

**Chapter 1**

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**Security of East Asia**

# **1. The Asian Currency Crisis and the Security of East Asia**

## **(1) Causes of the Asian Currency Crisis**

### Economic Globalization and the Currency Crisis

Encouraged by the rapid economic growth they have achieved in recent years, member states of the Association of Southeast Asian Nations (ASEAN) have stepped up their efforts to maintain stability in the region, expand the membership of the ASEAN and strengthen the unity of its member states. Thanks to such efforts, they have gained a strong voice in the East Asian region and the international community. However, the currency crisis triggered by a crash of Thai baht in July 1997 has instantly spread to other countries of ASEAN, Hong Kong and South Korea. In the process, it wreaked havoc not merely with Thailand, the focus of the currency crisis, and Indonesia, but also with the economy of South Korea, plunging them into recession. And this has cast a doubt about the growth potential of ASEAN countries, which had long been touted as “the growth center of the world” or “East Asian miracle.”

The economic turmoil that erupted in these countries in the wake of the currency crisis has thrown many workers out of jobs and by combining with the mounting popular discontent about rising prices, it has fanned social unrest. What is more, deep cuts in defense spending made by these countries slowed down their defense modernization programs, which might disturb the balance of power in the region. And this could have an adverse impact on the security of the region. Such being the situation now prevailing in the region, an early restoration of economic and political stability has become an urgent task to address for the sake of the security of the Asia-Pacific region.

The currency crisis was triggered on July 2, 1997, by strong selling pressure on the baht, which forced the Thai government to abandon, in effect, its foreign exchange policy pegging the baht to

the dollar in favor of a floating-rate system. Since then, the exchange rate of the baht continued to drop until it fell in January 1998 close to half the rate prevailing in July the year before. And the currency crisis has instantly spread to the Philippines, Indonesia, Malaysia and other ASEAN countries in a chain reaction. It did not stop within the ASEAN region. Instead, it spread in October the same year to Hong Kong, which maintained a strict system of pegging the exchange rate of its currency to the dollar, and to South Korea. As Hong Kong, armed with huge foreign exchange reserves, had adopted a high interest rate policy to defend the exchange rate of its currency, it averted the likes of the crisis that had swept through other parts of Asia. As they saw their foreign exchange reserves drain to a dangerously low level by buying their currency to prop it up, the Asian economies other than Hong Kong had to seek financial assistance from the International Monetary Fund (IMF).

The recent currency crisis in Asia is a “crisis of the 21st century,” which the IMF has been guarding against since the currency crisis in Mexico in 1994. It was triggered mainly by a sudden movement of short-term foreign funds in and out of countries that has resulted from economic globalization. In member countries of ASEAN, rapid economic growth boosted their credit demand at a rate far exceeding their domestic savings rate. In an effort to stabilize the exchange rate of their currencies, these countries pegged it to the dollar and maintained their interest rates at a high level. As the years rolled on into the 1990s, financial and capital transactions in ASEAN countries have been liberalized, making the international capital markets increasingly accessible to private firms, banks and financial institutions. As these ASEAN countries, which had been achieving rapid growth, offered high returns on investment. The combination of these two factors had caused large sums of foreign capital to flow into these countries. However, as exports slowed down in subsequent years, these countries ran large current-account deficits. In Thailand, for example, such deficits rose in

excess of 8 percent of its gross domestic product (GDP), and private firms and banks became saddled with large cumulated foreign debts, casting a cloud over its economic outlook. Sensing trouble looming ahead, short-term funds, which accounted for more than 60 percent of the foreign capital flows into Thailand, fled the country all at once. Incidentally, outstanding foreign debts of private firms in Thailand as of the end of June 1997 stood at \$69.38 billion. A total of \$45.667 billion, or 65.7 percent of them were short-term loans falling due within one year.

Another big factor was the fragility of financial systems in Thailand. The country's monetary authorities were unable to control the inflow of large amounts of foreign capital, especially short-term funds. What is worse, as financial institutions gave precedence to personal connections in making loans without adequately checking credit worthiness of their clients, their lending stance has led to the creation of bad loans that ballooned to a uncontrollable scale. The resulting fragility of the financial system has eroded international confidence, and the shaken international confidence has precipitated the currency crisis.

The economic performance of Malaysia and Indonesia in pre-crisis years was not as bad as that of Thailand. Their exports have not contracted as much as Thailand's, and their current-account deficits as a percentage of their GDP — 5.2 percent for Malaysia and 3.4 percent for Indonesia — were on a normal level in 1996. However in emerging markets, such as member countries of ASEAN, a high rate of return on investment means also a high investment risk. Because investors took the view that the structure of emerging markets was the same, when the valuation of a market declined, that of the emerging markets as a whole fell regardless of the economic performance of individual markets. The negative valuation thus spread to other emerging markets in a chain reaction and pushed down the exchange rates more sharply than warranted by actual economic performance. It did not stop there, either. The political and social situation reacted sensitively to the worsening

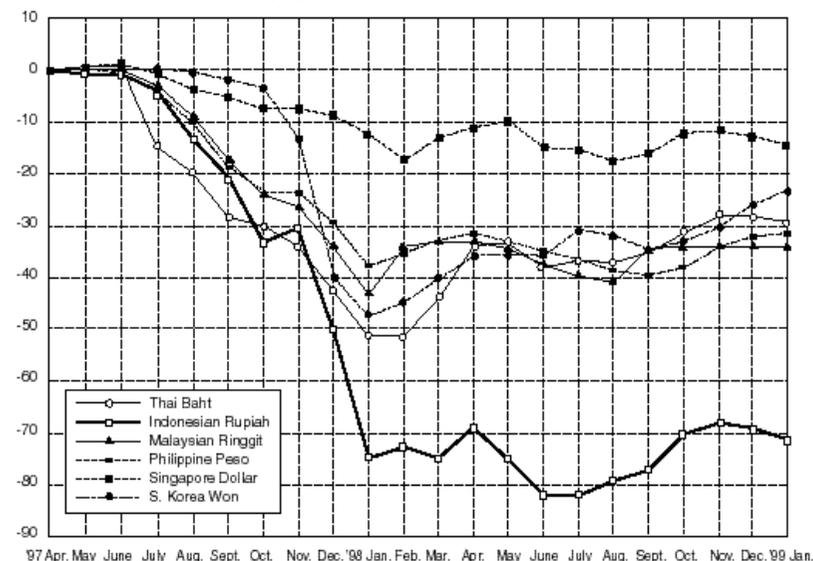
economy, and the growing political instability added fuel to the flame of economic crisis.

### Indonesia's Belated Response

Since late in 1997, there was talk in Indonesia about the failing health of President Suharto. Despite the agreement it had reached with the IMF in January 1998 to implement economic reforms, Suharto's government announced a budget for fiscal 1998 (April 1998-March 1999) that proposed to spend 30 percent more than it did a year before while envisaging an 8 percent increase in its real economic growth. Several national projects it had once shelved were to be restarted. In response, the market read the announced budget as a signal that the government would not implement the economic reforms to which it had committed itself and began to bail out of their rupiah assets. As a result, the exchange rate of the rupiah momentarily plunged as low as 17,000 rupiah to the dollar at the end of January 1998, a precipitous 80 percent plus drop from that prevailing in June 1997. The conditionality imposed by the IMF on its loans to Indonesia included the abolition of preferential treatment given to members of the Suharto family and confidants of the president, more specifically, the liberalization of distribution of wheat and sugar, the abolition of the producers' cartels of cement, plywood and paper, the abolition of subsidies to the national car project and the aircraft industry. Repelled by the conditions, Suharto in a speech delivered before the People's Consultative Assembly (Majelis Permusyawaratan Rakyat, MPR) in March 1998 took a defiant stance by declaring that the conditions imposed by the IMF ran counter to the Constitution of Indonesia. His speech touched off a market backlash, the rupiah tumbled again and the IMF postponed the second tranche of its loan to Indonesia.

The delay in implementing economic reforms by the Indonesian government made the economic outlook even more opaque. The economic turmoil in Indonesia, the largest member

**Chart 1. Value Fluctuation of Major Asian Currencies against U.S. Dollar (%)**



Note: Monthly average, April 1997=0  
Sources: Relevant issues of *International Financial Statistics*.

country of ASEAN, threatened to adversely affect not just Southeast Asia but also the world economy. Concerned about such contingency, an array of leading world figures — U.S. Deputy Secretary of the Treasury Lawrence Summers, Prime Minister Goh Chok Tong of Singapore, Prime Minister Mahathir Mohamad of Malaysia, Presidential Special Envoy Walter Mondale of the United States and Prime Minister Ryutaro Hashimoto of Japan — visited Suharto to persuade him to carry out the economic reforms. Thanks to their efforts, he relented and reached a third agreement with the IMF on April 8, 1998.

### Repercussions of IMF-Imposed Economic Reforms

Malaysia did not seek aid from the IMF. This is partly due to the fact that the currency crisis in Malaysia was not as serious as in Indonesia. More importantly, however, it was because Prime

Minister Mahathir detested a reform dictated by the IMF. Instead, Malaysia chose to carry out an economic reform of its own. The IMF conditionality imposed simultaneously with its financial assistance calls for the transparency of economic policy and equality of opportunities based on a market-driven economy. However, since 1971 the country with multiple ethnic populations has followed a new economic policy, or commonly referred to as "Bumiputras (son of the soils) Policy," which is designed to elevate the status of economically disadvantaged ethnic Malays by mandating higher equity interest for them in newly formed companies and by giving them preferential treatment in employment and admission to universities. And this helped Mahathir establish his constituency. As such policy measures in favor of ethnic Malays clash with the classic economic liberalism advocated by the IMF, acceptance of IMF aid would obviously force Malaysia to carry out economic reforms.

Indonesia is comprised of a multitude of islands. If pricing of basic necessities was left to market forces, prices would vary widely depending on the location to which they are delivered because of the transportation cost. And due to a large disparity of incomes among its people, it was a political necessity to control certain categories of basic necessities. However, the IMF insisted on introducing the market mechanism to determining the prices of basic necessities. And it was exactly this approach taken by the IMF that prompted Mahathir to complain that the IMF did not understand Asia. Given the tidal wave of globalization of economies now sweeping through these countries, it is imperative for them to strengthen their financial systems and increase the efficiency of their economy by ridding themselves of corruption and cronyism. However, because many ASEAN countries are multiethnic and multireligious countries composed of a large number of islands, there are certain institutions that need be maintained in order to maintain economic and social stability. However, in dealing with the recent currency crisis, the IMF tried to introduce a market mechanism even in measures taken by these ASEAN countries to achieve economic

stabilization. And some characterize the differences as a clash between Asian values and the Western *laissez faire*.

Meanwhile, with a view to defending its stock prices and currency, the Malaysian government announced on September 1, 1998, a policy of prohibiting the resale of shares for one year after their purchase and sharply curbing outbound remittance of ringgits and foreign currencies effective from October the same year. The following day (September 2), the government announced that the exchange rate of the ringgit will be fixed at 3.80 ringgits to the dollar for the purpose of stabilizing the currency value and revitalizing the domestic economy. These announcements have incurred charges that the fixed exchange rate system is incongruent with the floating exchange rate system being adopted by other ASEAN countries, and that it will rigidify the financial system of Malaysia and scare away foreign investors. It is not clear how long the fixed exchange rate system will last, and one has to watch closely what effect it will have on the Malaysian economy in coming years.

