East Asia in the Twenty-First Century: Economic Cooperation and Political Rivalry*

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The article focuses on trade, investment, financial transactions, migration and other economic and political relations between China and other East Asian countries, which are reclassified as continental and insular Asia. Although there is great political and economic uncertainty in East Asia toward the end of this century and in the next millennium, a few trends are observable: 1) slower growth and the rise of domestic dissatisfaction, 2) unequal income distribution and regional disparity, 3) liberal trade and investments, 4) competitive cooperation in East Asia without regional integration, 5) urban growth centers and sub-regional development, and 6) the need for regional balance in foreign direct investment. The balance of power between insular Asia and continental Asia, particularly China, may be maintained via good understanding among Asian nations about the relations among economic development, political stability, and security. Finally, Japan's efforts for security and regional political stability can be achieved through maintaining trust in bilateral alliance with the United States, Russia, China, and other Asian countries, improving mutual trust among insular Asian nations by confidence-building steps, especially with China and Korea, and achieving arms control or arms reduction by mutual dialogue to reduce tensions in East Asia.

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It is bold to talk about what would happen to East Asia in the 21st century. It is obvious if one thinks whether one could have predicted what would happen in the 20th century at the end of the 19th century. But one could not say that there is no example in the history of political prognosis or scientific fiction that has predicted surprisingly well the future problems facing some country's political situation many decades ahead and proposed even policy suggestions for the country. One such example is the well-known Tani Kanjo Ikensho (Opinions of Kanjo Tani) presented to the Meiji government in the 22nd year of the Meiji era as early as 1887. It is better known abroad as was translated and quoted by E. Herbert Norman in his *Japan's Emergence As A Modern State-Political and Economic Problems of the Meiji Period* (1940). He wrote:

"What kinds of strategic policies should Japan adopt then? I maintain: abolish all the traditional routine policies and ideologies, abandon the mind of dependence on others, reinforce the armaments, deepen the ditches and build up the fortress, keep international faith with foreign nations, try to maintain the dignity and honor of the State, never do anything to bring disgrace to the country, uplift the spirits in crisis to defend the country with the people, and simply wait for the rebellions in Europe. Europe will sooner or later face the situations which cause war and force many countries to compete for supremacy in the world. Our nation certainly should not intervene in such struggles. Nevertheless, the impact of the wars in Europe will be so deep and wide that Eastern countries will also be affected and will inevitably be involved in the wars. Then, our nation should not have any interest in our relative importance to European nations but may be destined to assume the leadership among the Eastern countries. If we have 20 strong battleships and an elite troop of 200 thousand, then we can measure our strength in the balance of the Eastern countries and demonstrate our weight to European powers."

The political and economic uncertainty of East Asia toward the end of this century and ahead of the next millenium goes without saying. Some trends in the politics and economics of East Asia in the next century, however, seem to be observable even to simple-minded social scientists. Indeed, some have already attempted to give their own prognosis. Unfortunately, this author does not agree with some of those influential opinions. Let me use this opportunity to criticize their views and express some of my own humble opinions.

THE TWENTIETH CENTURY IN RETROSPECT

It is sometimes said that the beginning half of the 20th century is the period of politics and the last half is the period of economics. In East Asia there were a series of international or civil wars in almost every decade since the last part of the 19th century: the Sino-Japanese War in 1894-95, the Russo-Japanese War in 1904-05, World War I in 1915-16, the Sino-Japanese Incident around Shanghai in 1930-31, the Sino-Japanese War from 1937 to the end of 1945, and World War II in Europe from 1938 to 1945 and in the Pacific from 1941 to 1945. Common views may be that there have been no major

wars since then, except for the cold war between the free world led by the United States and the Communist world led by the Soviet Union.

However, even after 1945 there have been major wars in East Asia as well as the rest of the world: e.g., the Korean War and the Vietnam War. There were also a number of civil wars or domestic power-struggles of which the sacrifices were not less serious than any other major wars in history. The Great Leap Forward Movement and the Cultural Revolution in China, are believed to have caused the loss of about 20 million human lives. The civil war in Cambodia sacrificed a few million lives; the civil rioting and fights in Malaysia more than tens of thousands; the one in Indonesia in 1965 more than half a million; and those in Burma also more than tens of thousands. Thus, to regard the latter half of the 20th century as just 50 years of economic development, and more specifically as an age of a miraculous growth is a view that can hardly be justified. Nevertheless, one must admit, the economic development of East Asia has been most impressive in the last half of this century.

The dividing line between the beginning and the last halves of the 20th century is World War II. It is indeed the most historically significant war in its implications. It brought about the following seven consequences to the world:

1. The Soviet Communist bloc in Eastern Europe, China and Vietnam was established.
2. China gained her independence and the Communist revolution there was successful.
3. Germany lost the possible hegemony in Central and Western Europe as the result of her defeat in the two World Wars.
4. Japan lost the leadership she had held in East Asia since the end of the 19th century.
5. The British empire dissolved herself despite her victory.
6. Many colonies in Asia and Africa under the rule of Western powers and Japan succeeded in becoming independent states.
7. A new world order, Pax-Americana, was established.

This postwar world order has changed due to the steady economic development of many countries in the past half century and particularly due to the end of the cold war in recent years. What is particularly conspicuous in East Asia is the economic development. East Asian nations have concentrated their efforts on economic development rather than on political struggles for hegemony in the region. The confrontation of the Communist bloc nations with the free world nations, however, has not yet ended in this part of the world, particularly in the Korean peninsula and Indochina. Although the shift in government policies in mainland China, and in Vietnam toward a "*Socialist market economy*" and "*open door and reform*" seems to mark a fundamental change in East Asia, the change is still limited to the economic sphere. In the political sphere, there has been no sign that the monopolistic control of the Communist Party has weakened. The situation in the Korean Peninsula is particularly urgent. How can we extrapolate these current trends into the beginning of the next century? In this paper, I will focus on East Asia, which consists of the Siberian part of Russia, North Korea, South Korea, Japan, Taiwan, Hong Kong (even after 1997), China and the ten ASEAN countries.

