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## Newsletter

### **Japan, China and Korea: Neighbors - Friends or Foes?**

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The phenomenal development of the East Asian economy was certainly one of the most remarkable events in the post-war history of the overall world economy. Some have called it the "Asian Miracle", and some even predict that the 21st century will be the "Asian Century". Whether they are right or wrong, East Asia's past performance was quite unequaled in the sense that growth has been sustained for a long period of time and that the process was led by Japan in 1960s, by Asian Tigers including Korea, Taiwan, and Hong Kong in 1970s and 80s and by China in 1990s.

It is obvious that those economies which played leading roles are

quite different one another in terms of size, endowment of natural resources, role played by foreign capital, political system, etc. Nevertheless, there are several elements which are shared commonly by all of them. First of all, there was a strong aspiration to economic development which was held not only by the government, but also by the general public. This shared aspiration, in turn, generated a widely-based national cooperation toward policy objectives. There was an effective combination of government leadership and private entrepreneurship. All of these demonstrated strong enthusiasm for education and technology. Secondly, these economies succeeded in estab-

lishing competitive export industries which enabled them to earn enough in foreign exchange to finance imports and stimulate domestic investment in support of the high growth of their economies. Importantly, the income generated by high growth was distributed among their populaces without creating excessive gaps between the rich and the poor. Egalitarian distribution of income helped expand consumption, which in turn encouraged the development of domestic industries.

Today, five economies, Japan, Korea, China, Hong Kong, and Taiwan generate a collective GDP amounting to 6.5 trillion dollars, representing 22% of the world total. Their total exports equal 1 trillion dollars, roughly one-fifth of the world total. Their combined foreign exchange reserves are 600 billion dollars. Furthermore, if we take these five economies as a region, we find a significant degree of intra-regional trade and investment. For China, Taiwan, and Hong Kong about half of their exports go to other parts of the region, and for Japan and Korea about 30%. As much as 73% of the foreign direct investment directed to China is made by investors within the region. The corresponding number for Korea is 41%, for Taiwan 38%, and for Hong Kong 22%. The pattern of trade within the region used to be vertical, in which Japan was ex-

porting manufactured goods and importing primary products. Today, one-quarter of Japan's total imports of manufactured goods coming from the four other economies in the region. Thus, five economies in East Asia have developed an interdependent economic structure through the process of successive take-offs.

Also, the political situation in the region is, at present, generally calm. There is a certain amount of tension over Strait of Taiwan and domestic instability in North Korea, but I think few people anticipate any immediate explosion which will destabilize the whole region.

All in all, the situation in East Asia is viewed as reasonably sustainable, which explains why economic activities in the region remain robust and why stock markets are bullish.

Having said that, I have to stress that we cannot ignore the underlying element of instability of the structure of the region. To be more specific, relations between Japan, China, and Korea are complicated and often uncertain. These three countries have two thousand years of interchange, and East Asia has been an active stage for economic, cultural, religious, and human traffic for centuries. There is no doubt that active intra-regional exchange helped enhance the economic and cultural

standard of the region as a whole. However, sometimes soldiers played the role. In former times, Chinese empires repeatedly expanded sometimes reaching to the Korean peninsula and Japanese islands. In modern days, the Japanese empire colonized the Korean peninsula and the Northeastern part of China. Rivalries between Western powers over economic interests in the region complicated and aggravated the situation.

As the result, Japan, China, and Korea, in spite of the high degree of ethnic and cultural similarity between them, do share certain feelings of ambivalence toward each other. Sometimes the feeling deteriorates to almost a consanguineous hatred. China still remembers the Japanese invasion in 1930's and fears Japan's revival as a military power, and that the Japan-US security alliance may turn out to be an instrument to contain China. However, China also knows that the Japan-US security alliance is the most effective means to prevent Japan's becoming a nuclear power. Korea still remembers colonial oppression by Japan. However, Korea also knows that cooperation with Japan is important future development. Korea fears China's becoming a military and political threat. Japan is afraid that China could become a chauvinistic state trying to build up its economic and military power and seek to exercise

global influence. Japan is also worried that instability on the Korean peninsula will produce many unpredictable scenarios, all of which will affect Japan seriously.

