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**ASEM AND ASIAN PROSPECTS WITHIN THE
EVOLVING WORLD ECONOMY**

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ABSTRACT

The paper starts by analysing the problems Europe faces in dealing with Asia and then concentrates on the characteristics of Asia's economic development and the difficulties it starts to encounter. The analysis extends to the system of relations being built in Asia, a process made more complex by an unstable international order and a world economy which must deal simultaneously with the contrasting effects of globalization and regionalism. As for Europe, without a clarification of its priorities and a substantive restructuring of its economy, its role in Asia can only remain rather limited.

1. INTRODUCTION

Contrary to the official optimism that followed the first Asia-Europe Meeting (ASEM-I) and characterizes the run up to the second (ASEM-II), this paper attempts to demonstrate ASEM's limited role, for two simple series of reasons: (a) Europe, engulfed in its internal reorganization and preoccupied with Eastern Europe, is not prepared to undertake the substantive restructuring of its economy needed for facing Asian competition; and (b) Asia rapid growth has prevented it to pay much attention to Europe, and now it must start worrying about the problems that loom over its future. ASEM's little relevance for Asian countries is certainly confirmed by the recent ASEAN decision to grant membership to Burma - together with Laos and Cambodia - during the current year, notwithstanding the likely risk that such an admission could disrupt or even abort the ASEM-II meeting planned to take place in London in 1998.

2. ASEM-I AND ASEM-II

Although Europe's interests in Asia are essentially commercial, hence frictions have remained limited to this field, its relations with Asia have not been always less contentious than those between the USA and that continent. These contentions and frictions have been largely caused by Europe's defensive trade policies and its common agricultural policy (CAP). In this context it is worth remembering that it was the starting of Europe's regional integration process that 'forced the Japanese to look for a specific region to which they could belong' [*Korhonen,*

1994: 170].

The EU's total exchange (including both exports and imports) with Asia - excluding Japan - amounted to \$212 billion in 1994, compared to the USA's \$253 billion. European trade, however, is growing more rapidly - at 102 per cent against 76 per cent between 1988 and 1994 - and what's more it is roughly in equilibrium. Furthermore, in 1994 European exports to Asia - again excluding Japan - became larger than those of America - \$99 billion against \$92 billion. This is despite the fact that Europe's share of the Asian market declined from 25 per cent in 1970 to the current 15 per cent, mainly due to the more rapid growth of intra-Asian trade. Instead, during the period 1984-1994 the share of total Asia in EU imports has increased from 14 to 26 per cent, and that in EU exports from 11 to 20 per cent. Also EU investment in Asia has been growing rapidly: from 0.6 billion ecus in 1993 to 2.4 billion in 1994, of which only 9 per cent went to Japan, while 43 per cent was destined for Malaysia, Philippines and Thailand.¹ Yet only 3 per cent of Europe's overseas investment is located in South East Asia, while Europe's share of the region's market is no more than 5 per cent.

Europe's interest in strengthening ties with Asia derives also from the felt need to counterbalance its close relationship with America and the links that the latter already has established with Asia, particularly through APEC (Asia-Pacific Economic Co-operation). To facilitate a broader and deeper engagement between the two continents requires some institutional mechanism through which governments can provide the necessary support. Furthermore, Europe seems more determined to establish its own foreign-policy and security goals and to pursue those that it shares with the USA in a different way. Asia is too important to be left completely to its own device and to the care of an USA which seems less willing to get involved in foreign affairs and less inclined to continuing to guarantee Asian security.

The three areas considered relevant to European-Asian relations, namely trade, security and politics, are fraught with contradictions not easily resolved. In the commercial sector if Europe's approach is often different than the USA's, its protectionist measures do not help dispel the fears that the completion of its internal market may amount to building of a 'Fortress Europe'. In the political area tensions exist between commercial interests and lending support to undemocratic governments: clearly concern for human rights are bound to influence arms sales, aid and political asylum decisions [*The Economist*, 02.03.1996: 53]. It is at the interface of economic and security that bilateral relationships are likely to be more influential, such as with the issues relative to weapons and, particularly, dual-use advanced technologies, the trade policies of which fall outside the GATT/WTO framework [*Cable*, 1995: 62]. Whereas Europe has an important interest in East Asia's peace so that the latter continues to provide markets for European exports, investment, and technology, Europe's meagre military presence there justifies reading the acronym ASAM as 'Asian Security, Europeans Missing'. Although European nations have played an active security role through their participation in

the United Nations peacekeeping operations in Cambodia and the UK has been a long time member of the Five Power Defence Arrangements that also involve Australia, New Zealand, Malaysia and Singapore, the closure of French nuclear test site in the South Pacific and Britain's handover of Hong Kong to China [Godement and Segal, 1996] could signify the end of Europe's military presence in Asia.

The first Asia-Europe Meeting (ASEM-I) of 15 EU leaders with 10 of their Asian counterparts - ASEAN (Association of South East Asian nation, namely Thailand, Vietnam, Philippines, Malaysia, Singapore, Indonesia, and Brunei) plus China, Japan and South Korea - took place in Bangkok on March 1996. The ASEM-I has been the first step in creating an institutional linkage between EU and East Asia.

Few months before ASEM-I took place EU's Commissioner L. Brittan emphasises that the meeting signified 'a desire's by East Asia to have an ongoing relationship with Europe of the kind both of us have with the United States' and it was going to deal with political and economic issues, plus mutual co-operation. The meeting was expected to be particularly important for medium-sized companies and 'to generate exports and job for Europe' [IHT, 20.10,1995]. As for the problem of cheap labour the EU's official position is that this problem is not one of unfair trading but a question of human rights, including the right of people to unite in order to discuss their own labour conditions. In both cases, however, Europe has to demonstrate its independence from the USA and the unwillingness to foist Western ideas on reluctant Asians.

Even if slowly, Europe's has, however, started to perceive the benefits of closer economic ties between the two continents, but the costs of the needed adjustment remain quite high. Although the initial work at ASEM-I has concentrate on trade, business, and cultural initiatives, security and foreign policy matter have also began to be considered. For Europe then the task is to develop its own approach, independent from, but co-ordinated with, the USA's in order to avoid to be payed off against it, actually, however, ASEM-I has allowed the 'de facto diplomatic debut' of that 'East Asian Economic Caucus' proposed by Malaysian Prime Minister Mahathir in 1990 and strongly opposed by the USA because it was meant to exclude non-Asian powers. Hence, by putting into motion a mechanism which fosters the development of a common front among the Asian countries, ASEM is becoming instrumental in helping them to eventually playing Europe off against the USA.

Yet it also seems that 'both European and Asians share an interest in an open, rules-based world economy. They have a stake in encouraging entrepreneurial opportunities. Most important, they have an interest in resolving trade disputes through multilateral mechanisms rather than the bilateral arm-twisting that Americans seem to have used in recent disputes with Asians...Europeans and Asians also have an interest in finding ways to make a greater contribution to international institutions, especially at a time when the U.S. commitment - to

the United nation, for example - looks in doubt', and in supporting the cause of nuclear nonproliferation. Yet 'perhaps the most difficult, political issue is how to handle China', particularly how 'to encourage China to cease its mercantilist trade practices' [*Godement et al. 1996*] and accept peaceful settlements of territorial disputes with neighbouring countries and with Taiwan.

