Chapter 45

Asian Economies: The Dynamics of Progress

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By many measures, recent trends in the economically and strategically important East Asian region[1] typify the mixed benefits and challenges of the globalization phenomenon for U.S. national security interests. On the surface, rapid industrialization and the spread of democratic norms and values in Northeast and Southeast Asia have underpinned comparative peace and stability. With the exception of North Korea, Vietnam, Laos, Cambodia, and Burma, East Asian nations have emerged as major players in the global economy. They also have developed extensive informal mechanisms for regional confidence building and tempering, if not resolving, territorial and other disputes, and for participating in institutions of global dialogue and governance. At the same time, the end of the Cold War and the acceleration of economic globalization have had a number of destabilizing effects in East Asia. The regional balance of power has been upset by disparate rates of economic development; the growing competition for control of natural resources, especially fisheries and undersea mineral resources; and the wider dispersal of high technology with potential military applications. As evidenced by the Asian financial crisis of 1997–1998, some of the previously high-performing Asian economies are not prepared for the full impact of unrestricted international capital flows. Within individual countries, globalization has exacerbated urban-rural and other income disparities and unleashed destabilizing social and political forces. Sometimes these forces have taken an anti-American turn because of the identification of the United States as the organizing center and leading proponent of globalization.

On balance, globalization has provided important benefits to the American economy and standard of living, and there is nothing inherent in the phenomenon that needs to be regarded as a threat to U.S. security interests. Nonetheless, globalization already has created significant changes in the Asian security environment and may bring about even more dramatic changes in the future. Appropriate responses to the potential challenges and opportunities of globalization cannot be crafted without a clear understanding of the dynamic interaction of economic, political, and security impacts of the phenomenon.

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This chapter summarizes the character and progress of globalization in East Asia, examines the interplay of economic change on regional stability and power relationships, and highlights potential regional trouble spots and other challenges to U.S. national and maritime security interests. The analysis is framed within the context of three broad future scenarios. A concluding section identifies a range of U.S. responses for reinforcing the positive aspects of globalization and countering the negative aspects, thereby promoting the most desirable of the future scenarios.

Globalization in East Asia: Three Scenarios

The ultimate implications for U.S. national security interests of globalization in East Asia are scenario-dependent. The future shape of the regional environment is likely to involve a mix of tendencies, but the scenarios outlined below serve as a useful means of conceptualizing the future challenges to U.S. security interests.

Scenario 1: Pan-Pacific Economic and Security Cooperation

One scenario, the most optimistic and visionary of the three, would feature an ever-deepening regional economic integration and the emergence of a pan-Pacific, if not a global, system of open markets, democratization, and security cooperation. Under this scenario, expanding regional and transpacific economic integration will dampen power rivalries and facilitate the peaceful resolution of territorial and other disputes via expanding-sum solutions. The post-World War II order commonly referred to as Pax Americana will be superseded by a peaceful, multilateral, and cooperative Asia-Pacific region, in which the United States will continue to play a leading, but not dominant, role. U.S. naval and other military forces will still make an important contribution to stability, in concert with traditional allies and under the framework of expanded regional security cooperation and confidence building, but U.S. bases in Japan and South Korea will appear increasingly anachronistic. As required by circumstances, or even proactively negotiated with allies and regional security partners, the U.S. forward military deployments will move toward a "places, not bases" mode.

Scenario 2: Globalization and Unstable Security Environment

A more likely middle-range scenario—largely an extrapolation of certain recent trends—would involve the deepening integration of urban/coastal regions, including the further spread of global middle-class culture, but with growing disparities between urban and rural areas, and steadily widening and destabilizing urban income gaps. Whether these trends create instability depends on how well their impacts are dealt with by the affected countries, regional and international institutions, and major players such as the United States, Japan, and China. Events such as the Asian financial crisis of 1997–1998 and associated political upheavals could foreshadow bigger disruptions such as a possible financial crisis in China with an attendant sociopolitical upheaval. Such a crisis likely would reveal continuing financial weaknesses in South Korea and other Asian countries and put the Japanese banking system once again in jeopardy. Ironically, a new financial and economic crisis could accelerate the

process of normalizing relations with the North, by impelling South Korean *chaebol* to tap the pool of cheap labor in the Democratic People's Republic of Korea. On the downside, efforts by South Korea to export its way out of trouble could touch off a broader deflationary spiral in China, Japan, and Southeast Asia, and protectionism in the United States and other western countries. Japan, meanwhile, having failed to move fast enough to restructure its economy, might retreat from globalization. U.S.-Japan security cooperation would likely suffer from the effects of increasing nationalism and antibase sentiment. This could force the Navy, Marines, and Air Force either to abandon forward deployment or to seek alternative bases and/or expanded access in Australia, Guam, the Marianas, and Singapore to protect important sea lines of communication and other U.S. interests.

Scenario 3: Economic Nationalism and Regional Power Rivalries

A third, more pessimistic, and still unlikely scenario would feature rising popular resistance to globalization in the form of economic and political nationalism, based on a perceived unequal distribution of costs and benefits. These issues have already emerged at the chaotic Seattle World Trade Organization (WTO) meeting; the Washington meeting of the International Monetary Fund (IMF) and World Bank; the Asian Development Bank meeting in Chiangmai, Thailand; the United Nations (UN) Millennium Summit; and the IMF-World Bank meeting in Prague in September 2000. Under this scenario, openness to trade and investment would decline, and major powers would concentrate on gaining or maintaining control of technology with security implications. The smaller or weaker countries of Southeast Asia might actually strengthen their dependence on the American and European markets, but China, Japan, and South Korea would recommit to state-led development policies and seek to underpin their economies with expanded military research, development, and acquisition budgets. In the face of undependable sources of critical imports and growing national power rivalries in Asia, the United States would likely find it necessary to rebuild a more autonomous defense industrial base, but at high cost. American high-technology firms could diversify their offshore production to Mexico, Canada, and elsewhere in the Americas, but at a price of growing estrangement between the United States and Asia. The rise of economic nationalism would likely be accompanied by a regional arms race in Asia and the Pacific, including the deployment of a variety of threatening weapons systems by China, and the development of offensive capabilities and a ballistic missile defense system by Japan.

The Status of Globalization

The dynamic economic growth of East Asia during the past three decades practically defines globalization as it is commonly understood. At the same time, the region is far from fully integrated into the global economy and may not move much further in that direction for the foreseeable future. Instead, Asian countries continue to make pragmatic concessions to the desire for rapid economic growth, a goal that has a compelling political appeal to Asian leaders seeking legitimacy or the perpetua-

tion of their power, but no more than necessary. As a consequence, the East Asian economies that have a high level of integration with the global economy still pursue nationalistic policies to the maximum extent possible. Those that have been slower to integrate with the global economy still have problems reconciling the benefits of globalization with the desire to maintain authoritarian political systems and nontransparent economic policies.

Historical Experience and Vested Interests

The positive but cautious embrace of globalization by most East Asian countries is largely the consequence of historical experience and the power of vested domestic economic interest groups. Asia has been involved in trade with the West since the late 15th century, when European merchant adventurers first rounded the Cape of Good Hope seeking the riches of the Indies. The Europeans came to explore, trade, and sometimes to save souls, and in time entrenched themselves as the governing authorities in an arc from modern-day Pakistan in the west to Manchuria in the east. Many Asian countries owe their existence as unified states to the colonial powers. For others, most notably China, the European role accelerated imperial disintegration.

Having only recently recovered independence or achieved nationhood, and facing a variety of internal social, political, and economic challenges, Asian leaders react strongly against blithe talk by globalization advocates about the growing irrelevance of nation-states. China's Communist Party still derives what legitimacy it has from its role in uniting China after more than a century of exploitation at the hands of the Western powers and Japan. The 1842 Opium War with Britain, which resulted in the forced cession of Hong Kong, the suppression of the Boxer rebellion by foreign armies, and China's partition into European and Japanese spheres of influence, remain powerful influences in the psyches of Chinese of all political and ideological persuasions. Indonesians, especially the Javanese, regard 400 years of Dutch domination as a national humiliation, despite the positive colonial legacy of a unified island republic. The seizure of East Timor after the withdrawal of Portugal from this small possession in the mid-1970s gave vent to passions that are still playing themselves out. Thais continue to take pride in having kept the French and British at bay in the late 19th century by playing one power off against the other. Burma's longstanding isolation is a lingering reaction to British imperialism in the same era. Vietnam regards its "American War" as just the final phase of its liberation from French colonialism. In Malaysia, globalization has both bolstered the Mahathir government's claim to legitimacy based on delivering rapid growth, and—more recently, in the guise of the Asian financial crisis—threatened to undermine the delicate political balance between the ethnic Malay majority and the Chinese minority who came to the peninsula in the van of British colonialism.

Asian leaders and elites are highly reluctant to put their futures in the hands of Western banks and investors or the Western-dominated International Monetary Fund. Likewise, while pragmatically using market forces to promote international competitiveness, Asian leaders and elites are unwilling to blindly trust the socioeconomic consequences of neoclassical market economics. Rejecting both market capitalism

and Marxism, they generally have pursued a unique form of private but state-centered capitalism, strongly influenced by economic nationalism.

Even the most successful modernizing East Asian countries remain wary of globalization. The Japanese, who sought first to keep the West at bay and later to displace the Western powers in China and Southeast Asia, consciously developed their economy with domestic capital as a means of keeping Western multinational companies at arm's length. The South Korean experience with Japanese colonialism and Western power politics has given rise to arguably the most xenophobic population in the region, apart from their ethnic and cultural compatriots in North Korea. Taiwan, Hong Kong, and Singapore, the most affirmatively outward-looking economies, had their own special reasons for embracing globalization.

Uneven Nature of Globalization

As noted elsewhere in this volume, many kinds of globalization are at work. At the economic and technological levels, the Asia region and the world at large are increasingly standardizing on brand-name industrial production and communications technology. These reach to the most isolated villages and have anchored a network of largely coastal manufacturing and telecommunications nodes around the Pacific Rim. Globalization has also spawned a common outlook among the middle and professional classes of the region, some manifestations of which include progress in a number of East Asian countries toward more open, transparent, and participatory political systems. Among the elites of the region, the growth of a global culture and Westernized values is increasingly evident.

In many respects, however, these trends should be viewed as still tentative and superficial. The more developed and more ethnically homogeneous countries of Northeast Asia generally have carried out modernization on their own terms, picking and choosing which aspects of globalization they wish to adopt. China (prior to its accession to WTO) and the developing countries of Southeast Asia have been even more selective about their response to globalization. Special dispensations for developing economies have allowed the maintenance of high tariffs and even outright prohibitions on access to markets by foreign producers, yet have provided almost unrestricted access to developed countries. In effect, the developing countries of Asia, as in other regions, have been free riders in the international economy.