GEO-ECONOMIC AND GEO-POLITICAL POSITIONS OF INSULAR EAST ASIA AND CONTINENTAL EAST ASIA

In the discussions of development and security of the region in the 21st century, two problems seem particularly important. The first problem is whether we can maintain the current prosperity of East Asia into the next century. The second problem is the interactions of economic development with the likely situations in East Asian politics in the medium term future. In order to analyze these problems, this essay contends that the distinction between insular East Asia and continental East Asia is critically important in the geo-politics and the geo-economics of the countries in the region. The developmental means and national security interests of continental Asian nations—China and Siberian Russia—are fundamentally different from those of insular East Asian nations. Here, I define insular East Asian nations as consisting of North and South Korea, Taiwan, Japan and the ten member nations of ASEAN. Japan and the Republic of Korea are two important countries in insular East Asia, which must find an appropriate passage to steer their courses between the contradictory traction of political security and economic prosperity in the coming 21st century. Both nations must pay attention to keep the balance of power between continental Asia (China and Russia) and the rest of insular East Asia.¹

Japan and Korea have rarely been considered as a meaningful grouping of nations in the economic or political context. This fact seems strange when compared with ASEAN (Association of Southeast Asian Nations) which was formed as early as 1967. Southeast Asian nations as a group meet regularly for the purpose of exchanging views on mutual cooperation for the security and economic development of their own and surrounding nations. The reason why no regional association in Northeast Asia has yet been established must have been due to the political difficulty in grouping the Soviet Union, the two Koreas, Japan, Taiwan, Hong Kong and China in the cold war era. The end of the cold war and the success of the Republic of Korea in establishing diplomatic relations with the USSR (now with Russia) and China suddenly opened up the possibility of establishing closer international ties with Northeast Asian nations or East Asian nations as well as Southeast Asian nations. There is also a possibility of grouping the Western Pacific nations including Australia, New Zealand and some Pacific nations to achieve more prosperity and better security in this part of the Asia-Pacific.

Nevertheless, in this paper, I shall focus on the economic and political relations among the East Asian nations defined above. Hence, the relations of concern include trade, investment, financial transactions, migration and other economic and political relations between China and other East Asian countries. Since China is such a giant economy and nation, the relations of insular East Asian countries with China require special attention. In particular, their relations between insular East Asia with China's coastal provinces would be very different from that with China's inner provinces. These two relations might require separate consideration. However, with regards to the discussion on politi-

Readers familiar with geopolitics may find this argument somewhat similar to the classic arguments of Halford Mackinder's distinction between sea powers and land powers and domination of heartland (Mackinder 1904; 1942) and Nicholas J. Spykman's idea of Rimland around the heartland (Spykman 1942).

cal security, China must be treated as a single unit. For similar reasons, on political security issues, Russia and Japan will be treated as separate entities.

BASIC TRENDS IN ECONOMIC DEVELOPMENT AND COOPERATION IN EAST ASIA

The political economy of East Asia has been changing as a consequence of economic development and the shifting balance of power in the region. Some of the important trends which are likely to persist into the 21st century are the following.

Slower Growth and the Rise of Domestic Dissatisfaction

The impressive economic development of both continental and insular East Asian countries offers an important basis for obtaining the economic and political cooperation of other nations outside of East Asia. It must be recognized, however, that this great performance is not a miracle but the fruit of the blood, sweat, and tears of East Asian nations. If one thinks that it is simply an achievement of savings, investment, technological progress and market mechanism, one misses the fundamental aspect of development achieved by human effort and wisdom. The remarkable development of East Asian nations was achieved by a combination of a strong national will for development, hard work, market forces and wise choices in government policies, all in a favorable international environment. Hence, so long as these conditions remain basically unchanged, their development will persist into the 21st century.

The Japanese experience indicates, however, that maintaining rapid growth for a long time is very difficult. Japan's growth rate was 11% in the 1960s, 6.5% in the 1970s, 4% in the 1980s and 2% in the 1990s. In other words, what Simon Kuznets and Kazushi Ohkawa called the acceleration and deceleration of the growth rate will also hold in the East Asian cases. This means that the extremely rapid growth rates of East Asian economies will soon slow down, first for Asian NIEs (Singapore, Hong Kong, Taiwan and South Korea), soon after for the five ASEAN economies (Malaysia, Thailand, Indonesia, the Philippines and Vietnam), and a little later for China. Rapid growth makes it easier to resolve many domestic conflicts and satisfy the wants of general consumers, but once growth slows down, dissatisfaction may quickly rise. This may be the case for most East Asian countries in the early 21st century.

It is well-known that East Asian economies have shown the so-called flying-geese pattern of growth: Japan goes first, Asian NIEs follow, and then the four ASEAN economies follow. This pattern has been disturbed by the rapid growth of coastal provinces in China around four growth centers: Dalian, Beijing, Shanghai and Guangzhou. As TABLE 1 shows, each of these four groups of provinces have the population equivalent to or larger than most ASEAN member countries, and is reaching the level of per capita GDP slightly above the national average of Indonesia or the Philippines. They are challenging the industries in Southeast Asia by offering investment opportunities similar to those in

Southeast Asia. This is likely to accelerate competition among East Asian economies, and despite its effect of expanding the markets, keen competition may slow down the growth of NIEs and the four ASEAN nations. There is already a clear indication of these trends in most East Asian economies.

