

**THE NEW REGIONAL CONTEXT OF POST COLD WAR EAST ASIA AND  
IMPLICATIONS FOR VIETNAM**

**By**

**Tran Vu Anh**

**THESIS**

Submitted to  
KDI School of Public Policy and Management  
in partial fulfillment of the requirements  
for the degree of

**MASTER OF PUBLIC POLICY**

2004

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## **ABSTRACT**

*Since the end of the Cold War, the East Asian region has experienced major changes. The increased interdependence among regional countries, an emphasis for economic development and the combination of cooperation and conflict become the major trends of international relations in East Asia. Within that context, it is important that regional countries adjust their policies in order to profit from the new opportunities and minimize challenges. Of significance is the pursuance of a regional policy based on diversification and multilateralism with a view to foster further understanding and cooperation in the region.*

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**Dedicated to Claire Jung**

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## ABBREVIATION

Asia-Pacific Economic Cooperation	APEC
Asian Monetary Fund	AMF
ASEAN Free Trade Area	AFTA
ASEAN Investment Area	AIA
ASEAN Regional Forum	ARF
ASEAN Mekong Basin Development Cooperation	AMBDC
Association of Southeast Asian Nations	ASEAN
ASEAN-China Free Trade Area	ACFTA
Bilateral Trade Agreement	BTA
Chiang Mai Initiative	CMI
Council for Security Cooperation in the Asia-Pacific	CSCAP
East Asia Free Trade Area	EAFTA
European Union	EU
Free Trade Agreement	FTA
Foreign Direct Investment	FDI
Greater Mekong Subregion	GMS
Gross Domestic Products	GDP
International Monetary Fund	IMF
Missing in Action	MIA
Most-favored nation	MFN
Multinational Corporation	MNC
Newly Industrialized Economies	NIEs

North Atlantic Treaty Organization	NATO
Official Development Assistance	ODA
Prisoners of War	POW
Republic of Korea	ROK
State-owned Enterprises	SOEs
Southeast Asia Treaty Organization	SEATO
Treaty of Amity and Cooperation	TAC
United Nations	UN
World Trade Organization	WTO

## INTRODUCTION

The end of the Cold War has brought about mixed results in interstate relations within the East Asian region.<sup>1</sup> On the one hand, economic cooperation has progressed, especially since the start of the Asian financial crisis, with the establishment of regional cooperation mechanisms such as the ASEAN Free Trade Area (AFTA), the ASEAN plus China, Japan, and Korea (ASEAN + 3). East Asian countries are also now discussing the possibility of an East Asian Free Trade Area (EAFTA).

On the other hand, in contrast with economic cooperation, political cooperation among regional countries remained limited and face with numerous challenges. Unlike Europe where a formal security mechanism - the Organization for Security Cooperation in Europe (OSCE) - exists, East Asia states have yet to institutionalize security cooperation. The ASEAN Regional Forum (ARF), which has no binding mandate on its members, remains the only forum where major powers in East Asia can exchange views on security issues.

What are the major changes in international relations in East Asia in the post-Cold War era that foster those abovementioned developments? What role do regional countries play in the new context and how does that affect regional economics and

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<sup>1</sup> East Asia, unless otherwise stated, is comprised of Northeast Asia (China, Japan, and Korea) and Southeast Asia (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam).

politics? What are the policies to ensure regional peace and cooperation? These are the major questions this thesis deals with. Its main argument is that the new regional context of East Asia, characterized by increased interdependence, uncertainty and the democratization of international relations, requires regional countries to adjust their policies towards integration and multilateralism in order to foster regional cooperation and cope with new challenges. The pursuance of unilateralism or band wagoning is thus against the will of the majority of East Asian countries and risks undermining the environment for economic development and cooperation. The thesis presents the case of Vietnam to show how a country can foster economic growth and regional cooperation on the basis of a multilateral approach to economic reform and regional integration.

With that objective, the thesis is structured as follows:

Chapter I discusses the major theoretical perspectives prevailing among studies on international politics in East Asia. These include realism, neoliberal-institutionalism, and, most recently, constructivism. As the complexity of East Asian politics renders it difficult to look at the region through just one perspective, there needs to be a combination of paradigms in order to understand regional developments.

Chapter II analyses the major changes, which constitute the new regional context of East Asia. It starts by examining the situation during the Cold War then proceeds to

discuss the broad trends of international relations in the region today, which can be generalized as a mixture of cooperation and conflict, increased interdependence, and democratization of inter-state relations. In this new context, it is important that regional countries adjust their policy and regional strategy.

Chapter III discusses the implications of the new regional context in East Asia for Vietnam since the start of its *doi moi* (renovation) in mid-1980s. It explains how Vietnam has adjusted its development strategy in order to adapt with the new regional trends, of which the most importance are the adoption of a regional integration and foreign policy based on multilateralism and diversification.

# **CHAPTER I: THEORETICAL PERSPECTIVES OF INTERNATIONAL RELATIONS IN EAST ASIA**

## **I. Realism**

Realism, the common term for classical realism and neorealism, has been the mainstream theory of international relations since the end of the Second World War.

Although having substantial differences, classical realist and neorealist scholars from Hans Morgenthau to Henry Kissinger and Kenneth Waltz share basic features in their assumptions and theories, which constitute the core of realism.

First is the assumption of anarchy, which implies a lack of overarching authority within the international system. Unlike the system of domestic politics, which is governed by the state bureaucracy, there is no power beyond states themselves that can enforce international agreements or protect the legitimate interests of states. For realists, international politics is essentially conflictual, a struggle for power in an anarchic setting in which nation-states inevitably rely on their own capabilities to ensure their survival. Self-help is necessarily the principle of action in an anarchic order.<sup>2</sup> Under anarchy, international cooperation is extremely difficult to achieve.

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<sup>2</sup> Kenneth Waltz, *The Anarchic structure of World Politics*, in Robert Art and Robert Jervis, ed., *International Politics*, Longman 1999, p. 64.

States will avoid cooperation if other states benefit relatively more from a cooperative relationship. States are also concerned about being cheated by their putative partners.<sup>3</sup>

Second, most realists favor the concept of balance of power in their theory.<sup>4</sup> In their analysis, states are seen as motivated by the pursuit of their national interests; in pursuing those interests, states are influenced by the prevailing balance of power. In the 1970s, Henry Kissinger was the architect of the détente between the US and China in the 1970s with the aim of balancing against Soviet power.<sup>5</sup>

Third, realist authors generally tend to separate domestic and international politics. In Waltz's neorealist theory, states act in accordance with the material structural incentives of the international system their interests and strategies are based on calculations about their positions in the system.<sup>6</sup> Neorealists believe that the structure of the system enables them to predict the likelihood of a state's actions given that particular state's location in this anarchical world. Therefore, realists adopt the assumption that state interests are given, a priori and exogenously, which can be defined as the pursue of power.

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<sup>3</sup> Stephen Krasner, *Structural causes and regime consequences: regimes as intervening variables*, in Stephen Krasner, ed., *International Regimes* (Ithaca: Cornell University Press, 1983, p. 79).

<sup>4</sup> Morgenthau views the balance of power as the most effective technique for managing power in an anarchic international system based on competitive relationship among states (see Morgenthau, *Politics among Nations*, New York: Knopf, 1978). Kenneth Waltz also points to the necessary emergence of a balance of power in his structural-realist theory (see Kenneth Waltz, *Theory of International Politics*, pp. 93-101).

<sup>5</sup> For readings of Kissinger's thoughts on the balance of power principle, see Henry Kissinger, *Diplomacy* (New York: Simon and Schuster, 1994).

<sup>6</sup> Robert O. Keohance, *Theory of World Politics: Structural Realism and Beyond*, International Institutions and State power (Boulder: Westview Press, 1989), p. 41.

According to McDougall (1997), from the perspective of realism one can see a certain power-balancing logic at work in the Asia Pacific region. These include the balance between China on the one side and the United States, supported by Japan on the other. Beginning in the late 1950s, there was also an antagonistic relationship between China and the USSR. In the early 1970s, the situation changed once again when China and the United States reached a rapprochement.<sup>7</sup> At the present stage, there is the possibility that weaker states such as Russia and China will co-operate to balance against the US.

Realist scholars also attribute adjustments in the policy of East Asian countries to changes in the broader international system and the external challenges confronting countries within a region.<sup>8</sup> In their analysis the history of ASEAN provides several clear examples of the importance of external development. The creation of the ASEAN Regional Forum was a response to the perceived risks of the emergence of a regional power vacuum following the end of the Cold War. In the economic realm, the commitment in the early 1990s to the establishment of an ASEAN Free Trade Area (AFTA) was prompted by fears that foreign investment would be lost to China. Similarly, the end of the Cold War and the changes in the relative power of the US

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<sup>7</sup> Derek McDougall, *The International Politics of the New Asia-Pacific*, Lynne Rienne Publishers, 1997, p. 10.

<sup>8</sup> Hurrell, A, *Regionalism in theoretical perspective*, in Fawcett and Hurrell, ed., *Regionalism in World Politics: Regional Organization and International Order*, Oxford, Oxford University Press, pp. 37-73.



have created a new context in East Asia, which significantly affect the policy choice of regional states.<sup>9</sup>

However, given the complexity of East Asia politics where historical and cultural factors have important impact on state policy, realism with its power-centric focus does not allow for a full understanding of the new regional context. Ravenhill (1998, p. 259) argues that although the neo-realist emphasis on changing external environment provides a convincing explanation of the timing of the development of the ARF, it is far less successful in explaining the nature of the agreements that have been developed, particularly in the security realm. For the ARF has eschewed traditional realist concerns with the establishment of a balance of power. Instead, its focus has been on promoting comprehensive security for all states in the region; an approach that is generally preventive than deterrent in its focus and constructed upon a more comprehensive definition of security that goes beyond military threats to include economic underdevelopment, terrorism and transnational crime activities.<sup>10</sup>

In another aspect, given its skepticism for peaceful change and its view of international relations as mainly confrontational and uncooperative, realist scholars have difficulties in explaining the end of the Cold War, which occurred without conflict between the two contemporary superpowers, and the new regional context of

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<sup>9</sup> John Ravenhill, *The growth of intergovernmental collaboration in the Asia-Pacific Region*, in Anthony McGrew and Christopher Brook, ed., *Asia-Pacific in the New World Order*, Routledge, 1998, pp. 254-258.

