China’s Policy Towards Northeast Asia: Dynamics and Prospects

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Chinese policy towards Northeast Asia is generally determined by three major factors: China’s internal development and its overall foreign policy and security strategy, the dynamics of international environment, and interactions between China and countries involved in the region. During the past two years, each of these factors has undergone significant changes.

While China’s domestic developments have become unstable, its overall foreign policy and security strategy have been based more on reaction than initiative. Due to a lower regional Soviet presence, China’s security environment has improved, while its ties with OECD nations have been damaged. Yet by expanding its relations with Seoul, conditionally supporting Pyongyang, reducing tensions with Moscow, and increasing its dependence on Tokyo, Beijing continues to play an important and active role in Northeast Asia.

Due to rapidly changed domestic development and international environment, Chinese policy towards Northeast Asia is in transition. In the next few years, its key policy objective is likely to remain the creation of a relatively peaceful and stable international environment and the acquisition of maximum possible economic resources from abroad. It will try to stabilize its relations with the Soviet Union, maintain the military balance and the stability on the Korean peninsula, encourage Pyongyang to increase its international participation, and expand ties with the Republic of Korea. While its economic dependence on Japan will increase, Beijing’s political relations with Tokyo will be further readjusted. Beijing’s influence over Pyongyang can be used as leverage in its dealing with Washington.
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During the past few years, the international system in Northeast Asia has undergone some important and dramatic changes. In the fall of 1990, despite North Korea’s strong protest, the Soviet Union established diplomatic ties with South Korea. Seoul decided to submit its application for membership to the United Nations. Having failed to convince both Beijing and Moscow, who are permanent members of the UN Security Council with veto power, to boycott Seoul’s application, Pyongyang decided to apply for membership by itself, and both Koreas became members of the United Nations. Thus, a German model of dual membership began to be applied to Pyongyang and Seoul in the fall of 1991. This development will soon lead Beijing and Washington (and Tokyo) to pursue cross-recognition of both Koreas.

During the past few years, Moscow has been taking initiatives to reduce tensions and improve relations with China. The two Communist powers have settled most of their territorial disputes through negotiations, and they have reached agreements on the reduction of their armed forces deployed along Sino-Soviet and Sino-Mongolian border. The Soviet Union now is China’s number-six trade partner.

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The border trade between the two countries has grown remarkably. In early 1991, Beijing provided Moscow with credit of US$700 billion. In return, the latter decided to sell some advanced weapons including Su-27 fighter jets to Beijing. Although deep distrust between Beijing and Moscow still exists, the two countries are unlikely to be in sharp military conflicts again in the near future.

Japan is clearly emerging as a leading political power in the region. It has opened negotiations with North Korea, seeking the normalization of relations between the two countries. After the recent war in the Middle East, Tokyo sent a fleet of minesweepers to the Gulf. In early August 1991, the ruling Liberal Democratic Party (LDP) passed a resolution allowing the Japanese Self-Defense Forces to operate overseas. During the G-7 Houston Summit in June 1990, Tokyo announced its decision to lift economic sanctions against Beijing. In the spring of 1991, it further decided to resume its third round of Japanese yen loans to China. On the other hand, Tokyo's ties with Moscow have improved slowly. This is partly because Moscow has not been able to solve the issue of the Northern islands and particularly because Tokyo is deeply concerned about the high degree of instability and uncertainties in the Soviet Union. At least in the near future, Tokyo is unlikely to provide any substantial amount of economic aid to Moscow.

Washington is in the process of readjusting its policy towards the Asian-Pacific region. While its relations with Moscow have improved significantly, the Soviet Union's deeply rooted internal crisis has weakened its ability and intention to continue its expansionist policy in the region. Yet in Northeast Asia, Moscow has not substantially reduced its military force, especially its naval fleet, nuclear attack force and air force. These forces are still regarded as a potential threat to China, the US, and its allies in the region, although the degree of threat has declined.

The crackdown on student protests in June 1989 has strongly affected US-China relations. To date, Washington continues to impose economic sanctions against China. There have been only limited high-level communications between the two governments. Due partly to the changed US-Soviet relations and partly to high political tensions between Beijing and Washington, the cooperation
between the two countries on sub-regional security and political issues has weakened. Washington no longer views China as its strategic partner against the Soviet Union. However, in Northeast Asia, Beijing and Washington are not in conflict of interests. Rather, both countries want to see stability and peace in the region and a North Korean openness to the international community. The key question in Washington’s China policy is how to balance its security interests in the region, its long-term overall interests in China, and its principle of human rights.

This is the new international environment in Northeast Asia with which China has to deal. A few questions arise here. First, what are the major changes in China’s policy towards Northeast Asia during the past two years? Second, what are the key factors to cause these changes? Third, what are the basic future trends in China’s policy towards the region?

In general, China’s policy towards Northeast Asia is determined by three major factors: China’s domestic developments and its overall foreign and security policy, the dynamics of the region, and China’s interactions with countries in the region. To answer the questions raised above, this article will examine each of these factors and discuss the possibility of development of China’s policy towards Northeast Asia in the next few years.