Unequal Income Distribution and Regional Disparity

The most worrisome case would be a combination of slow growth and income inequality. Income distribution in East Asian countries is not as bad as that of Latin American countries, but is also not free from possible future problems. Particularly worrisome is the situation in China, as TABLE 1 shows. These data seem to imply that the income differentials in China among the social classes as well as among the regions, particularly between coastal provinces and inner provinces, are widening. As Samuel Huntington discusses,² the concept that economic growth may lead to political instability in changing societies may be summarized by the following equations:

Economic Dissatisfaction = (Want) / (Consumption)

Social Dissatisfaction = (Economic Dissatisfaction) / (Income Distribution)

Political Dissatisfaction = (Social Dissatisfaction) / (Social Freedom)

Political Instability = (Political Dissatisfaction) / (Political Participation)

There may be a number of reasons why post-Deng Chinese politics may lead to eventual, if not immediate, instability. Regional disparity in income is one of the crucial indicators of the future uncertainty of Chinese politics.

Increasingly Liberal Trade and Investment and Measures for becoming Gradually More Self-sustaining

As the World Bank Report published in July 1994 noted, East Asian exports multiplied more than thirty-fold in the recent quarter of a century to about \$850 billion, increasing the East Asian share of the world exports to 21 percent from 7 percent. This implies that imports of industrialized European and American countries from East Asia have risen by 15 to 20 percent per year without receiving any improved access to Asian markets in return. This has caused unsustainable trade surpluses, and rising tension between the U.S. and Japan, China, and other East Asian countries. Acceleration of liberalization of their trade regimes, and reduction of import tariffs are, therefore, almost a necessity, bearing in mind that the effective rates of protective tariffs in Indonesia and the Philippines, for example, still remain as high as 40%. In fact, a significant number of steps have been taken to deregulate the control of foreign investment in all East Asian countries.³ This deregulation trend will persist for a while as long as nations are successful in achieving

² See Huntington (1968).

³ As for detailed information on deregulation in East Asian countries, the best source is *Tsusho-Koho*, monthly publication of JETRO. See TABLE 7 in Yasukuni (1994).

TABLE 1. DIFFERENCE IN THE MAIN ECONOMIC INDICATORS OF 30 PROVINCES IN CHINA, 1992

Province	Population 10 thousand	GNP per capita \$	Foreign Cases	Industry 1 bil yuan	Agriculture 1 bil yuan	
1. Beijing	1,102	1,167	2,207	1,432.50	1,085.8	84.5
2. Tianjin*	920	811	1,702	1,219.81	997.9	62.2
3. Hebei*	6,275	334	1,420	1,622.81	1,733.6	419.8
4. Shanxi	2,979	316	377	266.72	744.1	131.4
5. Nei Mongol	2,207	311	112	88.06	361.7	180.3
6. Liaoning*	4,016	586	2,417	1,949.19	2,337.9	340.8
7. Changchun	2,532	369	606	399.87	767.8	204.3
8. Heilongjiang	3,608	430	710	385.42	1,103.1	285.2
9. Shanghai*	1,345	1,437	1,999	2,903.34	2,429.3	80.0
10. Jiangsu*	6,911	519	7,854	7,161.60	4,673.6	673.5
11. Zhejiang*	4,236	523	2,338	2,863.03	2,498.2	404.8
12. Anhui	5,834	225	701	355.84	995.8	390.1
13. Fujian*	3,116	410	3,113	6,351.01	915.5	300.7
14. Jiangxi	3,913	259	906	589.90	646.2	298.4
15. Shandong*	8,610	417	4,109	3,919.61	3,553.7	840.7
16. Henan	8,861	248	768	622.51	1,628.6	573.7
17. Hubei	5,580	326	1,286	1,017.94	1,373.7	435.4
18. Hunan	6,267	266	783	521.64	1,006.8	471.2
19. Guangdong*	6,525	637	9,769	18,858.64	3,479.4	737.1
20. Guangxi	4,380	237	1,156	1,013.98	582.8	333.1
21. Hainan*	686	375	1,830	2,261.14	75.7	87.2
22. Sichuan	10,998	246	1,178	1,066.55	1,849.8	744.8
23. Guizhou	3,361	179	210	187.38	302.3	176.7
24. Yunnan	3,832	241	204	167.97	477.1	250.4
25. Tibet	228	265	-	-	3.9	22.5
26. Gansu	3,405	263	434	522.90	599.5	205.3
27. Changsha	2,314	237	45	27.23	367.1	122.3
28. Qinghai	461	332	13	4.14	68.2	27.3
29. Ningxia	487	293	125	43.48	89.4	28.4
30. Sinkiang	1,581	438	24	10.45	317.2	172.4
Total	117,171	372	48,125	57,874.28	37,065.7	9,084.7

Source: *Chinese Statistical Yearbook, 1993; External Economic and Trade Yearbook, 1993* as quoted in Takeuchi (1994).

Note: Those with * are coastal provinces.

gradual industrialization in manufacturing sectors. They are no longer necessarily protecting domestic infant industries, because about half of the exports from the ASEAN countries are the products of multinational corporations. That is why the ASEAN countries are able to accelerate the tariff reduction promised in AFTA. Northeast Asian countries should move ahead of them.