Besides bilateral dealings, Asia's contacts with Europe are not restricted to ASEM, but extend to the ASEAN Regional Forum (ARF) - founded in 1994 by 18 members, including ASEAN, China and Japan, but also Russia, USA and EU - even though ARF is mainly concerned with security matters - presently is creating confidence-building measures (CBMs) and over the medium term the ARF should become a mechanism for conflict resolution between all its members - and the idea of Europe belonging to it is not liked much by some member countries. Europe also participates in the Forum's non-governmental adjunct Council for Security Co-operation in the Asia-Pacific (CSCAP) which links a series of semi-private security think-tanks. At any rate the first Co-operation Agreement between EU (then EC) and ASEAN was signed in 1980 and since then high level meetings have regularly taken place between the two groupings.

As for the Asian views of Europe they 'are more likely to combine condescension with indifference', while 'for most young Asian "the West" means America, not Europe' [*The Economist, 02.03.1996*]. The discussion about 'Asian values' has clearly demonstrated that the kind of 'partnership of equals' urged by the European Commission cannot materialise without the Europeans accepting that Asian ways of business, economics, politics and administration would remain different from those in the Union. As the Asians have not asked for changes in European ways - although in the past the first have not hesitated to criticise Europe's inward-looking and protectionist policies - so the Europeans cannot pretend that the Asians adjust theirs.

Also in the field of security the situation is changing, particularly due to the fact that the end of the Cold War and internal financial pressures are casting doubts on whether the USA is still interested and willing to maintain its security commitments to East Asia. As for Europe, it seems unlikely that it will be a significant player in the region, even though some European companies will be very important. Fully preoccupied in industrial and financial terms with its own internal problems and those of Eastern Europe [*Sideri, 1993*], Europe will not be able to master the time and the resources needed to attempt changing its old habit of leaving East Asia's strategic issue to the USA.

3. ASIA'S PROSPECTS

Notwithstanding its enormous success and advantages, the assessment of East Asia's perspectives cannot avoid considering the following factors.

◆ The economic growth in many of the region's countries 'is declining, due partly to a worldwide downturn in the electronic sector'. 'Japan's growth rates have tumbled, and South Korea's are being revised sharply downward.'² Large current account deficits and heavy reliance on short-term foreign debt cause concerns about Mexico-type crises in Indonesia and especially Thailand [Segal, 1996]. Actually, Southeast Asian economies' growth momentum 'cannot be taken for granted' since it 'much depend on the continued growth of exports', thus on their ability in moving out of sectors in which they no longer have a competitive edge and into sectors which allow a rapid penetration of foreign market [Booth, 1995: 28-9]. Furthermore, to maintain its earlier rate of growth East Asia (a) must be able to invest in infrastructure more than \$200 billion a year by the turn of the century; (b) it must address the productivity issue raised by Krugman [1994]. Since South East Asia growth has been 'driven by the accumulation of physical capital and semiskilled labour', huge potentials should be realised by increasing skilled labour [Ligang, 1996: 125-6]; (c) the environment must become a policy priority, if only to avoid that economic growth is inhibited by rising costs in health and general well being; and (d) East Asia must reduce its domestic income inequalities, if it wants to replicate the strong, egalitarian, developmental state which is assumed to explain the fast growth of Northeast Asia. If these countries 'are pulling together because of their economic success' [Chirathivat, 1995: 1] any slow down of growth may undermine the drive to regionalism.

◆ Although trade among APEC countries has increased from 57 per cent in 1980 to 69 per cent in 1992 (and intra-Asian trade is, since 1991, larger than trade with either the EU or the USA), intra-regional trade is no protection against the global economic forces that affect the foreign markets where their exports have to compete. In the fiscal year ending March 1996, Japan exported more to Asia (\$192 billion) than to the USA and the EU combined (\$188 billion), yet if Japan does not decide to open its market to the region's growing manufacturing production³ and does not export its capital surplus to the same, the chances of further integration in East and Southeast Asia would be strongly reduced and the confrontation with China may become unavoidable. Japan's opening is crucial because many APEC countries face fiscal pressure to maintain a trade surplus with the USA to offset their growing trade deficits with Japan - \$43.4 billion in the first 11 months of 1996, the lowest for that part of the year since 1991, out of a total USA trade deficit of \$112 billion [IHT, 18/19.01.1997: 8]. The deficits are closely connected to Japanese foreign direct investment (FDI) in Asia, i.e. they represent the counterpart of the components for assembly and capital equipment shipped by Japanese firms to the new subsidiary plants. By lowering production costs the subsidiaries

are able to keep expanding exports to the USA. In 1994 Asian countries' cumulative trade deficit with Japan was only slightly smaller than their cumulative trade surplus with the USA - \$62.3 and \$66.4 billion, respectively. It is, therefore, only when these countries feel the need to export also to Japan that its trade barriers become relevant to them [*Ortblad, 1996: 5*].

◆ APEC's drive to liberalise trade and investment 'is flagging' and 'supporters of APEC activism including the United States and Australia, are in retreat' [*Segal, 1996*]. Already at the Osaka meeting of November 1995 the Asian countries, with the support of Japan, won a consensus for gradual, voluntary liberalization based on the principle of 'flexibility' against the idea of a common timetable sponsored by the USA.⁴ The discussion extended to the abandonment of the commitment to 'open regionalism' 'in favour of negotiating internal APEC deals, and then using these as a lever against the EU' [*The Economist, 02.03.1996: 15*]. Therefore it seems unlikely that APEC may be instrumental in opening rapidly Asian markets to the USA and The EU.

◆ The emergence of what the Asian Development Bank calls 'growth triangles' and others call 'regional economies', undermines the role and power of national governments. By enhancing the danger of splitting up countries and creating new political regroupings, growth triangles jeopardise the stability of the area and thus its potential for economic growth [*Sideri: 1995 and 1997*].