II

During the past two years, China’s domestic political and economic developments have seen many important changes. These changes have strongly affected China’s policy towards Northeast Asia and will continue to do so in the years ahead. The country’s domestic political situation is likely to remain unstable in the next few years because of political tensions, uncertain succession arrangement, and economic difficulties.

Chinese politics has gradually entered a process of generational succession. Although senior leaders in their eighties remain at the power center, a large number of younger leaders have been promoted within the party, government, and military institutions. Nevertheless, there have been only limited changes in the central
government’s decision-making process. A few top senior leaders, including Deng Xiaoping, continue to enjoy the power of making final decisions on the most important policy issues. The new power structure has not yet transferred real authority to the younger leaders—who lack popularity, global vision, and the strength of personality necessary to lead the country out of its current difficulties.

Due partly to the high tensions within the leadership, the government’s ability to govern has declined. The deepened power struggle and continued political instability have discouraged bureaucrats, especially those at local levels, from committing themselves to the central government’s policies.

The government can no longer rely on heavily corrupted party organizations or discredited official ideology to control Chinese society. Instead, it has become increasingly dependent on security forces and the military as the sole means of retaining power. Yet, despite the recent restructure of the military leadership, the Chinese army has continued its efforts towards professionalization. All 107 military academies continue to operate according to the principles defined before the summer of 1989; more than 400 internally circulated military publications remain and they focus on topics about military technology, strategies, tactics, and foreign armies’ new developments, rather than party ideology; promotions are made mainly according to officers’ professional performance rather than to their loyalty to the conservative leadership. It is questionable whether the military will support the highly unpopular and ineffective hard-line leaders during the forthcoming succession crisis.

The ongoing political tensions and economic difficulties have intensified the antagonism between state and society. Many people, especially urban residents, have distanced themselves from the government, refusing to acquiesce in political campaigns. Others have lost their all interest in official ideology and politics. The government is also facing increasingly determined defiance from oppressed ethnic minorities. In short, Chinese politics will remain tense for the next few years. The forthcoming succession may provoke another round of power struggle within the central leadership.

The Chinese economy is also in transition. During the past two years, the central government has been heavily dependent on
macro-economic instruments (fiscal policy, investment strategy, interest rates, money supply, taxation, import and export control, and so on) to control economic growth and bring down the inflation rate. It has cancelled and delayed many reform programs, such as price reform, reform of ownership and banking reform, which it had partially implemented before the summer of 1988. This strategy has caused a high degree of instability in the country’s economic growth. More importantly, without undertaking an effective, fundamental and well-coordinated reform, the state sector’s efficiency will remain low, the central government's fiscal deficit will continue to rise, and the development between the state and non-state sectors will remain imbalanced.

During the past ten years, the Chinese economy has been decentralized. Local authorities have gained strong decision-making and fiscal power. They have become increasingly independent from the central government, pursuing their own reform program, development strategy, and “open door” policy. This development, in turn, has protected the local economies especially on the Chinese coast from frequent central government intervention. At the same time, however, it has also increased China’s internal trade barriers and irrational competition between various provinces.

From the end of 1989 to the summer of 1991, the central government imposed effective policies governing China’s foreign economic relations. By imposing new import controls and raising import taxes, it substantially reduced China’s imports from the OECD nations. It also depreciated the Chinese currency by large margins and increased subsidies to exports. Consequently, China enjoyed a large foreign trade surplus in 1990 and 1991. Since the G-7 Houston summit of June 1990, when Japan decided to end its sanctions against China, foreign investment in China has picked up. In particular, investments from Taiwan, Hong Kong and South Korea have risen rapidly. Tokyo’s decision to resume the third round of Japanese yen loans to Beijing has had a strong impact on Western European countries, international financial organizations, and international banks. A number of European countries have resumed their economic aid and loans to Beijing, both the World Bank and the Asian Development Bank have lent money to China again, and many
international banks have expanded their business in China. If the Chinese government can improve its relations with the OECD nations, restore domestic economic and political stability and continue its reform programs, then China’s foreign economic relations will expand further in the next few years.

Also the next few years, China’s domestic political and economic developments may remain unstable. These developments are likely to have strong effects on China’s foreign and security policies in general and its policy towards Northeast Asia in particular.

Because of China’s domestic political uncertainties and economic difficulties, Beijing will most likely concentrate on dealing with domestic issues. Its position vis-a-vis other major powers will remain relatively weak. Unless some sudden international crisis takes place, it is likely to continue to pursue the same current foreign policy and security strategy. Its international behavior will continue to be more reactive than initiative. In fact, this is the first time since 1949 that China does not face a major direct security threat. The fundamental objective of Beijing’s foreign and security policies will most likely continue to be the creation of a relatively stable and peaceful international environment while obtaining the maximum possible economic resources from abroad.