There is no gainsaying the fact that the Asian currency crisis has fanned foreign investors' mistrust of the emerging market. In Russia, one of the emerging markets, a massive outflow of short-term foreign funds has triggered a sharp fall in the value of the ruble. Unlike in Asia where excessive investment was financed by foreign funds, the financial crisis in Russia was triggered by an outflow of foreign funds parked in deficit-covering government bonds. Its crisis resembles that of the cumulative debts in Latin America during the 1980s.

Under an agreement worked out with the IMF on July 13, 1998, the Russian government was supposed to receive a total of \$22.6 billion in loans during the ensuing period to the end of 1999. However, the ruble continued to drop despite the agreement, forcing the Russian government to abandon the target zone of its exchange rate, and it shifted its policy to the floating exchange rate system on September 2.

## (2) The Asian Currency Crisis and Japan

### Japan's Roles

Japan is called on to play two important roles to defuse the economic turmoil that occurred in the wake of the currency crisis. One of them is a short-term one to bail them out of the liquidity crisis, and the other is a long- and medium-term one to help these Southeast Asian countries make an economic recovery.

With respect to the first role, it is fair to say that Japan as a provider of funds was instrumental in heading off a liquidity crisis. In the area of financial aid, Thailand, which had seen the exchange rate of the baht plunge in July 1997, reached an agreement with the IMF on August 11, and Indonesia, which adopted the floating exchange rate system under selling pressure on the rupiah, likewise reached an agreement with the IMF on October 31. In the case of South Korea, where a financial crisis engulfing the chaebol has begun to surface since early 1997, breeding rumors about possible liquidity crisis some time in the fall, the IMF worked out on December 4 an agreement with the government on financial aid. In the course of talks with these countries, Japan agreed to chip in \$19 billion in financial aid, the largest amount among the donor countries.

The real challenge facing Japan is the long- and medium-term role it is expected to play. Mexico, which had undergone in December 1994 a currency crisis similar in many respects to the one experienced by Asian countries, achieved a dramatic turnaround in one year and its GDP increased 6.4 percent in the second quarter of 1996 over the same period the previous year, up from minus 6.2 percent in 1995. This was largely due to a 20 percent to 30 percent increase it had achieved in its merchandise exports to the United States for two consecutive years of 1995 and 1996. With the liquidity crisis in Southeast Asia calming down, countries in this region are in need of a healthy and sustained increase in their exports to fuel a full-steam recovery of their economies. A compari-

son between their two major trading partners — Japan for Southeast Asia and the United States for Mexico — shows differences between them in two aspects. One of them is that the reliance of these Southeast Asian countries on Japan for the export of their products is far smaller than that of Mexico on the United States. While the United States accounted for 87.4 percent of Mexican exports in 1995, Japan accounted for 24.7 percent of Indonesia's exports, 15.0 percent of Thailand's, 12.5 percent of Malaysia's and 10.8 percent of South Korea's in 1997. In 1995, Mexico's exports to the United States accounted for 27.0 percent of its GDP. By contrast, Indonesia's exports to Japan accounted for 6.0 percent of its GDP, Thailand 5.7 percent, Malaysia 10.2 percent and South Korea a mere 3.2 percent in 1997. These figures suggest that the buoying effect of an increase in their exports to Japan is rather limited.

The other difference is that the recovery of the Japanese economy has made little headway. At the time the currency crisis erupted in Mexico, the U.S. economy had been humming along since March 1991. As the U.S. economy was in the midst of a period of noninflationary growth, Mexico's exports to the United States had increased steadily. By contrast, the IMF projects GDP of Japan to contract 2.5 percent in 1998 from the year before, a postwar low, even worse than that witnessed in 1973 when Japan was hit by the first oil crisis. In order for these Southeast Asian countries based on a small domestic market to achieve a full-blown recovery, they have to expand their exports. But Japan has no demand to absorb their exports.

In addition to absorbing the exports of these countries, Japan has a long- and medium-term role to play as a provider of direct investment. The fallen exchange rates of the currencies of these countries mean cheaper direct investment for foreign firms. And if these countries deregulate foreign investment in compliance with the IMF conditionality, these two factors would boost foreign direct investment. An increase in foreign direct investment would spur

domestic supply and demand of host countries, and lead to an expansion of their merchandise exports and an increase in productivity. Direct investment by Japanese firms has already established a big presence in these countries. The combined direct investments made by Japanese firms in four ASEAN countries (Indonesia, Thailand, Malaysia and the Philippines) are the largest among the investing countries and account for 31.0 percent of the total direct investments of these four countries. However, if the weakening of the yen, persisted for any length of time, the investment costs of Japanese firms would increase and lessen the incentive to make additional direct investment.

The first priority Japan has to address in the coming months is to bring about economic recovery on its own. Although its buoying effect on imports from Southeast Asian countries is limited, it is certain that the economic recovery of Japan will suck in more imports from these countries and provide stimulus to their economies. A delay in the recovery of the Japanese economy would weaken the financial position of Japanese firms and would inevitably lead to a decrease in their direct investment in these countries. The second priority has to do with the cultural aspects of economic activity. In other words, it is to provide Western industrial countries with information concerning the peculiarities of business customs of Asian countries, which are not necessarily the same as those of Western countries. The IMF imposed conditions on its loans to Southeast Asian countries during the recent currency crisis. Generally, the conditionality of IMF loans is designed to urge recipient countries to change their macroeconomic policy in a short period of time. However, when viewed from the recipients' perspectives, such conditions carry the risk of temporarily upsetting the balance of the macroeconomy or causing political instability. One option for reforming the existing economic structure of these countries is to take a gradualistic approach on the model of the experience Japan had in rebuilding its economy after the war. The IMF will monitor the progress these recipient countries are making in implementing

its conditionality. And Japan is called on to take up the role of advocating to Western countries on behalf of these recipient countries an appropriate approach that takes into account the peculiarities of these countries and reflects them to an extent consistent with economic rationality on the approach to reforms taken by the IMF.

#### China's Economic Presence in Asia

China has been earnestly seeking membership in the World Trade Organization (WTO), but it still has problems to sort out, not least measures relating to trade and access to its market. In 1994, it had devalued the renminbi (the Chinese yuan), and in 1996 there had occurred cases of infringement of U.S. intellectual property rights by Chinese.

Until recently, the presence of the Chinese economy lay primarily in the potential scale of its vast market, which continued to grow. Since the currency crisis in Asian countries, however, its presence in the world economy as a major factor to reckon with has been mounting. To begin with, China contributed \$1 billion to the \$17.1 billion that was agreed to be lent to Thailand in August 1997. When worries of the world's financial community were mounting about the possibility of a weakening yen triggering a devaluation of the renminbi, President Jiang Zemin during a summit meeting held in June 1998 told U.S. President Bill Clinton who was visiting China that his government will not devalue its currency. To be sure, as China exports large quantities of labor-intensive products (such as textile goods), which are similar to those of ASEAN countries (notably, Indonesia, Thailand, Malaysia and the Philippines), a devaluation of the renminbi would seriously hurt the exports of these ASEAN countries. If that comes to pass, the export-led economic recovery of the ASEAN countries would be delayed further and touch off another round of declines of the exchange rates of the ASEAN currencies. However, China has repeatedly denied the possibility of devaluing its currency even if the ASEAN countries devalued their currencies or if the yen weakens further. One may

have the impression that the United States supported by its robust economy is playing the role of a main anchor, and China that of a subsidiary anchor, for the economies of Asian countries.

In fact, China is not a major trading partner of ASEAN countries and the scale of its direct investment in these countries, also, is negligibly small. Such being the position of China vis-à-vis ASEAN countries, it has no card to play for the time being at least except to maintain the exchange rate of the renminbi as far as its response to the Asian currency crisis is concerned. Therefore, the presence of the Chinese economy as a positive factor for stabilizing the Asian economies will become less conspicuous as the Asian economic crisis winds down in the coming years. In such cases, the presence of the Chinese economy will lie, as it did before, in the potential clout of its vast market.

Meanwhile, Taiwan, which emerged from the currency crisis relatively unscathed, has been trying to build its presence in ASEAN countries by mounting economic diplomacy through increased financial aid to, and direct investment in, these countries. In response, China has been trying to frustrate Taiwan's economic diplomacy by offering similar economic aid to these countries. China and Taiwan have thus locked horns with one another over the economic leadership in these countries.

### **(3) Impact on the East Asian Security**

#### Spreading Social and Political Unrest

The sharp fall in the exchange rates of the currencies of Southeast Asian countries has stoked import inflation, and higher prices of basic necessities brought about by it are squeezing household budgets. Coming as they did at such a juncture, higher interest rates and deep cuts in fiscal spending effected by their governments as part of their drive for structural reforms of their economies have deeply cut into domestic consumption. And bankruptcies of business firms saddled with huge foreign debts and bad

loan, and the suspension of development projects of respective countries have combined to produce a large number of unemployed workers, adding to the social unrest in these countries. Especially, the social unrest in Indonesia, a country with the fourth-largest population in the world, has produced a large number of displaced people who sought refuge in neighboring countries, and their presence could cause political unrest in their host countries.

Consumer prices in Indonesia where the exchange rate of its currency has fallen most sharply among the East Asian countries have increased its tempo of rise since early 1998 in step with the sharp fall in its exchange rate. Rises in the prices of basic necessities (rice, wheat, sugar and soybeans), supplies of which have shrunk on account of a drought in 1997, are particularly pronounced. Moreover, a sense of growing food shortages has driven many consumers to buy up goods off the shelves of supermarket, further pushing up food prices. Hit the hardest by price rises and shortages were the impoverished, who broke into stores run by ethnic Chinese. Consumer prices jumped up by 33.1 percent in April 1998 over the same month a year ago, forcing the government to revise upward month after month its original projection of 25 percent for the whole year of 1998. And its projection made as of June was raised to 80 percent, up from 11 percent in 1997.

In other countries, too, consumer prices have risen. In Thailand, they rose by more than 10 percent in April and May over the year before, and are likely to rise above 11.6 percent for the whole year of 1998, up from 5.6 percent in 1997. The inflation rate is seen rising from 4.4 percent in 1997 to 9.6 percent in 1998 in South Korea, and from 2.7 percent to 7 – 8 percent in Malaysia.

Increases in unemployment brought about by bankruptcies, business closure and restructuring of business operations have become a factor of instability. Statistics released by the Thai government in June 1998 reported the number of unemployed at 2.6 million, far above the 2 million it had projected for the whole year at the beginning of 1998. As their number is expected to increase by

another half a million, Thailand's unemployment rate is likely to increase to 10 percent by the end of the year. In South Korea, owing to the progress chaebol-affiliated firms have made in their restructuring drive, the number of unemployed, according to an official announcement made in June, has increased to 1,492,000 (up from 570,000 in November 1997) or to a 15-year high of 6.9 percent in May, and soared past the 6 percent mark the government had projected at the beginning of the year.

In Indonesia, which has a population of about 200 million, the situation is even graver. The number of unemployed workers stood at 4.4 million in 1996. As the currency crisis is expected to take a heavy toll of jobs, its government at the beginning of 1998 projected the number of unemployed workers to increase to 13.4 million, or 15 percent of its workforce, by the end of the year. In actuality, however, their number exceeded the government projection as early as March and soared to 15.4 million, or 16.8 percent. The government projects an increase of another 2 million by the end of 1998.

