

POLITYKA I GOSPODARKA

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NORTHEAST ASIA TODAY – AN OVERVIEW

Three generalizations apply to Northeast Asia in this era of rapid and pervasive change. First, the region is the most important among the world's diverse sectors, whether the measure be economic, political, or strategic. Despite the attention directed toward the Middle East currently, it is in Northeast Asia that the four major global powers interact most closely, with their domestic and foreign policies having a world-wide impact. China, Japan, and Russia are each a part of the region, and the United States, while not geographically present, is deeply involved in every respect.

Second, while economic conditions vary greatly, it is a region of deeply intertwined assets and needs. Hence, it constitutes a natural economic territory (NET), with ever expanding economic interaction certain in the years ahead. Moreover, it will remain the region containing the world's leading economic powers for the foreseeable future.

Finally, each nation-state within the region must contend with three powerful and semi-conflictual forces, namely, internationalism, nationalism, and communalism. Internationalism is expanding in a variety of ways at an unprecedented pace despite the fact that political, economic and cultural differences preclude the degree of unity currently displayed in Europe. However, nationalism is also on the rise, partly in response to perceived external interference or threat, partly as a substitute for ideology, now in decline, as a means of strengthening citizens' loyalty and allegiance to the state. Meanwhile, communalism or the quest for a meaningful community is manifesting new potency and taking a variety of forms. In this revolutionary age, individuals everywhere are asking „Who am I?“, „What do I believe?“, „How do I find greater personal satisfaction?“ The current strength of reli-

gion, including fundamentalism, in many regions is a manifestation of this quest. Others concentrate on ethnicity or their local community, treating it as an extension of family roots. Communalism can thus extend beyond the nation and also be deeply imbedded within it.

How the nation-state interrelates to these three forces plays a major role in determining its stability and capacity for development. As noted, the economies of Northeast Asia are becoming increasingly interdependent. At the same time, nationalism is a rising force in such societies as China, Japan, and South Korea, and it has always been deeply imbedded in the North Korean polity. Moreover, while Northeast Asia has less evidence of communalism than many other regions, issues of religion, race, and localism are not absent.

Let us now turn to the broad economic characteristics and trends pertaining to the region. Northeast Asia presents an extraordinarily diverse economic scene, ranging from the increasingly innovative to the strongly change-resistance, and from the highly successful to the deeply troubled.

Starting with those societies where rapid development prevails, China looms large. This society has seen more than two decades of accelerating growth, with GDP gaining 9% per year on average according to official statistics. In the first half of 2004, GDP increases were 9.7% despite efforts to slow the torrid pace. Chinese officials voice the hope that growth in 2005 will be about 7.5%. There has been a rising concern, both in China and elsewhere, regarding the danger of overheating. Thus, the government earlier took measures to reduce investment in certain key fields, among them steel, aluminum, cement, and cars. There are now calls for targeting the property sector which has drawn massive investments.

The Chinese economy is still an hybrid one, with the state sector important, but privatization continues to advance, and a market economy has become the central goal. Massive foreign investment is taking place, with extensive technology transfer. By this means, China is rapidly becoming a factory to the world, its advances promoted by a combination of low-cost labor, a growing entrepreneurial elite (both domestic and foreign), and an ever higher quality of production. Materials and parts together with capital are brought into the country, with the finished products exported in large quantity. Internationalism is thus at the heart of the economic order.

Naturally, this worries many of China's neighbors who fear an hollowing out of their manufacturing sector and the loss of foreign investment. Even in the United States, out-sourcing is a volatile issue. Yet there are advantages for others in China's success. It represents a huge market today and one continuing to expand. The necessity for other nations in the region is to engage in major economic reforms, with a premium upon transparency, creativity and competitiveness.

There are strong reasons to believe that China will continue to grow rapidly in the decades ahead, possibly surpassing the United States at some point in total

economic strength. To be sure, certain observers assert that there is a risk of a hard landing as the Chinese seek to curb overly rapid growth. Moreover, there is no absence of economic problems at present, some of them serious.

China's banking-financial system remains fragile. Despite some reduction in non-redeemable loans (NRL), officials have asserted that 23% of the loans in China's big four state banks are „non-performing” at present, and independent economists have put the percentage much higher, up to 40%. The government has undertaken substantial reforms and recapitalization, but there remains much to do with respect to banking-financial reform as well as creating a strong capital markets sector.

