DEFENCE-ORIENTED INDUSTRIALIZATION, PERESTROIKA AND ENDING THE COLD WAR: A CASE STUDY OF USSR'S ALTERATION OF ITS POLICY TOWARDS NORTHEAST ASIA

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DECLARATION

I declare that this sub-thesis is my own work and that all sources used have been acknowledged.

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Introduction

In the midst of the most serious economic and political crises since its founding seven decades ago, there have been significant developments in Soviet Asian policy within the framework of global detente during the past two years. Following the 1988 Seoul Olympic Games, with the Gorbachev-Den Xiaoping summit in Beijing, Sin-Soviet rapprochement was accomplished, mainly according to terms set out by Beijing. Then, with another summit between Gorbachev and Roh Tae Woo, the Soviet Union and South Korea established diplomatic relations in 1990. At the same time, Soviet-Japanese relations also experienced some progress. These developments pose a sharp contrast to the typical Soviet Cold War attitude towards Northeast Asia, which was characterised by an accelerated military build up beginning in the late 1960s in the Soviet Far East and strategic alignment with North Korea and Vietnam, directed against the US-led alliance and China. This alteration of Soviet Asian policy has deep political and economic reasons. It shows that under great political and economic pressure within the society, the Soviet Union endeavours to reduce international tension and build new ties of economic cooperation. The alteration also indicates that in search of new economic partners to revive its collapsing economy, the Kremlin is willing to distance itself from North Korea, a country that has been its most important Cold War ally (given there were not any better candidates) in Northeast Asia.
In an attempt to analyse why there are such major changes in international relations in Northeast Asia, I am going to compare the Soviet Union's Asian policy of two periods: pre-Olympic (1985-1989) and post-Olympic (1989-present). Alterations of Soviet Asian policy are going to be reviewed against the changing economic and political settings of the Soviet and the neighbouring Asian societies.

The ultimate purpose of this paper is to establish that issues such as the evolution of the Soviet mode of production, its development into a military superpower, perestroika and foreign policy adjustments under Gorbachev are all interrelated. My argument is, in the Soviet Union, defence industrialization based on central planning fails to develop a sustainable economy to cover the increasing cost of fulfilling the country's security goals. The problem first comes from the centralised economic structure. Military over-stretch places further stress on the economy. Structural economic failures, coupled with the magnitude of pressures on the economy that stem from military over-stretch, among other important domestic and international developments, such as leadership change and global detente, finally led the country to restructure its international relations in the Northeast Asian region.

To do this, the first chapter deals with the economic foundation of Soviet foreign and defence policy. This illustrates that in the centralized model, sustainable economic growth (which is the very foundation of a state's military
strength) became an obvious problem for the system towards the late 1970s. Based on this premise, the second chapter then discusses Soviet policy towards Northeast Asia in the 1985-1989 period. This is a significant period in Soviet history because it marked the end of the Brezhnev era. It was a development that allowed Gorbachev to experiment with radical policy changes and adjustments. It was also a period when Soviet policy towards Northeast Asia came under increasing political and economic pressure (internal and external) for change. The third chapter focuses on policy changes in the 1989-present period. Finally, the fourth chapter looks at the implications of the Soviet policy change to international relations in Northeast Asia. The Soviet Far East and Siberia's position within this changing policy framework will also be addressed in the paper.

My argument will be laid out within Strange's theoretic framework of structural power. Strange established that there are four basic structures in the operation of international political economy. They are: security, production, knowledge and finance. Each state, through its control over security, production, credit, and knowledge, beliefs and ideas, participates in the international political economy. These four forces all operate within and between societies. On the one hand, domestic politics and economics are thus closely related to a society's international behaviour; on the other hand, interaction of these four forces between societies constantly shapes and reshapes international relations. In other words, while there are political and economic forces (like production
and finance) operating in the international security structure, security concerns of each society also have profound impact on domestic and international politics and economics.

Chapter I: Economic Foundation of Soviet Foreign Policy

Defence-oriented Industrialisation. The Soviet political/economic system was laid out by early leaders of the October revolution. Up till today, this political/economic system has been the basic foundation of the Soviet society (although this political/economic system has seriously deteriorated in the past few years). Marx had expected communist revolution to succeed first in the most developed capitalist states. In fact it broke out in Russia which was comparatively backward in industrial development based on a small industrial proletariat. As soon as the Bolsheviks had secured their power within the society, the Soviet leaders were under the impression that the capitalist powers were ready to attack the Soviet Union. In order to counter the threat, rapid industrialization was needed. In 1931, Stalin said that "one feature of the history of old Russia was the continual beatings she suffered because of her backwardness. ... All [foreign powers] beat her -- because of her backness, because of her military backwardness ..."2 Although Stalin was exaggerating in this statement, he did it in the interest of the particular policy of rapid industrialization. Having been born out of a war, and feeling acutely threatened by potential enemies -- Poland, Japan, Britain and Germany -- military strength based on a strong heavy
industry became a necessity for the USSR from the late 1920s and early 1930s.

Marx's work, although widely regarded as one of the most important foundation stones of Soviet society, left many ambiguities and uncertainties for those who attempted to build communism on the basis of his principles. In part this was due to the incomplete nature of the work. Only volume 1 of Capital was finished. Volumes 2, 3, and 4 remained in draft. Most of Marx's view on the state and the world market appeared in his short articles, manuscripts and letters. Never has such a powerful political movement arisen on the basis of writings which apparently contained so little systematic discussion of politics and the state.³

Therefore, for years in the 1920s there were intense economic debates among the Soviet leadership over how an isolated Soviet Union with a backward and overwhelmingly agrarian economy, cut off from foreign capital, could establish a modern, self-reliant industrial economy and society laying the foundation for communism. In short, a way must be found to achieve rapid economic development under conditions that do not permit the classic Western road to modernity.

Although Lenin played an important role in the establishment of the political and economic foundation of the Soviet Union, he did not live long enough to go further than just laying down a few principles of building a proletarian society. Such principles were to be developed by Stalin. As
Stalin saw it, only a limited amount of time remained before his enemies, both inside and outside, would attempt to destroy his regime. To speed up the industrialisation effort, Stalin concluded that he had to have a centralised system of planning. To make up time, the planning bureau placed its prime emphasis on heavy industry. Reflecting the stress on speed, factory managers were judged according to how much more they produced in the current year as compared to the year before. Inevitably, this focused the economy's attention on quantity rather than quality.

The rationale for this was that by first concentrating on heavy industry, the country would be able to build up a much larger productive capacity in the long run. Then the heavy industry could be converted to the production of consumer goods at what was assumed would be a record rate. This, in turn, would bring unprecedented prosperity for the workers and peasants. This perception was based on a firm conviction of the early leaders that with a central command economic model, with detailed planning and state protection, the economy could grow in a quantitative way. In other words, with sufficient input, certain output could be expected. This idea came from a pre World War II era, when many new technological revolutions were yet to exert an impact on human societies.

But where did the capital come from for this heavy industry oriented industrialisation? The solution was that "primitive socialist accumulation" was to cut back sharply on
the resources which had traditionally gone to agriculture, light industry, and the consumer. In other words, to accumulate the resources necessary for growth in heavy industry, Soviet planners found it necessary to set investment, and thus savings rates, as high as 30 percent of the GNP. Much of this capital Stalin intended to extract from the agricultural sector by paying very little to the peasants for their efforts. Consequently, consumption and consumer goods were given a low priority and there were few resources available in the way of either manufactured or agricultural products for consumption.5

Therefore, the first important aspect of the Soviet society was that the state became an instrument for forced modernisation. As observed by Harrington, when Stalin came to power, he successfully carried out a remarkable industrialisation programme in the course of a decade by bringing totalitarian force to bear on the peasants and workers, the social classes that supposedly dominated the society. Between 1929 and 1934, the Soviet peasantry was forced into collective farming. Grain was exported to obtain hard currency to buy capital goods abroad even though people were starving.6 Since there would be little immediate economic reward for the workers and peasants who bore of most of the burden, there was little likelihood that such a programme would be very popular. Thus, the instruments of power would have to be firmly controlled by the leaders of the state. The dictatorship of the proletariat thus rapidly became dictatorship over the proletariat.7
However, it must be noted that in spite of all the cruelty of the Soviet system in its early days, great efforts were made (especially in the 1950s) to turn it into one that provides basic economic security to the majority of members of the society. Such a system was designed to facilitate mobilization of the masses for political ends. In Lenin's words,

When every labourer, every unemployed worker, every cook, every ruined peasant sees, not from the newspapers, but with his own eyes, that the proletarian state is not cringing to wealth but is helping the poor, that this state does not hesitate to adopt revolutionary measures, that it confiscates surplus stocks of provisions from the parasites and distributes them to the hungry, that it forcibly installs the homeless in the houses of the rich... that the land is being transferred to the working people and the factories and the banks are being placed under the control of the workers... when the poor see and feel this, no capitalist or kulak forces, no forces of world finance capital which manipulates thousands of millions, will vanquish the people's revolution; on the contrary, the socialist revolution will triumph all over the world for it is maturing in all countries.®

Such provision of basic social welfare became another important aspect of the Soviet society. For example, to keep the Soviet populace happy, transportation and food prices were held artificially low through state subsidies, so that "meat costing the state $4 a pound to produce sells for 80 cents a pound". While the Soviet government was compelled to invest $78 billion in agriculture each year, a further 50 billion was spent every year to subsidize food prices.® Actually, since 1928, the pricing system in the Soviet Union had never been changed until very recently. Welfare programmes like this not only encouraged waste and inefficiency, and removed the population's enthusiasm and incentive to work hard, they also
became an unbearable financial burden for the central treasury.

