TOKYO 2000

The Annual Meeting of The Trilateral Commission
Trialogue: 54

The Trilateral Commission was formed in 1973 by private citizens of Europe, Japan, and North America to help think through the common challenges and leadership responsibilities of these democratic industrialized areas in the wider world. The leadership tasks of the Trilateral countries need to be carried out with others to an increasing extent, and the 1997-2000 triennium of the Trilateral Commission has reflected this changing context and the opportunities it provides.

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## Section 1: East Asia and the International System
3 Michel Oksenberg
Charles E. Morrison
7 Han Sung-Joo
10 Zhang Yunling
12 Wendy K. Dobson
15 Jusuf Wanandi
17 Charles E. Morrison

## Section 2: Peace and Security in the Early 21st Century
21 William J. Perry
27 Kiichi Miyazawa
29 Thierry de Montbrial

## Section 3: The United Nations and Global Governance
34 Sergio Vieira de Mello

## Section 4: Responses to Globalization
39 Mario Vargas Llosa
43 Keizo Takemi
48 C. Fred Bergsten

## Section 5: Evolving Democratic Capitalism
54 Cees van Lede
57 Takenori Inoki
61 Timothy C. Collins

## Section 6: Changing Japan
65 Yoriko Kawaguchi
66 Masayoshi Son
69 Eisuke Sakakibara
72 Yasuhisa Shiozaki

## Section 7: Emerging Europe
74 Robert Cooper
77 Daniel Janssen

## Section 8: The United States
82 Henry A. Kissinger
86 Martin Feldstein

## Section 9: The New Central Asia
90 Sherman W. Garnett
Alexander Rahr
Koji Watanabe

## Section 10: Next Triennium of the Trilateral Commission
94 Yotaro Kobayashi
Otto Graf Lambsdorff
Paul A. Volcker
Members of the Trilateral Commission gathered in Tokyo for their 2000 annual meeting, held on April 8–10.

The agenda for the Tokyo meeting was shaped in part by the Japanese government’s plans for the July 2000 summit of the G-7 countries plus Russia in Okinawa. The plan was for Prime Minister Obuchi to open the Tokyo meeting with a major speech setting out the Okinawa agenda, but Keizo Obuchi was felled by a stroke several days before the Tokyo meeting (and passed away on May 14). Speaking later in the Tokyo meeting, Finance Minister Kiichi Miyazawa referred to former Prime Minister Obuchi and how hard he had been working to make a success of the Okinawa Summit. “Although there is no way to convey Mr. Obuchi’s message to you,” Mr. Miyazawa noted, “I am certain he would greatly regret that he is unable to be here with you and would wish for the success of our meeting.” The session of the Trilateral Tokyo meeting on responses to globalization (see Section 4 of this publication) was directly inspired by the Okinawa agenda.

Former Prime Minister Obuchi had also been working hard to bring broader East Asian concerns to the Okinawa summit, as indicated by the Prime Minister’s travels in the region in the preceding months. East Asia and the wider international system has been a central focus of the Trilateral Commission not only in the 2000 meeting in Tokyo (see Section 1 of this publication), but throughout the triennium for which the Tokyo meeting was the concluding annual meeting. Each annual meeting in this triennium has had at least one session devoted to this broad set of issues. The largest project in this triennium has been the Special Study Group on East Asia and the International System, comprised of a number of persons from Europe, North America, and Japan along with a number of persons from East Asia beyond Japan. The Study Group held workshops in Seoul in November 1998 and in Beijing in October 1999. Draft papers from the Study Group came before the Tokyo meeting and are excerpted in this publication (see Section 1). A plan was adopted at the Tokyo meeting for transforming the Japan group in the Trilateral Commission into a Pacific Asia group for the 2000–03 triennium. It has been clear for some time that Japan should no longer be a “one-country region” within the Trilateral Commission, but it has taken time to work out how the widening to a Pacific Asia group should be accomplished. The plan for doing so is set out in the April 10 memo from the three Chairmen to Members printed in the back of this publication. A first meeting of the new Pacific Asia group is planned for late this year. That will also be the occasion for discussion of the full report from the Study Group on East Asia and the International System, to be published shortly thereafter.

As the April 10 memo from the Chairmen to Members also indicates, Mexican members will be added to the North American group in the new triennium and the European group will continue to widen in line with the enlargement of the European Union. We will also continue the practice of inviting a number of participants from other key areas of the world. “The need for shared thinking and leadership by the Trilateral countries, who (along with the principal international organizations) remain the primary anchors of the wider international system, has not diminished,” the Chairmen stated. “At the same time, however, their leadership must change to take into account the dramatic transformation of the international system. As relations with other countries become more mature—and power more diffuse—the leadership tasks of the Trilateral countries need to be carried out with others to an increasing extent.”
SECTION 1
EAST ASIA AND THE
INTERNATIONAL SYSTEM

Michel Oksenberg
Charles E. Morrison

East Asian Security and the International System

Since 1975, East Asia has enjoyed unprecedented tranquility and prosperity. The origins of the success are largely attributable to the implicit "Grand Bargain" struck between Tokyo, Beijing, and Washington in the 1970s and 1980s. Key elements of this bargain, however, are now coming under serious challenge, threatening the simultaneously constructive relations within the China–Japan–U.S. strategic triangle that have been central to regional order and progress for over a quarter century. Relations among these countries are fraying.

Despite the accomplishments, the region stands at the precipice of an unprecedented arms race. Moreover, a serious breakdown of the regional order would have global implications. Until recently, the region's major patterns of alignment reflected competition and alliances arising outside the region. As an arena of international interaction, East Asia was more acted upon than an actor. But today, the region is no longer dominated by global bipolarity, and its patterns of cooperation and competition are no longer imported from other regions....

The Grand Bargain

During the 1970s and 1980s, through a process of extensive dialogue and mutual accommodation, China, Japan, and the United States gradually reached an implicit Grand Bargain covering Taiwan, the security architecture in East Asia, third-country issues, economic relations, and human rights and governance....
Conclusion: Strategic Choices and Policy Recommendations
The central strategic question is whether the Grand Bargain has outlived its usefulness. Have the many changes made it irrelevant and irretrievable? Three basic views can be discerned in answer to the question, each with different policy implications for the Trilateral countries.

One view is that the underlying shared strategic interests that brought China, Japan, and the United States together in the 1970s and 1980s have not appreciably diminished, though perhaps the economic reasons for cooperation have increased in saliency, serving as a substitute for the prior focus on the Soviet Union. China’s rise, clouded with uncertainty, and Japan’s temporary economic difficulties have not altered the benefits to regional stability that a strategic partnership among the three brings. Proponents of this view would argue that the alleged strains upon the Grand Bargain are more perceived than real and that secondary issues have been allowed to clutter an agenda that should focus upon primary and vital interests. Further, they would say, a principal reason for the lack of strategic vision has been an unnecessary and even dangerous failure to sustain a meaningful and intense dialogue about a regional security architecture that would serve the interests of all the major powers. In short, adherents of this school call for a return to basics: a focus on major-power relations, renewed strategic dialogue, use of transitory issues to consolidate the major-power relations, and vigorous leadership on national security issues.

A second school argues that the changes—especially China’s rise—are fundamental. There is no way, they believe, that China can be effectively integrated into the global and regional system. They assert that China inevitably will challenge both the global and regional systems, and therefore that the United States and Japan should begin now to make preparations for the inevitable rivalry that looms ahead. To supporters of this view, whether the Grand Bargain once made sense is a moot point. To some in this school, it once had utility; to others, it created the conditions that present the Trilateral countries with the current dilemmas. But in either case, the attempt to return to it or even to adjust it to new circumstances is unrealistic and indeed dangerous. In short, proponents of this school seek what might be called a “new realism.”

We find both positions to be inadequate. Russia’s collapse; China’s rise; the trends of democratization, marketization, and regional interdependence; Asia’s growing importance in world affairs and the revolution in military affairs do require substantial amendments and adjustments to the old formula. But it is far too early to jettison arrangements that have brought unprecedented stability to the region. Indeed, the prescriptions that the “new realism” offer appear eerily similar to the failed “rim strategy” of the 1950s and 1960s—i.e., relying on security arrangements with Japan, South Korea, Taiwan, and Southeast Asian nations to contain and thwart China’s alleged malevolent inclinations. The strategy failed when the strategic balance was more favorable to the United States and Japan than it is today. And the strategy rested on an American capacity to compel Western Europe and Japan to follow Washington’s lead. That condition no longer exists. Moreover, the policy seems likely to lead to the very consequences that it posits when in our view such pessimistic assumptions are unwarranted and may be avoided.

Our preferred strategy is for the Trilateral countries and their Asian partners to refurbish the Grand Bargain. This entails expanding the earlier accommodations to address an altered set of issues.

Taiwan. First of all, changes in the Taiwan situation must be recognized by all the Trilateral countries, for its dangers threaten everyone. In the past, the United States carried the burden on the Taiwan issue almost alone. While the military dimensions remain the American responsibility, Western Europe and Japan should
play a more active role diplomatically, politically, and economically. Hence, all the Trilateral countries should speak frankly to China's leaders about the consequences of an unprovoked attack against Taiwan, namely that the response would be China's diplomatic isolation and an outpouring of support for Taiwan. But Taiwan's leaders should also understand that a formal declaration of independence or the enshrinement of its status as a sovereign Taiwan state in its constitution or a new basic law would receive no support from any of the Trilateral countries. The responsibility of the Trilateral countries, each in its own fashion, is to foster an environment that will facilitate improvements in cross-strait relations.

Part of that responsibility must be to explain to China's leaders the implications of Taiwan's democratization. Because the original Grand Bargain was struck without prior consultations with Taiwan, Taiwan's past authoritarian leaders had no choice but to accept the arrangements that the major powers made on their behalf. That situation no longer exists. Many conversations will be necessary before the leaders in Beijing fully comprehend the implications of this change. It is clear that the leaders on Taiwan will have to secure the assent of their electorate to any accommodation they might reach with the mainland. For China's leaders to hear the message from other than Americans will improve the likelihood of its being understood.

Due to its historical legacy, the United States is inescapably more deeply involved in the Taiwan issue than other Trilateral countries. Washington's embrace of Taiwan's new administration should be conditioned by its performance. Will Chen's rhetoric, policies, and appointments merit the external support that he needs? Rather than enacting the Taiwan Security Enhancement Act, which mandates increased Taiwan–American military cooperation, or deciding now, for example, to provide Taiwan with significant new weapons systems, it would seem prudent for Washington first to judge the temperament and disposition of its new partner. After all, one boards a bus only after knowing its destination.

In short, precisely because management of the Taiwan issue is so central to the continuity of the Japan–U.S.–China constructive triangle and because that triangle is fundamental to regional and global peace, all the Trilateral countries should recognize their stake and make their positions clear to both Taiwan and Beijing. While the military dimension must remain an American responsibility, the Trilateral countries should shoulder a greater diplomatic burden than in the past.

Strategic Dialogue. We recommend reinvigoration of a wide-ranging strategic dialogue among the leaders and their national security advisors of the region. Opportunities must be given, in private and unheated bilateral exchanges, for leaders not only in Beijing, Tokyo, Washington, and Moscow but also in Seoul, Taipei, and Southeast Asia to discuss their fears and aspirations. And the Europeans should be active as well. Much of the dialogue should center on how to balance and reconcile the strong desires to maintain sovereignty, national independence, and cultural distinctiveness with the equally strong recognition of the need to create more effective international, regional and national institutions to deal with the new set of problems arising from globalization of economies. No nation has a monopoly of wisdom on how best to address these conflicting objectives. And it is important for each set of leaders to sense that their views have been heard and respected. The strategic dialogue should not be seen as primarily a task for the leaders' foreign policy principals in Washington, Beijing, and Tokyo, as in the 1970s and 1980s. It should be expanded to various multilateral and bilateral occasions. The preeminent leaders of the major powers can not allow their domestic agendas to overwhelm them and divert their attention from strategic issues.

...ALL THE TRILATERAL COUNTRIES SHOULD RECOGNIZE THEIR STAKE AND MAKE THEIR POSITIONS CLEAR TO BOTH TAIWAN AND BEIJING.
Korea. The Trilateral countries have a common and huge stake in maintaining stability and promoting peaceful evolution on the Korean peninsula. This was recognized in the financial commitments that the Trilateral countries make to supporting the Korea Energy Development Organization's (KEDO) provision of light water nuclear reactors to North Korea. Should North Korea unambiguously embark upon a path of domestic reform and opening to the outside world, the Trilateral countries— in cooperation with South Korea and China—must be ready to respond to the opportunities that present themselves. The Grand Bargain arose, in part, to facilitate maintenance of stability on the Korean peninsula. Its partners now may have the opportunity to extend its purpose to the incorporation of North Korea into the region as a constructive member.

Arms Control. In contrast to the Soviet–American strategic relationship or the European theater in the Cold War, arms control has not been on the East Asian agenda. Limitation of weapons acquisitions and deployments were not part of the Grand Bargain; arms control negotiations did not encumber the reaching of mutual understandings in the 1970s and 1980s. But it is no longer possible or desirable to keep these issues off the agenda. Indeed, their inclusion seems essential to avert a debilitating and destabilizing regional arms race that no one can win.

There should be no illusion about the difficulties entailed. There is no multilateral forum through which to address the issues involved, nor can one be formed. Until the Korean peninsula ceases to pose dangers of war, it is somewhat premature to place limits on deployment of weapon systems and forces that are intended for Korean contingencies. And the uncertainties over China's future course impel a hedge or insurance policy in terms of American preparedness and deployments that makes imposition of limits on American force posture difficult to conceive. We do not have specific proposals to make. Rather, we pose a series of questions that we think governments and strategists must begin to explore:

- What level and kind of American forward deployed forces will be necessary to deter the reappearance of age-old Asian rivalries, once the risk of war on the Korean peninsula has abated? And where should they be deployed?
- What caps would Japan be prepared to place on its military strength, if other powers in the region (especially China) are willing to place verifiable limits on their weapons acquisitions and deployments?
- Is there a process through which North and South Korea could be encouraged to reduce their military expenditures and alter the pattern of their deployments?
- If the United States, in close consultation with and consent of Taiwan, would halt or limit some of its weapons sales to the island, would Beijing be willing to halt development and/or deployment of systems that are particularly threatening to the island?
- Is the United States prepared to recognize the consequences of its possible NMD system upon China's sense of security? What compensatory moves would Washington be prepared to undertake or accept?
- What compensatory actions would China be prepared to undertake, were Japan and the United States explicitly to state that the Defense Guideline Review does not contemplate Japan providing logistical support to the United States in case of an American involvement in the defense of Taiwan? For example, would such a commitment elicit a strong Chinese endorsement for the continuation of the U.S. military presence in the western Pacific and of America's bilateral treaties even after peace comes to Korea?

The raising of these questions underscores the difficult diplomatic challenges at hand. But if these questions are shunned, we believe a regional arms race will prove to be unavoidable—especially if the Taiwan problem intensifies. And under those circumstances, the Grand
Bargain would indeed be lost. Probably the United States is best positioned and has the greatest interest and responsibility to pursue these questions through a series of bilateral dialogues and arrangements with each of the countries involved. But any American effort must be reinforced through bilateral efforts of Japan with China, Taiwan with China, South Korea with the North, and the ASEAN states with China. To achieve a solution, each country would have to abandon its preferred position in order to reach a comprehensive series of agreements in which each country would feel more secure than it will if the arms race unfolds.

To repeat, this presents a conceptual challenge of great magnitude. It would build upon the Grand Bargain and go beyond it. If the leaders of the region can be persuaded to begin to think through these currently unanswerable questions, they would find themselves on an altered trajectory, having to consider how to create an improved regional security architecture through a series of new mutual accommodations.

The draft paper from which the above excerpts are taken was written in March 2000. Michel Oksenberg is Professor of Political Science and Senior Fellow at the Asia Pacific Research Center of Stanford University and former Staff Member (China) of the U.S. National Security Council. Charles E. Morrison is President of the East-West Center and Coordinator of the Triilateral Commission Special Study Group on East Asia and the International System.

HAN SUNG-JOO

Korean Developments and Broader East Asian Cooperation

I was debating whether I should address the broader issue of East Asian cooperation or focus on one aspect of the report that has just been introduced. As a person coming from a small country, I decided to do the latter. My starting point will be what the report calls the “Grand Bargain” among China, Japan, and the United States, especially in connection with cooperation on third-country issues. Obviously, in this case, the third country is Korea, and North Korea in particular.

Common Interests of the United States, China, and Japan

The United States, China, and Japan have been cooperating with regard to North Korea. This is the result not so much of a bargain—grand or not so grand—as of a convergence or confluence of interests among these three countries. I’ll list some of these common interests:

- First, all three countries are interested in maintaining peace on the Korean peninsula—that is, preventing military conflict.
- Second, all three countries are interested in de-nuclearization of the Korean peninsula and, more specifically, in preventing North Korea from developing and possessing nuclear weapons and limiting North Korean development of missiles. China has as much, if not more, interest in limiting North Korean missiles as the United States and Japan, since North Korean missile development would place all parts of China within the effective range of North Korea. Moreover, as is happening now, the North Korean missile program gives justification for the theatre missile

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2000 TOKYO MEETING
defense or national missile defense programs of the United States and Japan in Asia, programs that China is very sensitive about.

- Third, the three countries are interested in containing and preventing any catastrophic collapse of North Korea, with the certainty of instability and high costs that will accompany such an event.

- Fourth, the three countries are also interested in not letting relations among themselves be adversely affected by what is happening in North Korea, and in not letting North Korea become a source of competition or strife among them, as Vietnam once had been. I can report to you that the United States felt quite relaxed when South Korea normalized relations with China back in 1992. And I think China feels reasonably relaxed about the possibility of normalization of relations between North Korea and the United States.

- Finally, I think the three countries share an interest in legitimizing the status quo—although the status quo is expected to evolve—and that is to give a stamp of recognition to the current situation, including the division of the country. The Soviet Union, later Russia, established diplomatic relations with South Korea in 1991; China established diplomatic relations with South Korea in 1992; the United States and Japan are yet to establish diplomatic relations with North Korea, although talks are going on.

South Korea and North Korea Change Course

Right now both North Korea and South Korea are, in effect, regardless of their intentions, cooperating with these three countries to promote the interests that I have just illustrated.

The South Korean position, as represented by what is known as the “Sunshine Policy,” has reversed—or at least altered—the previous South Korean position that any talks, dialogue, or relationship between North Korea on the one hand and the United States and Japan on the other should be pre-conditioned by prior progress in North–South Korean relations, or at least in parallel with improvement in North–South Korean relations. That is, the current South Korean government of President Kim Dae Jung has removed that condition. Back in April 1993, when I was in government and played a role in facilitating—or allowing, so to speak—direct talks between the United States and North Korea over the North Korean nuclear issue, the opposition and criticism that I encountered then in Korea is quite a contrast with the acceptance of this “Sunshine Policy” today in Korea. In fact, South Korea is encouraging the United States to lift economic sanctions on North Korea and encouraging Japan to normalize relations with North Korea.

South Korea even talks about the desirability of possible Japanese compensation to North Korea, of specific amounts of compensation. So South Korea is taking a long-term view of unification. The President recently talked even of the hope of having North Korea in APEC, whether this is a realistic prospect or not.

At the same time, North Korea, after much hesitation, seems to have decided to change its course, both in domestic policies and in external policies. Domestically, they have accepted some elements of a market economy. They are even undertaking some limited IT education, as I understand it. They are also interested in reforming agriculture and in training their people in business as well as administration. They have established diplomatic relations with Italy; they are talking about normalizing relations with Canada and re-normalizing relations with Australia, France, and Germany; and they are talking with Japan and the United States regarding establishment of official relations. With China, they have exchanged visits by Foreign Ministers and they are discussing a possible exchange of visits by their respective leaders, President Jiang Zemin and Mr. Kim Jong II, who is the de facto leader of the country. North Korea has also improved relations with Russia.

So North Korea does recognize the need to change its course and it now has the opportunity.
Obviously North Korea is feeling the need acutely, not only because of the severe shortage of food and energy and other commodities, but also the growing gap between North Korea and the rest of the world, especially with South Korea. As I was listening to the debate this morning regarding Japan, I was thinking about how much progress South Korea is making in the IT industry and new business ventures. North Korea, using Mr. Masayoshi Son's formulation, is still struggling in the agricultural and industrial revolution stages of development, while South Korea is already making good progress in the information revolution stage.

But there are constraints on the way that North Korea can change its course. There is systemic rigidity. The military sector is not cooperating, partly because they are resistant to change, but also because they don't want to give up weapons of mass destruction, which is always an obstacle to improving relations with the rest of the world, particularly the United States and Japan. The North Koreans are still suspicious of South Korean intentions, thinking the offers or proposals are bait for a Trojan horse. The difference is that if in fact it is a Trojan horse, North Korea will know it is a Trojan horse, so it can take care that it does not hurt them.

In addition, South Korea is really afraid of taking over North Korea any time soon. If North Korea collapses, it will do so because of its own failings, not because South Korea instigates the collapse, or tricks it into having relations with South Korea. So the dilemma still stands for North Korea: whether to change its course and open itself to the outside world, or not. What North Korea has decided to do is to open itself to the rest of the world without doing the same thing to South Korea.

But there is also a dilemma for the other countries. If the other countries do not want North Korea to collapse soon, they might inadvertently contribute to North Korea's collapse by providing it assistance and increasing relations. But if North Korea does not establish relations with the rest of the world, it will face economic crisis even greater than it has encountered so far. And that is going to be a great danger for the regime.

**Strengthened Regional Cooperation**

What is the implication of all of this for the region? I think we are, or least we might be, getting a handle on North Korea. It is not likely that North Korea will provoke another crisis with the firing of missiles, as it did two years ago. And North Korea has given the opportunity for the countries in the region—China, Japan, and the United States as well as China, Japan, and South Korea—to coordinate their policies and to cooperate on North Korea. As North Korea joins, as I expect it will, not APEC but the ASEAN Regional Forum, it will open the possibility of bringing North Korea into East Asian cooperation.

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ZHANG YUNLING

East Asia, the International System, and China’s Integration

Let me give some general comments concerning East Asia and the international system and China’s integration into the system.

East Asia: Diversity and Regional Development

East Asia is a vast region containing a dozen countries that have experienced fundamental change since the 1960s. The most remarkable achievement is the success of modernization, which includes not only economic growth, but also political and social transformation. However, the region is still very diverse so it is important to know its features when talking about integration of the region into the international system.

First, the process of catching-up continues for most countries in the region, although the “flying geese” economic structure with Japan in the lead has had to be revised due to the problems of the Japanese economy. The financial crisis of 1997 has not stopped this process. From the quick recovery of the crisis-affected economies we can see that the strength and dynamism of East Asian economic development is still there, though there are still many issues to be dealt with and resolved. The core of the East Asian model, as I understand it, is an open-economy policy and integration into the world market. We talk too much about Asian values.

Second, the countries of the region have very different economic and political systems and levels of development, as well as religious and cultural differences. Thus, there are diverging concerns and interests. Regional cooperation and integration is developing, but, taking the region as a whole, it is at a low level. It is true that regionalism has become stronger, but it will take time before even reaching agreement on a model acceptable to all participants. It is important to understand that East Asian regional cooperation is not aiming to establish a different system from the international one, but to solve their own problems and create a better environment for living together.

Third, the region has many problems, ranging from economic sustainability to political transition to regional relations. Concerning regional relations, a cautious, careful, and cooperative mechanism has been developed, but it does play a very important role in preventing serious conflicts. However, the mechanism is very vulnerable to the divergent interests and concerns of those participating in it. Also, the culture and the impact of Cold War mentality complicates regional relations. So, the integration of the region—the manner, the speed, and the degree of integration—will be a very uncertain and gradual process.

The International System: Adjusting to Emerging Powers

What is the international system? Along with the Study Group, I think it refers mainly to the international institutions and norms gradually developed after World War II, but it does not include domestic institutions and norms. Thus Western-style democracy is not a necessary part of the international system, if we define the system as an international community rather than as a unique system. If we identify the system as a community, that’s fine. But the community should welcome all members, taking into consideration the differences of their interests and situations. So the international system has to be readjusted due to two fundamental changes: One is the end of the Cold War; the other is the emergence of the newly developed countries. The reliability and credibility of the system rests on its capacity and flexibility to accept these emerging powers.

The emerging powers have no choice but to be integrated into the existing system, but they
require a benign environment. What China has proposed as a new international economic and political system is not an attempt to overturn the current system; China is asking for a readjustment of it in order that the interests of latecomers, especially less developed countries, can be considered. Globalization has introduced new challenges to the existing international system, but it has also brought about the integration of the region into the system.

Taking China’s Interests into Account
China is a crucial factor in establishing a stable and cooperative regional order. The regional as well as international community concerns itself too much over China as a challenger to the system, and is much less concerned with China’s own interests and security. So, as proposed by the Study Group, I agree that China’s interests have to be taken into account in the design of a regional security architecture. The core of China’s interests is very simple: fair and friendly treatment and the right to participate in the rule-making, but not a totally different order.

Again, China is not a challenger to the existing international system. Integration into the international system is not a choice, but a reality for China. What China wants is the time and space to develop and adjust itself to this system. It also wants its differences respected by the other actors in the international system, the members of the international community.

If the international community wants to encourage China to integrate into the international system, it has to consider China’s concerns and interests. Let China become a real partner. China feels unsafe in a world and regional security order in which its concerns and interests are not taken into account.

I don’t want to touch upon the Taiwan issue, but I have to because I think this issue is the most dangerous one in managing the regional situation. It is very difficult to resolve. What China insists upon is the One China principle, that is, a superstructure built on the One China formula, which is so important for Chinese. It is very important to the Chinese way of thinking because to their minds it is very simple: When China was weak, China was divided, but now China is becoming stronger and should be united. What kind of united China doesn’t concern them very much. The One China formula does not have to change the system in Taiwan at all, which is a different formulation than that of the ‘60s and ‘70s. So, democracy is not an obstacle to this formula at all. In some people’s minds, keeping a balance across the Strait cannot prevent conflict or war. But it is especially dangerous to use Taiwan as bargaining leverage in dealing with a rising China. So I think that the Taiwan issue is very crucial when we talk about integration in the region. Most people here would take Taiwan’s concerns into consideration more than mainland China’s. But I propose that the international community take mainland China’s concerns into consideration, as well.

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The 1997–98 Asian economic crisis constituted East Asia’s most traumatic recent interaction with the international system. While many in the Trilateral countries tended to focus on what they regarded as deficiencies in the emerging East Asian economies as the causes of the crisis, Asians were more ready to see the crisis as a consequence of globalization. The crisis raised fundamental issues about the interaction of Asian emerging markets with the global capitalist system and called into question the adequacy of the international system to foresee, prevent, and contain financial crises. This paper examines several issues: the lessons of the crisis for both emerging East Asian economies and for the international system; the steps needed to give greater robustness to Asia’s economic recovery, the reforms needed at the national level to help prevent future crisis, and the implications for global and regional institutions.

The Roles of Global and Regional Institutions
The International Monetary Fund. The IMF should and will remain at the center of the international financial system. But it needs to become more representative, more focused in its role, and more flexible in its surveillance processes.

Effective IMF crisis management and prevention requires surveillance. Legitimacy is essential to surveillance. The legitimacy of the Fund suffers from several flaws. Its governance is unrepresentative, not adequately reflecting the distribution of global economic power. Of the Fund’s 182 members nearly two dozen are “systemically significant” to the world economy. But the Fund is currently largely governed by the G-7, mainly the United States. Some important economies, notably Taiwan, are not even Fund members. Moreover, the Fund’s Interim Committee, which performs both institutional governance and surveillance of the international monetary system, has become known as a talk shop. In September, it was finally to some extent refocused and renamed the International Monetary and Financial Committee (IMFC).

The IMFC should be more of an executive committee for the world economy and for crisis management. A new group, the G-20 consisting of the G-7 and a small group of systemically significant economies including China, Indonesia, and South Korea, may set the stage for this to happen. The G-20’s mandate is to promote informal dialogue on key issues and promote cooperation. Its Chair also sees it complementing and coordinating efforts in other forums and overseeing the technical work of the Financial Stability Forum. The political significance of this group should not be underestimated. It could be a modest forerunner for a much needed, globalized G-7.

The surveillance process also needs to become more decentralized within the IMF. As the G-7 has found, informality and frankness are the most highly valued attributes of the surveillance process. These become more difficult as group size increases. To avoid this problem, smaller forums operating on their own might be considered. These would be linked to the IMF in order to secure the basic information needed for surveillance.

The IMF constituency structure could be revised to promote consultation among neighboring countries since these are most likely to be affected by bad policies. Two possible groupings, based around the world’s two major currencies, might be considered: one consisting of Europe, the Middle East and Africa, and the other consisting of the APEC economies including the Americas, East Asia, and South Asia. There is some danger that this division might increase regional awareness at the expense of the global economy, but the more intimate structure may encourage wider involvement and deeper commitment to consultation, policy cooperation, and early warnings of potential crises.
The decentralization of surveillance, more emphasis on strong national financial systems, and clearer rules for private capital market participants in crises, in turn, would set the stage for a more focused, smaller IMF in several respects. It could refocus on its traditional concerns about macroeconomic performance and the sustainability of exchange rate systems. It should expand its role in surveillance of national financial systems and their regulation. It would determine whether a crisis is brewing and would still provide capital for crisis-hit countries. This, however, would be clearly for purposes of short-term liquidity, not the large-scale bailout of financial institutions.

Regional Institutions. If this might be the IMF role, does there need to be an “Asianization” of the regional financial system as some have suggested? There are several arguments to be considered. First, as mentioned, is the potential for a stronger Asian voice in the international financial system. The second is the argument for regional institutions. Today, a good part of the region’s substantial savings is intermediated through the world money markets, thus contributing to both extra-regional capital outflows and inflows. These could be intermediated closer to home. A regional institution might also provide the infrastructure to underpin closer monetary cooperation and even monetary integration.

The rationale for a more influential Asian voice in international institutions is a longer-term one. As the Asian developing countries mature and become financial forces in their own right, they will eventually take significant roles at the apex of global economic leadership. This is already a prospect since most of the world’s largest stocks of foreign exchange reserves are found in East Asia.

The rationale for closer regional cooperation is developmental. Asian countries already have a strong stake in each other’s economies. Regional surveillance systems and efforts at macroeconomic cooperation will provide a better opportunity to influence the policy levers of neighboring countries. Investments in these closer relationships should also pay off in terms of early warnings of future crises and in terms of effective crisis management.

The crisis has spawned greater Asian participation in the IMF as well as other institutions. The Pacific Asian economies, except Taiwan, are represented in IMF constituencies. Those with major reserves are members of the New Arrangements to Borrow and some central bank representatives attend regular meetings organized in parallel with the G-10 central bank governors meetings at the BIS. As indicated, China, Indonesia, and South Korea as well as Japan are in the G-20. Australia, Hong Kong, and Singapore participate in the Financial Stability Forum. All are members of the World Bank and Asian Development Bank.

East Asia, however, has no “track two” financial groups (unlike trade) and a dearth of official regional financial institutions. One important reason is the lack of an accepted regional leader. Despite Japan’s economic size, it does not have an internationalized currency and its financial institutions are not strong enough to intermediate regional capital flows efficiently.