◆ In terms of security most relevant is the declining military role of the USA - although East Asia is crucial to the USA economy and essential in financing its capital formation, given the paucity of domestic saving which, in its turn, explains USA current account deficits, thus a net transfer of American production and job to the rest of the world⁵ - and the virtual disappearance of Russia from the East Asian scene.⁶ All these uncertainties seems set to explain the military build-up that has resumed in the region, whose share of global arms imports has risen from 15 per cent in the early 1980s to more than 35 per cent in 1996. The build-up is helped by cut rate sales of armaments by Russia and China, but also by some Western powers whose domestic markets have kept shrinking since the end of the Cold War. The increase of Japan's military spending is also due to USA pressure to force it to shoulder a more appropriate portion of the economic burden of maintaining the USA-led military order in the region and compensating the USA's trade deficit through the acquisition of American arms and arm-systems. By tripling its military budgets since 1989, to reach \$32 billion in 1995, China has placed itself in the same range as the UK, France and Germany. As for ASEAN, its military build-up is viewed with satisfaction as increasing 'regional resilience' and gradually moving it in the direction of a 'defence community', bilaterally each country views its neighbours' military enhancement with suspicion [*Weatherbee, 1995: 16*].⁷ At the same time, South East Asian nations are reluctant to have special relations with Japan, not to antagonise a China fearful of being encircled. Hence the need to supplement the USA's

current system of bilateral security pacts - heirs of a bipolar Cold War past - with a new multilateral co-operative arrangement. For building the necessary consensus APEC must initiate a security dialogue, something that most Asian leaders are not sure APEC can really entertain at this early stage of its development [*Ortblad, 1996: 6*]. Even those who believe that the region has a good chance to achieve multilateral co-operation, are also aware that to replace the bipolar strategic situation with one system of security arrangements takes time and requires that in the region there is a balance of power which prevents a hegemon to emerge from within the four or five main players. Since none of the 'great powers' is in a position both to take the lead in this *and* be an acceptable leader to the whole region', the USA 'is vital to the regional balance of power' [*Wanandi, 1996: 118, 121 and 120*].

◆ There are other threats to the region's stability, such as the tensions in the Korean peninsula,⁸ the lack of a Russia-Japanese peace treaty, the opening up of Vietnam, the unresolved situation in Cambodia, Myanmar (Burma)'s military rule, and the general problem of succession, most notably in China, but also in Indonesia and Korea - the latter has very recently furtively re-instated many powers of the internal security agency and limited workers' rights in order, as the move has been defended, to remain globally competitive.

◆ One must then consider the impact on East Asian prosperity, exceedingly well served by free trade (thus the definition 'development amid interdependence'), of the eventual hardening of regional arrangements into feuding trading blocs. Actually the danger of protectionist measures is not only real in Europe, but also in North as well as South America. Looking at the USA, recent market-share calculations indicate that while exports to the Pacific Basin developing countries will account for just over 1 million jobs in 2000, imports from the same countries will cost the USA 2.2 million potential jobs [*Noland, 1990: 169*]. Add to the large trade deficits with Japan and Taiwan, the rapidly growing deficit with China, and the temptation of recurring to protection becomes irresistible.⁹

◆ Another important aspect of Asia's evolution which strongly impinges on both national economic development and regional co-operation is the role of the state. The so-called 'Asian corporatism', or 'neo-authoritarianism', attempts to 'reconcile two apparently contradictory demands in the process of internationalization: internal political control and external economic integration' [*Ling, 1996: 10*] by unbundling the liberal project in order to refuse some of its components such as civil society and democracy and a minimal role for the state. The Asian corporatism is based on Confucian tradition and reflects the developmental experiences of, first, Meiji Japan and later Singapore, South Korea and Taiwan. It also 'signals the rise of an alternative, regional hegemonic order to liberal capitalism', from which, however, Asian corporatism partly stems. Although this may indicate that the spread of liberalism is not merely a one-way process and globalization involves different communities adapting ideas and institutions to their respective needs, a sounder interpretation is that it reveals the authoritarian

underpinning of the whole process and the crucial role of the state, in contradiction with the liberal myth propagated by international institutions [Rodrik, 1994]. For this Asian approach - based on pragmatism and essentially centred on the pursuit of economic goals - 'the Western liberal-democratic state is hardly identifiable...and probably not even recognized as a legitimate goal', hence the recourse to the expressions like 'developmentalism' - which distinguishes it from development the end-state of which instead 'may well be political and economic liberalism' - and the 'developmental state' - which means strong government, the legitimation of which up till recently was largely derived by the USA support - with strong political parties the main task of which is 'to act as the vanguard of the government policies and deeds', rather than represent the views of the public. This means that the 'dominant political parties have been agents of economic development, political power being expressed as the drive for national economic development' [Shibusawa et al., 1992: 53 and 55-6].

Actually, the insistence on 'Asian values', allegedly to avoid that Asia succumbs under too much Western individualism and other Western excesses, in reality serves to qualify the acceptance of democracy and reflects the intention of the elites in power in the various countries to continue running them like a family business. From which it follows that the applicability of the Asian model to other parts of the world results seriously curtailed. Finally, there remains the question of whether or not the differences in the capitalist structures between East Asia, Europe and North America are so profound as to hinder the consolidation of the global economy and instead harden it into regional blocs - what Gilpin [1987: 393] refers to as 'the Japan problem', but involves the Asian newly industrializing countries (NIC). At issue is the resistance caused by Asia's insertion into the world economy: in fact, while higher investment allow the region to obtain 'a rate of productivity and innovation with which European and American producers cannot compete, access to the region's markets 'remain structurally difficult even while their own economies remain open [Hutton, 1995: 306-7], also because these economies tend to be highly regulated, compartmentalized, and segmented. Actually, more than trade barriers the real obstacle is their firms' anticompetitive behaviour, with their exclusive supplier or distributor arrangements (vertical *keiretsu* in Japan) and domination of particular markets. Hence the problem crystallizes around the meaning given to liberalization: given the nature of the Japanese economy, and that of other East Asian countries, liberalization cannot mean 'simply the removal of formal, external trade restrictions, but must go deeper thus challenging 'inherent and crucial features of Japanese culture, social relations, and political structure'.¹⁰ Regardless of the obvious fact that Asia, like Europe, is culturally and socially diverse, Western emphasis on individual values contrasts with the predominance of group values in Asia, due to differences in family organization and strength, which carry forward into economic and business behaviour and values, as exemplified by different approaches to antitrust laws: for the West a kind of morale imperative while for the Asians co-operation between firms is usually considered of real economic benefit. Hence, 'groupings of businesses, or network of businesses, appear to be a special feature of the

business structures of the economies of East Asia... "Therefore, if one would understand Asian business development, one must first understand Asian business networks" [*Abegglen, 1994: 186-7*, citing E. Chen and G.G. Hamilton 'Introduction' in G.G. Hamilton (ed.) (1991), *Business Networks and Economic Development in East and Southeast Asia*, Hong Kong U.P., Hong Kong].

Consequently, unless Japan - like the other Eastern Asian countries - 'becomes a liberal society in the Western sense', Europe and North America will find it increasingly difficult maintaining economic relations with them. But then how easily, if at all, economic systems and political regimes geared to the goal of national development can adapt when such a goal has been achieved and their transformation in the 'Western sense' is required? If alteration of their polity does not guarantee continued economic growth, the more advanced Asian countries appear as 'the prisoners of their own success; for, once developmentalism is accepted as the basis of state survival, it is a race in which one has to continue to participate in order to prosper' [*Shibusawa et al., 1992: 64-5*].

Since China is such an important part of the Asian, and, ultimately, of the global, system, its evolution is bound to shape the region's prospects and to loom large on any speculation about East Asia's future. Now China's faces the following problems.

