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AMENDING JAPAN'S CONSTITUTION AND THE RE-ARMING OF JAPAN

By

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Let me begin with the observation that Japan is already armed. Article 9 in the US-designed constitution prohibits Japan from establishing its own armed forces. However, the eruption of the Korean War in August 1950 led General Douglas MacArthur, then the Supreme Commander for Allied Powers (SCAP), to order Japan to form the National Police Reserve, a constabulary force composed of 75,000 personnel to take over the public security functions vacated by the US troops that were transferred to Korea.

Today, Japan's armed forces is more modern and more sophisticated than any of the armed forces of the ASEAN member states. In 1994 Japan's Self-Defense Force (SDF) had a total of 237,700 active members and 47,900 reserves,[1] putting it next to Russia, China and India in strength. Its Air Force possesses and manufactures war planes as sophisticated as those from the United States. Its Navy has the most advanced anti-submarine technology in the world; in fact, it has cruise missiles that fire warheads with a high degree of accuracy from a 300 to 400 mile distance. Japan also manufactures Charge Device Couples or CCDs for imaging and targeting. These devices were used by the American warplanes that hit Iraqi troops with a high degree of accuracy from the air. The only thing the Japanese do not have for now are long-range missiles, long-range bombers and nuclear weapons. But according to an Associated Press report, Japan holds about 4,684 kilograms of plutonium in its domestic facilities. An additional 6,197 kilograms of plutonium are stored in Britain and France, ready for shipment whenever Japan needs it. Experts say it takes only 20 kilograms of plutonium to produce an atom bomb but with Japan's advanced technology, it needs only 5 to 10 kilograms to do the same. Hence, one can readily appreciate Japan's nuclear capability considering the amount of plutonium it now possesses. According to Japan's Science and Technology

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Agency, the country plans to produce enough plutonium to use through the year 2010.

If Japan is already a military power, why do many Japanese still want to change their constitution? And why is Japan's participation in the United Nations Peacekeeping Force now deemed important for the country's national interest? Why does Japan consider the establishment of an independent armed force which is not controlled by the Americans, the first step in becoming a "normal nation" again? And what does a "normal nation" mean to the Japanese leaders?

In order to understand why Japan is instituting these drastic changes in its constitution and to evaluate them meaningfully, we need to take into account five fundamental points. First, most Japanese today believe that since the end of the Cold War, Japan has been undergoing a historical transition and internal reappraisal which, according to the famous Japanese political analyst, Yoshihide Soeya, is "similar in scale to the Meiji Restoration and the reforms after World War II."[2] Of course this process of self-appraisal and self-examination is taking place everywhere in the world. In Asia alone, China has decided that its paramount interest is the development and expansion of its economy, Malaysia is advocating for an Asian trading bloc similar to the European Community, while some ASEAN members are seeking to build a multilateral structure vis-a-vis emerging powers like Japan, China and India, to handle security issues.

Second, we need to comprehend the role of the Japanese political system and the technocratic bureaucracy in Japan. Many of the changes taking place in Japan today are the outcome of policies instituted by these agencies, and of problems spawned by the rivalry between the political parties and the bureaucracy.

Third, a clear understanding of the possibilities and limitations of Japan's Self-Defense Force will give us a better lead on why Tokyo wants to increase its strength to project Japanese military power beyond its territory.

Fourth, we need to examine Tokyo's justification for wanting a permanent seat and the veto vote in the UN Security Council. Some critics argue that Japan's desire to become a permanent member of the Council reflects nothing more than the use of economic power to forge foreign policy. But Japan's reasons are very different. Likewise, we need to examine Japan's unstated motives for wanting to change its constitution and transform its Self-Defense Force into a normal armed force, that is, one capable

of both defense and offense. Only by reading between the lines can we uncover the real reasons why Japan wants to institute radical changes as it prepares to move into the 21st century.

Equally important, we need to look at America's position vis-a-vis Japan's desire to re-arm and play a more active role in international affairs. After all, America has provided Japan, since the post-World War II period, a security umbrella so essential to Japan's industrial growth and expansion.

Finally, we need to examine what are the implications to the Philippines, to the Asian region and to the world, as Japan moves to become a "normal nation" again.

Japan Without America

Most Japanese believe that for much of the Cold War period, Japan's foreign policy consisted of "nothing but *ad hoc* responses to situations... bereft of ideals and principles."[3] Its foreign policy often followed the American political line while at the same time allowing Japan to pursue its mercantilist interests. But this stance did not extend to international politics and security. As one Japanese analyst said:

> During the Cold War era, it did not really matter whether we did nothing or whether the UN did not function; the world danced to the tune of the rivalry between the United States and the Soviet Union. Japan and the UN had no meaningful role in world history. Our UN-centered diplomacy at that time was empty rhetoric, meaning in practice, Japan would do nothing in the international scene, just as it followed the pacifist doctrine of protecting the constitution... We must realize, however, that times have changed. This is the essential starting point. Put simply, the post-Cold War era is one of collective responsibility, no country seeks to take sole responsibility of running the world.[4]

This pronouncement demonstrates Japan's dissatisfaction with the old security arrangements where the US made almost all decisions affecting not only military but economic affairs. Japan's dissatisfaction further intensified when Washington not only insisted that Tokyo accept American trade terms, but even threatened to wage a trade war. Certainly Tokyo believes it is about time Japan takes on the requirements of leadership - which means facing up to the US and assuming the responsibility of

defending its own interests. To do this, Japan has to cut the defense umbilical cord which ties the country to America.

The question to be asked is, to what extent will Tokyo expand its defense capabilities and what kind of security realignments will Japan forge in the coming century? Recently, the *Yomiuri Shinbum,* the most influential and most widely read paper in Japan (circulation of 10 million), called for a public discussion on this issue, particularly on the formation of an independent armed force by Japan.

Japanese Political System[5]

Let me now turn to the roles of Japanese political parties and technocracy. For simplicity I shall not dwell on the history of Japanese political parties but proceed to discuss the role of the Liberal Democratic Party (LDP) which governed Japan from 1954 to 1993.

What needs to be emphasized here is that current Japanese political and economic policies were conceived by Yoshida Shigeru, the Prime Minister of Japan from 1946 to 1954. After years of dealing with MacArthur, Yoshida tried to make the most of the US-designed constitution and came up with a plan whereby Washington would take care of Japanese security, the technocrats in government would formulate the policies for administering Japan, while the elected politicians would govern the country. The primary government policy was the industrial modernization of Japan. This plan became known alternately as the System of '55, the 1955 System or the Yoshida System for the LDP.

The Yoshida plan, which was implemented vigorously from the mid-1950s onwards, led to the phenomenal growth and industrial expansion of Japan and the spectacular increase in the wages and income of the Japanese. As a result, the LDP became the only political party most trusted by the Japanese people, while the opposition parties were reduced to taking radical positions which majority of the Japanese rejected. In the meantime, LDP politicians became the instruments of big business and industry. Moreover, the government agencies and technocrats who formulated and carried out the details of the economic plan became increasingly powerful. The power of the technocrats reached a point where they took part in parliamentary debates and were the ones who answered most of the questions of the opposition for the LDP politicians. From 1955 to 1992, opposition parties found it impossible to dislodge the LDP. The largest opposition party,

former Prime Minister Murayama's Japan Democratic Socialist Party (JDSP) pushed itself to the extreme left. Lacking any meaningful role in the political scheme, they were reduced to taking extreme foreign policy positions. They supported Pyongyang against Seoul, Beijing against Taipei, and served as mouthpiece of radical labor unions and anti-US military bases groups in Japan.

According to one of the most powerful finance ministers of Japan, Ichiro Ozawa, in his book *Blueprint for a New Japan,* the LDP was so securely entrenched that the debate in the Diet during this period was more for appearance to show Japanese democracy at work, rather than for fleshing out alternative programs to achieve Japanese national goals and interests. After staging what appears to be "a righteous debate," technocrats would sit down with LDP and opposition politicians to work out a deal to divide and schedule the distribution of spoils. In exchange for favors, the opposition constituencies and politicians would agree to stop opposing. However, to keep a semblance of political opposition in the country, the technocrats would prepare questions and answers for the opposition politicians to act out in subsequent parliamentary sessions. On occasions when fistfights occurred in parliament, these were for the most part triggered mainly by personal grudges and political infighting. Given the fierce anti-communist ideology and US domination of Japan and the rest of the so-called "free world," Japanese opposition parties could not play a political role of any consequence.

From 1955 to 1992 the real struggles for power were between or among the rival factions within the LDP. And over time, a *modus vivendi* of consensual haggling and trading was reached. The leaders of the dominant LDP faction took turns in assuming national leadership while those members who were not in the political limelight engaged in political maneuvers and fund-raising activities that were often illegal. Such indiscretions were often condoned when they were considered useful for LDP leaders in power; however, these actions also led to their downfall when their power as high public officials began to wane.

Former Finance Minister Ozawa claims that all these political maneuverings have been going on because Japan has no meaningful international role under the protective umbrella of America. While the Yoshida system transformed Japan into a top industrial power, it also changed Japan's parliamentary democracy into an LDP fiefdom ruled by an LDP technocratic mandarinate. Precisely because corruption and smugness was the order of the day, many Japanese leaders became concerned that LDP could no longer protect Japanese economic gains and lead the country into a more

meaningful international role after the Cold War. Hence, they sought to introduce reforms in Japanese politics by instituting a genuine two-party system. The reformers are convinced that the current system only fosters money politics because candidates from the same party offer deals instead of meaningful alternative policies. They believe that politicians will have more authority if voters make their choices on account of distinct party differences and policies. This in turn can take place only if the dominance of LDP is destroyed. At the same time this will reduce the role of the technocrats to mere advisers.

Most Japanese political analysts claim that under the Yoshida system, the technocrats did well in setting up an industrial Japan. The country was under technocratic management, while foreign policy was dictated by aligning with America and business considerations. This "business first" policy led Japan to deal with any government, even dictatorial or repressive ones, or with countries considered by the West as "ideologically offensive." Japan tried to appease the leaders of these countries to obtain the resources needed by its industries and have access to their markets. And as long as the Cold War lasted, Washington abetted Japanese mercantilism. But Washington did not foresee that Japan under this policy would become the rival industrial giant that it is at present.

Today, with the Cold War over, Washington has become less accommodating of Japanese mercantilism. Indeed only a few years after the Cold War, Washington confronted Japan and demanded that the Japanese buy a specific amount of American goods and services or that trade between the two countries be based on numerical ratio.

This confrontational stance has triggered a debate within Japan on the issue of removing Article 9 and rewriting the country's constitution so as to restore Japanese sovereign right to maintain its own armed forces. Article 9 as will be discussed later, tied Japan militarily to America's defense force. Most Japanese believe that a new constitution will give Japanese politicians more authority over foreign policy and allow the government to take a more flexible stance in international affairs.

A few years back, most Japanese would have attacked Ozawa's argument that Japan should become a "normal nation," in the sense that Japan's armed forces should be independent of American control, as "dangerous thinking." The end of the Cold War makes both bilateralism and unilateralism irrelevant for regional security. Today, most Japanese believe that the Ozawa

argument is not only correct, but represents the only route for Japan as it moves into the next century.

Japan's Self-Defense Force[6]

The reformation of Japan by MacArthur began with the 1946 Constitution which contains a peculiar provision (Article 9) stating that the "Japanese people renounce war as a sovereign right of the nation and the threat or use of force as a means of settling international disputes." The article further stipulates that Japan should never maintain "land, sea, or air forces as well as other war potential." The same constitution makes the Japanese parliament the highest organ of the state; only civilians can serve as ministers or premier, and the Cabinet is collectively responsible to the Diet, which controls the budget.

Through the constitution, MacArthur banned Japan from establishing its own armed forces and Japan accepted the ban by ratifying the constitution. MacArthur's goal was to prevent a return of "militarism" and to deny the remaining Japanese militarists any influence over Japanese life.

In 1954 when the Japanese passed the Self-Defense Force Law, command and control of the military was vested on the Prime Minister. The 1954 law assigned the SDF the mission to "preserve the peace and independence of Japan," that is, to defend Japan against external attack and to assist in the preservation of public security. The SDF public security mission differs from normal public peace preservation which is the responsibility of the police.

According to the SDF law, only the Prime Minister is empowered to mobilize the SDF but only after he has consulted with the National Defense Council and has secured the approval of the Diet. But most military officials believe that, given these lengthy procedures, SDF commanders would be severely restricted when the country is under external attack. Of course, the SDF is authorized to return fire if SDF troops are killed by enemy fire. But they are enjoined to refrain, if possible, from "hurting human beings."

Before the end of the Cold War, Japan's LDP held that the Soviet Union was the main threat to Japan. Hence, despite institutional restraints, Japan was able to build its armed force with American acquiescence since America's view then was that "no nation can do any wrong if it took steps to defend itself against possible Soviet aggression." Japan's expenditure for the SDF

increased steadily since its creation in 1954. In a period of 10 years, Japan's Ground SDF increased from a total of 75,000 troops in 1954 to 180,000; for Maritime SDF, over 40,000; and 50,000 for Air SDF. Over a period of 27 years, the defense expenditure went up from $800 million in 1957 to $12 billion in 1984. In 1985 when Japan decided to modernize the SDF, the Mid-Term Defense Estimate of Nakasone Yasuhiro, then Director General of the Japan Defense Agency who later became the Prime Minister, recommended that 1.004 percent of the GNP be appropriated for the SDF from 1987-1990.

To most Japanese legal minds, the constitutional status of the SDF is ambiguous. Article 9 prohibits the possession of war potential and yet Japan maintains its own armed forces. The Japanese government contends that Article 9 does not deny the inherent right of a sovereign nation to defend itself, and that it does not bar Japan from maintaining minimum military strength to exercise this right. It claims that any military strength exceeding the required minimum constitutes war potential. For example, weapons of purely strategic character such as ICBMs and long-range bombers are constitutionally prohibited. Similarly, the dispatch of armed SDF troops to a foreign country is not allowed.

A government paper also claims that Japan is constitutionally banned from exercising the right to collective defense on the ground that the "constitution allows an act of self-defense as far as it is intended to defend Japan's own land and people." In other words, the constitution, according to this paper, bars Japan from aiding any foreign nation, with which it has close relations, against aggression.

It is precisely this position that leads many people to interpret the US-Japan Mutual Cooperation and Security Treaty (MST), as ***not*** a mutual defense treaty.[7] It recognizes that an attack against one party is not automatically an attack on the other. An attack against US forces outside Japan does not require Japan to do anything, although an attack against either party on Japanese territory requires both to act to meet the common danger "in accordance with its constitutional provision and processes." This non-symmetrical relationship was meaningful in 1952 when Japan was essentially defenseless and the US was militarily committed to the containment of China and the Korean War. This also means that America is responsible for Japan's security. Today most Japanese are not sure that America will readily come to their defense, considering that the US Congress has been engaged in Japan bashing for the last 10 to 12 years. Thus, the value of the Treaty is, at most, to serve as a deterrent, in that an armed

aggression by another nation against Japan "would lead to the thought that they are in direct confrontation with the US."

In 1981 a special Committee on Security was formed in the Diet. The Committee was tasked to study "problems relevant to the Japan US Security Treaty and to work out the necessary measures." In March 1982, the Committee held its inaugural meeting. Among its 181 members, 58 called for the revision of the MST. Their reasons were: (1) the US alone cannot maintain peace and security; (2) the MST should reflect Japan's economic and industrial growth; (3) the MST keeps Japan in a protectorate status and is therefore injurious to Japanese national pride; (4) increased Soviet power compels Japan to strengthen its capacity for collective defense (collective defense means Japan must be able to project its military power beyond its territorial boundaries); and (5) Japan should shoulder the burden of defending, jointly with the US, its own sea lanes to the Middle East. Those who sought the revision of the MST included Diet members, former diplomats, university professors and ranking members of the Japanese industrial complex.

If during the Cold War, Japan's thinking about defense was generally guided by the principle of defending the country from conventional attack and leaving the nuclear warfare to America, today most Japanese leaders believe that Japan must not only beef up its armed forces; it must also revise its constitution in order to become a "normal nation".[8] In plain language, build an armed force at par in strength and sophistication with those of the other major powers of the world.

How will Japan proceed to do this?

Japan's Rationale

Japan's partnership with America has allowed it to save on its defense spending and at the same to build one of the most advanced, if not the most modern industry in the world. During the Cold War, when American senators, defense analysts, academics and intellectuals would ask Japan to contribute money and personnel to fight the communists, Japan would always cite its constitutional restrictions: war was not supposed to be the instrument of its foreign policy.[9]

After the Cold War, specially after a series of Japan bashing incidents in the US Congress, Japan has begun using such criticism to justify its desire to change its constitution, to build an

independent armed force and above all, to become a "normal nation" again. Thus in 1992, when the Diet passed the UN Peace Cooperation Bill which, for the first time, allowed Japanese troops to serve overseas since the end of World War II, part of the justification given was "to allow Japan to make a more visible contribution to international efforts to resolve conflicts threatening international peace and security." In fact, Japanese Foreign Ministry officials claim that with the passage of the Bill, Japan now assumes a more meaningful and significant role in world affairs, especially within the framework of UN peacekeeping operations. For this reason Japan wants permanent membership in the UN Security Council including the right of veto.[10]

Japanese intellectuals support their government's position and argue that after the Cold War, the UN sprang into prominence as the major forum for resolving regional conflicts. Indeed the UN had found its prestige resting on its hitherto ancillary Peacekeeping Operations. The Council could quickly agree on most of the issues that came before the body; for instance, it readily agreed to condemn Iraq's invasion of Kuwait and take drastic action. Unfortunately these activities have had a mixed record. The United Nations' successes in Cambodia and the Gulf War were like brilliant beams in the dark, but its debacles in Somalia, Bosnia, Herzegovina, Angola and Rwanda have dimmed UN's prestige as an effective peacekeeping organization. According to one article, "it became clear that the Security Council was often unable to make its decisions effective. Worse, it proved very difficult for the UN to send peacekeeping forces to intervene in civil wars in which no government has invited them, when the fighting factions are unwilling to cooperate with the UN forces, and there is little possibility of bringing political or other pressure to bear on those factions."[11]

The UN was founded principally to deal with threats to peace, acts of aggression, and disputes and conflicts between states. But the post-Cold War period shows that it has to deal with civil wars. It is now perceived to have the potential of being the world's police force and of providing humanitarian rescue service. But for the UN to undertake these tasks, it must have adequate money, resources and personnel. Put simply, not many of the major powers are willing or ready to support this new peacekeeping role of the UN. Thus the UN cannot realistically meet its present and future peacekeeping challenges without some built-in military capacity.[12]

Many Japanese scholars say that the inability of the UN to meet its current obligations stems from the UN Security Council itself. "Without reforming the Security Council, all other reforms

will be Band-aid measures." The first step is to "bring powerful nations like Japan and Germany into the Council and participate in its reform." Japan and Germany possess not only the financial resources but also a good understanding of post-Cold War problems. But they cannot be expected to help the UN from the outside.