Prior to the economic crisis there were only two regional financial institutions: the APEC Finance Ministers meeting and a regular meeting of central bankers called the Executives’ Meeting of East Asian and Pacific Central Banks (EMEAP). The former had met only a few times before the crisis and dealt with everything from social safety nets to capital flows. It is a pan-Pacific rather than an East Asian institution. The EMEAP was organized in the early 1990s by Japan and Australia. It has no secretariat; rather meetings are rotated to one or another organizing bank. However, it does have a solid record of technical cooperation to develop best practice templates and build the infrastructure of central bank cooperation. After the economic crisis, the Manila Framework Group (MFG) was convened just before the 1997 Vancouver APEC Leaders Meeting to address crisis issues and fill the vacuum left by the demise of the Japanese-
Although the regional financial architecture is still rudimentary, considerable work is underway and the road map is fairly clear. Proposed Asian Monetary Fund. The MFG has initiated regular macroeconomic surveillance discussions at the senior official level and discusses “financial architecture” questions such as dollar-yen fluctuations and the role of the HLI. This is also a pan-Pacific group including the U.S. and Canada. It is regarded as a useful surveillance forum as well as a valuable link between the developing Asian economies and the G-7. It also has a link with the IMF, receiving IMF surveillance reports and reporting through its Finance Secretaries and Central Bank Governors to the Managing Director of the Fund. An Asians-only grouping consisting of ASEAN members plus Japan, China, and South Korea, known as “Ten-plus-Three,” has more recently gathered momentum and has an ambitious economic and non-economic agenda that reflects a regional “identity.”

Can these embryonic forms of cooperation lead to eventual monetary integration and a regional currency? Theoretical studies suggest that even today the risks of adopting one monetary policy and a regional currency still outweigh the benefits. The absence of necessary institutional and political preconditions and the potential costs to Mexico in an exercise of this type will not be easy to overcome. To realize the benefits of monetary union, countries must have similar macroeconomic policy objectives, their central banks should have some institutional similarities and be independent of political pressures. Therefore, they must have similar economic structures, trade and capital markets must be increasingly closely integrated; and labor market must be mobile. Although trade and investments flows are increasing, the other preconditions for a monetary union are far from being met.

If monetary union is some way off, there are intermediate options such as use of a common basket currency peg or Asian currency unit (ACU). In both these proposals, participating economies select a basket of currencies based on trade shares with major trading partners and peg to that basket and to each other’s currencies. The common basket would suffer from some of the same problems as de facto pegs, as the yen and U.S. dollar shares in the basket would be large. The ACU proposal is more flexible in that, like the ECU, each country’s currency would be pegged to the common currency unit. This could be composed of the yen, dollar, euro, and home country currencies. Or it could be composed only of the home country currencies and linked to a currency basket of the yen, dollar, and euro. This link could be within an exchange band. Thus monetary authorities would be obliged to intervene in foreign exchange markets to keep their home currency exchange rates within a band against the ACU and each other. They would also intervene to keep the ACU in a band relative to the yen/dollar/euro basket.

Without a regional monetary institution, it would be difficult to undertake this second stage of intervention. It is also difficult to see markets finding such an arrangement understandable and credible, and thus an improvement over the status quo.

The above discussion suggests that although the regional financial architecture is still rudimentary, considerable work is underway and the road map is fairly clear. Further steps will be needed as national and regional institutions mature and deepen. These steps will be essential to the development of the regional institutional structures that are required to proceed with monetary integration.

The paper from which the above excerpts have been taken was originally written for the October 1999 Study Group workshop in Beijing. Wendy K. Dobson is Professor and Director, Centre for International Business, University of Toronto, former Canadian Associate Deputy Minister of Finance, and former Canadian “G-7 Deputy.”
JUSUF WANANDI

East Asian Institution-Building

The task for me is to talk from a Southeast Asian perspective about this idea of East Asian institution-building in the future.

What It Is Not
Let me at the outset stress what it is not, so there will be no confusion about this idea.

First, it is not the same proposal that, with due respect, Prime Minister Mahathir advanced in the form of a so-called East Asian Economic Grouping. As you know, that proposal was then considered more based on his resistance to the dominance of the so-called Western countries, particularly the United States.

Second, the idea of having an East Asian institution is not to divide the Pacific into two parts. The proponents of an East Asian institution, particularly in Southeast Asia, think that APEC—Asia-Pacific Economic Cooperation—is still the most important institution in the region. This is not least because the United States is a member. The United States has clout and influence in the region economically, politically, and in security terms which is vital to the stability and peace in the region. APEC is also the most developed regional institution we have, including a summit with the various ministers meeting on a regular basis, and supported by a lot of “second track” activities or organizations (NGOs, academic think tanks, and the private sector more generally). APEC is not only an economic institution and, after a few years of hiccups, has gone into much more stable development. As you have seen, it has also handled some very sensitive political problems, such as providing for important bilateral talks between China and the United States at the summit, and also addressing informally the crisis last year of East Timor.

Third, East Asian institution-building is also not going to turn East Asia into a bloc for economic or political purposes, especially not given the willingness of East Asia to support global rules and institutions. I think of all the world’s regions East Asia is the most interdependent with the EU and North America, as well as with the global system as a whole.

What It Is
Let me try to explain what East Asian institution-building is in a few minutes.

It is more, at this stage of the game, a consultative process to exchange ideas about the region and assessments of developments as well as of policies and strategies to be developed. Of course, wherever possible some coordination of policies could be undertaken.

East Asian institution-building will mainly deal with economic problems in the future. The monetary and economic crisis in the last few years has given a new impetus to the idea that actually has been developing over the years. The idea is that we need an East Asian institution to be able to cope with such crises in the future.

It is also true that the idea of an East Asian institution is to be able to contribute more actively to global development of institutions and rules in the future. So far, as has been recognized, East Asia has not participated in or initiated a lot of new thinking on global rules and institutions as such.

But beyond the recent crisis, East Asia fundamentally has an intense economic interdependence, and in some instances integration. That makes East Asian institution-building not only a viable thing in the future, but also a must.

ASEAN-plus-Three Summits
This process of consultation so far has been anchored most importantly in the so-called Ten-plus-Three summits, that means the ten...
ASEAN countries plus Korea, Japan, and China. It has now been held for three years in a row and it will be held again this year in November in Singapore. While the main stress as I said will be economic, of course political consultations are going to be happening informally as well, as has been done in APEC. We are going to start some

Indonesia: So Far, So Good

At the end of his remarks, Jusuf Wanandi turned to the remarkable developments in his own country, Indonesia.

So far, so good. All these changes, so fundamental in every field, have of course changed the country, and have been achieved as well as could be expected. In fact, with changes that are so fundamental and so far-reaching in every field of life, it is a small miracle that the cost we have to bear has not been as dramatic as everybody, including me, feared two or three years ago. President Abdurrahman Wahid's leadership of course has been critical. He has the vision. He is an educator. He is at this stage definitely critical to move Indonesia to the next stage of democratization.

He has three main problems to face. One is the army, and I think on that he has done the most and the best. He has complete civilian control of the army. Of course the professionalism of the army will take some years, but I think it is a full control that he has.

Second, regional conflicts, especially Aceh, have been stabilized. It is not anymore a question whether Aceh is going to separate into an independent state. Hopefully the congress that the Acehnese themselves are organizing at the end of the month will come up with some proposal of what kind of special status they want to have in the context of one Indonesia. At least the situation has been stabilized to a very large extent, which is also due to, I think, the President's effort to deal with the NGOs and elements of civil society there on his own and very frequently.

I think the economic problems could become his Achilles heel. They are fundamental; they are profound; and, of course, you know, he has real problems there because he does not have an economic team, at the level of ministers at least, that is capable to solve the problems. He himself is limited because of his sickness and his blindness, and therefore he needs a team that he can trust that can do the job for him. We hope that there will be a cabinet reshuffle very soon.

On the other hand, with regard to the most important agencies he has done very well. He has picked the best people for them because he is not dependent on the coalition as much as he has to be in forming the cabinet. The Pertamina head is impeccable and strong. He has been the Caltex head for some years before; he worked for Caltex for over twenty years. The power plants—a critical part in the whole effort internationally because of problems with earlier contracts—are now under the best hand that you can have, who was the head before of the mines and gas department. He is the best man we could have. And also on banking restructuring the President has given the task to somebody who is hands-on and can do the job. So on that he has done quite well.

Let's hope—I have to pray every day of course—that his health is going to hold because that is the most critical part.
institutional preparation. We are going to establish most probably in the near future a sherpas-type of assistance to the summit for the leaders and we have established, of course, an East Asian vision group of eminent persons that is headed by Han Sung-Joo. The Foreign Ministers of the thirteen countries will meet for the first time in Bangkok in July of this year. Last year in Manila the three Northeast Asian leaders—Japan, Korea, and China—met for the first time.

**Future Prospects**
Well, what does the future hold and what can you expect? I think the efforts to support an East Asian cooperative institution will develop in the economic field, in the trade field, as well as in the financial field. There are so many bilateral free-trade efforts that have been going on, as well as sub-regional ones. AFTA, the ASEAN Free Trade Area, has been mentioned here, as well as bilateral efforts of which the most important one might be the Japan-Korea free trade arrangement. But all, of course, are part and parcel of a movement that could develop into an East Asian free-trade area in the medium and longer term. In the financial field, I think what has yet to be agreed upon is the basic principle that it should be in this field a coalition or a cooperation of the willing. Because we cannot in the financial field at this stage have Burma, Laos, or Cambodia included. The problem arises of how we should include Hong Kong and Taiwan in the future, and Australia and New Zealand come to mind.

It will be a step-by-step approach due to the diversity of the region. Quicker development will be partly dependent on how much the business sector and academia get involved in supporting the idea. That point is valid in the ASEAN context as well. This second track—the NGO, the civil society part—is going to be critical for the development of regional institutions.

Leadership in the context of East Asia will not be pronounced for obvious reasons, like in APEC. But I suspect that Japan, because of her economic power, and ASEAN, because of being ten and having some kind of diplomatic clout, will be critical to the process. The idea is also to strengthen China's involvement in regional institutions and regionalism. In that way we hope that we can soften some of the sharp edges in relations between the United States, Japan, and China.

_Jusuf Wanandi is on the Board of Directors of the Centre for Strategic and International Studies in Jakarta._

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**CHARLES E. MORRISON**

**East Asia and the International System**

_East Asia today is a core part of the international system. Stretching from Japan and China in the north to Myanmar and Indonesia in the south, it has about 40 percent of the world's population and 25 percent of its gross product, about half the latter accounted for by Japan. Its economies possess almost half the world's gold and foreign exchange reserves. During the decade of the 1990s, East Asia accounted for more than 50 percent of new global petroleum demand despite the Asian economic crisis at the end of the decade. It also accounts for about 40 percent of carbon dioxide emissions from fossil fuel consumption_.

These statistics underscore a point stressed in the 1997 report to the Trilateral Commission on _Community-Building with Pacific Asia_—that there is virtually no global problem that can be managed, much less resolved, without the participation of the major East Asian countries.
Despite this, the countries of the region have not been major actors in shaping the institutions and rules of the international system. As pointed out in the following paper on the financial system, they often lack the weight and status in international organizations they should have based on population or economic size. In some cases, as for China and Taiwan in the World Trade Organization, they lack representation. Even where they have representation and status, they are rarely demandeurs or agenda-setters.

The Trilateral Commission Special Study Group on East Asia and the International System is based on the assumption that East Asia will continue to rise in global importance and that the international system will have to be adjusted accordingly. The project is intended both to underscore East Asia’s importance and to establish a process through which leading thinkers from the developing countries of East Asia and the Trilateral countries jointly explore issues raised by East Asia’s greater role in the international system. This process should both facilitate Trilateral understanding of the interests, priorities, and sensitivities of the East Asian developing countries and strengthen East Asian input into thinking about global issues. It should lead to the full integration of East Asia beyond Japan into the Trilateral activities.

Differing Perceptions of the International System

The contemporary international system is often perceived in East Asia as not being mutually beneficial. Underlying many of the issues associated with the East Asia–Trilateral relationship are differences in the prevailing perceptions on the nature and legitimacy of “the international system.” Despite the frequency with which this term is used in the Trilateral world, it is rarely defined or given careful thought. Generally it is used as a synonym for the institutions and patterns already governing the relations among the major Western powers and is regarded as fair and of universal validity. The authoritative voice for determining righteousness in the international system is the “international community.”

For emerging East Asian countries, however, the same system is basically a Western system, originally created by and for the trans-Atlantic powers with the recent, but perhaps not fully integrated, addition of Japan. At the apex of this system as the main global agenda-setters are the Group of Seven and the Permanent Five of the UN Security Council, each with only one Asian member. Although much modified over the decades, the historical roots of the present system lie in the same state system responsible for colonial conquests, unequal treaties, and other forms of humiliation that remain potent memories in much of East Asia. As such, the international system is rarely endowed with the same legitimacy and moral authority as in the Trilateral world, particularly as interpreted by the “international community,” a term that in East Asia often appears to refer mainly to dominant Western public and political opinion.

As a practical matter, emerging East Asian countries usually find it in their interests to accommodate themselves to the dominant international norms and rules. However, while seeking benefit and legitimacy from participating in the system, there is also strong suspicion that the system operates to the relative benefit of its creators and constrains the ability of late-comers to assume equal status. Similarly the changes in the system, which typically flow from changing needs and norms in the Trilateral world, are frequently viewed with suspicion as efforts to move the goalposts.

Evolving East Asian Regionalism

A lasting effect of the Asian economic crisis and the Western triumphalism associated with it was to help bring East Asian countries, including Japan, closer together. The lack of a regional mechanism for intergovernmental dialogue and cooperation has been a distinctive feature of East Asian international relations. During the Cold War years, regional cooperation mechanisms were found only in parts of
Southeast Asia or for quite specific functional tasks (such as the Asian Development Bank). With the end of the Cold War, Asia-Pacific regionalism (including the Americas) emerged with the Asia-Pacific Economic Cooperation (APEC) process and the Asia-Europe Meeting (ASEM). Today, East Asian attention has shifted toward the development of an institutional expression of East Asia's own identity...

...[T]his is only a matter of time. Meanwhile, the emerging movement toward East Asian regionalism has received little attention in the Trilateral world outside Japan despite the important issues it raises. What should be its underlying vision and the scope and nature of its activities? How can the East Asia group avoid falling into the same institutional traps that have afflicted APEC and ASEM? Should its efforts be conducted on the same basis of informal consultation and consultation that was pioneered in the “ASEAN Way,” or is such an approach under-institutionalized and ineffective in addressing concrete issues? How will East Asian regionalism relate to subregional efforts, such as ASEAN, as well as to the larger regional and interregional institutions such as APEC and ASEM? Will East Asian regionalism be compatible with and supportive of global institution-building?

This last question relates directly to the theme of the Study Group. As pointed out by project workshop participants, Asian and Asia-Pacific regionalism has evolved thus far within the context of global norms and institutions. In fact, a claim can be made that compared to European or North American regionalism, the regional cooperation institutions of Asia and the Pacific have done no violence to norms and rules. This is likely to remain the case at least in the near-term future since East Asia is diverse and thus there is little common ground beyond the minimal global norms to serve as a basis for intensified cooperation within the region. In this sense, it is unlikely that an East Asian institutional process would establish a new set of norms in competition with those prevailing in the world at-large.

However, the establishment of an East Asian or Northeast Asian institution might affect the international system in several ways.

First, for the same reason that East Asia is unlikely to move beyond the universal, minimal norms of order, it could well be a conservative voice in the evolving international system. The influence of a conservative approach would be strengthened through coordination and organization. There is also a possibility that the East Asian member countries more likely to support more intrusive forms of international norm and institution-building would moderate their support in the interests of group unity. Thus there is a potential for increased divergence and tension between East Asia and the West over the predominant notions of appropriate norms and rules for the international system.

Second, East Asian regional cooperation could serve important regional order-keeping functions. Many global regimes are weak and require reinforcement at the regional level. Even in the internet age, geography has an impact, and neighboring countries are most likely to perceive a direct stake in each other's well-being. This was reinforced in the East Asian region by a perceived lack of concern by the United States and Europe as contrasted with the significant regional contributions to the international financial support packages.

Rooting regional security more in indigenous institutions and less on outside power is probably much further in the future... [T]he key security relationships are currently found in the Japan-China-U.S. triangle. China's rapid rise is occurring in a region that lacks firmly established, integrating institutions like the European Union that help build trust. Asia has no security community in the trans-Atlantic sense of a zone of peace in which resort to violence has become virtually unimaginable. The building of such a community could be the outcome of the now nascent forms of regional cooperation. This would be a truly historic contribution to regional and global order, but since it involves shifts in basic attitudes and in polit-
...as the linkages of East Asian countries with the international system have intensified so too have the linkages within the East Asian subsystem. There is no natural leader in this subsystem. Japan remains by far the largest and most technologically advanced economy, but it has either been constrained or constrains itself from seeking a strong leadership position. China is by far the region's largest nation, but it has many domestic priorities and is still only partially integrated into the international system. The ASEAN group has taken much of intellectual leadership for establishing institutional processes and has historically the longest and most intimate contacts with the Western powers. Because of its geopolitical position, South Korea may play a leadership role in developing forms of Northeast Asian cooperation.

These observations suggest the importance of reaching beyond Japan in connecting East Asia to Trilateral dialogue and research. East Asia is an essential partner in a continuing effort to build international cooperation in the management of global problems.

The above excerpts are taken from Charles E. Morrison's introductory essay over the draft Study Group papers for the Tokyo meeting. Charles E. Morrison is President of the East-West Center and Coordinator of the Trilateral Commission Special Study Group on East Asia and the International System.
SECTION 2
PEACE AND SECURITY IN
THE EARLY 21st CENTURY

The formal title of the broad session on the final morning of the Tokyo meeting was "Beyond American 'Hyperpower': Global Governance in the Early 21st Century." The opening presentations by Thierry de Montbrial, William Perry, and Kiichi Miyazawa are presented in this section. Former U.S. Secretary of Defense Perry chose to concentrate on security and stability in the Asia-Pacific region in the first decade of the new century, which drew together several strands from earlier Tokyo meeting sessions. The American security strategy has been of central importance in the stability of the Asia-Pacific region over the past two decades or so, Secretary Perry argued; but "profound events...are undermining this strategy" and we are "struggling to formulate a new strategy for...an era for which we do not yet have a name, much less a strategy." Japanese Finance Minister Miyazawa also concentrated on the Asia-Pacific region, on the roles of Japan and the United States, and on the "two major uncertainties in this part of the world," namely North Korea and China. As noted elsewhere, former Prime Minister Obuchi had intended to give a major speech to the Tokyo meeting looking toward the July 2000 G-8 Okinawa Summit. As a senior member of the Obuchi and Mori Cabinets, Finance Minister Miyazawa also recounted the events of the days following former Prime Minister Obuchi's stroke. Thierry de Montbrial was the only speaker to take up specifically the notion of American "hyperpower." He also took up several other key aspects of the "state of the international system at the beginning of the twenty-first century."

WILLIAM J. PERRY

Security and Stability in the Asia-Pacific Region

Somehow, we all managed to survive the dread Y2K bug. The collapse of our computer-controlled infrastructure that some had predicted did not occur, and we are now safely into the twenty-first century. The century we are leaving behind was a remarkable century—full of triumphs and full of tragedies. The tragedies included the two most destructive wars in history, as well as a cold war. Indeed, if deterrence had not worked, the Cold War could have led to the supreme tragedy—a nuclear holocaust that ended civilization. But the triumph was that deterrence did work, and we did survive the Cold War.

The century also saw the collapse of many of the great European monarchies and the tragic emergence of fascism and communism. But by the end of the century, democracy was on the rise—surely a hopeful note on which to begin the new century.

The twentieth century also gave us the Great Depression—an economic tragedy of unprecedented depth, length, and extent. Indeed, its consequences were so profound that it raised questions about the viability of the free market system. But by the end of the century, market economics was in ascendency everywhere. It is well established and clearly successful in North America, Western Europe, Japan, and the Tiger countries, and is rapidly evolving in China, South America, and Southeast Asia.

And the century saw unprecedented developments in technology: airplanes and helicopters; missiles and space vehicles; radio and television; computers and the Internet; antibiotics and bioengineering; nuclear fission and nuclear fusion. All of these remarkable developments were a product of the twentieth century. The tragedy was that this technology was
used to create weapons of unprecedented destructive power. To date we have avoided the widespread use of these weapons, which is a qualified triumph. But the unqualified triumph of technology is that it has created vast amounts of new wealth, thereby fueling the economic engine that has brought an unprecedented prosperity to much of the world. And there is much more to come—the computer and semiconductor revolutions still have a full head of steam. And the remarkable and explosive growth we have seen these past few years in the Internet is only the tip of an iceberg. Even though the Internet is the subject of extravagant investments and much hype, it is unlikely that we are overestimating the transforming power of the information revolution it is spearheading. Five hundred years after the information revolution brought on by the introduction of the printing press, we truly have started a new information revolution. And no one yet fully grasps just how profound will be the economic, social, and political consequences of the new information age that we are now entering.

**The United States and Asia-Pacific Security**

I began my talk by painting a very broad canvas of the triumphs and tragedies of the twentieth century, as well as the challenges and opportunities of the coming century. Now I want to zoom in on specific aspects of that canvas. I will consider the security and stability issues that we will face in the first decade of the new century and, specifically, what role the United States can or should play in maintaining that security, especially in the Asia-Pacific region. For more than two decades the Asia-Pacific region has enjoyed a unique period of security and stability, which made possible the unprecedented growth and prosperity of the region. This phenomenon was similar in some ways to the growth and prosperity enjoyed by Western Europe during the 1960s and 1970s. There the security and stability underlying the economic growth were provided by NATO. Today NATO is undergoing a dramatic transformation with consequences for European stability that are not yet predictable. The ongoing transformation of NATO is certainly a vital issue, but one which I do not now have time to discuss.

Today I will focus on the Asia-Pacific region, in which there is no security institution comparable to NATO; and, in my judgment, that situation is not likely to change. In the absence of such a regional security institution, I believe that security and stability in the Asia-Pacific region have been a consequence of the American security strategy for the region. In particular, for the last two decades, America's security strategy in the Asia-Pacific region has had three components: America's bilateral treaties in the region, attended by a strong forward deployment of military forces; America's engagement with the PRC, based on the "One China" policy; and America's actions, in conjunction with its allies, to prevent the spread of nuclear weapons in the region.

**Undermining Forces**

The good news is that this strategy has worked very well and the region has prospered. The bad news is that profound events—many of which are not under the control of the United States—are undermining this strategy. Today I will highlight these undermining forces—forces that could lead to conflict in the region.

**Long-lasting Prosperity under Question**

The first undermining force is that the long-lasting prosperity in the region, which has provided the political basis for support of the American strategy, is now under question. The Asian financial crisis that hit many countries in the region brought that question front and center. Most of the countries afflicted by the Asian financial crisis have made at least partial recoveries this past year, but it is now clear to all nations in the region that their financial health can be affected to some degree by the financial mismanagement of their neighbors. The financial crisis only added to the problems that Japan has had trying to pull out of the financial recession that it has been in for most of this past decade. And this recession is not just Japan's

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**THE GOOD NEWS IS THAT THIS STRATEGY HAS WORKED... THE BAD NEWS IS THAT PROFOUND EVENTS...ARE UNDERMINING THIS STRATEGY.**
problem, since Japan plays a critical role as a financial engine for all countries in the region. China was relatively unaffected by the Asian financial crisis, but it appears that, for unrelated reasons, their long-lasting economic boom may be fading. Real growth in China has been down these past two years, probably more than the official figures indicate. More significantly, the accession of China to the World Trade Organization will inevitably expose the inefficiencies of their state-owned enterprises. The government’s attempts to make these enterprises efficient enough to be competitive in world markets will be an enormous undertaking. At best it will be a wrenching experience; at worst, it could result in vast unemployment, with attendant social and political unrest that could affect the security of the entire region.

U.S.—China Confrontation?
A second development that could upset security and stability in the region is that the engagement between the United States and China could revert to confrontation. Today China is rising as an economic, political, and military power in the Pacific. And that has led to areas of confrontation with the United States.

The flashpoint in United States–China relations, of course, is Taiwan. Just how dangerous this flashpoint can be was demonstrated during the 1996 presidential elections in Taiwan when Chinese military forces conducted extensive exercises, apparently with the intention of putting pressure on Taiwan. This pressure culminated in March 1996, a few weeks before the Taiwanese elections, with a series of live missile firings that impacted just a few tens of kilometers from Taiwan. The United States believed that this action violated the “no use of force” aspect of the “One China” policy, and was a threat to the stability of the entire region. As a consequence, President Clinton authorized me to send two carrier battle groups to the region. This crisis passed with no incident between American and Chinese military forces, and by the end of 1996 engagement was again underway.

Then last year, a whole series of incidents occurred which caused a major setback to engagement. Premier Zhu Rong Ji, in his visit to Washington, had expected to get an agreement on Chinese membership in the World Trade Organization, but went home empty-handed. This clearly reduced the influence of Zhu, and his reformist supporters, and as a consequence, set back engagement, even after the eventual United States agreement. Premier Zhu’s visit was followed by the accidental bombing of the Chinese embassy in Belgrade, which Chinese government officials seem to believe was deliberate. During this same period, the American Congress made public a report that accused the Chinese government of conducting a systematic and extensive program to steal military secrets from the United States. Then Taiwan’s President Lee Deng Hui stated that the relations between China and Taiwan should be as “two states.” The Chinese, regarding this as a virtual declaration of independence, responded by cutting off the cross-strait talks with Taiwan.

Just three weeks ago, the Taiwanese conducted another presidential election. This time the Chinese did not resort to missile firings, but rather tried intimidation by inflammatory rhetoric, apparently trying to discourage the Taiwanese from electing Chen Shui-bian, the candidate of the Democratic Progressive Party. However, it appears that this rhetoric backfired, since Mr. Chen, who was trailing James Soong when this rhetoric started, was elected with a 3 percent plurality. It is too early to forecast the actions of either the Chinese government or the new administration in Taiwan, but I fear that the situation could lead to a crisis more dangerous than previous crises. The People’s Liberation Army has stated that their new strategy will be to increase their offensive capability—their ability to project military power. It is not hard to imagine that the motivation for this new strategy is to achieve a credible capability to put military pressure on Taiwan. One consequence of this strategy has been the buildup of Chinese missile forces across the strait from Taiwan. In response to this threat, Taiwan has requested that the United States supply them with additional military equipment,
...I AM TODAY MORE PESSIMISTIC ABOUT THE FUTURE OF UNITED STATES–CHINA RELATIONS THAN I HAVE BEEN FOR SEVERAL DECADES.

including air defense and missile defense systems. The United States has not yet made a decision on this request, and China has stated that the deployment of missile defenses would spark an arms race in the region. In fact, they have already begun discussions with Moscow about acquiring some of Russia's strategic capability, including sophisticated penetration aids. I share the Chinese concern over the deleterious effect of an arms race in the region, but I believe that if an arms race does get underway it will have been stimulated by the extensive deployment of missiles, not the deployment of missile defenses. And I have suggested to the Chinese that the best way to avoid such an arms race is for them to declare a moratorium on the further deployments of missiles that target Taiwan. However, it is clear that they are not taking this advice and are in fact accelerating the deployment of missiles targeted at Taiwan, which in turn adds to the pressure in the United States to supply missile defenses to Taiwan. Thus there is a potential for a new arms race starting in the Pacific. As a result, I am today more pessimistic about the future of United States–China relations than I have been for several decades.

The Changing Nuclear Calculus and North Korea

A third major concern with our past security strategy is that the nuclear calculus has undergone a change. For most of the last few decades, nuclear weapons played no explicit role in the region's security. But in the last few years, this has changed, and the only question is how far-reaching the changes will be. India and Pakistan have now tested nuclear weapons and declared themselves to be nuclear nations. They have programs underway to adapt this nuclear capability to delivery systems, including ballistic missiles, and to produce these weapons in some quantity. It is only a matter of time until they deploy nuclear-tipped ballistic missiles, and I believe that this greatly increases the danger that they will be used, either in anger or through a failure of command and control.

There is another example of proliferation in Asia, one that could be even more dangerous. Five years ago, the United States and the Republic of Korea came close to a military conflict with North Korea over their nuclear program. The North Korean nuclear facility at Yongbyon was about to begin processing nuclear fuel, which would have provided them with enough plutonium to make about a half-dozen nuclear bombs. The United States believed that the introduction of these nuclear weapons could upset the deterrence posture on the Peninsula and were within a day of imposing severe sanctions. But North Korea said that they would consider the imposition of these sanctions as an act of war, and proclaimed that they would turn Seoul into a "sea of flames." Some argued that this was only rhetoric, but as Secretary of Defense at that time, I believed that this threat had to be taken seriously. So I undertook a detailed review of our war contingency plan and began preparations for sizable reinforcements to our troops in South Korea. In the event of a war, I was confident of a decisive allied victory, but one not without high casualties on all sides. Fortunately, that crisis was resolved not by war, but by diplomacy, which led to an agreement known as the Agreed Framework. The Agreed Framework provided for a freeze at Yongbyon, followed in time by the dismantlement of those facilities.

Today the nuclear facilities at Yongbyon remain frozen. That result is critical for security on the Peninsula, since during the last five years those facilities could have produced enough plutonium to make many dozens of nuclear bombs. However, the dismantlement of Yongbyon awaits construction of the light water reactor called for in the Agreed Framework, and that construction is still several years away. Therefore production of plutonium could restart in a few months if the Agreed Framework were to be terminated.

A little over a year ago we appeared to be headed for another crisis like the one in 1994. North Korea had begun the serial production and deployment of a medium-range ballistic missile capable of reaching all of Japan.
Additionally, they undertook the design of two long-range missiles that could reach targets in parts of the United States, as well as Japan. These missiles aroused major concern in both countries because we believed that the North Koreans would employ nuclear warheads on them. This concern came to a head more than a year ago when North Korea flew one of these missiles over Japan in an attempt to launch a satellite. This test firing provoked a strong reaction both in United States and Japan and led to calls for a termination of the funding which supported the Agreed Framework. But if the Agreed Framework were to be terminated, there is no doubt that North Korea would respond with a reopening of the nuclear facility at Yongbyon. And this in turn would allow North Korea in a few months to produce the plutonium that would allow them to put nuclear warheads on their missiles.

During this turbulent and dangerous period, the United States Congress called for, and President Clinton agreed to establish, an outside Policy Review President Clinton asked me to head this review. I accepted this unwelcome request because I believed that getting this crisis resolved was vitally important for Americans, for Koreans, for Japanese—indeed, for all nations in the region. In the course of the study, I had extensive consultations with our allies, Japan and the Republic of Korea, beginning the very first week of the study. Most importantly, six of these meetings were held at a tripartite level, which I believe made a very significant contribution to our success. In fact, whatever else results from the study, the new trilateral cooperation is in and of itself a very significant development.

The first conclusion of the study is that the military correlation of forces on the Korean Peninsula strongly favors the Allied forces, even more than during the 1994 crisis, and I believe that this is understood by North Korea. Therefore, deterrence is strong—but it could be upset by the introduction of nuclear weapons, especially nuclear warheads on ballistic missiles. The second conclusion is that there has been no production of fissile material in North Korea since the Agreed Framework came into force—but that production at Yongbyon could restart in a few months if the Agreed Framework were aborted. The third conclusion is that a security strategy based on the Agreed Framework has worked these past five years—but is unsustainable in the face of continued North Korea firings of long-range missiles, since these firings undermine the necessary support for the Agreed Framework. The fourth conclusion is that North Korea has been undergoing terrible economic hardships, including widespread famine—but these hardships are unlikely to cause the regime to collapse. Therefore, we must deal with the North Korean regime as it is, not as we would wish it to be.