- 'China's vaunted economic "soft landing" looks increasingly as if it has a hard floor, while growing Chinese trade surpluses with the United States add yet another nasty edge to the Pacific rim's most important, and already much troubled, relationship' [*Segal, 1996*].

- Growing dependence on foreign sources of oil and food. Chinese domestic tensions are enhanced by growing difficulties in continuing to expand agricultural production, as demonstrated by the fact that in 1995 China became the second greatest importer of grains, after Japan, and the largest importer of American wheat and corn. The agricultural deficit is expected to continue to increase rapidly because while the production of cereals per capita is declining the population continues to rise by almost 14 million people per year. Furthermore, rising demand for energy, by both industrial and private sectors, is not being met by adequate supply, and in 1993, earlier than expected, China became a net crude oil importer for the first time since 1965.¹¹

- The emergence of several distinct regional economies, each a major economic entity in its own right, within its political boundaries, make it increasingly difficult to consider China one single market.¹² Since the coastal regions are heavily dedicated to exports - which make up between one-quarter and one-third of the GNP of Fujian and Guangdong - any attempt to extricate these economies from their international involvements would be risking the political consequences of a disastrous drop in income. But not raining them in could also involve for

the central government loosing even more its control over them. Hence, China's future as a unitary nation-state has become questionable.

○ Another question is whether the Communist party's grip on political power can continue based merely on economic growth. Not only increased market freedom conflicts with tight political control - although several Asian countries show that prosperity can buy a good deal of political tolerance and loyalty - but also regional economic success tends to cause centrifugal forces that do not conform to the centralised controls involved in a Communist regime [Abegglen, 1994: 106-7] A predicament made worse by the growing economic inequality between individuals as well as social groups - both ethnic and regional ones - a phenomenon that also contributes to huge migratory flows (estimates ranging from 100 to 120 million).

○ A dangerous division is emerging also between the country's North-East and the South-East. While the first is dominated by heavy industries with higher capital- and technology-intensities and for which the source of foreign involvement is largely South Korea and Japan, in the second cheap land and labour is the focus of low and middle range technologies for the consumer goods sectors, the 'Overseas Chinese' being the main source of capital, technology and management - and for some the main explanation for the high levels of intra-regional trade [Frankel, 1993]. The 'Greater China' that is emerging - i.e. Southern China, Hong Kong, and Taiwan - is closely interwoven with the 'Overseas Chinese' factor, although any claim by Beijing about the 'Overseas Chinese' is bound to strain relations with South East Asia's governments. Meanwhile, the increasing differentiation within the coast region and across the coastal-interior divide - as also recognised by the 9th Five-Year Plan launched in 1996 - constitutes a frontal assault on the pretence of a socialist China.

○ The reaction of the so-called 'Overseas Chinese' (*Huaqiao*) to China's domestic evolution, considering that (a) the 26 million Overseas Chinese, plus Taiwan and Hong Kong, together controlled a GNP that at the beginning of the 1990s was much larger than the whole of China's [The Economist, 1992, 18.07]; and (b) it contributes the largest share of foreign investment pouring into China.¹³ A crisis in China could not fail to affect seriously this inflow, as would any expansionist drive by China could make for a revival of discrimination and reaction against the Overseas Chinese economic power, thus curtailing their involvement and/or changing the direction of the flow. Furthermore, since a good deal of Japanese investment in South East Asia has occurred through joint ventures with local Chinese entrepreneurs, networks and groups, discrimination against the latter will also affect Japanese interests; and, last, but certainly not least

○ The issue of succession, which, as indicated above, is a delicate problem in much of East Asia, but in the case of China carries the extra risk of the country's fragmentation also

because of the growing economic polarization between coastal provinces and those of the interior.

○ Finally there is the issue of whether or not China's economic reforms and market opening policies are reversible. And because such a reversal seems more difficult to envisage for the coastal areas, the danger of the country's fragmentation cannot be set aside too easily.

All considered 'China as a whole is not yet one of the world's major economies - nor it is within reach of becoming one soon' -, even though its regional economies have become 'major players in the world's economy'. Since this success is largely dependent on foreign investment - and foreign technology - any threat to such an involvement is bound to crucially affect the country's economic growth. Meanwhile it must also be clear that 'China's modern economy is an important part, but only a part, of East Asia's powerful position in the world' [Abegglen, 1994: 102-3 and 108].

Therefore, the region's future rests on the following crucial questions:

(i) how smooth will be Hong Kong's reversion to Chinese sovereignty next July? And

(ii) how China's relations with Taiwan, for which the treatment of Hong Kong will set a pattern, are going to evolve? The answers to both questions are going to be strongly determined by China's internal evolution, and crucially by the problem of Deng Xiaoping's succession.

(iii) How is China going to deal with its border disputes with Vietnam, Russia and some of the newly established republic of Central Asia (namely Kazakhstan, Tjikistan, and Kyrgyzstan with which China shares some of its Muslim peoples, particularly the Uighurs and Mongolians), and its claims to the Spratly and Paracel Islands - and there is no USA defence commitment in the region that takes into account conflict in the South China Sea - and to the Kuril Islands which involve Russia and the Senkaku Shoto Islands which involve also Japan?¹⁴

(iv) Is a Chinese-Russian entente possible? Such an eventuality largely depends on the general economic situation and on Russia's domestic developments. What is certain is that Moscow leadership's relations with China will continue to be plagued by 'a troubling discrepancy between obvious geopolitical need and political preferences' [Buszynski, 1992-93: 505], but also by the lack of economic, financial, and technological means to achieve such a need. *The Economist* [27.02 1996: 20] considers the Chinese-Russian agreement more likely in the case moderate nationalism prevails in China and holds that should radical nationalism prevail this would strengthen the probability of war between the two countries. It is instead more plausible

to sustain that war would indeed become inevitable only once China had attained the position of a great power, both economically and military.¹⁵ Before such a time both Chinese nationalisms would be greatly interested in securing Russia's co-cooperation so as to be able to concentrate on resolving the Taiwanese problem and extending China's maritime supremacy, as well as obtaining oil from Siberia. To import Siberian oil, however, requires obtaining the funds for the investment necessary to increase its extraction. This could certainly be supplied by Hong Kong, possibly by Japan and even by Taiwan, assuming that China does not try to impose its control over the latter. Let us not forget that investment amounting to no less than \$25 billion makes Taiwan the largest foreign investor in China. However, the number of promises of investment by Taiwanese companies have halved during the first quarter of 1996, while capital flights and dollar purchases have, in March, reduced official reserves by 8.4 per cent. Furthermore, China's policy towards Taiwan has direct bearing not only on Hong Kong - even after 1997 if China decides to preserve the latter's role of important financial centre - but also on the rest of Asia and could even influence its relationship with Russia. It is true that presently it does not seem very likely that Russia could win the co-operation of Japan and the USA in order to obtain the finance and technology necessary for extracting and exporting the raw materials essential for the development of East Asia. Russian efforts to attract Japanese economic aid and investment has floundered over the territorial issue¹⁶ - the four island groups (Etorofu, Kunashiri, Shikotan and Habomais) seized by the Soviet Union from Japan in 1945 - and the USA's firm intention to allow no unilateral solution of the Taiwan problem. Therefore, if the American show of force around Taiwan during the recent crisis, plus the tensions in Korea and the very Chinese attitude in regional affairs are all contributing to strengthening security links between the USA and Japan (as indicated by the recent visit by the American President to Asia) this cannot but push China to move nearer Russia, 'as a counterweight to what it perceives as the American attempt to impose its hegemony throughout the world' [Yahuda, 1994: 266]. Since Russia perceives NATO enlargement as an attempt by the USA to contain it, for both countries there seems to exist the condition to forge an alliance, at least in the short run.

