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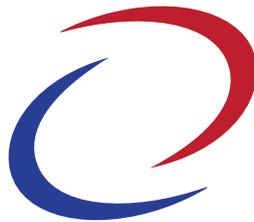
RETHINKING ASIA IN TRANSITION:
SECURITY INTENTIONS, VALUE GAPS,
AND EVOLVING ECONOMIC RELATIONS

**EDITOR-IN-CHIEF:
GILBERT ROZMAN**

JOINT U.S.-KOREA
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EDITOR-IN-CHIEF
GILBERT ROZMAN
THE ASAN FORUM



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Located in Washington D.C., the Korea Economic Institute of America (KEI) is the nation's oldest nonprofit policy outreach and educational organization focused on promoting economic, political, and security relations between the U.S. and Republic of Korea. KEI aims to broaden and deepen understanding among American policy leaders, opinion makers, and the public about developments in Korea and the value of the U.S.-Korea relationship. Since its founding in 1982, the Institute has organized programs across North America and published research on a diverse range of issues, including U.S.-Korea trade and investments, the North Korea nuclear program, alliance issues, the role of Korean Americans in U.S. politics, and China's growing role in the Asia-Pacific region. Through its publications, outreach programs, social media outlets, and website, KEI provides access to in-depth and current analyses about the two Koreas and issues impacting U.S.-South Korea relations.

KEI's signature activities include:

- Publishing three celebrated annual volumes—*On Korea*, *Joint U.S.-Korea Academic Studies*, and *Korea's Economy*—used by experts, leaders, and universities worldwide.
- Bringing Korea experts and government officials to colleges and civic groups across America to discuss timely events related to the Korean Peninsula and Northeast Asia.
- Exploring contemporary issues with Korean and American policy, civic, and cultural leaders through KEI's podcast, *Korean Kontext*.
- Engaging leaders across the country through the annual Ambassadors' Dialogue program, in which the Korean Ambassador to the United States and the U.S. Ambassador to South Korea embark on a series of private and public outreach programs throughout the United States on U.S.-Korea relations.
- Hosting a premier luncheon program every year on Korean American Day to recognize the contributions of the Korean American community to the U.S.-Korea alliance and to honor prominent Korean Americans who have excelled in their field or career.

For more information about these programs and upcoming events at KEI, please visit our website, www.keia.org.

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PREFACE

Since our founding in 1982, the work of the Korea Economic Institute of America (KEI) has progressed to reflect the evolving nature of United States-Republic of Korea relations. Though many of the issues on which we seek to raise public discourse have transformed over the years, the same natural convergence of values continues to underpin the understanding and trust between our two peoples. Upholding our commitment to positive change based on a strong foundation of shared interests, KEI was excited to have a new partner in 2016 for our Academic Symposium, through which we strive to be a bridge between the academic and policy communities.

This year, KEI traveled to Atlanta, Georgia to host part of our Academic Symposium at the International Studies Association (ISA) conference. The annual conference features international affairs scholars from around the world with a wide range of research interests and regional specializations to present papers and discussions on contemporary issues in their fields. We were pleased to contribute two panels on recent significant developments in Northeast Asia. Moreover, for the first time as part of our Academic Symposium, two panels were held in our Washington, D.C. office along with the two in Atlanta.

Although the setting for this year's Academic Symposium may have changed, KEI again turned to the skills and insights of Dr. Gilbert Rozman, the emeritus Musgrave Professor of Sociology at Princeton University, to serve as the Editor-in-Chief for this *Joint U.S.-Korea Academic Studies* volume and as an advisor to KEI's programs at the ISA conference. This collaboration has once more brought together an excellent group of scholars and practitioners.

The experts in this volume have thoughtfully addressed large, challenging themes that are pervasive throughout Asia and important for the U.S.-Korea alliance. China's rise has garnered much attention, yet in the academic literature Beijing's security intentions in Northeast Asia have tended to be overshadowed, a topic addressed in the first section. Major developments in South Korea-Japan relations over the past year, particularly the December 2015 agreement to address the "comfort women" issue, have led the authors in the second section to explore how the interaction with the other country factors into the national identity of each. Over the past year we have witnessed an increase in provocations by North Korea, met with increasingly punitive measures from the international community targeting its access to outside markets. Key to understanding how effective these efforts can be are the economic relationships the DPRK has with its neighbors, discussed in the third section. The final section looks to how the regional economic architecture in East Asia might be shaped in the future, a particularly timely discussion as the fate of the Trans-Pacific Partnership remains uncertain as this volume goes to print.

Whether our connection with you is new or continuing, we hope you enjoy the 27th edition of the *Joint U.S.-Korea Academic Studies* volume and the excellent work it contains.

– The Honorable Donald Manzullo
President & CEO, Korea Economic Institute of America
October 2016



DECIPHERING CHINA'S SECURITY INTENTIONS IN NORTHEAST ASIA

INTRODUCTION

Countries active in Northeast Asia differ in how they interpret China's intentions in regard to security. Does China seek regional domination? Is it defensively resisting the aggressive designs of other states, especially the United States? Is it satisfied with a balance of power that will persist for a considerable time? We begin with a close-up of Chinese thinking, then turn to snapshots of the views of the four other countries active in the region, excluding only North Korea. This introduction offers a summary of the chapters that follow, focusing as well on comparisons of four cases.

From China one often finds mixed messages about its real intentions. While attention has been most heavily concentrated on the South China Sea, where China's militarization keeps moving forward, its intentions on the Korean Peninsula, toward the Russian Far East and Mongolia, and toward Japan (beginning with the East China Sea) matter as well. High expectations were visible in 2014-15 when Xi Jinping and Vladimir Putin were showcasing increased cooperation and even integration of their economies, reaching to the Russian Far East. Anticipation rose as well when China on March 2, 2016 supported tough new UN Security Council sanctions on North Korea and, soon afterwards, appeared briefly to suggest that it is amenable to five-party talks to coordinate versus the North. Considering that Xi is finally meeting with Abe Shinzo, including the renewal of the China-Japan-Korea summit in November 2015, China's views on Northeast Asia appear more cooperative in managing crises and supporting more economic cooperation than in recent years. Yet, the five chapters in Part I cast doubt on such optimism, pointing to suspicions in China and elsewhere about prospects. The chapter on China's thinking points to a pessimistic outlook; that on U.S. thinking finds the mainstream to be warning against Chinese plans to establish a sphere of influence in Northeast Asia; and that on Japan foresees some dangerous unintended consequences of China's intentions to change the status quo by force. The chapter on Russian thinking, despite differentiating three schools with different ideas about the impact on Russia, largely confirms the impression that China is poised to challenge the United States, which many welcome even as they may doubt other Chinese aims. Only the chapter on South Korean thinking was decidedly doubtful about intentions of this sort, but North Korea's nuclear test in early 2016 shifted the terms of debate.

CHINESE STRATEGIC THINKING

Oriana Mastro focuses attention on advances in China's military that impact its strategy in Northeast Asia. She argues that this area is the foundation of China's strategy to establish its regional preeminence, keep Japan down, and eventually push the United States out. Given that this is the home of two major U.S. allies and one of the most important regions—militarily, politically, and economically—China's designs should be of critical concern. Mastro, thus, pinpoints this as the heart of the Sino-U.S. strategic competition, emphasizing its military aspects, giving it higher priority for China than the South China Sea. In her review of Chinese sources, she finds a pessimistic view of the region: while some states are doing things that have a negative impact on the security and stability along China's periphery, the United States is seen as the prime source of regional instability. She evaluates the changing dynamics of China's relations with Russia, South Korea, North Korea, and Japan and China's motivation in each case before concluding with implications for regional stability and U.S. policy.

As Mastro writes, China hopes to leverage its relationship with Russia for three main purposes: to promote an alternate vision of global order; to gain Russian technology and military equipment; and to gain access to Russian energy sources. With a lack of unity in China's strategic community on how close Beijing should get to Moscow, she finds this bilateral relationship to be opportunistic, undermining U.S. military dominance in this region. On South Korea, she calls the country the lynchpin of China's Northeast Asian strategy, based on a clear strategic vision. Beijing's courtship of Seoul is aimed at presenting an alternative to the U.S.-led regional order and to balance against Tokyo, while regarding ROK-U.S. ties as the greatest obstacle to China's regional objectives. Strategic thinking toward North Korea reflects treading water, Mastro adds, to retain it as a geopolitical buffer between China and the United States while expanding China's influence on the peninsula. The purpose of multilateral cooperation is to prevent U.S. unilateral moves. In this view, the United States is the main source of instability, and South Korea's closeness with it makes peace on the peninsula more difficult to achieve. In the case of Japan, Mastro discerns a regional power competition. China leverages history issues for political purposes, creates a more hostile atmosphere to justify its own aggressive actions in the region and to isolate Japan and make Japan a proxy for competition for regional dominance with the United States. This analysis suggests that U.S.-China strategic competition in Northeast Asia is likely to heat up significantly in the military, political and economic realms. A weakened U.S. position may serve China's interests, but contrary to Chinese arguments, it is clearly not in the general interest of Northeast Asian security and development. While the United States prefers to strengthen its partners, China prefers weaker ones to impose its will.

U.S. VIEWS OF CHINA'S INTENTIONS

Mark Tokola begins our coverage of the efforts outside China to decipher its real security intentions with thinking in the United States. While finding diverse opinions in the United States on China's approach toward its neighbors, he argues that the general U.S. attitude towards China's policy regarding its peripheral region is one of suspicion. He finds China's goal of creating a "common security circle" and a "community of common destiny" is more reminiscent of current Russia's *realpolitik*, or even of the earlier Soviet-dominated Eastern Bloc, than of the benign and consensual nature of the EU. Chinese statements regarding "Asia for the Asians," or of "favoring those who side with China," fuel the suspicion that China's aim is to dominate and exclude. Looking beyond the military balance, if China's self-perceived requirement to ensure that the countries on its periphery will not counter Chinese interest is an irresistible force, and the U.S. insistence that it will not accept the emergence of regional spheres of influence is an unmovable object, how can we expect their relationship to develop, Tokola asks. The United States ought to be able to appreciate China's interest in promoting stable and economically successful countries within its periphery, while in the interest of long-term global stability and harmonious relations among the Pacific Rim countries, China needs to recognize that sovereignty and self-determination among its neighbors might lead them to act in ways other than it would prefer, creating a sphere of restraint on the part of China.

Focusing on the idea of “spheres of influence,” Tokola finds a range of views in the United States on China’s intentions but widespread consensus that attempting to forge such a sphere would arouse its neighbors against it and make relations with Washington more contentious. This single concept encapsulates the central concern being raised in many circles and the failure of China to provide suitable reassurance.

JAPANESE VIEWS OF CHINA’S INTENTIONS

The Japanese debate over China’s intentions resembles that of the United States. Michishita Narushige differentiates Japanese political leaders, the Ministry of Defense, the media, and the general public in their thinking about threats to Japan’s security and national interests. While the two main parties in Japan have distinct policy platforms on security challenges posed by China, there are shared concerns over China’s intensified activities in the maritime and aerial domains in the region, he finds. Issues such as China’s military buildup, Beijing’s activities in the South China Sea, and developments in the East China Sea dominate the media debates. Conservatives and progressives have disagreed, and domestic political imperatives further widened the gap between the LDP and the DPJ. In July 2015, Abe broke his reticence and began publicly discussing security challenges posed by China. While he initially avoided explicit mention of China out of diplomatic considerations, he faced criticism at home for failing to explain the rationale behind the new security legislation debated in the Diet, and subsequently shifted his approach. Paradoxically, opposition critiques of the new security legislation ended up encouraging the Abe administration to discuss the “China threat” more explicitly.

According to the Ministry of Defense, China’s attempt to fulfill its unilateral demands without compromise could produce dangerous unintended consequences and is raising concerns over its future direction. The problem is not the lack of transparency but the destabilizing nature of the security policy goals, conservatives argue. Taking a middle ground position, the *Nihon Keizai Shimbun* was more sanguine about Xi, attributing his tough stance on Japan to the “hardliners” in China, particularly those in the military, and even suggesting that Xi might have misunderstood the nature of Japan’s new security legislation. When it talks about Chinese policy, “China” is the subject, an interesting contrast to *Yomiuri Shimbun*, which often uses “Xi” as the subject. Similarly, *Asahi* treated Xi’s role as secondary, stating that “Xi Jinping’s government” is responsible and avoiding identifying Xi himself as the source of the problem. *Yomiuri* discussed China’s increasingly visible attempt to drive the United States out of Asia and establish China’s hegemony there. *Asahi*’s more progressive inclination was visible when it pointed out the danger of an arms race and inadvertent escalation. It expressed concern that Southeast Asian countries were strengthening their naval forces in response to China’s military buildup, and that actions by the United States could also increase tension. Its response to the construction of oil rigs in the East China Sea was quite different from that of the other two papers. It faulted the Japanese government’s attempt to use this issue to marshal political support for the new security legislation, Michishita concluded. Finally, while public opinion on Sino-Japan relations slightly improved in 2015, Japanese citizens recognized that the relationship would remain difficult in the foreseeable future.

RUSSIAN VIEWS OF CHINA'S INTENTIONS

The official mainstream under Vladimir Putin has heralded China's peaceful rise and strategic partnership between Moscow and Beijing, which has become increasingly anti-American (at least rhetorically) after the U.S. invasion of Iraq and "color revolutions" in the post-Soviet space. At the same time, in private many Kremlin officials had deep suspicions about China's security intentions in Northeast Asia, most notably in the Russian Far East. Yet, these doubts are hard to detect in writings and statements..

Moscow has sided with Beijing's position on North Korea, was silent on any Chinese moves regarding the Senkaku/Diaoyu Islands, and has joined hands with Chinese voicing concerns about U.S. plans to install components of the American missile defense system in Northeast Asia. At the same time, Moscow has refrained from directly supporting China's territorial claims in the East China Sea, was cautious about selling Russia's most advanced weapon systems to the PLA, and has invested a significant effort in upgrading its military posture on the eastern flank, observes Alexander Gabuev. Yet, one result of growing conflict between the West and Russia was a redoubling of Moscow's "turn to the East" policy, centered around China, which dramatically changed its strategy towards China and many underlying assumptions. It also dramatically influenced the mainstream analysis of Chinese security intentions in Northeast Asia. Many of the country's China-watchers in 2014 and 2015 started to cover positive aspects of the Russian-Chinese relationship while entirely downplaying the risks. Deliberate silence in public writings on negative scenarios between Moscow and Beijing can be found even in the works of Russia's best China-hands. There is an unofficial ban on all government employees airing negative comments on China. Public comments from Moscow on what China's grand strategy is, or what Beijing's intentions in its neighborhood are, simply do not exist.

Most important is the change in Putin's tone: notions of possible threats or risks associated with China entirely disappeared from his public remarks and interviews. In a May 2014 interview with leading Chinese media he called Russia-China relations a "model partnership" and stated that both countries "don't have any problems which can have a negative impact on strengthening our cooperation." Many interpret China's overall strategy in Northeast Asia as shifting the military balance of power to the point it would be dangerous for the United States to interfere. Beijing will force other countries to negotiate on territorial disputes and make concessions allowing China to claim it has overcome its "century of humiliation," while avoiding direct military conflict. This process, it is believed in Moscow, will not call the Russia-China border treaty into question, and, thus, Russia can remain a neutral observer. Beijing's security intentions in Northeast Asia play a marginal role in the Russian expert debate on China, in which three schools of thought can be identified, says Gabuev. The alarmists, remaining from the legacy of the 1990s, see China as an aggressive rising power aiming to change the status quo in the region and globally. The realists see China's goal in Northeast Asia as attempting to acquire the status of regional major power able to fend off any invasion, as well as to become dominant in the local balance of power in the long run. Representatives of this group argue about details, such as whether China has the ambition to challenge the United States as the primary security provider in Asia. The quasi-realists narrow China's interests down to opposing the United States. They believe that Beijing's policy in the region is a reaction to U.S. attempts to limit its rise and maintain global dominance, and thus conflict between the two powers is imminent, and a clash is a matter of time. Chinese

policy, they state, can be seen as self-defense, and Sino-American conflict is inevitable. The quasi-realists claim that the crisis over Ukraine has marked the breaking point in Russia's relations with the West, and now Beijing is Moscow's only true ally.

SOUTH KOREAN VIEWS OF CHINA'S INTENTIONS

Lee Dong Ryul argues that South Korea is witnessing an intensified debate on what are China's emerging strategic intentions. Naturally, the North Korean issue, newly exacerbated by its early 2016 nuclear and long-range missile tests, figures heavily in the way they visualize what China has in mind for their country. As the competition over Asia between the United States and China hit its stride, many discussions centered on South Korea's dilemma, Lee said, as it sought to keep its ally close and steer China away from North Korea. Such discussions cover the expansion of rising China's role, how its influence in Northeast Asia and the Korean Peninsula affect the North Korean nuclear issue and reunification of the peninsula, and South Korea-China relations. The case of the AIIB illustrates that the public is paying attention to the economic aspects of the rise of China, which is perceived as an opportunity and a challenge rather than a threat. In contrast, there are concerns about a security threat due to the rise of China. The public's threat perception of China is not higher than that of experts, Lee notes, concluding that both have had a positive perception of South Korea-China relations. The "U.S. for security, China for economy" cannot actually be a strategy, considering international politics where economic and security issues overlap. Nonetheless, discussions on it reflect how seriously South Korea is worried about the dilemma between its alliance with the United States and its relations with China.

South Korea was more trusting of China than the United States or Japan before early 2016 when clashing responses to North Korean actions caused a sudden downturn in the level of mutual trust. In 2015, major decisions such as joining the AIIB, attending the Victory-over-Japan Day parade, and ratifying the FTA between South Korea and China, were seemingly brought to the fore through requests by China, and South Korea consequently "responded" to them. On other matters, South Korea refrained from doing things that China strongly opposed, above all, the deployment of the THAAD missile defense system. It appeared that the South Korean government was just waiting for China to "repay" it for such decisions, expecting active cooperation on resolving the North Korean nuclear issue. After North Korea conducted its fourth nuclear test, the major media decided that China is not actively pressuring North Korea as expected and is even hesitating to cooperate with South Korea, and some conservative media brought up China's responsibility in the North Korean nuclear issues. *Chosun Ilbo* editorialized that "The best South Korea and China relations in history turns out to be fictitious." Yet, Lee warns, the media made the mistake of exaggerating Park's attendance in the parade by focusing on the exceptional respect given by China. The opposite extreme of defining the bilateral relationship by focusing solely on the disappointment felt right after North Korea's fourth nuclear test could also be a problem. Each party, however, has its own position on what China's expected role should be, on the way to get China to play that role, and on China's responsibility beyond its role. The hopeful mood about its intentions was shifting, but that did not lead to consensus on the sort of negative view seen in Japan.

COMPARISONS OF VIEWS OF CHINA'S INTENTIONS

Reasoning about China's strategic intentions starts with calculations of how they relate to individual countries, not the Northeast Asian region as such. Russian approval for assertive intentions stems from widespread, but not complete, agreement that China means no harm to it and is strongly committed, if not right away, to take vigorous action against the United States—now broadly considered Russia's enemy. South Korean hesitation to view China's intentions as malign stems from optimism, at least before North Korea's nuclear test in January 2016, that China had become a partner ready for cooperation in managing the North's belligerence. The U.S. position, considering cooperation on a global scale as well as intensifying competition in East Asia, carries a mix of suspicion about China's real intentions with a modicum of hope that in Northeast Asia, especially on the Korean Peninsula, common ground can be found. The most negative thinking about China's real intentions prevails among Japanese conservatives, although the divisions in that country appear to be greater than in the United States. The divisions in Japan narrowed earlier and in South Korea are narrowing of late, while divisions in Russia were sharply reduced and stifled after the Ukraine crisis erupted in 2014. U.S. analysis takes a broader perspective, as in overall concern about establishment of a sphere of influence in Northeast Asia.

The central focus of strategic intentions in this region is North Korea. While one might think that debates in the four countries would all weigh China's intentions toward controlling North Korean provocative moods and reunification, and that developments in early 2016 would test earlier points of view, this has happened mainly in South Korea. In the United States and Japan, many already were pessimistic about China's intentions on the peninsula, and in Russia little is written on them as attention centers on undesirable U.S. intentions. Given the agreement finally reached at the UN Security Council on tough sanctions, South Koreans may be inclined to revive hope in China's role, as others choose to wait and see. Yet, polarization of thinking has spread, including even to South Korea.





Dynamic Dilemmas: China's Evolving Northeast Asia Security Strategy

Oriana Skylar Mastro*

What are Chinese strategic intentions in Northeast Asia, and how have they evolved in recent years? Scholarly and policy research largely focuses on how domestic political and cultural factors influence China's approach to regionalism, multilateralism, and trouble spots like the Korean Peninsula. But over the past decade, China's military has also made great strides with advancements in technology, equipment, training, and mobility. How are these changes impacting China's strategic intentions vis-à-vis South Korea, North Korea, Russia, and Japan? This paper answers that question by identifying common themes found in authoritative Chinese journals and state-sponsored media coverage and evaluating Chinese observed behavior in the form of its military exercises, bilateral military exchanges, and responses to flashpoints and other countries' defense policies. I argue that Northeast Asia is the foundation of China's strategy to establish its regional preeminence, keep Japan down, and eventually push the United States out. In short, China does not accept the regional order in Northeast Asia and hopes that it can leverage its relationships, specifically with South Korea, Russia and North Korea, to inspire change. This research has important implications for power transition theory as well as contemporary policy debates on managing China's rise and defusing U.S.-China tensions.

Northeast Asia – comprised of China, Russia, Japan, North Korea, and South Korea – is arguably one of the most important regions militarily, politically, and economically. Japan and South Korea are China's top trading partners, only after the United States and Hong Kong. The region is also home to the largest, deadliest militaries with China, Russia, and North Korea possessing nuclear weapons, and Japan possessing a break-out capability.¹ The region poses significant military challenges for China – it has an ongoing territorial dispute with Japan and the memory of a more intense dispute with Russia, and it may feel compelled to intervene in contingencies on the Korean Peninsula. The region also lies at the heart of the U.S.-China strategic competition, given that Japan and South Korea are allies of the United States and lynchpins of U.S. foreign and security policy in the Asia-Pacific.

What are China's strategic intentions toward Northeast Asia? Strategic intent includes three key attributes: 1) a particular point of view about the long-term regional trends that conveys a unifying and unique sense of direction; 2) a sense of discovery, a competitively unique view of the future and the promise to design and achieve new national objectives; and 3) a sense of destiny—an emotional aspect that the Party, and perhaps the Chinese people, perceive as inherently worthwhile.² This definition suggests that actions are insufficient to understand intent; perceptions and strategic thinking are critical to the task. Therefore, this paper attempts to contribute to our understanding of Chinese strategic intent by identifying common themes found in authoritative Chinese journals and state-sponsored media coverage and by evaluating Chinese observed behavior in the form of its military exercises, bilateral military exchanges, and responses to flashpoints and other countries' defense policies.

While a great deal of U.S. scholarly and policy focus has been drawn to South China Sea issues, Chinese leaders still conceptualize Northeast Asia as the most critical region for China's security and stability, as well as the prospects of its rise. Since its founding, China has recognized the strategic importance of the region – Mao Zedong argued that China needed to counter U.S. influence in this area because of its significant impact on Chinese security.³ China's official national assessment of the regional trends is pessimistic, lamenting that the United States “enhances its military presence and its military alliances in this region. Japan is sparing no effort to dodge the post-war limitations on its military, overhauling

its military and security policies. Such developments have caused grave concerns among other countries in the region...certain disputes over land territory are still smoldering. The Korean Peninsula and Northeast Asia are shrouded in instability and uncertainty...all these have a negative impact on the security and stability along China's periphery.⁷⁴ Five specific objectives are laid out in a volume about great power strategies published by the PLA publishing house: Maintain national sovereignty, achieve the reunification of China; Promote our own prosperity and maintain surrounding region stability; Promote political multi-polarity, establish stable relations among major powers; Enhance regional economic cooperation, participate in regional security cooperation, and; Make policy independently, adhere to an active defense policy.⁵

I argue that China increasingly sees itself as the key to peace and security, and the United States as the prime source of regional instability. In that context, Beijing sees its relationships in Northeast Asia as the cornerstone of its return to greatness, critical to keep Japan down and eventually to push the United States out.⁶ China's aspirational goal is the eventual removal of the U.S. military presence from the region, although in the nearer term Beijing would be content with a reduced U.S. presence that allows China to exercise dominance. As a result, China is strengthening bilateral, trilateral, and multilateral cooperation mechanisms to create favorable conditions for China in its competition with the United States. In the words of Xi Jinping, "the Asia-Pacific region is becoming a point of military contest from the Game Theory model. Some western countries attempt to contain and encircle [China]. The territorial disputes, competition for the natural resources among the great powers, military security contest, and ethnic conflict intensify the problems, thus increasing the possibility of a military confrontation or war near our border."⁷⁷ This is the context under which China is shaping its broader strategy towards Northeast Asian countries. Below, I evaluate the changing dynamics of China's bilateral relationships with Russia, South Korea, North Korea, and Japan, and the motivations underpinning their evolution. I then conclude with implications for regional stability and U.S. policy.

CHINA'S OPPORTUNISTIC INTENTIONS TOWARD RUSSIA

In 2015, with almost three dozen high level visits, outside observers proclaimed the advent of a new era in Sino-Russian relations. In September 2015, President Vladimir Putin visited Beijing and proclaimed that ties were at their highest level in history.⁸ Some speculated about a "superpower axis,"⁹ Sino-Russian bloc, or an entente.¹⁰ Russian hopes for the relationship drive much of the hype; as Russia pivots east, its ties with China become a central component of its global strategy.¹¹ Chinese strategic intentions towards Russia have evolved in important ways, but more narrowly than these debates suggest. For Chinese leaders, the goal is to improve coordination with Russia on select issues, rather than to establish a comprehensive strategic partnership. In an ideal world, China would have Russia's support in its growing competition with the United States even if it refuses to reciprocate when supporting Russia would harm its relationship with the United States.¹²

Of course, the reality is less rosy, with Russian actions creating negative externalities for China, such as with the Ukraine, and Moscow promoting their own interests at the expense of China such as in the case of on its maritime dispute with Japan and its Silk Road Initiative.

The relationship is often characterized as unequal, with China in the driver's seat and Russia relegated to the role of the lesser partner.¹³ China hopes to leverage its relationship with Russia for three main purposes: to promote an alternate vision of global order; to gain Russian technology and military equipment; and to gain access to Russian energy sources. There is much consensus on these issues, but the discussion is still important to set a baseline for identifying any changes. Though, there is debate about what exact policies will help China leverage Russia against the United States without promoting a strong Russia that could threaten Chinese interests.¹⁴

Garnering Russian support for China's vision for the global order is a central component of Beijing's strategy. In one of his first speeches after becoming Central Military Commission chair and president, Xi called on the two countries to further develop a comprehensive strategic partnership in order to shape a fair global order.¹⁵ Chinese strategists consider Russia to be critical to the success of China's attempts to challenge U.S. hegemony, counter U.S. attempts at containment, and bring forth a multipolar system.¹⁶ Both have national narratives about how their respective states were "unfairly treated in the past" and both resent the current U.S.-dominated international system.¹⁷ And given that western countries see the rise of both countries as a challenge and seek to constrain them, two Chinese professors from Jilin University suggest that uniting together may be the best way to protect their core interests and reduce the costs and risks of rising.¹⁸

China also sees the relationship with Russia as critical to undermining U.S. military dominance in the region. Regular visits occur between ground, air, and naval forces, including at the level of the Central Military Commission. Of all the Northeast Asian countries, China sees military cooperation with Russia as the most critical because it allows Beijing to gain critical military technology and materiel.¹⁹ Russian arms sales to China are currently worth around \$1 billion a year, with China most recently buying 24 advanced multirole Su-35S fighters and S-400 surface-to-air missile systems.²⁰ Russia had initially insisted on selling a minimum of 48 Su-35S airframes, to offset expected losses once China reverse-engineered the technology, but China prevailed, buying only 24 aircraft instead.²¹

Military cooperation with Russia also helps to extend the reach and capabilities of the Chinese military. In 2015, there was a significant uptick in combined exercises, with China participating for the first time in an exercise with Russia in the Mediterranean.²² The fact that the media portray the military relationship in a positive light to the domestic public suggests the leadership hopes to deepen and expand cooperation in the future.²³ China hopes to use its military relationship with Russia to improve its ability to balance against Japan.²⁴ To do so, Xi often builds up the WWII connection—both reciprocal presidential visits in 2015 were to attend WWII commemoration parades and often discussed how they developed a deep bond fighting the Fascists (i.e. Japan).²⁵ Three of the four bilateral naval exercises under Xi took place either in the Sea of Japan or in the East China Sea, which support Chinese efforts to challenge the U.S.-led maritime order and deter Japan.²⁶

Lastly, China hopes to exploit its relationship with Russia to enhance its own energy security. Gaining access to Russian energy resources allows China to diversify its energy imports, building redundancy in case of disruption to energy supplies from, for example, the Middle East. In 2015, Russia overtook Saudi Arabia to become the biggest exporter of oil to China. China is hoping to receive Russian natural gas from new pipeline projects, which would be harder for an adversary to disrupt.²⁷ But these agreements, such as the Altai gas pipeline, have

stalled, largely because of the economic downturn in China and because of the declining price of oil and gas.²⁸ Such developments suggest that while there is a strategic rationale to energy cooperation, the pace of development will be largely driven by economic considerations.

China's strategic community is not, however, unified in its views of Russia, with analysts debating how close China should get to Russia. At the heart of the debate lies the question of whether to abandon historical aversion to alliances. Some argue that the two countries should form an alliance immediately because the combination of their military power would be unassailable, and together they could counter U.S. hegemony. Others oppose an alliance, for ideological and practical reasons. One vice minister of the Foreign ministry asserts that the current transactional relationship is sufficient to enable their goals of establishing a new international order, without standing as a provocative anti-Western bloc.²⁹ Ultimately, China's intentions towards Russia are opportunistic—China is using the relationship to help it manage the challenges of its rise.

CHINA'S COURTSHIP OF SOUTH KOREA

China has historically attached great importance to the Korean Peninsula because of its geo-strategic position in the region, at the intersection of Chinese, Japanese, and Russian interests. Chinese writings suggest that Beijing considers that relationship to be important to its Northeast Asia strategy and was relying mainly on a charmed offensive to strengthen the bilateral relationship. But after the nuclear test in January 2016, Beijing has begun to question whether its approach to Seoul was realistic and may have begun to recalibrate its approach, though it is too soon to tell the ultimate result. Xi Jinping has laid out a vision of deepened exchanges and cooperation with the ROK to achieve their previously agreed upon bilateral goals of common development, regional peace, revitalization of Asia and the promotion of world prosperity.³⁰ While many of China's relationships in the region and beyond are seen largely as temporary, transactional, and based on issues of the day, Beijing's aspirations with respect to South Korea are the closest it has come to seeking a comprehensive strategic partnership. Beijing seeks to build political trust, cooperate on long-term development objectives, respond jointly to complex security challenges, and harmonize their macroeconomic policies.³¹

Closer cooperation on regional security issues is also designed to present an alternative to the U.S.-led regional order. Significantly, South Korean President Park designated Beijing as her first state visit in June 2013, while Xi reciprocated with a summit meeting with Park in July 2014 in Seoul. Traditionally, new Chinese leaders have visited North Korea before South Korea, while South Korea usually visits Japan before China. In December 2015, China and South Korea held talks on delimiting their overlapping exclusive economic zones (EEZs) for the first time in seven years.³² As Premier Li Keqiang notes, China and the ROK can together contribute to regional stability and should begin to cooperate on non-traditional security and rescue missions.³³ High-level defense exchanges have become routine and currently more than 30 groups of military delegates visit each other every year for regular meetings and exchange programs.³⁴

The events of 2015 suggested China hoped to leverage its relationship with South Korea to balance against Japan. In 2015, the 70th anniversary of the end of WWII provided China with an opportunity to make symbolic advances with South Korea, at the expense of Japan. President

Park Geun-hye attended China's commemorative parade celebrating the 70th anniversary of the end of World War II as a guest of honor in September 2015,³⁵ which was widely criticized as an anti-Japan event. A ROK stealth destroyer also made its first port call to Shanghai on August 28, 2015, on the anniversary of the end of Japan's colonial rule over Korea.

However, South Korea's reaction to the DPRK's January 2016 nuclear test and February 2016 rocket launch have caused consternation that the charmed offensive is not gaining enough traction in Seoul. South Korea reinforced its alliance with the United States and is deliberating deploying THAAD (Terminal High Altitude Area Defense) to establish better defenses against incoming ballistic missiles in their terminal phase. Chinese media and official criticism of the potential THAAD deployment have been harsher than those reserved for DPRK missile launch.³⁶ *A China Youth Daily* article warned the ROK that its security was being 'hijacked' by the US 'rebalance to Asia' strategy – and that the alliance is no longer in ROK's best interest. According to Chu Shulong, a professor of international relations at Tsinghua University, "the belief that deploying the THAAD system is aimed principally at solidifying America's position in Northeast Asia is widespread in Beijing, where officials fear the ultimate goal is to contain China."³⁷ A Xinhua article presents the official position that U.S. pushing of THAAD is another example of how "hostile U.S. policies" are "a major contributor to the regional predicament," and thus that THAAD deployment would only spark "a vicious cycle on the Korean Peninsula."³⁸

China's reluctance to punish the DPRK for its recent provocations likely undermined support in South Korea for President Park's policy of building stronger ties with Beijing. The fact that President Park was unable to arrange a phone conversation with Mr. Xi after the test suggests that China's focus on South Korea throughout the year may be ephemeral. North Korea most likely unexpectedly complicated China's efforts to strengthen cooperation with South Korea. Additionally, Beijing may also have realized that its hopes to exploit history to leverage South Korea against Japan were unrealistic as well. Time will tell whether these changing factors will lead to a reduced focus on the bilateral relationship or a change in tactics.

CHINA TREADING WATER WITH NORTH KOREA

Historically, China has refused to entertain the possibility of a world without the DPRK because of its political sensitivity, hindering any talks that would facilitate contingency planning. Moreover, China fears that a denuclearized Korea under American dominance would pose a threat to China's northeastern border stability, and limit China's quest for regional power.³⁹ However, in the past year, China has been surprisingly vocal about its support for Korean reunification in the long term. Xi himself has articulated China's support for "self-reliance and peaceful unification of the peninsula" as well as multilateral diplomatic efforts to solve the nuclear issue.⁴⁰ One article in an influential journal by an academic and a think tanker articulated five stages that move through stability, to security (lack of confrontation), to peace (normalization of relations), then harmony (denuclearization through a regional effort) and finally, denuclearization.⁴¹ These priorities are consistent with official Chinese statements that a reunified peninsula is best, and capture Beijing's best-case scenario – a gradual, incremental peace.⁴² However, it is unknown when China would perceive the Korean Peninsula stable enough to denuclearize the DPRK and to peacefully unify with the ROK.⁴³

Despite the increasing importance of the ROK to China, the Sino-DPRK alliance remains in effect as the DPRK serves as an important geostrategic buffer between China and the United States.⁴⁴ While China supports reunification in the long run, it is determined to ensure that the end result is an even stronger buffer state, expanded Chinese influence on the peninsula, and profitable economic arrangements.⁴⁵ The only way China believes this end state can be accomplished is through peaceful, gradual, and incremental change. Therefore, Chinese officials disapprove of policies that could destabilize the Pyongyang regime.

Once again, China believes U.S. policy is needlessly exacerbating security concerns regarding North Korea. Beijing therefore continues to push for countries to buy into a multilateral diplomatic process, such as the Six-Party Talks.⁴⁶ The hope is that multilateral cooperation will discourage any of the relevant actors, but especially the United States, from enacting unilateral measures that could destabilize the region.⁴⁷ China also is cognizant that its relationship with the DPRK creates a negative image, but to date Beijing has been unable to successfully mitigate this consequence of its foreign policy.⁴⁸ Moreover, Chinese thinkers believe a nuclear DPRK is the only legitimate justification for stationing American troops in Asia, so successful denuclearization may buttress Chinese challenges to the U.S.-led alliance system.⁴⁹ China argues the United States is the source of instability because it wants to maintain a divided peninsula and engages in provocative actions itself, like joint military exercises with the ROK, that stoke tensions.⁵⁰ Moreover, according to Beijing's strategists, South Korea's dependence on the United States is damaging the chances of making peace with North Korea – South Korea should therefore rely more on China for its security.⁵¹

In this context, China seeks to manage routine North Korean provocations, most frequently by urging restraint. In January 2015, U.S. sanctions imposed in response to an alleged North Korean cyber attack on Sony Pictures caused Chinese officials to call for caution and peace on the Korean Peninsula. The Chinese Foreign Ministry urged restraint after three provocations in 2015 – after North Korea fired seven missiles into the East Sea, after it announced a successful submarine-launched ballistic missile test, and after it test-fired three more missiles. The Chinese Foreign Ministry called for an easing of tensions after the two Koreas exchanged artillery fire, while the Chinese Defense Ministry denied rumors that the PLA had sent large troop reinforcements to the Chinese-North Korean border in August 2015 amidst inter-Korean tensions.⁵²

On occasion, bilateral relations have been more strained, and China has not been afraid to chastise North Korea, but in its own, private, way. For example, in September 2015, China called for North Korea to abide by a UN resolution banning the North from conducting ballistic missile tests, a day after Pyongyang hinted it would conduct a long-range rocket test.⁵³ By October, China embarked on a high profile attempt to repair strained ties between the two nations by sending Liu Yunshan of China's Politburo Standing Committee to join Kim Jong-un during a military parade to mark the 70th anniversary of North Korea's ruling Workers' Party.⁵⁴ The Chinese effort appears to have borne fruit, as Pyongyang refrained from following through on a long-range rocket or a fourth nuclear test in November of 2015.⁵⁵ China again snubbed a North Korean diplomatic effort in December, however, by canceling a performance by Kim Jong-un's favored girl band, reportedly over lyrics that might provoke the United States.⁵⁶

The biggest blow to Chinese attempts at maintaining stability on the peninsula was North Korea's test of an alleged hydrogen bomb the first week of January 2016 – 50 miles from the Chinese border. Despite strong criticism from the ROK and the United States on China's apparent tolerance of the test, a few details of Chinese behavior suggest the possibility of an evolution in policy. First, China claims that it was not informed by North Korea prior to the test.⁵⁷ Although it is uncertain if it was the first time that North Korea failed to notify China, it is the first time that China acknowledged the absence of the notification.⁵⁸ Second, China's Foreign Ministry spokesperson said that the repeated nuclear tests are not benefitting the normal development of Sino-DPRK relations.⁵⁹ Although it has been known that Sino-DPRK relations have deteriorated since Kim Jong-un's ascent to power, it is the first time that China publicly expressed a warning to North Korea. These two statements reveal desire to avoid being associated with North Korea's belligerent image and the nuclear program, even as China is lukewarm on harsher actions to punish provocations.

Undoubtedly the bilateral relationship has suffered as the result of these, and the previous, provocations. In 2013, China publicly denied that it had an alliance with North Korea and argued instead it had normal relations. The leaders have not been meeting – instead favoring relations with South Korea.⁶⁰ According to Cheng Xiahe, an associate professor of international relations at Renmin University, it was humiliating for China for Kim to continue with its rocket test on the Chinese lunar new year after Beijing had sent an envoy to persuade them to desist. China believes its long-term strategy requires a stable DPRK to allow for reunification, but in the short term, its behavior is strengthening the U.S. alliance system, domestic support for its DPRK policies is waning, and China is afraid of turning an unpredictable and unreliable ally into a dangerous enemy.⁶¹

Because of this, China is continuing to push for the prioritization of talks—in spite of South Korea, Japan, and U.S. insistence on tougher targeted sanctions. But editorials previewed a shift in policy when it argued that North Korea “deserves the punishment” of new sanctions, but China should “cushion Washington's harsh sanctions to some extent.”⁶² Indeed, in a phone call with President Obama, President Xi pushed the idea that denuclearization would only be achieved through dialogues and consultations, though he agreed to ‘safeguard’ relevant UNSC resolutions.⁶³ In late February, the U.S. presented harsher sanctions, including a longer list of banned items and a requirement that UN members inspect all cargo passing through their territory to or from Korea to look for illicit goods.⁶⁴ Chinese official statements stress that China supports the UNSC as a responsible member of the international community, but sanctions alone cannot denuclearize the peninsula—negotiations remain the fundamental means to managing the nuclear issue.⁶⁵

China also used the test to reinforce its standard message that the U.S.-led alliance system is the source of instability in Northeast Asia. Op-eds published in the state-approved newspapers were clear that Beijing's criticism was directed towards the United States, and intimated that North Korea develops nuclear weapons to mitigate its insecurity caused by U.S. politics.⁶⁶ In the case of previous tests, China remained relatively silent while other states speculated about China's intentions or criticized Beijing's inaction. The fact that China now finds the need to justify its policy to international as well as domestic audiences suggests pressure for policy change is now stemming from multiple audiences. Additionally, China likely criticized America's prompt responses after the nuclear tests because of concerns the United States will exploit the crisis to increase its military influence in the region and facilitate the development of a functioning U.S.-ROK-Japan trilateral alliance.⁶⁷

Ultimately, China intends to maintain stability on the Korean Peninsula until a reunified Korea under China's sphere of influence becomes the most likely possibility. Beijing works to prevent the United States from taking actions that it thinks will lead to the consolidation of the U.S. position at the expense of China's rise. China also argues that the DPRK will only isolate itself more from the rest of the world if faced with UN sanctions and greater international pressure. The Chinese position is that North Korea's nuclear problem will be more difficult to resolve than Iran's because of its nuclear capabilities, the complexity of this issue, and the fact that it is a low priority in American foreign policy.⁶⁸ Chinese official statements refer to the belief that U.S. attention will soon drift away and China cannot afford to "be swayed by specific events or the temporary mood of the moment."⁶⁹

CHINA'S REGIONAL POWER COMPETITION WITH JAPAN

Maritime disputes, defense buildups and history issues cast a shadow on Sino-Japanese relations in 2015. Both countries engaged in more muscular defense posturing over the disputed Senkaku/Diaoyu islands, with the Japanese announcing plans to deploy ground troops to outlying Japanese islands, conduct joint drills with the Japanese Coast Guard in the East China Sea, and install anti-ship and anti-aircraft missiles on Japanese-held islands.⁷⁰ The Japanese Diet also passed legislation to expand the definition of the Japanese right to collective self-defense.⁷¹ China, for its part, is reportedly building a large-scale base with hangar facilities and a large training area in Zhejiang, approximately 356 km from the Senkaku/Diaoyu Islands.⁷² The rate of PLA Air Force and Navy exercises continues to accelerate, as evidenced by Japanese fighters scrambling to intercept a particularly large flight of eleven PLA Air Force aircraft in November 2015.⁷³

Chinese media and popular opinion continued to focus on "history issues" – Japan's continued reluctance to account for wartime atrocities – and Beijing is increasingly leveraging that opinion for political purposes. Chinese officials express the desire to improve diplomatic relations with Japan, but only if Japan is "honest on the historical subject, sincere to the victim states in Asia, and responsible for the related issues" – a message that has been promulgated through scholarly writings as well.⁷⁴ At a meeting with Abe Shinzo, Xi Jinping stressed that the historical issues are essential for the political foundation of the Sino-Japanese relationship, and hopes that Japan will send out correct messages on history.⁷⁵

China seems to be using the history narrative to achieve three parallel purposes in its relationship with Japan: domestic, regional, and international. First, while some Chinese people, including officials, are undoubtedly outraged by Japan's handling of its past, the Party exploits this for its own purposes. In August-September 2015, major news outlets published one selection per day from a compilation of written confessions of "the Japanese invaders" detailing their crimes against humanity and the Chinese people.⁷⁶ China is attempting to garner domestic political support, perhaps even to justify its military modernization to the Chinese people. Many articles, including some factual reports, include provocative or emotional titles or content, whose sole purpose is to make Chinese people more hostile towards Japan. Evidence suggests the strategy is working – according to a public opinion poll conducted in Summer 2014, 86.8 percent of respondents expressed negative feelings toward Japan, citing Japan's failure to reflect on history (59.6 percent) only slightly less

frequently than territorial issues (64 percent).⁷⁷ A few articles criticized the United States for not stopping Japan from passing the constitutional revision or for not pressuring Japan to issue a sincere apology to its Asian neighbors for the war crimes.