While South Korea may be able to alleviate discontent of unemployed workers by paying them unemployment benefit, Thailand and Indonesia do not have such a safety net. If the recession drags on in these countries, there is a danger of public disorder or mounting social unrest. In Malaysia, on the other hand, the damage sustained from the currency crisis was smaller than in these three countries, and its unemployment rate is seen rising from 2.5 percent in 1997 to 3.5 percent in 1998.

Meanwhile, the swollen ranks of the unemployed in Indonesia are spilling into neighboring Malaysia and Singapore, creating problems in these countries. Concerned about a deterioration of public order that may be caused by the influx of jobless Indonesians and the need to protect jobs for their own citizens, these countries have stepped up patrols of their coastlines and have repatriated illegal entrants to their home country. According to the Malaysian government, it arrested about 17,000 refugees

who tried to smuggle themselves into Malaysia during the first three months of 1998. And an overwhelming majority of them were Indonesians. In March, inmates who were held at an illegal immigrant detention camp in the suburb of Kuala Lumpur for deportation started a riot, and in the violence that ensued, eight Indonesian inmates and one Malaysian policeman were killed. In April, about 30 Indonesian illegal immigrants fled to the American and French Embassies.

In Thailand, there are an estimated 1 million Myanmarese illegal immigrants, and the Thai government has stepped up its surveillance to arrest and deport them since May. Although they have not yet caused any diplomatic problem, further increases in the number of refugees and their deportation could strain diplomatic relations between the two countries.

#### Fiscal Austerity and Its Impact on Defense Buildup

Supported by the steady growth of their economies and increases in their foreign exchange reserves, the defense spending of Southeast Asian countries had tended to increase year after year, and their armaments have been rapidly strengthened and modernized. However, reductions in their fiscal spending and the sharp drop in their exchange rates have cut into their defense spending and training programs, causing a delay in the modernization of weaponry and a slowdown in the modernization of the military of many member countries of ASEAN.

The national budget of Thailand for fiscal 1998 (October 1997-September 1998) amounted to 800 billion bahts, which represented a 15 percent decrease from that of fiscal 1997. Its defense budget was cut 21.4 percent below fiscal 1997, to 81.1 billion bahts. What is more, the budget proposal for fiscal 1999 calls for 800 billion bahts in government spending, the same as the year before, but its defense budget is expected to be cut by 10 billion bahts below fiscal 1998, to about 70 billion bahts. Given the sharply fallen exchange rate of the baht, the proposed cuts in defense budget

will severely curtail the purchase of new military equipment, inflicting the most serious impact on the air force which heavily depends on imports to replenish its equipment. The Thai government has been forced to cancel the purchase of eight F/A-18 fighter aircraft that it had contracted for in 1996, and its air force cut the number of training missions from twice a week to twice a month. The army has postponed its plan to replace M-16 A1 automatic rifles, the purchase of the Star of Siam (a border reconnaissance satellite) and the upgrading of light tanks, and the navy postponed its plan to purchase two submarines. In addition, the Thai government came out with a plan to establish a Central Procurement Committee to rationalize equipment procurement. The commission will take over the function of equipment procurement, which had been handled separately by the three services, and will handle the procurement of equipment worth 1 billion bahts or more.

The original defense budget of Indonesia for fiscal 1998 (April 1998-March 1999) was 17 percent larger than that of fiscal 1997. However, the sharp drop occurred in the exchange rate of the rupiah has reduced its dollar-based purchasing power by about 50 percent. General Wiranto, minister of defense and security, expressed the fear that the currency crisis hit the air force hard and is hindering the purchase of military aircraft. In addition, the flying time of trainees has been reduced to a level below the standard. In January 1998, the Defense Ministry suspended or postponed the procurement of about \$1 billion worth of military equipment. And this includes 12 Su-30K fighter aircraft and eight Mi-17 helicopters that Indonesia planned to purchase from Russia in reaction to the criticisms the United States had leveled at Indonesia in 1996 about the way in which Indonesia handled the East Timor problem. The prospect for the purchase of five secondhand German-made submarines still remains murky.

Malaysia has increased its original budget proposals for 1998 by 1.5 percent over the year before, to a total of 60.76 billion ringgits, but it cut its defense budget by 2.5 percent from the preceding

year to 5.75 billion ringgits. Subsequently, however, it revised its defense spending in April and cut it by 1 billion ringgits under the pressure of a raging currency crisis to about 4.6 billion ringgits, down 25 percent from a year ago. In addition, its training expenses were cut almost by half and it postponed plans for the purchase of South African-made attack helicopters, armored vehicles and coast-guard patrol boats, and the new domestic projects for the development of a 5,200-hectare exercise ground and related facilities.

The Philippines had been pressing ahead with a modernization program of its air force and navy by investing a total of 331.6 billion pesos under the five-year defense modernization program approved in 1995. Initially, the government had decided to allocate 50 billion pesos over the five-year period that started in 1996. However, due in part to a belated start of the program, and in part to a fall in the peso rate in the wake of the currency crisis of July 1997, its equipment procurement plan seems to have been trimmed substantially. Details of its procurement plan are not available except that the government held a briefing meeting on April 27, 1998, about an international tender on 12 multirole fighters and three coast-guard patrol boats.

#### Revising "Noninterference" Principle?

Cuts in defense spending and the sharply fallen exchange rates could undermine the defense capability of ASEAN countries. What is more, cutting defense budget at a time when swelling ranks of unemployed workers, spiraling inflation and growing shortages of food and fuel oil that are causing social and political unrest could undermine their ability to maintain law and order in their countries. And a delay in the modernization of their military equipment could widen the military power gap between ASEAN countries and China, the largest country in the region. Weaker defense capability could undermine the credibility of their claim of sovereign rights to the islands in the South China Sea and thus might create sources of instability for the security of the Southeast

Asian region. The pace of modernization of military equipment could ease in step with a slowdown in economic growth. And cuts in their defense spending may prompt them to procure low-cost equipment, and one cannot rule out the possibility that such a tendency among equipment-buying countries will strengthen the clout of Russia and China in the arms markets.

Over the short term, tighter fiscal and monetary reins will remain in place in these countries and their economies will register negative growth or grow marginally, if at all, in the next one or two years. Over the medium term, also, as these countries make headway in their economic structural reforms (such as the normalization of their financial systems), the likes of the reckless investment they had made in the past will be curtailed, their economic growth rate will no longer be as high as 7 percent to 9 percent as it was during the past 10 years, and they will have to adjust their economies to a lower and sustainable growth track. Such being the challenges they face today, these ASEAN countries will invest as much domestic resources as possible in projects directly contributing to the recovery of their economies.

In the Southeast Asian region, strategically important sea lanes run through the Straits of Malacca, the Sunda Strait and the Lombok Strait, and these sea lanes have become import oil shipping routes for Japan. As the interdependence of trade among the countries of the Asia-Pacific region deepens, concern over the security of sea lanes has mounted, and political and social instability of this region will affect the safety of these sea lanes. More important, prolonged political and social unrest could fuel separatist independence movements of nationalist elements.

So far, Japanese, U.S. and European banks and business firms have lent or invested huge sums of money in Southeast Asian countries, and merchandise trade between these countries has increased, so much so that political and economic instability in these countries threaten the economic interests of these industrial nations. Therefore, these industrial nations are anxious to see the

ASEAN countries recover their economic stability by carrying out the economic reforms urged by the IMF. By seizing every opportunity — an Asia-Pacific Economic Cooperation (APEC) ministerial meeting held in November 1997, the World Economic Forum, or the Davos Conference held in February 1998, the second summit of the Asia-Europe Meeting (ASEM) held in April, and the G8 Birmingham Summit held in May — Western nations urged ASEAN countries time and again to carry out economic reforms. During his visit to Asia in January 1998, U.S. Defense Secretary William Cohen met and urged President Suharto of Indonesia to implement economic reforms as soon as possible. While he was in Asia, Cohen stressed that promotion of multilateral dialogue and cooperation is essential to achieving stability and prosperity of the Asian region and that the U.S. military presence provides the foundation of such stability and prosperity. He asked member countries of ASEAN to allow greater access of U.S. naval vessels to their ports and for their broader-based military cooperation with the United States. And ASEAN countries shared the recognition of the importance of the U.S. military presence in this region.

Given the gravity of the economic turmoil, ASEAN countries have no choice but to devote their attention and resources primarily to economic reconstruction at the expense of their military and diplomatic preparedness. This has aroused misgivings about the weakening unity of ASEAN countries. Under such circumstances, it takes on growing importance to maintain stability of the region by building confidence in one another through multilateral cooperation and by enhancing greater transparency of their defense and foreign policies. In recent years concerns common to them all — globalization of their economies, increases in the number of cross-border migrant workers and refugees, rising international drug traffic, and haze from forest fires that have recurred in the region since 1997 — have mounted. Faced with such intraregional problems, some expressed doubt about the wisdom of sticking to the principle of noninterference and decision-making on the basis of

consensus. For instance, in a speech he had delivered at Thammasart University late in June 1998, Foreign Minister Surin Pitsuwan of Thailand stressed the need to rethink the principle of noninterference of ASEAN, and Foreign Secretary Domingo Siazon of the Philippines indicated the necessity for flexible engagement.

If the ASEAN countries agree to put aside the principle of noninterference and promote the relationship of constructive cooperation among them, it raises the possibility of transforming the ASEAN Regional Forum (ARF) from a mere channel for dialogue to that of preventive diplomacy and to a higher-level multilateral framework of security for solving disputes among its member countries. Meanwhile, there has emerged a movement for creating a regional economic regime built on a system of settling trade accounts with a local currency or currencies and for establishing an Asian Monetary Fund. From the foregoing, it may be said that the recent currency crisis has performed the role of touching off movements aimed at strengthening the existing political and economic systems or building new ones in each of these countries, and in the region as a whole.

## **2. A Political Change in Indonesia and Its Impact**

### **(1) From a Currency Crisis to a Political Crisis**

After a 32-year-long reign, President Suharto of Indonesia stepped down on May 21, 1998. His departure marked the end of a developmental dictatorship. The synergy of mass riots triggered by hardships caused by sharply higher prices of basic necessities and student movements for democracy were directly responsible for forcing him to step down. However, the basic cause of his downfall was a public backlash against the cronyism and the monopoly of economic interests to which he had clung for so many years. Long admired as “Bapa Pembangunan (Father of Development)” of Indonesia, Suharto had pressed ahead with programs designed to develop the industry of Indonesia and, in the process, had con-

tributed to the improvement of the living standards of its people. While he had presided over the continuing growth of its economy, he dished out the growing economic pie to his family members and loyalists, military as well as bureaucratic. And these loyalists helped Suharto further consolidate his power, and Suharto in turn rewarded them with still more lucrative business. Coming as it did at such a juncture, the aftershock of the currency crisis has laid bare the structural defects of the Suharto regime, forcing him to step down after 32 years in power. In his place, Vice President B. J. Habibie took over the reins of government, but unlike the bloodletting change of government engineered by Suharto, the reins of government were taken over in a peaceful manner. However, price hike and increases in unemployment have continued unabated, clouding the prospects for early political and economic reforms.