Yet another aspect of the Soviet society is that the state sets the production quotas, allocates resources, and distributes wealth according to detailed plans drawn up in the State Planning Commission (Gosplan). The logic is that the state needs absolute and unchallenged power over society to enable it to mobilise human and natural resources for more rapid modernisation. While this did help to bring about rapid and steady industrial growth (until the late 1970s the Soviet growth rate averaged 5% per annum), it poses serious problems for market-oriented perestroika which began in the mid-1980s. As far as the role of the state in the economy is concerned, as noted above, proletarian dictatorship tends to suppress the development of liberal-type regulatory mechanisms. These include such mechanisms as law, which is formulated through an open legislative process; a taxation system which provides a flexible means to collect revenue from free enterprises; and a credit system which funnels funds from society for reinvestment. The logic of central command is different. The state does not shape the economy through these indirect means but controls the economy by direct bureaucratic planning. In other words, there is no need to develop these mechanisms to regulate the economy. Although some form of legal, tax and credit systems exist in the Soviet Union, their functions in the economy are supplementary.
Thus, dictatorship, social welfare programmes relying totally on state subsidy and central planning became the basic characteristics of the Soviet society. Once set in motion, this Stalinist defence industrialization became the political/economic logic governing the Soviet mode of production, which in turn is the material basis for Soviet international behaviour. This political/economic logic has remained intact with some variations for some six decades.11

As perceived by generations of Soviet leaders, the USSR was surrounded by hostile forces. After World War II, Soviet leaders were convinced that military alliance systems in Europe and Asia organized and maintained by the United States were all directed against the USSR. In the mid-1950s, the Soviet Union tried to get the Americans out of Japan by proposing to return some "Northern territories" and conclude a peace treaty between the two countries. Things did not work out that way, and Japan was actually turned into an American military base and a close ally. This strategic environment for the Soviet Union actually deteriorated from the late 1950s and early 1960s following the Soviet-Sino split. The feeling of being threatened was subsequently compounded by the Sino-US rapprochement. Developments such as these in turn strengthened the Soviet determination to continue along the path of defence-oriented industrialization.

Forced modernisation was indeed achieved because of the concentrated and undisputed utilisation of resources in cer-
taint sectors of the economy. At the end of World War II, as noted by Geoffrey Jukes,

the Soviet Union had armed forces totalling 11.365 million men. However, their configuration was that of a very strong regional, rather than a global power, namely very large ground forces supported by predominantly short-range tactical air forces and a navy mostly devoted to guarding the army's coastal flanks. The strategic bomber force was small, while the navy had little high seas capability. Amphibious forces were improvised as needed, usually for relatively small and short-range operations, and there were no nuclear weapons.12

By the late-1960s, the Soviet Union had become one of the two most powerful military powers in the world.

However, it is a system in which economic growth depends almost solely on the expansion of investment according to plans drawn up in the state bureaucracy. It fails to provide a sophisticated economic sustainability developed in the advanced capitalist societies over some two hundred years. Such economic sustainability requires far more than an expansion of investment. It requires constant interaction between technology and production, it needs incentive and initiative from the society.

In fact, the above three characteristics in the Soviet society all became factors that work to eliminate incentives for economic growth and social progress from the system. Towards the end of the 1970s, this became more and more obvious, although one can argue that there are still some incentives for economic progress as far as the state is concerned. It is the state that draws up development plans and guides
economic progress. Nevertheless, if the rigidity and the ineffectiveness of the rosy economic blueprint in the later Five Year Plans, and the often indifferent attitude of the bureaucrats are taken into consideration, it can hardly be called "incentives". After all, the bureaucratic planners represent only a very narrow stratum in the society. While the central command model may have worked well at an earlier stage of Soviet development, it has later become counterproductive. As Marshall Goldman puts it,

The continued emphasis on heavy industry and central planning has resulted in the neglect of consumer goods and this, in turn, has come to generate more and more skepticism and cynicism among Soviet consumers. Because there is relatively little to buy, the consumer ends up with very large savings and very little respect for money. Thus money is not much of an inducement to work. Not surprisingly, therefore, the shortcomings in consumer-goods production, magnified by serious food shortages, have had a serious effect on workers' incentives and, more important, worker discipline. ... Almost seventy-two years after the revolution, the Soviet Union has found it necessary to reintroduce rationing.

At the production level, since Soviet factories and collective farms cannot go out of business, as in a market economy, they also lack the ultimate stimulus to produce efficiently. As a result, there has always been incredible waste and inefficiency in every sector of the economy. A century ago, Russia used to be one of the biggest grain exporters in the world. Today, the Soviet Union is one of the biggest grain importers.

In terms of technological innovation (especially in the civilian sphere of the economy), there are also structural
setbacks that make the Soviet Union lag behind the West. Take, for example, an issue posed by the new technologies. The Russian government, modeling its arrangements on those of early eighteenth-century French and British Science Academies, built up over the subsequent two centuries a distinguished Academy of Sciences, which was carried forward and greatly expanded in the Soviet Union. No one doubts that Soviet materials researchers or aircraft designers are brilliant. Nor that Soviet defence factories can use their work and turn out effective weaponry and space-craft. But that is no guide to managerial efficiency. It is not hard to be effective when your every need is catered for in a protected economy. In other words, although Soviet scientists and engineers are among the best in the world, their ties to those beyond their bureaucracies are often limited. Apart from those government assigned projects that are mostly related to military and heavy industrial production, there is no natural connection between their talent and expertise and social production. This did not matter so much in the era of steel, electric power plants, cement and other technologies rooted in the pre-1914 world. In the new round of technological competition, technologies become increasingly flexible, interacting, often based on a high degree of computerization and information sharing, and require day-to-day linkage of the R&D institutes to the production process. For the Soviet Union, it has proven difficult to bring about new technological developments without radical institutional change. As experiences in the United States show, in this new era, technological innovation requires not only a strong management-R&D linkage, but indi-
vidual incentives as well. In fact, not only the Soviet Union, but all countries modeled on the Stalinist model, have found it difficult to provide incentives for technological innovation for reasons discussed in previous paragraphs.

In sum, until the 1970s, the Soviet economy grew rapidly. However, while the Soviet model performed well in the early years of the country's industrialisation, it has failed badly over the past two decades. There is a general consensus in the Western academic world that the retardation in Soviet growth rates reflects a combination of diminishing returns to capital accumulation and declining rates of "technical change". Beginning from the 1970s, the state actually became an obstacle to modernization. It is a system run by a bureaucracy that does not have the benefit and cost mentality in its production, management, and distribution. In virtually all sectors of the economy, evidence of stagnation, waste, and mismanagement proliferates. As admitted by Gorbachev at the Twenty-seventh Communist Party Congress:

Difficulties began to build up in the economy in the 1970s, with the rates of economic growth declining visibly. As a result, the targets for economic development set in the Communist Party programme, and even the lower targets of the 9th and 10th 5-year plans were not attained. Neither did we manage to carry out the social programme charted for this period. A lag ensued in the material base of science and education, health protection, culture and everyday services.

Though efforts have been made of late, we have not succeeded in fully remedying the situation. There are serious lags in engineering, the oil and coal industries, the electrical engineering industry, in ferrous metals and chemicals, in capital construction. Neither have the targets been met for the main indicators of efficiency and the improvement of the people's standard of living.
As a matter of fact, Soviet leaders have long recognized that there are serious problems in the system, as evident in Khrushchev and Kosygin's attempts at reform. However, once set in train, the rigid central command model would operate along its own logic and things cannot be changed without up-rooting the most important Leninist-Stalinist principles governing its operation. In effect, all previous reform attempts ended in minor moderations instead of a radical change. As Goldman demonstrates, the Russians continue to adhere to a dictatorial planning model set forth by Stalin in the 1920s. It is on such an economic foundation that Soviet policy towards North-east Asia evolved.

What is more, for decades, the Soviet Union has been sealed off not only from international economic competition of any kind, but from major developments in the world economy such as the explosive expansion of international trade and investment, participation in the international economic regimes and information/technology transfer. This gradually leads to a steady decline in the Soviet Union's competitiveness as compared to its capitalist counterparts in Northeast Asia, a trend which became obvious in the late 1970s and early 1980s, as Mr. Gorbachev admitted in the 27th Party Congress. On the other hand, the need to make use of whatever economic cake baked in the central command oven to meet ever-increasing security demands further deteriorated the economic situations in the Soviet Union.
Pre-Gorbachev Soviet Asian Policy. It is on such an economic premise that the Soviet Union's policy towards Northeast Asia evolved. It must be noted that although economic stagnation became obvious towards the late 1970s and early 1980s, Soviet leaders of the time failed to address these economic problems. In regard to Soviet Asian policy, on the diplomatic front, Brezhnev expressed the Soviet intention of improving relations with China as early as March 1982. However, there were no fundamental changes in Soviet foreign and domestic policies before Gorbachev came to power in 1985. The two transitional leaders, Andropov and Chernenko, both were too old and sick to carry out policy reform. Thus, on the military front, military buildup and strategic alignment with China's neighbours continued unabated. In fact, the USSR has been locked into a security dilemma since its early days. Once national security became the priority of the Soviet Union, it would be difficult to change the course in which things operate in the Soviet system. For example, to keep up the arms race with the United States, the disproportionately huge investment in heavy industries and defence could not possibly be reduced. As early as 1973, Abel Aganbegyan, who now serves as Gorbachev's foremost economic adviser, said that "our national income is only 65% of the US, yet it is obvious that we cannot spend less than the US does on national defence. This means that the defence burden of our country is much greater than that of the US."17 Again, as far as the prioritization of national defence is concerned, central planning was the most effective way to guarantee such a financial arrangement.
As discussion in previous pages indicates, in the Soviet Union, economic stagnation began in the late 1970s. This coincides with two important developments in international relations as far as the Soviet Union is concerned. The first development was the technological revolution based on the development of computer and other information technologies which went through several breakthroughs towards the late 1970s, when the world entered what is called the "microelectronic" age. In this new age, technology tends to be information-intensive. This microelectronic revolution allows the merging of all activities such as managerial and production, marketing, financial as well as technical into an interacting system, within and between the developed capitalist societies.

Over the last twenty-five years, international trade has grown at a compounded rate of 13% per year, whereas it had previously never grown at more than 3%. Even more impressive, international banking transactions have compounded at an annual rate of almost 28% a year; and during that period the Eurocurrency market alone mushroomed from 7 billion to 3 trillion dollars. In other words, in the United States, Japan, and many Western European countries, such technological innovations were blended with their economic and social infrastructures and became powerful forces that push these societies forward, economically and, in the case of the US, militarily. Thus, while these countries enter a new, postindustrial era where progress is measured more and more by computer technology, the Soviet Union still lingers in an old industrial era where it is measured by output of coal, steel, and cement. In the Soviet Union, industrial development still de-
pends on technology that is energy and materials intensive. As a result, the gap in economic strength between the deve-
doped capitalist West and the Soviet Union has significantly
widened since the late 1970s. Given the structural setbacks
of the Soviet economic system, it is obvious that the country
could not effectively respond to the new technological chal-
 lenges of the new era.

The second development is that China, under Deng Xiao-
ping, began a most ambitious economic reform and entered what
the Soviets viewed as a military alliance relationship with
the United States. From the Soviet point of view, this rela-
tionship formed an international anti-Soviet united front.
Since the Sino-Soviet border conflict in 1969 and Nixon's
China visit in 1971, the Soviet fear of fighting on two fronts
in the event of war at the same time (in Europe and in the Far
East) was magnified by this perceived Chinese threat.

