FR ABX-641

EAST-WEST CENTER

Sweeping Changes Shape a New Pacific Asia

RICHARD W. BAKER

AsiaPacific

ISSUES

Analysis from the East-West Center
No. 24
September 1995

The U.S. Congress established the East-West Center in 1960 to foster mutual understanding and cooperation among the governments and peoples of the Asia Pacific region, including the United States. Principal funding for the Center comes from the U.S. government, with additional support provided by private agencies, individuals and corporations and more than 20 Asian and Pacific governments.

The Center promotes responsible development, long-term stability and human dignity for all people in the region and helps prepare the United States for constructive involvement in Asia and the Pacific.

SUMMARY The fast-growing countries of Asia bordering the Pacific are undergoing a series of major, simultaneous transitions. The region's economies are growing explosively, almost beyond the control of national governments and perhaps even beyond what its resources and environment can sustain. Its populations are both growing and aging, putting tremendous pressure on infrastructures and social structures. Its political systems face rising pressures for broader participation from increasingly well-off citizens. The region's security order is suspended between a Cold War framework that no longer applies and new approaches that cannot yet cope with major challenges. Although Pacific Asia is now a world force, its institutions for cooperation and coordination are in their infancy. And in three major countries—China, Japan, and Indonesia—leadership transitions are underway that complicate both their own decision-making and others' assessments of their future actions. In this dynamic and uncertain situation, the United States needs to stay closely involved in the region but also to be patient and take the long view.

The nations of Asia along the Pacific—China, Japan, Taiwan, Korea, and the countries of Southeast Asia—are undergoing a series of major transitions in most of the important areas of life: economics, population, politics, security, regional institutions, and leadership. The fact that all of these transitions are happening simultaneously makes this period exhilarating but uncertain, with exciting prospects but also very real dangers if the region's governments and leaders cannot handle the many challenges involved.

The Economic Explosion

Asia-Pacific economies now account for a quarter of the world's output

Within a single lifetime, Pacific Asia is being transformed from a largely third-world region to one with many advanced, multidimensional economies—and a major dynamo of global growth. The region is the most rapidly growing area in the world. With a few exceptions, such as North Korea, Burma, and Cambodia, its economies are virtually exploding. In 1994 the developing Pacific Asian economies (excluding Japan, which is now considered a developed country) grew at a rate of over 9 percent, as opposed to 2.8 percent for the industrial countries as a group and 4 percent for the United States. For the next decade, the World Bank estimates that this group will grow at 7.7 percent, compared with 2.8 percent projected for the industrialized countries.[1]

Some Pacific Asian countries have even substantially exceeded the 8–9 percent growth being recorded for the region as a whole. In the 1960s and 1970s South Korea grew at 11 percent, and China has averaged over 12 percent annual growth thus far in the 1990s. Sustained economic growth at this level is nothing short of phenomenal. By contrast, during the comparable historical period of American economic development at the turn of the last century, the average growth rate was approximately 4 percent—and at that rate the United States emerged as the world's leading industrial economy within a half-century.

The economy of the region now accounts for a quarter of the world's economic output. Japan's economy now provides two-thirds of this total, but slowing growth will at present rates reduce that share to just over half within a decade; it is the rest of Asia where most growth is now taking place.

The economy of the entire Asian region—including South Asia—is now approximately 90 percent of that of the United States, and will be larger than the U.S. economy in a decade. Of course, with South Asia the region's population is over 3 billion, compared with 260 million for the United States, so even when the economies are of equal size the standard of living of the average American will still substantially exceed that of the average Asian.

The economies of Pacific Asia are also becoming far more closely integrated into the global economy. Growth strategies in the region in recent years have emphasized exports, which depend on access to international markets. These economies also depend a great deal on foreign capital to finance the investments that support their growth. Gaining international access is slowly forcing the Asian countries to open up their own domestic markets through such mechanisms as the international trade negotiations of the General Agreement on Tariffs and Trade (now the World Trade Organization) as well as regional arrangements such as the Asia-Pacific Economic Cooperation forum (APEC). U.S. observers may feel that this is not moving fast enough, but it is happening.