A second massive problem is under- and unemployment. China has a rural population of between seven and eight hundred million at present, and tens of millions pour into China's cities each year looking for work. It has been estimated that in the next two decades, some 350 million rural people will come into China's towns and cities seeking employment. Social problems have been rising. Meanwhile, in regions where faltering state-owned enterprises have been closed or downsized, urban unemployment is also a problem. Poor peasants and unemployed workers have begun to air their grievances openly, raising the threat of instability. Indeed, some observers have promoted the thesis of „China collapse” in distinction to the more dominant theme of „China threat”. While this view is probably a gross exaggeration, the growing space between a rising upper class and the massive number of poor as well as the gap between east and west China must be of concern to leaders, now and for the foreseeable future.

It is not surprising that some of China's neighbors, among them citizens of the Russian Far East and Mongolia, worry about migration across national boundaries. The Russian Far East, with its massive territory and its small, recently declining population, now totaling less than seven million, looks at the vast number of people below it with apprehension. Mongolia, having only two and one-half million citizens and a territory twice the size of Texas with certain mineral and energy resources, also worries privately. In some other regions such as Myanmar, significant Chinese migration has taken place, with many of the arrivals being merchants or entrepreneurs. Thus, some are now referring to Mandalay as a Chinese city.

Yet another problem is the rapid aging of Chinese society. By 2050, it is estimated that 24% of the Chinese people will be 65 years of age or older. The pressures on the social security and health care systems will steadily mount, and the burdens will fall increasingly upon younger generations.

Another shadow relates to the massive purchases of dollars to stabilize the Chinese currency. China's money supply is expanding excessively and this constitutes a potential hazard, especially since the excess money is flowing into bank loans, aggravating the non-redeemable loan problem.

Finally, there is the continuing problem of pervasive corruption despite the strenuous efforts of the government to take more resolute action. At every level

of the bureaucracy, corruption is deeply imbedded. In considerable measure, this is testimony to the dominance of privatization in political relations rather than the rule of law.

These problems notwithstanding, however, on balance, China stands today as an economic success story, and one that is destined to play an expanding economic role both in the region and globally. Already, it is the leading trading partner of the ROK and Japan, and it is also the world's largest recipient of foreign direct investments, having replaced the United States in 2003. In addition to its prowess in terms of foreign trade and investment, the Chinese economy has benefited from rising domestic demand, adding greatly to its strength.

Another success story at present is the Republic of Korea. The ROK recovered quickly from the 1997 Asian economic crisis, and in the last five years, it grew at an average rate of 6%. A slump occurred in 2003, however, with growth only 3%, largely due to weaknesses in the corporate and financial sectors, and labor unrest. Most analysts are projecting a 4.5-5% growth in 2004 due primarily to major export increases. The turn toward China is especially noticeable, with exports to that nation totalling 19% of total exports, in comparison with less than 16% for the U.S. and a similar amount for Japan.

Nevertheless, there is no absence of problems and uncertainties. Consumer confidence remains relatively low, and domestic demand has lagged. Moreover, in mid-2004, import growth outpaced exports, due primarily to the high cost of oil. Consumer prices were also rising faster. Some analysts predicted a period of stagflation, namely, a combination of minimal growth accompanied by rising prices. Efforts are underway to spur domestic spending by tax cuts and increased fiscal spending, but broader economic reforms are necessary together with improvements in labor-management relations. Meanwhile, in 2003, foreign direct investment declined for the fourth straight year as China proved to be an increasingly tough competitor and domestic labor unrest created apprehension among foreign investors.

The immediate economic future for the ROK is likely to hinge on a variety of factors: economic trends in its primary markets – China, the U.S. and Japan; improvements in corporate governance and further technological advances; a reduction in labor unrest; and a willingness of the Roh government to undertake important economic reforms. In recent years, South Korea has set the pace for Asia's developing nations despite the dip in 2003. The period immediately ahead will be an important test.

Up to the present, China and South Korea have been largely success stories. In contrast, until recently, Japan, having set the pace for dynamic economic growth in earlier decades, entered a recession in the early 1990s from which it is only now emerging. The most recent signs are generally encouraging, but there are still elements of uncertainty as to whether the recovery can be sustained.

Clear progress on certain fronts has been achieved. Non-redeemable loans which reached a peak of \$2.28 trillion in 1998 have been reduced to less than one-half that amount. Foreign investment in Japanese stocks has greatly increased, export growth continues to move at an accelerating rate, and hopes exist for an end to deflation and advances in domestic demand in the coming year. Government analysts are predicting a GDP growth of 3.5% for the fiscal year ending March, 2005. Yet uncertainties remain. The recent rise of unemployment and the continuing decline of prices and consumer spending have raised questions as to whether Japan's recent positive gains are sustainable. A significant proportion of the Japanese population live in regions far less dynamic economically than Tokyo and Nagoya. Can their consumption be raised? The verdict is still out.