Partly as a continuation of its traditionally mili-
tarized foreign policy and partly in response to the American
military assertiveness based on economic strength and the
Sino-American anti-Soviet alignment, the Soviet Union entered
a new round of the arms race with the United States and
greatly expanded its strategic commitments in Asian countries
like Vietnam, North Korea, and Mongolia to counter the Chinese
threat. In 1979, Soviet troops invaded Afghanistan. These
countries are all economically backward, and most of them suf-
f er from the same structural setbacks as those of the Soviet
Union in their economic systems. Therefore, Soviet economic
ties with them are bound to be unprofitable. In order to maintain these political and strategic alliances, massive military and economic aid was needed.

According to Moscow itself, part of the "aid" consists of the Soviet habit of paying inflated prices for goods: seven to nine times more for Cuban sugar, swollen prices for Vietnamese cement. A second type of "aid" involves selling goods far below the market price, as Soviets sell oil to Cuba and North Korea. A third form consists of providing services at virtually no cost, as when the Soviet commit 300 ships to transporting Cuban products, thus freeing Cuban ships for profitable engagements. A fourth form is the provision of credit on fantastic terms, such as allowing Mongolia 200 years to reimburse funds for a poultry farm.20

According to Soviet economists, nonequivalent conditions of trade with Cuba currently cost the Soviet Union US$6-10 billion a year. To keep its strategic ally in Central America functioning, the USSR has to support an economy where "not one sector" fulfilled the planned quotas in 1989 except for transport and sugar production. Soviet economists also note that their trade is disadvantageous not only with socialist countries in the Third World, but with Poland, Czechoslovakia and East Germany. Under current practices the Soviet Union subsidises the reorientation of the economies of Eastern Europe at a time it can ill afford to do so.21
Domestically, to counter the Chinese threat, military expenditure continued to rise. In late 1986 a report from the NATO Economic Committee stated that Soviet military expenditures rose by 50% between 1970 and 1985, or 2.7% a year.\textsuperscript{22} The CIA's estimate claimed that throughout the 1980's the Soviet economy was thought to be more than half the size of America's, and 15% of its budget was devoted to arms. As a matter of fact, Soviet economic strength was a lot weaker, while its military expenditure was more than what the West believed. According to recently released Soviet official figures, while the Soviet output was about one-fourth that of American output -- not nearly the half that the CIA estimates, Soviet military expenditure was 20 to 25% of GNP.\textsuperscript{23} It must be stressed again that these Soviet strategic commitments as well as a new round of the arms race were conducted by an economically stagnant society.

**Soviet Far East and Siberia.** The definition for Soviet Far East in this paper denotes all Soviet territory East of Lake Baikal, and Siberia comprises West and East Siberia. Since the strategic, political and economic values of these areas are being re-defined by the Soviet leadership, the Soviet Far East, West Siberia and East Siberia are treated as a whole region in this paper unless specifically defined.

One the one hand, partly because of the Stalinist tradition of defence industrialization, partly because of the extremely harsh natural conditions for profitable economic development, and partly because of traditional militant Soviet
foreign policy towards Asia in dealing with the US-Japan-South Korea alliance, and the Chinese threat later, emphasis was given to military buildup in the Soviet Far East in the pre-Gorbachev era. On the other hand, From a strategic point of view, Siberia traditionally offer the USSR great strategic depth. It allows for the dispersed location of its population, key military industries and the location of the majority of the Soviet Union's intercontinental ballistic missile silos. Since the Sino-American rapprochement in the early 1970s, the region was suddenly threatened by a de facto military alliance between two countries hostile to the Soviet Union: the United States and China. Military threat to the region used to come mainly from possible amphibious attack of the US-Japan-South Korea forces, but now the area was vulnerable to massive Chinese ground forces as well. Siberia no longer offered any strategic depth. As the Soviet leadership saw it, "the broadening of military-political links of the USA with China and with Japan which is going in the direction of militarization creates a long term military threat to our eastern frontiers." Towards the late 1970s, the Soviet perception was that with Deng's economic reform encouraging foreign investment and technology transfer, the Soviet Far East and Siberia would be especially vulnerable because Chinese manpower could be equipped with US and Japanese technology.

The emergence of this threat incurred heavy military expenditure for the Soviet economy at a time when it could ill afford to do so. In the Soviet Far East the steps of military buildup have quickened since 1969. As a result of this above...
mentioned perception, the one respect in which the Soviet Union has improved its position in East Asia over the past twenty years is in military strength. Its combat divisions along the Chinese frontiers have increased from 20 to more than 50. It modernized its naval and air forces and installed SS-20 intermediate range ballistic missiles within range of China and Japan.\(^{25}\) Towards the mid-1980s, the Soviet Union had formidable military forces stationed in the East Asian-Pacific region, including over one-third of its land and submarine based strategic nuclear forces, and one-quarter of its army, air and naval forces. These Soviet forces in the region have been provided with some of the most modern weapons in the Soviet military inventory. These include the Delta-class SSBN, Kiev-class aircraft carriers, MiG-25 Foxbat fighters, Tu-22M Backfire strike bombers, and SS-20 IRBMs (before they were eliminated under the INF Treaty).\(^{26}\)

It must be noted that the transportation network that links the Soviet Far East and Siberia with its European heartland has always been very poor and costly. To cope with the problem, the region was turned into a self-contained military region, and in 1978 a semi-independent theatre command was set up for the region, while ammunitions was stockpiled for at least half a year's fighting. Hence, from the security of its Pacific bastion, the Soviet Union can threaten Japan, the west coast of America, the sea lanes between Japan and the US, as well as US military bases in Guam, Hawaii, the Philippines and Australia. Also, from across the long border it shares with China, the USSR is able to pose a
military threat to the security of China's western provinces and Manchuria.27

While Soviet military power has grown in North East Asia to the point where it rivaled that of the United States, in the spheres of political influence in Northeast Asia and economic development in the Soviet Far East and Siberia such military buildup has been counter-productive. While the United States has friendly relations with Japan, China, South Korea, Taiwan, and the ASEAN countries, the USSR's only major ally is Vietnam. The USSR's other friends, Mongolia, Kampuchea and Laos count for little as regional powers. Even in North Korea, the USSR has to compete for influence with its adversary, China. One telling example of this militarized Soviet Asian policy was that when Japan and China signed a peace treaty in 1978, Moscow responded with a rapid military buildup on what the Japanese called the "Northern Territories".28 Such action only served to alarm and offend the Japanese. As Soviet military strength in the region has grown, the other powers in Northeast Asia have taken an increasingly anti-Soviet posture. The pre-Gorbachev Soviet diplomacy in the region had been marked by a rigidity and toughness that has served the USSR's interests poorly and has earned the hostility and enmity of many of its Asian neighbours. Indeed, there was a basic contradiction in Soviet policy which whilst allegedly seeking improved relations with neighbouring countries (China and Japan) embarked on a massive expansion of military power. These countries feel bullied by the Soviet military buildup and the proximity of Soviet military power. As a
consequence, there have been increasingly strong military ties between the US, Japan and South Korea, a de facto Sino-American alignment (in spite of the fact that China denies it), substantial Japanese rearmament, and a more assertive US which was pursuing a vigorous containment policy. 29

In the sphere of Soviet Far East and Siberia economic relations with neighbouring countries, there were hardly any significant ties. After the Sino-Soviet split in the early 1960s, Soviet foreign trade relations outside the Comecon were primarily with Western Europe. Trade with Northeast Asian economies only made up 3-4% of total Soviet foreign trade. In general, in the last four decades, the Soviet economy has basically been closed from the world markets. A large proportion of Soviet international trade was conducted with Eastern Europe. Soviet imports are mainly confined to agricultural produce, consumer goods, industrial technology and chemicals. Soviet exports, on the other hand, mainly confined to raw materials, energy resources and armaments. Under Brezhnev, foreign trade and economic cooperation were to enhance efficiency in order to preclude the need for significant structural reform. Careful precautions were taken to minimize undesirable influences on the Soviet economy and society. Foreign management and labour practices and foreign competition with domestic firms were not tolerated. 30

Nevertheless, in terms of economic potential, the region is one of the world's greatest untapped areas of natural resources. The economic potential of the region as a whole is
immense since it contains almost three-quarters of the USSR's mineral, fuel and energy reserves, over half of its hydroelectric resources, about half of its commercial timber stands. The maritime provinces in the Soviet Far East produce one-third of its fish catch (including that caught in distant waters by Soviet Far East-based ships). Nevertheless, as discussion above show, until the end of 1980s, Soviet domestic policy for development in the region as well as its foreign policy towards Northeast Asia were formulated and implemented out of strategic and political rather than economic considerations. This does not mean that the Soviet government did not commit any industrial and agricultural investment in the region at all. In fact, in the mid 1980s, the region as a whole received a quarter of all capital investments in the USSR even though it has only about one-tenth of the nation's population and accounts for a little over one-tenth of Soviet overall economic output.31

However, economic development in the region is backward. Negative factors include, poor infrastructure, especially in road transport and communications, labour shortages in specific industries, particularly construction. Among the problems besetting plans to develop these regions was an alleged "colonial mentality" among some of the local officials. These officials are said to see their careers as centring on Moscow, to regard their time in these regions as an interlude, to have no intention of settling there, and consequently to have no commitment to long-term development there. The region is not only far away from Moscow, but from all major provincial indu-
trial centres. Inevitably, this has meant that under the centralization which has so far characterized the Soviet political and economic structures, the major decisions affecting these regions have been taken at a great distance, and that their trade with other parts of the Soviet Union is affected by very heavy transport costs. The region is in fact much closer to major industrial centres of Japan, South Korea and China, but the pursuit of an autarky policy has until recently severely restricted commercial interactions with them, to the detriment of the region's development. In short, up till now, the region remains economically under developed, and heavily subsidised by the central government.

Chapter II: Soviet Policy Towards Northeast Asia: 1985-1989

Continuity and Change. When Gorbachev came to power in 1985, he dedicated himself to perestroika and glasnost. Domestic economic restructuring and reduction of international tension became the leadership's priority. Nevertheless, in the period of 1985-1989, Gorbachev inherited many aspects of the old Soviet Asian policy, which he could not help but continue to go in the original direction set by earlier leaders. On the other hand, under increasing political and economic pressure (internal and external) for change, his new thinking and appointment of new policy makers like Foreign Minister Shevardnadze, Gorbachev managed to kick off some significant changes in Soviet Asian policy in this period. However, it was not until after the 1988 Seoul Olympic Games that Soviet Asian policy went through more fundamental changes. This will be
discussed in chapter 3 of this paper. In this period, there was continued military buildup in the Soviet Far East and strategic commitments with many Asian countries. These developments placed further strain on the increasingly obsolete detailed planning command economy. It should be stressed that in this period, there was both change and continuity in Soviet Asian policy and attitudes towards Soviet Far East and Siberia development.