Western Political Influences and Cultural Globalization

By and large, Asian governments have also sought to limit the political and cultural impact of globalization, especially aspects associated with Westernization. Within China and the less developed and more ethnically diverse countries of Southeast Asia, the embrace of cultural globalization has been confined largely to the urban middle classes. Because of their still-limited numbers and the potential challenge that they pose to the existing order, these groups generally have not achieved decisive political influence. The governments of the less developed East Asian countries tend to allow or even encourage the material and professional aspirations of the urban middle classes but seek to discourage the adoption of Western cultural and political values.

With regard to democratization, which clearly has taken hold in the market economies of Southeast Asia, the pattern tends to be a practical, procedural one, rather than a full embrace of Western values of individual rights and individualism. Western forms of democracy are widely admired and suit popular aspirations for more participation in the political process, but authoritarian leaders have sought to limit these influences through the promotion of Asian values such as respect for authority, bureaucratic government, and paternalistic rule.

Even among advocates of democratization among the middle and professional classes, the underlying principles of Western democracy often get lost in translation. As Lucien Pye and other students of Asian culture have argued, Asians are more comfortable than Westerners with patron-client patterns of dependency and group identification, and even the purposes of political power are regarded differently.[2] One does not have to share Samuel Huntington's view that clashing cultures will constitute the future fault lines of the world to recognize the persistence of national cultural values and norms.[3]

Despite these reservations, East Asian countries have been more willing to embrace globalization than those of any other developing region. In varying degrees, and with some notable differences between East and Southeast Asian economies, Asia's economic dynamism has been based on large infusions of foreign capital and technology, export-led industrialization, market-oriented economic policies, and the embrace by the middle and professional classes of Western higher education and aspects of Western popular culture. The Internet revolution has had a notable impact on East Asia, and Internet use is growing rapidly. A number of the more authoritarian governments have attempted with varying degrees of success to restrict Internet content from abroad as well as dissident use from within, but almost every East Asian government views the Internet as a crucial factor in economic modernization.

The Asian financial crisis and its aftermath underscored the limitations of both the East Asian state-led development model as well as a "governance gap" between the realities of globalization and the ability of available domestic, regional, and global institutions to respond to them. In large part, this gap is the inevitable consequence of the opportunistic Asian approach to dealing with the global economy and deep, unresolved domestic fissures. But the financial crisis also revealed inconsistencies and self-interest in the policies of the United States and other leading Western powers and Japan, as well as in the behavior of IMF and other multilateral banks. The comparatively ineffective response to the Asian crisis on the part of the United States and other Group of Seven (G–7) industrialized countries, and IMF and other international financial institutions, has created new centers of opposition to globalization.

Structure of Globalization in East Asia

Globalization in Asia is both deeper and more spatially integrated than in other non-Western geographic regions. Several unique characteristics of the region have given it a more organic and more uniform integration with the international system. These include the different but complementary roles of the American and Japanese

economies, the nodal connections facilitated by the Chinese diaspora, and the development of pan-Asian and transpacific economic, political, and security institutions.

A variety of measures suggest that from an economic and technological point of view, East Asia is the most globally connected geographic region outside Europe and North America. The East Asia region increased its share of world gross domestic product (GDP) from about 3 percent in 1960 to about 21 percent in 1997, just before the Asian financial crisis. Generally, this rapid economic growth has been associated with export-led growth centered on a triangular relationship of U.S.-Japan-East Asia trade and investment.

Unequal Distribution of Connectivity with Global Economy

Of course, the fruits of East Asia's rapid growth have not been equally distributed. The region includes rich and globally well-integrated economies like Japan, Singapore, and Taiwan, but also some of the poorest and most isolated countries in the world, including Laos and Burma/Myanmar. Also, some countries, the foremost being China, have huge regional disparities in respect to development and levels of integration with the global economy. Parts of the coastal provinces of southern and eastern China approach the per capita income levels of the most developed East Asian countries and have a high degree of integration with the global economy, while some of the interior provinces are as impoverished and isolated as the most backward Asian developing countries.

As of 1998, Japan accounted for about 14 percent of global gross national product (GNP) while low- and middle-income East Asian countries, including China, accounted for another 9.5 percent. The United States accounted for about 27 percent. Shares of global merchandise exports are similarly distributed, with Japan accounting for 6.9 percent, the rest of East Asia some 15 percent, and the United States, the world's leading exporter, accounting for 12.5 percent.[4] Thus East Asia and the United States alone accounted for slightly over half of global GNP and 34.4 percent of global exports. In regard to the relative importance of exports, however, China and other low- and middle-income East Asian countries had a higher share of global merchandise exports than their share of global GNP. Conversely, both Japan and the United States, in spite of their status as leading exporters, had proportionately smaller shares. These disparities underscore the importance of export-led growth to China and the low- and middle-income East Asian countries. Japan and the United States, by contrast, depend much more on their large domestic economies than on exports for generating income.

Connectivity and Post-World War II Pax Americana

East Asia's economic dynamism and integration into the global market have been strongly associated with the post-World War II Pax Americana, symbolized by the forward deployment of the U.S. 7th Fleet and other components of U.S. strategic power, and a network of Asia-Pacific alliances. Analysts may dispute the exact connection between the American military shield and the region's dynamic growth, but the connection is undeniable, as are the roles of the American market and the activi-

ties of American multinational companies.[5] Even ideology-minded critics of U.S. Cold War policies acknowledge that American involvement in two postwar Asian conflicts gave a strong spur to the economic recovery and reindustrialization of Japan and to the economic takeoffs of South Korea and Taiwan.[6] Japan began its reindustrialization as a supplier of the U.S. military during the Korean War and through U.S.-encouraged reparation payments, which largely took the form of machinery and goods exports to U.S. Asian allies and client states. South Korea and Taiwan intensified their nascent industrialization as recipients of American foreign assistance and suppliers of U.S. forces in Vietnam. A number of analysts see the otherwise ill-fated U.S. military involvement in Vietnam as having "bought time" for Southeast Asian countries to stabilize politically and begin their own industrialization programs that took hold in the late 1970s and 1980s.

The binding of the non-communist East Asian countries to the American economy, and the continued maintenance of powerful U.S. military forces in the region even after the U.S. withdrawal from Vietnam, helped dissuade regional states from the blandishments of the Soviet Union, such as Leonid Brezhnev's 1968 proposal for a regional condominium. Meanwhile, the states that remained dependent on Soviet aid, most notably India, Vietnam, and North Korea, languished economically. Politically addicted to central planning and state control of industry, and hostile to Western and Japanese multinational investment, these countries slipped further and further behind their outward-oriented Asian neighbors. The collapse of the Soviet Union and its sources of bartered fuel, food, and military equipment forced its erstwhile client states to reorient their economic policies (India) or eke out a marginal existence (Vietnam and North Korea). China, which largely broke with the Soviet Union in the 1960s, made its own decision in the 1970s to establish ties with the West and Japan and to undertake limited, pragmatic economic reforms that eventually allowed it to tap global sources of investment and markets.

Japan's Role as the Regional Core Economy

Historically, Japan has played an important role as the regional "core economy." As the first Asian economy to industrialize, Japan relied on imports of raw materials from the region, which it transformed into manufactured exports for the global economy. As an imperial power, Japan created the infrastructure for industrialization and economic modernization in southern China, the Korean Peninsula, and Taiwan. Even after the defeat of its bid for a Greater East Asia Co-Prosperity Sphere, Japan remained the most important trading partner of other Asian countries. Beginning in the 1970s, and accelerating in the 1980s following the rapid appreciation of its currency, Japan assumed a new role as the main source of foreign direct investment (FDI) and official development assistance and credits for infrastructure development. During the late 1980s and early 1990s, Japan became the pivot point of a triangular system of trade and investment, featuring flows of FDI and technology to China and Southeast Asia, and subsequent exports of manufactured goods from offshore Asian subsidiaries to the American market. These activities often are carried out in league with supplier intermediaries in South Korea and Taiwan, and with the overseas ethnic Chinese business networks in Southeast Asia.[7]

Japan's current economic malaise has somewhat reduced its centrality to the East Asian regional economy, but its role remains highly important. Japanese companies remain the single most important source of manufacturing investment in many East Asian developing countries. Even though the United States is the leading market overall for most Asian countries, Japan's market still absorbs a major share of Asian exports. Japan also continues to be the leading source of export credits and official development assistance.

Export-Led Growth and the Asian Economic Miracle

At least until the Internet revolution, the dramatic expansion of global trade and capital flows during the past several decades has symbolized globalization more than any other factor. Between 1980 and 1998, trade in world goods and services soared from $1.9 billion to $6.7 billion in nominal terms, with the most dramatic increase in the developing countries, who now derive fully 30 percent of their GDP from trade. Asia led these trends by a wide margin (see table 1). The merchandise exports of the low- and middle-income countries of East Asia and the Pacific expanded nearly eight-fold from 1980 to 1998.[8] The East Asian countries averaged 14 percent annual growth of exports during the period 1988–1998, substantially higher than the next highest growth area, the Western Hemisphere, which experienced an average of about 9 percent in the annual growth of exports.[9]

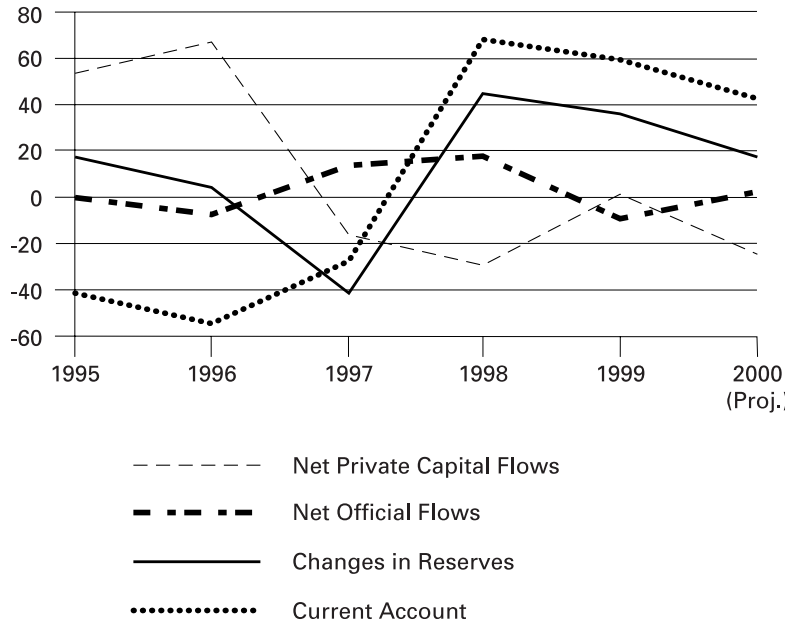
Various measures indicate a high degree of integration with global markets in Asia, although the most recent data are depressed from prior years because of the Asian financial crisis. One measure is the ratio of trade in goods (exports and imports) to the goods production component of GNP. In the low- and middle-income East Asian countries, trade in goods as a percentage of goods GNP amounted to 98.1 percent in 1988, as opposed to an average for high-income countries of 95.1 percent, and the average of low- and middle-income countries of 88.8 percent. Reflecting its huge domestic market, China only recorded 49.8 percent for goods trade as a share of GNP, despite its recent emergence as the largest recipient of foreign manufacturing investment and a major player in global trade. On the other hand, China's economic partner, Hong Kong, a regional hub that long has been highly integrated with the global economy, achieved a world-leading figure of 1,121.7 percent. Tiny Singapore, which plays a similar role as Hong Kong in world trade, placed second with trade turnover some 690.8 percent of its domestic consumption. Indicative of its major role as a platform for multinational export-oriented manufacturing operations, Malaysia's foreign trade in manufactures totaled more than three times its production for domestic consumption in 1998 (307.6 percent), compared with less than two times domestic consumption in 1988.[10]