<sup>10</sup> *Ibid.*

East Asia where cooperation and conflict coexist. The hegemonic stability theory, which provides arguably the most influential and robust answer to the critical question of how to generate international cooperation under anarchy in the international system, has been irrelevant to the context of East Asia. Contrary to the theory's expectations, the American hegemony have not led to postwar reconciliation or institutionalization of regional cooperation in East Asia.<sup>11</sup>

## **II. Neoliberalism**

Neoliberalist theory emerged in the late 1970s with the works of founding authors like Robert O. Keohane and Joseph Nye who view neoliberalism (or neoliberal-institutionalism) as an alternative to realism and neorealism.<sup>12</sup> In fact, neoliberalism and neorealism share basic assumptions.<sup>13</sup> The main difference is that neoliberalism puts more emphasis on the economic dimension of power. While neorealism emphasizes on the conflictual nature of international politics and is skeptical of peaceful change, neoliberalist scholars argue that cooperation under anarchy is possible with the use of international regimes, which empower governments to enter into mutually beneficial agreements with one another.<sup>14</sup> The major problem

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<sup>11</sup> Hun-joo Park, *Constructing a Northeast Asian Community in the Post-September 11<sup>th</sup> Era*, KDI School of Public Policy and Management, Draft paper June 2003.

<sup>12</sup> Robert O. Keohane and Joseph Nye, *Power and Independence*, Glenview, III: Scott, Foresman and Company, 1989.

<sup>13</sup> The three assumptions shared by neorealism and neoliberalism are: (1) the international system is anarchic; (2) states are the main actors of international politics and; (3) state are rational.

<sup>14</sup> See Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*, Princeton University Press, 1984.

preventing states from cooperation with one another is a fear of cheating and defection. International regimes can provide the solutions as they help to create a sense of legal liability, reduce transaction costs between states, and provide transparency.<sup>15</sup>

Neoliberalist authors believe that as modern communications make the world smaller, and as nations become more economically interdependent, they cooperate more and more because it is to their mutual benefit. According to Mak (1998, p. 90) neoliberalists think that East Asia will become more stable as a result of this interdependence. Furthermore, the establishment of multilateral institutions in the region such as ASEAN, APEC and ARF are positive developments, which contribute towards peace and stability. The neoliberalists also believe that the growing democratization of the Asia-Pacific region will contribute to peace since democracies have never fought each other.<sup>16</sup>

As compared with realism, neoliberalism emphasizes the importance of the economic dimension and interdependence as key to understanding the dynamics international politics. Indeed, Keohane (1984) uses the market failure approach in explaining the function of regimes. This approach, however, neglects other functions of international regimes such as guaranteeing or at least enhancing security for its members. For many

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<sup>15</sup> *Ibid.*

<sup>16</sup> J.N Mak, *The Asia-Pacific security order*, in Anthony McGrew and Christopher Brook, ed., *Asia-Pacific in the New World Order*, Routledge, 1998, pp. 88-120.

states, the rationale for participating in international regimes is not necessarily economic but, rather, political. This is particularly true in the case of small states as they hope that by joining in regimes led by powerful states, their security is more ensured under protection.<sup>17</sup>

Another problem, often ignored by neoliberals, is that international regimes are sometimes the instruments of the powerful. In reality, the rule and norms of international regimes have been, in most cases, set by powerful states. Take the case of the World Trade Organization and its predecessor, the General Agreement on Trade and Tariff (GATT) for example. During its existence, GATT was named “the club of the rich” as its principles were often set by, and thus, benefit powerful members the most. There existed a gap between its developed and developing members in terms of their leverage in the organization.

Like neorealism, neoliberalism is largely Western-centric, as much of its work on regionalism has focused on the European experience. Consequently, some of the most important neoliberalist work on regionalism, such as the neo-functional approach, which focuses on the interaction between increasing levels of economic

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<sup>17</sup> International regimes of this type in East Asia include the Southeast Asia Treaty Organization (SEATO) formed in 1954 under US leadership. Its main objective was to contain the widespread of communism in Southeast Asia. After the reunification of Vietnam in 1975, the organization was automatically disbanded in 1977.

interdependence and the transfer of political allegiances to a regional centre, has limited relevance to the Asia-Pacific region.<sup>18</sup>

McDougall (1997, p. 11) points out that the institutionalism associated with the liberal perspective seems relatively underdeveloped in East Asia. As the major regional organization for Southeast Asia, the Association of Southeast Asia Nations (ASEAN) does not include any of the major powers. The major institutional developments involving the major powers in Asia Pacific are APEC and the ASEAN Regional Forum. APEC is normally described as a forum rather than a regional organization as such. The ARF is also not a regional organization but simply an annual gathering of representatives from most of the states in the region.<sup>19</sup>

The above limits show that, neoliberalism should be viewed as a useful, rather than exclusive, tool for studies of East Asia politics. While its emphasis on the economic dimension of politics has been important in the context of globalization and regionalization, its Euro-centric approach does not allow for a full understanding of international relations in post-Cold War East Asia.

### **III. Constructivism**

The failure of neorealism, often regarded as the mainstream theory of international relations, in forecasting the end of the Cold War and the bi-polar order provokes

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<sup>18</sup> Ravenhill, *Ibid.*, p. 253.

<sup>19</sup> Derek McDougall, *Ibid.*

renewed interests in searching for alternative paradigms. Within that context, constructivism has become a new focus of IR theory into the 21<sup>st</sup> century.

According to Alexander Wendt, the leading constructivist scholar, constructivism is a structural theory of the international system that makes the following core claims: (1) states are the principal units of analysis in international politics; (2) the key structures in the states system are intersubjective, rather than material; and (3) state identities and interests are in important part constructed by these social structures, rather than given exogenously to the system by human nature or domestic politics.<sup>20</sup>

As compared with neorealist and neoliberalists, the theory of constructivist authors has basic differences. First, they argue that although anarchy is the characteristic condition of the international system, by itself, it means nothing. What matters are the varieties of social structures that are possible under anarchy.<sup>21</sup>

Second, while neorealism and neoliberalism take state interests as a given, constructivism holds that states define their interests in the process of defining the social situation in which they are participants.<sup>22</sup> State identities and interests are socially constructed. What came to be defined as state or national interests was the result of the social identities of the actors. Such interests and identities are in more or

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<sup>20</sup> Alexander Wendt, *Collective identity formation and the international state*, American Political Science Review 88, June 1994.

<sup>21</sup> Alexander Wendt, *Anarchy is what states make of it: the social construction of power politics*, International Organization 46, no. 2, pp.391-425.

<sup>22</sup> Alexander Wendt, *Constructing International Politics*, International Security 20, No. 1, 1995, p. 77.

less constant flux in what are termed intersubjective systemic structures, consisting of what Wendt terms shared understandings, expectations and social knowledge.<sup>23</sup>

Therefore, understanding state behavior means understanding the international social context in which it evolves.<sup>24</sup>

Third, constructivist scholarship has a clear focus on the transformative impact of norms. Norms not only regulate state behavior as in neoliberalist arguments but also redefine state interests and constitute state identities, including the development of collective identities. For this reason, institutions and states are mutually-constituting entities. Institutions affect states' preference and basic self-identities. At the same time, however, the institutions themselves are constantly reproduced and, potentially changed by the activities of states.<sup>25</sup>

Fourth, constructivism looks beyond the impact of material forces in shaping international politics. Neorealism and most liberal theories take state interests to be shaped by material forces and concerns, such as power and wealth; perceptual, ideational and cultural factors derive from a material base. According to constructivists, while material forces remain important, intersubjective factors,

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<sup>23</sup> James E. Dougherty and Robert L. Pfaltzgraff, Jr., *Contending Theories of International Relations*, Longman 2001, p. 169.

<sup>24</sup> Shaun Narine, *Economics and Security in the Asia Pacific: A constructivist Analysis*, International Studies Association, March 2000.

<sup>25</sup> Shaun Narine, *Ibid*, p.7.

including ideas, culture and identities, play a determining role in foreign policy interactions.<sup>26</sup>

Narine (2000) argues that constructivism's emphasis on the importance of institutions to state action, their relationship to norms, and the importance of understanding the social structures governing state relationship make it possible to ask a completely different set of questions than rationalist approaches, i.e. neorealism and neoliberalism, when examining events in post-Cold War East Asia: What are the social structures and relationships presently characterizing the region? How do states perceive their identities, and those of their neighbours? What interests follow from these perceptions?

Narine subsequently applies the constructivist approach to analyse the security environment of the Asia Pacific region, focusing on the relationship between the US and China. The US defines China largely as an economic partner and is uncertain about its status as a security threat. As a result, its own identity and interests in the Asia Pacific are unclear. Meanwhile, China possesses a "dual identity" which is pulling it in different and often contradictory directions. The US and China also have different understandings of the relationship between economics and security. These differences have further contributed to the uncertainty of the regional environment.