Mikhail Gorbachev came to power in 1985 inheriting the economic and foreign policy legacies of the Breznev era, characterised by its burdensome disabilities. Economically, the Soviet Union was a strange mixture of failures and pretensions of stagnation since the 1970s. The failures are of course manifest: a dilapidated infrastructure, run-down housing, shortages of consumer goods, pathetic levels of agricultural production, declining life expectancies, a budget deficit that in proportion to GNP is three times that of the United States. In short, a Third World economy with a nuclear arsenal and men floating in space. At the same time, the Soviet Union's diplomacy was characterised by a remarkable degree of isolation, especially in Northeast Asia. It had no major allies in the region save for Vietnam (in the case of influence over North Korea, the USSR has always had to compete with the PRC). Also, there was a growing gap between the Soviet Union's swelling military power and declining influence. Moreover, there was a semi-immobile relationship with Northeast Asia's most formidable economic powers.
Until 1985, the military in the Soviet Union had enjoyed priority access to national resources for almost all the 44 years since the German invasion in 1941. Soviet political-military culture differs markedly from Anglo-Saxon tradition. Both the US and the UK are mainly sea and air powers, while the USSR is mainly a land power. A land power requires large number of men, thus the military leaders are more powerful in politics because they have millions of men at their disposal. A sea power, on the other hand, requires far fewer men. It maintains expensive forces for its security, and generally speaking, the military does not acquire the political influence as that in the case of a land power. For the Russians, then, the military has been an integral and vital component of the state. The tradition was reinforced by Lenin's Clausewitzian predilections, and by the realpolitik implications of the Bolsheviks' early struggle against what appeared to be an immensely more powerful coalition of enemies. When Gorbachev came to power in 1985, the military probably did not foresee the implications of a new General Secretary who had done no military service, had no personal or institutional ties to the military, and was a sceptic about the relevance of military solutions to national or global problems.34

There were quite a few new policy initiatives soon after Gorbachev became the leader of the country. Under Gorbachev, international politics is not exclusively a matter of class struggle or a raw competition between East and West, but is more centrally a matter of the intertwining of societies and
the interdependence imposed on all. Thus, Gorbachev's first major foreign policy address delivered in Vladivostok in July 1986 featured Asia, and, within Asia, China. He spoke of his government's decision to begin a unilateral reduction of Soviet forces stationed in Mongolia, of its interest in building a new railroad link between Kazakhstan and Xinjiang, and of willingness to accede to China's wishes with regard to the border along the Amur river. At the same time, Gorbachev early on acknowledged the new importance of Northeast Asia's mushrooming economic prowess. Hence, Gorbachev sent his new foreign minister Eduard Shevardnadze off to Tokyo to begin unfreezing what had been immobile for more than a decade (former foreign minister, Mr. Gromyko, had never visited Japan). Shevardnadze's January 1986 trip to Japan did not make much of a dent in the core problem dividing the two countries, but it opened the door for new hope and flexibility.

However, such changes were just initiated but remained on paper. To a very large extent, 1985-1989 is a period in which the Soviet Union put forward many foreign policy proposals and initiatives, many of which only helped to serve propagandistic purposes. It is an important period in Soviet Asian policy development because it laid down the basis for more pragmatic and concrete foreign policy changes in the next period: 1989-present. Before this time there was a certain degree of continuity in Soviet foreign policy.

This continuity was determined as much by domestic as by international factors. For a long time since the Sino-US
rapprochement, Soviet leaders were afraid that China might join with the US and Japan in an "informal entente" directed against the USSR. While the Soviet Union has enhanced its military capabilities, its gains have been offset by US efforts to counter the Soviet buildup. Since the early 1980s, the United States under the Reagan administration has significantly increased its military spending as well as its forward deployed forces in the western pacific. The US now deploys at regional military bases in Japan, South Korea and the Philippines 70 ships and 230 carrier-based aircraft of the US 7th Fleet, more than 110,000 servicemen and 350 land-based aircraft. In Northeast Asia, US forces are supported by the armed forces of South Korea and of Japan, which together constitute a major military force.37 This military strength on the other side of the Cold War fence is not only a nightmare for Soviet generals, but for the leaders and strategists as well. Such a nightmare drove the Soviet Union to commit even more economic resources into military buildup in the Soviet Far East that started in the late 1960s.

The Unbearable Economic Burden. For two decades, in addition to this "safeguarding" against possible attack from China, the Soviet Union had to spend huge amounts to balance the Warsaw Pact budget, because unlike America's allies in NATO, most of whom are medium powers and can make bigger economic contribution to the military alliance, the Warsaw Pact countries are smaller and far less developed in economic terms. Such developments exhausted more and more Soviet resources.
In Northeast Asia, even after Gorbachev came to power, Soviet-North Korea relations based on Cold War perceptions continued to grow. The Soviet-North Korean security treaty signed in July 1961 has been regarded as part of Soviet regional efforts to counter what Gorbachev himself called "a US-Japanese-South Korean military alliance" in his welcoming speech to Kim Il Sung in October 1986. After Kim visited Moscow in 1984, the Soviets began to provide North Korea some 60 MiG-23 fighter bombers and 30 SA-3 surface-to-air missiles. Under Gorbachev, the Soviet Union has increased its security cooperation with North Korea. In recent years, Moscow has sold Pyongyang SU-25 Frogfoot attack aircraft, MiG-29 Fulcrum and SA-3 and SA-5 surface-to-air missiles. In return, Soviet planes have been given the right to transit North Korean air space, and Soviet warships have been granted access to the North Korean ports of Wonsan and Nampo. Starting in the autumn of 1986, Soviet and North Korean forces conducted joint exercises.

Since 1984, Moscow has been substantially expanding economic relations with Pyongyang. According to a South Korean estimation of this economic relationship, the USSR accounts for over 50% of North Korea's foreign trade (as a contrast, North Korea accounts for less than 1% of Soviet foreign trade), which reached about US$3.5 billion in 1987. In 1988, its exports to North Korea grew to US$1.7 billion, an increase of 32.7% over 1987. In addition to trade, the Soviet Union has rendered economic and technological assistance. In recent years, the Soviet side has built 70 industrial projects pro-
ducing about one-quarter of North Korea's gross output, including 63% of its electric power, 50% of its petroleum products, and 33% of its steel. North Korea was only able to pay back this aid by providing labour for cutting timber in Siberia. Obviously, this economic relationship was in fact a Soviet subsidy for North Korea, and the Soviet Union had little to gain economically.

Therefore, Vietnam, North Korea, Mongolia and Afghanistan, like Cuba, are potentially bottomless pits for Soviet aid and resources. For instance, in 1990, North Korea's total debt to the Soviet Union was some 2.2 billion rubles (approximately US$3.95 billion). This debt has increased US$700 million in only one year to a total of 2.6 billion rubles (approximately US$4.6 billion). North Korea is expected to pay back about 500 million rubles (US$880 million) in 1991 by supplying the Soviet Union with various goods and services. It has also been reported that the Mongolian government has informed the Soviet Union in May 1990 that it sees no way of repaying its nearly 10 billion ruble debt in the near future. Most of the money had been used to subsidise consumer prices and develop industry and agriculture. Mr. Demchigjavyn Molomjamts, the Mongolian Finance Minister, said that Moscow had extended the term of the credit several times without charging interest and had written off debts of more than 60 million rubles. This time, Moscow again "had responded with understanding" and had agreed to postpone any decision until the drafting of the two countries' next five-year plan (1991-1996). Moreover, opposition leaders argue that the real debt is owed by the Soviet
Union for the "ecological and cultural" damage done to the country over the past 70 years. Under the new circumstance in which the Mongolian Communist Party has to compete against other parties for leadership, the repayment of Soviet debt will be hotly debated in the years to come. As a matter of fact, for the Soviet Union, to support Cuba, Vietnam and North Korea is a bankruptcy policy. Altogether these three most important strategic allies have accumulated a huge debt of some 25 billion rubles to the Soviet Union.

Domestically, the Soviet economic situation continued to deteriorate. As discussions above show, earlier Soviet economic competitiveness against the United States and other Western countries began to wither away in the 1970s, and the system began to slip into economic crisis in the mid-1980s. We know that a very important reason for this is the Soviet Union's obsessive concern over its military buildup. This has become an endless business for the Soviet leaders. In 1984, Moscow announced a near 12% increase in its official defence budget, purportedly in response to the threat of the Strategic Defence Initiative of the Pentagon. This Soviet defence burden is obviously a strain on the economy. The increasing demands for security forced the military buildup to cut into social programmes. Its traditions, long, exposed borders, and a multitude of past and potential enemies predispose the Soviet military to quantity, in troops and materiel.

As in earlier years, in the Gorbachev era, far too many resources are tied up in defence and heavy industry. The
over-concentration on heavy industry has been exacerbating the consumption crisis, first by absorbing scarce resources, and second by the mismanagement of the nation's wage policy. Wages for industrial workers have been steadily increasing (and inflating), boosting demand while the system failed to produce consumer goods to help satisfy such demand.

The Other side of the Fence. Some discussion of the political economy of the capitalist side of the Northeast Asian Cold War alliance is necessary at this juncture. The reason is that when the Soviet economic system came to the point of collapse in the late 1980s, it was to the Northeast Asian market economies that the Soviet Union turned for economic aid.

The economic logic in the market economies in Northeast Asia is different. Based on American hegemonic assistance, and protected by American nuclear deterence, Japan, South Korea and Taiwan all have developed highly marketable, export-oriented civilian manufacturing industries to compete in the international market to assist fund accumulation and technological upgrade. As a result, civilian manufacturing industries in these countries have now became highly competitive and profitable in the international market.