The historic political culture of Japan continues to play a role in the economic challenges. The Japanese system has long rested on crony capitalism, with tight bonds binding politicians, bureaucrats and the industrial as well as the agricultural community together. Thus, basic reforms have repeatedly been thwarted and despite the radical changes taking place in the international economic environment, the old Japanese order continues to evidence strength.

Demographic developments add to the challenges that lie ahead. In a few decades, one-fourth of the Japanese population will be 65 years of age or older. While extending the employment age and bringing more women onto the work force will help, these actions will be scarcely sufficient, even if manufacturing is largely replaced by the service sector and high-tech fields. Will Japanese resistance to immigrants be softened, or will Japan resort to every greater exportation of its industries, hence utilizing a work force abroad? In sum, while Japan has important economic assets, including an highly educated citizenry, a disciplined and skilled labor force, experienced corporate managers, and advances in adapting the latest innovations in science and technology, the need for further adaptations to the age of globalization are essential. In this, to be sure, Japan does not differ from other contemporary societies.

Turning to the Russian Federation, the national economy grew 7.3% in 2003, marking the fourth consecutive year of growth. Employment and income showed gains, and domestic consumption continued to rise, especially in the large cities. Forecasts for 2004 and 2005 remain in the 6.5–7.5% range. Foreign direct investment, however, remains low, testimony to the uncertainties regarding the Russian scene. The banking sector remains fragile despite reforms and a capacity to weather a recent storm. Moreover, the advance of marketization and improvements in corporate governance have not eliminated the desire for stronger state control in some quarters.

The economic situation in Russia, moreover, varies considerably, depending on the region. The Russian Far East represents an economy undergoing difficulties. Historically, this region produced for the Center and was in turn subsidized

by the Center, as was true of most other regions. At present, that system has ended. Moreover, military production, one of the region's major sources of revenue, has been greatly reduced. Hence, hope lies in the development of the extensive natural resources that exist in the area—timber, minerals, and above all, gas and oil. Plans for pipelines from Siberia and Sakhalin are already being set forth, with the destinations likely to be Japan, China, and the two Koreas. In this manner, the Russian Far East will become a prominent part of the Northeast Asian NET. As noted earlier, however, the Russian Far East, while needing an expanded work force as its economy grows, will view the prospects of Chinese immigration warily.

Meanwhile, Mongolia, with its small population and large area, has found the road from Soviet tutelage to a new economic and political order difficult. Some 40% of the population are still nomadic, and have seen few changes in occupation or life style. However, the economy has been growing at a rate of over 5% a year in the recent past.

The major new development is the growing economic ties with China. Trade and investment are rapidly advancing, with the Chinese anxious to take advantage of Mongolia's resources – coal, lead, gold, and copper. The Chinese are also increasingly dominant in the textile, leather, and cashmere industries. The Mongolian-Chinese economic surge plays the major role in accounting for Mongolia's 5.5% GDP increase in 2003. At the same time, the Mongolian government is anxious to expand its relations with others, especially the U.S., Japan and South Korea. As noted earlier, dominance by one power, especially one with an history of empire, is worrisome.

The one state of Northeast Asia that must be accounted an economic failure today is the Democratic People's Republic of Korea (DPRK). In the years after 1995, the North Korean economic situation steadily worsened due to a combination of the lessening of international aid, adverse weather conditions, and other factors. It has been estimated that famine and disease caused by malnutrition may have caused up to two million deaths, although the DPRK government cites a much smaller number. Due to energy shortages, many factories have been closed and others are operating at a small percentage of capacity.

Finally realizing the gravity of the situation, DPRK officials undertook changes in the old economic order beginning in mid-2002. Cash began to play a key role in the economy, with the old system of exchanging coupons for subsidized food abolished. In an effort to accord with the black market, food and other commodity prices were raised as much as thirty fold and wages were also raised by an equivalent amount. Moreover, workers were to be paid in accordance with their productivity, and reportedly, most industrial subsidies were to be halted. Private farmer markets were encouraged along with other measures to increase agricultural productivity.

The results of these reforms have been mixed, but in conjunction with substantial foreign aid, the North Korean economy has improved modestly in recent years,

South Korean bank sources state that in 2001, GDP grew 3.7%, in 2002, 1.2%, and in 2003, 1.8%. Figures on inflation vary greatly, but it is unquestionably a problem given the slight increases in production, and the DPRK must still count on food and energy assistance from a number of nations, with China the leading donor.

The most promising prospects in the near term would appear to be the developments in North-South relations. The Kaesong economic zone on the border is scheduled to get underway shortly, and a large number of small and medium South Korean companies plan to undertake production there, utilizing cheap North Korean labor. Rail and road lines are being reconnected across the DMZ, and tourism to the North has been expanding. To reduce tension, propaganda broadcasts across the DMZ have been terminated and discussions with respect to preventing incidents at sea have been underway.