Second, China most likely hopes to create a more hostile atmosphere against Japan to justify its own aggressive actions in the region, especially with respect to the disputes in the East China Sea. China wants to put the burden of maintaining peace and stability in the East China Sea on Japan, urging Tokyo, “to stop creating anxiety and confrontation, and to contribute more to the peace and stability of the region.”⁷⁸ During Abe’s November 2014 visit, Xi called upon Japan to “follow a prudent military and security policy, make more efforts to increase mutual trust with neighboring countries and play a constructive role in safeguarding regional peace and stability.”⁷⁹ Chinese official statements insinuate that Japan is not working to prevent the repetition of history, and is therefore a threat to the region.⁸⁰ China is also seeking to delegitimize Japan’s vocal concerns about the threat of a rising China.⁸¹ By focusing on Japan’s bloody past, China seeks to isolate Japan from the region, and convincingly argue to other countries that any future aggression towards Japan is unique, and would not be a harbinger of Chinese belligerence as a great power. Some Chinese professors and think tankers suggest that Japan is intentionally seeking disputes to create an excuse to eliminate constitutional and normative obstacles to military expansion.⁸²

There is no doubt that China exploits history, but at the same time, China has real security concerns regarding Japan’s expanding military capabilities and relaxed restrictions on their use. Many fear that Japanese politicians are striving to restore Japan’s economic and political power from the pre-war era and that Japan still aspires to be a great power.⁸³ Indeed, China compares the Senkaku/Diaoyu island dispute with other territorial disputes Japan has with Russia or South Korea, in order to show a broader pattern of Japanese hostility to other countries in the region.⁸⁴

Third, Japan serves as a proxy in China’s ongoing competition for regional dominance with the United States. China is determined to undermine any U.S. attempts to bolster Japan’s position or its own regional position through its alliance with Japan – highlighting Japan’s sordid history serves this purpose. For the Chinese, Japan is a clear-cut case for how the U.S. role in the region is destabilizing and harmful to the peaceful development of China. The United States welcomes a more militarily capable and active Japanese military not because it is good for regional stability, but because it helps the United States maintain its regional hegemony, of which countering China is a part.⁸⁵ But Chinese writers voice their concern about U.S. ability to rein in Japan.⁸⁶ The United States is seen as either naïve about Japan’s intentions, or unconcerned that a remilitarized, and even nuclear Japan, could bring harm to U.S. interests.⁸⁷ Chinese strategists blame the United States for the state of Sino-Japanese relations – instead of accommodating China’s rise, Japan has the option of leveraging its relationship with the United States for prestige and power status.⁸⁸ For this reason, Chinese strategists believe that a Japan more independent from the United States best serves China’s interests.⁸⁹

CHINESE STRATEGIC INTENTIONS IN NORTHEAST ASIA: IMPLICATIONS FOR REGIONAL SECURITY

The contours of China's strategic intentions towards Northeast Asia can be derived from China's policy, practice, and strategic thinking on its bilateral relationships with Russia, South Korea, North Korea, and Japan. First, China understands that it must attain the strategic support of Northeast Asian countries in order to achieve the goal of "national rejuvenation."⁹⁰ Second, Beijing recognizes that it needs Northeast Asian countries to accept its role as regional leader for it to be able to achieve regional preeminence. China hopes to gain this recognition from Russia and South Korea through positive inducements, but this may be because of current estimates of this strategy's eventual success and the difficulties of coercion given the balance of power. If these factors change, as they did in Southeast Asia, China may move towards coercing compliance, as is already the case with Japan. Chinese official and academic statements suggest that the U.S. military presence is the greatest obstacle to realizing this second goal because it offers attractive alternative pathways to Northeast Asian countries.

Lastly, while China may more ostensibly be challenging the United States in the case of maritime disputes in the South and East China Sea, Northeast Asia is the real linchpin of China's strategic challenge to the U.S.-led regional order. Chinese official statements clearly present regionalism with Chinese leadership as an alternative, and argue that a more Sino-centric regional order would positively contribute to regional security. Specifically, Chinese writings highlight how Japan would embrace a more responsible attitude towards its WWII history, thereby easing tensions in the region, if not for U.S. unwavering support. Also, the United States exacerbates North Korean insecurity, further delaying denuclearization needed before peaceful reunification. China believes the maturation and intensification of bilateral security ties with its neighbors, especially Russia and South Korea, will not only contribute to its own military modernization efforts, but also can serve as a geopolitical instrument against the United States.

This analysis suggests that U.S.-China strategic competition in Northeast Asia is likely to heat up significantly in the future in the military, political and economic realms. A weakened U.S. position may serve China's interests, but contrary to Chinese arguments, it is clearly not in the general interest of Northeast Asian security and development. While the United States prefers to strengthen its partners, China prefers weaker ones so that it can more easily impose its will. A strong, prosperous and stable Northeast Asia is critical to global security – hopefully the rebalancing accurately captures U.S. strategic intentions to maintain its regional position, even in the face of the growing China challenge.

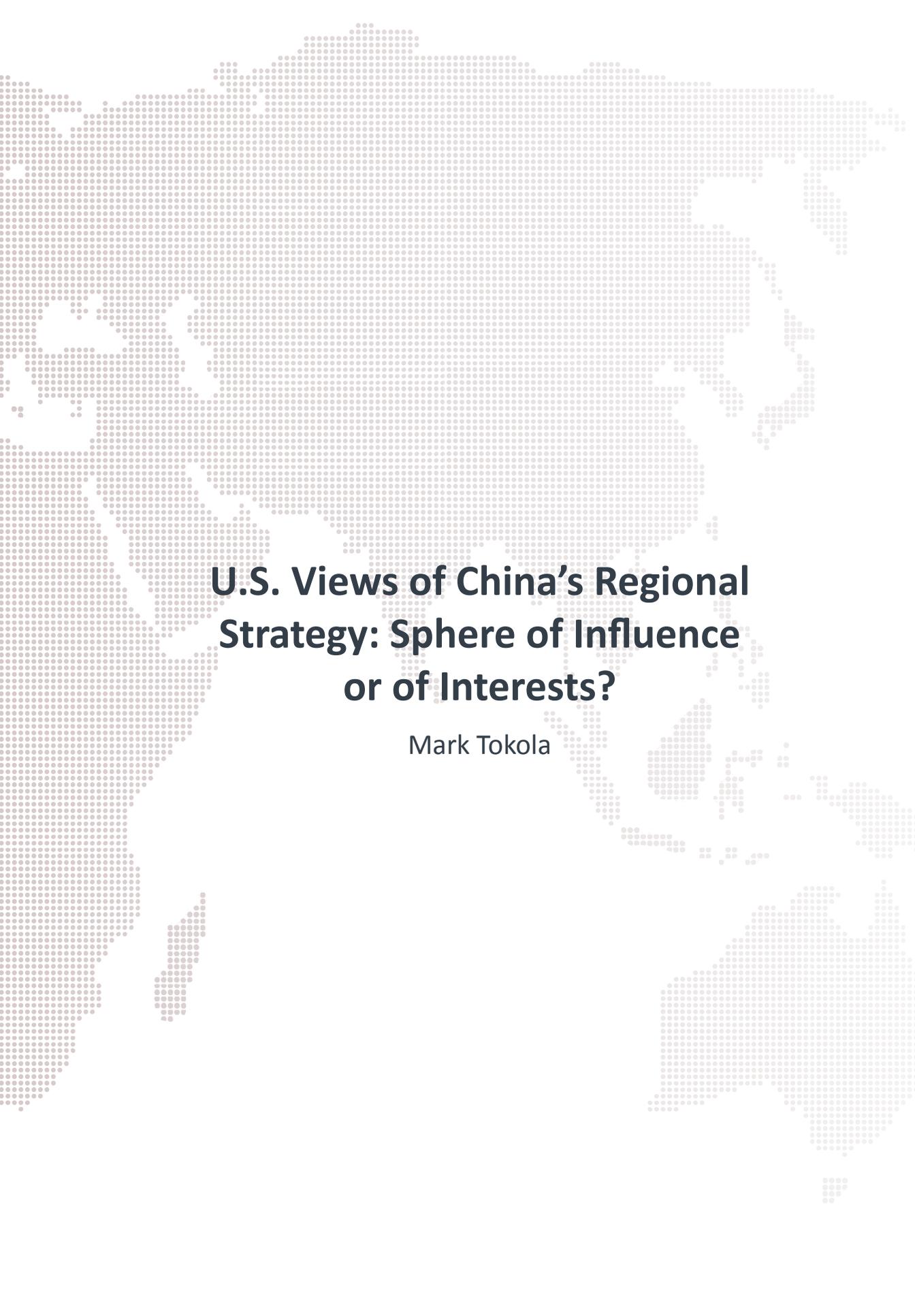
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U.S. Views of China's Regional Strategy: Sphere of Influence or of Interests?

Mark Tokola

Today's relationship between the United States and China is more varied, complex, and cooperative than the accumulation of headlines would lead one to believe. The news media and commentators spotlight points of friction; more books are sold about conflicts and potential conflicts than about peaceful relations; and the bread and butter of politicians and government officials is in identifying and solving problems rather than simply shepherding the normal course of events. That said, U.S.-Chinese relations remain under a cloud of mutual suspicion and misunderstanding. No relationship between large nations is totally untroubled, but that between the United States, the continually dominant global power, and the rising China is particularly unsettled. That situation is reflected in the way Americans have been debating China's security intentions.

There is no consensus within American opinion regarding whether China seeks to join the existing international system or to transform it. There is also an important doubt, on which this paper will focus, whether China's priority is to stabilize its neighborhood or to dominate it – or whether China sees that as the same thing. U.S. interpretations of Chinese intentions rely in part on reading what Chinese commentators write on the subject and in part on the assumptions the U.S. commentators bring to their analysis.

Chinese commentators place paramount value on social and political stability, and express concern that unstable or “unfriendly” regimes on China's periphery could threaten China's own stability. Chen Xiangyang wrote in 2010: “(The periphery) is the main theater where China preserves national security, defends its sovereign unity and territorial integrity, and unfolds the struggle against separatism; it is...the buffer zone and strategic screen in keeping the enemy outside the gate. Second, it is the vital area for China's rise that world powers cannot cross...and the main stage for China to display its strength to the outside world.”¹ Many commentators point to outside forces at work to create intolerable situations, from China's point of view, in neighboring countries. This, from 2008, “The security environment on China's periphery is becoming more complex, with the strengthening of traditional military alliances, the expansion of foreign military bases, and the deployment of new weapons systems such as ballistic missile defenses. In addition, some people (are) plotting ‘color revolutions’...to revamp the regimes among China's neighbors, and some people are pushing ‘values diplomacy’ in a bid to build a democratic encirclement around China.”² Although the outside instigators of these ills are unnamed, the United States, judging by their context, is clearly atop the list of suspects. Suspicion of U.S. motives has a long pedigree. One of Mao Zedong's quotations was: “As for the imperialist countries, we should...strive to coexist peacefully with those countries, do business with them and prevent any possible war, but under no circumstances should we harbor any unrealistic notions about them.”³ The statements above may reflect unusually stark positions on the spectrum of Chinese opinion, but they are not uncharacteristic in holding that China has a strong, perhaps existential, interest in ensuring that the fourteen countries that border China remain “friendly.”

The United States, from its perspective, asserts a national interest in discouraging the emergence of regional spheres of influence anywhere in the world. Vice President Biden said during a May 27, 2015 speech at the Brookings Institution, “We will not recognize any nation having a sphere of influence. It will remain our view that sovereign states have the right to make their own decisions and choose their own alliances.” Deputy National Security Adviser Tony Blinken had earlier said, “We continue to reject the notion of a sphere of influence. We continue to stand by the right of sovereign democracies to choose their own

alliances.”⁷⁴ Robert Kagan described his view of the challenge facing the United States in regard to potential Chinese and Russian spheres of influence, “The question for the United States, and its allies in Asia and Europe, is whether we should tolerate a return to sphere of influence behavior among regional powers that are not seeking security but are in search of status, powers that are acting less out of fear than out of ambition.”⁷⁵

Much of the tension underlying U.S.-Chinese relations is based on apparently irreconcilable, but poorly defined, understandings of the concept “spheres of influence.” In a simple dichotomy, the absence of spheres of influence would suppose an ideal world in which every nation was totally sovereign and equal, with no country having more influence than any other. In contrast, a world in which spheres of influence were the rule posits rigid boundaries, behind which great powers would have absolute control of the nations within their spheres. Neither of these extremes is recognizable in the reality of international relations. China’s assertions of vital regional interest along its periphery and the U.S. rejection of all spheres of influence require a nuanced examination to see if their irreconcilability poses risks. Our challenge is also to reflect on different views inside the United States on what to make of China’s assertions and of the discrepancy between them and what the American commentators regard as more cooperative thinking on security.

This chapter does not take up territorial or maritime boundary disputes although they are often raised in discussions of spheres of influence. Those topics fall into the different category of interstate disputes rather than general relations among nations. A sphere of influence might make it easier to successfully assert a boundary claim against a neighbor, but we are interested here instead in the presence, absence, or importance of the spheres of influence themselves. It is enough to note that China’s approach to maritime boundaries seems to U.S. officials to imply sphere of influence behavior. Under Secretary of State Rose Gottemoeller said at a speech at the University of Sydney on March 6, 2015, “We believe an effective security order for Asia must be based on alliances founded on recognized mutual security, international law, and international standards, along with the peaceful resolution of disputes *and not on spheres of influence* (italics mine), or coercion, or intimidation where big nations bully the small. The United States shares the concerns of ASEAN and others over rising tensions and provocative unilateral action to change the status quo in the South China Sea...”⁷⁶

SPHERES OF INFLUENCE IN THEORY

Two basic dictionary definitions of “sphere of influence” show at the outset that there is no consensus on the full meaning of the term. One holds that a sphere of influence is an area within which the political influence or the interests of one state are held to be more or less paramount.⁷⁷ Another states that a sphere of influence is a political claim to exclusive control, which other nations may or may not recognize as a matter of fact, or it may refer to a legal agreement by which another state or states pledge themselves to refrain from interference within the sphere of influence.⁷⁸ The difference is whether the definition is positive or negative. Is a sphere of influence one in which the dominant power exercises control within the borders of the subordinate power, or one in which the subordinate power makes decisions which it believes will be well received by the dominant power? The former would appear unjust, the latter merely prudent.

There is a connection between the concepts of balances of power and spheres of influence. In order to balance power, smaller states may consider it wise policy to align themselves with the weaker of two great powers in order to prevent the greater one from achieving a position of dominance, but the opposite may also happen. In “bandwagoning,” smaller states align themselves with a stronger rather than a weaker great power in the hope that if the great power became hegemonic, the smaller state will have earned its favor, deflected its attention elsewhere, or even shared in some of the spoils of the dominance of their patron state. It is important for the small state to choose correctly because mistakes would have consequences.

There is disagreement within the international relations literature regarding whether spheres of influence are stabilizing or destabilizing, beneficial or unjust. The main argument in their favor is that joint management by great powers best maintains international peace. Having smaller powers under a measure of control by great powers means that disputes among smaller powers can be brokered by the great powers, dangerous or rogue behavior by smaller powers can be dealt with by the great powers acting in concert, and competition between great powers can be kept in check by agreement on the scope of their respective spheres of influence. It is also possible that management of a sphere of influence might be taxing enough on a great power to curb any wider ambitions that it otherwise might develop. Another potential benefit of spheres of influence is that great powers may feel a responsibility to promote the welfare of their client states, giving the latter access to resources they might not otherwise have.

The counterargument is that spheres of influence are destabilizing because smaller states might be emboldened by their connection to their great power patrons to act irresponsibly in local conflicts, with the attendant risk of widening local conflicts into great power conflicts (à la the slide into World War I). Competition to lure or coerce smaller countries into spheres of influence can also create destabilizing tensions between great powers. Finally, the unjust situation of smaller states having to accommodate to the desires of their great power patrons could create resentments and grievances, potentially leading to conflict and instability.

Finally, there are different views regarding the natural state of international relations. The Charter of the United Nations appears unambiguous in its description of the equality of nations. Chapter I, Article 1.2: “To develop friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples.” Article 2.1: “The Organization is based on the principle of the sovereign equality of all its Members.” Article 2.4: “All Members shall refrain in their international relations from the threat of use of force against the territorial integrity or political independence of any state.”⁹ And yet, the UN Charter also permits the existence of regional arrangements and calls for members to solve local disputes through them. Non-members of regional arrangements *de jure* cannot have equal standing *vis-à-vis* the members in local deliberations. Moreover, the UN Charter in Chapter V, Article 23, names five members as permanent members of the Security Council, a tacit recognition that not all member states are truly equal.

Nations invariably voice support for the principle of the equality and sovereignty of nations – unsurprisingly, given that they have subscribed to the UN Charter. However, they at the same time can be seen defending the “naturalness” of acting to create conditions in neighboring countries that accommodate their interests. Alexander Lukin, wrote in a 2008 article titled “From a Post-Soviet to a Russian Foreign Policy,” “Every country has a natural desire to

see friendly regimes in neighboring countries.”¹⁰ Russian Foreign Minister Sergei Lavrov in 2007 endorsed the sovereignty of nations, but immediately followed with: “Yet this does not give anyone the right to deny, let alone undermine, the natural mutual gravitation of nations towards each other generated by historical and other objective factors and based on mutual interests. Speaking of our closest neighbors, Russia wants them to be friendly, stable, and dynamically developing states. This approach is consistent with the plans of these states and cannot contradict anyone’s interests.”¹¹ Note the repetition of the word “natural” in the two statements, an appeal to the argument that this is simply how things are.

Despite this *realpolitik* – and against the long history of interventions by great powers in the affairs of smaller neighbors up to the present day – there is in the modern world a presumption of the sovereignty, independence, and self-determination of nations. When countries bypass these principles, they at least feel compelled to explain why they have done so.

SPHERES OF INFLUENCE IN HISTORY

The first use of the term “spheres of influence” may have been in an 1885 agreement between Britain and Germany that separated and defined their respective regions of interest on the Gulf of Guinea. They agreed not to acquire territory or to challenge the increase of each other’s influence on either side of a specific geographic line. A 1904 agreement acknowledged British recognition that Morocco was within France’s “sphere of influence.” In 1907, Britain and Russia divided Persia into three zones: one within Russia’s sphere of influence in the north, one within Britain’s in the south, and a neutral area in between.¹²

The term “sphere of influence” today has a negative, even pejorative sense; so much so that no modern nation would apply the term to its foreign policy. It has become an accusation as much as a description. One of the reasons for this is that during the twentieth century, spheres of influence became perceived as iniquitous. A primary example is the explicit reference to spheres of influence in the “Secret Additional Protocol” of the 1939 Molotov-Ribbentrop Pact (Nazi-Soviet Non-Aggression Pact): “Article 1. In the event of a territorial and political rearrangement in the areas belonging to the Baltic States (Finland, Estonia, Latvia, Lithuania), the northern boundary of Lithuania shall represent the boundary of the spheres of influence of Germany and the USSR.” “Article 2. In the event of a territorial and political rearrangement of the areas belonging to the Polish state, the spheres of influence of Germany and the USSR shall be bounded approximately by the line of the rivers Narev, Vistula and San.” “Article 3. With regard to Southeastern Europe attention is called by the Soviet side to its interest in Bessarabia. The German side declares its complete disinterestedness in the areas.”¹³

SPHERES OF INFLUENCE: THE AMERICAN VIEW

Commentators who detect hypocrisy in the U.S. rejection of the concept of spheres of influence often cite the Monroe Doctrine as an example of a sphere of influence par excellence. In 1823, President James Monroe declared that any further steps by European nationals to colonize land in North or South America, or to interfere with the states of the Western hemisphere would be taken by the United States as acts of aggression. Defenders of the Monroe Doctrine argue that it was intended to prevent, rather than create, spheres

of influence. By this reading, the doctrine did not assert U.S. control of the region, but rather guaranteed that the United States would defend the region against further European interventions.

Nevertheless, later U.S. presidents cited the Monroe Doctrine to justify their interventions in Latin American states unconnected to European actions. In any case, Secretary of State John Kerry made the U.S. current attitude towards the Monroe Doctrine clear to an audience of the Organization of American States in Washington on November 18, 2013, to their applause: “The doctrine that bears (Monroe’s) name asserted our authority to step in and oppose the influence of European powers in Latin America.” “Today, however, we have made a different choice. The era of the Monroe Doctrine is over.” “(Our relationships are now) about viewing one another as equals, sharing responsibilities, cooperation on security issues and adhering not to doctrine but to the decisions that we make as partners to advance the values and interest that we share.”¹⁴

The strength of U.S. feeling regarding potential spheres of influence can be seen in the difference between its attitudes towards the Eurasian Economic Union and that of the EU. Whereas the European Union generally welcomed the establishment of the Russian-led EEU (Russia, Armenia, Belarus, Kazakhstan, and Kyrgyzstan) that was initiated in 1994 and established on January 1, 2015, the United States expressed opposition to it on the grounds that it was a thinly-veiled attempt by Russia to create a sphere of influence among the former constituents of the USSR, if not virtually to recreate the USSR. Secretary of State Hillary Clinton said in December 2012: “It’s not going to be called that (Soviet Union). It’s going to be called customs union, it will be called the Eurasian Union and all of that, but let’s make no mistake about it. We know what the goal is and we are trying to figure out effective ways to slow down or prevent it.”¹⁵ As Biden recently said, “We will not recognize any nation having a sphere of influence.”¹⁶

State Department spokesman Jeff Rathke described the current U.S. relationships with other countries as explicitly not based on a sphere of influence concept: “What we see when we look around the world are places where we desire to improve our contacts with countries. What is important is that those relationships develop on the basis of mutual interest, mutual respect, without coercion, and to the benefit of the peoples of the countries involved.”¹⁷ The U.S. understanding of spheres of influence can be seen by looking at the mirror image of Rathke’s description of U.S. policy. In that case, a sphere of influence could be described as existing solely or mainly for the benefit of the great power, with one-way deference from the smaller power to the greater one, maintained by coercion, and solely or mainly benefiting the people of the great power.

SPHERES OF INFLUENCE: THE CASE OF RUSSIA

U.S. views of China’s efforts to augment its regional influence are informed by its experience of dealing with the Soviet Union in the past, and now with the Russian Federation. The emergence of NATO and the Warsaw Pact in the postwar environment created a balance of power with smaller states closely aligned to great powers. The United States, of course, recognized no moral equivalency between voluntary NATO membership and involuntary Warsaw Pact membership. The Soviet Union, for its part, contended in accordance with its

state ideology that far from creating a Russian sphere of influence, the Eastern bloc was a natural expression of the international workers' solidarity. States that had chosen a socialist path would, of course, band together to further the revolution and to await other states joining the movement. They also needed to mutually defend themselves against Western counter-revolutionary forces.

In 1968, General Secretary Leonid Brezhnev expounded the Brezhnev Doctrine to explain the Soviet invasion of Czechoslovakia to put down a reformist movement. "When forces that are hostile to socialism try to turn the development of some socialist country towards capitalism, it becomes not only a problem for the country concerned, but a common problem and concern of all socialist countries."¹⁸ The Brezhnev Doctrine laid the groundwork for interventions to oppose the creation of reformist regimes in countries within the Soviet sphere, and was even stretched to explain the USSR's invasion of Afghanistan in 1979.

The demise of the Soviet Union meant an end to the USSR's ideologically-based sphere of influence. Explaining Russia's new willingness to stand aside while former Warsaw Pact members applied to join Western institutions including NATO and the EU, Russian Foreign Ministry spokesman Gennadi Gerasimov said on October 25, 1989: "We now have the Frank Sinatra doctrine. He had a song, *I Did It My Way*. So, every country decides on its own which road to take." "Political structures must be decided by the people who live there."¹⁹

Putting aside the rocky history of U.S.-Russian relations over the past twenty-five years, I jump to the current U.S. attitude toward Russia's relationship with the former countries of the USSR and of the Warsaw Pact. Lukin's belief in the natural desire of countries to see friendly regimes in neighboring countries is more thoroughly explained by Dmitri Furman in his 2006 article, "A Silent Cold War." He argues that influencing the regimes of neighboring countries is a matter of survival for Russia: "As is the case with the U.S., the Soviet Union or any other country, post-Soviet Russia seeks to create a safe environment around itself." "[For Russia], its authoritarian and 'managed' content makes this difficult. A safe environment for our system is an environment of managed democracies of the same type, which we actively support in the CIS and elsewhere, such as in Serbia, the Middle East, and even Venezuela."²⁰

Dmitri Trenin argues that Russia's policy towards its peripheral states is qualitatively different from that of the Soviet Union: "The current policy of Russia's spheres of interest dates back from the mindset of the mid-2000s. Compared to the Soviet Union's, the Russian Federation's sphere is not only much smaller, but also much 'lighter' – 'interests' after all are not as compelling as influence. Unlike 'influence' which tends to be both all-inclusive and exclusive, 'interests' are much more specific and identifiable. Rather than whole countries, they include various politico-military, economic and financial, and cultural areas within them."²¹

Russia today makes two assertions. One, as seen above, is that spheres of influence are natural and cannot reasonably be opposed, although Russian officials disavow the term "sphere of influence." The 1997 "Founding Act on Mutual Relations, Cooperation and Security" between NATO and Russia explicitly states "the aim of creating in Europe a common space of security and stability, without dividing lines or spheres of influence limiting the sovereignty of any state."²² However, Lavrov has also insisted, "Ukraine cannot be part of any bloc."²³ The second Russian assertion is that the West is hypocritical in arguing that Russian moves are designed to create a sphere of influence. Lavrov said in 2009: "We are accused of having spheres of influence. But what is the (EU's) Eastern Partnership, if not an attempt to extend

the EU's sphere of influence into Belarus?" "Is this promoting democracy or is it blackmail? It's about pulling countries from the positions they want to take as sovereign states."²⁴

The EU differentiates its policies from Russia's. In their 2007 publication, "A Power Audit of EU-Russia Relations," Mark Leonard and Nicu Popescu wrote, "Whereas the EU stands for an idea of order based on consensus, interdependence, and the rule of law, Russian foreign policy is motivated by a quest for power, independence and control. The EU's main concern is to ensure that its neighborhood is peaceful and well governed. Russia wants to expand its sphere of influence and achieve control of economic interests and energy assets in neighboring countries and the EU."²⁵

U.S. and EU anxieties regarding the Russian sphere of influence will continue, and will spill over into U.S. attitudes towards China's relations with its neighbors. Many Americans would expect Chinese attitudes to parallel those of one Russian who explained his country's thinking in this way, "The real irritant of Russian-U.S. relations is America's unwillingness to acknowledge Russia's right to a zone of its own security interests. This (Georgian crisis of 2008) occurred amidst the constant expansion of the U.S. zone of not so much security interest as of influence – if not domination – in the military-political field, the most sensitive to Russia."²⁶

SPHERES OF INFLUENCE: CHINA'S HISTORICAL EXPERIENCE & THE U.S. ROLE

China's attitudes towards spheres of influence are shaped by its experience of having had European powers establish spheres within China itself. This began towards the end of the 19th century, when Russia secured from China the right to construct a railway line across Manchuria, and then a twenty-five year lease on Port Arthur on the Yellow Sea. In an Anglo-Russian agreement of 1899, Britain agreed not to seek railway concessions north of the Great Wall, and Russia agreed not to seek railway concessions in the Yangtze Valley. Germany landed troops in Shantung to establish a German sphere of influence, entailing a monopoly on capital investment in Shantung province. France established a sphere of influence in southern China in 1885, giving France a mining monopoly in three southern provinces and a ninety-nine year lease on a naval base at Guangzhou.

U.S. policy beginning in 1899 was not to object to the established spheres of European influence in China, but to work towards equal opportunities for trade within the zones, and to try to restrain foreign countries from expanding the scope of their control within their spheres in China. The U.S.' "Open Door Policy" called for "respect for China's administrative and territorial integrity."²⁷ The United States took a more direct approach to counter the foreign spheres of influence in China at the beginning of the twentieth century. In 1908, during Theodore Roosevelt's administration, it opposed Russia's attempt to take over the direct administration of Harbin. During the next U.S. administration, that of William Howard Taft, Secretary of State Philander Knox proposed that the major powers join to lend money to the government of China to enable it to purchase and take control of the Russian and Japanese railway lines operating within China.²⁸

At the outbreak of World War I, Woodrow Wilson's administration had the goal of diplomatically persuading Japan to refrain from widening its sphere of influence in Asia. For this purpose, the United States offered to recognize the existing Japanese sphere of influence

in China in return for future restraint. Warren Harding's subsequent administration obtained international agreement at the 1922 Washington Conference that signatories would not seek new concessions from China. These efforts foundered when Japan seized Manchuria in 1932-33, and then claimed in 1938 that all of East Asia was within Japan's sphere of influence.

In China's experience, foreign powers, given the opportunity created by a weak Chinese government, imposed spheres of influence to further their economic and strategic interests at China's direct expense and even within China's natural borders. Experience also taught that threats to China can emerge along China's borders. China was forced to contend with Russian and Japanese aggressive control of Manchuria during the 19th and 20th centuries. In 1962, Chinese and Indian forces fought on the Himalayan border. Military clashes between China and Vietnam flared from 1979 until 1990. Given China's history, it is unsurprising that China considers events and regimes on its borders to be a matter of continuing vital national interest.

CHINA'S CURRENT POLICY TOWARDS ITS PERIPHERY

Zhao Kejin described four aspects of China's current view of policy towards its periphery in a 2013 article titled, "Common destiny needs stability." 1) Beijing must maintain peace and stability with neighboring countries, finding peaceful solutions to territorial disputes through dialog and consultation. However, Beijing "will oppose any party's provocative acts that stir up trouble in the region." 2) Beijing must develop mutually beneficial cooperation by creating a web of "crossed economic corridors from south to north, and east to west." 3) China must create "a common security circle in neighboring regions," based on mutual trust, equality, and coordination. 4) Beijing should work to establish "a community of common destiny, cultivate more friends and partners, and share weal and woe with them."²⁹

Yan Xuetong also described what China's neighboring countries can expect from China in a January 2014 article titled, "China's New Foreign Policy: Not Conflict But Convergence of Interests." He suggests that whereas China in the past strove to cultivate beneficial relations with all countries for the sake of economic growth, the future strategy would be one of more selectivity. "In the future, China will decisively favor those who side with it with economic benefits and even security protections. On the contrary, those who are hostile to China will face much more sustained policies of sanctions and isolation."³⁰

U.S. CONCERN OVER A CHINESE SPHERE OF INFLUENCE

U.S. observers generally approve of improved relations between Beijing and China's neighbors, but express unease that Beijing shows signs of judging the quality of its relationship with other countries in part on their commensurate distance from Washington. Zachary Abuza explained to *Deutsche Welle* in November 2015, "The Vietnamese seek good ties with the U.S., Japan, ASEAN, India, Australia, and Russia, as well as China. The problem is that the Chinese have a very zero-sum view of the world, and they see Hanoi's improved relations with Washington, New Delhi, Tokyo and Canberra, as part of an effort to 'contain' China, which expects deference from Vietnam." "China is unhappy at the closeness of Vietnam's relationship with the United States, including the unprecedented visit of the CPV (Communist Party of Vietnam) General Secretary to Washington last July."³²

Other U.S. commentators ring louder alarm bells. Denny Roy wrote that while Beijing is cultivating “disproportionate” influence in Cambodia, Laos, Thailand, the Central Asian States, Burma, and North Korea, the most serious development is China’s assertiveness in the maritime Asia-Pacific region. “A Chinese sphere of influence here would require the eviction of American strategic leadership, including U.S. military bases and alliances in Japan and South Korea, U.S. ‘regional policeman’ duties, and most of the security cooperation between American and friends in the region that now occurs.” He added, “Washington is not ready to give up this role, seeing a strong presence in the western Pacific Rim and the ability to shape regional affairs as crucial to American security.”³³ Taking the broader U.S. view of China’s ambitions for its region, Michael Swaine and Ashley Tellis wrote in 2000 “an assertive China could reasonably be expected to... develop a sphere of influence by acquiring new allies and underwriting the protection of others; (and) prepare to redress past wrongs it believes it may have suffered...”³⁴

It is clear that the general U.S. attitude towards China’s policy regarding its peripheral region is one of suspicion that China’s goal of creating a “common security circle,” and a “community of common destiny” is more reminiscent of current Russia’s *realpolitik*, or even of the earlier Soviet-dominated Eastern Bloc, than of the benign and consensual nature of the EU. Chinese statements regarding “Asia for the Asians,” or of “favoring those who side with China,” fuel the suspicion that its aim is to dominate and exclude.

There is a range of U.S. opinion regarding how to deal with China’s moves to increase its regional influence. Michael Swaine urges understanding for China’s desire to reduce its vulnerability to potential future threats from the United States and other nations, “Chinese leaders today are not trying to carve out an exclusionary sphere of influence, especially in hard-power terms; they are trying to reduce their considerable vulnerability and increase their political, diplomatic and economic leverage in their own backyard. This is a much less ambitious and in many ways more understandable goal for a continental great power.”³⁵

Others take a less sanguine view. Whereas, according to Robert Kagan, the legitimate *raison d’être* for traditional spheres of influence is defense against threatening neighbors, today’s China enjoys far greater security than it has at any time in the last three centuries. Absent the threat of invasion, China’s motivation for creating a regional sphere of influence may be “necessary for a sense of pride,” or “to fulfill their ambition to become a more formidable power on the international stage.” Kagan says that China has every legitimate interest in competing with the United States economically, ideologically, and politically. However, military competition is different and could threaten the underlying security and stability of East Asia.³⁶

Andrew Krepinevich, goes as far as to argue that the United States should act now to deter China from building up a naval force that Chinese governmental and military leaders might believe capable of excluding U.S. forces from the Western Pacific. His prescription is an “Archipelagic Defense” that could contain Chinese naval forces within the China seas.³⁷ Krepinevich, Robert Kagan, and others are concerned that China’s regional strategy includes a strategic element, to shift the military balance of power in the Pacific against the United States.

A CHINESE SPHERE OF ECONOMIC INFLUENCE?

In regard to economic and commercial interaction between China and its neighboring countries, there is occasional suspicion among American experts that China may seek to use economic levers to apply political pressure. One frequently cited example of this was the 2010 “embargo” of rare earth metals exports from China to Japan, following a China-Japan maritime dispute.³⁸ However, two researchers from Australian National University investigated the episode and found that there was no unusual drop in actual Chinese exports of rare earth metals to Japan at the time. Before the maritime incident, there had been discussions in China of restraining exports of rare earth metals to try to drive up prices of this key manufacturing component, over which China has a near monopoly. A politically motivated embargo would have proven ineffective because rare earth metals are routinely stockpiled overseas and manufacturers have developed work-arounds that would decrease their vulnerability to a loss of supply.³⁹

China's Asian Infrastructure Investment Bank (AIIB) initiative provoked some concern among U.S. commentators but more on economic than political grounds. The main concern was that the bank would fund commercially unfeasible or environmentally damaging projects, bypassing the controls under which established international lending organizations operate. The now wide and experienced membership of the AIIB has assuaged most of these concerns. It will operate under strong international scrutiny. The AIIB's hiring of experienced former World Bank officials is also a good sign that it will operate in a conventional, cooperative manner. Another, less often expressed concern among Americans was that China would manipulate AIIB lending to favor countries which complied with China's political wishes. David Dollar notes, however, that with nearly 60 countries now participating in the AIIB, it would be difficult for China to discriminate in this way.⁴⁰

Similarly, it is difficult to find expressions of concern among U.S. economists or political scientists regarding negotiations for a Regional Comprehensive Economic Partnership. If successfully negotiated, RCEP would not include the United States, but with India and Japan belonging, it would not be an organization that China would find easy to dominate.⁴¹ The rules under which trading blocs operate are well established by the WTO. There is no reason why the broad RCEP and the next-generation TPP could not overlap or even potentially merge if the RCEP members were eventually willing and able to meet the TPP's more demanding standards.

CONCLUSION

Looking beyond the military balance, if China's self-perceived requirement to ensure that the countries on its periphery will not counter Chinese interests is an irresistible force, and the U.S. insistence that it will not accept the emergence of regional spheres of influence is an unmovable object, how can we expect their relationship to develop?

Susanna Hast argues in her 2014 book *Spheres of Influence in International Relations: History, Theory and Politics* that the concept of spheres of influence is inadequately defined even though it is widely used.⁴² It holds within in it both a fundamental injustice, that is to say the unequal status of states, along with elements that can promote international peace. Spheres of

influence can never be a perfect basis for relations among states, but they can be more or less coercive, more or less stabilizing, and more or less beneficial to the citizens of the countries involved. Hast quotes Robert Jackson, “War is the biggest threat to human rights. War between the great powers is the biggest humanitarian threat of all. Nothing else comes close.”⁴³

Removing some of the historical and conceptual baggage from the term spheres of influence makes it easier to imagine ways in which the management of relations between China and her neighbors could satisfy both Chinese and American requirements. The key may be in Trenin’s distinction between a sphere of *influence* and a sphere of *interest*. The United States ought to be able to appreciate China’s interest in promoting stable, predictable, and economically successful countries within its periphery. At the same time, in the interest of long-term global stability and harmonious relations among the Pacific Rim countries, China would need to recognize that sovereignty and self-determination among its neighbors might enable them to act in ways other than China would ideally prefer. Chinese tolerance for some unwelcome behavior among its neighbors might be called a “sphere of restraint.” Putin’s Russia might only be comfortable dealing with “managed (read authoritarian) democracies” on its borders, but China would seem to have a long-term interest in being able to manage relations with neighboring countries that feature the unpredictable elements of genuine democracies.

The other aspect of a potentially acceptable Chinese sphere of interest and restraint would be non-exclusivity. China should not judge its relations with its neighbors based upon their relations with the United States. Chinese insistence on exclusivity would validate U.S. opposition to what it would perceive as an attempt by China to create a sphere of *influence*. A sphere of *interest and restraint* would focus both countries on specific, and generally negotiable, economic and security concerns.

Susanna Hast goes a step beyond spheres of influence or of interest to suggest that “spheres of responsibility” might provide another conceptual model. This would shift the focus away from what is demanded of smaller countries and toward what is owed them by the great powers. Applying this to Chinese-U.S. relations in Northeast Asia, the two countries could – in consultation with the countries of the region – agree to work together on projects that could promote the wellbeing of all peoples living in the region. These could be in the realms of the environment, food security, disaster relief, energy, or any of the countless challenges being faced by the region’s population. Joint, explicitly regional, projects could serve China’s interest by making its neighborhood more prosperous, integrated, and politically and socially stable. They could serve the U.S. interest by tying the United States more directly and closely to the Asian region and by assuaging U.S. concerns about China attempting to use its influence to reduce the U.S. presence in Asia.

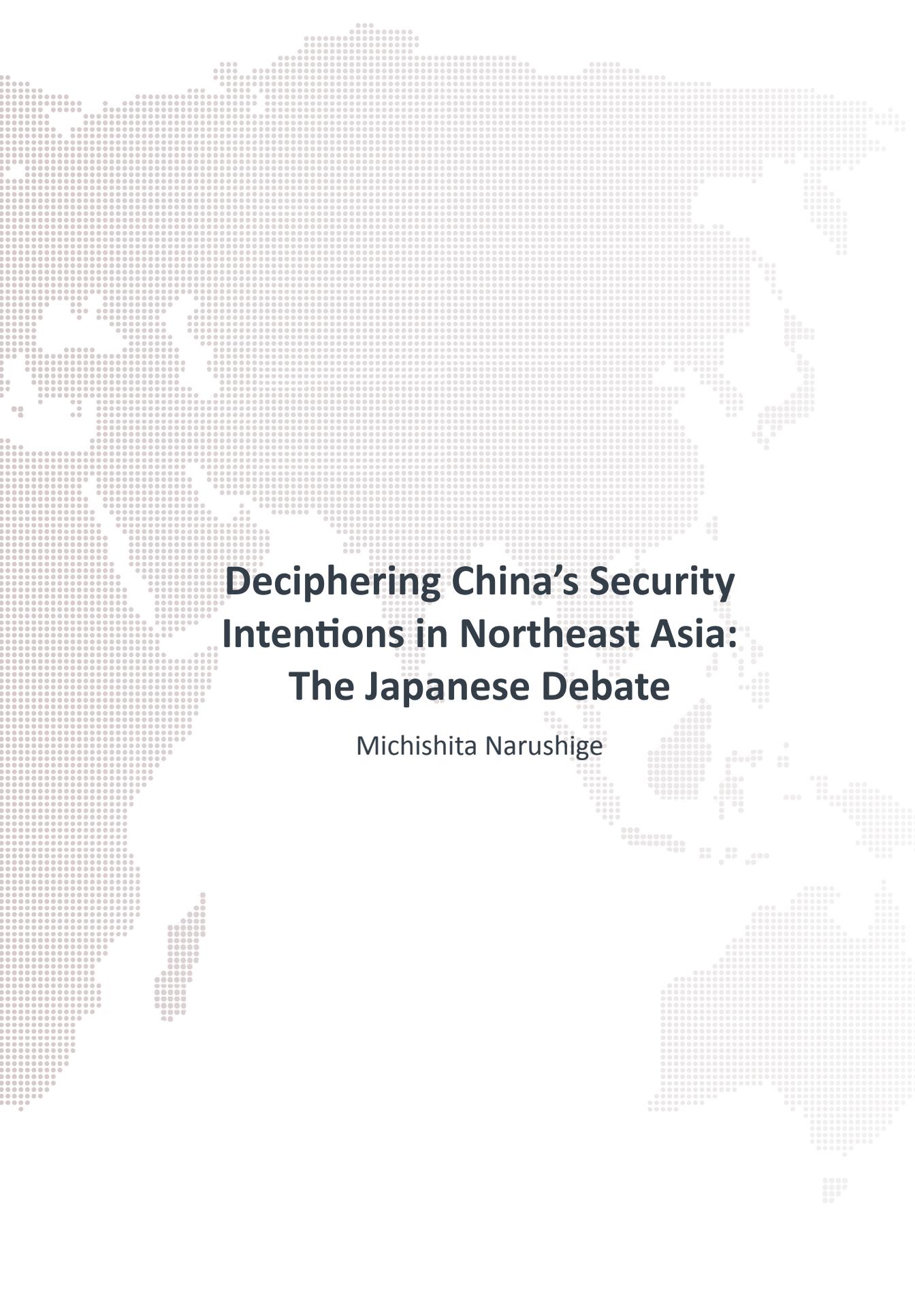
U.S. and Chinese policies have different and sometimes conflicting interests. Economic and soft power competition are to be expected, and are perhaps even salutary. Non-military competition probably serves, on balance, to benefit the Asian countries that are the objects of their competition. Military competition, however, does tend towards being zero sum. That makes it all the more important that U.S. and Chinese regional policy should emphasize general areas of non-exclusionary competition and restraint. A proper appreciation of why China requires sufficient regional influence and why the United States will oppose excessive levels of regional influence will help keep competition between the two nations within bounds. Applying the term “sphere of influence” without thinking through what it means and implies can be a distorting lens that makes compromises more difficult to envision.