Indonesia shifted the exchange system of the rupiah to a floating rate system in August 1997. In October, it requested the IMF for the financial aid and reached an agreement at the end of the same month. Thus far, Indonesia followed the same steps as Thailand did before it, but when Suharto canceled his appearance at the ASEAN summit meeting scheduled for December 1997, concern about the ill-health of 76-year-old president surfaced. When Indonesia’s budget for fiscal 1998 was announced, doubts arose about the willingness of his government to observe the conditionality it had agreed with the IMF. And the doubts touched off a massive exodus of short-term funds from Indonesia, causing a steep plunge in the rupiah. The balance of Indonesia’s outstanding external debts at the end of 1997 stood at about \$140 billion (of which about \$68 billion were accounted for by private debts). While this may not be characterized as sound given the economic scale of the country, it was not as bad as might justify the sharp drop in the rupiah rate. Clearly, the sharp drop in the rupiah is attributable to the murky political outlook of Indonesia caused by the failing health of aged Suharto and the market mistrust of self-governing capability of the country’s leadership, which lacked the clearly-de-

financed political will to reform its economy. In this aspect, the currency crisis of Indonesia is also a political crisis. What is more, when the name of then Minister of State B. J. Habibie was bandied about as a candidate for the vice presidency, and when Gov. Sudradjat of the central bank, who had spearheaded economic reforms, was discharged, the rupiah took a dive.

The mounting popular discontent about the government of Suharto and the growing instability of the domestic situation were also responsible for the crash of the rupiah. The democratization movement had been smoldering beneath the surface long before the currency crash. As Suharto was past 70 years of age when he was re-elected president in 1993, a race for the post-Suharto political leadership intensified. And when General Chairperson Megawati Soekarnoputri of the Democratic Party of Indonesia, daughter of the late first President Sukarno, who had spearheaded the democratization movement in Indonesia, was sacked by the government in 1996, criticism of his dictatorship and the democratization movement surged, culminating in a massive riot in Jakarta on July 27, 1996.

Although Golkar — the longtime ruling party backed by Suharto, the military and big business — had won the election held in May 1997, Suharto's failing health and the hint he himself had dropped that he would step down as president started a rumor about his resignation. However, contrary to the expectations of the democratization camp, Suharto announced his candidacy for the presidency and he claims that it was a response to a "people's request." He nominated B. J. Habibie, his confidant, who has practically no political power base of his own and is unpopular among the army brass, as a candidate for vice president. Amid raging economic turmoil, on March 1, 1998 the People's Consultative Assembly (MPR) was convened to elect Suharto as president and B. J. Habibie as vice president. Suharto expelled reformist assemblymen from the seventh Cabinet. In their places, he appointed his eldest daughter Siti Hardiyanti and his staunchest friend Bob Hasan to

posts in a Cabinet that had a strong tinge of nepotism and nationalism. And it is believed that Suharto's high-handed manner caused growing, though not having surfaced mistrust among the intellectuals, notably, reformist academe, assemblymen and bureaucrats. Since early 1998, student-led democratization movements have become increasingly active, and professional elites, such as school teachers, ex-military men and assemblymen, have become supporters of the democratization movement. Students held rallies on the campus on repeated occasions demanding the resignation of Suharto and the implementation of economic reforms.

Meanwhile, price rises and shortages of basic necessities hit hard not only the common people but also the middle class, which came to the fore riding the wave of economic growth. During the riots that had erupted on the Island of Java and Sulawesi since late January 1998, mobs took their anger out on ethnic Chinese who accounted for 3 percent of the population but controlled about 70 percent of business, and their stores became fair game for their attacks. The several thousand students who had gathered at the University of Indonesia on February 26 demanded the resignation of Suharto. In May, the government had cut subsidies and sharply raised the price of fuel oil, power rates and public transport fares. This had triggered a violent riot in Medan on the Island of Sumatra on May 4, and six people were killed in a clash with the riot police, which rushed to the scene to put down the riot. In the ensuing days, riots spread across the country. In the process, about 200 students who participated in a demonstration staged by student groups in front of the MPR/People's Representative Council (DPR) building in Jakarta on May 8 were arrested by the security troops. In a clash between students of Trisakti University and security troops on May 12, six people were killed. The following day, local citizens who had gathered around the university holding a mourning ceremony for the victims turned into a mob of rioters. In Jakarta, looting and arson occurred at many locations across the

city, and more than 1,000 people were killed. As disturbances continued in Jakarta, many foreign residents including Japanese and ethnic Chinese locals fled the city.

## (2) The Significance of the Resignation of President Suharto

Suharto who was in Cairo attending the regular summit meeting of the Group of 15 Developing Countries had to cut short his trip one day earlier than the original schedule of the conference and hurried home on May 14. In a move aimed at defusing the emergency, he promised to reshuffle his Cabinet, appoint a political reform committee and hold an early general election by amending the Constitution as demanded by democratic reform activists, such as student groups and an Islamic organization called Muhammadiyah. Speaker Harmoko of the MPR/DPR openly demanded his resignation, and leading Cabinet ministers tendered their resignations. Realizing that he was forsaken even by his own henchmen, Suharto resigned on May 21, and Vice President B. J. Habibie took office forthwith as president.

The 32-year-long dictatorship of the Suharto regime has thus come to an end. This was the first time since the advent of the Suharto regime that elitist school teachers, academe and assemblymen had cooperated with, and had provided leadership to, the student-led democratization movement. Throughout the turmoil, the government did not use force to crush the democratization movement, and credit for this should be given to Minister of Defense and Security Wiranto and his aide Susilo Bambang Yudhoyono, chief of staff for social-political affairs, both of whom, keenly aware of the international situation surrounding Indonesia, had taken level-headed actions in dealing with the democratization movement. And these movements will pave the way for an early realization of democratic institutional reforms.

The military has been a political anchor of Indonesia. Suharto had deliberately steered clear of making the military a monolith. Instead, he sought to consolidate his position by stirring up rivalry

### **B.J. Habibie announces his establishment as president of Indonesia (May 1998).** (Courtesy of Kyodo News Agency)

among different factions within the military. When he appointed Wiranto as the chief of the Indonesian Armed Forces, he promoted at an unprecedented pace and appointed Prabowo Subianto, his son-in-law, as commander of the Army Strategic Command to check the moves of Wiranto. This nepotism has given rise to a growing anti-Prabowo faction in the Armed Forces.

Amid the surging anti-Suharto movement, rumor spread that Prabowo had ordered demonstrating citizens and students in Medan and Jakarta to be fired on. And Prabowo was relieved of his

duty on May 22. Subsequently, officers belonging to the Prabowo clique have been sacked and the Wiranto-Bambang faction has steadily consolidated its position in the military. In addition, Prabowo was discharged from the armed forces in August 1998 on charges of having been implicated in the kidnapping of antigovernment activists. These events of political change are believed to further spur the unity of the military.

### **(3) The Advent of a Habibie Government**

Upon the change of government, the army indicated that it will support President Habibie who has taken over the reins of government in accordance with the provisions of the Constitution and that it will guarantee the safety of former President Suharto. In his inaugural address delivered on May 21, Habibie stated that he will carry out political and economic reforms, stamp out corruption and nepotism, and take legislative measures for a general election and banning monopoly.

In forming a reformist cabinet on May 23, he excluded Social Minister Siti Hardiyanti, the eldest daughter of Suharto, and Minister of Industry and Commerce Bob Hassan, a staunch friend of Suharto, of the seventh Cabinet of the Suharto government. On the other hand, he demonstrated his commitment to economic reforms by reappointing Ginandjar Kartasasmita, who was well received by the IMF as coordinating minister for economics, finance and industry, and by appointing as minister of finance, Bambang Subianto, who had been discharged as head of the Bank Reconstruction Agency for having attempted to liquidate the banks run by relatives of Suharto. He also sought a reconciliation with opposition parties and democratization activists groups by appointing members of the United Development Party as investment affairs minister and food affairs minister, a member from the Democratic Party of Indonesia as environment minister, and a member of Muhammadiyah led by democratization movement leader Amien Rais a cabinet member. However, in spite of its name

as a reformist Cabinet, none of the so-called Berkeley Mafia, economists of the school of market economy, was included in it. As symbolized by the appointment of economists from the Habibie faction, such as Trade and Industry Minister Rahardi Ramelan and Manpower Minister Fahmi Idris, some characterize his Cabinet as one with a strong tinge of nationalism rather than a market-oriented one.

Habibie was a confidant closest to Suharto, was picked for promotion personally by a dictatorial Suharto, and was given a mandate to oversee inefficient industries, such as the state-run aircraft company and shipbuilding industry, before he was catapulted to the present position. Students and democratization activists, arguing that unless Habibie resigns, a Suharto regime in the guise of the Habibie regime will continue, are demanding the resignation of Habibie. Furthermore, as Habibie has intervened in the procurement of military equipment and has warmed to Islamic organizations whose influence the military has been trying to curb, he does not enjoy the support of the military. Habibie's political power base lies in Islamic intellectuals who are highly antiethnic Chinese and nationalistic, and because they are a minority in the Islamic forces, his political power base is weak. As Habibie is an engineer by training and is not well-versed in politics, it is generally believed that his government will become a caretaker government filling the political vacuum until the next president is elected. Therefore, public attention centered on a schedule for the next general election and for convening the newly elected MPR, which elects the president and the vice president. People wanted to see the early resignation of Habibie and a breakaway from the Suharto regime.

Upon assuming office as president, Habibie came up with a raft of political liberalization measures — the release of political prisoners, freedom to form political parties, the abolition of censorship, and investigations of assets illicitly accumulated by Suharto — and committed himself to democratization, all in an attempt to win popular support. At a special congress of the ruling Golkar

party held in July 1998, State Secretary of Indonesia Akbar Tanjung, who belongs to the Habibie faction, was elected executive of the party, and by weeding Suharto-affiliated assemblymen out of the party's leadership, Habibie consolidated his position in Golkar. With his position thus strengthened in the ruling party, chances of Habibie running for the presidency in the forthcoming election have emerged. Habibie unveiled an interim political agenda for the period leading to the presidential election on June 6, 1999. According to the agenda, the election law was to be amended by August 1998. Following the effectuation of the new law in December, a general election will be held in May 1999 and the president and the vice president will be elected in December. At a special session of the MPR on November 10, 1998, it was decided to hold a general election on June 7, 1999. MPR/DPR Speaker Harmoko of the DPR announced on December 3 that a special session of the assembly will be convened on August 29, 1999, to discuss a schedule for the election of the president and the vice president. Subsequently, Home Affairs Secretary announced that the special session of the assembly will be held on October 28, 1999, and the election of the president and the vice president on November 10, hinting at the possibility of advancing the original schedule announced by Chairman Harmoko.

#### **(4) Agendas for the Habibie Government**

Although the political agenda has thus been set, the government of President Habibie has many tasks yet to tackle. The largest one will be to carry out economic reforms as expeditiously as possible, and protect the livelihood of the impoverished by arresting the sharp rises in prices and by alleviating food shortages. True, the reins of government were transferred in a peaceful manner, but the market has not shaken off the mistrust of the Habibie government, and the rupiah still remains unstable. Unless prices stop rising and the food shortages are alleviated, the danger of popular discontent exploding is high. If such contingency comes to

pass, the rupiah will plunge another round of the vicious circle will set in. The conditionality of the IMF loans was revised in a memorandum of agreement signed with the IMF on June 24, and the Indonesian government was allowed to continue subsidizing the prices of food, fuel oil and pharmaceuticals and power rates. In addition, as private borrowers were authorized to roll over their debts and the IMF is set to resume lending, shortages of liquidity will be eased gradually. On June 28 Minister of Agriculture Soleh Solahuddin announced that the government will import 3.1 million tons of rice by the end of 1998, and this has raised the prospects for easing food shortages. In order to reduce the vast number of unemployed workers, foreign- and ethnic Chinese-affiliated businesses must resume their operations and increase investment. To accomplish this, the government must stabilize the political situation and the exchange rate of the rupiah, and lure back ethnic Chinese capital. It is essential to do away with nepotism and cronyism in order to build a system of fair distribution of wealth, which constitutes the basic issue of economic reform. But this is a structural problem facing Indonesia and it takes a long-term solution.