Rapid, export-driven growth in turn makes the countries even more susceptible to the impact of international economic developments than in previous periods. Economic downturns in industrialized countries can have an important impact on the markets for their exports. Sudden capital flows and changing exchange rates (such as the recent dramatic changes in yen-dollar rates) can affect Pacific Asian economies immediately in critical areas—the real cost of their international debts, their income from exports, and even the value of their foreign exchange reserves.

Even as these countries are getting stronger, therefore, they are also becoming increasingly vulnerable to global economic events and trends beyond their control. It is a fact of international life

that the mechanisms to manage such events—whether through action by national governments or through international institutions—lag considerably behind the evolution of the economic system itself. The ability of national governments, particularly in developing countries, to protect their economies from downturns remains quite limited. Thus, still another element of the economic transition involves putting in place the policy instruments to reduce the human costs of rapid economic change.

Resource and environmental pressures. The pace of economic growth and change in some respects is greater than the region's resources and environment may be able to sustain.

One badly needed resource is capital. To support continued growth at projected rates, the countries of Pacific Asia will need an estimated $1 *trillion* worth of infrastructure projects just through the year 2000. President Clinton has remarked that this is the equivalent of rebuilding 15 Santa Monica freeways every day.[2] Even with high domestic savings rates, Pacific Asian economies will need substantial amounts of international capital to pay for these development projects. It is not yet clear how or from where this much capital can be raised. This was one of the major issues discussed by the APEC finance ministers in their first two meetings, in Honolulu in March 1994 and Bali in April 1995.

Energy requirements provide another measure of the magnitude and complexity of the economic challenge facing Asia. At present growth rates the needs of Asia (including South Asia) for oil will nearly double between 1993 and 2010, while the region's own production of oil will decline.[3] By the end of this decade, Asia will pass the United States to become the world's largest petroleum importing region. It will become overwhelmingly dependent on imports of oil from the Middle East—which are projected to grow by 3½ times over the period and by 2010 will constitute 95 percent of Asia's total oil imports. This level of dependency inevitably creates a degree of uncertainty and insecurity.

The rapid growth is straining capital and environmental resources

Economic growth is already pressing on perhaps the most vital resource of all for human life—water.[4] The so-called "green revolution" that has vastly increased food production in the region since the 1970s has also greatly increased demand for water for irrigation, and supplies of cheap water have essentially been exhausted. Water shortages in turn will constrain further growth in food production, a potentially acute problem given the recent decline in global food stocks. There is also growing demand by other water users such as hydropower plants and inland fisheries, as well as golf courses and other recreational facilities serving the increasingly numerous upper-income groups in the region. In Asia's many large cities, water supplies are increasingly strained and water quality is deteriorating. Parts of Bangkok are sinking because too much groundwater has been removed; in some cities, such as Jakarta, even the poor must buy bottled water for drinking.

Other parts of the environment are also deteriorating. The region now produces 31 percent of global emissions of carbon dioxide from fossil fuels. This is predicted to rise to nearly half of global emissions by 2010—even under the most optimistic projections of increased use of non-polluting power sources such as hydroelectricity or natural gas.[5] At the same time, Pacific Asia's ability to absorb carbon dioxide through the natural "lungs" of its tropical forests is also declining. In nine countries of Southeast Asia during the 1980s, forested land was being cut at a rate of 1 percent a year or more.[6] In two of those countries, Thailand and the Philippines, the rate was over 3 percent—which, if sustained, would effectively eliminate these forests by the year 2010.

And even at its impressive current growth rates, the region still has a long way to go to reach the economic levels of the major industrial economies. Per capita income in the region's developing countries still averages only about $700 per year, compared with around $25,000 in the United States and nearly $32,000 in Japan. Completing the economic transition, therefore, promises to be an incredibly difficult process for people, governments, and the environment.

