

Hudson Institute

Robert Dujarric
Senior Fellow
Tel (202) 944-2764
e-mail rdujarric@aol.com

November 2002

The future of the balance of power in East Asia: Will Japan rise and China decline?

Feel free to interrupt if you have questions or if I say something that is not clear to you.

East Asia defined as Northeast Asia, Japan, Korea, China, Taiwan, to some extent Russian Far East. Not including Southeast Asia.

East Asian balance of power today:

From 1945 to the present, the international order in the region has been based on US hegemony in the Japan-South Korea-Taiwan area. Since the collapse of the Soviet Union, American military primacy in the entire region has been the norm, creating a unipolar balance of power.

Key elements of US hegemonic system:
Japan-US, ROK-US, and Taiwan-US alliances.

(Taiwan relationship special, evolved as China shifted from foe to friend to potential antagonist.)

ROK alliance. Bulwark against communist expansionism, provided opportunity for South Korea to develop economically and politically.

Japan alliance. Performed several tasks:

- Provided military anchor for US in Asia.

- Solved the question of Japan's relations with Asia. It had been unresolved since Meiji and led to Japan's near destruction in Showa. The US alliance would provide Japan security, sparing it the need to get militarily involved in Asian affairs.

Thus allowed Japan to participate economically in Asia without the baggage of imperialism. (The US performed the same function for Germany)

This system has created a peaceful international order in the developed regions of Northeast Asia. It allows countries to trade with each other and the rest of the world under the umbrella of the US-led military alliances. Stability is enhanced because regional states realize that the military prevents the breakdown of the regional order and that US power, in conjunction with its allies, can deal with any potential threat.

Thus, the US system has disconnected economics from international politics. Nations can engage in economic intercourse even if they harbor doubts about their neighbors.

What are basis of US primacy in Asia?

- Enormous US military superiority
- Partnership, not vassal-like relations, with Asian allies, primarily Japan and ROK (Taiwan special).
- Wealthy Japan. Ensures that America's no. 1 partner is strong.

Challenges to this arrangement? Rising China, declining Japan, and US policy failures

Rising China?

No. Why?

For China to evolve into a superpower it would need to become a First World economy, which would requires liberal institutions. These do not mean democracy. A liberal state may be a democracy (most are today) but the basis of liberal institutions are not democracy but rather: constitutionally-guaranteed and enforced property rights and personal freedom, a judiciary and bureaucracy strong enough to impartially enforce

the law and raise taxes, and agreements on how the country's leaders are appointed. The creation of such a liberal state is what took place in Japan under Meiji, though it collapsed in early Showa, having to be reestablished by SCAP.

China is not a liberal polity. Chinese citizens do not enjoy secure property rights backed by independent courts. The communist party is above the law. Moreover, the state and party apparatus is corrupt to the core and is now quite weak.

Yet, China has grown considerably since the late 1970s, so why can't it keep growing under the current system?

Several reasons:

First, the more advanced an economy becomes, the more it requires effective liberal institutions to succeed. As an economy develops, it becomes more law-intensive.

Second, with economic reform, the state has become increasingly weak. Tax receipts as a proportion of GDP are low (though rising), very little revenue is raised through the income tax, and corruption is undermining the state and party.

Third, over time, the political economy of China has led to an accumulation of defects caused by the pervading corruption of officialdom, creating what one scholar calls "booty socialism."¹ All countries have corrupt officials but in China, the bureaucracies themselves, rather than individuals, are predatory corrupt institutions.

Fourth, political stability is at risk. Traditional Marxist-Leninist dictatorships are stable but China has changed. The private sector gives many Chinese some economic independence, contacts with foreigners are common, information flows have been liberalized, and the police state is "softer" than it used to be.

¹Xiabo Lu, "Booty Socialism, Bureau-preneurs, and the State in Transition: Organizational Corruption in China," *Comparative Politics*, Vol. 32 No. 3, April 2000 273-294.

Therefore, China faces many of the threats that societies in transition confront, namely the inability of the political system to institutionalize peaceful and effective means to channel rising expectations and increasing social mobilization.² At the same time, the Chinese political system suffers from degeneration.³ The Communist Party fails to attract the best talent in the country, we are witnessing the shrinkage of its organizational penetration, the erosion of authority, and a breakdown of internal discipline.⁴ Throughout society there is a decline in ideological beliefs. Notable signs of potential trouble are unrest from peasants and workers and the inability to fully tame Falun Gong, indicators of an improperly institutionalized intrusion in politics of previously politically uninvolved groupings.