The hard-liners in Beijing will remain hostile to Western countries and there will be further conflicts between China and the OECD nations, especially the US, over issues of human rights and arms control. Nevertheless, repairing its relations with the OECD nations, especially the US and Japan, will remain as Beijing’s foreign policy priority. This is because China needs foreign technology, capital investment, and markets. Due to the Chinese economy’s increased dependence on the international market, these resources are crucial in solving its economic difficulties and helping to stabilize the political situation. More importantly, Beijing is in a position to cooperate with the OECD nations on certain regional security issues in order to receive economic help from these countries.

In the next few years, China’s domestic needs will continue to push Beijing to improve relations with Moscow. The Soviet Union has become China’s big consumer goods market. Yet Beijing will keep close watch on domestic politics in the Soviet Union, which has
strongly affected China's domestic politics. In particular, it will remain alert about the rapidly increasing nationality tensions in the Soviet Union's central Asia, which has had and will continue to have strong impact on minority groups in Northwest China. A weaker Soviet Union has certainly reduced the pressure that Moscow puts on China's northern border, enabling China to reduce its defense burden.

In Northeast Asia, it is in China's interest to further improve its ties with Japan, the only country able and willing to provide China with a substantial amount of financial resources. Moreover, improving relations with Japan could also increase Beijing's leverage to deal with the US and the EC, as the sanctions imposed by the US and the EC against China will be less effective if China can enjoy access to Japanese financial resources and technology. Similarly, China will seek expansion of economic relations with South Korea, a country that can contribute to Northern China's economic development; cheap but well-trained Chinese labor is attractive to South Korean companies, especially to those that engage in labor-intensive manufacturing operations.

Beijing is likely to continue to work with Japan and the United States to encourage Pyongyang to increase its participation in the international community. A relatively open North Korea will be able to reduce its conflicts and tensions with South Korea, Japan and the US, thereby stabilizing China's northeast border. It will also enable Pyongyang to enjoy the access to capital investment, technology, and markets in the OECD nations. Thus, North Korea's economic dependence on China can be reduced. Politically and ideologically, Beijing is likely to maintain its current relationship with Pyongyang. A rapid and fundamental change in North Korea's internal politics may further challenge the official ideology and the legitimacy of hardliners in Beijing.

Beijing will support any further reduction of tensions and increase of contacts between Pyongyang and Seoul. As long as the military balance between the North and South can be maintained, Beijing will be interested in reducing its weapon supplies to Pyongyang. Meanwhile, Beijing will be sensitive to any significant increase in South Korean defense capability or to any further Japanese involvement in the Korean peninsula's security affairs. The US military
presence will continue to be viewed as a contribution to the stability of the region. If all parties involved are interested, Beijing will likely be willing to support a sub-regional arms control and reduction mechanism. Nevertheless, China’s policy towards Northeast Asia will continue to depend on the dynamics of the region and China’s interactions with other countries.

III

China is not a global power, but a regional power with certain global strategic importance. Its basic security interests are primarily concerned within the Asian-Pacific region. Two factors in particular—Beijing’s relations with Moscow and Washington on one hand and the dynamics of the Asian-Pacific region on the other—have determined Beijing’s overall foreign and security policies, and will continue to do so. During the past two years, these two factors have undergone major changes.

The most important change has been the Soviet Union and its relations with other parts of the world. During the past few years, the political development in the Soviet Union has significantly weakened the Communist system. For the first time since 1917, when the Communists took power, the Soviet Union now has a real opportunity to transform itself to a democracy based upon a market economy. While the Soviet Communist party’s power has declined rapidly, various interest groups in Soviet society have begun to organize themselves, forming new political parties and organizations. Yet the process of transformation has been a difficult one, due especially to the country’s deeply rooted economic crisis and to increased demands by many republics for independence and separation from the Soviet Union.

In Eastern Europe, Moscow has not intervened in the process of political transformation, and many East European nations, in turn, have ended their single party systems and have been in the process of establishing multi-party political systems. Most of these nations have distanced themselves from Moscow, moving closer to the West. This development has led to the collapse of the Warsaw Pact. Moreover, the continued process of arms reduction in Europe and
between the two superpowers, the withdrawal of Soviet troops from Hungary, Poland and Czechoslovakia, and the reunification of Germany have fundamentally changed the East-West relationship. The Cold War in Europe has ended.

In Asia, having withdrawn its armed forces from both Afghanistan and Mongolia and reduced its military presence in Vietnam, Moscow has been destroying its SS-20 missiles and has reached agreements with Beijing on the reduction of Soviet troops deployed along Sino-Soviet border. It has cut military and economic aid to Vietnam, North Korea and India. In addition, it has been pressing Hanoi to compromise over the Cambodia issue. During the recent Gulf War, Moscow was firmly on the side of the US-led allies, supporting the use of force against Iraq. These developments have significantly improved the East-West relationship in general and US-Soviet ties in particular. Following the G-7 summit of July 1991, to which Gorbachev was invited to talk to the leaders of the leading industrial nations, Washington granted Moscow the long-awaited Most Favored Nation (MFN) status. More importantly, the two countries signed a new treaty on a one-third reduction of long-range missiles.

