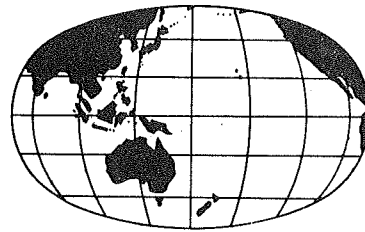


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THE RISE OF THE PACIFIC BASIN*

By William H. Overholt

"Henceforth, European commerce, European politics and European activity, although becoming actually more intimate, will nevertheless, sink in importance, while the Pacific Ocean, its shores, its islands, and the vast regions beyond, will become the chief theater of events in the world's great hereafter."

—U.S. Secretary of State William Seward—

IN the 1970s and 1980s the Pacific Basin is likely to emerge as the center of world economic dynamism and growth. As it does, this region will either fragment dramatically, thereby limiting its own growth rates, or it will become highly interdependent and might even develop some degree of political consciousness. The magnitude of what is occurring in the Pacific has only recently become highly visible, but the development has long been under way.

Historically many different areas have been the focal point of world economic dynamism: China, the Middle East, the Mediterranean Basin, Britain, the North Sea, and the North Atlantic. In recent centuries the decisive economic developments included: the institutionalization of 2 per cent growth rates in Britain during the eighteenth century; the subsequent institutionalization of 3 to 5 per cent growth rates in the U.S., the U.S.S.R., and some parts of Europe; and most recently the apparent institutionalization of even higher growth rates in Japan and some of her neighbors. In each case these economic accelerations have greatly influenced political and cultural history. Similarly, the rise of the Pacific Basin—which encompasses North and South America and Northeast and Southeast Asia¹—may constitute the most striking phenomenon of the twentieth and early twenty-first centuries.

Steady, and sometimes spectacular, economic growth is not a new phenomenon in Eastern Asia, but the extraordinary long-run possibilities of this steady growth did not immediately become visible. Because the growth started from such a low base, substantial progress had to occur before Western eyes could see it. Western eyes often see as picturesque the palm-thatched huts of the most

* This essay, written by William H. Overholt, is a preliminary report of research undertaken jointly with Herman Kahn and Robert Panero.

¹ For a formal definition of the Basin, cf. footnote 7.

primitive stages of Asian development, and view as intolerably squalid the metal-roofed shacks that accompany successful transition to a higher stage. Also, progress was frequently interrupted either by the rigidity of ancient social structures, or by violent upheaval resulting from the collapse of traditional or colonial structures or from World War II. Such interruptions are possible in the future, but most of the collapse of old social systems has already occurred and the nuclear age has brought inhibitions to general war.

Continuation of dramatic growth is not inevitable, but it is a likely consequence of moderately competent major power policies. By now, with Japan's GNP the third largest in the world, and with Singapore's GNP passing \$1,000 per capita, the possibilities of an extraordinary regional takeoff are becoming visible.

These possibilities continue to rest on:

1. Investment flowing into the region, initially from the European powers, then primarily from the U.S., now primarily from the U.S. and Japan;
2. The extraordinary capabilities of the Japanese socio-economic system for growth;
3. The economic skills and diligence carried by Sinic culture throughout much of Eastern Asia;
4. Increasingly, the interaction among these newly dynamic economies;
5. The efficiency of modern communications and ocean transport technology;
6. Regional peace, despite local warfare; and
7. Rising governmental effectiveness in economic planning and policy.

Phase One: The Rise of the United States and Japan

The first phase of the rise of the Pacific Basin was a response to European intrusion. Throughout the Pacific Basin, in Northeast and Southeast Asia and in North and South America, European traders, missionaries, soldiers and bureaucrats systematically disrupted social structures which, whatever their other virtues, did not spontaneously generate sustained economic growth and often resisted it. By historical accident, in the era of European penetration of the Pacific Basin the societies of the region were either primitive and divided, as in the case of America and Southeast Asia, or in periods of political decline, as in China and Japan.

of the principal forces in the Basin for the indefinite future, but the dynamism of the Basin currently derives from Japan and her small Northeast Asian neighbors.

By all the conventions of Western economic experience Japan should be incapable of rapid economic growth. Lifetime employment should slow growth by reducing labor mobility. Lack of raw materials should destabilize growth by imposing dependence on unreliable foreign sources. Oligopolistic conglomerates collaborating with government should inhibit the efficient allocation of resources ensured by greater competitiveness. Labor shortages should raise costs to the point of reduced ability to compete in world markets. But it turns out time after time that these "constraints" can be broken, and even turned to advantage, by using diligence, skillful organization, and a cooperative spirit to stimulate high growth rates. These in turn ensure the availability of jobs for those lifetime-employed workers; enable rapid diversification of sources of raw materials; and create pressures to keep performance standards high and accelerate labor productivity. For Japan the "obstacles" to rapid growth have so far served as Toynbeeian challenges to be overcome by social institutions geared to high growth rates. The challenges of the future are great, but no greater than those of the past; the chief dangers are loss of nerve, prolonged energy shortages, and antagonism with the U.S.