Based on these conclusions, the Policy Review recommended that the allies should establish two alternative strategies. If North Korea is willing to forego its long-range missile program as well as its nuclear weapons program, we should be willing to move in a step-by-step path to a comprehensive normalization of relations. Alternatively, if North Korea does not demonstrate by their actions that they are willing to remove the threat, we must take actions to contain the threat. I think that I understand as well as anyone that threat containment is expensive and dangerous, so obviously I prefer the first strategy. But the United States cannot unilaterally enforce the first strategy since its viability depends on cooperation from North Korea.

To determine whether that cooperation would be forthcoming, our policy team scheduled a trip to North Korea late in May. We were received with courtesy and had four days of serious discussions—with a total absence of polemics. The North Koreans were clearly interested in normalization, but just as clearly conflicted—they regarded their missile program as important to security. Therefore we reached no decisions on missiles in Pyongyang.

In follow-on talks at Berlin, a few months ago, a small but positive step was taken. Both sides agreed to begin high-level talks, and each side agreed to take an action that would create a positive environment for the talks. The United States agreed to ease some of the sanctions on

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2000 TOKYO MEETING 25

If North Korea is willing to forego its long-range missile program as well as its nuclear weapons program, we should be willing to move in a step-by-step path to a comprehensive normalization of relations.
consumer products that we had imposed on North Korea after the Korean War. The North Koreans agreed to suspend missile tests while the talks were underway.

So where do we stand now? The Policy Review is finished. I have discussed its conclusions in full detail with President Clinton, President Kim Dae Jung, and Prime Minister Obuchi, who have all fully supported its recommendations. I have fully briefed key members of the U.S. Congress, who appear to be willing to give our recommendations a chance to play out. Additionally, I have briefed the Chinese and the Russians on the review and asked for their support in its implementation. North Korea has not yet set a date for the high level talks, but has agreed to restart the missile discussions, presumably to be followed by the high level talks. I have told the president that I believe that we should pursue these talks with the North Koreans seriously and creatively. But I have warned him that it will be extremely difficult to reach an agreement that will be acceptable to all involved parties: the North Koreans, our allies, and the American Congress. Therefore I have told the president that the United States should “keep its powder dry.” In particular, that we should make no reductions in military deployments or readiness during the talks.

Guidelines for a New Security Strategy
In sum, my conclusion is that the three-pronged American strategy that for the last few decades has been key to security and stability in the Asia-Pacific region is now under great pressure. But if this strategy were to fail, it is not at all clear what would replace it or how security and stability in the region would be maintained for the next few decades as they have been the last few decades. So I suggest to you that not only is the Cold War over, so also is the post-Cold War era—an era where it was sufficient to adapt and fine tune the security strategy that got us safely through the Cold War. We are struggling to formulate a new strategy for this new era—an era for which we do not yet have a name, much less a strategy I am not wise enough to define that new strategy for you today, but I do believe that there are three clear guidelines for any new strategy:
1. Because of the unprecedented destructive power of weapons of mass destruction, war cannot be an acceptable instrument of foreign policy in the twenty-first century, as it was in the twentieth century.
2. Because of the unprecedented development in technology, especially in communications and transportation, we are one world. This is not a proposal I am making, nor a theory I am propounding—it is, I believe, an existential reality. Somehow our political and economic policies must recognize that reality. In particular, it is clear that any American security strategy must be formulated in full cooperation with our allies in the region and with full consideration of the interests of other powers in the region.
3. For the foreseeable future, the United States will be world’s leader in military strength, economic strength, and technology.

The bad news is that America did not seek this leadership, and often does not know how to use it—we seem to oscillate between not using it at all or using it in ways that seem arrogant to other nations. A few years ago, during my last meeting with Israeli Prime Minister Rabin, he told me: “The U.S. is the only nation in history that has had dominant military and economic power, and did not use it for imperialistic ends.” So that perhaps is the good news—at least we know how not to use our power. I hope, in time, we figure out how to use it—and to use it in ways that benefit the security and stability of all nations, not just our own.

In the meantime, Americans should work to sustain, and other nations should come to appreciate the robustness of our free market system, the vitality of our free society, and our rejection of imperialism. These can serve as a beacon to all nations as they move forward—learning from the tragedies we all suffered in the last century and full of hope for the new century.

William J. Perry is Michael and Barbara Berberian Professor at Stanford University and former U.S. Secretary of Defense.
Kiichi Miyazawa

Peace and Prosperity through Reason and Patience

Tragedy and Political Uncertainty in Japan
I am very glad to be back here at this Trilateral meeting to join in your discussions. First, however, let me take the liberty to speak a few words on behalf of Mr. Keizo Obuchi, the former Prime Minister. He was looking forward to welcoming you Trilateral members at your opening session Saturday morning and delivering a major diplomatic speech. However, in the early hours of Sunday last week the second of April, he was not feeling well and was hospitalized. Late Sunday evening a massive stroke hit him while in the hospital. Tuesday evening, the Cabinet, on the advice of the doctors, judged Mr. Obuchi as incapacitated and the Cabinet resigned en masse. Wednesday afternoon the Parliament, as prescribed by the constitution, elected Mr. Yoshiro Mori as the new Prime Minister. On the same day the new cabinet started—the same team under the new leader.

Although there is no way to convey Mr. Obuchi’s message to you, I am certain he would greatly regret that he is unable to be here with you and would wish for the success of our meeting. I hope you understand.

This unfortunate event leads to more mundane talk of Japanese politics in the coming months. A Lower House member’s term of office is four years at the maximum, but the Prime Minister can cut that term at any time by dissolving the House. In the past, the average tenure has been about two and a half years. This year is an exception. We have served now well over three years and we have until October before the term expires. There is a summit meeting of leaders of the industrialized states this July in Okinawa. Mr. Obuchi was working hard to make it a success, even issuing new ¥2000 bills with Okinawa’s landscape on it. We had generally expected that Mr. Obuchi would attend the Okinawa Summit first and dissolve the Diet later, but now the new Prime Minister, Mr. Mori, may have a different idea. Although he has not mentioned anything yet, it is perhaps more likely than not that he will dissolve the Diet first and form a new cabinet of his own choosing and then face the summit meeting. Nobody knows yet what is really to come, but my colleagues in the Diet are expecting earlier elections than otherwise.

Whenever the election is to be held, Mr. Mori is likely to win and carry on his cabinet with the support of the Komeito Party, but this is not a foregone conclusion. There may be some glitches because some voters do not like our alliance with a religious party. But you will see it, anyway, in a few months.

Japan’s International Role in 21st Century Asia-Pacific
The international role Japan endeavors to play in the early twenty-first century is to promote peace, enhance prosperity, and improve human rights and education in the countries of this part of the world while Japan would limit its military preparedness to its own self-defense. For that purpose, the alliance between Japan and the United States is essential, and not just to our two countries, but to achieve the aforementioned regional objectives. In April 1996, President Clinton of the United
States visited Japan and issued a message jointly with then-Prime Minister Hashimoto entitled, “Meeting the Challenge of the 21st Century.” For more than a year, officials of our two governments were conducting an intense review of the political and security environment of Asia and the Pacific region before coming to the declaration of the two government leaders.

The background against which the United States was prompted to join this declaration is the analysis and recommendations of the U.S. Department of Defense paper, “United States Security Strategy for the East Asian and Pacific Region,” issued in February 1995. The interests of the United States in the early part of the twenty-first century, as stated in this paper, converge with that of Japan. It was no other than William Perry here, who issued this paper as the Secretary of Defense. Another old friend of the Trilateral Commission, Joseph Nye—as the Assistant Secretary of Defense—did an excellent job helping his boss crystallize the concept.

The paper recognized the United States as a Pacific power. Its history, geography, demography, and, more recently, trade proved that the United States is a Pacific power and must remain engaged in the Asia-Pacific region. The authors of the paper believe the United States’ presence in this area is generally welcome as a stabilizing factor. The United States will maintain 100,000 troops in the area in order, if necessary, to fight two major regional conflicts at the same time, for example, in the Persian Gulf and North Korea.

North Korea and China are the two major uncertainties in this part of the world. Regarding North Korea, Japan, the United States, the Republic of Korea, and China have worked out an informal North Korean framework agreement and are coordinating efforts through incessant dialogues. Japan just reopened a formal negotiating session last month in Pyongyang with North Korea to normalize diplomatic relations after a break in the talks of almost eight years. Japan and North Korea agreed to hold the next session in Tokyo sometime in May, although we detected no indication of any material breakthrough during the session in Pyongyang.

China’s military posture has a great impact on the expectations and the behavior of other states in this region, particularly on Japan, which has openly committed itself not to acquire nuclear weapons. China’s leaders insist their military build-up is defensive. Although there is no indication now suggesting otherwise, we would certainly welcome greater transparency in China’s defense program and philosophy. As Joseph Nye once said, treating China as an enemy would risk creating a self-fulfilling prophecy. Japan has been, and will continue, seeking to engage China and encourage its integration into the international community.

President Clinton recently appointed Mr. Perry to be his personal envoy to survey the North Korean situation and recommend an overall long-term policy to deal with a country led by an intransigent and unpredictable leader. As Mr. Perry kindly explained in great detail, after his extensive contacts, both official and personal, he advocates reason and patience—an astute recommendation to everybody involved since a mere stick-and-carrot policy will not do the job. I can say that now the peace and prosperity of this area relies very much on his wisdom and his well-considered recommendations.

Kiichi Miyazawa is Finance Minister of Japan and a former Prime Minister and Foreign Minister.
THIERRY DE MONTBRIAL

Global Governance and the International System

I think the subject of this session is really the state of the international system at the beginning of the twenty-first century, although we are still in the twentieth century these days. You can describe it either in one word or in two words. I am referring to the story of a man who asks a Russian citizen, "Can you tell me in one word what is the state of the Russian economy?" And he answers, "Good." So the first guy is a little bit surprised and he says, "Well, okay, now tell me in two words." And the Russian says, "Not good." So I had initially thought I would organize my speech in four points, but Henry Kissinger always expects me to make three points. Therefore, I will make three points, plus a conclusion, which will itself have three points.

Hegemony and American Hyperpower
My first point will be on the concept of American "hyperpower." Hyperpower, as you know, is a French word translated into English. The author of that word is Hubert Vedrine, the current French Foreign Minister. I think he did not at all mean to be anti-American when he formulated this concept. What does it mean? It means that the concept of superpower is no longer relevant to describe the United States, because the United States is not only the only superpower, but the only power ever to have the capacity to act worldwide, either on the economic scene or on the military scene. Of course, you could use other words. You could speak, for instance, of mega-power or giga-power. But the fact is that we need a new word because it's an entirely new situation. And this extraordinary achievement is due—at least in the recent past—to the admirable way the United States adjusted to the new technological revolution and its productivity achievements. It is also due to the very flexibility of its society. It looks as if the very fabric of the American society had been designed to fit with globalization, contrary to nations which are much more monolithic like Japan, for instance, which suffer a lot from adjusting to the new world. The European countries stand somewhere in between Japan and the United States.

It's also important to stress the military side of this situation. The revolution in military affairs, which is now familiar to all of us, is the military version of the technological revolution. There is, it seems to me, deliberate will on the part of the United States to preserve its military superiority, not only vis-à-vis its potential adversaries, but also vis-à-vis its own allies, which also is quite an unprecedented situation. Can we therefore speak of the U.S. as a hegemonic power? In a sense, yes. Yes in an obvious way. But I think we can qualify this yes and say, "Yes, but...."

There are two reasons. First, I think the U.S. is not driven today by an explicit ambition or by a global strategic vision comparable to that of the United Kingdom in the nineteenth century. So in a sense, it is a hyperpower without a vision or a goal. The U.S. has no clear vision about what to do, for instance, in Asia—this was mentioned several times here in the last few days—or even in Europe. But I think the most serious criticism we should address to the United States today is its reluctance to promote a vision of collective security, which is badly needed at the end of this century and the beginning of the next. And it's all the more unfortunate because the United States invented the concept of collective security at the beginning of the twentieth century in the aftermath of World War I. (And by the way, it was after World War I that the very concept of the think-tank was created in the United States. The Council on Foreign Relations in the United States and Chatham House in the United Kingdom were created just after World War I.

...THE UNITED STATES IS NOT ONLY THE ONLY SUPERPOWER, BUT THE ONLY POWER EVER TO HAVE THE CAPACITY TO ACT WORLDWIDE, EITHER ON THE ECONOMIC SCENE OR ON THE MILITARY SCENE.
Today, there are many think-tanks represented in this room.) The very concept of collective security itself is an American concept. But today, the U.S. fails to promote it, particularly within the UN system. But when I say collective security, I am not only referring to the security system in the classical political-military sense, but also in the economic sense. The discussions the last two days show how badly the United States performed recently in such areas as trade, for instance. As for the UN, of course, I could multiply the examples: the issue of payments and contributions to the United Nations; the way Boutros Boutros-Ghali, the former Secretary-General, was literally kicked out of office; the dubious legality of the Kosovo intervention. We could spend hours just discussing Kosovo, but the very way the problem was approached was a fundamental mistake. We have intervened, but what is our aim now? How will we get out of it? What is the vision behind this action? We do not want Kosovo to be independent, but we have acted in such a way that independence ultimately is the only outcome unless we stay there for twenty or thirty years militarily. So Kosovo is certainly not a success. It is a failure of the collective security system in the sense that the legal approach to the problem is just not acceptable to all the members of the world community. The legitimacy of a collective security system rests on its acceptability by all.

But there is a second reason why I think the United States is not really a hegemonic power, and this is closely related to the first. It is related to the interaction between domestic politics and foreign affairs, a very old subject. Alexis de Tocqueville, who has already been referred to, the author of Democracy in America, wrote a lot on the difficulties faced by democracies in conducting foreign policy. Unfortunately, the American political system makes it extremely difficult to have a coherent foreign policy. This is closely linked, of course, with the issues of public opinion and weak governments. Sometimes, the United States government seems too weak. Weak governments are not in a position to act in an effective way when circumstances require it. Therefore, American foreign policy is clear only when the stakes are very obvious, when American interests are involved in a very visible way. When I say "American interests" I do not mean that American interests are always in conflict with others' interests. Fortunately the degree of overlap between American interests and its allies' interests is quite high. Nevertheless, it's not always satisfactory. American foreign policy, therefore, is clear only in certain circumstances, such as nuclear weapons and weapons of mass destruction, oil and gas resources, the Middle East, Israel, and to some extent Central Asia and East Asia. Globally, however, American foreign policy is structurally unpredictable and unilateral.

Globalization, Regionalization, and European Governance
Now I come to my second point which has to do with globalization and global governance. We have used the word globalization in the last few days without defining it. So let me give you my own definition. Globalization is the tendency for an increasing number of actors to consider the whole world as their relevant chessboard, or theater of operations to use the military term. This is clearly the case for many economic agents and for many non-governmental organizations. (And by the way, all the demonstrators in Seattle who are themselves against globalization are actors of globalization. It is one of the paradoxes of the situation.) Many issues are global by their very nature, such as environmental issues and transnational crime. And we all know that globalization goes along with the increasing importance of civil society, a Western concept.

As a consequence, the way human societies conduct their collective actions is going to be deeply modified. And again, I will refer to my master in Realpolitik, Henry Kissinger, who reminded us the other day that the invention of printing in the fifteenth century provoked a number of consequences that ultimately led
to the creation of the nation-state. The invention of writing some 3,000 years ago had exactly the same effect. In my judgment, the three most important revolutions in human history are the writing revolution, the printing revolution, and the computer revolution. The whole system of nation-states will gradually, I would not say disappear, but transform into something new that we cannot forecast in detail. Our grandchildren will know it, not us. But we can observe the beginning of such transformations through regional integration. And here, I am referring not only to the European Union, but also to other such groupings as NAFTA on the North American continent, Mercosur on the South American cone, which has been quite successful, and the embryonic Asian integration that we have been discussing in the last few days. But it seems obvious to me that all these groupings, the most advanced political laboratory for integration is clearly the European Union, because we started before the others—and we started for other reasons. When we started we were not thinking at all about the computer age and this revolution.

Let me highlight some important features of the European Union very quickly. We have already achieved major sovereignty transfers, which are really astonishing, especially for a country like France. The French are said to be jingoists, but we have transferred massive powers to new entities. Practically all of our major economic powers have been transferred—trade, money, now currency, let alone the legal environment. The production of laws is more and more at the European level. And although ESDI—the European Security and Defense Identity—does not yet fully exist, there is no doubt that we are moving in that direction. We should not ridicule the goal of being able to project 60,000 troops. If we are able in the next ten years, for instance, to project 60,000 well-equipped and well-trained forces anywhere in Europe or in our near-abroad (to use the Russian expression), that would not be so bad. We have achieved in the last few years significant progress in the area of defense industry consolidation. Still, we are not spending enough. Robert Cooper yesterday mentioned that collectively, Europe’s defense budget is 60 percent of the U.S. defense budget, but has only 20 percent of its efficiency. We could debate these numbers, but be that as it may, we have an expenditure gap much more than a technological gap. These things hopefully can be overcome in the next few years.

As a laboratory the governance system of Europe is proceeding by trial and error. And here the terminology, namely, governance rather than government, is fully justified because what we are trying to achieve is something entirely new. It is a much more decentralized way of governing human societies. It looks very much like the issues we have discussed about the management of firms. We need strong strategic centers with very high decentralization. In Europe, we use the word “subsidiarity” and the subsidiarity principle just to explain this design. It is a particularly painful process for our own nation-states which are so heavily centralized. Let me give you this nice definition of centralization: congestion at the center and paralysis at the extremities. So the problem is to overcome this congestion and paralysis.

Currently, there are a number of issues confronting European governance. Daniel Janssen yesterday discussed the decision-making system, but I am slightly less optimistic than he is on the outcome of the Inter-Governmental Conference this year. At stake is not only the voting system, but also the number of commissioners. Another issue related to the massive process of enlargement is the issue of European identity. Now we stand at fifteen plus twelve plus one: fifteen current members, twelve countries with whom we are discussing membership, plus Turkey. Turkey was never considered a European country by any geographer in the last 2,000 years. I know that there are good reasons for Turkey to be a member, and like some in this room I sympathize with Turkey for a number of reasons. But once Turkey is in, why not Armenia? Why not Georgia? Why not the Caucasus? Why not Chechnya? Not to
mention Ukraine, Belarus, and Russia itself, ultimately. At some point, we have to address the issue of the boundaries of Europe. So we have an identity problem, not only a geographical problem. It's also a cultural problem.

Let me say one brief word here on Haider and the Austrian situation. The Germans are now promoting the idea of a constitution for Europe and they are right to do so. If we had had a constitution for Europe, Mr. Thomas Klestil, the Austrian President, would not have had to write a declaration of his own mentioning the democratic values of the European Union and ask Chancellor Wolfgang Schüssel, and Mr. Jörg Haider to sign it. We have an identity problem, and if we do not find answers to the questions it poses we will be in trouble in the future.

If we are successful—and I think we will be—then, sooner or later, maybe in the next ten—twenty years, the European Union should be able to deal with most European security issues essentially by itself. What will NATO become then? I would argue in favor of the transformation of NATO into an alliance between the United States and the European Union, as such, including, of course, other partners like Canada. But we cannot escape the key issue of what that new NATO would be for if it is not directed against a potential adversary? Cooper said yesterday that NATO is now based on values. But I feel very uneasy with that concept because the idea of an alliance projecting its own values is by definition neo-imperialism. Do you know any other definition? And what about the geographic scope of NATO? Some people—including many prominent American thinkers—would like to transform NATO into a worldwide alliance dealing with non-European issues. But then, how would that be perceived by other actors? How would China react to what it might consider as a potentially anti-Chinese alliance?

These are very difficult issues. I do not know, of course, what the answers are. The very survival of NATO in the long term is at stake, and the fact that NATO is today the only institutional link between Europe and the U.S. is not sufficient rationale for its survival. It would be a perversion of the very concept of alliance to say that NATO should survive just because of that reason.

The United States and the Legitimacy and Effectiveness of UN Institutions

My third point is that the development of the fabric of a new governance system beyond the nation-state means that regional institutions will become more and more important. As Fred Bergsten and others pointed out, these regional institutions should evolve in such a way that we do not see the emergence of new trade blocs and military blocs. That would be a great failure. So how do we prevent such an outcome? The only way to do that is to develop interlocking mechanisms among the various regional institutions and put them into a broader legitimacy framework.

And here, we are back to the United Nations. I think the points made by Sergio Vieira de Mello about the United Nations have to be made much more forcefully. The United Nations is the legitimacy system. We have actually two dimensions in the United Nations system—legitimacy and effectiveness. To be legitimate, we certainly have to drastically reform the permanent membership of the Security Council, probably by enlarging it to include Japan and maybe others like India, or canceling the veto system. If we maintain the current veto system, paralysis will be the only possible outcome when serious problems arise, especially if the troublemaker is a permanent member of the Security Council. So we have to think along these lines. But nothing will happen if the United States continues to deal contemptuously with the United Nations system. On the issue of effectiveness, the problem here is allowing the Secretary-General to deal more quickly with issues that are not perceived as major national interest issues by the major UN members.

But again, this can be achieved only if the United States takes collective security seriously. It is really a major issue and related to
it are the other problems which were more or less briefly mentioned, such as the International Criminal Court. The United States, Russia, and China have not yet even signed the treaty, which is not ratified. Even though there are some problems related to sovereignty, in this new world there is no doubt, whether we like it or not, that the sovereignty principle is gradually becoming more and more obsolete. So we have to think along these lines.

Culture, States, and Continuity in the International System

And now, I come to my conclusions. First, the concept of cultural identity is very close to the concept of the nation-state, but if we are not clear-minded about this concept of cultural identity, the degree of fuzziness will increase as the international system evolves. And here I was a little bit dissatisfied with what Yoriko Kawaguchi called "the market theory of culture," brilliantly presented to us by Mario Vargas Llosa. The point is not, in my judgment, Asian values versus Western individualism. Culture is the particular way each of us approaches universality. I would use St. Thomas Aquinas’ concept of habitus in the Summa Theologica, rejuvenated by the well-known French sociologist Pierre Bourdieu, to describe this approach. The way we act and move in this world is largely determined by our basic culture. A few sophisticated individuals can pick up a menu of cultures, but even Mr. Vargas Llosa has a main course. We are very much dependent on our basic initial culture. The view that this culture should not become an excuse for developing nationalism is absolutely correct. But I think we should further deepen this concept. We are not at ease with the debate on cultural identity, but it’s really a key issue for the future.

Second, in spite of globalization, states remain the main actors of international relations. (I belong clearly to the neo-realist school of International Relations in the line of another of my masters, Raymond Aron.) But clearly the format of nation-states is also changing rapidly and relates to Gordon Smith’s concept of “altered states.” States have to reshape themselves, both internally and externally. Internally, some do it through the Third Way; externally, it supposes the development of cooperation in many new ways, which means it’s something entirely new for conducting international affairs.

Last, I would like to stress that globalization is not a uniform process. We are still very far from Marshall McLuhan’s global village, which is nonsense in many ways. The geographic distance is not equal to the psychological distance. For instance, the former Yugoslavia may be very close to Europe in geographical terms, but it’s very far away in psychological terms, as is Russia and many others. So we have to be very careful not to project our way of looking at the world and think that it holds true worldwide. It may be so in 100 or 200 years. But certainly not today.

And finally, I think we should beware of the simplistic Fukuyama kind of equation: Free markets plus democracy leads to peace and prosperity. The problem with this platitude is that each of the four concepts mentioned, namely, free markets, democracy, peace, and prosperity, raise a number of big difficulties. For free markets, the problem is how to get from here to there. That’s the Russian problem. For democracy, there are many different forms of democracy and ways of achieving it. A problem that no democracy to my knowledge has ever solved is how to deal with real minorities. Even the French are not able to solve the Corsican issue. How can we pretend to give lessons to the Russians on how to deal with Chechnya? How can we pretend to bring solutions to the Bosnia problem or to the Kosovo problem? As far as peace is concerned, who on earth is able to give a satisfactory definition of that concept? As for prosperity, it never goes without inequalities and therefore new problems of security. So this equation, unfortunately, doesn’t provide solutions.

My general conclusion is that, after all, the world has not yet entirely changed.

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SECTION 3
THE UNITED NATIONS AND GLOBAL GOVERNANCE

SERGIO VIEIRA DE MELLO

Global Governance and the UN

I have been invited to address a number of themes relating to the role of the United Nations in global governance, touching also on the question of the reform of the UN.

You will forgive me, I hope, if my remarks are somewhat contrarian, as well a little contradictory. Contrarian, because whereas it is of course customary to think of the UN as the major global institution, I will in fact raise some doubts as to the depth—in some areas—of the UN’s actual role in global governance—and even raise some cautionary thoughts about the concept of global governance itself. Contradictory, because having done so, I will reflect on my own recent experiences, particularly my role in the establishment of the UN’s operation in Kosovo and my current role in East Timor—two operations where the governance role of the UN is greater than it has ever been in the past.

I will end, as per my invitation, by spending a couple of moments on the question of UN reform, and the possible support role of the Trilateral Commission in that regard.

Global Governance: Some Initial Thoughts and Concepts

Let me reflect initially on the concept of global governance. I shall first make a very general comment: I personally see no incompatibility between globalization, successful regionalism, strong nation-states and thriving sub-national communities as
long as democracy and compromise prevail at all levels. That is where the UN can make a difference.

To narrow the focus somewhat, I think it worth reflecting on two points.

The first is that dissecting the different debates, one identifies two major threads of debate: One is on the role of the international community in addressing governance challenges within a national or sub-national framework—that is the role of the international community in supporting democratic reform in national governments; and the other, different though clearly related, a debate on the governance of the international community itself.

One of the most interesting issues to think through is where and when these two threads connect or disconnect—indeed I will end my remarks by highlighting what I think is a major disconnect between the way we manage our international governance institutions, and the reforms we are, through them, urging on national governments and communities.

Although the range of topics one can tackle under the rubric of governance is exceptionally broad, there are three sets of issues which dominate the debates and to which I would like to confine my comments: namely, first, the questions of security; second, economic issues; and third, legal or regulatory questions. The UN has a role—of varying degrees of importance—in each of these areas, which I will address in reverse order.

I said at the outset that I would be somewhat contrarian and question the actual scope of the UN’s role in global governance. The UN’s role in these three sets of issues differs very greatly.

Legal and Regulatory Architecture

Perhaps where the UN has had most impact on global governance is in the realm of legal and regulatory reform. Here I am thinking of a number of different UN initiatives, which have begun to take root and, if nurtured by such actors as the members of the Trilateral Commission, could end up having a major impact both on the management of international relations, and on national and local governance systems. One thinks of the UN’s work on climate change, on the law of the sea, on biodiversity, on natural disaster management and reduction—in these and related environmental fields, UN summits, such as the Rio Summit, represents a new process whereby states and state-sponsored organizations come together—sometimes in harmony, sometimes in conflict—with scientists, technical experts, social movements, NGOs, to forge new global consensus about the way we manage our natural environment. It is surely through this kind of coalition that progress will be made in the realm of global governance, using the UN as a springboard to reach global constituencies rather than simply through the UN merely as an intergovernmental institution or other multilateral fora alone.

The environmental efforts of the UN have been well documented and are very familiar, but they are only one small corner of the ongoing work of the UN to develop regulation across jurisdictions that allows peoples to communicate, interact, and protect their common interests in a host of dimensions.

Of course, one of the most important areas where the UN is striving to make progress in developing new laws and new regulatory regimes is in the area of human rights and on the international law of war crimes. It is far too early to say what impact these efforts will have—certainly, the development of international agreements on social, economic, civic, and political rights has not stopped massive human rights abuses from being a major feature of this quarter century since they were reached.

Most recently, however, the decision to create an International Criminal Court represents a potential breakthrough—the possible development of a major tool through which to launch a new era of actual enforcement of the myriad laws and norms we have created. I would say that if the Trilateral Commission were to choose to put its efforts

2000 TOKYO MEETING
into ensuring only one reform or innovation in the realm of global governance, the creation of an effective, independent International Criminal Court is the one place where you would be most likely to be contributing to the creation of a more just, more secure, more stable—and therefore more prosperous—world. It is, in fact, a global shame that such a Court does not yet exist, as the century of genocides, war crimes, and crimes against humanity has just come to an end. The century I said, not the crimes I am afraid. Your respective governments and parliaments have a categorical imperative to follow: the ratification of the Rome Convention on the establishment of the Court.

**Economics: Limited UN Role**

In a room filled with distinguished and experienced economists, it would be presumptuous to belabour the point that it is in the economic sphere that the role of the UN is perhaps at its most limited. What is the power or even the influence of the UN compared to a major international corporation? Compared to the major stock exchanges? Compared to the credit-rating bodies? Even compared to other international organizations such as the IMF or the World Bank—-with which, incidentally, we work in remarkable cohesion in East Timor? Or to the WTO or to an even smaller but mighty club, the G-7? It is, in brief, very limited.

There can be little doubt that it is the complex of public and private sector forces in the countries represented in the Trilateral Commission that are the real source of economic clout in the world today, and the main potential engine of good or bad international governance. Yes, your power entails responsibility and accountability in terms of national and global governance. This pertains to both the question of how we manage international finance—the question of the creation of a new international financial regime—and to the somewhat wider question of economic development both at the global level and at the national or, increasingly, at the sub-national or community level. It is really your responsibility—working in part through such international organizations as the IMF, the World Bank, and regional development banks—to ensure that we have a responsible international financial regime that can sponsor growth but also protect against crises. A rescue plan for weaker economies and financial systems, as someone suggested yesterday, must be in place, similar to standby arrangements we have in response to natural disasters. In so saying, however, I would urge on you one consideration: that unless the major economic powers take into much greater consideration the growing reality of disparities of income both within and between countries, we run the very real risk not only of consigning literally hundreds of millions of people to a life of pauperism, we also risk disrupting the very architecture of global growth itself. We know from our own national experiences that we cannot sustain uneven growth and grossly inequitable development; we must apply that knowledge to our international efforts. This is perhaps the area where the Trilateral Commission can lend its most effective support to the strengthening of the UN's role, not in managing, but in inspiring global economic and development governance.

**Security: Limits and Opportunities**

Finally, what of the role of the UN in governance as it pertains to security?

We all know the history of the evolving role of the UN in international security matters. After many euphoric ups and some tragic downs since the early '90s, in the last year, we have seen a new resurgence of the Security Council's activism with missions in Kosovo, East Timor, Sierra Leone, and the DRC. However, in the crucial case of Kosovo, the Security Council was initially by-passed.

Currently, the Security Council is highly constrained and able to act only in the rare circumstances when all or almost all the permanent five powers agree. This in part is a
simple reflection of a changed international order, wherein the United States is the world’s only “hyperpower.” While some within the U.S. recognize that the UN is a valuable ally, able to provide a collective framework for tasks—such as engagement in East Timor—that the U.S. could not do alone, other stronger voices query why the U.S. should subject its decisions about the use of its own force to a veto or even verbal questioning by Russia, or China, or France—or for that matter, anyone at all. The Security Council—I speak very frankly here—is in danger of becoming increasingly sidelined and a relic of a bipolar era. Reforming the Security Council to reflect more closely the distribution of political and economic power in the world today—that is of course the major reform needed in the UN. Conversely, no reform of the Council will suffice as long as its supremacy can be challenged.

