

**Overview**

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**East Asia in 1998**

The currency crisis which erupted in July 1997 swept through the entire Southeast Asian region and about ten months later, it toppled the government of President Suharto of Indonesia. These events showed that in developing countries the state of their economy is closely related to their political stability and to the security of the region. Hit severely by the currency crisis, many of the member countries of the Association of South-East Asian Nations and South Korea have been forced to slow down the modernization of their armed forces which had until then been vigorously pushed ahead aided by accumulated wealth. What impact, if any, the slowdown would have on the military balance of the region is not clear at this point of time (the end of 1998). So far, no other countries have followed the way of Indonesia whose government collapsed in the disorders triggered by the recent currency crisis. But if the economic turmoil drags on, an increase in unemployment would stir up social unrest and marked differentiation in the speed of military modernization between countries would alter the power balance on the earth. These would eventually disturb the peace and stability of the entire region.

Japan was called on to play two important roles to help East Asian countries bail out from the crisis. One of them, a short-term one, was to provide financial aid to ease the liquidity crisis. In this connection, Japan committed itself to contributing a total of \$1.9 billion, the largest sum made by a single country, to a rescue package cobbled together by the International Monetary Fund for Thailand, Indonesia, and South Korea. The financial aid from Japan greatly helped these countries avoid defaulting on their external debts. Japan has continued to deliver a variety of rescue measures for East Asia making disbursements totaling about \$8 billion.

The other role, a medium-term one, was to help turn around the economies of the region by increasing imports from, and investment in, these countries. In the months immediately preceding the currency crisis, some quarters in East Asia saw the bursting of the

economic bubble in Japan as a sign heralding the end of the Japanese era. But the currency and economic crises which visited their countries made them realize once again the weight the Japanese economy carried not only in the regional economy but also in the world economy. For the sake of security of the region, Japan is called on to come to grips in earnest with the task of rehabilitating its own financial system and economy.

Since the fall of 1997, Japan, the United States, China, and Russia have held bilateral summit meetings on repeated occasions. Part of their meetings was devoted to settling problems of the past and building relations into the next century between them. An event which had attracted the world's attention was the exchange of visits by the presidents of the United States and China. The meetings helped mend the U.S.-China relations which had cooled after the Tiananmen Incident and the Taiwan Strait Crisis. Both President Bill Clinton and President Jiang Zemin, for their own reasons, choreographed their visit as a big event to strengthen their political base and boasted the achievement they accomplished by the visit. Jiang Zemin visited Japan, November 1998, as first head of state of China to do so. While history issue attracted public attention, joint declaration was issued, proclaiming "a Partnership of Friendship and Cooperation for Peace and Development." Building stable and cooperative relations among Japan, the United States, and China — and possibly Russia — is of extreme importance for long-lasting peace and prosperity of East Asia.

Real improvements in the Japan-South Korea relations, as with those of Japan and China, had been hampered by differences in the perception of history. President Kim Dae Jung's visit to Japan in October 1998 marked an end of one era in the history of the Japan-South Korea relations. During the visit, the two countries committed themselves to building a future-oriented partnership. Toward the end of November the same year, a Gathering of Japan-Republic of Korea Cabinet Ministers was held in Kagoshima Prefecture, a place of historical importance for Japan and Korea.

The prime ministers of the two countries attended the meeting and confirmed their policies to cooperate with one another on various issues. The co-hosting of matches of the 2002 Soccer World Cup is expected to add momentum to strengthening the ties between the two countries. Improvements in the Japan-South Korea relations would contribute to the promotion of policy cooperation among Japan, the United States, and South Korea and become an important stabilizing factor in Northeast Asia.

The nuclear tests which India and Pakistan had conducted in succession caused widespread repercussions in the international community. North Korea also is suspected of having resumed the development of nuclear weapons. Coming as it did at such a juncture, North Korea launched on August 31, 1998, without prior notice to Japan a missile, which has been developed on the basis of the Taepo Dong 1, and it flew over the air space of Japan. North Korea claims that the missile was launched to send a satellite into orbit, but it nonetheless jolted the Japanese people into awareness of the threat of ballistic missiles. As Japan does not possess capability of detecting and intercepting ballistic missiles, the launching of a missile by North Korea touched off debate over the necessity for possessing a reconnaissance satellite or developing a ballistic missile defense (BMD) system of its own. The question of how to cooperate with the United States over BMD had been under discussion but following the launching of a missile by North Korea, Japan decided to undertake the joint technological research with the United States.