Table 1. East Asia in the Global Economy, 1998

Country/ Region	*Pop. (Millions)*	*GNP ($ billions)*	*Global Share (%)*	*GNP/Cap ($ U.S.)*	*Merchandize Exports ($ billions)*	*Exports (% of World)*	*Exports (% Mfg.)*	*Internet Hosts (per 100,000)*
Association of Southeast Asian Nations	497	547.6	1.9	1,102	316.9	5.9	74*	2.39†
China (+ Taiwan)	1,239	923.6	3.2	750	N/A	N/A	N/A	0.50
Hong Kong	7	158.2	0.5	23,660	174.0	3.2		142.80
Taiwan	–	–	–	–	183.5	3.4	87	NA
Japan	126	4,089.1	14.2	32,453	374.0	6.9	94	163.75
South Korea	46	398.8	1.4	8,670	132.1	2.4	91	55.50
East Asia Total	1,789	6,117.3	21.2	3,419	1,180.5	21.8	N/A	N/A
Australia, New Zealand	28	446.5	1.5	15,946	69.8	12.9	30	477.0
South Asia	1,305	560.0	1.9	429	53.7	1.0	78	0.17
North American Free Trade Agreement	396	8,852.0	30.7	22,354	1,006.9	18.7	82†	1508.80†
European Monetary Union	291	6,542.0	22.7	22,481	1,715.7	31.2	83	157.50
World	**5,897**	**28,835.0**	**100.0**	**4,890**	**5,397.4**	**100.0**	**80**	**94.57**

*Average
†United States
Source: Data from World Bank *World Development Indicators, 2000,* which includes data from the World Bank, the International Monetary Fund, and other sources. Generally, Taiwan is not shown separately in these data except for trade statistics. Internet data used in source report from Internet Software Consortium (http://www.isc.org). Data on individual members of the Association of Southeast Asian Nations on Internet hosts per 100,000 are as follows: Cambodia, 0.12; Indonesia, 0.76; Malaysia, 23.53; Philippines, 1.29; Singapore, 322.30; Thailand, 4.49.

Figure 2. Asian Crisis Countries New Capital Flows ($ billions)



Another important measure of economic globalization, and a key element in developing Asia's increasing share of world manufactures trade, has been the dramatic increase in global capital flows to East Asian developing countries. Total gross private flows to emerging market economies amounted to $286.1 billion in 1997, of which Asia accounted for $127.5 billion, or 58.9 percent, well ahead of even the Western Hemisphere (31.5 percent). These flows fell by almost half in 1998, to $148.5 billion, with flows to Asia falling to $34.1 billion, less than every other region except the Middle East and Africa.[11] In other words, Asia both set the pace for the rapid growth of private capital flows to emerging market countries until the Asian financial crisis (see figure 1) and also fell further than every other region when investors lost confidence in Asia's prospects.

FDI levels fell only moderately during the crisis because of the relatively immobile nature of this kind of investment, but other types of capital flows, including portfolio investment and bank lending, underwent a dramatic reversal. The four most affected countries alone experienced a reversal of about $100 billion during 1997—roughly four times the magnitude of the Mexican peso crisis of 1994–1995.[12] Because of the strong recovery of GNP and exports in the crisis countries, positive flows are projected to resume for 2000. For the moment, however, lenders and investors still remain wary of high levels of bad debt and lagging structural reform.

Ethnic Chinese in Southeast Asian Economies

One important factor not revealed in the economic data is the crucial role of ethnic Chinese minorities in Southeast Asian countries. These minorities range from

about 30 percent of the populations in Thailand and Malaysia to about 3 percent in Indonesia, but in every country they are economically dominant. Except for Thailand and the Philippines, where the Chinese are highly assimilated, the economic role of the ethnic Chinese, with a long tradition of entrepreneurial activity, has been both a boon and a source of deep political divisiveness. On the one hand, Chinese business networks have been the main facilitators of export-led growth based on joint-venture partnerships with Japanese and Western multinational corporations. On the other hand, jealousy among the majority communities of their economic success has made them a focus of discontent with globalization.

The ethnic Chinese of Southeast Asia are by no means uniformly wealthy, and as a group present no serious internal security threat. Most make their living as small traders, merchants, and cash-crop farmers, not as corporate leaders, and except in Malaysia, where they have a recognized albeit circumscribed political role, most shun politics. But even the modestly successful are frequently objects of resentment because of their role as middlemen in the rice trade and retail marketing.

In various ways, and with varying success, Southeast Asian political leaders have attempted to co-opt Chinese commercial interests and harness their commercial acumen while minimizing their political role. In Malaysia, this effort has been carried out via the New Economic Program (NEP) dating from the early 1970s. The NEP involves a kind of affirmative action for the more economically and educationally backward ethnic Malay majority, while also giving the Chinese continued scope for economic advance and limited political influence. The Malaysian government first adopted the policy after the bloody ethnic riots of 1969, and Malay political leaders view it as an essential component of stability. Growing evidence that globalization is inconsistent with the NEP has confronted the Malaysian government with a significant policy dilemma.

In other societies, the effort to harness Chinese business acumen and wealth to the interests of the political establishment has been less transparent and more problematical. In Indonesia, under President Suharto's New Order regime, and in the Philippines under the Marcos dictatorship, the Chinese community entered into collusive, mutually profitable relationships with military rulers and bureaucrats—the so-called crony capitalism. In Indonesia, until very recently, the Chinese were denied any political role and could not even celebrate their holidays in public.

To outsiders, the role of the ethnic Chinese appears largely positive, but at times of economic or political crisis, the Chinese and their joint-venture enterprises with foreign multinationals have tended to be the object of ethnic majority resentment and mob violence. In Indonesia, Chinese conglomerates were especially hard-hit during the street violence that led to the overthrow of the Suharto regime in 1998. Many of these businesses were joint-venture partners of Japanese trading and manufacturing companies, with the result that foreign interests suffered as well and lost confidence.

In substantial measure, Southeast Asia's recovery depends critically on the creation and maintenance of a sense of security within the Chinese business community. In the case of Indonesia, especially, the return of Chinese capital is essential for the restoration of rapid economic growth.

Globalism and Growing Economic Regionalization

Globalization has also contributed to increasing economic regionalization. For instance, Japan has coped with the pressures of globalization in part by developing a regional production base in Asia that is oriented toward the United States and other third-country markets, as well as the local market, but without substantially removing a variety of formal and informal trade barriers that shelter its own economy. The 10-member Association of Southeast Asian Nations (ASEAN) has responded to globalization by striving ever harder to remain attractive to foreign investors, most recently by adopting the ASEAN Free Trade Area (AFTA), which aims to almost eliminate intra-ASEAN trade barriers by 2002. The main rationale for ASEAN has long been to collectively negotiate better terms of trade with the United States and Europe. Adoption of the AFTA in the early 1990s directly responded to the formation of the European Union and the North American Free Trade Agreement (NAFTA). Essentially, the Southeast Asian countries realized that they could not maintain attractiveness to foreign investment and trade competitiveness without lowering regional trade barriers. To date, these trends can be seen as a positive, expanding-sum response to globalization, but they could also form the basis for some form of closed regionalism under certain conditions.

A seeming flirtation with a Japan-centered regionalism in the late 1980s appeared to dissipate in the wake of the collapse of Japan's "bubble economy" and the rebound of the American economy in the 1990s. Following the Asian financial crisis of 1997–1998, Japan's weaknesses appeared more important than its strengths. Many Asian countries, however, continue to harbor resentment over the refusal of the Clinton administration to help rescue the Thai *baht* after it collapsed in July 1997. From this perspective, the United States had failed to live up to its responsibilities as the main driving force of globalization.

Despite considerable dissatisfaction with Japan's own role in the crisis and frustration with Tokyo's inability to rectify the country's economic and financial problems, some of the countries of Southeast Asia evince a continuing desire to find common purpose with Japan in maintaining a more Asian form of capitalism. Although ASEAN as an organization has been beset by a host of problems stemming from the financial crisis and the accession of Vietnam, Laos, Burma (Myanmar), and Cambodia, all of which are out of step with the economic and political systems of the core member states, the organization continues to maintain a vision that emphasizes Asian solidarity.

A more open transpacific regionalism is embodied in the Asia-Pacific Economic Cooperation (APEC) Forum, whose members agreed at Bogor, Indonesia, in November 1994 to work toward regional free trade for the developed countries by 2010 and for the less developed countries by 2020. APEC appears to have lost some of its forward motion because of the effect of the Asian financial crisis and the emergence of differing perspectives on the issue of globalization among a group of primarily non-Asian members led by the United States and a group of East Asian countries led by Japan. One of the last significant achievements of APEC was to formulate a coordinated position in support of global negotiations on the liberalization of the telecommunications sector.

Long-Term Prospects for Globalization in East Asia

Despite the seeming straight-line trend toward marketization and globalization in East Asia, a number of factors suggest the need to reexamine current assumptions about the shape of the future and the relationship between the economic and political-military dimensions of the U.S. leadership and military power position in Asia. Globalization as such is almost without question of benefit to the United States, which remains the organizing center. The large expansion of the U.S. role in global trade was the main source of growth during the recession years of the late 1980s and early 1990s, and the high-technology boom of the mid- and late 1990s has created a vast increase in wealth for American companies and stockholders. Economic globalization has largely been standardized on American technology and American rules for financial sector accounting and management. As demonstrated by the Asian financial crisis of 1997 and its aftermath, however, the international financial system is fragile. It relies heavily on confidence in continued growth and a sense of equity. Should these fail, the Asian region faces significant risks of financial and political destabilization, which in time could lead to rising nationalism and conflict.

