including textiles and tropical agricultural products. Smaller regional groupings appeared to offer a more congenial negotiating environment, allowing for groupings of more like-minded states and, coincidentally, allowing the major powers in each region - the United States, Japan, and Germany - to exercise power over the regional agenda.

A second reason for the emergence of regionalism had to do with the chain of tactical and strategic reactions that occurred once regionalism began to spread. Here, the story begins with Europe. Europe's quest for regional integration dates to the 1950s, but a number of conditions have led to the acceleration of the process in recent years. In addition to the internal goals which are served by completing the internal market, European leaders, including in the private sector, were concerned with the external threats from increased trade and investment from East Asia.

In my view, the threat of a protectionist Europe has probably been exaggerated; moreover, there is a tendency to overlook the growth effects that a united Europe will

have for the world economy as a whole. But the United States feared that "1992" signalled a potential turn inward and away from multilateralism. The U.S.-Canada Free Trade Agreement had a longer history, but at least one motivation on the part of American policymakers was to signal the EEC that the U.S. also had regional options.

The expansion of the Free Trade Area to Mexico faces daunting problems, and the realization of the Bush administration's hemispheric initiative is even farther off. Nonetheless, many in East Asia see these developments as threatening, since most of the trade diversion is likely to be away from them. This naturally raised the question of whether an East Asian bloc would form to counter regional tendencies in Europe and the United States.

There are several underlying forces at work that might serve to integrate the region. The most important in recent years has been Japanese foreign direct investment. As the yen soared after 1985, Japanese firms invested heavily throughout East Asia, with particular attention being focused on ASEAN. As has been the case with Japanese foreign direct investment in the past, trade followed capital flows. It is largely on the basis of the strengthened yen that there has been speculation about a Japanese-centered regional "bloc" emerging in Asia.

The use of the term "bloc" with reference to East Asia has been extremely loose, however, and it is often not clear whether the reference is to actual patterns of trade and investment flows, some coordinating mechanism for bargaining in international fora, such as the GATT, or a more full-fledged institutional arrangement that would move, even if gradually, towards an Asian common market.

In my view, any formal political organization linking the East Asian countries together is a long-way off. First, there is the problem of membership. The region has a number of political and economic cleavages that constitute stumbling blocks to any such organization: how to accommodate Taiwan and the PRC; the problem of Hong Kong' status; the fears on the part of ASEAN nations that that organization's efforts would be diluted. Above all, there is the question of whether Japan would dominate such an organization.

An even more profound problem is that the region as a whole still remains heavily

dependent on the American market. It is a little recognized fact that over the decade of the 1980s as a whole, trade between East Asia (defined broadly to include Australia and New Zealand, China, ASEAN, Korea, Taiwan, and Hong Kong) and North American grew more rapidly than trade within East Asia; inter-regional trade outstripped intra-regional trade.

Despite its high level of income and continued growth, Japan has proven unwilling and unable to absorb the manufactured exports that are coming from the rest of the region. Like it or not, East Asia remains linked to the U.S., and will therefore be hesitant about forming any "bloc" that excludes the United States. It is noteworthy that the response of most countries in the region to the Malaysia proposal for a regional negotiating forum, despite being substantially watered down, was quite chilly.

The exception to this assessment concerns subregional initiatives, which pose little threat to the United States. These can be expected to show increased dynamism in the future, and are already springing up around the region: the Thai proposal for a grouping that incorporates Vietnam, Laos, Cambodia, and even Burma; the idea of a North China Sea organization that would include the Koreas, China, Japan, and the Soviet Union; the "growth triangle" concept that includes Singapore, southern Malaysian states, and portions of Indonesia, etc. Cheju island is well situated to participate, or even take the lead, in such a sub-regional effort.

VI. Conclusions

The thrust of this essay is that the end of the Cold War has had some what less effected on the political economy of East Asia than might have been expected. The most dramatic effect is probably on the position of China, but the result will probably lead China to become even more closely integrate with the region, not less. The main forces that are operative in the region are not the grand-strategic ones of U.S.-Soviet relations, but the dynamics which have been created by the continuing economic integration of the entire Pacific Basin, including the United States.