There are many questions about the future of Soviet political development. Yet were Moscow to revert to a more conservative, nationalistic, and militant line, its top priority would most likely be the restoration of political stability in the Soviet Union, including suppression of its republics’ demands for independence and separation. This would increase political tensions between Moscow and the OECD nations, but the existing strategic balance between East and West might not be affected immediately.

Such a potential might not increase Washington’s needs to resume its strategic partnership with Beijing against Moscow. Rather, the strategic focus of the Sino-American relationship will continue to shift from containment against Soviet expansionism to a need to cooperate on certain sub-regional security and political issues.

Meanwhile, Sino-American relations have undergone several major changes since June 1989. While the US continues its economic sanctions against China, Washington has approved the resumption of World Bank and Asian Development Bank (ADB) loan programs in China. Despite strong objections from a majority
in Congress, the Bush administration has decided to extend the MFN status to China. At the same time, through “quiet diplomacy,” Washington has been pressing Beijing to make concessions on issues involving human rights in China, missile sales and nuclear technology transfer to certain Islamic countries, and the wide trade gap between the two countries. During the recent Gulf War, China, a permanent member of the UN Security Council with veto power, did not object to the resolution authorizing the use of force against Iraq.

Nevertheless, there are two areas in which the two countries may conflict sharply with one another. First, the hardliners in Beijing have been highly sensitive to US influence in China. They have been accusing Washington of trying to “overthrow” China’s Communist system by a “peaceful transformation.” This is mainly due to these hardliners’ high degree of insecurity. If China’s political instability increases, the hardliners might use the US as the scapegoat, provoking Chinese nationalism. Consequently, political tensions between the two countries could rise again.

Second, Washington and Beijing might also conflict over Taiwan. With the progress of Taiwan’s democratization, the demand for independence has risen strongly during recent months. At the same time, Taipei has adopted a new policy towards Beijing. It has substantially expanded economic, cultural, and social ties with mainland China. Semi-official contacts have been established between the two sides of Taiwan Strait. On the other hand, under its “flexible foreign policy,” Taipei has been actively seeking to increase its participation in the international community. To maintain stability in the Asian-Pacific region, Washington is unlikely to give strong and public support for Taipei’s new foreign policy. It will not, for instance, take the lead to lobby actively for Taipei’s application to join the General Agreement on Tariffs and Trade (GATT), although it will support the application itself.

However, Washington has been encouraging Taipei to democratize Taiwan’s political system. Officials of both the ruling Nationalist Party (Kuomintang or KMT) and the opposition party (the Democratic Progressive Party or DPP) have frequently been invited to Washington to discuss Taiwan’s political development and foreign policy with
US officials and legislators. Some US legislators are strong supporters of the Taiwan Independence Movement (TIM). Moreover, on Capitol Hill, together with the complication of US domestic politics, the anger at Beijing's human rights record and the trade gap between the two countries could translate into greater support for Taipei. This would surely raise tensions between Beijing and Washington.

To date, with the exception of Japan, China's political crisis in June 1989 has had limited impact on its relations with most Asian countries. No Asian governments have made open and strong criticism on China's human rights situation. In the summer of 1990, Indonesia normalized ties with China. Singapore and Saudi Arabia established diplomatic ties with China in June and September 1990, respectively. While Tokyo resumed its third round of Japanese yen loans (about US$5.2 billion) to Beijing, having set a trade office in Beijing, South Korea has actively approached the Chinese market by increasing its investment in and trade with China. Both Vietnam and India have also improved their relations with Beijing.

During the past few years, the Asian-Pacific region has experienced many important changes. In the area of economics, it continues to be the region with the highest growth rate in the world. It has become more competitive in the world market, and its intra-regional economic transactions have expanded rapidly. Yet Asia's Newly Industrialized Nations (NICs) have been hurt by the rapid rise in labor cost and land prices as well as their strengthened labor and environment protection movements. In addition, the OECD nations' augmented protectionist measures have affected the NICs' ability to export. To cope with the new internal and external environment, the NICs have made strong efforts to upgrade their economic structures from labor intensive to semi-capital intensive and semi-technology intensive. This is basically why they have actively transferred their labor-intensive manufacturing operations to other parts of Asia, especially to the Chinese coast and Southeast Asia.

Due to a decline in demand for Japanese goods in North America and Western Europe as well as to Japan's own structural changes, Japanese economic growth has slowed down somewhat during the past two years. Japan's trade war with other industrial economies is
likely to intensify. Yet, among all OECD nations, the Japanese economy still has the greatest potential for further growth. Since the world economy has begun its gradual recovery, the demand for Japanese goods in the international market will soon pick up again. Tokyo's decision to deregulate capital flow between Japan and other nations has already allowed Japan to play an increasingly important role in the international market. This decision, in turn, is likely to restructure the international financial market.

Politically, however, the region has presented a more complicated picture. In comparison with Europe, its political structure is much more complicated. There is not a regional mechanism of arms control and disarmament. Nor is there a clear line of division of conflicts. It is the region where two superpowers and two regional powers (China and Japan) meet directly. During the past few years, the region's political structure has undergone many important changes.