Moreover, China represents a very good client for the Russian military industry since the former needs those imports to modernize its own military apparatus as part of one of the four modernizations at the core of the reform programme designed by Deng Xiaoping. The Agreements reached during Boris Yeltsin's visit in May 1996 - a non-aggression treaty and agreements relative to the definition of some borders in Central Asia - clearly represent the beginning of the two powers' *rapprochement*. Furthermore, by strengthening its relationship with China, Russia aims not only to increase its bargaining power with the Western world, but also to gain China's co-operation in containing the feared spread of Islamic fundamentalism or Turkic nationalism in Central Asia, i.e. 'for any Russian attempt to manage the destabilizing consequences of the dissolutions of the Soviet Union within Asia' [Buszynski, 1992-93: 507]. As for China, its desire to strengthen the links with Russia is certainly going

to be strongly influenced by Japan's behaviour, i.e. China could lean toward Russia in order to counterbalance excessive Japanese influence in Asia.

It is unlikely, however, that ultimately the historical natural enmity between Russia and China would not reassert itself. Firstly, because many of their borders - notwithstanding the agreements of last May - are still not agreed upon. Secondly, due to Russia's desperate attempts to gain at least partial control over the republics of Central Asia [Starr, 1996] which, given their huge and largely untapped energy resources, cannot but heighten the Chinese interest in them. While 'there is no uncertainty about China's intention, and ability, to play a major role in Central Asia in the foreseeable future', such a growing role cannot but reduce Russia's absolute and relative influence on the region [Munro, 1994: 236].¹⁷ Thirdly, because Russia does not possess the labour to exploit its immense resources to the East of the Urals, including the various sources of energy which China badly and increasingly needs [Elliot, 1996]. The Chinese government has already called for the building of a Pan-Asia Continental Bridge, a system of oil and gas pipelines linking China, Central Asia, Russia, the Middle East, Japan and South Korea, and able to transport over 30 million tons of fuel a year, enough to meet one-fifth of East Asia's total needs - see also Ziaojie Xu [1997: 16].

Looking at East Asia as a whole, it is remarkable that most of its own private investment comes from the region,¹⁸ and that even American companies are failing to maintain position in the economies of East Asia, while USA official assistance has practically vanished. Meanwhile, regional economic integration has been strongly intensified by Japanese investment in manufacturing in Pacific Asia after 1985. The effectiveness of Japanese investment - some \$41 billion through Asia-Pacific during the period 1985-1993 - has been enhanced by being combined with growing aid, and this particularly in the area's two most populous countries: China and Indonesia. Such a policy has allowed Japan to travel a long way towards integrating the region around the needs of the Japanese economy,¹⁹ without formal mechanisms like multilateral trading agreements and without much resistance from the receiving countries. East Asian NICs have rapidly followed suit and their investments have become prominent in the Southeast Asia.

Therefore, the powers that are going to shape the future of the region are essentially Japan, China, and the USA, the relevance of the so-called 'strategic quadrangle'²⁰ much reduced because of Russia's growing internal weakness and political disarray. While 'it is the economic relations between Asia and Japan that are being strengthened, rather than the relations between the United States and Japan' [Fukushima and Kwan, 1995:7], the latter remain essential in shaping the region's future. Japan-USA relationship 'is both the most important and most complex in the world' [Bergsten and Noland, 1993: 1] and currently appears much strained and in need of rethinking. Adjustment to the post-Cold War environment, 'geopolitical relations between the two countries are at a fluid and delicate juncture' [Tong, 1996: 109].

Given the flaws in the USA-Japan defence treaty - i.e. its lack of reciprocity since the USA is pledged to defend Japan, but not vice versa - in the event it must deal with China, Washington cannot be sure of being able to count on Japan's support. Apparently 'the interests of Japan and the United States may now be leading them in different, not to say conflicting, directions' economically as well as strategically' [*Stokes, 1996: 281 and 283*]. The attempt - see the declaration following the meeting of USA's President Clinton with Japan's Prime Minister Ryutaro Hashimoto in April 1996 - to redefine and strengthen their security alliance, and focusing it more on the stability of the whole 'Asia-Pacific region' and not the merely the 'Far East' as previously interpreted, has been viewed in Beijing as intended to contain China.

The USA continuous pressure on Japan, held responsible for the American trade deficit (which reached the \$59 billion mark in 1995 despite the overvalued yen²¹), complicates matters as it tends to limit the degree to which Washington and Tokyo can cooperate, particularly with respect to China, with which the USA has also developed a substantial deficit - amounting to more than \$35 billion²² in 1995 and estimated at about \$50 billion in 1996. If the USA pressure also China on this issue, it risks both to forgo its share of the growing Chinese economy and to become isolated (even more than it already is on the human right issues); if it does not, it must accept Japan's behaviour and, implicitly, its growing independence. If, presently, Japan-Russia relations are not improving, given the strong domestic opposition in both countries [*Lampton, 1995: 99*], a more isolationist USA will force Japan to develop its diplomatic, economic, and cultural linkages with the Asian-Pacific countries, including Russia. At the same time, if Japan succeeds in 'embedding the U.S.-Japan relationship in a regional community, Japan will increase its international manoeuvrability and be better able to constrain American unilateral actions that could harm it' [*Mochizuki, 1995: 148-9*]. The problem rest, however, on the simple consideration that 'Japan is an Asian nation allied strategically and militarily with the United States, but the historical and cultural ties between the two, as well as nation-to-nation mutual trust and understanding, are weak, particularly at the government-to-government level. Whereas a 'Japan's "look East" trend could represent something [rather] menacing for American interests in the Pacific', the American threat to fold up the security umbrella is not too credible for a Japan aware of the relevance of American interests in area [*Tong, 1996: 107-8 and 115*].

