

**T**he nightmare finally came to pass last October. With hardly any warning, North Korea exploded its first nuclear bomb deep under a mountain in north-eastern Hamgyong province.

Despite being fairly crude – experts claim that the nation is still some way from being able to deploy its newfound nuclear might on missiles – the test sent diplomatic shockwaves rippling across the region and drew international condemnation. The test largely overshadowed news of East Asia’s spectacular economic growth and the interesting shifts in political dynamics that took place last year. Within a span of nine months, East Asia (a vast swathe of territory encompassing Greater China, Japan, Korea and South-East Asia) witnessed the liberation of 25 million people from the dim confines of poverty, according to one World Bank study. The region’s economies grew at an average rate of 8% last year, excluding Japan.

The driving force behind much of the region’s remarkable growth has been a surge in exports. China’s foreign-exchange reserves passed the USD \$1 trillion mark late last year, even as an appreciating yuan surpassed the Hong Kong dollar’s trading band to the US dollar for the first time in history. Anxious to take part in the frenzied growth, investors across the globe unleashed floods of capital on stock markets throughout the region, ensuring the success of the Industrial and Commercial Bank of China’s (ICBC’s) colossal USD \$22 billion initial public offering on the Hong Kong Stock Exchange – the world’s largest to date. The enormous influx of speculative “hot money” into the region prompted the Thai government to impose ill-fated currency controls in December to restrain a surging baht, Thailand’s free-floating local currency. The imposition of such controls told it all: East Asia – much like ten years previously - was once again the investor’s darling.

Yet the flood of capital into the region’s financial markets masked a fierce ongoing battle for foreign direct investment (FDI). FDI, defined as long-term investment by foreign direct investors into enterprises of a foreign nation, is usually preferred by recipient nations to other, more speculative capital inflows because it tends to raise the technological capabilities of the local economy. Rising labor costs in China last year provided a convenient windfall of FDI to other countries in the region: Vietnam is the site of a new cutting-edge factory that cost Intel USD \$1.3 billion to build. Flextronics, which manufactures electronics for other global firms like Hewlett Packard, decided to invest USD \$110 million on a factory in Johor, Malaysia, in lieu of adding to the existing array of facilities already up and running in China. Increasingly, however, East Asia’s frantic rush to attract FDI has been met by calls for renewed evaluations of the true impacts of foreign direct investment

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on local economies. Sai S.W. Latt provides timely analysis of this issue by examining worker rights and labor conditions in the context of foreign investment and state interests.

Encouraging news on the economic front belie a tumultuous half-year in regional politics. Allegations of corruption toppled leaders in Shanghai and Thailand, and continue to besiege the presidents of the Philippines and Taiwan. Shinzo Abe, a hardliner, was sworn in as Japan's prime minister last September amidst media speculation that he had neither the will nor the political mandate to carry on the economic reforms of his iconoclast predecessor, Junichiro Koizumi. Growing concern in the press was accentuated by the near return of the Japanese economy last year to the deflation that has stymied its growth for the past decade.

The foreign press also had a field day with Singapore's prime minister, Lee Hsien Loong, who became embroiled in a verbal free-for-all last September after he banned the Far Eastern Economic Review, claiming "it is a privilege and not a right for foreign newspapers to circulate in Singapore." Yet increasingly the region's local media are developing a knack for bringing controversial issues to light. In this issue, Laura MacGregor examines the key role the media played in instigating competition amongst three of Japan's biggest transportation companies.

Political shenanigans and sizzling economic growth aside, perhaps the most important development in East Asian affairs has been the deterioration of regional security. After withdrawing in 2005 from the six-party talks designed to end its nuclear ambitions, North Korea let fly six missiles directed towards the Sea of Japan last July. China agreed uncharacteristically to mild economic sanctions by accepting a United Nations (UN) resolution condemning its ally's missile tests. Then, still smarting from the freshly-imposed sanctions, North Korea decided to explode its first nuclear bomb on October 9th of last year.

The country's first nuclear test came to pass at an exceedingly embarrassing time for China, its sole ally. Hu Jintao, China's President, had just publicly announced that such a test would be "unacceptable" during a historical summit with Shinzo Abe. A second UN resolution imposing much harsher sanctions that banned the sale of nuclear technology, large-scale military equipment and luxury goods was therefore met with an unusually warm response by China in the UN Security Council later that month. North Korea promptly responded by pronouncing the sanctions a "declaration of war"; East Asia seemed close to descending into chaos.

Exactly what motivated the North Korean nuclear test remains unclear. Baya Harrison provides some perspective on this question by examining previously archived documents authored by Soviet and Hungarian envoys detailing North Korea's historical stance towards nuclear weapons. Whatever spurred the act of aggression, however, one thing remains clear: the region's leaders must tread on

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tip-toes this year when handling the political and diplomatic fallout from the nuclear explosion. As Ban Ki-Moon, South Korea's former Minister of Foreign Affairs, succeeds Kofi Anan as Secretary-General of the United Nations, the denuclearization of the Korean peninsula will undoubtedly be at the top of his agenda.

Yet the UN Secretary-General's role in resolving the diplomatic conundrum will likely remain limited. The future of regional security will hinge largely on the decisions of the six parties – North Korea, China, Japan, Korea, Russia and the US – at the round-table discussions that North Korea agreed to resume last November. Japan has already stated firmly that it will not seek to develop nuclear weapons of its own in response to North Korea's unexpected test, easing concerns that a full-scale arms race is about to unfold in the region. Last December, however, Hu proclaimed that China needed to build a powerful navy and “make sound preparations for military struggles,” prompting renewed concern in the Pentagon and many neighboring countries, particularly Japan, that China was seeking to build an aircraft carrier. Yet the populist movement in Japan to beef up its military by amending its pacifist constitution appeared deadlocked. Jason Kelly analyzes why China's bordering states have failed to engage in “balancing” behavior to match China's new military capabilities, providing much-needed insight on the future landscape of East Asian security.

Greater East Asia remains a compelling area for academic scholarship. It is home to one-third of the world's people, comprising the most populous area of the globe, and continues to lift more of its citizens out of poverty than has occurred in any other era. Economically, it continues to amaze: Hong Kong overtook London and New York last year as the premier destination for firms seeking capital, with a record-breaking USD \$41.2 billion raised. The regional strive towards economic integration culminated in a landmark trade deal signed this January by leaders of the Association of Southeast Asian Nations (ASEAN) and China that will liberalize key sectors from tourism and telecoms to energy and computers and pave the way for a regional free trade area possibly dwarfing NAFTA and even the EU by 2010. Politically, many of the region's countries are at a crossroads, with key constitutional amendments proposed in no less than three polities. In terms of security, East Asia remains the site of torrid diplomacy and negotiation, and worries of nuclear proliferation from North Korea will likely persist long past the settling of the dust from its first nuclear test.

Whether East Asia's breakneck pace of economic growth proves sustainable, and exactly how the region might resolve the diplomatic conundrum in North Korea remain questions that continue to generate much academic debate. We invite readers of the Journal to contribute to the discussions that take place within and beyond these pages, and to provide new insight on the compelling East Asian issues of our time.



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*Editor-in-Chief, 2007*