North Korea still has a tremendous distance to go before its economy will be viable. Among the many challenges, the desire of the top elite to conduct economic reforms without any changes in the political system is probably the most serious. It is clear that the DPRK wants to expand relations with a variety of nations, including Japan and the United States, thereby giving it access to international economic agencies as well as additional sources of foreign investment. Yet the nuclear weapon issue must be resolved before this prospect materializes, and progress on this front is painfully slow at present. Thus, predictions concerning both domestic developments in the DPRK and its foreign relations are extremely hazardous.

It remains to signal the importance of the United States to the Northeast Asian economies. The United States has represented a leading external economic resource for the region in terms of both trade and investment. Thus, the earlier slow down of the American economy created apprehension throughout East Asia. As of mid-2004, prognoses regarding the future varied, but most analysts saw a GDP growth of 3.5–4% in the immediate future. Heightened oil prices dampened consumer purchases, but inflation was relatively modest, and while the trade deficit continued to grow, trade expansion remained in effect. If the U.S. economy continues to progress, it will be of signal benefit to nations like China, Japan, and South Korea.

In any case, Northeast Asia seems certain to engage in increased economic regionalism, both within its own borders and with respect to Asia-Pacific as a whole. The age of the protected, domestic-focused economic order is over. National boundaries are less and less meaningful in economic terms. While this presents many complex problems, it also offers the states and citizens of the region new opportunities for further, faster development.

At the same time, much depends upon the domestic and international political situation as it affects stability, priorities, and the capacity to initiate the changes necessary to adjust to a revolutionary era. Let us therefore explore the political scene in Northeast Asia, commencing with China.

In recent years, China has been undergoing a major political transition from hard authoritarianism of the Stalin-Maoist type to authoritarian pluralism, as initiated by Deng Xiaoping. Politics remains authoritarian, with the Communist Party dominant, freedoms restricted, albeit, far more extensive than in earlier times, and the rule of law partial. Yet a civil society apart from the state is emerging, and increasingly, various groups are publicly proclaiming their interests. Village elections have been initiated, and while these are often controlled by the CCP, they provide opportunities for some expression of local interests and a choice of local leaders. Intellectuals, including students, voice their opinions on issues far more freely than in the past, although those who cross a party defined red line may be in trouble. Bodies like the National People's Congress, moreover, now discuss and debate certain issues. It is also significant that Jiang Zemin earlier proclaimed that the Communist Party should have entrepreneurial and intellectual members as well as those from the working class. It is thus intended to be a party of the nation, not just the „proletariat“.

Meanwhile, a fourth generation leadership is now emerging. Like the third generation, it is composed primarily of technocrats, individuals trained as engineers or scientists. Their priority is thus on economic development, making China „rich and strong.“ Ideology, while recited on formal occasions, has become less important. In the „socialist market economy,“ the market and private sector are playing an increasingly powerful role, political as well as economic.

In sum, the entrepreneur or capitalist has become a part of the contemporary elite. If ideology has declined as a means of securing allegiance and defining legitimacy, nationalism has been rising, with these needs in mind. However, if the current political leaders want to use nationalism, they also want to restrain its more militant forms in the name of peaceful coexistence on the international front.

As new leaders begin to fill the top party and governmental positions, two important challenges confront them. First, how well will collective leadership function? One-man dominance of Chinese politics has ended. Now, functions and responsibilities must be shared, and a consensus on basic policies must be achieved. Further, since none of the fourth generation leaders appears to have charisma, performance will determine public acceptance. Thus, the tasks of leadership are in many respects more complex than in the Maoist era. Recently, for example, rumors have circulated that a behind the scenes struggle for influence and power is underway between President Hu Jintao and Jiang Zemin, his predecessor and currently head of the Military Commission. Whether true or not, this type of development would not be unlikely in China's current political setting.

A second challenge lies in the need to allocate power and responsibility among center, region, province and locality. After several decades of rapid development, certain key regions like Shanghai and environs have acquired substantial econom-

ic and political clout. China now needs an institutionalized federal system, subject to periodic review and revision.

Finally, the loyalty of the Chinese people to the party and state cannot be taken for granted. Increasingly, especially among younger generations, interest in politics is overshadowed by the desire to have a good job and make money. While nationalism is strong, especially among youth, commitments to leaders and political organizations are tentative, dependent upon conditions. Thus, the years ahead may bring periods of unrest or tension. Cognizant of that fact, China's political elite will not opt for full democracy. Even a sizeable portion of the intellectuals have doubts that China could handle complete political freedom and openness, at least at this stage of its development. Therefore, China is very likely to remain an authoritarian pluralist polity in coming decades.