For the first 25 years of the postwar period, America was indeed a hegemon. In trade and finance America had the resources to make the side payments and absorb the costs required to assure international economic stability, to sustain a high dollar, and permit others to devalue to bring their
trade balances in line. It could also offer access to its domestic market as an instrument of security policy.\textsuperscript{44} In other words, in order to contain communism effectively, the United States was willing to sustain a Eurasian balance and to forge a multiplicity of relationships encompassing not only defence but also the fields of trade, finance, and investment between the US and other nations in Western Europe and the Asian Pacific area. Such a multi-faceted relationship between the United States and Japan, South Korea and Taiwan has been consolidated since the Korean War (1950-1953). In return for their military and diplomatic cooperation, in the past four decades, Washington has helped Tokyo, Seoul and Taipei to increase their economic power by accepting trade and investment relationship based on an implicit understanding that US markets could be relatively open while those of its allies would be much more restrictive. In the case of Japan, as observed by Mitchell Bernard, in the decade after the Korean War, cheap goods manufactured in Japan flooded the United States market: textiles, apparel and plastics came first, then electronics. While the American government was willing to subordinate economics to politics in its foreign policy, American companies had market shares to gain or lose. They responded to cheap Japanese goods by moving offshore to the East Asian NICs in search of lower production costs to protect their home market share and profit levels.\textsuperscript{45} In other words, there has been a constant flow of investment and knowledge to these Northeast Asian societies from America.
According to Strange's theory, structural power lies with those able to control and distribute credit. Such control of credit is important because, through it, purchasing power can be acquired, and subsequently, technological and industrial upgrading follows. Structural power can also be exercised by those who possess knowledge, who can wholly or partially limit or decide the terms of access to it. In the case of Japanese-South Korean- and Taiwanese-US relations, both at government and business levels, contrary to the American attitude of "economic containment" and "technological containment" towards the USSR, critical American technology and industrial know-how have repeatedly been transferred at low cost in the name of military imperatives and business profitability. The tolerant US attitude towards Japanese acquisition of prohibited Star Wars technology earlier and disputes over co-production of Japanese FSX and South Korean FA-18 fighter aircraft are examples of this behaviour pattern. For more than three decades (before the Sino-US strategic cooperation developed in the late 1970s), the line dividing the two Cold War country groups was also the stopping line where the flow of new technology, industry know-how and other ideas from the United States ceased. Up until today, the United States is the most powerful country producing new ideas in the 20th century.

Eventually, these old Cold War adversaries all have been targeted by the Soviet Union as investors. In that sense, Japan and South Korea are no longer viewed as Cold War adversaries but rich neighbours that can be tapped. In the past
forty years, Japan, South Korea and Taiwan were quick to milk their security relationship with the United States for economic advantage. While Japan's military "free ride" is a favourite target of American critics, South Korea's rapid economic rise has also been accelerated by American economic and military aid and the subsidy provided by the US for its military deployment there. In the case of Taiwan, with the long preoccupation with China as a military threat (before the Sino-US rapprochement), the United States pumped massive aid into the island to build it up as a counterweight. Taiwan, like South Korea, continued to receive trade concessions under the Generalised System of Preferences until January 1989. Now the island has piled up US$ 71 billion in foreign exchange reserves. Out of a total US$ 109 billion US trade deficit in 1989, Tokyo (US$ 49 billion), Taipei (US$ 13 billion) and Seoul (US$ 6.3 billion) accounted for nearly two-thirds.

From the Soviet point of view, Japan and South Korea not only have the capital available for investment, their civilian technology and industrial know-how are attractive, too. As far as civilian technology is concerned, the trend is that it has become increasingly capital intensive and the skills and infrastructure it requires continue to become more complex. In countries like South Korea and Taiwan, as compared to the ascendant strata of world class producers, they may offer technology which is more appropriate to the needs of the Soviet economy.
Moreover, as far as the Soviet Far East and Siberia are concerned, since the mid-1980s, opinion in the Soviet Union appeared to be veering towards the idea that these regions should concentrate on development along south-north rather than east-west axes. That is, the region should concentrate on becoming integrated with the large adjacent markets of the Pacific rim, especially the dynamic Northeast economies, rather than on the much more distant markets of the rest of the Soviet Union. In this respect, establishment of relations with South Korea is especially important.

Finally, towards the end of the 1980s, there came the time when the Soviet economic system came to the point of collapse. The war in Afghanistan was a financial drain and is reputed to have cost the country 45 billion roubles over 8 years. In 1989, the Soviet budgetary deficit climbed as high as 120,000,000,000 roubles, and domestic and international debt soared to 460,000,000,000 roubles. Of the 1,000 basic commodities required by the society, only some 120 items were available. Many of these problems are by nature structural problems. They include, a nonconvertible currency based on an irrational, multi-tiered pricing structure, a bureaucratized economy that seldom rewards efficiency or innovation; a lack of entrepreneurial marketing or advertising experience; and a poorly motivated and undisciplined work force.

The Soviets have had bad luck added to bad management. There was a crop failure in 1988, causing a blowout in imports which totalled US$50 billion in the past three years. A bud-
The deficit of 100 billion roubles in 1989 -- about 11% of gross domestic product -- was caused in part by the revenue shortfall that followed a plunge in the prices of Soviet exports. According to one observer, since the economic reform initiated in the mid-1980s, the economic problem in the Soviet Union is one in which "the stick of a command economy disappeared during the past several years, but the carrots of a market economy haven't yet grown". Problems tend to lead to problems, particularly when exacerbated by mismanagement. The deficit has been funded by printing money. In turn, the money supply increase has sparked inflation, which is estimated officially to be around 80%, despite state controls on prices. The shortages are so great that people have little motivation to work. Enterprises see even less reason to deliver goods to other enterprises. At the same time, in terms of the effectiveness of the central command system, it has come to a virtual stalemate in administration. Few of the previous commands from above are being issued. Those that are issued are frequently disobeyed. The most acute situation is the lack of consumer goods, food and durables. Having been neglected for years, the consumer sector is fragile and outdated. Introduced under the Decree on the State Enterprise on 1 January 1988, tentative changes to management have, according to analysts, worsened the consumption crisis. Managers are now often elected by the workers. Not surprisingly, these managers seek to maintain their popularity by granting wage increases absolutely unrelated to productivity. While wages continue to rise (in 1990 wages and salaries have increased by about 12%), boosting demand, the sys-
tem still produces nothing to help satisfy consumption demands of the population. The shelves in most state shops are half empty, and many have closed, officially "for repairs".

As economic pressure of such magnitude continued to build up in the late 1980s, Gorbachev quickened the steps of domestic and foreign policy adjustment. The period of 1989-present is a period in which Soviet Asian policy was to undergo fundamental change. An important reason for such change is that, in Ziegler's words, Northeast Asia's sustained high economic growth rates make it a leading candidate for emulation.57

Chapter III: Soviet Policy Towards Northeast Asia 1989-present

In this period, as compared to the 1985-1989 period, Soviet Asian policy adjustments have been put on a pragmatic basis. Instead of concentrating on putting forward proposals and initiatives, Soviet Asian policy makers turned to more concrete, bilateral and economic relations oriented adjustments. Such Soviet Asian policy changes have been made against the background of a deteriorating economic situation at home. They include: Sino-Soviet rapprochement; establishment of diplomatic relations with South Korea; and improvement of Soviet-Japanese relations.

Sin-Soviet Rapprochement. The major purpose for the improvement of Soviet relations with China was to reduce tension and shake free of the burdens of the past, so as to take part into
Northeast Asia's economic dynamism, and to participate more fully in the region's politics, establishing a more comprehensive presence. However, in spite of earlier progress, Sino-Soviet rapprochement did not make much progress until the end of the 1980s. Deng Xiaoping insisted that there would be no real improvement of bilateral relations until the four obstacles (namely, the territorial dispute, the Kampuchea problem, the Afghanistan problem and the problem of Soviet troops stationed along Chinese border) -- or at least one of them in the beginning -- were dealt with. Brezhnev had begun the process of normalisation, but he refused all along to give ground on any of the Chinese leadership's four main conditions.

Under Gorbachev, the territorial dispute was solved according to Chinese terms. In his December 1988 UN speech and his May 1989 speech in Beijing, Gorbachev promised to withdraw the remaining Soviet troops from Mongolia, to reduce the Soviet armed forces by 500,000 men, 200,000 of whom will be withdrawn from Asia, and to scrap 10,000 tanks, 8,500 guns and 800 combat aircraft. In Beijing, Gorbachev announced that 120,000 of these troops would be cut from forces deployed in the Soviet Far East and that 16 vessels would be scrapped from the Soviet Pacific Fleet. Besides this commitment, towards the end of 1988 Gorbachev yielded on the other two of China's preconditions. He committed himself to ending the invasion of Afghanistan -- not merely to satisfy the Chinese, but to that effect. Also, he began shifting the tone and thrust of his partnership with the Vietnamese. On this most important of the obstacles, as the Chinese ranked them, he had
begun pressing the Vietnamese to settle for a political rather than a military resolution of the Kampuchea problem and, with or without it, to commit themselves to a military withdrawal.\textsuperscript{59} In May 1989, with the Gorbachev-Deng summit, Sino-Soviet relations were finally normalised.

More dramatically, in a major boost for the rapidly warming Sino-Soviet relations, Moscow agreed to sell a squadron of 24 Su27 combat aircraft at a "friendship" price of US$700 million. This arms deal has two important implications: first, the Soviet Union now badly needs hard currency for its economic reform. Now, one of the most salable things the country has is its advanced weaponry. It was reported that China had pressed for part of the transaction to be paid in barter, but that the Soviets, who are more strapped for cash than the Chinese, are accepting only hard currency payments.\textsuperscript{60} Second, the Soviet Union no longer views China as a major military threat, otherwise it would not have sold such advanced weaponry to China.

\textit{Soviet Relations with Japan.} Shevardnadze's visit to Tokyo in December 1988 provided the first distinct sign that Soviet leaders were beginning to face up to the fact that relations between the two countries could not progress until the Japanese received some satisfaction on the Northern Territories issue. Actually, the Soviet leadership was determined to address the issue of relations with Japan from a political as well as economic perspective. In terms of economic development for the Soviet Far Eastern region, it is determined to
tackle problems that stemmed from previous policies (both the
command economy and the tendency of Moscow to treat the region
as a military outpost rather than as an area capable of inter-
acting economically with the dynamic economies of Asia). As
far as Japan is concerned, the Soviet perception become one
that requires a Japanese shift of concentration away from con-
siderations of national sovereignty over territory to those
of mutual cooperation in economic development. This is a ques-
tion, not merely of the disputed territories, but of the
whole area of the Soviet Union lying to the north of Japan,
and indeed of the eastern part of Siberia, and the maritime
province. These areas form a region, the development of which
could profit greatly in the long term from the infusion of Ja-
panese capital. However, the territorial dispute between the
two countries is a matter concerning the status quo of Soviet
borders with its neighbouring countries, which were esta-
blished after World War II. What is more, the settlement of
the "northern territories" issue might have delicate implica-
tions at a time when internal ethnic and nationalist tension
is building to an explosive point. Thus, the Soviet Union can
understandably do nothing more at this time than admit that
the "northern territories" are "in dispute".