Second, the Council at present relies for its increasingly complex operations almost on *ad hoc* logistical support from member countries and similarly *ad hoc* contingents. This means that its initial reaction will be hesitant, indecisive, and therefore slow. Above all, the measure of force that it will use remains uncertain. For instance, in the Rwanda civil war, the UN could not act because no member state volunteered to commit peacekeeping forces in that country.

The Japanese also believe that the current UN leadership has "shown a tendency toward emotionalism in the area of peacekeeping operations, as was in the case of Somalia." This, of course, is an indirect criticism of US troops sent to that country over a year ago. Another weakness of current UN peacekeeping operations is that the major participants cannot agree on a common strategy. For instance, NATO and the UN cannot agree on who should decide what areas to target in Bosnia, thus leaving the peacekeeping forces on the ground easy prey as hostages.

Unless these issues are resolved and a new and more meaningful program for peacekeeping, anchored on a much more effective means of exercising command is formulated, the UN may end up as an organization without a mission.

The Japanese argue that the current leadership in the UN Security Council is suffering from "Cold War fatigue" as well as a misplaced concern for national interests, that make them unable to come up with new approaches and solutions to the new challenges to world peace and security.[13]

The Japanese also object to the vague terms of engagement and disengagement of the peacekeeping forces. They ask: "In the event of long-term engagement, who is supposed to underwrite the expenses?" Kuwait, for instance, bore two-thirds of the cost of the UN Iraq-Kuwait peacekeeping efforts while the Japanese contributed another huge sum.

One Japanese scholar observes that "in view of the limits to the UN's human and economic resources and political power, and the limits to the cooperation of member states underwriting these

resources, the organization's ability to make peace is limited." Therefore, a new paradigm on peacekeeping operations is needed; and the Japanese believe that once Japan becomes a permanent member of the UN, it will not hesitate to introduce these reforms.

We can readily see that Japan is justifying its "normal country" thesis in the name of helping the peacekeeping efforts of the UN. Japan wants permanent membership in the UN Security Council in order to provide the leadership, financial resources and personnel to ensure the efficacy of the UN. But to be able to carry this out, Japan must first revise its constitution in order to build an armed forces with sufficient power to station troops beyond Japan's territorial boundaries. It is clear therefore from the writings and statements of Japanese scholars and government officials, that Japan is re-arming not to replace American military power in Asia, nor to undermine the security of the region but to rescue a failing UN that might lose its reason for being.

However, some Japanese scholars also argue that while Japan is restructuring its defense system, it should continue to remain under the American protective umbrella for 10 to 15 more years. This means that as Japan modernizes and upgrades its defense forces to be at par with those of the major powers, America should continue to protect Japan.

The Proposed New Constitution[14]

The *Yomiuri Shinbum* published on November 3, 1994 a revised draft of Japan's 1946 constitution. For most Japanese, the timing of the *Yomiuri* draft's release was very significant as November 3 coincided with several historic occasions. It marked the day the postwar constitution was promulgated as well as the birthday of Emperor Meiji, in whose name the prewar constitution was enacted in 1889.

Although unprecedented in the history of Japanese media, most Japanese had long anticipated the publication of such a draft. The *Yomiuri* draft revises a third of all the constitution's articles.[15] It specifically calls for nine fundamental changes: (1) a declaration that sovereignty resides in the people and in a government by elected representatives; (2) a reaffirmation of the role of the emperor as "symbol" of the state and its people; (3) explicit provisions for the existence of the Self-Defense Force (SDF), but forbidding conscription and weapons of mass destruction (nuclear and biological weapons); (4) constitutionality of deploying the SDF for international peacekeeping missions; (5) a respect for

personal and environmental rights; (6) clarification of the role and functions of the Upper and Lower Houses in the Diet; (7) increased power for the Prime Minister; (8) creation of a constitutional court of justice; and (9) facilitation of the procedure to amend the constitution.

The *Yomiuri* editors claimed that aside from wanting to correct many deficiencies in the current constitution, ranging from inadequate translations of the English original, to flaws due to haste and lack of thorough discussion by the Japanese people, they genuinely hoped to encourage open debate and criticisms of the proposed draft.

Most Japanese political analysts who have read the draft said that except for Chapters III on national security, Chapter IV on overseas military operations, and Chapter VII granting the Prime Minister far reaching authority, which are "the heart of Japanese debate," all other provisions are "great improvements" on the current constitution.

Under the *Yomiuri* proposal, the provisions on national security attempt to dispel suspicions that the draft is an excuse to remilitarize Japan. Thus, Article 10 begins with the following:

> (1) Aspiring sincerely to an international peace based on justice and order, the Japanese shall never recognize war as a sovereign right of the nation and the threat or use of force as means of settling international disputes.
>
> (2) Seeking to eliminate from the world inhuman and indiscriminate weapons of mass destruction, Japan shall not manufacture, possess or use such weapons.

But the language of Article 10, in particular, the phrase "inhuman and indiscriminate weapons of mass destruction," is vague. Although this actually restates Japan's three non-nuclear principles i.e. not manufacturing, possessing, or allowing the introduction of nuclear weapons, the dropping of the world "nuclear" could allow Japan to manufacture, possess or use nuclear weapons provided they are not "inhuman or indiscriminate weapons of mass destruction." Indeed, this statement becomes acceptable, if one recognizes that with today's technology, it is possible to produce nuclear weapons that are not instruments of mass destruction. Henry Kissinger has even pointed out that one can now wage limited nuclear wars.

Some Japanese critics are perfectly happy with the double meaning, but others would rather have the constitution state in very clear terms "the abolition of nuclear weapons and maintenance of a nuclear free-policy."

Article 11, which confers constitutional status on the SDF, stipulates the following as its role:

> (1) Japan shall form an organization for self-defense to secure its peace and independence and to maintain its safety.
>
> (2) The Prime Minister shall exercise supreme command authority over the organization of self-defense.
>
> (3) The people shall be forced to participate in the organization of self-defense.

Chapter IV of the *Yomiuri* draft cleverly handles the controversial issue of sending SDFs overseas by rewriting the UN justification for peacekeeping forces. Again it begins with the ideal in Article 12:

> Japan shall aspire to the elimination from earth of human calamities caused by military conflicts, natural disasters, environmental destruction, economic deprivation in particular areas and regional disorder.

Then in Article 13, it declares:

> In order to accomplish the aim of the preceding article, Japan shall lend active cooperation to the activities of the relevant well-established and internationally recognized organizations. In case of need, it may dispatch public officials and provide a part of its self-defense organization for the maintenance and promotion of peace for humanitarian activities.

Again "well-established and internationally recognized organizations" need not be the UN. It can mean the North Atlantic Treaty Organization (NATO) or any other security organization which Japan may ally itself with in the near future.

The editors of the *Yomiuri* and their study group have given the assurance that the revision is intended to stop a "resurgence of reactionism and militarism aimed at a return to the prewar Meiji

constitution." Still, no matter how one looks at it, the ambiguity of language in Chapters III and IV of the revised draft will nonetheless provide opportunities for Japan to pursue its military ambitions. The good thing is that the proposal is still subject to debate and can be amended according to the genuine wishes of the Japanese people.

Washington's View

At this point one may ask what Americans think of Japan's "normal nation" thesis. After all, Washington, being the largest unelected political party in Japan, still exercises strong influence on the political fortunes of Japanese political and economic leaders.

A report published by the Aspen Institute's Aspen Strategy Group in January 1993, and written by people who are now active in the Clinton government, considers Japan's rise as a world power as inevitable. It predicts four ways in which this might take place:

(1) by re-arming and by building up its military to complement its economic strength;

(2) by pursuing an economic strategy anchored on an Asian trade bloc that will compete against the trade bloc of the West;

(3) by maintaining the status quo with the US while continuing to expand its global economic interest; and,

(4) by becoming a global civilian power that pursues its global interests through international agencies such as the United Nations.

The authors believe that the fourth route is most likely to happen in view of Japan's bid for a permanent seat in the UN Security Council. They also recommend that the US actively support this route and help Japan secure a permanent seat in the Council.

Since President Clinton does not want Japan to develop into a military superpower, he has decided to support Japan's bid for a permanent seat in the UN Security Council, despite the US Senate's unanimous resolution stating "that neither Japan nor Germany should be admitted as a permanent member until each is capable of discharging the full range of responsibilities accepted

by all current permanent members of the Security Council." President Clinton attached no such condition when he announced his support for Japan's bid. This means that the Americans are not united on the issue of Japanese membership in the UN Security Council.

Japan's Unstated Agenda

The US Senate's objection is not only confined to the propriety of Japanese and German involvement in decisions concerning UN peacekeeping operations that may endanger the lives of American soldiers and those of other countries. It is also directed at the less than candid stance of Japan in explaining why it wants to become a military superpower.

Of course, Japan's lack of candor may be attributed to its unwillingness to stir the political and security waters in the Asia-Pacific area. Obviously the Japanese government is aware that some countries have great difficulty forgetting past cruelties and humiliations, as seen in the case of the comfort women. But there is also no doubt that many Americans are worried about Japan's militarization specially because most of its industries are more advanced that those of the US. Americans will not forget that Japan's fledgling post-war industries overtook their own in every aspect and scale. In fact, unless there are drastic improvements in the US, Japan will soon replace it as the leading industrial power in the world. All these changes are taking place under America's own protective security umbrella. It takes little imagination to see that given sufficient time, Japan can surpass America's military might.

What Japanese scholars and political leaders fail to state are their fear of the following developments:

(1) that Japan cannot maintain the Yoshida plan (American security umbrella hand in hand with unhampered Japanese industrial development) without paying a high price. Certainly the Japanese got the message when President Clinton asked that they buy a fixed percentage of American goods and services or otherwise face trade sanctions.

(2) China's growing economy and the possibility that it may become one of the largest, if not the world's largest economy in the next two to three decades. There is no doubt that China will soon be moving into some Japanese markets. In addition, China is the fifth largest arms producer and the third largest nuclear

power in the world. Japan can no longer push China around the way it did during the early 1920s and 30s when Japanese military troops ruled Asia.

(3) the likelihood of a united Korea. With an industrialized South and a nuclearized North, Korea, because of past anomalies, can become a large Japanese headache. Indeed many Korean watchers in Japan have writtten that if Pyongyang becomes a nuclear power, it can pose a real threat to Japan. They believe that Pyongyang cannot be trusted and that it will not honor any kind of agreement on nuclear inspections. In an article entitled "The Danger of Appeasing Pyongyang," Sato Katsumi, Director of Modern Korea Institute, claims, along with several other Japanese analysts, that North Korea already possesses a nuclear bomb. He cites a secret document compiled by Russian Defense Minister Pavel Grachev which shows that North Korea, with the help of top Russian nuclear scientists, has reached the final stage of work on a nuclear missile. He suggests that the only way to deter North Korea from using the weapon is for Japan to build a similarly equipped arsenal.

There is no doubt that Japanese fear of North Korea is very real, and such fear can only push the Japanese to press their re-arming sooner than scheduled.

(4) the emergence of Russia as a superpower. The Japanese are aware that Russia is currently in dire economic difficulties. But its nuclear arms and missiles are still intact. While Russia may have decommissioned some of them, it still has enough nuclear weapons to destroy the world 50 times over. Russia's economic recovery is a matter of time - and the potential remilitarization of Russia can become once more Japan's biggest worry.

For the Japanese people, the era of economic power without the corresponding military power is clearly waning. The Yoshida plan, the shimmering symbol of Japanese postwar success story, is coming to a close.

Indeed Japanese leaders have only limited options open to them, specially with an electorate demanding that the country become a "normal nation" before the end of the century. Clearly these domestic pressures have had their effects on Japanese leaders. Even the Japan Democratic Socialist Party (JDSP), the country's main opposition party and a traditional supporter of Pyongyang, has changed its position vis-a-vis the latter's nuclear ambitions as well as the issue of re-arming Japan. Former Prime Minister

Murayama who belongs to the JDSP, also supported America's hard-line stance against North Korea and voted to abide by any UN decision should North Korea fail to agree to a nuclear inspection.

Few Japanese were surprised when Murayama supported the plan of sending Japanese troops abroad. In his address to the 131st session of the Diet, the former Prime Minister announced: "Japan will keep its efforts to have the necessary minimum defense capability consistent with Japan's hope of global rearmament." Murayama nonetheless affirmed former Prime Minister Hosakawa's commitment "to dispatch members of the Self-Defense Force 'overseas' on a humanitarian international relief operation."

Indeed, for the first time in Japanese politics, foreign policy and military concerns are shaping the ongoing process of political realignment. There is a strong likelihood that views on how Japan should revise its constitution and re-arm, as well as what its role in UN peacekeeping efforts should be, will affect the shifting alliances among various political forces.

Two major camps are emerging. One group wants Japan to play a more active role in the international scene, including active involvement in the military aspects of UN peacekeeping operations. This group is made up of the Japan Renewal Party, Komeito (Clean Government Party), and the Socialist Democratic Party along with majority members of the Liberal Democratic Party.

At the other camp are those who are leery of a "normal" role for Japan. A "normal country" is one that bears the same kinds of responsibilities, both military and nonmilitary, as its peers in the international community. The members of this camp are the New Party Sakigake (Harbinger), the Social Democratic Party of Japan and some Liberal Democrats. They believe that Japan should maintain the status quo.

For now, it appears that the advocates of Japan as a "normal nation" are winning and are getting support from majority of the Japanese people. It seems only a matter of time before the first camp achieves a domestic consensus. But how quickly can the Japanese translate their desire to become a normal nation?

While Japan may be preparing to project its military power beyond its territorial limits, there is doubt that the Japanese, for the moment, will go nuclear. Japan's assumption of a security role larger than joining the UN peacekeeping force will likely send

quivers throughout the region. Hence, it will probably wait for a decent interval of time and a credible excuse to do so.

Implications of a Normal Nation

Neither the United States nor the rest of Asia can afford to ignore the implications of Japan's desire to re-arm and play a larger role in international affairs. Pressed by their own people to prepare Japan for the next century, Japanese leaders can be expected to revise Article 9 of their constitution and upgrade their armed forces to the status of a great military power in the near future. This means that Asia may soon play host to several major military powers aside from the US - a development which could lead to another arms race, which was already halted by the end of the Cold War. With Japan armed to the teeth, Russia, China, India and Korea will not stand idly by and watch Japan celebrate its arrival as a normal nation; and if Russia and China beef up their firepower, there is no doubt that America and Europe will follow suit. Hence, an increase in Japanese military power is certain to destabilize not only the Asia-Pacific region but the current balance of power in the world. It might even bring about a temporary disarray in security arrangements and goals.

Some ASEAN members will probably initiate talks with the United States to ask the latter to maintain its presence in the region. But should America continue to lessen its role in Asia-Pacific as the Clinton administration is doing, we are bound to see furious conferences on new regional security systems, and perhaps even discussions on security in Asia without America.

Precisely what the Philippines will do when such events occur is a more difficult issue to discuss. We can envision a "wait and see" attitude, letting the events work themselves out before we take sides. That is, assuming that the luxury of neutrality and the events will not engulf and destroy us. Perhaps this early we can press that the big powers in Asia scale down their military build-up in the next ten years.

Ideally, worldwide disarmament would be the answer. Collective understanding and agreements on territorial boundaries, free access to sea lanes of communications, and reduction in military arms would greatly ease tensions and differences among nations. But since the nuclear powers believe that they are exempt from further testing and producing nuclear devices, and that most nations still view one another with great mistrust, disarmament and collective agreements to reduce tension appear a distant ideal.

History has shown that mistrust, ethnic hatreds, religious differences and economic rivalry are the substance of conflict, while economic power is the handmaiden of military might. Let us hope that Japan remembers the lessons of the last war and not repeat the adventure which its military leaders set sail some 50 years ago.

NOTES

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5. For a more extensive discussion on the subject, see Ushio Jiro and Noguchi Yukio, "Reforming Japan's 'War Footing' Economic System," *Japan Echo,* Summer 1994 and Yamazaki Masakazu and Kasuya Kazuki, "Taking Stock of the Postwar Era," *Japan Echo*, Winter 1994.

6. See Ikle and Nakanishi, "Japan's Grand Strategy," *Foreign Affairs*, Summer 1990.

7. The 1951 US-Japan Mutual Security Treaty was recently renewed. It was the result of the "Joint Japan-US Declaration on Security Alliance for the 21st century," signed between President Clinton and Prime Minister Hashimoto on April 17, 1996.

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9. See "Yoshida Shigeru and the Rearmament Issue," *Japan Echo*, Winter 1994.

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11. Brian Uruquart, "Who Can Police the World."

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THE FLYING GEESE PATTERN OF ECONOMIC DEVELOPMENT IN ASIA AND ITS SOCIO-CULTURAL FOUNDATIONS

By

CARLOTA V. CORTEZ*

Asia is now considered as the most rapidly growing and most dynamic region of the world. This dynamism can be seen in terms of the impressive growth rates which have been achieved by many countries in the region over the last decade.

According to the World Bank, from 1980-1989, Asian countries' real GDP grew at an average of 8.4 percent. This is considerably high compared to 1.6 percent for Latin America, 2.9 percent for the Middle East and Africa, and 3 percent for industrialized countries. Moreover, it is interesting to note that Asian countries were able to achieve high growth rates at a time when most regions of the world were experiencing economic recession.[1]

The "flying geese" model is often viewed as the principal phenomenon explaining long-term development pattern in the Asian region. In fact, many Asian analysts believe that this is being actively promoted by Japan, now widely held to be the dominant economic power in the region, as a model that best captures its vision of regional economic integration.

Former Japanese foreign minister Saburo Okita describes the flying geese pattern as a "process of consecutive take-off with a built-in catch-up process where Japan acts as the lead goose." In this formation,

> the nations of the region engineer successive takeoffs and are soon moving on their way to higher stages of development. It is akin to a V formation, and the relationship among the countries in the formation is neither horizontal integration nor vertical integration

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> as they are commonly known. Rather it is a combination of both. And because the geese that take off later are able to benefit from the forerunner's experiences to shorten the time required to catch up, they gradually transform the formation from a V-formation to eventual horizontal integration.[2]

Over the years, the flying geese model has attracted the attention of critics and analysts alike, who have tried to explain the dynamics accounting for this pattern of development.