Some may think that all these problems will be solved once China overthrows communist rule and evolves along democratic lines as South Korea and Taiwan have done. Such analysis, however, fails to take into account several factors.

First, before democratization, South Korea and Taiwan, were already liberal. They had, as a result of Japanese colonialism and American influence, a liberal system of property rights and, especially in the Korean case, a strong state with an effective bureaucracy modeled on Japan's.

Second, China is not a western society. This may sound like cultural imperialism, but the fact is that liberalism is a western invention. It can function effectively in Asia, which is why Japan and Singapore are wealthier than many western nations, but history shows that Asian states that successfully adopted a liberal system did so as a result of prolonged western influence. Japan was forced by the unequal treaties under Meiji to adopt western legal codes and was for seven years under American rule following the Pacific War. Singapore and Hong Kong are creations of British colonialism. Korea and Taiwan spent decades under Japanese rule, which imposed on them western legal and bureaucratic norms, and after 1945 fell under considerable American influence. China, however, would have to

²For an analysis of these issues see Samuel P. Huntington, *Political Order in Changing Societies*. (New Haven CT: Yale University Press, 1968).

³On Soviet degeneration see, Zbigniew Brzezinski, "The Soviet Political System: Transformation or Degeneration?" in Zbigniew Brzezinski, ed. *Dilemmas of Change in Soviet Politics*. (New York: Columbia University Press, 1969.), p. 30.

⁴Minxin Pei. "China's Governance Crisis." *Foreign Affairs* 81:5 (Sept.-Oct. 2002): 96-109

achieve a liberal transformation without such prolonged western (or Japanese) influence.

Third, China is enormous. To establish a functioning liberal state would require training tens of millions of officials, judges, lawyers, and other functionaries. Its size makes it more difficult for China to benefit from outside influences.

Fourth, as Douglas North noted, countries' institutional developments are path-dependent. In other words, once a country is on a particular path, it is difficult to switch to another one. In countries like China, rulers enrich themselves and hold power thanks to inefficient property rights. Thus they have little incentive to alter the system, and neither would their successors.

North's theories are empirically proven by the fact that in the past hundred and fifty years, only a very small number of nations have transitioned towards liberalism, and all have done so as a result of western occupation or massive western influence.

Therefore, China is most unlikely to develop into Asia's new superpower or to threaten the US-based international order. Moreover, to the extent that China has gotten stronger in the past twenty five years, it has done so as a result of trade, investment, and educational ties with Japan, Taiwan, the US, the EU and other liberal democracies. Were it to engage in an aggressive stance against the liberal democratic order, these links would collapse, causing the Chinese economy to go into a tailspin.

Japan's future

We have established that China lacks the ability to challenge the current balance of power in the region. The second question that needs to be answered concerns Japan.

Asia, even if we limit ourselves to Northeast Asia, is too large, too populated, too rich, for American primacy to be possible without a local partner. Therefore the US-based order in the region must be based on a partnership with a regional country. That partner has to be Japan because it accounts for a majority of the region's wealth. South Korea and Taiwan

play an important role but Japan is irreplaceable in America's security architecture in the region.

Therefore, when thinking about the future of the Asian international order we must ask ourselves where Japan is going.

There are many reasons to be pessimistic about Japan. Nevertheless, and this may surprise you, it is easier to be optimistic about Japan than about China. Why? Japan, unlike China, has functioning liberal institutions. Japanese enjoy the rule of law, the bureaucracy is effective, the state apparatus has the capacity to enforce the law, and there is a general agreement on the constitutional order (proposed amendments to the constitution do not put into question its basic framework). Corruption surely exists – as it does in America and Europe – but it is not endemic to the bureaucratic system itself. Therefore, though Japan needs major reforms, the country does not require, as China does, an entirely new political and economic order.

Japan, however, does face major challenges. You are all better informed about Japan than I am, but I would like to briefly explain to you how the country looks to an outside observer.

First, there is the demographic crisis. A solution will require a combination of several remedies: increased fertility, a more effective use of women in the labor force, a higher retirement age, and immigration. Some of these solutions, especially immigration, are politically sensitive. Others, such a better use of female labor, require institutional and societal changes that are unlikely to be rapid.

The other issue is what I would put under the title of failed political economy. It is the web of relationships between politicians and businesses and the failure of corporate governance that produce, among others, useless public infrastructure projects, protection for economically uncompetitive industries, high levels of non-performing loans, and low levels of foreign investment.