Another reason for the Soviet reluctance to solve the
territorial dispute now is that over the past two decades, the
Soviet Union has turned the Sea of Okhotsk into a nuclear
strike base for its submarines against the United States. The
four disputed islands provide a natural protection for the
Soviet nuclear submarines there, for they lie at the southern
end of the Kurile chain separating the Sea of Okhotsk from the Pacific, and control over the passages between the islands. These islands then facilitates detection and destruction of enemy submarines entering the Sea of Okhotsk in pursuit of Soviet SSBNs. Even under the new circumstance, for the Soviet leadership, strategic concerns like this are still important. Before Gorbachev's April 1991 visit to Japan, Soviet defence minister Dmitri Yazov forcefully insisted that all four islands are vital to Soviet national security and could not be exchanged for Japanese economic aid. "The people who fought in the 1945 war oppose the return of the islands to Japan," Yazov said. "Gorbachev certainly cannot decide on this issue alone."61

On the Japanese side, there is great pressure on the government to avoid any retreat from Japan's rigid position on the Northern Territories. That pressure came not only from the entrenched Foreign Ministry position that Japan should not settle for anything less than the eventual return of all four islands, it has been strongly reinforced recently by insistence from the Ministry of Finance that Japan should not risk committing major financial resources to an unstable Soviet Union.62 Since the Japanese economy is now much less energy and raw material intensive than two decades ago, Japanese overseas investors are thus more interested in higher value added production. The Soviet Union obviously does not have the infrastructure for this kind of production, and its access to the international market is yet to be developed. Furthermore, many Japanese (and Western) academics and politicians
are convinced that money offers no means to save the Soviet economy unless effective structural changes are made. Post World War II Marshall Plan money was effective in Western Europe and American loans and expenditures worked in Japan because the human capital and institutions (public and private) were already in place, they argue.63

Hence, in Tokyo, Shevardnadze and the Japanese agreed to establish a permanent working group at the vice foreign minister level charged with exploring the possibility of concluding a peace treaty. It was to be, the Soviet foreign minister said, a mechanism by which "the entire complex of problems" on both sides would be addressed. Although Soviet-Japanese normalisation still has quite a way to go, these are still significant developments.

South Korea's Northern Diplomacy and Establishment of Diplomatic Relations with South Korea. It must be noted that although it was South Korea that took the initiative, the Soviet Union was eager for an opportunity to upgrade its relations with South Korea. When South Korea knocked on its door with "Northern Diplomacy", the Soviet Union reacted with a rapid and positive response.

In fact, for the Kremlin, the need to attract economic assistance from its Asian neighbours was so urgent that not only South Korea, but Japan and Western European countries as well have been listed as potential investors. In that sense, establishment of diplomatic relations with South Korea might
well serve as a symbolic gesture to other countries that on Kremlin's part, the Cold War is over, and in a desperate search for economic partners, it is ready to distance itself from its traditional political ally, North Korea.

As South Korea begins to be politically and economically more assertive, and based on the tremendous economic progress it has achieved in the last two decades and the rapid political transformations that have occurred since Roh Tae Woo came to power in 1988, the South Korean government launched a diplomatic campaign called "Northern Diplomacy" in late 1987. This South Korean initiative appeared to be supported by the U.S. government. The core of this "Northern Diplomacy" is to improve relations with the communist states, especially North Korea's traditional allies: the Soviet Union and China. On 2 January 1989, President Roh Tae Woo claimed that South Korea would establish diplomatic relations with the Soviet Union and China before the end of his tenure of office.

As a start, the Roh Tae Woo administration was determined to make the Seoul Olympic Games held in September 1988 a genuinely global festival. It turned out to be a tremendous diplomatic success for South Korea, for all communist countries except North Korea and Cuba participated in the games. As President Roh Tae Woo put it,

These are the first Games in 12 years where all countries, from the West as well as from the East, are coming together. It is particularly important that the Games are taking place here [in Seoul], in a troubled land. It symbolises the need to seek world peace and provides an opportunity for East-West reconciliation.
The first breakthrough in South Korea's Northern Diplomacy came on 2 February 1989 when Hungary and South Korea established full diplomatic relations, the first South Korea had with a socialist country since its creation in 1948. North Korea, reacted angrily by recalling its ambassador to Budapest, and threatened to downgrade diplomatic relations with Budapest to the charge d'Affaires level, in a bid to prevent other Eastern bloc countries, especially the Soviet Union from developing formal relations with South Korea. However, the Soviet priority at the moment is no longer one of military confrontation with the US-led alliance in Asia. Consequently, the strategic value of North Korea for the USSR has decreased and such action has no significant leverage on Soviet foreign policy at all. Following Hungary, Poland, Yugoslavia, Czechoslovakia, Bulgaria and Mongolia all established diplomatic relations with South Korea.

After the 1988 Olympic Games, the Soviet Union entered a process of normalisation of relations with capitalist South Korea to gain investment, industrial know-how, and managerial expertise, all of which are badly needed in the country's market reform. To do this, the Soviet Union is now seeking a two-Korea policy by beginning to decouple the Korean issue from its global strategy and South Korea from its traditional relations with North Korea. To be exact, what is new in Soviet foreign policy is that with the Soviets seeking global detente abroad while carrying out glasnost and perestroika at home, Northeast Asia is being considered in the light of So-
viet domestic reforms for economic development and political opening. So far as the Korean peninsula is concerned, they are determined to modify their defacto-two Korean policy into a de jure two-Korea policy in order to attract economic cooperation from South Korea.

This development poses a sharp contrast to the Soviet "old thinking", which remained in the military buildup in the West Pacific against the United States and Japan. For this reason, the Soviets had been committed to defend North Korea as a buffer against US, Japanese and even Chinese power by increasing military and economic assistance for the country. Under Gorbachev, towards the end of the 1980s, "new thinking" in the Soviet strategy is well expressed in its normalised relations with China and in the efforts to integrate the Soviet Far East into the international division of labour in the Pacific, as well as in attempts to lessen military threats by reducing their own military deployment in Vietnam, Mongolia, Siberia and the West Pacific.

A mere nine months after Shevardnadze's assurances to the North Koreans that no diplomatic ties with South Korea were contemplated, the Soviet Union and South Korea announced in September 1990 that the two countries would establish diplomatic relations. In December 1990, South Korean President Roh Tae Woo visited Moscow to sign the "Moscow Declaration". Roh and Gorbachev agreed to exclude the use of military force in the solution of Korean question and to build confidence through dialogue. Roh, in connection with inter-Korean rela-
tions, emphasised a gradual arms reduction to achieve a balance of military power between the two sides through mutual confidence. In response, Gorbachev promised to render support in that direction.

In return for Gorbachev's newly granted political and diplomatic support, Roh told his host that "because the economic structures of our two countries share many complementary features, I believe there exist unlimited potential rewards from our bilateral cooperation".68

After the Olympic Games, South Korea wasted no time in accelerating economic cooperation with the Soviet Union and other East European countries. It is reported that competition to invest in the development of Siberia among South Korean financiers and industrialists was intense. On the part of the South Korean government, it plans to establish a trade office in Vladivostok as the bridgehead in its economic march towards Siberia,69 which might have limitless potential to feed the raw-material-hungry South Korean industries with items like coal, steel and timber.

South Korean trade with the Soviet Union has jumped since the diplomatic thaw began in 1988. At their Cheju meeting, Roh and Gorbachev predicted that two-way trade would total about US$10 billion by the mid-1990s. The embryonic economic relations were given a boost by a US$3 billion soft loan package to Moscow announced by Seoul in late January 1991. It includes US$800 million in credits for purchases of
South Korean goods in 1991 and US$1 billion in bank loans.\textsuperscript{70} Actually, for the Soviet Union, normalisation of relations with South Korea is a double-edged policy, with the first objective to obtain substantial trade, investment and technology for economic development at home, and the second objective to use them as leverage in attracting similar cooperation from Japan and West European countries. Such Soviet diplomatic manoeuvre in Northeast Asia echoes its similar policy initiatives in Europe. In order to address the serious economic problems, the Soviet government now openly presses the West for large financial credits to ease the potentially explosive problem. Speaking to journalists during the 28th Communist Party Congress, Deputy Prime Minister Mr. Leonid Abalkin, called for "sta-ilising credits" from the West. "We are not talking about help per se, but loans".\textsuperscript{71} In particular, the Soviet government is interested in increasing the supply of consumer goods needed to gain public acceptance of economic reforms. According to one estimation, borrowing by the Soviet Union to finance imports contributed to a record US$3.8 billion trade deficit in the first quarter of 1990 and an estimated US$10 billion rise in net indebtedness of the 1989 figure.\textsuperscript{72} During his April 1991 visit to Japan, Gorbachev adopted an almost pleading tone in addresses both to business leaders and the Japanese parliament when urging aid for the Soviet Union. He called for help in developing not only natural resources and a wide range of industries but also with major port, aviation and transport infrastructure projects.\textsuperscript{73} The French President, Mr. Mitterrand, said that if the West does not decide on immediate aid, there is a risk that there will be neither a me-
dium term for Gorbachev nor reforms in the Soviet Union. As early as in July 1990, both Germany and France wanted their Group of Seven partners to create a multi-billion-dollar aid programme for the Soviet Economy. As traditional trade partners of the Soviet Union, they have vested interest in not seeing the Soviet economy collapse.

After his visit to Japan, Gorbachev went to South Korea in April 1991 and worked hard for increased economic cooperation with Seoul. He pushed for a dramatic expansion in bilateral trade, from US$900 million in 1990 to a projected US$1.5 billion in 1991. Roh promised to release the first US$800 million allocation in trade credits in 1991 to help alleviate the shortage of consumer goods in the Soviet Union. He also agreed to back investment plans by Hyundai and other South Korean conglomerates.

Indirect trade and investment relations between the Soviet Union and Taiwan have also been established. In March 1990 the Taiwanese cabinet lifted a 40 year-old ban on direct trading between the two countries, and investment restrictions were removed. The Soviet Union indirectly shipped US$105.57 million worth of lumber, minerals and industrial raw materials to Taiwan in 1989, a 242% surge over 1988. Export from Taiwan to the Soviet Union grew 914% to 35.77 million in the same period. Most exported items were consumer goods, electrical appliances and information products.

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With these developments, those who had viewed the Soviet Union primarily as a military threat — principally, China, Japan and South Korea — began to see a more balanced, less menacing phenomenon. Politically, the Soviet Union is now seeking detente with every one of its potential enemies. In his September 1988 Krasnoyarsk speech, Gorbachev proposed holding multilateral talks among the USSR, the PRC, the DPRK and ROK to freeze and reduce naval and air forces and restrict their activities in the areas where these countries' coastlines converge. More recently, the Soviet Union has proposed to the United States bilateral talks to discuss the reduction of military operations in the North Pacific. The Soviet Union has also proposed to join international economic cooperation such as the Asia Pacific Economic Cooperation Forum.