To date, and on balance, globalization has largely been beneficial to U.S. national security and other interests in East Asia and to the regional states as well. Globalization and a strong American economy have intensified the centrality of the United States to the prosperity and stability of the Asia-Pacific region. Especially because of Japan's economic stagnation during the past 10 years, the American economy remains a critical factor in East Asia's aspirations for overcoming the effects of the 1997–1998 financial crisis.

As evinced by China's many concessions to gain membership in the World Trade Organization, the countries of East Asia have recognized the positive benefits of expanded participation in the global economy. Likewise, despite reservations among the more authoritarian countries, few Asian leaders dispute the benefits of transparency of financial data and economic policymaking, good governance, the free flow of information and ideas via the Internet, and—at least in principle—democracy. Despite the end of the Cold War, most countries of the region continue to look the United States for leadership and grow anxious when the United States appears to turn inward or give primary attention to other regions.

Initiatives to Adjust the Costs and Benefits of Globalization

These mutual benefits notwithstanding, globalization has also engendered significant opposition in Asia, particularly among groups hardest hit by modernization and the inevitable decline of traditional social and economic relationships. Huntington and a number of observers have argued persuasively that rising religious fundamentalism and the intensification of nationalism are a response to rapid urbanization and other consequences of globalization in many parts of the world. The rise of Islamic fundamentalism in particular, whether in Iran in the late 1970s or in Malaysia and Indonesia more recently, appears directly connected to the perception that rapid economic and social change and the penetration of Western popular culture are destroying traditional values, and that the antidote is reassertion of traditional culture.[13]

In the economic sphere as well, doubts about the benefits of globalization have contributed to the persistent appeal of an East Asian alternative to the so-called Washington Consensus of the United States, IMF, and World Bank, and the virtue of openness to the free flow of international capital, privatization, and the steady reduction of trade barriers. U.S.-style globalization tends to run counter to East Asian preferences for state-centered economic management. Whether in Japan, South Korea, Thailand, Malaysia, or Indonesia, political and bureaucratic authority is based on the ability to maintain close, mutually supportive relationships with powerful economic interests. Free trade and capital flows tend to upset these relationships and also to disturb the social balance. Thus if liberalization damages important local economic interests, a reaction quickly sets in.

Asian Financial Crisis and Proposed Asian Monetary Fund. The continuing appeal of an Asian alternative to U.S.-led globalization was evident in the positive regional reaction to a 1997 Japanese proposal for an Asian Monetary Fund (AMF). When Japan first proposed a $100 million Asian monetary stabilization fund in late 1997, the U.S. Treasury Department strongly and successfully opposed it. The Treasury Department and other departments and agencies of the U.S. Government were reportedly worried that such a fund would undermine the role of IMF by failing to require reform as a necessary component of financial stabilization assistance. In the face of similar reactions on the part of a number of other Western countries, Japan initially backed off.

In the midst of the crisis, neither Japan nor the affected countries were prepared to oppose the United States and the International Monetary Fund. Now that the worst of the crisis appears to have passed, however, a scaled-down version of the AMF idea appears to have gained significant momentum. This proposal could effectively stabilize the region's currencies, but at a cost to U.S. interests, since the absence of compensating restructuring in individual countries could cause them to shelter behind a yen wall and resist U.S. pressures for reform and market opening.

In late March 2000, the ASEAN finance ministers reportedly agreed to a Japanese Ministry of Finance proposal for forming a currency swap fund that could provide "tens of billions of dollars" to defend Asian currencies against speculative attacks such as those that brought down the Thai *baht* in July 1997.[14] In mid-April, Singapore's Senior Minister Lee Kuan Yew, widely respected as a shrewd commentator on regional affairs, declared that because of the impact of the globalization of financial markets, the yen would become a "core currency" in the region. Although the collapse of the "bubble economy" and Japan's own concerns about the implications for the country's trade competitiveness had undercut past expectations of an emerging Yen Bloc, Lee saw the Japanese authorities now committed to having the yen play a larger role.[15]

Emergence of ASEAN+3. In the international political arena, the idea of an organization that would unite Southeast and Northeast Asia under one umbrella has gained new support. In modern dress, the idea of Asia for the Asians first reemerged in the early 1990s, when Malaysian Prime Minister Mohamad Mahathir proposed an East Asian Economic Caucus (EAEC), ostensibly as a means of formulating pan-Asian positions within the then-emerging APEC Forum. The United States strongly

opposed the idea, apparently fearing that Japan and other Asian countries might gang up on the United States to oppose its vision for APEC as a vehicle for negotiating the reduction of trade and investment barriers. Japan deflected several invitations by Mahathir to support the idea, partly to placate the United States and partly, it would appear, to avoid the responsibility, implied by Mahathir, to take more of Southeast Asia's exports as a price for regional leadership.[16]

More recently, Japan has decided to push the idea of deeper cooperation with its Asian neighbors, seemingly as part of an effort to refurbish its declining image. Japan's renewed interest in formalizing ties with East Asia has several sources. These include the desire to refurbish the "Japanese development model" in the face of continued economic and financial problems, and interest in both countering Chinese influence and drawing it into cooperative relationships with its neighbors.

Not surprisingly, Japan's Southeast Asian neighbors have reacted cautiously, but on the whole favorably, to Tokyo's initiative for closer regional coordination. The positive response appears to have stemmed in significant part from a post-financial crisis reaction against the so-called Washington Consensus of the United States, IMF, and World Bank.

Much of this response stems from the feeling of East Asian countries that the United States and the International Monetary Fund have been more interested in protecting the international lenders and investors from the consequences of their imprudence than in helping crisis countries in their hour of need. These countries also believed that the prime concern of the United States was the stability of the global financial system. If Thailand's problems fell below the threshold of danger to the U.S. financial system, then IMF and market could take care of the problem.

From the Asian perspective, it was only when South Korea appeared on the edge of default of its foreign debt, a development that might have brought down the global financial system, that the Clinton administration launched a rescue effort coordinated by Treasury and the Federal Reserve Board. In late December, the United States and other G–7 countries, along with IMF, agreed to provide South Korea with about $10 billion in emergency loans to cover international loan payments that were due by the last day of the year. This represented the deployment of funds that earlier had been pledged as "second-line" funding, and bridged the gap between pending loan installments that were coming due and an additional "tranche" of the $57 billion IMF bailout package that would not be deployed until sometime in January 1998. Even more important, the Treasury Department and the Federal Reserve Board brokered a commitment by major banks in New York, Tokyo, and Europe to "roll over" some $100 billion in short-term loans, against which some $30 billion in payments were due in December and January.

This digression into the details of South Korea's crisis has an important point. In the eyes of South Koreans and other Asians, U.S. actions underscored the extent to which the United States orchestrates international financial affairs, implicitly to the benefit of private American financial interests, and did not adequately take into consideration the needs of Asian countries. The American intervention came at the hour of South Korean greatest need. Kim Dae Jung had just won the Presidency, having campaigned on a "leftist" platform of protecting the South Korean economy and

South Korean business from IMF conditionality that was deemed unacceptably intrusive. The United States appeared to bide its time as Korea approached default, playing a high-stakes game of "chicken" with both the lenders and the borrowers. Once the Korean election was over, it moved vigorously to get Kim to accept IMF terms and also to get the New York banks, and those in Europe and Japan, to reverse their policies and agree to a rollover of South Korean loans.[17] The main purpose appeared to be to prevent a global financial crisis and to induce the new Korean government to take a realistic view of the situation. The outcome was tactically a complete success for U.S. policy, but—deservedly or not—it also left a strong residue of anger and resentment in Korea.

In marked contrast to earlier strong U.S. opposition to Prime Minister Mahathir's EAEC proposal, the Clinton administration appeared to have taken little cognizance of the ASEAN+3 meetings. One reason may be the belief that any means of getting China engaged with its regional neighbors is to U.S. benefit. Moreover, Japan's ability to play a real leadership role and its willingness to accept the constraints that would be necessary to make the yen a genuine regional currency are very doubtful at present. Nor are either China or South Korea likely to accept Japanese regional leadership, even if the countries of Southeast Asia are willing to do so. On the other hand, an effective AMF might cut significantly into the influence and leverage of IMF and the United States in the event of another financial crisis by providing bailout funds without the requirement for reforms.

Apparent Decline in U.S. Interest in APEC Forum

During roughly the same period, the Clinton administration also appeared to be losing interest in APEC. During the summer of 1998, senior U.S. trade officials expressed great frustration over Japan's refusal to include its fish and forestry sectors in an Early Voluntary Sectoral Liberalization initiative that had been approved at the November 1997 APEC Ministerial Meeting in Vancouver. Japan had already stiffened its back over the administration's resistance to its late 1997 proposal for an AMF, and the ruling Liberal Democratic Party losses in an upper house election had made the Obuchi government even more unwilling to antagonize its core constituencies in rural prefectures. The Japanese and some other Asia-Pacific governments countered with criticisms of the Clinton administration for failing to obtain fast-track trade negotiating authority from Congress, which raised questions about Washington's ability to deliver on its own commitments.[18]

When the APEC leaders and trade ministers met in Kuala Lumpur, Malaysia, President Clinton absented himself due to a new crisis involving Iraq. Vice President Al Gore, standing in for the President, created an uproar—and some argue a distraction from the main business at hand—by weighing in on the controversy surrounding the dismissal and subsequent arrest on charges of corruption and sodomy of Prime Minister Mahathir's erstwhile finance minister and heir apparent, Anwar Ibrahim. Among other political offenses, Anwar reportedly had opposed Mahathir's decision to impose temporary capital controls in the wake of the Asian currency crisis and had appeared at anti-Mahathir street demonstrations. In his address to the assembled APEC leaders, Vice President Gore praised "the brave people of Malaysia," who

were even then demonstrating against the jailing of Anwar Ibrahim. The Vice President's praise for the opposition *reformasi* movement in the presence of the APEC host and his official guests reportedly was widely regarded by the Asian leaders and officials as rude and an example of overbearing behavior by the United States.[19,20] Perhaps more to the point, the speech raised doubts about U.S. attitudes toward APEC itself.

Continuing Appeal of Economic Nationalism

Despite the acceptance by most Asian countries of the benefits of economic liberalization, it is not clear that the threat of a nationalistic reaction against globalization has completely receded. The comparatively mild reaction to the downside of economic globalization in Asia thus far may also reflect the fact that, until the crisis, the growing involvement of East Asian countries in world markets generally had been viewed as beneficial by the affected populations. The World Bank had praised the East Asian miracle for delivering growth with equity.[21] In many Asian countries, authoritarian leaders justified their rule by delivering the benefits of rapid economic growth and rising living standards, gains that would not have been possible without attracting foreign manufacturing investment and plugging into world markets. Opposition to globalization has tended to come mainly from nongovernmental organizations that champion causes such as workers' rights and environmentalism, agendas that have received rather weak public support. The markets of the crisis countries had remained comparatively closed to all but capital goods, high technology, and industrial inputs such as chemicals and raw materials. Thus, following a path of openness to foreign capital and technology generally had produced more gains than losses in terms of employment and other domestic economic interests.