The Soviet Union has roughly maintained the strength of its Pacific fleet—its largest—and of its tactical and strategic air force in Asia. There has been no progress in diminishing its military transportation, communications, and supply facilities in the Far East. Thus, the dramatic changes in the Soviet Union's internal politics and its policy towards Europe have not much reduced its military capability in Asia.

Nevertheless, the ongoing political crisis in the Soviet Union has already weakened its strategic position in the Asia-Pacific region and will continue to do so. In Northeast Asia, due largely to Gorbachev's failure to return the Northern Islands, relations between Moscow and Tokyo remain cool. On the Korean peninsula, Moscow's initiative to establish diplomatic ties with Seoul has seriously damaged its relations with Pyongyang, and ideological and political gaps between the USSR and North Korea have further widened. In Southeast Asia, the improvement of Sino-Soviet relations has undercut Hanoi's position vis-a-vis Beijing. Moscow has also substantially reduced its aid to Hanoi and has pressed the latter to be more flexible on the Cambodia issue. Hanoi's hard-liners have been alarmed by the rapid transformation in Eastern Europe and the Soviet Union. Expressing strong uneasiness at Moscow's foreign policy, Hanoi has improved ties with Beijing. Its has reached an agreement with Beijing on the
Cambodia issue and the two countries decided to restore their economic relations. In July 1989, the Vietnamese Defense Minister made a secret visit to Beijing. If the domestic politics in China, the Soviet Union, and Vietnam continue their current course, Hanoi may start to lean toward Beijing and turn against Moscow.

In terms of defense capability, South Korea has gradually become stronger than North Korea. Due largely to its self-imposed international isolation and reduced political support as well as economic and military aid from both Moscow and Beijing, Pyongyang is in a relatively weaker political position vis-a-vis Seoul. Its economy has been in a deep crisis, it lacks hard currency to purchase advanced weapons and technology, and the recent developments in Eastern Europe and the Soviet Union have had a strong impact on the bureaucratic establishment in North Korea, creating a strong demand for reforms and openness. These trends have increased Pyongyang's insecurity, forcing it to alter its extremist domestic and foreign policies.

The rise of Japanese power has caused concerns in the region. The Japanese defense budget, which is about US$30 billion annually, ranks number three in the world after the two superpowers. Beijing, Seoul, and many other Asian countries have been highly uneasy about Tokyo's decision to send four minesweepers to the Gulf. Backed by its economic power, Tokyo has tried to play an active role in solving a few regional security and political issues. It has taken the initiative to negotiate with Pyongyang for the establishment of diplomatic relations and has significantly increased overseas economic aid, mainly to other Asian countries. Among OECD nations, Japan has taken the lead to end economic sanctions against China and resume its loans. If the Cambodia issue is solved in the near future and if Washington ends its embargo against Hanoi, Tokyo would be likely to play a major role in providing economic and technological aid to those countries in Indochina.

Due largely to the lower Soviet military presence in Southeast Asia and the progress made so far in resolving the Cambodia issue, conflicts between Vietnam and the ASEAN countries, especially Thailand, have declined sharply. Meanwhile, Beijing has improved its relations with Indonesia and Malaysia, and ties between China
and Singapore and Thailand remain strong. Nevertheless, territorial disputes in the South China Sea between China on the one side and almost all the ASEAN states and Vietnam on the other could revive tensions between these countries in the near future.

During the past two years, there has been increasingly stronger demand in Congress to reduce US troops deployed in Asia. Washington has put strong pressure on Tokyo to share the regional defense burden. Domestic opposition in Japan and protests of other Asian countries, however, have constrained the speed of Tokyo’s rearmament. Moreover, there has been very limited direct security and political cooperation between Japan and other Asian countries. Thus, the US will continue to play the leading role in the regional security affairs. Nevertheless, the high degree of political instability in both the Soviet Union and China, the recent tension between Washington and Beijing, the uncertain future of the US military bases in the Philippines, and US-Japan tension have made it necessary for Washington to readjust its basic strategy towards the region.

These developments and trends have had and will continue to have a strong impact on Chinese policy towards Northeast Asia. First, a relatively weaker Soviet Union in the region will increase China’s leverage to deal with North Korea. More importantly, without Moscow’s strong backing, Pyongyang will have to depend on Beijing for political support and military supplies. Yet for the first time since the Sino-Soviet split, Beijing and Moscow are not in a competition for influence over Pyongyang. Rather, their policies towards North Korea have been similar: to maintain stability on the peninsula and to develop relations with South Korea. If the current course of political development in the region continues, Beijing will continue to be in a strong position to deal with Pyongyang.