The Demographic Transition

The region is now experiencing two conflicting demographic phenomena at the same time: falling

Asia's population is moving toward lower birthrates and higher incomes

birthrates in some countries but continuing high population growth in others.

The more economically advanced countries such as Japan and Korea have made the so-called "demographic transition." That is, they have reached the point where, due to rising incomes and changing attitudes, their population growth rates have fallen to very low levels. Japan's population growth rate (0.3 percent) is now half that of the United States (0.7 percent); if present trends continue, Japan's population will start declining after 2010 and by 2025 will be approximately the same as it is today. Even China, with a growth rate of just over 1.1 percent today, is approaching this demographic transition.

As a result of this transition, these countries are experiencing a significant increase in the average age of their populations, and relatively smaller numbers of working-age people are having to support larger numbers of the elderly. This results in huge pressures on social structures and economic systems—even greater than those in the United States as the "baby boomers" approach retirement age and the Social Security and Medicare systems are put on increasingly shaky ground.

But other countries in Pacific Asia—and in South Asia as well—are still experiencing relatively rapid population growth. In Southeast Asia, growth rates in the Philippines and Vietnam are currently well above 2 percent per year—a rate at which a country's population doubles in 35 years. In South Asia, India is growing at 1.9 percent, Bangladesh at 2.4 percent, and Pakistan at 2.8 percent, a rate that will double its population in only 25 years. In total, Asia—which at 3.4 billion already has 60 percent of the world's population—will produce another billion people in less than 17 years. This kind of rapid population growth brings with it tremendous pressures on both physical infrastructure and the social and political order.

Thus Asia is in the process of a long demographic transition from high birth-rate, low-income societies to higher-income societies with little or no population growth. This process will take at least several decades to complete. In the meantime, the combination of growing populations in some areas and declining populations (or at least labor shortages) in others has already led to problems of migration flows (legal and illegal) both between different countries and between different parts of the same country. In China alone, one hundred million people are said to be on the move today, seeking work in the more prosperous regions of the country. Immigration issues have caused tensions between the Philippines and both Japan and Singapore, and between Singapore and Thailand.

Political Evolution

It is nearly an article of faith in America that economic growth, and in particular the expansion of the educated middle class, will pressure political systems to democratize or at least allow greater pluralism. This should be especially true in Asia, where political systems have traditionally been somewhat authoritarian. In 1988, following democratic breakthroughs in the Philippines, Taiwan, and South Korea, George Bush proclaimed that "The spirit of democracy is sweeping the Pacific rim."[8]

In retrospect, Bush's declaration was clearly overoptimistic. The Tiananmen massacre in China less than a year later was proof enough that democratization would not happen easily. Also, the idea that Western-style democracy is a model for Asia is actively contested in some quarters in the region. Indeed, many prominent Asian leaders such as Singapore's Lee Kuan Yew dispute the desirability of the American system's type of pluralism and degree of personal freedom (which they would call lack of discipline).[9]

However, the major political events in Asia over the last decade provide some evidence that economic growth and associated changes—including growing access to information and freedom of movement—do raise expectations and bring greater demands on governments to respond more directly to public opinion. In South Korea, Taiwan, and the Philippines, popular pressures were directly responsible for transitions from authoritarian regimes to more democratic governments. In Thailand, public pressure prevented a repetition of the well-estab-

lished tradition of military coups when military authorities did not like the policies of a civilian government.

Japan's democratic political system, instituted after the Second World War, is well-established and enjoys strong fundamental support from the Japanese people. Nevertheless, the defeat of the Liberal Democratic Party in 1993 after 40 years of rule and the splits in that party that followed reflected changes in political dynamics and public expectations. One major factor seems to have been public impatience with both corruption and the effective control of government by a small group of politicians and their business supporters.