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<sup>26</sup> Amitav Acharya, *Constructing a Security Community in Southeast Asia*, Routledge 2001, pp. 3-4



An important application of constructivism in the study of post Cold War East Asian politics is the work on security community. Amitav Acharya is one of the leading scholars with intensive studies on the concept of security community and its application in East Asia, particularly ASEAN nations.<sup>27</sup> In his book “Constructing a security community in Southeast Asia”, Acharya defines security communities as transnational regions comprised of sovereign states whose people maintain dependable expectations of peaceful change. Two features of security community are important. The first is the absence of war and the second is the absence of significant organized preparations for war (such as arms race) vis-à-vis any other members. He also distinguishes security communities from other types of regional security systems, namely security regime, alliance, and collective security arrangement.<sup>28</sup>

According to Acharya, ASEAN regionalism is conceptualized as the process of building a security community in which states develop a reliable pattern of peaceful interaction, pursue shared interests and strive for a common regional identity. Since the end of Indonesia’s confrontation policy against Malaysia, the countries of ASEAN have not gone to war against one another and have adhered to attributes associated with a security community, particularly the absence of war and the absence of any

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<sup>27</sup> For Acharya’s work on Security Community, see *Constructing a Security Community in Southeast Asia*, Routledge 2001, *Association of Southeast Asian Nations: Security Community or Defence Community?*, Pacific Affairs vol. 64, no. 2, 1991, *A Regional Security Community in Southeast Asia?*, Journal of Strategic studies, vol. 18, no. 3, Sept 1995.

<sup>28</sup> Amitav Acharya, *Constructing a security community in Southeast Asia*, Routledge, 2001.

systematic preparation for war against one another. However, considering the lack of coordinated action, a problem deriving from the ASEAN way of conducting intra-regional affairs, Acharya concludes that ASEAN as a security community is at a nascent stage. The reason is that although the regulatory effects of ASEAN norms have certainly been great, their constitutive effects have been limited.

#### **IV. Towards a comprehensive view on East Asia**

Given the complexity of international relations in East Asia, it would be difficult to use just one approach in examining the regional trends. Each of the above paradigms gives important insights into the international relations of East Asia in the post-Cold War era. Realism and neoliberalism can be useful in understanding the policy of regional states, especially the US whose policies are a mixture of realist and liberalist doctrines. When used alone, however, they could be misleading as realism stresses the inevitability of conflicts while neoliberalism overoptimistically emphasizes cooperation. Constructivism is important to the study of security community, which can be crucial to the maintenance of peace and security in East Asia. For this reason, in examining the new regional context of post Cold War East Asia and its implications for regional states, this paper tries to follow a comprehensive approach by combining these perspectives. Besides, given the distinguished characteristics of East Asia, these following factors receive special attention.

First is the new role played by regional countries. Studies of international politics in East Asia tend to focus on the role of major powers, which have had a dominant influence in East Asian politics.<sup>29</sup> During the Cold War, the US-Sino-USSR triangle dominated regional affairs through their alliances and sphere of influence. Now, as the USSR no longer exists, China becomes a new focus of regional politics and is viewed as a potential hegemon. The US has maintained its influential role in regional affairs, especially through relations with its allies such as Japan. This is not to say that medium power, such as South Korea and ASEAN nations do not have a role in East Asian affairs. Their regional position has been on the rise; especially ASEAN has increased its influence through the ARF. The democratization of international relations in East Asia after the Cold War has allowed these countries to participate in regional affairs in a more active way. Thus, while stressing the role of big powers such as the US, China and Japan, the thesis also pays adequate attention to other countries in East Asia.

Second is the focus on the distinct socio-political context of East Asian states. This approach is termed by McDougall (1997, pp.9-13) as the culturalistic approach. According to him, the culturalistic approach draws attention to the way in which factors specific to particular states including domestic politics and socio-cultural

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<sup>29</sup> McDougall (1997) assumes that regional powers such as the US, China and Japan play a decisive role to international relations in East Asia.

background exert an influence on their international behavior and thus have some bearing on the general character of international politics. Unlike realism and liberalism which share the belief that the general processes underlying international politics are the same irrespective of the part of the globe one is examining, the culturalistic perspective, in contrast, argues that there are variations in the general processes because the cultural influences at work in different regions often vary. By using this approach, it is possible to understand why countries behave in certain manners and then using other perspective, such as realism and neoliberalism, one can obtain rich insights into regional development. This way of looking at East Asia is similar to the strategic culture approach used by J.N. Mak in “The Asia-Pacific security order”.<sup>30</sup>

This culturalistic perspective is different from the cultural approach used by Samuel Huntington in “The Clash of Civilizations and the Remaking of World Order”, which argues that the “clash of civilization” provides the underlying dynamic of post-Cold war international politics.<sup>31</sup> In his view Asia Pacific is simply a region where the fault lines are based on categories such as “Confucian”, “Japanese”, “Islamic” or Western civilizations. In fact, within any one civilization there can often be significant

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<sup>30</sup> According to Mak, different approach to war, war-making and the conduct of war can be linked to culture and the mind-sets which national culture and history engender. Based on this approach, he explains why Northeast Asian states adopt a neorealist behaviour while ASEAN members behave in a more neoliberal-institutionalist manner. (See J.N Mak, *ibid*). This approach is basically similar to the culturalistic one used by McDougall.

<sup>31</sup> Samuel Huntington, *The Clash of Civilizations and the Remaking of World Order*, New York: Simon and Schuster, 1996.

differences as the conflict between the two Koreas has demonstrated. It would be oversimplified to attribute the political differences between China and Japan or between the US and Japan solely to underlying civilizational differences.

In reality, cultural and civilizational identities do not necessarily result in war or peace.

There is little ground to believe in the existence of a Confucian-Islamic connection to balance against the West. Many Asian countries like Japan where Confucianism still prevails, are close US allies. Similarly in the Middle East, Saudi Arabia and Kuwait remain very close to the US despite their Islamic culture. In East Asia, Malaysia and Indonesia have long been members of the ASEAN, a group that also includes Singaporean confucians, Thai buddhists, and Philippine christians.

## **CHAPTER II: THE NEW STRUCTURE OF INTERNATIONAL POLITICS IN POST-COLD WAR EAST ASIA**

### **I. EAST ASIA DURING THE COLD WAR**

#### *Politics*

The nature of international relations in East Asia during the Cold War period could be characterized as confrontational as a result of superpower's rivalry. As the World War II ended, a new and long-lasting struggle for power occurred between two blocs, one

led by the Soviet Union, the other by the US. Like Europe and some other areas, East Asia thus became a strategic region where both superpowers sought to increase their influence. Although there was never a war between the Soviet Union and the US in East Asia throughout the Cold War period, regional conflicts such as the Korean war were, by one way or another, the result of these superpower's quest for power. During this war, the US, fearing of a communist victory by Soviet-supported North Korea, intervened in the name of the United Nations, which in turn resulted in China's decision to take part in the war.

For East Asian small and medium powers, they had no choice other than to ally with one superpower, either the Soviet Union or the US, which resulted in the formations of alliances such as the Southeast Asian Treaty Organization (SEATO) led by the US. Thus, an ideological conflict also took place among East Asian states during the Cold War, in other words between socialist states such as China, Vietnam and capitalist ones such as the SEATO members.

It is worth to note that, tensions existed even among member of the same group. Among US's close allies, countries like Korea and Taiwan never considered Japan as a credible partner. Instead, their relationship with the Japanese was sour during most of the Cold War period. Two factors help explain this paradox.

First, Japan's conquest of other East Asian neighbors in the early 20<sup>th</sup> century, particularly in China and Korea left unforgettable memories even up to now. The situation worsened as Japan seemed reluctant to apologize for its atrocity during the Second World War. Thus, it is small wonder that a resentful Korea and a stubborn Japan could not put much trust on each other.

Second, the so-called "spoke-and-hub" policy by the US exacerbated the situation. Unlike in Europe, the US decided to adopt a "divide-and-rule" strategy in East Asia so as to maintain its role in the region. Throughout the Cold War period, there were few efforts by the US to bring such allies as Japan and Korea together, i.e. it made no attempt to help them reach a compromise or a cooperation agreement. Instead, the US emphasized on bilateral security frame work with its allies, of which the most important one was the US-Japan security alliance.

Division also arose within the socialist bloc. Since mid-1950s, relations between the Soviet Union and China worsened as the two countries were unable to settle their differences in economic and regional policies. China followed its own way of development and sought to enhance relations with "third-world countries" in Asia and Latin America during the 1960s before reaching a detente with the US in the 1970s.

### ***Economic relations***

Regional economic relations in East Asia were strongly influenced, even dominated, by the tension and strategies generated within the bi-polar structure. Thus, in order to “contain communism”, Japan and some other US allies received preferential treatment by the US government: special access to US technology, markets and capital. During the Korean and Vietnam war, billions of USD were injected into many of these economies, particularly Japan, as part of the US military procurement strategy, but with clear economic motivation as well. Thus, an important factor in the economic success of these “miracle” economies was the special international relationships generated by the Cold War.<sup>32</sup>

The directing of capital to strategic allies was not only important for political reasons but also served the long-term economic interests of Western capitalists, who had a strong interests in defeating the socialist economic model - a system that was partly founded upon denying the free movement of capital across international borders.

The dependence of some East Asian countries on the US market as well as ideological conflict prevented any form of economic cooperation in the region. The fact is that during most of the Cold War period, intra trade and investment in East Asia was small as compared with other regions.

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<sup>32</sup> See Satya J. Gabriel, *The end of the Cold War and the crisis in East Asia*, Excerpt from talk prepared for the Silk Road Conference, Xiamen, China, October 1997.



To sum up, regionalism was immature in East Asia throughout the Cold War period. Unlike in Europe, where the European Community was firmly established, there was no multilateral economic or security mechanism that helped bring regional countries together. Dominated by the Cold War structure, international relations in East Asia were largely uncooperative and confrontational.