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Deciphering China's Security Intentions in Northeast Asia: The Japanese Debate

Michishita Narushige

China's growing military capabilities are an increasing source of consternation for Japan. Areas of concern include China's activities in the East China Sea, Beijing's increasing defense budget, and lack of transparency on its military capabilities. In recent years, Beijing's intensified maritime and aerial activities have been extensively documented and discussed in Japan. This paper examines the perceived "China threat" among Japanese political leaders, the Ministry of Defense (MoD), primary media outlets, and public opinion.

While the two main parties – the leading Liberal Democratic Party (LDP) and the opposition Democratic Party of Japan (DPJ)¹ – have distinct policy platforms on security challenges posed by China, there are shared concerns over China's intensified activities in the maritime and aerial domains in the region. Analysis of the MoD's 2015 defense white paper reveals Tokyo's concerns over China's increasing defense budget and lack of transparency on its military capabilities. I argue that these expressed concerns are somewhat misplaced and that the real problem is found in the destabilizing nature of China's security policy goals, which have been clearly outlined by Beijing. Analysis of three major daily newspapers, *Yomiuri Shimbun*, *Nihon Keizai Shimbun*, and *Asahi Shimbun*, also reveal that issues such as China's military buildup, Beijing's activities in the South China Sea, and new developments in the East China Sea dominate the media debates. While the three provide varying interpretations on the source of the problems and the best way to deal with emerging challenges, issues surrounding the South China Sea are given the most attention in all three. This paper closes with an analysis of recent public polling reflecting Japanese perceptions of China on security issues. Japanese citizens are neither optimistic nor pessimistic about the Sino-Japanese relationship. While their perception about the Sino-Japanese relationship slightly improved in 2015, a plurality thinks that the tense relationship will remain in the foreseeable future.

POLITICAL LEADERS' PERCEPTIONS

The government under Prime Minister Abe Shinzo of the LDP is clearly more concerned about China's growing military capabilities and increasingly assertive attitude. This is clear from the two different versions of the National Defense Program Guidelines (NDPG), a basic document for Japan's defense policy – one developed under Prime Minister Kan Naoto of the DPJ in 2010 and the other developed under Abe in 2013. The assessment on China in the 2010 NDPG reads as follows.

China, a growing major power, is beginning to play an important role for regional and global security. On the other hand, China is steadily increasing its defense expenditure. China is widely and rapidly modernizing its military force, mainly its nuclear and missile force as well as navy and air force, and is strengthening its capability for extended-range power projection. In addition, China has been expanding and intensifying its maritime activities in the surrounding waters. These trends, together with insufficient transparency over China's military forces and its security policy, are of concern for the regional and global community.²

Though similar in overall tone, the description in the 2013 version was notably more elaborate and alarming.

As for China, while it is greatly expected to play an active role in a more cooperative manner in the region and the world, it has been continuously increasing its defense expenditures

and has been rapidly reinforcing its military in a wide range of areas. By doing so, China is believed to be making efforts to strengthen its asymmetrical military capabilities to prevent military activity by other countries in the region by denying access and deployment of foreign militaries to its surrounding areas. However, China has not explicitly stated the purposes and goals of the military buildup and therefore has not fully achieved transparency concerning its military and security.

In addition, China is rapidly expanding and intensifying its activities in the maritime and aerial domains in the region including in the East and South China Seas. In particular, China has taken assertive actions with regard to issues of conflicts of interest in the maritime domain, as exemplified by its attempts to change the status quo by coercion. With regard to the seas and airspace around Japan, China has intruded into Japanese territorial waters frequently and violated Japan's airspace. It has engaged in dangerous activities that could trigger unexpected situations, as seen in its unilateral declaration of an Air Defense Identification Zone in the East China Sea, infringing on the freedom of overflight above the high seas.

China is also expanding and intensifying its activities in the maritime and aerial domains farther offshore than before. For example, Chinese military vessels and aircraft routinely enter the Pacific Ocean, and are expanding their operational areas, which include areas north of Japan.

As Japan has great concern about these Chinese activities, it will need to pay utmost attention to them, as these activities also raise concerns over regional and global security.³

The ruling LDP's policy agenda paper published in 2014 touched upon various security challenges posed by the rise of China, including challenges to fundamental values such as the rule of law in the East and South China seas, and challenges to Japan's sovereignty over the Senkaku Islands. The LDP's policy agenda paper also extensively discussed different ways to tackle security challenges posed by China. The list included closer policy coordination with regional countries, use of official development assistance for security purposes, enactment of new security legislation, and better public diplomacy.⁴

Compared to the LDP, the DPJ's policy platform was more narrowly focused on the security of Japan in that it discussed the challenges to the Senkaku Islands and the DPJ's commitment to the enactment of a new law on territorial patrols (領域警備法) without addressing region-wide security challenges posed by China. In particular, the DPJ did not address Japan's security roles in the region.⁵

Domestic political imperatives further widened the gap between the LDP and the DPJ. In July 2015, Abe broke his reticence and began publicly discussing security challenges posed by China.⁶ While Abe initially avoided explicit mention of China out of diplomatic considerations, he faced criticism at home for failing to explain the rationale behind the new security legislation debated in the Diet, and subsequently shifted his approach. Paradoxically, opposition critiques of the new security legislation ended up encouraging the Abe administration to discuss the "China threat" more explicitly.

GOVERNMENT VIEWS

China's Security Policy Objectives

In the *Defense of Japan 2015* white paper, the MoD identified the objectives of China's recent military activities as follows:

- a) Defend its territory by stopping hostile actions as far as possible from the Chinese mainland;
- b) Deter and prevent the independence of Taiwan;
- c) Weaken the control of other countries over the islands to which China claims territorial sovereignty while strengthening the claim of its territorial sovereignty;
- d) Expand, maintain, and protect its maritime rights and interests, especially those in the East China Sea and South China Sea;
- e) Defend the sea lanes of communications not only in its neighborhood but also beyond the waters near China.⁷

According to the MoD, China continued to act in an assertive manner, making coercive attempts at changing the status quo, with claims inconsistent with the existing international legal order. The MoD argued that China's attempt to fulfill its unilateral demands without compromise could produce dangerous unintended consequences and is raising concerns over its future direction.⁸ Yet, the MoD pointed out that China had demonstrated interest in creating crisis prevention mechanisms in recent years. For example, China, together with other countries such as Japan and the United States, agreed to the Code for Unplanned Encounters at Sea (CUES) in April 2014 and agreed with Japan to resume consultations on the implementation of the Maritime and Air Communication Mechanism in September 2014. (This mechanism, however, has not become operational as of February 2016.)⁹

Situation in the East China Sea

The MoD paid significant attention to China's activities in the East China Sea. It discussed intermittent intrusions into Japan's territorial waters and airspace by Chinese vessels and aircraft. China also undertook dangerous actions that could cause unintended consequences such as a Chinese vessel's direction of fire control radar at a Self-Defense Forces (SDF) destroyer and the flight of Chinese fighters excessively close to SDF aircraft. The MoD regarded these actions as highly dangerous and urged China to abide by international rules.¹⁰

With regard to the Senkaku Islands, the MoD pointed out that the operations of China's government vessels entering Japan's territorial waters had become regularized since October 2013, suggesting a possibility that an operations manual or other codes had been developed. Moreover, China deployed larger ships in the waters near the Senkaku Islands. In February 2015, three Chinese ships with a displacement of over 3,000 tons entered Japan's territorial waters simultaneously for the first time. China was also constructing the world's largest patrol ship with a displacement of over 10,000 tons.¹¹

In terms of military development, the MoD expressed its concern about China's decision to establish the East China Sea Joint Operational Command Center as its purpose seemed to

have been to jointly enable the Chinese navy and air force to enforce the East China Sea Air Defense Identification Zone that China unilaterally set up in 2013.¹² Finally, in July 2015, the Japanese government revealed that China had constructed 12 new offshore drilling rigs in the area since June 2013, suggesting that it might use these facilities for military purposes such as deploying radars and/or helicopters for surveillance and reconnaissance operations.

Situation in the South China Sea

The MoD showed significant interest in the situation surrounding the South China Sea, asserting that China had been intensifying its activities there and that Chinese vessels and aircraft had taken potentially dangerous actions vis-a-vis U.S. ships and aircraft. It also called attention to the fact that Chinese naval vessels had fired warning shots at fishing boats of neighboring countries.

In terms of large-scale land reclamation that China had undertaken, the MoD noted that the ongoing construction of runways and ports on the reclaimed lands had raised concerns within the international community.¹³ In addition, the MoD published a short intelligence analysis and data report on China's activities in the South China Sea using photos and tables in July 2015 and released an updated version in December. Besides discussing the details of China's reclamation activities, it also included the history of how China expanded its control in the South China Sea, including some of its attempts to do so by force. The report concluded that the port facilities on the reclaimed lands would have a major impact on the countries in the region and sea lanes there, and that the runway and support facilities on the Fiery Cross Reef would enable China to forward-deploy various aerial platforms such as fighters, bombers, and unmanned aerial vehicles, resulting in improved air power-projection capability, enhanced air superiority, improved denial capabilities against the U.S., and possible declaration of an air defense identification zone in the South China Sea.¹⁴

Regarding the SDF's possible role in the South China Sea, ADM Kawano Katsutoshi, chief of the SDF Joint Staff, said in July 2015 that it was "possible" for the SDF to conduct patrols and surveillance activities there in the future, including anti-submarine operations. That said, he explained that the government would consider this "a potential future issue" to be considered depending on how things turned out.¹⁵

In addition, the MoD noted that Chinese naval vessels had started operating in the Indian Ocean. For example, the Chinese navy's Shang-class nuclear submarine reportedly operated in the Indian Ocean from late 2013 to early 2014, and a Song-class submarine did the same from September to October 2014.¹⁶

Dangerous Military Actions

The MoD took reckless military actions by Chinese sailors and pilots very seriously for three reasons: first, because they might result in dire crises; second, because the Chinese government failed to acknowledge the occurrence of many of these actions and even made claims contrary to the truth; and third, because civilian/party control over the PLA sometimes appeared to be lax. The MoD identified some of the most serious recent actions. First, a Chinese naval vessel locked its fire-control radar on a SDF destroyer in January 2013 – an action tantamount to pointing a gun at someone's forehead without pulling the trigger. After the incident, both the Chinese Ministry of National Defense and Ministry of Foreign Affairs denied the use of the radar. Second, Chinese jet fighters flew excessively close to an SDF

aircraft in May and June 2014. Again, the Chinese Ministry of National Defense claimed that Japanese aircraft had entered the airspace that China used for military exercises and conducted dangerous acts. Finally, a Chinese fighter flew excessively close to U.S. military aircraft in August 2014. In this case, the Chinese Ministry of National Defense argued that the Chinese jet kept a safe distance from the U.S. aircraft.¹⁷

The MoD also discussed the possibility that the relationship between the Chinese Communist Party leadership and the PLA had become more “complex” due partly to the professionalization of military issues and diversification of military operations. If true, the implications for crisis management would be extremely important.¹⁸

Cross-Strait Conflict

Conflict between China and Taiwan would be a nightmare for not only these two but also for the United States and Japan, which would most likely be drawn into it. The MoD reiterated the fact that China still gave priority to the Taiwan issue, and that preventing Taiwan from going independent had been the most important factor for China’s military buildup. As part of such efforts, China developed its “asymmetric military capabilities” to deter U.S. forces from operating effectively in China’s neighborhood.¹⁹

In this context, the MoD highlighted China’s effort to acquire capabilities to attack U.S. aircraft carriers. China’s recent activities in the air indicated this trend. In 2013, a Y-8 early warning aircraft and an H-6 bomber entered the Western Pacific in July and September respectively through the airspace between the Okinawa Main Island and the Miyako Island. In October the same year, two Y-8 early warning aircraft and two H-6 bombers did so on three consecutive days. In 2014, one Y-8 intelligence-gathering aircraft and two H-6 bombers similarly flew to the Western Pacific in March; two Y-8 early warning aircraft, one Y-9 intelligence-gathering aircraft, and two H-6 bombers did so four times in December. Finally, one Y-9 intelligence-gathering aircraft entered the Western Pacific on two consecutive days in February 2015, and two H-6 bombers did the same in May the same year.²⁰

In March 2015, the PLA Air Force announced that its aircraft had conducted the first such exercise in the Western Pacific after flying over the Bashi Channel between Taiwan and the Philippines. In May, the PLA Air Force also announced that its aircraft had conducted the first such exercise in the Western Pacific after flying through the airspace between the Okinawa Main Island and the Miyako Island.²¹

The MoD also mentioned China’s development of anti-ship ballistic missiles. If China acquired conventional ballistic missiles with high targeting accuracy based on the DF-21, it could be used to attack U.S. aircraft carriers in the Western Pacific.²²

The MoD expressed concern that the military balance between China and Taiwan was shifting in favor of China, pointing out that even China’s declared defense budget was roughly 13 times larger than Taiwan’s defense budget in 2014. In other words, the real difference in the defense budgets of China and Taiwan was probably larger than this figure.²³

The MoD also compared characteristics of military capabilities of China and Taiwan. First, while China possessed an overwhelmingly larger army, its amphibious landing capability was limited despite efforts to improve amphibious assault capabilities in recent years. Second, while China had a quantitative edge, Taiwan still maintained a qualitative

advantage in terms of naval and air forces. China was also making efforts to catch up with Taiwan in this respect. Finally, while Taiwan was strengthening its ballistic missile defense capabilities, as seen in its upgrading of the Patriot PAC-2 to PAC-3, China deployed a large number of short-range ballistic missiles and other assets aimed at Taiwan, enough to overwhelm Taiwan's air defense.²⁴

Growing Defense Expenditures and the Lack of Transparency

The Japanese government has emphasized the growing size of China's defense budget and its lack of transparency as a sign of an emerging Chinese threat, as in the 2015 defense white paper, which estimated the growth rate to be approximately 10.1 percent and argued that China's defense budget continued to increase at a rapid pace, "recording double-digit annual growth nearly consistently from FY1989 to the present." It also stated that the nominal size of China's defense budget had grown by 4,100 percent in the past 27 years and by 360 percent in the past decade.²⁵

This argument was, however, somewhat overblown. First, the growth rate was calculated in nominal terms instead of real terms. Second, the high growth rate indicated not only the rapid military buildup in recent years but also the extremely low level of defense expenditure in China in the 1980s. Third, while the MoD estimated the growth rate based on China's declared defense budget, it strongly suggested that China's declared defense budget did not include a large number of defense-related expenditures and was, therefore, not reliable. As partial evidence for this, the MoD cited a report released by the U.S. Department of Defense, which contended that China's real defense expenditure amounted to at least \$165 billion in FY2014. According to the report, the declared budget size was \$136 billion, which did not include international arms procurement and R&D.²⁶ The data prepared by the Stockholm International Peace Research Institute seems to be more reliable. It estimated real defense expenditure to be \$216 billion in 2014 and the growth rate in the past decade to be 167 percent.²⁷

The MoD also took fault with China's failure to provide information on its weapon systems, procurement goals, organization and locations of major units, major military operations and exercises, and a breakdown of the national defense budget. China did not clarify the goals of its military buildup or decision-making process on security affairs.²⁸ Again, these criticisms seem to be only half true. While it is true that China failed to provide detailed information on its armed forces and that its policymaking process is not transparent, China has been quite vocal and transparent when it comes to the goals of its security policy. It has clearly stated that it would use force if Taiwan declared independence; it has established the air defense identification zone in the East China Sea and expressed the intention to enforce it; and it has clarified its intention to use reclaimed lands in the South China Sea for military purposes. The problem here is not the lack of transparency but the destabilizing nature of the security policy goals, which Beijing has clearly stated.

MEDIA VIEWS

How to understand the implications and security consequences of China's rise has become one of the most important topics of debate in the Japanese media. In this section, I analyze editorials on the issues related to China's security policy in the past one year in three major daily newspapers in Japan – *Yomiuri Shimbun*, *Nihon Keizai Shimbun*, and *Asahi Shimbun* – in order to discern their focus, logic, and views. These papers were selected because *Yomiuri*

and *Asahi* are the top two papers in circulation and represent conservative and liberal views respectively. *Nikkei* was selected because it is the most important paper representing business interests in Japan.

Investigation of the editorials of these papers has revealed that China's military buildup, its activities in the South China Sea, and new developments in the East China Sea dominated the discussions, with all three giving the most attention to the South China Sea issue. These three papers, however, provided different interpretations of how to see the sources of the problems and how best to deal with the emerging challenges.

China's Intentions

Yomiuri regarded President Xi Jinping as the dominant actor in the decision-making process and, therefore, the most important source of the problems. It identified Xi's strong desire to turn China into a "great power" as the most important driving force behind China's actions,²⁹ arguing that the "checks and balances" in China's traditional collective leadership were crumbling and expressing concern that Xi might lead China in the wrong direction as some of its leaders did in the past. According to the *Yomiuri Shimbun*, Xi failed to address the concerns of the international community, including China's significantly increased defense spending and the way it overlooked the call for democratization in Hong Kong.³⁰ Under the strong leadership of Xi, China is using anti-Japanese sentiment to undermine Japan and strengthening its military capabilities to exclude the United States from Asia. Thus, *Yomiuri* argued that China had to play by international rules and that strengthening the U.S.-Japan alliance and multinational security partnerships in the region was the most important basis on which to make such demands of China.

Nikkei was more sanguine about Xi, attributing his tough stance on Japan to the "hardliners" in China, particularly those in the military. When it talks about Chinese policy, "China" is the subject, an interesting contrast to *Yomiuri*, which often uses "Xi" as the subject. The *Nihon Keizai Shimbun* suggested that Xi might have misunderstood the nature of Japan's new security legislation enacted in 2015 and proposed that Abe meet him to explain the peace-inducing nature of the legislation.³¹ While "mindful" of Xi's remarks, "There is enough space in the large Pacific Ocean to accommodate two great powers – China and the U.S.," *Nikkei* avoided being very critical about China's intentions in the South China Sea.³² Similarly, *Asahi* treated Xi's role as secondary, stating that "Xi Jinping's government" is responsible and avoiding identifying Xi himself as the source of the problem.³³

Military Buildup

The *Yomiuri Shimbun* extensively covered China's military buildup with at least seven editorials in the past year on the topic. It expressed concern that China was spending more than three times as much on defense as Japan, that China's 2015 defense white paper discussed "preparations for military struggle at sea,"³⁴ and that China's military modernization was undercutting the technological edge that the United States had enjoyed.³⁵ It also regretted that transparency on China's defense policy has diminished. For example, the 2015 defense white paper did not carry some of the data, such as the number of troops, that the previous ones did, let alone the breakdown into China's nuclear, naval, and air forces.³⁶

Yomiuri also expressed concern that China is boosting its military capabilities without reservation.³⁷ In September 2015, China demonstrated its new intercontinental ballistic

missiles capable of reaching the continental United States for the first time in the military parade near Tiananmen Square. In this context, Xi turned a blind eye to the role that the United States played in the Pacific War.³⁸ *Yomiuri* characterized the military structural reform that China decided to undertake as a “new phase in Xi Jinping’s strong army policy” aimed at effectively executing an A2/AD strategy against the United States. Part of the structural reform was a plan to reorganize the army’s seven major military districts into four to five operational districts, followed by a measure to establish a joint operational command organization in each district. *Yomiuri Shimbun* contended that this would not have been possible without Xi’s initiative because it will undermine parochial interests in the army. It indicated that Xi had consolidated his position over the PLA by purging potential opponents inside the organization. It was noted, however, that it would not be easy for the PLA to start operating jointly. This was not easy for U.S. forces; it has not been easy for the SDF.³⁹

Yomiuri discussed China’s increasingly visible attempt to drive the United States out of Asia and establish China’s hegemony there, as exemplified by: China’s intention to construct aircraft carriers and possess three carrier battle groups by 2020; the renaming of the Second Artillery the “Rocket Forces”; and the establishment of the “Strategic Support Force” in charge of cyber and space warfare.⁴⁰

While *Nikkei* did not run editorials mainly focused on China’s military buildup, it pointed out that China’s defense spending had been growing annually by over 10 percent in the past five years, and its size was now more than three times as large as Japan’s defense budget. The paper expressed concern specifically about China’s naval and air force buildup with its implications for the dispute over the Senkaku Islands.⁴¹

Asahi devoted two editorials to the issue, lamenting that China had decided to significantly increase defense spending to more than three times as large as Japan’s, without enhancing the transparency of its contents. It was understandable that China needed minimum necessary forces for defense purposes, but China’s military power is clearly above the level needed for defense. Growing aircraft carrier and nuclear forces together with the development of anti-satellite weapons were the cases in point.⁴²

Asahi Shimbun was also critical of China’s decision to reduce its 2.3 million troops by 300,000, arguing that it was merely part of the broader effort to modernize the PLA and divert resources away from the army to the navy and air force. It speculated that Xi might have decided to organize a military parade in 2015 instead of the more conventional 2019 seventieth anniversary of the establishment of the PRC in order to consolidate his authority over China’s massive armed forces.⁴³ *Asahi*’s more progressive inclination was visible when it pointed out the danger of an arms race and inadvertent escalation. It expressed concern that Southeast Asian countries were strengthening their naval forces in response to China’s military buildup, and that actions by the United States could also increase tension.⁴⁴

South China Sea

Given the rising tension in the South China Sea in 2015, China’s actions became the most important topic. *Yomiuri* was most vocal again, running at least six editorials devoted mainly to the topic, arguing that what stood out was China’s boldness in revealing its military-diplomatic intentions in the area. ADM Sun Jianguo, deputy chief of the PLA General Staff Department, not only claimed sovereignty over the reclaimed lands in the South China Sea

but also declared that the reclamation efforts were done for military purposes. *Yomiuri* saw this as an effort to turn the South China Sea into a “Chinese sea” and keep the United States out of the area.⁴⁵

Yomiuri also argued that China was using *fait accompli* tactics by physically strengthening its presence and control in the South China Sea while engaging in dialogue with the ASEAN member countries. It inferred that China’s decision to conduct large-scale military exercises in the South China Sea one day before the China-ASEAN dialogue was to “warn” the United States, which had stepped up its patrol and surveillance activities in the area.⁴⁶

Yomiuri Shimbun called for countries in the region to demand that China stop unilaterally challenging the status quo through force, intimidation, or coercion. In this context, it welcomed the decision made by the Permanent Court of Arbitration under the United Nations that it had jurisdiction to hear some territorial claims the Philippines had filed against China over disputed areas in the South China Sea. At the same time, the paper applauded the military-to-military dialogue that the United States had with China, which would help the two countries avoid inadvertent clashes at sea or in the air.⁴⁷

Nikkei faulted China’s actions in the South China Sea as highly destabilizing, emphasizing possible negative consequences to the region’s economic growth.⁴⁸ It ran two editorials on this issue within just five days, stressing the importance of secure sea lines of communications for international trade. They criticized China’s assertion that the reclamation in the South China Sea was undertaken for military purposes and denounced the way its defense white paper spoke of its “military struggle at sea.” The *Nihon Keizai Shimbun* called for Japan and the United States to invite the countries in the region to expand the scope of security cooperation and to help strengthen their ability to effectively police and patrol in the area.⁴⁹ It also warned that the tension in the South China Sea would affect the world and a clash between the United States and China would have dire consequences for the world economy.⁵⁰ *Nikkei* lamented the lack of solidarity in ASEAN in the face of China’s divide-and-rule tactics and suggested that economic integration would produce high economic growth only if security was maintained.⁵¹ Again, negative consequences of security problems on the economy were emphasized.

Asahi Shimbun was similarly critical of China’s actions in the South China Sea. It wrote that China was primarily responsible for tensions there,⁵² and it cautioned against the possibility of China taking offensive actions based on its idiosyncratic claim on sovereignty over the South China Sea.⁵³ However, it took a slightly more neutral position between China, on the one hand, and the United States and Japan, on the other, than the other two papers, quoting Admiral Sun’s contention that the reclamation was a “military requirement for defensive purposes” and that the runways would be used militarily and commercially.⁵⁴ It even went so far as to caution the United States to avoid making “unnecessary provocations” when conducting its freedom of navigation operations and to accept China’s argument that the reclaimed islands would be used primarily for “commercial services” as well as China’s overture to ASEAN countries for an agreement on a code of conduct in the South China Sea. Moreover, it also warned against possible involvement of the SDF in the South China Sea and the application of the new security legislation to contingencies there.⁵⁵ *Asahi* was sympathetic to Taiwan’s proposal to set aside sovereignty issues and undertake joint development of natural resources with China,⁵⁶ while suggesting that bringing Beijing into economic partnerships such as RCEP would be the best solution to the problem.⁵⁷

Senkaku Islands and the East China Sea

There was a less visible but important new development in the East China Sea in 2015. In July, the Japanese government revealed that China had constructed 12 new offshore drilling rigs in the area since June 2013 and suggested that it might use these facilities for military purposes. *Yomiuri Shimbun* speculated that China might become capable of enforcing the air defense identification zone it had established in the East China Sea in 2013 if it deployed radar systems on the rigs.⁵⁸ With regard to the Senkaku Islands, it pointed out that Chinese government ships' operations had become regularized with six to nine vessels entering Japanese territorial waters per month and that China was constructing large coast guard ships including the world's largest, with a displacement of more than 10,000 tons. It highly regarded the Japan coast guard's decision to organize a 12-ship team earmarked for patrolling there, suggesting a possibility that this would become a long-term peacetime competition. While advocating stronger U.S.-Japan security partnership and better public relations efforts to enhance international awareness that the islands belong to Japan, *Yomiuri* also called on Japan and China to realize the early establishment of a crisis prevention mechanism at sea.⁵⁹

The *Nihon Keizai Shimbun* criticized China's move to construct drilling rigs in the East China Sea and demanded that it abide by the Sino-Japanese agreement of 2008, in which the two agreed on joint development of natural gas in the area. Implementation of the agreement had been blocked by hardliners within the Chinese leadership, particularly those in the PLA. *Nikkei* also took issue with the Japanese government for failing to inform the Japanese people of rig construction in the East China Sea earlier, and for doing so only at a time when it needed to bolster public support for the new security legislation.⁶⁰

On the Senkaku issue, *Nikkei* urged heightened vigilance. It interpreted the reduction in frequency of Chinese government vessels entering Japanese territorial waters around the islands (from about eight times a month to two to three times a month after October 2013) not as a sign of good intentions, but as a result of a tactical change through which China is implementing a long-term competition with Japan over the Senkaku Islands. In line with the *Yomiuri Shimbun*, the *Nihon Keizai Shimbun* also advocated the strengthening of the Japan coast guard patrolling capacity and establishment of a crisis prevention mechanism between Japan and China.⁶¹

Asahi Shimbun's response to the construction of oil rigs in the East China Sea was quite different from that of the other two papers. It faulted the Japanese government's attempt to use this issue to marshal political support for the new security legislation and its failure to report China's actions in the East China Sea earlier.⁶²

North Korea

Asahi was the only paper that ran an editorial specifically devoted to China's role on the North Korea issue. It blatantly blamed China for becoming a loophole for North Korea to deflect the pressures that the international community had imposed through UN Security Council resolutions and sanctions. It demanded that China take actions that it had failed to take in the past. For a more fundamental improvement of the situation, the *Asahi Shimbun* identified the U.S. commitment as indispensable and advocated engagement with North Korea through frameworks such as the Six-Party Talks.⁶³

Policy Prescriptions

Yomiuri's prescription for the security challenges posed by China was predominantly focused on defensive measures. It expressed support for U.S. freedom of navigation operations, closer U.S.-Japan security cooperation, and strategic partnership with other Asian countries such as Vietnam, welcoming Japan's decision to provide patrol boats to Vietnam.⁶⁴

The *Nihon Keizai Shimbun* emphasized dialogue while expressing support for defensive measures that the countries in the region had been taking.⁶⁵ It expressed understanding of the sense of frustration in China and Russia about the Western-led current international order, and urged Japan, the United States, and European countries to engage more proactively with them to construct a mutually acceptable international order.⁶⁶ It also called for a cautious approach toward China, urging Abe to sincerely explain his position on history and security issues when he met with Xi. Deepening economic interdependence with China was another prescription suggested by *Nikkei*.⁶⁷

Asahi suggested a slightly more cautious approach. It called on China to be more attentive to the international community and for Japan and the United States to be more accommodating to China's growing role in the world.⁶⁸ While supporting U.S. and Japanese efforts to strengthen policy coordination with the countries in the region in order to put diplomatic pressure on China,⁶⁹ it emphasized diplomatic persuasion and peaceful competition.⁷⁰ Recalling that free trade has contributed tremendously to the rise of China and that the freedom and security of the South China Sea were key factors, *Asahi* urged China to remember this especially as its economic growth was slowing.⁷¹

PUBLIC OPINION

This section discusses Japanese public perceptions of China on security issues based on the following public opinion polls, unless otherwise specified:

- Cabinet Office's public opinion poll on the Self-Defense Force and defense issues conducted in January 2015 (hereafter Poll C)⁷²
- Yomiuri Shimbun's Japan-Korea joint opinion poll conducted in May 2015 (hereafter Poll Y1)⁷³
- Nihon Keizai Shimbun's Japan-Korea joint opinion poll conducted in May 2015 (hereafter Poll N)⁷⁴
- Genron NPO's 11th Japan-China Joint Opinion Poll conducted in September 2015 (hereafter Poll G)⁷⁵
- Yomiuri Shimbun's U.S.-Japan joint public opinion poll conducted in November 2015 (hereafter Poll Y2)⁷⁶
- Ministry of Foreign Affairs' (MOFA) public opinion poll on foreign policy conducted from November to December 2015 (hereafter Poll M)⁷⁷

China as a Security Threat

China and North Korea are competing for first place as the most important security concern to Japan. In Poll Y1, 84 percent of respondents regarded China as a military threat, followed by North Korea with 77 percent.⁷⁸ In Poll N, more than 70 percent of Japanese respondents thought China was a threat. In terms of generational breakdown, less than 70 percent of those in their 20s thought that China was a threat; more than 70 percent of any other generation thought it was.⁷⁹ In Poll G, the largest number of Japanese respondents regarded North Korea as a military threat (75 percent), followed by China (68.1 percent). Only 9 percent of the Japanese public “trusted China.”⁸⁰ In the poll conducted jointly by *Sankei* and the *Fuji News Network* in September 2015, 78.9 percent of the respondents answered that China was a threat to the security of Japan while 16.9 percent of them said it was not.⁸¹ In Poll Y2, 88 percent of Japanese respondents said they did not trust China, and 82 percent of them regarded China as a military threat to Japan while 77 percent of them regarded North Korea as a military threat.⁸²

To the less explicitly framed question about the most important factor from the viewpoint of Japan’s peace and security, the largest number of respondents pointed to China’s military modernization and activities at sea (60.5 percent), followed by the situation on the Korean Peninsula (52.7 percent) in Poll C. In fact, these two factors had changed positions from the previous poll conducted in 2012 when the former was chosen by 46 percent and the latter by 64.9 percent respectively.⁸³

Regarding what constituted the “military threat” from China, Chinese vessels’ intrusions into Japan’s territorial waters around the Senkaku Islands was most important (72.5 percent), followed by the existence of disputes over the Senkaku Islands and undersea resources between the two countries (61.7 percent) and powerful Chinese military power (41.3 percent) according to Poll G.⁸⁴

Japanese citizens proved to have a grim view of their country’s future. In Poll C, as many as 75.5 percent of the respondents agreed that Japan could be militarily attacked or drawn into armed conflicts in the future.⁸⁵

Senkaku Islands Issue

Japanese citizens regarded the territorial dispute as the most important obstacle to the development of the Sino-Japanese relationship (56 percent), followed by the lack of trust between the two governments (38.2 percent).⁸⁶ On the question of how to resolve territorial disputes, the largest percentage of Japanese respondents (46.2 percent) called for negotiations while the largest percentage of Chinese respondents (58.2 percent) thought that China should strengthen its effective control over the disputed areas.⁸⁷ About one quarter of Japanese respondents expected a military conflict between Japan and China over the Senkaku issue “in the future” or “in a few years’ time” (26.9 percent) while 38.8 percent of them thought it was not likely and 34.2 percent chose “don’t know” as the answer.⁸⁸

Although the Senkaku Islands issue remained important in generating a sense of threat in the minds of the Japanese people, its impact has declined in the past year. According to Poll G, on the question of “what comes to mind when you think of China,” the largest number of Japanese respondents answered “air pollution” (36.8 percent) and the Senkaku Islands was down to 19.9 percent from 28.6 percent in the previous year, indicating the easing of negative sentiment the Japanese citizens had about the territorial issue.⁸⁹

SDF's Mission

Regarding the SDF's future roles, "securing Japan's seas and airspace, and defending against attacks against its islands" was regarded as the second most important objective (69.9 percent) next to disaster relief operations (72.3 percent) in Poll C.⁹⁰ Moreover, as many as 52.7 percent of respondents answered positively to the possible dispatch of the SDF to the South China Sea while 39.9 percent of them answered negatively, according to the poll conducted in November 2015 by Kyodo News.⁹¹

Future Outlook

Japanese citizens' perceptions of the Sino-Japanese relationship slightly improved in 2015, but they were neither optimistic nor pessimistic about the relationship in the future. According to Poll G, Japanese respondents who regarded the Sino-Japanese relationship as bad had declined from 83.4 percent in the previous year to 71.9 percent in 2015. In terms of future prospects, however, while those who expected deterioration of the bilateral relationship diminished from 36.8 percent last year to 24.7 percent and those who foresaw improvement grew from 8 percent in the previous year to 12.7 percent, the largest number of respondents (42.5 percent) expected the relationship to remain the same.⁹²

Regarding a future power shift, 52 percent of Japanese respondents expected China's political influence to grow in the next 10 years, and 64.2 percent expected China's military influence to become greater in the same period. Despite this, Japanese citizens were less worried about the possibility of Sino-Japanese conflict than their Chinese counterparts. While 71.4 percent of Chinese respondents saw the likelihood or high likelihood of Japan and China engaging in a conflict in the future, only 38.9 percent of Japanese respondents answered similarly, with 39.5 percent saying that a Sino-Japanese war was not likely.⁹³

To the question of which of the two – the United States or China – would become more important to Japan in the future, 73 percent of Japanese respondents said the United States, and only 17 percent said China, according to Poll Y1.⁹⁴ Japanese attitudes toward China and the United States seem to be strongly correlated to their views on the future power balance between the two. According to the Pew Research Center survey conducted from March to May 2015, while majorities or pluralities in 27 of 40 countries said China would eventually become or had already replaced the United States as the top superpower, more than three-quarters of the respondents in Japan said that China would never replace the United States as the top superpower (77 percent) – highest among the countries surveyed. This compares interestingly with the percentage of respondents who said China would eventually become or had already replaced the United States in China (67 percent), Australia (66 percent), South Korea (59 percent) and even the United States (52 percent).⁹⁵ It is not clear how these two are related (instead of correlated), but the Japanese people seem to have an optimistic (possibly wishful) view on the future of the United States partly because that would serve their security interests better.

Despite the perceived importance of the United States over China, Japanese citizens still regard China as an extremely important country. When asked to separately assess the importance of the two to Japan (rather than choose which one was more important to Japan), their responses on both were notably high. As many as 82.3 percent of respondents said the relationship with China was important while 92.2 percent answered that Japan's relationship with the United States was important.⁹⁶

CONCLUSION

As China increases its role in regional and global security, it has also taken assertive actions that Japan perceives as threats to its national interests and security. Across the board, Japanese political leaders, the MoD, major media outlets, and the general public regard China's assertive actions in the maritime domain as most disconcerting. The Japanese government also highlights Beijing's growing defense expenditures and related lack of transparency as a sign of emerging threat. Major media outlets add to the outcry by expressing criticism of China's actions in the East and South China seas, but provide varying interpretations on the source of the problems and best way to deal with emerging challenges in the region. Finally, while public opinion on Sino-Japan relations slightly improved in 2015, Japanese citizens recognize that the relationship will remain difficult in the foreseeable future.

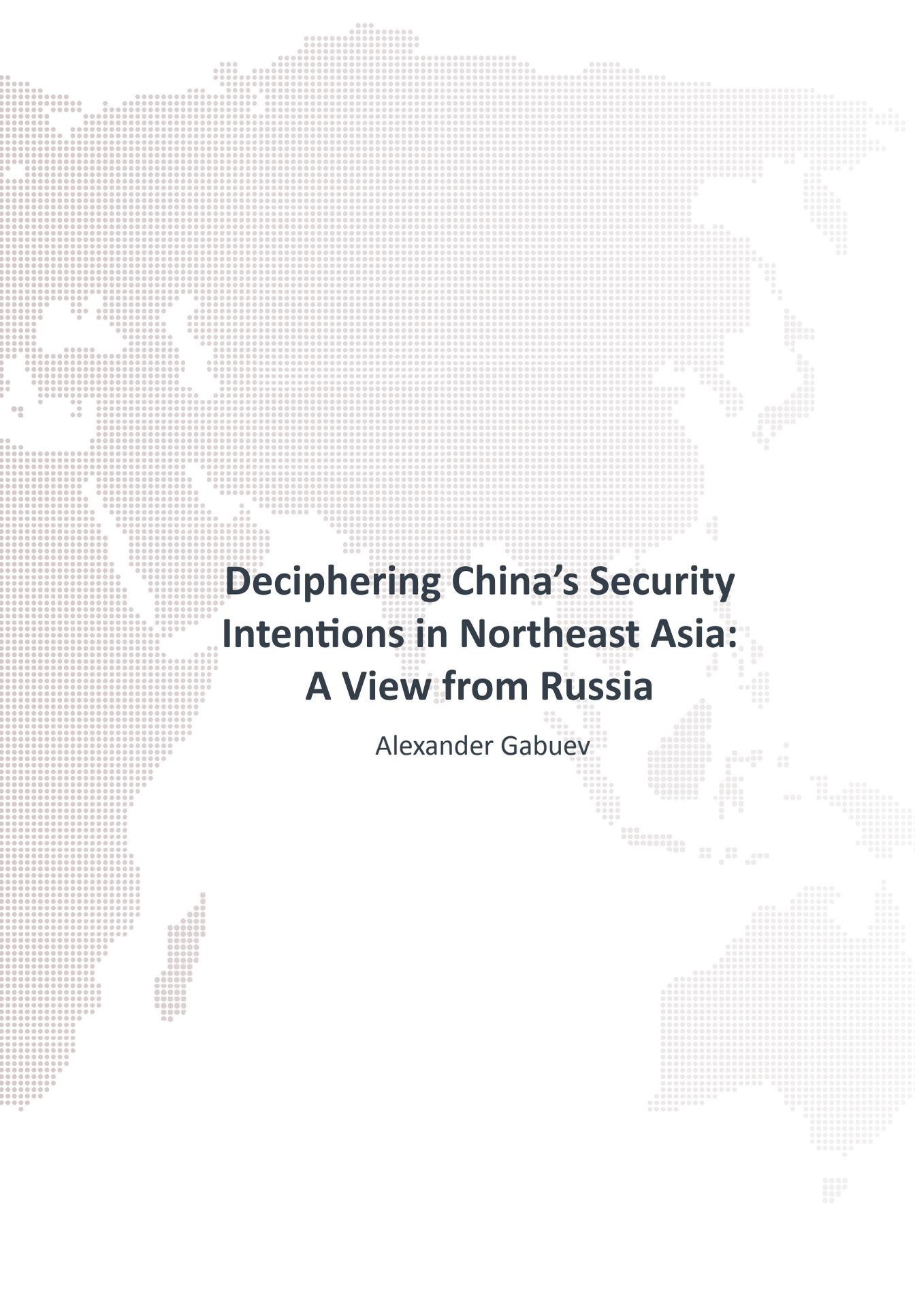
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47. *Yomiuri Shimbun*, November 5, 2015.
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Deciphering China's Security Intentions in Northeast Asia: A View from Russia

Alexander Gabuev

With its 4,000 km border to the Russian Far East and Siberia, growing economic potential and military capabilities, rising China has been on the minds of the Russian elite for a long time – at least since the 18th century when the Romanov and Qing empires established borders. Since the fall of the Soviet Union in 1991, the new Russia has observed its once poor and backward neighbor’s accession to the global stage with mixed feelings. Some people have welcomed China’s rise. Beijing, they argued, has wisely preserved the party’s monopoly on power, while advancing market reforms, and, thus, has avoided the mistakes under Mikhail Gorbachev’s leadership during *perestroika*. A stronger PRC will be a good balance to U.S. global dominance, thus giving Russia more breathing space internationally. The mainstream, however, had a different view. Members of the new elites were enjoying the newly discovered partnership with the West and had tasted the first fruits of democracy and market capitalism. With the Communist Party’s grip on power, its towering state sector, and growing military capabilities, China was seen through Western optics with mistrust and suspicion. Fueling these fears was booming cross-border trade. It brought a measure of development to the Russian Far East, abandoned by the federal government, but at the same time was seen by many in Moscow and locally as a prelude to an influx of Chinese migrants and “yellow colonization.”

Debates on China’s broader security intentions throughout the last 20 years have evolved along these lines. The official mainstream under Vladimir Putin has heralded China’s peaceful rise and strategic partnership between Moscow and Beijing, which has become increasingly anti-American (at least rhetorically) after the U.S. invasion of Iraq and “color revolutions” in the post-Soviet space. At the same time, in private, many Kremlin officials had deep suspicions about China’s security intentions in Northeast Asia, most notably in the Russian Far East. This has resulted in a two-faced approach to many practical issues. On the one hand, Moscow has sided with Beijing’s position on North Korea, was silent on any Chinese moves regarding the Senkaku/Diaoyu Islands, and has joined hands with Chinese voicing concerns about U.S. plans to install components of the American missile defense system in Northeast Asia. At the same time, Moscow has refrained from directly supporting China’s territorial claims in the East China Sea, was cautious about selling Russia’s most advanced weapon systems to the PLA, and has invested a significant effort in upgrading its military posture on the eastern flank.

The crisis over Ukraine—followed by European and American sanctions against Russian individuals, companies, and whole sectors of the national economy—marked a major schism between Moscow and the West. One result of growing conflict between the West and Russia was a redoubling of Moscow’s “turn to the East” (*povorot na Vostok*) policy, centered around China. The “turn to the East” has dramatically changed Russia’s strategy towards China and many underlying assumptions. It has also dramatically influenced the mainstream analysis of Chinese security intentions in Northeast Asia. The influence of this major shift in national policy, as well as policymakers’ and scholars’ perceptions of China, was felt throughout 2015.

This paper analyzes the Russian debate on China’s security intentions in 2014-2015 as a coherent period in Moscow-Beijing relations, as well as a distinctly new period in Russia’s thinking about China.¹ Part of the research is based on analyzing publicly available academic and policy writings on this topic in leading academic and policy journals, as well as newspapers. Another part is derived from a series of in-depth interviews with Russian scholars and policymakers conducted throughout 2014-2015. The Russian debate is explained

through the broader context of Russian-Chinese relations and Moscow's thinking about foreign policy, including comments on the quality of expertise and the role that ideology started to play in the Russian debate on foreign policy during the period under scrutiny.

DRIVING FORCES: INTERESTS, IDEOLOGY, EXPERTISE

Before describing the contents of the Russian debate on China's intentions in Northeast Asia, three issues need to be addressed: Russia's broader interests in Northeast Asia; the role ideology plays in Russian thinking about foreign policy; and the state of Russian expertise on China and its influence on the decision-making process. These factors have significant impact on the debate.