So for security reasons the USA might be forced to down play its differences with China and Japan, while it seems clear that a Japanese-American partnership serves better Asia's interests than a confrontation between the two powers,²³ the more likely result of which would be the definitive consolidation of regionalism, hence the acceleration of an open struggle between China and Japan - no longer able 'to lead from behind' - for Asia's leadership.²⁴ The problem is that in so many of the most significant issues, such as military spending, FDI, aid, internationalization of the yen, regional integration, both Americans and Asians, including

Japanese themselves, have trouble agreeing whether they want Japan to do more or less [Frankel and Kahler, 1993: 13]. At even if a yen bloc is not possible in the short run due to the weakness of Tokyo's financial market, there is mounting evidence that USA and Japan face a growing potential for conflict in Asia, a region that represents the battleground for supremacy between the yen and the dollar [Stokes, 1996: 286 and 284-5].²⁵

Although the USA-Japan alliance represents the stabilizing core of the region, many expect the future structure of East Asia 'most likely to be shaped by the interaction of policies formulated in Washington and Beijing', being, however, aware that 'many Chinese...seek positive relations in the short run but privately assume there will be problems in the future'. The long run objective of Beijing - if it will be able to retain the control over the whole of China - is 'to regain China's position of international leadership that is assumed to be the country's inheritance and destiny' and it views the USA as the main obstacle to the realization of such an objective.²⁶ America's relationship with China is therefore inherently unstable and the USA must accept that keeping stable and peaceful relationships with China in the post-Cold War era is proving to be more challenging than maintaining a Cold War partnership. For the time being, and for the foreseeable future, China is an adversary, and not just a giant market. Any military crisis in the region - most likely over North Korean nuclear programme or China's extension of control over contested territories in the East and South China Seas - 'could force the two sides back into confrontation' [Solomon, 1995: 199-205]. Yet this very high risk of confrontation strengthens the need for of security co-operation with China, even more than with Japan which presents no real security risk. Which may explain why in May 1994 the USA administration dropped the linkage between human rights and the 'most favoured nation' clause. Undoubtedly it is the relationship between the USA and Asia, especially China, which will set the stage for global politics in the next century.

4. WHAT ROLE FOR THE EU?

Even if it seems reasonable to expect continuous rapid economic growth for most of the area, and a continued integration of the region in general, the problems and difficulties faced by East Asia are not negligible, considering the short and thin history of regionalism in this area and the tragic effects of the establishment of the Co-Prosperity Sphere in the late 1930s, and also how diverse this area is in terms of language, economic status, forms of government, ethnic composition, and religion. Yet, we are rightly reminded that 'the diversity of Asia is not at all that much greater than the divisions in Europe' and an external threat of a closing world due to bloc formation, 'could go far to cancel out the effects of diversity' which 'may not, after all, be a real barrier to regional organization' [Abegglen, 1994: 246-7]. The latter would be even more relevant to stem the large population movements that would certainly be caused by serious political and social unrest in the major countries of the area, such as China

and Korea. Meanwhile, the passing of time and the end of the Cold War, plus the dramatic expansion of trade and capital flows within the region have all given rise to common purposes, thus the acceptance of more extensive and more formal regional co-operation, even though for some time to come Asia-Pacific evolution will be shaped by the individual national policies of the major actors in the area.

And what about Europe's role in all this? A first problem is that for the EU to place its own relations with Asia on the same plane as those with the USA would require to dissociate itself from the American position, particularly in dealing with China and Japan. In fact, past disagreements between the USA and the EU with respect to the trade policy toward Japan have been recently inflamed by increasingly evident differences in the manner China is dealt with. In both cases the USA accuses the EU of being excessively inclined to accept compromises relative to trade principles and human rights in order to obtain commercial gains. The EU on the other hand holds that the American government uses a confrontational approach in order to pursue policies which appear to be deeply rooted in the country's domestic problems and obsessions which in Japan's case could irresponsibly jeopardise the world trade order and in China's case could sink that country's difficult and painful integration into the world's economic and political system, thus risking Asian stability and its regional interdependence. Yet, as in the USA, in Europe the assumption that a prosperous China is less of a threat than a poor and unsuccessful one is after all not consider so obvious and the danger of that country's, and India's, competition strongly felt [*Cable, 1995: 64*].

The 'single strategic framework' referred to by EU Commission requires that European governments, having created the single market, 'accept the total logic of what they have brought into being' and cease 'preaching liberalisation to the rest of the world, yet failing to practice it' themselves [*Perry, 1994: 160*]. The EU must resist requests for more and better protection against Asia-Pacific exports or intervention on industrial policies by European firms incapable of adapting themselves to single market competition. In the context of ASEM, Asia has asked Europe to open its market in line with the process initiated by APEC for full trade liberalization among the area's industrial countries to be completed by the year 2010, and among those less developed by the year 2020. This leaves Europe with a difficult dilemma: if it does not accept the challenge it risks being cut off from a market that will soon represent half the world market but, if it accepts the challenge it will have to carry out a profound restructuring of the European economy. This is a task that the Community and the member countries' governments do not seem capable of taking on, both because of its socio-economic implications during a period of slow growth and diffused unemployment and because of the contribution that the EU feels it is obliged to make to Eastern Europe's reconstruction. Considering that the main players of the region - China, Japan and Russia - do not trust very much the USA, Europe could hope to obtain a more substantial role in Asia if it would complete the process of unification and invest more forcefully in R&D. Since presently no

one seems certain that Europe will raise to the task, so the best bet is that European role in Asia, as such, will remain limited, except for the relevance that some of its companies or some of its economic sectors may acquire there.

Clearly there is a strong Western interest in supporting Russia against China, although Russian economic renewal must not transform it into a permanent supplier of arms and oil to China. Yet, though Europe needs a stable but not too assertive Russia, it is less interested in China's 'containment', except in the case where a close relationship with Russia might enhance the latter's threat to the stability and development of Europe itself. The announcement in April 1996 of the establishment of a 'strategic partnership' between Beijing and Moscow was clearly aimed at increasing the two countries' leverage in their dealings with Washington. The enlargement of NATO now pursued by the USA administration, particularly if it would extend to Russia but even in case, as it seems more likely, more incentives are offered to Moscow in order to soften its opposition to the expansion, is seen in Beijing as another step in a Western plan to isolate China, hence a threat to its own security. As Europe should refrain from fuelling nationalist feelings in Russia, it should also avoid giving China the impression of being part of any plan directed to its 'containment'.

Europe should not fear China's development both because it has no strategic interests in China, and also because if the new Chinese power should contribute to weakening Japan's commercial and America's economic and military preeminence, Europe's economic penetration into Asia would be facilitated. Indeed, the USA has repeatedly accused Europe of being always ready to give in over principles in order to foster its own commercial interests. The acceleration of industrial relocation in China - taking advantage of lower labour costs and avoiding environmental restrictions - could, however, contribute to worsening unemployment in Europe, thus lowering Europe's interest in that economy.

The ASEM offers another example of the combinations made possible by the 'strategic triangle'. If Europe reacts to avoid the risk of being isolated by too close a collaboration among the Pacific countries - see the veiled proposal that APEC countries negotiate as a bloc, following the European model and discarding the principle of 'open regionalism' - Asia could counterbalance the American presence - in the military arena too - by opening up to Europe's economic interests. By emphasizing commercial opportunities and by insisting less on human rights,²⁷ ASEM represents an alternative vision of the international system and the role assigned to its various agencies, hence an European act of independence from the USA.