Also, after what were perceived as some initial missteps in the direction of excessive fiscal austerity, IMF moved quickly to loosen its constraints to allow deficit spending to bolster consumption and provide a social safety net. Indonesia and Thailand successfully bargained to allow progressive increases in countercyclical deficit spending, while accepting other aspects of the IMF reform program.

The impact on the region of future crises, should they occur, may not follow the same pattern. In the short run, the 1997–1998 crisis has left most regional governments without the necessary financial resources to maintain or expand social safety net programs. Hundreds of billions of dollars in private debt have been converted to sovereign debt, and little of that has been recouped through the sale of assets. Apart from Japan, East Asian countries simply have no further resources to devote to financial and economic stabilization. A new crisis, therefore, would likely produce much more social instability than the previous one, and governments would be more tempted than during the 1997–1998 crisis to default on their foreign loans, seal off their markets, and opt out of the global economy and adopt nationalistic economic programs.

In the longer term, much depends on whether antiglobalization forces gain any substantial political ground. Having been burned and without the mechanisms or resources to avoid taking the IMF medicine, it appears likely that, coupled with the adoption of a regional stabilization fund, a number of countries will adopt some form of control on capital flows. One source of support comes from the fairly successful

decision by Malaysia to temporarily freeze capital flows and make the *ringgit* non-convertible. Although voices at the time warned that Malaysia would suffer greatly by offending foreign lenders and investors, it appears that Malaysia has become more successful than some in maintaining economic stability and has not paid a high penalty in terms of accessibility to lenders and investors.

Reaction to U.S. Dominance of Global Economic Agenda

Prospects for a continuation of the recent trend toward a U.S.-centered globalization can also be questioned on the basis of a building reaction to what many Asians see as a United States that is too self-centered and bullying. This is, to be fair, a well-worn theme with origins in the early Cold War. The United States has long been criticized for excessive unilateralism and intrusion into the internal affairs of other states as well as for high-handed use of its military and economic power. But such criticism has often been balanced by acknowledgment that the United States also was providing compensating benefits, sometimes at a cost of blood and treasure, or the sacrifice of specific domestic economic interests. In the new twist, the United States is seen as engaging in "triumphalism" and losing its sense of commitment to the world at large, including its allies.

East Asians regularly complain about U.S. unilateralism. Some of these complaints reflect the complexity of the U.S. policy process, especially the division of powers between the executive branch and the Congress. Examples include the declaration by Congressional leaders that the global greenhouse gas treaty was "dead on arrival" and the Senate rejection of the Comprehensive Test Ban Treaty. Criticisms by East Asian analysts and political leaders of U.S. executive branch failings include the allegation of a lack of prior coordination with trading partners at the ill-fated Seattle meeting of the World Trade Organization. Japanese analysts and commentators frequently complain that the Clinton administration made major decisions on policy toward North Korea without consulting Tokyo, despite that country's commitment—extracted under U.S. pressure—to pay for a major share of the nuclear reactor project being organized by the Korean Peninsula Energy Development Organization.[22] At the same time, in the words of Japan's Permanent Representative to the United States, Ambassador Yukio Satoh, "While Asians do not like American dominance, they do not want to see the rise of any other Asian nation, such as Japan or China, to a dominating position either."[23]

Globalization and U.S. National Security Interests

The jury is still out on the longer term consequences of globalization for U.S. interests in Asia, and much may depend on the policies and actions of the United States itself. On the plus side of the ledger, globalization has reinforced the role of the United States as the single most important financial, economic, and technological power and magnified the soft power of American popular culture and the American democratic ideology. The developments of the past decade underscore the argument that the United States is born to lead. The main danger in this respect is that the United States will fal-

ter in its traditional leadership role in Asia and the world, seek in counterproductive ways to lead, or use its power to promote a self-centered international or regional agenda. These issues are mainly the purview of the elected civilian leadership.

The receptive attitude of most East Asian countries to globalization has boosted incomes and laid the basis for expanding markets and self-sustaining growth. At the same time, within the less developed countries in Southeast Asia, internal fissures and conflicts involving dissident racial, ethnic, and religious minorities seem to have been intensified by the unevenly distributed benefits of growth and the exploitation of natural resources by foreign and domestic capital. The fragile nature of many political systems in Southeast Asia, where institutions of governance have not kept pace with economic change, makes them especially vulnerable to instability. Likewise, although state-to-state conflict in East Asia has been modulated in recent years by a focus on economic development, the nascent regional cooperation institutions have been unable to deal effectively with the spillover effects of internal conflicts within the weaker states and tensions among the bigger powers.

Unless certain negative consequences are dealt with effectively, globalization's impact in East Asia could create major challenges to U.S. leadership and undermine U.S. security. Despite the progress of globalization in East Asia, the countries of the region remain highly nationalistic, and significant forces within their polities have reacted against or actively rejected the demands of what is generally viewed as an American-dominated global order. The connections of many East Asian countries with the international system are by and large pragmatic concessions to the domestic political imperatives of rapid economic growth and, in certain pivotal countries, aspirations for national power and prestige. Although global economic integration and the information technology revolution have been catalysts for the spread of Western cultural and political influences and values, such as popular culture, democratic values, transparency, and adherence to international norms, these influences remain largely confined to urban middle and professional classes. They are regarded with suspicion and even opposition by some traditional elites and many political leaders.

The recent progress toward democratization in Asia is a case in point. Western forms of democratization are widely admired and suit the aspirations of rising middle classes for more participation in the political process, but many of the underlying principles of democracy have been superficially absorbed, at best. Democratic practices in East Asia tend to be more procedural than deeply rooted. The aspirations for democratic governance are real and reach downward on the socioeconomic scale. They have had significant positive impact in the direction of democratic governance in several key countries, but—for example in Indonesia—the effects of globalization, however beneficial in the long run, can also be destabilizing.

Globalization in East Asia has also had consequences that are similar to those that occurred in response to earlier examples of rapid economic and technological change. These include power shifts based on changes in the relative and absolute economic power of regional states, such as in the case of China's emergence as a regional industrial and military power, and the breakdown of previously stabilizing international regimes. The effects of globalization also have been linked to other

security problems that were once seen as largely a thing of the past, especially the significant rise of piracy in Southeast Asian waters.

Each of the three scenarios described at the beginning of this chapter, whether optimistic, pessimistic, or mixed, would involve major changes in the mission requirements of U.S. maritime and other military forces in Asia, with attendant shifts in weapons acquisition and basing arrangements. Although the range of possible future security environments is wide, U.S. military force planners need to pay close attention to a full range of possible scenarios, preparing for the most probable and hedging against others.

Five aspects of globalization in Asia are of particular relevance to U.S. maritime and other national security interests.

Rising Instability in Southeast Asia

Many see globalization contributing directly to instability in Asia because of the socioeconomic aspects of rapid industrialization and urbanization and the impact of the accelerated flow of information and ideas. In many respects, these impacts are evident, no more so than in the case of Indonesia, where the financial crisis set in motion political forces that forced the resignation of President Suharto, that country's ruler for more than three decades, and the resolution of the long-festering East Timor problem via a UN-supervised referendum in favor of separation.

Tension Between Democratization and Instability. In all of the affected countries, the Asian financial crisis tended to accelerate existing challenges to the political status quo, generally, but not always, in the direction of greater democracy and transparency. In Thailand, whose currency collapse touched off the crisis, the crisis caused the resignation of the widely disparaged government of Prime Minister Chavalit Yongchaiyudh and its replacement with a new coalition headed by Chuan Leekpai, a former prime minister. The crisis also tipped the political balance in favor of a new constitution—the 16th since the establishment of a constitutional monarchy in 1932—with provisions aimed at reducing political corruption, increasing accountability and transparency, and establishing minimum educational credentials for elective office. Notably, the army kept to the background but lent its weight to adoption of the new constitution, as did the King, who wields great moral influence. Thailand, however, is by no means beyond the possibility of further political or social instability. Many observers see a broad disenchantment with the state of Thai democracy, particularly continuing evidence of rampant corruption.

In Malaysia, the crisis contributed to the acceleration of a political succession struggle that has not yet fully played itself out. Prime Minister Mahathir's United Malay National Organization (UMNO) and its parliamentary allies barely managed to hold their own in parliamentary elections this spring, with the National Front (*Barisan Nasional*) coalition maintaining a three-fourths majority and control of 11 of 13 states but suffering the defeats of several cabinet members.[24] Malaysia's always delicate ethnic balance remains at risk from two sources. The first is globalization, which has made it increasingly difficult for Malaysia's leaders to maintain their NEP, a kind of affirmative action program to enlarge the role of the Malay majority without alienating the commercially dominant ethnic Chinese minority. No less a figure than Deputy Prime

Minister Ahmad Badawi declared at a Harvard Business School Alumni Club luncheon in Kuala Lumpur on February 2000 that "It will be increasingly likely that the segment of the Bumiputra [Malay] community which has already benefited greatly from the Government's affirmative actions policies is encouraged to compete on a freer footing without reliance on hand-outs and special treatment any longer."[25] The Deputy Prime Minister added that he believed "the systematic scaling back of our socio-economic policy with regards to re-distributing wealth and opportunity along racial lines needs to occur for the long-term viability of the Malaysian economy."

Such a comment would have been regarded as heresy a few years ago. The stance is an even more impressive commentary on the power of globalization when account is taken of the other major obstacle to long-term stability in Malaysia: the unwillingness of Prime Minister Mahathir, now the longest-serving ASEAN leader, to designate an heir with an independent base of popular support. As his actions in prosecuting former Deputy Prime Minister Anwar Ibrahim for alleged corruption and sodomy suggest, Mahathir is wary of letting go or risking a revolt within the UMNO ranks. As a result, his eventual departure from the political scene may result in considerable political infighting and may stress the fragile ethnic balance.

In South Korea, the Asian financial crisis further tarnished the image of the then-ruling party and gave a boost to the presidential campaign of Kim Dae Jung. His election in December 1997 was widely viewed as strengthening democratization in South Korea. Because of his longstanding reputation as an opposition leader, Kim has enjoyed considerable freedom of action and a reserve of good will that has allowed him to pursue policies that adversely affect vested interests, including *chaebol* conglomerates and organized labor. Kim faces a number of serious political and economic problems, including an opposition-controlled national assembly and resistance from *chaebol* and labor unions to restructuring. His party did not do well during April 2000 parliamentary elections, and the elections also solidified a growing regional split.