According to some analysts like noted Filipino scholar Walden Bello, the flying geese model is but a sophisticated, more up-to-date version of Japan's original vision of a Greater Co-Prosperity Sphere for Asia, where the countries of the region are expected to gravitate towards Japan, which plays a dominant role as a leader.[3]

On the other hand, many Asian and Western economists view the flying geese model as a market-driven phenomenon and a general pattern of industrial development found specially in late developing Asian countries.[4] Other analysts argue that the economic success of the region is a result, not so much of the flying geese model, but of the policies implemented by the so-called "strong" states in Asia.[5]

A different view, however, is provided by William Nester, who tries to explore the psycho-cultural make-up of the Japanese in relation to this pattern of development. Nester argues that Japan's economic dominance in Asia is largely a reflection of its neo-mercantilist behavior. This behavior, in turn, is further strengthened by the hierarchical worldview of the Japanese, which is reflected in their concept of a "vertical society" (*tate shakai*).[6]

Nester's attempt to examine the flying geese theory from the psycho-cultural perspective provides an interesting counterpoint to most of the existing studies which focus largely on the politico-economic dimensions of this issue. His analysis, however, appears quite constrained in that he uses the concepts of a "vertical society" and "indulged dependence" (*amae*), as elaborated by Japanese authors, to substantiate his view of the neo-mercantilist behavior of Japan. Perhaps, it would have been more instructive if he had explored these concepts further as a way of understanding Japan's behavior in the region, instead of framing them within the context of neo-mercantilism.

In this article, I shall attempt to address these weaknesses in Nester's analysis by exploring what may be called the socio-

cultural dimension of the flying geese model. I believe that a better understanding of the model, and perhaps of Japan's behavior as a regional economic power, may be derived by examining how Japanese society itself is structured and operates. In my view, the flying geese theory, as propounded by Japan, embodies, in many ways, the types of relationships, structure, organization and cultural notions underlying the Japanese concept of a vertical society.

I will begin by tracing the historical development of the flying geese model and presenting its basic features. From here, I will discuss the origins and features of the Japanese concept of a vertical society. Finally, I shall explore how the flying geese model reflects and reproduces some of the characteristics of Japan's vertically structured society. Such insights, however, are preliminary, and towards the end, I shall identify possible areas for further research on this and other related issues.

The Flying Geese Model

The theory of the flying geese pattern of development (*gankoo keitai hattenron*) was first introduced in Japan in the late 1930s by Akamatsu Kaname, who made a statistical study of the interrelated development of Japanese industries and trade before the Second World War. In this study, he used the term "flock formation of flying geese pattern" of industrial development to describe the shape of import, production and export growth curves of Japanese industries, which, according to him, is a typical pattern of industrial development in newly developing countries.[7]

Akamatsu's thesis was first translated into English in 1956 and was introduced in Western Europe by Sautter in 1973. Meantime, in Japan, this theory was further developed by Japanese economists who made empirical studies of Japan's major manufacturing industries. According to these studies, Japan's rapid economic growth from the 1960s onwards can be attributed to this pattern of development.[8]

However, during the Second World War, this theory, according to Korhonen, was used to legitimize the Japanese Greater Asian Co-Prosperity Sphere. Thus, it is not surprising that some scholars today regard the flying geese model as merely a sophisticated version of Japan's earlier vision.

In the postwar era, Kojima renamed this pattern of economic development as the catching-up product cycle (CPC). Yamazawa and other Japanese economists further extended the concept to

include the transfer of modern industries to East and Southeast Asian countries. The pattern was also frequently cited in trade policy discussions on Pacific economic cooperation.[9]

Since the theory was re-introduced by Okita Saburo at the 4th Pacific Economic Cooperation Conference (PECC) in Seoul in May 1985, the flying geese model has been widely used to explain industrial development among Asian countries and describe economic cooperation in the Asia-Pacific.

The flying geese theory explains how an underdeveloped country can become developed relatively quickly. The underdeveloped country adopts suitable labor-intensive industries from more developed countries. It produces first for the domestic market, but starts to export as soon as the industries grow strong enough to compete internationally.

In this pattern of development, a group of countries assumes an inverted V formation, moving forward in a systematic and orderly pattern. There is a leader, the most advanced country (*senshinkoku*), followed by the newly industrializing countries (NICs) in order of their level of industrial sophistication (*shinkookoku*). At the tail end are the less advanced countries, (*kooshinkoku*) arranged according to their level of development.[10]

Asia's postwar economic development is said to be following this kind of formation where:

> Japan is the mother goose leading a flock of high-flying economies. Japan sees itself and the NICs (South Korea, Taiwan, Singapore and Hongkong) as the centers of finance, research and development, and high-technology. Following them in the flock are the emerging NICs (Malaysia and Thailand), which are engaged in medium-technology industries. Then there are the surplus labor countries like the Philippines and Indonesia, which, being at the lower end of the geese formation, are supposed to get a preponderance of investment in labor-intensive types of corporate undertakings. At the bottom of the formation are the South Asian and Indochinese states where wages are way below the ASEAN standard.[11]

In the original work of Akamatsu Kaname, he cited three stages in this pattern of development. But this was later on refined by Japanese economists who identified five development stages in the flying geese or CPC model. The stages are as follows:[12]

Introductory stage. Here, a new product is introduced to a country through imports from advanced countries; soon, domestic consumption of the product increases gradually. Domestic production begins through imitation or borrowed technology. Because of inferior quality and high production cost, these domestically produced goods cannot compete with imported goods.

In the **import substitution stage**, domestic consumption increases rapidly which encourages production to expand at a faster rate than demand. Once this is achieved, importation of the same product will be gradually reduced. With this development, production technology is standardized, thus large-scale production becomes possible, gradually replacing the imported one. This development also contributes to the improvement of the quality of goods produced locally. The locally produced goods become more competitive vis-a-vis the imported product because of their relatively much lower price.

In the **export stage**, the domestically produced product begins to be exported. In this stage, increase in production is maintained through export expansion since the growth of domestic demand slows down.

In the **mature stage**, both domestic demand and exports slowly decrease, preventing further expansion of production. Exports begin to decrease when the product fails to compete internationally with the same products produced by late-starting countries.

In the **reverse import stage**, products of late-starting countries, which are cheaper and of good quality, begin to be imported and gradually replace domestic products in the local market, which contributes to the accelerating decline of domestic production. It is during this time that highly industrialized countries concentrate on the production of heavy industrial goods.

A review of Japan's industrial policies from the 1950s to the present would show that Japan's industrial development has followed this pattern, which in turn has had a spillover effect in Asian countries.

Japan's postwar industrial policies are characterized by the distinction between the so-called "sunrise industries" (*shinkoo sangyoo*) and "sunset industries" (*shayoo sangyoo*). Sunrise industries are those which receive direct support or subsidies from the government while sunset industries are those where government support is being phased out. Most of these sunset industries are left alone to compete in the international market.[13]

The sunrise industries include: a) coal mining in the late 1940s; b) metal and chemical industries, and shipbuilding during the 1950s; c) car manufacturing during the 1960s; d) computers and telecommunications equipment during the 1970s; and e) aviation, bio-technology and new materials in the 1980s.

On the other hand, the sunset industries include: a) coal mining during the 1950s; b) textiles during the 1960s; c) computers and telecommunications equipment during the 1980s; d) cameras and perhaps even old-fashioned petrol-powered cars in the early 1990s.

The Concept of a Vertical Society

The idea of Japan as a vertically structured society was first articulated by rural sociologist Aruga Kizaemon, whose studies, in turn, was largely influenced by the ethnographic researches of anthropologist Yanagita Kunio. As a concept, it is considered part of a larger tradition called *Nihonjinron*, which represents one of two contending views on how to view Japanese society.[14]

Also known as the Holistic Approach (Great Tradition), the *Nihonjinron* has a relatively long intellectual history in Japan. It presents an image of Japanese society as one that is unique, well-integrated and a cultural monolith. On the other hand, another perspective called the Conflict-Oriented Approach (Little Tradition) negates the idea of Japan as unique. It recognizes diversity in Japanese culture and the regards the presence of conflict as an integral part of Japanese history.[15]

In her two books, a noted Japanese scholar, Chie Nakane, provides a comprehensive and in-depth discussion of the vertical principle underlying Japanese society.[16] In the following pages, I shall summarize some of the main points raised by Nakane as well as other authors on the topic:

The group as the basic unit of society.

Nakane argues that the basic unit in Japanese society is the group, not the individual. Hence, most Japanese identify themselves with a particular group, for it is where the Japanese find security and identity. This view complements Takeo Doi's argument that the group, in the Japanese context, supplies deep psychological needs, which, according to him, revolve around the concept of *amae* or "indulged dependence."[17]

Nakane explains that groups in Japan evolve based on a "common frame." This is different from the way social groups are organized in other societies, like India or the United States, where they are formed based on the existence of a "common attribute." For example, workers in Japan would tend to identify more with their company, which in this case, serves as the "common frame," rather than with their profession, which is seen more as an "attribute."

According to Nakane, "attribute may mean, for instance, being a member of a definite descent group or caste. In contrast, being a member of X village expresses the commonality of frame. Attribute may be acquired not only by birth but by achievement. Frame is more circumstantial."[18]

The essence of this grouping can be traced to the traditional concept of the Japanese household (*ie*) or village (*mura*), which has not changed much despite Japan's modernization. Once a group is established, individual members tend to be very emotionally involved; they develop a strong feeling of "oneness" and become primarily concerned with maintaining harmony and order in the group.[19] This tendency is best manifested in the involvement of Japanese workers in their companies. Stockwin says that in contrast to American workers, "Japanese workers have a single-minded devotion to their companies, and will normally sacrifice their own interests to promote the company's interest."[20] Indeed, social groupings based on common frames is predominant in many big Japanese corporations.

However, Nakane points out that such groups should also provide for a two-way relationship. According to her, group membership "is emotionally based, and if purely personal and psychological needs are not satisfied, members will begin to neglect their assignments or even resign from the group."[21] Thus, a social group in Japan is perceived as family-like, where there is a lot of mutual dependence specially between leader and subordinate.

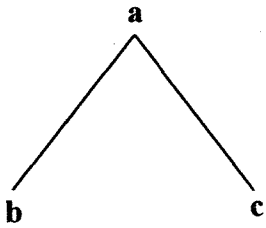
The internal structure of the group

The cohesiveness of a social group is largely attributed to an internal organization wherein members are linked vertically to each other based on ranks or order.[22] Hence, the terms *sempai* ("senior") and *kohai* ("junior") are often used in a social group. This relationship between individuals with contrasting status (i.e. upper and lower) is considered as the basic structural principle of Japanese society. Indeed, Nakane stresses that the vertical relationship is more pronounced in Japan than in most societies.

The extent to which vertical relationships are present may vary among groups; there are cases where vertical relationships are not be immediately apparent, specially in groups that are not yet consolidated. However, as these groups stabilize, they eventually develop a vertical organizational structure. According to Nakane, it is almost impossible for the Japanese to form a functional group without vertical links.[23]

Moreover, an organizational structure based on the vertical principle appears more pronounced in well-established, larger institutions with a higher degree of prestige. This is believed to be the source of the stability of the organization, which has been cited as the major strength of the Japanese system.[24]

Nakane points out that the fundamental structure of a vertical organization is the **inverted V formation**. This serves as the core of social groups, specially those with no particular frame or institution or those with a very weak formation.



In this figure, ***a, b, c,*** represent the members of a group. Here, the relationship is mostly between ***a-b*** and ***a-c*** with ***a*** as the focal point.[25] There is not much of a relationship between ***b-c***. As such, only the vertical relationships are present; the horizontal relationship is very weak. This formation is said to be more stable than a triangular one where the members are interdependent because they need each other to survive.

The distinguishing characteristic of the operation of the group is the absence of clearly differentiated roles for those on

the same positions. In the inverted V figure, this corresponds to ***b*** and ***c***. It is for this reason that the ideology of the division of labor is not well developed in Japan.[26] People in the same position can perform jobs or functions interchangeably.[27] In a company, this is supposed to encourage competition among individuals. In the larger society, this is aimed at making the social groups more dynamic, competitive and self-sufficient.

The overall structure of Japanese society

The entire Japanese society is thus seen as a sort of aggregation of numerous independent, vertically organized and competing groups which of themselves can make no links with each other, because they are designed to be self-sufficient and competitive.

This kind of system is the basis of the Japanese state political organization which can be traced back to the Tokugawa period. The bureaucratic system of Japan's present administration has an organizational pattern similar to the Japanese native social structure - the vertical organizational principle of inverted V formation.[28]

According to Nakane, it is evident throughout Japan's history that if there is any strong and successful configuration in Japan, it it always built on the same vertical lines that characterize the pattern of Japan's centralized administration.[29]

Reproducing Japanese Society

Based on the preceding discussion, there are several indications to suggest that the flying geese model of economic development being promoted by Japan actually reflects and reproduces the structure, organization, patterns of relationship and cultural notions present in the Japanese concept of a vertical society. This can be seen in the following ways:

First, much like Japanese society whose basic unit is the group, the flying geese model is likewise anchored on a "grouping," but in this case, not of individuals but of nations, whose growing integration came about as a result of certain economic and political imperatives.

On the one hand, Japan needed to sustain its economic growth which reached its peak in the 1980s, by expanding its investments abroad, particularly in Asian countries. This represents what Shiraishi calls the spillover effect, whereby Japanese

investment helped accelerate the industrialization of other Asian countries.[30] At the same time, the globalization of the world economy and the end of the Cold War brought increasing attention to the issue of economic development among Asian countries, leading to the formation of regional economic groupings. However, unlike in other regions, economic cooperation in Asia is taking place not through a formal institution like the EEC or NAFTA, but through an "informal" grouping led by the Japanese, as expressed in the flying geese model.

Second, an internal organization also exists in the model in the sense that the countries involved are vertically linked to each other and are ranked based on their level of economic and industrial development. Japan in this case is seen as the *senshinkoku* or leading country, followed by the NICs, i.e. South Korea, Taiwan, Singapore, Hongkong, and the emerging NICs such as Malaysia and Thailand, as the *shinkookoku*, or middle-level countries, and finally, Indonesia, the Philippines, the South Asian and Indochinese states as the follower countries, or the *kooshinkoku*.

Third, in the flying geese formation, the inverted V structure is very pronounced specially in the shedding off of industries, which is being done in a hierarchical and vertical manner. For example, in the 1950s, labor-intensive industries like coal mining were initially shed off by Japan. Considered as sunset industries, they had to give way to emerging sunrise industries like car manufacturing in the 1960s. These sunset industries were then passed on to the first-tier NICs, as Japan moved into capital-intensive, and later to higher-technology industries.

Today, the shedding off of industries continues to follow the same vertical pattern in the flying geese formation. Interestingly, countries occupying the same rank or position do not have a horizontal relationship in the sense that they do not pass on industries from one to another. Again, this reproduces another characteristic of the inverted V formation as the underlying structure of Japanese society: only the vertical relationships are present, while the horizontal relationship is very weak.

Aside from industries, studies show that even the flow of trade and investment in Asian countries follows this pattern. According to a noted Filipino economist, the effect of this pattern is, on the one hand, to intensify the vertical linkages between the less and the more developed countries, and on the other hand, increase the competition among countries in more or less the same level in the flying geese hierarchy.[31]

Finally, it is interesting to note that from the perspective of the Japanese, the image of a flying geese symbolizes group formation within a bigger concept of Japanese vertical society. Indeed, the flying geese image appears to be very popular and deeply rooted among the Japanese, as reflected in the ethnographic studies made by the anthropologist Yanagita Kunio.[32]

Conclusion

The concept of a vertical society, as expressed in the inverted V formation, is the underlying principle of social organization in Japan. This can be traced back to the country's early history, where the vertical organizational principle of inverted V was used to form a state political organization during the Tokugawa period.

The idea of a vertically structured society is also deeply rooted in the socio-cultural make-up of the Japanese. Thus, it is not surprising that such concept and its accompanying notions and imagery represent a recurring theme in the Japanese way of thinking and dealing with the outside world.

In this article, I have attempted to explore how the flying geese pattern of development, which represents Japan's vision of regional economic cooperation for Asia, resonates with some of the deeply held notions and patterns prevalent in the social organization of Japan. In particular, I have tried to examine how it reflects and reproduces a number of characteristics found in the Japanese concept of a vertical society. In doing so, I have tried to demonstrate the idea that Japan's current thrust in regional economic integration is informed, albeit subtly, not only by strategic economic and political considerations, but also by deeply held notions and traditions in Japanese social organization.

This apparent association between the Japanese concept of a vertical society and the flying geese model, in turn, raises a number of intriguing questions. First, to what extent are the ideas and notions advocated by Japan accepted by the other countries in the region? While Japan represents the lead country in the flying geese formation, does it follow that other countries support the Japanese ideas underpinning this model? How will the individual countries own socio-cultural framework, not to mention their internal political and economic dynamics, affect their involvement in this "informal grouping"? What factors will encourage other countries to support this pattern of development, or otherwise, break away from its orbit? These are only some of the questions that need to be further examined to deepen our understanding of the flying geese model of development.

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28. Ibid., p. 107.

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30. Based on a *Seminar on Japan in Asia* given by Takashi Shiraishi, August-September 1994, UP Asian Center.

31. De Dios, "Some Notes on Regional Cooperation," 1994, p. 1 (unpublished).

32. Among Yanagita Kunio's works is a collection of Japanese folktales, where interestingly, one of the stories is about the effort of a flock of geese to address a common problem. The story is said to symbolize the group concept inherent in Japanese society.

INDO-RUSSIAN MILITARY COOPERATION: A RUSSIAN PERSPECTIVE

By

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The breakup of the Soviet Union and emergence of the newly born Russian state, as well as radical domestic reforms in the latter, have brought dramatic changes in the relationship between Moscow and New Delhi. Because the Soviet Union has been India's largest arms supplier, providing some 70 percent of its military imports, India was, for a time, gravely concerned about Russia's future reliability as a partner and a source of weapons, spares, military technologies and services.

India's apprehensions were fueled in large part by two factors. One was Moscow's declared "de-ideologization" of its foreign policy and adherence to pragmatism,[1] which for India meant Russia's rapprochement with China and Pakistan, two countries with whom it has long-standing conflicts. The other was Moscow's promise to the West to reduce its arms exports and convert its defense industry in exchange for economic and technical assistance.

India's fears were confirmed in July 1993, when Russia bowed to American pressure not to sell cryogenic rocket engines.[2] Although the Russians eventually agreed to sell seven engines, they refused to transfer their technology[3]. Doubtful about the future of Indo-Russian military cooperation, India reaffirmed its commitment to drive towards defense self-sufficiency, through a 10-year plan to overcome its dependence on foreign suppliers for spares. At the same time, it stepped up the purchase of arms abroad, in order not to be caught short due to the unreliability of Russia.