## **II. THE NEW FEATURES OF INTERNATIONAL RELATIONS IN EAST ASIA AND THEIR IMPLICATIONS**

Realist scholars believe that the bi-polar structure of the Cold War was more stable in comparison with a multi-polar order that came into being after 1991.<sup>33</sup> For East Asia, however, this does not necessarily mean that the situation is getting worse as regional countries enter the post-Cold War era. The end of the Cold War, while creating new challenges and potential conflicts, has fostered new opportunities of regional cooperation. Driven by new dynamics, East Asia is currently undergoing the transitional period to a new regional structure, some features of which have started to materialize.

### **1. Increased economic interdependence**

During the Cold War period the great rivalry between the US and the USSR dominated East Asia politics and prevented economic exchanges on a region-wide

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<sup>33</sup> For an example see Kenneth Waltz, *Emerging Structure of International Politics*, International Security, Vol. 18, No. 2, (Fall 1993).

scale. Together with reforms and opening up of socialist countries like China and Vietnam in the 1980s, the end of the Cold War has fostered economic interdependence in East Asia. As economic development becomes the main priority, regional countries have expanded trade and investment linkages to take advantage of complementarities and economies of scale. Furthermore, economic development requires a peaceful and stable regional environment, which in turn enhances the level of interdependence among East Asian countries.

The internationalization of production network bolstered by regional firms, especially by Japanese corporations since mid-1980s has contributed greatly to the expansion of trade and investment linkages in East Asia. Japanese corporations have heavily invested in many East Asian countries, particularly China, Thailand and Vietnam. Subsequently, the expansion of business activities by multinational corporations from Singapore and South Korea in the early 1990s accelerates the pace of regionalization and level of interdependence in East Asia. Unlike the past, East Asian countries thus can no longer follow a development policy that does not take into account the interests of other economies in the regions.

As the Asian crisis demonstrates, the regional economic and political stability may be seriously damaged by the ineffective policy of a single or a group of countries. Originating from Thailand, the financial crisis rapidly increased its scope and scale to

become a region-wide economic turmoil. Even countries, which have not fully liberalized the financial market such as Vietnam, bore the negative effects of the crisis.<sup>34</sup>

Combined with the on-going process of globalization and regionalization, this new trend of interdependence in East Asia have forced all regional countries to adopt open economic policy. Even least developed countries like Cambodia and Laos now view the attraction of foreign investment and the expansion of foreign trade as key to their economic development. In other words, enhancing foreign economic relations and strengthening regional integration has become the choice of East Asian countries in the post Cold War period.

## **2. The coexistence of cooperation and conflict**

Cooperation has become a major trend of international politics in East Asia since the end of the Cold War. It has been due to the fact that all regional countries are stressing the need for economic development. In an era of globalized economic activities, lack of cooperation among regional countries would expose them to risks and vulnerability as has been shown during the 1997-1998 Asian financial crisis.

On the other hand, with the collapse of the bi-polar order most East Asian countries today do not view ideological identity as the decisive factor in making friend or foe.

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<sup>34</sup> After the crisis, foreign direct investment into Vietnam reduced substantially from US\$8.7 billion in 1996 to US\$4.7 in 1997, US\$3.8 in 1998 and US\$1.4 in 1999. The main reason was a reduction in investments by East Asian countries, which are the largest investors in Vietnam.

Unlike in the past, cooperation develops among countries with different ideologies, i.e. between socialist states like Vietnam and China and capitalist ones such as Japan or South Korea.

Cooperation among East Asian countries has blossomed in a variety of areas and at different level. At the region-wide level, cooperation between ASEAN and China, Japan and Korea, known as ASEAN + 3, was initiated in November 1997. Progress has been made in various areas including institutional framework, financial cooperation, sub-regional projects, as well as long-term vision.<sup>35</sup> Financial cooperation is the area that has made the most achievements within East Asia cooperation. With the introduction of the Chiang Mai initiative (CMI) in 1998, regional financial surveillance has been turned into reality. The CMI has two components: strengthening the long standing ASEAN Swap Arrangement and creating a new network of bilateral swap and repurchase arrangement for the ASEAN+3 members. The CMI sets up a foundation for future regional financial regime, like a regional monetary fund, which may finally move to a regional organization.<sup>36</sup>

The most ambitious plan, however, was proposed by Korean President Kim Dae Jung at the ASEAN + 3 Summit in Manila in 1998, under which there would be an East

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<sup>35</sup> Zhang Yunling, *East Asian Cooperation & China's Role*, Institute of Asia-Pacific studies.

<sup>36</sup> Kawai Mashiro, *Ibid.*

Asian Free Trade Area (EAFTA). Following this proposal, an East Asian Vision Group (EAVG) composed of scholars, former high-level officials and entrepreneurs from regional countries was established to provide a roadmap for East Asian cooperation.<sup>37</sup>

At sub-regional level, the members of ASEAN have pushed for the establishment of the ASEAN Free Trade Area (AFTA) since early 1990s. Under this frame work, it is expected that intra-ASEAN trade and investment will increase substantially as tariff rates are lowered.

Recently, ASEAN and China signed the ASEAN-China Free Trade Agreement (ACFTA). Preliminary estimates suggest that the ACFTA would raise ASEAN's export to China by 48 per cent and China's export to ASEAN by 51 per cent. At the same time, the combined GDP of ASEAN would expand by at least US\$ 5.4 billion while that of China by some US\$ 2.2 billion.<sup>38</sup> Japan and Korea are also discussing the possibility of establishing free trade areas with ASEAN nations.

At the first glance, the abovementioned developments seem to suggest that East Asia is a region of peace and development without instability and unrest. However, the fact is that East Asian countries have yet to reach the level of cooperation matching that of Europe or North America where the European Union and the North American Free

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<sup>37</sup> Jae-seung Lee, *Building an East Asian Economic Community*, Les Etudes du CERI, no. 87, May 2002, p. 19.

<sup>38</sup> Wattanapruttipaisan, *The newer ASEAN member countries and ASEAN-China FTA: additional market access and more challenging competition*, ASEAN Secretariat, June 2002.

Trade Area have been put in place. One reason has been unsettled disputes among regional countries such as China, Korea and Japan. Moreover, there still exist potential conflicts of which the most serious is concerned with North Korea.

Mak (1998) argues that the Cold War structure of East Asia was stable as it provided East Asia with strategic balance and predictability.<sup>39</sup> The end of the Cold War also creates new challenges for regional politics. As compared with the Cold War period, there currently seems to be many uncertainties accompanying the transformation process of international politics in East Asia, which can be categorized as follows:

The first type of uncertainties concerns the policy of regional powers. Is China, with its rising economic and political power, seeking hegemony? If so, what should be the policy choice of regional countries? Will Japan remilitarize and go nuclear? Should the US maintain its engagement to East Asia? Can there be an East Asian community in the future? These are crucial issues that can have decisive impact on the prospects of peace and security in the region.

The second type concerns regional disputes. Currently, regional countries have not found a sound solution for the North Korea nuclear issue. East Asian historical legacy remains in the form of unsettled territorial disputes, which include, among others, Taiwan and the South China Sea. A failure in handling these disputes may revive

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<sup>39</sup> Mak, *Ibid*, p. 92.

antagonism among regional countries and undermine the peaceful environment for economic development.

Uncertainty has been a major characteristic of international relations in post-Cold War East Asia. Uncertainty leads to greater unpredictability and complexity given that East Asia still lacks effective mechanisms to cope with economic and political challenges as shown in the 1997-1998 Asian economic turmoil and the current North Korea nuclear crisis. This strategic uncertainty, together with increased economic wealth partly accounts for the increases in military expenditures and defence modernization programmes undertaken by nearly all the East Asia countries over the past period.<sup>40</sup>

### **3. Democratization of international relations in East Asia**

The democratization of international politics, which implies a more equal role among regional countries, is another important feature of the new regional order of post-Cold War East Asia. During the Cold War period, regional countries were tied to the US, the former USSR, and, to some extent, China. Meanwhile, despite the status of an economic superpower, Japan's political influence in East Asia was limited due to its dependence on the US.

The collapse of the Cold War structure has brought an end to this hierarchical relationship. For many East Asian countries, the strengthening of national feelings

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<sup>40</sup> J.N. Mak, *Ibid*, p.93-94

and the collapse of the Soviet Union make them less dependent on the US security umbrella, thus allowing them to play a more important role in regional affairs. Although remained as the only superpower, the US today can no longer arbitrarily impose its will upon regional allies in the region. Both Japan and Korea are seeking more autonomy in foreign policy. At present, ASEAN - considered as a middle power - is making important contributions to regional security dialogue through the ASEAN Regional Forum. If this trend continues, there is ground to believe that no single power, not even the US or, say, China, can dominate relations in East Asia as in the Cold War period.

For regional countries, the democratization of international relations in East Asia implies the need for a multilateral approach to regional affairs. A unilateral policy based on power no longer serves the interests of any country, even a superpower like the US. As Henry Kissinger opines, “a policy of confrontation with China risks America’s isolation in Asia. No Asian country would want to be - or could afford to be - supportive of America in any political conflict with China which it considered to be the result of misguided United States policy”.<sup>41</sup> Thus, while supporting the traditional balance-of-power approach to China, Kissinger also warns the US against using policies that go counter the interest of the majority of East Asian countries.

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<sup>41</sup> Henry Kissinger, *Diplomacy*, Simon and Schuster: 1994, p.830.



#### **4. The rise of China as a regional power**

China's economic and political rise has provoked controversies on its role in the region. Among the vast literature on China, two major schools of thought can be identified. The first views China as a potential threat to the US and neighboring countries as it attempts to become a new hegemon in East Asia.<sup>42</sup> The second regards China as merely a developing country with numerous challenges and problems ahead.

The 1979-2000 period has seen the fastest development in China, with an annual GDP growth rate of 9.5 percent compared with 2.5 percent for developed countries and 5 percent for developing countries.<sup>43</sup> Sustained economic development and, subsequently, increased military strength have allowed China to gradually enhance its status as a big power in East Asia. The main question here is how China's rise has influenced economic and political development in East Asia.