But of course there are still moments when the Security Council can act, and act in a robust way—and I have been privileged to be involved in a very direct way in two of the major instances of Security Council action in the recent period, namely in its actions on Kosovo and on East Timor.

In Kosovo and East Timor, let me emphasize, we are involved in every aspect of the governance in these territories. We have spent much of the past few weeks negotiating with Australia on exploitation of oil resources in the deep-sea Timor Gap, and establishing a framework for judicial cooperation with Indonesia. At the same time we’ve been issuing legal regulations on everything from legal currency to customs and immigration. We are managing social services, the public utilities, prisons, we are responsible for the airports and the ports; we are struggling to create a fresh judicial system, a fiscal authority, a payments office, a taxation regime, a new police force for East Timor. And we represent East Timor internationally. We do all these things in the fullest consultation with the East Timorese (and in particular in consultation with such estimable leaders as Xanana Gusmao and Jose Ramos Horta—whose support, friendship and cooperation has been invaluable), but nevertheless, we, the UN, are involved in, and responsible for, every detail in the governance of East Timor.

The same thing, to a large extent, is also true in Kosovo.

Both in Kosovo and East Timor the UN faces extraordinary challenges. We are struggling to act as governments, attempting to apply universally-accepted norms of governance, but with absurdly limited resources. We have been very grateful for the support we have received both in Kosovo and in East Timor, and the UN’s efforts continue to be supported, primarily by countries represented in this room and, I know, by some of you, in your personal or official capacity. But we cannot escape the reality that we are administering these two territories with missions that were simply not prepared to assume such a broad range of governmental responsibilities. In both cases, we have improvised and that is simply not acceptable. The Secretary-General has established a panel to draw the lessons, positive but especially negative, from recent peace-keeping and peace-building operations.

A further point is the fact that the UN’s presence in both Kosovo and East Timor was a function of a critically important role the UN has played in two different aspects of governance in the security realm—namely the achievement of self-administration in one case and of self-determination in the other, and the expansion of the so-called and somewhat battered concept of humanitarian intervention. While the two cases differed very dramatically in the politics surrounding the eventual authorization of a UN role, in both instances the bottom line is that these two major military, political, and civilian efforts were undertaken by the international community to halt and deter massive human rights abuses against a civilian population and to enable it to enjoy and exercise its civil and political rights. This represents a major
evolution in the history of collective security, thus of global security governance, even though I am aware that the notion of an international right to “intervene” on those grounds remains controversial.

But let me also be very clear—every evidence suggests that Kosovo and East Timor are rather exceptional, and perhaps not evidence of a new resurgence of global peace-keeping and peace-making roles. Indeed, it is very striking that the basic agreement over Kosovo was reached not within the confines of the Security Council, but rather through the G-7—an innovative political use of an exclusive economic club that highlights some of the very real limits of the UN. On East Timor, the happy circumstance—albeit if only after the tragedy—of wide consensus within the international community, a compelling situation, the leadership of certain countries—these all combined to allow the UN to play what I believe will be a very constructive role. But these—as far as we can tell at this point in current history—are exceptions, not the rule.

Trilateral Commission members must use their authority and influence to reaffirm the central—I said central, not exclusive—role of the UN in the preservation and restoration of international peace and security.

**UN Reform**

Allow me, before I conclude, to touch very briefly on the question of UN reform, and what role the Trilateral Commission can play in that reform. Let me mention a couple of elements of UN reform that the Trilateral Commission can further.

My friend and colleague Mark Malloch Brown has begun to reshape the UN Development Programme precisely by trying to focus its efforts on governance. I believe he has correctly identified the prospect of a strategic alliance with the World Bank on this issue which, in East Timor, we have extended to the IMF and the Asian Development Bank. For all of their wealth and clout, the international financial institutions were poorly placed until recently to be counselors on governance issues to most of their clients; the UNDP, despite its very limited resources and influence, is very well-placed to play that role. As we are trying to demonstrate in East Timor, global institutions such as the UN, the World Bank, and IMF can, must promote global values and norms, particularly but not limited to, through the implementation of specific peace-building mandates of the Security Council.

Your support will also be critical to the efforts of this Secretary-General, who has already made major reforms of the organization, to deepen those reforms. Without them the UN runs the very real risk, which I experience every day, of becoming irrelevant. More importantly, the reform should be one of culture and attitude: the UN must open itself to new forces, new alliances, new webs to promote, rather than merely validate its principles, particularly through a greater involvement of women and youths, which I consider forces of progress. Failing that, the concept of global governance will, sooner rather than later, turn out to be hollow, futile, deceptive, like so many catchwords in recent decades.

**Concluding Comments**

Thus I end my remarks not on the high-minded concepts of governance but on the need to reform actual management and governance of our institutions themselves. It is only on the basis of sound institutions that we can hope for the UN to have any substantive role in the promotion of better global governance. We will no doubt continue to play a role in facilitating consensus among states. And in exceptional circumstances, such as in Kosovo and East Timor, we will make what I hope will be significant contributions to governance in these local settings.

As I was preparing to leave Dili to join you here, the Secretary-General, Kofi Annan, issued his Millennium Report entitled *We the Peoples*, which is forcefully focused on the
human dimension of our global reality. Not surprisingly, the themes are the same, not because great minds think alike, but simply because global priority concerns are obvious.

But the Secretary-General and the organization he leads can only succeed in the global governance agenda of the next century if interests converge in all of these survival areas: economics and development, human rights and security, a sustainable earth environment, and a renewed United Nations.

Let me appeal to you, the Trilateral Commission individual members, to play that vital, literally global emergency ward role, of bringing convergence about, not only among developed societies of the North, but between them and those of the South. When I say South I mean many things, many cultures, many countries where I have served, but it can be summarized in two words: Brazil and Timor. Brazil because it is my country and it encapsulates many if not all of the contrasts, contradictions, hopes, and misery that mirror the globalization process. Timor, because Kofi Annan put me in charge of that tiny country, on its long and traumatic journey to independence, and whose people should be the first beneficiaries of ethical global governance in the twenty-first century, in all the areas I have reviewed.

Coming back to my contrarian starting point, global governance far exceeds UN responsibility. The UN is an instrument, a frame, an engine as dynamic, as conciliatory, as innovative, as successful—in global and local terms as the two extremes of the spectrum—as the Secretary-General, and yourselves, concerned individuals, and all shades in between—primarily, but not exclusively, states—wish it, allow it, make it to be.

Sergio Vieira de Mello is Under-Secretary General of the United Nations, Special Representative of the Secretary-General, and Transitional Administrator of East Timor.

As noted elsewhere, before he was disabled by a stroke, Prime Minister Obuchi planned to give a major speech at the outset of the Trilateral Tokyo meeting setting out the agenda for the July G-8 Summit in Okinawa. A large part of the Okinawa Summit agenda will be devoted to the challenges of globalization and how the leading industrialized democracies should respond to them. The session of the Tokyo meeting opened by Keizo Takemi, Mario Vargas Llosa and Fred Bergsten (whose opening presentations are set out below) was framed with this large part of the Okinawa agenda in mind. Mario Vargas Llosa took up culture and globalization. Keizo Takemi put his remarks in the framework of “human security” in the context of globalization. Fred Bergsten, with special attention to the world economy, focused on the backlash against globalization.

MARIO VARGAS LLOSA

Local Cultures and Globalization

One of the most frequent arguments leveled against globalization was the one used during the controversial riots in Seattle, Davos and Bangkok and it is as follows: With the removal of national frontiers and the advent of an interconnected world through the creation of international markets, a deadly blow will be dealt to national and regional cultures, traditions, customs, religious beliefs and other benchmarks of behavior that are the determinants of a cultural identity in a country or community.

The inability of some countries to resist the avalanche of culture-laden products that necessarily trail behind international corporations from developed countries, or should I say
more specifically from one particular superpower, the United States, will mean that the North American culture (arrogantly labeled by some as a "sub-culture") will eventually reign supreme, casting a blanket of uniformity over the world and suffocating the rich panoply of other existing cultures.

In this way all peoples, not only the weak and defenseless, will lose their identity, really meaning their soul, and will be occupied, becoming the colonized nations of the twenty-first century, clones or automatons caricaturing the cultural model of the new imperialism which as well as using the power of money, technology, military might and scientific know-how to reign over the planet, will also impose their language, their beliefs, their creeds, their lifestyle and their dreams, on all of us.

This quasi-Orwellian nightmare of a neutered world devoid of its cultural and linguistic diversity, homogenized by the United States is not, as some would have it, the exclusive domain of extreme-left political minorities still dreaming of Marxism, Maoism or third-world Guevarism, nor is it the result of a persecution complex sparked by jealous hatred towards the American colossus. It is also found in developed countries with a high degree of culture, sharing this attitude with left wing, center, and right wing political groups. The most evident case is that of France where the government carries out regular campaigns each with different ideological labels to safeguard "cultural identity" which they imagine to be threatened by globalization. There is a wide range of intellectuals and politicians who become very alarmed at the possibility of the land that produced Montaigne, Descartes, Racine, Baudelaire, and was creator and arbiter of fashion, of thought, of art, of gastronomy and in all realms of the mind and the soul could be conquered by the McDonald's, Pizza Hut, Kentucky Fried Chicken, rock 'n' roll, Hollywood films, blue jeans, sneakers and T-shirts. This fear has meant, for example, that, in France, the local film industry has been heavily subsidized and that there are frequent campaigns demanding a quota system to force cinemas to show a certain number of French films and to limit the number imported from the United States. Indeed, this explains why the municipal authorities have passed stern resolutions (though, weakly enforced, judging from what one can see on the streets of Paris) carrying stiff fines for those advertisements that corrupt Molière's language with anglicisms. Let us not forget that José Bove, the farmer turned "la malbouffe" (anti-fast-food) crusader, who destroyed a McDonald's restaurant has become almost a popular hero in France.

Even though I don't think that this cultural argument against globalization is valid, we must accept that at the bottom of it there is an unquestionable truth. The world during the next century will be less colorful and picturesque than the one we have left behind. Local fêtes, dress, customs, ceremonies, rites and beliefs that in the past have contributed to the rich panoply of human folkloric and ethnological variety, are fading away or becoming the preserve of minority and isolated groups, whilst the bulk of society abandons them, adopting more practical habits better suited to our times. This is a process that, to a greater or a lesser degree, is experienced by all countries of the globe, not due to globalization but to the modernization that eventually causes globalization. This phenomenon can be regretted and we can feel nostalgia for the eclipse of tradition and past ways of life that appear, in our eyes from the comfort of our present situation, attractive, original, and colorful. This erosion is, nevertheless, in my view, unavoidable. Even countries which have reason to dread these winds of change that could uproot their totalitarian regimes like Cuba and North Korea, in vain barricade themselves against modernity using censorship and prohibitions. Nothing seems to be able to stop these currents of change from filtering through the cracks and little by little eroding a country's "cultural identity." In theory perhaps a country could maintain its cultural identity intact as some remote African or Amazonian tribes have done, if it is determined to live, self-sufficient, in total isolation, cutting off all ties to the rest of the world. The cultural
identity thus preserved would return that society to a prehistoric lifestyle.

It is very true that progress does away with very many traditional forms of life, but, at the same time, paves the way for new opportunities. This explains why, contrary to the wishes of governments and intellectuals, the people, given the chance, choose change and freedom.

The arguments in favor of "cultural identity" and against globalization betray a stagnant attitude towards culture that is not borne out by historical fact. Do we know of any cultures that have remained unchanged through time? To find any of them one has to travel to the small primitive, magico-religious communities made up of people living in caves worshiping the gods of thunder or wild animals and who, due to their primitive condition, become progressively more vulnerable to exploitation and extermination. All others, particularly those with the right to call themselves modern or alive, have evolved into a barely recognizable image of what they were only two or three generations back. This is precisely the case of France, Spain, or England where changes in the last half century have been so profound as to make it almost impossible that Proust, García Lorca, or Virginia Wolff could have recognized the societies into which they were born and whose conditions they helped to renew.

The notion of "cultural identity" is dangerous because from a social point of view it represents an artifice of doubtful conceptual consistency, and from a political point of view it is a threat to the most cherished of all human prizes, freedom. I do not deny, however, that a group of people who speak the same language, have been born and live in the same territory are faced with the same problems and practice the same religion and follow the same customs have many characteristics in common. However, these common denominators cannot be used to define each one of the individuals and relegate their unique characteristics to second place. The concept of identity, when it does not refer to individuals but is used to represent a whole, is dehumanizing, and it becomes an all-encompassing magic word that groups individuals under one heading and deprives the unique human being of all originality and creativity, all that is not indelibly impressed in his genes, imposed by his geographical environment or social pressure but is the result of his ability to resist all those influences and balance them with acts of free will and personal invention.

In truth, the notion of collective identity, the foundation of nationalism, is an ideological fiction that for more than one ethnologist and anthropologist does not accurately reflect reality, not even in the remotest of primitive communities. No matter how important customs and beliefs may be when practiced in common for the defense of a group, the margin of individual initiative and creativity amongst its members with the objective of achieving emancipation is always wide and the individual differences prevail over the collective characteristics when individuals are examined on their own terms and not as epiphenomena of the collectivity. Indeed, one of the great advantages of globalization is that it radically broadens the possibilities that each and every citizen of this interconnected planet (homeland to us all) has of building his or her own personal cultural identity, according to his or her most intimate preferences and motivations and through voluntarily decisions. The fact is that no longer is the citizen forced, as he was in the past and still is in many lands, to accept without question the identity imposed upon her or him by language, nation, religion, etc. and of his native surroundings as if she or he were born in a cultural concentration camp. In this sense, we must welcome globalization because it notably extends the horizon of human freedom.

The fear felt by many of seeing this planet Americanized is due more to ideological paranoia than to a sense of reality. No one doubts, of course, that with globalization the importance of the English language that is now, as Latin was in the Middle Ages, the standard language of our times, will increase as an indispensable tool for international communications and transactions. Does this mean that the development of English as a common language
Those who promote this inoculation... are normally pretty ignorant people who behind this attitude hide their true obsession: nationalism.

will be at the expense of other well established languages and cultures? I do not think so. The truth is quite the opposite. The removal of borders and lure of the open world has become an incentive for the new generation to learn and absorb other cultures (now a possibility within their reach), be it for pleasure or as a necessity, given that the knowledge of several languages and the possibility of being comfortable in different cultures is a very valuable credential for professional success in our times. I would like to use, as an example of what I have been saying, the Spanish case. Half a century ago, the Spanish-speaking community on both sides of the Atlantic had hardly any links with the outside world and a very limited influence outside our traditional linguistic frontiers. Today the reverse is the case. Our language shows a growing impulse and vitality and is daily breaking new ground in five continents. This explains why we now have about twenty-five or thirty million Spanish-speaking individuals in the United States, and it also explains why at least two presidential candidates, Governor Bush and Vice President Gore, campaign not only in English, but also in Spanish.

How many million young people of both sexes the world over, thanks to globalization, have started to learn Japanese, German, Mandarin, Cantonese, Arabic, Russian, or French? Very many, to be sure. This is a tendency of our times which, fortunately, will only grow with the passage of time. The best policy for the defense of one's own culture and language is to spread them to the ends of the Earth, instead of naively attempting to inoculate them against the English infection. Those who promote this inoculation, much as they might wax lyrical on culture, are normally pretty ignorant people who behind this attitude hide their true obsession: nationalism. Human culture of whatever shape is by its nature universal and clashes with this parochial, muddled, and discriminatory vision with which nationalism tinges all cultural activities. The most admirable lesson we can learn from all cultures is that in order to remain fresh and alive they do not require protection from bureaucrats or commissioners, nor do they need to be confined behind bars or isolated by frontier police. To do this would make them wither into folklore. Cultures need freedom to stay alive. They need to be constantly exposed to other cultures that enrich and renew and inject them with renewed vigor. In ancient times Latin didn't kill off Greek; on the contrary, the artistic originality and the intellectual depth of the Hellenic culture permeated Roman civilization and thus Homer's poems, Plato and Aristotle's philosophy became known in the civilized world. Globalization will not destroy local cultures, quite the opposite; everything that is worth preserving in them will be rescued and will flourish in the new world.

In T.S. Eliot's famous essay "Notes Towards the Definition of Culture," he predicted that humanity would, in the future, see a renaissance of local and regional cultures, which, at the time, seemed improbable. Nevertheless, globalization will almost certainly prove him right in the twenty-first century. For this we must rejoice. The resurgence of small local cultures will restore to humanity a rich multiplicity of behavior and expression which during the eighteenth and nineteenth century were destroyed, sometimes more literally than metaphorically, by the nation-state, to create what was called national cultural identities. This is often forgotten or deliberately swept under the carpet due to its serious and uncomfortable ethical ramifications. These distinct cultural identities were forcibly imposed, the teaching and publication of vernacular languages were forbidden, as was the practice of any customs or religions inconsistent with that imposed by the nation-state. The result was that in the majority of countries in the world, the nation-state came to represent a dominant culture imposed upon other weaker cultures that were repressed or suppressed from official life. Contrary to what those fearing globalization seem to think, it is not easy to erase any trace of a culture no matter how small, if it is backed by a rich tradition and by people who keep the customs alive even in secret. We have witnessed, lately, how, thanks to the
weakening of the iron grip that used to characterize the nation-state, the forgotten or silent cultures have begun to re-emerge sometimes in a very dynamic shape, in this new globalized planet.

It is happening everywhere in Europe. It might be worth noting the Spanish case and the vigor with which its cultural regions are reappearing. For forty years General Franco repressed them, denied them any opportunity to express themselves and forced them underground. However, with the advent of democracy the varied cultures of Spain were once more allowed to spread their wings. The new system of Autonomies has given local culture a new boost, not only in Catalonia, Galicia and the Basque country, but also in the rest of the country. It is true that we must not mistake this resurgence of local cultures, positive and enriching as it is, with the ugly face of nationalism which, even in Spain, is a source of endless problems and a serious threat to the freedom of culture.

There is no doubt that globalization presents many problems of a political, judicial, and administrative nature and should it not come hand in hand with the spread of a healthy democratic system, it can wreak havoc with our liberties, paving the way for international terrorism and crime. Nevertheless, compared with the advantages and opportunities that it brings, cultural and otherwise, and above all for poor and backward societies searching for the fast track to decent standards of living, those problems, I repeat, instead of depressing our spirits should encourage us to face them with enthusiasm and imagination. The conviction should further encourage us that never before in the long history of human civilization have we had the intellectual, scientific, and economic resources that we now enjoy, to fight against the four evils that have been the scourge of humanity: hunger, war, prejudice, and oppression.

Keizo Takemi

Approach to the Mounting Concern of Human Security

I am grateful for this opportunity to address this illustrious Trilateral Commission on the subject of human security, a concept which holds the key to the building of the international order in the twenty-first century and is the chief concern of my work.

Globalization and Human Security

Globalization, which is the topic of this session, is often discussed in terms of a certain dichotomy: in this dichotomy, structural changes in the international community combine with startling advances in transportation, information, and communications systems to produce rapid economic growth and unprecedented prosperity. On the negative side, however, the world is beset with problems of poverty, environmental destruction, infectious diseases, and a rash of intracountry or intraregional wars or conflicts that have essentially been prevented from surfacing thus far.

Indeed, the truly global movement of short-term finance is said to have been a major factor behind the recent Asian currency crisis. It is still fresh in our minds how the crisis exposed the failings of the International Monetary Fund (IMF) and the neoclassical conviction in the omnipotence of deregulation and the market mechanism, while also deeply undercutting optimism about the effects of globalization per se.

There is a limit to what individual countries can do in the face of a phenomenon that might be termed a “wide-ranging diversification of threats” in the international community. We must apprehend this phenomenon as a problem bearing on the very existence of each and every person, and develop more formidable countermeasures for it. To this end,

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we must first organically mobilize governments, international agencies, nongovernmental organizations (NGOs), and other actors to construct intellectual, political, and economic networks on a global scale. We must then use these networks as means for establishing nothing less than a new international system that will underpin an order in which "human survival, human well-being, and human freedom" will be assured in the new century. This is our basic perspective on human security.

In my remarks today on the subject of human security, I would like to emphasize the process of policy-making and implementation, which is generally not taken up in such discussions, and point out certain issues based partly on my own experience.

The Course of Discussion about Human Security
As is well-known, the idea of human security was originally advocated in the Human Development Report 1994 of the United Nations Development Programme (UNDP) with a view to improving individual well-being.

In this connection, I would like to note an observation that I regard as of vital importance made by Professor Amartya Sen, who views matters from the standpoint of improving human capabilities for participation in the market economy as opposed to the neoclassical model of economic growth. In short, Professor Sen asserted that the process of development is not primarily one of expanding the supply of goods and services, but of enhancing the capabilities of people.

As I see it, the core concerns for ensuring human security lie in higher degrees of "individual capability" and "freedom" in this process of development and advancement. To put it another way, the key is helping people in all countries and regions, regardless of differences in basic conditions—in social, economic, technical, health and hygiene, and other aspects—to elevate their capabilities for carving out a life for themselves on their own responsibility.

In fact, a look back at the tenor of international discussion on development reveals a successive shift of focus from the theory of "trickle-down" effects of economic growth to emphasis on Basic Human Needs (BHN) in the 1970s, from the Structural Adjustment Approach to "adjustment with a human face" in the 1980s, and further to New Development Strategy and reinforcement of human-centered development in the 1990s. I do not think it would be self-serving of me to characterize this transition over the decades as a move away from discourse grounded in the neoclassical premise of isolated but uniform individuals in pursuit of maximizing their own profit and benefit, and toward that resting on distinct individuals and their capabilities in differing historical, political, and social contexts, i.e., notion of human security.

Japanese Approach to Human Security
The approach of the Japanese government to human security was delineated by former Prime Minister Keizo Obuchi in his policy speech delivered in Hanoi in December 1998. In his remarks, former Prime Minister Obuchi noted that we must make the twenty-first century an age of peace and prosperity grounded in human dignity and characterized human security as a major concern of foreign policy. In addition, he announced the institution of the Human Security Fund in the United Nations for the purpose of bolstering coordination in this area among governments, international agencies, and NGOs. (Including the allocation in the current fiscal budget, a total of roughly $83 million has been appropriated for this fund.)

Part of the background to such endeavors is the aid furnished by Japan to the countries affected by the Asian currency crisis. Besides providing more than $80 billion in financial aid, Japan also offered assistance of other types to give a helping hand to the socially vulnerable segments of the population who are hit hardest by the measures of structural adjustment taken in the wake of the crisis. In response to the critical supply shortages due to the severe
lack of foreign currency in Indonesia, for example, Japan provided about $33 million in grant aid for emergency purchase of basic medicine, as well as some 750,000 tons of rice, all while monitoring the situation by means of information collected from international agencies, NGOs, and other parties with a local presence. Such endeavors also reflect the priority accorded to the field of human and social development in the context of Japan’s official development assistance (ODA), in the conviction that the full exercise of individual talents by people actively participating in the economic life of a country is essential for sustainable economic growth. (At 20.2 percent, the share of Japan’s 1998 ODA occupied by this field represented fulfillment of the 20/20 Initiative of the World Summit for Social Development in 1995.)

This outlook is also embodied in policy in individual fields.

In the field of basic education, for example, Japan has provided yen loans not only for the cultivation and re-education of teachers but also for support of study in Japan by foreign nationals. At the time of the Asian currency crisis, it extended emergency grants and other aid to students from the affected countries.

In the field of health and medical care, the emergency supply of medicine I’ve already mentioned has been joined by assistance, in the aspects of both human resource development and financing, for reform of the medical service system with a focus on primary health care and greater autonomy, as well as support for the self-help efforts of persons infected with the human immuno-deficiency virus.

In its aid for women, Japan has supplemented its long-standing program of vocational training with assistance in the form of the micro-credit financing resources needed for economic independence.

Needless to say, promotion of the participation of local citizenry and coordination with NGOs are today virtually taken for granted as integral parts of this process.

I naturally am not claiming that all of the specific measures in these fields were direct outgrowths of the human security perspective; on the contrary, in most cases, they were hammered out, tried, refined, and implemented in response to the situation at hand or the suggestions of concerned parties.

To my mind, this very process is of extremely great significance and sheds light on the advisable approach to Japanese policy-making for the future. In essence, in addressing the individual issues of development and global problems based on the concern of individual capability as a contention raised in learned debate, the government has laid down human security as a definite orientation and purpose in the process of drafting and executing policies rooted in real problems. This may rightly be termed a splendid example of collaboration in the good sense among politicians, bureaucrats, academics, and private parties that has ironically been largely unconscious. Moreover, it is different in kind from both the conventional Japanese-style approach of consensus-building from the bottom up and the American-style one of decision with strong leadership from the top down.

In addition, human security has value as a perspective for assessing the policy results. This is to say that results must be examined not only from the standpoint of macro-level indicators but also from that of individual well-being and increased self-reliance, and not only by government but also by grassroots organizations and groups on the popular level.

The Debate over Conflicts
In the international dialogue on the subject of human security, perhaps the greatest controversy is generated by the issue of conflicts, human rights, and humanitarian intervention. Canada’s approach is typical in this regard. It places human security above national sovereignty and condones the imposition of sanctions or even the use of military force for humanitarian intervention in the event of egregious infringements of human rights or crimes against
humanity associated with civil wars or interethnic hostilities.

This stance presumably springs from the Western European ideas of civil society. Nevertheless, the reality is that the traditional notion of national sovereignty is still an underlying principle in the international community, and respect for political, historical, and economic diversity and variation on the national and regional levels will come to constitute the main pillar of international understanding. As such, excessive collaboration in "interventions" outside the scope of deliberations and decisions in the UN Security Council under the banner of human security could, on the contrary, erode international support for the cause of human security itself.

Representatives of Japan, myself included, have conferred with Canadian counterparts on this point on several occasions. Although the latter have since begun to mention the importance of eradicating poverty and organized crime, there undeniably remains significant gaps in respect of the placement of emphasis.

There is, of course, no argument about the gravity of conflicts as viewed from the standpoint of human security. It is my position, however, that reinforced approaches which are both adapted to the stage of development and all-encompassing should be accorded far more importance than debate about the pros and cons of "intervention" in conflicts.

More specifically, I am here referring to approaches that bear in mind the whole process of measures for the elimination of poverty and other latent factors contributing to the outbreak of conflicts, steps for resolution in the event of actual conflicts, and prevention of recurrence through reconstruction and rehabilitation programs after the conclusion of hostilities. In the process leading from the resolution of the immediate conflict to rehabilitation (GAP), the central task is to rebuild societies that respect the individual, are conducive to exercise of individual capabilities, and enable fulfillment of responsibilities by their constituent members, in keeping with the dictates of human security. To make this possible, we must develop total approaches seamlessly harnessing policies in the political, economic, and social development spheres while also organically mobilizing the energies of international agencies, NGOs, private enterprises, and other principals.

In the case of Kosovo, for instance, the Japanese government sent six personnel to the United Nations Mission in Kosovo (UNMIK), and from forty to fifty Japanese nationals became involved in NGO activities there. Besides such contributions on the human level, Japan put together a blanket package of financial aid worth some $280 million dollars when the assistance for neighboring countries and its assessed contributions for UN peace-keeping are included (this total also includes roughly $51.8 million from the aforementioned Human Security Fund). While one of the backbones of Japanese policy is support for NGO activities, this aid was directed to the whole spectrum of relevant fields, from construction of housing and schools to assistance for the repatriation of soldiers and further to programs to relieve psychological trauma. As the person in charge of policy on support for Kosovo at the time, I might add that it was conceived, prepared, and executed precisely in accordance with the thinking outlined above.

In connection with the GAP problem, the Human Security Fund established by Japan donated a sum of about $470,000 for projects developed through collaboration among the UN Headquarters, the United Nations Children's Fund (UNICEF), and the Japan Emergency NGOs (JEN), a Japanese NGO. The substance of these projects is cooperation with local communities for support of primary education in Kosovo in the wake of the hostilities, and specifically for repair of primary school facilities and related technical assistance. I felt that all of the effort was worthwhile when members of the NGOs on the scene contacted me by e-mail to thank me for the aid, which they praised as a model of comprehensive and timely support rooted in genuine needs.
At any rate, my own experience as well reaffirmed the importance and efficacy of the human security perspective for preventing the occurrence and recurrence of conflicts.

**Further Discussion and Policy-making**

Before finishing, I would like to say a few words about three points which I consider important for future studies, from the standpoint of human security, of twenty-first century policy for coping with all sorts of issues in the international community, from conflicts to development, as follows.

1. **Review of international system.** As I've already mentioned, the diversity of threats facing the world today cannot be met merely on the strength of national or intergovernmental efforts. I believe that, in the final analysis, the issue is even linked to review of the set-up of the international system itself. Response to problems requires the gathering of information, the prompt and efficient mustering of human and material resources, and sure deployment and execution in the field. In each of these phases, various nongovernmental actors in ever-increasing diversity such as international agencies, NGOs, and multinational corporations are playing bigger roles and becoming indispensable players.

   I believe that a system for organically coordinated action by these actors will constitute the core of the international order in the twenty-first century. In the construction of this system, it will be even more vital to position the independent individual not merely as a passive beneficiary or victim but as an active player whose interests are to be respected.

   To this end, the reinforcement of capabilities and schemes must make provisions for formal participation of NGOs as aggregates of such independent individuals in the policy-making process of governments and international agencies (indeed, such arrangements are already starting to be made). Another key task is to bolster the functions of the United Nations as the central organ for coordinating and supplementing the activities of such actors in coping with globalization.

2. **Construction of intellectual networks.** The construction of such an international system for human security will entail what would amount to a truly general mobilization of all human intellectual resources across the conventional political, economic, scientific, and technological boundaries. For this purpose, it would be most effective to construct intellectual networks that are interdisciplinary and international, and enable a smooth sharing and organic utilization of knowledge in all fields. I personally believe that the effects of these networks of knowledge will go beyond the realm of human security and become the single-greatest driving force of the twenty-first century international order.

   In keeping with this outlook and at my instruction, the Japanese government hosted a symposium in June 1999 on the subject of development with a special focus on human security. Among the persons invited to participate were Professor Lincoln Chen, Executive Vice President of the Rockefeller Foundation. I would also like to mention that efforts for the construction of these intellectual networks in a framework known as "An Intellectual Dialogue on Building Asia's Tomorrow" are already being made at the initiative of Mr. Tadashi Yamamoto, who is here with us today. And I personally have high hopes that this Tripartite Commission will play a pivotal role in the construction of these networks.

3. **International and political orientation.** Given its fields of concern and the process of policy-making, human security absolutely must have official blessings on an international scale as well as support and solidarity accompanied by action.

   Furthermore, in light of its importance for the international order in the twenty-first century and its international scope, I think that human security is the most appropriate issue for deliberation in the Group of Eight conferences and the United Nations as the supreme forums of political and economic discussion in the current international system.

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2000 TOKYO MEETING
A KEY QUESTION HERE IS IF AND HOW THESE LEADERS WILL SHARE AND DISCUSS THE CENTRAL HUMAN SECURITY IDEAS OF IMPROVING INDIVIDUAL WELL-BEING AND CAPABILITIES....

The forthcoming Okinawa Summit, for example, will bring together the political and economic leaders of eight key countries for talks on problems and issues in areas such as development, the fight against poverty, and measures for health and hygiene. A key question here is if and how these leaders will share and discuss the central human security ideas of improving individual well-being and capabilities in this context.