To stabilize the economy, it is important to carry out political reforms and stabilize the exchange rate of the currency, but there is no sign heralding the recovery of the rupiah. The focal point of political reforms is the liberalization of the formation of political parties, and the Habibie government has recognized freedom of association. However, the military is opposed to it on the grounds that unlimited political freedom would beget a multitude of political parties and cause political confusion. Part of a political reform bill released in August by Ryaas Rasyid, director general for regional autonomy of the Home Ministry provides that while any group of people may form a political party by registering it with a district court, it must have branches in at least 14 states out of the nation's 27 provinces in order for them to put up candidates for a general election as a political party. In other words, while freedom to form a political party is recognized, political parties participat-

ing in national elections must be those that reflect the views of a large group of people.

With freedom to form a political party thus recognized, two Muslim groups — Nahdlatul Ulama (a federation of sheiks) and Muhammadiyah — have formed political parties called “the National Awakening Party” and “the National Mandate Party,” respectively. Nahdlatul Ulama announced that it will put up candidates in the next general election in concert with the Democratic Party of Indonesia led by Megawati, and hinted that it may support the candidacy of Megawati as president. If the tie-up materializes, it could grow into a force capable of challenging the leadership of the ruling party Golkar.

Meanwhile, the new-found political freedom gave fresh life to the separatists’ movement of independence of East Timor. Habibie announced a policy of recognizing a wide scope of autonomy to East Timor, and the army decided to withdraw part of its garrison from East Timor. In addition, the army indicated that it would pull part of its garrison out of Aceh, a state heavily influenced by Islamic culture and actively seeking separation from Indonesia, in an effort to maintain the unity of the nation. One source of popular discontent has been the lopsided distribution of the fruit of development of natural resources, and the Habibie government suggested that it will review the mechanism of distribution of benefits in favor of local governments.

It is feared that the downfall of Suharto from power may have its reverberations in Myanmar, which is under dictatorial control similar to that of Indonesia, because the democratization forces in Myanmar, emboldened by the success achieved by its Indonesian counterpart, may try to escalate its resistance to the military regime. As an elder statesman of ASEAN, Suharto has played a pivotal role in dealing with the Cambodian problem and in mediating disputes over the islands in the South China Sea between ASEAN countries and China. However, Suharto has a dictatorial streak and has sometimes brushed aside democratic process in

dealing with problems of ASEAN. Departure of Suharto raises the possibility of member states of ASEAN making decisions in a democratic way, growing out of the principle of noninterference and building a relationship of positive cooperation.

Indonesia, which has the fourth-largest population in the world, is rich in natural resources and the leader of ASEAN. Huge sums of capital have been invested in Indonesia by Japanese and Western firms, so much so that political and economic turmoil in that country could have a serious adverse impact on the world economy. It could hamper the economic development of the region, which can be achieved through free trade and investment within the region and APEC countries, weaken the cohesion of ASEAN itself and undermine the safety and prosperity of the region. Therefore, it is necessary to defuse the social unrest in Indonesia, expedite political reforms and build a system capable of adjusting to the globalization of economies.

### **3. Indian and Pakistani Nuclear Tests, and the Nonproliferation Regime**

#### **(1) Why Did India and Pakistan Conduct Nuclear Tests?**

The prevention of proliferation of nuclear weapons has surfaced as one of the major security agendas after the Cold War. In East Asia, the three countries of Japan, the United States and South Korea have been endeavoring to dissuade North Korea from developing nuclear weapons pursuant to the Agreed Framework worked out between the United States and North Korea in October 1994. While these countries were making such efforts, India conducted underground nuclear tests twice in mid-May 1998. These tests marked the first in 24 years since May 1974. Meanwhile, despite strong calls of the international community for self-restraint, Pakistan, which has long been at loggerheads with India, took the plunge and conducted underground nuclear tests at the end of May 1998 apparently to counteract the effects of India’s tests.

As neither India nor Pakistan has signed the Nuclear Non-Proliferation Treaty (NPT), their possession of nuclear weapons does not constitute a violation of international law. Although they signed the Partial Test Ban Treaty (PTBT), they have not signed the Comprehensive Test Ban Treaty (CTBT). Therefore, they cannot be legally censured. However, an increase in the number of states with nuclear weapons heightens the danger of the use of nuclear weapons or starting a nuclear war. And as the use of nuclear weapons or a nuclear war would cause devastating damage not only to the warring countries but to their neighbors, the nuclear tests of these countries should be censured on political, if not legal, grounds.

Pakistan had test launched a Ghauri missile in April 1998, and a coalition government in India led by the Bharatiya Janata Party (BJP), which listed on its campaign platform the introduction of nuclear weapons as an option, came to power in March the same year. These events were directly responsible for prompting India to conduct nuclear tests. More importantly, the following reasons may be cited as structural factors lying behind these tests.

The first factor is India's rivalry with China and its obsession for attaining status as a nuclear armed state. India, which owns itself to be a major Asian power, has long rivaled China for the leadership of the nonaligned movement. Besides, India suffered defeat in a border conflict in 1962, and in 1964, China successfully conducted nuclear test. These events further strengthen Indian's jittery. When viewed from the perspective of India, a country that was consumed with a sense of rivalry with China and was deeply chagrined by its lagging development of nuclear weapons, NPT, which came into effect in 1968, was nothing more than an unfair international agreement that had effectively shut India out of a club of nuclear powers. Therefore, India had consistently refused to sign NPT on the grounds that it was an unequal treaty with a dual structure of rights and obligations of signatories. And as it demonstrated by its first nuclear test in 1974, India has been seeking to attain status as a nuclear power.

The second factor is a sense of crisis India felt about the gathering clout of the nonproliferation regime. Since its 1974 nuclear test, India has been taking an ambiguous attitude on the possession of nuclear weapons. However, as the nonproliferation regime had gathered influence in the ensuing years — NPT was extended indefinitely in May 1995, and CTBT was successfully negotiated and signed in September 1996 — India must have felt that further shilly-shallying would cost India a critical chance of securing status as a nuclear power.

The third factor is India's mounting sense of being threatened by the suspected involvement of China in the development of Pakistan's missiles and nuclear weapons. Even before it tested a nuclear bomb in May 1998, Pakistan was considered a de facto nuclear armed state as was the case with India. China was suspected of having been involved in Pakistan's development of nuclear weapons from the second half of the 1970s to the 1980s. And India's concern about such moves had mounted.

Seventeen days after India detonated its nuclear bombs, Pakistan, which was in dispute with India over Kashmir, conducted its nuclear tests. Fearing that Pakistan may take the plunge and test its own nuclear bomb to counteract the effect of India's nuclear test, the international community tried to persuade the country not to follow suit hinting at the possibility of economic sanctions. But Pakistan went ahead with the test brushing aside all exhortations against it. From its own standpoint, Pakistan felt it necessary to demonstrate its nuclear capability to India.

## **(2) Strategic Implications of the Nuclear Tests**

Some argue that the deployment of nuclear weapons by India and Pakistan would work as a mutual deterrence and bring about military stability in South Asia. This view is flawed on three accounts.

First, unlike the United States and the Soviet Union during the Cold War, India and Pakistan fought wars against each other

three times, and even now they routinely exchange sporadic rifle fire across the line of control of Kashmir. Second, both the United States and the Soviet Union have developed and maintain a highly advanced C<sup>3</sup>I system to control and operate their nuclear weapons. In addition, they are geographically remote from each other. However, as neither India nor Pakistan has the reliable and well-developed C<sup>3</sup>I systems, and as they are contiguous to each other, the danger of accidental use of their nuclear weapons is high. Third, a face-off between two nascent nuclear powers would create a hair-trigger situation until such time as the nuclear capability of the countries will have become invulnerable. Especially, if these countries mount nuclear warheads on vulnerable ballistic missiles and the situation, already volatile as it is, deteriorates, chances of triggering the missiles are high. In order for India and Pakistan to establish stable mutual deterrence between themselves, they must give their nuclear forces a certain degree of survivability. Besides, India and Pakistan need to have reliable C<sup>3</sup>I systems which would help prevent them from accidental uses of nuclear weapons. And this requires vast sums of money and highly sophisticated technology — a task that cannot be accomplished overnight.

If luck holds, there may develop a mutual nuclear deterrence [between these two countries and military stability may emerge in South Asia](#). However, such a nuclear balance means India's loss of the upper hand to Pakistan in terms of conventional force capability. Therefore, it is no exaggeration to say that India's recent nuclear tests were a strategic blunder in dealing with Pakistan in the sense that it had prompted Pakistan to conduct a nuclear test of its own and had thus helped it to move toward arming itself with a second-strike capability.

After the nuclear tests conducted by Pakistan, India proposed an agreement of "no first-use" of nuclear weapons. Such an agreement would limit the role of Pakistan's nuclear weapons to deterring India only from using nuclear weapons. This means that the Pakistan's nuclear weapons would not function as a deterrent

**Chart 2. Number of Nuclear Tests Conducted**

Year	U.S.	Russia	U.K.	France	China	India	Pakistan	Total
1945	1							1
1946	2							2
1947	0							0
1948	3							3
1949	0	1						1
1950	0	0						0
1951	16	2						18
1952	10	0	1					11
1953	11	5	2					18
1954	6	10	0					16
1955	18	6	0					24
1956	18	9	6					33
1957	32	16	7					55
1958	77	34	5					116
1959	0	0	0					0
1960	0	0	0	3				3
1961	10	59	0	2				71
1962	96	79	2	1				178
1963	47	0	0	3				50
1964	45	9	2	3	1			60
1965	38	14	1	4	1			58
1966	48	18	0	7	3			76
1967	42	17	0	3	2			64
1968	56	17	0	5	1			79
1969	46	19	0	0	2			67
1970	39	16	0	8	1			64
1971	24	23	0	5	1			53
1972	27	24	0	4	2			57
1973	24	17	0	6	1			48
1974	22	21	1	9	1	1		55
1975	22	19	0	2	1	0		44
1976	20	21	1	5	4	0		51
1977	20	24	0	9	1	0		54
1978	19	31	2	11	3	0		66
1979	15	31	1	10	1	0		58
1980	14	24	3	12	1	0		54
1981	16	21	1	12	0	0		50
1982	18	19	1	10	1	0		49
1983	18	25	1	9	2	0		55
1984	18	27	2	8	2	0		57
1985	17	10	1	8	2	0		36
1986	14	0	1	8	0	0		23
1987	14	23	1	8	1	0		47

Year	U.S.	Russia	U.K.	France	China	India	Pakistan	Total
1988	15	16	0	8	1	0		40
1989	11	7	1	9	0	0		28
1990	8	1	1	6	2	0		18
1991	7	0	1	6	0	0		14
1992	6	0	0	0	2	0		8
1993	0	0	0	0	1	0		1
1994	0	0	0	0	2	0		2
1995	0	0	0	5	2	0		7
1996	0	0	0	1	2	0		3
1997	0	0	0	0	0	0		0
1998	0	0	0	0	0	2	2	4
Total	1,030	715	45	210	45	3	2	2,050

Note: A series of nuclear tests (using three bombs) conducted by India on May 11, 1998, was counted as one, and so was the test of two bombs by India on May 13 and five-bomb tests conducted by Pakistan on May 28, both in accordance with the conventional method of counting.