TABLE 2. COMPOSITION OF EXPORTS FROM MAJOR ECONOMIES, 1975 AND 1992

	Food & Live Animals		Crude Mat. excl. Fuels		Mineral Fuels. etc.		Animal and Vegetable Oil		Chemicals	
	1975	1992	1975	1992	1975	1992	1975	1992	1975	1992
China	16.5	9.8	9.5	3.7	23.5	5.5	0.3	0.2	6.2	5.1
Hong Kong	1.2	1.1	0.7	0.8	0	0.9	0	0	0.6	3.5
Korea	11.8	2.5	2.8	1.4	2.2	2.3	0	0	1.4	6.0
Taiwan	15.4	4.8	1.9	2.3	1.1	0	0	0	1.9	9.0
Singapore	7.2	7.8	13.3	2.2	27.0	13.1	1.9	0.7	3.7	6.5
Malaysia	6.4	3.6	35.0	10.7	10.5	12.9	16.3	6.6	0.9	2.0
Thailand	59.1	21.6	15.1	4.3	0.6	1.0	0.1	0	0.5	2.2
Philippines	36.1	11.7	28.4	3.4	1.6	2.0	10.2	3.3	1.0	2.3
Indonesia	5.2	7.9	14.9	7.2	74.8	29.2	2.3	2.3	0.3	2.2

	Basic Manufactures		Machines Transport		Miscellaneous Manufactures		Unclassified Goods	
	1975	1992	1975	1992	1975	1992	1975	1992
China	22.1	18.9	4.6	15.5	15.7	40.1	1.1	0.4
Hong Kong	10.3	12.6	11.2	27.7	52.2	50.4	23.6	1.8
Korea	29.4	25.2	15.0	44.9	35.8	17.3	0.2	0.4
Taiwan	23.7	28.3	19.5	8.0	36.2	39.2	0	7.7
Singapore	8.5	6.9	22.7	55.1	6.9	9.3	8.4	1.4
Malaysia	17.6	8.5	6.2	43.8	5.7	11.1	1.1	0.4
Thailand	14.3	19.1	1.3	29.8	3.5	20.4	4.3	1.0
Philippines	10.4	7.0	0.5	18.6	4.4	15.6	5.9	35.7
Indonesia	1.3	26.7	0.5	5.8	0.3	19.3	0	0.5

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries*, various issues.

The industries and trade of the ASEAN and Northeast Asian economies have been moving up the ladder of industrialization, as foreign investment has moved into these countries from major industrialized nations. As the per capita GDP increases in each country, changes in industrial composition must be made to keep the competitive edge in increasingly technologically advanced areas. This will be difficult for East Asian NIEs. The competition of these Northeast and Southeast Asian economies in recent years can be observed by the changing composition of their major export items in TABLE 2. A simple extrapolation of the high growth rates in the past cannot be justified, unless the technological base can be upgraded and human capital support is maintained upward. In this sense, Paul Krugman's (1994) warnings may be taken seriously, although his analysis and extrapolation into the future is basically incorrect.

What is impressive is a steadily increasing interdependence among Asian NIEs, the ASEAN countries and China. As TABLE 3 shows, their interdependence plays an already

TABLE 3. CUMULATIVE FOREIGN INVESTMENT BY COUNTRY IN MAIN ASIAN COUNTRIES

(unit: US \$ in million)

	Indonesia* 1967-91	Malaysia 1985-91	Philip. 1980-90	Thailand 1970-91	China 1979-90	Hong Kong 1985-90	Taiwan 1952-91	Korea 1982-91
1. Japan	11,156.7	4,510	314.77	3,914.6	3,100	1,250	4,357	2,992.9
2. Hong Kong	4,194.0	610	182.77	1,381.9	25,060	-	1,562	169.2
3. Taiwan	3,373.1	4,910	24.86	751.9	2,040	-	-	10.2
4. USA	2,496.1	1,250	1,191.79	1,679.1	4,460	1,214	4,274	2,144.3
5. Korea	2,216.9	910	9.98	57.9	-	-	-	-
6. Netherlands	2,131.5	-	-	238.3	-	148	-	769.5
7. Germany	1,803.8	-	-	222.6	530	101	-	316.6
8. Singapore	1,571.8	1,440	21.85	803.5	740	-	-	68.5
9. U.K.	1,257.0	910	-	249.0	600	282	-	245.1
10. Australia & New Zealand (Europe)	960.9 - -	- - -	43.45 384.01 -	106.2 - -	300 - -	82 - -	- 2,236 -	- -
11. Luxemburg	530.3	-	-	1.6	-	-	-	-
12. Switzerland	491.3	-	-	225.7	-	-	-	286.0
13. Panama	473.5	-	-	-	-	-	-	-
14. France	321.5	-	-	136.4	-	-	-	180.3
15. Belgium	241.7	-	-	63.1	-	-	-	15.4
16. Norway	217.6	-	-	-	-	-	-	-
17. India	189.3	-	-	-	-	-	-	-
18. Brunei	130.0	-	-	0.9	-	-	-	-
19. Malaysia	114.5	-	10.77	44.3	-	-	-	-
20. Indonesia	-	800	0.32	11.5	-	-	-	-
21. Canada	-	-	-	-	290	-	-	23.1
22. Italy	-	-	-	-	210	-	-	17.6
23. China	-	-	-	-	-	422	-	-
24. Others	499.1	3,450	-	316.0	-	467	-	-
25. Multinat'l	13,421.6	-	-	-	-	-	-	-
Total	47,792.2	19,190	2,198.58	10,337.6	-	3,965	-	-

Source: PECC, *Changing Patterns of Foreign Direct Investment in the Pacific Region*, Japan Committee for Pacific Economic Outlook, September 1992.

Note: *Indonesia figures exclude investments in oil, gas, banking, insurance, and leasing.

significant role in most developing economies in Southeast Asia and China. East Asian NIEs have changed from simple capital-importing economies to net capital-exporting ones. The closer ties between Northeast Asia and Southeast Asia in trade and investment will become increasingly evident. It is still an exaggeration to argue that trade among East Asian economies is more dominant than that of East Asian economies as a whole with the U.S. and Canada, as others discuss (Watanabe 1997). The cumulative investment figures among East Asian nations are shown in TABLE 3. It is impressive that East Asian NIEs are investing in some countries more than Japan. Intra-regional trade in Asia

is greater than the corresponding share of Western Europe in Europe's total trade. Per capita levels of trade of the ASEAN countries are rapidly rising, and the pattern of trade and investment is steadily approaching the EU type.