Given Europe's growing economic interest in Asia,²⁸ the EU should take its Asian policy more seriously, even though the only area over which it can hope to exercise some weight, and aspire to have some autonomous role, is the commercial one. This implies a greater opening towards Asian products and a further CAP liberalization, yet the signals coming from

Brussels do not indicate that this is exactly the direction taken.²⁹

Aside from the costs of domestic adjustment related to such a policy - during the delicate phase of transforming the EU into a monetary union - it also entails a choice in how to pursue these objectives. This can be done multilaterally, i.e. according to GATT rules; by dismantling the 'pyramid of preferences' that continues to characterize the EU's trade policy; or by adding another layer - either above or below - to the pyramid.

The problem of China's unity brings us back to Asian security. Without military presence in the area, Europe's contribution to this security is to all effect nil. This does not, however, imply that necessarily, and always, Europe must adopt American positions.³⁰ To maintain its autonomy and to strengthen its weight in Asia, the EU must create an effective mechanism for elaborating and executing a foreign policy based on the solid and constant consensus of its member countries. However, it must be underlined again that a foreign policy makes sense solely when accompanied by such a restructuring of the economy that will enable Europe to face the Asian challenge while facilitating the orderly insertion of the Asian continent into the world economy.

The alternative is that the confrontational logic of regional blocs prevails. It is no doubt feasible to organize the future of Europe within an overall system globalized by technology, information, exchange of goods and production factors, but heavily segmented by the presence of regional blocs. Yet, it is not sure whether this task is less difficult than the structural adjustment needed when accepting the Asian challenge of integrating this new 'old power' into the international order.

Notes

1. It is estimated that only Asea Brown Boveri has invested more than \$1.5 billion in Malaysia alone.
2. According to Jon Woronoff [1992: 219] 'growth, Japan's strongest claim to superiority...is a thing of the past' since the country cannot be expected to achieve even 2% for many years to come, while South Korea's rate of growth has declined from 9 per cent in 1995 to an estimated 6.8 per cent in 1996 [*The Economist*, 18.01.1997: 59].
3. According to H. Lee and D. Roland-Host [1994: Table 4.5, 35] more liberal Pacific trading rules, Japanese import demand can create more than 3.5 million new jobs abroad while its exports create only 29,000 jobs at home.
4. At Osaka was also discontinued that Eminent Persons Group which had been a chief vehicle for setting an ambitious trade agenda.
5. While America's current account deficits have accumulated to about \$1 trillion over the past decade, Japan's current account surpluses have accounted for 2/3 of that [*Bergsten and Noland, 1993: 1*].
6. Yet Russia's economic relevance should not to be too easily underrated since the area East of the Urals is rich in natural resources and is a potentially important source of supply for the manufacturing economies of East Asia.
7. In 1991 Asian military expenditure was estimated at \$85 billion - 25% larger than world expenditure excluding the USA and USSR - while in 1995 joint East Asian and Australian expenditure reached \$130 billion. According to data published by SIPRI [1995: Table 14A.1, 510-13] Asia's percentage of annual world imports of arms was on average 28% during the period 1985-89, but increased to 32% in 1990-94, even though in absolute value expenditure reached a maximum of \$13.8 billion in 1989 and then declined to \$7.3 billion in 1994. Having grown most in South East Asian countries, military expenditure has changed from \$3.6 to \$4 billion in Thailand, from \$2 to \$2.4 in Malaysia, from \$3.1 to \$4 billion in Singapore, from \$2.3 to \$2.6 billion in Indonesia between 1994 and 1995, and from \$9.3 to \$11.3 billion in Taiwan between 1991 and 1994 [*IJSS, 1995*]. In 1994 China's defence budget was 'as much as six times higher' than in 1988 as the country has been building a blue-water navy, developing an aircraft carrier and modernizing its nuclear forces [*Möller, 1995: 14*]. During 1996, Asia-Pacific's total military expenditure of has increased from \$88 to \$115 billion. Meanwhile China increasingly talks about its 'power projection', i.e. 'the possession of a high-tech modern army and sea power and air power needed to enable that army to fight outside China's border' [*The Economist, Survey 13.07.1996: 5*]. To underscore the establishment of a 'strategic partnership' with Russia, China has agreed to buy two Sovremenny-class destroyers armed with cruise missiles in a deal worth some \$800 million. This follows several other major purchases of Russian military equipment and technology, including 70 Su-27 fighters and a licence to produce more of the jets in China. Finally, China is expected to purchase this year 50 Su-30 MKs, the most advanced Russian long-range fighters available for exports [*IHT, 20.01.1997*].
8. Both a conflict between the two Koreas and a peaceful reunification would severely strain USA's relations with Japan and China and those between the latter and South Korea. But even a precipitous collapse of the North Korean would cause massive flows of refugees from the North into neighbouring countries which do not seem prepared to handle [*Ogawa, 1997*].
9. In fact, compared to that of other developed countries the Japanese economy shows 'extraordinary low inward-direct-investment ratios and import penetration' which explains why 'it has hardly shared in the internationalization of the world economy over the last decade'. Combined with a highly competitive export sector, Japan's trade surplus was assured. The export of capital, buying USA debt during the 1980s, offset the trade surpluses and checked the upward movement of the yen. Yet, the net capital inflow in the USA contributes to the trade deficit since it pushes up the exchange rate of the dollar and thereby reduces American

competitiveness in world market. As soon as the financial outflow declines, the USA can no longer accept the trade imbalance, even though the rise in the yen reduces the competitiveness of Japanese exports. Similar asymmetric trade relations characterize most of East Asia [Hutton, 1995: 306-7].

10. Imports account for only 3,2% of Japan's overall economy, compared with 8% for the USA [IHT, 1996 1-2.07], a situation by many attributed to Japan's informal trade barriers - such as cartels, industrial targeting, predatory dumping, subsidization and bogus health and safety regulations and other business restrictive business practices aimed at shutting new comers out of Japanese markets - not easily sanctionable by GATT or even the newly established WTO.

11. While domestic consumption is rising, China faces declining oil reserves and flagging output. having become oil net exporter in 1972, China's daily imports of oil presently amount to 600 thousands barrels, which should rise to 2.1 million by the year 2000 and 2.7 million by 2010 [Calder, 1996]. Naturally, to limit imports it will become necessary to use more coal - of which China is already the world's largest producer - with all the possible negative effects on environment and health. However, Drysdale and Huang [1995] have projected that China's share of world energy demand will rise from 8.5% in 1990 to 19% in 2010, with coal's share gradually declining as oil, gas, and electricity consumption grow more rapidly. In the absence of new reserves (the best candidate is the Tarim Basin in the most Western part of China and the South China Sea, which, however, entail an estimated investment of more than \$15 billion) an annual growth rate of 8% would exhaust China's existing proven reserves in 20 years. If its economic growth continues at the current rate, China will become one of the world's largest oil importers after USA and Japan [Salameh, 1995-96: 139 and 141-2]. According to John Ferriter, deputy executive director of the International Energy Agency, East Asia, South Asia and China, in particular, could see energy demand more than double by 2010 as result of economic expansion, urbanization and a rapid rise in use of transportation fuels [IHT, 1996: 10.08]. Already in 1994 about 60% of the region's total oil consumption is imported, three-quarters of which coming from the Gulf region [Fesharaki, 1996: 11] and by the year 2000 oil imports from outside the region could account for two-third of the region's consumption and three-fourths by 2010 [Fesharaki et al., 1995: 3].