It is important to realize that though these problems are economic their solution will come from the political arena. Misguided government investment programs are the result of political decisions. Protection for agriculture and small businesses reflect the influence of these industries on

the ruling party. Non-performing loans are caused in part by the absence of effective corporate governance legislation and enforcement. Lack of foreign investment was the result of policies that actively discouraged outside involvement in the Japanese economy. These problems can only be tackled if Japanese politics are transformed. Japan needs a government that has both the willpower and the capability to take on these issues effectively. (if reforms are undertaken, macroeconomic policy has to ensure that microeconomic decisions do not foster a further economic downturn).

As of now, it is not possible to say if Japan will be able to renew itself. There are clearly some positive signs. The proportion of women in higher education has increased considerably, indicating that they should gain a greater foothold in professional jobs. Foreign investors have acquired a few banks and taken over two automotive companies. Many Japanese firms have relocated some of their production to China and other cheap-labor countries, showing a commitment to profitability.

At the same time, there are still causes for concern. Many areas of the political economy remain unchanged.

Overall, the changes that need to be undertaken are not as profound as those of the Meiji Reformation. But during the Meiji era, the forces of renewal had the advantage of operating under tremendous foreign pressure. Today, though *gaiatsu* may play a role, Japan will have to find the energy for renewal within itself, as it did when the establishment of the Tokugawa shogunate put an end to decades of war.

Partnership with the allies

The third element of the international order in Asia is the partnership nature of America's alliances. America's allies in Northeast Asia – and Europe – are rich and autonomous. They are neither colonies nor small impoverished client states.

The US is more powerful than Japan, having an economy about twice the size and a military vastly greater than Japan's. Nevertheless, the US cannot successfully manage its Japan relationship, and therefore its hegemony in Asia, if it does not take into account Japanese interests.

Unfortunately, the behavior of the Bush administration, where it seems to relish in ignoring the interests and wishes of its allies (Kyoto Protocol, International Criminal Court, arms control agreements, Israel-Palestine, Iraq) raises serious questions about America's ability to maintain strong relations with its allies. So far, this has been more of a problem in Europe, though the Japanese relationship is not unaffected.

Conclusion

In conclusion one can make two observations. First, there are no external threats to American hegemony in Asia. Second, the two main challenges for the US-based international system in the region are internal: Japan's ability to renew itself and America's willingness to manage its alliances effectively.

Robert Dujarric
rdujarric@aol.com

November 2002

The future of the balance of power in East Asia: Will Japan rise and China decline?"

East Asia defined as Northeast Asia.

East Asian international orders:

- From 1945 to late 1980s, Cold War and partial US primacy: key elements: Japan-US, ROK-US, and Taiwan-US alliances.

Japan alliance. Performed several tasks:

- Provided military anchor for US in Asia.
- Solved the question of Japan's relations with Asia

US-led order allows Asian nations to engage in economic intercourse with each other and the world without worrying about the balance of power or fearing that their neighbors will attack them. It has, in a way, disconnected economics from international politics.

What are basis of US primacy in Asia?

- Enormous US military superiority
- Partnership, not vassal-like relations, with Asian allies
- Wealthy Japan.

Challenges to US hegemony? Rising China, declining Japan, and US policy failures

Rising China?

No. Why?

- No liberal institutions.

Yet, China has grown considerably since the late 1970s, so why can't it keep growing under the current system?

- The more advanced an economy becomes, the more it requires effective liberal institutions to succeed.
- The state has become weak. Corruption is undermining the state and party apparatus.
- The political economy of China has led to an accumulation of defects caused by the pervading corruption of officialdom.
- Political stability is at risk.

Will China become a democracy like South Korea and Taiwan, thus bringing along a new liberal China? No:

- Before democratization, South Korea and Taiwan, were already liberal.
- China is not a western society.
- Size is an impediment.
- Path-dependence is strong.

Conclusion: A rising China is not a threat. Moreover, China has grown rich thanks to economic ties with Japan, Taiwan, US, EU; if it became too aggressive, these links would collapse, severely damaging China's economy.

Japan's future

US needs a strong Japan for American hegemony to continue in Asia.

- Easier to be optimistic about Japan than about China. Japan already has a liberal system.
- Japan does face major challenges:
- Demographic. Needs increased fertility, a more effective use of women in the labor force, and immigration.
- Failed political economy. Requires a political solution.
- As of now, it is not possible to say if Japan will be able to renew itself.

Partnership with the allies

- US allies are partners, not colonies
- Bush administration, seems to relish in ignoring the interests and wishes of its allies.

Conclusion

- no external threats to American hegemony in Asia.
- two main challenges Japan's ability to renew itself and America's willingness to manage its alliances effectively.