In other cases there has not been such visible success. In Burma and China, student demonstrations pressing for democratic reforms were met with bloodshed and atrocities, though few doubt that the underlying sentiments remain and are shared beyond the student communities. In other countries, such as Singapore or Indonesia, the control techniques are more subtle; in still others (i.e., North Korea), the lid is still on so tightly that dissent either does not exist or is invisible from the outside.

So the current picture is mixed, with democratization well advanced or clearly happening in some societies while other societies are still under the control of governments that are to some degree authoritarian. But the prevailing movement is toward more responsive regimes that draw their legitimacy from public consent. The regimes most resistant to this trend are the ones generally considered to be the least durable over the long run. Again, a long-term transition seems to be underway, although neither the pace nor the ultimate outcome can yet be predicted with any certainty.

The Cold War security framework is gone, but the new order is not clear

The Changing Security Order

By contrast with Europe, the Cold War in Asia was essentially an overlay on the geopolitical map of the region, affecting—but not the main driving force behind—regional conditions and events. The superpower conflict did, however, organize the way the United States and the Soviet Union approached the region, and the terms on which the region had to deal with the two most powerful external forces. The end of the Cold War has thus affected Pacific Asia in two principal ways: it has made the underlying political-security issues stand out more clearly, and it has removed the influence of superpower competition on local situations.

The result of these changes is a situation of considerable uncertainty. It is hard even to define the nature of the current security system—whether it is unipolar or multipolar, balanced or unstable. The distribution of power among the various states is uneven and rapidly changing, and there are many unresolved issues that may become sources of tension. And finally, only a very limited institutional framework exists to deal with these issues.

The United States is now the strongest single military power in the region, but there is some question about the circumstances in which the United States would actually be willing to bring its power to bear. Most Pacific Asian governments strongly desire a continued U.S. commitment to the region (although some are more willing than others to say so publicly). But governments are also trying to strengthen their national defense capabilities and to build regional mechanisms for dialogue and cooperation. These latter efforts, however, are still very tentative, and in the meantime the U.S. alliance network remains the only security mechanism in the region with real teeth.

It is simply too early to tell whether the new security configuration that ultimately emerges will be one of dominance by one or more powers, or a balance among groups of powers, or some kind of broader security community. In the meantime, and unsurprisingly, a considerable amount of jockeying for position can be detected, which fortunately has not led to major conflict but clearly contains the potential for instability. The most prominent areas of risk are North Korea's efforts to gain greater recognition and assistance through playing the nuclear card, and tensions in the South China Sea, in which China has extensive claims, focused particularly on the Spratly Islands.

Thus the security order in Pacific Asia is also in transition, or perhaps more accurately in suspen-

sion, between a Cold War framework that no longer applies and new approaches that are just being developed and cannot yet cope with major challenges.

The Emergence of Regional Institutions

Pacific Asia is only now developing institutions that match its economic and strategic importance. After more than a century of reacting to outside forces, largely from the West, the nations of Asia have become independent and increasingly important actors on the world scene. However, Asia remains far behind other regions, particularly Europe, in developing institutions that can enable it to act as a region or even to identify common interests, much less solve problems.

There are a number of historical reasons for the lack of regional institutions. These include the colonial legacy (and the fact that decolonization was a gradual process), the Cold War that divided the region into three groups (including the nonaligned countries), and the lack of early visionary leadership comparable to that which emerged in Europe to promote the development of a regional community.

More success was achieved at the subregional level, notably the establishment in 1967 of the Association of Southeast Asian Nations (ASEAN—founded by Thailand, Indonesia, Malaysia, Singapore, and the Philippines and joined by Brunei and this year by Vietnam). Economic growth led to efforts to establish unofficial economic cooperation forums in the 1970s and early 1980s. But it was only with the ending of the Cold War that establishment of a serious overall regional framework began. The first APEC meeting on economic cooperation took place in late 1989. In 1993 ASEAN sponsored the establishment of a regional security dialogue, and in 1994 the first meeting of the so-called ASEAN Regional Forum (ARF) for security consultations took place in Bangkok.