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In a few years, however, the situation has changed. Moscow has abandoned its policy of self-restriction in arms and trade and has resumed its full-scale military cooperation with New Delhi.

This paper shall examine Russia's motivations for resuming its arms and technology transfers to India, the major programs of defense cooperation being undertaken by both countries, and their implications for the regional security system.

ECONOMIC AND STRATEGIC MOTIVES

Supporting Russian Defense Industry. The Russian leadership has long underscored the need to keep production facilities moving, and technicians and scientists employed lest massive unemployment and falling investment ruin this sector and undermine readiness and technological competitiveness. In 1992 alone, military procurement was cut by 70 percent[4]. As President Boris Yeltsin noted, "the weapons trade is essential for us to obtain the foreign currency which we urgently need, and to keep the defense industry afloat."[5]

In 1994, the aircraft plant Sokol (Falcon) heavily lobbied the Russian government to proceed with the modernization of the Indian MiG 21bis (built under license), an upgraded version of MiG-21. According to Viktor Andryunin, deputy director of Sokol, the upgrading of 125 MiG-21bis, each costing some $1.5 - 3 million, will enable Russia to keep production lines moving and develop more sophisticated models.[6]

However, Russian defense industrialists are unhappy with the method of payments being offered by India and other Third World countries. Accordingly, arms manufacturers get a maximum 8-10 percent of payments in cash.[7] At least two-thirds of deals are usually on a barter basis, i.e. recipient countries pay for their arms procurements in terms of consumer goods, food, etc. Industry leaders point out that this form of international business does not help the Russian defense industry. They claim that exchanging arms for consumer goods neither stimulates the restructuring and development of production, nor provides hard currency.

Critical of the "banana approach"[8] to arms export, defense industry leaders are putting pressure on the Russian government and arms trading companies to change this system of payment.[9] Hence, this kind of export activity could serve only as a temporary tactic for survival in a transition period.

Providing Resources for Russian Economic Reforms. Russian politicians and industrialists point out that annual Russian arms exports bring in some $1.5 - 3.5 billion a year, an amount comparable to Western economic assistance.[10] They say that arms sales can thus finance the conversion of the defense industry, the necessity for which they now claim to recognize. Yeltsin's conversion advisor, Mikhail Maley, believes that Russia must sell $5-10 billion worth of arms per year for 15 to 30 years to meet the $150 billion estimated cost of conversion.[11] President Yeltsin, for his part, proposes that a portion of the income from the arms industry be used to finance social programs for armed forces personnel.

But an active arms export policy as an instrument to reform the defense industry has its opponents in Russia. For example, Vsevolod Avduevsky describes the export of weapons as a 'dirty business' which often "adds kerosene to local conflicts." In his view, the maintenance of an arms export policy will simply "drag out the agony of the militarized economy." Moreover, according to Avduevsky, there is no guarantee that the proceeds of arms exports will not simply disappear into the "black hole" of military production, further boosting the weapons industry.[12]

Russian Foreign Minister Andrey Kozyrev has also expressed reservations about the compatibility of an active arms export policy with the new principles of Russian international policy.[13] Other Russian politicians and scholars feel that arms promote local conflicts, and that revenues from arms sales cannot be substituted for Western aid because it is often used ineffectively and channelled only to a narrow sector of the Russian economy.

Thus, the arms export issue is at the center of a fundamental debate as to where the resources for Russian economic reforms should come from. One school of thought favors external support; the other appeals to national resources.

Supplying Russian People with Consumer Goods. Since arms export deals with India cannot be paid for on a purely cash basis, many Russian politicians and industrialists believe that this kind of military cooperation can help resolve Russia's shortages in consumer goods. India, however, can offer a limited number of specific goods - tea, coffee, spices, textile, jewelry, etc. Thus, imports from India can address only a part of the said problem.

Enhancing Overall Indo-Russian Economic Cooperation. Moscow hopes that the arms trade will facilitate Indo-Russian trade in general, and in the process, help ease India's debt burden.

During President Yeltsin's visit to New Delhi in January 1993, the two countries concluded an agreement on the schedule of India's debt payments alongside discussions on military issues.[14]

Developing Indo-Russian Relations. According to official foreign policy doctrine, India is not a very high priority for Russia; it is ranked seventh in a list of ten priorities, following the Commonwealth of Independent States (CIS), arms control and international security, economic reform, the United States, Europe, and the Asia-Pacific region.[15] However, this list of official priorities can be misleading with regard to India's real significance for Russia.

India's place in Russia's new worldview must be seen in light of the latter's search for a new identity and international role. According to its leadership, Russia should become a focal point of a new Eurasian security complex. In New Delhi, President Yeltsin emphasized Russia's Eurasian identity by pointing out that most of Russia's territory - 10 million out of 17 million square kilometers - lay in Asia, and that most Russian citizens live in the Asian part of Russia.[16]

Moscow looks at India, along with China, as the most important pillar for the said security system. Hence, Russia is pulling all diplomatic, economic and military leverages to fit India into a new strategic framework for the continent.

Preserving Regional Military Balance. As in the past, Moscow is using arms transfers to influence the regional balance of power and to prevent the emergence of new powerful players which may disturb this fragile balance.

Moscow continues to back New Delhi in the latter's conflict with Islamabad. It supports India's position on Kashmir and rejects calls for a plebiscite on the future of this war-torn region. It also offers weapons to India every time Pakistan receives arms from the West. According to some accounts, however, Russian support for India more probably reflects the former's determination to preserve its own territorial integrity, rather than a genuine recognition of the correctness of New Delhi's policy.[17] Given its economic difficulties, it is possible that Russia will uphold commercial considerations over strategic ones if a potential recipient of arms is ready to pay for them in cash. In November 1994, Russia was said to have offered the Su-27 fighter to Pakistan for the first time, at a price of $35 million per aircraft. Pakistan was also considering the Mirage 2000-5. Pakistani defense sources said 2 squadrons of Mirages (32 planes) would cost $2.6 billion, while the same number of Su-27s would cost $1.1 billion.[18] Under India's pressure, Moscow cancelled the potential deal.

Fear of Islamic Fundamentalism. Both Russia and India fear a resurgent Islamism or nationalism among Muslims in Central Asia that could spread to their own borders. Thus, according to former Russian State Secretary Gernady Burbulis, there is a good reason to cooperate politically to stabilize the entire region.[19] Indeed, analysts of the Indian subcontinent argue that strategic and economic alignments emerging in Central Asia will shape the balance of power in Asia for years to come.[20] Hence, a careful monitoring of Islamic peoples' activity, rather than shared overt anti-Chinese interests, will likely serve as the main political glue in future Indo-Russian ties, and a lasting feature of their policies.

Countering Western Powers' Influence in the Region. With Russia's decline as superpower, Western countries have tried to fill a vacuum in the region. India itself has broadened its economic, diplomatic and military ties with the United States, Britain, France, Germany and other countries. Since Russia cannot offer financial aid or promote itself as a promising economic partner, it tends to use arms transfers as a tool to restore Russia's strategic position and prevent the West from increasing its presence in the region.

MAJOR PROGRAMS OF MILITARY COOPERATION

Indian Air Force (IAF)

Following the disintegration of the Soviet Union, India's immediate concern was to safeguard the supply of spare parts for its MiG aircraft. An Indian delegation, headed by then Defense Minister Sharad Pawar, visited Moscow in September 1991, but since the new Russian government was preoccupied with consolidating itself amid an unprecedented welter of domestic problems, Pawar returned home empty-handed. India then approached other arms sellers including the United States, Israel and Britain.

Aware that India was potentially one of its best customers, Russia was anxious to retain its Indian arms market. The problem, however, was that of payments. New Delhi declared it could not pay in hard currency; Moscow replied that it could not sell weapons on a purely barter basis.[21]

In March 1992 Moscow offered nuclear-powered submarines, MiG-31 aircraft and SU-27 fighter bombers to India, to counter the sale of French Mirages and US F-16s to Pakistan.

In May of the same year, then Russian State Secretary Gennady Burbulis visited India and affirmed that Russia would continue defense supplies, but would demand one-tenth of the payments in advance.[22]

Under an agreement signed in September 1992 during Indian Defense Minister Pawar's visit to Moscow, India received a credit to buy $830 million worth of special equipment. Though the amount of credit was fixed in US dollars, India would pay in rupies. In turn, most of this money would be used to buy Indian consumer goods and food.[23] Thus both sides resolved the payment issue, the main obstacle to the development of Indo-Russian military cooperation.

Defense agreements signed during Indian Prime Minister Rao's June 1994 visit to Moscow augured well for the stabilization of Indo-Russian military relations. Under a tripartite agreement involving Russia's Mikoyan Industries, Hindustan Aeronautics Ltd. (HAL) and French arms traders, Russia will help India upgrade its 125-170 Mig-21bis aircraft to keep them combat-worthy well into the next century.[24] The upgraded MiG-21, which is expected to remain in active service until the year 2015, will be up-engined and equipped with a new lightweight multifunction radar and modern missile system. While the first two aircraft will be fully upgraded in Russia (in Nizhny Novgorod Sokol) by early 1997, the rest will be done in India. In December 1994 Sokol and HAL also signed an agreement to upgrade seven Indian MiG-25s.[25]

Upgrading MiG-21s and MiG-25s became imperative for the IAF after recurring technical snags and financial constraints delayed the production of India's own Light Combat Aircraft (LCA), which was supposed to replace the Russian-made aircraft by 1996. Optimistic IAF estimates do not expect the LCA to enter squadron service before the year 2008.[26]

In June 1994 New Delhi and Moscow also agreed to set up a joint venture company - the Indo-Russian Aviation Private Ltd. - in India. The company, which will have an equity base of $400 million, will manufacture spare parts for Russian military aircraft being used around the world, and oversee the upgrade of MiG-21s.[27] India will thus become the first foreign country to offer maintenance facilities for Russian aircraft. Such ventures will be based on commercial rather than political considerations. For many years, India had manufactured and maintained Soviet-designed aircraft through licensing arrangements, but the creation of an Indo-Russian company with equal equity participation will offer profits to both countries.

Also, 73 Malaysian pilots and ground crew are currently training in India to fly the MiG-29 supplied to the Malaysian air force under an agreement signed between Russia and Malaysia in June 1994.[28] Moscow and New Delhi plan to establish a MiG-29 assembly plant to help India fulfill its agreement with Malaysia to operate and maintain the 18 MiG-29s which the latter recently acquired.[29]

According to some reports, Russia has also offered its new trainer S-54 to meet the IAF's need for such type of plane; the S-54 could be a real competitor to the British "Hawk" and French "Alfa".[30]

Interestingly, India has become the battleground for the marketing war between Mikoyan, well entrenched in the IAF with its MiG range, and Sukhoi, which is putting pressure on New Delhi to buy around 20 SU-30MKs, with in-flight refuelling capability and armed with 10 air-to-air missiles, at "reasonable" terms. Senior IAF officers believe that India should acquire the SU-30 because it does not have a long-range, multi-role aircraft. Critical of the decision to stockpile MiG-29s which they feel came at the cost of extended range and operational capability, these officers are convinced that India should build an active and not reactive force composed of the Sukhoi range of aircraft.

Navy

One of the India's main military interests is to enhance the nuclear capabilities of its navy, as was already envisioned in Indo-Soviet cooperation talks in 1990-91. Navy plans, in particular, call for the inclusion of SSBNs in the fleet by the year 2000, as India had acquired SSNs from Moscow before August 1991. Another potential field of Indo-Russian cooperation is the acquisition of an unspecified number of the newer Type 636 "Kilo" class submarines. These are expected to replace five of the eight Soviet "Foxtrots" which were recently decommissioned.

India is also negotiating with Russia and Ukraine to acquire the former Soviet carrier Varyag and the naval air fighter, the YAK-141. According to some accounts, Russia has offered India the 40,500 ton carrier Admiral Gorshkov to replace the Vikrant carrier to be decommissioned by the year 2000. In the more distant future, India plans to order Tarantul III class corvettes equipped with SS-N-22 "Sunburn" missiles.[31]

In March 1994, the first joint naval exercises between Russia and India were held in the Arabian Sea.[32]

Land Forces

Russia has offered India the latest T-72S Shilden and T-80U major battle tanks (MBTs). The Indian Army is very impressed with the T-80U which is equipped with a gas turbine engine, gun stabilization system and a 125mm gun that can fire both shells and a laser-guided anti-tank missile up to a range of 5,000 meters.[33] The army is also keen on acquiring T-72S upgrade kits and M-25/M-35 attack helicopters.[34]

A conflict of opinion exists between the Ministry of Defense (MoD) and the army on whether to lease around 120 152mm 2S19 self-propelled guns from Russia. Senior army officers are said to be keen on leasing these guns as an "intermediate" weapons system until selection of the final weapon is concluded, but the MoD is opposed to such a proposal.[35]

REGIONAL IMPLICATIONS

The resumption of Indo-Russian military cooperation has a number of short- and long-term consequences.

Increase in India's Military Power. For several years now, India has been engaged in a large-scale military buildup that has brought it to the nuclear threshold and to the position of a regional hegemon. According to SIPRI database, for the period of 1989-1993, India was the largest importer of major conventional weapons.[36] In its 1994 report, the US Defense Department called India the world's third largest military power and the largest multi-party democracy.[37] Obviously, Russia has contributed significantly to this state of affairs.

Enhancing India's Arms and Technology Export Potential. Because Russia not only sold off-shelf weaponry but also generously shared its military technology, India now possesses significant military industry and arms export potential. Indian political, industrial and military elites regard the arms trade as a source of hard currency to cover production costs and to develop an industrial base.

According to former Defense Minister Pawar, India plans, in the near future, to export weapons worth 10 billion rupies

annually.[38] New Delhi export priorities are upgraded MiG-21s and spares, T-72s produced under Soviet license and self-propelled artillery. Moreover, like Malaysia, India hopes to export services, training and logistical support.

Thus, New Delhi is bound to become an important challenger to other regional arms exporters such as China. Although it is doubtful that India can compete with major suppliers like the United States, Russia and France, it could follow other second-rank arms traders whose tactic is to find a specific niche which, for various reasons, cannot be filled by the major powers.

Balance of Power or Impetus for Regional Arms Race? Since Russian arms transfers to India usually follow each Pakistani military buildup, both Moscow and New Delhi claim that their defense cooperation aims to preserve military balance in the region. Islamabad, however, considers India's efforts as excessive. In Pakistan's view, India's military potential is offensive rather than defensive in character, and thus poses considerable threat to its neighbors. This in turn contributes to an atmosphere of uncertainty that could lead to a new arms race in the region.

Another historical rival, China, is now much more tolerant of India's military buildup than in the recent past.[39] Chinese leaders understand that Indo-Russian military cooperation is directed against Islamabad rather than Beijing. China itself maintains fairly intensive military ties with Russia[40] even as it exports arms to Islamabad. In this case, arms transfer tactics fit precisely in traditional power balance politics.

Other Major Powers' Reaction. The resumption of Indo-Russian military cooperation has evoked an ambivalent reaction from the West.

On the one hand, Western countries do not perceive Indo-Russian defense rapprochement as a threat to their national security as in the past. The West understands that Moscow's active arms trade policy is determined by economic rather than expansionist considerations. It also recognizes Moscow's security concerns regarding Russia's Islamist environment. In view of Islamabad's nuclear ambitions, Washington has cancelled a US-Pakistani F-16 deal. The latter became feasible only as a result of increasing Russo-American cooperation.

Yet, on the other hand, the West fears that unrestrained Russian arms export can lead to a proliferation of destructive weaponry and stimulate a regional arms race. Western leaders

also believe that the Russian government has lost control over Russian military scientists, who, they fear, can export nuclear and other dangerous technologies to Third World countries including India.[41] In addition, the resumption of Indo-Russian military cooperation undermines some Western arms exporters' hopes of increasing their presence in the Indian weapons market. Interestingly, when Washington succeeded in stopping the sale of Russian-made cryogenic rocket engines to India, some US firms offered to supply the same to New Delhi.[42] Obviously, commercial considerations have prevailed over US adherence to a ballistic missile non-proliferation regime.

The West continues to develop its own military ties with India. Despite the current boost in Indo-Russian arms trade, New Delhi feels it can no longer rely solely on Moscow for military equipment. India is therefore seeking arms from other countries, including Britain, France, Germany, Israel, Slovenia and Slovakia.[43] Also, despite sharp differences on Kashmir, it is moving closer to the United States militarily; in fact the Indian and American navies conducted joint exercises in 1992 and 1993. In August 1994, India's Air Force chief S. K. Kaul discussed cooperation in training and maintenance between the Indian and US air forces.[44]

To conclude, it appears that the resumption of Indo-Russian military ties is not a temporary or accidental phenomenon. It is a stable and possibly long-term development arising from previous defense cooperation and new economic and strategic imperatives. Despite a number of obstacles, mostly financial ones, Indo-Russian military cooperation is becoming more mature and intensive, anchored as it is on principles which are different from the past. While both countries are growing more pragmatic and concerned with the economic aspects of their military programs, they nonetheless share a common interest in continuing and developing their military relationship. For now, the implications of Indo-Russian military cooperation to regional security are still uncertain. Hopefully, however, it will improve relations between the two countries, promote their national security and preserve regional military balance.

NOTES

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6. *Birzha,* No. 49 (December 1994), p. 3 (in Russian).

7. *Delo*, 24-30 March 1995 (in Russian).

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PHILIPPINE-CHINA RELATIONS IN THE POST-COLD WAR ERA

By

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Perhaps more than any of its ASEAN neighbors, the Philippines has been the most dramatically affected by the end of the Cold War. The collapse of the Marcos dictatorship in 1986 and the crumbling of Cold War structures since then has forced the Philippines to come to grips with a rapidly changing international environment and the urgent need to redefine its foreign policy.

In an emerging world order where economics will dictate politics and where economic competition is expected to heighten, the Philippines has shown much eagerness to catch up with its more affluent Asian neighbors. The drive for more rapid economic growth and the primacy of economic interests has made "development diplomacy" a cornerstone of Philippine foreign policy. It is in this context that the Philippines has had to undergo a process of reassessing and reaffirming its relations with China.

Between 1986 and 1991, levels of Taiwanese investments reached such a height as to generate calls for a "Two-China" policy. But China's highly impressive economic performance and increasing importance as a major player in the Asia-Pacific region could not easily be disregarded. As a result, the Philippine government was compelled to define a more balanced and holistic approach to relations with China, within which Taiwan could be given due importance, without jeopardizing relations with the mainland.

Beyond the economic dimensions, security and defense issues will likely intersect with economic interests and cast their shadow over future Philippine-China relations. This is specifically

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true with regard to the conflicting claims over the Spratlys in the South China Sea. Such issue has to be assessed in a context where the Philippines is no longer tied to the coattails of US foreign policy.

