islands in the 1950s, the 1962 border war with India, and the 1969 border clashes with the Soviet Union. Whiting, who is a professor emeritus at the University of Arizona, sees five common elements in China's behavior. Its leaders 1) had an exaggerated perception of the threat to China, 2) were willing to take on a superior enemy, 3) carefully managed risks, 4) gave advanced "deterrence warning" to their foes, and 5) always sought to seize the initiative and be preemptive. By Whiting's reckoning, Beijing chalked up four clear victories and no serious defeats by using this method.

This historical experience does not augur well for peaceful relations between China and Taiwan, and Whiting's vision is darkened by several new factors. In the past, for example, China almost always gave early warning of its intent to use force—partly because that gave it the opportunity to amass needed forces. But a conventional attack across the treacherous 100-mile-wide Taiwan Strait is unlikely. China would likely use missiles, and that would give it an incentive to strike suddenly and decisively. The Chinese penchant for seizing the initiative further increases the likelihood of such a strike.

Whiting also worries about the dangers of miscalculation. Mao Zedong and Deng Xiaoping often underestimated their foes' response, and unlike them, China's new generation of leaders "lack any military experience." What they do share with their predecessors is a belief in the primacy of political goals over military considerations, and that could lead to hasty action. Not only has there been growing talk of unification with Taiwan, but "rising instability" in China might make it more tempting for the leadership to launch a unifying war effort. At the same time, Whiting says (writing before September 11), China's leaders regard the United States as a paper tiger.

Whiting does not go so far as to predict war. He sees several encouraging developments, such as the growing traffic in people and goods between China and Taiwan. But "China's past pattern in the use of force casts a worrisome shadow over the next decade."

Economics, Labor & Business

Another Path

"Social Policy and Mortality Decline in East Asia and Latin America" by James W. McGuire, in *World Development* (No. 10, 2001), American Univ., 4400 Massachusetts Ave., N.W., Washington, D.C. 20016–8151.

Everybody knows that South Korea, Taiwan, and the other Asian "tigers" provide the model that other developing nations ought to follow, right? Only if you assume that rising incomes are the key to well-being, writes McGuire, a political scientist at Wesleyan University. Things change if you substitute other goals that make at least as much sense, such as improved life expectancy and infant mortality.

By those measures, two of Latin America's best performers, Chile and Costa Rica, have done as well as South Korea and Taiwan. [See chart.] Between 1960 and 1995, for example, the two Latin nations reduced infant mortality by 91 and 86 percent, respectively, while South Korea cut the infant death rate by 93 percent and Taiwan by 80 percent. Interested in living a long life? By 1997, Chileans and Costa Ricans both enjoyed somewhat longer life expectancy than their Asian counterparts.

	Life expec. at birth, 1960	Life expec. at birth, 1997	Infant mortality, 1960 (per 1,000 children)	Infant mortality, 1995 (per 1,000 children)	Total fertility rate, 1960 (births per woman)	Total fertility rate, 1997 (births per woman)
Chile	57.1	74.9	118	11	5.3	2.4
Costa Rica	61.6	76.0	87	12	7.0	2.8
S. Korea	53.9	72.4	90	6	5.7	1.7
Taiwan	64.3	74.6	54	11	5.8	1.8

By a variety of measures, however, South Korea and Taiwan vastly outperformed Chile and Costa Rica. The two Asian countries' export-led growth policies produced much higher incomes and greater income equality, along with lower rates of childbearing and more widespread education. The World Bank calls this the "shared growth" model. But the two Latin countries both have strong welfare-state traditions, dating to the 1920s in Chile and the 1940s in Costa Rica. Both made energetic efforts to extend health care and other services to the poor during the 1960s and '70s. By contrast, the two Asian countries were both Japanese colonies before 1945, and improvements in public health—medical care, water and sanitation works—were imposed by the imperial overlords. As a result, public health wasn't seen as part of the citizen's package of rights after 1945, McGuire says.

There's another crucial difference between the two pairs of countries. During much of the 20th century, both Latin countries had democratic governments (the most prominent exception being the Pinochet years in Chile, 1973–89) and strong labor unions. Democracy arrived in South Korea only in 1988, and in Taiwan only in 1996.

The Asian model may work for some countries, McGuire concludes, though following it is a bit like trying to play basketball like Michael Jordan. "The cases of Chile and Costa Rica show that strong performance at human development is possible even in countries that struggle with slow economic growth, a high degree of income inequality, and prevalent income poverty."

What's Wrong with Japan?

"The Wrong Problem" by Harald B. Malmgren, in *The International Economy* (Nov.–Dec. 2001), 1133 Connecticut Ave., N.W., Ste. 901, Washington, D.C. 20036.

Japan's economy has been ailing for more than a decade, and the conventional wisdom is that the world's second largest economy won't improve until Tokyo gives top priority to dealing with the mountains of bad debt held by Japanese banks. That's a fool's errand, says Malmgren, a former deputy U.S. trade representative (1973–75) who now heads the Malmgren Group.

Nobody knows how big the Japanese banks' bad debt problems really are (including the banks themselves), but one thing is clear: Writing off such "nonperforming" loans will mean closing many businesses and prolonging the recession, thus adding to the mountain of bad debts. And banks that hold lots of bad debts won't make loans to help businesses start up or expand.

Malmgren argues that the Japanese should learn from America's painful economic restructuring. "In the 1980s we had the rapid emergence of private equity and venture capital, high-yield bonds, securitization of debt, derivatives, and myriad other new financial instruments. . . . This opened the way for dramatic changes in merger and acquisition activity, buyouts, mezzanine financing, incubation of startups, bundling of distressed assets, and many other essential steps on the path to restoring the competitive strengths of the U.S. economy."

The American financial revolution got money from savers into the hands of those who needed capital. Japan today has huge pools of "sleeping money" in pension funds and personal savings accounts. What's needed is regulatory reform to spur the creation of "non-bank financial institutions" such as venture capital funds and mutual funds. (Such institutions now account for more than 80 percent of U.S. business financing.) In 1979, for example, a U.S. Department of Labor regulatory change allowed private pension systems to make limited investments in new and small businesses and other "risky" enterprises.

Yes, the banks' bad debts need to be addressed, Malmgren says. But "working on bad debts first, without attention to the crying need for restructuring Japan's stalled economy, can only bring even deeper recession and more deflation—and more bad debt."