There has been a widespread fear that China's booming economy will put strong pressure on East Asian states, driving their exports away from third markets and outdoing them in foreign investment inducement. This has been occurring in reality, particularly since China's accession into the WTO. However, it would be mistaken to rule out the positive effect of China's economic rise. Today, China is able to serve as

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<sup>42</sup> Scholars belonging to this group include Richard Bernstein and Ross H. Munro (*The coming conflict with China*, New York: Knopf 1997), Samuel Huntington (*The Clash of civilization and the remaking of world order*), Bill Gertz (*The China Threat*).

<sup>43</sup> Xinhua News Agency, 26 Nov 2001

an engine of growth not only in Asia, but even globally. In 2002 China, which accounted for only one-twenty-fifth of world output, contributed to one-sixth of global expansion; its economic expansion in absolute terms was more than 10 times that of Japan.<sup>44</sup> China's large market and expanding activities has also been providing new business opportunities to its East Asian neighbours.

On the other hand, there remain unresolved issues between China and neighboring countries. China is directly or indirectly involved in all major disputes in East Asia, namely the Taiwan, the South China Sea and the Korea peninsula issues. While China has been willing to cooperate with other countries in various areas, its position remains tough regarding territorial issues.

In the coming years, if China succeeds in sustaining economic growth and resolving domestic problems such as Tibet, it may become a superpower in East Asia as well as in the world. Thus, there is the possibility that the quest for regional leadership among the US, China and also Japan will then risk undermining the peaceful environment in East Asia.

Given the abovementioned impact of China's rise, it would be beneficial for East Asian countries to engage China into regional cooperation. By so-doing, they may take advantage of China's economic rise and at the same avoid possible conflicts with

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<sup>44</sup> Nicolas Lardy, *The Economic Rise of China: Threat or Opportunities?* ECON Paper, 2003

China, which may result in disastrous consequences for the whole region. On the other hand, a policy of isolation or containment only worsens the situation and unnecessarily provokes tough reaction from China.

There are common interests between China and the rest of the region. All need a peaceful environment for economic development. For East Asia countries, a stable and developed China is more conducive for regional cooperation. In the past, China always turned aggressive when it faced domestic trouble or unrest. As observed by Shuja (1999), economic development leads to greater interdependence with other countries. This interdependence, in the short term, can complicate the relationship, but, in the long term, can foster understanding.<sup>45</sup>

On the other hand, a realist approach to deal with the security challenge posed by China will not work well.<sup>46</sup> East Asia needs multilateral security cooperation, not forces, to engage China. The main argument for multilateral security cooperation is that it will benefit members through the provision of stable and predictable environment. It would also bind China into a common framework with rules and norms that would be hard to break. It is important that all regional powers, namely the US, Japan, China, ASEAN, Korea, and also Russia, participate in this framework.

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<sup>45</sup> Shariff M Shuja, *China after Deng Xiaoping: Implications for Japan*, East Asia: An International Quarterly, Vol. 17, spring 1999.

<sup>46</sup> Robert Art opines that military power will remain as the most important measure to solve conflicts among states in the future (see Robert Art, *The four functions of force*, in Robert Art and Robert Jervis, *International Politics*, Longman 1999).

## **5. The US in the new regional context**

### *US's interests in post-Cold War East Asia*

US policy in East Asia generally aims at maintaining US regional leadership and is part of its strategy to maintain its world supremacy. In the Cold War period, its strategic thrust is to contain the former USSR and also keep Japan in check. After the Cold War, its policy has been adjusted.

First, the US now puts more importance on the economic aspect in its relations with East Asia. The US has interests in maintaining relations with East Asia given the region's increasing geo-economic significance. Two-way trade between the US and East Asia and Pacific region in 2002 totaled \$572 billion, accounting for 31 percent of total US international trade while Europe's share was only 23 percent.<sup>47</sup> On the other hand, the US now views East Asian countries as economic competitors, which means there would be less favorable treatment granted to them. In fact, a large share of US trade disputes are with East Asian countries and the region has become a top priority for US commercial policy.<sup>48</sup>

Second, the US objective has been to prevent the resurgence of a new military challenger. As its Defence Planning Guidance 1994-1999 affirmed:

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<sup>47</sup> Source: US Department of State, *Trade policy and program*.

<sup>48</sup> US Department of State, *Ibid*.

Our first objective is to prevent the re-emergence of a new military rival...

This is a dominant consideration underlying the new regional defense strategy that we endeavour to prevent any hostile power from dominating a region whose resources would... be sufficient to generate global power.

These regions include Western Europe, East Asia, the territory of the former Soviet Union and South West Asia.

(quoted in McGrew, 1998, p.172)

It is misleading to think that US military presence in East Asia merely aims at containing the USSR. Like in Germany, US troops in Okinawa was part of its strategy to prevent a remilitarized Japan. In fact, US military presence has been important to some regional countries fearing of a Japan going nuclear. The maintenance of US military presence in East Asia now also serves its strategic interest in the context of a rising China, which is considered by many US officials and scholars to be a challenger of US hegemony in East Asia.

Trade disputes aside, the maintenance of US-Japan political and military ties is regarded as the cornerstone of US policy in East Asia. In 1997, the US and Japan signed the new Guidelines for Defense Cooperation. Unlike the 1987 revised Guidelines, the new ones not only encompass a much larger region, but also assign a greater security role for Japan. One of the aspects that were incorporated relates to

cooperation in situations in areas surrounding Japan that will have an important influence on Japan's peace and security. This has come under sharp criticism from Beijing raising doubts whether these areas would include Taiwan or the South China Sea.<sup>49</sup>

Along with the US-Japan cooperation, the US has also strengthened relations with other allies including the maintenance of troops in South Korea. In recent years, however, the US has increasingly required for a shared responsibility from its allies. US officials are currently urging Japan and South Korea to send troops to Iraq. This can be explained as a move to cope with rising criticisms inside the US against its expansive policy and also to reduce the burden for the state budget.

### ***US's policy and implications for East Asian countries***

There has been a sharp contrast in US policy towards Europe and East Asia. The US has supported European cooperation with an explicit intention to incorporate an integrated and stronger Western Europe into the NATO alliance against the communist Warsaw Pact. Both America and its European partners had a clear sense as to where regional cooperation was heading and how it fit into the trans-Atlantic alliance and the overall Cold War strategy of the West.<sup>50</sup>

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<sup>49</sup> G.V.C. Naidu, *Ibid.*

<sup>50</sup> Yong Deng, *Ibid.*

US policy has helped foster a closer relationship among European countries, especially the Germany-France ties, which now constitute the backbone of the EU. In contrary, for the past decades relations among many of US allies in East Asia, especially between South Korea and Japan have never reached that level. As a result, East Asia regionalism has been underdeveloped as compared with Western Europe.

The unsettled historical issues among East Asia countries cannot be resolved on the basis of US bilateral commitment. This policy, while ensuring US interest in the region, does not foster closer understanding and cooperation among regional countries.

The revised US-Japan Guidelines for Defense Cooperation have raised worries and skepticisms not only from China but also other nations in East Asia. South Korea, the country which could most benefit from the Guidelines' activation in a crisis has expressed concern about their implications. The country has some fears about enhanced Japanese military influence in the region and insists that the Guidelines not be applied to Korea before consultation with Seoul.<sup>51</sup>

### **III. EAST ASIAN COUNTRIES IN THE NEW REGIONAL CONTEXT**

So far, this chapter has argued that the East Asian region has been undergoing a basic transformation from the Cold War structure characterized by great rivalry among

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<sup>51</sup> Sheldon W Simon, *Is there a US strategy for East Asia?* Contemporary Southeast Asia, Dec 1999, Vol. 21, Iss. 3.

superpowers and regional countries to a new order in which every individual country is likely to play a more important role as compared with the Cold War period.

The end of the bi-polar structure, the higher level of interdependence, the relative decline of US's power versus regional countries as well as the uncertainty of the transitional period have enhanced the role of each and every single nation in regional affairs. This democratization of international relations has been a positive trend in East Asia. On the other hand, it deepens the complexity of international relations in East Asia. The Asian crisis demonstrates how interdependent regional economies are and how serious the consequences may be as regional countries still lack effective cooperation mechanism.

As the process of democratizing relations in East Asia continues, there is little ground to believe that an unilateralist policy by the US or any other country is in the interest of regional countries. Unlike in the past, even US's allies now want more independence in foreign policy. For East Asian countries, the new regional context has posed the need to adjust their economic policy and development orientation. In a region of growing interdependence, East Asian countries have no choice other than expanding foreign economic relations and strengthening regional integration. Existing cooperation mechanism such as ASEAN, ASEAN + 3 need to be maintained and strengthened in order for regional countries to successfully cope with the rising



challenges of opening up and integration. However, it is significant that each individual country also strengthens their economic fundamentals so as to be able to meet the challenges of regional integration.

The future of peace and cooperation in East Asia depends on how regional countries deal with potential conflicts such as the North Korean nuclear crisis. On the other hand, the successful handling of economic disputes are also of significance . As all countries are interdependent, economically and politically, cooperation and dialogue seems to be the best solution. For East Asia, the building of a security mechanism with the full participation of regional countries may be an option to overcome the security dilemma. For the US, an East Asia security mechanism should also serve its interests as it reduces the probability of a China turning aggressive and challenging US hegemony. After the terrorist attack, however, it seems that the US is adopting a more unilateral approach in dealing with international issues.

One key issue would be dealing with the Chinese challenge. If China, with its increasing economic and political strength, seeks hegemony East Asia will become unstable and prone to conflicts. So far, it seems that East Asian countries have made successful attempts in engaging China into cooperation mechanisms. These include, among others, the ASEAN Regional Forum, the ASEAN +3 and the ACFTA. These

are important bases on which further cooperation schemes need to be developed in order to ensure mutual understanding and trust among regional countries.