Japan presents a striking contrast. Under American tutelage, Japan acquired democratic institutions shortly after the end of World War II, and these remain unchanged more than half a century later. Structurally, Japanese democracy meets the requirements of an open society: full political choice for the citizenry; the freedoms necessary to make that choice meaningful; and the rule of law.

The problems besetting Japanese politics in recent times have been in most cases culturally derived. Japan is a largely homogeneous society, wedded to the principle of consensus, built on the basis of familial type groups, with a premium upon hierarchy, reciprocal favors, and privacy. Despite rapid economic development and increasing conversance with the world, the Japanese people remain essentially conservative in their political thought and behavior. Perhaps this is now changing. Increasingly, Japanese voters have looked for a new type of individual, one more independent and capable of taking initiatives without going through the intricate processes of the past. Koizumi Junichiro has appealed to many voters because he appears to have those qualities. Yet up to date, Koizumi has had great difficulty in carrying out reforms pledged, with the system appearing to overwhelm the man.

In a broader sense, there is a growing disillusionment among Japanese regarding all politicians and parties. For many years, Japan had a one and one-half party system, with one party – the Liberal Democratic Party – always in power singly or in coalition, and all other parties perpetually in the opposition. In the recent past, however, the Democratic Party of Japan has emerged as a competitor, and issue based politics at the national level has emerged. It is still too early to determine whether Japan will move to a genuine two party system, but this is a clear possibility.

Meanwhile, nationalism is the one feature of Japanese politics that has shown ascendance. Domestically, visits by the Prime Minister to Yasukuni Shrine and revised textbooks along with statements by individuals like Tokyo Mayor Ishihara betoken a desire for a stronger identity. Certain figures have called for Japan to become a „normal state,” with full sovereignty on such matters as security policies. Thus, revision of Article 9 of the Japanese constitution enabling a broadening of

security options seems likely, and the call is also for the U.S.-Japan relationship to be changed from that of patron-client to that of partner. In addition, permanent membership in the UN Security Council has been urged. Recently, moreover, Koizumi, often appealing to nationalist sentiments, viewed the disputed Northern Territories (South Kuriles) from a patrol boat, making clear his championship of Japan's claim, at some risk to Japan's relations with Russia.

Nevertheless, it seems unlikely that Japanese nationalism will revert to its pre-1945 character. That could happen only if a combination of two factors came into being: a greatly increased perception of threat from abroad and the loss of American credibility as an ally. Such a combination is highly improbable.

Japan's principal political challenge at present is that of immobilism, with the political system unable to respond promptly to urgent needs, hence promoting increasing public disillusionment. If a genuine two party system emerges, this challenge might be met. In any case, Japanese democracy, whatever its blemishes, seems likely to survive. Changes in Japanese culture, most apparent in the younger generations, generally support the current political order.

The Russian Federation is another society currently experimenting with democracy after many decades of hard authoritarianism. It has been a rocky road. In recent times, the Russian electorate has seemed more interested in strong leadership than in institutions. Up to date, Vladimir Putin has maintained a high rating despite a variety of problems, primarily because he has been seen as a strong leader prepared to take resolute action on various fronts. Recently, however, the deepening of terrorist attacks by Chechen separatists has posed a new challenge to Putin. Yet his authority remains strong, and in the past, he has demonstrated a capacity to curb certain provincial governors when they appear to threaten national policies. According to one observer, Russia's big capitalist moguls have shifted their attention from national politics, as was characteristic of the Yeltsin era, to provincial politics, seeking to curry favor with provincial governors and other local officials. Thus, the Russian Far East among other regions has been party to cronyism and corruption, with economic tycoons backing diverse candidates in krai and local elections. In sum, Russia – both as a whole and in its various parts – is still in the process of leaving socialism and entering a new, as yet ill-defined political system.

Mongolia in mid-2004 reduced the ruling Mongolian People's Revolutionary Party numbers in the 76-seat parliament from 72 to 36 seats. In a noisy, emotionally tense campaign, the opposition, the Motherland Democratic Coalition, won 34 seats. Bribery and corruption were charged by both sides, but the former Communists – now pursuing a center-left program – remain in power. The key campaign issues were unemployment, corruption and child care, but the policy differences between the competing parties were not great. There is no evidence, moreover, that a return to authoritarianism is likely. After fourteen years, the Mongolian electorate seem committed to the new political order.