Kim Dae Jung's political position has been strengthened by the success of his "Sunshine Policy" toward North Korea, as exemplified by the South Korean president's historic meeting with North Korean leader Kim Jong Il in Pyongyang in June 2000. President Kim has a host of domestic policy challenges, however, and many observers see South Korea's democratic opening as fragile and beset by undemocratic tendencies on the part of the political leadership, including the leader with the most solid democratic credentials, Kim Dae Jung himself.

The most dramatic political reaction to the downside of globalization occurred in Indonesia, where food riots, mob violence against businesses owned by the ethnic Chinese minority, and university-based antigovernment protests grew steadily after the initial collapse of the Indonesian currency in late 1997. Street demonstrations against governmental corruption and in favor of democratization forced President Suharto from office on May 21, 1998. His hand-picked vice-president, B. J. Habibie, set in motion a process that led to democratic elections in June 1999, the first such open elections since 1955, and a violence-marred referendum that led to independence for East Timor following intervention by UN peacekeeping forces.

Indonesia, however, remains the sick man of Asia and a major potential source of regional instability. President Abdurrahman Wahid has maneuvered shrewdly and

made some slow progress in dealing with a rebellion in Aceh and keeping the army out of politics, but the widespread sense of political instability has kept foreign investors generally aloof and prevented the economy from recovering. In the fall of 2000, Wahid came under increasing fire for his inability to deal with growing regional insurgencies in Aceh, Papua (formerly Irian Jaya), and elsewhere.[26] In West Timor, the inability or unwillingness of the Indonesian army to restrain anti-East Timor militias or to bring to justice the perpetrators of past human rights violations has kept Indonesia on the diplomatic defensive and ineligible for all but humanitarian assistance from the United States.

A different kind of problem for Indonesia, but one not unrelated to the continuation of street violence, is the flight of ethnic Chinese capital in the wake of the financial collapse and anti-Chinese riots. Various accounts estimate the size of the capital outflow from tens of millions to over $100 million. Some of this capital flow may have been facilitated by large loans made to well-connected borrowers during the recapitalization of the failing banks—loans that were not covered by real assets. In other cases, ethnic Chinese families and business interests simply left the country with what liquid capital remained after the collapse of their businesses. Whatever the source of the funds and whatever the method of sending them abroad, most analysts judge that ethnic Chinese Indonesians and others with capital outside the country do not yet see the time as ripe for returning to Indonesia and reinvesting their capital.

Two reasons are cited in particular by analysts. First, political uncertainties weigh heavily in the minds of the ethnic Chinese, who were the targets of scapegoating and mob violence during May 1998 riots leading up to the resignation of President Suharto, and they do not want to be victimized again.[27] The Wahid government has taken a number of steps to provide reassurance, including allowing open celebrations of the Lunar New Year for the first time in several decades, but no one can guarantee that this new era of tolerance will continue. Second, ethnic Chinese and other absent owners of property and bank loans who are in default on their obligations may not want to come to the attention of creditors or government prosecutors seeking to fulfill an IMF mandate to take action against bankers and businesspeople suspected of having engaged in corrupt dealings.[28]

Rise of Piracy in Waters Adjacent to Indonesia. The most dramatic impact of political instability in Indonesia has been the sharp rise of piracy in the Straits of Malacca and other Southeast Asian shipping lanes. Data from the International Maritime Bureau indicate a 40 percent increase in incidents of piracy worldwide in 1999, most of them in Southeast Asian waters. These figures include a near-doubling of incidents adjacent to Indonesia to a total of 113. Some of the incidents have involved major vessels. In October 1999, pirates attacked the Alondra Rainbow, a Japan-bound freighter with a cargo of aluminum ingots valued at $20 million, near Indonesia. The two Japanese officers and 15 Filipino crew were set adrift with little food or water in the Andaman Sea and were later rescued by Thai fishermen. The ship was captured by an Indian corvette after a shoot-out. Others ships and crew have not been so lucky. A number of ships and crew have disappeared. Other ships have turned up in Chinese ports with new names.[29]

The incidence of piracy has major implications for U.S. maritime security interests. Inevitably, any threat to world shipping is a threat to the interests of the United States, a major maritime nation. American officials are especially concerned about the current unsettled condition of Indonesia, since a further breakdown of central authority or mishandling of provincial sensitivities could lead to wider regional instability. Helping Indonesia deal with these challenges has been complicated, however, by restrictions in American law on assistance to the Indonesian military and military-to-military contacts. For instance, officials have considered providing training and even surplus U.S. Coast Guard vessels to the Indonesian navy but cannot do so at present because the Indonesian government has not been willing or able, or both, to satisfy the requirements of foreign assistance legislation regarding the still-unsettled state of East Timor.[30]

At present this threat is most notable in the case of Indonesia, which sits astride several key straits and shipping routes. Southeast Asian waters have accounted for more than half of a recent worldwide increase in piracy, including the capture and theft of several major ships and valuable cargoes and the loss of scores of lives. Some who have studied this phenomenon link it to the rapid expansion of international commerce, which has filled the sea-lanes with lucrative targets; widening income disparities in Southeast Asian developing countries, which have spawned desperation among groups that have been left behind economically; and the breakdown of central control in Indonesia. All are directly or indirectly connected with globalization.[31]

Rising Islamic Terrorism in Southeast Asia. In addition to increasing piracy, Islamic terrorism has become a major problem in Indonesia, Malaysia, and the Philippines. The most notable instance is the abduction of 21 people, mostly foreign tourists, from the Malaysian resort island of Jolo by Filipino Muslim guerrillas under the banner of Abu Sayyaf. As of mid-October 2000, the militants had held the Philippine army at bay for 6 months and beheaded two captives. A Muslim insurgency has long operated in Mindanao, but the resurgence of kidnappings, bombings, and other terrorist acts appears part of a general rise of instability in the areas around Indonesia. During an official visit to Manila in late September 2000, the Commander in Chief, U.S. Pacific Command, Admiral Dennis Blair, described rising terrorism in the region as "definitely a concern for the future."[32]

China's Rising Power

A second major threat is the emergence of China as an increasingly wealthy and powerful but politically unstable nation. China is a rising power, with nuclear-armed ballistic missiles and the world's largest military, but its successful linkage to the global economy has created enormous internal stresses. China's transition from a centralized command economy to a market system has been a rocky one, and the continued governmental protection of loss-making state-owned enterprises (SOEs) has gravely weakened its financial and banking system. The political and economic problems posed by SOEs will only increase after China joins the World Trade Organization. At the same time, the progress that has been made toward capitalism has caused a huge income gap between coastal regions and the interior, and created what some regard as a political powder keg. Finally, China's aspirations to regain Taiwan and

establish a de facto regional hegemony have increased the potential for conflict with its neighbors, including Japan—a principal U.S. ally.

Japan's Political and Economic Gridlock

The failure on the part of Japan to adapt smoothly and effectively to globalization also creates risks for U.S. security interests. In Japan's case, a political and economic model that served well in its drive for rapid postwar reindustrialization and helped it become an economic and technological superpower has not coped well with the new demands of globalization. Japan's recent problems have many sources, but the underlying causes seem to be the institutionalization of the power of old economy vested interests and the placing of a high premium on social stability. One troubling consequence has been a mood of pessimism and the rise of nationalism. Despite some forward movement toward closer U.S.-Japan cooperation, Japan remains ill prepared for real partnership with the United States even as its perceived security environment has become more dangerous. This new dynamic seems to be pushing Tokyo in the direction of heightened security consciousness and greater defense autonomy.

Adverse Consequences of Dispersal of Civil Technology

Conspicuous among globalism's challenges to U.S. security interests in Asia are two developments in the exploitation of civil technology:

Military Applications. The rapid spread of dual-use civil technology with military applications must also be included in a short list of adverse developments arising out of globalization. This phenomenon is most evident in the case of China. At present, the saving aspect of the situation is the inefficiency of state-run defense industries, which seem unable to fully exploit technology available in the more dynamic civil sectors—especially those engaged in high-technology manufacturing activities with foreign joint-venture partners. Looking to the future, however, it seems prudent to assume that U.S. military forces in Asia and the Western Pacific will face potential enemies armed with weapon systems that are much more lethal and sophisticated than those they currently possess.

Dispersal of the High-Technology Supplier Base. U.S. defense officials have been concerned about the erosion of the defense industrial base since the late 1970s. Initially, these concerns were focused on declining production surge capacities. By the 1980s, the Pentagon also began to express apprehension about the apparent decline of U.S. high-technology leadership and dependence on foreign suppliers, mainly Japanese and other Asian producers of computer chips and specialty items such as flat-panel displays for combat aircraft. Among other responses, the Department of Defense supported the SEMITEC consortium to regain leadership in the field of semiconductors. In the 1990s, based on a marriage of venture capital start-up companies in Silicon Valley and the global dominance of giant high-tech companies such as Microsoft, Sun Microsystems, and Intel, the United States emerged as the center of the Internet revolution.

Because of globalization, however, and the particular competitive strategies of American companies, the United States is now even more dependent than in the past

on foreign suppliers, mainly located in Asia, for the production of various kinds of semiconductors and other electronic devices.[33]

According to industry analysts, "The secret to Silicon Valley's success has been the emergence of hundreds of specialized chip design houses, unburdened by the huge expense of building chip-fabrication plants." In lieu of large capital expenditures in equipment that rapidly becomes outdated, these fabless chip design companies concentrate their financial resources on hiring the best talent while outsourcing the actual manufacturing.[34] South Korea, Taiwan, and, more recently, China, have emerged as dominant players in the production of computer chips. South Korea has for some years been the principal producer of basic memory chips, while Taiwan has become the largest producer of the more critical logic chips, partly as a designer-producer, but more significantly as the most important locus of the foundry business. One company alone, Taiwan Semiconductor Manufacturing Company (TSMC), commanded 30 percent of the worldwide foundry business in 1998. Even Motorola, one of the largest remaining domestic chip-makers, reportedly plans to outsource 50 percent of its production by 2002, giving much of the business to the TSMC.[35] As for the more common dynamic random access memory chips, industry analysts expect global production in the future to be in the hands of four producers: Samsung and Hyundai of South Korea, Hitachi of Japan, and Micron Technology of the United States.[36]

This new form of dependence has security implications that go well beyond the simple question of ensuring adequate and timely supplies. For instance, Taiwan's current preeminence as a foundry producer adds two new dimensions to the U.S. stake in the China-Taiwan dispute. One is the simple question of maintaining access to important sources of supply. A more important consideration arises out of the fact that competitive pressures have caused Taiwan's chip-makers to move the most labor-intensive aspects of their operations to lower-cost sites in China's coastal provinces such as Guandong. By one account, some 29 percent of Taiwan's computer-related production already has been shifted to the China mainland, with much more expected. The reason is pure economics. Without reliance on China's low-cost, high-quality labor, Taiwan's computer companies, who occupy the lower, more price-sensitive rungs of the market, cannot compete with the Japanese.