In addition, human security must garner a broadly-based understanding and support, inclusive of developing countries, in the United Nations, a universal organization with 188 member-countries. Moreover, the United Nations is probably the sole entity capable of playing a central role in coordinating the execution of measures needed for human security.

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C. FRED BERGSTEN

The Backlash Against Globalization

When the Trilateral Commission was set up in 1973, my memory is that it was primarily aimed at addressing two issues. One was the integration of a great new Asian power into the world economy and world scene—Japan. The second was to deal with a perceived breakdown of the world economic order of the day: the collapse of the Bretton Woods system of fixed exchange rates and the outbreak of protectionist actions and protectionist legislative pressures in the United States. In addition, the oil shocks were just around the corner. In short, the world economic order was in doubt.

I believe that the Trilateral world faces very similar challenges today. There is clearly the entry into the world economy and broader scene of a great new Asian power—China. That is not my topic today, but it is crucial and the Commission will have to deal with it. But my topic is the second set of issues, what I believe is another set of threats to prosperity and stability of the world economy, namely, the backlash against globalization.

A Fundamental Challenge

The pressures in the 1970s were very substantial but they were mainly technical and they had technical fixes. We could move from fixed to flexible exchange rates; we could initiate a new round of global trade negotiations to get the liberalizing momentum going again. Even in response to the oil crises, which took longer, market responses plus new institutional initiatives—for instance, the International Energy Agency and the Strategic Petroleum Reserve in the U.S.—of essentially a technical nature were taken.
The world economy today faces a more fundamental set of challenges because the backlash against globalization is much more than economic. As Henry Kissinger frequently reminds us, there is a huge political dimension and the politics and the economics are often out of sync. As Mario Vargas Llosa reminds us, there is also a huge cultural dimension which raises a mass of contentious and difficult issues of their own.

Now the backlash has been manifest in the demonstrations in Seattle, Davos, Bangkok, and in Washington this coming weekend. Demonstrations highlight the importance of the NGOs, which is an important part of the issue. But, in my view, the demonstrations themselves are only superficial signs of the real issue. The real backlash, the real challenge to globalization, is much more substantive; we have seen it arising not just in the last few months but over a series of years. I believe it is the critical issue of multilateral management for the future with which this Commission ought to concern itself.

Multilateral Finance and Trade Regimes at Risk

The backlash obviously takes different forms in different regions and different countries. But there are several patterns within the international finance and trade regimes that one can tick off.

First, it is clear that we have an international monetary system that is crisis-prone. We have had at least three major sets of crises in the last decade alone: the European crisis of the early '90s; the Latin American crisis emanating from Mexico in the mid '90s; the East Asian crisis spilling over into Russia and Brazil in the last two or three years. Private capital flows can destabilize—being too big at one time and too little at another—and there has been a failure to put in place any substantial reforms to improve the prospect for stabilizing the system in the future. Indeed, we have serious proposals in the United States from a Congressional commission recently, on which I happen to have led the dissent, which essentially wants to abolish the International Monetary Fund and the World Bank, and there are significant pockets of support for that approach in our Congress.

Second, the trading system has essentially been stalemate for several years. There are no new multilateral negotiations of any serious nature being conducted anywhere. The situation is very serious if, like me, you believe in the bicycle theory, which says you either move forward or you fall over.

But even if you don't believe in the bicycle theory, you have to be impressed by the series of failures over the last few years. The U.S. administration has been unable to get any new negotiating authority from the Congress for five years; U.S. trade policy is stalemate domestically. Efforts to negotiate a new international investment agreement failed miserably at the OECD in Paris. The effort to launch a new multilateral trade negotiating round in Seattle failed miserably. All the momentum is with the anti-globalization forces.

Hopefully, our Congress will vote to grant permanent normal trade relations to China in the next few weeks. But even that outcome is uncertain. And even if it passes, the fact that it's at all close is amazing. It's a no-brainer. The U.S. negotiated opening of the Chinese market but, if the U.S. doesn't give permanent normal trade relations to China, the U.S. will not benefit from that opening and will turn the competitive advantage over to its trading competitors. There should be a vote of 535 to 0 in our Congress, but it's a cliff-hanger and, when I talked to the White House just before leaving for this meeting, they were still twenty votes short of being able to say they would win it.

The point is that there is a big backlash against globalization. We see it in the financial world. We certainly see it in the trading world as well. It's much more fundamental than pure economics. We know that globalization does increase income and social disparities within countries. We know that globalization does leave some countries and certainly some groups of people behind. We do know

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that a lot of Europeans don’t want to eat genetically modified American foods and that adds to their resistance to globalization. We know that a lot of Americans worry about races to the bottom—labor standards, environmental standards, and other perceived doubts about dealing with the rest of the world. We know that a lot of developing countries are raising doubts about the entire system, and such specifics as whether having agreed to the enshrinement of intellectual property rights is really in their national interest. (They would like to pull it back out of the WTO, having agreed to put it in five or six years ago.) So the list is long of the perceived intrusions of globalization into national sovereignties. There is therefore a backlash against it, which I think we have to take as an extremely serious economic, political, and social matter.

**The Backlash Could Become Much Stronger**

All this seems paradoxical in a very fundamental sense. The world economy is in good shape. Indeed, almost all of the crisis countries—particularly in Asia and Latin America—have experienced rapid V-shaped recoveries from the crises of the last few years.

The ultimate paradox is that this backlash against globalization is so severe in the United States even with the excellent economic situation that we are experiencing, as Marty Feldstein laid out yesterday. But, I repeat, U.S. trade policy has been stalemated for five years; there is no authority to take any new initiatives. All this occurs after two decades when a market-oriented philosophy, the so-called “Washington consensus,” seemed to gain near-universal approval and provided a guiding ideology and underlying intellectual consensus for the world economy, which was quite new in modern history. It seems to me that all these things make the backlash all that more worrisome. If we have the manifestations I’ve indicated in a period of economic progress and success, what could be the outcome when the U.S. economy inevitably slows down, unemployment begins to rise and a $400 billion trade deficit becomes a huge target of attack and criticism? What if a similar downturn and more difficult economic times occur in the rest of the world?

It would be easier to dismiss all these concerns except for one troublesome fact: We’ve seen it happen before. As Joe Nye pointed out earlier, we had a similar period of globalization a hundred years ago. The standard understanding, of course, is that this earlier world of globalization—which by many measures was more extensive than today—came crashing down with the advent of World War I followed by the Great Depression. But careful students of that history have informed us that the contemporary backlash a century ago was already significantly rolling back globalization well before the onset of war and depression. Protectionist trade measures—including in the United States but other countries as well—resisted the increasing intrusion of foreign competition. Immigration, which was a huge factor in globalization during that period, began to be resisted, including by earlier generations of immigrants, and began to shut down that element of globalization even before the more traumatic outbreaks in the early part of the twentieth century. New challengers to the system—Germany, Japan, and to some extent the United States—were accommodated to some degree, but not wholly, and that too raised instabilities and doubts that spilled over into the political as well as the economic side of the system. In truth, we had a backlash in the early twentieth century that contributed to the end of that period of globalization and may have helped bring on the subsequent calamities that ended it for half a century.

I dwell on this background at length because I believe that the Trilateral regions face an enormous challenge, perhaps as great as the one we faced when the initial post-War system seemed to be breaking down at the time this Commission was set up in the early 1970s. But, to repeat, I think it’s more difficult in certain respects, particularly in its breadth. It deals with political, social, and cultural issues, as well as economic ones.
It also extends far beyond the Trilateral regions. It is not just our countries that are now involved in this but rather the entire world, including notably the emerging markets. Yesterday we discussed how the countries of the Asian region—primarily emerging market economies but, of course, including Japan—are looking for a way to find an independent regional identity and break out of total reliance on the multilateral system. This search is due at least in part to the breakdown or failures of that multilateral system. It is another clear indication of how the backlash against the current form of globalization may manifest itself and raise huge new issues in the security, as well as the economic, domain.

Before I close by saying a few words about potential remedies, let me clearly suggest that I do not believe everything is gloom and doom. Mexico and most of the East Asian countries, as noted, have experienced rapid V-shaped recoveries from their crises, that eases some of the anxiety about the monetary system. There has been some modest monetary reform; I don’t want to suggest there has been none. As Marty Feldstein said, there has not really been much trade protectionism yet—a bit in the United States but not too much in the developing countries, even those subjected to financial crisis.

So, at least at this point, there is not too much to reverse. There is still time to head off the incipient difficulties. The whole IT sector has not yet been caught up in all this in any negative way; its growth is proceeding without too much by way of impediments from the things I mentioned. The White House Conference on the New Economy last Wednesday discussed this issue relatively briefly; such impediments are not yet perceived to be a serious concern to the economies and the sectors that are so important now to the rapid growth in the United States and elsewhere.

But I would suggest that this backlash, both now and potentially, is very strong. Indeed, it could get much stronger, especially when our economies begin to turn down and especially if political changes in our own countries make globalization and opposition to it even more difficult to manage in light of the role of particular pressure groups and political interests.

Four Elements of a Response
With this as background, let me suggest briefly and in sketchy form what I think are the four elements of a response to the problem that we will, I hope, concern ourselves with in the coming years.

First and foremost is education, to clarify and analyze much more extensively what is in fact the reality of the impact of globalization: the fact that, on balance, it is clearly beneficial for all countries and for most groups and therefore, on the whole, is certainly desirable. Much of the criticism of globalization either reflects ignorance of the facts; or is sheer nonsense, such as the argument that multinational firms promote races to the bottom rather than races to the top; or sheer disingenuousness, a cover for traditional trade protection; or, as Mario Vargas Llosa has said, a cover for traditional nationalism in many of its forms.

We must, however, carry out a much more elaborate and extensive analysis of the impact of globalization, not just on whole countries but on groups within them. At my Institute for International Economics we have half a dozen projects analyzing this impact, including transatlantic projects with Thierry de Montbrial’s French Institute for International Relations and Karl Kaiser’s Research Institute of the German Society for Foreign Affairs. I think we are all going to have to do much more elaborate analyses and projections of the real effects to cope with this combination of ignorance and deliberate disingenuousness and move in a positive direction. As I say, the momentum is clearly now with the anti-globalization forces and the beginning of the answer starts with education and an understanding of the true impact and meaning of globalization, including all its benefits.

A second part of the response has to be an honest recognition and admission that there are costs and losers. For too long, those of us
on the pro-globalization side tried to ignore and deny this fact—but it clearly must be accepted and admitted. It follows from standard economic theory, and it follows from looking out the window and seeing the impact within many of our countries. This, in turn, means that something needs to be done to help deal with the costs and those who are losers. In broad terms, it requires better social safety nets in many of our countries and programs that will help the adjustment to dislocation, whether caused by globalization or other interrelated forces. The lack of transitional safety nets in the United States—effective unemployment insurance, portable health care, portable pensions—in the face of shocks generated by globalization causes enormous anxiety and unsettlement. This situation leads to the shocking fact that, in the United States, polls show that our labor force has greater levels of anxiety today with the strong economy than at the depth of the recession in 1991.

Another and more fundamental element of this response, of course, is the creation of education and training programs to empower all components of our population to take advantage of globalization rather than feel victimized by it. Such programs—which are better conducted, incidentally, by the private sector rather than by governments—should enable people to take advantage of the phenomenon and roll with it rather than oppose it.

One American company, for instance, United Technologies, now gives not only full financing for as much education, job- or non-job-related, as its workers want, but has just announced it will finance four years of additional schooling for any worker it lays off because of a move of production abroad. If American industry as a whole did that we would have both much more and much more effective adjustment, and an ability to deal with the problem at the fundamental level. This second set of issues—transition dislocation cushions, and empowerment to take advantage of opportunities over the long run—is the essential domestic element of any effective response to the backlash.

Third, we will have to renew our efforts to reform the international financial architecture to help prevent crises. These crises are particularly debilitating to smaller countries, which then are enormously tempted to try to find ways to opt out of the system or, at a minimum, to reduce the impact on them of unfettered globalization. We need much more openness and transparency of the financial system, though some progress has been made; we need much greater flexibility of exchange rates in order to avoid fixed peg targets; we need to bless capital controls in some instances to avoid the excessive sloshing of hot money in and out; and we need more effective early warning systems to try to anticipate and prevent crises rather than wait and then react after they occur. We need much more effective means to coordinate exchange rates among the big countries—the Trilateral G-3—where the enormous fluctuations still lead to tremendous problems, not just for ourselves but for other countries around the world who peg their currencies to our countries' currencies either individually or in groups. And we need to engage the private sector much more systematically in rescue operations, bailing-in rather than bailing-out on a much more systematic basis than the ad-hoc case-by-case approach that is followed today.

Finally, the fourth element is to restart true multilateral liberalization of the global trading system, partly for momentum and bicycle reasons but partly to head off potentially destabilizing regional steps—some of which we've heard about here in Asia and others which we see occurring in other parts of the world. I hasten to say that I do not regard regionalism as necessarily undermining or inconsistent with globalization. Indeed the two can frequently reinforce each other. But if we have a failure to move forward on the global front, if the opponents of globalization are permitted to continue to block any forward movement at the global level, then regionalism will not only fill the vacuum where countries can do it but it will take place in the absence of any effective multilateral framework and that could lead
to the fears that many have expressed over the years that regionalism will drive the world apart rather than move it together.

Even more importantly, however, new multilateral trade negotiations are essential to deal with many of the real issues that are being raised by the critics—new standards to deal with food trade, new standards to deal with labor arrangements and environmental concerns. These issues have now been forced onto the agenda in a way which cannot be ignored without literally playing into the hands of the opponents of further globalization and those who would wreck the system, rather than try to reform it.

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Whether or not you like my proposed remedies, the main point I want to leave is that we in the Trilateral world, or more broadly we in any part of the world who believe in the benefits of an open world economic system, not just for economic but for political and much broader reasons as well, ignore the backlash against globalization at our peril. There is no doubt that the anti-globalization forces now are in the ascendancy, at least on the policy front, and that it is particularly paradoxical and particularly worrisome that such is the case when the world economy, and particularly the U.S. economy, is in such good shape. I think it is essential for each of us in our individual countries, but also working collectively in groups like the Trilateral Commission, to take the threat seriously and begin devising a multi-part program to start turning the tide against the criticism.

C. Fred Bergsten is Director of the Institute for International Economics and a former U.S. Assistant Secretary of the Treasury for International Affairs.

...we...ignore the backlash against globalization at our peril.
SECTION 5
EVOLVING DEMOCRATIC CAPITALISM

Different Trilateral countries have evolved somewhat different ways of operating a market economy in the framework of democratic politics, and the practice of democratic capitalism is changing over time in each Trilateral country. In his presentation set out below, Dutch business leader Cees van Leede stresses that the internationalization of the European economy is putting pressure on national models of democratic capitalism in Europe, models which in various ways "try to combine the dynamics of capitalism... and... some form of social solidarity." He concludes that "models based on the dynamics of capitalism and social solidarity can be preserved. But, the limits of national models of solidarity have to be acknowledged and there has to be a healthy competition among them." Prof. Takenori Inoki of Japan stresses three aspects of the "functional disorder" of democratic capitalism in all Trilateral countries: the problem of "short-sighted thinking," the conflict between private interests and the public interest, and the problem of reconciling democracy with needed leadership. These are "far more important," he argues, than differences from one country to another. Timothy Collins is in the unusual position of leading an American private equity firm that purchased a major financial institution in Japan (The Long-Term Credit Bank of Japan, recently renamed Shinsei Bank) that had collapsed and been rescued by the Japanese government. But in his Tokyo meeting presentation Collins stressed not the relevance of American practices for the revival of the Japanese economy, but rather that "many habits, policies, and practices [in Japan] came about for good reasons, many of which are still or may again be valid." He argues that "the challenge in Japan is not nearly as great as the one facing the United States in the '70s and '80s" and that "the Japanese economy is, in its own way, finding the right model for Japan."

CEES VAN LEDE

Internationalization and National Models of Solidarity

When we speak about models of capitalism in Europe, I think we are mildly confused. We have a number of models which are referred to as the Third Way, the Rhineland model, the Swedish model, the Dutch model, and we even used to have the Yugoslav model, but that model has been declared obsolete. The Dutch model is also referred to as the Folder model. If you change one letter, "polder" to "kolder," it means "nonsense." And that reconfirms that we are at least fuzzy about what we are speaking about.

These models, in my view, have two pillars in common. They try to combine the dynamics of capitalism, on the one hand, and, on the other, some form of social solidarity. Therefore, I should say something about capitalism, something about solidarity, something about models—or rather the limits of national models—and fourth, that I do not see one European model. On the contrary, I see many in healthy competition.

Acceptance of the Market Economy and its Political Consequences
All of these models are based on the dynamics of capitalism, and that in my view is unsurprising. There seems to be worldwide agreement on the market economy. And that is what we not only profess, but what we act upon today. In each of the three regions represented in the Trilateral Commission, there is one exception to confirm the rule. In the Americas, it's Cuba; in this part of the world, it's North Korea; and in Europe, since Albania has opted out—unfortunately, for the record—the only country that I could find running its economy from above is the Vatican.
In contrast to generations ago, today we see a lot of social democratic governments running basically conservative economic programs. Of course, there are still differences between the social democrats and the more conservative parties. However, from time to time I am pleased to see that conservative parties have at least some difficulty in trying to sensibly differentiate their preferred programs from those actually being executed by social democratic governments. You also see it in the people. If you speak today to the union leaders in the Netherlands you might mistake him for an analyst. He is not. If you speak to the Dutch Prime Minister and compare how he looks and speaks today with how he looked and spoke twenty years ago, you will notice similar pictures and speech of Mr. Gerhard Schröder.

I think we should be grateful for this common sense in managing our economies. It is good for the economy, but more importantly for society as a whole. It adds to stability and consistency. The impact on the economy is less devastating than it used to be, when a government on the left would succeed a government on the right, or vice versa, and completely reverse the previous government’s policies. The Third Way, therefore, if we really cut through the rhetoric, is in some ways apologist semantics for sound economic policy of a capitalist nature run by modern social democrats.

The Breakdown of Solidarity
These are not the days of solidarity in my view. There is an underlying move away from solidarity to individualism. We all know that there is a strong emphasis in the world today on the rights of the individual. We see it in international legislation. We see it in lifestyles. We see more one-member families and we see more families break up. We see it in fashion, dress codes, and shopping habits. It’s even enforced, if not leveraged, by the age of IT, where our youngsters spend hours with computers in a virtual world, the zenith of individualism.

What we do see is that the call and content of solidarity in social democratic plans have changed. Today we speak in many countries about socialist programs à la carte, which you just have to think about. We have differentiated wage agreements, from central wage bargaining to sector bargaining going on, and even to local and individual bargaining. We see also that group feelings and loyalties are in decline. We see the secularization of churches. We see the lack of loyalty in sport clubs. (Barcelona today is almost exclusively composed of Dutch players and we take the Scandinavians.) We see a lack of loyalty to employees. We see whole departments in banks change from one bank to the other.

Now let me add that I don’t think this is all for the good. I think it’s questionable whether this trend can continue. The manageability of society requires some fundamental cohesion and loyalty and the same goes for each organization, whether this is a church, a sport club, or a business.

Internationalization and Limits to National Models
What are the limits of these so-called models of solidarity? In my view, internationalization will put national models of solidarity and cohesion under pressure. There is some strong empirical evidence that national models do succumb to this pressure if they’re not competitive. And that is the key word—competitive. The two examples that I’d like to use are the Swedish model in the ‘80s, much admired in the world, and the Dutch model in the ‘70s, not very much admired in the world. But today we are admired and I will come back to that.

Sweden in the ‘80s had a system engineered close to full employment. But Sweden, in fact, was close to being cut off from the world. They had their own policy. They devalued when they thought that was the thing to do. They had very strict controls on capital movements and in that way they lived a little bit in isolation. And they could keep their employment artificially high. But once they opened up to the world it changed completely and dramatically. What used to be the admired Swedish model found itself in shambles, basically.
Now, the opposite of that was the Dutch model in the '70s. We were open to the world. Our economy has always been open to the world, but we had our own solidarity of an artificial nature. We thought we could have high undifferentiated wages, but this led to substantial government deficits and high unemployment, and that had to be put right. So, there is strong empirical evidence that national models do succumb to internationalization if they are not competitive. And this internationalization is day-to-day pressure in Europe.

The single market has been in existence since 1992. And the euro, which has now existed for a year, has really made an impact. Capital goes where it finds its best returns. There is transparency of markets and you come to the point that you start questioning the use of export statistics within Europe. For example, the large part of the domestic product of the Netherlands is exported to the rest of the Common Market. There is vastly increased competition within Europe. There are few cozy corners left. And there is very little price inflation. European business is becoming European, if not worldwide. There are many businesses, one of which is my own, that have a far larger share of their turnover outside their own home country than in their domestic market. And also you see a strong internationalization of management. This also means that national solidarity for these firms becomes subordinated to more international interests. The business lobbies change correspondingly from talking to national governments to increasingly talking to international governments, like the Brussels authorities and what have you.

Labor solidarity in Europe is also of a different dimension. Today, we have a European Workers Council. Their powers are limited, but they now are confronted with shifting employment from one country to the other. Europe had a famous case about vacuum cleaners, where a company decided to move their facilities from France to Scotland. That really meant that national unions had to face up to this issue. So in other words, the limits of models of national solidarity have been reached.

Continuing Healthy Competition Among National Models

The field of competition in continental Europe is vastly reduced in the euro area. First of all, we have, now that the euro is in existence, one authority for monetary policies—that is basically the ECB—but the fiscal authority is still with the nation-states. But fiscal policies have their natural limits and are also limited by inter-state competition. The only remaining key field of competition which is left to the market is therefore industrial relations. Each country has to stay competitive internationally and, at the same time, preserve some social coherence.

If we look at the Dutch approach and the economic figures over the past decade, I think it has been successful. We have a government budget surplus, albeit low, and we have low unemployment—2–3 percent, although there is some hidden unemployment. We have high growth and we have been quite active, in fact, in acquisitions abroad. So the Dutch example, in a way, may be an example of which we can be proud. This national model seems to have worked, although I would hate to tell you too much about it because then we could start believing in it, and that, of course, is close to the kiss of death.

The Real Benefit of the European Market

A final word on competition and corporate governance. Although there is equal competition in Europe, we see a lot of mergers and acquisitions across borders. This is an issue that each state has to address. We basically know three systems of corporate governance in Europe: the Anglo-Saxon system where shareholders prevail; a more Latin-oriented system; and co-determination. And within the co-determination system there is a benign sort of practice in the Netherlands to a very strict practice with all its rigidities, in my view, in Germany, and a number of systems in between. Companies will choose in the future on the basis of competitiveness and their preferences and cultures. So far, Europe has been able to acknowledge...
the national identities without a superstructure. We do have a number of industries where this may not be enough and we may have to do something to allow economically desirable transnational mergers. If we talk about banks and airlines, we see that this is very much the case. There seems to be a tendency of industry conglomeration by country, whereas the real benefits of the European market will be in the field of exploiting transnational mergers and acquisitions.

So, it seems to me that the models based on the dynamics of capitalism and social solidarity can be preserved. But, the limits of national models of solidarity have to be acknowledged and there has to be a healthy competition among them.

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TAKENORI INOKI

Common Problems of All Models in Blending Democracy and a Market Economy

According to the conventional wisdom, economic systems in the contemporary world can be classified into the following models: 1) the American economy, which emphasizes resource allocation in the private sector; 2) China, which is moving toward a market economy under a virtually one-party dictatorial regime; 3) the European model, which contains some variants of industrialized capitalism, including indicative planning (France) and the social market economy (Germany); 4) the so-called Swedish model; and 5) the Asian model which, again, consists of several variants depending on the stages of economic development.

Such typology certainly helps us understand the basic differences, especially subtle differences, existing among economic systems in non-socialist countries. However, discussions focusing only on these differences tend to overlook the possible "functional disorder" in modern industrial societies, which are, as political regimes, constituted by the principles of liberal democracy. Attention to this "functional disorder" is far more important than attention to "differences."

So, as an economist, let me confine my speech to the following three aspects of this "functional disorder." One is the possible influence of global competition on our time-horizons and attitudes toward risk in economic activities. It may be called the "long-run cost" caused by short-sighted thinking. The second aspect concerns the common problems existing in both democracy and market economy with respect to private interests and the public good. The
third aspect is connected to the role of the leadership in modern democracy.

The Problem of Short-sighted Thinking
Consider the analogy of growing a forest. While perhaps a bit extreme compared to other businesses, the lumber industry offers a good example of the relationship between time and productivity of capital. It takes time. The deployment of capital does not yield overnight return and one should not have such expectations. Up to fifty years of labor and time are devoted to forest cultivation until it finally assumes a form enabling income to be realized from it. If its operator's time horizon becomes shorter, the long-term benefits of the forestry business will be jeopardized. Hence the industry becomes disorganized and ends up in disarray. The problem faced by the forestry industry closely resembles a host of other problems confronting Japan and the world's market economies and democracies. Let me take up three examples.

First, the ways in which we develop or evaluate human resources are among the most important factors that vitalize our societies or organizations. Companies that do not face competition and do not have productive employees, or organizations which do not develop capable human resources and do not practice fair evaluations of these human resources, will in the long-run almost certainly decline. After all, organizations work to secure outstanding human resources and try to develop them.

However, regardless of the importance placed on competition and meritocracy, things are never that simple. This is because no one has complete information on a person's capabilities and future potential. This is why all organizations seek to develop effective methods of developing and measuring the abilities, aptitudes, and performance of their workforce.

But in recent years, it appears that new methods of managing human resources are being adopted. They are short-term (usually one year) "performance-based" salary systems falling short of long-term perspectives. The annual wage contract system is directly linked to each year's performance, which is fundamentally based on evaluations only for a year. This may be a very effective system for professional soccer players or sumo wrestlers, but it is not appropriate for workers in large establishments who spend time acquiring skills and knowledge by serving for a long term.

Second, a change is occurring in R&D, where a short-term view is also becoming prevalent. In Japan's case, one cause of this may be the economic recession, but another is intensifying competition, which has strengthened the emphasis on short-term successes. Many companies have reduced their R&D budgets and began to purchase new technology from outside, while restructuring their own research institutes. Even in the U.S., which has been enjoying favorable business conditions for the past several years, the ratio of R&D to Gross Domestic Product reached a peak in 1987 and has since undergone a significant decline. Japan's expenditures reached a peak in 1990 and have been declining. Although this trend has reversed since 1995, it has merely returned to the 1990 level.

What does this distinctive trend tell us? It tells us that major corporations are abandoning long-term advanced research on their own that entails risks.

A third example is the volatile and capricious movement of short-term capital which was actually one of the main causes of the Asian financial crisis starting in 1997. Some business corporations became more interested in investing in international short-term capital markets rather than in foreign direct investment, which requires a longer time-horizon in transferring technology, training the workforce, and obtaining final returns from investment.

Here I would like to touch upon how this short-term perspective is causing problems in Japan. From the long-term standpoint, it reflects the diminished importance that we place on developing human resources, R&D, and capital accumulation.

Another side effect of this short-sighted thinking can be observed in the policy formation
process. In Japan, there is a strong tendency toward down-playing the views of specialists in the process of formulating policies. Without specialized knowledge and analyses, the growing complexity of contemporary political and economic problems makes it impossible to foster a climate for effective debate. The leader of a country cannot have sufficient knowledge in every specialized field of public matters. Hence the need to co-opt specialists and experts into policy formation. Let me quote Walter Lippmann on this point:

I argue that representative government, either in what is ordinarily called politics, or in industry, cannot be worked successfully, no matter what the basis of election, unless there is an independent, expert organization for making the unseen facts intelligible to those who have to make the decisions. I attempt, therefore, to argue that the serious acceptance of the principle that personal representation must be supplemented by representation of the unseen facts would alone permit a satisfactory decentralization, and allow us to escape from the intolerable and unworkable fiction that each of us must acquire a competent opinion about all public affairs (Walter Lippmann, Public Opinion [New York: MacMillan, 1922], 31).

I believe that Japan has fallen behind in this awareness.

Conflicts of Public and Private Interests
In addition to the need for an independent expert organization to help those who have to make decisions, the main problem of democracy is how to recreate a sense of public morality on the basis of equality and individualism. Individual interest is not always compatible with the public good. Here we can see a certain parallel between democracy and a market economy. The fundamental paradox of democracy is that equality of conditions is compatible both with tyranny and with freedom, just as market freedom can go with monopoly and with fierce competition.

In any democratic regime, there is a great need to prevent government from growing more powerful on the one hand, and individuals from appearing more helpless or self-centered on the other. Tocqueville presents several democratic expedients which are expected to transform private interests to the benefit of the public good (Alexis de Tocqueville, Democracy in America, Vol. 1, ed. Francis Bowen, trans. Henry Reeve, [Cambridge: Sever and Francis, 1862], 202–8, 363–4, 243–4):

1. Local self-government forms many concealed breakwaters in order that citizens are trained in the use of freedom. The free local institution (e.g. the county or township) is expected to train and transform essentially selfish individuals into citizens whose first consideration is the public good.

2. The jury system is another device which is equally important to protect freedom and alleviate the individualistic tendencies of democracy. It enriches citizens with a consciousness of the needs of others. In this respect, legal training is indispensable since it gives citizens certain tastes for law and order. Their understanding will be broadened and deepened through contact with judges and their sympathy for fellow citizens will grow through jury service.

3. Freedom of association is probably the most important of democratic expedients. Through the operation of associations, individuals learn the art of adapting themselves to a common purpose. Their minds will be broadened by participating in associations. Through the operation of these democratic expedients, men are to be transformed into morally conscious citizens.

Considering these important roles of voluntary associations as democratic expedients, we should positively evaluate such intermediate organizations as non-governmental organizations and non-profit organizations, even though they occasionally act as pressure groups, as at the WTO meeting in Seattle and the UNCTAD meeting in Bangkok recently.

THE FUNDAMENTAL PARADOX OF DEMOCRACY IS THAT EQUALITY OF CONDITIONS IS COMPATIBLE BOTH WITH TYRANNY AND WITH FREEDOM...
Democracy and Leadership

Democratic decision-making is an effective system in ensuring the authority of the majority view. But it is an ineffective system when it comes to closely examining the implications of that view. Democracy is probably the most desirable form of government, but it has yet to be decided whether democracy is in fact the best option that is theoretically possible.

The presumption of democracy, be it in government or business, is that leadership is a somewhat self-contradictory notion to begin with. Speculation abounds that democracy and leadership may, in fact, be incompatible. Democratic organizations almost by definition need no commander-in-chief. If that method is best which gives the majority view its due, so the argument goes, there is no real need for leadership. So long as goals are clearly defined, this line of reasoning is not flawed.

Expecting too much from leadership in a democratic system of government is tantamount to tacitly yearning for oligarchic rule and, if coupled with a system which elects a leader by popular vote, is likely to produce a dictator. Both in terms of aptitude and predisposition, people often rather like to be led than to lead. In the complex society of today, democratic decision-making processes, like elections and referenda, impose upon the people tremendous costs in terms of both time and money. In this respect, dictatorship—the extreme form of leadership—may be regarded as a highly mobile decision-making system, at least for those choices which must be made without delay.