Turning to the Korean peninsula, politics in the two Koreas, as in the case of their economies, could not be more diverse. In the ROK, democracy emerged from an earlier authoritarianism under which Korean economic development flourished. Currently, political openness is strong despite the bitterness that pervades the political scene and continuing questions about leadership. The effort of the conservatives led by the Grand National Party to impeach President Roh Moo-hyun in the spring of 2004 was opposed by some three-fourths of the electorate according to the polls. While Roh was forced temporarily to step down, his Uri party won a resounding victory in the National Assembly elections a month later, in April, obtaining 152 of the 299 Assembly seats. The Grand National Party won 121 seats, down from 137 seats earlier, and Roh was returned to office.

South Korean politics remain volatile despite the fact that the President now has a majority in the Assembly. Roh, having spent a lifetime in the opposition, has found constructive leadership a challenge. His latest effort, to move the national capitol from Seoul, whatever its merits, has evoked heated debate. Meanwhile, the effort to improve North-South relations via a policy labelled „Peace and Prosperity,” as noted, has made progress but repeatedly runs into difficulties as illustrated by the North’s recent cancellation of economic talks following the arrival of over 400 North Korean refugees in the ROK via China and Vietnam.

In the DPRK, politics has remained fixed, at least on the surface. The North is a very traditional society, having practiced isolation until recently in the fashion of the „Hermit Kingdom,” and with an absolute monarchy, unchallengeable, and closely aligned with the military. The „military first” policy proclaimed by Kim Jong-il defines the political elite.

Although defections have shown modest increases at the level of the ordinary citizen, almost wholly due to economic conditions, there have been no high level defections in the recent past. It would seem likely that in the midst of efforts to undertake economic changes, differences of opinion on tactics and strategy might well exist, but if that is true, they have been carefully concealed. The thesis of an imminent collapse of the North, widely held in the past, lacks evidence to support it. However, if the economic reforms progress, the political scene will ultimately become more complex. Were Kim Jong-il to disappear from the scene at this point, moreover, instability might well ensue, with the possibility of a military regime strong. At this point, however, no sign of significant political change exists.

Thus, Northeast Asia runs the gamut from modern style democracy to hard authoritarianism with important intermediate systems, and with cultural influences prominent in every case.

It remains to examine the foreign policies of the Northeast Asian states, including their relations with each other as well as with the world at large. At the outset, several generalizations would seem in order. First, notwithstanding the uncertainties surrounding the Korean peninsula, and on the periphery of the region, those

pertaining to Taiwan, relations within Northeast Asia are currently more promising than at any time in history. Whether this will continue, however, depends heavily upon China's future progress and policies.

Second, as has been emphasized, economics now plays the critical role in fostering interdependence, and in this age of globalization, there is every reason to believe that this will continue. Economic relations are not without their problems and challenges, as has been stressed. Current trends contain features that cause a major worry for many states. However, there is no alternative to ever greater dependence upon economic integration. As noted, Northeast Asia is destined to become a natural economic territory.

Third, the principal political obstacles to closer bilateral and multilateral relations within the region exist not in the ideological realm, but in the combination of past history and current nationalism. Memories of old empires are kept alive by a continuous stream of reminders, in print and through oral pronouncements.

Finally, the United States as the world's sole superpower at present, plays a critical role in influencing relations within Northeast Asia as well as relations on the global stage. If a broad strategic balance in the region is to be maintained, the United States must continue to play a key role.

In elucidating these points, let us turn first to China. As suggested earlier, given China's transitional nature at present, domestic issues are paramount, and PRC foreign policy is largely shaped by that fact. China needs regional stability and a relationship with others that supports economic interaction. Moreover, if China is to achieve some balance with American strategic power, it must be achieved through relations with other states, especially Asian states, that are positive. Good relations with neighbors constitute a *de facto* buffer state system to balance perceived American encirclement. Thus, efforts have been made to build a „strategic partnership” with Russia, to create an effective two-Koreas policy, to evidence acceptance of an independent Mongolia, and even to improve relations with Japan.

The principal problem in effecting affirmative policies with neighbors and others lies in the resurgence of Chinese nationalism. Thus, the recent controversy over the historic kingdom of Kokuryo with South Korea has damaged China's standing in the ROK just as Sino-South Korean relations had reached a high tide of support. Its long standing grievances against Japan for actions in the first half of the 20th Century remain very much alive, as periodic statements by officials and the attention given Japan's imperialist past by the media make clear. Further, the tough line presently taken with respect to Taiwan privately worries other East Asians who do not want to see a conflict ensue. There are also many territorial controversies unresolved with Southeast Asian states, mostly involving islands in the South China Sea.

As China emerges as the foremost power in East Asia economically and militarily, will it continue to abide by the Five Principles of Peaceful Coexistence as

it so frequently avers? Can nationalism be kept in check, and a return to the Middle Kingdom complex be avoided? This concern is present not only in Northeast Asia but in South and Southeast Asia as well, and motivates many nations to hope that even as they pursue a policy of positive engagement with China, a balance of power in the region can be maintained, with the U.S. playing a key role.