Japan is essentially a processing center with no significant native raw materials and thus depends on international trade. However, the vulnerability caused by such dependence is often exaggerated. Japan is rapidly diversifying her sources of supply. She remains terribly dependent on Middle East oil but this could be greatly reduced in the 1980s and 1990s if other sources of supply in Siberia, on the continental shelf of Asia, and elsewhere are developed rapidly. By the mid-1980s nuclear energy should dramatically accelerate this diversification.² Japan's supply of primary sources is vulnerable to military interdiction, but this would be tantamount to a declaration of war and could invoke Japan's alliance with the United States. Finally, Japan's acknowledged economic vulnerability to changes in world trade patterns must be qualified by the great size and profitability of Japan's internal market. Indeed the enormous needs of her internal market contain the solution to many frictions with other countries as well as the key to the continued rise of the

² For detailed projections, cf. U.S. Atomic Energy Commission, "Forecast of Growth of Nuclear Power," WASH-1139 (January 1971), p. 11.

maintain her homogeneous society she will not import cheap labor from abroad in the way the nineteenth-century U.S. did. But an extraordinary pool of cheap labor is available in surrounding countries, and those surrounding countries greatly desire economic development and are less concerned by the problems of pollution. (A frequent comment in Korea is, "Give us your pollution.") Thus Japan's problems create pressures for a vast migration of Japanese capital to nearby countries. Along with Japanese capital will go technology, organization, and a network of Japanese managers and communications which will greatly contribute to the economic integration of Eastern Asia.

American export of industries complements and accelerates Japanese development of the Pacific Basin. American companies, uncompetitive in facing superior Japanese labor productivity, find that they can regain their competitive edge by exporting themselves to the cheaper and more diligent labor of the less developed Siniculture areas. In turn Japanese companies find themselves unable to compete with the American multinationals and thus migrate out of Japan to other Siniculture areas.

Other forces also enhance Japan's foreign investment. Rising demands for raw materials, together with a policy of seeking 30 per cent ownership of total foreign sources of raw materials, will greatly accelerate investment. Space and labor shortages and pollution controls will force out much of the iron and steel and other similar industries. Preferential treatment of products of developing nations encourages heavy foreign investment. And the government provides loans to assist foreign investment. By 1980 Japan may have invested eight billion dollars in Asia.⁵

These exports of industries go to regions whose cultures derive from China. The Siniculture countries possess in common such characteristics as extraordinary diligence, great mechanical skills, entrepreneurial skills, organizational ability, and (less regularly) high capacity for saving. The organizational and entrepreneurial skills derive from a Chinese culture whose organizations, from national down to village levels, have outclassed those of other world regions for the better part of two millennia. Diligence presumably derives from cultural factors and the pressure of overpopulation. Saving conceivably derives from origins in a region where one had to survive through the winter, and from a sense of time that stimu-

⁵ Charles Sebestyen, *The Outward Urge: Japanese Investment World-Wide* (London: Economist Intelligence Unit, 1972), p. 20.

culture economic miracle. The ricksha boys of a decade ago now drive their own cars.

Siniculture growth will accelerate growth in Australia and New Zealand, and will pull up Brazil, and to some extent Canada and Siberia, where great reserves of raw materials exist to fuel the Siniculture growth.

From its earliest period the rise of the Pacific Basin has depended upon the development of technology, and particularly ocean transport technology. Ocean transport has always been cheaper than land transport, but right up to the prewar period the Pacific Ocean, constituting 75 per cent of the world's water surface and covering more than one-half of the globe, was the barrier and isolator of Japan and the other insular countries. Today it is the integrator because ocean transport has cheapened relative to land transport and become rapid enough to be efficient. It is now cheaper to ship cars to San Francisco from Yokohama than from Detroit, cheaper to send coal from the West Coast of the United States to Japan than to the East Coast of the United States, cheaper to move coal from Hampton Roads to Tokyo than from Osaka to Tokyo. Transportation across the Pacific has become comparable in cost to transportation across the Atlantic. Likewise telephone communications have become cheaper as satellite communications become available. The Atlantic used cable at lower cost than the Pacific, which was just too big. Soon satellite communications will make it just as cheap to call Bogota from Tokyo as to call Osaka from Tokyo. (The supersonic transport would probably not make a great difference in transportation in the North Atlantic, but it would make an enormous difference in the Pacific—cutting flying time in half.) This technological change lies behind the economic and political phenomena which lead us to view the Pacific Basin as a unit.