Asia's organizations lack a track record of dealing successfully with urgent problems

These new institutions have developed operating procedures and agendas at fairly impressive rates, but they are still in their early stages and lack both institutional capabilities and a track record of taking action on urgent problems (especially, as previously noted, in the security area). On the economic side, the leaders of APEC at their meeting in Indonesia last November took the bold and visionary step of declaring the goal of free trade in the region by the year 2020. But they now face great difficulty in formulating the practical agenda that will lead to this objective. Indeed, there is some skepticism that the next meeting, which will take place in Osaka in November 1995, will be able to agree on a firm starting date for this process, or go further than announcing some very modest first steps in such areas as harmonizing customs procedures or standards. In short, the region's institutional transition too is in process, but will take time and is subject to many uncertainties.

Leadership Transitions

A final central feature of the current scene in Asia is leadership transitions in three major countries—China, Japan, and Indonesia.

In China, the transition from Deng Xiao Ping now underway marks only the second major change in leaders of the communist era. Although successor leaders are already in place—the triumvirate of President and Party General Secretary Jiang Zemin, Premier Li Peng, and economic chief Zhu Rongji, with Jiang officially designated as the paramount leader—none of the successors is firmly established in his own right. A period of maneuvering and shifting alignments seems inevitable before China again has a clear leadership structure.

Indonesia became the world's fourth-most-populous country when the Soviet Union disintegrated. Indonesia is also the tacitly acknowledged leader of ASEAN. President Suharto is only the second leader the country has had in 50 years of independence. Over his nearly 30 years in power, the political system has come to be increasingly centered on him, and he has deliberately not made advance arrangements for a succession. Suharto, however, is 74, and anticipation of his inevitable departure from the scene is already generating considerable uncertainty about the country's future leadership and policies.

Japan is a different case, as its transition is not one of individual leaders but rather of the system

America should promote long-term stability, not just push its own agenda

itself. The post-Liberal Democratic Party governments of Hosokawa, Hata, and Murayama have not been strong, and observers believe that the current political configuration is inherently unstable and will not last. (Among other things, the next parliamentary election will be held under a completely new electoral system). But what new alignment will succeed the present semi-stalemate is very uncertain. Thus, Japan is in the process of a major systemic change.

The transitions in these three countries complicate the decision-making of their governments and therefore decisions (and even projections) at the regional level. The weakness of the Japanese government, for example, is one factor making the outlook for the November APEC meeting so uncertain, since the lack of strong and energetic leadership by the host greatly reduces the chances of success.

Further compounding this situation is uncertainty about the future regional policies of the major external powers, Russia and the United States. Some of the most fundamental elements of the regional order are therefore now in transition.

Implications for U.S. Interests

Complex as the current scene in the region is, the major implications for the United States can be summarized in four simple points:

- First, the dynamics of the region reflected in these rapid changes reinforce the case for sustained and even increased American involvement. On economic grounds alone, Pacific Asia is where the action is. The United States needs to be in this action, and to stay in it
- Second, it is in America's interest to continue to act as a stabilizing force in the region, given the many U.S. interests involved—security alliances, economic investments, and a world order of which this region is now a major part and of which the United States is a primary beneficiary and stakeholder. The United States has a unique position and therefore responsibility to maintain its security presence in the region, including specific commitments such as in South Korea.
- Third, the United States should actively support the development of a stronger regional institutional framework. It is essential to the long-term stability of the region that all its members learn to get along with each other and to accommodate each other's fundamental interests. This requires regular dialogue and, as far as possible, the development of common endeavors that can build links among countries which historically lack this kind of cooperation. The United States can be an important catalyst in this process. The Clinton administration has been playing this role and should continue to do so.
- But fourth, the United States must be patient. These transitions will not happen quickly or smoothly, and the long view is best, as was the case during the more dramatic conditions of the Cold War. Given the region's complicated and dynamic conditions, it is particularly important to resist being sidetracked by the preoccupations of the moment, and to resist the temptation to push a strictly American agenda—at a pace that the regional traffic may not bear. To do so would only risk harming both the region's overall progress and long-term American interests.

