

Central Intelligence Agency

OEA/PRODUCTION

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Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

2 April 1984

East Asia: Short-Term Prospects [redacted]

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Summary

Developments in East Asia over the next several months are unlikely to impinge significantly on US interests. Washington's major bilateral relationships with Japan and China should remain on course, and continued economic recovery throughout most of East Asia should ease some domestic frictions and bilateral trade problems, at least, in the short run. Moscow, of course, will remain alert for opportunities to expand its influence, but we foresee no shift in Soviet strategy that could alter the security framework in the region. [redacted]

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There are, however, some possible developments that could seriously affect US interests. Washington's relations with Manila, for example, would be severely strained if an unconstitutional regime seized power following the death or incapacitation of President Marcos--particularly in light of a pending US Congressional review of assistance to the Philippines. South Korea, shaken last year by the KAL shootdown and the bombing in Rangoon, faces the prospect of a dialogue on the future of the peninsula that would involve its vital national security interests. [redacted]

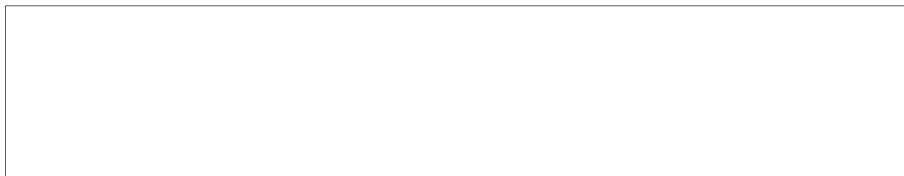
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This memorandum offers some speculation on these and similar possibilities, while briefly reviewing some of the longer range trends that will continue to affect US interest in the region. [redacted]

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This memorandum was prepared by the Office of East Asian Analysis.

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Major Bilateral Relationships

China. Premier Zhao's recent visit to Washington and Beijing's treatment of it give clear indications that China wants to establish a smoother working relationship with the Reagan administration in 1984 in order to place Sino-US relations on a more solid foundation. The Chinese apparently believe that the President's reelection chances are good and that they must establish close and effective ties to him. [redacted]

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In addition to its economic and technology needs, Beijing also has strategic concerns in mind. Chinese officials have conceded privately that China has not been able to improve its position in the Sino-Soviet-US triangle and has even lost ground. They fear that the United States continues to underrate China's importance and may believe that the Sino-Soviet talks have reached an impasse on security issues. In any event, the Chinese hope [redacted] that

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strengthening relations with the United States will improve their position between Moscow and Washington, and enhance their access to US technology and markets. Indeed, because it is an election year in the United States, Beijing also may believe that it has increased leverage with the administration on key bilateral issues and will probably press for more advanced technology, including arms technology, before the President's visit. [redacted]

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The one factor that could disrupt the relationship is Chinese sensitivity about US arms sales to Taiwan. The intensity of the Chinese reaction would depend on US handling of such sales, including the extent of the publicity, as well as Beijing's estimate of the impact of the arms on Taiwan's armed forces and on China's domestic political situation. If Deng Xiaoping and other senior Chinese leaders concluded that the weapons sales would expose them to severe domestic criticism, they would react sharply. [redacted]

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The Chinese, however, clearly want to avoid controversy over Taiwan. They will probably try to mute differences with the administration over Taiwan until US elections are over, while continuing to prod Washington to observe the joint communique. [redacted]

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Overall, we believe that strategic and economic considerations will govern the substance of China's policy toward the United States over the coming year. Although there may be debate in the leadership over the precise level of China's relations with the United States and the Soviet Union and over China's tactics in the triangle, there appears to be little fundamental disagreement over the opening to the west. [redacted]

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Japan. As for the economic issues to be addressed by Washington and Tokyo during the coming months, we believe that:

- Japanese leaders realize that they must negotiate seriously in order to ease economic strains in the relationship, particularly during a US election year.
- Their ability to make concessions has been only marginally restricted--if at all--by their electoral setback in December.
- Even so, Japan's current account and its trade surplus with the United States will be even larger this year.
- The extent to which the US-Japanese relationship becomes a campaign issue in the United States may, in the final analysis, depend more on the state of the US economy than on the amount of progress on the issues.

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Mindful that election year pressures in the United States could lead to more overt protectionism, Japanese leaders are trying to build a credible record of progress in negotiating with the United States during the next few months in order to strengthen the proposition that cooperation is the best way to deal with bilateral economic problems. They also hope, however, that Washington shares this notion and will not risk serious friction by pressing for major concessions.