There are a number of factors possibly destabilizing the situation in East Asia. However, countries in this region which share the goal of economic development have managed, aided by the U.S. military presence, to defuse the danger of local conflict to ensure the stability of international relations in the region. Until recently, "Asia" meant a region other than Europe on the Eurasian Continent. However, as the countries in this region deepened their interdependence through trade and investment, East Asia has

come to be recognized as a unified entity, and this helped multilateral security dialogue among them take hold. Meanwhile, discord has surfaced among certain countries perhaps due, in part, to the difference in the damage they suffered from the currency crisis, the difference in the intensity of pressure they faced for political reforms they are required to implement, or the difference in the degree of political modernization they have achieved. It is also feared that too preoccupied with internal problems, their interest in multilateral cooperation may flag in coming years. The economic growth potential of East Asian countries still remain large, and in order for them to overcome the present crisis and produce good results in coming months, it is important more than ever to promote not just economic cooperation but also security dialogue among them.

#### The Korean Peninsula — “The Sunshine Policy” and “Missile”

President Kim Dae Jung of the South Korea who assumed office in February 1998 announced the so-called “Sunshine Policy” which is designed to improve its relations with North Korea by encouraging the private sector to expand economic exchanges. Determined not to let it degenerate into an unprincipled “appeasement policy,” Kim Dae Jung made it clear that the objectives of the policy would be to lead North Korea to reforms and openness, foster “reciprocity” in intergovernmental economic cooperation, and build a strong security posture to deter armed provocation from North Korea.

He reaffirmed his commitment to the alliance with the United States and has adopted a foreign policy which attaches importance to its cooperative relations with Japan, China and Russia. He has met with the heads of neighboring countries and has successfully won their support for his sunshine policy. A string of events occurred as if to test the feasibility of his sunshine policy — the submarine incident in June 1998, the discovery of the bodies of North

Korean armed agents in July, and the launching of a missile in August. Undaunted by these events, he stayed the course and is seeking to strengthen the cooperative relationships with Japan and the United States, while struggling to overcome these challenges.

Meanwhile, South Korea’s economic crisis has swelled the ranks of unemployed workers, causing social unrest. The danger of South Korea plunging into a serious turmoil, however, is believed to be remote as the public morale is high, the people are confident of overcoming the crisis, and the policy of Kim Dae Jung enjoys a relatively high approval rating. The economic trouble has put brakes on its defense modernization which South Korea vigorously pursued during the past several years. Kim Dae Jung has embarked on a military reform program aimed at increasing its efficiency and trimming its payrolls by simplifying its chain of command.

In North Korea Kim Jong Il has been in power. He did not assume the presidency of the Democratic People’s Republic of Korea at a session of the Supreme People’s Assembly held in August 1998, but was reelected as chairman of the National Defense Commission, which is defined as the highest office of the state. As symbolized by the elevation of the status of the National Defense Commission, the style of his rule is characterized by broad range of roles to be played by the military. Indeed, the role of the military is diversified beyond the defense of the country into wide areas ranging from production of goods to political indoctrination of its people. What is more, members of the commission have occupied upper echelons of the leadership of the republic. The lineup of military officers and party cadres who show up with Kim Jong Il at official functions virtually has not changed since the demise of Kim Il Sung in 1994. This seems to suggest that the Kim Jong Il regime is taking hold at least in a narrow sense. Meanwhile, there are new faces who have been promoted to key positions in charge of managing the economy.

In the area of defense, efforts are being made to maintain —

and strengthen — military power. As part of its policy, North Korea attaches special importance to the development of the heavy (or munitions) industry. It boasts of its capability to “inflict a merciless retaliatory blow on the enemy in any part of the world” and claims that its goal is to build a “strong and prosperous country.” It is in line with this policy that it launched, late in August 1998, a ballistic missile believed to have been based on Taepo Dong 1.