The closing down of the US military bases in the Philippines in 1991 has effectively severed the umbilical cord that had tied Philippine foreign policy to that of the United States. While strong US-Philippine ties remain, the "special relationship" that characterized previous decades has come to an end. In the process of assuming greater responsibility for its own security and defense, but without the necessary economic and technological capacity to undergird it, the Philippines is relying on a strategy that is anchored on some form of collective security provided by ASEAN. Although ASEAN is not exactly a collective security system in the military sense, its combined economic strength and its crucial role in maintaining a power balance in the Asia-Pacific acts as a restraint on the use of force in settling disputes in the region. On this level alone, ASEAN has become a vital focus of Philippine foreign policy.

Coming to terms with China, with ASEAN and the new power configuration in the region has not been easy for the Philippines. It has required a shift from a highly Western-oriented, and more specifically US-centered perspective, to a more Asian outlook on the part of Philippine policy-makers. For an entire population schooled in a colonial tradition that made American history, politics and basketball more familiar than the Opium War, the Angkor Wat and sushi, relating more closely with its Asian neighbors has had its store of tough lessons for the Philippines.

Not only is the Philippines culturally more "Westernized" than many of its Asian neighbors; since 1986, its shift towards the institutionalization of a "participatory democracy" has in many ways rendered it "out of synch" with the more centralized political systems of many other Asian nations. Nowhere has this been more evident than in the making and implementation of foreign policy. In place of the presidential edicts that former strongman Ferdinand Marcos used to issue on foreign policy matters, there have emerged many "centers" and many voices on foreign policy, resulting in what some have described as a "muddled policy." While the country appears to be moving towards a national consensus on many issues, the process has been slow and difficult. In the meantime, the active and oftentimes extremely vocal participation of NGOs, media, business sectors, lobby groups and legislators in the articulation of foreign policy has given it a vacillating and ambiguous character.

The One-China Policy

The drive to attract more aid and investments for economic development, the need to shape a more independent foreign policy and security strategy after the withdrawal of the US bases, and the more participatory nature of the foreign policy making process are factors that have pushed the Philippines to take a second look at its One-China Policy since 1986.

After the euphoria of toppling the Marcos regime, the transitional government of Corazon Aquino was faced with the unenviable task of repaying a then $26 billion foreign debt and an economy in shambles. Besides having to reconstruct acceptable "democratic" institutions amid contending political forces, the new President had to draw desperately needed and aid and investments into the country. Aquino's trips abroad jolted national consciousness of the country's status as a laggard in a region of economic "tigers" and "dragons." The country was eager and anxious to receive aid and investments from almost any source.

It was at this juncture that Taiwan began its first wave of investments in Southeast Asia. Between 1989 and 1991, Taiwanese firms invested large amounts in the Philipines, making them one of the top investors in the country. Further promises of aid and investments sparked a procession of officials to Taiwan and ignited a call for a re-evaluation of the Philippines' One-China policy. A number of bills were filed in the legislature urging a redefinition of relations with Taiwan. Members of the House of Representatives authored several versions of a Philippine-Taiwan Mutual Benefits Act.[1] In the Senate, Senator Leticia Ramos-Shahani, in her capacity as Chair of the Senate Foreign Relations Committee, proposed a "Foreign Entities Act" which she hoped would assure Taiwanese investors of legal protection for their investments without unnecessarily causing offense to Beijing.[2]

There was no stopping the "unofficial" and "private" visits of key Cabinet members to Taipeh. In response to the calibrated protests of Beijing, President Aquino issued Executive Order 313 banning official visits to Taiwan. This, however, did little to restrain ranking Taiwanese officials from visiting Manila and vice versa.

On one level, Taiwan was obviously using its economic clout to wring diplomatic concessions from the Philippines. Given its economic difficulties and hence vulnerability, the Philippines had been targetted by Taiwan as an arena for testing out its "flexible diplomacy." Against promises of increased levels of official aid and investments, Taipeh hoped to gain some legal status in its relations with the Philippines.

On another level, there was a growing need for official negotiations on issues that were fast becoming irritants to Manila-Taipeh relations. Incidents of Taiwanese fishing vessels poaching in Philippine waters were on the rise. Crime syndicates and smuggling rings were surreptitiously traversing the narrow straits between the Philippines and Taiwan. There was also the issue of Filipino labor (estimated by some to have reached 40,000) illegally entering and overstaying in Taiwan.[3] All these could not be resolved without some kind of official contact and negotiation.

Of course, ironing out links with Taipeh could have been done without the attendant publicity that would provoke Beijing into lodging its protests. Other ASEAN countries had apparently gone further, but much more quietly in their official contacts with Taipeh, without ruffling Beijing's feathers. But Taiwan's propensity to make political hay out of its relations with Manila and the tendency of Philippine media to expose every little quirk in government did not give Philippine officials the chance to exercise "quiet diplomacy." Between 1989 and 1991, the clamor for a review of the One-China policy became so strident in the Philippine Congress and media that a few officials were even known to have suggested that diplomatic ties with Taipeh be restored at the expense of relations with Beijing.

This clamor has died down since 1992. Proposed legislation related to Taiwan has been shelved for a number of reasons. For one, the first wave of investments from Taiwan has subsided as Taiwanese business seemed more interested in investing in China and even Vietnam rather than in a calamity-prone Philippines. Apart from the disastrous effects of the Mt. Pinatubo eruption, 1991 and 1992 saw the worst period of Manila's energy crisis. The deteriorating investment climate was exacerbated by a spate of kidnapping of ethnic Chinese, perpetrated by criminal syndicates reportedly involving military personnel. All these has dampened Taiwanese enthusiasm for investing in the Philippines and no amount of legislation could convince them otherwise.

Legislators themselves have begun to entertain second thoughts about sacrificing relations with China for hitherto unfulfilled promises of further aid and official investments from Taipeh. The collapse of the deal with Taipeh over a petro-chemical plant to be constructed in the province of Bataan signalled an end to the peak period of Taiwanese investments in the Philippines.

Taiwan's current drive to upgrade its technology and industries will mean the continued relocation of its labor-intensive, low-technology industries to less developed countries such as the

Philippines in the next few years. Compared to its neighbors, however, the Philippines has been getting the least share of Taiwanese investments. Among six countries in Southeast Asia, the Philippines' share of Taiwanese investments was only 3 percent in 1992 compared to Malaysia which garnered 33.7 percent.[4]

The decline in Taiwanese investments coincided with a rising awareness of China's economic and political significance in the region. China's phenomenal double-digit growth has been the focus of international attention over the last three years. It is now projected to become the next superpower while its economy is expected to sustain growth in the region in the next two decades. It is this growing recognition of China's economic and political power and the importance of maintaining good relations, more than anything else, which has led to a reaffirmation of the Philippines' One-China policy. This was capped by the official visit of President Fidel Ramos to China in May 1993.

Economic Relations

For the Philippines, a strong and vibrant Chinese economy will offer both economic opportunities and keen competition. Some of the country's top corporations are beginning to find niches in China's economy. Besides a brewery, San Miguel Corporation has shrimp farms and feed factories in various parts of China. Sycip, Gorres and Velayo, the largest accounting firm in the Philippines, has offices in Shanghai and Beijing while Metrobank, the top private commercial bank, has branches in Beijing, Xiamen and Shanghai. There are already more than 500 Filipino professionals and managers in Beijing and other major cities and their numbers are expected to increase.

Trade relations between the two countries, however, leave much to be desired. The Philippines' trade with China ranks among the lowest in ASEAN. In 1992, total Philippine-China trade was valued at slightly below $400 million while Indonesia-China trade passed the $2 billion mark and Malaysia-China trade reached $1.47 billion.

The low levels of trade between China and the Philippines have been attributed to the failure of the latter to diversify its exports. Apart from this, Philippine-China economic relations was severely limited because until 1992, all trade between the two countries had to be conducted and coordinated through the Philippine International Trade Corporation (PITC). A legacy of the Cold War era, the PITC was created by former President

Marcos to facilitate Philippine trade with socialist countries. In 1989, in a move designed to improve the balance of trade with China, the PITC required importers of Chinese goods to export an equivalent amount of Philippine goods to China. This succeeded in curbing imports from China but did little to boost exports. Although the PITC rescinded its requirements by the end of 1992, trade levels have not risen dramatically.

Today, there are signs that the Philippine government is exerting efforts to promote Philippine-China trade through the establishment of more commercial offices in Southern China. By and large, though, not enough has been done on the Philippine side to explore China's rapidly expanding market for goods and services. Philippine exporters and small-scale enterprises, in general, have little access to information about markets in China. Those Filipinos who have been the most informed and most economically active in China are the Chinese-Filipinos.

The Ethnic Chinese

Most of the one million Chinese in the Philippines trace their origins to Fujian Province where many still have relatives. It is here where some have actively invested since the early 1980s. The economic and political crises of this period had driven Chinese-Filipinos to invest in China where attractive incentives were being offered, particularly in the Special Economic Zones (SEZ). The high rates of profits have kept Chinese-Filipinos interested in expanding their investments in China. The Philippines, however, remains a home base for these Chinese-Filipino capitalists.

Information on the levels and nature of Chinese-Filipino investments in China is difficult to trace since much of these have been channelled through Hong Kong. Nevertheless, the available information tends to indicate that Chinese-Filipino investments have been comparatively small and concentrated in the southern province of Fujian. For instance, according to some sources, Chinese Filipino investments in Xiamen, where much of Chinese-Filipino investments are concentrated, amount to only 5 percent of total investments in that SEZ.[5]

In terms of their profile, it appears that much of Chinese-Filipino investments have been in real estate development, hotels and shopping complexes. Other areas include banking, light manufactures and even retail stores. Those who have invested claim that profitability has been the dominant motive for investing in China. Both pull and push factors have worked to draw capital

to China in recent years. In the Philippines, the spate of kidnappings, the power crisis and general political instability of the previous years pushed a number of Chinese-Filipinos to invest in China. Their knowledge of the Chinese language and culture and contacts with relatives and friends on the mainland facilitated the process.

Official attitudes towards their investments in China have been ambivalent. On the one hand, there has been a tendency to regard Chinese Filipino investments in China as a form of "capital flight" from the Philippines. On the other other, Philippine officials realize that their ethnicity, kinship ties and cultural affinity with the Chinese could be tapped in opening new markets for Philippine products and generally contribute to the expansion of economic ties with China.

In many ways, China has become a formidable competitor for foreign capital, and Philippine officialdom would rather have domestic capital reinvested in the country than in China. This message was clearly put across by President Ramos to his hosts during his China visit in April 1993, when he chose to announce in Beijing, that six of the top Chinese-Filipino "taipans" who were in his entourage were forming a consortium that would undertake infrastructure projects in the Philippines. At the same time, the announcement served as a reminder to Chinese Filipinos that their primary loyalty should be to the Philippines and not to China.[6]

Despite the allusion to Philippine displeasure at the close links between China and the ethnic Chinese, this has been less a source of friction in Philippine-China relations compared to other ASEAN states. This may be attributed to the considerable integration of the ethnic Chinese in Philippine society specially since the granting of mass naturalization in 1974. Moreover, Chinese-Filipino investments in China have not reached the same level as those of other Southeast Asian Chinese or of Hong Kong- and Taiwan-Chinese.

Conflicting Claims to the Spratlys

What have been of greater concern to the Philippines in its relations with China are the conflicting claims to the Spratlys in the South China Sea. The Philippines sees its claims to the Kalayaan Island group, which is part of the Spratlys, as vital in its drive for economic development. Considered rich in oil and other resources, the disputed territory is regarded as a significant source of wealth for the Philippines. It has a strategic importance for the

country as well, considering that Japan used one of the islands as a staging ground for its invasion of the Philippines during the Second World War. Apart from Vietnam, Malaysia, Brunei and Taiwan, China also claims the islands.

The islands of Lawak, Pagasa, Kola, Likas and Parola are claimed by the Philippines by virtue of the right of occupation. Proximity has also been used as an argument: the distance between the Spratlys and Palawan is only about 250 miles, whereas they are 350 miles from Vietnam, 950 miles from Taiwan and 550 miles from Hainan Island. The Philippine government has stationed marines and has maintained a garrison on these islands. It has insisted on resolving the dispute in the United Nations and in the International Court of Justice.

Historically, Philippine claims to the Kalayaan Islands (Freedomland) date back to 1956 when Tomas Cloma, founder of the Philippine Maritime Institute, claimed ownership of some 33 islands, cays, sand bars and coral reefs in the Spratly archipelago based on discovery and occupation. The Philippines began to occupy some of these in 1971. In 1974, Cloma irrevocably transferred to the Republic all rights and interests over the islands. President Marcos issued Presidential Decree 1596 in 1978 to include the Kalayaan Island group in the Philippine map. This was registered with the United Nations Secretariat on June 1980. The Philippine Western Command was established, with its base on Palawan, for defense purposes and to protect oil explorations off the Palawan coast. An airstrip was built on Pagasa island where a settlement was organized into a barangay under the municipality of Palawan, with registered and active voters.[7]

Until the late 1970s, the Philippines appeared to be the most intent in pursuing its claim. However, by the 1980s, all other claimants had increased their presence. With the winding down of the Cambodian conflict, the Spratlys has become the focus of international attention as the next flashpoint in the region. Indeed, there has been a worrying degree of military buildup by claimant states in various parts of the islands. Open clashes between China and Vietnam and the current disputes over the activities of oil exploration companies, including Crestone, have fueled tension.[8] In response to these developments, the Philippines has undertaken measures to shore up its claims to the Kalayaan Islands.

In February 1992, Beijing was reported to have adopted legislation which drew a "historical claim line" of official maps that encompasses some 80 percent of the South China Sea.[9] This generated concern in Manila and in November 1992, Senator

Shahani introduced a joint resolution to establish a "National Policy on the Law of the Sea." In the resolution, it was noted that under the UN Convention on the Law of the Sea (UNCLOS), the Philippines stood to gain an estimated 360,000 square nautical miles as part of its 200-mile Exclusive Economic Zone.

The resolution proposed that in order to strengthen the Philippines' claim on the Kalayaan Island Group, the Baselines Law of the Republic be amended to include the islands, and appropriate legislation be enacted to define the territorial sea, the contiguous zone and the Exclusive Economic Zone. At the same time, the resolution recommended continued diplomatic negotiations with ASEAN states in accordance with the Treaty of Amity and Cooperation of the ASEAN. It declared that "the Philippines would cooperate with ASEAN and other Southeast Asian countries in the development of a regional arrangement for living marine resources as well as matters involving scientific research and technology transfer—pertinent to ecological and environmental concerns."[10]

Since then, other resolutions on the Spratlys have been tabled for discussion in both the lower and upper houses of Congress.[11] While these documents have consistently reaffirmed Philippine claims to the Kalayaan islands, they have also maintained that disputed claims be settled through peaceful means. One of the latest bills was filed by Speaker of the House, Jose De Venecia, proposing the holding of a regional diplomatic conference to launch a "Philippine formula" for a peaceful resolution of the Spratlys dispute. The formula calls for a "North Sea-type partition of the South China Sea" or the creation of a demilitarized five-nation condominium that includes China, Vietnam, Malaysia, the Philippines and Taiwan. It proposes a rotating administration and chairpersonship with a production sharing formula for the joint development of resources in the area.[12]

Given its weak economy and poorly equipped military, the Philippines can hardly be expected to put up an effective defense of its claims to the Kalayaan should any of the other claimants decide to use force. As such, it has had to exercise utmost care in not aggravating relations with other claimant states. When President Ramos visited China in May 1993, he and President Jiang Zemin signed a joint declaration reaffirming "the essential need for the peaceful settlement of the territorial disputes in the South China Sea and the desirability of cooperation in the area's preservation and development of the disputed areas therein."[13] Subsequently, on May 17th, local newspapers reported that Ramos had ordered the armed forces to expand an airstrip on the Spratly

Islands. This immediately prompted a clarification from the President himself that the airstrip was in Palawan and not in the Spratlys as reported.

In its approach to the resolution of the Spratlys conflict, the Philippines leans towards a multilateral solution although it remains open to bilateral discussions. Conscious of the tensions between Vietnam and China, the Philippines has been careful in maintaining a balance in its relations with both parties. Bilateral agreements between the Philippines and either country will be difficult to implement without generating opposition from other claimants.

A multilateral approach is most advantageous to the Philippines since it is militarily one of the weakest among claimant countries. The Philippine claim appears to be among the most legally sound since it is based on several decades of effective occupation, actual political administration as well as registration with international bodies.[14] This assumes, of course, that parties to the dispute are willing to subject themselves to international arbitration.

Scientists contend that coastal states around the South China Sea will have to learn how to cooperate if the overall ecological health of the sea and its living resources are to be maintained. According to them, marine pollutants are distributed erratically due to ocean currents while fish resources migrate widely. Petroleum pools may also transcend jurisdictional lines. Since territorial claims and maritime boundaries are difficult and seemingly intractable issues, scientific cooperation may offer a good beginning towards increasing levels of cooperation. The first working group meeting on marine scientific research in the South China Sea that was held in Manila in June 1993 may lead to a breakthrough.[15]

Thus far, the involvement of Indonesia and other non-claimant states in discussing ways of managing the South China Sea dispute have kept the problem from deteriorating into an armed conflict. China has indicated its willingness to shelve the sovereignty issue in favor of joint development and resource sharing. A series of semi-official workshops held in the region has contributed to some degree of confidence building and has helped defuse tensions, even if it has not prevented the military buildup in the islands over the last three years.

Tensions have heightened over the oil drilling activities of multinationals contracted by claimant states to explore areas they claim. Both Vietnam and China have declared their intentions to

defend, by force if necessary, the activities of companies they have contracted. How Vietnam and China will resolve their differences over the South China Sea will be closely watched.

Perhaps the greatest deterrent to military conflict in the South China Sea will be the growing integration of China and Vietnam into a dynamic regional economy. With greater economic interdependence, the stakes for maintaining peace and stability in the region will concomitantly increase.

Conclusion

In rising to the issues posed by its relations with China and with ASEAN, one of the greatest challenges to Philippine diplomacy in the post-Cold War era has been the forging of a national consensus on what constitutes "national interest" within a framework of "participatory democracy." The openness of the foreign policy making process has given the Philippines an image of weakness and vacillation. Its messy handling of the East Timor issue is a case in point. The equivocal adherence to a One-China policy is another. What is needed is greater inter-departmental coordination within government, more information, more strategic planning and a fine tuning of policy options.