For East Asia, the building of an economic and security mechanism will be a long way to go given its distinct characteristics and unsettled historical issues between regional countries. However, by adopting economic and foreign policies based on the principle of multilateralism, non-interference and mutual benefit, East Asian countries would make firm steps toward closer and more fruitful regional cooperation.

### **CHAPTER III: VIETNAM IN THE NEW REGIONAL CONTEXT**

Since mid-1980s, Vietnam has adopted the *doi moi* (renovation) policy with the aim of overcoming the economic crisis and adapting with changes in the international and regional context. The sections below examine in detail Vietnam reform process, focusing on two important aspects, namely economic and foreign relations. At first, however, it is necessary to understand the situation in the country before *doi moi*.

#### ***Economic situation***

Since the reunification in 1975, Vietnam adopted the command economic model in which the government directly intervened in all economic activities through management tools such as planning, tax, and nationalization of capitalists' enterprises

in the South. Priorities were given to heavy industries such as cement and electricity, which consumed huge investments and require advanced technology .

Facing an unfriendly regional environment and confined by the economic embargo of the US, Vietnam's foreign economic relations were restricted in scope and scale. The socialist countries' COMECON accounted for 70 percent of Vietnam's total trade volume. Only a small number of foreign companies operated in Vietnam, including the Vietnam-Soviet Union joint-venture to exploit oil in the East Sea.

By mid-1980s, the economy was in deep recession. The financial market was unstable, inflation sky-rocketed, people's living standards decreased. This posed the need for a new development strategy for the country.

### ***Foreign Relations***

After the reunification in 1975, Vietnam's foreign relations centered on the socialist bloc, especially with the Soviet Union. In East Asia, it maintained close relations with Laos and Cambodia. Relations with other East Asian countries, however, remained uncooperative. Tension between Vietnam and China was high as the Chinese waged the border war against Vietnam in 1978. Under strong US's influence, ASEAN members made not effort to improve ties with Vietnam.

The breakthrough only came with the country's policy to strengthen and diversify relations with its neighbors as well as with other countries in the region and the world in the late 1980s - an integral part of the *doi moi* policy.

Vietnam's ailing economy and changes in regional and world's politics in the late 1980s, including the fall of the Eastern European bloc, posed the great demand for reforming Vietnam's development policy. As a result, the *doi moi* policy was passed in mid-1980s in order to transform Vietnam and lead it into a new development period, which encompasses a variety of areas, from economic to social and cultural reforms.

Thus, Vietnam's reform was carried out in order to respond to the challenges of both internal and external context.

The rest of the chapter analyzes how Vietnam embarks on economic and foreign policy reforms - the two important aspects of *doi moi* - in order to integrate with the region and with the world and how these fit into the new regional context of East Asia.

## **PART I: ECONOMIC REFORM AND OPENING UP**

### **1. Overview**

In the context of regionalization and globalization, all countries are striving for a favorable position in international labor division in order to attract foreign capital and technology to serve national interest. Facing new opportunities and challenges brought by the new regional context, the government of Vietnam has put great

emphasis on developing foreign economic relations since 1986. Regional integration becomes a strategic thrust of Vietnam's reform policy as it can generate great momentum for industrialization and modernization.

First, by integrating with the regional economy, Vietnam is able to take advantage of its potential such as cheap labor force and large market in order to attract foreign investment and increase export. This becomes more important as intra-trade and investment in East Asia has been on the rise in recent years. East Asia currently accounts for 60 percent of Vietnam's export and 70 percent of foreign investment into the country.

Second, economic relations also foster closer political cooperation between Vietnam and the rest of the region. Unlike in the past, interdependence has become a key feature of economic and political relations in East Asia. No country would want to undermine trade and investment linkages at the expense of their own national interests.

Since the start of *doi moi*, and especially in the 1990s, the process of regional integration in Vietnam has gained important results. At present, it maintains economic and trade relations with around 180 countries all over the world. Following its accession into ASEAN in 1995, Vietnam commits to fulfill the AFTA agreement with the aim of liberalizing regional trade. Vietnam has also capitalized on its geo-economic and geo-political advantages to forge closer ties with Japan, Korea and

China at both bilateral level and multilateral frame work, including ASEAN + 3, APEC and ACFTA. At the global-wide scale, Vietnam is applying for membership of the World Trade Organization (WTO).

## **2. Foreign investment attraction**

Vietnam needs to attract FDI in order to acquire capital, knowledge and advanced technology, which are crucial to the success of industrialization. With that objective, the country has attempted to induce FDI through incentives and encouragement.

The Law on FDI was promulgated in 1987 and since then has been amended four times to improve the investment climate for investors. Legal documents on specific activities of FDI enterprises in the areas of taxation, labour, land, etc are subsequently introduced. As compared with regional countries, Vietnam's FDI policy is regarded as competitive and open.

To direct inward FDI into proper areas and sectors, a large number of industrial and export-processing zones have been established. Foreign investors in these zones receive many incentives in terms of infrastructure, tax obligations and others. The most successful industrial zones are in the South due to local governments' creativeness and determination in supporting investors' needs.

East Asian countries have been the most important investors in Vietnam. Singapore, Taiwan, Japan and Korea are the four largest investing countries in Vietnam with total

capital of around \$20 billion. ASEAN countries such as Malaysia and Thailand are also among the top 10 investors in Vietnam. Currently, the foreign sector as a whole accounts for 13 percent of GDP; 30 percent of industrial output; 20 percent of total export and helps create jobs for around 600,000 employees.

### **3. Trade development**

Since the start of *doi moi*, foreign trade has become an important factor in economic growth. As Vietnam diversifies its foreign relations in the 1990s, its trade turnover rose quickly, averaging more than 20 percent annually during the 1990-2000 period.

In the area of external trade, import and export restrictions have been substantially reduced. Vietnam has been gradually moving from state monopoly on foreign trade to free trade and from import-substitution to export oriented policies. At present, by law, all Vietnamese businesses including private companies have the right to perform export and import business. Foreign trading companies are allowed to set up branches and representative offices in the country to conduct and promote trade.

East Asian countries are Vietnam's most important export market, accounting for more than 60 percent of its export value and over 70 percent of its import volume.

Japan, China, South Korea and Singapore are among Vietnam's largest trading partners with total trade volume reaching nearly \$20 billion.

#### **4. Challenges ahead**

That Vietnam has gained remarkable achievement during its economic reform and regional integration process does not mean that it faces no difficulties. As Vietnam integrates further into the regional economy, it faces numerous challenges, of which the most serious concerns low competitiveness.

Under the AFTA and ACFTA frame work, Vietnam commits to open its market for foreign companies. This means greater competition in the domestic market of Vietnam in a few years' time. Given the low competitiveness of Vietnam's domestic enterprises that would put tremendous pressure on the economy.

Second, greater interdependence among regional countries also mean greater risks and vulnerability once a group or even a single country has trouble with their economy.

Financial turmoil, investment crisis, political instability are all threatening factors to Vietnam. This becomes more pressing given Vietnam's low economic efficiency and competitiveness.

So far, the policy of regional integration has been fruitful to Vietnam's economic development. However, greater challenges will arise as the deadline of fulfilling commitments with AFTA (in 2006) and ACFTA is drawing nearer. Challenges will also come with membership in WTO. Thus for Vietnam, further reforms of economic sectors, including the banking and financial system and state-owned enterprises, and



encouragement of the domestic private sector are needed to ensure successful competition of its enterprise both in the domestic and regional market.

## **PART II: VIETAM'S FOREIGN POLICY - DIVERSIFICATION AND MULTILATERALISM**

### **I. Overview of Vietnam's foreign policy since *doi moi***

As part of *doi moi*, foreign policy is also reformed. The 7<sup>th</sup>, 8<sup>th</sup> and 9<sup>th</sup> Congresses of the Vietnam Communist Party has defined Vietnam foreign policy as based on independence, diversification, and multilateralism. With *doi moi*, Vietnam has declared to the world that it “wants to be friends and reliable partners of all countries in the international community”.

Since the start of the *doi moi*, Vietnam foreign policy has focused on the following objectives:

First is to create a favorable environment for economic development and national defence. To this end, the improvement of cooperation, especially with East Asian countries are vital. With that objective, efforts have been focused on the solution of the Cambodian issue and normalization of relations with China and ASEAN. Vietnam also normalize relations with major powers such as the US and EU. On the other hand, in order to enhance national security and stability, Vietnam has been active in resolving remained issues with neighboring and regional countries including the

signing of Border Treaty with Laos, agreement with Malaysia on co-exploitation of the overlapping economic zone, signing of Land Border Treaty with China.

Second, foreign policy has aimed at promoting economic development. Today, Vietnam has bilateral trade and economic ties with more than 160 countries and territories. In terms of foreign economic relations, Vietnam has attracted more than US\$40 billion of FDI from more than 70 countries and territories and US\$20 billion of ODA from donor countries and international organization. The contribution to a peaceful and stable environment, maintenance and improvement of cooperation with regional countries and international organization in order to attract capital and advanced technology has been substantive to the enhancement of national security.

Third is the enhancement of Vietnam position in the international arena. On the basis of diversified and multilateral foreign policy, Vietnam has developed diplomatic policies with nearly 200 countries in all regions and has, for the first time, normalized relations with all permanent members of the UN Security Council. In the present regional and global context, when multilateral diplomacy is gaining a more important role, Vietnam's foreign policy has helped enhanced Vietnam's prestige in the region and the world. Vietnam's position in the UN has been on the rise (becomes member of ECOSOC, UNDP). In 1998, Vietnam hosted the VI ASEAN Summit in which the Hanoi Plan of Action was adopted, making an important step toward cooperation

among countries in Southeast Asia. Multilateral diplomacy has been an important achievement of *doi moi*, which contributes substantially for economic development and national defence.