Thus, everybody is a victim of suspicion in one way or other. Under the circumstances as such, it is clear that close economic relations are certainly a necessary condition for the reduction of instability and uncertainty, but that alone is not enough.

In my view, Japan, China, and Korea must recognize that peaceful and stable relations are vital to the interests of all. Why it is so important? Because all three countries have difficult challenges they have to contend with.

For Japan, the coming decades will bring about a rapidly aging population, accompanied by a decline of the savings ratio and labor productivity. If Japan wants to maintain its living standard in light of these, it must reorganize and diversify its industrial structure to maintain overall profitability. Globalization is also important, in order to secure the most efficient management of its financial assets.

For China, the coming decades will be a crucial period in which to address a mountain of problems waiting for solutions. Social and economic infrastructures must be substantially improved, many giant

state enterprises must be overhauled, agricultural productivity must be enhanced so that the gap between coastal regions and inland regions must be narrowed, widening income inequity and corruption must be arrested, and social maturity must be achieved so that social stability is maintained even with slower growth; all these undertakings must be financed either domestically or internationally, without creating inflationary pressure.

For Korea, recent circumstances clearly demonstrate that the traditional Korean way of running the economy has reached a stage where it has become inoperative. The Korean economy needs restructuring via extensive deregulation, abolition of governmental interference, increased transparency, strengthening of the financial industry, and improvement of the quality of basic industries. For Korea's future one serious uncertainty is if and when reunification with the North will occur. In order to succeed, reunification will impose an enormous burden on the Republic of Korea, financially and in other areas.

I believe it is obvious that Japan, China and Korea cannot afford to waste time and resources by being confrontational or suspicious of each other. Close and friendly economic and political relations, based on mutual trust, is something

all of three badly need so that they can meet their respective challenges successfully.

How, then, can they achieve such a lofty goal? There cannot be a one-time single-shot solution, rather a time-consuming, persistent, and tedious process of effort by all parties. First of all, they must continue to prove that the economic interdependence they have achieved does provide benefit to all. Constant efforts are needed by the governments and by private businesses to demonstrate the gains of the increased economic interchange. Secondly, every effort should be made to expand and intensify cultural and human exchanges between them. Economic relations alone will not establish mutual trust. Through cultural and human exchanges they will be able to better understand and respect one another. Joint projects to promote this would be useful and important. Thirdly, education of the general public, particularly the younger generation, about the importance of regional cooperation is necessary. Rather than to try to preserve animosity and misgivings, they should bring up their younger generations with a positive perspective on the future.

It is always true that the relations between neighbors are not easy to manage because there are so many interfaces. The past history

of Germany and France, for instance, shows the difficulty clearly. At the same time, just as recent relations between Germany and France demonstrate, peaceful cooperation between neighbors can be achieved when both sides are convinced of the indispensable need and benefit of such cooperation.

The future of East Asia will remain vulnerable to various internal and external shocks, and cannot be as autonomous as North America or Western Europe. The U.S., ASEAN countries, and even Russia to a lesser degree, each have a legitimate stake in East Asian affairs. With diverse partners such as these, it is inconceivable to expect the establishment of a regional order neither one of unipolar character, such as NAFTA, nor one of homogeneous character, such as the EU. They may call it the inherent insta-

bility of East Asia. They will have to face with it. Within such a group one cannot divide other partners into distinct groups of allies and enemies. Though one may find its neighbor does not completely share the same value standard, if both parties can agree that neither will become an enemy, they can deal each other on the basis of accepted diversity. In other words, one important condition for the preservation of peace and stability in a region is an agreement among partners that no one should try to be a hegemon, and also that no one will allow others to become a hegemon.

In East Asia there are many lessons to learn from past experiences. I believe Japan, China, and Korea are both wise and mature enough to learn them.

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