Given China's growing economic power and political influence in the region, it is imperative for the Philippines to maintain good relations with the mainland. This, however, should not proscribe the expansion of economic and non-diplomatic ties with Taiwan. The latter can contribute substantially to the Philippines' economic growth, but greater efforts should be exerted to improve ties with Taiwan without unnecessarily jeopardizing relations with China.

China's burgeoning market and growing middle class hold vast business potentials for the Philippines. Trade relations can be markedly improved if information flow on business opportunities can be facilitated through more commercial offices in China. Domestically, the Philippines ought to explore the potential of its Chinese Filipino community as a bridge in doing business with China, rather than penalize it for investing in the latter. The tourist trade with China, Taiwan and Hong Kong is another untapped area of economic growth for the Philippines.

The Philippines should also gear itself to facing stiff competition from China for capital and markets. This will require the political will to institute reforms and provide the necessary

infrastructure for economic development. Only with the growth in its economy will the Philippines be able to provide more teeth for its own defense.

NOTES

1. "Philippine China Relations: An Overview," *Currents*, Vol. 1, No. 1 October 1990.

2. See Leticia Ramos-Shahani, "Redefining Our Policy Towards Taiwan," *Foreign Relations Journal*, Vol. IV No. 2, June 1989.

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4. Amado Mendoza, "Philippine Policy Perspectives on Greater China" (unpublished paper).

5. Felicidad V. Tan-Co, "1.17 B-Strong Consumer Market Provides Motivation to Invest in Mother China," *Business World Sixth Annual Report*, 27 July 1993, pp. 23-31.

6. See "Six Chinese Filipinos Team Up: Consortium Announced in China," *Manila Chronicle*, 28 April 1993.

7. Aileen Baviera, "The Philippines Looks to the South China Sea: Ocean of Opportunity or Sea of Strife?" *Currents*, Vol. 3 No. 1, January-March, 1992.

8. See "Beijing Lays Official Claim to Oil Fields," *South China Morning Post*, 11 May 1994.

9. "China Pushes Claim to Strategic Spratlys," *South China Morning Post*, 13 May 1994.

10. In Joint Resolution No. 8 of the Philippine Congress entitled "Affirming the National Policy on the Law of the Sea" introduced by Senator Leticia Shahani on November 22, 1992.

11. A resolution on "The Formulation of a National Policy on Spratly Islands Territorial Dispute" was introduced by Senator Leticia Shahani on May 3, 1994 followed by Senate Resolution No. 878 on May 25, 1994 "directing the appropriate committee to conduct a study on the necessary Philippine policy on the Spratly Islands and the South China Sea." House Resolution No. 608 introduced on May 5, 1994 directs the Philippine Mission to the UN

to file a resolution in the UN General Assembly seeking a peaceful settlement and joint exploration and development of the Spratlys by the claimant states.

12. See House Resolution No. 927 filed on February 7, 1994 by Speaker of the House, Hon. Jose De Venecia.

13. Cited in "Flashpoint," *Philippine Graphic*, 7 June 1993.

14. See the arguments of Haydee B. Yorac in "The Philippine Claim to the Spratly Islands Group," *Philippine Law Journal*, Vol. LVIII Second Quarter, June 1983.

15. Reported in "Testing the Waters" *Manila Chronicle*, 27 June 1993.

CHINA'S MILITARY MODERNIZATION PROGRAM: SOME LESSONS FOR THE ARMED FORCES OF THE PHILIPPINES

By

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The People's Republic of China (PROC) holds the distinction of having the largest armed forces in the world. The People's Liberation Army (PLA), its military, is composed of some three million troops, officers and personnel. China's military, however, is notable in another aspect. Since the 1970s, it has undertaken a modernization program which, in turn, has transformed the PLA into a highly professional, credible and well-trained army.

How did China proceed with the modernization of its armed forces? What considerations prompted such undertaking? More importantly, what lessons and insights can the Chinese experience provide, which may prove useful to countries like the Philippines, which also plans to embark on its own military modernization program? These are only some of the questions which the following article shall explore.

MILITARY MODERNIZATION 1949-1978

Shortly after the Communist victory and the founding of the People's Republic of China (PROC) in 1949, Communist Party Chair Mao Zedong announced that China needed a modern armed force. Other Chinese leaders also saw the need to modernize the army as well as convert it into a professional one. But China was still reeling from the debilitating effects of several decades of civil strife and foreign invasion. Furthermore, corruption in the previous government of Chiang Kai Shek had contributed to China's economic devastation. Thus, economic rehabilitation had

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first claim on the scarce resources of the country, and the modernization of the army could only proceed in a slow and limited manner.

Because the modernization of the military would entail tremendous costs, the Chinese sought assistance from the Soviet Union. But Stalin was reluctant to support the Chinese bid to develop independent capability to produce arms. Moreover, China and the Soviet Union got embroiled in the Korean War from 1950 to 1953. As a result of the huge losses it suffered in the war, China realized that the PLA could no longer rely solely on the size of its army and the willingness of its soldiers to fight. Structural reforms, an updated military strategy and upgrading of weaponry were also badly needed.

After Stalin's death in 1953, China and the Soviet Union forged a partnership that was characterized, among others, by the massive transfer of Soviet technology and sending of Soviet advisers and experts to the PROC.[1] China's limited military modernization finally began. The PLA's organization and concepts were revamped. A Soviet military mission that was set up in Beijing in 1950 was reactivated. Soviet manuals were translated into Chinese and incorporated into the modernization programs of the PLA, while weapons were upgraded. The most impressive advance took place in the Air Force which was non-existent before the Korean War. By the mid-50s, China's Air Force had some 4,000 small combat aircraft. By the end of the decade, China was already producing Soviet designed weapons, from small arms to tanks and submarines.

Moreover, changes were implemented in the training and education of Chinese military officers. Army commanders obtained formal training to prepare them for military life. Military academies were also strengthened. "Regulations on the Service of Officers were promulgated for the first time, which instituted a system of ranks, regular channels of entry into the officer corps, and professional criteria for advancement as well as insignia."[2] Also, new organs were created to manage the military establishment.

During this time, China's aspiration to develop nuclear capability also began to materialize. Again the Chinese sought Soviet assistance to develop a nuclear program, but the joint venture fizzled out because the Soviets wanted to exercise control over China's nuclear weapons. Further deterioration of Sino-Soviet relations in the second half of the 1950s and the cutting off of all Soviet aid to China in the 1960s adversely affected the modernization of the PLA. Undaunted, the Chinese leaders

stressed self-reliance. Despite the lack of logistical support, China managed to carry out an indigenous nuclear program, but this came at the expense of large-scale development of conventional forces.

MILITARY MODERNIZATION 1978-1994

China's current military modernization is viewed not solely as a response to security concerns, but as part of a much broader vision of bringing China to the ranks of the world's leading powers by the year 2000. To accomplish this, China's leaders believe that the military must be brought up to the standards of the most advanced countries. This, in turn, would require implementing comprehensive measures to address the many problems affecting the military establishment.

In 1975 and 1978, assessments conducted by the Military Commission of the Communist Party revealed the following problems besetting the PLA: (1) Lin Biao's leadership which bred factionalism, "mountain-stronghold" mentality, and the use of the army for partisan politics, while losing sight of the military's primary functions; (2) lack of discipline resulting in poor confidence in the army's combat effectiveness; (3) a bloated military organization; (4) deficient recruitment, promotion and retirement systems; (5) inadequate training to enable the army to cope with modern warfare; (6) insufficient and obsolete military equipment; and (7) an outdated military strategy. While Party officials were one in saying that the military badly needed reforms, there were many disagreements on how these will be carried out. Nevertheless, the assessments and subsequent discussions already pinpointed the problems that had to be addressed immediately.

With the avid support of top Chinese officials led by Deng Xiaoping, the PLA began a campaign to attain the so-called "three transformations": modernization (*xiandaihua*), revolutionization (*geminghua*) and regularization (*zhengguihua*). Modernization entails the procurement of modern weapons and formulation of a strategic doctrine attuned to the times. Revolutionization means adherence to the Party line which is to build socialism with Chinese characteristics under the guidance of Marxism, Leninism and Mao Zedong thought. Regularization includes professionalization and streamlining of the armed forces.

The objectives of China's military modernization can be classified into two. The short-term objective is to enhance combat

effectiveness. This involves the upgrading of weapons and equipment and improvement in the recruitment and training of officers and enlisted personnel. Military leaders recognize that most commanders lack experience in dealing with the intricacies of planning and employing combined arms operations. They also realize that contemporary warfare is radically different from the battles fought by Mao and the Red Army in the 1930s and 40s. Thus, some 1,000 commanders were sent back to military academies to learn new ideas and tactics.

The long-term objective is to build a self-sustaining industrial base. The withdrawal of support by the Soviet Union has made China realize the need to develop its own strategic weapons and space programs without relying on external assistance. So far, China has succeeded in producing quality weapons from old models, and has garnered a huge market from countries in search of more affordable weaponry. To remedy the technological lag, the newly created Commission in Charge of Science, Technology and Industry for National Defense (CCSTIND) was made responsible for the defense establishment's research and development program.

Still, China is aware that for the military modernization program to succeed, it will have to meet several challenges. First, China's armed forces is the world's largest. Streamlining thus introduces problems concerning the kind and availability of assistance to demobilized forces. On the other hand, upgrading the skills and improving the combat effectiveness of the remaining troops will have to be systematic and sustained if it is to be effective. Second, China's military doctrine needs to be "fine-tuned" because of the complex nature of modern warfare as seen in the recent Gulf War. Also, China's science and technology is not at par with those of the major powers. Its armed forces lack the kind of training that will enable them to adapt to modern warfare. Indeed, military planners, specially in the Pentagon, are now claiming that the "information domain is the future battlefield."[3] The question therefore is, what steps have China taken to meet these major challenges to its military modernization program?

The Chinese Armed Forces

Born out of the partisan struggles of guerilla forces in the 1930s, the role of the PLA has changed in the course of time. Before the founding of the PROC, the PLA was, in Mao's words, "one of the three main weapons with which we have defeated the enemy." After the liberation, the PLA was expected to help the

Party and the Chinese people consolidate the gains of the revolution, establish a new socialist order and rehabilitate the economy. Today, it is being suited up to be a vanguard of the modernization programs of China and a partner in national development.

Army. In 1987, as part of the streamlining of the armed forces, some one million ground troops were demobilized, leaving the PLA with three million active forces. Regional commands were reduced from 11 to 7 and more than 4,000 divisional and regimental units were either dissolved or combined. The streamlining was aimed at producing a "lean and mean" army that is combat worthy. Problems concerning the bloated character of the military and its combat effectiveness had earlier hounded Party officials and military leaders, for despite the size of its army, China lost in separate clashes with Soviet and Vietnamese troops. The PLA was also restructured to adapt to its peacetime role. Its arsenal of weapons was also bolstered with a good number of self-propelled artillery, towed artillery, multiple rocket launchers and surface-to-air missiles. Several modern electronic equipment, including those used for meteorological and aeronautics purposes, were likewise acquired to improve the mobility of the ground forces.[4]

Air Force. Starting off as a miniscule group in the late 1940s, the PLA Air Force (PLAAF) has managed to build up its fighting capabilities without relying on external help. In the 1960s, after Soviet assistance was halted due to the Sino-Soviet rift, the PLAAF copied and modified various Soviet aircraft such as the MIG-19 and MIG-21 fighters, the Tu-16 bomber and the Mi-4 helicopter. The PLAAF also developed various indigenous aircraft such as the A-5 ground-attack aircraft and F-12 light interceptor at Nanchang, the F-8 interceptor at Shenyang and the F-9 interceptor at Chengdu. Quality control measures broke down during the Cultural Revolution, but the Air Force persevered. Flying schools were also improved. By the early 1970s, the PLAAF proceeded with the development of the F-8 and F-8 II interceptors, then China's most ambitious project. Following China's rapprochement with the US and increased contacts with other major powers, it was able to acquire modern aircraft. In 1989, however, the US suspended its arms sales to China on account of the Tienanmen Square incident, forcing China to turn to Russia and other European countries for modern aircraft and equipment. But the high cost, the lack of an imminent threat to its security, and the current emphasis on research and development may deter China from proceeding with such purchases. The PLAAF is also streamlining its forces. It has reduced its total active duty force

by one-fourth, to approximately 500,000. At present, the PLAAF has 8 command posts and 4 air corps.[5]

Navy. China's PLA Navy (PLAN) has traditionally been a coastal defense force. For several decades, its fleets, organized geographically into the North, South and Eastern Sea, have consisted mainly of aging patrol and coastal combatants. The Navy, however, has indicated that it will no longer be confined to coastal defense. Instead, it seeks to develop a regional power projection capability by augmenting its fleet and equipping its forces with modern armaments. Along this line, improvements in both the conventional and nuclear submarines will be undertaken to enhance submarine warfare. Not surprisingly, the modernization of China's Navy has been viewed with anxiety by its neighbors, particularly the ASEAN countries which also claim all or some of the Spratly Islands and Taiwan.

Recruitment and Education

The PLA enjoyed lot of prestige before and shortly after the 1949 Liberation; as a result many young men wanted to join the armed forces. But over time, the PLA's prestige waned. The salaries of PLA soldiers and officers are now lower compared to their civilian counterparts. In addition, the PLA's tradition dictates that soldiers adhere to simple life and hard struggle. On the other hand, the PLA cannot provide adequate training, weaponry and equipment. Not surprisingly, many young people in China would rather seek jobs that pay higher and provide quicker upward mobility in society.

To atract more young and talented recruits into the PLA, China decided to convert the military's basic-level schools into degree-granting colleges and offered early admission for high school graduates. Although recruits still undergo medical examination and background investigation for criminal records, family background is no longer deemed relevant. The new military service law states that all citizens "regardless of nationality, race, profession, family background, religious belief and level of education have a military obligation."[6] This is a departure from the Conscription Law of 1955 which excluded family members of "counter-revolutionary elements, feudal lords, bureaucrat-capitalists and other perceived oppressors of the Chinese people."

It is estimated that some 10,000 candidates are recruited by PLA-run schools every year from among high school graduates. Those who pass a screening test are trained to become "command

cadres" or professional and technical staff. Those who become officers are expected to attend "command schools" before they are commissioned and allowed to graduate. Moreover, professional and technical skills are improved through required attendance at designated schools before officers get their promotion. Aging officers with little education are sent to schools to enhance their knowledge and improve their chances of getting promoted. Before, conduct and performance in battle was a major criterion for promotion. Today, academic qualifications and accomplishment of tasks - many in offices and seldom in battlefield or in troubled spots - matter much. The old or retiring officers lament over these developments in the recruitment, training and promotion of soldiers. But the PLA is adamant in selecting young people with academic preparation for its officer corps.

China has realized that an educated corps of officers is an important requisite if it is to ensure the success of structural reforms and improve combat effectiveness in the armed forces. Today, under the modernization program, China's military emphasizes quality over quantity and technical proficiency over political and ideological purity, in a bid to match the prowess of the armies of other countries.

Military Doctrine and Strategy

Mao's concept of a "people's war" served as the main theoretical guide of China's PLA from the war of resistance against Japanese invaders, up to the early years of China's socialist construction. Developed during the 1930s, the "people's war" strategy entails the formation of a united front led by workers and peasants, for a guerilla war against the landlords and their foreign and domestic allies, in what has been called the national democratic revolution.

Since the 1970s, however, the same concept has been modified into a "people's war under modern conditions." In principle, Chinese military tacticians still accept Mao's concept of "active" or "positive" defense as the core of their strategy to defend China in a possible armed conflict. But new strategies have also been adopted, including that of nuclear deterrence, where China's strategic nuclear forces define their role as one of counter-strike.

With the collapse of the Soviet Union and the forging of diplomatic ties between China and the US, China has also shifted from the idea of a general war with the Soviet Union, to small-scale and politically intense wars around its periphery. In 1985,

the Military Commission of the Chinese Communist Party concluded that "the potential for world war" has "diminished" and that future conflicts are "likely to be limited, regional, brief but intensive."[7] The Gulf War of 1991, with its precision, swiftness and use of some of the most lethal war technology and military operations, has likewise had an impact on China, as seen in its current shopping list of sophisticated military equipment and heavy investment in research and development. Indeed, in terms of doctrine, the Gulf War has only "accelerated the PLA's attention to low-intensity conflict. This has meant increased attention to the development of combined arms, rapid deployment units, mobility, long-range force projection, and the development of blue water naval capability."[8] In addition, China is now giving importance to the upgrading of short- and medium-range missiles for use in conventional combat.

Defense Spending

In the early 1990s, China's defence spending grew at about 5 percent per year. For 1990 alone, China allocated 29 billion yuan or $6.1 billion to the military, signalling "the first real growth in formal defence spending in eight years and a reversal of a decade-long decline in the military's share of the state budget."[9] In 1993, China's defense spending was estimated at $45 billion, an amount surpassed only by the United States at $274.3 billion.[10]

Several reasons account for the increase in the military's share of the national budget. These are: (1) the operational needs and morale problems of the PLA; (2) the cost of deploying troops during the Tienanmen crisis and maintaining paramilitary police and soldiers in Beijing, and sending troops in troubled spots such as Tibet, South China Sea islands and along disputed borders; (3) the need to improve the living conditions of ordinary soldiers; (4) compensation and other benefits for over a million Chinese soldiers who were demobilized in line with the troop reduction policy in the mid-1980s; (5) new facilities for troops; and (6) acquisition of modern weapons and equipment for the Navy and Army.[11] Moreover, it appears that China will continue to raise its defence budget as it undertakes a more comprehensive military modernization program.

Reports show that the state provides 70 percent of the funding requirements of the military. Nonetheless, the military is required to look for other funding sources to ease the burden of the civilian populace. So far, arms sales to other countries has been a particularly rich source of additional funds for China's

military modernization. China has supplied arms to Egypt, Iraq, Iran, Saudi Arabia, Pakistan, Cambodia's guerilla factions, Thailand and Myanmar. Profits from arms sales in turn, have been used to intensify research and development and to buy more sophisticated weapons from western countries.

Technology Transfer

China is fully aware of its military-technological gap vis-a-vis the United States and Russia, which can be considered on the cutting edge of modern science. To narrow down this gap, China has engaged in a broad-based program of scientific and technical cooperation with many countries, both in the developed and developing world. It has signed agreements with 57 countries and has cooperative relations with 108 countries and regions. It has also joined 187 international non-governmental science and technological organizations under the United Nations. In addition, China's S & T organizations have participated in more than 280 international academic organizations. The Chinese Academy of Sciences, for example, has signed cooperation agreements with counterparts in more than 50 countries and regions. Of China's 340 sister-city relationships, approximately one-third are oriented towards science and technology collaboration. Taken together, these relationships not only give a boost to science and education in China, but also have broad implications for the modernization of the country's industrial base."[12]

In order to gain access to foreign technology, China, during the period 1981-89, signed 18,000 agreements and over 30,000 contracts for the introduction of technology and equipment, for a total of 415,000 projects. The Chinese government in turn alloted some 463.2 billion yuan (US$98.5 billion) in counterpart funds.[13]

One of China's sources for new and improved technology is the United States. As of 1986, China and the US have inked 25 formal agreements on cooperation in science and technology. China has also sent some 40,000 students and scholars to the US between 1979 and 1986.[14] However, China's procurement of weapons from the US has been limited and selective because of economic considerations and concern over the increasing influence of western ideas and technology in Chinese society.