Economically, in order to shake off the economic burden of earlier Soviet commitments to Third World countries, in regard to Soviet external economic practice, foreign aid to the Third World and international trade between former Comecon countries are to be restructured. In July 1990, Gorbachev gave formal notice to countries dependent on Soviet aid that in the future, foreign aid will be based on "our country's real resources", and trade between former Comecon countries is to be conducted in hard currency from 1 January 1991. In November 1990, the official news agency, Tass, reported: "Gratuitous assistance to foreign countries will be cut by 75%, as compared with the current year."
Chapter IV: Conclusion and Implications

By applying the conceptual framework of "structural power" I hope to have illustrated that in the Soviet Union, defence-oriented industrialization based on central planning, the expansion of its military strength, and perestroika at home and foreign policy adjustments in Northeast Asia are all interrelated issues. In Susan Strange's word, structural power indicates that who decides what shall be produced, by whom, by what means and with what combination of land, labour, capital and technology and how each shall be rewarded is as fundamental a question in political economy as who decides the means of defence against insecurity.82 In the Soviet Union, it was mainly Stalin, judging from the domestic and international situation of the 1920s, who decided to use the dictatorial central planning approach to ensure rapid defence industrialisation. Such an approach did lead to a rapid military buildup, which in turn gave the Soviet Union a sense of security, but this was achieved at the expense of the Soviet population's daily livelihood. At times, Soviet military expenditure made up as high as 30 percent of Soviet GNP.83 Nevertheless, it can be argued that the Soviet Union's pursuit of defence-oriented industrialization worsened the situation. In response to the Soviet military buildup, the United States continuously built up its military strength; Japan was significantly rearmed; and at some stage China in the perception of some Soviet leaders was turned into the "16th member" of NATO.
As the economic situation continuously deteriorated against the background of a ceaseless arms race with the United States and expansion of military commitments abroad for Soviet security, toward the end of the 1980s Gorbachev committed himself to the most radical changes in domestic and foreign policies in Soviet history. While carrying out market-oriented economic reforms at home, the Soviet Union is turning to the West and neighbouring Northeast Asian societies that have got the money to finance perestroika. This requires appropriate diplomatic manoeuvre, because access to international capital markets was only possible when guarantied by creditor country governments. International finance, then, becomes an important factor in the restructuring of international relations in this new era.

In essence, the country's diplomatic manoeuvres and the present restructuring of international relations in Northeast Asia are a matter of industrial competition between states, a process that began in late 18th century Europe and spread throughout the world in this century. Given the way the system of nation states is structured, it is highly desirable for any state to achieve rapid industrialization so as to give itself a sense of security. In the case of the Soviet Union, its industrialization programmes were carried out in competition with a group of countries which have been more successfully industrialised, and sustained by on-going technological innovations. While the United States has built up enormous economic strength in the past century, Japan, South Korea and Taiwan all benefited from their post World War II alliance
with the American hegemon. As a result, this hegemonic al-
liance greatly accelerated their respective industrializa-
tions. The Soviet approach of defence industrialization
through central command had been developed to facilitate ac-
celerated industrialization based mainly on the rapid mobili-
zation of capital, labour and material inputs, with lesser em-
phasis on their effective use. This approach implied the need
to raise substantially the share of investment, to increase
labour force participation rates and to redirect factors of
production from agriculture to industry. Meanwhile the deve-
lopment of consumer goods production was neglected. As a re-
sult, the Soviet economy is based on an unbalanced infrastruc-
ture. Born of war and European conquest, this central com-
mand economic system cannot be sustained because of overexten-
sion and the waste of the country's resources in a military
superpower role. The industrial competition between these two
sides ended up in the late 1980s with the economic inferiority
of the Soviet side. In that sense, the Soviet Union is not a
"normal" state. Advanced science and technology (often mili-
tarily oriented) coexist with an economy of Third World stan-
dards. In order to change this, as discussions above show,
the Soviet Union tried to reform its domestic economy and seek
detente and economic assistance with its former Cold War
adversaries. Now let us look at some of the implications of
these changes for international relations in the Northeast
Asian region.

So far as the Soviet Union is concerned, as I have
tried to illustrate, its foreign policy adjustments are as
much related to the country's economic foundation of the past as to the fate of perestroika in the near future. We thus need to look at the prospect of economic reform in the Soviet Union first.

*Prospect of economic reform in the Soviet Union.* In light of the above discussions, there is no guarantee of success in the market-oriented economic restructuring in the Soviet Union for the next five or ten years. Instead, a decade or two of confusion might result. In the Soviet Union, economic reform is painfully leading the country to a market-oriented economy. However, such restructuring is by no means going to be smooth. As a start, in spite of a record harvest in 1990, the country even has considerable difficulties in food supply because first, the food distribution system deeply suffered from infrastructural setbacks. Second, much of the harvest disappeared into private stocks, to be sold in the winter for higher prices, and much of it was retained in food-producing areas, instead of being delivered to state warehouses in the cities, with the same objective. EC leaders, acknowledging the Soviet Union's increasingly desperate economic plight, discussed preparations at a summit meeting in Rome in late October to send food aid to the Soviet Union in November 1990. 

Ironically, food supplies stored up in West Berlin during the heyday of the Cold War era against a potential Soviet blockade were used in the winter of 1990 to provide more variety for the Russian diet. This incident shows the magnitude of a military superpower's economic problems.
Moreover, as political developments in recent months indicate, the Soviet leadership now faces the problem of legitimacy. Such legitimacy, to a large extent, stemmed from the Soviet role in the defeat of Nazi Germany in World War II. In the post War years, it relied on the continued expansion of Soviet military power rather than on the progress of the economy. As perceived by the Soviet leadership, national security depended on maintaining a military balance with a group of much richer adversaries. Thus military buildup has repeatedly been the priority in Soviet politics and economics. This decades-long obsession with security, led to disproportionate military expenditures. To a large extent, these has drained the country's resources, especially since the Sino-American rapprochement, with the effect that the Soviet economy is driven to a point of collapse.

There is no guarantee of any quick success of perestroika. During the chaos of the early 1980s, Polish national income fell by 22% in three years. The decline in Soviet output may prove to be worse. It will take the society perhaps years to locate the problems and develop a workable reform formula based on a sophisticated understanding of the market that is suitable for Soviet conditions. After operating along Stalinist, anti-market logic for decades, and having been sealed off from the international trends of economic development, the society's understanding of the "market" is distorted and limited. There is no ready model of a market economy that can be copied by the reformists. Each capitalist market society evolved in its own special way and each now has its own
problems. As far as perestroika is concerned, a period of confusion may be predicted. It then might take some time to introduce and establish the necessary frameworks and institutions for a so called "market" economy to operate. Adequate market infrastructure would require, for example, development in telecommunications, transportation, and financial services. Training for managers who have a good basic education but are completely unfamiliar with conducting business in a competitive environment is critical. The scope of such training is enormous considering that there are some 46,000 industrial enterprises and the need to train several employees in each of these enterprises. After all, Soviet society was based on Marxist principles of building "socialism" upon "capitalism". Now, to build "capitalism" upon this Soviet version of "socialism" is a real challenge.

I am not arguing that there is no hope for the reforms in the USSR. My view is that in the process of reform and restructuring, resistance to change will come from social groups and their coalitions that have benefited from vested political and economic interests of all kinds. Therefore, successful transformation in the society requires a lot of statesmanship, bargaining, a little bit of luck, and above all, a sophisticated understanding of the "capitalist market economy". All these factors pose challenges to the leadership simultaneously. This, of course, is the most difficult uphill task in the new era for any leadership.
With this at least medium-term internal preoccupation on economic restructuring, the basic thrust of Soviet detente with former Cold War adversaries would probably continue for a while, as evident in the Soviet acceptance of German unity under West German leadership and inclusion of an united Germany into NATO. After all, it was the Soviet Union under Gorbachev, which made the fundamental decision to end the Cold War. Now the country has become far too dependent on capitalist economic aid to run any risk of going back to the old enmity. However, this does not mean that the world is going to have eternal peace. In Rostow's words, diplomatic and military history will not end.

Implications for the Strategic Structure in Northeast Asia in the 1990s. Without doubt the Soviet Union is going to carry out military reform, but it is going to be a quantitative rather than a qualitative cut. According to Army General Moiseev, Chief of the General Staff, large scale arms reductions and structural changes will lead to leaner Soviet forces estimated to stand at 3 to 3.2 million men by the year 2000. Ground forces are expected to be cut by 10-12 percent, yet the Soviet High Command intends to maintain their rapid deployment capability for wartime emergency. Air Defence Forces will be cut by 18-20 percent but are said to retain their status of permanent alert forces. The number of units in the Strategic Nuclear Forces is expected to be reduced by over 30 percent.

However, among the services, the Navy will not be as heavily affected by force cuts, according to some observers.
In fact, since 1988, Soviet Pacific-based air and naval forces for "combined arms" maritime operations have been upgraded, and clear evidence -- in the form of the current shipbuilding programme -- appears to point to a continuation of that trend. This reflects the uneasiness of the Soviets with the military power structure in Northeast Asia in the 1990s. With the naval defence posture remaining intact, there is little change in Soviet military power in the West Pacific. In part, this is the Soviet reaction to the United States' lack of interest in Naval arms control. From the Soviet point of view, the perceived military threat in the 1990s will mainly come from the United States and Japan.

Moreover, although the Cold War power structure has collapsed, at the global level it must be stressed that existing huge nuclear arsenals remain and will still exist even after a START agreement. Modernisation in these deadly weapon systems is proceeding in the United States and the Soviet Union, with the potential for destabilization. In the Soviet Union, the level of economic desperation is such that it will be an intractable problem for any Soviet government to reduce the military industry rapidly. It is one of the relatively few areas of the economy that at least continues to function at some level. This is a real dilemma for the Soviet Union, because as far as the country's desperate need for hard currency is concerned, military hi-tech products are one of the most salable things for the world market. While the military-industrial complex will push for such sales to maintain employment and
Implications for the Korean Peninsula. Since the end of World War II, the Korean Peninsula has been one of the "trouble spots" in global politics. A relentless military buildup has gone on for more than thirty years on both sides of the demilitarised zone which was established at the end of the Korean War. The two Koreas have competed doggedly for international support and recognition. Most essential to Seoul and Pyongyang were the four big powers' support. Before 1990, the Soviet Union and China had formal relations only with North Korea, while Japan and the United States have diplomatic relations only with South Korea. With dramatic changes in Soviet Asian policy, international relations (including inter-Korean relations) in the peninsula are bound to be readjusted.