Moscow's broader strategy in Northeast Asia is based on two pillars: 1) a search for the security of the Russian territory; and 2) an effort to create opportunities for the economic development of Siberia and the Russian Far East. Since the end of the Cold War and normalization of Sino-Russian ties, security threats for Russia in Northeast Asia have diminished significantly. Moscow's Asia policy in general and Northeast Asia policy in particular is primarily driven by economic needs. This approach has taken shape since the global financial crisis of 2008-2009, when Russia started to seek investment and trade cooperation with dynamic Asian economies more proactively. On July 2, 2010 President Dmitri Medvedev hosted a meeting in Khabarovsk on Russia's integration in the Asia-Pacific. He ordered the government to prepare a detailed program for boosting the country's position and increasing its profile in the region.² The document prepared by various government ministries and put together by the Ministry of Foreign Affairs (MFA) was classified. According to interviews with people familiar with the "Khabarovsk Initiatives" as the program came to be known in Russian bureaucratic slang, a major part is centered on the economy—promoting Asian investment in Siberia and the Far East and boosting exports of Russian hydrocarbons as well as high-end manufactured goods to the Asia-Pacific. The document states that Russia has an interest in a peaceful and growing Northeast Asia, but it has no detailed analysis of threats, particularly deriving from China.³

The centrality of the economic dimension in Russia's strategy in the Asia-Pacific and Northeast Asia and the secondary role of security are reflected in Putin's 2012 address to the Federal Assembly.⁴ In 2013 he stated, the "development of Siberia and the Far East is Russia's national priority for the 21st century."⁵ The strategic and security dimensions of Russia's policy towards Asia were not mentioned, which captures Moscow's attitude. Another marker is the Kremlin's decision not to attend the East Asian Summit at the presidential level – since Moscow was admitted to this primary venue to discuss regional security issues, it has been represented by Foreign Minister Sergey Lavrov. It was only in 2014 that Moscow upgraded its representation to Prime Minister Dmitry Medvedev. At the same time the Russian president has attended all of the APEC summits (except in 2015).

One of the consequences of this approach is Moscow's reluctance to take a stance on any of the territorial disputes in Northeast Asia. A telling example is its performance at the "Shangri-La Dialogue" in Singapore. Deputy Minister of Defense Anatoly Antonov, who represented Moscow in 2014 and 2015, has not addressed any of the China-related security issues in East Asia, concentrating instead on alleged U.S. attempts to promote "color revolutions" in the

Asia-Pacific and conflict in Ukraine.⁶ One explanation for this heard in interviews with Russian diplomats is Moscow's desire not to alienate any of its regional partners, most notably China.⁷

A more extensive and clearer explanation is reflected in public statements and writings of Russian experts, who have regular access to government officials and have a nuanced understanding of Moscow's official and unofficial position. One example is a report prepared by the Russian International Affairs Council, a government-sponsored think tank chaired by the former foreign minister Igor Ivanov, called "Russia's interests in Asia-Pacific: security and cooperation." The report was written by Moscow State Institute of International Relations (MGIMO) scholars Victor Sumsky (former MFA official), Evgeny Kanaev, and Ekaterina Koldunova following a track 1.5 conference hosted by the Russian International Affairs Council as part of preparations for the APEC presidency of 2012. "Russia's interests cannot be fully aligned with the interests of either the U.S. or China. This is why Russia should be able to engage in adaptive maneuvering and under no circumstances form a full-fledged alliance with one of the two powerhouses."⁸ This position, despite growing suspicions towards U.S. intentions, which are discussed separately, was still relevant in 2014-2015.⁹

The second factor influencing public debate on Chinese intentions in Northeast Asia, as well as government thinking on this issue, is the growing role ideology and anti-Americanism started to play in Russian intellectual life after the crisis in Ukraine. Searching for enemies outside the country and within it became an integral part of people's views, and the United States became a primary target for hatred.¹⁰ This sentiment is very widespread, according to Yuri Levada Center polling data. Negative feelings towards the United States have risen from 44 percent in January 2014 to 81 percent in January 2015.¹¹ The flip-side of the "besieged fortress" mentality is the search for international friends and partners. Combined with Moscow's active efforts to establish a more robust economic partnership with China after the Ukrainian crisis and Western sanctions, this has resulted in a major shift in the way the Russian public sees China. In November 2013, just 55 percent of Russians had a positive attitude towards this eastern neighbor, while over 30 percent had a negative view. In January 2015 a dramatic change could be observed. The number of people having negative feelings toward China fell below 10 percent, while the number with positive attitudes reached an all-time high of 81 percent.¹²

Interviews with specialists and analysis of writings on China in 2014-2015 show a direct link between these feelings and interpretations of China's regional and international security intentions. Overall, the tone of analysis became more China-friendly and more accommodating to Beijing's position. The mainstream view is that China engages in long-term strategic competition with the United States and U.S. allies in Asia, and Russia has a vital interest in supporting China strategically by providing it a stable, strategic hinterland with pipelines and land-based supply routes. Any Chinese actions at the expense of Japan or the United States in Northeast Asia are seen positively. At the same time, the Russian expert community is more than ever inclined to blame Washington and its allies for all regional security threats, including developments around North Korea.

The most interesting development is the changing assessment of Chinese strategic intentions towards Russia. Many of the country's China-watchers in 2014 and 2015 started to cover positive aspects of the Russian-Chinese relationship while entirely downplaying the risks. Deliberate silence in public writings on negative scenarios between Moscow and Beijing can

be found even in the works of Russia's best China-hands. Important examples are the writings of Alexander Lukin, one of the leading authorities on China in Russia. In his article "Russia, China and Emerging Greater Eurasia" published in *The Asan Forum*,¹³ the only risk mentioned in closer cooperation with China are "tough terms" that Beijing may introduce for bilateral projects. Lukin mentions "Russian fears" which need to be discussed with Chinese leadership, but does not go into detail. In contrast, Lukin's insightful piece "Nation and Military Spirit," published two years earlier in "Russia in Global Affairs,"¹⁴ had a thorough analysis of growing nationalism in China, the unpredictability of Beijing's course, and possible risks for Russia.

The third important factor shaping Russia's views on Chinese policy objectives in Northeast Asia is the deplorable state of Russian expertise on contemporary China.¹⁵ As other area studies after 1991, China-watching suffered a huge blow following the collapse of the Soviet Union. Lack of funds for salaries and purchase of contemporary books and journal articles, as well as for research trips, had a devastating effect. The ranks of Russian China-watchers have significantly decreased, the median age has risen, and the most dynamic and promising scholars have either left the field or emigrated (with few exceptions). Despite economic stabilization under Putin, the Russian state in all its forms—including government bodies, state-owned enterprises, the Russian Academy of Sciences, and the university system—did not pay much attention to boosting expert capacity to understand China. Private money also did not arrive: part of the explanation was a lack of significant commercial ties with China and the structure of Russian exports to the PRC, a large part supplied by just a handful of big companies. All these trends did not lead to a robust market for sinological expertise. The timing of the USSR's collapse and decline of the China-watching community caused a significant disadvantage in Moscow's capacity to understand China: just after Deng Xiaoping's "southern tour" and the re-launch of market reforms, which have transformed the PRC enormously. This was a time for dramatic changes in China's ability to project power and develop sophisticated weaponry, which was not covered extensively in Russia. It also needs to be noted that the expert community does not play an important role in crafting Russia's policy towards China.¹⁶

The state of China-watching in the government sector was better overall because of stable jobs and stable demand, but the field has also inherited the problems of the 1990s. According to in-depth interviews with officials at the MFA, the Ministry of the Economy, and the presidential administration, and former officers in the intelligence community, the problems in official China-watching are similar to those in the academic world: low salaries, a rising generation gap, and decreasing quality of analytical products. Analysis of Chinese military and security policy was also hit. For example, the GRU (Glavnoe Razvedyvatel'noe Upravlenie, the military intelligence department of the Russian chief of staff) had just one analyst to process recovered data on the Chinese air force.¹⁷

Descriptions of the state of expertise are important for understanding the quality of Russian discussions on Chinese intentions in Northeast Asia. Despite the growing significance of China both globally and vis-à-vis Russia, Moscow is burdened by poor command of the facts and developments on the ground. The number of specialists who do some sort of field research and go to China to talk about Beijing's strategy can be counted on two hands at best. The number of people who use original Chinese sources is also limited. This explains the low quantity of articles and studies of the topic in Russia in 2014-2015.

HELICOPTER VIEW: WHAT DO THE POLICYMAKERS THINK?

Russian officials are very careful when expressing their views about China publicly. Vasily Kashin noted that there is an unofficial ban on all government employees airing negative comments on China. Public comments from Moscow on what China's grand strategy is or what Beijing's intentions in its neighborhood are simply do not exist. The public stance on these issues was aired by Putin as prime minister during his campaign for the presidency in 2012, first during an interview with the three largest TV-channels. "There is one thing I keep telling everyone who is trying to scare us by a Chinese threat, and these are mostly our Western partners. In today's world no matter how attractive the mineral resources of Eastern Siberia and the Far East are, they are not the major prize to fight for. The major battle is for global leadership, and here we don't want to compete with China. China has other competitors in this realm. Let them sort out this issue between them. For us China is a partner, a reliable partner. We see Chinese leadership and Chinese people's readiness to build a friendly neighbors relationship and to look for compromise, even on complicated issues."¹⁹

Another quote outlining Moscow's strategy can be found in Putin's article, "Russia and the Changing World," published in *Moskovskie Novosti* in February 2012.²⁰ "Chinese economic growth is not a threat, but a challenge, which has enormous potential for business cooperation." A second and more important point is, "China's behavior in the international arena does not support the idea that it seeks dominance." Third, "We have solved all the big political issues with China, including the main question – the border issue. We have built a stable framework supported by legally binding agreements. There is an unprecedented level of mutual trust between the two leaderships. This allows us and the Chinese to act as real partners, based on pragmatism and concern for each other's interests." Putin admits there are also problems, and one of the issues he mentions is tied to security: "Our commercial interests in third countries do not coincide, we are not pleased with the current trade structure and low level of mutual investment. We will watch carefully migration flows from the PRC."²¹ Thus, only Chinese migration into Russia was officially acknowledged by Putin as a China-related security concern. In practice, however, Russia has been worried about Chinese "penetration" into the Russian Far East. In private conversations officials admit that there were informal barriers put in place for large Chinese investments. Fear of a possible territorial conflict was one reason why negotiations on new arms deals throughout the 2000s were problematic. (The other major issue was the Chinese specific understanding of intellectual property).

After the Ukrainian crisis Moscow's official tone changed. Some voices like Chairman of the State Duma Committee on Foreign Relations Alexey Pushkov assert that Russia is building an alliance with China, which is a direct response to "expansion of the Western alliance."²² But most important is the change in Putin's tone: notions of possible threats or risks associated with China have entirely disappeared from his public remarks and interviews. In a May 2014 interview with leading Chinese media he called Russia-China relations a "model partnership" and stated that both countries "don't have any problems which can have a negative impact on strengthening our cooperation."²³ Putin also stated that Moscow and Beijing promote a "new security architecture in the Asia-Pacific," which will be based on the principles of "equality, respect for international law, indivisibility of security, nonuse of force."²⁴ His next big interview on China for the TASS and Xinhua agencies went further: Putin blamed "some countries" for their "pursuit to maintain their dominance in

international affairs by any price,”²⁵ without singling out the United States by name. “It is in these uneasy circumstances that Russia-China cooperation plays a special role for preserving and strengthening international and regional stability and security,” he asserted, mentioning regional security architecture, space, and the security of information as three major realms for cooperation.²⁶ Despite that, the Russian leadership clearly sees limits in its partnership with China. An important clarification was made by the chief of the presidential administration Sergey Ivanov while visiting China in July 2014. “We have never seen any value, and neither do our Chinese partners, in creating a formal military alliance,” he said during a meeting with Chinese Vice-Chairman Li Yuanchao.²⁷

Russia’s real assessment of the danger that Chinese intentions in Northeast Asia may pose for Russia’s security are made even clearer by observing Moscow’s actions, not rhetoric. Arms trade is the most telling example of the dynamics in strategic calculations vis-à-vis China. After years of negotiation Russia has decided to sell the S-400 missile defense system and Su-35 fighter jets to the PLA. Beijing became the first international customer for both, which are among the most sophisticated weapon systems. The managers of Rosoboronexport do not explain the changed logic. In his interview with *Kommersant*, CEO Anatoly Isaykin just stated that the contract on the S-400 reflects “the strategic nature of our relations.” When asked whether Russian producers see risks in cooperating with Chinese, Isaykin just dropped a mysterious phrase: “When we work in Chinese interests, we also work in our interests.”²⁸ Russian military experts with close ties to the military-industrial complex and with good understanding of China explain that Moscow has become more aware of Chinese progress in indigenous innovation in arms production; thus it is trying while it can to capitalize on selling R&D and large quantities of sophisticated weapons.²⁹ The sale of the Su-35 is seen as a major success for Moscow.³⁰

What is not stated publicly, but revealed in personal interviews, is that Moscow’s perception of the Chinese threat has also changed. As part of the general review of policy towards China and the Asia-Pacific in the wake of the Ukraine crisis, Moscow has reassessed the “Chinese demographic threat” in the Far East and Siberia, concluding that the threat is exaggerated, and Beijing apparently does not have a plan to quietly move large groups of ethnic Chinese there. Combined with new information on the state of the Chinese military-industrial complex and the underlying consensus that a conventional war against China is unlikely to be won (and thus, in the highly unlikely case of an armed conflict, Russia would still be relying on its nuclear deterrent). This conclusion, as well as growing anti-Americanism across all strategic theaters, led to a change in policy. Some Russian officials dealing with China interpret Beijing’s overall strategy in Northeast Asia as shifting the military balance of power to the point it would be dangerous for the United States to interfere. Beijing will force other countries to negotiate on territorial disputes and make concessions allowing China to claim it has overcome its “century of humiliation,” while avoiding direct military conflict. This process, it is believed in Moscow, will not call the Russia-China border treaty into question, and, thus, Russia can remain a neutral observer, appealing for peace and opposing the use of force. Whether this view is widely shared in the bureaucracy is difficult to establish, as most Russian officials are reluctant to discuss Chinese strategy in Northeast Asia even in anonymous interviews.

EXPERT DEBATE: BETWEEN “YELLOW PERIL” & “STRATEGIC ALLIANCE”

Beijing’s security intentions in Northeast Asia play a marginal role in the Russian expert debate on China. In contrast to discussions in other countries, in 2014-2015 there was just one (!) article in Russian journals addressing China’s strategy in Northeast Asia as a separate topic,³¹ and it was written not by a prominent sinologist, but by a Ph.D student at the Institute of Far Eastern Studies (IFES). Also, in 2014 IFES published a collection of articles entitled “Northeast Asia: regional dimension of security and Russia-China cooperation,”³² but few actually dealt with the Chinese strategy for Northeast Asia. This neglect can be traced to both a lack of original research and field studies (with some notable exceptions) and a tendency to analyze trends in the broader “Asia-Pacific” and not in Northeast Asia, which remains a less popular subject.

In Russia’s expert debate on Chinese intentions in Northeast Asia, three schools of thought can be identified. The alarmists, remaining from the legacy of the 1990s, see China as an aggressive rising power aiming to change the status quo in the region and globally. China’s aim is not security or international environment that favors domestic transformation, but global dominance and territorial expansion. The most obvious target for these plans is Russia; so the country should be prepared to fend off an inevitable Chinese invasion. This school, once mainstream, represents residual distrust towards China. Not having an impact in professional circles, which scorn attempts to present China as a bogeyman or threat to the Far East. One reason is that the major proponent of this school, military analyst Alexander Khramchikhin,³³ is not a China expert. Nevertheless, such writings attract a lot of public attention and influence public opinion, particularly that of the Russian intelligentsia in big cities.

The second and largest group, the realists (Yakov Berger, Alexander Gabuev, Igor Denisov, Ivan Zuenko, Vasily Kashin, Vladimir Portyakov, Vitaly Vorobiev), see China’s goal in Northeast Asia as attempting to acquire the status of regional major power able to fend off any invasion, as well as to become dominant in the local balance of power in the long run. Representatives of this group argue a lot on details, such as whether China has the ambition to challenge the United States as the primary security provider in Asia, as well as whether Beijing has a coherent strategy at all. Thinkers in this school would agree that China’s intentions are driven primarily by domestic concerns, its view of security is more complex than just its military posture and involves geo-economics too, and Russia should not view China as a threat, but needs to be aware of some risks.

The third school, the quasi-realists (Yuri Beloborov, Timofey Bordachev, Evgeny Kanaev, Vasily Likhachev, Anatoly Klimentko, Vladimir Petrovsky, Mikhail Titarenko),³⁴ have been present since the fall of the USSR, but now are gaining prominence and becoming closer to mainstream ideology. Representatives of this school imply a realists’ (in IR theory’s sense) approach logic to inter-state relations, but narrow China’s interests down to opposing the United States. They believe that Beijing’s policy in Northeast Asia is a reaction to U.S. attempts to limit China’s rise and maintain global dominance, and thus conflict between the two powers is immanent, and a clash is a matter of time. Chinese policy, they state, can be seen as self-defense, and Sino-American conflict is inevitable. Russia should join China in this fight, providing sophisticated weapons or even entering into a formal alliance.

Before we discuss the topics which form the core of debate in Russia in some depth, Anna Voloshina's article, "Northeast Asia in China's Contemporary Foreign Policy Strategy," deserves special attention, as this is the only Russian source attempting to explain Beijing's strategic intentions in this critical region – all other experts just touch upon different aspects of the problem in their 2014-2015 writings. Voloshina's position can be described as part of the quasi-realists' discourse influenced by the realists' writings. The starting point is a gradual shift in Beijing's foreign policy thinking, abandoning the *taoguang yanghui* mantra of Deng Xiaoping and starting to pursue a more assertive policy towards Northeast Asia, including boosting its military capabilities and developing a "red lines" diplomacy. Voloshina states that China's goals in Northeast Asia are set. "They include boosting national power, limiting other contenders' influence, and positioning itself as a guarantor of security and stability in the region."³⁵ The United States is engaged in a policy of hedging against China and limiting Beijing's options by boosting the capacity of Washington-led military alliances. In the author's views, this is proven by the announced American "rebalancing." "The rise of China, the increased military potential of the country, and its hard positions on many issues, from the point of view of Chinese politicians, are a legitimate response to external challenges and instability outside Chinese borders," Voloshina states.³⁶ At the same time, Beijing has developed a set of constructive initiatives to strengthen economic ties with its neighbors, including the Asian Infrastructure Investment Bank and "One Belt, One Road."

The most important relationship for China in Northeast Asia is with the United States. Despite a clear understanding of hostile American intentions, "China's leadership understands the need for containing 'the competitive side' of the relationship and to avoid deepening existing contradictions with the U.S." The main reason for Chinese restraint is the volume of bilateral trade, Voloshina states. Second in importance is the relationship to Japan, where Beijing's strategy was to develop ties to Tokyo and weaken Japan's link to the U.S. This strategy has failed, as the competitive element in China-Japan ties became dominant. Washington, Voloshina asserts, has played a role too by helping to remove DPJ leaders from power and to bring in "pro-American politicians" from the LDP. On the Korean Peninsula "China tries to maintain and increase its influence, understanding that control by any other state on the peninsula creates a strategic threat." By developing bilateral relations with South Korea, China hopes to gradually weaken Seoul's alliance with the United States. "The most important goal of PRC strategy is to prevent a North Korean collapse. Beijing claims that it fears the destabilizing effect of a humanitarian crisis and significant flow of migrants. China also thinks that the ultimate U.S. goal on the Korean Peninsula is to change the DPRK regime in order to strengthen American alliances and hedge against China." One of the successes of the Chinese strategy in Northeast Asia is its relationship to Russia, which has grown stronger over the last two years. Beijing will not allow Moscow to turn China into a card for confrontation with the West, while trying to use Russia as a power to balance American supremacy. Voloshina's conclusion is that China faces a major dilemma: to behave more self-confidently and even aggressively or to hide its ambitions and concentrate on solving internal problems. Beijing understands that the gap in military capacity is too big to challenge the United States directly, but, at the same time, American policy to encircle China creates risks which cannot remain unanswered. China's major problem is its inability to formulate a concept of regional security, which could be attractive for its neighbors, and that is why Beijing should focus on "soft power." Voloshina may have no established position in the China-watching community and her work may not rely on original case studies or interviews, but her article is indicative of the mainstream consensus in the expert community.

In all other expert writings on related topics in Russia in 2014-2015, three main themes can be identified: 1) the nature of China-U.S. relations and their impact on Beijing's strategy for Northeast Asia; 2) "One Road, One Belt" as a geo-economic tool for improving China's relations with neighboring states, including in Northeast Asia; and 3) most debated, the nature of China's relations with Russia and Beijing's long-term intentions, as well as Moscow's response.

For most Russian specialists, it is China's relations with the United States that dictate Beijing's strategy for Northeast Asia. An alternative approach, which views adversarial relations with Japan as no less important for China, is not reflected in the available Russian literature – it can be heard in personal interviews.³⁸ The quasi-realists see conflict between Washington and Beijing as inevitable. In their September 2014 article for *Russia in Global Affairs*, the most prestigious Russian journal on foreign policy, Timofey Bordachev and Evgeny Kanaev of the Higher School of Economy (HSE) write, "strategic degradation of political, and later trade and economy ties between China and the United States became inevitable."³⁹ China, Bordachev and Kanaev assert, will have to look for ways if not to break through the strategic blockade in the east and southeast, but at least to compensate for its aftermath. This will lead Beijing to improve its ability to reach a compromise with Russia, particularly in Central Asia, Mongolia and North Korea.⁴⁰ A similar position is reflected in an article by Dmitry Novikov, one of Bordachev's graduate students from HSE. In "Non-isosceles Triangle," Novikov outlines major divisions between China and the United States, which include territorial disputes between Beijing and Washington's allies, problems of maritime security in the South China Sea and different views on economic architecture in Asia-Pacific.⁴¹ China's goal is no longer creating favorable conditions for internal development, but regional leadership. This will not be accepted by the United States, which, according to Novikov, makes the conflict inevitable. Russia cannot play the role of "wise monkey sitting on a tree," and needs to support China more proactively by giving the PLA Navy access to Russian ports and supplying China with hydrocarbons from Siberia, which will offset Chinese dependency on oil and gas imported by insecure sea lanes. Helping to undermine the current equilibrium between Washington and Beijing will benefit Moscow – either the United States cedes some responsibilities to rising China and, thus, makes the regional power structure more balanced, or both countries will seek Russia's support.⁴² In a similar approach, Vladimir Petrovsky analyzes Sino-U.S. attempts to create the regional trade and integration architecture, concluding that conflict between the two seems inevitable, and so far Beijing is winning.⁴³

The realists view Sino-American relations in a more complicated way, taking more care about about predictions for Beijing's strategy in Northeast Asia. Analyzing the fifth generation's foreign policy, deputy director of IFES Vladimir Portyakov describes Beijing's growing assertiveness in regional conflicts as a product of "China's rise" – Chinese policymakers became more confident about their country's power and are experimenting with a more muscular foreign policy. This trend is reflected in PRC academic writings, official statements, and real actions. "In decades to come Sino-American relations will resemble a pendulum, moving from cooperation to confrontation and back."⁴⁴ In his comprehensive analysis of major trends in Xi Jinping's foreign policy, Igor Denisov comes to the conclusion that it will still be driven by domestic needs, but these are no longer needs of a large developing country, but of a "reviving nation." "It is no longer just about creating a favorable environment for socio-economic development of the country, but about broadening strategic opportunities for China's rise," Denisov states.⁴⁵ At the same time, the shift to a more proactive foreign

policy will be gradual, limited by the heritage of *taoguang yanghui* and the inertia of China's diplomatic bureaucracy. Thus, one should not expect confrontation with the United States in Northeast Asia, despite some disagreements.

A long piece by Vasily Kashin, Russia's leading analyst of Chinese military and security policy, concludes that China will be very cautious about using its newly discovered military capabilities. "Hampering others' policies of military modernization and defending firmly its positions on territorial disputes, China tries to avoid heated conflicts on this stage. For example, its presence in disputed areas is marked by unarmed Coast Guard ships, not its military fleet."⁴⁶ Kashin's approach is further summarized in his op-ed for *Vedomosti*, outlining the inevitability of U.S.-China dialogue on regional security challenges, including in Northeast Asia.⁴⁷

A second widely discussed topic is the impact of Chinese economic diplomacy, most notably the One Belt, One Road (OBOR) initiative, on regional security, including Northeast Asia. The most extensive analysis has been published by Igor Denisov.⁴⁸ Denisov sees OBOR as the first proactive concept in China's foreign policy, which reflects China's transformation from "large power" to "great power" (translations of Chinese terms *daguo* and *qiangguo*). The initiative aims at using existing strong features of the Chinese model (expertise in infrastructure) to boost Beijing's influence in neighboring countries, which is a unique approach to mitigate security challenges. Denisov identifies a priority relevant for Northeast Asia: the attempt to create a "belt" of friendly states on China's periphery without direct conflict with the United States.⁴⁹ This approach is shared by Denisov's colleague at MGIMO, Ambassador Vitaly Vorobiev, who also sees OBOR as the first "big foreign policy concept" in recent Chinese history,⁵⁰ unlike the "public relations theories" of the Hu Jintao era, and he advocates for a stronger role of the Shanghai Cooperation Organization.⁵¹ Alexander Lukin notes that the OBOR concept may face challenges from China's recently discovered more assertive stance on territorial issues, and, thus, Beijing needs to recalibrate its rhetoric.⁵² Still, Lukin, as well as many other commentators (including Bordachev, Denisov, Fedor Lukyanov and, to some extent, Gabuev) believe that coordination between OBOR and the Eurasian Economic Union can increase the level of strategic partnership between Moscow and Beijing, which will affect their cooperation on regional security matters, including Northeast Asia.

The Russian debate in 2014-2015 has concentrated on the overall state of relations between Moscow and Beijing, as well as global implications. The alarmists' works (the most exemplary author is Alexander Khranchihin) depict China as an aggressive power aiming to swallow Russia's Siberia and the Far East. Khranchihin's arguments have not changed much since they were first published in the 1990s: the severity of internal problems, most notably overpopulation, lack of resources, and environmental degradation, will force China to expand beyond its borders. The empty space of Siberia is the easiest target, and Beijing, according to Khranchihin, has been preparing plans to take large chunks of Siberia for decades. One recent piece on how a Russia-China border war will develop suggests that a Chinese invasion will start with a small commando platoon overtaking Khabarovsk and then capturing half of Siberia.⁵³ Khranchihin asserts that the 2004 border treaty did not solve the territorial dispute between Russia and China, and that China is just waiting to rewrite this and other agreements.⁵⁴

The quasi-realists claim that the crisis over Ukraine has marked the breaking point in Russia's relations with the West, and now Beijing is Moscow's only true ally. The most radical expression

of these views can be found in Yuri Belobrov's article, asserting that all recent U.S. activity in the Asia-Pacific can be explained by fear of China turning into an alternative global center of power and a desire to encircle it. Moscow and Beijing need to join hands to develop "a strategy of opposing the American hegemonic push" in the Asia-Pacific.⁵⁵ Other examples include articles in *Mezhdunarodnaia Zhizn'* by Alexander Lukin,⁵⁶ Vladimir Petrovsky,⁵⁷ Mikhail Titarenko,⁵⁸ and Vasily Likhachev.⁵⁹ Between the two extremes are the realists, who argue that China is not about to conquer Russia and this intention does not exist at all,⁶⁰ but that Beijing will be not doing any charity work for Moscow, and Russia should be mindful of economic and political risks, obliging it to put its "Asia pivot" eggs into different Asian baskets.⁶¹

CONCLUSION

The Russian debate about Chinese security intensions in Northeast Asia is still in its infancy. Interest in this topic is growing due to Russia's "turn to the East" policy and the rising global importance of China. It is important to note that the expert debate in open sources does not fully match the content of internal deliberations on the topic inside the Russian leadership. Disconnect between the expert community and decision-makers is a fact of life in Russia, and recent attempts to close this gap and involve experts more deeply in framing Moscow's China policy are only the first steps in the right direction. Analyzing the real content of insiders' debate needs to rely on personal interviews. This is also required to distinguish between scholars who have access to decision-makers and thus either influential or representing their interlocutors' views, or are just high-positioned scientific bureaucrats representing themselves.

For an outside observer, the Russian debate on Chinese intensions in Northeast Asia may seem of low intensity and quality. This is a reflection of both the current decision-making system in Russia, which does not empower and encourage independent expertise, and degradation of the China-watching community. The growing role of anti-Americanism as a set of personal values, which influences scholar's thinking and prevents objective analysis, is also part of the problem. In addition, Russia still lacks good studies informed by field research. The bulk of the work is concentrated on China-Russia issues, while the sinology community is unable to track important relations like China-Japan or China-Korean Peninsula. In order to overcome these shortcomings, the Russian government should invest in beefing up expert capabilities, as well as liberalizing intellectual life while maintaining its strong focus on Asia.

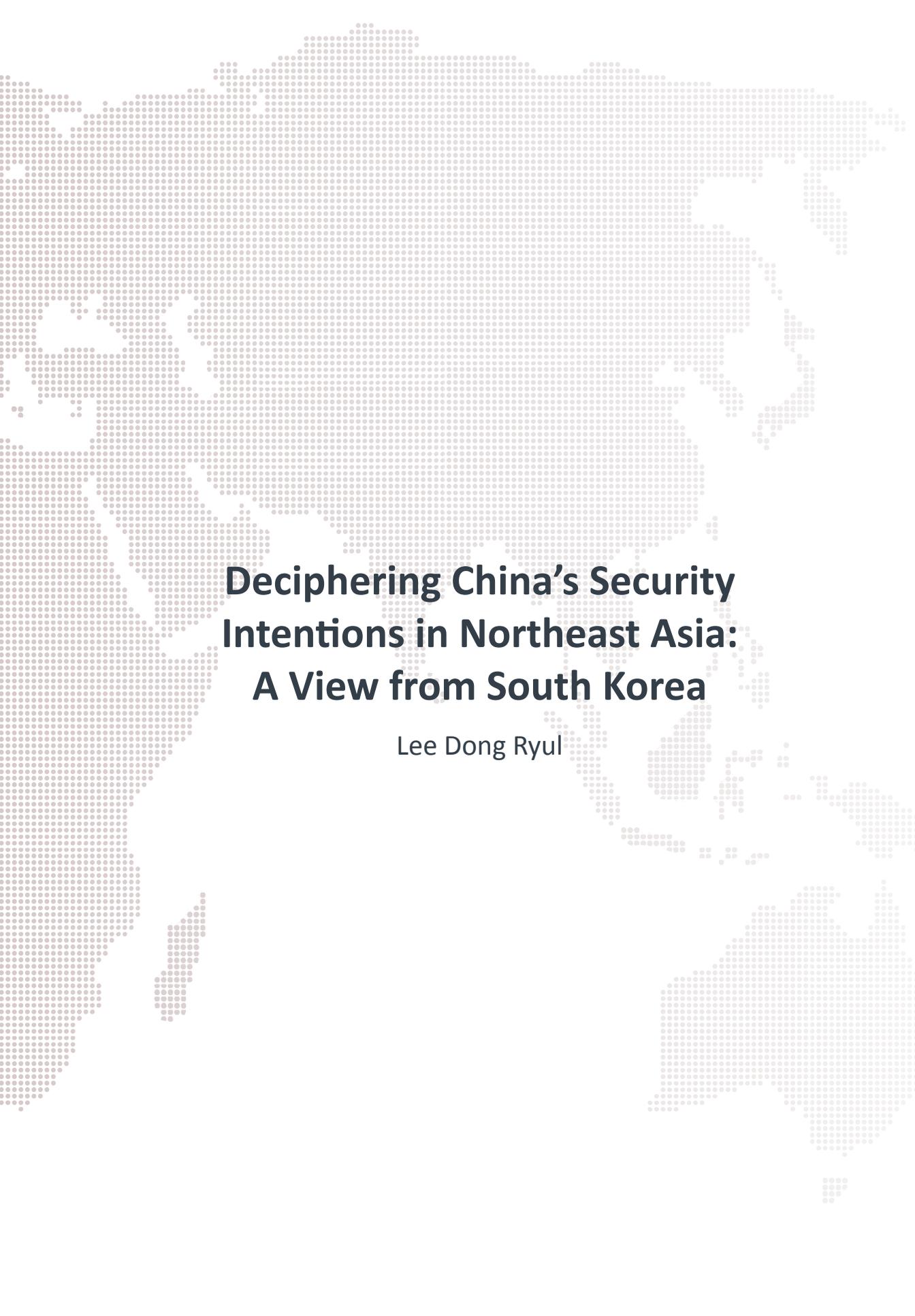
ENDNOTES

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Deciphering China's Security Intentions in Northeast Asia: A View from South Korea

Lee Dong Ryul

The most noticeable shift of diplomacy and security strategy in Xi Jinping's government is the evolution of peripheral diplomacy. China's East Asia strategy is especially evolving in response to Washington's "rebalance to Asia" and Japan's "normalization," focusing on weakening any checks on its rise by the U.S.-led alliance through an active diplomatic offensive in East Asia. In this context, China's East Asia diplomacy and security strategy still has the characteristics of counteracting the United States. Nonetheless, the reason China's response is regarded as aggressive is that its actions go beyond a reactive attitude to keep its core interests intact and are evolving into advancing new institutions and norms that can challenge the existing U.S.-led ones. Many signs show that the Xi government is seeking a way to shift from being a rule taker in the international order to a rule maker. China's leadership is aiming at the U.S.-led Trans-Pacific Strategic Economic Partnership (TPP); pushing the Regional Comprehensive Economic Partnership (RCEP); asserting that "the security of Asia should be upheld by Asians" at the Conference on Interaction and Confidence Building Measures in Asia (CICA); and leading the establishment of the Asian Infrastructure Investment Bank (AIIB).

In this context, South Korea is witnessing an intensified debate on China's emerging strategic intentions. The South Korean government, media, and expert groups have shown a lot of interest in whether China's more active diplomacy reflects both the will and capability to create a new international order and systematically pursue it at the level of grand strategy. Discussions on the rise of China focus on the new strategic reality that South Korea faces due to its unique characteristics, rather than on the essential issues of China's intentions and capabilities. As the competition over institutions and norms in Asia between the United States and China hit its stride, many discussions have centered on South Korea's dilemma, as it seeks to keep its ally close and steer China away from North Korea.¹ Such discussions cover the expansion of a rising China's role, how its influence in Northeast Asia and the Korean Peninsula affect the North Korean nuclear issue and reunification of the peninsula, and South Korea–China relations. Naturally, the North Korean issue, newly exacerbated by its early 2016 nuclear and long-range missile tests, figures heavily in the way South Koreans visualize what China has in mind for their country.

This paper examines such discussions in South Korea at the level of both the perceptions and policies of the government and the perceptions and responses of the non-government sector (media, academia, and the public). Through this process, the characteristics of and the problems in South Korea–China relations will be investigated by deducing the differences in opinions on South Korean policies to China and South Korea–China relations.

CHINA'S RISE AND ITS POLICY TOWARD NORTHEAST ASIA: CICA AND AIIB

The Government's Perceptions and Policies

In 2014–15, the South Korean government was clearly agonizing over making difficult choices between the United States and China in various domains. Key concerns were how to respond to China's new vision of Asian security at the CICA, China's invitation to join the AIIB, China's invitation for Park Geun-hye to attend its Victory-over-Japan Day celebration, U.S. interest in South Korea joining TPP, the U.S. desire for Terminal High Altitude Area Defense (THAAD) deployment, and the U.S. demand for South Korea to support freedom of navigation in opposition to China's actions in the South China Sea.

In consideration of its alliance with the United States, South Korea did not sign a joint statement as China sought. When Xi Jinping proposed a “New Asian Security Concept” at the May 2014 CICA held in Shanghai, he advocated that “it is for the people of Asia to run the affairs of Asia, solve the problems of Asia and uphold the security of Asia,” and “to beef up and entrench a military alliance targeted at a third party is not conducive to maintaining common security.”² The United States, which has been promoting a rebalancing strategy to Asia, accordingly recognized it as an attempt to build a new Asian security order led by China that challenges the U.S.-led security system. Chairing CICA for the first time, Xi ambitiously prepared for CICA by inviting the leaders of each country, including Park Geun-hye. South Korea, however, delivered a message of unwillingness to participate in the new security initiative led by China by not signing the joint statement and, in an unusual step, having the minister of unification attend the conference instead of the minister of foreign affairs.

In contrast, South Korea chose to join the AIIB after repeated requests from China, and to attend the “Commemoration of the 70th Anniversary of Victory of Chinese People’s Resistance against Japanese Aggression and World Anti-Fascist War” (the Victory-over-Japan Day parade). Regarding joining the AIIB, the South Korean government deferred its sign-up decision for eight months even when China requested it to join. The official reason to defer it was problems with the governing structure and operational methods of the AIIB, as also expressed by the United States and Japan, but in reality, the government was anguishing because of the choice between economic logic and alliance logic.³ The United States clearly perceived the establishment of the AIIB as a challenge to the financial order that it has been leading since World War II, and, therefore, it conveyed its objection to participation to its allies through official and unofficial channels.⁴ The South Korean government expected that joining the AIIB would be economically beneficial and judged that if it has to join it should secure a share and voice within the AIIB by joining as a founding member country, but it postponed its decision to join, as it was aware of the U.S. opposition.

The South Korean government eventually prioritized practical economic benefits over alliance reasoning, and in the process of seeking U.S. understanding, due to the unexpected variable of Great Britain’s joining, had an opportunity to escape from its dilemma without difficulties. South Korea was, consequently, able to join the AIIB as a founding member country while minimizing any strains in its relationship with the United States. Foreign Minister Yun Byung-se stated that South Korea obtained a diplomatic achievement that maximizes national interest by making a decision to join at the best possible time.

In summary, even though South Korea decided to join after prioritizing the practical economic benefits, without Great Britain making the decision to join, U.S. understanding could have been very difficult to win and there could have been a possibility of not being able to join as an establishing member country because of taking too much time to decide. In the case of both the CICA and AIIB, the South Korean government chose to cooperate with China in the non-security area, especially the economic area, without negatively affecting its alliance. Therefore, some commentators described the country’s strategy as “*anmi gyeongjung* (安美經中),” which means cooperate with the “U.S. for security, China for economy.”

Perceptions of the Media, Experts, and the General Public

The perception in South Korea of China's rapid rise is complex and multifaceted. Regarding joining the AIIB, the attitude of both experts and the media was generally welcoming. The case of the AIIB illustrates that the South Korean public is paying attention to the economic aspects of the rise of China, which is perceived as an opportunity and a challenge rather than a threat.

The public has a relatively positive perception of a rising China. According to a survey conducted by the Chicago Council on Global Affairs, 71 percent of the South Korean public thinks that China will responsibly handle world problems, whereas only 34 percent of Americans and 20 percent of Japanese agree.⁵ South Korea is more trusting of China than the United States or Japan, and China is more trusting of South Korea than it is of the other two. This was the state of mutual perceptions before early 2016 when clashing responses to North Korean actions caused a sudden downturn in the level of mutual trust.

Regarding the public's perceptions, despite the considerable favorability for China, 78 percent are worried about a territorial dispute (seriously worried 31 percent, somewhat worried 47 percent). It is a high statistic, following the Philippines (91 percent), Vietnam (83 percent), and Japan (83 percent) that are in maritime sovereignty disputes with China. It is even higher than India (62 percent), which is the only country that has unsolved land boundary issues with China. Despite there being no official territorial dispute with China, since China has maritime sovereignty disputes with other neighboring countries, South Korea perceives a threat and worries about potential conflict. If strife should arise over Jeodo during current negotiations on the demarcation of exclusive economic zones (EEZ) between the two countries, the public's current favorability for China could rapidly deteriorate.

In contrast, experts are concerned about a security threat due to the rise of China. According to a survey of experts by the Institute of Foreign Affairs and National Security (IFANS), the rise of China's economy was viewed as an opportunity for South Korea by 85 percent of respondents, while the rise of China's military was viewed as a threat to South Korea by 88 percent, and 72 percent of the experts either "strongly agreed" or "agreed" that China's recent foreign policy is assertive.⁶ Whether China's arms buildup will be a concrete and direct threat to the security of South Korea is debatable. Although there are security concerns about China's arms buildup, the possibility of a preemptive missile strike by China on South Korea is low and the assumption that China would preemptively use its armed forces against South Korea or the United States to protect North Korea is seen as unrealistic.⁷

Worries about a direct military security threat due to the rise of China are not relatively high among experts and the media in South Korea. But as China actively asserts itself—more so than in the past—the dilemma between the U.S. alliance and strategic partnership relations with China is intensifying. In March 2015, Kim Moo-sung of the Saenuri party stated, "Our priority is security. Therefore, for security, we should be under the nuclear umbrella of the U.S., and for economy, we should exchange well with China." The controversy deepened as "anmi gyeongjung" was presented as if it suffices as a survival strategy for South Korea in the middle.

The results of a survey of 61 experts and assembly members by *Hankyoreh* showed that they had negative views on the notion of "U.S. for security, China for the economy." Only 17.8 percent of respondents considered it sustainable, whereas 62.2 percent thought, "a new balanced diplomatic strategy should be found, centered on our survival and interests," and

13.3 percent responded that it is “unsustainable and sooner or later we will be asked to choose by both sides between security and the economy.” The “U.S. for security, China for the economy” strategy cannot really be a reliable strategy, considering that in international politics, economic and security issues often overlap. Nonetheless, discussions on it reflect how seriously South Korea is worried about the dilemma between its alliance with the United States and its relations with China.

SOUTH KOREA–CHINA RELATIONS IN 2015

The Government’s Perceptions and Policies

The close relationship between Park and Xi, whose administrations were launched almost at the same time, has driven bilateral optimism. In 2013, Park made a state visit to China before visiting Japan, the first time a president of South Korea had prioritized China. In 2014, Xi Jinping visited South Korea before visiting North Korea—again a first for China’s paramount leader—and the leaders of the two countries have displayed their special relationship through six summit meetings.

There was noticeable development in South Korea–China relations in 2015, enough to hear such phrases as the friendliest relations in history. It started with South Korea’s decision to join the AIIB in March 2015, and it reached a climax when Park attended China’s Victory-over-Japan Day parade in September, before it climbed to a new plateau when South Korea ratified the FTA agreement with China at the end of the year. The most symbolic event was Park’s attendance at China’s parade in September. In South Korea, there were arguments for and against her attendance. After all, she was the only leader in attendance from a western or U.S.-allied country, which made the decision difficult, as the pros and cons were weighed.

Having been subject to criticisms from western countries, including the United States, Park received “special hospitality” from China, and South Korea’s image among the Chinese public was raised. Foreign Minister Yun Byung-se stated that the visit to China is regarded as a “historical milestone” and concluded, “Through this summit meeting, South Korea prepared a footstool for the expansion of strategic space for diplomacy and the deployment of a strategic roadmap in the rapidly changing diplomatic landscape of Northeast Asia.”⁹

International variables similar to those in the AIIB case helped to minimize the side effects of Park’s attendance. First, because both the United States and China did not want to provoke the other ahead of their late September summit meeting, Park’s attendance did not become an issue for the two countries. Also, after the APEC meeting in November 2014 where Xi met Abe, China and Japan were also seeking to resume essential cooperation—so the parade did not directly target Japan. Therefore, the anti-Japan sentiment in China, which could have cast a shadow on Park’s attendance, did not become greatly apparent.¹⁰

Because the sharp confrontation between South and North Korea, brought about by the PMD-6 wooden anti-personnel mine incident, dramatically led to new momentum for conversation between them through the 8/25 agreement, China was able to give Park “special treatment” without considering the strained situation between North Korea and China. It also gave South Korea an opportunity to reaffirm the importance of China’s role in North Korean issues to the United States and other countries. Park’s attendance at the parade was perceived in Seoul as a successful choice, in line with the claim of the government. Nonetheless, a

review of a few important implications of Park's attendance is in order. First, the major reason that her presence drew attention is that South Korea was the only U.S. ally whose head attended the parade at a time of intensifying competition between the United States and China. Discussion swirled around the question of whether this meant that China is tilting more toward Seoul, increasing the prospect that in case of a North Korean provocation it would take a harder line with Pyongyang, or whether South Korea was moving closer to China, separating itself more from its ally's policy in the region. Many in Seoul reacted by applauding Park for striking the right balance, avoiding becoming engulfed in the whirlpool of competition between the United States and China (in case of an unwanted scenario where South Korea would be pressured to make choices between the two).