Competitive Cooperation in East Asia without Regional Integration

Soon after the European Union was formed, it became fashionable among politicians and economists to promote regional integration as if it were a panacea to move out of economic recession, to resolve political difficulties or to gain political popularity. But it is worth remembering that the miraculous growth of East Asian economies was achieved basically without the aid of regional organizations or agreements to support inter-governmental cooperation. The exceptions have been unofficial fora such as PECC, PBEC, EAEC, AFTA, etc., established for the discussion of regional issues by intellectuals, officials and businessmen. Though they are no less important than official organizations for discussions and policy proposals, it is principally market forces that are responsible for East Asia's miraculous growth.⁴ Among official organizations, the ASEAN and APEC are the most conspicuous. They are politically motivated and are inter-governmental. It would be wise not to make APEC a political organization like the EU or an intergovernmental agreement like NAFTA.

The so-called flying-geese pattern will not be appropriate as a description of the East Asian development pattern in the 21st century. Perhaps, however, the discrepancies between East Asian countries will still remain wide throughout the 21st century in terms of the standard of living. This will make it difficult for East Asia to form a regional organization like the EU within a few decades. Before East Asian countries consider such an organization, many economic and political changes will need to occur in this region.

Urban Growth Centers and Sub-Regional Development

One important feature of East Asian development is the rapid growth concentrated around big cities. Those growth centers are mostly, but not all capitals such as Tokyo, Osaka, Seoul, Dalian, Beijing, Tienjing, Shanghai, Taipei, Hong Kong, Guangzhou, Manila, Bangkok, Ho Chi Minh City, Kuala Lumpur, Singapore, and Jakarta. FIGURE 1 shows the geographic distribution of such cities with a population of over one million.

TABLE 4 shows the change in their ranking among the 30 biggest cities in the world. Clearly, the population increases of growth centers of the East Asian economies are reflected in this table. This implies that serious problems of urban-living such as pollution, crimes and so on are likely to become more serious in East Asian growth centers. We have to be prepared for extremely grave problems in that respect.

Moreover, these growth centers are currently merging with each other or expanding the economic activities in cooperation with neighboring areas to attract businesses into their sub-region. Such examples include the Yellow Sea Economic Zone, the Taiwan Fukian

⁴ See S. Ichimura (1994a; 1994b).

Source: Lo and Yeung.

FIGURE 1. MAJOR CITIES IN EAST ASIA WITH MORE THAN ONE MILLION PEOPLE

Economic Zone, Hong Kong-Shenzhen-Guangzhou Economic Zone, Northeast Thai Zone (with Yunnan-Northeast Myanmar), South Vietnam Economic Zone, South Thai-

TABLE 4. THIRTY BIGGEST CITIES IN THE WORLD: 1950-2000

No.	1950	1960	1970	1980	1990	2000
1	New York 12.3	New York 14.2	Tokyo 16.5	Tokyo 21.9	Tokyo 25.0	Tokyo 27.9
2	London 8.7	Tokyo 11.0	New York 16.2	New York 15.6	New York 16.1	Bombay 18.1
3	Tokyo 6.9	London 9.1	Shanghai 11.2	Mexico C. 13.9	Mexico C. 15.1	San Paulo 17.8
4	Paris 5.4	Shanghai 8.8	Osaka 9.4	San Paulo 12.1	San Paulo 14.8	Shanghai 17.2
5	Moscow 5.4	Paris 7.2	Mexico City 9.1	Shanghai 11.7	Shanghai 15.3	New York 16.6
6	Shanghai 5.3	Buenos Aires 6.8	London 8.6	Osaka 10.0	Bombay 12.2	Mexico City 16.4
7	Essen 5.3	Los Angeles 6.5	Paris 8.5	Buenos Aires 9.9	Los Angeles 11.5	Beijing 14.2
8	Buenos Aires 5.0	Essen 6.4	Buenos Aires 8.4	Los Angeles 9.5	Beijing 10.9	Jakarta 14.1
9	Chicago 4.9	Beijing 6.3	Los Angeles 8.4	Calcutta 9.0	Calcutta 10.7	Lagos 13.5
10	Calcutta 4.4	Osaka 6.2	Beijing 8.1	Beijing 9.0	Buenos Aires 10.6	Los Angeles 13.1
11	Osaka 4.1	Moscow 6.2	San Paulo 8.1	Paris 8.9	Seoul 10.6	Calcutta 12.7
12	Los Angeles 4.0	Chicago 6.0	Moscow 7.1	Rio de Janeiro 5.8	Osaka 10.5	Tianjin 12.4
13	Beijing 3.9	Calcutta 5.5	Rio de Janeiro 7.0	Seoul 8.3	Rio de Janeiro 9.5	Seoul 12.3
14	Milan 3.6	Mexico City 5.4	Calcutta 6.9	Moscow 8.1	Paris 9.3	Karachi 12.1
15	Berlin 3.3	Rio de Janeiro 4.9	Chicago 6.7	Bombay 8.1	Tianjin 9.3	Delhi 11.7
16	Mexico C. 3.1	San Paulo 4.7	Essen 6.6	London 7.7	Jakarta 9.3	Buenos Aires 11.4
17	Philadelphia 2.9	Milan 4.5	Bombay 5.8	Tianjin 7.3	Moscow 9.0	Manila 10.8
18	St. Petersburg 2.9	Bombay 4.1	Milan 5.5	Cairo 6.9	Cairo 8.6	Cairo 10.7
19	Bombay 2.9	Cairo 3.7	Cairo 5.3	Chicago 6.8	Delhi 8.2	Osaka 10.6
20	Rio de Janeiro 2.9	Philadelphia 3.6	Seoul 5.3	Essen 6.3	Manila 8.0	Rio de Janeiro 10.3
21	Detroit 2.8	Tianjin 3.6	Tianjin 5.2	Jakarta 6.0	Karachi 8.0	Dahka 10.2
22	Naples 2.8	Detroit 3.5	Philadelphia 4.0	Manila 6.0	Lagos 7.7	Paris 9.6
23	Manchester 2.5	St. Petersburg 3.4	St. Petersburg 4.0	Delhi 5.6	London 7.3	Istanbul 9.3