An important reason for such readjustment is that South Korea now has the economic strength to make itself heard on the noisy international political stage. Four decades after the division of the Korean peninsula, South Korea has grown to possess over twice the population and four times the GNP of North Korea. This power imbalance helped to bring the North Koreans to the negotiation table repeatedly with the South despite the continuation of the annual joint military exercise between American and South Korean forces.

As discussions above show, following the 1988 Olympics, covert Soviet-South Korean economic relations became more and
more open. In the good old days, North Korea could play one communist giant against the other (China and the Soviet Union) to promote its national interests. However, the North Koreans have painfully discovered that they can no longer hold back the tide of history by playing one communist giant against the other. This North Korean fear was expressed by Ambassador to Beijing, Chu Chang Zun: "Our Soviet comrades have told us that they will not establish any political or diplomatic relationship with South Korea, that they will just have a simple economic and trade relationship on an informal level", referring to assurances delivered by Shevardnadze when he visited Pyongyang in late December 1988. But nine months after such assurances, the Soviet Union established diplomatic relations with South Korea.

In North Korea's view, the most serious threat to the Kim Il Sung regime comes from its military rival South Korea. While "Northern Diplomacy" is a success for South Korea, it is a nightmare for the North. As President Roh Tae Woo reiterated when he visited the United States in October 1988, the purpose of establishing contacts with the communist states was not to isolate North Korea (although in effect it did), but to neutralise North Korea's allies in case of a Northern attack. North Korean security depends on Soviet and Chinese support, militarily and economically.

Throughout the Cold War years, North Korea depended on the Soviet Union and China for its security just as South Korea depended on the United States. The United States and
South Korea signed a security treaty in 1953. In 1961 a security treaty was signed between the Soviet Union and the DPRK. China had signed a security treaty with North Korea in the same year, but lacked the capability to supply North Korea with modern arms or to pose a threat to the US with strategic nuclear weapons. Throughout the years, North Korea remained dependent on the Soviets for aircraft, missiles and other types of advanced military equipment. In short, in the Soviet-North Korean relationship, North Korea needs the Soviet Union more than the Soviet Union needs it. Consequently, since the Soviet Union decided to change its foreign policy towards Northeast Asia, there is very little bargaining power on the part of North Korea even when it involves its vital interests.

After the Olympic Games in 1988, for obvious reasons, the Soviet Union has exercised great restraint in its military and economic cooperation with the North Koreans. Their joint naval exercises were terminated in 1988, and the Soviet Union will demand hard currency from North Korea in its future bilateral trade. Frustrated, isolated, ostracised and facing serious economic problems, North Korea has been forced to accept both China and the Soviet Union's establishing diplomatic and trade relations with the South. In spite of North Korea's reluctance and resistance, it is now being forced to adapt to the changing international environment and make adjustments in its foreign policy.
Therefore, North Korea has now modified its foreign policy by moving towards de facto acceptance of separate applications to join the United Nations and the "cross recognition" formula it has long rejected. While pressing for a quick normalization with Japan, North Korea opened a dialogue with the United States by initiating direct talks between the two countries' diplomats in Beijing. On January 24 1989, North Korea's ambassador to Beijing told reporters,

our country is on the globe, and the US is also on the globe. Living on one globe, it is impossible for us to have no contact whatever. If the US withdraws their troops from South Korea and does not interfere in our internal affairs, there will be no conflict in our relations.\textsuperscript{96}

At the same time, North Korea has quickened its steps in political and economic dialogue with the South. Chung Ju Yong, founder of South Korea's giant Hyundai industrial group, flew to Pyongyang from Beijing in January 1989 on a visit to North Korea unprecedented for a South Korean business leader, Mr. Chung said he had agreed in principle with the North to "jointly develop the far eastern region of Siberia" and to construct a shipyard and railroad-car plant in the North Korean city of Wonsan that would export products to the Soviet Union. It is hard to predict what kind of economic cooperation between the two Koreas will eventually develop. But perhaps most intriguing is the notion that North Korea could get the kind of quiet economic help from South Korea that East Germany obtained from West Germany. No one can confirm it, and theories about motives conflict. But one story has it that South Korean companies in 1988 quietly acquired about US$
200 million of North Korea's foreign debt. It is alleged that the North hoped economic ties would lull the South into relaxing security measures and questioning the need for the continued stationing of American troops on Korean soil. The South also stood to gain because such joint ventures would open up one of the world's most isolated societies and demonstrate South Korea's economic strength to North Korea.

Under these new circumstances, there are only two options for North Korea as far as its security is concerned. The first is to accelerate its own weapon systems development, and the second, to seek economic and political detente with South Korea, Japan and the United States. The North Koreans seem to have taken both options at the moment, but the first option is increasingly difficult because the economy is in such a bad shape. According to General Riscass of the ROK-US Combined Forces Command, pilots for North Korea's Soviet built MiG-29 fighters, the most modern in Pyongyang's inventory, are permitted to train in the air only four hours per year. It indicates that "their fuel situation is very low." The second option, however, implies that it is going to be a process in which the North might be eaten up by the South, in a process similar to German re-unification.

Nevertheless, the Soviet Union has not abandoned North Korea altogether. Soviet military and economic assistance still flows into North Korea. In years ahead, Moscow will maintain such ties (although greatly reduced) to preserve its influence after Kim Il Sung dies.
In his most recent visit to South Korea in April 1991, Gorbachev reaffirmed that he would take up Kim Il Sung's invitation to visit Pyongyang, as well as making another trip to Seoul to help break the deadlock between the North and South. This was seen as a significant new Soviet initiative on the Korean issue. Soviet officials said they were consulting China on pending problems, such as Seoul's application to join the UN and North Korea's reported development of nuclear weapons. In talks with Roh, Gorbachev conceded that if Pyongyang continued to oppose separate entry into the UN by the two Koreas, Moscow would have no choice but to endorse Seoul's application at the Security Council. Soviet officials also publicly stated that unless North Korea accepts inspection by the International for Atomic Energy Agency of its nuclear development facility, Moscow will stop providing nuclear fuel and technology. In sum, willing or not, North Korea is now forced to adapt to the present restructuring of international relations in Northeast Asia.

At the regional level, the Soviet alteration of its Asian policy indicates that the Cold War power structure characterised by acute military confrontation has now collapsed. However, the end of the Cold War in Northeast Asia does not mean that there is going to be eternal peace in the region. It is only that the Cold War power structure has collapsed. In Northeast Asia, faced with a China with its giant though low-tech army struggling to modernise; a still power-
ful United States; and an increasingly politically and economically assertive Japan, the Soviet Union will not abandon its military development altogether. At the moment, it is time for developing the country's economic muscles in a new approach, namely, through economic reform and global detente to attract foreign economic aid.
Notes


5 ibid, p. 7.


8 Andrew Gamble, op. cit., p. 209.

9 Paul Kennedy, The Rise and Fall of the Great Powers, Economic Change and Military Conflict from 1500 to 2000. Fontana Press. London. 1988. p. 634. However, in the most recent development, prices of most basic foodstuffs have been trebled, which might indicate that the state has removed heavy subsidy on food price.

10 It must be noted that each capitalist market society is different from the other. While there are more governmental regulations and guidance in some, such as Japan, Germany and France, there are less governmental interventions in the economy in others, such as the United States, Great Britain and Australia. However, there is a definite difference between the central command approach of the Soviet Union and the more liberal market approaches of the Western capitalist states.


14 In America, in what is known as a "start-up" process, factors like personal initiative, finance, production and
marketing are all interacting with one another in the economy. When an inventor-entrepreneur comes up with a radically different idea of building a better product (such as microchip these days), he convinces a group of investors to back him financially, then recruits the multi-disciplinary technical skills he needs to make the idea happen. If it does, the company goes public, the backers get a handsome return on their investment, and the entrepreneur himself attains the quintessential American dream of millionairehood. Next thing one knows, some of the new company's technical people figure out a new winkle for building the product even better, they split off to form their own company, and the whole process of "start-up" begins anew.


18 Mitchell Bernard, Northeast Asia The Political Economy of a Postwar Regional System, University of Toronto-York University Joint Centre for Asia Pacific Studies, Asia Papers No. 2. P. 22.


21 Ibid, p. 4.


23 Oleg Bogomolov, who serves in the Soviet Congress of People's Deputies, and Viktor Belkin, also a Gorbachevite, released these figures in their recent trip to America in April 1990. See International Herald Tribune. 28-29 April, 1990. p. 6.


Centre, Research School of Pacific Studies, The Australian National University, Canberra. 1984. p. 5.

27 Ibid., p. 2.


31 Paul Dibb, op. cit., p. 3.


33 Lucian W. Pye, op. cit., pp. 9-10.


36 Ibid., p. 134.


40 Hong Nach Kim, op. cit., p. 674.

41 North Korea News, Published by Naewoe Press, Seoul. No. 578. pp. 4-5.


49 Mitchell Bernard, op. cit., p. 41.


52 International Affairs, Beijing, No. 14 1990. p. 4.


55 Age, 16 February, 1990.


The American Ambassador to Seoul told reporters that the United States "fully support South Korea's dialogue with the North and its effort to improve relations with communist countries". See Asia Week, 15 January 1989. p. 18.

Asia Week, 8 January 1989. p. 16.


Asia Week, 8 January 1989. pp. 16-17.


Age, Melbourne. 11 July, 1990.

Age, Melbourne. 11 July, 1990.


Before the collapse of the Communist regimes in Eastern Europe, East Germany was the USSR's biggest trade partner in the socialist world while West Germany was the biggest in the capitalist one. Out of the USSR's top ten trade partners, eight of them were in Western Europe.


Statistics of Soviet GNP and military expenditure conflict, but some observers believe that military expenditures in the Soviet Union during the heyday of the
superpowers arms race were as high as 40 percent of Soviet GNP.


85 The Soviet Union is the last of the 19th century empires to survive. Belorussia, the Ukraine, Bessarabia (Soviet Moldavia), Georgia, the Cacasus, Azerbaijian and Armenia are annexed territories. The Baltic states, parts of Poland and of what used to be East Prussia were incorporated (or reincorporated) into the Soviet Union only in the course of World War II. What now is Soviet Central Asia, and much of the Soviet Far East, were acquired only a century ago.


94 Asia Week, 8 January 1989. p. 17.

95 Ralph N. Clough, op. cit., p. 260.


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