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Prime Minister Nakasone's new government is politically stronger than most would have projected immediately after the setback the Liberal Democrats suffered in the December elections. Nakasone is in reasonably good position to deal with bilateral issues, most of which do not have to involve review by the Diet. Military spending has been set for this fiscal year, and the next major decision on defense will come this summer when Japanese leaders must seriously consider whether to abandon the traditional limitation of one per cent of GNP on the military budget. Until then, Nakasone will probably maintain the lower public profile on security issues that he adopted in mid-1983 when his forward leaning posture threatened to become counterproductive.

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Nakasone's ability to make concessions on economic issues remains limited, however; more by the traditional domestic pressure groups--especially in agriculture--than by the lower number of seats his party holds in the Diet. In any event, Tokyo will avoid major concessions. In addition to the domestic backlash such moves might arouse, Japanese leaders by tradition are inclined to move incrementally. They further believe that the nature of the issues necessitates a continuous negotiating process and that Japan's trade surplus with the United States will grow this year no matter what concessions are made.

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Over the next few months, Nakasone will probably profit from a relatively united Liberal Democratic Party. This could begin to change by summer as potential contenders in party elections for president--and hence prime minister--in November look for ways to challenge Nakasone. If factional maneuvering began to undercut his leadership, Nakasone could threaten to hold another Lower House election. He reportedly would prefer to avoid one, even though the Liberal Democrats would probably regain some of the seats lost in December. In any event, a summer election in Japan would disrupt ongoing negotiations with Washington. [redacted]

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Succession Politics

The endemic problem of succession politics will probably manifest itself somewhere in East Asia this year. The list of possibilities is long, including North or South Korea, China, Taiwan, the Philippines, Indonesia, and Burma. The sudden departure of the top leader in any of these countries would bring political uncertainty and could lead to a crisis. With one or two exceptions, however, political changes of this nature would be unlikely to impinge dramatically on the United States. [redacted]

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The most obvious exception is the Philippines, where a succession struggle is already under way. The death or incapacitation of President Marcos would force the succession issue at a time moderate opposition groups would be unprepared to gain from it. Indeed, the odds of a military coup and/or a bid for power by Mrs. Marcos would rise appreciably. Should an unconstitutional regime seize power, Washington's relationship with Manila would come under considerable strain, in part because a US Congressional review of a military bases compensation package providing military and economic assistance to the Philippines would probably be under way at the time. [redacted]

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Another exception is Korea. The mutual antipathy on the divided peninsula makes political uncertainty--in the north or the south--especially dangerous. Indeed, the death of Kim Il-song would almost certainly lead to considerable anxiety and tension throughout the peninsula. Kim has been grooming his son to succeed him, but his succession is by no means assured. A "palace struggle"--as opposed to a widespread breakdown in order--is therefore possible; if it were prolonged, serious factional conflict could develop and at least some South Korean leaders would be tempted to interfere. We believe that any major changes in North Korean policy would occur only after a successor had consolidated his authority, and that this process will prove to be relatively long. No successor is likely to amass the power wielded by Kim Il-song. [redacted]

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In the South, constitutional provisions for an emergency succession appear no more promising or durable than they did under President Park. If Chun were assassinated, the army would probably once more impose martial law and assume control while

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contemplating a successor from within its ranks. Although we do not believe the sweeping leadership changes that occurred after Park's death would not be repeated, the transition would give P'yongyang an opportunity to try to exploit. [redacted]

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Although of considerable importance in the longer run, succession politics on Taiwan are not likely to generate immediate problems. In an effort to create a stable succession, Chiang Ching-kuo has personally orchestrated the inclusion of increasing numbers of ethnic Taiwanese into the party and government. There is, however, no clear cut successor--especially since Premier Sun suffered a stroke in February--and there is a slight chance that Chiang's abrupt departure from the scene could undo his plans for a consensual succession with significant Taiwanese involvement. On the other side of the Taiwan Strait, Chiang's death would increase apprehensions in Beijing about its prospects for dealing with a leadership no longer dominated by fellow mainlanders. [redacted]

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Should Deng Xiaoping die in the near future, his leadership of China would probably pass to one of his generational peers, a member of the old guard whose seniority and personal connections approximate Deng's. We believe the leadership would avoid a divisive power struggle and that the younger Hu Yaobang would remain titular head of the party, presiding rather than ruling, much as he does under Deng. Still, political tensions and infighting would be likely to grow, with some negative implications for foreign policy. During previous periods of domestic uncertainty, Beijing has tended to become more rigid on foreign policy and the leadership has reacted more sharply to real or imagined provocations from abroad. [redacted]