Phase Three: Development of Southeast Asia and Latin America

The rise of the Siniculture region parallels the rise of Japan as a major economic power, and it recapitulates much of the history of Japan's economic rise. Taiwan's transistor products increasingly squeeze out Japan's. Singapore, Taiwan and Korea become important shipbuilders. Taiwan's and Korea's textiles flood world markets. As these processes mature, eventually the entire region will face many of the problems which Japan currently faces—including huge trade surpluses with the U.S., rapid social

year ago birth control was almost universally regarded as unthinkable, the new Constitution makes maintenance of an optimal level of population an important governmental responsibility. In North Korea, a recent governmental reorganization reduced the number of ministries from thirty-one to fifteen, but added two new economic ministries. In Singapore, Malays are suddenly beginning to enroll in English-language curricula because of heightened desire to participate in the economic takeoff. Throughout the Basin success generates high morale which in turn generates success.

Economic success comes to feed upon itself, as dynamic countries provide markets for one another, emulate each other's successful policies, and develop regional communications and organizations. Because of the magnetic effects of Siniculture dynamism, Pacific Basin countries' trade and investment become focused in ever higher proportions on countries within the Basin, and the Basin therefore becomes an increasingly integrated economic unit. North and South America, and non-communist Northeast and Southeast Asia, become bound ever more tightly together.

The Soviet Union and China participate in this process to a very limited extent, despite the tremendous complementarity of Chinese labor, Siberian resources, and Japanese organization and capital. Were either China or the U.S.S.R. to open themselves to full participation in the Pacific Basin, the political evolution of the region would change dramatically, and the capital flows that spur Korean, Taiwanese and Southeast Asian development would divert to China. But national security fears, requirements of domestic political control, and different economic values will probably limit Chinese and Soviet participation. However, their participation will likely increase somewhat, and they could conceivably get forced into competitive development of Siberia and Manchuria.⁷

Political Aspects of the Basin

The economic development of the Basin depends upon key political prerequisites and upon the solution of key political problems generated by the Basin development itself. Problems arise within individual countries, among the small powers, among the

⁷ Using these considerations, we can define the Pacific Basin precisely as a group of relatively open economies, including the U.S., Japan, and most of Southeast Asia and South America, which do more than half of their trading and investment with one another. This functional definition produces geographical peculiarities: Brazil is a member but China is not.

come a major goal of Basin members, particularly the large members.

"Neo-Imperialism." Small countries naturally resent the real and perceived dependence that results from having their trade and investment dominated by a single big power or by a combination of a few big powers, even though the trade and investment accelerate their own development. As Japanese trade has surpassed American trade, this problem has become particularly acute, because Japanese corporations play the economic game with unusual ruthlessness. Horror stories of Japanese tactics have proliferated throughout Southeast Asia. Allegedly the Japanese are very free with bribes. They have on occasion built projects of national importance to a Southeast Asian country with materials so shoddy that they are banned in Japan. They allow local entrepreneurs to develop a market for a Japanese product and then sweep in to take over the market in a manner that bankrupts the local entrepreneurs. They set up joint ventures, then manipulate the market to bankrupt the venture and buy full ownership. Not all Japanese companies deal this way, of course, but even a few create a fairly strong reaction. This reaction magnifies the already important reaction that occurs simply because they are so big. That such reactions, which have in the past been directed primarily at Americans, should now be focused on Japan is no consolation for the United States. The Pacific Basin development, and the prospects for stability in the region, are so important to the U.S. and so vitally affected by this conflict that the U.S. has a strong interest in minimizing the conflict.

Various forces mitigate the friction. The strength of the smaller powers of Asia and Latin America is so much greater than in the past that foreign manipulation can occur only within fairly narrow limits. Expropriation is so easy, nationalism offers such effective support to leaders who defy foreign manipulation, and the international moral mood is so opposed to strong interventions that manipulation and local reactions are inherently limited.

Regionalism reinforces the strength of individual nations. Economic growth of the Basin will increase the interdependence of the region, and thereby stimulate regional organization. Political and business contacts will multiply, and tourism will greatly increase cultural interaction and cultural friction among members of the Basin. The 1970s are likely to be dominated by economic issues, but the late seventies and eighties may see the rise of some

competition between Japanese companies and American companies should provide smaller countries with an opportunity to play the competitors against one another. American competition will keep the Japanese on their toes in Southeast Asia, and Japan will become a major force in Latin America. (Japanese investment in Brazil should pass American in the 1980s.)