Acer, Taiwan's flagship computer producer, makes color monitors, keyboards, and scanners in China and also partially assembles its notebook computers there. Some industry sources maintain that eventually all of Taiwan's mass production operations will go to the mainland, notwithstanding concerns of Taiwan about the political dangers of economic dependence on Beijing.[37] Although today's production in China is largely limited to assembly operations for computers and related electronic equipment, the competitive pressures of globalization in time are likely to result in a shift of chip production to China as well.

The longer term implications of this aspect of globalization for U.S. national security interests depend on a number of factors that go beyond the scope of this chapter. At a minimum, however, the current trends in the globalization of high-technology industries suggest that dependency on foreign suppliers is likely to increase and that a significant share of global production will be located in the one country in Asia, if not the world, that is most likely to emerge as a serious military adversary.

Globalization and Regionalization: Growing Support for Asian Solutions

Two Asian trends differing widely in scope have serious implications for U.S. regional security interests: regional (military-related) activism of major states, particularly Japan, in response to piracy; and a recent increase in, and particularly brutal consequences of, localized terrorism and insurgencies.

Uncharacteristic Japanese Activism. Japan has been unusually assertive in pushing for a multinational—but Asian—response to the growing problem. At Tokyo's instigation, officials from the ASEAN countries, China, South Korea, and India met in Tokyo in late April 2000 to discuss cooperation in combating piracy. Notably, the idea was first proposed by then-Prime Minister Keizo Obuchi at a November meeting of the ASEAN+3 summit. Japan has proposed having ships of its Maritime Safety Agency (MSA)—the Japanese coast guard—participate in joint multinational patrols in the Malacca Strait. The idea has been welcomed by Malaysia, Indonesia, and Singapore. China's stance remains diffident about the MSA role, but Beijing is uncomfortable about the fact that its ports have been used by pirates and otherwise appears interested in cooperation.[38]

Japan appears to have at least two reasons for its uncharacteristic activism on a military-related issue. First, Tokyo is obviously motivated by the fact that its merchant ships are the most lucrative targets for pirates in Southeast Asia. A survey by the Nippon Foundation of 138 Japanese shipping firms reportedly found that Japanese companies had experienced 34 cases of piracy in 1999 costing about $12 million in damages, and 13 attacks in 2000 involving losses of about $7.8 million at current exchange rates.[39] Second, the piracy issue has played into a high-stakes debate in Japan about the future of its regional military role and, more fundamentally, the issue of whether to revise Article 9 of the U.S.-drafted postwar constitution. Two parliamentary committees are holding hearings and debates on the broader issue of changing the constitution.[40]

In advance of resolving the larger constitutional issue, advocates of change within the Ministry of Foreign Affairs and the Japan Defense Agency, a number of senior figures in the dominant Liberal Democratic Party, and like-minded elements within the body politic have moved the country step by step toward the goal of making Japan a more normal nation. This process started with 1992 legislation that allows the Japanese Self-Defense Forces (SDF) to participate, under carefully circumscribed conditions, in international peacekeeping activities.

Even more striking has been Japan's recent agreement with Singapore under which Singaporean airfields and other bases may be made available for use by the Japanese SDF for the evacuation of civilians in the event of major disturbances. In two past instances, Japan sent military aircraft to Southeast Asian airfields to stand by in the event of the need to evacuate civilians, three C–130H aircraft to Bangkok in July 1997 following a coup in Cambodia, and six C–130s to Singapore during rioting in Jakarta in May 1998. Never before had Japan requested standing approval to use another country's facilities.[41] Such a request would have been unthinkable—perhaps even unthought of—a few years ago.

Japan's recent initiatives are subject to varying interpretations, but one view that enjoys substantial support among regional observers is that the Japanese government would like gradually to expand the role of the military in situations that do not cause undue concern or alarm among either its neighbors or domestic opponents of constitutional revision. From this perspective, offering the services of the MSA provides reassurances to both audiences.[42]

Resurgence of Terrorism and Insurgency. Terrorism and insurgency are also on the rise in Southeast Asia, especially in the wake of the Asian financial crisis and subsequent political instability. The most notable examples as of mid-2000 were a series of high-profile hostage-takings by Muslim guerrillas from the Philippines who go by the name of Abu Sayyaf, first in the Philippines province of Basilan and more recently on the Malaysian island resort of Jolo. In the Jolo incident, the guerrillas beheaded several foreign hostages. Although Muslim and other guerrilla activity is nothing new for the Philippines, these incidents appear to have roots in economic dislocations associated with globalization. According to one account, the Abu Sayyaf group first emerged in Mindanao in the context of corrupt relationships with the Philippine marines that were forged to protect illegal logging in Basilan.[43]

Policy Implications and Challenges

Globalization in Asia has specific implications for U.S. security interests and the U.S. military presence—particularly maritime presence—in the Asia-Pacific region. Those implications mean challenges for high-level policy action to promote and strengthen globalization—in effect, to market the global economy as the best guarantor of international security and stability.

Primary Impacts of Globalization in Asia on U.S. Security Interests

To date, the most profound implications of globalization in Asia for U.S. maritime security interests and the future of the Navy appear to take four main forms. First, globalization in Asia has contributed to an emerging challenge to the post-World War II power balance, most conspicuously the emergence of China as a major economic and military power. Second, the spread of high technology to developing parts of Asia has been marked and has provided China, North Korea, and other potential adversaries with military capabilities that heretofore were the monopolies of the United States, its European allies, the former Soviet Union, Japan, and Australia. Third, globalization has also threatened to create new vulnerabilities in terms of dependence on Asian economies for the production, if not the design, of critical military high-technology components such as semiconductors and flat-screen displays. Fourth, and more arguably, globalization has created more instability in countries that do not yet have solid sociopolitical foundations.

Shifting Asian Power Balance. It is not clear that globalization per se has made much change in the nature of a historical process under way at least since the Industrial Revolution. The challenge for U.S. political and military leaders is to craft appropriate strategies to maintain a favorable military balance and to deflect the

emergence of unnecessary sources of conflict. Whether recent U.S. administrations have risen effectively to this challenge can be questioned. Tensions between domestic and international interests are typical of the U.S. national character and the Nation's policy formulation process. The end of the Cold War has allowed potential adversaries and even U.S. allies to seek to rebalance their own interests—particularly where their economic, political, and security interests have inherent areas of conflict. The United States still has the resources to play the role of a stabilizing regional leader, but the cost is rising in the minds of the public at large and their representatives in Congress, and some find it unacceptably high. This creates a temptation on the part of the executive branch to maintain influence over the international system through resort to forms of leverage that other countries find "bullying," rather than to pay the price of creating common goods. This creates opportunities for potential Asian adversaries, and even Asian allies, to coalesce in opposition to U.S. initiatives.

The emergence of China as a would-be world power and, in particular, its desire to push the United States out of the region and regain control of Taiwan pose significant dangers to U.S. interests and to regional stability. The crux of the issue is the triangular U.S.-Japan-China relationship. Rightly or wrongly, Japan and a number of countries in Southeast Asia view China as an emerging long-term security threat. Without the United States, Japan cannot provide for its own security against a future Chinese menace, and without a solid U.S.-Japan alliance, the ASEAN countries and South Korea have little hope of continuing in their comparative freedom from security concerns. Japan, however, increasingly seems tempted to bid for regional leadership as a hedge against a U.S. withdrawal.

Unfortunately, some of the forces that fuel the Japanese desire to gain more freedom of action are also in reaction against globalization and perceived U.S. dominance. These political currents in Japan, unless dealt with astutely by both the Japanese and U.S. governments, could create a self-fulfilling prophecy. In the first instance, they could result in the ejection of U.S. military forces from Japanese bases. Without these bases, the Navy would have to fall back to less advantageous positions in Guam, Hawaii, or elsewhere in the Pacific—weakening if not precluding domination of the Taiwan Strait or power projection into the Indian Ocean.

Dealing with the slow and opaque Japanese decisionmaking processes is understandably frustrating for U.S. policymakers. Especially because of the diffident Japanese attitude toward economic globalization, typified by dogged resistance to structural reform and liberalization on the part of entrenched economic interest groups, U.S.-Japan relations are destined always to be strained by impatience on the U.S. side and annoyance in Japan with American *gaiatsu* (outside pressure). Perhaps more than any other elements of the U.S. official establishment, however, the Navy and Air Force have a vital interest in maintaining a healthy U.S.-Japan alliance.

Despite its moves toward greater autonomy in defense decisionmaking, Japan has continued to cultivate close security cooperation with the United States. The Japanese Defense Agency chief Tsutomo Kawara told Japanese reporters during his May 2000 trip to Singapore that Japan would take advantage of the close timing of its next 5-year defense plan and the U.S. Quadrennial Review to coordinate his country's defense development plan, including equipment purchases, and also to further discuss

joint research on theater missile defense.[44] These reassuring signals notwithstanding, it seems clear both from media reporting and personal contacts with Japanese defense and foreign policy officials that Japan's enthusiasm for close defense cooperation peaked sometime after the completion of negotiations on the revised defense cooperation guidelines in 1997, and that since that time there has been a subtle change in the direction of a somewhat more independent and, for want of a better word, more nationalistic, defense outlook.[45]

Emergence of a High-Technology Threat Environment. Particularly because globalization in Asia has been concentrated in the area of electronics, the phenomenon gives emerging powers such as China advantages that might not be available in less developed regions. China and North Korea in particular have been principal sources of the proliferation of weapons of mass destruction and related technology to other regions. Some of these technologies will strain the ability of the Navy to carry out traditional missions close to hostile territory. Strategies for countering these threats are beyond the scope of this chapter, except for the political and diplomatic aspects. As noted earlier, China does not necessarily have to become an adversary. Decisions in Beijing, Washington, Tokyo, and other regional capitals can affect China's future relationship to the international system.

In this respect, U.S. interests in maritime security can be served by diplomacy as well as measures to maintain technological supremacy. Thus the ASEAN Regional Forum, military-to-military diplomacy, the cultivation of alliance relationships, and even consideration of still-visionary concepts for an Asian equivalent of the Organization for Security Cooperation in Europe or the North Atlantic Treaty Organization merit pursuit. Proponents of China's accession to the World Trade Organization emphasize the benefit of giving China a greater stake in the global system. The same logic has been applied to U.S. engagement with North Korea.