Endnotes

1. *Global Economic Prospects and the Developing Countries 1995*, p. 78. 1995. Washington: The World Bank.

2. Clinton, Bill. Remarks to members of the U.S. business community and Pacific business leaders, Jakarta, Indonesia, November 16, 1994

3. Fesharaki, Fereidun, Allen L. Clark, and Duangjai Intarapravich. 1995. "Energy Outlook to 2010: Asia-Pacific Demand, Supply, and Climate Change Implications." *Asia Pacific Issues*, No. 19 (April). Honolulu: East-West Center

4. Nickum, James E., and James M. Wolf. 1992. "Asia Water Resources Management in the 1990s: Some Thoughts and Issues." *Water* (Fall). Irrigation Support Project for Asia and the Near East, U.S. Agency for International Development.

5. Fesharaki et al., op cit.

6. *The World Bank Atlas 1995*. Washington: The World Bank, 1994. p. 26-27; World Resources Institute. 1994. p. 307. *World Resources 1994-95*. Oxford University Press; and Nickum, James E., and Judy R. Nishioka, eds. 1995. *Environmental Governance in the Pacific Century*. p. 115. Honolulu: East-West Center.

7. Freedman, Ronald. 1995. *Asia's Recent Fertility Decline and Prospects for Future Demographic Change*. Asia-Pacific Population Research Reports, No. 1 (January). Honolulu: Program on Population, East-West Center. (The statistical data in this section are drawn from World Population Data Sheet, 1994, Population Reference Bureau.)

8. Bush, George. Acceptance speech, Republican National Convention, August 18, 1988.

9. A detailed discussion of the debate over democracy and human rights in Asia can be found in Alagappa, Muthiah. 1994. *Democratic Transition in Asia: The Role of the International Community*. East-West Center Special Reports, No. 3 (October). Honolulu: East-West Center.

About this Publication

The AsiaPacific Issues series reports on topics of regional concern. The views expressed are those of the author and not necessarily those of the Center.

The contents of this paper may be reproduced for personal use. If you would like to reprint, excerpt, or adapt the contents, or for additional copies or other information, please contact the Centerwide publications office, East-West Center, 1777 East-West Road, Honolulu, Hawaii, 96848.

Telephone: (808) 944-7197
Facsimile: (808) 944-7376
E-mail: ewcbooks@ewc.bitnet

Series Editor: Elisa W. Johnston

Issue Editor: Ronald Todt

Available AsiaPacific Issues

No. 17. "A New Agenda for APEC: Setting up the 'Building Blocks' of Free Trade" by Seiji Finch Naya and Pearl Imada Iboshi, October 1994.

No. 18. "China's Ethnic Reawakening" by Dru C. Gladney, January 1995.

No. 19. "Energy Outlook to 2010: Asia-Pacific Demand, Supply, and Climate Change Implications" by Fereidun Fesharaki, Allen L. Clark, and Duangjai Intarapravich, April 1995.

No. 20. "Pacific Transitions: Population and Change in Island Societies" by Peter Pirie, July 1995.

No. 21. "Memory Wars: The Politics of Remembering the Asia-Pacific War" by Geoffrey M. White, July 1995.

No. 22. "Indonesia in the 1990s: More than Meets the Eye" by Adam Schwarz, July 1995.

No. 23. "The Rise of Global Intellectual Property Rights and Their Impact on Asia" by Sumner J. La Croix, August 1995.

About the Author

***Richard W. Baker** is a senior fellow in the East-West Center's Program on International Economics and Politics. He is a former career officer in the U.S. Foreign Service (1967–87).*
Telephone: (808) 944-7371
Facsimile: (808) 944-7380