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New leaders in Indonesia and Burma would almost certainly come from the military given the predominance of that institution in both countries. Whether or not the succession process was relatively smooth, it is difficult to foresee a new leader in either country making a fundamental change in policy direction, or a situation developing that could affect US elections. Elsewhere in the region, a political shakeup is at least possible in Malaysia because of a national bank scandal, and a Labor Party victory is also possible in New Zealand although elections there are unlikely to precede those in the United States. [redacted]

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The Economic Outlook

The economic outlook in East Asia this year is perhaps more promising than in any other region. Indeed, South Korea, Taiwan, and Singapore should rank among the very best economic performers in the world. Overall, however, activity will not expand at traditional rates and there are some major long-term problems. [redacted]

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The economic growth outlook in Tokyo is better than it has been since the late 1970s. Most forecasters expect GNP growth to top 4 percent. Domestic demand increased in late 1983 as private consumption picked up and private housing investment rebounded. The strength of the domestic recovery should boost imports and help keep the trade surplus from getting further out of hand. But Tokyo will be faced all year with record breaking surpluses, and will be struggling to contain protectionist forces abroad.

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The Chinese economy is expected to continue growing at a relatively rapid pace, with agriculture and industry both performing well. In view of their favorable balance of payments position, the Chinese are expected to relax import restrictions this year but will probably retain a modest trade surplus.

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The Australian economy should rebound sharply from its negative growth in 1983. Inflation should drop appreciably, although unemployment will probably remain high for another 2 to 3 years. There will be much less of a recovery in New Zealand, and real unemployment will continue to be a major problem.

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The Philippines presents a sharp exception to this generally promising outlook. Manila is already in the midst of a major economic crisis and is rescheduling its foreign debt. Although growth prospects are reasonably good in Thailand and Indonesia, both could come under some pressure from their foreign debts if the international economic recovery falters. Even South Korea, with its excellent performance record and credit rating, is potentially vulnerable to a cutback in private bank lending because of its \$40 billion foreign debt--the third largest among developing countries--about one third of which is short term.

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Economic links between the United States and East Asia continue to grow, but with some worrisome trends all too evident. Last year, East Asian countries accounted for about 30 percent of total US trade, compared with about 24 percent ten years earlier. The value of US trade with East Asia last year amounted to \$135 billion; ten years earlier, total US trade was about \$140 billion. For more than a decade, the United States has run a trade deficit with East Asia--one that is steadily mounting. Ten years ago, the ratio of US imports to exports (from and to East Asia) was 1.1 to 1; last year, that ratio had reached 1.7 to 1.

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Trends in the trade of manufactured goods are especially noteworthy. Last year, East Asia provided about 47 percent of all US imports of manufactured goods, up from 33 percent a decade ago. In 1983, the value of East Asian manufactured goods imported by the United States came to \$72.3 billion, compared with total US manufactured imports of about \$41 billion a decade ago. The ratio of US-manufactured imports to exports (from and

to East Asia) ran about 1.9 to 1 ten years ago; in 1983, it was 2.4 to 1. [redacted]

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Japan, South Korea, Hong Kong, and Taiwan constitute the overwhelming proportion of East Asian manufactured trade with the United States. Together, they provided over 40 percent of all US imports of manufactured goods last year; their combined surplus with the United States in this category totaled \$46.7 billion--\$12 billion more than the overall US trade deficit with the entire region. [redacted]

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In time, the complaint often heard in the United States about Japan--that it gets a free ride on defense only to take advantage in trade--may be extended more broadly to the region. In any event, the basic dichotomy that has long marked East Asia--growing economic prowess and continued reliance on the United States for security--continues to hold, and probably will only become more pronounced in the future. [redacted]

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Regional Security

Moscow's gradual yet sustained military buildup remains a key dynamic in the regional security setting. Since 1978, the USSR has concentrated on the deployment of strategic weapons--nuclear armed submarines and aircraft, and more recently SS-20 missiles. Overall, the buildup appears designed to counter US, Japanese, and Chinese forces, either separately or in alliance. For that very reason, the Soviet buildup has been a major factor impelling China, Japan, and the United States toward closer cooperation. On the diplomatic level, Moscow has been primarily concerned with deterring and, if possible, reversing the development of such cooperation. In doing so, the USSR has taken a hard line toward Japan--in light of its longstanding alliance with the United States--and a notably more flexible approach toward China. [redacted]

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Moscow, however, appears to face a dilemma in attempting to make real progress in Sino-Soviet relations while also dealing with the United States and Japan. To substantially improve relations with Beijing, the Soviets must negotiate security issues important to the Chinese, e.g., reducing forces near their common border. At the same time, they now face a US military presence in the region that is increasing for the first time since the 1960s and that is being augmented by better equipped Japanese forces. Indeed, the Soviets have impressed upon the Chinese that there can be no discussion of Soviet forces in the Far East without considering the presence of US and Japanese forces in the region. [redacted]