The benefits gained from technology transfer by the defence sector have been shared with the civilian sector. In the late 1970s, China began applying military technology to commercial purposes. Military industrial enterprises were used to produce goods for

civilian consumption under the principle of "integrating the army with the people." The initiative was supported by high ranking military officials who claimed that it has generated additional resources for the military, facilitated better relations with the civilian sector, and increased China's international investors and markets for non-military products.

MILITARY MODERNIZATION IN THE PHILIPPINES

Like the PLA in China, the Armed Forces of the Philippines (AFP) will also be undergoing its own modernization program. The AFP, which consists of three service commands, the Army, Air Force and Navy, has long been saddled with serious problems: a bloated military organization, outdated equipment, a patronage system that breeds corruption, lack of professionalism and discipline, inadequate training, and the absence of a cogent military doctrine. It also suffers from poor credibility because of the continuing involvement of a number of soldiers and officers in criminal and illegal activities. Moreover, the AFP's combat effectiveness is suspect.

Proponents of military modernization in the Philippines hope that the program will be able to address the problems that beset the AFP. The program has five main components namely: 1) Force Restructuring and Organizational Development; 2) Capability, Material and Technology Development; 3) Bases and Support System Development; 4) Human Resources Development; and 5) Doctrines Development. The program goes beyond the usual procurement of modern weapons system and recognizes the need to develop a "defence force that is capable of performing a spectrum of roles in peace, crisis or war. In peacetime, the AFP has two roles: the traditional military role, and developmental and environmental role. In times of crisis, the role of the AFP is envisioned to include military counter-insurgency operations, support to police operations during civil disturbance and other contingencies, search and rescue operations, natural disaster relief operations and support to peacekeeping or enforcement efforts in pursuit of international commitments."[15]

The program also includes provisions that broaden the concept of national security, to cover not only territorial and political, but also economic and environmental security. Hence, the AFP is tasked to defend the country from incursions, both military and non-military, like smuggling and poaching in territorial waters by other nationals. Likewise, it is expected to provide

support to the programs of government like environmental protection, socio-economic development, disaster preparedness and other peacetime functions.

Under the modernization program, the AFP shall adopt a self-reliant defense posture and shift to the external mode of defence. This in turn demands a credible force, both in terms of human resources and materiel. Because the development of its human component is deemed equally important as the acquisition of modern weapons and equipment, the modernization of the AFP will include programs to strengthen the patriotic spirit and raise the nationalist consciousness of the military, as well as instill respect for people's rights. Training will also be provided to help the AFP deal with the complexities of modern warfare and with the intricacies of diplomacy.

The modernization program of the AFP will be implemented over a period of 15 years. The budget for the program, which will come from various sources (e.g. taxes, proceeds from the sale, lease or joint development of military reservations) will be distinct and separate from the regular appropriations for the Department of National Defense and the AFP, and will be administered by the Secretary of National Defense. It will have a ceiling of 50 billion pesos ($ 1.9 billion) for the first five years; succeeding amounts may be increased commensurate to the growth of the country's GNP. To ensure reasonable purchases of modern weapons and equipment and to prevent wastage, the program shall be regularly monitored by the Philippine Congress.

LESSONS FROM THE CHINESE EXPERIENCE

Though China and the Philippines are both striving to modernize their armed forces, their similarity ends here. China's PLA had a glorious beginning, as it was instrumental in defeating oppressive forces in its society and in transforming China to what it is today. On the other hand, the AFP started out as an adjunct of American colonial forces. Although it did not experience ideological wranglings over military doctrines and its current modernization program, the AFP is more fractious and enjoys less credibility specially among ordinary Filipinos.

Unlike the AFP, China's PLA continues to enjoy the support of the Chinese people. One reason is that, since its inception, the PLA has never been a burden to the civilian populace, as it has sought ways to meet its own needs. Another is that the PLA has

been a stabilizing force in Chinese society. On the other hand, the AFP's track record has been particularly bleak, specially during the martial law period when it helped prop up Marcos' authoritarian regime. Thus, in pursuing its current modernization program, the AFP can certainly draw lessons from the experiences of China, which has shown that political will, serious visioning and long-term planning can produce a credible and well-trained military.

The idea of being prepared for any eventuality has served the Chinese in good stead. During the Cold War period, China took on the herculean challenges of feeding its millions of people and keeping out hostile forces from its territory, without relying on external help. In the wake of stories about the bomb and a third world war, China marshalled its resources and figured out how to make its own nuclear weapons as part of its deterrence strategy. The Chinese also concentrated on research and development; as a result, they were able to produce indigenous weapons and equipment as well as modified versions of foreign ones. In the process, the PLA was able to strengthen its forces.

Chinese leaders have always emphasized that an important prerequisite of military modernization is the development of basic industries, for only then can a strong military emerge to help guarantee continued economic growth. As one China observer puts it, "a strong military could not be grafted into a weak economy."[16] Today, although China can afford to invest in materiel development due to its improved economy, it has taken a prudent approach to the acquisition of modern weapons. Instead, it has focused on upgrading the education and training of the PLA. According to Xu Xiangqian, "We have seen many incidents in the history of war in which an army was defeated, not because its weapons were poor, but because its commanders had backward military thinking and directed military operations in the wrong way."

China has had its own share of political crises but has managed to surmount them. This is partly due to the PLA which, under the direction of the Party, has served as a stabilizing force. Officials who sowed intrigue and sought to take over the leadership of the Party usually failed. The PLA has therefore acted as a deterrent to intra-Party squabbles and has prevented them from going out of hand.

Chinese leaders have always emphasized that unity can be achieved and the tasks can be accomplished if the leadership of the Party is upheld by the military. Since its creation, it is the Party that has always guided the PLA and the latter has always assumed the role of a main supporter of Party decisions.

The Philippines can take a cue from China's experience. It must ensure that the military upholds civilian rule and not allow any action to undermine the latter's authority. The Chinese experience shows that a military that is integrated with the people becomes a formidable force. Whether in times of peace or war, the military must build good relations with the people by looking after their welfare, by helping them overcome their difficulties and by practicing discipline in the ranks. Moreover, is expected to be caring, diligent and frugal. Only then can the people embrace the military as their own.

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PHILIPPINE-CHINA BILATERAL RELATIONS IN THE 1990S

By

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Allow me at the outset to express my appreciation to the UP Asian Center, the Philippine Association for Chinese Studies, and the Philippine Development Research Center for their invitation to speak before the Seminar Workshop on Philippine-China Relations: Assessment and Prognosis.

I intend to discuss with you the important developments in Philippine-China relations in the 1990s. This period is significant as indications point to a more active cooperation between the two countries, compared to the previous decade. Due consideration shall be given to the influence of international events, such as the end of the Cold War, on Philippine-China relations, as this development has an impact on the formulation of the two countries' respective foreign policies.

Political Relations

On the political front, the 1990s saw a healthy exchange of high-level visits from both sides. Premier Li Peng came to the Philippines in December 1990, while President Ramos paid a visit to China in April 1993. Other visitors from PROC include NPC Chairperson Qiao Shi, Vice Premier and Foreign Minister Qian Qichen, Minister Wu Yi of the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), Minister Li Tieying of the State Commission for the Restructuring of the Economy, Minister Ai Jisheng of the Ministry of Film, TV and Radio and Hon. Ju Liang, Chairperson of the NPC Foreign Relations Committee.

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Other Philippine visitors to China, on the other hand, include Vice President Joseph Estrada, Speaker Jose de Venecia and other members of the House of Representatives, Senator Blas Ople, Chairperson of the Senate Foreign Relations Committee and members of his committee, Secretary Roberto R. Romulo of the Department of Foreign Affairs, Secretary Rizalino Navarro of the Department of Trade and Industry, Secretary Roberto Sebastian of the Department of Agriculture, Secretary Angel Alcala of the Department of Environment and Natural Resources, Secretary Ricardo Gloria when he was still with the Department of Science and Technology, and Director General Cielito Habito of the National Economic and Development Authority.

Major agreements reached during the period under review were those on tourism cooperation, signed in 1990, investments protection, in 1992, economic and technical cooperation, in 1993, plus the annual trade protocol and the biennial cultural, tourism and science and technology protocols. The signing of the protocol agreements were preceded by negotiations. Fourteen private sector agreements were also signed during the visit of President Ramos to Beijing.

A regular feature of Philippine-China relations is the annual bilateral negotiations held at the senior officials' level, where all aspects covering the relations between the two countries are reviewed.

In recognition of China as an important actor in the region, the Philippines has actively supported China's participation in three regional meetings, namely, the Asia-Pacific Economic Cooperation (APEC), the ASEAN Post-Ministerial Meeting, and the ASEAN Regional forum held for the first time this year in Bangkok. The Philippines also actively sought China's participation in a series of workshops on "Managing Potential Conflicts in the South China Sea" which was sponsored by Indonesia. Separate bilateral talks with China are always sought by the Philippines in the course of these regional meetings. To date, President Ramos and President Jiang Zemin have conducted three meetings, in addition to the numerous bilateral meetings held by ministers and senior officials of both countries.

These high-level contacts have led to a more transparent conduct of bilateral exchanges. The two sides have acknowledged

the usefulness of this exercise, as it leads to a better understanding of each other's concerns while at the same time enhancing friendly and harmonious relations.

The Philippine government accords a high priority to these contacts with China's leaders, in view of the changing geopolitical landscape in the Asia-Pacific region brought about by the end of the Cold War. Also, there is a need for the Philippines to take full advantage of the growing economic dynamism of the region, particularly that of China. For the Philippines, China is an important partner in regional affairs. It is a major world power, one that is located in Asia and very close to the Philippines, has the largest population in the world, is a nuclear power, a permanent member of the United Nations Security Council, and therefore recognized universally as a principal actor in world politics and an infuential power in Asia. China also represents a large potential market for Philippine products and an alternative source of imports and appropriate technology.

On the more sensitive issue of disputes in the South China Sea, both parties have agreed to shelve the issue of sovereignty and to consider more positive approaches such as joint development of the area and similar confidence-building measures. During Minister Qian's visit to Manila in 1992, China demonstrated its interest in contributing to regional peace and stability when it supported, in principle, the ASEAN Declaration on the South China Sea.

On the Taiwan issue, China has warned the Philippines of Taiwan's increasingly aggressive posture to gain international recognition particularly in the region, through its "look South" policy. The Philippines has always assured China of its adherence to its one-China policy, but has, at the same time, appealed to China's understanding of its economic relations with Taiwan.

Economic Relations

While the Philippines is admittedly behind most of its ASEAN partners in trading with China, bilateral contacts in the 1990s have produced encouraging results. Although the bilateral trade volume in the 1980s hovered around a 12 percent annual average growth, this increased to an average of 20 percent in the

1990s (Table 1), with the highest volume recorded last year at $494 million. What is more encouraging is that in the first seven months of 1994, two-way volume of trade jumped to $377 million, representing an 87 percent increase compared to the same period last year. Equally notable in the last four years, Philippine exports to China registered an average annual increase of 36 percent, way above the 12 percent average annual growth rate of China's exports to the Philippines. A linear projection of this trend would therefore point to a reduction of the Philippines' trade gap vis-a-vis China.

China's open-door policy has contributed greatly to the introduction of reforms in the international trading regime. Believing that China's economic liberalization would proceed more smoothly if it is within the ambit of GATT, the Philippines assured China of support in its bid to be a GATT member. In this manner, the liberalization of Chinese imports and foreign exchange would make the entry of Philippine products into the Chinese market much easier.

The Philippines, on the other hand, dropped its trade balancing program with China and relaxed visa regulations by extending the validity of temporary entry to 59 days, and by allowing the issuance of multiple entry visas to Chinese nationals. The Department of Trade and Industry also sent a Commercial Counselor to Beijing in September 1994. He is scheduled to eventually open a commercial office in Guangzhou. Fujian Province will also be targeted for economic promotion as soon as the Philippine Consulate General in Xiamen is opened. Trade promotion in Beijing will still be covered by the Embassy's Economic Officer and the Office of the Philippine International Trading Corporation (PITC) representative.

On the domestic front, the government, in partnership with the private sector, has been actively involved in sending and hosting trade missions and exhibitions to and from China, and hosting seminars on doing business with China. Important events in 1994 include the participation of 14 Philippine exhibitors at the Asia-Pacific Trade Exhibition in Beijing, the exchange of trade missions between the Chinese Council for the Promotion of International Trade and the Philippine Chamber of Commerce and Industry and the trade and investment mission to Guangdong Province by Mindanao local officials and members of the business community led by Presidential Assistant Paul Dominguez.

The Department of Trade and Industry (DTI) is spearheading this drive on trade promotion in China principally through its agencies such as the Bureau of Export Trade Promotion (BETP), the Center for International Trade Expositions and Missions (CITEM) and the Philippine International Trading Corporation (PITC). A major innovation that DTI has introduced in the 90s is the inclusion of private sector representatives in all its official contacts with China.

The Department of Foreign Affairs (DFA) is also actively supporting these activities in consonance with its economic diplomacy program. The DFA Secretary and Undersecretary for Policy do not only receive officials from the Chinese government, but also entertain visitors from the business sector, notably from the Chinese Council for the Promotion of International Trade (CCPIT). Also, in the seminars on doing business with China for prospective Filipino exporters which are either hosted or co-hosted by the DFA, representatives from the ethnic Chinese community are always invited to share their experiences on business opportunities in China. The DFA has likewise produced a manual on "Doing Business with China" which are distributed to the participants of RP-China trade seminars.

Cultural Relations

Philippine programs and projects concerning cultural relations with China are far more extensive than those with other countries. The 1994-95 Executive Program implementing the Philippines-China Cultural Agreement, the eight in a series of biennial accords, covers such diverse areas as cultural research and administration, performing arts, education, mass communication, journalism, medicine and exhibits. Book fairs are also an integral part of the executive program.

The exchange of materials and personnel between the Philippines and China occurs not only within the context of the official exchange program but outside its scope as well. There appears to be a steady rise in cultural exchanges and visits outside the context of the official agreement.

Science and Technology Cooperation

The Scientific and Technological Cooperation Agreement between the Philippines and China was signed in March 1978. Since then, nine enabling protocols have been signed and about 120 projects implemented. The Ninth Protocol signed in Manila in November 1990 covered, for the first time, a three-year period (1991-1993) instead of the yearly one, to allow for longer term projects to be implemented. The Protocol covered areas of cooperation in the fields of laser technology, rattan production and development, rural management and development, volcanology and seismology and other related aspects of science and technology which have been of mutual benefit to the two countries.

However, the Philippine side is running into financial problems in implementing certain projects. This may be attributed to the current economic recovery program of the Ramos administration, which has called for "belt-tightening" measures in government spending. Nevertheless, the 10th Science and Technology Protocol was successfully negotiated in Beijing in June 1994. Prior to this, a preliminary study mission seeking to identify collaborative projects and activities that may be included in the upcoming negotiations were sent by both countries in December 1993.

Tourism Cooperation

Under the Tourism agreement, exchanges of materials and personnel have been undertaken to further promote friendship and mutual understanding between the Chinese and Filipino people, to increase the number of visits of tourist groups to both countries, and to develop and improve tourism promotion, planning statistics and other tourism-related activities.

As a result of the Tourism Agreement, tour groups from China have regularly visited the Philippines on a monthly basis. Four Philippine travel agencies have tour-group exchange agreements with their Chinese counterparts. The number of tourists from China has steadily increased as a result of this tourism agreement.

The Secretary of Foreign Affairs has authorized the Philippine Consulate General in Hong Kong to issue visas to Chinese tourists from the Southern region.

Assessment

The foregoing presentation is an attempt to provide an overview of the state of Philippine-China relations in the 1990s. Although there have been complications related to the Taiwan factor and disputes in the South China Sea, present indicators point to a more meaningful and active relationship in the coming years. Credit is due to the sincerity of both governments in adopting a pragmatic approach to the pursuit of a harmonious relationship.

Table 1. PHILIPPINE-CHINA TRADE VOLUME (in US$ millions)

YEAR	VOLUME	PERCENT INCREASE (%)	RP IMPORTS	PERCENT INCREASE (%)	RP EXPORTS	PERCENT INCREASE (%)
1990	295.13		210.1		85.03	
1991	393.97	30.1	253.49	20.65	130.48	53.45
1992	364.67	(5)	209.56	(17.33)	155.11	18.87
1993	494	35.46	281	34.1	213	37.32
Ave. Annual Growth Rate		20.18		12.47		36.55
1994	377	87.1% increase over the same period in 1993				

Source: General Administration of Customs of the People's Republic of China

ECONOMIC REFORM IN CHINA

By

ZHU ZHONGDI*

Economic reform in China has deeply transformed its old central planning system, replacing it with market mechanisms as the motor for development. Through these reform measures, China has achieved impressive growth and productivity in agriculture, industry and other sectors. Still, while important gains have been made, the reform process has not been without its own share of problems. This paper aims to review and reflect on the reform experiences of China; it will look into the specific measures undertaken specially during the 1990s, and draw out the general features of the reform process. Towards the end, this paper will examine some recent developments in China's economy particularly along the areas of trade, investment and overseas employment.

HISTORY OF ECONOMIC REFORM

Economic development in China before 1978, which was under the old central planning system, was very volatile and erratic. Political movements and mass campaigns often interrupted the regular flow of economic activities, while the overheated investment climate sometimes caused serious austerity and retrenchment. Because of these problems, the Chinese government felt compelled to search for a new mechanism by which its economy could operate more efficiently, thus paving the way for economic reform.

China's economic reform, which started in 1979, was first directed on the rural (agricultural) sector. Three major programs were implemented along this line: the agricultural reform, which was considered as the "trial area"; the village/township industrial

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development, and the price system reform. It is important to review these programs which may be considered as the forerunners of economic reform in the 1990s.