Second, in 2015, major decisions such as joining the AIIB, attending the Victory-over-Japan Day parade, and ratifying the FTA between South Korea and China, were seemingly brought to the fore through requests by China, and South Korea consequently "responded" to them. On other matters, South Korea refrained from doing things that China strongly opposed, above all, the deployment of the THAAD missile defense system. It appeared that the South Korean government was just waiting for China to "repay" it for such decisions. The problem, however, was whether China thought that it had received a unilateral "present." The South Korean government was expecting active cooperation from China on resolving the North Korean nuclear issue. After North Korea's fourth nuclear test, it was expecting a response from China, different from its earlier responses, but when the expectation was not satisfied, the South Korean government expressed its disappointment.

Perceptions of the Media, Experts, and the General Public

Although there were arguments about Park's attendance at the parade, many were of the opinion that the president should attend the parade but also find ways to minimize the side effects. According to the results of a survey of 61 experts and assembly members by Hankyoreh, 51.1 percent thought that Park should attend the event as she did, while 35.6 percent thought that she should attend the event but not the military parade. Only 6.7 percent of respondents thought that she should not attend at all. The large increase in Park's approval rating after her attendance provides indirect proof of national support for her decision.¹¹

The media extensively reported the outcome of the visit, centering on the "exceptional respect" given by China and evaluating that South Korean diplomacy had taken a self-chosen, careful step forward.¹² The responses to her attendance were mostly positive, but criticisms stated that the outcome was exaggerated. For example, one conservative think tank asserted that, unlike what the government was claiming, only China's role was highlighted by Park Geun-hye's attendance. China appeared now to have the initiative on the Korean Peninsula, and no new outcome could be detected for negotiations on the North Korean nuclear issue and the unification of the Korean Peninsula.¹³ In addition, as the media made the mistake of exaggerating Park's attendance in the parade by focusing on the exceptional respect given by China, the opposite extreme of defining the bilateral relationship by focusing solely on the disappointment felt right after North Korea's fourth nuclear test could also be a problem.

The more positive public perceptions on the development of South Korea–China relations are evidenced by the improvement in favorable opinions among people in both countries. According to a survey conducted by the Pew Research Center in 2015, 61 percent of South Koreans viewed China favorably. Favorability ratings have increased 5 percent since 2014.

Although the favorability ratings for China increased in 2015, it fell well short of the level of that of the United States, which has not been negatively influenced at all. U.S. favorability ratings measured 84 percent in 2015, increasing from 78 percent in 2013 and up from 82 percent in 2014. U.S. favorability ratings have grown even after Park's relationship with Xi Jinping began to develop after 2013.¹⁴ Considering these sentiments, Washington's concern over the South Korean people leaning to China seems to be unfounded.

In addition, the South Korean public has recently viewed the relationships with China and the United States as equally important, but different aspects of each are emphasized. In contrast to the stress placed on the security and political dimensions of the U.S.-South Korea relationship, views of the South Korea-China relationship are almost solely focused on economics. Seventy percent of South Koreans state that improving economic relations with China is key, while just 15 percent say that improving political and security relations is most important for improving overall South Korea-China relations.¹⁵

In the survey of experts, 79 percent of respondents considered the United States the most important partner in both the economic and security realms, while 68 percent stated that security interests prevail over economic ones in Seoul's relations with the two states.¹⁶ In other words, both the public and experts in South Korea consider that, although economic cooperation with China is important, security cooperation with the United States is more important, which shows that they consider South Korea's alliance more important than its relationship with China.

Experts are not optimistic about the future of the relationship despite the 2013-15 development in South Korea-China relations: 63 percent described the future of relations as "strained neighbors," and just 17 percent as amicable relations of equal, sovereign states.¹⁷ This draws attention because their views largely differ from the government's positive evaluation, claiming that the current relationship is at its best. Experts are worried about the growing asymmetry in South Korea-China relations due to the rapid rise of China, militarily and economically. They point to inherent conflicting factors, such as the North Korean nuclear issue and South Korea's alliance with the United States.

Concerns over such vulnerability in South Korea-China relations in fact were shown through the media after North Korea's fourth nuclear test. The *Chosun Ilbo*, a conservative newspaper, ran an editorial right after the test that claimed, "The best South Korea and China relations in history turns out to be fictitious. Somebody has to take responsibility."¹⁸ Because the hotline between the ministers of national defense was not working and no phone conversations between the two leaders were held, the relations that the government had displayed were viewed as a fiction. The paper criticized the fact that Park had braved international criticism to attend a massive military parade, arguing that any boost in amicable relations has been nullified by Beijing's snub.

The phenomenon of domestic conservative media criticizing the conservative government is unusual. It reminds one of when the progressive party criticized the progressive government of Roh Moo-Hyun for pushing ahead an FTA with the United States. It shows that Korean society is not completely free from the mindset that the progressive party is pro-China and the conservatives are pro-U.S.

CHINA'S POLICY ON NORTH KOREA & THE NUCLEAR ISSUE

The Government's Perceptions and Policies

Until North Korea conducted its fourth nuclear test, the Park government had judged that there had been qualitative changes in the Xi government's North Korea policy. It had expected China to play a supportive role in resolving the nuclear issue and even in the unification of the Korean Peninsula, and accordingly, the government saw itself as having made significant accomplishments. For example, right after the crisis on the Peninsula caused by the mine incident in August 2015, the Chinese government and media essentially pointed the blame at North Korea and sent out "warning" messages, and the South Korean government responded very positively, thinking, "Now China will not side with North Korea's provocations. This has significant implications for the North Korean nuclear issue. The more advanced North Korea's nuclear capabilities, the stronger China's opposition will be."¹⁹

When Park was attending the military parade in Beijing, she was reported to have "expressed her appreciation for China's role in easing tensions in relation to North Korea's DMZ provocation," as if China's role would continue in this vein.²⁰ Park even mentioned to the accompanying press corps "various discussions between South Korea and China will begin for peaceful unification of the Korean Peninsula." Expectations for China's role were clearly elevated.²¹ Foreign Minister Yun Byung-se, after the president's visit to China, explained during an interview with KBS radio that due to "[t]he fact that both leaders of South Korea and China made clear their opposition to North Korea's dual economic, nuclear policies, and disapproval of the North Korean nuclear issues and agreed to promptly resume meaningful six-party nuclear talks, it could be considered that China expressed its will to play an active role in resolving the North Korean nuclear issues in the future."²² Subsequently, despite a member of the Standing Committee of the Political Bureau, Liu Yunshan, visiting North Korea amid China's attempts to improve relations with North Korea, negative opinions in South Korea toward China were slow to be articulated.

After North Korea's fourth nuclear test, the South Korean government strongly expressed its expectations for China's cooperation in new and stronger sanctions against North Korea. In her New Year's address to the nation, Park stated, "A good partner is one that would hold the other's hand in times of difficulty." She urged China to cooperate in imposing sanctions against North Korea, including new restrictions, strong enough to change North Korea's attitude. In addition, Park proposed five-party nuclear talks, interpreted as saying that the Six-Party Talks are useless and that pressure takes priority over talks with North Korea.

Foreign Minister Wang Yi responded that China always upholds denuclearization on the Korean Peninsula, safeguarding peace and stability on the Korean Peninsula, and solving issues through dialogue, presenting the three principles as a package and indivisible. Wang also said that China would firmly promote early resumption of the negotiations on the nuclear issue on the Korean Peninsula.²³ Later, Foreign Ministry spokeswoman Hua Chunying responded to John Kerry's effort to get China to do more by stating that China is not the cause and crux of the Korean nuclear issue, nor is it the key to resolving the problem.²⁴

Although China criticized North Korea's test, it denied any responsibility. On the contrary, China strongly expressed its concern about stronger alliance ties among South Korea, the

United States, and Japan after North Korea's fourth nuclear test, refraining from putting the burden of denuclearization on the Korean Peninsula alone. Foreign ministry spokesperson Hong Lei told reporters when asked about the flight of a B-52 strategic bomber over South Korea and South Korea's resumption of the propaganda broadcasts, "We hope that relevant parties can exercise restraint, act with caution, and avoid ratcheting up tension."²⁵

The Park government's optimism about a qualitative change in China's North Korea policy was a backdrop for the resumption of arguments on China's role in the North Korean nuclear issue, especially criticisms of its exaggerated expectations. While there was recognition that the Xi Jinping government had changed its relationship with North Korea, leading to estrangement, it was decided that this was at the tactical level, not a matter of giving up China's strategic interest.

Criticisms were raised that the government's expectations were wishful thinking that China's North Korea policy would align with South Korea's national interests and hopes rather than a result of careful observation and analysis by focusing on China's words and deeds in regards to North Korea and the Xi Jinping government's active diplomacy with South Korea.

Although there were a certain amount of changes in China's perceptions of North Korea after new leadership appeared in China, the structural environment that could change China's North Korea policy—such as the agenda for China's rise, the restructuring of the regional order in East Asia, and the U.S.-China relationship—had not changed. On the contrary, due to the rebalancing strategy of the United States and the reinforcement of the U.S.-Japan alliance, North Korea's strategic value to China is strengthening. Even though North Korea's continuous provocations could annoy China, and depending on the intensity of the provocation, China could respond strongly, the response would be carried out through stable management of North Korea.

Perceptions of the Media, Experts, and the General Public

In South Korea, there has long been a debate over the balance of pressure and engagement toward North Korea largely between the conservative and progressive parties, and it revolves around China's North Korea policy and the perception of North Korea-China relations. The Lee Myung-Bak government distrusted China's North Korea policy and had a negative perception of China's role in the North Korean nuclear issue. Therefore, while the progressive media and specialists at that time opposed the pressure policy toward North Korea through strengthening the U.S. alliance, they expressed their position by stating that the emphasis that China puts on dialogue and negotiations, such as resuming the Six-Party Talks, is important.

Even though the Park government is conservative, it has been actively pursuing diplomacy with China. Although there were voices of concern in the conservative party over the government's new diplomatic moves, worrying that they could negatively affect South Korea's alliance with the United States, the conservatives controlled themselves and did not openly oppose the conservative government. Nonetheless, the government's judgment that qualitative changes will be brought about in China's North Korea policy due to the development of South Korea-China relations has continuously been the target for arguments. Experts and the media have presented various opinions on whether China's North Korea policy has changed, and even within the conservative party that supports Park. There were

both negative and doubtful opinions on any qualitative change in China's North Korea policy, and within the progressive party, there were assertions that important changes had taken place in the Xi Jinping government, along with criticisms that the government was indulging in wishful thinking.

After North Korea conducted its fourth nuclear test, the major media decided that China is not actively pressuring North Korea as expected and is even hesitating to cooperate with South Korea, and some conservative media brought up China's responsibility in North Korean nuclear issues. There was a consensus between the government, progressive and conservative media, and experts that China holds an important key to resolving the nuclear issue. For example, an IFANS survey shows that China was viewed by the majority of experts as both the key country (52 percent) in and the biggest disrupter (62 percent) to Korean unification.²⁶

Each party, however, has its own position on what China's expected role should be, on the way to get China to play that role, and on China's responsibility beyond its role. For example, the conservatively inclined *JoongAng Daily*, through its editorial "China Has to Change," urged China to strengthen its pressure on North Korea, based on the argument that it is China's responsibility.²⁷ In contrast, the *Hankyoreh* editorialized that the "China responsibility theory" pushes China away and does not work." It asserted that even though China's intervening role is important at this point, the room for China to intervene is receding because there have only been talks about China's role and strengthening the pressure on North Korea by the U.S. and South Korea.²⁸

Looking back over the past twenty years, the conservative experts judged that there is little possibility of China's participation in strong sanctions against North Korea, and, therefore, asserted that it is necessary to pressure China to participate in sanctions against North Korea by actively strengthening security cooperation between South Korea and the United States through publicizing the THAAD deployment. In contrast, progressive experts warned that cooperation among South Korea, the United States, and Japan might lead China to instead implement a conciliatory policy toward North Korea.²⁹ In addition, strengthening trilateral cooperation could lead to a power confrontation in Northeast Asia between China and Russia on the one hand and South Korea, the United States, and Japan on the other, which, in turn, could free North Korea from international pressure.³⁰

A few voices among both the progressives and conservatives considered China's role to be "useless." The conservative party asserted that China does not have the will or capability to resolve the North Korean nuclear issue and that, instead of expecting China to play a role, high-strength sanctions should be pushed forward by strengthening cooperation with the United States and Japan. The progressives asserted that since it is important to secure South Korea's leadership on the Korean Peninsula in the end, it is time to pursue a breakthrough through direct talks with North Korea.

CONTROVERSY EXPANDS TO THAAD, SANCTIONS, & PARALLEL-TRACK APPROACH

Widely diverse and complex views on China and South Korea-China relations have been expressed, leading to a series of sprawling debates on the issue in South Korea; these

continued in the 57 days preceding the U.N. Security Council's drafted resolution on sanctions against North Korea after the fourth North Korean nuclear test. The controversy was initially focused on the Chinese role and attitude toward the proposed sanctions against North Korea and South Korea-China relations. Then, its scope was expanded to include such issues as THAAD deployment; a parallel-track approach of denuclearization and a peace treaty; a possible accord between the U.S. and China on U.N. Security Council sanctions; and South Korea's role in the situation.

Immediately after North Korea's fourth nuclear test, the South Korean government promptly initiated a diplomatic offensive toward China, requesting for summit talks on the phone to elicit cooperation from China on the issue, while intensifying their pressure on North Korea. Dissatisfied with China's initially lukewarm attitude toward North Korea, the South Korean government swiftly made the stern decision to shut down the Gaeseong Industrial Complex and commence discussions on THAAD deployment. Amid these circumstances, even the South Korean government stopped describing its ties with China as being at their peak. Moreover, the press raised voices of concern over the suddenly chilling relations with China.

South Korea was dominated by opinions expressing discontent with and criticism of the lukewarm Chinese attitude toward North Korea. However, the situation also demonstrated that South Korean society has accumulated empirical understanding about the Chinese position. For example, a conservative newspaper, the *Chosun Ilbo*, observed in its editorial that it is difficult to expect China to move completely in sync with Seoul over North Korea, and its reluctance to take a hardline stance is understandable to a certain extent. It only criticized the refusal of China to respond to South Korea's request to communicate via a military hotline, calling this a deviation from international norms.³¹

There is, at least, indisputable consensus that China has a crucial role in applying pressure upon North Korea. However, there is discontent against and criticism of China and differences over the means to elicit Chinese support over the nuclear issue. There is also a consensus that South Korea-China ties should not be allowed to head toward a deteriorated conclusion. For example, the *Chosun Ilbo* maintained that the government should reconsider its decision not to send Prime Minister Hwang Kyo-ahn to the BOAO Forum in China, a means to express discontent with China over the North Korean nuclear issue and missile provocation. It suggested that the South Korean government should instead make every effort to persuade China by expanding the scope of its contact with the Chinese in every sector.³²

The issue has grown more complicated, as the South Korean government has officially started talks on the deployment of THAAD, and China has suggested a parallel-track approach of denuclearization and a peace treaty. These thorny issues are provoking heated debate in South Korea. When Chinese Ambassador to Seoul Chu Guohong warned that China's efforts to promote Seoul-Beijing relations could come to an end if Seoul decides to deploy the THAAD system, the South Korean government and press strongly denounced it as an "infringement on the sovereign rights of Korea."

Apart from the denouncement of the Chinese ambassador's remark as rude behavior, an opinion was raised highlighting the lack of strategic flexibility in South Korean diplomacy over the THAAD issue.³³ *Joongang Daily* suggested that Seoul should be flexible on THAAD deployment, citing a possibility that the U.S. and China might conduct negotiations behind the scene on the two issues: THAAD deployment and sanctions against North Korea.³⁴

Former foreign minister Han Seung-joo emphasized that THAAD deployment should not be regarded as an anti-China action, adding that he also opposed any move to abandon THAAD if such a decision was based on Chinese opposition to it.

In contrast, the progressive circle was opposed to THAAD deployment, on the ground that it is not a solution to the North Korean nuclear issue and might only heighten tensions and trigger a U.S.-China strategic confrontation on the Korean Peninsula. The South Korean press also raised concerns over possible responses from China to THAAD deployment. Even though some were optimistic that China would not resort to intensive or specific retaliatory action, there were more voices of concern over China's options of direct and indirect retaliation against South Korea, pointing to South Korea's economic dependence on China.

China's suggestion of a parallel-track approach is also intensifying the controversies in South Korea. The South Korean government and conservative politicians manifested their opposition to it, contending that there is no room for discussion on a peace treaty at this critical juncture of sanctions, the effectiveness of which might only be weakened. Conversely, progressive media and scholars think that Seoul should consider a parallel-track approach in a positive light, as it is fundamentally compatible with the September 19, 2005 agreement on the denuclearization of the Korean Peninsula.³⁵ An East Asia Institute report also claimed that South Korea should lead the peace regime initiative on the Korean Peninsula as a long-term measure to cope with the North Korean nuclear issue.³⁶

South Korean society generally welcomed the agreement of the U.S. and China on the strong sanctions against North Korea, recognizing the achievement of South Korea and the U.S. in cooperating to apply significant pressure on North Korea. However, there was an alternative view that it might have been the result of Chinese consideration of its relations with the U.S. and the THAAD issue, rather than the North Korean nuclear issue. This view holds that China might have proposed a withdrawal of the THAAD plan and a peace treaty in return for its agreement on the strong sanctions.

Contrary to the South Korean government's insistence that THAAD deployment and UN sanctions are separate issues, some observers claimed there is a possibility that China might tie its implementation of the sanctions with the abandonment of THAAD deployment. In particular, they emphasized that the actual implementation of the UN's sanction measures, even if sufficiently strong, depends upon the will of China to support them.

Noting that the U.S. move to reconsider THAAD deployment coincided with Chinese agreement on the sanctions, a concern was nonetheless raised that South Korea might be treated as an outsider in talks between the U.S. and China. There are also views that the focus might shift from sanctions to THAAD deployment and the parallel track approach to denuclearization and a peace treaty. In addition, there is speculation that the U.S. may accept the Chinese proposal and delay or withdraw THAAD deployment, depending upon Chinese cooperation with the sanctions, and initiate a dialogue with North Korea over a peace treaty.

CONCLUSION

The South Korean public is still paying attention to the economic aspects of the rise of China, which is perceived as an opportunity and a challenge after the fourth North Korean nuclear test. In contrast, experts are concerned about a security threat due to the rise of

China, but as China, more than in the past, is actively asserting itself, the dilemma between the U.S. alliance and strategic partnership relations with China is intensifying. Both the public and experts in South Korea consider that, although economic cooperation with China is important, security cooperation with the United States is more important, which shows that they consider South Korea's alliance more important than its relationship with China.

South Korea has a dilemma of strategic choice under the rapidly changing regional political architecture, with China's rise and the U.S. pivot to Asia strategy since 2008. When relations between South Korea and China were at their peak in 2015, South Korea faced a dilemma with its pro-China stance and having to choose between the U.S. and China in various domains. However, the North Korean nuclear test exposed the innate vulnerability of South Korea-China ties, paradoxically confirming the importance of the Chinese role in the North Korean nuclear issue.

In addition to this dilemma, South Korea was again confronted with the hard reality that it might be isolated from crucial decisions on the fate of the Korean Peninsula if it fails to maintain a proper position and status between the U.S. and China. In short, South Korea is now recognizing the necessity to consider its diplomatic choice, role, and status from a new, long-term strategic perspective, based on an awareness of the reality that the matter of North Korea, let alone the nuclear issue, is inextricably linked to strategic competition and cooperation between the U.S. and China.

South Korea-China relations developed into what were called the "best relations in their history." Nonetheless, concerns about the rise of China did not recede amid differences of opinion on latent problems in South Korea-China relations, which led some to warn about "leaning to China." The North Korean nuclear issue, the unification of the Korean Peninsula, and South Korea's alliance with the United States all aroused controversy. Contradictory viewpoints reflected the complicated reality that both Seoul and Beijing are in a relationship that is not limited to bilateral ties. South Korea-China relations are intricately interlocked with the international order, which leads observers to favor managing South Korea's diplomacy with China based on broader strategic considerations.

Although South Korea and China possess common motivation for cooperation, such motivation, when examined closely, is of a differing kind. On the surface, both South Korea and China support peace and stability on the Korean Peninsula. China, however, is newly recognizing the necessity of cooperation with South Korea as a means of checking the U.S. rebalancing strategy in Asia and the rightist turn of Japan. Unlike in the past, China is beginning to propose a concrete alternative agenda to take initiative in reshuffling the East Asian regional order and is actively seeking South Korea's participation and/or support.

Considering its alliance with the U.S., South Korea still finds it difficult to readily respond positively to these concrete demands, but on the other hand, it focuses on its expectation of economic cooperation with China and "China's role" in resolving the North Korean nuclear crisis. South Korea and China, therefore, can be likened to two partners on a journey who believe they are on the same path, meanwhile, inwardly, they are aiming at different destinations. Unless there is sufficient understanding of each other's differing expectations, the journey may lead to conflict and friction.

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RETHINKING THE SOUTH KOREA-JAPAN VALUES GAP

INTRODUCTION

What equilibrium means to geopolitical balance of power maneuvering, equality means to national identity resentments over gaps perceived as unjust. When South Korea gained favor as the “linchpin” of U.S. alliances, Japan was not satisfied until it was designated the “cornerstone” of the alliance system. In the “history wars” of 2014-15, Japanese and South Koreans vied for U.S. government and public opinion favor to their interpretation of historical consciousness issues. Finally, in response to U.S. pressure to calm tensions between the two over history themes, first one and then the other made concessions, as triangular aspects of identity—associated with U.S. global leadership—took priority. Yet, a sharp values gap between Japan and South Korea remains and could be reactivated, as identity concerns related to China and North Korea hover in the background for them.

History was on everyone’s mind in 2015—the year of the 70th anniversary of the end of WWII and the climax of the “comfort women” imbroglio that kept riling relations between Seoul and Tokyo. Moscow on May 9 and Beijing on September 3 saw military parades flex today’s muscle and twist history to serve today’s foreign policy objectives. They invoked Japan’s “fascist war” with hints that more demonization could follow, as Beijing, in particular, capitalized on Seoul’s use of the “history card” in an attempt to isolate Tokyo. At yearend, however, President Park Geun-hye and Prime Minister Abe Shinzo reached an agreement to finally and irreversibly put this issue to rest. What impact will that have in light of the emotional attitudes and chasm of distrust that has marred relations between their countries? How does this deal play into the wider great power struggle over identity? Reflecting on developments in Japan-ROK relations over the past year, the five chapters in Part II examine aspects of national identity in order to understand the nature of this relationship between two close allies of the United States and to anticipate how it might be changing in light of shifting strategic circumstances and the way they reverberate in invoking traditional identity themes or even replacing them.

The Japan-South Korea Identity Clash: East Asian Security and the United States by Brad Glosserman and Scott Snyder, was published in the first half of 2015, analyzing how the identities of Japan and South Korea have seriously complicated this relationship while also advancing suggestions for how relations could soon be improved. Here these authors take stock of developments over the past year, each concentrating on the nation he has covered closely. We also add three more perspectives: my framework centered on national identity gaps; Audrye Wong’s focus on what might be called “strategic identity” centered on thinking about each country’s alliance with the United States; and Kimura Kan’s analysis of the quest to make the December 28 agreement stick. Separately, these chapters shed light on recent developments, including the aftermath of this “comfort women” agreement. Together, they go beyond the Glosserman and Snyder book to give further impetus to a national identity approach to the evolving Japan-ROK relationship.

RESPONDING TO SHIFTS IN SOUTH KOREAN NATIONAL IDENTITY

Scott Snyder remarks that confidence deriving from the success of modernization and democratization in South Korea has been accompanied by a sense of vulnerability that has grown under Park Geun-hye's leadership, citing both potential vulnerability to a renewed global economic crisis and North Korea's growing nuclear threat as challenges. Snyder finds that Park's efforts to address these issues have involved efforts to recalibrate the sources and manifestations of South Korea's national identity, arguing that she has identified longstanding sources of identity that would have to be transformed for "Asia's paradox" to be resolved: anti-communism with North Korea, anti-colonialism with Japan, and the "shrimp among whales" paradigm in which Seoul is presumed to lack freedom of action due to its weakness compared to the region's great powers. Park's prescriptions for multilateral cooperation—the Northeast Asia Peace and Cooperation Initiative and the Eurasian Initiative—derive in part from an ambitious effort to build a new foundation for Korea's national identity as a "network" node or middle power, but these initiatives also reveal the limits and vulnerabilities of its regional diplomacy, Snyder concludes.

Park's approach shifts the narrative in inter-Korean relations from one that has been defined primarily in terms of a final victory in the ideology-based inter-Korean competition for legitimacy into a narrative that argues for unification as a development that would end inter-Korean confrontation and bring tangible benefits to both, i.e., a fulfillment of Korea's national destiny. Snyder sees this as a step forward in reframing identity on the issue of national unification. He also finds that efforts to change the dynamic of the Japan-South Korea relationship ultimately involve redefining South Korea's identity in relationship to Japan and vice versa. Since the bulk of nation-building efforts since the establishment of the ROK have been defined by opposition to Japan's historical role as colonial aggressor, this would require Seoul to accept and forgive past injustices toward it. Snyder finds that the very decision by the government to bring the issue to resolution has required it to challenge the anti-Japanese sentiment that had come to be a major part of the expression of Korean identity.

Managing ties to China and the United States is another identity challenge, he adds. Much increased tensions in Sino-U.S. relations puts pressure on Seoul to choose one over the other, limiting freedom of action as it navigates the space between the two and the prospects for Korean unification. It would rather be promoting the "thickness" of regional institutions as vehicles for deepening Sino-U.S. cooperation beyond the bilateral Sino-U.S. relationship. Efforts to promote regional and multilateral diplomatic initiatives are a welcome challenge to its identity as a "shrimp among whales," appropriating network concepts to augment its geographic position, adding the spatial and functional idea of Korea as a node in a network or as a connector. Rising rivalries in Northeast Asia have acted as an inhibitor to these efforts to promote regional multilateralism; so Snyder is not confident that Seoul's challenge to its identity as a weak power trapped at the vortex of major power rivalry will turn out to have a lasting national identity impact.

Snyder concludes that pursuing solutions that challenge long-held components of national identity is proving difficult: it may reduce the likelihood of any tangible success; it has reduced the capability of Park's supporters to claim an immediate set of impressive accomplishments; and it underscores the severity of the diplomatic challenges Seoul is likely to face as Park

attempts to refashion elements of Korean identity in order to generate a way forward for diplomacy. In comparison to the conclusions drawn in the following chapter regarding the national identity approach of Abe Shinzo, this is a more doubtful analysis of the success of what is taking place under Park, confirmed in recent rather negative responses to the “comfort women” agreement in Seoul, but not in Tokyo. The national identity challenge facing Seoul seems more difficult than that facing Tokyo.

RESPONDING TO SHIFTS IN JAPANESE NATIONAL IDENTITY

Brad Glosserman examines some of the Abe administration’s decisions related to foreign and security policy and explains the impact of national identity concerns on them, saying that these findings demonstrate the enduring importance of identity for core components of Japan’s foreign policy and how those conceptions have limited or shaped the resulting policies. In his view, advocates of change in Japan play down the novelty of their stances and ground them in traditional conceptions of national identity. They build on Japan’s record of peace and the language and intent of Article 9, adapting to new circumstances, especially transforming thinking about the role of the military and acknowledging its positive role in promoting peace. He sees new policy rooted firmly in pacifism, a core component of national identity. To blunt criticism, policy advocates counter that changes in defense policy are designed to serve the interests of longstanding objectives. Japan’s success requires it to contribute more to maintaining the stability and security of the existing international order. The image of Japan as a “success”—a wealthy, safe, modern economy and society—is another key element of contemporary identity and a way of using it to rationalize change. Similarly, the case for a higher, more active security profile is generated by references to Japan’s dependence on trade and the need for security of sea lanes. The result is pleas for change within the existing identity parameters, e.g., the discussion of security policy continues to focus on the constraints.

TPP and economic reform generally threaten Japanese identity, Glosserman argues. A slowing economy prompts many to challenge the consumer-orientation of their society from the perspective of existing identity. Complaints focus on the way that a capitalist economic model fragments communities, emphasizes acquisition that promotes inequality, and drives consumption that erodes the traditional Japanese relationship with nature. He sees two elements of this orientation. The first is the identification with nature, a belief that has roots in Shinto, although many adherents would deny that they have a religious orientation. A second element is the communitarian, egalitarian emphasis. Many conservatives also see new roles for women as a challenge to their notions of an idealized social order that stems from conceptions of Japanese national identity. Viewing Japan as more an object than a subject in international relations opens the door to another key element of Japan’s identity: that of “victim.” Thus, national identity appears to be more of a problem for the “third arrow” of “Abenomics” than for the security changes undertaken so far.

Glosserman turns to the “comfort women” deal with Seoul, concluding that there is much more to be done before this issue is finally and irreversibly settled, much less the larger set of history issues that bedevil relations between the two countries. Immediate challenges include implementation of this deal, honoring the promise to refrain from criticizing each other over the issue in the international community, and “dealing with” the statue. A major part of the

problem is that the deal challenges the victim narrative that is central to Japan's own national identity. The intensity of Japanese protests against the "comfort women" charges and the various solutions to this historical problem, including the December 2015 deal, reflect the unease created by the incompatibility of this allegation with notions of whom the Japanese think themselves to be. The durability and intensity of the belief that Japan will continue to be beaten with the "comfort women" issue is a reflection of the power of a conception of Japanese identity that stands upon the twin pillars of prewar powerlessness and postwar peacefulness, Glosserman explains.

A challenge Japan faces is to differentiate between the imperial government that committed the atrocities and the current one. This distinction would allow the Japanese identification of themselves as victims to go unchallenged, which should in turn diminish objections to the agreement. The fundamental question for them is whether they can accept this notion of contemporary Japanese national identity: that there has been a transformation in Japan, that the Japanese society and polity of the 21st century represent a break with that of imperial Japan. If they can, this deal may gain traction and endure, but Korean identity may prove unable to adjust. It may be predicated on the existence of an antagonistic Japan. The idea that a "hostile other" Japan may be intrinsic to Korean national identity would suggest that the recent agreement is doomed and long-term reconciliation with Japan is practically impossible. That would mean that a rigid national identity, unable to adapt to circumstances, is hurting Korea's ability to maximize its own interests and freedom of diplomatic maneuver. Glosserman adds that a danger for Japan—and all of Northeast Asia—is that a negative feedback loop will emerge, with Korean anger and insecurity confirming and reinforcing the Japanese sense of victimization and isolation within Asia. Japanese national identity can be used to build a more robust relationship with Asia, but it will require concerted effort by elites to advance and emphasize those strands of identity that do so; the more natural tendency is to stress exclusivity and separation. A conservative leadership that aims to rebuild Japan's "national pride and confidence" is less likely to prioritize the accommodative elements of identity that facilitate relationship building with Asia. Ironically, he adds, a Japanese leadership role in Asia, the real goal of conservative nationalists, is best accomplished through engagement on mutually satisfactory terms, i.e., shifting the identity framework more than has been done for security or the December deal.

NARROWING NATIONAL IDENTITY GAPS THROUGH THE U.S. FACTOR

The paradox of the two most trusted U.S. allies in Asia, each continuing to bolster its alliance with Washington, spurning each other, demands scrutiny at a time when it appears that a foundation is, at last, in place for alliance triangularity. At all stages of bilateral relations over the two years from Abe's visit to the Yasukuni Shrine to the "comfort women" deal, the focus on U.S. thinking was unmistakable, I argue. Was it putting more blame on Abe or Park? Which side was gaining an edge in the "history wars" being fought inside the United States? Whose summit with Obama was more successful? Were statements by U.S. officials a sign Washington was leaning one way or the other? Were independent policies in pursuit of another great power (China for Park, Russia for Abe) causing too much damage to U.S. relations? As the world returns to bipolarity and U.S. leadership is being more firmly asserted, coordination behind a shared identity puts pressure on moves by allies who assert alternate and clashing identities, as in Japan-ROK relations that interfere with this objective.

The Japan-ROK identity gap remained narrowly focused on a few symbols. That left it open to appeals to emphasize shared identities, for example, universal values, freedom of navigation, and antipathy to North Korea's human rights abominations. Potential for overcoming troubling symbols of division was much greater for this breakthrough than many anticipated, if leadership were shown. If Park had been blamed for preventing a deal with Abe, it would have severely damaged the case she could make for managing U.S. relations, but by striking a deal, she has gained less than Abe. Park appeared out of touch as the region was drawing closer together behind the U.S. "rebalance" to Asia. The pressure on her was enormous to reassure Obama, clarify Seoul's place in the emerging coalition, and strive for a resolution on the "comfort women." The triangle symbolized the "rebalance" in Northeast Asia.

The Seoul-Tokyo breakthrough was influenced by far-reaching security logic. In 2014-15 the Obama administration saw the troubled state of ROK-Japan relations damaging to deterrence against North Korea and "rebalancing" to hedge against China's increasingly aggressive behavior—two threats more serious than any faced in East Asia since the Korean War. Thus, U.S. determination to boost triangularity and a region-wide alliance/partnership network was a driving force for change. The contradiction between Japan's obsession with the increasing danger from China and its stunning neglect of strategic priority for South Korea finally was resolved, as Abe defied his revisionist base to weigh security (including the pressure coming from Obama) heavily. A similar contradiction existed for South Korea, not only because of the deepening security threat from North Korea, but also because of the oft-unstated awareness of a threat from China, including from its ambivalent stance on the North. The security imperative was rising just as the distrust between Park and Abe was deepening. U.S. diplomacy with both had unparalleled urgency. U.S. partners were pressed to assert an identity reinforcing U.S.-led values. Each side tightened the bilateral alliance over 2013-15, but pressure mounted to embrace shared values, which could not be achieved unless the two mitigated their conflict over values.

A challenge came from Japan's right wing, whose utter disregard for South Korea, buttressed by public sentiment that Park Geun-hye has widened the identity gap to the degree that normal relations became impossible, is rooted in revisionist thinking that the "comfort women" issue and other invocations of historical memory damage Japan's pride. Revisionists after swallowing challenges to their agenda from Abe may now insensitively provoke South Koreans. It is far too early to conclude that compromise—more at U.S. insistence than a sign of strong domestic pressure—is transforming recent identity narratives. The lack of international identity in Abe's circle makes it difficult to rally behind U.S. efforts to solidify shared identity as a foundation for trilateralism, nor would progressives provide much help, given their low interest in Japan's role in international security. As after the 1998 Obuchi-Kim Dae-jung "historic" agreement, the elite in Japan is unlikely to abide by its spirit.

Opponents of Park are rallying behind the "comfort women" statue in front of the Japanese embassy, as if its removal, as Park promised to strive to do, is tantamount to abandoning the essence of Korean national identity. The deeper backlash in South Korea has many causes. First, the split between the conservatives and progressives is wider; the latter are inclined to see the former as the progeny of collaborators and to consider the "comfort women" a symbol of victimization. There is little room for compromise with Japan. Second, the decision to side closely with the United States (and Japan), as polarization intensifies, leaves them without hope on North Korea or on Sino-U.S. balancing, challenging the goals for national identity

they have relished. The price for Korean progressives is too high in contrast to the price for Japanese of all persuasions of this deal. Park faces an uphill battle changing this thinking and getting her nation to accept that a “final and irreversible” resolution has occurred.

As countries are marginalized by globalization and polarization dominated by the United States and China, they turn to their past for validation of their worth. For Koreans, history to the end of the nineteenth century despite veneration during the 1960s-70s has the dual drawbacks of *sadae* (extreme deference to China) and failure to prepare the way to meet or even resist the new challenges of the modern world. Given ambivalence about the Cold War era, when dictatorship drove modernization, the unifying historical narrative is antipathy to Japan’s annexation and its genocidal cultural policies. There is no symbol of relief, such as Japanese acknowledgment of forced annexation or success by Koreans in restoring their own sovereignty; other symbols have been chosen to test whether Korea’s sense of dignity about the past is to be restored by Japan. Each clings to symbols of the past on which it anchors its sense of national identity. The priority of reunification is an enabling factor in South Korea. A search for pride in the prewar and wartime past is a driving force in Japan. Park and Abe boosted themes that work against refocusing on the future. Whether they can switch to new appeals for shared international identity remains to be seen.

Yet, I conclude, North Korea has changed the subject, relieving Japan of being the whipping boy and finally turning public disapproval increasingly toward China.

CONVERTING STRONGER ALLIANCE IDENTITIES INTO CLOSER BILATERAL RELATIONS

Audrye Wong recognizes that the two alliances are serving different objectives. For Tokyo, the U.S. alliance is increasingly about countering China (and responding to the Senkaku/Diaoyu islands dispute), but for Seoul, its alliance remains targeted at North Korea. The DPRK threat acts as an important mediating variable for South Korea but not Japan, she argues. Both South Korea and Japan frame their alliances first in response to local, imminent threats, be it North Korea or specific territorial disputes with Beijing, rather than China’s systemic rise. This may be overlooked by U.S. policymakers with grand global strategies. South Korean threat perceptions are framed within the search for a path to reunification. Similarly, Japan’s leaders have been searching for a path to “normal Japan” through acceptance in Asia, and they view China not only as a military threat, but as a force for demonizing Japan. The U.S.-Japan alliance is regional in scope, while the U.S.-ROK alliance remains targeted at contingencies on the Korean Peninsula.

Wong adds, beyond the Abe factor, Tokyo has become a more proactive partner due in large part to its growing sense of direct security threat from China, for which it seeks continued military and political support from the United States. Without dismissing domestic divisions, there is a growing sense of urgency among the elite in consolidating defense capabilities alongside closer cooperation with the United States. In contrast, enhancing political and economic relations with Beijing is part of Seoul’s strategy to reduce mistrust between the two countries, with an eye to improving policy coordination and increasing pressure on Pyongyang. The perceived need for Chinese cooperation on North Korea has made Seoul

wary of adopting alliance actions that provoke Beijing's displeasure, although recent pressure from Beijing may have the reverse effect, triggering sensitivities against being dominated by a larger neighbor (a painful legacy).

Chinese support for North Korea has destroyed the South's optimism that Beijing might be a proactive and cooperative partner in restraining DPRK provocations and finding a solution to the Korean Peninsula standoff. In the wake of the January 2016 DPRK nuclear test, a review of the feasibility of deploying THAAD in South Korea is under way. China's ambassador warned that bilateral ties could be "destroyed in an instant," prompting retorts from ROK officials that this constituted "blackmail" and that Beijing should recognize South Korean deployment of THAAD as "a matter we will decide upon according to our own security and national interests."

The different inclinations of Japan and South Korea, with respect to their positioning between China and the United States, can also be seen in their regional economic policies, Wong notes. Japan is part of the U.S.-led TPP, while South Korea has joined the Chinese-initiated AIIB. South Korea's interests in deepening economic relations with Beijing are not just for commercial reasons, but also as a form of strategic competition against Sino-DPRK economic ties. South Korea does not see relations with the United States and China as being zero-sum, with favorability ratings for both on an upward positive trend after Park Geun-hye's meetings with both Obama and Xi in late 2015.

The December 2015 bilateral agreement revealed the underlying strategic awareness on both sides of improved cooperation, as well as U.S. pressure behind the scenes for both sides to improve relations. If implemented fully, it could have a major impact by helping to smooth over political tensions, facilitating more systematic cooperation within a trilateral alliance. This could increase coordination over regional security issues and enable Japan and South Korea to take on a greater responsibility or leadership role in regional security. Of course, given their differing threat perceptions and political priorities, with each country having its own inclination on policy toward China, the challenge will lie in agreeing on strategic goals and areas of cooperation.

Driven by external security events, the national identity gap between Japan and South Korea is narrowing, as both governments grapple with repositioning their countries and leaders adjust their political rhetoric to allow for more amenable bilateral and trilateral cooperation. The North Korean issue presents an excellent opportunity for trilateral cooperation, although ROK identity might be sensitive to any apparent constraints by Washington and Tokyo that limit the pursuit of its own policy preferences toward the North. Managing identity issues alongside security threats will remain a delicate balance.

The alliance remains an ambivalent/contentious symbol in Japan's domestic context. The political left sees it as entangling Japan in unwanted international security burdens, while the right either resent it as a reminder of Japanese post-war subordination or push further for the "normalization" of Japanese foreign security and defense policy. Most of the public still think that Japan should pay less for the alliance, that local interests should come first, and that Washington has a tendency to overlook Japanese interests. Both ends of the political spectrum pose headaches for the alliance from the U.S. perspective. Ironically, a rightist prime minister eager to increase Japanese security contributions (which Washington has been pushing for many years) is also inclined to make cooperation with China and South Korea more difficult.

Japan-China issues (Abe compromised in December with the ROK) and North Korea issues (Park compromised with Abe through the second half of 2015) give the United States an opening. Tokyo sees China as a rival for strategic leadership in Asia, and the bilateral identity gap is worsened by continued Chinese demonization of Japan. To counter poor relations with its neighbors (China, South Korea, North Korea), Tokyo seizes opportunities to highlight shared identities as a U.S. ally. The U.S.-Japan Joint Vision Statement of April 2015 highlighted seven “shared principles” for “global cooperation” between the United States and Japan: support for the rule of law, peaceful resolution of disputes, international norms of behavior, free trade, multilateral institutions, and multilateral cooperation. These principles echo the six U.S. priorities of Hillary Clinton’s “Asia rebalance” policies published in a 2011 article.

Seoul does not have the same sense of rivalry with Beijing but is wary of Chinese actions suggesting hegemonic intentions, such as the dispute over the identity of the ancient Koguryo kingdom. South Korea’s pursuit of warmer ties with China, along with shared assertions of Confucian identity and shared antipathy to Japanese colonialism, also come into tension with South Korea’s identity as a U.S. ally sharing the same liberal and democratic values, including a rule-based international order. Beijing’s preference for Seoul to play a subordinate role rather than an active middle power (at least in the region), and its rejection of criticisms of human rights issues in North Korea, have highlighted the differing viewpoints and disconnect between the two countries. Moreover, recent events have highlighted how national identity forces are changing in South Korea. A crucial part of Korean identity relates to reunification of the peninsula. To the extent that Beijing is increasingly seen as the barrier to reunification, rather than as a partner in this pursuit, South Koreans will be less inclined to view China favorably. As with the factor of threat perceptions, national identity in South Korea is framed if not driven by the North Korean issue and the question of reunification.

MAKING THE DECEMBER 28 AGREEMENT STICK

Kimura Kan offers an explanation for why historical consciousness questions have flared between Japan and South Korea and discusses how they might become less of an issue.

He finds that they arose only from the 1980s, related to the diminished importance of each for the other against the background of a transformation in the security environment after the end of the Cold War. In addition, in this period, with economic development and globalization widening Seoul’s options, there was less need for cooperation between the two. Attention regarding historical consciousness in both countries became a matter of a new generation uncovering the facts that they did not know. This was exhibited through impeaching the views of the “old generation,” whose compromise management of control over the colony was linked to criticism of the existing political forces in each country.