Dependence Vulnerabilities. Dealing with dependence on East Asian sources for high-technology components for U.S. military systems poses a difficult challenge, since the competitive pressures of globalization have steadily pushed manufacturing operations offshore. In one sense, the United States has already partially addressed this issue in the form of NAFTA. From the point of view of information technology companies, production in Asia is simply a function of the right labor skills at the right price. Even as technological capacity deepens in China and other parts of Asia, Mexico and even Eastern and Central Europe have attracted substantial manufacturing capacity, including by Asian companies from Japan, South Korea, and Taiwan. Accordingly, this dependence does not seem amenable to focused governmental intervention beyond the maintenance of adequate stocks of critical spare parts, and competitive pressures from globalization probably can be counted on to keep production distributed to several geographical areas.

Regional Instability. Political and social instability attributable to globalization appears to be an enduring problem in Asia, although the region generally is more peaceful than in many periods in the recent past. Except for isolated pockets, such as the southern Philippines, communist and other ideological insurgencies are a thing of the past, and in general the countries most affected by economic globalization have also established procedural if not full-fledged democracies.

At times of sociopolitical stress, however, as in the case of Indonesia at present, new missions arise for naval and other U.S. military forces. These range from support to antipiracy and antinarcotics actions of affected countries to the extraction of U.S. civilians from areas of violence, either in remote sites of resource extraction operations, such as Aceh or Irian Jaya in Indonesia, or from urban centers. Particularly in Southeast Asia, cities and resource extraction or processing sites are particularly accessible to naval forces.

Two Broad Policy Challenges

The possibility of alternative models of globalization suggests two U.S. policy challenges. The first is to promote and sustain the integrative aspects of globalization; the second, to counter the inevitable negative consequences—foreign and domestic—of even the most benign form of globalization. Both tasks must be addressed to promote the most favorable of the three globalization scenarios, that of deepening regional integration and the institutionalization of pan-Pacific economic and security cooperation, and thus reduction of the possibility of an unstable or competitively nationalistic East Asia region.

Robert Gilpin, arguably the most influential contemporary American political economist, has argued that economic regionalism and protectionism are on the rise, and that the number-one challenge for the United States and other global powers is to find ways to strengthen globalization by correcting its deficiencies and shoring up its political foundations.[46] Gilpin argues here and elsewhere that the great turning points of the past century toward peace or war have hinged on the status of the global economy, particularly the ascendancy of openness or protectionism. If one accepts this perspective, the security challenges associated with globalization in Asia are overshadowed by consequences of a failure of globalization.

This point of view has long been an unspoken assumption behind U.S. trade and economic policy, but its security implications have often been obscured by more immediate challenges. Now that the Cold War has ended, the connections between the global economy and international security and stability have become more evident but also more difficult to address.

A second challenge is making American regional economic and security policy more coherent, thereby to respond more effectively to challenges to other U.S. interests. To date, post-Cold War policy toward East Asia and elsewhere has been marred by conflicting policy imperatives and inadequate coordination. This reflects the absence of a coherent view of the myriad linkages between the economic, political, and security ramifications of globalization and conflicting perceptions among decision-makers, both civilian and military. To a large extent, these conflicts are inherent in the democratic process. In fact, giving interest groups adequate scope for advocating their positions promotes the achievement of national consensus and provides a hedge against major miscalculations.

Notes

[1] The focus of this chapter is East Asia, which includes Southeast and Northeast Asia, running from Burma/Myanmar in the West to Japan in the East. This chapter is not concerned primarily with South

Asia—the Indian subcontinent—which is dealt with in another chapter. The latter region, while nuclear-armed and conflict-ridden, has a much lower level of integration with the international economic, political, and security system.

[2] Lucian Pye, *Asian Power and Politics: The Cultural Dimensions of Authority* (Cambridge, MA: Belknap, 1985).

[3] See Samuel P. Huntington, "The Clash of Civilizations?" *Foreign Affairs* 72, no. 3 (Summer 1993), 22–49; "The West: Unique, Not Universal," *Foreign Affairs* 75, no. 6 (November/December 1996), 28–46; and *The Clash of Civilizations and the Remaking of World Order* (New York: Simon and Schuster, 1996).

[4] World Bank, *World Development Indicators, 2000*, tables 1.1 and 4.5.

[5] The classic work on this connection is Robert Gilpin, *U.S. Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment* (New York: Basic Books, 1975).

[6] See Bruce Cummings, "Northeast Asian Political Economy," in *The Political Economy of the New Asian Industrialization*, ed. Frederick C. Deyo (Ithaca, NY: Cornell University Press, 1987), chapter 2.

[7] Mitchell Bernard and John Ravenhill, "Beyond Product Cycles and Flying Geese: Regionalization, Hierarchy, and the Industrialization of East Asia," *World Politics* (January 1995), 171–209.

[8] World Bank, *World Development Indicators, 2000*, table 4.5, Structure of Merchandise Exports.

[9] International Monetary Fund, *World Economic Outlook* (October 1999), section V, "Trends and Issues in the Global Trading System" and figure 5.2, 127–128.

[10] World Bank, *World Development Indicators, 2000*, table 6.1.

[11] International Monetary Fund, *World Economic Outlook*, table 2.1, Gross Private Financing to Emerging Market Economies, 43.

[12] Nicholas D. Kristoff and David E. Sanger, "How the U.S. Wooed Asia To Let Cash Flow In," *The New York Times*, February 16, 1999, A1, A10.

[13] Huntington argues, "Modernization and economic development neither require nor produce cultural westernization. To the contrary, they promote a resurgence of, and renewed commitment to, indigenous cultures." Huntington observes that "at the individual level, the movement of people into unfamiliar cities, social settings, and occupations breaks their traditional local bonds, generates feelings of alienation and anomie, and creates crises of identity to which religion frequently provides an answer." In the longer run, this tends to promote militarily stronger and more "culturally assertive" countries. From Huntington, *The West: Unique, Not Universal.* V.S. Naipaul made essentially the same point more than a decade before Huntington. V. S. Naipaul*, Among the Believers: An Islamic Journey* (New York: Random House, Reissued Edition, 1982). Among his interviewees in Indonesia was the current President, Abdurrahman Wahid.

[14] *Sankei Shimbun* (Tokyo) cited in the *Straits Times* Interactive (Singapore), April 22, 2000, <www.straitstimes.asia1.com.sg>.

[15] *Straits Times* Interactive, April 13, 2000.

[16] Japan, of course, continues pursuing strong economic ties in Southeast Asia.

[17] This account is drawn from a "Chronology of the Asian Currency Crisis and its Global Contagion," contained in a Web site maintained by Nouriel Roubini of New York University: <http://www.stern.nyu.edu/globalmacro/AsiaChronology1.html>. The summary is drawn from a variety of news sources.

[18] Eric Altback, "Tokyo Takes Heat from Washington, Beijing over APEC Stance, Weak Yen," *Japan Economic Institute Report* 35B (September 18, 1998), 11–12.

[19] Anil Netto, "Politics—Malaysia: Debate Simmers over 'Reformasi' Protests," Inter Press Service, November 23, 1998.

[20] Murray Hiebert, "Ugly American?" *Far Eastern Economic Review*, November 26, 1998, 11.

[21] The World Bank, *East Asian Miracle: Economic Growth and Public Policy* (New York: Oxford University Press, 1993).

[22] Tyler Marshall and Jim Mann, "No Thanks, Uncle Sam," *Los Angeles Times* article reprinted in *The Japan Times*, April 19, 2000, 19.

[23] Yukio Satoh, speech to the National Committee on American Foreign Policy in New York, April 18, 2000.

[24] U.S.–ASEAN Business Report, First Quarter 2000, <www.us-asean.org>.

[25] Datuk Seri Abdulla Ahmad Badawi, "Be Prepared to Face a Brave New World," *New Straits Times* (Malaysia), February 23, 2000, 10, 12.

[26] Barry Wain, "Barely Hanging Together," *Asian Wall Street Journal*, September 29, 2000, 6.

[27] Antara [Jakarta], "Indon Predicted to Need US $12.5 Billion Loan," September 30, 1999; article in *KOMPAS* (Jakarta) cited by U.S. Embassy Press Summary, March 4 and 6, 2000.

[28] Praginanto, "Jakarta Out to Cut Shady Ties Between Groups, State Banks," *Nikkei Weekly*, December 30, 1999, 30.

[29] "Piracy a Growing Problem in Asia," *Straits Times* Interactive, April 28, 2000. Nayan Chanda, "Foot in the Water," *Far Eastern Economic Review*, March 9, 2000, 28–29.

[30] These observations are based substantially on conversations with U.S. civilian and military officials at the U.S. Embassy in Jakarta during February 2000.

[31] Jack Hitt, "Bandits in the Global Shipping Lanes," *New York Times Magazine*, August 20, 2000, 39.

[32] *The Straits Times* (Singapore), September 27, 2000.

[33] Charles Bickers, "Fab Innovator," *Far Eastern Economic Review*, October 14, 1999, Interactive Edition, <www.feer.com>.

[34] Charles S. Lee, "Chip Wars," *Far Eastern Economic Review*, September 23, 1999, Interactive Edition.

[35] Bickers, "Fab Innovator."

[36] Lee, "Chip Wars."

[37] Julian Baum, "Dangerous Liaisons," *Far Eastern Economic Review*, March 25, 1999, Interactive Edition.

[38] Chanda, "Foot in the Water"; "Piracy a Growing Problem in Asia."

[39] Jun Saito, "Piracy Costing Shipowners Millions," *Asahi Evening News*, May 8, 2000, <www.asahi.com>.

[40] "Diet Panel Begins Talks on Altering Constitution," *Japan Times*, April 28, 2000, 1.

[41] BBC Monitoring Service, May 2, 2000, quoted in *The Financial Times* online service, <www.FT.com>.

[42] Chanda, "Foot in the Water."

[43] Cecil Morella, "Estrada's State of Siege Worsens," *Japan Times*, May 5, 2000, 19; Baguiro Luz, "Manila, Media Turned Band into Terrorist Monster," *Japan Times*, May 5, 2000.

[44] BBC Monitoring International Reports, "Japan to Discuss Next Five-Year Defence Plan with USA," May 3, 2000, quoted in *The Financial Times* online service, <www.FT.com>.

[45] This assessment reflects a close perusal of the Japanese media and opinion journals by the author, as well as contacts extending over the last 4 years. These developments are partly documented in a CRS Report for Congress, "Japan's Changing Security Outlook: Implications for U.S.-Japan Defense Cooperation," RL30256 (July 9, 1999).

[46] Robert Gilpin, *Challenge of Global Capitalism: The World Economy in the 21st Century* (Princeton, NJ: Princeton University Press, 2000).