## **II. Relations with regional countries**

Together with the *doi moi* policy, Vietnam has developed and expanded relations with 164 countries in the world. In East Asia, it has fostered close partnership with all regional countries. To further illustrate the multilateralism and diversification of Vietnam's foreign policy the section below discusses Vietnam's relationship with major partners in East Asia, the progress made so far and remaining issues.

### **1. Relations with the US**

Vietnam attaches great importance to cooperation with the US. Past records show clearly that US-Vietnam relations has deep influence on peace and security in East Asia. In the current context, the improvement of US-Vietnam bilateral cooperation can also foster regional cooperation and stability.

#### ***The process of normalizing US-Vietnam relationship***

Following the Vietnam War, US initiated an economic embargo against Vietnam, which prevented the country from developing trade, and investment ties with major Western countries. Furthermore, Vietnam could not receive aid and loans from international financial institution such as the World Bank and the IMF.

At the late 1980s, however, there were new developments from both side, which led to improvement in mutual understanding and subsequently to the normalization of bilateral relationship.

On the Vietnam side, the most important is the adoption of economic reform and the new foreign policy based on multilateralism and diversification. Vietnam was willing to cooperate with regional countries in finding the resolution for the Cambodia issue. Vietnam also cooperated with the US in providing information about US soldiers considered to be missing in actions (MIA). In September 1988, Vietnam cooperated with the US in forming the first joint field investigation on MIA. This cooperative activities help reduce opposition within the US against improvement of bilateral relations.

On the US side, its leaders gradually perceive the need to develop cooperation with Vietnam. First is its concerns for the issue of prisoners of war (POW) and MIA. In 1991, US President George Bush outlined the “road map” for normalization, stressing that there be significant improvement regarding the POW and MIA issue. Second is US economic interest. US business was eager to take advantage of the emerging economy of Vietnam. However, they were disadvantaged by the existing US embargo,

under which prevented American firms could not participate in economic activities in Vietnam including the bidding for development projects.<sup>52</sup>

The demand from both side fostered positive development in bilateral relations. Soon after the congress report President Clinton removed US opposition to World Bank loans allowing Vietnam access to nearly US\$230 million in loan.<sup>53</sup> In Feb 1994, he ended the 19 year embargo with Vietnam. Vietnam and the United States established diplomatic relations on July 12, 1995 and exchanged Ambassadors in May 1997, thus opening a new chapter in the relationship between the two countries.

### ***US-Vietnam relations since normalization***

#### *Economic relations*

The significant milestone that marks the full normalization between the two countries is the ratification of the Bilateral Trade agreement. In effect as of December 10, 2001, this agreement establishes a legal base for stimulating economy, trade and investment between the two countries. Under the deal, the US has extended temporary most-favored nation (MFN) status (also known as normal trade relations - NTR status) to Vietnam, thus reducing the US tariff rates on Vietnamese exports from an average of 40% to less than 3%. In return, Vietnam agreed to undertake a wide range of market liberalization measures, including extending MFN treatment to US exports, reducing

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<sup>52</sup> Porter Olsen, *Vietnam: The evolution of post-war relations with the United States*, source: <http://www.geocities.com/TimesSquare/1848/vietnam.html>.

<sup>53</sup> *Ibid.*

tariffs on goods, easing barriers to US services, committing to protect certain intellectual property rights, and providing additional inducements and protections for inward foreign direct investment.<sup>54</sup>

Shortly after the enforcement of the BTA, the US becomes the most important export market of Vietnam. Vietnam's export turnover to the US increased from US\$ 2.394 billion in 2002 to US\$4.25 billion in the first eleven months of 2003.<sup>55</sup> Major Vietnamese exports to the US are seafood, textiles and garments, crude oil, footwear, coffee etc. while US exports to Vietnam were mainly aircrafts, fertilizer, steel, computers and parts, equipment and parts, leather goods and footwear, pharmaceuticals and chemicals.

Apart from trade, relations in other areas have also developed but is still below potential. So far, the US ranks eleventh among countries that invested in Vietnam. US businesses also pour a large amount of investment into Vietnam via a third country. The US also provides ODA for Vietnam, focusing on legal reforms, education and trade facilitation.

#### *Political cooperation*

Following the lifting of the US trade embargo against Vietnam in February, 1994, the diplomatic relations between the two countries were re-established on July 12, 1995.

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<sup>54</sup> Vietnam Embassy in the USA, 2003.

<sup>55</sup> US Foreign Trade Statistic, 2003

The first ambassadors were exchanged in May 1997. Since then, the two countries have had numerous exchanges in many fields including the official visit to Vietnam by President Bill Clinton in November 2000 and the visit to the USA by Vietnamese First Deputy Prime Minister Nguyen Tan Dung in December 2001.

In terms of military exchange, following the visit of US Secretary of Defence William Cohen in March 2000, Vietnam Defence Minister Pham Van Tra paid an official visit to the US from November 9-12, the first by a defence minister of Vietnam since the two countries normalized bilateral ties.<sup>56</sup>

### ***Prospects of Vietnam-US relations and their regional implications***

With the entry into force of the BTA in 2001, US-Vietnam relations are now fully normalized. As stated by Raymond F. Burghard, US ambassador to Vietnam, “US relations are now at their deepest and broadest levels ever with the Socialist Republic of Vietnam”.<sup>57</sup>

Analysing US-Vietnam bilateral relations since the normalization in 1995, the broad trend has been an increasing level of cooperation and contact. Especially trade volume has increased rapidly since the enforcement of the BTA. This shows that there are numerous opportunities for economic cooperation between the two sides in the future.

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<sup>56</sup> Nhandan newspaper, *Vietnam-US relations contribute to the long-term stability in the Asia-Pacific region: Defence minister Pham Van Tra*, Nov 2003.

<sup>57</sup> Raymond F. Burghard, *US-Vietnam Relations*, US Department of States, Jan 2003.

However, there remain some challenges for the further development of bilateral cooperation. The psychological wounds of war in some Americans have not yet been healed. Recently, new obstacles to bilateral relations have emerged from difference in economics, commerce, as well as the viewpoints on democracy, human rights and religion.<sup>58</sup> Another issue is the tendency towards protectionism in the United States.

For East Asian countries, improvements in US-Vietnam relations can contribute to further understanding and stability in the region. At present, the US still has deep influence on its allies such as Japan. For this reason, the development of US-Vietnam cooperation has been generally welcome by these countries as that also facilitates their relations with Vietnam. As a matter of fact, Japan's ODA to Vietnam was resumed in 1992, not long after US-Vietnam relations started to improve.

## **2. Relations with China**

### *Overview of Sino-Vietnam relations*

Sino-Vietnam relations deteriorated in the later half of the 1970s as China sought closer relationship with America. However, as the two countries embraced economic reform, relations have been gradually improved. Diplomatic contacts were resumed in 1991 as the Cambodia issue was settled. After former Party General Secretary Do Muoi paid an official visit to China in November 1991 to normalize the diplomatic

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<sup>58</sup> Nhandan newspaper, *Ibid.*



relations between the two countries, a series of accords was signed by leaders of Vietnam and China, including a border agreement signed in December 12, 1999.

*Factors leading to the normalization of Sino-Vietnamese relationship*

Of most important are changes in Vietnam's foreign policy after the start of economic reforms in 1986, which introduced a market mechanism under state management into Vietnam. The policy to diversify and multilateralize foreign relations has been welcome by the international community as Vietnam establishes diplomatic with all major states, including China and the US. Vietnam has also become member of regional organizations such as ASEAN in 1995 and APEC in 1998. Regarding regional affairs, Vietnam has pursued a policy of cooperation and dialogue. Its cooperation in the settlement of the Cambodian issue was a major stepping-stone toward the normalization of bilateral relationship with China.

Second, for China and Vietnam economic development is set as one of the most important goal at the current period. Normalization of relations should also pave the way for a peaceful solution of bilateral disputes while at the same time creating opportunities for economic development. The fact is that since 1991, economic ties have developed strongly. Bilateral trade increased from \$32 in 1990 to \$3.65 in 2002. By mid-March, 2003, China (excluding Hong Kong) had funded 205 projects at a

total cost of US \$385.05 million, making it the 17<sup>th</sup> largest foreign investor in Vietnam.

### *Prospects of Vietnam-China relations*

Since 1991, Vietnam and China have signed 39 State-level agreements and memoranda of understanding. The two nations have also created favorable conditions for the exchange of goods and passengers by opening air, sea and rail routes.

Vietnam and China signed a land border treaty on December 30, 1999 and agreements on the demarcation of the Bac Bo (Tonkin) Gulf and fishing in the Gulf on December 25, 2000 during President Tran Duc Luong's China visit. These agreements paved the way for the two countries to build a stable borderline to maintain peace. In total, the two sides have conducted 11 rounds of expert-level negotiations and two rounds of deputy ministerial-level negotiations and will soon put these agreements into practice.

### *Remaining issues*

Between Vietnam and China, remaining issues include the settlement of dispute over the Paracel and Spratly islands. The two countries are trying to resolve the Paracel islands matter on a bilateral basis meanwhile the Spratly issue requires a multi-lateral approach as it involves five other states in the region, namely Taiwan, Indonesia, Malaysia, the Philippines, and Brunei.

### **II.3. Relations with Japan**

Among developed countries, Japan was the first to establish diplomatic relations with Vietnam (in September 1973). Japan has remained as the largest donor for Vietnam since the resumption of ODA provision in 1992. These facts show that relations with Vietnam are of significance to Japan.

#### ***Japan's policy toward Vietnam***

For Japan, the development of relationship with Vietnam has important implications.

First, Vietnam is considered as the gateway to the Indochina market due to its strategic location. By fostering cooperation with Vietnam, Japan can increase its economic and political influence in Indochina in particular and Southeast Asia in general.