Source: Arms Control Association, "Factfile: The Nuclear Testing Tally," *Arms Control Today*, Vol. 28, No. 4 (May 1998), p. 38.

against India's vast conventional force. For this reason, Pakistan refused to accept the proposal.

Turning to its China relations, given its geostrategic disadvantage, India will find it extremely difficult to secure a credible nuclear deterrence against China. While China could hit targets in New Dehli, the capital of India, with short-range missiles that have a firing range of about 500 kilometers launched from the north of the Himalayas, India will have to develop and deploy ballistic missiles with a range of over 3,000 kilometers in order to hit targets in Beijing. This handicap may be overcome by extending the range and improving the accuracy of Agni missiles now reportedly under development, or deploying nuclear-powered ballistic missile submarines. But the development and deployment of such delivery vehicles and platforms require highly-advanced technology and vast sums of financial resources.

### (3) Response of the International Community

Promptly after the nuclear tests conducted by India and Pakistan, the United States which has long been pursuing the cause of nonproliferation of weapons of mass destruction (WMD), designated, pursuant to Section 102 of the Arms Export Control Act ("Glenn Amendment"), India and Pakistan as "a non-nuclear weapon state, which has conducted nuclear tests." It then imposed seven-point economic sanctions, which included termination or suspension of assistance except humanitarian assistance, termination of sales of munition and denial of any credit to India and Pakistan by the U.S. government and private lending institutions. Japan, pursuant to the guidelines of its official development assistance (ODA), which put on hold economic assistance to countries that have developed nuclear weapons and other WMD, has imposed three-point economic sanctions on India and Pakistan: (1) suspension of any new grant aid except emergency and humanitarian aid and grant aid for grass-roots projects; (2) suspension of new ODA yen loans; and (3) cautious approach to giving loans to India and to Pakistan through international financial institutions and development banks. In addition, the United Kingdom, Germany, Canada, Australia, the Netherlands, Sweden and Norway applied economic sanctions, if on a limited scale to, and restrictions against the exchange of government officials with, these two countries.

However, France, China and Russia, which bear a certain level of responsibility for maintaining international peace and stability as permanent member countries of the U.N. Security Council, have not taken any concrete steps to impose sanctions except to express censure or regret. China refrained from taking any sanctions against them for the following reasons. First, Pakistan is a de facto ally of China. China must have feared that as Pakistan was highly likely to conduct a nuclear test of its own to counteract the effect of India's tests, sanctions against India would obligate it to impose sanctions on Pakistan. Second, the experience China had with economic sanctions imposed on it in the wake of the second

Tiananmen Incident and nuclear tests it had conducted while negotiations for CTBT were in progress, must have convinced it that they create rancor on the part of the sanctioned, hindering subsequent efforts to reach rapprochement with them. Meanwhile, China, which has been seeking to improve its relations with the United States, tried to soothe Washington's nerves racked by the growing proliferation of nuclear weapons by stressing that it shared with the United States the desire to prevent the proliferation of nuclear weapons and recover stability in South Asia, and that it proposed jointly with the United States a foreign ministers' meeting of permanent member countries of the U.N. Security Council to discuss options for dealing with the nuclear tests conducted by India and Pakistan.

In a statement explaining the reasons why Russia had not imposed sanctions on India and Pakistan, Yevgeniy Primakov, then Russian foreign minister, stated that economic sanctions would not only bring about hardships to their people but also isolate them and produce undesirable results. But there was a real and unsaid reason behind Russia's reluctance to impose sanctions on India. If Russia joined other countries in sanctioning India, the largest buyer of its weapons, it could suffer huge losses by losing most of its arms exports to New Delhi. Furthermore, from the political standpoint, Russia, which has lost almost all of its allies, can ill afford to lose another political and strategic partner, India.

Just as it did to North Korea over its suspected nuclear weapons development, the Security Council has failed to agree to adopt sanctions against India and Pakistan. In the case of North Korea, energetic efforts by the United States to include sanctions against North Korea in a Security Council resolution were frustrated by the negative attitude taken by China. In the case of the recent nuclear tests by India and Pakistan, the United Kingdom, France, and Russia opposed, or have taken a negative attitude toward, sanctions from the outset, and the Security Council was thus prevented from even taking up the issue on the agenda. Such an

attitude of the Security Council, a body that bears the primary responsibility to ensure peace and security of the international community, is a matter of debate.

Measures proposed by Japan to deal with the nuclear tests of India and Pakistan are notable. As noted earlier, the economic sanctions proposed by Japan, as with those proposed by the United States, were of significant scale. At a foreign ministers' meeting of the G8 held on June 12, 1998, Japan proposed the appointment of a G8 Task Force to explore options to address various problems arising from the nuclear tests of these two countries, and the proposal was adopted. The first meeting of the Task Force held on July 9 was attended by representatives from Argentina, Australia, Brazil, China, the Philippines and Ukraine, in addition to those from the G8 countries. Initially, the nuclear tests by India and Pakistan had far-reaching international repercussions. Coming as it did at such a critical juncture, the appointment of the Task Force and its visibility are expected to keep alive international efforts to prevent proliferation of nuclear weapons and help the international community tackle the problem more vigorously in the years to come. This is because, as the months wear on, memories of — and concern with — the nuclear tests may fade, and the enthusiasm of the international community may taper off.

The ASEAN Regional Forum (ARF) reacted as follows. An ARF Senior Officials Meeting was held in the Philippines a week after India's nuclear tests. Negotiations had been conducted since then as to whether to insert a passage censuring India and Pakistan for their nuclear tests into a chairman statement to be issued at the fifth meeting of ARF that was planned for July 1998. In the end, however, the statement said merely that they "strongly deplored" the tests without naming India or Pakistan. The result served to underscore the limited nature of the role the ARF can play, although it was epochal that the chairman statement did criticize the tests, considering the fact that India was represented at ARF and that the decision-making of the forum is based on the

principle of consensus. Japan proposed to create a forum of dialogue within ARF and to informally invite representatives from Pakistan to discuss issues of common interest, but it did not materialize on account of opposition from several countries, including India, which insisted on solving contentious issues pending with Pakistan through bilateral talks.

Reaction of nonaligned states against the nuclear tests of India and Pakistan was lukewarm. When viewed from the perspectives of India and Pakistan, sanctions imposed on them by nuclear weapon states or countries protected by a nuclear umbrella are thinly veiled discrimination against them. As such, they carried the danger of provoking a backlash. What really counted was a sanction imposed by nonaligned states that are not allied with a nuclear weapon state. Nonaligned nations that make up a majority in the international community should have realized the potential threat that proliferation of nuclear weapons poses on their security and should have imposed sanctions on India and Pakistan even if they may be limited to restrictions on the exchange of government officials or a moral censure.

The economic sanctions imposed by Japan and Western countries (notably, the United States) must have begun to bite. By the summer of 1998, Pakistan, and then India, have come to indicate their willingness to sign CTBT prior to a meeting of those states that have already ratified the treaty, which may be called some time in September 1999 to discuss what measures may be undertaken to accelerate the ratification process. Recognizing the signs of a change on the part of India and Pakistan, Japan and the United States began to relax their economic sanctions. One may see the hint dropped by India and Pakistan to participate in CTBT as a tactical ploy aimed at winning a relaxation of the economic sanctions. However, success in inducing them to sign the treaty would be a significant step toward its entry into force.

Moves by Japan and the United States to relax the economic sanctions are desirable in that they would lessen the danger of nu-

clear technology and weapons-grade nuclear materials flowing out of Pakistan to other countries. As noted earlier, Japan and the United States had imposed large-scale economic sanctions on India and Pakistan. While they were necessary to discourage other countries from emulating India and Pakistan, the economic sanctions, because they were uniformly applied to both countries, carried the danger of plunging Pakistan, a country that was less robust economically than India, into devastating economic chaos. If driven to the wall, Pakistan might toy with the idea of asking economic aid from other Islamic countries in exchange for its nuclear technology and weapons-grade nuclear materials. One does not have to look far afield to be convinced of the grave danger caused by the proliferation of nuclear weapons that threatened the world in the wake of the collapse of the Soviet Union. Indeed, the danger attendant upon economic collapse of a country that possesses the capacity of building WMD is quite obvious.

#### **(4) Impacts on the NPT Regime**

The nuclear tests conducted by India and Pakistan did hurt the credibility of the NPT regime but not badly enough to spell, or court the danger of, its collapse. Nor could anyone say with certainty that the policy of the United States, long a staunch champion of the NPT regime, aimed at preventing the proliferation of nuclear weapons is doomed to failure. The United States has successfully dissuaded Ukraine, Belarus and Kazakhstan, which had taken over nuclear weapons from the Soviet Union, from maintaining them, has persuaded them to sign NPT and has so far succeeded in freezing the nuclear development program of North Korea. True, the United States failed to stop the nuclear tests of India and Pakistan. However, it was due to the fact that on account of a historical discord with India, America's leverage with that country was limited, and that the animosity between India and Pakistan was so deep-rooted that their relations defied third-party intervention.

The foundation of the NPT regime could conceivably be erod-

ed, however, depending on evolution of Sino-Indian and/or Indian-Pakistani nuclear relations. For instance, suppose that India gains confidence in its capability for enhancing its nuclear deterrence against China, or that a relationship of mutual deterrence emerges between India and Pakistan, it could lead to strategic stability in South Asia, a development which bears certain significance for the security of these countries and for the peace and stability of the region. However, the development of such a situation would pose a direct challenge to the NPT regime, which is based on the idea that proliferation of nuclear weapons will threaten international peace and stability. This is because signatories of NPT plagued by recurring or long-standing troubles with their neighbors may take their cue from India and Pakistan, and opt to secede from NPT.

Stronger steps must be taken to maintain and strengthen the NPT regime in order to counteract the damaging effect produced by the nuclear tests of India and Pakistan. Such measures include, first, the reaffirmation of the idea underlying NPT. While the NPT designates as nuclear weapon states the five countries — the United States, the United Kingdom, France, China and the former Soviet Union (now Russia), which had developed and detonated nuclear weapons and other nuclear explosive devices prior to January 1, 1967 — and recognizes their right to possess nuclear weapons, it bans other signatories from possessing them. Seen from this standpoint, the NPT is, as India claims, an unequal treaty that creates a dual structure of rights and obligations of state parties to the treaty. However, the NPT provides for measures designed to alleviate inequality: Article 6 obligates nuclear weapon states to reduce their nuclear arsenal, and Article 4 provides for technical assistance to non-nuclear weapon states for developing technology for the peaceful use of nuclear energy. On balance, therefore, it may be said that a world without NPT would give rise to further inequality between nuclear and non-nuclear weapon states. In short, the NPT is a treaty agreed to under a common realization that while it recognizes as an established fact the five nuclear weapon states,

which had existed at the time the treaty was formulated in 1967, the prevention of an increase in the number of nuclear-armed states was a prerequisite to the maintenance of international peace and stability, and the promotion of reduction of nuclear weapons. And this idea enjoys the strong support of the international community as is shown by the following facts: No less than 187 countries, except India, Pakistan, Israel and Cuba, have signed the treaty; they agreed to extend the treaty indefinitely at the NPT Review and Extension Conference held in May 1995; and none of the signatories has dropped out of it.