The attitudes of the big powers may also significantly moderate any potential friction. Japan's Ministry of International Trade and Industry promised in early 1973 to develop a code of ethics for Japanese companies operating abroad. Rising political pressures in the United States, and sympathetic parts of key bureaucracies, may keep the activities of American companies within certain broad limits. Finally, an irrational fear in Southeast Asia that Japanese investment will inevitably be followed by Japanese military pressure tends to be alleviated by the residual presence of American bases in Southeast Asia even though those bases have no anti-Japanese roles.

Regional Small Power Political Conflicts. Today as in the past one can easily write scenarios for serious trouble in almost any single country in Southeast Asia. What has been changing for many years is the extent to which such events can influence a whole region. In 1950, one could write a believable domino theory, given the extraordinary wartime weakening of governments and social cohesion in virtually every country. By 1965, one could make such a theory credible only for mainland Southeast Asia, although until 1965 one could still believe the possibility of a fairly sudden transformation of the political character of the region—given the apparent possibility in that year of a simultaneous North Vietnamese conquest of Indochina and PKI ascendancy in Indonesia. Today grandiose domino theories seem absurd, and recurrence of the simultaneous crises of 1965 seems unlikely although not impossible. Thus political effervescence internal to Southeast Asia seems unlikely to halt Basin growth. Likewise, in Latin America one can imagine a fairly sweeping trend to leftist or extreme nationalist governments, but not to a degree that would disrupt the overall development of the Basin.

Troubles in Japan. That Pacific Basin development could be drastically slowed by domestic political events in Japan cannot be dismissed. Something like Prime Minister Tanaka's plan must be implemented if Japanese development is to continue rapidly and without social disruption. But various circumstances impede im-

the probability of direct confrontation has diminished. Today the most likely big power confrontation is Sino-Soviet war, and one cannot discount this possibility completely, but in the process of becoming deeper the conflict has appeared to become less volatile.

It is not hard to imagine other kinds of big power conflict further in the future. Japan's drive to economic hegemony in Southeast Asia clashes with China's political ambitions in the region. Japan has long-standing, although currently quiescent, territorial and other disputes with both China and the Soviet Union. The rapid rise of Japan, like the rapid rise of Prussia a century earlier, could provoke an almost automatic hostile response from China and the Soviet Union—particularly as economic success gradually translates itself into political and eventually military power. Competition for influence in Korea makes that country a perennial flash point in the Northeast Asian power triangle, and the volatility of the Korean situation will increase dramatically if the United States withdraws its forces from the region. More generally, the possible withdrawal of most American forces from Eastern Asia would make each of the three major powers in the region less secure and thus render conflicts more volatile. But if one had to place bets, one would guess that the next decade or so will avoid major power wars in the Pacific.

Japanese-American Relationship. Japanese-American friendship and political-military-economic cooperation can no longer be taken for granted. American impatience with Japan's slow pace in lowering trade and investment barriers and in revaluing the yen have too often combined with simple neglect of Japan's interests⁸ to damage Japanese-American friendship. Likewise, the Japanese have proved very slow to realize the new responsibilities they acquire when they transform themselves from a minor into a major power—responsibilities for international monetary stability, for ecology, for development aid, for limiting the harshness of their economic tactics in small countries.

Japanese political-military interests in regional stability coincide with America's, and joint Japanese-American interests in maintaining stable rules of the economic game and encouraging the growth of the Basin greatly outweigh the two countries' competition for larger slices of the pie, but the tendency to focus on day-to-day competition rather than long-range common interests

⁸ For details, see W. Overholt, "President Nixon's Trip to China and Its Consequences," *Asian Survey*, July 1973.

eventually the whole world. The Basin has great momentum of its own, but it can be turned into a disaster by short-sighted decisions. Most important and delicate of all the political issues are American relations with Japan. Japanese-American political-military cooperation can maintain peace in the region, or misunderstanding can provoke hostility and worldwide instability. The U.S. and Japan have in the last few years made serious mistakes in their mutual relationship. The chief hope for the Pacific Basin is that the rewards of cooperation are so extraordinary, and the costs of hostility so equally extraordinary that the necessity for cooperation is obvious.

To outline the benefits of cooperation, and the costs of failure, is the chief motivation for this paper. Part of the Pacific Basin story is history, but future uncertainties and obstacles render firm predictions hazardous. The point is that the obstacles are not insurmountable given moderately good judgment. Hopefully, realization of the auspicious possibilities of Pacific Basin development will prove at least partially a self-fulfilling prediction, and realization of the awesome costs of less cooperative policies will make narrow, short-sighted policies less attractive and thus reduce the likelihood of some of the more disastrous scenarios hinted at above.