Historical consciousness questions should be understood, Kimura says, as increasing the distance between Japan and South Korea in the midst of the greater international structural confrontation in East Asia, which further exacerbated Japan-ROK distrust. In this context, their difference over history was no longer only a matter of consciousness about the past; it transformed into a question of interpretation of the 1965 treaty, which served as the foundation of the bilateral relationship. There was a dramatic downturn with 2012 the turning point in

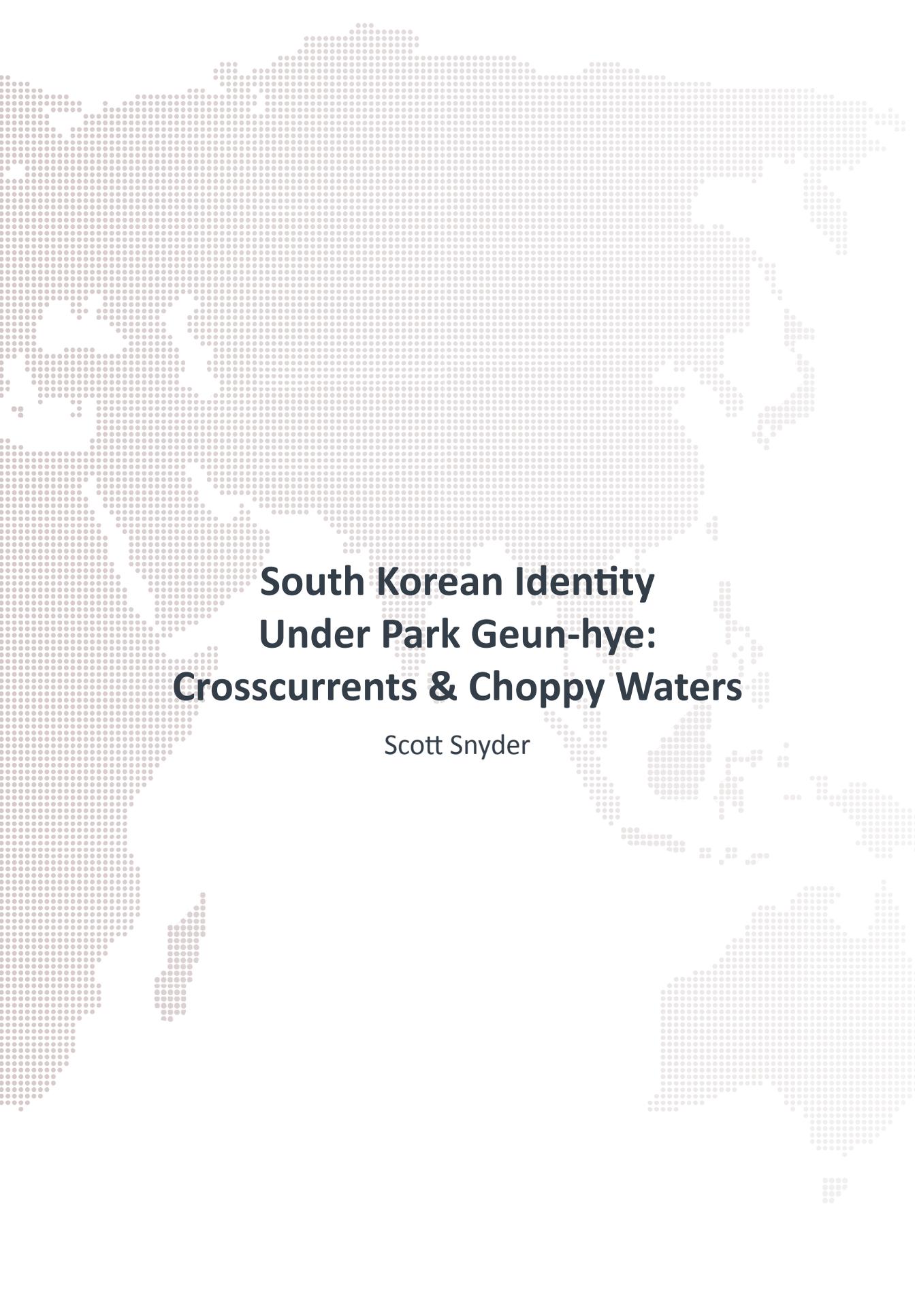
the level of trust toward South Korea. Kimura suggests that prior to 2012, especially on the Japanese side, there remained a high level of trust toward the other side such that deterioration of diplomatic relations did not lead to worsening in public attitudes. If relations were troubled, this was a problem for politicians and diplomats, not a reason for mutual antipathy. After, the other side's untrustworthy behavior became more startling, not just at the elite level; hope was lost that the two could resolve historical memory problems.

For an explanation, Kimura points to the linkage to Sino-Japanese relations. Starting in 2012, increasingly, Japanese perceived that China and South Korea were forming one camp, using the issue of historical consciousness in concert to attack Japan. After Sino-Japanese relations after 2010 rapidly deteriorated as a result of the Senkaku (Diaoyu) question, issues that had long been seen as specific to Japan-ROK relations were now reconceptualized amid the shifting power balance in Northeast Asia. Issues of historical consciousness in Japan-ROK relations were not seen in the vein of opposition between these two but interpreted as part of the vein of opposition between Japan and China plus South Korea. The "theory of South Korea leaning to China" had replaced the image of a friendly state, which is an ally through the intermediary role of the United States. South Korea was rather reconceived as a latent enemy, which could not be trusted and supports China, which is antagonistic to Japan and to the United States, which is the ally of Japan. Then, the Japanese government and media—and even more so public opinion, which interpreted Japan-ROK relations in this way—finally aroused a strong reaction from South Korea.

Since the divergence in their interpretations of the 1965 treaty had sprung from their divide on the "comfort women" issue, if the South Korean government takes a similar stance on the other historical consciousness questions facing the two governments as it took in the December agreement, it will be very easy to resolve them, Kimura argues.

Earlier, the people of Japan and South Korea had across the board lost trust in each other, transcending their support for political parties and their ideology. However much distrust persists, the situation following the "comfort women" agreement is different in some respects, he finds. As opposed to the case of Japan, where the agreement did not result in a big change in existing public understanding of historical consciousness issues and South Korea, in South Korea it resulted in a split of public opinion. In Japan not only have parties in and out of power welcomed the agreement, it has been received well by public opinion, and no great barrier to its fulfillment is in sight. If in South Korea there is insufficient cooperation from the remaining "comfort women" and their supporting associations and, even more, the agreement has been the object of serious criticism, this situation has not shaken Park's support base. This puts a burden on both governments to fulfill the terms of the agreement early in the midst of what may be temporarily stable conditions, especially when mutual distrust prevails in public opinion on both sides. A precious opportunity must be used effectively, Kimura concludes, since the agreement did not wipe away the distrust between the people of the two countries that formed from 2012. Supposing something happens between Japan and South Korea or if the two do not carry out the agreement, there will be a refocusing on distrust is Kimura's dire warning.





**South Korean Identity
Under Park Geun-hye:
Crosscurrents & Choppy Waters**

Scott Snyder

South Korea's nation-building project during the Cold War relied heavily on strong state direction designed to generate a sense of cohesion and national identity. These strategies were conceived and executed during the Cold War under the authoritarian leadership of developmental dictators Park Chung-hee and Chun Doo-hwan. The environment was also defined by South Korea's dependence on its alliance with the United States. During the early stages of South Korea's national development, the leaders mobilized the people primarily through appeals to anti-communism focused on North Korea and through anti-imperialism focused on the historical legacy of Japanese imperialism and Korea's lost nationhood. Although South Korea's developmental success came at a high cost to personal freedoms, South Korea's largely peaceful democratic transition and continued economic success generated a positive record of achievement, which itself has become a source of pride and has emerged as a component of its national experience that developing countries seek to emulate. As evidence of the magnitude of South Korea's economic and political transformation, consider that the South Korea that freely chose to elect Park Geun-hye president in 2013 had a per capita GDP of over \$24,000 and a college-age population of which 90 percent entered college. This is a far cry from the country that her father Park Chung-hee took over militarily in 1961. In that year, its per capita GDP was \$1,458, 15 percent of South Koreans lived in poverty, and only 8 percent attended college.¹

South Korean confidence deriving from the success of its modernization and its democratization has been accompanied by a sense of vulnerability that has grown under Park Geun-hye's leadership. In her 2013 inauguration speech, Park identified the country's potential vulnerability to the global economic crisis and North Korea's growing nuclear threat as major challenges. She invoked confidence borne of South Korea's experience of national resilience as a resource necessary to face these twin challenges and restated her goal of bringing happiness to the Korean people. Yet, she has so far struggled throughout her administration to find answers to these vexing issues.² In part, Park's efforts to address these issues have included recalibrating the sources and manifestations of South Korea's national identity.

During her campaign for the presidency in late 2012, Park referred to Asia's paradox, which has seen economic growth and geopolitical fissures in Northeast Asia at the same time, pointing specifically to relations with North Korea, historical differences with Japan, and the prospect of a rising Sino-U.S. arms race as potential threats to South Korea's well-being. In so doing, she identified longstanding sources of Korean national identity that would have to be transformed for "Asia's paradox" to be resolved: anti-communism with North Korea, anti-colonialism with Japan, and the "shrimp among whales" paradigm in which South Korea is presumed to have little freedom of action due to its relative weakness compared to the great powers in the region. Park's regional prescriptions for multilateral cooperation, the Northeast Asia Peace and Cooperation Initiative and the Eurasian Initiative, derive in part from an ambitious effort to build a new foundation for Korea's national identity as a "network" node or middle power, but these initiatives also reveal the limits and vulnerabilities of South Korea's regional diplomacy. Interestingly, the steps necessary to fully address each element of Park's Asian paradox require transformation, not only in South Korea's international relations, but also in South Korea's conception of its national identity. I now turn to a more detailed analysis of each of these elements of diplomacy under Park with special reference to their implications for conceptions of national identity.

TRUSTPOLITIK & PREPARATION FOR KOREAN UNIFICATION

Park Geun-hye's initial policy toward North Korea was presented in a *Foreign Affairs* article as "trustpolitik." The article called for North Korea to keep its agreements with South Korea and the international community and pledged "assured consequences for actions that breach the peace." The strategy essentially called upon North Korea to show itself trustworthy in the eyes of the international community as the essential prerequisite for building a positive relationship. In addition, Park emphasized the importance of "alignment" of peninsular and international efforts toward North Korea.³ Park further elaborated on her long-term vision for integration of the two Koreas in her Dresden speech in March 2014, which presented a phased process of inter-Korean integration involving first, humanitarian cooperation, second, "co-prosperity through the building of infrastructure that supports the livelihood of the people," and finally, "integration between the people of North and South Korea." However, expansion of inter-Korean cooperation to large-scale economic projects was conditioned on North Korea's denuclearization.⁴

In addition to these policy statements, Park's emphasis on the likelihood, importance, and benefits of Korean unification has distinguished her from her predecessors to the extent that her pronouncements involve a reframing of questions of identity related to the objective of national unification. Park's approach is arguably shifting the narrative in inter-Korean relations from one that has been defined primarily in terms of a final victory in the ideology-based inter-Korean competition for legitimacy into a narrative that argues for unification as a development that would end inter-Korean confrontation and bring tangible benefits to both South and North Korea; Park used the word "taebak," or bonanza, to describe Korean unification in a January 6, 2014 press conference.

Unification has always been a powerful narrative in inter-Korean relations as an expression of shared ethnic identity to end the suffering from the tragedy of division, both at the family level and at the national level. However, the discussion of reunification from one that had primarily focused on costs, a deferred timetable, and a cooperative process under progressive South Korean presidents, transformed under Lee Myung-bak and Park Geun-hye into one that focused on the benefits of a unification that implicitly would be likely to result from North Korea's vulnerability. This focus on the benefits of an early unification process has shifted the frame of discourse on the likelihood and prospects for unification.

Aside from a rhetorical emphasis on the unification "bonanza," Park's main tool for pursuing a reframing of the national unification narrative has been the establishment of the Presidential Committee on Preparation for Unification, a committee chaired by Park to prepare for the security, political, legal, economic, and social implications of unification. In presenting national unification as an opportunity that required active preparation, Park offered a view of unification as a benefit and a fulfillment of Korea's national destiny rather than as a component of the longstanding ideological competition between the two Koreas. However, the inability of the committee to provide greater understanding to the public regarding the likely process or driving forces that would presage unification have been factors that limit public support.

An Asan Institute for Policy Studies report released in 2015 illustrates that a plurality of the Korean public supported efforts to achieve dialogue and cooperation and viewed the conservative policies of Lee Myung-bak and Park Geun-hye as insufficiently forward-leaning in their efforts to engage with North Korea. But the report also shows that Park's emphasis on "*taebak*" may have represented and/or accelerated a shift in the rationale for pursuing unification within the public from one based on shared ethnicity to one based on shared economic interests. The report records a drop from 59 percent of Koreans who placed importance on shared ethnicity as a motivation for reunification in 2007 to 40 percent of Koreans in 2014, with younger generations rating the importance of shared ethnicity much lower than their seniors. This is notable because younger Koreans appeared more likely to respond to the economic rationale for pursuing unification than that based on shared ethnicity.⁵ These data suggest the decline of anti-communism as a major component of identity versus the North and that the best prospect of building a long-term rationale in support of unification is likely to be presenting unification as beneficial to the mutual economic interests of both Koreas. Conversely, the survey results imply that the economic gap between the two Koreas could be a major factor weakening public support for Korean unification if not handled skillfully. By shifting South Korean identity discussions vis-à-vis unification from one that has relied on outmoded ideology-based competition for legitimacy to a narrative that anticipates shared economic benefits and prosperity, Park has taken a step forward in reframing identity on the issue of national unification.

THE COMFORT WOMAN ISSUE & JAPAN-SOUTH KOREA RELATIONS

The second issue Park identified as a component of "Asia's paradox" involved the need for Japan to come to a "correct view of history"⁶ through "corresponding steps from the region's main historical and wartime aggressor."⁷ As I argued with Brad Glosserman in our book, *The Japan-South Korea Identity Clash*, the roots of this conflict over Japan's acknowledgement of its historical legacy on the Korean Peninsula ultimately can be framed in terms of identity. However, this means that in order to positively influence the trajectory of the relationship, proactive efforts to change the dynamic of the Japan-South Korea relationship ultimately would involve efforts to redefine South Korea's identity in relationship to Japan and vice versa. Since the bulk of nation-building efforts since the establishment of the ROK have been defined by opposition to Japan's historical role as colonial aggressor, South Koreans historically have been sensitive about Japan's willingness to come to terms with its imperial past. During the 2012 presidential campaign, Park expressed the hope to see Japan do more to acknowledge its historical role. However, when viewed through the framework of identity, the question of whether Japan has sufficiently acknowledged and paid for its past wrongs would also require South Korea to be able to accept and forgive past Japanese injustices toward it.

The specifics of Park Geun-hye's approach to South Korea's relationship with Japan once she became president were shaped by several factors. First, South Korea's Constitutional Court had ruled in 2011 that the government had not done enough on behalf of the "comfort women" in negotiations with Japan, making this issue a focal point and sticking point in management of relations with Japan. Second, the reelection of Abe Shinzo as prime minister, who is widely perceived to hold revisionist views on Japan's historical role, arguably made

management of a stable Japan-South Korea relationship even more challenging. In fact, Abe's decision to visit the Yasukuni Shrine in December 2013 exacerbated Japan-South Korean tensions and catalyzed U.S. efforts to stabilize the bilateral relationship. Following a trilateral meeting among Obama, Abe, and Park at The Hague on the sidelines of the 2014 Nuclear Security Summit, Japan and South Korea agreed to address differences over the "comfort woman" issue in periodic talks held at the director-general level of their foreign ministries. However, a Japanese government review of the background of the Kono statement launched at the same time seemed to validate South Korean fears that historical revisionism in Japan would further undermine the basis for efforts to improve the Japan-South Korea relationship. The results of the review, however, were ambiguous and did not serve to undermine the validity of the statement, as Japanese conservatives had hoped.

Although director-general level talks on the "comfort woman" issue dragged on for over a year with no apparent progress, the two sides made modest steps toward the restoration of a normal relationship. Park made a Liberation Day speech on August 15, 2014 that hinted at a willingness to improve relations with Japan despite a failure to settle this issue. In the run-up to the 50th anniversary of diplomatic normalization, cabinet level ties between the two countries were normalized, and Park and Abe appeared at parallel receptions held in Tokyo and Seoul respectively on June 22 to commemorate the anniversary. Park sent conciliatory signals to Japan the day after Abe's August 14 speech commemorating the anniversary of the end of World War II despite the feeling among most Koreans that the speech had fallen short of taking responsibility for Japan's historical role. During a September visit to Beijing to attend China's commemoration of the end of World War II, Park successfully restarted plans for the China-Japan-ROK trilateral summit, held on November 1 in Seoul. Following that summit, Abe and Park held their first bilateral summit on November 2, after which South Korea once again urged Japan to come to an agreement on the "comfort woman" issue by the end of the year.

A significant force in support of governmental efforts to stabilize the Japan-South Korea relationship were public opinion polls in both countries such as the joint NPO Forum/East Asia Institute poll released in the spring of 2015 that showed that large majorities in both Japan and South Korea held negative views regarding the relationship and wanted the situation to improve. An Asan Institute poll conducted in the summer of 2015 suggested that most Koreans would support a resumption of summit-level interactions between the two leaders even prior to the resolution of the "comfort woman" issue. These polls showed that despite the mutual decline in public perceptions, there was recognition that the two governments should better manage the relationship.

Against this backdrop, Seoul and Tokyo made a surprise announcement on December 28, 2015 that they had come to a final agreement on the "comfort woman" issue. The government of Japan issued a statement in the name of the prime minister that acknowledged the pain of the victims and pledged payment to the government of the ROK to establish a foundation to provide restitution to the Korean "comfort women" and their families. The ROK acknowledged the settlement of the issue as "final and irreversible" and pledged to open discussions with South Korean non-governmental organizations about moving the "comfort woman" memorial statue located outside the Japanese embassy in Seoul. The South Korean public's initial response to the agreement was divided. Korea's Realmeter poll recorded that 51 percent opposed the agreement and 43 percent supported it. Moreover, almost three quarters of Koreans supported keeping the "comfort woman" statue in its current location.⁸

Perhaps most important from an identity perspective, however, is that the very decision by the Korean government to bring the issue to resolution required it to challenge anti-Japanese sentiment that had come to be part of the expression of Korean identity. The agreement reflected a willingness by the South Korean government to accept a settlement with Japan despite the fact that it would open the government to criticisms that Japan had not gone far enough in expressing its responsibility and remorse for its historical legacy.

Park Geun-hye's public statement to the Korean people acknowledged that, for some Koreans, there could be no satisfactory settlement of these issues, but then stated, "the Korean government made every effort to have the Japanese government acknowledge its responsibility and officially express remorse and apologies for the comfort women. And based on the judgment that sufficient progress was made within the boundaries of feasibility, we reached agreement." She then called on the Japanese government "to squarely face history while faithfully implementing the agreement" and called on the Korean public and the victims to "view the agreement with largeness of heart and to stand together for the future of our nation." In voicing these sentiments, Park asked the South Korean public to pursue a mix of pragmatism, principle, and forgiveness that, in sum, represented a half step away from the cycle of rupture and rapprochement in Korea-Japan relations, if indeed it is possible for the agreement to be implemented in good faith.

SINO-U.S. RELATIONS & KOREA'S DILEMMA

The third area of concern in Park's Asian paradox thesis is the danger posed by the possibility of "accelerated military competition" in Northeast Asia. A specific area of concern is related to the U.S.-China relationship and the negative implications of increasing regional tensions for South Korea. While calling for a "forward-looking" U.S.-China relationship, Park states categorically that a rising China and America's pivot to Asia are not "mutually exclusive," and that South Korean ties with these two powers "are not premised on choosing one over the other."⁹ Yet one consequence of drastically increased tensions in Sino-U.S. relations would be that South Korea would have to choose one over the other, limiting or even eliminating South Korea's freedom of action as it navigates the space between its larger neighbors. The second consequence of heightened Sino-U.S. tensions is that it would limit the prospects for Korean unification. Thus, South Korea has a profound interest in strengthening regional cooperation and in promoting the "thickness" of regional institutions as vehicles for deepening Sino-U.S. cooperation beyond the bilateral component of the Sino-U.S. relationship.

Park has pursued efforts to strengthen the Sino-South Korean relationship, but always on the foundation provided by a solid U.S.-ROK alliance, which itself was established as a logical follow-on to South Korea's identity as a weak state or as a "shrimp among whales." However, the efforts with China are premised on the idea that South Korea has the capability to be a constructive convener and arbiter of Sino-U.S. interests, especially as they relate to North Korea. One initiative Park has tried to promote has been the establishment of a formal trilateral Sino-U.S.-ROK dialogue on North Korea. Although one track 1.5 meeting was held in the summer of 2013 among Chinese, American, and South Korean specialists, the initiative did not stimulate sufficient interest among Chinese and American counterparts to take root as an official forum despite ongoing South Korean diplomatic efforts. This initiative shows South Korea's desire to play a coordinating role with its larger neighbors so as to avoid its historic position as the object of major power maneuvering for advantage, i.e., a "shrimp among whales."

Several forces have influenced the Sino-ROK-U.S. dynamic. One is the question of mutually exclusive choices versus overlapping and reinforcing interests. For instance, Park's efforts to develop closer relations with China and with Xi Jinping have occasionally been subjected to criticism from those who worry that the Sino-South Korean relationship might develop at the expense of the U.S.-ROK alliance. However, Park's diplomacy with China has been undergirded by assiduously close consultation between Seoul and Washington as a result of regular diplomatic briefings at senior levels regarding South Korean relations with China before and after almost every major interaction, and President Obama offered explicit support for good Sino-ROK relations in his October 2015 joint press conference with Park Geun-hye. In this way, the United States has continuously supported South Korean efforts to engage more comprehensively with Beijing.

The second dynamic of interaction has been driven by Chinese efforts to force South Korean choices in ways that drive wedges in or bind the U.S.-ROK alliance. For instance, Xi Jinping's efforts to win South Korea over to China's side through appeals to criticize Japan's position on history issues were also perceived by many as an indirect test of the U.S.-ROK alliance. South Korea also gained points for opposing Xi's effort to win support from the Conference on Interaction and Confidence Building Measures in Asia for a statement that would directly criticize U.S. alliances as a source of tension in Asia. In addition, China challenged South Korea to resist the deployment of the Terminal High Altitude Area Defense (THAAD) system to South Korean territory because of Chinese concerns that this system had dual uses that could also target China. In each of these cases, China indirectly or directly challenged South Korea's identity as an alliance partner of the United States. In some cases, South Korea's interest in redoubled cooperation with the United States has been driven by its negative perceptions with regard to China's hegemonic pretensions.

Third, the nature and depth of the U.S.-ROK alliance have evolved substantially through the establishment and upgrading of trade and nuclear cooperation agreements and through the expansion of cooperation on non-traditional security issues on a global scale in the areas of public health, international development, and post-conflict stabilization. This evolution has transformed the alliance from a patron-client relationship to a security partnership in which South Korea is no longer solely the object of protection and consumer of international security resources. While these elements of cooperation are unrelated to China for the most part, identity shift within the alliance strengthens the relationship against criticisms from China that the alliance can be defined solely in terms of threat, especially in the event that the threat posed by North Korea were to be neutralized or eliminated as a rationale for U.S.-ROK cooperation. However, because of South Korean interest in maintaining a positive relationship with both Washington and Beijing, it is premature to say whether policy toward China will emerge as a source of contention or cooperation within the alliance framework.

Within this context, trends in South Korean public opinion toward China and the United States have been moving in opposite directions; anxieties about China have grown as support for the U.S.-ROK alliance has increased. Pew Research polling shows that favorability toward the United States has gradually increased from around 50 percent in 2002 to the 70 percent range in 2013, while South Korean attitudes toward China have declined from the 60 to the 40 percent range during the same period.¹⁰

Finally, South Korea has sought an active role in strengthening multilateral cooperation through promotion of forums that require involvement of both the United States and China to succeed. In so doing, it seeks to maximize its leverage and influence with both Beijing and Washington by building engagement with China on the foundation provided by the alliance.

SOUTH KOREA'S MULTILATERAL INITIATIVES: CJK, NAPCI, & THE EURASIAN INITIATIVE

South Korea's efforts to promote regional and multilateral diplomatic initiatives further challenge its longstanding identity as a "shrimp among whales," in part by appropriating network concepts to augment South Korea's geographic position, adding the spatial and functional idea of Korea as a node in a network or as a connector. The rationale to pursue such cooperation in the context of "Asia's paradox" has been that institutionalization of multilateral cooperation in Northeast Asia is an effective way to "build political and military confidence, intensify economic cooperation, and attain mutually beneficial human security dividends." Such initiatives are also in line with the South Korean foreign ministry's "middle power" concept, which seeks to use South Korean "hosting diplomacy" and "network diplomacy" as means by which to exert South Korea's influence despite its relative weakness compared to neighboring major powers. Efforts under Park to establish an identity as convener and networker as a means of challenging South Korea's geographic constraints have experienced mixed success. Networking is only effective in an environment that is conducive to connection as opposed to confrontation. Yet, rising rivalries in Northeast Asia have acted as an inhibitor to efforts to promote regional multilateralism. Under the Park administration, three cases are worthy of close examination.

First, Park's inauguration coincided with South Korea's turn as host of the annual trilateral China-Japan-Korea (CJK) summit that had been established in 2010 as an outgrowth of dialogue among the three countries that had occurred on the sidelines of ASEAN + 3 meetings. However, tensions between China and Japan over the Senkakus and questions about Abe's tendencies toward historical revisionism emerged as obstacles to holding a CJK summit in 2013 and 2014. The primary immediate benefit of Park's decision to participate in Chinese World War II commemoration activities in Beijing in September 2015 was to secure a Chinese commitment following Abe's 70th anniversary statement to resume the CJK trilateral, which was subsequently held on October 31, 2015. Although Park's efforts to hold the summit encountered many obstacles and delays, she was ultimately successful in winning cooperation from China and Japan to resume it and to expand political space for the accompanying activities of the Trilateral Cooperation Secretariat (TCS).

Second, in her article on Asia's paradox published during her presidential campaign, Park mentioned her Northeast Asia Peace and Cooperation Initiative (NAPCI), which seeks to foster functional cooperation and regional integration following the model of the Helsinki Process in Europe. In pursuing this initiative, Park has placed Korea at the center of a multilateral process designed to foster Northeast Asian networks on a wide range of functional issues with the idea this would help to overcome mistrust within Northeast Asia. While the impulse to play a regional connecting role has been a theme of Korean diplomacy for over two decades, it is an excellent illustration of efforts to build a Korean identity as a convener and networker as a means to escape the dilemma of being a weak power among competing great powers.

Third, Park has invoked the virtues of connection between Europe and Asia through her Eurasian Initiative, which seeks to strengthen energy and transportation linkages between the two continents. This particular initiative has shown the least development, in part because the international response to Russia's aggression in the Ukraine has upended prospects for tangible cooperation. South Korean firms have explored possible investments in and utilization of a Russian-constructed railway from Russia to the North Korean port at Rajin, but plans for other forms of cooperation have not materialized. In addition, it remains to be seen whether this concept intersects in Northeast Asia with China's One Belt One Road initiative, i.e., whether the two concepts for regional development will evolve in a competitive or a cooperative fashion. Regardless of the success of these three initiatives, each case illustrates how Park has sought to use concepts of network diplomacy with South Korea as a convener or node to challenge the limitations of its geographical identity as a weak power trapped at the vortex of major power rivalry.

CONCLUSION

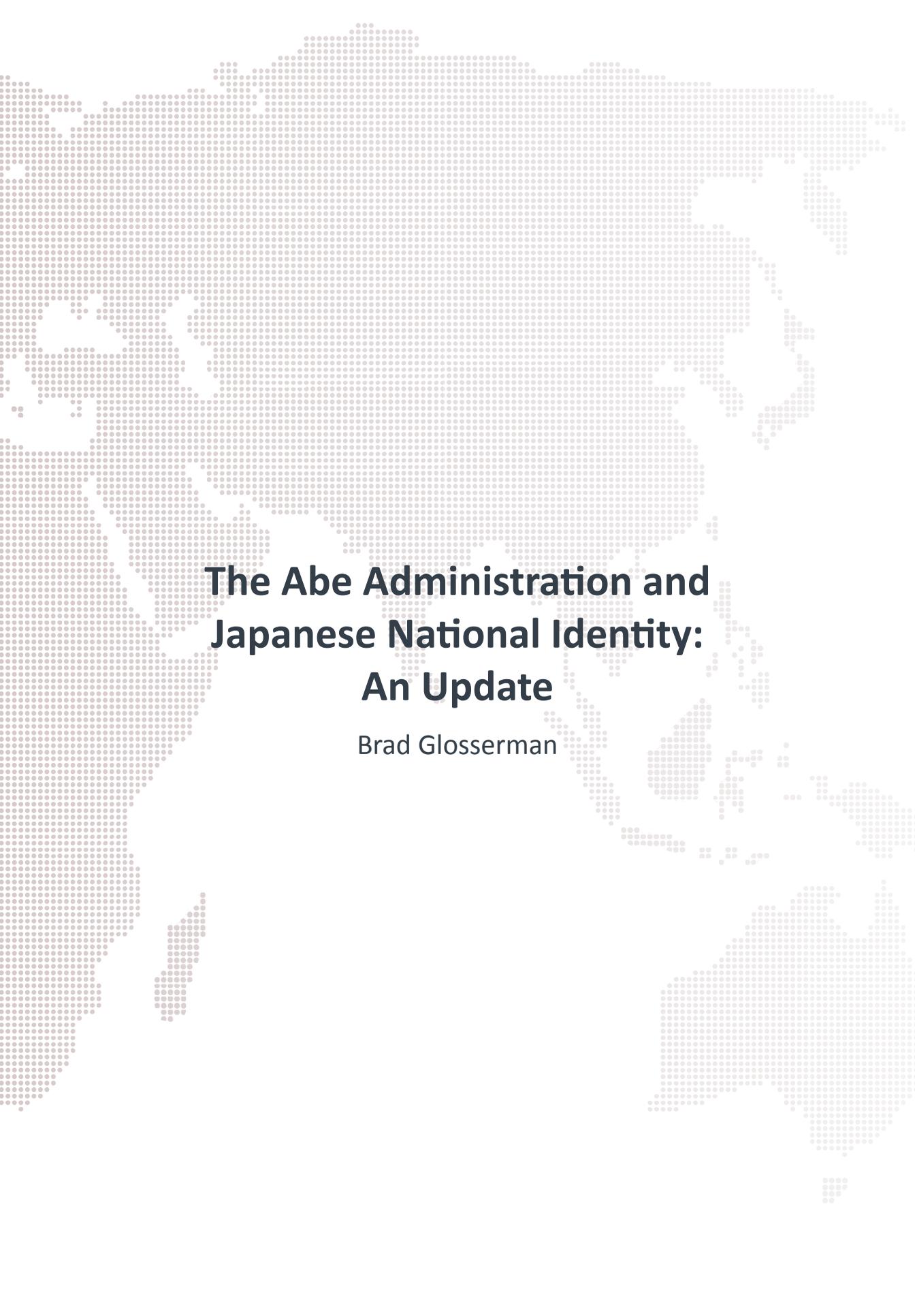
Park Geun-hye has entered the fourth year of her single five-year term in February 2016 and faces National Assembly elections in April 2016. The pattern of presidential power reveals that the greatest opportunities to secure the accomplishments necessary to achieve a tangible legacy occur in the first three years, and that legacy-burnishing accomplishments are a harder lift as Korean presidents approach the twilight of their ability to exercise power. Park's prescriptions regarding Asia's paradox made in 2012 before she assumed the presidency have proven accurate, but her ability to effectively influence or resolve the major elements of the paradox have been mixed. Korean confidence accrued as a result of its economic success and democratization are increasingly being challenged by a more dangerous regional security environment, inducing a rising sense of vulnerability within Korean society.

Park has not dodged or sugar-coated the magnitude or severity of the problems South Korea faces. Instead, she has confronted these challenges, even when they have challenged long-held strains of identity that may now require adaptation for South Korea to move forward. Nevertheless, the task of pursuing solutions that challenge long-held components of Korean national identity may reduce the likelihood of tangible success, has reduced the capability of her supporters to claim an immediate set of impressive accomplishments, and underscores the severity of the diplomatic challenges South Korea is likely to face. But as Park attempts to refashion elements of Korean identity in order to generate a way forward for diplomacy, she has invoked another crucial strand of South Korea's post-war identity that she identified in her inaugural address when she noted "the resilience and the potential of our dynamic nation."¹¹ It is that resilience and dynamism on which South Korea will have to rely in order to successfully respond to diplomatic challenges it is likely to face.

ENDNOTES

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The Abe Administration and Japanese National Identity: An Update

Brad Glosserman

It is tempting to see in developments in contemporary Japanese politics indications of a fundamental shift in Japanese national identity. Resist that temptation. There are changes afoot in Tokyo, but these are not radical moves, nor do they signal a fundamental transformation in how the Japanese see themselves or their place in their world. In fact, what is most notable in policy debates is the way that advocates of change play down the novelty of these positions and ground them in traditional conceptions of national identity. This chapter examines several of the Abe administration's decisions related to foreign and security policy and explains the impact of national identity concerns on them. It demonstrates the enduring importance of national identity for core components of Japanese foreign policy and how those conceptions have limited or shaped the resulting policies.

The portrait of Japan that emerged from *The Japan-South Korea Identity Clash*¹ was that of a nation that is fundamentally conservative, reluctant to change, and concerned more with internal developments than those of the world around it. Inhabiting an island nation has had profound implications for Japanese identity. It has meant that a sense of vulnerability colors Japanese thinking about their place in the world. This manifests itself in fatalism and resignation, even though the Japanese are applauded for their readiness to struggle on (*gambaru*) or endure (*taeru*). The island mentality has also promoted a sense of egalitarianism and equality. The limited resources of an island nation have obliged Japan to engage the world, which has reinforced its identity as a trading nation, one with a deep connection to the maritime domains.

This identity creates internal tensions: on the one hand, it forces the Japanese to look to the world beyond their shores, while reinforcing, on the other, differences between Japan and “others.” An abiding concern about entrapment in foreign affairs is another consequence of this orientation, a fear that has been stoked by the disastrous results of Japan's outward expansion in the first half of the 20th century. As a result of that sad history and the enduring internal orientation, Japanese are “reluctant realists,” who have adopted an antimilitarist security mindset and are deeply suspicious of the utility of military force as a tool of state policy. Finally, the Japanese take great pride in their successes, and like many nations are very conscious of status, but they fear (or are resigned to) being buffeted by forces beyond their control (another form of vulnerability).

COLLECTIVE SELF-DEFENSE: THE POWER OF NATIONAL IDENTITY

Perhaps the most important policies of the second Abe administration—certainly the subject of the most attention from the international commentariat—concern efforts to reinterpret the Constitution, in particular restraints on the exercise of the right of collective self-defense (CSD) and the legislation that would implement that new interpretation. (This is part of a much larger package of security and foreign policy measures that were put into effect during the first two years of the Abe government and are covered in *The Japan-South Korea Identity Clash*.) While he campaigned in 2012 on a pledge to amend the Constitution, Abe has governed with restraint, acknowledging that he is far in front of the public in regard to this objective, and has pressed instead for more measured advances toward that goal.

The first step was a July 2014 cabinet decision to reinterpret the Constitution to lift constraints on the exercise of the right of CSD. Traditionally, Japan had been thought to possess the right of CSD—as all states do—but constitutionally forbidden from exercising it. The 2014 decision was based on the premise that no country can secure its own peace by itself and, thus, collective action was needed to create national security, a common sense assertion. While considerably less provocative than a constitutional amendment, it was still a controversial move that was followed by legislation that would permit Japanese Self-Defense Forces (SDF) to join military operations from which they had been previously banned.

This change was often characterized as path breaking, radical, or a shedding of shackles that had been imposed on Japan throughout the postwar era by occupying forces.² In fact, it was a restrained step, one that is consistent with the evolution of Japanese defense policy over the past two decades. Throughout the parliamentary debate over the legislation, advocates invariably emphasized the limits on Japan's ability to deploy the SDF. The final version of the legislation identified three limiting conditions that must be met to exercise the right of CSD: 1) Japan's survival must be threatened; 2) there must be no alternative means of addressing the threat; and 3) Japan must use the minimum amount of force necessary to meet the threat.³ Japanese officials and interlocutors have consistently emphasized these self-imposed restraints and in track 1.5 and track 2 discussions the chief Japanese concern in the aftermath of the new bills has been a fear that U.S. expectations would be too great and Japan would risk disappointing its alliance partner.⁴ Nevertheless, the legislation still unleashed great tumult among the Japanese public, and galvanized students to create protest groups such as Students Emergency Action for Liberal Democracy (Sealds) while sparking large demonstrations.⁵

Even though these steps are not revolutionary, they are still significant. Constitutional reinterpretation has been a conservative dream for decades. Yet, as important as the changes is the rationale that was used to justify them. The Abe administration argued that the reforms it has advanced are “proactive contributions to peace,” ways that Japan, a successful trading state that has benefitted from a peaceful and open international order, can help maintain and support that system. This philosophy, which is based on the idea that Japan should contribute to international peace, stability, and prosperity in a manner commensurate with its economic and political standing, has also been called “proactive pacifism.”⁶ This language is not new: advocates of change have employed such rhetoric for over two decades to make shifts in security policy more palatable to the general public. It builds on Japan's record of peace in the second half of the 21st century and the language and intent of Article 9 while adapting to new circumstances. It seeks to transform Japanese thinking about the role of the military and to acknowledge the positive role it can play in promoting peace.

As one advocate explained, “This isn't about doing away with postwar pacifism, but an attempt to maintain its virtues while correcting its shortcomings so as to conform to Japan's increased national power and the drastic changes that have taken place in international society since the end of the Cold War.”⁷ He explained in some detail what a policy of proactive pacifism would involve: Japan will “(1) not aim to become a military major power and would retain as many aspects of postwar self-restraint concerning military power as it can, even in the times of change, (2) refrain from military action in cases other than self defense and international joint action for peace, but will (3) develop the military capabilities necessary

for self defense and cooperate with other nations without any notions of taboo, and (4) actively play a role commensurate with its national power in both military and non-military forms of international joint action for peace.”⁸

This language is revealing. It roots the new policy firmly in the soil of pacifism, a core component of Japanese national identity. To blunt criticism of their work, policy advocates counter that changes in defense policy are designed to serve the interests of longstanding policy objectives. The Foreign Ministry’s description of the new security policy emphasizes this continuity rather than the novelty, “No changes in Japan’s basic posture and orientation for the past 70 years, including a peace loving nation.”⁹ Only the means have shifted; the end remains the same. This approach speaks to the power of the pacifist strand of Japanese identity.

The call for change also incorporates other elements of Japanese identity. First, there is the claim that Japan’s success requires it to contribute more to maintaining the stability and security of the existing international order. This is more than just an attempt to leverage “guilt” or suggest Japan is a free or cheap rider. The image of Japan as a “success”—a wealthy, safe, modern economy and society—is another key element of contemporary Japanese national identity and a way of using identity to rationalize change. Similarly, the case for a higher, more active security profile is generated by references to Japan’s dependence on trade and the need for security of sea lanes: These are two other core components of Japan’s identity.

The debate over the national security agenda is a tug of war between those who seek to redefine Japanese identity and those who want to consolidate it. Some reject any change to the national security posture and anchor their position in a traditional, narrowly defined, and unyielding conception of pacifism that is antimilitarist. For them, national defense must be restricted to the nation and security is best pursued through nonmilitary means. On the other end of the spectrum are conservative nationalists who cling to another version of national identity.

For this group, Japan is a proud, patriotic nation that has lost its way as a result of the Constitution imposed by the Occupation forces in the aftermath of World War II. According to *Nippon Kaigi* (Japan Conference), the most important of the conservative groups fighting to realize this vision of Japan, core conservative policy objectives include: veneration of the emperor and the imperial family, revision of the Constitution, revision of the “masochistic view of history” along with promotion of patriotic education, development of national defense systems, and opposition to systems that will cause the “disintegration of families,” such as allowing husbands and wives to have different surnames.¹⁰ These policies, it insists, reflect Japan’s “true, original characteristics.”¹¹ Abe talks about “values such as public service, self-discipline, morals and attachment to and affection for the community and country where we have been born and raised.”¹² This benign interpretation is challenged by those who believe the real goal of the conservatives (or at least *Nippon Kaigi*) is the rehabilitation of the former imperial regime, and they point to visits to Yasukuni Shrine, where the spirits of Japan’s dead, including 14 Class-A war criminals, are enshrined as proof. For these critics, these acts are “supporting historical revisions, the whitewashing of Japan’s war crimes and brutality, ... and pledging support for a new Empire of Japan.”¹³

Occupying the middle ground are those who have, thus far, prevailed in the policy debate. They have argued for change within the existing parameters of national identity. In this

interpretation, the pacifist dimension of identity anchors and restrains security policy despite conservative efforts to shift or reframe the entire debate. The fact that the discussion of security policy continues to focus on the constraints is proof that existing national identity parameters have held. Strict, long-standing and self-imposed restrictions on Japanese behavior continue to frame the policy debate. “Rumors of their demise to the contrary, recent developments have stretched, but not removed, core principles that for decades have defined Japan’s self-restraint.”¹⁴

THE TPP THREAT TO JAPANESE IDENTITY¹⁵

A second important policy development of the last year that has implications for Japanese national identity is the pursuit of international negotiations through the TPP, a 12-member deal that is intended to set a gold standard for trade negotiations. It reflects growing disillusionment with the WTO-backed Doha round of trade talks; concern that the ever-expanding “noodle bowl” of bilateral and regional trade agreements in the Asia-Pacific risked segregating the region and crystalizing inefficient economic relationships; and a fear that the Pacific Ocean could separate Asia from the Americas in ways that would undermine economic prosperity and security. TPP was designed to be the best possible trade deal, constructed by 12 like-minded governments determined to maximize the free movement of goods and services and to deeply and permanently tie the United States to Asia. It was concluded on October 5, 2015 after seven years of negotiations and several missed deadlines.

For Abe, TPP is vital to the success of his “Abenomics” economic program, which, in turn, is critical to revitalizing Japan’s stagnant economy and ensuring that it would remain a “tier-one country.”¹⁶ Abenomics’ “third arrow” was structural reform, and TPP was viewed as “a one-shot opportunity to use external pressures (*gaiatsu*) to implement an unprecedented level of trade liberalization and the economic reforms promised by Prime Minister Abe.”¹⁷ Yet, even the prospect of joining the TPP talks set off a contentious debate in Japan. The easy explanation for the controversy surrounding the negotiations is that it threatened to transform Japan’s moribund agricultural sector – for years, METI strategists had argued for trade negotiations on just these grounds¹⁸ – and those long-protected constituencies were fighting back to protect their perks. That is, indeed, part of the story: the Central Union of Agricultural Cooperatives (Zenkoku Nogyo Kyodo Kumiai Chuokai -- or JA-Zenchu) has 10 million members, a bank with \$532 billion in deposits, and is considered Japan’s single most powerful special interest group.¹⁹

But Japanese resistance to agricultural reform reflects much more than mundane and tawdry money politics. The real objections to TPP, or at least those that give opposition traction broadly throughout Japan, are based on the notion that agriculture is central to Japanese identity, and the practices and culture that are intrinsic to rice farming, in particular, would be destroyed by reform. “The farmland and rice farming is at the core of our culture,” explained one rice farmer protesting TPP. “They are linked to this culture through community festivals ... But if we stop cultivating the rice, this culture will be destroyed.”²⁰ The significance attached to such reform is revealed in a comment by Yamada Masahiko, a former minister of Agriculture, Forestry, and Fisheries, who strongly opposed joining TPP and described it as the “black ship” that would lead to the complete collapse of Japanese agriculture.²¹ The “black ship” is a, if not the, most potent image in Japanese historical iconography: Commodore Matthew Perry entered Yokohama Bay in 1854 with a fleet of black ships,

which forced the Japanese to sign the Convention of Kanegawa, which led to the opening of Japan, which triggered the Meiji Restoration and the creation of modern Japan. The image is now shorthand for any foreign object that threatens traditional notions of Japanese culture and identity.