The missile launching was probably aimed at achieving objectives internally as well as at gaining diplomatic and commercial clout with other countries. North Korea’s development of ballistic missiles is not only a menace to the Northeast Asia but is also a destabilizing factor for the international community as a whole owing to its potential sale to other countries. What is worse, their recent activities have provoked suspicions that North Korea might have resumed the development of nuclear weapons.

North Korea has indicated that they attach great importance to the bilateral talks with the United States and has participated in the four-party talks which include the South Korea and China. However, problems of North Korea is reaching a point where the patience of the international community will be severely tested.

#### China — The Establishment of a Jiang Zemin-Zhu Rongji Leadership

The 15th National Congress of Communist Party of China (CPC) (held in September 1997) and the first session of the 9th National People’s Congress (held in March 1998) elected a new leadership led by President Jiang Zemin and Premier Zhu Rongji, more than a year after the demise of Deng Xiaoping. It announced a sweeping structural reform program of its economy. On the domestic front, the new leadership has to contend with a number of structural problems involving loss-making state-owned enterprises and growing unemployment. Particularly, the restructuring of state-owned enterprises and the government reform are fraught with difficulties. Vigorous execution of these reform measures

would throw a large number of workers out of jobs and raise the question whether the Chinese economy can expand rapidly enough to absorb unemployed workers. Actually, there are signs suggesting that the Chinese economy may slow down in coming months due in part to the negative impact of the Asian economic crisis on China’s exports. To take up the slack, the Chinese government is increasing government bond issues to implement domestic demand-inducing policy measures such as the development of industrial infrastructure.

On the diplomatic front, the foreign policy of the Chinese government has increasingly taken on a tinge of all-directions cooperative diplomacy, with the result that its relations with the United States, Japan, Russia, and Southeast Asian countries have improved markedly. On matters relating to the question of human rights, also, the Chinese government has taken a positive stance and China has thus enhanced its stature in the international community. Particularly, its relations with the United States, in particular, has improved significantly. In 1997 and 1998 the two countries had their heads of state exchange an official visit, and mended their relations strained since the second Tiananmen Incident in 1989. In a joint statement that had emerged from a visit to Washington by President Jiang Zemin in the autumn of 1997, the presidents of the two countries committed themselves to building a “constructive strategic partnership” and declared that the relationships between the United States and China have entered a new phase. In exchange for a pledge to suspend the export of nuclear-related technologies and facilities to third countries, China won the lifting of the freeze of the U.S.-China Agreement for Peaceful Nuclear Cooperation. President Clinton visited China in the summer of 1998. At that time, Jiang declared, in connection with the financial crisis of Asian countries, that China would firmly maintain the exchange rate of the renminbi at its current level. Thus, Jiang Zemin succeeded in impressing on the world the image of China as a world power on a par with the United States. On the question of

Taiwan, the Chinese leadership managed to elicit from Clinton confirmation, though orally, of “three no” and thereby captured initiative in relation with Taiwan. Jiang’s leadership has consolidated his political power base in China through an exchange of state visits with Clinton.

With a view to using limited defense budget for modernizing its weaponry, at the 8th National People’s Congress its plan was announced to cut its personnel strength of the military by 500,000 over the next three years. This indicates that by establishing a General Armament Department under the newly announced plan, the weight of modernization of the People’s Liberation Army will be shifted from a quantitative expansion to a qualitative improvement. In 1998 the Chinese government issued a white paper China’s National Defense. While it contains sections which are opaque to outsiders, it is quite significant in that China has published its own view regarding, and actual status relating to, various areas; international situation; its defense policy; development of defense capability; its cooperation in international security, arms control and disarmament. In the area of military exchange, China, encouraged by the positive results it had achieved through military exchange with the United States, has been actively promoting efforts for confidence building with all countries. As an extension of such efforts, the defense exchange between China and Japan has made headway with the exchange of visits by the Defense Minister of Japan and the Minister of National Defense of China.

Relations between China and Taiwan, also, have undergone a significant change since the fall of 1997. Immediately after the 15th CPC National Congress, China changed its tune and called on Taiwan to participate in discussion about procedural affairs for political talks. However, as Taiwan showed no signs of softening its attitude even after President Clinton’s visit to China, China proposed a new approach called “political dialogue.” In response, Koo Chen-fu, chairman of the Straits Exchange Foundation visited Shanghai and Beijing in October 1998. An agreement he had

reached with Jiang Zemin and other Chinese leaders on the expansion of exchanges between China and Taiwan has ushered in a new stage of relations between China and Taiwan. Meanwhile, a race for leadership of Taiwan after the end of Lee Teng-hui’s presidency has already started.