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Nonetheless, we expect Moscow to persist on its present course without giving up any real ground to the Chinese. If so, the problem in time will clearly shift to the Chinese side, e.g., whether to continue Sino-Soviet talks in the face of a seemingly endless Soviet force buildup. Since the talks began over a year

[redacted]

ago, for example, Moscow has created an additional division on the Chinese border, deployed a bomber squadron to Vietnam for the first time, and continued its deployment of SS-20s in the Soviet Far East. The evidence suggests that Beijing is still prepared to be patient in dealing with Moscow, but we wonder how long this pattern will continue. [redacted]

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Although Moscow's relations with P'yongyang have been distant for some time, there have been some indications of a warming trend over the past year. More recently, Soviet officials have said that a marked improvement in relations will occur this year. If a thaw does take place, the Soviets might provide a strong endorsement of North Korea's proposal for talks with the United States and South Korea. They have been circumspect about the proposal so far, probably because of some initial confusion about its origin. But North Korea's objective in talking with the United States--a peace treaty leading to the withdrawal of all US forces from South Korea--is one Moscow fully shares. [redacted]

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For their part, the North Koreans probably will persist with their proposal in the hope that it will become a campaign issue in the United States. They may also perceive a potentially exploitable difference between the essentially non-committal US response and the strongly negative South Korean reaction to their proposal for three-way talks. In addition, the current emphasis on diplomacy is a useful way for P'yongyang to blur memories of the Rangoon bombing. As a result, the North will probably continue to publicize its offer, seeking bilateral contacts with the United States, and subtly denigrating South Korea. [redacted]

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In the South, popular emotions stirred by the KAL shootdown and the Rangoon bombing last year could be fueled further if a dialogue on Korea does develop. The importance of the issues involved--the US security commitment to Seoul as well as reunification itself--is both broadly shared and deeply felt. Indeed, the speed with which Seoul withdrew its approval of three-way talks--once they were proposed by the North--reflects considerable sensitivity over any discussions between the United States and North Korea about security conditions on the peninsula. In our view, South Korean leaders firmly believe that, barring a fundamental change in North Korean policy that would include a far smaller share of resources for the military, there is no real alternative to the US security commitment and the presence of US forces in the South. [redacted]

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This conviction would generate a certain level of anxiety among South Koreans whether talks were three-way or involved additional parties. Another potential problem facing Seoul should talks begin is the prospect of different approaches surfacing in the South over the issues involved. Public divisiveness and resulting tensions could become severe if they

pitted the government on one side and a substantial group led by someone like opposition leader Kim Dae-Jung on the other. [REDACTED]

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In Southeast Asia, the impasse over Kampuchea seems likely to continue. Although it can be argued that no one is entirely satisfied with the current situation, it also seems clear that no party is about to conclude that a major change in strategy would be in its best interest. Relations between Hanoi and Moscow appear firmly in place as does the cooperative effort between Thailand and China. In contrast, Sino-Vietnamese relations appear as frigid as ever, with the Chinese applying more military and psychological pressure on the Sino-Vietnamese border than they did last year. [REDACTED]

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Thus far this dry season, Hanoi has refrained from major military operations along the Thai-Kampuchean border in order to emphasize its interest in a dialogue with ASEAN. There has been no real give in Hanoi's position on the issues however, nor is any change likely within ASEAN. As a result, Hanoi's diplomatic probing could end with Foreign Minister Thach's recent tour through ASEAN and Australia. [REDACTED]

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Meanwhile, Pol Pot's Democratic Kampuchean (DK) forces have become more aggressive. Helped both by increased Chinese military assistance and the absence of a Vietnamese dry season offensive, they have struck Vietnamese positions near the border and deeper in the interior. However Hanoi weighs the results of its diplomatic efforts, it will sooner or later have to deal with the increased DK military effort. [REDACTED]

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If the DK continues to grow, it could prove to be as much of a problem for ASEAN as for the Vietnamese. It is possible, for example, that the increasing disparity between the military capabilities of the DK and the non-Communist Kampuchean resistance forces will lead a majority within ASEAN to question seriously whether the non-Communists will ever be able to play a meaningful role. In such an event, ASEAN could be expected to intensify pressure on the United States to provide direct military assistance to non-Communist forces, or alternately, to begin exploring an accommodation with Hanoi that would severely strain ASEAN's relations with China. [REDACTED]

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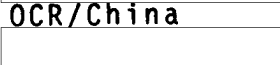

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