

**Consequences of War in the Middle East**

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infrastructure a decade ago, matches this country's orientation toward, and success with, free markets.

In the information marketplace, organizations and individuals would buy and sell information services via computers connected to the NII. Common directory services would make it easier to cope with the richness of services available, and entrepreneurs would, for a fee, advise users about the servers most suitable for their needs. Company clients in the information marketplace would use their computers both to consume and to produce information services, adding value in the process, much as companies do today with goods and services. In short, the NII would bring together buyers and sellers of information services in the true sense of a traditional marketplace.

Economically, the NII should be regarded as a major national investment—one that undoubtedly involves risk but also carries the potential to improve the U.S. economy. And it is an investment that will grow and weave itself into our homes and businesses, becoming part of the fabric of the nation's economy and everyday life as much as the telephone is today. Because of this tight bonding, the NII would be definitively "ours"; assuming the United States is the first to set one up, other countries would have difficulty exploiting it for their own competitive advantage the way they have so many other technologies that originated in the United States.

Philosophically, the NII should be viewed as

a new means of controlling our personal locality—choosing our working associates, vendors, entertainers, and perhaps even friends—without being limited to those that happen to be physically near. With the importance of physical proximity diminished, every person on the national information infrastructure could assemble his or her own electronic "neighborhood."

### Conclusion

Throughout this article I have used the word "national" so many times that I can hear enlightened readers cry, "How about the rest of the world?" There is no question that the rest of the world will build its NIIs. Some may even build them faster than we do if we keep going at our current rate. Eventually, these NIIs will link up with each other as surely as the world's telephone and air transportation systems have. These global information links will benefit the world as much as international transportation and telephone communication do today. Yet the NII must start somewhere. And starting at the national level, even though difficult, is still simpler than starting globally. Finally, strengthening the U.S. economy is not undesirable, either for this country or for the rest of the world.

Let's get on with it!

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Japan can—and must—play a role in the peace process that will follow after the war in the Gulf. While Japan enjoys credibility with the Arab countries of the Middle East, it will be pressed by the United States to take more positive action than it has until now.

## Introduction

Even in this region of great volatility, never have the consequences of war in the Middle East been so grave for the international community. War has come; the coalition of the united front won the military battle. The regime in Baghdad has lost. The implications are crucial for the United States, for Japan, and for all members of the united front against Iraq. For Japan, especially, the consequences will be immense.

### Positive and Negative Aspects

On the positive side, there are opportunities for innovative diplomacy, for involvement in what will necessarily be a large-scale reconstruction effort; the investments in the region will skyrocket; and business opportunities have never been greater—for construction, maintenance, and reconstruction.

On the negative side, it is certain that Japan will be pressured to make direct military commitments for any united action in the future. Pressures for remilitarization will come largely from the United States. In combination with U.S. pressures on the economic front, Japan will find increasingly in a defensive position.

## The Japanese Role

Both government and business in Japan need to develop a robust strategy to manage these pressures. The stresses that they will bring will simply not go away. They must be carefully managed.

What happens next diplomatically in the Middle East? The spiral of chronic violence in that region can be brought under control only if the international community, especially the united coalition against Iraq, gives attention to four factors:

1. Political Process: It is not so much the fact of settling the political conflicts that is relevant, but the process of trying in itself. The deliberations—the dynamics of discussion—diffuse hostilities and engage the antagonists in a dynamic of peace. A process of settlement is necessary to diffuse what will surely be street-corner anti-U.S. sentiments everywhere in the Arab world.

2. Strategic Security. A system guaranteeing the sanctity of borders through a regional security system, buttressed by United Nations and major powers participation, must be put in place. And when the borders are contested—as most are in the Middle East—then engaging in a resolution process is needed (bilateral, multilateral, or international; arbitration, adjudication, or otherwise). A strategy

for regional security is necessary to buttress those regimes that have stood firm with the united alliance.

3. **Economic Management.** Every state in the region, barring none, is currently in a condition of acute economic strains. Economic conditions do not in themselves create conflict; but without management of economic problems, any processes for peace will be undermined. Multilateral efforts for reducing regional economic hardships and for designing strategies for reconstruction are essential. Economic management is necessary to make sure that disintegration does not come from within and that the economies can withstand the shocks of war.

4. **Protecting the People:** Providing international guarantees is crucial for protecting ethnic diversity, protecting the people from tyranny of governments, and protecting minorities from tyranny of majorities. Internationally sanctioned supports for the protection of people will make population, rather than only governments, a constituency for peace in the region. Protecting the people is absolutely essential in order to dampen the inevitable anti-American passions.

Although the best possible outcome for the present Gulf crisis has occurred—total victory,

including unconditional withdrawal from Kuwait and restoration of legitimate governance—the problem of managing the consequences remains. The consequence of victory could, in itself, undermine the joint enterprise by underscoring the presence of foreign military forces, which could be used by opponents of the coalition to erode the legitimacy of the regimes in the Middle East.

### **Conclusion**

None of these factors alone will create long-term peace in the region. Only by moving now, and moving decisively in these four directions, could some plausible regional order emerge from what will undoubtedly be monumental political dislocations in the aftermath of war in the Gulf. Japan can—and must—play a role in this peace process. Japan has credibility with the Arab countries of the Middle East; it will be pressured by the United States to take more positive action. The business opportunities in the Gulf after the war will be immense. All of this requires a new strategy for Japan toward the Middle East. If it is carefully planned, it can be a winning strategy.

# Global Competition, Firm Organization, and Total Factor Productivity: A Comparative Micro Perspective

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This paper focuses on the organization of R & D, manufacturing, and information within Japanese firms. While some characteristics of this structure are specific to Japan, others, such as information-sharing, are more widespread. While primary emphasis has been on “humanware” technology, Japanese firms also rely upon hardware and software. Software, hardware, and humanware are all indispensable if major firms are to prove viable in the global marketplace.

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Many economists and policymakers are concerned with declines in total factor productivity (TFP) among advanced industrialized economies, despite technological innovation. Two major causes may explain the phenomenon: a weakening of catching-up potential among lagging economies and a decline in the potential for technology advance at the frontier of knowledge. Japan is an interesting case study of these possibilities.

At the outset of the postwar period, Japan was undoubtedly a latecomer endowed with great potential for learning from advanced economies, particularly the United States. Japan proved to be capable of realizing its economic potential. According to a recent study, based on analyzing industrial production functions, the average annual growth rate of total productivity in Japan was 1.12 percent in the 1960–1979 period, while that of the U.S. was 0.26 percent.<sup>1</sup> The study argues that, in this process, Japan closed productivity gaps with the U.S. in the raw material processing and intermediate goods manufacturing industries. In some light and capital-goods industries, some productivity gaps remained in

1979, but these were expected to be reduced in the near future, while the U.S. lead in agriculture, textiles, and trade was expected to continue to grow.

As Japan’s catching-up process began to exhaust its potential, TFP started to decline dramatically. The study referred to above described the situation as follows:

Especially after the oil crisis, there were no significant differences between annual growth rates of productivity in Japanese and U.S. industries. Variations of annual growth rates of productivity among industries were also remarkably similar between the U.S. and Japanese economies the oil crisis.<sup>2</sup>

Thus one may tentatively conclude that Japan verifies the conjecture that the weakening of catch-up potential is one of the main reasons for the diminishing growth of TFP.

However, by reaching the frontier in many industries while maintaining unique social and industrial advantages, Japan also presents an interesting opportunity to consider issues related to “potential at the frontier”.

In my view, Japanese experience suggests that TFP may depend upon the internal