No.	1950	1960	1970	1980	1990	2000
24	San Paulo 2.4	Berlin 3.3	Detroit 4.0	Milan 5.3	Chicago 6.8	Moscow 9.3
25	Cairo 2.4	Naples 3.2	Jakarta 3.9	Teheran 5.1	Istanbul 6.5	Lima 8.4
26	Tianjin 2.4	Shenyang 2.9	Naples 3.6	Karachi 5.0	Lima 6.5	Teheran 7.3
27	Birmingham 2.3	Frankfurt 2.7	Manila 3.5	Bangkok 4.7	Essen 6.4	London 7.3
28	Frankfurt 2.3	Jakarta 2.7	Delhi 3.5	St. Petersburg 4.6	Teheran 6.4	Bangkok 7.3
29	Boston 2.2	Hong Kong 3.6	Shenyang 3.5	Hong Kong 4.6	Bangkok 5.9	Chicago 7.0
30	Hamburg 2.2	Manchester 2.6	Hong Kong 3.5	Lima 4.4	Dahka 5.9	Hyderabad 6.7

Source: A table prepared by the Japan Development Bank from UN, 'World Urbanization Prospects,' the 1994 Revision.

Penang Zone, Growth Triangle (Johor Baru-Singapore-Bantam), Jakarta-Surabaya Megalopolis, Manado-Mindanao Zone and so on. Most of them are the natural extension of growth centers through markets, though some are the result of deliberate efforts by relevant governments or international organizations. In the insular parts of East Asia it seems important to enlarge the market size by investing in these sub-regional development projects, thereby realizing the economy of scale in manufacturing while mitigating over-concentration in old growth centers. In this context, the role of multinational corporations is often very important and their contribution in promoting intra-industrial trade should be positively evaluated. The shifts in their relative importance reflect the growth pattern in each sub-region in East Asia. These trends will likely continue well into the 21st century and play an important role in forming the transnational development pattern of East Asian economies.

The Need for Regional Balance In Foreign Direct Investment

Among all these trends, the most important determinant for relative success in the rivalry between insular Asia and China is the direction of foreign direct investment. Investment in China must, therefore, be carefully evaluated from this perspective. The Taiwanese government permitted free investment in China via Hong Kong several years ago, but it is recently under reconsideration, because it may be making the adversary too strong, and working against the interests of Taiwanese businesses. Moreover, it may involve risk in economic activities as well as have negative political implications. The same consideration must be taken by any other East Asian country. Concerning this issue, there was an interesting survey conducted by Japan Industrial Bank (Nihon Kogyo Ginko) in 1993. It asked about the

investment intention of Japanese leading corporations for the coming five years. A summary of the findings can be found in TABLE 5. It presents several interesting findings:

- a) ASEAN was regarded slightly more attractive by Japanese investors as late as 1993, when Japanese investment in China was booming.
- b) The domestic markets of ASEAN and China have become significantly large enough, so that Japanese investment has been planned not only for exports but also for domestic markets. Nevertheless, this has not reduced the attractiveness of investment opportunities.
- c) The replies to the questionnaire schedules seem to show that Japanese investment in China expanded very significantly in 1992 and 1993 but slowed down in 1994. This slow pace seemed to continue for some time. Recently, Japanese businesses have become more cautious than in the early 1990s in investing in China. Those industries and areas marked "00" are still attracting Japanese investment but less so now than in 1992 and 1993. They seem to be finding investment in some Southeast Asian countries safer and more preferable. Perhaps similar observations can be made about investments from Korea and Taiwan as well. If so, this is as they should be. As the author believes, the balance in economic development pace between China and the rest of East Asia is highly desirable not necessarily in the per capita level but in the total GNP. Needless to say, the population size is a crucial factor.

THE CHINA PROBLEM IN EAST ASIA

The most serious problem facing East Asia is, as I have pointed out above, the balance of power between insular Asia and continental Asia, particularly China. We all know that the most remarkable economic expansion has taken place recently in China. Its sheer size has many political as well as economic implications. In the fourteenth Party Congress in 1992, Chinese leaders chose to take bold steps toward a socialist market economy. In a sense, it was following the Singaporean model—i.e., a market economy with very strong authoritarian governmental guidance and influential state enterprises, with little freedom of press, assembly and association. It was no accident that the former prime minister of Singapore served as an economic adviser to the Chinese central government for many years.

As we have observed, however, in almost all the other East Asian nations, the achievement in economic growth leads to the democratization of the political system in the country step by step, although the path may differ from one nation to another, and the speed may be very slow. There are several reasons why we should carefully observe China.⁵ The reasons are:

- a) China has nuclear military capability with full-scale rockets, so that if its economy became as powerful as that of the former Soviet Union, it could be a threat to neighboring nations, as well as the United States.
- b) It absorbed Hong Kong in 1997. Thus it increased its leverage greatly in terms of influenc-

⁵ See Morley, ed. (1993). This book is being revised for new edition.