In the twentieth century, however, the world has learned at considerable costs what dictators bring with them. There is no need to belabor the point that dictators poison the popular mind with distrust and suspicion and engineer astronomical human sacrifices. In the economic sphere, their record is dismal. The collapse of the old Soviet and East European regimes bears witness to the inability of centralized command economies to respond viably to changing economic conditions.

Our daily life is surrounded by constantly changing factors. Even listing all the possible changes in the economic environment is hard to do. Foreign trade, international finance, technology—these things and many others are all changing, such that the course of human events itself is geared to the task of "responding to change." And the very notion of "planning" at the central government level has by now been exposed for what it really is: an attempt to do the impossible. The fundamental flaw of socialist dictatorship was in its attempt to design and manage human societies by rationally calculating the "future" through a central planning agency.

How then can we reconcile the two conflicting decision-making mechanisms—leadership and democracy? Just as a market economy does not mean unbridled laissez-faire but requires a "government" to function as rule-maker, supervisor, and arbitrator, so a democracy, as a decision-making system reflecting the simple sum of individual desires, requires a certain degree of leadership, lest it become a drifting "ship of fools." Here again arises the importance of communities and associations that exist between the state and individuals, or between public and private.

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TIMOTHY C. COLLINS

Adapting the Japanese Model

This session is about the one constant in our lives—change. But I have to admit our topic, "Changing Models of Capitalism," is much too ambitious for me. Unfortunately, I have a very granular perspective and can only address this topic from my own narrow point of view. Our business in the U.S. is one where we have successfully used private capital as a catalyst for strategic change. We have spent the last two and a half years developing an approach to investing in Japan. This approach imports some of the private equity techniques from the U.S. and adapts them to the unique aspects of the Japanese market.

Unique Problems Require Unique Remedies
Now, from my limited perspective, let me give you my basic, simple conclusion about change in Japan: Don't throw out the baby with the bath water. That is, let's not forget that many habits, policies, and practices came about for good reasons, many of which are still or may again be valid. Change is good, but not every change that worked in a particular situation is appropriate in another environment or time. As an American, I am proud of our economic resurgence. We have made extraordinary progress over the last two decades. Our own past economic success is quite remarkable and probably, as in most things, full of very fruitful happenstance. However, one cannot take a template developed in one time and place and apply it without amendment to starkly different conditions.

In any case, the favored economic paradigm seems to shift from day to day. Let me quote to you from a book written in '82 by Robert Reich, a former U.S. Secretary of Labor, and his colleague, Ira Magaziner: "Rampant inflation and high unemployment are symptoms of economic stagnation. Our standard of living is no longer rising.** Why was this the case? At the time Reich and Magaziner concluded that it was the U.S.' increasing integration into the world economy and its failure to maintain international competitiveness. More specifically, they said, "...many U.S. companies have not kept pace in recent years with changes in the international competitive environment. Our systems for evaluating investment decisions have not sufficiently considered the competitive evolution of businesses. Our accounting systems have given managers incorrect signals about investments. Our systems for measuring total product costs have misallocated manufacturing and distribution overheads...."** This sounds, in many ways, strangely familiar. But even more interesting than the diagnosis of theills was the prescription for a cure. After enumerating all of the conventional policies and practices, Reich and Magaziner concluded these policies will not bring about prosperity. Prosperity can be only achieved by means of an industrial policy carefully geared to international competition, that is, a set of policies similar to those in Sweden—where Magaziner had worked—and in Germany and Japan.

Obviously, in 1982, they were not alone in their view. The conventional wisdom, far and wide, was that the short-term, earnings-driven management style of U.S. companies could not hope to succeed against the longer-term perspectives of enterprises aided by thoughtful government intervention and industrial competition. During the '80s, a time when Mitsubishi Estate took over Rockefeller Center and Matsushita purchased MCA, pundits throughout the United States repeated the refrain that Japan and Germany were destined to be the economic models for the world and the United States was destined to be a low-

** Ibid., p. 5.
pay service economy unable to compete or maintain its standard of living unless it applied the Japanese approach directly to the U.S.

The route to the current robust economic health in the U.S. was not achieved by adopting the policies or practices without modification from any other economy, however robust at the time. As any doctor would warn, it never makes sense to take a pill prescribed for another patient. Japan can and will benefit from the U.S. experience, but it will certainly find its own way. We can already see the signs that a new economic model is emerging in Japan. Most importantly, thinking is evolving. I will discuss some of the structural changes that I see Japan pursuing and suggest some changes that it may be well-advised to pursue. But to provide some context, I would like to briefly discuss the key factors that were, in my view, antecedents to Japan’s current economic malaise.

Antecedents to Structural Change in Japan and the United States

The current system is carrying the weight of policies and practices that made enormous sense in the immediate post-World War II period. Japan was severely short of two key economic inputs—capital and skilled labor. These two factors were the principal constraints to growth. The economy grew by taking market share in new markets while relying on low-cost debt to fund growth. And because the economy relied on such low-cost debt, Japan became the most leveraged developed economy in the world. Also, during this period of extraordinary growth, most enterprises were competing in terms of size of revenues or assets and their ability to recruit and employ a talented technical workforce. Unfortunately, the policies that made so much sense for so long created an environment in which an unnaturally low cost of capital and hoarding of people created enterprises that operated with a dangerous combination: high fixed costs and high fixed charge payments. Projects that had projected returns of 4 or 5 percent were in many cases, ultimately, money-losers. Further, the real-estate bubble exaggerated the misallocation of resources to projects with no hope of earning their cost of capital. When the bubble burst, the old saying, “an asset is not always an asset, but a liability is always a liability,” took on new meaning. The bursting of the bubble coincided with the new competitive realities in what were once key growth sectors, like the automotive and steel sectors.

However, rather than serve as a vindication for the U.S. model of capitalism, the Japanese experience should provide a cautionary example because the U.S. economy may be now misallocating capital in a very different way. A huge proportion of American financial and human resources is streaming away from established industrial companies into the so-called “new economy” companies characterized by high growth and high risk. By many accounts, excessive exuberance in the capital markets is attracting resources beyond any rational justification. The Nobel Prize-winning economist Franco Modigliani stated that the current bubble prices are inherently unstable and, as he puts it, a bubble by its nature will burst.

This is not to say that the internet will not change the world and create enormous value for its winners, just a caution against the excesses in the capital markets. The current wealth effect driving consumption in the U.S. could become a reverse wealth effect stopping consumer spending in its tracks and whipsawing the market. Consider how many American investors have never experienced a down market. How many American workers could see their retirement assets evaporate and then, how many would forego investing, drying up venture capital and IPO markets? Risk-taking and entrepreneurship could be seriously dampened. Business school graduates who flock to internet start-ups for a job with extraordinary wealth potential could suddenly find themselves in search of a job with security. Bear in mind how heavily leveraged the U.S. economy
is with private-sector debt equaling more than 130 percent of GDP. It's true that the rise in
debt has been more than equaled by a rise in
assets, but debts are fixed in value, assets aren't.
Once again, a debt is a debt, but an asset is
not necessarily an asset.

The contrast between the antecedents to the
current stagnation in Japan and those prevail-
ing twenty years ago in the U.S. is as clear as
the differences between the Japanese and
American bubbles. In the United States,
despite the pleadings by many to follow the
path trod by others, the catalyst for econom-
ic revitalization included tax cuts, tight mon-
etary policy, deregulation, and significant cor-
porate down-sizing under pressure from
corporate raiders and increasing shareholder
activism. A little good luck in the birth of new
information-driven enterprises surely helped.
But it's important to keep in mind that the his-
toric background of Japan's economic prob-
lem is strikingly different. The United States
suffered from decades of bitter labor-man-
agement relations and a slide in investment
and R&D in manufacturing that led to low-
quality processes and products. Japanese com-
panies, by contrast, use leading edge process-
esto make world-class products at state-of-the-art
plants with relatively harmonious labor rela-
tions. As one Japanese executive told us, the
good news about Japanese companies is that
they are run by engineers, and the bad news
is that they are run by engineers.

If the U.S. experience were to be copied
directly, what would be the unintended con-
sequences? They would include worker back-
lash, reversal of public confidence, disrupted
supplier relationships, and pressures to create
a large government safety net with the costly
and stifling bureaucracy that goes with it. In
an economy where greater entrepreneurship
and risk capital are needed, fewer would be
willing to take risks. In an economy where
increased consumer spending is needed, con-
sumers would be less inclined to spend. But
that does not foreclose change. Government,
business, and other stakeholders have shown

a growing willingness to adopt principles that
have worked elsewhere to Japan's unique cir-
cumstances. And clearly the example of new
economy models like Softbank are among the
brightest lights on the horizon.

**Government Has Set the Course,**
**Entrepreneurs Should Now Take the Lead**

Government's role has been pivotal. Economies,
especially the financial sector, operate on the
basis of confidence. Prime Minister Obuchi
has done much to inspire confidence. He and
his cabinet have shown understanding of the
West, as well as the uniqueness of domestic
circumstances. They have maintained a steady
pace of reform including the "big bang," legal-
izing and facilitating stock option plans, and
providing autonomy for the Bank of Japan.
The law requiring companies to convert to
consolidated accounting standards will pro-
vide transparency, exposing losses that used
to be buried in subsidiaries' financial books.
Firms that used to hide their problems will
now have to face them.

Government has set the course, and in my
opinion the next round must be led by the
corporate sector entrepreneurs and investors.
They are being looked to for leadership and
inviting foreign direct investment, which is
crucial to help produce strategies that are con-
ducive to global competitiveness. (The value
of foreign direct investment has skyrocketed,
however from a very low base.) A Council on
Foreign Relations study last year reported that
most foreign businesses unequivocally state
that the opportunities they find in Japan are
better now than they have ever been.‡ How
enthusiastically foreign direct investment is
embraced depends largely on how it is man-
aged. People in Japan are anxious to know,
Will foreign management or partners pursue
capitalism based on patience and compassion?

‡ M. Diana Helweg, "Report to the Japan Task
Force on Structural Reform in Japan" (paper
submitted to the Council on Foreign Relations
Task Force on Structural Reform in Japan,
November 4, 1999).
Corporate policies like those practiced by Nissan and Renault offer tremendous encouragement. As I understand it, the Nissan revival plan relies heavily on natural attrition for employment reductions. Also, the Long-Term Credit Bank is committed to building its place as a cooperative partner in the Japanese economy. We have purchased a bank intact and are retaining and retraining the workforce. And we are hoping to re-list on the Tokyo stock market.

There are other positive signs in the Japanese economy. Information technology expenditures have grown, similar to the kind of spending that foreshadowed huge U.S. productivity increases a decade ago. Entrepreneurs are growing. Japan's budding new economy is spawning a creative hub in Bit Valley. The Internet can have an even more catalytic effect in Japan than the United States or Europe because of its ability to minimize distribution costs, long an excessive burden on the national economy. But no one should think that the task of reconstruction is almost complete. The key goal must be to enhance profitability and return on invested capital in the corporate sector, and increase the efficiency of allocation of resources, both tangible and human. This cannot be achieved by MITI, the Diet, or the banking system. It can be achieved by an industrial company (that in the past always priced to maximize market share) deciding that it can increase the price of spare parts, maintain the price of new equipment, and retain market share, while increasing return on invested capital. It can be achieved by a vertically integrated automotive manufacturer outsourcing component manufacturing to foundries, or frame assembly to someone who can leverage their capacity and run it twelve months of the year at 90 percent capacity, rather than six months at 90 percent capacity and six months at 30 percent capacity. It can be achieved by a company investing in financial systems to continually analyze business operations and thus reduce working capital—something they didn't feel the need to invest in when capital was virtually free. It will require changes in corporate governance, where shareholders can have a greater influence over management. I also believe that Japan will find a role for venture capital and other forms of private equity, which were so important as a catalyst for change in the U.S.

The challenge in Japan is not nearly as great as the one facing the United States in the '70s and '80s. Outdated industrial infrastructure and counterproductive labor relations required a much bigger fix in the U.S. than will be required in Japan, where in many cases new pricing strategies, working capital management, and lower overhead can dramatically increase the viability of key enterprises. I am confident that the Japanese economy will again have its day in the sun. Given the unique nature of every nation, no economy can be the right model for the world, but the Japanese economy is, in its own way, finding the right model for Japan.

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SECTION 5
CHANGING JAPAN

YORIKO KAWAGUCHI

Deciphering Social Change in Japan

I will talk about changes in Japanese society today. I will speak on four points. The first is the kinds of changes that are taking place in Japan. The second is the extent and the speed of change. The third is their implications for Japanese society. And the fourth is the remaining tasks for Japan.

1. Japanese society is changing in many ways. Let me just give you some concrete examples and let you decipher their meanings. To begin with, most Japanese companies have in some way adopted payment on a performance-basis as opposed to the traditional system of higher pay for seniority. Mergers across keiretsu are taking place. The governor of Tokyo, Mr. Shintaro Ishihara, proposed a tax on large financial institutions based on their gross income and this will be implemented.

About 30 percent of newly employed university graduates leave their jobs within three years. Foreign-affiliated companies which have been known to adopt non-Japanese—perhaps unstable—employment practices have become one of the most popular type of company sought out by graduating university students for employment.

Airfare deregulation has produced many types of interesting fares. I understand one airline discounts tickets by 26 percent if you purchase the tickets on the internet. Another airline company gives a discount for those who are travelling to take care of sick parents. Taxi fares have also been liberalized.

There is much less social sanction for not getting married or not having children. Women on average bear 1.38 babies in their life and, as a result, Japanese society is rapidly becoming an aging society—probably at the fastest rate among the advanced countries. People under fifteen years old comprise less than 15 percent of the Japanese society; people above sixty-five comprise about 17 percent. So basically, there are more people above sixty-five than people under fifteen.

The newly elected governor of Osaka, Ms. Fusae Ota, is the first female governor in Japan. As you might have read in the recent Newsweek article, female entrepreneurs are flourishing. Another statistic shows that women in their 50s and 60s travel the most of all age groups across gender. If you look at their home pages on the internet you can spend hours just hopping from one page to another.

As of April 1, a new law for greater decentralization was implemented giving more authority to local governments.

2. The extent and speed of change in Japanese society. You may be wondering how far and how fast Japan is really changing. The answers would vary according to where you stand in the society, whether you are a loser or a winner, of course. Because the changes are major and really painful, resistance is mounting. What is certain, however, is that, despite one’s position, society as a whole understands and accepts that Japan will have to change. In my opinion, Japan is irreversibly set for change. The problem, however, is the speed of change. It is too fast for some people, but it is too slow for others, including myself.

3. The implications of change for Japanese society. The upside of this change is that stronger competition, individuals willing to take more risk, a more balanced relationship between the national and local governments, and non-traditional and active women are all bringing innovation, growth, and vitality to Japanese society. The downside is that there is a widening gap and loss of homogeneity among individuals and,
for that matter, among prefectures, cities, and towns. The differences are widening between those, for instance, who are innovative and non-innovative; between those who are educated and non-educated; and between those who are IT literate and non-IT literate. Increased diversity is also affecting traditionally accepted values and the cohesion of the society.

4. Remaining tasks for Japanese society to tackle. Japan is still in search of the right balance between the government sphere and the private sphere. Perhaps the government is still playing a larger role than it should in many fields. Somewhat related to this point, we have not yet created a new and effective governance system for the changing responsibilities of the government and the private sector. As individuals are exposed to greater risks and have to assume a greater amount of responsibility—instead of leaving that to the government or to the companies as we used to—each one of us will need a personal guiding principle or philosophy on which to base our decisions. This means that perhaps the education system should focus more on teaching such values as independence, self-discipline, and innovation.

Nevertheless, as gaps between different groups widen, Japan as a society will still need some core values to unite our society. Some decades ago we had guiding principles or philosophies such as emperor, family names, honor, or shame, as described by Ruth Benedict in her novel, *The Chrysanthemum and the Sword*. For some time we have been losing these values and for some time to come in the future, Japan and the Japanese people will be in search of them.

Yoriko Kawaguchi, Managing Director of Suntory, Ltd., at the time of the Trilateral Meeting, joined the new Mori Cabinet formed after the June 25 election. She is Minister of State, Director-General of the Environment Agency.

MASAYOSHI SON

Accessing the Information Revolution

Do you think the internet is a bubble? I asked this question at Davos at the end of January this year. Seventy percent of the audience said, "Yes, we think it's a bubble." I asked the same audience, "Well, today's PC market cap, and a few years' later internet market cap, which one will be bigger?" The same audience answered—95 percent of them—the internet will be bigger. Well, there is a simple mathematical consistency that one would like to see. Today's market capitalization of the PC industry is $6 trillion and today's market capitalization of the internet is only $1 trillion. Well, that's a fact. The internet industry is only one-sixth of the PC industry today, but the same audience that says the internet is a bubble also says that the internet industry will be six times bigger within a few years than today. Well, I think it's a good time to buy.

In Japan, the word "internet bubble" had not been used by the Japanese people until six months ago. In the United States, the same word, "internet bubble," started being used three or four years ago because the U.S. Nasdaq market made it possible for younger generations to create internet companies, launch IPOs in the stock exchange, and grow very quickly. They were accepted by the citizens of America who injected the capital the companies needed to grow very quickly. In Japan such a market did not exist, so young generations with great passions and intelligence, with understanding of the new economy, the new markets, and new technology did not have the opportunity to provide their passions to society.

I have started the initiative of creating Nasdaq-Japan through a partnership with Frank Zarb,
the Chairman of Nasdaq-U.S. We initiated a fifty-fifty joint venture creating Nasdaq-Japan. Now everybody talks about the internet. They say it’s a bubble. I am very glad to hear that because people are realizing that investors’ money is floating into this new market; there is new movement and new changes. So I would like to take it as a compliment because such talk means people are now realizing that a new market is coming.

Stock Exchanges, Information Exchanges, and Dot.coms

In mankind’s history of half a million years, there have been three revolutions. The first revolution was the agricultural revolution, which demonstrated humans are the only species that provides food for themselves through their own creation. No other animal can create food for themselves. Mankind is the only species provided with the extension of muscles over 10,000 times. Finally with the thought revolution, mankind is the only species provided with the extension of brain power over 1,000,000 times. It’s a great extension of our own power. Wouldn’t you call it a revolution? I would like to call it a revolution.

The great expansion of economies without high inflation has happened once in the past—exactly at the time of the Industrial Revolution. Now, again, the new economy provides high growth without high inflation. You know why? Because it provides more efficiency; higher efficiency in productivity provides higher growth in the economy without inflation. That’s why we call it a new economy.

Fifteen to twenty years ago, people in the United States sentimentally said the U.S. once had the glory, but over the last twenty years the United States has been having great success again—great expansion in the economy and so on—due to two changes. The first is financial. The stock exchange made it possible for risk money to flow into new industries. The Nasdaq is a good example. It provides massive capital to the younger generation and provides opportunity for them to grow. The second change is the internet exchange, which provides opportunity for people to exchange information and wisdom so that they can expand the society and the economy much more rapidly.

Neither of them existed in Japan. Japanese stock market regulations made it almost impossible for the younger generation of companies to launch IPOs. The average number of years which it took them to go public was twenty-five years. In twenty-five years the internet revolution will be over. Young Japanese companies could not get access to the capital market because it required three consecutive years of growth in profit. The Japanese banking community never provided capital to those young internet companies, because they require collateral, such as real estate or proven cash flow. Well, internet companies had neither of them, but they have a great business model that can change society. But Japanese society is changing. I would say that the spirit of discussion will vastly change when society’s infrastructure changes. In the last six months, it’s finally been coming. It is coming. So I am not too pessimistic. It took fifteen years of delay compared to the U.S., but finally the Japanese society has started to change.

The information industry did not start only ten years ago. It started hundreds of years ago through the analog information providers—the newspapers, radio, TV, all of these information industries, even telephone. These are all part of the information industry. The big change has happened in the last fifteen years because of the arrival of digital information industries. In the earlier stages of the information industry, first technology providers succeed, then service providers come along and increase their market cap. Then, in the third stage, the digital information technology providers, such as Microsoft, Intel, and Cisco, become very successful in market cap. In the fourth stage, the “dot.com” company, the pure internet service company, becomes successful. So I would like to say it’s not a bubble. It’s just a symptom of people realizing that a new economy, a new market is coming. It’s an early stage of the great success that’s going to come.
In the beginning of 1990s or the later years of the 1980s, the electronic hardware technology providers—the PC industry—had great success in market cap. Now, the dot.com companies, the pure internet companies, are really taking off. The PC industry has grown sixty times over in the last ten years in the United States. I would say the internet industry will follow such a path. If you look at Japanese companies in 1987, fifteen or eighteen of the top twenty in terms of market cap were the commercial banks. Well, it’s no longer the case. Now, many of the information industry companies are having great success. In the U.S., it was only in 1995 that Microsoft came in the picture of the top twenty U.S. companies in terms of market capitalization. Now, in 2000, five out of the top ten and eight out of the top twenty are information industry companies. And this data is already a little obsolete. Cisco is now the largest in market cap in the world.

I have been a member of the board of Cisco in the United States for a few years and the one who started Cisco-Japan as a joint venture six or seven years ago. At that time everybody said I was crazy. Well, history is the judge.

Bringing Developing Countries into the Information Community

I am proposing five ideas to the Japanese government to change Japanese society by vastly expanding internet access throughout Japanese society [see Figure below]. I think this is not only a subject for the Japanese society, but for everybody. The digital divide is an important issue. Just last month, the World Bank Group’s IFC and Softbank announced a joint venture to provide internet access to 100 developing countries—to provide the technology and the opportunity of the internet in those countries. In the last 100–200 years in the industrial societies, the time difference between earlier countries entering the Industrial Revolution and the later countries has been about 100 years. Even today, there are countries without electricity, telephones, or automobiles. This time-lag has made the difference in economic and social power among countries. I think in the third stage of the revolution, the new stage, we should not allow another hundred years of time-lag develop between the countries. We should provide them with equal opportunities to the knowledge and the wisdom to get access. Bring them education; bring them an infrastructure;

Achieve Higher Quality in Japanese Internet Business

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<td>• Promote VC activities</td>
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<td>Raise Internet Literacy Standard</td>
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<td>Boost E-commerce Transactions</td>
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bring them into our community so that they can also participate and succeed in the next millennium. The children in those countries should have the same opportunity. The older generation is okay. But the youngest generations are innocent. They shouldn’t have any disadvantage. I think this is very important for all of mankind.

Masayoshi Son is President of Softbank.

EISUKE SAKAKIBARA

Meeting the Challenge of the IT Revolution in Japan

Japan has begun to structurally change and the change is accelerating. The bandwagon I think has started to move. The key to the success of this structural change is with the management of the big corporations of what is called the real sector, or traditional sector, which are headed by the kind of people who are present here. So whether they can really engage in creative destruction of their organizations which have succeeded in the past is really the key to the success of the structural change that we are undergoing.

From Industrial-Financial Capitalism to Cyber-capitalism
Before I go into the structural change and the immediate prospect for the Japanese economy, let me expand on some general sort of trends of the world economy. I think the world economy is now undergoing a major transformation, a great transformation, from industrial and financial capitalism to information and cyber-capitalism. Alan Greenspan yesterday again reiterated that the U.S. economy is healthy—growth of productivity is continuing and inflation is well-contained. And he seems to argue, although cautiously, that technological innovations that we have been experiencing will probably change our economic and social structure in some fundamental way, as I just stated. The advent of the microprocessor, computer, satellite, and joining of laser and fiber optic technology and others have made it possible to transfer vast amounts of information in real time across the globe. This is fundamentally changing the pattern of interaction among organizations, between consumers and producers, and among individuals. The real-time interactive process in transmitting and processing information reduces uncertainty and economizes on inventory. Potential improvements in efficiency by utilizing real-time information will exist in almost every aspect of the economic activities of individuals, corporations, and other organizations.

In this respect, technological innovations in information and telecommunications differ from those of other areas. The general nature of the IT revolution also implies that the impact will eventually be felt not only in the United States, but throughout the world. Indeed, Asia—including Japan—and Europe seem to have started to catch up with the front-runner, the United States.

Some analysts regard such movement as the victory of Anglo-American style capitalism over Asian or German models. There is some element of truth in this. It is true that the United States has had some advantage in this process of adaptation, as the U.S. economy and culture seems to have a real openness to change. But rather than looking at the situation in the old paradigm of the Anglo-American versus the Asian or German model, I feel it is more accurate to view the transformation as a paradigm shift.
from traditional industrial-financial capitalism to information or cyber-capitalism. The current changes in Asian and continental European economies can be better understood as the process of catching up with the United States in adapting to the IT revolution. What has happened in the United States during the past decade or so is a revolution that has transformed traditional America quite dramatically. The U.S. society and business community today is not the U.S. of ten or twenty years ago. Bill Gates, Jim Clark, and other IT entrepreneurs are totally different from traditional financiers and tycoons that have dominated the U.S. economy for decades. Jim Clark, the founder of Netscape who started the Internet Revolution, once made a remark that the day is over when those who have money and capital rule the economy. He says it is now those who have knowledge and technology that drive the American and world economy. Yes, this is a great transformation of the economic system that we are observing today.

The IT Revolution that started in the U.S. during the early to mid 90s seems to have now come to its second stage. First, the process that evolved with personal computers has now entered the era of the internet, connected not only to PCs but to cellular phones, gameware, and digital TVs. It was reported recently that the market capitalization of the value of Cisco Systems, the largest maker of equipment that empowers the internet, overtook that of Microsoft, the PC software giant. This is quite symbolic of the transition to the second stage. During the first stage word-processing and office-documentation functions of the PC were widely used, while e-mail had been the major communication mechanism. In the second stage, internet induced e-commerce, business-to-business, and business-to-consumer markets have come to occupy the center stage. It also needs to be recognized that the mergers or joint operations of internet or cyber-companies with traditional and real companies has become more prevalent. In the first stage, new cyber-companies like Microsoft, Cisco Systems, or America Online—or Softbank—have been formed, and these new companies utilizing new technology and the new business model challenged traditional real companies and led the great transformation of industrial-financial capitalism toward information and cyber-capitalism.

In the second stage the traditional real companies, like IBM, General Electric, and, in Japan, SONY, dramatically changed their business operations to adapt to the new cyber environment. The merger of America Online and Time Warner and joint operation of Microsoft with Ericsson indicate that traditional real companies are now entering the field and absorbing the new technology and new business models, often merging with cyber-companies in one way or the other.

In the IT race, countries in Asia and Europe are now actively entering the field, trying to catch up with the front-runner, the United States. What needs to be watched carefully in this catch-up process is the fact that, in an environment where technological progress is very fast, it is often possible to leap-frog the front-runner, although the front-runner has the advantage of setting the standard and potentially monopolizing the field.

Japanese technology around cellular phones or gameware or digital TV—which is quite advanced compared to the United States—may make it possible to leap-frog PCs for many new internet users in Asia, for example. In the cellular phone field, this has already happened. Digital cellular phones connected to the internet—the so-called i-mode—swept through the market, overtaking the U.S. cellular phones, many of which are still analog. It is not, of course, certain at this moment that Japan and Europe could leap-frog or even catch up with the United States. But one thing is very clear: The game is not yet over; it has only started.
Investment-led Growth, New Business Models, and Structural Change in Japan

With this hopeful note, I have given a very rosy picture of Japanese structural change. It has begun to really move during the course of the last six months or so, and big companies, like SONY, Fujitsu, and others have started to adopt the new model and have started to change their operations. And they have started joint operations with various cyber- and internet companies. The move has started and the Japanese economy on the macro-level is now showing some signs of that. Plant and equipment investment from October to December of last year has increased quite dramatically. In the first quarter of this year, we will probably have a slight increase in plant and equipment investment. This plant and equipment investment is led by the IT area and will probably continue through 2000 and 2001.

So the recovery of the Japanese economy will be investment-led, which is what has happened in the United States during the course of the last five or ten years. Of course, consumption is still very weak, but the Nikkei Dow is now rising, and it will probably rise toward 21,000 or 22,000. Analysts have not really accounted for the wealth effect that might have on the consumption, but I think if the Nikkei Dow reaches 21–22,000 within the next three to six months, the wealth effect will have an amazing impact on Japanese consumption. Japanese individuals have started to buy stocks through investment funds. Nomura recently set up a ¥1 trillion investment fund. They have sold all of them already. This new participation of individuals through the investment funds would probably have a major impact on consumption, so investment-led and market-led recovery of Japan could happen in the next year or two.

In the first quarter of 2000, GDP growth rate will probably be around an annual rate of 10 percent, which will probably compensate for the loss that we had in October through December. And we will probably achieve something around 0.5 or 0.6 percent for fiscal 1999, achieving the government objective. What will happen in fiscal 2000 is really crucial. And I'm hoping that in fiscal 2000–01, we will have V-shaped recovery led by plant and equipment centering on the IT industries. Again, I would repeat, this really depends upon the activities of large Japanese corporations, traditional real-sector corporations, how they transform their operations, how they adopt the new business models. Japanese organization of big corporations is obsolete. This hierarchically pattern is not well-fit to this new cyber-capitalism. It needs to be slimmer, it needs to be decentralized; at the same time you need to have a very strategic center. So you need to do two things: One is to create a very strategic center at the core of the management in allocation of resources, but at the same time to delegate lots of powers to the decentralized units. Many of these units may be companies which are spun off the mother company, like the new venture businesses. This kind of revolution has to happen in the next year or two.

The government has been criticized for having had a very negative impact on the Japanese economy by sticking to regulations. But I think the days of criticizing the government are over, though regulations still exist and there are lots of deregulations needed, particularly in the postal-telecommunication areas. But now the key is management of the big corporations, it's not the government, particularly in the financial areas—where I was personally involved in the Japanese financial “big bang.” I think most of the crucial regulations have now been lifted. So it is up to people like those here who will decide whether the Japanese financial revolution will really succeed or not. It is up to you, up to the managers of the private companies whether Japanese structural change will succeed or not.

Eisuke Sakakibara is Professor of Economics at Keio University and former Japanese Deputy Minister of Finance for International Affairs.
Japanese Politics and Structural Reform

After listening to what’s happening in the field of digital from Son-san, let’s talk about what’s happening in analog—that is, politics. I assume my assignment this morning is to convey how politics could better serve structural reform in Japan, which is currently underway as Kawaguchi-san and Sakakibara-san stated. I am supposed to present a slightly different view from high-ranking political leaders in the LDP, not only because I belong to Mr. Kato Koichi’s faction, which is not a mainstream faction in the LDP now, but my own view is a bit different from our leader’s view. At the time of financial crisis in 1998, when the Japanese media called me a brat in the Diet, I and Mr. Sakakibara had a great discussion of what kind of speed we need for structural change in the financial field, which is also the kind of speed we should have for structural reform in the real sector of Japan.

Before going into what is happening about structural reform, let me talk about politics itself. Our general election is coming soon, probably this June. As you know we have formed a three-party coalition (although the third party, the Liberal Party, recently split and the half still in the coalition now calls itself the Conservative Party). If we win the majority with the combined seats of these three parties, I think we will continue along the lines of the policies basically that we have been following. But polls show that the coalition itself is in rather crummy shape: 60 percent of the general public is against the coalition that is now formed. So we will have to see what is going to happen in the next general election. I am changing from the upper house to lower house, so I am hoping that at least I will win!

Policy Actions Have Contributed to Major Structural Changes

Practically every political party calls for reform as the next general election approaches. Indeed the new Mori Cabinet slogan is “towards the renaissance of Japan’s economy and bold structural reform.” I know the press, in particular Western journalism, has viewed this rather cynically, and I also know there is reason for such cynicism. For example, the reason Mr. Ozawa left the coalition—taking about half of the Liberal Party with him—was the fact that the coalition government didn’t fully apply the reform policy agreement among the three parties. I can understand there might be some reasonable doubt from the media’s point of view how the coalition will proceed with reform.

