

## Threats to Asia's Stability -- And a Potential Solution

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Asia faces two main risks to its stability that could mushroom into a sequence of events triggering confrontation and crisis, even leading to armed conflicts casting their ugly shadows over much of Asia.

The first main risk is Japan.

Japan was the economic success story until around 1990. Since then, its economy has been in almost continuous recession. That gives birth to three main problems for Japan, Asia and the rest of the world.

Psychologically the Japanese have lost belief in themselves. They have no trust in their ability to marshal changes through the political and social system. Japan was the only model successfully combining Asian culture with Western industrialization. That boosted pride and confidence inside Japan and gave the rest of Asia heart. When the model ran aground, the Japanese were at a loss – bewildered about what to do. The rest of Asia lost the model they looked up to – almost universally admired.

Economically, Japan is no longer "pulling" the rest of Asia along. The Japanese market may still be the biggest, but the Japanese economy is a secluded economy. According to the World Bank, Gross Foreign Direct Investment amounts to 0.9 percent of Gross National Product, compared to 4.3 percent for China, 5.1 percent for the United States, 13.3 percent for Germany, 16.4 percent for France and 38.7 percent for the United Kingdom. India is almost on par, with 0.6 percent. From 1990 to 2000, the percentage fell for Japan from 1.7 percent to 0.9 percent, while it rose between two and five times for the other main industrialized countries. In the mid-nineties, Foreign Direct Investment in Japan was \$46 per capita compared to between \$1500 and \$3500 for the other main industrialized countries. There is a lot of talk but no real prospect of a fundamental economic recovery in Japan. Those who have the power to change the system are those who will lose if it takes place – so it will not happen. Deflation may be bad economic policy, but it boosts purchasing power among people living off their pensions. The Japanese age pyramid ensures that, electorally speaking, such bad economic policy will continue.

Politically, Japan does not know how to cope with its own problems. The rest of Asia does not know how to cope with a baffled and secluded Japan – almost invisible in world politics and world economics. Its power confers upon Japan a robust, if not leading, role. But politically, Japan sees the world through the prism of impotence. Japan and most of Asia is at a loss watching the failure of the Japanese model.

The Japanese island-mentality may direct the nation towards a nationalistic attitude, with the further risk of a more militaristic Japan. The trend may be initiated or strengthened by the rumblings coming out of North Korea. The U.S. request for a Japanese role in the Middle East may do the same. A more nationalistic and possibly militaristic Japan will destabilize the whole of Asia.

The second main risk is Islamic extremism.

A large, almost overwhelming number of Muslims want to live in peace with other religions, in conformity with the great tradition of Islam as a tolerant religion. In the 1999 Indonesian elections, the Islamic political parties that advocated the introduction of Islamic law (*sharia*) received only 14 percent of the votes cast. But that does not preclude the Islamicization of society. What has emerged in Indonesia – the largest Muslim country in the world – is a dichotomization, with a secular state but a society turning more and more towards Islamism. The risk is that moderate Islamic political parties are overtaken from within by small, fanatical groups opting for a theocratic state.

Southeast Asia is the fault line in the struggle between Islamist terrorism and modernity. In this part of the world, a string of countries have adopted Western-style societies and benefit greatly. If the West cannot win the struggle here, the West cannot win it anywhere.

Another area at risk is Central Asia. Central Asia used to be a forgotten part of the globe. Czarist Russia and the Soviet Union held sway over this large land mass without anybody really bothering it. Not so anymore. This is where some of the world's largest reserves of oil and gas are located. But to bring the crude into the industrial areas of the United States, Europe, Japan, China and soon India, it needs to be transported through geographically prohibitive and hostile territory.

The 'stan' states, as they are called, do not really have a national identity. They are embryonic entities vulnerable to outside influence. And several of them have a large majority of Muslims from which terrorist organizations can recruit. In contrast to South East Asia, dismal economic and social conditions provide an attractive base for potential terrorists.

To limit the effects of Japanese weakness and Islamic extremism, prosperity needs to be institutionalized. The focal point – the battleground so to speak - for any attempt to change Asia's direction is the process of institutionalization in Asia, like the EU in Europe and NAFTA in North America. There are two players in this game, a third one warming up and a fourth one with the power

to tilt the balance in one or the other direction and holding the cards close to its chest.

China and Japan are the two players. China has proposed a Free Trade Area (FTA) with Southeast Asia and recently boosted this offer with the idea of a strategic partnership. Southeast Asia has responded to China's offer favorably. They welcome any stability and prosperity to be gained from economically strong China.

Meanwhile, the Japanese offer falls short of a FTA, primarily because Japan cannot or will not include agriculture trade in its offer. As usual, Japanese strategy is held hostage to less than 5 percent of Japanese society. However, membership should not be confined to Asian countries but encompass the United States and Australia as well. The aim is a fairly loose integration of a group of countries without strongly congruous interests. This explains why the reception of the Japanese proposal can be described as lukewarm.

India is warming up, as its usual reticence towards engaging itself in international cooperation outside the scope of the UN has prevented India from entering the game, but India has recently shown strong interest in starting negotiations with the Southeast Asian countries about a FTA. The next logical step would be to combine the China-Southeast Asia and India-Southeast Asia negotiations.

The fourth player in this poker game is, of course, the United States. The U.S. with its economic clout, technological lead and military power can prevent Asia from organizing itself or steer the institutionalization in the direction U.S. prefers or lend its weight to a successful outcome.

Economics may provide a clue to the future U.S. policy. The figure for two-way trade across the Pacific is more than \$700 billion, larger than across the Atlantic. During the 1990's, US exports to Asia rose 80 percent and Asian exports to the U.S. rose 150 percent. U.S. direct investment in Asia amounts to more than \$200 billion. Uninterrupted deficits on the current account of the US balance of payments, now at the historically crucial ceiling of 5 percent of Gross National Product, have built up a colossal figure of U.S. foreign debt. The financiers are found primarily in Asia. One of them is China, ranking second with foreign currency reserves just below \$300 billion.

The omens are crystal clear. The United States can prosper only if it chooses not only power-sharing, but also prosperity-sharing with the new economic powerhouse taking shape across the Pacific. If another policy is chosen (e.g. holding on to its existing supremacy no matter what happens), economic constraints will force an unwelcome and painful reappraisal upon policy-makers in Washington. The lessons of history do not need interpretations. A superpower is one only as long as it is able to pay for its foreign policy.

Power-sharing and prosperity-sharing will strengthen the U.S. economy, thus extending the scope for foreign and security policy. On top of that, such a policy enhances U.S. capabilities to pursue a number of its strategic objectives, of which the fight against terrorism is priority number one. Other US policies

toward Asia are risky, whatever they may be, as they augur strategic liabilities while at the same time overloading the economic resources of the United States.

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