There is another way in which TPP and economic reform more generally threaten Japanese identity. A slowing economy has prompted many Japanese to challenge the consumer-orientation of their society. Complaints focus on the way that a capitalist economic model fragments communities, emphasizes acquisition that promotes inequality and drives consumption that erodes the traditional Japanese relationship with nature. There are two elements of this orientation. The first is the identification with nature, a belief that has roots in Shinto, although many adherents would deny that they have a religious orientation. A second element is the communitarian, egalitarian emphasis: the idea that Japan is an undifferentiated society in which all members are seen as the same. The critique of the Japanese economic model is typically articulated by the left, which has deep suspicions of capitalism in general and the U.S. model in particular, but it exists on both ends of the political spectrum, with conservatives lamenting the loss of “attachment to and affection for the community” (as Abe did in the remarks noted above).

Consider, for example, the charge that TPP will undermine Japanese healthcare. “If Japan takes part in the TPP, the universality of public health care coverage may be maintained, but in name only. It is highly possible that fair and equal access to medical care, the core function of this system, will be lost.”²² This too stems from a deeply rooted belief that Japanese society is naturally egalitarian. Opinion polls provide evidence of the power of this strand of identity when they explore preferences for meritocratic or egalitarian societies or the extent of social safety nets. It is confirmed by a spring 2011 Pew poll in which 74 percent of Japanese respondents agreed that “our traditional way of life is getting lost.”²³ The best evidence, however, can be found in literature and the degree to which writers explore or highlight such themes as isolation and loss of connection in their work. Writers trying to make sense of March 11 honed in on this sense of anomie and loss.²⁴

Here again, Nippon Kaigi’s opposition – and that of conservatives more generally – to systems that will cause the “disintegration of families” is important. An integral part of the reforms proposed by Abe administration economists is unleashing the productive potential of women. As Kathy Matsui, chief Japan strategist at Goldman Sachs pointed out, “Abe realized that given the severe demographic headwinds facing Japan, making better use of the other half of the population might help improve the nation’s growth potential.”²⁵ Yet, many conservatives also see these new roles for women as a challenge to their notions of an idealized social order that stems from conceptions of Japanese national identity.²⁶ This tension between the need for reform and the demands of traditional society has yet to be resolved and is likely to act as a continuing break on structural change.

REMEMBERING WAR

Another critical event in the last year was the 70th anniversary of the end of World War II. The speech by Abe offers insight into Japanese thinking about the war and the period since then and clues as to how Japanese use this seminal event to reinforce notions of national identity.²⁷ Several key features of identity can be adduced from this speech. First, there

is the identification of Japan as an isolated nation, buffeted by and responding to larger geopolitical forces. As Abe explained, “With their overwhelming supremacy in technology, waves of colonial rule surged toward Asia in the 19th century. There is no doubt that the resultant sense of crisis drove Japan forward to achieve modernization.” After World War I, geopolitical forces pushed Japan down the road to ruin: “with the Great Depression setting in and the Western countries launching economic blocs by involving colonial economies, Japan’s economy suffered a major blow. In such circumstances, Japan’s sense of isolation deepened and it attempted to overcome its diplomatic and economic deadlock through the use of force.” This establishes Japan as a nation that is more an object than a subject in international relations, a characterization that opens the door to a second key element of Japan’s identity: that of “victim.” While Abe recognized the pain that Japan inflicted on Asian nations, he begins his assessment of the costs of World War II by detailing the suffering experienced by the Japanese: death on the battlefield, families divided, the atomic bombings, the fire bombings of Tokyo and other cities, and the fighting on Okinawa.

Only after Japanese suffering is established does he turn to the wrongs inflicted by Japan on other countries. Those losses provided the foundation of modern Japan, a “peace-loving nation” that will “never again repeat the devastation of war” and a country “determined never to deviate from this steadfast course.” It is vital to recognize that in Japanese thinking about history and the Pacific War, the point of departure is Japan’s status as a victim as well, a status that is reinforced, ironically, by the fact that Japan lost the war. Defeat is part of the victim identity, one that has been internalized throughout the postwar period.²⁸

DEALING WITH THE “COMFORT WOMEN”

The victimization narrative is an important part of the entire history discussion in Japan (and throughout East Asia). To their great credit, Abe and President Park Geun-hye struck a deal on December 28, 2015 that offered “final and irreversible” settlement between their two countries on the “comfort women” issue.²⁹ On that day, the two countries’ foreign ministers released unilateral statements. Japanese Foreign Minister Kishida Fumio said that Abe, as the “cabinet prime minister of Japan,” extended “heartfelt apologies and remorse to all those who suffered immeasurable pain and incurable physical and psychological wounds as comfort women.” He acknowledged that “the honor and dignity of many women were severely injured with the involvement of the Japanese military,” and “From this perspective, the Japanese government fully realizes responsibility.” In acceptance of that responsibility, Japan will provide ¥1 billion from the government budget to fully finance a foundation, run by the Korean government, to support the “comfort women.” Scott Snyder and I are gratified by the two governments’ decision to adopt a recommendation in our book, but there is much more to be done before this issue is finally and irreversibly settled, much less the larger set of history issues that bedevil relations between the two countries. Immediate challenges include implementation of this deal, honoring the promise to refrain from criticizing each other over the issue in the international community, and “dealing with” the statue erected in front of the Japanese embassy in Seoul that honors the “comfort women.”³⁰

The “comfort women” issue has been especially difficult for Japan to address, not just because the issue was settled (in theory) in the 1965 normalization agreement or that the list of grievances of Koreans (and other victims of Japanese aggression during World War II) is long. The idea that Japan systematically engaged in behavior that violated the human

rights of women and used them as sexual slaves is not only naturally abhorrent, but it also challenges the victim narrative that is central to Japan's own national identity. The intensity of Japanese protests against the "comfort women" charges and the various solutions to this historical problem, including the December 2015 agreement, reflect the unease created by the incompatibility of this allegation with notions of who the Japanese think themselves to be. There are fears that the issue will never go away, that South Koreans will use history as a cudgel and a way to maintain the moral high ground with Japan no matter what it does and the notion of "a final and irreversible" agreement is a mirage. The durability and intensity of this belief – that Japan will continue to be beaten with the "comfort women" issue – is a reflection of the power of a conception of Japanese identity that stands upon the twin pillars of prewar powerlessness and postwar peacefulness.

Nevertheless, Abe calculated that a deal made sense. Tactical considerations likely influenced his thinking: Having created a floor in relations with China, the result of the September 2014 deal with Beijing that allowed President Xi Jinping to host the November APEC Leaders Meeting free of distractions, Abe anticipated that Park would soon be amenable to some arrangement, given the difficulties she was encountering on virtually every item on her foreign policy agenda. Good relations with South Korea are in Japan's national interest and agreeing to honor statements made by previous Japanese governments in exchange for cauterizing an open wound makes strategic sense. Moreover, any perceived "sacrifices" that Abe made in pursuit of that arrangement are easily validated from a still larger perspective: Abe (like Park) opted for a deal that transcended narrow formulations of nationalism and elevated him (like her) to the level of a genuinely historical leader who managed to move beyond an ugly and painful obstacle to Japan's relations with a vital partner. If the deal holds, Abe and Park will be able to say that they rewrote Northeast Asian political dynamics.

Japanese views of the December 28 agreement are mixed. A February 1, 2016 *Mainichi Shimbun* poll shows 65 percent of respondents approving of the deal although 72 percent do not believe that it will put an end to the issue.³¹ Those results are consistent with a January poll by the *Sankei Shimbun* (more conservative), in which nearly 60 percent of respondents approved of the agreement and nearly 81 percent thought the controversy would resurface,³² and an *Asahi Shimbun* survey in which 63 percent of respondents "approved" of the agreement and just 19 percent did not.³³ While the fate of this agreement may well rest in Seoul's hands – whether it can quell the anger and complaints raised by the "comfort women" themselves, and how it deals with the statue issue³⁴ – it appears as though the deal enjoys significant approval within Japan.

The deal's survival depends on faithful implementation, but the language in places is sufficiently broad to permit multiple interpretations. Thus, long-term success depends (among other things) on the readiness of the Japanese public to be open-minded and flexible; that will be easier if the agreement is seen as consistent with Japanese views of their national identity. The willingness of Koreans to differentiate between the Japanese imperial government that committed those atrocities and the current one will help facilitate that acceptance. This distinction will allow the Japanese identification of themselves as victims to go unchallenged, which should in turn diminish objections to the agreement. That will not end all the problems or ensure the agreement's survival, but it will help considerably.

South Koreans may not like this idea. The fundamental question for them is whether they can accept this notion of contemporary Japanese national identity: that there has been a transformation in Japan, that the Japanese society and polity of the 21st century represent a break with that of imperial Japan. If they can, then this deal may gain traction and endure. But Korean identity may prove unable to adjust. It may be predicated on the existence of an antagonistic Japan. The idea that a “hostile other” Japan may be intrinsic to Korean national identity is one of the most troubling conclusions of our study. If true, this would suggest that the recent agreement is doomed and that long-term reconciliation with Japan is practically impossible. It would demand far more active engagement on the part of the leadership and the elites in both countries to challenge prevailing views of the other nation, and continuing efforts and real diligence to lead. It would demand still greater involvement by the United States to help the two countries overcome their pasts and move beyond existing images of self and other that dominate relations.

The simple reality is that Japan is not the same country that it was 70 years ago, and the world has changed as well. External as well as internal restraints will prevent Koreans’ worst (and unfounded) nightmares from being realized. That also means that a rigid national identity, unable to adapt to circumstances, is hurting Korea’s ability to maximize its own interests and freedom of diplomatic maneuver.

A danger for Japan – and all of Northeast Asia – is that a negative feedback loop will emerge, with Korean anger and insecurity confirming and reinforcing the Japanese sense of victimization and isolation within Asia. This would ill serve the country and the region, as Japanese exceptionalism has historically distanced Japan from Asia, a process that began with the “datsu-a” choice of the Meiji era. Today, Japan is at a critical moment at which it must reassess relations with Asia, balancing that relationship with that of the United States. (This is not a zero-sum, but can easily and falsely be reduced to that binary set of options.) Japanese national identity can be used to build a more robust relationship with Asia, but it will require concerted effort by Japanese elites to advance and emphasize those strands of identity that do so; the more natural tendency is to stress exclusivity and separation. A conservative leadership that aims to rebuild Japan’s “national pride and confidence” is also less likely to prioritize the accommodative elements of identity that facilitate relationship building with Asia. Ironically, however, a Japanese leadership role in Asia, the real goal of conservative nationalists, is best accomplished through engagement on mutually satisfactory terms, not single-minded *realpolitik*.

The United States has an important role to play in this process. Washington has a stake in a good Japan-ROK relationship. As Deputy Secretary of State Antony Blinken noted, “our trilateral partnership is a force multiplier for good... Few countries have as much to contribute in upholding this [international rules-based] system and in advancing and reforming it as our three countries – as vibrant democracies deeply invested in its principles and norms and as economic leaders for sustainable growth and game-changing innovation.”³⁵ Yet, U.S. efforts to promote an effective trilateral – and it has been deeply engaged in efforts to push Seoul and Tokyo together – are fraught.³⁶ There is concern that it may take sides. There is fear that it will alienate one party or another. There is the danger that Washington will burn precious political capital and convince either ally that such cooperation means more to it than to them. Indeed, both sides often reason that they can count on Washington to force the other government to “do the right thing,” effectively lifting their own burden to act responsibly.³⁷

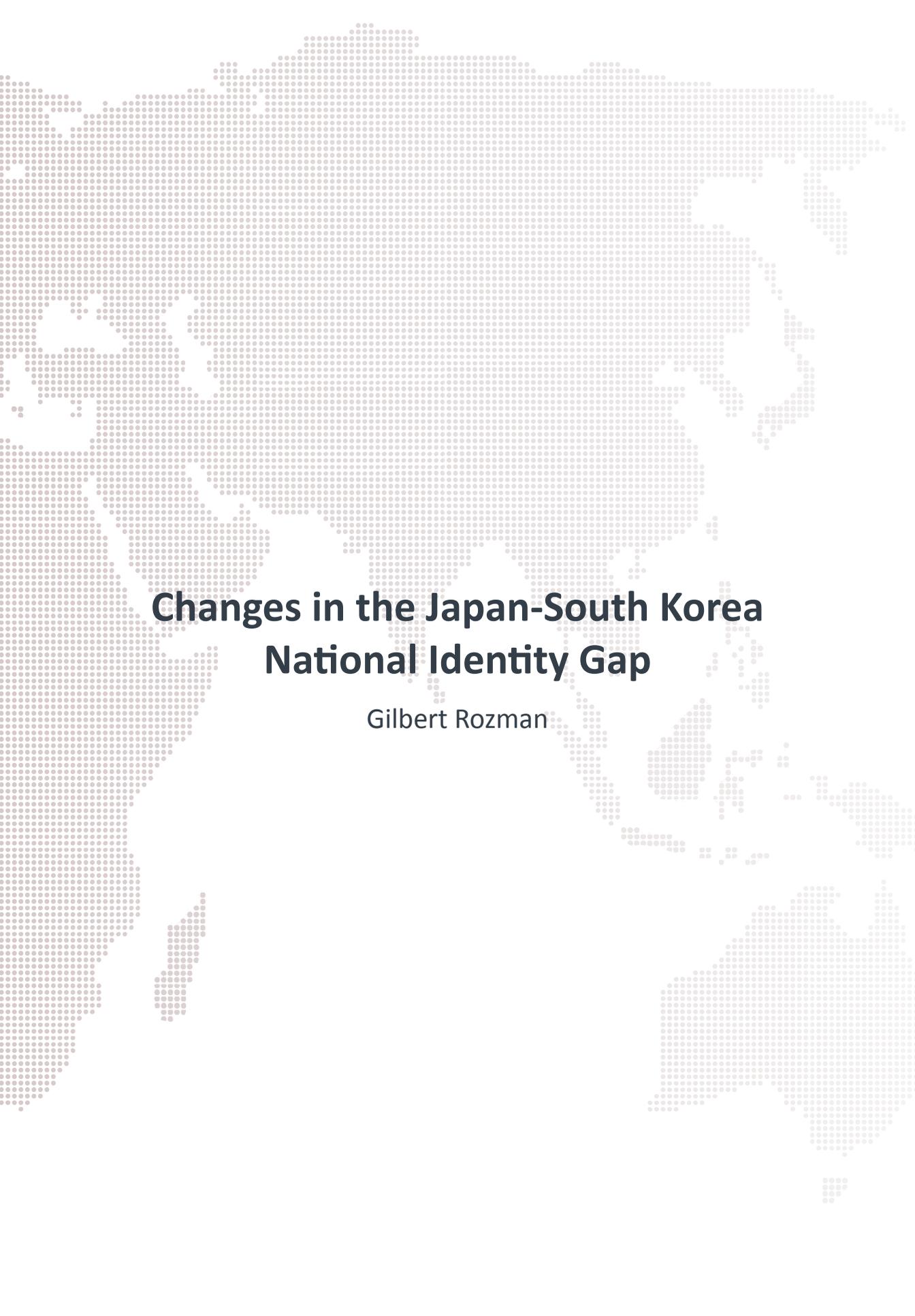
These difficulties and potential pitfalls must not stop the U.S. from pushing its allies to do more together; networking U.S. alliances is an integral part of the U.S. rebalance to Asia and an increasingly vital exercise given the nature of new security threats, the improved capabilities that allies possess, and the increasingly straitened fiscal circumstances every government faces. The national identity arguments articulated here provide a means to better tailor the logic (or at least the rhetoric) of the U.S. position to Japanese priorities and perspectives.

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Changes in the Japan-South Korea National Identity Gap

Gilbert Rozman

The roller coaster of relations between Japan and South Korea has taken a sudden jolt with the December 28, 2015 agreement on “comfort women.” Some anticipate a turning point, stabilizing relations at last. Others skeptically warn that a downturn could occur again because the emotions on both sides are primed to be aroused by a new provocation. Concentrating on the “comfort women” issue—the central symbol of recent mutual distrust—does not suffice for understanding what has gone wrong or may lie ahead. With this issue declared “finally and irreversibly” resolved, there is new need to pay attention to how other signs of a national identity gap are changing. The legacies of Abe Shinzo and Park Geun-hye will be enduring, even if Abenomics is failing and Korean progressives gained in the April 2016 National Assembly polls.

In 1971 Richard Nixon and Mao Zedong appeared to be as irreconcilable foes as any leaders in the Cold War era, but they went down in history as the leaders who found a path toward two decades of dramatically increased cooperation and trust. A decade later Ronald Reagan loomed as the most demonized foe the Soviet Union had faced in the Cold War era before his reconciliation with Mikhail Gorbachev proved even more transformative in increasing cooperation and trust between enemies. For Abe and Park to go from implacable foes—beyond any personal antagonism in ROK-Japanese relations since at least the end of the Cold War (apart from Roh Moo-hyun vs. Koizumi Junichiro and Abe in 2005-07)—to partners in an historic agreement evokes parallels to these earlier breakthroughs. Comparisons must not only address the national security and economic explanations that have been cited for the earlier cases, but also the national identity explanations that apply to them and to today.

Various reasons can be advanced for why the late 2015 agreement does not warrant comparison with the transformative developments to end the Cold War era. Obviously, the impact on the international order is much less substantial. Instead of two states arming to fight each other changing course, two states sharing the same ally and quietly cooperating on security, at last, have found more common ground. Comparisons do not have to be based on the geopolitical impact of agreements. They can be grounded on awareness of the impact of narrower security calculations as well as economic interests. If steeped in national identity analyses, they can reveal how gaps in existing identities of two states ease or complicate improved relations. We must start with clear-sightedness that both Japanese and South Koreans remain deeply suspicious of each other’s intentions in regard to symbols of their identities.

The paradox of the two most trusted U.S. allies in Asia—each continuing to bolster its alliance with Washington, spurning each other—demands close scrutiny at a time when it appears that a foundation is, at last, in place for alliance triangularity. It is important to see this bilateral matter in the context of a quadrangle, adding the United States and China to the picture. Identity is about globalization – the United States; sinocentrism – China; humiliation – South Korea and Japan; disrespect. In all of these respects, this is also about assumptions based on entitlement. The key question in 2016 is: has anything fundamental changed in Japan-ROK ties? If so, is the explanation found in one state or the other, or in the larger quadrangle?

SECURITY AS THE DRIVING FORCE FOR BILATERAL BREAKTHROUGHS

Security was a driving force for Beijing and Washington in the early 1970s. One was under intense pressure from Moscow; the other was anxious to extricate itself from the Vietnam War. Security was also a powerful motive for Moscow in the late 1980s, anticipating a huge dividend from reorienting an economy obsessed with defense and war preparations and recognizing that it could not keep pace with the newest phase in the arms race. While savings on the defense budget were welcome also in Washington, they were not a priority. Even so, the security dividend loomed in a different way: the promise of rebuilding the world order away from bipolarity. Was the Seoul-Tokyo breakthrough also influenced by some far-reaching security logic?

A strong case can be made that it was. In 2014-15 the Obama administration saw the troubled state of ROK-Japan relations damaging to deterrence against North Korea and “rebalancing” to hedge against China’s increasingly aggressive behavior. It, arguably, considered these two threats more serious than any faced in East Asia since the Vietnam War. Thus, U.S. determination to overcome the ROK-Japan divide in order to boost triangularity and a region-wide alliance and partnership network was a more powerful force (albeit exercised quietly) than many had recognized. The contradiction between Japan’s obsession with the increasing danger from China and its stunning neglect of strategic priority for South Korea finally was resolved, as Abe defied his revisionist base to weigh security (including the pressure coming from Obama) heavily. A similar contradiction existed for South Korea, not only because of the deepening security threat from North Korea, but also because of the oft-unstated awareness of a threat from China, including from its ambivalent stance on the North. The security imperative was rising just as the distrust between Park and Abe was deepening. Thus, in 2014-15 U.S. diplomacy with both had unparalleled urgency.

Lee Byung-kee and Yachi Shotaro were behind-the-scenes forces for realizing the December 28 agreement. The fact that both are charged with national security is indicative of its impact on each side’s calculus. In the final stage, wording about the removal of the “comfort woman” statue was settled by the foreign ministers, as the Japanese side insisted on putting more pressure on the Korean side by substituting “strive” (*nuryokusuru*) for “expect” (*kitaisuru*).¹ This was interpreted by Japanese as a pledge, which, along with the commitment to make dropping the “history card” irreversible, would become the litmus test for whether this agreement will stick.

A *Toa* article assessed the prospects a month after the agreement. It noted that in November the foreign ministries had not made great progress before secret talks between Yachi and Lee, but Yachi’s trip in December proved decisive for Abe’s diplomacy. One noteworthy result of the agreement was an end to South Korean criticisms of Japan in the United States and elsewhere. Another was clarity that the “goalposts would not change,” an assurance, Japanese argued, that had not been followed before. The one that aroused the most negativity in South Korea was the promise of efforts to take the “comfort women” statue down in front of the Japanese embassy. Japanese were pleased with the forward-looking nature of relations now promised. Park couched the deal as a favor to the 46 remaining “comfort women,” giving them finality in their last years, but many of them and their association were not satisfied. Anger focused on Japan’s failure to take legal responsibility. The article reports

that the generation in its 20s and 30s remains overwhelmingly negative about the deal: 75 percent vs. 10 percent positive, contributing to the overall figure of 72 percent not in favor of moving the statue and the same total who did not think that Japan has apologized, despite Abe’s words to that effect to Park on the telephone. Washington saw this as an historical agreement boosting trilateralism, but few Koreans did.²

Hakoda Tetsuya credited the Korean Constitutional Court’s judgment that the 1965 normalization agreement did not violate the Constitution as a major catalyst (as was the verdict of non-guilty for the *Sankei* reporter held in Seoul) for the late December agreement. In 2012 the “Sasae plan” almost had led to a deal, but Abe refused to finalize it when he took office. Again in June 2015 a deal was “70 percent” concluded when another backwind was felt, due to anger over Seoul’s position on a UNESCO application for the Meiji industrial revolution legacy. Hakoda concluded that the deal would hold if both sides now take care “not to move the goalposts.”³

The role of security chiefs does not mean that security has trumped national identity. Rather, it suggests a kind of “security identity” clarifying where a country belongs. Partners of the United States of such significance as Japan and South Korea are pressed to assert an identity reinforcing U.S.-led values. Each side tightened the bilateral alliance over 2013-15, but pressure mounted to embrace shared values, which could not be achieved unless the two mitigated their own conflict over values.

NATIONAL IDENTITY AS THE DIVISIVE FORCE IN THE PATH OF BILATERAL BREAKTHROUGHS

The national identity divides between “Red China” and “Imperialist America” and between the “Soviet Scourge” and the “Evil Empire” could scarcely have been more pronounced just prior to the breakthroughs in relations. While under Lee Myung-bak and DPJ leaders of Japan there had been much talk of a narrowing of identity divisions (prior to the end of 2011 and, especially, Lee’s visit to Dokdo/Takeshima in the summer of 2012), they widened sharply in 2013 under Abe and Park and then failed to narrow even as Obama strove for trilateralism at The Hague in April 2014 and on other occasions. Given strong emotions over the “comfort women” issue and the territorial dispute too, the identity gap remained narrowly focused on a few symbols.⁴ That left it open to appeals to emphasize shared identities, for example, universal values, freedom of navigation, and antipathy to North Korea’s human rights abominations. Potential for overcoming troubling symbols of division was much greater for this breakthrough than many anticipated, if leadership was shown.

National identity boosters in 2014-15 in South Korea and Japan—as in China and the United States 45 years earlier and the Soviet Union and the United States 30 years before—opposed a compromise agreement that gave their side far from full satisfaction. Mao, Nixon, and Reagan had the national identity credentials to bring a compromise result to fruition. Gorbachev benefited from the unchallenged status of the CPSU general secretary, but his inability to convey strength on national identity left him vulnerable. Abe has such strong national identity credentials that he is using the deal with Park to boost his legacy. The national security case for Japan provides compelling support too. Park’s national identity

credentials are less persuasive to South Koreans; Korean progressives are more aroused by the identity case against Japan than are Japanese progressives by the case against South Korea, and Park's standing among conservatives is not as secure as Abe's has been. Even as she has built her case by standing firm on the "comfort women" issue, the fallback position as that issue is lost could be rather fragile. After all, she has been quite pragmatic in managing North Korea, the United States, and China—the main identity concerns.

Abe has a clear message—national interests and identities—in support of foreign policy to counter the threat from China. Park's national security message is not only rather unclear about national identity—except for showcasing a "bonanza" from reunification, which appears to do little either to strengthen a shared identity with North Korea or rally citizens against the identity threat from the North—it is focused on building trust with the great powers in service of the national interest. If some Koreans—mostly conservatives—will accept the argument that for the sake of the ROK-U.S. alliance and overall security a compromise was needed with Japan, the case is not easy to make without turning the focus to deterrence from serving as a bridge between great powers and to national identity through universal values. Abe can make a far better case for working in concert with the United States. If Park had been blamed for preventing a deal with Abe, it would have severely damaged the case she could make, but by striking a deal, she has gained much less than Abe.

The Glosserman-Snyder book has made a timely case for a grand Japan-ROK bargain with the United States facilitating the diplomacy and international norms serving to displace narrow symbols of national identity. In taking this stance, they see national identity as changeable and common ground for conservatives in the two countries to forge a degree of shared identity.⁵ The authors took hope from public opinion polls that show Koreans recognized the need to put a floor on bad relations with Japan. While Abe and Park did not go as far as they had advocated, the U.S. stance was commensurate with their blueprint and played a decisive role.

The symbols of an identity gap between Japan and South Korea are better understood than the roots of the gap and how it might be narrowed. The two states chose in 2013-15 to put "comfort women" at the forefront of efforts to reconstruct national identity—South Korea drawing a line against Abe's revisionism that was perceived as demeaning their country's historical worth, and Japan striking back against "historical memory" that undercuts its historical pride. The Yasukuni Shrine, the uninhabited rock known as Dokdo or Takeshima, and new history textbooks are among the other symbols invoked to demonize the other country and to express resentment at emotional attitudes not conducive to forward-looking bilateral ties. It is this legacy that was challenged at the end of 2015 through the Abe-Park deal. As "comfort women" had risen to unique prominence as a symbol, an agreement that promises a final, irreversible end to evoking it can have far-reaching significance.

CHANGING IDENTITY GAPS: AN OVERVIEW

Arguments about narrowing identity gaps center on structural causality, flows of information, and stage-by-stage trust building. They have been advanced by social scientists studying convergence, by politicians interested in spreading the gospel of good news about their country as well as incriminating evidence about other states, and diplomats intent on expanding contacts over the long run. Over time, we have learned that modernization and

other structural forces can be counteracted by the deliberate intervention of governments spreading misinformation, that the Internet and other sources of diverse information are no match for discrediting or censoring strategies, and that diplomacy is repeatedly frustrated by political insensitivity or resorts to emotional symbols that overshadow efforts at pragmatic compromises.

Theoretical approaches to what would change national identity gaps have concentrated on factors that have proven not to be decisive. The liberal identity paradigm can best be summarized as: convergence through the spread of universal values as modernized living conditions and unfettered information along with economic interdependence reduce mutual mistrust. Finally, from 1998 when cultural barriers between South Korea and Japan were removed followed by the sensational popularity of the “Korean wave” dramas in Japan and the surge in tourism between the two countries, conditions for narrowing the gap appeared to be in place. The sorts of barriers found in China and Russia, where top-down, highly censored methods of widening gaps operate, do not exist in the democratic states of South Korea and Japan. Yet, the outcome from 2000 to 2015 clashed with the theory.

The paradigm of realist identity formation also seemed to favor Japanese-ROK relations. They share the same ally and face similar threats from North Korea’s nuclear weapons and missiles, having earlier been on the same side of the Cold War divide. China’s military rise can be another potential driving force for overlapping thinking about security identity. The years 2012-15 saw deterioration in regional stability, adding to this rationale. Yet, the gap between Tokyo and Seoul widened.

As evidence for national identity gaps, we can cite public opinion polls that show views of: the defining conditions in the regional environment, the sense of responsibility of one country or another, and whether each other can be trusted. An early fall 2015 opinion poll conducted in Japan, the United States, South Korea, and China gives some clarity to the national identity challenge that Tokyo and Seoul are facing.⁶ After a year in which how Japan and South Korea perceive history stood in the forefront, the poll asked about opinions of the future. Both Japanese (60 percent) and South Koreans (80 percent) expect China’s influence to increase over the next decade, versus only 52 percent of Americans; yet all three are similar (46-52 percent) in anticipating no change in U.S. influence in Asia. Views of defining conditions are not so different. Views of the sense of responsibility in the conduct of various countries are more disparate: Japanese have a sense of their own country as responsible (79 percent) but only 25 percent see South Korea as such, versus 10 percent and 58 percent not viewing Japan and South Korea, respectively, as a responsible country; Koreans regard their own country as responsible (75 percent), but only 48 percent see Japan as such on world problems, with 42 percent and 22 percent respectively negatively inclined. On the question of whether one can trust a country, 70 percent of Japanese said, “yes” to America and just 16 percent “yes” to South Korea. Historical memory has become embedded in distrust on current foreign relations.

DIMENSIONS OF NATIONAL IDENTITY: IDEOLOGICAL, TEMPORAL, SECTORAL

Progressives in Japan and South Korea long have had an ideological outlook that left little room for internationalism with trust in U.S. leadership. Such thinking has lost force in Japan, but can still be seen in demonstrations against the right of collective self-defense.⁷ It is even

stronger in South Korean progressives' insistence on giving North Korea the benefit of the doubt despite ongoing behavior to the contrary. The progressives on both sides have tended to dismiss the other state as anathema to their cause, leading Japanese progressives to prefer North Korea as counterparts in Korea, keeping alive the hope of exposing families of the collaborators with Japan. If in Europe progressives often did forge networks across national boundaries, in these two countries they targeted each other's country as innately unworthy of any trust.

The more compelling ideological challenge comes from Japan's right wing forces led by Abe in recent times. Their utter disregard for South Korea, buttressed by general public sentiment that the South under Park Geun-hye has widened the identity gap to the degree that normal relations became impossible, is rooted in revisionist thinking that the "comfort women" issue and also other invocations of historical memory damage Japan's pride. Abe's 70th anniversary statement showed some solicitude for China's concerns, but little for South Korea's. In *Chosun Ilbo* one sees the residue of similar conservative disdain for Japan, but an ascendant realist tendency is driving a more pragmatic attitude to find a path forward with security ties as a priority. A common view in Tokyo is that Park's obsession with the "comfort women" is driven by a hostile ideology, in Seoul it is that Abe is obsessed with ideology.

As countries are marginalized by globalization and polarization dominated by the United States and China, they turn to their past for validation of their worth. For Koreans, history to the end of the nineteenth century despite rethinking during the 1960s-70s has the dual drawbacks of *sadae* (extreme deference to China) and failure to prepare the way to meet or even resist the new challenges of the modern world. Given the ambivalence about the Cold War era, when dictatorship drove modernization, the unifying historical narrative is antipathy to Japan's annexation and its genocidal cultural policies. There is no symbol of relief, such as any Japanese acknowledgment of forced annexation or success by Koreans in restoring their own sovereignty; other symbols have been chosen to test whether the Korean sense of dignity about the past is to be restored by Japan, but, so far, it surely has not been.

Japan's temporal identity likewise has become fixated on the period to 1945. Unable on the right or the left to take genuine pride in the Cold War era—as each blames the other for its shortcomings—they have battled over whether Japan now should look to the period 1868 to 1945 to put down deep roots for a reconstructed national identity. Increasingly, it is the conservatives who are defining historical memories, e.g., seizing the opportunity of major anniversaries to express pride in historical deeds, such as in 2005 glorifying Japan's victory over Russia. Along with China's effort to demonize Japan's history, South Korean interpretations of it are viewed with animosity. In turn, the more Koreans perceived a revisionist trend in Japan, the more they were inclined to put history higher in their perceptions of identity gaps with Japanese. The December 28 agreement may open the door to reconsider these embedded sentiments, but few are willing to go through the door.

This dimension has overshadowed all other dimensions in the Japan-ROK identity gap and is likely to continue to do so. It serves as a convenient outlet when direct attention to other dimensions is best avoided. Ideology can be encapsulated as an offshoot of history, often leaving aside the need to discuss it directly. Even as other dimensions, especially the horizontal one covering international relations, can lead to narrower gaps, insistence reigns that history is the sole, sharp dividing line.

It has long been assumed that Tokyo and Seoul would find little reason for a gap on the sectoral dimension. Politically, they are democracies, which showcase their adherence to the prevailing norms of freedom, popular representation, and human rights. In their economies, they had stopped claiming special characteristics, while embracing the general principles of the free market now to be reinforced by the “gold standard” of TPP (which South Korea is eager to join as well). Even in regard to cultural identity, they generally accept universal values within a single global civilization. Prospects for convergence on this dimension combining political, economic, and cultural aspects, were widely assumed despite historical memory.

The problem has not been political identity, as in the case of China or Russia, nor economic identity, as once was the case for both Japan and South Korea when their booms appeared to be never-ending, but cultural identity. Each has eschewed stress on universal values as the dominant cultural force and lost hope in a regional community of shared Confucian values. Instead, the uniqueness of Koreanness, even as it is less about bloodlines, and of Japaneseness, even if the extreme of *Nihonjinron* was less pronounced than in the days of the bubble economy, has been emphasized. The power of this aspect of identity had been underestimated. With all the talk that “civic identity” is gaining at the expense of “Koreanness” and *Nihonjinron* had faded after the bubble era, the resilience of claims to be a civilizational center is a surprise.

THE IMPACT OF THE “COMFORT WOMEN” AGREEMENT OF DECEMBER 28

Kimura Kan in March 2016 analyzed Park’s abrupt turnabout from hard on Japan, soft on China, explaining how the December 28 agreement was reached and the enormous U.S. role in the process.⁸ The impression is that Japan yielded on taking government responsibility—seemingly a blow to national identity, but not a new one—while South Korea yielded on accepting something close to the Kono line, not demanding legal reparations, and affirming that it was abandoning any further use of the “comfort women” issue, what Japanese call the No. 1 “neck” in bilateral relations. The price to Korean national identity is much greater, it appears. Kimura points to both Abe and Park making big identity adjustments in response to the U.S. “audience,” i.e., U.S. pressure. Torn between two groups of advisors, Abe chose the “attend to America” line over the revisionist line through a series of steps in 2015, culminating in this agreement. Countering the disturbing image for Americans of standing with Xi and Putin on September 3 and aware of the positive impact in Washington of Abe’s moves, including his speech before the Joint Session of Congress and his August statement, Park too decided that South Korea had to be a member of the “U.S. team.” This was more than a strategic shift; it was an identity shift, accepting U.S. leadership in articulating an identity in opposition to China as well as North Korea. Kimura notes that more than 50 percent of the Korean public disapproved of the December 28 deal and that Park’s popularity fell by 4 percent. Yet, Park acted and, he notes, seeks to join TPP not really for economic benefits but because this affirms her country’s place in the U.S.-led trans-Pacific union. While Seoul has focused on how to get Washington and Beijing to work closer together and Tokyo has focused on the need for Washington to more fully oppose Beijing, this divide narrowed in 2015 and is narrowing further after North Korea’s provocations.

Summing up Abe's handling of the history issue in 2016, culminating with the "comfort women" agreement with Park, *Yomiuri Shimbun* offers effusive praise for his success in uniting left and right in Japan and taking the "history card" off the table with China and South Korea, while also diffusing U.S. concerns. Listing the milestones of this remarkable year, ending with Abe insisting that he wants history now to be left to the next generation, the article concludes only with one sour note, i.e., that strong dissatisfaction in South Korea may mean that the "history card" is, in fact, not dead.⁹ Japanese view Koreans as emotionally driven to use the divide over history as a cudgel to demonize them, while assuming that they just want to put this aside, as if no national identity gap would endure. Indeed, reinvigorating triangular security ties with the United States, which center on North Korea but cannot exclude some focus on China too, appears promising to them for boosting identity overlap.

One response to the agreement from progressives in Japan is to foresee a new age in bilateral relations, when rising awareness of commonalities will prevail over symbols of differences. Okonogi Masao called for dialogue at the level of civil society in order to bring these commonalities to the foreground, as he described the 2016 agreement as the third (after 1965 and 1998) turning point toward a new era. He lists a shared sense of security, relying on the United States, market economies (unmentioned is possible TPP bonding and a desire to guide China toward greater market economics), democracy, human rights, and other universal values. Raising awareness of these shared identities is now within reach, building relations looking to the future.¹⁰ On the left, Japanese were determined to narrow the identity gap.

On the right, a more cautious attitude toward narrowing the gap could be observed. Bolstering this view was the claim that Park had succumbed to pressure to end her refusal to meet Abe and reach a deal on the "comfort women." As early as June 2015—weeks after the Obama-Abe summit and in preparation for her own summit with Obama—she did so, much to the relief of her security community in the face of pessimism about North Korea and concern in the business community.¹¹

One assessment of the December 28 agreement was that it resulted from new U.S. pressure and economic urgency in South Korea. Tokyo had been pressing for the words "final and irreversible resolution," but Seoul was balking in awareness that the public was too obsessed with this symbol, representing the history issue as a whole, to let go. The Park-Obama summit revealed a resolute U.S. position against China, given its militarization of the South China Sea and cyber security attacks, with insistence that the triangular alliance be realized and the history issue be resolved. At the same time, the rising value of the won and the slowdown in China's economy had put the brakes on Korea's economic growth, including a decline in Japan-ROK trade by about 20 percent in 2011 to 2014. Coupled with anti-Korean sentiments spreading in Japan—youth interest in studying Korean was falling and travel there had fallen by a third—Park yielded, is the message in a right-wing journal *Sapio*.¹²

UNCERTAINTY ABOUT THE DECEMBER 28 AGREEMENT STICKING

The December 28 agreement, building on the momentum of both the August Abe statement and response by Park and the Obama summits with both leaders, will be tested in the waning years of Park and Abe's tenure and by their successors. One test is whether the Koreans will

remove the “comfort women” statue in front of the Japanese embassy, despite opposition from most Koreans (among those in their 20s, 87 percent opposed doing so, and among those supporting opposition parties 75 percent were opposed).¹³ Another is will Abe be consistent in adhering to the spirit of the statement that Japan is responsible for the treatment of the “comfort women” and for past misconduct in South Korea. In *Asahi Shimbun*, e.g. in an article by Togo Kazuhiko, the need for both to build on the momentum was stressed,¹⁴ whereas conservative papers in Japan and progressive ones in Korea were focused only on the other side. *Mainichi Shimbun* also stressed mutual responsibility and the need to work hard in Japan to suppress opposition to the promises made, while observing that the ball is in now in the Korean court.¹⁵ As Tokyo Shimbun explained, Korean NGOs and overseas Koreans angered by the “comfort women” issue will continue to try to sway public opinion, but it took heart from what it calls “comfort women question fatigue” that has been mounting in South Korea.¹⁶ On February 1, *Asahi* was gratified that calm was largely restored in South Korea. Park’s support has stayed steady, Korean business is turning more to Japan, and the public is slowly shifting.¹⁷ Others said that North Korea had changed the subject, relieving Japan of being the whipping boy and turning public disapproval increasingly toward China.¹⁸

Expectations for the agreement sticking were not high on either side, notably on the far right in Japan (*Sankei*) and the far left in South Korea (*Hankyoreh*). These extremes viewed the other side as inherently hostile (anti-Japan, anti-Korea). Rather than discuss a joint approach with efforts on both sides to reinforce the agreement, they pointed to reasons the other side could not be trusted. Indeed, their agendas are more readily pursued if there is no self-criticism about this dispute and if the issue stays alive, given assumptions that the other side’s reasoning is still anathema.

The identity gap between Tokyo and Seoul is too ingrained to be overcome by one deal. As opponents asserted in comments from readers to *Sankei*, nobody believes that the final resolution of the “comfort women” issue has been reached, and many doubt that the statue in Seoul will be removed while regretting Japanese admissions about past conduct to get the deal. One article, reporting on reactions, warned that the deal could shatter the honeymoon between Abe and the right.²⁰

Despite opposition for some in the right wing, *Sankei* savored the agreement with Seoul as liberation from a destiny of apologies after one Korean president after another had reached an understanding with Japan only to have a successor resort to the “history card” again. In this light, the agreement is seen as the next step after the August Abe statement to relieve future generations of Japanese from having to keep apologizing, as Abe had insisted was his goal. In this perspective, Japan is now free to pursue narrow historical revisionism, while the ROK has abandoned the same.²¹

The key demand by the Japanese side was that the “goalposts” must not be moved again; this agreement must be final and irreversible. This is a sign of distrust linked to belief that the Korean DNA is anti-Japan. The key demand from the Korean side was that the Japanese government must assume real responsibility for the “comfort women,” a sign that what matters is an admission of guilt for Japan’s conduct during the period of imperialist control. Each side reflected its own national identity aims, gaining some “normalcy” in an identity obsessed with the other.

After the agreement, a backlash was inevitable in both states, but less so in Japan, where boosters of extreme national identity wrote of the reasons why South Korea capitulated. Even so, having been quieted in 2015 as Abe compromised his ideals, they were poised for renewed assertiveness as he gives more free rein to the revisionist side of his coalition. The lack of international identity in his circle would also make it difficult to rally behind possible U.S. efforts to solidify shared identity as a foundation for the desired trilateralism, nor would the progressives provide much help, given their limited interest in Japan's role in international security. The upshot is that, as occurred after the 1998 Obuchi-Kim Dae-jung "historic" agreement, the political elite in Japan is unlikely to abide by its spirit. Yet, Seoul is a bigger problem.

On the Japanese side there were many signs that the 2000s "Korea wave" had yielded to "hate Korea" of the mid-2010s. Bookstores had stacks of books with this wording in their titles. Japanese newspapers, not just Sankei, repeatedly reported on "anti-Japan" activities by South Koreans and Korean Americans. Fewer Japanese visited "Koreatowns" in Osaka and Tokyo (120 of about 500 stores closed from mid-2012)²² and traveled to South Korea, even as the number of South Koreans going to Japan was rising rapidly.²³ Turning this trend around today will not be automatic.

A month after the agreement conservatives in Japan faulted South Korea for not carrying it out—some threatening to withhold Japan's promised payment to the new fund for "comfort women" until the statue is removed. Yet, they also saw North Korea's behavior as driving the ROK into closer security ties with Japan.²⁴

The deeper backlash in South Korea has many causes. First, the split between the conservatives and progressives is wider; the latter are inclined to see the former as the progeny of collaborators and to consider the "comfort women" a symbol of victimization. There is little room for compromise with Japan. Second, the decision to side closely with the United States (and Japan), as polarization intensifies, leaves them without hope on North Korea or on Sino-U.S. balancing, challenging the goals for national identity they have relished. The price for Korean progressives and some under their sway is too high in contrast to the price for Japanese of all persuasions of a deal with South Korea. Park faces an uphill battle changing this thinking and getting her nation to accept that a "final and irreversible" resolution has occurred.

TRIANGULAR IDENTITY CONSIDERATIONS

In reaching a bilateral agreement there was recognition that identity with the U.S.-led international community must take precedence over newly resurgent identity gaps with each other. Over the two years after Abe's visit to the Yasukuni Shrine, the focus on U.S. thinking was unmistakable. Was it putting more blame on Abe or Park? Which side was gaining an edge in the "history wars" being fought inside the United States? Whose summit with Obama was more successful? Were statements by U.S. officials a sign of which way Washington was leaning? Were independent policies in pursuit of another great power (China for Park, Russia for Abe) causing too much damage to U.S. relations? As the world returns to bipolarity and U.S. leadership is more firmly asserted, coordination behind a shared identity puts pressure on moves by allies to assert alternate and clashing identities that interfere with this objective.