In hindsight, however, Japan has undergone a number of major structural changes—more than you can recall—during the past several years. For example, in ‘98 the financial regulatory power was separated from the Ministry of Finance and the Financial Supervisory Agency created. In that year, the FSA nationalized a few large commercial banks and allowed one of them to be sold to an American investing group. A comprehensive administrative reform reorganizing the entire executive branch of the government was decided upon, which will be put into effect at the beginning of next year. Comprehensive judicial system reform is underway. The financial accounting standards setter is going to be privatized. Capital market enforcement functions are now under review, on the verge of the establishment of two new capital markets for venture businesses, as Mr. Son was explaining to us. There are countless others. On the national security front, the new Japan-U.S. defense guidelines have been put into place. Unlike most of the policy changes before the Hosokawa administration, these reforms are led by politicians.

In the private sector, more rapid changes have been taking place, as has been discussed earlier. At the risk of redundancy, let me offer a few examples. Perhaps no one, say, five years ago would have expected Nissan to import its...
Brazilian-born President-CEO from France. The list of such unexpected developments is long, including the sales of Yamaichi Securities to Merrill Lynch, Nikko to Salomon, and Mitsubishi Motors to Daimler-Chrysler. These private initiatives have obviously been stimulated by competitive pressures, not just at home, but in the international marketplace.

But policy actions have also contributed to these developments. Banking consolidation began under the regulatory pressures which put more emphasis on prompt resolution, departing from the previous forbearance policy. Corporate restructuring has become easier to implement under the legislation for holding companies. As such, competitive pressure itself is a product of policy efforts.

**Serious Caveats Against Optimism**

Having said this however, a serious caveat should be placed against optimism: recidivism into the old system can be detected; old habits die hard. Behind this very visible business restructuring, average Japanese people might feel some reform fatigue against the background of both current higher unemployment and a possible export-led cyclical economic recovery. As the economy recovers, people tend to forget the necessary reform agenda. Coincidentally, at the political level, I think a sense of urgency, or momentum toward structural reform, might be slowing down as the economy picks up. (I agree with Mr. Sakakibara that big companies should lead the structural change.)

The first example would be lack of political commitment. Structural reform always requires strong political commitment to implement. However, recent political decisions taken after the fall of 1998 tend to go against reform commitments, such as the one-year postponement of reform of bank deposit insurance, and the suspension of the planned collection of contributions for public elderly care insurance. Also public pension reform and medical reform are still only half-way through. Another example is the supposed ban on bureaucrats' participation in discussions at the Diet. This Diet reform has not worked well, I guess since politicians frequently cannot answer technical questions because of insufficient policy staffs. As a result bureaucrats still participate in discussions at the Diet as observers.

Second, there tends to be revival of the old regime in the course of restructuring the old economy. For example, the new financial and industrial revitalization laws both require government permissions, from FSA or MITI, if a bank or a corporation makes use of these restructuring measures, such as public capital injections or tax breaks. So I am afraid an illusion of old government in the political sense is now reinforced among the majority of Japanese in the old economy. Measures for reform tend to revitalize the iron triad among politicians, businessmen, and bureaucrats.

And third, recently transparency in policymaking has been somewhat decreased. Under Kato Koichi, then Secretary-General of LDP, we had open discussion on, for example, Ministry of Finance reform, revision of the Bank of Japan law, the total financial plan, and the proposed bridge bank. But recent decisions, for example, to suspend bank deposit reform and the collection of contributions for public insurance for elderly care, mentioned above, were abruptly made at the coalition leaders level, without deep discussion among the general public or even within the LDP.

I suppose these factors may indicate a political backlash in Japan, which may jeopardize necessary structural reform. In this regard I have a different view from other high-ranking leaders, who tend to indicate that a slower restructuring speed will suffice given the cultural difference between Japan and the West. I believe that politicians should not use this slower speed as a pretext for deferring reform.

**As the Economy Recovers, People Tend to Forget the Necessary Reform Agenda.**

**Politicians with a Long-Term Perspective; More Flexible Forms of Public Service**

To tell the truth, however, I admit that we politicians today have not been able to present a new form for Japan's governance or productive policy debates among parties which
...we have not been able to present a new form for Japan’s governance or productive policy debates... which successfully conform to both Japanese traditional values and global market mechanisms.

One of the main obstacles for reforms is the behavior of politicians, who tend to care only about votes. Another is the behavior of the bureaucrats. The bureaucrats tend to adhere to their ministry’s interest, for his or her promotion. For this drawback, a solution might be to enhance mobility in policy-making, moving professionals in and out of the ministries in order to increase mobility in human resources in public service. So, politicians need to have a long-term perspective and there should be more flexible forms of public service. I do believe the mobility of labor forces in both public and private labor markets is the crucial issue that should be addressed in order to have quick structural reform in Japan. I would appreciate if you can give us advice and help us avoid being bogged down in the mess.

Yasuhisa Shiozaki, a Member of the House of Councilors (LDP) at the time of the Trilateral meeting, was elected to the House of Representatives (LDP) in the June 25 election. He was State Secretary for Finance in the second Hashimoto Cabinet.

SECTION 7
EMERGING EUROPE

ROBERT COOPER

NATO’s Impact on Transatlantic Relations

I’m planning to cover three points. I’m going to say something about change in NATO over the last ten years. I’m going to say something about Kosovo. I’m going to say something about European defense.

The Cold War, NATO, and an Evolving Alliance of Values

Let me just say a couple of words about the Cold War. The Cold War was fought in many places, many of them in Asia. It was fought in Korea; it was fought in Vietnam, perhaps by mistake; perhaps also by mistake, it was fought in Afghanistan. It was fought in a different way in conference rooms and in the domestic politics of many countries, including this one. There was the Berlin airlift and there were tanks facing each other in the streets, but in Europe, strangely, there was no fighting. It reminds me a little bit of a sumo bout where the two sumo wrestlers face each other and glare at each other. They stamp their feet and, of course, throw the salt—in the Cold War terminology that was SALT I and SALT II—but, in the end, they don’t fight. That seemed to me to be a very satisfactory way to deal with a conflict.

I think in that period we learned some useful things in the alliance. We learned that what mattered was sorting out our own quarrels (and there were lots of them). The alliance survived Suez, détente, Ostpolitik, the two-track decision on missiles, star wars, and many other
life-threatening situations. We learned that what you are may be more important than what you do. And what we were was a pluralistic, quarreling alliance, an integral part of a pluralistic society. Because of that quarreling, pluralistic nature of the alliance we learned, perhaps with a twinge of regret, that U.S. leadership was also quite useful. But we also learned that with deterrence went dialogue, that the best security comes from good political relations, not from weapons. You need weapons, but good political relations are, ultimately, what you should aim at.

The big surprise, though, has come to us now ten years after the end of the Cold War. The big surprise for me is that NATO still exists. There is almost no historical precedent for an alliance outliving its enemy, from the Delian League to the Grand Alliance of World War II. When the enemy goes, the alliance goes. But NATO somehow hasn’t gone. Instead, what NATO has done is to adapt in a number of ways. First of all, it has developed a new strategic concept over the last ten years, a concept which emphasizes crisis management as well as territorial defense. It has a whole series of new relationships: It has three new members; it has twenty-five countries associated with NATO in the Partnership for Peace program; and it has a new relationship with Russia—a difficult new relationship with Russia, but a very important one. Russia’s relationship with the West is going to be one of the key issues for the next era and NATO is an important part of that relationship. It’s still a work in progress. But that also is not a bad way for a conflict to end. An important lesson was learned at the end of the Second World War: Turn former enemies into partners.

And so NATO is not now an alliance against anything; it’s an alliance on the basis of common interests and common values. We saw this to be true in Kosovo, which was a campaign fought about European values. The objectives of the campaign were the withdrawal of Serb forces and the return of 800,000 Kosovar refugees. We achieved both. There were mistakes and failures, but that is common to all military activity. The question you have to ask is, Did you achieve the objectives? And the answer to that is, Yes, we did.

But I think in the process we have learned how different the world is. We’ve learned two things, in particular. One is that this was a different kind of war from the ones that we were used to in the twentieth century. The First World War, the Second World War, and the Cold War were all, in a sense, total wars. These were wars of survival and potentially of annihilation. The campaign in Kosovo was a limited campaign for limited objectives. Such wars end not in unconditional surrender, but in negotiation. We are still waiting for the negotiation and we may have to wait some time, but when Serbia wishes to return to Europe we will negotiate. All of this means that political cohesion and solidarity is at least as important as military effectiveness, and the alliance demonstrated remarkable political cohesion during the bombing campaign.

The second thing that we are learning is that peace is often more complicated than war. The military bit, in some respects, now looks like the easy bit. Going in successfully is easy. Leaving successfully is the real test. There is a lot of work to be done and it can’t all be done by NATO. NATO now has to work with other bodies—the UN, the OSCE, the EU, and a whole host of NGOs, as well. I should mention here the Japanese contribution which Professor Takemi referred to earlier today. We valued Japanese political support during the campaign. We value Japanese engagement in rebuilding Kosovo.

Another thing that the Kosovo campaign demonstrated very strongly is the widening gap between American and European military capabilities. The vast majority of the bombing sorties were flown by American planes and it was only American planes that could bomb through cloud. Again, the pattern in peace is a bit different from war. In peace you will find that 80 percent of the soldiers on the ground are European and about 85 percent of the
money for reconstruction is European. Nevertheless, the military campaign left a lot of us with the feeling that the alliance was unbalanced and almost unhealthy. This is strange because if you add up European defense budgets you find that the total is about 60 percent of the U.S. defense budget, but if you look at European capabilities it looks more like 20 percent.

How does that come about? Well, there are two reasons. The first is that European forces were geared to the Cold War. The Cold War in a sense like the industries of the old economy—big, long, heavy, hard. And that’s more or less what European forces were like—big, solid, heavy, rather immobile. What we need in the future is something different. We need, I wouldn’t say soft forces, but we need well-equipped, mobile, more responsive, professional forces. A move in that direction is happening in Europe. France, Italy, Spain, and Portugal are already moving from conscript armies to professional armies. Germany is discussing the issue.

The second reason why European capabilities are poor is that we are sixteen separate countries with sixteen separate defense budgets, sixteen separate sets of logistical arrangements, and sixteen separate armed forces. There are real economies of scale that we are missing out in Europe. If we want to raise our capabilities, either we are going to have to raise our spending (and many would argue for that too) or we are going to have to work together better.

**European Defense Capabilities and Transatlantic Imbalances**

This brings me to the European defense initiative. The point of this initiative, essentially, is to raise European capabilities by combining our defense efforts. We are not really talking about defense in the sense of territorial defense. That is NATO’s responsibility. But we are talking about improving Europe’s capability to carry out crisis management jobs. The first choice will still be action through NATO, but we want to provide a better European contribution to NATO and that means a more integrated European contribution. It doesn’t mean a NATO consisting of two blocks, but it does mean that the EU would have the option of acting if the U.S. does not want to join them, perhaps with other European allies, such as Turkey or Norway. It will mean providing the U.S. with a better and a more capable partner. A more capable partner, I hope, will be a more influential partner, as well. I am sure the U.S. would have no difficulty with that. Pluralism is one of the strengths of the alliance.

Initially Europe has set itself the objective of creating a rapid reaction force—a force of 60,000 men that can be put in place within sixty days notice. You ask yourself why can’t Europe do this already, seeing that it’s got about one and a half million troops. The answer is it simply can’t and it’s going to require a serious effort to change this situation. The rapid reaction force, I hope, is a beginning. I hope that we will go further. In any case, it will be a good thing if at the end of this process we have more flexible and more mobile forces.

You never know when and where you will be needed. A year or so ago, no European country would have dreamed that it was going to deploy forces to the South Pacific, but Britain, France, Germany, and Portugal have all contributed to the UN force in East Timor. The point is that if your friends are involved, you are involved. That has been the U.S. attitude in the Balkans and the example of East Timor shows the definition of “friends” goes some way beyond the narrow confines of the alliance.

**Three Personal Observations**

Let me finish by making three personal observations. I underline the word personal. Let nobody make the mistake of thinking that I have checked this with the Prime Minister or anybody else.

First, I’d like to echo what Dr. Kissinger said yesterday. It seems to me that there is a risk in having NATO function as the main carrier of transatlantic relations. Putting transatlantic relations entirely through a military frame-
work may have a distorting effect, both on the military side and on transatlantic relations in general. There is, of course, an EU–U.S. relationship, although it doesn’t work very well. Somewhere we seem to be missing a political relationship between the U.S. and Europe. That should be on our agenda.

The second observation is a question I’d like to ask: Having changed the strategy and being in the process of changing the structures, does NATO also need to change the mindset? The mindset that you needed for the Cold War, which was a total war, was a mindset that permitted no kind of failure. But when you are dealing with crisis management and with limited campaigns, then there may come a point in campaigns when you wish to cut your losses. And perhaps we need to ask ourselves whether NATO ought to be a little bit more robust about failure. Do we need to put NATO’s credibility on the line every time? Organizations which survive failure, it seems to me, have a particular kind of strength. NATO’s problem, perhaps, is that it has never had a failure yet.

The third issue is whether in the long run—and I would say personally, this is perhaps the point that worries me most—there isn’t a risk of a cultural separation taking place between Europe and the U.S.—a culture of power on one side of the Atlantic and a culture of law on the other side. Or, if you like, Hobbes on one side and Grotius on the other. Actually we need both law and power; we need both Hobbes and Grotius. The combination of the two works extremely well, but a division of labor along those lines would be a division of the alliance and inherently unattractive.

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Daniel Janssen

The Pace of Economic Change in Europe

You have asked me to make some remarks about the present state of the European economy. This I am delighted to do. Europe is passing through an extremely interesting phase right now, and most of the news is good news.

But, as usual, the news from Europe is diverse and complex. It is not always easy to get a clear picture, simply because Europe is such a very complicated place. There are many different Europeans to talk about. The east is not yet like the west, the north is in many ways different from the south. There is the European Union, with 380 million people. There is the hard core of Euroland, the zone of monetary union, with 290 million. There is the EU as it will be after enlargement, with perhaps 550 million people once Turkey is included, which is now the policy.

And there are two other Europes I would like to mention. One is the Europe you often read about in the press, especially the English language press—a Europe which seems to stumble from crisis to crisis in such rapid succession that you might be surprised to find that there is anything left at all. The other is the real Europe in which I live and work, a Europe which is more and more prosperous, successful, and changing all the time.

The Strengths of the European Union

Let me focus for a moment on the EU. The fifteen member-states form an economic bloc which is roughly the same size as the United States. It is a rather bigger player in world trade, but somewhat smaller in world financial markets. Its people are well-educated and it is technically strong in a whole range of

We Europeans are brought up to live and work in a multilingual, multicultural environment, we have to learn how to manage different attitudes and different preferences....
industries, from large civil aircraft to mobile telephones, from banking to telecommunications, not forgetting my own special interests, which are chemicals and pharmaceuticals. And we have three special assets which are not always fully understood by the outside world.

One is the strength which comes from diversity. We Europeans are brought up to live and work in a multilingual, multicultural environment, we have to learn how to manage different attitudes and different preferences, all of which is in many ways an ideal preparation for the complexities of the global economy.

A second is that our very diversity makes us extremely self-critical. We watch one another carefully, we are quick to criticize one another, quick to propose solutions, impatient when they are not applied as quickly as we would like. Perhaps we sometimes overdo this self-criticism, but in a changing world I believe it is a strength.

The third point is the extraordinary pace of change in Europe. The EU is continually reinventing itself; it has changed out of all recognition since the great turning point, when Jacques Delors launched the 1992 single market program in 1985. And now, the common currency, the Euro, since January 1999, has had dramatic positive effects.

The Year 2000—A Good Economic and Social Year for Europe

There is general agreement among the forecasters that the year 2000 prospects for the EU economy are looking good, better than for many years.

- Economic growth is speeding up, and will probably top 3 percent this year, gradually closing the gap with the U.S. and well ahead of Japan.
- Exports are also running well ahead of either the U.S. or Japan, and the EU external account is well balanced, especially when compared to the large and persistent U.S. deficit.
- Unemployment is much too high but has come down steadily from 11 percent to 9 percent and this reduction will continue.
- Inflation is low, still below 2 percent a year, and the upward pressures are for the moment less than in the U.S.
- The regular surveys show that both industrial and consumer confidence are high and rising, while investor confidence is well illustrated by the strength of European stock markets, which have outperformed most others over the past twelve months.

Monetary Union

Besides the good 2000 economic and social prospects, a major change is taking place in Europe. The Monetary Union is the spearhead of the integration and change process. The launching of the euro in January 1999 for eleven out of fifteen countries, the creation at a stroke of the world’s second most important currency—was a great technical success as well as a remarkable political commitment. Even before it was launched it had very beneficial effects through the pressure exerted on every government to reduce deficits and to put its public finances into better shape.

The fact that the dollar has risen by 15 percent against the euro in the first year is a tribute to the current dynamism of the U.S. economy rather than a mark of any deep-seated problems in Euroland (we all know that currencies do swing up and down over time), and as chairman of an exporting company I do not complain about the useful short-term stimulus which we have received.

What matters in the longer term is that we now have our own strong, independent, and professionally managed European Central Bank with an overriding commitment to monetary stability as the basis for sustained growth. The euro has become the leading currency in the international bond market and is opening the way towards a unified equity market which is attracting more and more international investors. The euro, which is now used by all big businesses, will be replacing eleven—and perhaps thirteen—European currencies in the hands of consumers in January 2002.
Political Rejuvenation

In parallel with these economic and monetary successes, the political integration of Europe has also speeded up. There is a spirit of rejuvenation in the air, there are new faces around the table. Schröder, Chirac, Jospin, Blair, Aznar, D'Alema, and Verhofstadt have taken over the reins of government from the generation of Kohl and Mitterrand.

These new leaders have made an extraordinarily bold commitment to enlarge the EU from fifteen to twenty-eight member states, which will bring fundamental benefits to the whole continent, both east and west, and the negotiations are advancing. They have also decided to develop a foreign and security policy so as to exert a greater weight in international affairs under the leadership of Solana, who came from Nato to become Secretary General of the European Council of Ministers.

The first European military regiments called "Eurocorps" have been created and are operational, which would not have been thought possible even two years ago.

This spirit of reform extends to the European institutions, driven by the former Italian Prime Minister Prodi at the new and more powerful European Commission. The Commission plays the lead role in many areas of economic importance and it is extremely open to the business community, so that when businessmen like me face an issue that needs political input we have access to excellent Commissioners such as Monti for competition, Lamy for world trade, and Liikanen for electronic-commerce and industry.

This is in addition to our normal and regular contacts with national ministers, but it is fair to say that the Commissioners usually have a broader view because they are responsible for fifteen countries, not one, and they have to negotiate as equals with the U.S., Japan, China, and other large regional organizations. We have real confidence that they will do their best to make the EU work properly and to defend European interests in international negotiations.

* * *

All these elements—economic, social, monetary, political—concur to give in Europe a feeling of rejuvenated confidence. Times have changed since the European feelings of euroskepticism in the '80s and of shame during the Yugoslavian wars of the '90s.

I have deliberately emphasized some of the positive features of Europe in 2000. But it would be wrong to suggest that everything is as we would like it. Let me highlight some problem areas where Europe is still weak and where many changes are urgently needed. They are being discussed and negotiated. They are the keys to European successes...or failures between 2000 and 2005.

Taxes and Labor Costs

If unemployment is much too high in Europe, this is partly because of inadequate growth rates in recent years, when Europe has run significantly behind the U.S. But it is even more because the costs related to employing people are also much too high. Wages are burdened by huge tax and social security charges. A blue collar worker who costs his employer 100 receives less than 50 in his pocket, net after tax, on average for Europe.

This factor is much worse than in either the U.S. or Japan, and it is even worse for managers and other senior employees. Total tax and social charges in the EU are 47 percent of GDP compared with 34 percent in the U.S., which makes for a cost differential that is too high to be supported and represents a major barrier to European global competitiveness.

Moreover, if you hire people for a business venture that does not succeed, then it is both difficult and expensive to terminate their employment. In such an environment you can understand that employers are discouraged from hiring more people, and skilled managers hesitate to go independent by creating their own small firms and taking on their own labor.

Politicians understand all this but find it difficult to act in the face of opposition from organized labor. There is a general preference...
for a high degree of social protection in Europe. Many employers like me share those reasons and are favorable to the social dialogue, but we do press for improvement.

The European Round Table of Industrialists published a paper earlier this year calling for a switch in pension financing to capital funds based on savings and investment rather than "pay as you go" charged against salary taxation. Pension reform is urgently needed on the continent, but there is huge union and political opposition, although the example exists in UK, Ireland, and Netherlands.

**Bureaucracy**

The excessive weight of taxation is also a consequence of European bureaucracy. Part of Europe's historical legacy is the centralized nation-state: rigid, protectionist, and prone to excessive regulation. That is where the core of our bureaucratic problem lies, not in the new Europe that we are building today.

We are now succeeding in breaking down that inheritance through a double revolution that is taking place in Europe.

On the one hand we are reducing the power of the state and of the public sector in general through privatization and deregulation. In this we are helped by the fall of communism and the rise of the new information and communication technologies.

On the other we are transferring many of the nation-state's powers to a more modern and internationally-minded structure at European level. European unification is progressing and it helps international businesses like ours.

But none of this happens overnight. It does not happen without friction and resistance. How could it be otherwise? In every member-state there is a lobby against European unification, struggling to defend the vested interests, clinging to "the old way of doing things," and blaming Europe or "Brussels" for the difficulties we encounter. You find this among some trades unions, some politicians—especially on the extreme right and extreme left—and some national civil servants. While business usually embraces the European integration process, the national public services resist the new ideas in principle or seek to regulate them at national level. Therefore, political leadership is necessary for negotiating among fifteen countries the new political decision process. Another Inter-Governmental Conference (IGC) is now taking place which will probably lead to a Treaty of Nice later this year. It should improve the EU structure and decision making systems, with more use of majority voting and a more rational distribution of voting rights between the fifteen countries. If we do not succeed, we will not be able to enlarge from fifteen to twenty-eight countries, and we will carry on being overburdened by taxes and over-regulated at all levels: municipal, regional, national, and European. We are building not only a bigger Europe, but also one which will be better managed, more open, and more effective.

**Competitiveness by Innovation and Business Restructuring**

Competitiveness is a major issue in Europe since the '90s. In the early '90s, the single market program had forced strong European competition. The deep European recession of '93 due to the German unification, had aggravated the need for business restructuring. Re-engineering and downsizing were able to reduce costs and improve somewhat international competitiveness. But the U.S. did not wait and increased its productivity by a leap forward in new technologies. European businesses are focusing now also on innovation, entrepreneurship, venture capital, skilled labor, and e-commerce. Most European politicians and civil servants begin to understand that competitiveness is the condition and not the enemy of employment and social cohesion. You only have to look at the agenda of the European Summit in Lisbon in March: "The Special European Council on Employment, Economic Reforms and Social Cohesion—Towards a Europe Based on Innovation and Knowledge." The European Round Table of Industrialists and our Competitiveness Working Group were
very much involved in the preparation of the summit. The output of the summit was explicitly directed towards "urgent structural reforms," including labor markets, social security systems, competitive markets, research and development, and e-commerce. The political leaders of Europe have made a clear analysis of the issues, several good recommendations, and a program of action. They must now implement them, speedily and effectively.

Simultaneously, the markets force change and business restructuring. The Vodafone take-over of Mannesman is only one example of a new kind of European business behavior: A young English new technology company is taking over a dynamic traditional German company. Such events take place more and more often in all sectors: in banking and insurance, in media and telecom, in oil and gas, in chemicals and pharmaceuticals, in electricity, in retailing, etc. Companies continually review strategy and structure, focus on their core strengths, and seek mergers in order to become more European and more global. This process is favoured by stock markets which play a growing role. European equity markets have changed dramatically in the last months. We will see a lot more cross-border mergers. Some of our European stock markets themselves are interconnecting with one another, some are merging. National protections are replaced by European integration.

Conclusion
One prime result of this constant pressure for change, driven by the need to compete in world markets, is that the old ideological divide has faded. Socialist and social-democrat politicians are to be found in twelve of our fifteen national governments and they have come to realize that their own priorities of social cohesion and employment are dependent on the competitiveness of the European economy, and they are all moving on a reform path—some more quickly than others, of course. Rather than party politics, our major problems today are bureaucracy, resistance to change, the inefficiency of the public sector, and, before all, the excessive defense of national prerogatives. Will they outweigh the pressures from the liberal ideas, the international processes and the new technologies? I do not think so because globalization, markets, and youths are on the side of European change.

I have shown you the two sides of the coin. I have exercised the European habit for self-criticism. We have many problems. We are acting on them. But the positive forces strongly outweigh the negatives.

It is not difficult to foresee a good year 2000 for Europe. But it is even more important to look ahead five or even ten years and to consider the real possibility that these positive forces will achieve a cumulative effect: a European Union of 500 million inhabitants, sharing the world leadership with the U.S., Japan, China, and some others.

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American Politics and American Foreign Policy

My topic is "American Politics and American Foreign Policy." Now my qualifications for discussing American politics are proven by the fact that I have never supported a winning candidate in a Republican primary, starting with Nelson Rockefeller in three Presidential campaigns and winding up with John McCain in this primary campaign. So I will concentrate on the subject that I know a little more about, though that too may be disputed by some people in this room.

The first thing to say about American foreign policy is that when the United States is accused of being a hegemonic power, I would grant that that is true. It is a hegemonic power in the sense that the disparity between the U.S. and other nations in military strength, economic power, and cultural reach is unprecedented. This, inevitably, evokes a desire by others to reduce that hegemonic position. That inevitable fact of life does not change the fact of our position: For America the challenge is that of any dominant power, which is to transform its strengths into mutual obligations; to avoid letting everything become an issue of power; to achieve a position of consensus on those issues that matter most; and to work for an international system that relates our position to the concerns of others. And we have to do this at a moment of huge international changes, some in the economic field, but also others within the structure of all societies and in the relationships that America has established with the rest of the world.

Generational Shifts, American Politics, and Contesting Interpretations of the World

These challenges have to be addressed at a moment when three different generations in America have three contesting interpretations of the world.

First, there is my generation, which is statistically passing from the scene. Our formative experience was World War II or its immediate aftermath. It was a generation that felt no ambivalence about the use of American power and that, on the whole, believed it had been used for constructive and beneficent purposes. When I was a graduate student in the '50s, I asked President Truman what he had achieved of which he was most proud. He said, "I am most proud of the fact that we totally defeated our enemies and then brought them back to the community of nations as equals. And I would like to think that only Americans would have done that." Now I am not arguing whether that last sentence is true, but it was a generous interpretation of the American role. It was not typical of how most modern politicians would respond to such a question. They would talk about what they had done as individuals, rather than what their society had accomplished.

The following generation suffered a crisis of confidence during the Vietnam War. They entered it for what I believe to be noble motives, trying to apply the lessons of Europe to Asia, only in circumstances where they didn't fit. It was then dealt with in the American domestic debate not as a traffic accident, but as an aberration of the system, launching an attack on American worthiness to conduct any foreign policy at all until it had undertaken a strenuous exercise of domestic improvement. So the Vietnam generation is suspicious of American power and looks for more elevated expressions of the American purpose. It tends to apologize for the period preceding their entry into office. And I would say that on the whole this is the present generation of leaders. They believe in
the dominance of the soft issues—"soft" being issues not related to the exercise of American power, or separated from it as much as possible, such as the environment or human rights. They have the tendency, which amazes me, of apologizing to foreign nations for our previous conduct. And the argument is always the same: that this was done for strategic reasons, as if this is a sin, but that we now know better. We saw this when the new policy toward Iran was put forward. (With which, incidentally, I agree. I just don't agree with its justification.) This generation has done important things in the promotion of human rights and other soft issues. But it has created such ambivalence with respect to what used to be considered foreign policy that, on the one hand, they have gotten involved in more military efforts than many previous administrations; but, on the other, they have never known how to bring them to some conclusion because they have been reluctant to articulate a geopolitical design for the world.

This reluctance is partly due not just to the difference in generations, but to changes in American politics. I entered politics as an advisor to Nelson Rockefeller. He suffered from the na"ive idea that you become President of the United States by having the best program. So he spent nearly all of his time as a candidate meeting with intellectuals and other leaders developing programs, while his opponents were running around getting delegates. And his programs were more or less adopted, but in different administrations than the one he led. In those days, I, as an advisor, was asked what the leader should think. This has now changed. Now advisors are asked what the leader should say. They work on speeches and much more rarely on designs. No serious modern political leader will spend three or four nights a week and most Sundays developing programs. He has to raise money and concentrate on focus groups. This is a change in politics and not just a change of generations.

Then there is the third generation—the internet generation—which doesn't have the guilt feelings about power. They can be pretty tough in those things they understand, which usually don't include foreign policy. They believe—in so far as there is a dominant belief—that globalization solves all problems and, therefore, if you have a perfectly globalized world, it will automatically be peaceful. And if you throw in the theory that democratic countries don't fight with each other, you then have a picture of political bliss and economic activity which does not require an active long-range approach to foreign policy. The best people of that generation tend to be in business, rather than in politics. And I must say, again, listening to the brilliant performances this morning, there was reinforced a feeling that the gap between the economic and political worlds—between the sophistication of the economic world that attempts to be global, and that of the political world, which is national and not all that reflective about what it means to have a national policy—creates major challenges.

Problems like human rights and globalization require much greater attention than they have received if aspirations are to be translated into politics. At the risk of being sacrilegious, I do not believe it can be said that democracy necessarily produces peace. Advanced democracies in highly developed countries produce peace. But if you look at the history of democratization, often includes enlisting nationalism, and the great insight learned from the politics of the late nineteenth century is that it is possible to split nationalism from liberalism in democratic societies. When I say great, I don't mean morally great. So it's not true that the process necessarily produces peaceful conduct, as we see in Russia vis-à-vis Chechnya or in China vis-à-vis Taiwan. This is no argument against democratization. It is an argument to look at it with some understanding of what one is really talking about. Moreover, I can understand what it means to defend human rights, but I am not sure that we know how to promote democracy in many of the societies in which we are trying to be active. Now the fact that I don't know doesn't

IN THOSE DAYS, I, AS AN ADVISOR, WAS ASKED WHAT THE LEADER SHOULD THINK.... NOW ADVISORS ARE ASKED WHAT THE LEADER SHOULD SAY.
mean that somebody can’t figure it out. I am saying that, in national policy, it has not yet been adequately addressed. In America, national policy is in the hands of various pressure groups that legislate individual sanctions on this or that problem. Sometimes they are adequate to the task and sometimes not.

Globalization must inevitably, as it proceeds, produce huge dislocations in each society and therefore requires a kind of political sophistication and attention that it has not received. The internet generation, for all its great achievements, has produced a different kind of mind and, thereby, one of the great revolutions in history: The advent of printing changed politics and religion. The invention of the internet is bound to produce huge dramatic changes. Before the internet, memory had to be trained, concepts had to be established, and a feel for the future had to develop. With the present technology, information is easy to acquire, knowledge is more difficult, and wisdom beyond the reach of many.