Meanwhile, Japanese foreign policy today rests upon several key principles. First, Japan wants to maintain close security relations with the United States while expanding both its strategic commitments and its independent policies, as noted earlier. Second, Japan is committed to a policy of seeking a positive relationship with China while recognizing that in both the economic and security realms, this massive nation represents a combination of opportunity and challenge. Economic interaction will continue to have a profound effect upon the Japanese economy. Cooperation on a wide range of issues from those of human security to those relating to the Korean peninsula will be promoted. Yet Japan will watch developments in China closely, and maintain its security ties with the U.S.

In coming years, Japan will interact more closely with the Russian Far East, with gas and oil being the key factors. Hence, logically, relations with the Russian Federation should move toward full normalization with a treaty formally ending World War II adopted. However, as Prime Minister Koizumi's recent surveillance by ship of the South Kuriles graphically illustrated, nationalism – on both sides – makes a resolution of the territorial issue, hence, full normalization, difficult. Will President Putin's projected visit to Japan early in 2005 assist in finding a satisfactory answer?

Japan wants to move toward an expanded relationship with the two Koreas, but with respect to the North, this depends greatly upon DPRK attitudes and policies. Koizumi has already indicated that Japan could move toward diplomatic recognition of the DPRK in one or two years if the nuclear weapons issue can be resolved. Significant economic assistance would also be likely to follow. In any case, however, Japan's relations with the ROK will remain paramount. At the same time, with both Koreas, Japan's imperial past continues to present an emotional barrier.

While Japan will continue to seek an elevation of its international status, as noted earlier, its influence and prestige are likely to hinge upon its economic strength. The age of an imperial Japan is over. Now Japan must demonstrate its capacity to keep in the forefront of technology, and evidence an ability to change rapidly in accordance with international dictates.

The Russian Federation is likely to continue its efforts to balance relations with West and East as it strives to return to its former status as a foremost global power. For both economic and strategic reasons, relations with the EU and the United States are crucial, as well as those with the Middle East. Yet it will also promote the growing economic relations between Siberia and Northeast Asia, seeking to become an important part of its NET. China, moreover, will have increasing eco-

conomic significance for the entire Russian Federation, but especially the Russian Far East. Russia will also cooperate with Central and Northeast Asian nations in fighting terrorism as exemplified by the Shanghai Cooperation Organization. It should be noted that the term „terrorism” as defined by both Russia and China includes separatists of various types.

While Russia remains a formidable military power given its nuclear arsenal and a large stock of other military equipment, there is no current indication that it is considered a military threat by its eastern neighbors. Its present emphasis is not upon using military threat, Chechnya excepted. It is also recognized that the Russian military force has suffered greatly from economic conditions with low morale and a stockpile of antiquated weapons. Over time, this situation may change, but Russia’s top priority at present is to handle its economic problems, and that includes seeking an expanded economic relationship with Northeast Asia.

Obstacles in Russian relations with the region will require attention. As noted, full normalization of relations with Japan continues to be hampered by the South Kuriles issue. Russia-China relations will remain far from those of alliance despite past rhetoric. The concerns about Chinese immigration will not disappear, as noted earlier, and greater economic interaction, while on balance positive, poses additional problems for Russia. Relations with the United States will also have their complications, as Moscow’s concerns about new U.S. weaponry and strategy illustrate. Yet Russia’s importance to and activity in Northeast Asia will grow, with the condition of the Russian economy playing a key role in its timing and extent.

As has been noted, the United States also plays a crucial role in Northeast Asia. Hence, its economic condition and its basic policies are of major importance. If the United States is to contribute effectively to regional peace and development, it must continue to open its economy while insisting that all nations abide by the rules of the WTO, and it must abandon unilateralism as well as improving its public diplomacy. It must also move from patron to partner in working with allies, and rest its Asian foreign policies on two fundamentals: a concert of powers and a balance of power. It should encourage various types of coalitions focused on a given problem or problems while at the same time, maintaining its alliances and special relationships to ensure a balance in the region.

The small and medium states of Northeast Asia currently have an importance with respect to regional relations far beyond their size. Mongolia understandably seeks a balanced, positive relation with Beijing and Moscow while also equalizing its relations with the two Koreas and hoping for expanded relations with Japan and the United States. In interacting with major powers, there is safety in numbers.

For the Korean peninsula, three broad alternatives in protecting the society and its people have existed throughout history: maximum isolation; efforts to achieve a positive, balanced relationship with big neighbors; and alignment with a distant, non-threatening nation as protection against closer giants.