12. The South China regional economy - Hong Kong plus the province of Guandong and on occasion the island of Haiman - is the largest in South-East Asia. its population approximates that of germany, its GNP is larger than that of Indonesia and two to three times that of the Philippines and Malaysia, its exports and imports three to four times greater than any other major South-East Asia country. Together with Taiwan and the province of Fujian, it forms Greater South China the population of which rises above 120 million and the GNP to more than \$310 billion [Abegglen, 1994: 84 and 92-3].

13. Of the \$62 billion investment 'implemented' in China during the period 1979-93 79% originated from Hong Kong, Macau, and Taiwan [Fukushima and Kwan, 1995: Table 1.4, 22].

14. In February 1992 China passed a law asserting its sovereignty over the Sprattlys, Paracels and Senkaku Islands. Yet in the course of 1996 China has promised Manila to settle their dispute over the Sprattlys without the use or threat of force, has signed an agreement with India in which both countries pledged not to attack each other across a disputed Himalayan border, and has reached an accord with Russia, Kazakhstan, Kyrgyzstan and Tajikistan to reduce forces along their border. Meanwhile Taiwan does not cease to accuse Beijing of having sold out Outer Mongolia to the USSR.

15. In Russia several people insist that in the mid-long period it is not Japan, but China, which constitutes the country's major enemy [Segal, 1994: 339].

16. One of the main reasons of Russia's refusal so far to consider the Japanese claims is the fear of establishing a dangerous precedent in territorial negotiations with other stats, particularly with China [Buszynski, 1992-93: 492].

17. Outside of the focus on North-South links, Central Asia's future physical links with the outside world could consider East-West links, namely the establishment of a modern railway and highways that would directly connect Central Asia to the huge and growing Chinese market and to Pacific ports: a new Silk Road [Munro,

1994: 235].

18. Between 1988 and 1993 the share of Japanese FDI in manufacturing industries alone going to North America has dwindled from 67% to 37%, while that directed to Asia has increased from 17% to 33%, so that the latter should soon become the largest recipient of manufacturing FDI from Japan [*Fukushima and Kwan, 1995: 3*].

19. According to Makoto Itoh [*1990: 205, 210 and 207*] 'the rapid multinationalisation of Japanese corporations and political aid programmes... contained a tendency to restrengthen Japanese industrial competitive power in association with other Asian countries'. Furthermore, 'while multinationalisation of Japanese capitals, especially in relation to Asian countries, has served to intensify the industrial competitive power of Japanese manufacturing, that of the US capitals, with their more global and universal character, has clearly worked contrariwise, weakening US industrial competitiveness'.

20. The strategic quadrangle encompasses East Asia and Western Pacific, an area where the political and economic interests as well as the military forces of the US, Russia, the People's Republic of China, and Japan all intersect. Yet the four are not at all alike: 'while the United States is a major military power and a formidable international economic power as well, Russia is a military but not an economic presence, Japan is an economic but not a military giant, and China is neither but, with the combination of its size and growth rate, has the potential to achieve great-power status in both arenas sometime in the next century' [*Mandelbaum, 1995: 13*].

21. This undermines the so-called 'traditionalist' view in the Japan debate view that the super-strong yen is eroding Japan's import barriers and *keiretsu* corporate ties. It instead supports the 'revisionist' view that having created a superior or at least fundamentally different model of capitalism, Japan always finds ways around the strong yen. The dollar depreciation has been ineffective as a cure for America's external deficit because the latter reflects America's low level of savings, just as Japan's surplus that country's excess of savings. In fact, the more recent decline in the value of the yen should further improve Japan's position since by all estimates every 1% fall in its value has traditionally increased Japan's global current-account surplus by about \$3 billion [*The Economist, 02.11.1996: 90-3*].

22. Chinese authorities maintain that after eliminating the exports from Hong Kong, which otherwise would represent double counting, the American deficit in 1995 should amount to something around \$10 billion [*Lardy, 1994: 27*].

23. 'The cancer at the core of the U.S. policy then is the view that the United States needs a differential treatment of Japan and a special framework agreement...The notion that U.S.-Japan trade issues are so special that they must be dealt with bilaterally in a framework that permits the United States to impose one-way demands on Japan and to pronounce unilaterally its own verdicts that Japan has "failed to live up to its agreements" must finally be laid to rest' [*Bhagwati, 1994: 12*]. Yet it is also a fact that Japan still hosts less than 1% of the world's total FDI, compared with 30% for the US; Japan's ratio of cumulative nominal investment abroad to foreign investment in Japan is higher than 13 to 1. A Japan-America Free Economic Area (JAFEA) may represent such a framework but it also does away with the American tendency both to order unilateral punishments against Japan and to claim a structural transformation of the Japanese economic system, plus allows long-term considerations and planning. Furthermore, JAFEA would establish a much needed link between the economic and the geopolitical, or security aspects, of the US-Japan alliance [*Tong, 1996: 111 and 122-4*]. It remains to solve, however, how to face China's understandable objections to a development that could be reasonably considered as aimed at its containment.

24. A more assertive China and a more acquiescent USA may leave Japan 'as just "a higher-tech Canada" next to a giant much rougher than America' [*The Economist, Survey, 13.07.1996: 6*].

25. Presently only 36% of Japan's exports and 25% of its imports are yen denominated, the foreign assets of the world's largest creditor are mostly denominated in the currency of the largest debtor, and yen reserves are only about 7 per cent of the global total. Although the Big Bang for the financial system of Japan is planned for 2001, a new financial sector must emerge even earlier with foreign exchange totally liberalized, with tax changes to enable inward and outward capital flows, and with debt security taking the place of bank

intermediation. Then the demand for dollars cannot but decline.

26. Many Chinese, however, doubt that the USA is really interested in Taiwan's independence and not, instead, in simply using the island's issue to punish China for its independence and assertiveness.

27. Significantly, human rights did not appear on the agenda in Bangkok and a recent article by H. Kissinger is titled 'Foreign policy is more than social engineering'.

28. ASEM was preceded, in the Autumn of 1995, by the important conference 'Europe-East Asia' organized by the World Economic Forum in Singapore.

29. The 22nd of February 1996 has seen the beginning of the last anti-dumping investigation concerning around 30 Chinese companies which are accused of having exported non-bleached textiles below prices. Furthermore, the number of anti-dumping procedures undertaken by the EU against China has been increasing in recent years, a similar trend to that seen in the USA.

30. During his visit to China at the beginning of May 1996, the EU's Commissioner Sir Leon Brittan underlined that the policy of co-operation with that country will be pursued 'independently from third countries' positions' [*The Economist*, 11.05.1996: 61].

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