Second, if the military balance between Seoul and Pyongyang continues to tilt south and if tension between the two sides rises again, such developments would destabilize the Korean peninsula and Beijing could increase its military aid and political support for Pyongyang. However, the central focus of Beijing’s policy towards the peninsula will continue to encourage a further reduction of tensions and expansion of contacts between Pyongyang and Seoul.
Third, Beijing will have to redefine its relations with Washington in Asia. The reduced Soviet threat in the region has had a certain impact on US-China relations as some in Washington may feel less need to cooperate with Beijing on security matters. In addition, the widened political and ideological gap between the two countries since June 1989 has made it more difficult for them to cooperate regarding the Korean peninsula. Nevertheless, due to Pyongyang’s increased dependence on Beijing, Washington will have limited choices but will continue to work with Beijing to influence Pyongyang. Thus, China may use its relations with Pyongyang as leverage in dealing with Washington and Tokyo.

Fourth, at least in the near future, Beijing will continue to depend on Tokyo for economic aid and to use Tokyo as leverage to deal with Washington. As long as the US-Japanese security arrangement remains effective and Washington and Beijing do not conflict with one another on security matters in the region, Beijing may not be too critical of Tokyo’s rearmament efforts. Rather, it may welcome Tokyo’s increased role in the region’s political affairs, such as Tokyo’s initiatives to expand relations with Pyongyang and its role in Indochina.

Fifth, the rapidly changed international environment and the progress in US-Soviet arms control and disarmament negotiations may increase Washington’s leverage to press Beijing on the issue of arms control and disarmament in Northeast Asia. Tokyo and Washington have already put strong pressure on Pyongyang not to develop nuclear weapons. Nevertheless, Pyongyang rejected Tokyo’s demand, as part of the conditions for the establishment of diplomatic ties between the two countries, to accept an inspection of its nuclear facilities by the International Atomic Energy Agency. Yet after Chinese Premier Li Peng’s trip to Pyongyang, North Korea announced its decision to welcome an IAEA inspection team and to apply for UN membership. Beijing recently expressed its interest to sign the Nuclear Non-proliferation Treaty. Nevertheless, whether or not these developments will lead to an overall arrangement of regional arms control and disarmament in the region remains an open question. Together with Moscow and Pyongyang, Beijing may demand, as part of overall arms control and disarmament arrange-
ment, the withdrawal of US troops and tactical nuclear weapons from South Korea, establishment of a nuclear-free zone over the Korean peninsula, a bilateral reduction of armed forces in the two Koreas, and a limitation on the increase in Japan's defense spending.

Sixth, the rapid economic growth and structural changes in the region's economy will continue to provide Beijing with new opportunities to expand economic ties with Japan and South Korea. Due to its inexpensive but well-trained labor force, its rich natural resources and its market potential, China is more attractive than many other Asian countries to South Korean manufacturers. In addition, in the near future, political relations between the two countries are likely to improve further. Thus, the pressure to upgrade the economic structure in South Korea will continue to encourage South Korean companies to increase their investment in China, especially on the Northeast coast. Strong growth in the Japanese economy will increase the Japanese demand for Chinese goods. It will also encourage Japanese corporations to increase their investment in China. More importantly, given Japan's leading role in the Asian-Pacific economy in general and the financial market in particular, Tokyo's economic policy towards China will have strong impact on the attitude of the Asian NICs' business communities as well as on other OECD nations' policies towards China. Thus, one can expect a further expansion of Sino-Japanese economic ties in the next few years.

IV

Beijing-Pyongyang bilateral relations have changed significantly since the summer of 1989. Due partly to China's domestic political development and its tense relations with the OECD nations, especially the US, Beijing has moved closer to Pyongyang both politically and ideologically. It has increased economic and military aid to Pyongyang, expressing its firm support for the latter's goal of "reunification." In return for Pyongyang's full support of Beijing's crackdown on pro-democracy student demonstrations, the Chinese government granted its support to Pyongyang's succession arrangement. In the international community, Beijing has been encouraging
Pyongyang to increase its participation while playing the role of a “middleman” between Pyongyang on the one hand and Washington and Tokyo on the other. North Korea–Japan as well as North Korea–US talks have been held in Beijing.

Nevertheless, there are a few issues on which Beijing and Pyongyang may continue to disagree. First, both countries’ domestic politics are unstable and uncertain. To stabilize its internal political situation and improve its economy, Beijing needs to repair relations with the OECD nations. Under strong pressure from South Korea, however, North Korea is in a vulnerable position to open itself. Unlike Beijing, which has had extensive experience in dealing with Western countries during the past 20 years, Pyongyang has not yet had much access to the West. Its economy is mainly financed by Moscow and Beijing. A Chinese type of “open door” policy might soon undermine the foundation of the current dictatorship.

Second, Beijing’s ability to provide huge economic aid to Pyongyang has declined and will continue to do so in the next few years. This is because the Chinese economy has been unstable and will probably continue to be so in the near future. In addition, the Chinese central government’s fiscal deficit will probably continue to rise while resentment within the government and society against any increase in foreign aid will remain strong. Yet because Moscow has already cut substantially its economic aid to Pyongyang, the latter’s needs for external assistance have increased and will continue to do so.