#### Russia — A Troubled Political Situation and Economic Crisis

Russia had its prime minister replaced twice in the short space of one year in a difficult political situation, which was compounded by a financial crisis, sending its economy into turmoil. The discontented parliament, especially the communist members, has stepped up its criticism of President Boris Yeltsin. Moreover, the relationships between the central and provincial governments have become increasingly complicated, so much so that the behavior of the government of Yeltsin, the Communist Party, and provincial governments has become an element that warrants a close watch in terms of international security. In the Russian Far East, the continuing economic slowdown which is going from bad to worse on account of the turmoil in the central government is seriously hurting the livelihood of its inhabitants. And it is feared that the popular discontent may be building up internally.

In December 1997 Yeltsin signed a decree approving The National Security Concept of the Russian Federation based on the concept of comprehensive security. While acknowledging the existence of threats from various sources, this concept says that the causes of all the threats Russia is currently faced with lie in the critical conditions of its own economy. It lists political, economic, and military tasks to be tackled in order to eliminate all sorts of threats and secure national security of Russia.

Russia attaches great importance to defending its national interests and is seeking to strengthen its presence as a world power. In line with this policy, Russia has been aggressively pursuing diplomatic activity aimed at neutralizing unipolar dominance and

at creating a multipolar world. This has led to the development of heightened tension with the United States. Russia entertains great expectations for Asia-Pacific countries to carry out its economic reform, and has actively been seeking to expand its relations with Japan. It was along this line of thinking that Yeltsin had met with Prime Minister Ryutaro Hashimoto at Krasnoyarsk and at Kawana, and then with Prime Minister Keizo Obuchi in Moscow. He has achieved good results through the political dialogue with these Japanese leaders. In the area of security dialogue and defense exchange, Masahiro Akiyama, administrative vice defense minister, visited Moscow while Adm. Kazuya Natsukawa became the first chairman of the Joint Staff Council of Japan to visit Russia. Chief of the General Staff of Russia, Col. Gen. Anatoliy Kvashnin paid a return visit to Japan. This was the first visit to Japan made by chief of Soviet/Russian general staff. Worthy of special mention in this connection is the fact that the Self-Defense Forces of Japan and the Russian Navy had conducted a combined search and rescue exercise, still another first.

As regards the reform of the Russian armed forces, Yeltsin made it clear in mid-1997 that their reform will be restrained by economic resources, and his decision was also confirmed in the National Security Concept. Following Yeltsin's decision, concrete steps have been taken to reform the armed forces within the severely retrenched defense budget under the strong leadership of Defense Minister Igor Sergeev. In accordance with the reform program, Russia plans to reduce the number of troops by 300,000 in 1998 in addition to the 200,000 it had cut in 1997. As a part of the organizational reform aimed at increasing efficiency and cutting military personnel, the Strategic Missile Force and the Military Space Force will be integrated in 1997 and the Air Defense Force is merged with the Air Force in 1998. The Directorate of the Commander in Chief of the Land Force was abolished and the Main Directorate of the Land Force and the Main Directorate of Combat Training of the Armed Forces have been established. As

for Russian forces in the Far East, a joint headquarters which commands the land, naval, and air units stationed in the Kamchatka Peninsula was established. However, other activities remain subdued on account of severe financial difficulties.

At present, the reconstruction of the defense industry has become a top priority. Although Russia attaches importance to arms export as a source of foreign currency, its arms exports decreased sharply in 1997. Defense conversion and the introduction of private capital to finance such conversion have made little headway. Concerned about the situation, the government has sorted out weapons-producing factories into those which are strategically important and those which are not. It is devoting major effort to the rehabilitation of the former. In December 1997 the government adopted a program of reconstruction and conversion of defense industry till 2005, and in April 1998, laws enabling the execution of the program were enacted.

One task to which the Russian government attaches particular importance is the fostering of companies capable of producing high-tech weapons which are highly competitive in the export markets. These companies are producing fighter aircraft and Kilo-class submarines, the staple of Russian arms export, and they are exported to East Asian countries and India. The reconstruction of Russia's defense industry carries the danger of escalating arms buildup in East Asia.