TABLE 5. ASEAN VERSUS CHINESE MARKETS TO JAPANESE MAJOR INDUSTRIAL INVESTORS

	ASEAN			CHINA		
	Domestic Market		Investment Intension	Domestic Market		Investment Intension
	Japan, 1991 =100	1990/1985 1995/1990		Japan, 1991 =100	1990/1985 1995/1990	
Automobile	11	⊙ •	▲▲	10	⊙	▲▲
Semiconductor	30	⊙ ⊙	▲▲	8	⊙ ○	▲▲
Electronic Mach. (color TV)	25	⊙ ⊙	▲▲	90	⊙ ○	▲▲
Iron & Steel	15	⊙ •	△	60	○ •	△
Petrochemical (ethylene)	25	⊙ ○	▲	44	○ ○	▲
Cement	61	⊙ ○	△	240	○ ○	△
Textile (synthetic fibre)	28	⊙ ○	▲	166	○ ○	▲▲
Department Store		⊙ ○	△		⊙ ○	▲
Supermarket (Personal Consum.)	10	⊙ ○	▲	9	⊙ ○	▲▲

Note: 1. ⊙ means the expansion of more than 20% a year, ⊙ means the expansion more than 10% but below 20%, ○ means the expansion more than 5% but below 10%, • means the expansion around 0 % to 5%.

2. As for investment intension, '▲▲' means positively expand, '▲' means expand; '△' means partially expand.

ing trading partners and overseas Chinese communities.

- c) It is closely linked with the significant economic power of overseas Chinese in Southeast Asia. Greater China may soon become as influential as Japan, South Korea, Asian NIEs taken together. TABLE 6 provided by the World Bank (1993) demonstrates the amazing potential of the Greater Chinese Area.
- d) It is moving towards closer relations with Russia. In fact, China is now second only to Germany in trade relations with Russia.
- e) Nevertheless, the majority of Japanese politicians and businessmen are optimistic in presuming that rising per capita income will necessarily lead to democratization of the political system, even in China, and will result in improved relations with neighboring countries. On the other hand, the United States seems to be pessimistic because of two possibilities. One is that China may become a dictatorial country with little desire to protect the rights of its citizens and will become an adversary to U.S. interests in Asia. The second is the exceedingly

TABLE 6. GDP COMPARISONS FOR FOUR ECONOMIES: MARKET PRICE AND STANDARD INTERNATIONAL PRICE ESTIMATES

(unit: U.S. \$ trillion)

	At Market Prices		At Standard International Prices		Per capita
	1991	2002	1990 ^a	2002	(US\$) ^b
Chinese Economic Area	0.6	2.5	2.5	9.8	7,300
United States	5.5	9.9	5.4	9.7	36,000
Japan	3.4	7.0	2.1	4.9	37,900
Germany	1.7	3.4	1.3	3.1	39,100

Source: World Bank, *Base-line Forecast*, February 1993.

Note: a. The source of these estimates are the *World Bank World Development Report 1992* (except Taiwan, China). Estimates vary widely, however. The International Comparison Price (ICP) estimate for China in 1990 may be conservative. For instance, the Summers and Heston ICP estimate for 1985 was US\$2.6 trillion for China alone (Summers and Heston 1988).

b. Per capita figures are expressed in thousands of U.S. dollars. In making the ICP projections, it is simply assumed that GDP at ICP will increase at a similar percentage rate as GDP at market prices. This growth rate is an upper bound for the Chinese Economic Area (CEA) because International Comparison: Price Standard (ICPS) tend to rise more slowly than market prices at official exchange rates as relative income per capita rises (reflecting the higher relative price of services in high-income economies).

close relations between Japan and China. Economic cooperation in East Asia must keep these concerns of the United States in mind."

The great uncertainty about the future of China is due to the difficulty in overcoming several key factors: the secession problem, regional income inequality, domestic migration into urban areas, systemic corruption with limited morality in public administration, strong trends for decentralization, uncontrollability of the military, and non-existence of governmental offices like the Japanese MITI to guide the state, collective, and private enterprises. The most imminent problem is whether post-Deng China will return to a dictatorial regime and suppress corruption in order to maintain national unification or if it will succeed in controlling the central government party and the army by oligarchy. If Chinese leaders fail to control the central government, Japan may find it difficult to be friendly to both the United States and China. Japan will then face a choice either to remain an ally to the U.S., moving away from friendly relations with China (this is the majority view in Japan), or to move closer to China, a kind of Asianism which is a minority view.

In the former, Japan-China relations will be in tension. As Professor Huntington of Harvard University points out, the weakening U.S. may welcome the conflict between China and Japan that will weaken both. On the other hand, in the latter case, there is a danger for China and Japan to become mutually compromising and very friendly to each other against the national interests of the U.S. in Asia. In that case, the role to be played by Korea, Vietnam and ASEAN as a whole will be very crucial in balancing the power of both powers, as Poland and Belgium did after the Vienna Conference in Europe. The

^a See Johnson (1995).

majority of intellectuals in Japan believe that it would be very unwise to choose the latter course. This may be the pessimist's view in the U.S. as well. Many diplomats and political scientists in the U.S. and Japan repeatedly emphasize that the key to the stability in East Asia is the trust of Asian nations in the security arrangements between the U.S. and Japan.

If, however, China succeeds in keeping its rapid pace of development and becomes too confident, then it may seek its own hegemonic course, particularly toward smaller neighbors. In order to avoid such a situation, it is highly desirable to have a good understanding among Asian nations on the relations between economic development, political stability, and security.

RESOLVING REGIONAL SECURITY ISSUES

There are several fora already in East Asia to discuss the regional security problems. The most authoritative one is the ASEAN Regional Forum established as a part of the regular Extended Foreign Ministers Conference of ASEAN, whose first meeting was held in Bangkok in 1994. The second is the CSCAP (the Council for Security and Cooperation in Asia-Pacific) proposed in Seoul in 1992 and confirmed in Lombok in 1993, which is similar to the CSCE in Europe, but is a more informal gathering of selected national research institutes of the ASEAN member countries—Korea, Japan, the U.S., Australia and New Zealand. These nations could be the core group with which to discuss market economics and security problems in addition to bilateral relations of the U.S. with each member nation. The third is the annual conference of the Asia-Pacific Roundtable sponsored by the Institute of Strategic and International Studies in Malaysia in cooperation with the same types of institutes in almost all Asia-Pacific countries. The conference is organized on the basis of individual participants so that a wide range of nations including China (PRC), Russia, North Korea, India, and Taiwan, which are outside of the scope of CSCAP are represented.