Third, Beijing will continue its military aid and weapons sales to Pyongyang. It is likely to demand, however, that Pyongyang not resell these weapons and military technology to other countries, especially those in the Middle East. This is due largely to the increased pressure from Washington on Beijing for controlling arms shipments to the Middle East. Moreover, due partly to Washington’s sanctions against technology transfer to China, the gap in military technology between China and the West is likely to widen. As a result, Chinese weapons may not meet North Korea’s need, especially at a time when South Korea has been continuing its strong efforts to upgrade its military forces.
Fourth, Pyongyang will remain sensitive to the expansion of Beijing-Seoul relations. As both Seoul and Pyongyang joined the UN in the fall of 1991, Beijing will be quite likely to recognize Seoul soon. To establish formal diplomatic relations with Seoul will strengthen Beijing’s position vis-a-vis Taipei and will also promote economic relations between South Korea and China. In addition, such a move will benefit Beijing’s ties with both Tokyo and Washington. Nevertheless, how quick either Washington or Tokyo will recognize Pyongyang will probably depend on Pyongyang’s domestic politics, its openness to the international community, and whether or not it completely abandons its nuclear weapons program.

Fifth, Beijing has been supportive of Pyongyang’s policy of “reunification.” Nevertheless, given the existing distrust and the wide gap in political and economic development between the North and South, the potential for a peaceful reunification of Korea is slim. Beijing’s real policy objective is rather to reduce tensions and avoid confrontation between Pyongyang and Seoul.

During the past three years, relations between Beijing and Seoul have developed smoothly. South Korea is now a major investor in northern China, especially in Shandong and Liaoning provinces. Beijing and Seoul are now seriously considering a plan to establish a Yellow Sea Economic Development Zone, facilitating the economic cooperation between them. Having already set up trade offices in each other’s capital, China and South Korea may soon establish diplomatic relations now that both Koreas have joined the UN. For Seoul, to establish formal diplomatic relations with Beijing at Taipei’s cost has never been a problem. To have diplomatic relations with Moscow and Beijing can certainly increase its leverage vis-a-vis Pyongyang, further isolating the latter. Moreover, Seoul seems to believe that by using its economic power (trade and investment), it can convince Beijing to influence Pyongyang’s behavior. Some Korean businessmen have been highly enthusiastic about the possibility of developing the Soviet Far East by means of cooperation among Japan, South Korea, the Soviet Union and China.

Nevertheless, there are a few problems in the development of Sino–South Korean relations. First, economically South Korea will have to compete against Japan, Taiwan and Hong Kong. South
Korea does not control much of the high technology that China needs, nor is South Korea a capital-rich country. Rather, China will continue to depend on Japan for technology and capital investment. On the other hand, due to the cultural factor, Hong Kong and Taiwanese companies are generally more competitive than their Korean counterparts in the Chinese market. Thus, the role that South Korea can play in the Chinese market is limited.

Second, there are still ideological barriers between China and South Korea. Beijing's hard-liners continue to view Pyongyang as a political partner. They are also very sensitive to Seoul's strong anti-Communist attitude. Due to China's own internal political instability, Beijing is unlikely to abandon Pyongyang and expand political ties with Seoul rapidly.

Third, since Beijing's key interest is the stability of the region, the military balance between Pyongyang and Seoul will have to be maintained. Backed by the US and Japan, however, South Korea's military power has grown faster than that of North Korea. Moreover, Seoul's recent tough talk about making a preemptive strike on North Korea's nuclear facilities and using the "German model" to achieve Korean unification have alarmed Beijing. Beijing is also highly sensitive to any Japanese involvement in the security affairs of the Korean peninsula. To counter Seoul's pressure on Pyongyang, Beijing could increase its support for and aid to Pyongyang in the near future.

Fourth, the development of Beijing-Seoul relations is still in its early stage. The two sides do not seem to have come to understand each other well. To date, there have been limited communications between scholars and policy-makers in China and South Korea. On the other hand, Beijing's relations with Pyongyang go back to the 1930s. Many senior Chinese officials have visited or worked in North Korea since the outbreak of the Korean War. There are strong personal ties between top leaders and senior officials in Pyongyang and Beijing. These factors suggest that the development of Beijing-Seoul relations will be a long process.

China's relations with Japan have seen many important changes since June 1989. The Tiananmen crackdown was a big shock to the Japanese public, resulting in a very negative view of China. During
the past few years, a large number of Chinese citizens have been living in Japan, taking low-class jobs. There has been strong resentment in Japanese society against these Chinese citizens who, in turn, have been equally critical about Japan. The biggest issue for the Japanese business community is the uncertainty of China’s political and economic development, which has discouraged Japanese companies from making their long-term investment commitment to the Chinese market.