Second, Vietnam is a fast growing economy having rich natural resources and cheap labor force. For this reason, Vietnam can become a favorable destination for Japanese investors. At present, Japan is the third-largest foreign investor in Vietnam with 411 projects worth over US\$4.5 billion.

Third, Japan expects to strengthen cooperation with ASEAN through relations with Vietnam. So far, Japan has provided financial assistance for a number of ASEAN

cooperation projects involving Vietnam such as the ASEAN Mekong Basin Development Cooperation (AMBDC). Developing relations with ASEAN has become an important goal in Japan's foreign policy and the improvement of bilateral ties with each individual ASEAN member including Vietnam can be important steps to this end.

### *Vietnam's policy towards Japan*

Japan is currently the second largest economy in the world and has long been an important source of FDI and ODA. Vietnam has sought to improve relations with Japan as part of its policy to become friends and partners with all major powers.

Vietnam wants to make use of Japan's development assistance and advanced technology to serve the cause of economic development. In December 2003, Vietnam signed the Investment Agreement with Japan under which Japanese businesses investing in Vietnam will be treated like domestic investors.<sup>59</sup>

Vietnam is willing to become the bridge for Japan-ASEAN relations. For Vietnam, closer Japan-ASEAN cooperation will be beneficial in many aspects. First, it is likely to result in greater Japan trade and investment with ASEAN. Second, it provides more opportunities for shared understanding and resolutions of regional issues. Being a member of ASEAN, Vietnam-Japan cooperation can contribute to regional cooperation and development.

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<sup>59</sup> Vnexpress Jan 15, 2003.

#### **4. Relations with South Korea**

Vietnam-Korea relations have developed strongly in the post-Cold War period, especially after the high-level visit by the two countries' state leaders. Following the visit by Korean President Kim Dae Jung in December 1998 and November 2001, Vietnamese President Tran Duc Luong visited Korea in August 2002 in which the two countries agreed to develop bilateral ties into a "comprehensive partnership".

Since the establishment of diplomatic relation in December 1992, cooperation between Vietnam and the Republic of Korea (ROK) has expanded into various areas including trade and investment as well as cooperation at the regional level.

##### ***Economic relations***

For Korean investors, Vietnam with its booming economy has become an important destination for FDI. One of the major advantages of Vietnam, along with cheap labor force and cultural similarity with Korea, is socio-economic stability. In 2002 and 2003, Vietnam were valued by international organizations as the safest place for foreign investors in the Asia-Pacific region.

Currently, South Korea is the sixth largest foreign investor in Vietnam. So far, all major Korean MNCs, also known as chaebols, including Hyundai, Samsung, LG, etc.

have been present in the Vietnamese market. Korean investors have 600 investment projects with registered capital of US\$4 billion.<sup>60</sup>

Korean FDI projects are mainly located in Hanoi, Ho Chi Minh and Dong Nai where infrastructure conditions are relatively good. 81 percent of the total number projects, making up for 64 percent of Korean investment capital focus on manufacturing industry and construction. One notable point is that the implementation of South Korean projects is quite rapid as compared with other countries.

In terms of trade, Korea is the fifth largest trading partner of Vietnam. However, trade balance between the two countries has increased in favor of the Korean side, reaching US\$1.7 billion a year. The trade deficit was attributed to more imports of materials and machinery by Korean enterprises in Vietnam. Meanwhile Vietnam's traditional exports such as rice has yet to conquer the Korean market.

In recent years, Korea has also increased ODA to Vietnam. By 2002, Korea has provided Vietnam with US\$34 million in grant and US\$148 million in concessional loans. Korean ODA has focused on such fields as infrastructure, health care, and education.

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<sup>60</sup> Nhandan newspaper, October 10, 2003.

### ***Cooperation at regional level***

At present, the Republic of Korea and Vietnam are participating in a number of regional mechanisms in East Asia. Within the ASEAN + 3 framework, the two countries have actively contributed to close cooperation among member countries. Being member of ASEAN, Vietnam also seeks cooperation with ROK within the ARF framework.

Given the development potential of both Vietnam and Korea, it is likely that Vietnam-ROK bilateral relations will continue to develop in the coming period. There are various areas where the two sides can boost relation including investment, labor export from Vietnam to Korea and, political cooperation. During the visit to Korea, President Tran Duc Luong expressed support ROK efforts to establish peace on the Korean peninsula through dialogue with North Korea. In reality, Vietnam model of *doi moi* can provide important experience and implications for North Korea in case the country embraces in reform and regional cooperation.

### **5. Vietnam-ASEAN relations**

In 1980s, the Cambodian issue caused tension in the relations between Viet Nam and ASEAN countries. ASEAN and the US applied the policy of isolation and embargo against Viet Nam. Indonesia and Malaysia, however, maintained reconciliatory

attitude towards Vietnam and in the middle of 80s Indonesia played an active role in the search for a solution for the Cambodian issue.

***Vietnam's reform policy and its implications for ASEAN-Vietnam relations***

In the late 1980s, there were important developments, which led to improvement in Vietnam-ASEAN relations. On the Vietnam side, the adoption of economic reform and the policy to engage in regional cooperation helped increase mutual understanding with ASEAN members. Particularly, the settlement of the Cambodian issue was an important step in the restoration of relations between Viet Nam and ASEAN countries.

On ASEAN side, with the end of the Cold War economic development becomes the top priority. To this end, regional peace and stability is needed. Cooperation and trust among regional countries, instead of conflict, is beneficial for economic development. For this reason, ASEAN had real demand to normalize relations with Vietnam and other countries in Indochina. This view can be observed with the statement of Thai Prime Minister to turn Indochina from a battlefield into a marketplace.

***Vietnam-ASEAN cooperation at the current period***



Economic cooperation between Viet Nam and regional countries has unceasingly developed since early 1990s. Apart from multilateral agreements within the ASEAN framework such as the AFTA, Viet Nam has signed with other ASEAN countries over 100 bilateral agreements and MOUs on different fields. Trade between Viet Nam and other ASEAN members increased at an average rate of 26.8% a year and the trade value reached US\$ 5.9 billion in 1998, accounting for 32.4% of Viet Nam's total foreign trade value. Singapore is now the country's second biggest trade partner after Japan, with bilateral trade value of US\$ 2.7 billions in 1999. Investments from ASEAN countries into Viet Nam have also risen rapidly in both the number of projects and the amount of capital. Southeast Asian investors have so far established 477 projects in Viet Nam with the total capital of US\$ 8.27 billion, accounting for 27.5% of the total FDI in the country.

Since late 1991, Viet Nam's cooperation with Southeast Asian countries has been expanded to the fields of security and national defence, which includes a good number of visits by high-level military and security delegations, the signing of many MOUs on information exchange, close cooperation in criminal prevention, and coordination in training. Viet Nam has now exchanged its military attaches with all ASEAN countries.

On the multilateral level, since becoming a member of ASEAN, Viet Nam has

participated in most of ASEAN cooperation programmes in various fields such as political, security, economic and functional cooperation. Viet Nam has carried out effective coordination with other ASEAN members on international and regional fora such as the ASEAN Regional Forum (ARF).

In recent years, together with the development of the relations of friendship and cooperation, the issues left behind by history between Viet Nam and some other South-East Asia countries such as territorial and border disputes, and Vietnamese residents have been gradually solved. Viet Nam and Thailand signed the Agreement on Demarcation of the Sea Border in August 1997, which settled once and for all the issue of overlapping area. Viet Nam also signed with the Philippines a Code of Conduct in 1995 in order to maintain stability in the disputed area and the Agreement on joint scientific exploration in the Spratly area. Viet Nam and Indonesia have held 11 rounds of official negotiations and 7 rounds of expert-level negotiations on the demarcation of continental shelf. Among the Southeast Asian countries, Laos, Cambodia and Thailand are three where many Vietnamese nationals live. Viet Nam has signed with Laos the Agreement on Vietnamese Nationals in April 1993, thus creating favourable legal basis for the assurance of the rights and benefits of Vietnamese nationals in Laos. Viet Nam and Cambodia continue to promote the signing of an Agreement on Vietnamese Nationals. Thailand has readjusted its policy

towards Vietnamese nationals such as easier rules on Vietnamese nationals and permission for them to receive Thai nationality.

## **CONCLUSION: TOWARDS GREATER REGIONAL COOPERATION IN THE 21<sup>st</sup> CENTURY**

So far, the paper has analyzed the current regional context in East Asia and its implication for regional countries, focusing on Vietnam. Its main finding is that Vietnam has been successful in the *doi moi* process because of appropriate adjustments in economic and foreign policy in order to adapt with changes in the regional and international arena.

For regional countries, Vietnam's shift to policy of diversification has been decisive in the restoration of their relations with Vietnam. Economic and foreign policy reforms have created the common interests that help normalize relationship between Vietnam and other countries, including the US and China.

In the 21<sup>st</sup> century East Asia has great opportunities to foster closer economic and political cooperation. The process of regionalization and globalization supported by scientific and technological advance has created new momentum and dynamics for the region to achieve the goal of peace and development.

Nevertheless, as compared with other region like Europe, East Asia remains behind in terms of level of cooperation. No formal region-wide cooperation mechanism has been established. The process of negotiating a free trade area between Japan, China and Korea is far from completion. There remain potential conflicts, which risk undermining the peaceful environment for development.

Unlike the Cold War period, the on-going democratization of relations in East Asia in the 21<sup>st</sup> century implies that East Asian countries can now determine their future without being dependent on the will of a third-party superpower. In the context of a fast changing East Asia where cooperation and conflicts coexist and uncertainties abound, by strengthening domestic economic fundamentals and maintaining a multilateral and balanced approach to regional issues, regional countries can take advantage of new opportunities for economic development and contribute to sustained peace and stability.

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