Second, related to the reaffirmation of the underlying idea of NPT, the international community must not recognize India and Pakistan as nuclear weapon states as defined in NPT. Some argue that it is more practical to incorporate India and Pakistan into the NPT regime as nuclear weapon states and obligate them to reduce their nuclear arsenal. However, such a policy would merely encourage other countries to emulate India and Pakistan, and could lead to an eventual collapse of the NPT regime. To grant India and Pakistan the status of a nuclear weapon state as defined in NPT, the signatories must go through the formalities of amending the treaty in accordance with the provisions of Paragraphs 1 and 2 of Article 8 of NPT. An amendment must be approved and ratified by a majority of all the parties to the treaty, including the five nuclear weapon states and all other parties that are members of the board of governors of the International Atomic Energy Agency (IAEA) excluding those not party to NPT. Even if the treaty was amended, its effect would extend only to those that have ratified the amendment. This raises the possibility that those opposed to granting the status as a nuclear weapon state to India and Pakistan, or those that want to reserve the option for developing nuclear weapons may elect not to become party to the amended NPT.

Third, steps should be taken to strengthen the foundation of the NPT regime by redressing its shortcomings brought to light by the nuclear tests of India and Pakistan. The existing NPT regime,

which establishes a dual structure of nuclear and non-nuclear weapon states, has not done enough to ensure the security of non-nuclear weapon states against nuclear weapons. As the NPT regime has failed to do so notwithstanding its purpose to prevent the proliferation of nuclear weapons, it has not nipped the proliferation of nuclear weapons in the bud. To win the confidence of non-nuclear weapon states in the NPT regime and thereby ensure its stability, it is extremely important to take measures designed to enhance the security of non-nuclear weapon states against a nuclear attack and help them withstand temptation to develop nuclear weapons. These measures would preferably be designed to narrow the political and security gap existing between nuclear and non-nuclear weapon states by reducing the nuclear arsenal of the former, to institutionalize a conditional “negative security assurance,” which assures non-nuclear weapon states that except under certain conditions, nuclear weapon states will not use or threatens to use nuclear weapons, and to promise a positive security assurance that when a certain non-nuclear weapon country is threatened with a nuclear attack or attacked by nuclear weapons, the U.N. Security Council or some of the five nuclear weapon states will take countermeasures against such a threat or provide relief measures for that non-nuclear weapon state.

##### **(5) Impacts on the Security of East Asia**

In weighing the impacts the nuclear tests of India and Pakistan had on the security of East Asia, one must consider the following three points. The first has to do with the development of nuclear weapons by North Korea. There are reports that North Korea has been exporting missile-related materials to Pakistan. According to some reports, it is highly likely that the ballistic missile Ghauri, which Pakistan test-launched in April 1998, was a missile based on North Korea’s No Dong missile. Although it is highly inconceivable that Pakistan would provide North Korea with its nuclear technology at the risk of antagonizing the United

States, one cannot rule out, given the military connection between these two countries, the possibility of part of the nuclear technology

**A poster carried in the Dec. 19, 1998, issue of the *Rodong Sinmun*, the official organ of the Workers’ Party of Korea. Three missiles each bearing a slogan “Juche Chosun (Self-reliant Korea)” are aimed at an aircraft bearing signs that say Washington, Seoul and Tokyo. (Courtesy of Kyodo News Agency)**

or test data of Pakistan falling into the hands of North Korea. In fact, North Korea complained even before the nuclear tests conducted by India that the United States had not adequately complied with the Agreed Framework signed in October 1994 and then suggested that it would unfreeze its nuclear development program. Furthermore, North Korea started building underground facilities that aroused suspicions afresh about its nuclear aspirations.

The second point — and this is most worrisome — is the possibility that China may accelerate buildup of its nuclear capability. In a statement made after the nuclear tests of India, Chinese President Jiang Zemin denied reports that China will resume testing its nuclear weapons. However, if India tries to strengthen its nuclear capability to secure deterrence against China, China may have no choice but to rearrange the deployment of its nuclear weapons and change its nuclear policy to meet the challenge posed by India. And if China shifts the target of its nuclear weapons to South Asia, China's military pressure on East Asia may temporarily ease, but China may eventually rebuild its nuclear capability vis-à-vis East Asia by improving the quality of its nuclear weapons and by increasing its nuclear arsenal. In any event, India's nuclear tests and provocative remarks made by its government officials carry the danger of spurring China to beef up its nuclear capability.

The third point is the possibility that the United States and China increase their influence and say on matters relating to the security of Asia in coming years. Seizing the occasion of the nuclear tests by India and Pakistan, China has been seeking to cooperate with the United States by urging the prevention of proliferation of nuclear weapons, and an early restoration of stability in South Asia. Toward the end of July 1998, U.S. Deputy Secretary of State Strobe Talbott made a tour of India and Pakistan to avert a nuclear arms race, and urge them to sign CTBT. However, to accomplish these objectives, the United States needs the involvement of China, which had a hand in the confrontation between India and

Pakistan. If the tension in South Asia eases by dint of the diplomatic offensive mounted by the United States and China, their voices in the security of Asia would carry much more weight. However, if the United States or China tries to apply diplomatic pressure on Pakistan and India from the position of strength as nuclear weapon states, such diplomacy is bound to fail. Given the history of relations among these countries, a misguided approach by China could intensify the rivalry between the China-Pakistan and the Russia-India camps.

#### **4. North Korea Launches a Missile**

##### **(1) Legal Implications of the Missile Launch**

On August 31, 1998, North Korea launched a missile, which had been developed on the basis of Taepo Dong, from a site located on its east coast. Earlier, or in May 1993, North Korea launched a ballistic missile known as No Dong that reportedly had a firing range of about 1,300 kilometers, and it landed off the Noto Peninsula of Japan. This time around, part of the missile flew across the Japanese Islands and fell in the open sea in the Pacific off the Sanriku coast, northern part of the main island of Japan.

On September 4, the Korean Central News Agency of North Korea reported that North Korea had launched a satellite on a three-stage rocket and had succeeded in putting it into orbit. However, other countries could not verify the satellite claimed to be in orbit. Subsequently, the United States and South Korea announced that North Korea had failed in its attempt to put a small satellite into orbit by using a Taepo Dong missile. Meanwhile, the Defense Agency of Japan concluded that "although the theoretical possibility of putting an extremely small object into orbit by the launch method (employed by North Korea) cannot be ruled out entirely, the possibility that the ballistic missile carried a satellite capable of performing some significant function including communications and Earth observations is small. And it is highly likely that

North Korea had launched the ballistic missile primarily for the purpose of testing various technology with a view to extending the range of its ballistic missiles.”

Even if North Korea had launched a missile to loft a satellite, its action without prior notice to other countries has raised the following problems. Although the launching of a missile to a target in the open sea itself does not constitute a problem, the freedom of the open sea must be exercised by paying due regard for the interests of other countries using the open sea in conformity with international law. However, North Korea, without giving prior notice to Japan, launched its missile in the direction of seas adjoining Japanese waters where there is heavy sea traffic and many fishing boats are in operation. Therefore, one can hardly say that North Korea had paid a due regard for the interests of other countries. Furthermore, part of its missile flew across an air route of heavy traffic and this poses a problem when viewed from the standpoint of the basic objective of the International Civil Aviation Treaty, which is to ensure the development of international civil aviation and promote the safety of flight. What is more, part of the missile is believed to have flown across the air space at an altitude of about 60–160 kilometers above Japan. According to a widely held view about the upper limit of territorial air space, there is a suspicion that the missile of North Korea violated the territorial air space of Japan.

### **(2) The Background to the Missile Launch**

On the domestic front, faced with economic difficulties and a food crisis, by launching a missile the North Korean government tried to flaunt the prestige of the Kim Jong Il regime on the occasion of the 50th anniversary of the founding of North Korea, which fell on September 9. The political system of North Korea itself may be blamed for the missile launching. This is because dictatorships such as the one now ruling North Korea have the tendency of trying to strengthen the unity of the country and thereby consolidate

their political base by deliberately creating tension with neighboring countries.

On the external front, it is believed that North Korea, as it did several years ago with the development of nuclear weapons, tried to strengthen its bargaining position vis-à-vis the United States and neighboring countries by showing off its capability of developing ballistic missiles. In addition, North Korea aimed to promote the export of missiles and earn hard currencies.

### **(3) Response of Japan, the United States and South Korea**

When North Korea launched a missile, Japan, the United States, and South Korea expressed deep concern in unison over the launch and it was Japan over which the missile flew that expressed the most vehement protests. The day when the launch took place, Japan decided to put off signing the Korean Peninsula Energy Development Organization (KEDO) Executive Board resolution concerning the cost-sharing of the light-water reactor project that was to be signed that day. In addition, the Japanese government had decided to postpone for the time being the normalization talks with, and food aid to, North Korea, and canceled permission for chartered flights between Japan and North Korea. On September 4, the Japanese government sent a letter to the president of the U.N. Security Council drawing his attention to the fact that the launching of a missile by North Korea directly affected the security of Japan and the peace and stability of the entire Northeast Asian region, and aroused serious concern over the proliferation of weapons of mass destruction (WMD) and their delivery systems. Although Japanese government decided on October 21 to sign KEDO Executive Board resolution concerning the cost-sharing of the light-water reactor project, it did so in order to deprive North Korea of an excuse for resuming its nuclear weapons development and definitely not as a result of a change in its stance on the missile launch.

In response to a proposal introduced by Japan, the U.N.

Security Council discussed measures to be taken against the missile launch by North Korea. China and other member countries of the Security Council claimed that it was a satellite that was launched by North Korea. In the end, however, the president of the Security Council expressed in a statement released to the media his concern over the missile launch. Even if it was a satellite launch, one must remember that satellite launches are often carried out for military purposes.

Although the United States did express concern over the missile launch, it did not take any concrete measures to protest against it as Japan did. This was because the U.S. government felt that overreaction might drive North Korea into resuming the development of nuclear weapons. For instance, the U.S.-North Korea high-level talks, which had been held off and on since August 21, were continued despite the launching of the missile by North Korea. Following the talks, the United States elicited from North Korea a commitment reaffirming the freeze of its nuclear weapons development program and exacted a promise to attend the four-party talks and the U.S.-North Korea missile talks. For its part, the United States promised North Korea that it would expedite the work of the light-water reactor project in November and complete the delivery of 500,000 tons of heavy oil by the end of the year.

However, hard-liners in the U.S. Congress who view the U.S.-North Korea Agreed Framework as a cave-in to a nuclear bluff by North Korea stiffened their attitude toward North Korea's missile launch. They took the missile launch as a new intimidation to exact economic aid from the United States. By mid-October, Congress froze, until March 1, 1999, the KEDO-related budget of \$35 million that had been included in the fiscal 1999 budget and attached conditions to the disbursement of the fund. More specifically, it authorized a contribution of \$15 million in and after March 1999 contingent on the implementation of the Joint Declaration on the Denuclearization of the Korean Peninsula of January 1992 as well as progress of the North-South dialogue and progress in the opera-

tion to seal spent nuclear fuel rods. As for the remaining \$20 million, Congress authorized it for contribution on or after June 1, 1999, contingent on the commencement of U.S.-North Korea talks on the implementation on the 1992 denuclearization declaration, uncovering of the details of the underground facilities being built in the suburb of Yongbyon (North Korea), and progress of the U.S.-North Korea missile talks. These moves by the Congress are forcing the Clinton administration to take a searching look at its North Korean policy, and posing a danger that not just KEDO but the Agreed Framework may have to be scrapped, depending on reaction from North Korea.