Meanwhile, scholars and policy-makers in both countries have been debating what kind of relationship the two countries should build. Some Chinese scholars are deeply concerned about the “revival” of Japanese militarism and the rapid growth of Japanese defense capability and political influence. They have been urging the Chinese government to take a tough policy towards Japan. Others do not see Japan as a direct and immediate threat to China’s national security. In economics, Beijing has enjoyed access to Japan’s technology and financial resources, but has been complaining about the difficulties of entering the Japanese market. In the summer of 1991, at the advice of some senior Japanese politicians, the Chinese government initiated an invitation to the Japanese Emperor to visit China. Yet the Japanese government reacted to the invitation cautiously, indicating that the trip could have strong implications for other Asian countries and for Japan’s domestic politics. Some senior Japanese politicians have also tried to link Japanese economic aid to China to Beijing’s support for Tokyo’s application for permanent membership in the UN Security Council. Beijing has rejected the proposal. Instead, it has asked Tokyo to convince other OECD nations, especially the US, to lift economic sanctions against China. Beijing has recently been using Tokyo as an important channel to approach Washington indirectly. Foreign Minister Qian Qichen, for instance, told his Japanese counterpart during a visit to Tokyo in June 1991 that China will sign the Nuclear Non-proliferation Treaty soon. He also asked Tokyo to lobby for Beijing during the London G-7 summit of July 1991. On the surface, therefore, relations between the two countries seem warm and cooperative.

There are, however, some fundamental issues in the development of Sino-Japanese relations. First, would Beijing like to see Tokyo
becoming the leading political power in the western Pacific in the coming decade? How would such a Japan affect China’s interests? Second, what is the nature of Sino-Japanese economic relations? To what extent should Japan approach the Chinese market directly? Or should it do so through the “four dragons,” building an economic system with three levels (Japan—the four dragons—China and the ASEAN)? How should the two countries solve their trade imbalance? Third, how should Japan coordinate with other OECD nations and Asian countries on their policy towards China? Should Japan become the “middleman” between China and the US? What should Japan do if Sino-American relations become tense again due to the Taiwan issue? How should Japan deal with China’s ongoing political and economic instability, which may soon heighten as the succession becomes closer? Fourth, how should China deal with the rapid growth of Japanese defense capability? What should Japan do if there were tensions or even military confrontations between China on the one side and one or more Southeast Asian countries or Taiwan on the other? Finally, should China and Japan work together with other nations in the region to build a regional mechanism of arms control and disarmament? If so, what kind of mechanism should be built? If not, what other options do they have in dealing with the regional arms race?

To date, these questions have not been systematically studied in either country. Rather, scholars and policy-makers have devoted most of their time and energy to dealing with current policy issues. Yet without a long-term perspective neither of the two countries will be able to form effective policies to cope with major changes in both nations’ internal development, the dynamics of the international system in the region, and interactions between them.

V

China is still at its historic turning point. Its leadership is preoccupied with domestic problems and China’s troubled ties with the OECD nations. It is a relatively weak government both domestically and internationally. Its foreign policy and security strategy are mainly reactive. Strategically, maintaining the current balance of power in
the Asian-Pacific region will best serve Beijing's interest. Its fundamental policy goal is to create a relatively stable and peaceful international environment and secure access to economic resources in the industrial world. This is because domestic difficulties have significantly weakened China's capacity to compete with other powers in the Asian-Pacific region, and Western technology, investment, and markets are essential for Beijing to overcome its current economic difficulties and restore political stability.

In Northeast Asia, China's policy might include the following major components: further improving relations with the Soviet Union and reducing Moscow's military power in the Far East, especially its navy fleet and strategic and conventional air force. On the Korean peninsula, Beijing's interest can be best served by maintaining the military balance, reducing tensions, and increasing contacts and communication between Pyongyang and Seoul. In addition, it is in Beijing's interest to encourage Pyongyang to increase its participation in the international community and to upgrade its economic and political relations with Seoul. In this regard, Beijing and Seoul will have to expand exchange programs and improve mutual understanding between their scholars and policy-makers.

The most difficult part of Beijing's policy is how to deal with Japan. In the short term, Beijing is now in a disadvantaged position vis-a-vis Tokyo. Japan is the only country capable of providing China a substantial amount of financial resources and technology. Tokyo's policy towards Beijing has tremendous impact on the governments of other OECD and Asian nations as well as on the international business community. Moreover, because of its financial power, Tokyo's influence at many international financial and economic organizations has increased rapidly. Politically, Japan is emerging as a regional leading power in Asia, although it will need to improve ties with other Asian nations, who prefer that the US continue to take the leadership. Due to the decreased Soviet threat in Asia as well as the recent political tensions between Beijing and Washington, Beijing will become more alarmed about Tokyo's continued rearmament efforts. Yet Beijing does not have much leverage to press Tokyo to slow the growth of its defense spending.
Finally, to cope with the dramatically changed international environment, Washington has begun to readjust its overall strategy towards the Asian-Pacific region, including its policy towards China and Northeast Asia. The final outcome of this readjustment is still unclear. Nevertheless, it is in Beijing’s interest to repair its ties with Washington and resume and expand US-Chinese cooperation with regard to the Korean peninsula. This is because the two countries do not have much conflict of interest on the peninsula, and without their cooperation, tensions between Pyongyang and Seoul might not decrease. Moreover, in order to cooperate with Washington on the Korean issue, Beijing can improve its overall ties with the US, Japan, and other OECD nations. Such an approach will best serve China’s overall interest in Northeast Asia.