So one must deal with a political class that is national and not very reflective on foreign policy, and an economic class that is global in its outlook, but does not understand political relationships. This is not an argument against the internet. This is an argument over whether the internet generation can learn the perspectives of other periods so that these qualities can be combined.

Challenges Confronting American Foreign Policy

Now in the current world, we in the United States will have to face a number of conceptual issues relating to China, Russia, and Europe, in addition to all the other problems that I have mentioned.

China

The issue of China, of course, involves Taiwan. And I would recommend the paper that has been submitted to the Trilateral Commission,* with which I agree almost totally. (I would say totally, but I just can’t bring myself to say that.)

The fundamental question we face now in the United States is, How do we deal with an emerging superpower? And how do we analyze this relationship? To what degree is it in our capacity to turn it into a replica of the American system, and how do we know what a democratic system in China would be like? It is sometimes argued that China is communist and therefore an ideological enemy. It is also argued that they are determined to push the U.S. out of Asia and therefore it is better to anticipate this by throttling them or at least by making the process as difficult as possible.

First, I don’t think they are a communist country. I think they are a one-party country using the communist label. But they are nothing like the Soviet Communist Party that claimed universal applicability and control of all others. They are not an ideological threat. Their problem is their potential ideological weakness, not their potential strength, and the measures they might take to use nationalism to compensate for this growing weakness.

As for the Chinese ability to push the U.S. out of Asia, I think the analogy to the Soviet Union is totally mistaken. The Soviet Union was surrounded by weak countries, not one of which could resist by itself. They therefore had to be combined. China is surrounded by countries, any one of which is capable of resisting alone—India, Russia, Japan. Japan’s defense budget is three times that of China’s. Looking at the world from Beijing, the danger to Chinese and regional security is a combination of surrounding countries, not China’s ability to march through any one of them.

Of course, as China’s economy grows, it will gain more influence through normal economic relationships and it will probably use them. But the question we have to ask is, Is it to be our national policy that no other country can emerge at a rate of growth that can be in some

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respects disquieting? I don't accept this proposition. I believe that the American position in Asia should be, and will be no matter who is in office, that we will resist the hegemony of any country in Asia. (Especially once the American people understand what the word "hegemony" means, which I don't think is widespread.) But we don't have to make grand alliances for that purpose. We have an alliance with Japan, which we will maintain. Japan for the foreseeable future is better off under the American nuclear umbrella than going the road of India, and, therefore, there is a confluence of interests between Japan and the United States. For the rest of Asia, we can afford good relations with everybody, vapid as this sounds. We don't have to create a cold war in Asia. And in fact, I would argue that the surest way to isolate ourselves in Asia is to lead the crusade that so many people are urging upon us.

Now, Taiwan is a very special case, and I'll just state three principles and leave it to you to read the paper. One, we cannot abandon the principle of one China without provoking a showdown with China, whatever the costs to China. Two, China must be made to understand that we will not accept the use of force in settling the Taiwan issue. Three, Taiwan must be made to understand that it has gained enormously under this arrangement and that it should avoid provocative actions. What is provocative is not something that can be defined in Beijing, but something that is clearly provocative is a declaration of independence, or something amounting to it. Those seem to me to be the three principles we must maintain.

Russia.
I will just mention Russia briefly. We are about to start another new relationship with Russia and one can already see the typical fever chart. Groups of leaders are rushing to Moscow to report in the traditional way about the new leader—his psychology, his humanity, the great improvement over his predecessor—and are competing with each other in their enlightened attitude towards Russia. If Russia wants to modernize, having many intelligent leaders, it will understand that market economics is the best way to proceed so we shouldn't have to pay them for this. What we want from Russia is for them to stay within their boundaries. Russian foreign policy, even though Russia has a GDP the size of Denmark's, destabilizes every country around its borders for the purpose of denying them the ability to live quietly and ultimately to bring them home to the Motherland. And as they pursue this policy they will create the normal suspicions of Russia in Europe and inflame the old historic tensions. The one lesson Russia has to learn is that when you have eleven time zones, from St. Petersburg to Vladivostok, you shouldn't feel claustrophobic. What we want from Russia is that they concentrate on their own territory first and then we can talk to them—and should talk to them—about Central Asia. And we must treat them with respect in all other international questions by letting them participate in international forums in a substantial way.

American-European Relations.
Finally, I want to say something about American-European relations. Because NATO exists, everybody thinks American-European relations are very good. Every time we don't know what to do, everybody thinks we have some technical problem to work on. But the fact seems to me to be that there has been a sea-change in every European country, most recently in Germany. It is of a different generation coming to power and very similar to the one I described in America. And it is a generation that hasn't gone through the process of forming Atlantic cooperation. Therefore there is some necessity for defining two separate issues. One is, What does one mean by Atlantic cooperation? And the second is, What does one mean by European identity? And further, Is it possible to define European identity without focussing it in opposition to the United States? All this seems to me part of the agenda.
A Basic Challenge

Let me conclude with a Chinese proverb Lee Kuan Yew, Prime Minister of Singapore, once told me, which I think sums up our challenge: When there is turmoil under the heavens, little problems are dealt with as if they were big problems and big problems are not dealt with at all. When there is order under the heavens, big problems are reduced to smaller problems and smaller problems should not obsess us. This seems to me to be a basic challenge, whether we can identify the big problems and reduce them to little problems. But before you become too impressed with this proverb let me tell you what was said to me in Beijing when I tried to use this proverb. One Chinese said, the next time Lee Kuan Yew tells you a proverb, tell him there is an old Chinese proverb which says: Lee Kuan Yew invents Chinese proverbs.

Henry Kissinger is Chairnman of Kissinger Associates and former U.S. Secretary of State and Assistant to the President for National Security Affairs.

A “New Economy” in the United States?

The performance of the U.S. economy now is simply astonishingly good. All of you know that, but I suspect that it’s actually better than you think and so I’ll take a few minutes today to talk about some aspects of that economic performance. I think the key to the very good recent economic performance has been the increase in productivity—the increase in output per worker hour—and so I will talk about some of the reasons for that increase in productivity. But the most frequently asked question and the one that the organizers of this session have highlighted in the program is the question, Is there now a “new economy” in the United States? I think we can always define that question so the answer is either yes or no, but I think the right way to define it and an interesting way to define it is to ask, Have the relationships that govern economic processes in the United States—the relationships between growth, unemployment, inflation, and budgets—changed in a fundamental way? And my answer to that question is no. The astonishingly good performance represents a change in productivity, but not a fundamental change in the relationships among the major macroeconomic variables. So I’m going to talk about these points in detail and then comment very briefly on their implications for the rest of the world.

Outstanding Economic Performance

Let me start with economic performance, where I would say the current situation and the situation over the last several years has been outstanding, both in an absolute sense and also relative to our own past. Let me comment on five things in particular.
1. **Strong real growth.** For the past three years real GDP has been increasing at a rate of more than 4 percent. In the final quarter of last year real GDP rose at a rate of more than 7 percent. And looking ahead to what’s likely to happen in the year 2000, most forecasters are now expecting to see more than 4 percent real growth.

2. **Low unemployment.** The unemployment rate is now 4.1 percent. When the Trilateral Commission last met in Tokyo three years ago it was 4.9 percent, and at the time of the previous Tokyo meeting three years before that it was 6.1 percent. So we have seen a one-third reduction in our unemployment rate. And as we look ahead for 2000, I think we can expect to see the unemployment rate continue to fall, so that the first number in measuring our unemployment rate, the number to the left of the decimal point, will be a 3.

3. **Continued low inflation.** Despite the strong growth, despite the low unemployment, we have a continued low inflation rate. Indeed, if we focus on the core CPI—the consumer price index exclusive of the volatile components of food and energy—the rate of change is lower now than it was three years ago and six years ago. Indeed, while inflation may pick up in the year 2000 it is going to remain relatively low.

4. **Improved fiscal situation.** I have worried over the decades about our large budget deficits, and now our fiscal situation has improved remarkably. This is a result primarily of strong economic growth leading to additional tax revenue, but it also reflects the fact that for the last eight years we have had one party in the White House and a different party in control of the Congress. The Republican Congress has not been eager to endorse new programs that President Clinton sent to them and President Clinton has not been eager to endorse any initiatives that the Republicans in Congress have proposed. So spending has been kept under control at the same time that tax revenue has increased substantially.

The result of all of these factors in terms of our budget situation is really striking. In 1994, the United States had a budget deficit of $200 billion. In 1997, we were essentially in balance, although we had a small deficit. Now, this year, we look forward to a surplus of nearly $200 billion. Looking ahead, the Congressional Budget Office in the United States forecasts that if there are no changes in tax rules and if discretionary spending on the full range of programs continues to increase at the rate of inflation, by the year 2009 the entire U.S. national debt will be paid off. Now that’s not very likely to happen because Congress is not very likely to look at those large budget surpluses and pass up the opportunity for some tax cuts or some new spending increases. But even if Congress simply leaves alone the surpluses in our Social Security and Medicare programs—something that both parties have committed themselves to do—and spends all of the other surplus either on new programs or on tax cuts, by the year 2010 the national debt will be down to about 10 percent of GDP. So we’re looking at a fundamentally improved fiscal situation.

5. **Increase in national savings.** Reductions in budget deficits have caused a sharp increase in national savings. If we combine households, businesses, and government, the gross savings rate is now about 19 percent of GDP in the United States. Our net savings rate is now about 8 percent of GDP—about twice what it was at the beginning of the 1990s. So although household saving has gone down sharply, improvements in business profitability and in government budget surpluses are giving us a very strong national savings rate.

**The astonishingly good performance represents a change in productivity, but not a fundamental change in the relationships among the major macroeconomic variables.**

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**Strong Improvement in Productivity Is Key**

So I think it’s fair to say that what we’re seeing is an astonishingly good performance of the U.S. economy. Now why are we experiencing such good performance? Again, I think the key has been the strong improvement in productivity. In the first half of the 1990s, productivity rose...
There is no reason to expect that a high rate of growth per se is inflationary.

at an annual rate of 1.5 percent. From 1995 to 1999, it rose at a rate of almost 3 percent—2.8 percent. Last year it was rising slightly above 3 percent and, if one is to believe the statistics, in the second half of last year it actually rose at a rate of more than 5 percent. That kind of fast productivity growth translates directly into faster GDP growth. It holds down the inflation rate and it allows the Federal Reserve to take an easier approach to monetary policy, therefore permitting the unemployment rate to be lower than it would otherwise be. In turn, faster economic growth and low unemployment contribute to the rise in tax revenue and therefore the improved budget situation and the improved national savings situation.

Why has productivity increased so much? I think there are three different reasons for it. First, total real non-residential fixed investment in the U.S. has been rising very rapidly over the last seven years, at 10 percent a year. Investments in equipment and software have been rising even faster. Second, I think the internet plays an important role in all of this, but it's not the only kind of technical changes that have contributed to increased productivity. And a third factor is better management driven by increased incentives to managers to cut costs and to increase output. This third factor is often lost sight of when looking for what I would call "engineering explanations," such as more capital and new technology.

Observed Relationships among Growth, Unemployment, and Inflation Are Not New

So that brings me then to the question of whether there is a "new economy" in the United States. As I have emphasized, there are important improvements in productivity, there is exciting new technology, and the labor force behavior of young people today is different from what it was in the past. I believe all of this can continue for years into the future and continue to give us faster productivity growth. But is there a new economy in the sense that old relationships are no longer true? One reads in the newspaper every day that one has to throw away the old road maps, the old guidance, the old textbooks. Nevertheless, I don't think there is a new economy. Now let me be clear. I am talking about the economy and not about the stock market. I don't understand some of the share price movements of the last few years any better than many of my friends. But I think it's worth remembering even in the area of the stock market that, while in the last year the Nasdaq has risen about 100 percent in the United States, the broad Standard and Poor's Index has only increased about 10 percent. So there is clearly a group of technology stocks that are being given extremely high valuations by the market.

But let me focus on the economy. Do we have a new economy in which old relationships among growth, unemployment, and inflation have changed and therefore we have to change the way monetary and fiscal policies are conducted? The answer, as I have already indicated, is no. First, the relationship between the strong growth and the low inflation that we have been observing is not a puzzle. There is no reason to expect that a high rate of growth per se is inflationary. It depends on the nature of that growth. There never has been a reason to believe that faster growth per se will lead to increased inflation. To the extent that the faster growth that we have been observing reflects faster productivity increases, it is not inflationary. This is simply the standard old-fashioned relationship and there is nothing new about it.

But what about the reduction in unemployment? The rapid growth of GDP that we have experienced has been brought about in part by this continuing fall in unemployment. The unemployment rate is now 4.1 percent. A few years ago most economists, including myself, would have said that an unemployment rate below 5 percent or 5.5 percent would lead to a tight labor market which would push up the rate of growth of wages and that, in turn, would lead to rising costs of production, and those rising costs of production would have to show up in increased
price inflation. Well then, why haven’t we observed price inflation? Why is the consumer price index inflation rate rising at a slower pace today than it did a half dozen years ago? Isn’t that a new economy? I still think the answer is no and let me explain why.

First of all, the basic fact is that the falling unemployment rate has been associated with increasingly rapidly rising wages. So we are seeing wage inflation, we are just not seeing price inflation. In 1994–95 when we had a 5.5 percent unemployment rate, wages were increasing at just 2 percent. Two years later the unemployment rate had dropped to 5 percent and wages were increasing at 3.5 percent. And over the most recent two years, the unemployment rate has fallen to 4.3 percent and wages have been increasing at 5.1 percent. So the old verity about a relationship between tight labor markets and increasingly rapid wage inflation has proven true. Wages went from a 2 percent rate of increase to 3.5 to more than 5 percent. But this didn’t translate into higher product prices because it didn’t translate into higher unit labor costs. Why not? Because of the productivity gains. In 1994–95, productivity was rising at 1 percent and unit labor costs were increasing at 1 percent. By 1996–97, although wages were rising rapidly, productivity was increasing at 2.5 percent. And so there was no increase at all. In fact, there was a slight decrease in the rate at which costs of production were increasing. Only in the last two years, despite the fact that productivity gains have increased to 3 percent, have wages risen so rapidly that unit labor costs have begun to increase more rapidly as well, at about 2 percent a year. But even this increase in unit labor costs has not translated into an overall rise in the consumer price index. And why is that? Primarily because of import prices.

Import prices have fallen sharply in the last few years in the United States. Over the last three years they are actually down by about 9 percent. This has reduced the costs of production for firms that use inputs imported from the rest of the world. And it has brought competitive pressures to bear on American firms that haven’t been able to increase their prices because their import competition is offering lower prices. So the net result is no great surprise. We are observing low inflation despite tightening labor markets because we are also experiencing improving productivity at a more and more rapid rate, coupled in the last few years with lower import prices.

Implications for the World Economy

Let me comment briefly now on the implications of all of this for the rest of the world. The strong growth of the U.S. economy and the increases in the stock market prices are leading households to spend more and to save less because households have more wealth (share ownership in the United States is so broad now that many people are sharing in these increases in the value of the stock market), but also because even those who are not directly benefitting from share ownership are benefiting from the growth of real wages and productivity. They are looking at the low unemployment and are optimistic about the future. So households are spending more and saving less. The household saving rate has actually declined to virtually zero. Businesses are also responding to this favorable environment by investing more in new plant and equipment. This combination of increased spending by households and businesses has led to faster growth of demand than of output so that, although our output has been rising rapidly because of productivity gains, our spending has been rising even more rapidly. And there is only one way you can do that as a country, and that is to increase your imports from the rest of the world.

So our trade deficit has ballooned in the last few years. We have gone from a trade deficit of $200 billion in 1997 to a trade deficit this year that’s likely to be about $400 billion. From the point of view of the rest of the world that’s $200 billion more of demand that the United States has injected into the world economy, helping keep the Japanese economy up
and contributing to the recovery in Europe. But looking forward this is not likely to be sustainable. Private financial markets around the world may tire of supporting loans to private institutions and investments in private securities in the United States. And if that happens, if we can no longer continue to finance trade deficits of $400 billion and current account deficits that are larger and rising, then our net imports will have to decline and therefore our contribution to aggregate demand in the rest of the world will have to come down as well.

In addition, if foreign lending to the United States is reduced, the dollar will decline and interest rates in the United States will rise. That weaker dollar will contribute to inflation, just as the strong dollar has reduced our import costs and allowed us to have very low unemployment with very low inflation. When the dollar starts coming down, there will be increased inflationary pressure in the United States causing the Federal Reserve to tighten further. This would slow the U.S. economy even more and reduce our imports from the rest of the world even further. Indeed, to reduce the risk of future increases in inflation, the Fed is likely to increase interest rates to slow the growth of demand in the United States. In short, Europe and Japan cannot expect the U.S. to continue adding to demand in Japan and in Europe, but from the American point of view, I think we can continue to look forward to strong growth of productivity and rising real GDP.

Martin Feldstein is President of the National Bureau of Economic Research, George F. Baker Professor of Economics at Harvard University, and former Chairman of the President’s Council of Economic Advisors.

A draft report came before the Tokyo meeting entitled The New Central Asia: In Search of Stability. The authors are now making their final refinements, with publication of their full report scheduled for the late summer of this year. The following excerpts are taken from two chapters of the draft report: Introduction (first three paragraphs) and Conclusions and Recommendations.

SHERRMAN W. GARNETT
ALEXANDER RAHR
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The New Central Asia: In Search of Stability

Though the states of Central Asia are known in Trilateral countries largely for their energy potential, they are in fact part of a thoroughgoing strategic transformation of Eurasia. This strategic transformation is most vividly seen in the fall of the USSR and the ongoing transformation of China, but it has a “Central Asian dimension.” It is the purpose of this report to describe this Central Asian dimension and to show the strategic stakes Trilateral countries have in a stable outcome there.

We have chosen to focus primarily on the states of Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan). These states are a unified region largely because of their common Soviet past. But they are all in a state of flux, internally and in their external orientation. They are also increasingly seen as part of a larger whole, the Caspian Basin for
energy or Zbigniew Brzezinski’s “Eurasian Balkans” in warning of the potential of widespread conflict and instability.

We have also found it necessary at times in this report to range beyond our defined region and speak of Azerbaijan and, less frequently, of the other states of the Caucasus, Georgia and Armenia. Yet we believe the narrower focus of our report is justified because it is not about energy or conflicts alone but rather the region’s increasing integration into the wider world, its potential for both stability and instability, and Trilateral interests in the better outcome….

* * *

The authors of this study agree on several key points. The first is that a new Central Asia is emerging, one that will reflect its Soviet past for decades to come but cannot return to it. Over time, this new Central Asia will be linked to the wider world, through air, land, and rail routes, as well as oil and gas pipelines. It will be linked by common cultural ties, but also divided—perhaps violently—by them. It may also be linked by the narcotics trafficker and the refugee. For some time to come, these countries will be marked by weak states, weak economies, and weak civil societies. They will be seeking some form of return to the Islamic world, though its form remains murky. The outcome of these trends could well be very different for each state. Russia will continue to play an important role, but no longer that of the sole or dominant power. The new Central Asia will be part of a highly differentiated geopolitical space, with China, Iran, Turkey, Pakistan, and India interested and engaged.

While the direct impact of these potential internal and external developments for Trilateral countries may in the near term be slight, their indirect impact could be profound and will increase over time. As parts of this region become integrated into the wider world, Trilateral stakes will grow. The region will have a profound impact on Russian and Chinese stability, identity and interests in the coming century. Regional conflicts could draw in outside powers and thus exacerbate larger Eurasian tensions. Such conflicts could also spill over into adjacent regions of primary significance to Trilateral countries, such as the Persian Gulf.

The Trilateral states could well play a decisive role in this region as a force for economic opportunity, global integration and stability. These states could play this role precisely because no Trilateral country sees this region as a zone of vital interests. Trilateral energy companies seek to develop the oil and gas found in the region. Trilateral governments want these countries to cultivate economic reform, a moderate and open Islamic culture, and the political pluralism that is the engine for both. Yet no Trilateral state will make this region an area of primary focus. The derivative importance of this region is a great advantage in defining Trilateral policies for a regional “engagement without confrontation.”

Elements of a Common Approach
The overriding concern for Trilateral countries in this region has to be stability. The costs are high in the long run if weak states, corrupt gangs in and outside government, ethnic tensions, and outside aggressors make the region an exporter of tension and instability, rather than oil and gas. Stability in this context does not mean acquiescence to the status quo, but neither does it mean ignoring the new Central Asia’s existing political and economic structures. The best overall policy is one of consistent and purposeful engagement with the region over an extended period. Such a policy has to begin with helping to address the region’s pressing social needs and securing a healthy economic foundation for the development of oil, gas, and other natural resource wealth.

A lack of vital interests in the region could tempt Trilateral policies to one of two unwelcome extremes: the first is an “oil and gas only” policy, one willing to sacrifice the region’s long-term economic and political improvement for short-run deals with the current regimes; the second is an abstract and unengaged preaching to states and societies in crisis of the virtues
of Trilateral political forms and markets. Neither the cynicism of the first course nor the self-righteousness of the second is likely to lead to a better outcome for the region.

The first task for Trilateral decision-makers is to be wary of imposing a false unity on this part of the world. It is not a single region. While broadly Islamic, these countries are not of a single ethnic, cultural, or religious tradition. Energy development will be a key economic factor for many, but not for all. The weaknesses of state and civil society are widespread, but they are in fact forces for continuing decline and differentiation, not regional unity. The expansion of political, commercial, and security ties with the outside world will bring further differentiation, as individual countries and sub-regions interact with China, Iran, Turkey, and other Eurasian states. Russia is a player but no longer the region's destiny. Trilateral strategic planning needs to expect highly differentiated internal development and external interactions. One could easily imagine this region becoming a mixture of internal successes and failures, as well as splitting into two or three distinct geopolitical sub-regions. None of our shorthand labels for the countries capture this dynamism...

Addressing Internal Sources of Instability
The immense human, societal, and governmental needs of the region also create opportunities for greater Trilateral cooperation and for broad-based efforts that include Russia, China, and partners from the Islamic world. The shocking decline in public health and education, the decay or even absence of basic transportation and other social infrastructure, and the emergence of a wide range of religious and social organizations create targets for Trilateral assistance. A broad range of public health and civil society programs would both meet real needs and foster a lasting link between Trilateral countries and the populations of these emerging states....

Heading Off Regional Rivalries
Though many Russian observers see Trilateral, particularly U.S. and NATO, policies as aimed at supplanting Moscow, both the range and intensity of NATO's security cooperation effort fall far short of any active competition. In fact, on security matters, Trilateral policies, particularly U.S. and NATO Partnership for Peace efforts have actively sought Russian cooperation. Russian military involvement in the region, the holdover of neo-imperial attitudes and a decided decline in Moscow's influence there create enormous challenges for Russian policy, as well as resentment of outside actors.

However, if a core security problem for both Russia and the Trilateral countries in the near term is the stability of still weak states in the former USSR, a substantial basis for security cooperation exists. Stabilizing Russia's weak neighbors ought to be a core element of Trilateral policies toward Russia, for a weak and unstable neighborhood will present distractions, challenges, and temptations to a still weak and changing Russia. Ensuring that China's engagement in the region continues to be a stabilizing force is also a priority.

- The authors of this study agree that NATO has assumed a visibility in the region out of keeping with its real influence there. The new central Asia is not a Euro- or Euro-Atlantic region but an inner Asian one. There should be no attempt to shut NATO out of the region. NATO's Partnership for Peace offers some of the best-funded and most successful military-to-military programs in the world. Yet NATO activism in the region might easily be misunderstood or deliberately distorted to harm Trilateral interests.
- Over time, Trilateral efforts have to focus on blending security cooperation with emerging regional security patterns and institutions. The region as a whole knows few successful multilateral security arrangements....
- Specifically, Trilateral countries should support the formation of a Central Asian Roundtable as a means to encourage senior-
level dialogue between Trilateral countries, states of the region, and key neighbors like China, Russia, Turkey, and Iran. Such a roundtable could be built around senior leaders in the region, like Presidents Karimov and Nazarbayev, and serve as an encouragement of transparency and cooperation on political, economic, and security assistance, as well as provide a more solid framework for addressing regional conflicts.

A Long-Term Energy Strategy

Energy resources can divide or unite the region. Properly developed, they make internal recovery more likely. However, they could also be the source of continued corruption and economic decline. The authors of this study believe that energy development, including the important goal of pipeline diversification, is and should be primarily an economic matter. However, the geopolitical aspects of these issues cannot be ignored.

- Trilateral governments should be active supporters of pipeline diversification. This will include upgraded or new lines across Russian territory, such as the major pipeline planned by the Caspian Pipeline Consortium from Tengiz to Novorossiisk. It will also include non-Russian routes. The Baku-Supsa line is already in operation. The Baku-Ceyhan line is a plausible major pipeline, especially if greater efforts are made to make it as economically viable to Trilateral financiers and energy companies as it is geopolitically interesting to some Trilateral governments. Pipeline routes through Iran should not be ruled out. In the long run, an eastern route should be welcomed, given long-term East and South Asian energy trends and the great pressure these will put on existing sources.

- To the extent possible, the partnerships formed by Trilateral energy companies to develop and transport energy resources from the new Central Asia ought to include Russian and Chinese energy firms. A strong dose of economic competition and cooperation is the exact anecdote needed for those who see only geopolitical rivalry and a new "Great Game." Trilateral countries have an interest in seeing growth in the number and influence of Russian stakeholders in Central Asian energy development.

Conclusion

These policies seriously pursued are not the be-all and end-all for the new Central Asia. This region's future is in local, not Trilateral, hands. But Trilateral policies can make a difference in hastening the process of the region's political and economic integration with the wider world. They can contribute to the emergence of cooperative patterns and mechanisms of interstate relations. They can help bring about a solid economic foundation for long-term prosperity and a reversal of trends that threaten economic and societal decline. No short-term vital interest compels such a Trilateral approach to the region, but long-term trends in the region make it a prudent and inexpensive option. The authors of this study hope that Trilateral governments will see this opportunity to promote long-term stability and positive change in the new Central Asia and take it.

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No short-term vital interest compels such a Trilateral approach to the region, but long-term trends in the region make it a prudent and inexpensive option.
YOTARO KOBAYASHI, OTTO GRAF LAMBSDORFF, PAUL A. VOLCKER

The following is taken from a memorandum to Members from the three Chairmen refined during the Tokyo meeting and on the table for the final session.

As we look toward the 2000–03 triennium two strong convictions continue to guide our thinking. We are convinced, first of all, that the Trilateral Commission remains as important as ever in helping our countries fulfil their shared leadership responsibilities in the wider international system and, secondly, that its framework needs to be widened to reflect broader changes in the world. It is time for the Japanese Group to become a Pacific Asian Group, and for Mexican members to be added to the North American Group. The European Group will continue to widen in line with the enlargement of the EU. We will also continue in the new triennium our practice of inviting a number of participants from other key areas.

**Continuing Leadership Tasks in a More Complex Context**

While there have been many welcome developments since the end of the Cold War—among them a dramatically improved international security landscape and spreading democratic governance and market-driven economic growth—the world is in many respects more complex and challenging. The “growing interdependence” that so impressed the founders of the Trilateral Commission in the early 1970s is deepening into “globalization.” In part because of these changes, new tensions and fractures are emerging within many societies that may imperil positive trends. The need for shared thinking and leadership by the Trilateral countries, who (along with the principal international organizations) remain the primary anchors of the wider international system, has not diminished therefore but, if anything, intensified. At the same time, however, their leadership must change to take into account the dramatic transformation of the international system. As relations with other countries become more mature—and power more diffuse—the leadership tasks of the Trilateral countries need to be carried out with others to an increasing extent.

**Widening the Framework of the Trilateral Commission**

The framework of the Trilateral Commission needs to be widened in the 2000–03 triennium to reflect this more complex context and the opportunities it provides.

**Widening the Japanese Group into a Pacific Asian Group**

The largest change will be the widening of the Japanese Group into a Pacific Asian Group for the following reasons:

- Given the rising economic and political importance of Pacific Asia in the international system, it is appropriate for others in the region to join Japan in the
Trilateral Commission and thereby help them bear their share of responsibility for managing global problems.

- The de facto formation of a Pacific Asian regional grouping is well-advanced as evidenced by a growing number of regional consultative mechanisms and dialogue forums at intergovernmental and “track two” levels.

- Although the degree of democratization varies within Pacific Asia, many countries in the region beyond Japan are now by and large industrialized democracies, thereby satisfying the core criterion for membership in the Trilateral Commission.

- Even though China clearly does not meet this criterion, the valuable involvement of Chinese experts in the Trilateral Commission’s Special Study Group on East Asia, as well as other forums, suggests that the participation of individuals from China will enrich the “trialogue” and contribute to the relevance of the work of the Commission. Other East Asian participants would also feel awkward if China were excluded from an East Asian Group. Nevertheless, it should be recognized that continuing constraints will for the foreseeable future hinder the full participation of Chinese in Trilateral Commission activities.

Thus, as a result of discussions during the current triennium, the following plan has taken shape:

- South Korea. A country group will be organized with its secretariat at the Seoul Forum.

- Australia/New Zealand. A joint group will be formed.

- ASEAN Five. (Indonesia, Malaysia, Philippines, Singapore, Thailand). Individuals from these countries will become members, without forming a country group. It might be possible to have an informal chair for this group of ASEAN individuals.

- China. We will invite individuals from the Chinese mainland as “participants” in each annual meeting and encourage Chinese participation in project work. Our Chinese interlocutors have themselves told us that it would be impossible for them to become “members” at this stage, and that it would not bother them to have a different mode of participation from other Pacific Asians. Persons from Hong Kong and Taiwan will also be invited as “participants” to each annual meeting in the new triennium.

These persons will be added to the current quota of 85 Japanese members, giving a Pacific Asian quota of up to 120. We believe this increase in our numbers will still be manageable.

**The Continuing Widening of the European Group**

The long-standing rule of the European group is that countries which receive the “green light” from Brussels for EU accession negotiations are then included in the Trilateral Commission. Thus the European group will discuss inclusion of new members from Latvia, Lithuania, Slovakia, Romania, Bulgaria, and Malta in the course of the next triennium, as it did for Poland, Hungary, the Czech Republic, Estonia, Slovenia, and Cyprus in the current triennium. The European group, however, will not exceed its quota of 150 members.
Widening the North American Group to Include Mexicans

The progress of economic and political reforms in Mexico, its membership in the OECD, and its increasing integration with the United States and Canada in NAFTA as well as closer ties with the EU and Japan, all argue in favor of Mexican members in the Trilateral Commission. The Mexican members will be in addition to the existing quotas of 85 U.S. members and 15 Canadian members.

Participants from Other Key Areas

We plan to continue the practice of including participants from other key parts of the world in our discussions. These countries or areas include India. They also include Russia, Ukraine, and Turkey. They include Latin America, the Middle East/North Africa, and Sub-Saharan Africa. In this triennium about 20 such individuals were invited including East Asians from beyond Japan. Almost the same number will be invited in the new triennium, excluding East Asians.

Giving Substance to the New Triennium

The above sets out the widened framework for the new triennium. It remains to give substance to our work in this wider framework through meeting programs and project work that are as useful as possible. The Chairmen will be focusing in the coming months on our next projects and meeting programs, drawing on the ideas of current and future members and participants. We welcome your input.
The Trilateral Commission warmly thanks the many generous financial supporters making its work possible. Funds are raised in each of the three regions, for that region’s participation and shared program expenses. Within North America, funds are raised separately in Canada and the United States.

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