#### The United States — Improving Relation with China

A number of high-ranking officials of the Clinton Administration visited Southeast Asian countries which were swept through by a currency crisis to discuss assistance to help them tide over the financial difficulties they were in. During the talks, the U.S. officials characterized the U.S. military presence in the region as "an anchor of stability amidst the storm," and reaffirmed the U.S. commitment to maintaining stability of this region.

The biggest result in Asian policy it has achieved in recent

years was the improvement in its relations with China. During the past year, the presidents of these two countries have met twice, and they strengthened cooperation in areas of common interest toward building a "constructive strategic partnership," while shunning sharp confrontation in areas in which their interest does not converge. As a result, the two countries are proceeding to wider scope of their pragmatic relations. In the area of military exchange between the two countries, also, the situation has been making good headway from a mere confidence building and human contacts to a down-to-earth relationship of mutual cooperation. True, there still exists deep-rooted mistrust and suspicion against China in the United States. Particularly, the Republican-led U.S. Congress has stepped up its criticism against China during the past year. At the same time, the United States should pay heed to the impact which improved U.S.-China relations would have on its allies in the region. Thus, President Clinton reaffirmed that the U.S. alliance with Japan and other countries and the military presence of the United States in this region are of pivotal importance to its Asian policy.

There has occurred a notable event that has a direct bearing on the military presence of the United States in East Asia. The deployment of U.S. reinforcements to the Gulf region when the situation in Iraq had become tense in the fall of 1997 put to the test for the first time the validity of the U.S. strategy for dealing with two major regional conflicts almost simultaneously. As the deployment of its reinforcements had swung part of its fighting power to the Gulf area, the U.S. military presence in this region has temporarily weakened, worrying the local commander who was keeping his eyes on the movement of North Korea.

From the standpoint of long-term defense planning, also, questions were raised as to the validity of the strategy for coping with two major regional conflicts. A report drawn up by the National Defense Panel established by the Congress points out that when viewed from a long-term (2010-20) standpoint, this strategy

could present financial difficulties in funding the procurement of military equipment that will be needed for its operation in coming years. In response, Secretary of Defense William Cohen refuted that given the serious challenge the U.S. security faces in the Korean Peninsula and the Persian Gulf, the maintenance of capacity to deal with two conflicts simultaneously is essential. During the past year, a series of studies of the military strategy and defense program for the years to the early 21st century, by and large, have been completed. The U.S. Department of Defense has started making efforts to restructure its armed forces into a military power capable of dealing with changes occurring in its security environment in light of the findings made through these studies.

The United States sees the recent launching of a missile as a sign indicating that North Korea was trying to secure the capability of building intercontinental ballistic missiles and that the country had achieved faster-than-expected progress in the direction. Particularly, the success at multiple-stage separation has arrested the attention of U.S. officials. The United States has also become increasingly cautious about the export of missiles by North Korea.

The drafting of the new Guidelines for Japan-U.S. Defense Cooperation was a major event that had happened in connection with the Japan-U.S. security cooperation. In the course of discussions that had led to a final report on the revision of the then existing guidelines, both Japan and the United States sought to ensure the transparency of the document with a view to helping the countries in the region including China and South Korea to fully understand the import and the aim of the new Guidelines.

To round out the year's efforts to strengthen Japan-U.S. cooperative relations, President Clinton visited Japan and reaffirmed the importance of the Japan-U.S. cooperative relationship not just for the security of the two countries but also for the contribution it makes to the world. The new Guidelines and the arrangements to be undertaken thereunder jointly by Japan and the United States will go a long way toward further enhancing the credibility of the



Japan-U.S. security arrangements. A bill for new legislation concerning situations in areas surrounding Japan and other related bills now before the Diet (parliament) are necessary to ensure the effectiveness of the new Guidelines. An early enactment of these important bills is desirable for the peace and safety of Japan.

Looking back on the past year, one has the feeling that the mounting financial and economic crises in Asia and the prolonging recession in Japan have once again brought economic problems to the fore demanding expeditious action as the highest priority for Japan and the United States. In the process, the question of security has been subordinated.