It is important for Northeast and Southeast Asian nations to build up confidence in each other through sincere and frank exchanges of opinions on security and development issues facing each nation. They must recognize the benefit of peace and mutual cooperation and find an optimal way to resolve conflicts among themselves in both economic and political matters. We must explore various opinions useful for confidence-building and mutual trust. It is important not to take advantage of the weaknesses of other nations, but to help them overcome them, while also learning from their strengths to find the optimal means of achieving balanced development among all nations in the region.

There seems to be an urgent need for this type of cooperation in East Asia, in light of the widely-recognized rising risks in Asian countries. The credit rating as evaluated by *Euromoney Journal* in TABLE 7 demonstrates this rising risk. This rating does not warrant any optimism for Northeast Asian countries. Indeed, one of the most serious tensions in the world may now be in the Korean peninsula and the Taiwanese Straits. To resolve regional conflicts through the efforts of Asian nations requires much friendlier consulta-

TABLE 7. CHANGES IN COUNTRY RISKS OF ASIAN NATIONS

Overall Ranking				Overall Point	Econo. Perform	Polit. Risk	Debt Index	Default Resched.	Credit Rating	Access to International Finance			
Sept. 1985	Sept. 1990	Mar. 1994	Bank Loan							Short-term Loan	Capital Market	Trade Loan	
			(100)	(25)	(25)	(10)	(10)	(10)	(5)	(5)	(5)	(5)	
	1	11	1	96.74	25.00	21.74	10.0	10.0	10.0	5.0	5.0	5.0	5.0
Singapore	20	16	10	93.39	24.19	22.26	10.0	10.0	9.23	5.0	3.75	5.0	4.96
Japan	1	1	13	93.80	20.66	23.14	10.0	10.0	10.0	5.0	5.0	5.0	5.0
Taiwan	30	22	15	91.67	23.83	22.83	10.0	10.0	9.23	5.0	2.50	4.0	4.28
Hong Kong	21	30	24	82.31	19.72	20.71	10.0	10.0	6.15	5.0	3.00	4.0	3.73
Malaysia	27	24	26	80.43	22.67	21.15	9.44	10.0	6.15	0.49	2.75	3.5	4.28
S. Korea	32	20	27	78.57	19.99	21.74	9.66	10.0	6.92	0.14	3.00	3.5	4.11
Thailand	32	20	28	73.41	20.18	19.19	9.28	10.0	5.77	0.59	2.75	3.0	3.90
China	19	37	38	68.58	17.81	18.01	9.60	10.0	3.85	0.00	2.50	4.0	4.07
Indonesia	37	35	43	63.48	16.09	16.34	8.50	10.0	3.08	1.03	1.50	3.0	3.94
India	46	47	50	55.39	12.61	14.68	9.05	10.0	2.31	0.02	1.25	2.5	2.97
Philip.	80	78	59	50.67	14.60	12.21	8.68	9.11	0.77	0.10	0.50	2.0	2.71

Source: Quoted from Takayasu and Bando (1994).

tion and exchanges of opinions on security problems in addition to economic cooperation.

JAPANESE EFFORTS FOR HER OWN SECURITY AND REGIONAL POLITICAL STABILITY

Japanese efforts seem to be directed in three areas. The first is to maintain trust in bilateral alliance; primarily with the United States (Mutual Security Agreement), and to continue to improve bilateral political relations with Russia and China. For instance, Japan has continued the following consultations and dialogues: Japan-Russia Policy Planning Consultation (June, 1992; February, 1994), Japan-Russia Defense Research Exchange (February, 1993; March, 1993), Japan-Russia Maritime Accidents Prevention Agreement (signed in 1993), Japan-China Security Dialogue (the first meeting between defense authorities of both countries in March 1994). It must be added that similar efforts have been made with other Asian countries through the exchange of visits between Japanese and Asian (Korean and Southeast Asian) defense ministers. These efforts will continue, but should not be considered, as the Newspaper Asahi reported, as a new direction of Japanese efforts toward the Asianism mentioned above.

The second is to improve mutual trust among insular Asian nations by what is popularly called "Confidence-Building Steps." This is particularly important *vis-à-vis* Korea

and China. Japan has many problems in erasing the wartime guilt or misbehaviors of half a century ago. By making fresh efforts to extend economic and other types of cooperation, Japan is hoping to build up new trust with neighboring Asian nations. However, it is very difficult particularly with Korea and China. Building up trust seems to be proving somewhat less worrisome with Southeast Asian nations. This may be a reflection of the four-fold nature of World War II in Asia: war against China; war against the U.S. and Western countries; war against the USSR; and war against Japanese colonialism. It will take more time to remedy all the grievances of the sufferers in other Asian countries. Japan must continue to make efforts to console the minds of those people by offering whatever help she can.

The third is to achieve arms control or arms reduction by mutual dialogue to reduce tensions in East Asia. Positive participation in the dialogues at the ASEAN Regional Forum or similar conferences mentioned above seems to demonstrate Japan's interest in maintaining the low level of military build-up in the Asia-Pacific. As economic development becomes successful, on the contrary, East Asian countries are also spending more on military expansion. The army is no longer just for domestic law and order, but truly for national defense in many countries. Hence, it is all the more important for Japan and other East Asian nations to maintain the constant dialogue and to build up mutual confidence. All East Asian countries including China must make military activities more transparent, so that each will reduce military build-up and release more resources for economic development. This path will prove to be the golden road to increase the prestige of East Asian nations and to produce more culturally impressive fruit in the next century.

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