The government of President Kim Dae Jung of South Korea expressed deep concern about the missile launch by North Korea and demanded that Pyongyang discontinue the missile development program. At the same time, he vowed to continue his "sunshine policy," which is designed to promote economic exchange between the North and the South under the principle of separation of politics from economic matters. Perhaps because it had long been exposed to the firing range of North Korean Scud missiles, no sign of the shock as severe as that felt by the Japanese was observable among South Koreans. They were rather puzzled at the postponement announced by the Japanese government of its signing the KEDO Executive Board resolution concerning the cost-sharing of the light-water reactor project, or showed interest in the growing debate in Japan about the ballistic missile defense system or about the proposed development of information gathering satellite by Japan. Meanwhile, an argument began to gain currency among defense officials of South Korea, as voiced by Defense Minister Chun Yong Taek, asserting that the firing range of South Korean missiles, which had been restricted to a maximum of 180 kilometers under the 1979 U.S.-South Korea memorandum of understanding, should be extended to 300 kilometers to counter the advance achieved in missile technology by North Korea.

Although Japan, the United States, and South Korea were in

some disarray in their reaction to the launching of a missile by North Korea, the launch has not succeeded, so far at least, in extracting further concessions from any of the three countries. Given the hostile reaction of the Republican-led U.S. Congress and the ill feeling of the Japanese government, North Korea is highly likely to become further isolated depending on the approach it will take in the four-party talks or bilateral talks with the United States.

## **5. Japan's Possible Countermeasures to the Missile Threat**

### **(1) Promoting Arms Control and Arms Reduction**

The international community today is witnessing increasing spread of WMD, ballistic missiles that can be used for delivering them and materials and technology required to build them. For instance, North Korea made it clear at a session of U.S.-North Korean missile talks held early in October 1998, that it would continue to develop and test launch missiles in coming years as "a legitimate right of a sovereign state." Confronted with such an attitude, debate has mounted in Japan about measures it should take to counter the ballistic missile threat. Three options are open to Japan for countering the missile threat: diplomatic measures including arms control and disarmament negotiation, reliance on retaliatory deterrence of the United States and the building of a missile defense systems. These measures are complementary to one another. To doubly ensure the security of Japan against ballistic missile threat, it is desirable to pursue these three options in parallel with one another.

Arms control and disarmament schemes related to missiles include treaties designed to control and reduce U.S. and Soviet (Russian) nuclear forces. They are, among others, the Intermediate-Range Nuclear Forces (INF) Treaty and the Strategic Arms Reduction Treaty I (START I) and II (START II). However, except for the Missile Technology Control Regime (MTCR), which

was created in April 1987, there is no meaningful international measure designed to prevent the proliferation of ballistic missiles. Some take the view that MTCR has no leverage with countries that have a certain level of ballistic missile development capability. However, as this regime strictly bans the export of terminal guidance devices of ballistic missiles, a significant improvement in the accuracy of ballistic missiles developed by a Third World country is inconceivable.

Nevertheless, there are countries that have the capacity of exporting missile-related parts, materials or technology for making ballistics missiles but not affiliated with MTCR. And the question of how to deal with such countries has taken on growing importance in improving the efficacy of MTCR. In East Asia, Japan and Russia are the only countries affiliated with MTCR. China, which has the capacity of exporting missile-related materials and technology, is yet to join MTCR. China did issue a statement promising to observe the guidelines of MTCR, but it seemed to have only ground-to-ground missiles in mind when it issued that statement. Doubts remain about whether China will observe the guidelines for controlling the export of materials and technology related to other missiles than just ground-to-ground variety.

### **(2) Maintaining and Strengthening Deterrence**

The second measure Japan can take to counter the ballistic missile threat is to maintain and strengthen deterrence based on a threat of retaliation. As a basic defense policy, Japan has decided not to possess long-range ballistic missiles or bombers that are used exclusively for the purpose of devastating other countries, and has no delivery means of its own that could create retaliatory deterrence. An interpretation of the right of self-defense by the Japanese government has it that in case of the absence of other means against incoming missiles or an imminent threat of missile attack, Japan could strike missile launching sites. However, even if Japan can threaten a retaliatory attack, it hardly constitutes a reli-

able deterrence when the target of such a strike is limited to missile launching sites.

All things considered, therefore, Japan has no choice but to rely on the deterrence provided by the United States. However, it should be noted that the United States exercises self-restraint in using its means of retaliation. In the first place, the United States has ruled out the use of biological and chemical weapons in any circumstances, including “reprisal.”

Secondly, the United States has declared a conditional “negative security assurance,” which states to the effect that the United States will not use nuclear arms against any non-nuclear weapon state affiliated with NPT unless that country, in alliance or in association with a nuclear weapon state, attacks the United States, the U.S. armed forces, or its ally. As far as one gathers from its declaration, the use of nuclear weapons by the United States against the NPT-affiliated non-nuclear weapon states is limited to the one that in alliance or in association with a nuclear weapon state launches an armed attack on the United States and/or its allies. In other words, it can be taken to mean that the United States will not launch a retaliatory nuclear attack on any non-nuclear weapon state even if such country launches an armed attack on a U.S. ally so long as it makes the attack without any assistance from other nuclear weapon state. This suggests that nuclear deterrence of the United States against a missile attack from a non-nuclear weapon state can be relied upon only in a limited case. Moreover, in view of the fact that for the United States which promotes nonproliferation of nuclear weapons, cannot openly brandish nuclear weapons as an instrument for deterring non-nuclear weapon states, the reliability of deterrence based on the threat of a retaliatory nuclear attack is limited.

All things considered, therefore, the remaining instrument of deterrence of the United States lies with high-tech conventional weapons. To be sure, the destructive power of U.S. high-tech weapons has increased dramatically. According to one view, most of

the missions assigned to tactical and theater nuclear weapons can be fulfilled by high-tech conventional weapons. However, damage done by conventional weapons tends to be underestimated. Each country has its own strategic culture or its own view about military might, and some countries may not be as fearful of the destructive power of America’s high-tech conventional weapons as the United States wants it to be. The difficulty of making other countries adequately appreciate the destructive power of high-tech conventional weapons also limits the effectiveness of high-tech conventional deterrence. The destructive power of high-tech conventional weapons depends on their accuracy of hitting chosen targets and the capability of selecting targets, which in turn depends highly on the military intelligence of the United States. However, it is difficult for a third party to properly assess America’s intelligence gathering capability or its ability to select targets. Therefore, the destructive power of U.S. high-tech conventional weapons may not be adequately appreciated — and therefore, they may not have sufficiently persuasive power as deterrence.

### **(3) Building Ballistic Missile Defense**

As noted in the foregoing, if diplomatic measures or retaliatory deterrence is not enough to deal with missile threat, Japan will have to consider a means of intercepting incoming missiles. Japan’s air-defense system, as with those of other countries, is practically powerless against incoming ballistic missiles. The Patriot PAC-2, of which Japan currently deploys 30 launch systems, designed to intercept aircraft. One promising defense against ballistic missiles that could cover the entire territory of Japan is the ballistic missile defense (BMD) system, which is being studied jointly by Japan and the United States.

The BMD systems that the United States is developing for overseas deployment may be divided into several systems according to the form of their deployment and the altitude of interception. Sea-based BMD defense systems include the Navy Theater-Wide

(NTW) defense system which uses light-weight exoatmospheric projectiles (LEAP) mounted on missiles fired from Aegis-equipped warships, and the Navy Area Defense (NAD) system, which intercepts low-altitude ballistic missiles by using an improved version of standard missiles carried by Aegis-equipped warships. Land-based BMD systems include the Theater High-Altitude Area Defense (THAAD) system, which consists of large mobile radar and high-altitude anti-ballistic missiles, and the Patriot PAC-3, which intercept low-altitude ballistic missiles. Of these, the one that has become a subject of Japan-U.S. joint technology study program is the NTW defense systems.

Some of the researchers in Japan's neighboring countries are taking a critical attitude to the idea of joint development of a BMD system being considered by Japan and the United States. They argue: (1) that the proposed BMD undermines the foundation of international efforts in nuclear arms control and disarmament; (2) that it worsens the strategic environment of East Asia because countries surrounding Japan feel compelled to strengthen their nuclear missile capability; (3) that the BMD is an offensive weapon, which is targeted at a specific country or countries; and (4) that the BMD could lead to a buildup of Japan's military power and ultimately Japan's development of nuclear weapons.

However, none of these arguments is sufficiently convincing. In the first place, the BMD for overseas deployment including NTW that is the subject of Japan-U.S. joint research will be researched and developed in a manner designed not to violate the 1972 Anti-ballistic Missile (ABM) Treaty that guarantees the strategic stability between the United States and Russia. Second, the governments of the United States and Russia have reached an agreement that they will not deploy theater-level BMD for strategic purposes. Therefore, even if Japan deployed BMD for the defense of its territory, it is hardly conceivable that it would have a negative impact on the control and reduction of strategic nuclear armaments of the United States and Russia. Rather, the deploy-

ment of theater-level BMD as conceived by Japan and the United States will reduce the political and military significance of ballistic missiles, and could lead to the prevention of proliferation of ballistic missiles.

In response to their argument that the deployment of BMD by Japan will spur its neighbors to beef up their nuclear missile capability and worsen the strategic environment of East Asia, it must be pointed out that the missile buildup programs of the countries armed with ballistic missiles will be determined not so much by Japan's deployment of BMD as by the trend toward developing missile forces in their close neighbors.

Theater-level BMD is not targeted at any specific country. It is a defensive weapon system and is militarily neutral until the country that deploys it is threatened with a missile attack. Although BMD will strengthen Japan's defense capability, there is no way that it can reinforce the country's offensive capability. Moreover, the argument that BMD will lead to the nuclear armament of Japan is logically flawed. On the contrary, it has a powerful effect of keeping Japan from going nuclear, because development and deployment of nuclear-armed missiles concurrently with the development of a BMD system would, as is clear from the logic of the ABM Treaty, likely pose a threat to the strategic stability vis-à-vis the neighboring countries equipped with nuclear missiles and could thus have an adverse effect on the security of Japan.

Promotion of a BMD development program would give rise to a number of problems, such as the effort to win the understanding of neighboring countries and the necessity to raise funds to finance the development and deployment of BMD. Nevertheless, one should be aware of the following advantages offered by the deployment of BMD. First, BMD helps Japan defend itself against attacks from missiles equipped with nuclear, biological or chemical warheads, will lower the incentive to attack Japan, together with the retaliatory deterrence provided by the United States, and will help prevent the proliferation of ballistic missiles and WMD. Second,

BMD will help Japan avert the risks of intimidation by ballistic missiles equipped with WMD. Third, BMD will enhance the preparedness of Japan to counter the potential danger of accidental or miscalculated missile launches, which becomes high with the buildup and proliferation of ballistic missiles. Fourth, deployment of BMD by Japan would have the effect of protecting the U.S. armed forces stationed in Japan and contribute to an efficient operation of the Japan-U.S. security arrangements. In addition, a joint research and development of BMD will help deepen the mutual exchange of military technology between Japan and the United States and thus strengthen the foundation of the bilateral alliance.

It is not certain that the three-way combination of the export control, retaliatory deterrence and missile defense, which have been discussed in the foregoing, can completely stop the proliferation and use of ballistic missiles. One must remember that the development and possession of missiles, particularly those which are capable of delivering large payloads, are closely related to the development and possession of WMD. Put another way, the strengthening of efforts to prevent the proliferation of WMD leads to the arrest of the proliferation and use of missiles. This is why the international community must redouble its collective efforts to prevent the proliferation of nuclear, biological and chemical weapons.