North Korea is in the process of abandoning isolation, recognizing that this policy cannot be sustained in an era of globalization and is threatening the very existence of the society. It is seeking to pursue the second alternative, yet this is proving to be a rocky road, as recent events have shown. Since the DPRK has only one bargaining chip at present, namely, threat, progress in negotiations is difficult, with retreats and long delays frequent. Thus, the North is far from achieving its goal at present, and in the meantime, it has no trustworthy allies.

Under Presidents Kim Dae-jung and Roh Moo-hyun, the ROK has sought to combine options two and three with considerable success. South Korea at present has stronger relations with China, Russia and Japan than any time in the past. Yet it has not abandoned its close security ties with the United States. South Korea-U.S. relations are troubled in a variety of ways – by differences in handling the North Korean issue, by the growth of anti-Americanism, especially among the younger South Korean generations, and by recent shifts in American security strategy. Moreover, the revelation that the South had a secret program of uranium enrichment, even if directed toward energy creation and supposedly without governmental approval, is likely to provide an additional complexity to the DPRK nuclear issue. Nevertheless, leaders on both sides, realize the importance of keeping the U.S.-ROK relationship positive in this troubled, uncertain period.

On balance, conditions in Northeast Asia today – domestic and regional – are conducive to cautious optimism. There is no absence of problems and threats as has been indicated. China's future domestic course remains unclear. Can a prolonged economic overheating or conversely, a crash landing be avoided? Is the current authoritarian pluralism sustainable politically? And will China's foreign policy continue to pursue the Five Principles of Peaceful Coexistence, or be marked by nationalist excesses?

Hope lies in the fact that pragmatists are in power, and domestic problems are receiving primary attention.

For Japan, a crucial question is whether the recent economic recovery is sustainable, and connected with this question, whether Japan's leaders can successfully carry out the basic reforms necessary in the economic realm if this nation is to adjust successfully to age of globalization. If East Asia is to be balanced and stable, Japan must play an important role, economically and politically. Japanese democracy appears stable and closer to providing the Japanese people with meaningful political alternatives than at any time in the past. Most analysts are also hopeful that economic recovery is maturing, but the key tests lie ahead.

Meanwhile, relations between North and South Korea, and between North Korea and the international community remain of crucial importance. No outside state should want a collapsed North, a nuclear North, or another Korean war. The costs for the South and for others would be prodigious. The recent disclosure that certain ROK scientists had experimented with enriching small amounts of uranium has

stunned others and as noted, raises questions about its impact of the nuclear negotiations with the North. Only time will determine its significance. In any case, it is essential that a resolution to the DPRK nuclear issue be reached which combines full verification with adequate security assurances and appropriate economic-political responses from the United States and others. The road may be long and difficult but there is no other logical path to follow.

In summary, the broad trends in Northeast Asia are hopeful despite the many hazards and uncertainties that exist. A majority of the states in this region are engaged in domestic growth and progressive economic interaction. State dominance is giving way to a market economy based upon privatization. Transparency, innovation, and competitiveness are being encouraged in greater measure by most states of the region.

In the political sphere, the basic trend is one from authoritarianism in its various forms toward greater political openness. As noted, some states will retain authoritarian features for the foreseeable future, and democracy in Northeast Asia will have to adjust to the continuing power of traditional cultures. However, the capacity of the citizenry to have a voice in determining leaders and policies is expanding, albeit, with some question as to how that voice will be used.

Finally, regional relations are more harmonious than at any time in the post-1945 period. Again, one must not ignore the existing difficulties and hazards. Territorial disputes and divided states remain. Advances in weapons, including those of mass destruction, are taking place. And nationalism shows signs of resurgence. Moreover, globalization presents its own economic problems for contemporary nation-states, demanding adjustments that are both rapid and far-reaching.

Yet these various factors make war, especially war between major nations unwinnable. „Victor” as well as defeated will suffer huge losses in every respect. Political leaders are gradually accepting that fact. Thus, the primary threats to regional and international stability today are four-fold: terrorism, now seemingly at its peak, but less prevalent in Northeast Asia than in many other regions; faltering or failing states spewing their debris over surrounding areas or subjecting their people to untold misery (North Korea being a prime example in this region); the problems of human security – resource needs, especially water and energy, the aging of societies, and pollution being among the most serious; and the revolution in military affairs (RMA) involving changes in weaponry and security strategy affecting attitudes and policies throughout the region and the globe. These are the key security concerns of today and the future. Unilateralism must give way to a combination of multilateralism and bilateralism. Official and non-official dialogues must be employed to resolve or contain the major security issues that loom ahead. It is time for a multiplicity of approaches and a broadening of our concerns as they relate to security and development. Only then will we come abreast of this revolutionary age.