Rural Reform

Baochan Daohu ("to fix farm output quota for each household") was the first step in rural reform. Implemented at the start of the 1980s, this entailed the assignment of lands to families based on their productive capacities. These families were then tasked to produce a fixed quota of agricultural products to be sold to state procurement agencies at official prices. Households that were able to produce more than their quota were allowed to keep the excess harvest or sell them at market prices. All these sparked more enthusiasm in agricultural production. However, fearing that the new system would be short-lived or changed in the near future, peasants tried to maximize the fertility of the land at the shortest possible time. This problem was remedied by extending the contract term between the townleaders and villages, and by allowing the two parties to negotiate with regard to the required quota. On the other hand, to address the growing demand for land, amid an over-abundance of labor, more land was allocated to key-point households, which were more skilled in farming, while other peasants were encouraged to engage in small and medium-scale livelihood activities such as animal husbandry, forestry or fishpond management.

Rural Township Industries

In 1985, as much as one-third of the total rural labor force was idle, while in the eastern coastal provinces, surplus labor amounted to almost one-half of the provincial labor force. Neither the cities, which were already crowded, nor the special and key-point households, which had limited resources, could absorb this idle and surplus labor force. To address this problem, rural and township enterprises started to industrialize by: 1) collecting money from the peasants and using it to buy machines or build factories; 2) inviting retired skilled workers and technicians from the cities to work in these industries with high pay; and 3) tapping the urban markets which have been experiencing shortages in consumer goods for a long period. The advantages of developing rural and township industries was described in the saying, "let peasants leave earth not leaving hometowns, let them do industries not forget to do agriculture (as seasonal workers)." In 1984, 52 million or 14 percent of the idle labor force in the rural areas

were employed in these industries. In 1985, this increased to 60 million, and by 1992, 100 million, with an industrial output value of 1,250 billion yuan (nearly $210 billion).

As typical Chinese inventions in rural reform, these rural and township enterprises created more job opportunities, delayed the migration of the surplus population from the countryside to the urban areas, and increased the income of the peasants. Their emergence as competitors in the Chinese economy, however, meant that the state-owned enterprises had to share the limited resources with them, thereby distorting the price system further. Faced with unreasonable relative prices, the price system reform was placed on the agenda.

Price System Reform

The two-tier (dual track, parallel) price system, whereby goods were sold at both planned (lower) and market (higher) prices was a by-product of rural reform. From 1978-1987, the two-tier price system was extended to the industrial sector. The raw materials and products of these industries were then priced at 2-3 different levels. Gradually, however, the higher free prices became more dominant than the planned prices. This led to a high inflation rate and the Chinese leaders were urged to either stop or postpone the price reform. A vicious cycle in the price reform thus ensued: distorted price system caused shortage → inflation → sudden stop of reform → more distorted price system.

The reform of the price system was not as successful as the other reforms undertaken by the government for two reasons: 1) price reform involved more complicated relations such as benefit distribution, the relation between input and output, the stability of the whole society, etc. 2) procedural design programs were lacking and the importance of some preconditions were not realized by Chinese leaders.

REFORM EXPERIENCE IN THE 1990S

The Reform of State-Owned Enterprises (SOEs)

At the core of the entire transition from a centrally planned to a market economy was the reform of the SOEs. Originally expected to play the leading roles in economic construction, the

SOEs instead suffered huge losses. By the end of 1993, it was estimated that one-third of all SOEs nationwide were incurring losses. The SOEs were deemed as one of the hallmarks of socialist societies because they were publicly owned. However, it was also this public ownership which prevented the adoption of measures needed to change the SOEs' legal personality as government agencies often interfered in such processes.

The reform of the SOEs may be divided into four phases.

1983-1985: Instead of remitting their profits to the central government, the SOEs paid income taxes and shared profits with their supervising authority, which consisted of agencies in local government. This retention of profits greatly increased the initiative and motivation of the SOEs. A target output was assigned to the SOEs and production below the target had to be sold at lower planned prices, while those above could avail of higher consultative prices. The effect of this scheme was to stimulate more serious bargaining between the government and the SOEs as to what the target output should be. The profit distribution mechanism encouraged the SOEs to seek a reduction of the target output and increase its actual production in order to generate more profits.

1986-1991: At this stage, the enterprise output responsibility system, which was derived from earlier reforms in agriculture, was introduced into the SOEs. This system fixed the profit remittance quota of every local government to the central government for a given period. The local government, however, negotiated with the SOEs under their supervision for the allocation of the profit remittance quota. If the remittance quota collected by the local government from the SOEs was larger than the profit quota to be remitted to the central government, the local government could keep the excess funds. If it was smaller, more profits could be kept in the SOEs as consumption or investment funds. Here, it will be noted that three entities shared the profits: the central government, local governments and SOEs. The managers of the SOEs tried to increase their consumption and investment funds by reducing the profit remittance quota while producing more output and selling them at the highest price.

1991-1992: During this period, the reformists of China recognized a "negative effect" as the managers of the SOEs who signed responsibility contracts with government agencies began clamoring for shorter contract terms. Since their income depended on the total output of the SOEs during their term, the managers wanted to achieve maximum production levels at the shortest

possible time. They, however, ignored the potential costs of such demands, like the rapid wear and tear of equipment and depletion of scarce resources. This problem was remedied by extending the contract term.

1993-1994: Despite the longer contract terms, managers still resorted to short-term practices because they continued to operate under the old profit-sharing system. A new management system for the enterprises was thus needed. The shareholding system, whereby enterprises will be owned by different stockholders, seemed to pose a better alternative but the security market could not allow too many companies to list their shares in the secondary markets. Hence, in the first half of 1994, the modern enterprise system was introduced in order to revive the SOEs instead of privatizing them.

Although important reform measures have been put in place, a number of steps still have to be taken to improve the economic status of SOEs in China. One, there is a need to further reduce interference from government agencies in the operations of SOEs. The SOEs also need to be released from the debt chain or what is known in China as triangle debt. On the other hand, the Chinese government must provide a better legal environment that will allow SOEs which are losing money to declare bankruptcy. Likewise, it must promote an industrial policy which can offer enough financial support to upstream industries which produce important raw materials, energy and transportation services. Finally, SOEs must be freed from the responsibility of providing for the housing, education and welfare of their employees. In short, the SOEs should be treated as an enterprise, not a sub-unit of government agencies.

The Labor System Reform

The "iron rice bowl" is a Chinese term which means that no one can be denied an employment opportunity and a person can keep his or her job under any condition. As the prevalent labor system before the reform, the "iron rice bowl" encouraged complacency and low productivity among workers, resulting in substandard incomes which in turn led to greater inefficiency.

At the risk of offending the masses and losing their support, Chinese leaders decided to reform the labor system and break the "iron rice bowl" concept. To do this, they introduced the contract labor system which required workers to sign a contract with their employers. By 1986, when the enterprise output responsibility

system was implemented in the urban areas, 20 percent of all state workers were already employed on a contractual, rather than permanent basis, as previously offered by the "iron rice bowl." Later, the contract labor system was extended to more employees. This system, however, still left one question unanswered: how to create conditions that would promote the mobility of employees across industries, regions and firms.

To enhance the mobility of employees, it was necessary to establish a labor market. Initially, only technicians or skilled laborers could find new employment in the labor market (then called the qualified personnel market) while most of the unskilled with low education levels had little chance of being tapped for work. However, after several years of expansion and upgrading from the late 1980s up to 1994, the labor market was reoriented so that anyone can enter and look for a job. After a test and an interview, workers can resign from their work and sign a new contract with another firm.

Nonetheless, workers in China today continue to face several difficulties which impose constraints on their mobility. Some of these are the following:

[] *limitation in moving across regions.* Since the urban areas, particularly the coastal cities are already crowded, migrants from the hinterlands can no longer move into them. Shanghai, the biggest and most commercialized city in China, attracts nearly two million migrants from the inland provinces every year. Some of them are desperate enough to seek employment of any kind, while others are required to organize as construction teams. Once they are issued licenses by the local governments, these migrants can be hired for contract projects such as the construction of buildings, roads, etc. A Shanghai newspaper reported that, of the millions who applied, only a hundred received blue cards (permanent employee card issued by the Shanghai Public Security Bureau) in the spring of 1994. Beijing recently required firms located in the capital which intend to employ workers from outside, to pay 100,000 yuan ($16,000) to government agencies; this effectively discourages most firms from hiring migrants from the inland provinces. Indeed, the number of new residents in the cities is much too small compared to the huge inflow of migrants from the rural areas.

[] *limitation in crossing firms.* As mentioned earlier, many SOEs in China are losing money. The economical way of solving this problem is to allow the SOEs to declare bankruptcy in order to reduce the government's burden of providing subsidies. This

is different from the political method, wherein the stability of the whole society is considered the priority of the Chinese Communist Party and the government. If the SOEs are allowed to declare bankruptcy through the Bankruptcy Law, more workers will lose their jobs; this is viewed as a threat to the stability of society.

[] *lack of re-training opportunities that will enable workers to shift to other forms of work in developing industries.*

Aside from these obstacles to labor mobility, other problems hound the labor system in China. One of these is the rapid increase in wages as compared to GNP growth. According to the *Beijing Review*, since the introduction of economic reforms and the open-door policy 15 years ago, China's annual GNP has grown at an average of 9.6 percent. Statistics also show that in 1993, the per capita disposable income of rural and urban residents, taking inflation into account, was three times more than it was 15 years ago. This means that wages are rising at almost the same rate as GNP. From 1984-1990, the average annual wage increase was 14.6 percent, which was higher than the average GNP growth rate for the same period. This does not take into consideration other non-wage incomes such as bonuses, allowances and various forms of subsidies as well as non-monetary benefits such as low rent apartments, a public health system and free gifts given before festivals. Thus, reformers in China must take steps to convert non-wage and non-monetary incomes into wages and monetary rewards, and at the same time slow down their rapid growth.

Banking and Financial System Reform

After several years of undertaking preparatory measures, reforms were implemented in the banking and financial sector in 1994. Though far from complete, these reforms have helped a lot in making China's financial sector more dynamic and efficient. Some of the more significant steps undertaken were the following:

Transformation of the People's Bank of China (PBC) into a real Central Bank

Prior to 1978, the only bank in China was the PBC which, aside from being the state treasury, also served as a center for credit, settlement, cash receipt and payment and monetary issuance. Realizing the need to reduce its non-Central Bank activities, the Chinese government set up several specialized banks to assume some of the functions previously performed by the PBC. These include the Agricultural, Industrial and Commercial Bank of China,

which was established in 1979; the Bank of China, which handles international settlements and foreign trade credits; and the People's Construction Bank of China, which provides credit and other support services for construction projects, separate from the Ministry of Finance. From 1986-1993, nine more commercial banks, including the Bank of Communication, and some regional development banks were opened in the country. Meanwhile, the PBC was officially designated as Central Bank.

Despite the presence of these specialized and commercial banks, the PBC still engaged in policy based lending and managed various investment and trust companies. In this sense, there was no significant difference between the PBC and the other banks. At the same time, the PBC failed to implement state and monetary policy and supervise national financial activities as expected of a Central Bank.

Hence, to transform the PBC into a real Central Bank, the Chinese government adopted the following measures:

[] *establishment of a Central Bank macroregulation and control system* by granting the PBC the right to issue money, manage basic monetary policies, regulate and control total credit, and regiment the bench mark interest rate. This was needed to guarantee the consistent operation of monetary policies throughout the country.

[] *reform and improvement of monetary policies.* The ultimate goal of monetary policy is to maintain currency stability for economic growth. The policy tools that were put in place to achieve this were the legal deposit reserve rates, rediscounting rates, open market operations, Central Bank foreign exchange operations, loans and credit lines. These were needed to regulate and control the money supply.

[] *strengthening of the Central Bank's supervision and management of the national banking industry.*

Transformation of specialized banks into commercial banks

One of the goals of the banking sector reform in China was to separate policy related finance from the commercial banks during the whole transformation period, while letting the state-owned commercial banks, which used to be specialized banks, become

the main body among China's financial institutions. Along this line, the specific measures adopted were the following:

[] *founding of three new policy related banks in the second half of 1993.* These were the State Development Bank which funds key state construction projects; the Agricultural Development Bank which provides loans for the production of grains, cotton and edible oil, the purchase of farm products, and agricultural development; and finally, the Bank of Import and Export Credit.

[] *increasing competition in China's financial network by encouraging various forms of ownership among banks and other financial institutions.* After this policy was implemented, China's financial climate became more vigorous, playing host to nine non-state and four state-owned commercial banks, 12 insurance companies, 387 financial trust and investment firms, 87 securities and 29 financial houses, 11 financial and leasing concerns, and 59,000 rural and 3,900 urban credit cooperatives. Another measure adopted was to invite more foreign banks and non-bank financial institutions to invest in China.

Introduction of a new tax system in 1994

For the first time, China evenly divided its tax revenues between the central and local governments. This new tax sharing system sought to increase the total tax revenues and improve the administration of the central tax organization. Moreover, the old consolidated industrial and commercial tax was replaced with the value added tax (VAT), consumption and business tax. So far, the new tax system has been operating smoothly; according to a report by the State Administration of Taxation in September 1994, taxes collected by the central government increased by 25.2 percent while those by the local governments climbed by 30.8 percent.

Reform of the foreign exchange system

In January 1994, China abolished the official exchange rate of the *reminbi* (Chinese currency) by merging its dual exchange rates. China introduced a unitary and controlled floating exchange rate system that was based on market supply and demand. In addition to the merging of exchange rates, other reforms included the following:

- [] introduction of a banking system for exchange settlements and sales.

- [] opening of the China Foreign Exchange Transaction Center in Shanghai on April 4, 1994.

- [] abolition of the stipulation whereby an enterprise can retain a portion (retention quota) of foreign exchange and remit the rest to the government.

- [] setting up a nationwide inter-bank foreign exchange trading market by linking the Foreign Exchange Adjustment Centers previously scattered in some cities with the Shanghai Foreign Exchange Trade Transaction Center.

- [] improvement of exchange rate formation mechanisms.

- [] prohibition of valuation, settlement, and circulation of foreign exchange.

- [] improvement in the collection, payment and settlement of foreign exchange.

- [] introduction of conditional and free conversion of the *renminbi* for regular transactions.

- [] cancellation of mandatory planning for the income and expenditures of foreign exchange.

The new exchange system has been doing well with the *renminbi* remaining stable against the US dollar, at 8.7 yuan to $1. However, the foreign currency reserve has increased only slightly, and it will take some time before the *renminbi* becomes perfectly convertible to the dollar.

GENERAL FEATURES OF CHINA'S ECONOMIC REFORM

Economic reform in China has been characterized by the lack of systematic micro and macro economic theories to guide the process. Deng Xiaoping, the architect of China's economic reform captured this succintly in his famous words: "Crossing the river with tumbling and grouping the stones under the riverbed." Still, the reform experiences of China reflect a number of important and interesting features:

Gradualism

Unlike their Russian and Eastern European counterparts who tried to implement reforms overnight, China's leaders favored a more gradual approach to reform, primarily to maintain stability within society. To be sure, there are several advantages to the gradual approach: 1) severe shocks can be avoided; 2) it permits mid-course correction and rethinking of policies; 3) it gives cadres enough time to adjust to new policies and practices; and 4) it facilitates the growth of popular support as people experience a gradual improvement in their living standards.

On the other hand, the gradual approach also has several disadvantages. For one, those parties who are threatened by the reform process will have more time to regroup, block and possibly reverse certain reform measures. Likewise, under the gradual approach, it will be very difficult to anticipate or predict the future economic environment; hence, some sectors may not be able to adequately prepare themselves for possible changes in the long term.

Decentralization

Decentralization refers to the release and transfer of administrative power from the central government to the provincial, municipal, county, township and village administrations. Traditionally, power was largely concentrated in the central government. The reformists of China adopted decentralization measures in the hope that these would spark interest in implementing reform, develop the local economy, increase people's incomes and reduce unemployment.

Despite its advantages, however, decentralization has several shortcomings, namely: 1) an overheat of investments always

follows local actions aimed at attaining rapid regional development; 2) budget deficit and high inflation may occur; and 3) conflict between the upper and lower layers of government, official agencies and different local government bodies may take place in the course of decentralization.

Substituting Privatization with Marketization

Due to China's insistence on undertaking reforms along the social road, public ownership (which is divided into state and collective ownership) has been treated as characteristic of the social market economy. While Chinese reformers do not openly talk about privatization, they nonetheless encourage the growth of non-state or private economic sectors, including enterprises which are partially or 100 percent foreign-owned. This is deemed necessary to diversify ownership patterns and bring about competition, which in turn is expected to stimulate greater productivity and create more employment.

RECENT TRENDS IN CHINA'S ECONOMY

Influx of Foreign Capital

In 1993, over one-tenth of the world's $152 billion cross-border investments went into China, a figure surpassed only by the amount of investments which entered the United States. By the end of June 1994, China has approved nearly 200,000 foreign-funded enterprises and investments. With a lot of foreign capital coming in, China has become a stronger economic competitor compared to other East Asian countries. Its rapid economic growth (annual GDP growth rate was 12.8 percent and 13.4 percent in 1992 and 1993 respectively) and huge domestic market are only some of the factors which may have brought about the influx of foreign investments to China.

Growth in Foreign Trade

In 1993, China's foreign trade reached a total value of $195.7 billion as against a mere $10 billion in 1978. That same year, China became the 11th largest trading nation in the world even as it recorded a $10.39 billion deficit. In October 1994, however, the country registered a trade surplus with the two-way trading

volume increasing by 16 percent. China's exports, which are mainly labor-intensive products such as textiles, toys and footwear, have to compete for the market with those from other Asian countries, notably Indonesia and the Philippines. China has to improve its export structure and produce more manufactured goods such as electrical machinery and other equipment, if it hopes to move ahead of its competitors. In this regard, the country's Special Economic Zones (SEZs) will play a major role in increasing its export of manufactured goods.

On the other hand, China's imports for the remaining seven years of the century will amount to $1 trillion, or equivalent to one-seventh of the world's annual trade volume. Most of the imports will be used by sectors such as transportation, energy, telecommunications, raw material production, agriculture, water control, natural resources exploration and development as well as the technical renovation of state-owned enterprises.

Organized Labor Force Exportation

China, which has an abundant labor force, has been increasingly sending its workers overseas in an organized manner. Other labor exporting countries, however, need not worry because the Chinese nationals who go abroad specialize in different business activities, and thus do not compete for employment. Likewise, Chinese workers and specialists are recruited for specific projects; hence, their stint abroad is considered only as temporary immigration. Indeed, Chinese leaders do not encourage their citizens to immigrate. Nonetheless, they realize that the pace of China's economic reconstruction will significantly influence the extent of Chinese immigration. Rapid development and improvement in living standards will encourage more people to stay in their homeland.

Economic reform in China will continue for several more decades. While new obstacles may emerge in the future, one thing is certain: the reform process can no longer be reversed. The new market mechanism is bound to become a reality in the first decade of the new century.

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