The Obama administration, championing international norms as freedom of navigation, succeeded in rallying countries across much of maritime Asia as well as Australia behind a framework of closer cooperation and sustained hedging against Chinese assertiveness and aggression. Under Abe, Japan firmly embraced the values advocated by the United States despite the shadow of historical revisionism, whose main impact was in relations with South Korea. In 2015 the image of Park joining Xi in demonizing Japan, as Abe showed sufficient restraint on history to satisfy the U.S. administration, and Park hesitating to openly support freedom of navigation due to not wanting to antagonize China, left Park appearing out of touch as the region was drawing closer together behind the U.S. “rebalance” to Asia. The pressure on Park was enormous to reassure Obama, clarify Seoul’s place in the emerging coalition, and strive for a resolution to the “comfort women” issue. The triangle symbolized the “rebalance” in Northeast Asia, and it became a vital piece in the U.S. framework.

While the U.S. factor loomed large, the China factor may have been no less important as Abe sacrificed on long-held views about national identity in pursuit of a regional alignment against a threat deemed so serious—not just militarily and economically, but ideologically—that his policies toward Southeast Asia, India, and Russia are premised on it. That his policy toward South Korea long seemed to be the exception might be attributed to the assumption in Japanese conservative circles that Park’s “honeymoon” with Xi Jinping and antipathy toward Abe left little room for maneuver. Yet, signs of more nervousness in South Korea about China (despite Park’s attendance at Xi’s 70th anniversary military parade), as hope for cooperation against North Korea was fading, gave Abe reason to put relations on a fresh footing.

Following the “comfort women” agreement and North Korea’s fourth nuclear test, there were growing expectations of triangularity with the United States, which prompted progressives in both Japan and South Korea to object—in no small part because of national identity concerns. As Washington was rallying its allies and putting a rare degree of pressure on Beijing, *Asahi* editorialized that not only is China a “hole” in the containment of North Korea and, as a great power, should assume responsibility for tighter sanctions on a country that is endangering world peace, but that the United States should meet the North’s wish for negotiations on a peace agreement, putting responsibility on the Obama administration for the North conducting three nuclear tests on its watch.²⁵ This appeal for resumption of the Six-Party Talks, as sought by Korean progressives, undervalues what has already been done to engage the North and misjudges what the North has really been demanding. The U.S.-Japan-ROK alignment has strong support from conservatives, as conducive to pursuing their ideas for national identity, but progressives are left quite skittish.

CONCLUSION

Narrow national identities have been exacerbated in Japanese-ROK relations to the detriment of the U.S. “rebalance” to Asia and the benefit of China’s divisive plans to weaken the U.S. and Japanese positions in East Asia. Allies long resentful of real or imagined U.S. pressure seen as unbecoming treatment of an equal partner became obsessed with bilateral identity gaps. The Japan-China gap over history reinforced their national identity gap on other dimensions and the polarization occurring over universal values, but the Japan-ROK gap over historical symbols defied the currents in the region and posed a serious obstacle to the “rebalance.” Finally, in December 2015 an agreement was reached on the principal symbol of Japan-ROK

mistrust, opening the way to convergence around values conducive to U.S. leadership in the increasingly troubled environment of Chinese, Russian, and North Korean defiance.

The road ahead to subsuming identity differences under the rubric of shared international identity is unlikely to be smooth. Pragmatic conservatives welcomed the December 28 agreement, but ideological conservatives are wary, and Korean progressives are the most wary. Distrust of the United States—and focus on a national identity gap with it—lies behind their wariness. Fearful of the future, they cling to symbols of the past on which they anchor their sense of national identity. The priority of reunification is an enabling factor in South Korea. A search for pride in the prewar and wartime past is a driving force in Japan. Park and Abe boosted the themes that work against refocusing on the future. Whether they can switch to new appeals, backed by Obama, for a shared international identity remains to be seen.

Japanese and South Korean leaders in 2015 both made unexpected shifts in national identity. Abe was able to do so with less opposition than Park for four reasons: 1) as the leader of the revisionist cause, he could keep much of his base, as he championed other symbols of their identity; 2) South Korea is a less prominent factor in Japan's identity than Japan is in South Korea's identity; 3) the Abe strategy of pursuing the closest alliance ever with the United States was more compelling and more consistent with U.S. appeals for trilateralism and a more visibly shared, joint identity, while Park's strategy of combining closeness with the United States and a "honeymoon" with China proved impossible to sustain; and 4) Abe's driving force is fear of China's demonization of Japan's national identity, giving him a more powerful symbol of what needed to be done, in contrast to Park's driving force of the "bonanza" of unification with North Korea, which proved to be an illusion. The failure of "trustpolitik" with the North and reliance on China left Park in urgent need of strengthening ties and affirming an identity overlap with the United States, which was prioritizing trilateralism, i.e., Japan ties, within the international community.

After the February 7 North Korean long-range missile test, Japanese stressed the unanimity of approach in Seoul, Washington, and Tokyo, but not in Beijing. There was a sense that Seoul is back in the fold,²⁶ although some in the progressive camp in both Tokyo and Seoul still talked of 5 vs. 1, as if China and Russia would concur.²⁷

The significance of this agreement is captured in references to a "new age" not only in bilateral relations, but in U.S.-led regionalism, strategically, economically, and in the increasingly polarized struggle over identity. Thus, much is made in both Tokyo and Seoul of how this is not just an agreement between the two but a turning point toward trilateralism as welcomed by the United States.²⁸ Much depends on how the political struggle for succession to Park and Abe proceeds in the coming years.

While the national interests of Tokyo and Seoul are more aligned than before and more so than in 1998 when an agreement sought to leave "history" behind, the national identity conflict is far from resolved. There is no "final and irreversible resolution" when opponents of Park are rallying behind the "comfort women" statue in front of the Japanese embassy, as if its removal is tantamount to abandoning the essence of Korean identity. Nor can one be optimistic that Japanese revisionists, including high officials, after swallowing many challenges to their agenda from Abe, will not insensitively provoke South Koreans. It is too early to conclude that recent compromises—more at U.S. insistence than a sign of strong domestic movements—are transforming national identity narratives.

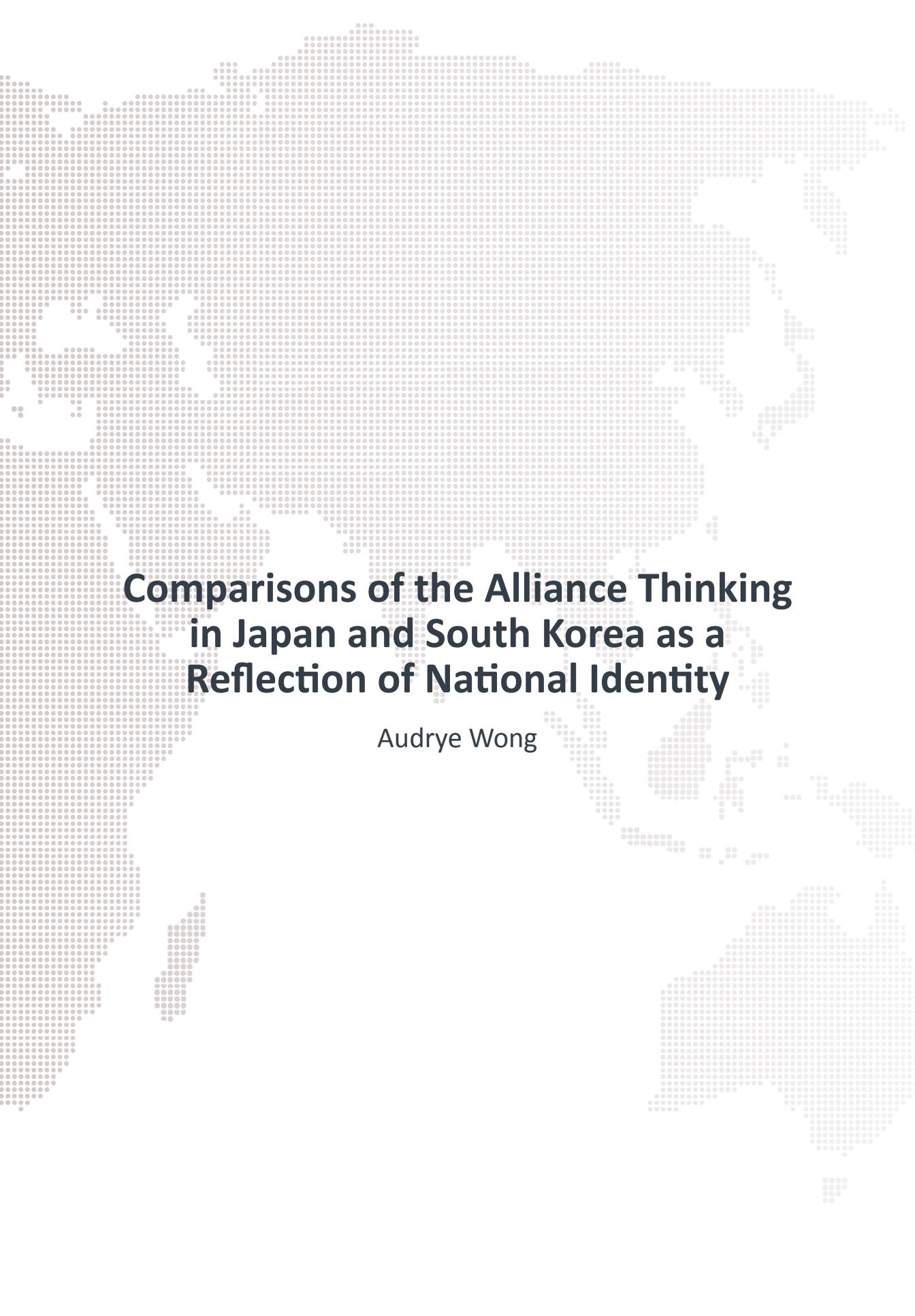
Pressure during the Cold War kept Japan and South Korea rather subdued in the way they presented their national identities, especially at odds with their ally. Again in 2015 U.S. pressure was rising to express a shared identity, demonstrating a consensus versus China's aggressive moves, above all. More eager to rally around this goal, Abe proved more conciliatory and was quicker to satisfy U.S. expectations. After all, he understood that China's challenge to Japan's national identity as well as its security was incalculable. Park was slower to respond, understandable in light of the lack of attention to Chinese demonization of South Korea in 2009-12 (parallel to that of Japan but not as vehement or as conspicuous) and her obsession with a joint Sino-ROK strategy toward North Korea. The message from Washington to Park that Japan is not the enemy but a democratic partner and a close U.S. ally, grew pointed.

The U.S. challenge of building on an agreement for which it struggled so hard will not be easy. It needs to strengthen a shared security identity (South Korea is the weak link) and use it to broaden agreement on internationalism (which new 2017 leadership in the United States could leave in doubt), presumably directed against China's actions. TPP, trilateral security, and a vision of community all will matter. It would be shortsighted to expect that Washington can impose its vision as during the Cold War. Instead, it must be attentive to the struggles over national identity in both Japan and South Korea and the lingering potential that they will retarget each other. This is no time to rest on one's laurels for a job well done in 2015. The Japan-South Korea agreement remains fragile and will require constant attention and reinforcement.

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Comparisons of the Alliance Thinking in Japan and South Korea as a Reflection of National Identity

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While Tokyo and Seoul are often paired as key U.S. allies in Asia, and both alliances are now more solid than ever, their individual alliance dynamics have varied in important ways over time. This paper compares Japanese and South Korean alliance policies toward the United States, their attitudes and motivations, as well as the implications for how each country situates its alliance with respect to China. In addition, it considers how Japan-Korea relations affect alliance thinking, and, conversely, how alliance policies can affect the state of Japan-Korea ties going forward. While comparing the U.S.-Japan and U.S.-ROK alliances, I analyze these two bilateral relations in a trilateral context, looking at how they affect the overall U.S.-Japan-ROK triangle. In the background, I consider how aspects of national identity in each case are relevant to the conclusions to be drawn about alliance thinking and Japan-ROK relations.

Although U.S.-Japan and U.S.-ROK alliances remain strong today (especially when compared to past turbulent periods), they are driven by different motivations and mechanisms. I look at both strategic and identity reasons. To compare alliance thinking, I first evaluate each country's security interests and analyze the role of threat perceptions, including views of China and North Korea. I introduce a dual threat framework to explain why their behaviors have diverged and converged, and how Tokyo and Seoul may frame their alliances differently from Washington. I discuss how the above differences play out in terms of various alliance management policies, including the scope of and contributions to the alliance as well as attitudes toward China. In addition, I examine the role of domestic politics in the two alliances, including political opposition, public opinion, and base activism. In both Japan and South Korea, there is a gap between elite strategic priorities and public national identity, which has led to tensions in the management of their alliances with the United States. The paper also analyzes how changes in external factors – Chinese and North Korean actions – and internal trilateral factors – Japan-South Korea relations – are altering each ally's threat perceptions as well as views of the U.S.-Japan-ROK triangle. Finally, I link these findings to certain national identity themes.

THREAT PERCEPTIONS & ALLIANCE MOTIVATIONS

Although U.S.-Japan and U.S.-ROK alliances remain strong today (especially when compared to past turbulent periods), they are driven by different motivations and mechanisms. A dual threat framework explains the divergences and convergences in their behavior over time.¹ Threat perceptions take on two levels: systemic and local, and two sources: China and North Korea. Both South Korea and Japan frame their alliances first in response to local, imminent threats, be it North Korea or specific territorial disputes with Beijing, rather than China's systemic rise. For Tokyo, the U.S. alliance is increasingly about countering China (and responding to the Senkaku/Diaoyu islands dispute), but for Seoul, its alliance remains targeted at North Korea. The DPRK threat acts as an important mediating variable for South Korea but not Japan.

In the past, Japan was cautious about antagonizing China, and framed its alliance in terms of dealing with missile and nuclear threats from North Korea. However, escalating sovereignty disputes with China since the 2010s have increasingly pushed Tokyo toward an open embrace of the United States and the alliance, as Japanese threat perceptions of

China grew more concrete, imminent, and localized over time. In contrast, Seoul does not perceive direct security threats from China, and has adopted fluctuating strategies toward both larger powers depending on the degree of policy alignment on North Korea. The apparent shift toward China under two progressive governments in the 2000s was driven largely by perceived alignment and shared interests in Chinese and ROK policy toward North Korea. Seoul was hopeful that Beijing would play the role of a supportive mediator in the Six-Party Talks. However, as disillusionment grew and Beijing continued to support DPRK interests over those of the South, Seoul swung back toward Washington and sought to strengthen the alliance.

The importance of local, imminent threats may be a point often overlooked by U.S. policymakers with grand global strategies. While Japan is increasingly worried about China, its fears were also crystalized in the form of renewed, militarized clashes over the Senkaku/Diaoyu islands, representing a direct threat to Japan's national security, outside of systemic Sino-U.S. rivalry. This spurred fundamental changes in Japanese policy discourse, including a reorientation in defense strategy and a tightened, more integrated U.S.-Japan alliance. Japanese fears are also rooted in China's repeated use of the "history card" to deny Japan a right to defend its island as if that is "remilitarization."

In both countries, fluctuations in alliance policy due to domestic leadership changes have also become bounded as external threats increase over time. Previous attempts by more progressive administrations to seek closer ties with Beijing produced few substantive results and did not shield either Japan or South Korea from provocative Chinese actions. Wishful optimism for a cooperative China is being replaced by a more hard-nosed, U.S.-oriented strategy. At the same time, even as both alliances have strengthened, each ally's differing policies toward China mean that the nature of their alliance also differs, allowing us to draw comparisons between the Japan-U.S.-China triangle and the South Korea-U.S.-China triangle. National identity themes also come into play. South Korean threat perceptions are framed within the longstanding search for a path to reunification. Similarly, Japan's leaders have been searching for a path to "normal Japan" through acceptance in Asia, and they view China not only as a military threat but as a force for demonizing Japan with no room for any exit.

This is not to say that Tokyo prefers a zero-sum approach toward China and the United States, but this very much depends on Chinese policy toward Japan. South Korea faces a similar situation, although it usually feels less targeted by Beijing. By virtue of their geopolitical position, Japanese and South Korea foreign policies are arguably more reactive and taken in response to China's behavior. Neither country will want to push its U.S. alliance vigorously at the expense of long-term relations with China, but that could happen if threat concerns and their national identity implications intensify. Still, Japan has been, and will likely remain, the more openly vocal ally – linked to the factor of threat perceptions, including fear of what Chinese demonization means for their nation's identity. The different threat perceptions and alliance motivations of Japan and South Korea are reflected in the scope of their alliances as well as their attitudes toward China.

DEFINING THE ALLIANCE & MANAGING CHINA

One of the most obvious differences between the two alliances is that the U.S.-Japan alliance is regional in scope, while the U.S.-ROK alliance arose from the Korean War and remains targeted at contingencies on the Korean Peninsula (i.e., North Korea). South Korean policymakers and analysts have traditionally emphasized that their alliance with the United States is limited to helping the ROK defend itself from the North, and not to support Washington in regional contingencies such as a Taiwan conflict. Seoul continues to fear both abandonment and entrapment in its alliance. The U.S. policy of “strategic flexibility” in the 2000s, reducing permanent troop deployments on the peninsula, sparked fears that the United States would no longer effectively deter North Korea. With the current U.S. rebalance, South Korea is also concerned to some extent that a greater U.S. focus on Southeast Asia and broader deployment of U.S. forces would shift attention away from the Korean Peninsula and also lead to U.S. requests that Seoul pay more of the alliance costs. In fact, Seoul maintains a heavy reliance on the United States for its national defense, with scheduled transfer of wartime operational control (OPCON) repeatedly delayed over the past decade, revealing an underlying sense of insecurity regarding ROK independent defense capabilities.

In contrast, the U.S.-Japan alliance was expanded in the 1990s to include “areas surrounding Japan,” implicitly referring to Taiwan, and Japanese bases in Okinawa and elsewhere would be important in providing logistical and rear-area support in the event of a contingency involving the United States. While South Korea has carefully avoided making public pronouncements or taking positions on the South China Sea disputes,² U.S. insistence has resulted in words of support for “freedom of navigation.” This is a signal linked to the South China Sea that has not been taken positively in China, although Seoul has been sparing in discussing the regional nature of the alliance as opposed to its global and peninsular aspects. Japan has criticized Chinese actions and provided capacity building assistance to Southeast Asian claimants such as Vietnam and the Philippines.³ Tokyo, no doubt, sees a worrying parallel between China’s military and island building activities in the South China Sea and China’s attitudes toward the Senkaku/Diaoyu island dispute with Japan in the East China Sea. Nonetheless, partly due to domestic opposition, it has not yet committed to direct military involvement in the South China Sea via JSDF patrols or freedom of navigation operations (although it has voiced support for U.S. FON operations).⁴

A large part of Japanese motivation stems from its desire to use the alliance as a means to deter Chinese growing influence and aggression, especially in the East China Sea. In the early 2010s Tokyo initially feared abandonment – that Washington would not come to its support – over the Senkaku/Diaoyu island dispute with China. It scrambled to secure public official U.S. statements that the islands fell under the bilateral security treaty. However, sentiments have changed since Beijing declared an air defense identification zone (ADIZ) in the East China Sea in December 2013, which spurred Washington to more actively support Japan.⁵ Japan has been eager to consolidate the U.S.-Japan alliance as a broader mechanism to contribute to stability in the region, including disaster relief, humanitarian aid, and capacity building.

Japanese military action overseas remains a controversial and largely unprecedented step, as politicians have to justify it in terms of its impact on the “security of Japan.” While Tokyo has gradually expanded the roles and missions of its Self-Defense Forces, including overseas peacekeeping operations and non-combatant roles in the Iraq and Afghanistan wars under Koizumi,⁶ legislative reform efforts on relaxing arms exports and reinterpreting the right to collective self-defense have been a slow, incremental, and polarizing process. Especially since Abe’s second term and his push for “proactive pacifism,” Japan has stepped up the pace of security reforms. In April 2015, the United States and Japan announced the second-ever revision of their alliance guidelines, improving policy coordination and crisis management planning, and increasing cooperation on intelligence, surveillance, maritime security, missile defense, and other areas. In the summer of 2015, the government successfully gained legislative approval for a reinterpretation of collective self-defense, expanding Japan’s ability to respond to a variety of security contingencies as a U.S. ally.

Beyond the Abe factor, however, Tokyo has become a more proactive and eager alliance partner due in large part to its growing sense of a direct security threat from China over the disputed islands, for which it seeks continued military and political support from the United States. Without dismissing domestic divisions, there is an overall growing sense of urgency among the political and policymaking elite in consolidating Japanese defense capabilities alongside closer cooperation with the United States. At the same time, domestic political constraints and historical legacies (which will be discussed later in this paper) will continue to constrain its concrete contributions as a U.S. alliance partner.

For South Korea, the October 2015 joint statement between Obama and Park highlighted the two allies’ close alignment and cooperation on the North Korean issue. Amid inter-Korean tensions at the DMZ, Defense Secretary Ashton Carter publicly reiterated the U.S. commitment to extended deterrence, and emphasized the “ironclad” nature of the U.S.-ROK alliance.⁷ Such statements and meetings built on the renewed progress in the last few years, including the 2009 Joint Vision and the 2013 Joint Declaration commemorating the 60th anniversary of the alliance. While Xi Jinping has also echoed calls for denuclearization by North Korea, a lack of specific actions and Beijing’s past failures to support ROK interests have caused Seoul to continue relying more on Washington. Nonetheless, enhancing political and economic relations with Beijing is part of Seoul’s strategy to reduce mistrust and gaps between the two countries, with an eye to improving policy coordination and increasing pressure on Pyongyang. Of course, whether this produces any tangible outcomes remains to be seen. North Korea’s recent nuclear and missile tests have, however, increased South Korean skepticism about China’s willingness as well as ability to influence DPRK actions.

Seoul’s active engagement with China – indeed, presidents Park Geun-hye and Xi Jinping have met a remarkable six times since they both took office – should not be seen as South Korea bandwagoning with China while distancing itself from the United States and Japan. Rather, South Korea was trying to reassure Beijing that any alliance actions are not targeted at China nor does Seoul see Beijing as a threat,⁸ thus reducing the zero-sum perceptions of the ROK-U.S.-China triangle. Park Geun-hye has not sought improved relations with Beijing at the expense of the alliance – South Korean engagement with China is still very much within the framework of the U.S.-ROK alliance. In addition, President Obama has stated that closer Sino-ROK relations are not against U.S. interests. For South Korea, it is not so much a question of choosing either China or the United States, but instead using its

security alliance with Washington as increased bargaining leverage against China.⁹ ROK ambassador to the United States, Ahn Ho-young, publicly stated that the U.S.-ROK alliance remains the foundation of South Korean foreign policy toward China.¹⁰ The alliance remains crucial because it ensures that Seoul is not left isolated or vulnerable, even though Beijing might sometimes use the alliance as a pressure point against the ROK. At the same time, the perceived need for Chinese cooperation on the North Korean issue has made Seoul more wary of adopting alliance actions that might provoke Beijing's displeasure.

Indeed, the debated deployment of the U.S. Terminal High Altitude Area Defense (THAAD) system in South Korea has been a potential sticking point in the U.S.-ROK alliance and, arguably, a symbol of Seoul's reluctance to aggravate Beijing or at least make any publicly provocative moves. While the United States has pushed for ROK cooperation in developing a multi-layered, integrated missile defense system, especially as Japan is considering similar deployments, South Korea has traditionally maintained a policy of three "nos": no request from the United States, no negotiations with the United States, and no decision on THAAD.¹¹ Certainly, part of the reason is that THAAD focuses on longer-range ballistic missiles, a bigger concern for Japan and the United States, whereas South Korea mainly fears shorter-range missiles and artillery fire from its northern neighbor. Some analysts have also suggested that the Korean defense industry has played a role in pushing for domestic development of an indigenous missile system. Ever so often, rumors that Seoul and Washington are discussing THAAD deployment are quickly dampened by the ROK and sometimes also the United States.¹²

Beyond its rhetoric over THAAD's radar coverage extending to the Chinese mainland and its threatening effect on China's nuclear second-strike capabilities against the United States, Beijing fears that a Korean missile defense system integrated with U.S. and Japanese systems would strengthen trilateral security cooperation and further constrain China as a quasi-alliance coalition. But recent public pressure from Beijing attempting to dissuade Seoul from adopting THAAD may in fact have the reverse effect, triggering South Korean sensitivities against being dominated by a larger neighbor (a painful historical legacy for the Koreans). Some have suggested that the recent intrusion by two Chinese jets into the ROK's air defense identification zone is a signal from Beijing against Korean considerations of adopting THAAD.

However, further North Korean nuclear and missile tests, alongside continued Chinese support of its ally, are pushing Seoul further into the arms of Washington. Although Sino-DPRK ties have reportedly been chilly of late and Beijing has verbally criticized past nuclear tests, it has avoided fully punishing Pyongyang for its provocative actions. For China, peninsula and regime stability remains the priority, even though there is increasing internal debate on how much Beijing should stand by the DPRK, and bilateral ties are shifting from a "special" to "normal" relationship. Largely consistent Chinese support for North Korea has destroyed the South's optimism that Beijing might be a proactive and cooperative partner in restraining DPRK provocations and finding a solution to the Korean Peninsula standoff.

In the wake of the fourth DPRK nuclear test in January 2016, both the ROK president and defense minister publicly stated that they would review the feasibility of deploying THAAD on South Korean soil.¹³ Reports suggested that there had been increased informal discussions between American and South Korean officials regarding the subject.¹⁴

After Pyongyang conducted a missile test in February, Seoul formally announced that it was starting missile defense talks with Washington.¹⁵ This sparked an unusually blunt and open exchange of criticism between South Korea and China. The Chinese ambassador to Seoul warned that bilateral ties could be “destroyed in an instant,” prompting retorts from ROK officials that this constituted “blackmail” and that Beijing should recognize South Korean deployment of THAAD as “a matter we will decide upon according to our own security and national interests.”¹⁶ While some former policymakers have emphasized that a decision in favor of THAAD should be made according to South Korean defense and security requirements vis-à-vis North Korea, instead of being a political decision,¹⁷ it will certainly remain hard to avoid politicized rhetoric and interpretations. Beijing’s support for the most recent round of UN sanctions on North Korea, depending on their implementation and effectiveness, may or may not leave South Korea cautiously ambivalent. Yet, continued Chinese reluctance to offer actions instead of words and to dissuade Pyongyang from further nuclear and missile pursuits suggests that Seoul will pursue options previously seen as taboo, by seeking closer and more overt military cooperation with the United States, even at the expense of angering China.

Seoul is also trying to transform its relationship with Washington beyond that of a simple patron-client security relationship. While seeking to maintain a strong U.S.-ROK alliance, South Korea has started to pursue a broader foreign policy agenda as part of its newly articulated identity as a “middle power.” This has produced some interesting synergies and tensions. First, Seoul wants the alliance to be *global* but not *regional*. Under Presidents Obama and Lee Myung-bak, a Joint Vision statement was announced in 2009, articulating plans for a 21st century global U.S.-ROK alliance. In recent years, South Korea has been active in international diplomacy, hosting the G20 summit in 2010 and promoting multilateral cooperation on climate change, international finance, anti-piracy, nuclear security, and so on. Yet, most alliance statements and agreements have focused on the Korean Peninsula, and (apart from North Korea) the ROK remains wary of inserting itself into regional security issues such as the South China Sea disputes or Taiwan – reluctant to articulate explicit public position. This suggests a continued reluctance to take sides and fears of alienating China, because of Seoul’s perception that Beijing is important in tackling the primary threat of North Korea. At the same time, optimism has waned that Beijing will play a proactive, constructive role in solving the North Korea issue. In the last few years, Seoul has increasingly relied on Washington for political and military support. Park Geun-hye has refrained from endorsing Xi Jinping’s “New Security Concept” that excludes extra-regional players such as the United States and has been presented as a replacement for the current alliance structures.¹⁸

Second, South Korea faces a possible tension between its middle power ambitions and middle state realities. Building on a legacy of past proposals by previous ROK presidents, Park Geun-hye has also been developing the idea of a Northeast Asia Peace and Cooperation Initiative (NAPCI) in an attempt to institutionalize broader cooperation over a range of functional issues such as health, energy, and the environment. The aim is to first deepen multilateral cooperation and trust on practical issues and common interests, thus laying the groundwork for broader peace and stability.¹⁹ While this push for multilateralism is not necessarily contradictory to the alliance or U.S. interests in the region, whether it can gain concrete traction and how much South Korea can play a leadership role remains to be seen. Past attempts by Seoul to act as a “hub” of multilateral cooperation to promote peace and stability in Asia have often failed because the other larger powers in the region were

unreceptive, or have been limited to “low politics” issues such as economic and financial cooperation (that did not translate into pertinent security cooperation). China may not buy in because of suspicions that such proposals will be an extension of the U.S.-ROK alliance, while Tokyo under Abe has turned toward other partners such as Australia and India to counter Chinese influence – historical legacies between Japan and South Korea have also made sustained horizontal cooperation difficult. Even the United States may tend to view Seoul in terms of the U.S.-led alliance framework rather than as part of a multilateral middle power framework brokering between the larger powers. South Korea’s continued dependence on the U.S. alliance as the bulwark of its national security suggests that it may end up more as a middle state caught in between the United States and China, due to vagaries of unresolved regional security threats. The unresolved North Korean threat, which also requires cooperation from China, will likely remain a continued focus and constrain the security scope of the U.S.-ROK alliance going forward.

The different inclinations of Japan versus South Korea, with respect to their positioning between China and the United States, can also be seen in their regional economic policies. Japan is part of the U.S.-led Trans-Pacific Partnership (TPP), which just concluded negotiations, while South Korea has joined the Chinese-initiated Asian Infrastructure Investment Bank (AIIB). Without arguing that these institutions represent opposing, exclusive visions for regional economic order (which is not necessarily a zero-sum game), the differing responses of the two allies present an interesting comparison on how they situate the United States in their foreign policies. Similar to Washington, Tokyo framed these economic initiatives as part of a strategy to consolidate U.S.-led influence in the Asia-Pacific and counter growing Chinese clout. It was also keen to demonstrate its support as a “trustworthy” ally sticking by the American side.²⁰ The AIIB was in turn seen as a Chinese attempt to compete with the longstanding Asian Development Bank that had been spearheaded by Japan. Seoul, in contrast, did not perceive any threats from more Chinese leadership in the region, and certainly not in the economic realm (China being South Korea’s top trade partner). The AIIB represented just another way to strengthen regional cooperation and encourage Chinese participation in multilateral institutions. Seoul expressed interest in joining the TPP in October 2015, and also recently concluded negotiations over a China-ROK free trade agreement in December (no other major country has done so). Arguably, South Korea’s interests in deepening economic relations with Beijing are not just for commercial reasons, but also as a form of strategic competition against Sino-DPRK economic ties.

ALL POLITICS IS LOCAL: DOMESTIC CONSTITUENCIES & THE ELITE-PUBLIC GAP

Both Japan and South Korea have had their share of volatile domestic politics toward the U.S. alliance, stemming from a legacy of internal divisions over foreign and defense policies. The role of public opinion is growing, especially as both are established democracies with relatively free media and civil society. At the same time, it should be noted that fewer today are questioning the importance of the United States, and both bilateral alliances are arguably much stronger now than they were a decade or so ago. External events – namely, a growing sense of security threats, whether from China or North Korea – have pushed domestic political leadership to the right and more firmly into the embrace of the United States. We are unlikely to see a resurgence of the anti-American sentiment that, for example,

previously brought Roh Moo-hyun to power in South Korea. The Democratic Party of Japan (DPJ) performed poorly during its brief time in office, and hence has not regained a credible political footing or direction. Ultimately, past attempts in both countries to distance themselves from Washington and/or cozy up to Beijing did not turn out well for their foreign policy and security interests. Future political leadership, even if from a more progressive party, will likely be more centrist and pragmatic. At the same time, in both Japan and South Korea, there remains a stark gap between strategic imperatives at the elite level and national identity at the level of the public.

The alliance continues to be an ambivalent/contentious symbol in Japan's domestic context. The political left sees it as entangling Japan in unwanted international security burdens, while the right either resent it as a reminder of Japanese post-war subordination or push further for the "normalization" of Japanese foreign security and defense policy. However, debates over reinterpretation of the constitution or collective self-defense have centered on the legality and appropriateness of such actions, rather than a complete abrogation of the U.S. presence.

Although the Abe administration has been able to pass a slate of security policy reforms, most notably the legislation on reinterpreting collective self-defense this past summer, the prime minister was riding on a previous mandate consolidated by domestic economic reforms (a priority for the Japanese public). Despite criticism from constitutional scholars and opposition from other political parties, the government was able to push the bills through because of the LDP majority in the Upper and Lower Houses. This has come at a political cost. Thousands of Japanese demonstrated outside the Diet building during the debate over the security legislation, and media polls show that Abe's approval ratings have dropped sharply – to 35 percent in September 2015, the lowest since he took office, according to the *Asahi Shimbun*.²¹ Apart from concerns that Japan would be entangled into U.S. conflicts, even supporters felt that the new defense laws had not been explained clearly enough to the public. Uncertainties also remain over the exact political process in determining when a situation falls under collective self-defense. Even as Washington welcomes Japan's adjustments, political constraints continue to limit the pace and scope of security reforms. Thus, further contributions to the U.S.-Japan alliance will be subject to domestic public opinion and the effectiveness of economic policies that had thus far ensured political stability for the second Abe government. Even though a multitude of recent polls show overwhelmingly positive attitudes toward the United States and the alliance (even more so when compared to other countries, including China), believing that they are crucial to guarantee Japan's security, a majority of the public still think that Japan should pay less for the alliance, that local interests should come first, and that Washington has a tendency to overlook Japanese interests.²²

Indeed, base politics have resurged in Japan over the past year, since the election in December 2014 of a new Okinawa governor, Onaga Takeshi, who has opposed plans to relocate the U.S. Marine base from Futenma to Henoko. Despite attempts at negotiation during summer 2015, no compromise was reached and the Abe administration resumed construction in the fall. Local protests continued, resulting in some scuffles with the Japanese Coast Guard. Both local and national governments have filed suits and countersuits against each other. The Abe administration argued that Onaga had failed to comply with the national construction plan, while Onaga claimed that the national government had violated the terms and environmental requirements of the agreement made with the previous governor. Continued delays in the

completion of the new airfield (although the national government has thus far refused to stop construction) will underscore the domestic political dissonance between local and central governments, and highlight the tension between a desire for greater local autonomy and a need for centralization to improve security and crisis management.²³

Nonetheless, Abe's relatively firm stance suggests that the current administration is less inclined to let local resistance impede its national security policy. Whether this will eventually consolidate Japan's shift to a more active alliance partner or further entrench local opposition remains an open question. This situation highlights the importance of considering how the trilateral bargaining game between the United States, the central government, and the local government may affect alliance management and military effectiveness. While Okinawans have had a long history of resistance, which suggests that base protests will remain driven by identity and norms,²⁴ other scholars have pointed to fluctuations in the degree of protest as evidence of a political economy argument in which side payments and economic transfers are used by the central government to satisfy local actors.²⁵ The relatively strong security consensus among Japanese policy elites today, coupled with the relative power of the bureaucracy, would likely reduce the power of normative arguments and the ability of activists to significantly influence base policy outcomes, although some symbolic concessions could be made.²⁶

Alliance management thus requires careful consideration of domestic politics, such as local dissatisfaction over basing policies or the partisan divide over the scope of Japanese military activities abroad. Especially with the renewed political dominance of the LDP, U.S. confidence in the alliance has been restored, and major policy mismanagement – such as the bungling of the Futenma base relocation by the DPJ under Hatoyama in 2010 – is unlikely to recur. Nonetheless, it should be noted that these policy tensions have been longstanding and will continue to plague LDP attempts to make Japan a more equal and active partner in the alliance. Moreover, the changing balance of domestic interests regarding China could be a double-edged sword for the U.S. alliance. The limited success of Japan's previous policies of reconciliation and economic interdependence in achieving major progress in Sino-Japanese relations has increased pessimism as well as the influence of nationalist voices.²⁷ Even as leftist parties are opposing defense reforms, ultra-nationalists have instigated provocative actions toward China while making inflammatory, historically-revisionist statements that spark South Korean anger. Thus, both ends of the political spectrum pose headaches for the alliance from the U.S. perspective. Ironically, a rightist prime minister that is more eager to increase Japanese security contributions (which Washington has been pushing for many years) is also more inclined to make cooperation with China and South Korea more difficult.

South Korean perceptions of the United States and the U.S.-ROK alliance have been extremely positive over the last few years, especially among the younger generation. According to Asan Institute polls since 2010, the United States has consistently ranked as the most favorably viewed country, its score hovering at close to 6 out of 10. (Under Park Geun-hye, who has had several successful summits with Xi Jinping, China's rating has also been increasing, to 5.37 in March 2015). In addition, although South Koreans saw China as the next economic superpower, they still approved more of U.S. leadership, and chose the United States over China as a preferred future partner.²⁸ In a March 2014 survey, 93 percent of respondents viewed the alliance as necessary, and 66 percent favored retaining the alliance even after reunification. This suggests that the U.S.-ROK alliance is taking on

a broader scope, and that the public may be seeing other sources of threat apart from North Korea. At the same time, the majority of respondents viewed the bilateral relationship as being fundamentally unequal, suggesting that public skepticism may grow if Washington is seen as telling Seoul what to do or overlooking its national interests.²⁹

Ultimately, South Korea does not see relations with the United States and China as being zero-sum, with favorability ratings for both on an upward positive trend after Park Geun-hye's meetings with both Obama and Xi in late 2015. Despite increasingly positive views of China, South Koreans preferred to strengthen cooperation with the United States, and also preferred to address regional security issues via trilateral cooperation with the U.S. and Japan rather than bilaterally with China. Although China was still seen as the main obstacle to solving the North Korean nuclear issue, an increasing proportion pointed to Washington as well.³⁰ While attitudes may have changed after the North's nuclear and missile tests in early 2016, public opinion polls suggest that continued alignment and progress on the North Korea issue is important in strengthening the U.S.-ROK alliance.

THE WEAKEST LINK? JAPAN-KOREA RELATIONS

Japan-Korea relations have certainly affected alliance thinking in each country. This has traditionally been the missing leg in a potential trilateral framework with the United States. Rather, each tends to vie for importance via the closeness of alliance relations with Washington. When the U.S.-ROK alliance was declared a linchpin of regional security in 2009, Japanese policymakers fretted over the meaning of the word and whether it excluded Japan.³¹ (In 2014, U.S. Assistant Secretary of State Danny Russel referred to the U.S.-Japan alliance as the “cornerstone” and the U.S.-ROK alliance as the “linchpin.”)³² Arguably, a relatively strong and stable U.S. presence has reduced the political imperatives for Tokyo and Seoul to smooth over differences and cooperate more closely. Rather, they can lean on Washington as a guarantor of regional security. This echoes Victor Cha's argument that the two countries are quasi-allies, working together more when they fear abandonment from the United States.³³ Continued South Korean grievances against Japan for its historical revisionism, Yasukuni Shrine visits, the “comfort women” issue, and Dokdo/Takeshima island dispute have impeded closer strategic cooperation – an intelligence-sharing agreement was torpedoed in 2012 due to opposition by ROK parliamentarians and public.

Even as bilateral ties started out frostier under Abe and Park, and Japan-ROK identity issues have drawn great attention, currently they may be less important than Japan-China issues for Japan (Abe compromised in December with the ROK) and North Korea issues for the ROK (Park compromised with Abe through the second half of 2015). The December 2015 bilateral agreement on the “comfort women” issue was unprecedented and momentous. It revealed the underlying strategic awareness on both sides of improved cooperation, as well as U.S. pressure behind the scenes for both sides to improve relations. If implemented fully, it could have a major impact by helping to smooth over political tensions, facilitating more systematic cooperation within a trilateral alliance. This could increase efficiency in foreign and defense policy coordination over regional security issues and enable Japan and South Korea to take on a greater responsibility or leadership role in regional security. Of course, given their differing threat perceptions and political priorities, with each country having

its own inclination on policy toward China, the challenge will lie in agreeing on strategic goals and areas of cooperation. For example, Seoul would be more wary of security policies that can be interpreted as targeting China. However, resolving the North Korea issue could be a fruitful area of cooperation under an enhanced U.S.-Japan-ROK triangle, as DPRK nuclear and missile capabilities present a common threat to all three actors. A unified front could help to increase pressure on Pyongyang and even Beijing. At the same time, closer trilateral cooperation between the United States and its allies would likely spark greater fear in Beijing of containment, and could lead to more nationalistic/aggressive moves (especially under Xi Jinping).

Moreover, Japan and the “comfort women” issue is arguably the biggest gap between the elite and public right now. It is still unclear if the domestic public in South Korea will accept the agreement. Negotiations were driven by the Blue House and the Foreign Ministry, without any direct representatives for the “comfort women” and civic groups (or even the Home Affairs Ministry, which serves as the government liaison).³⁴ While this shows a desire among ROK policymakers to put historical issues behind them and focus on pragmatic concerns, it also underlines the tension between national strategic priorities, on the one hand, and domestic politics on the other. There remains a gap between the South Korean elite and public on views of Japan. While policymakers and analysts concur that North Korea and perhaps China are more significant and realistic security threats, public opinion polls reveal not just an increasing dislike of Japan but also perceptions of it as a threat.³⁵ The recent “comfort women” agreement presents a degree of optimism, and we are perhaps at the closest to a trilateral alliance as we have ever been. However, we need to watch for further concrete steps in terms of foreign and defense cooperation, in order to understand the longer-term effects on Japan-Korean relations and the alliance structure in Northeast Asia.

NATIONAL IDENTITY: CONTRADICTIONS AND CONVERGENCES

National identity has also shaped each country’s relations with China and their views of the alliance with the United States. This goes beyond history, to issues of how Japan and South Korea conceptualize themselves as well as their position and role relative to China and the United States. Tokyo sees China as a rival for strategic leadership in Asia, and the bilateral identity gap is worsened by continued Chinese demonization of Japan. To counter Japan’s poor relations with its neighbors (China, South Korea, North Korea), Tokyo seizes opportunities to highlight shared identities and values as a U.S. ally and member of the liberal, democratic community. It has sought partnerships with countries such as India and Australia, in hope of forming a broader multilateral coalition of like-minded liberal countries. The U.S.-Japan Joint Vision Statement of April 2015 highlighted seven “shared principles” for “global cooperation” between the United States and Japan. For example, they included support for the rule of law, peaceful resolution of disputes, international norms of behavior, free trade, multilateral institutions, and multilateral cooperation. These principles also echoed the six U.S. priorities of Hillary Clinton’s “Asia rebalance” policies published in a 2011 *Foreign Policy* article.³⁶

Seoul does not have the same sense of rivalry with Beijing but is wary of Chinese actions suggesting hegemonic intentions, such as the dispute over the identity of the ancient Koguryo kingdom. South Korea's pursuit of warmer ties with China, along with shared assertions of Confucian identity and shared antipathy to Japanese colonialism, also come into tension with South Korea's identity as a U.S. ally sharing the same liberal and democratic values, including a rule-based international order. Beijing's preference for Seoul to play a subordinate role rather than an active middle power (at least in the region), and its rejection of criticisms of human rights issues in North Korea, have highlighted the differing viewpoints and disconnect between the two countries. Moreover, the recent events regarding North Korea have highlighted how national identity forces are changing in South Korea. A crucial part of Korean identity relates to reunification of the peninsula. To the extent that Beijing is increasingly seen as the barrier to reunification, rather than as a partner in this pursuit, South Koreans will be less inclined to view China favorably. As with the factor of threat perceptions, national identity in South Korea is framed if not driven by the North Korean issue and the question of reunification.

U.S. pressure has also induced identity shifts in both Japan and South Korea, leading in part to the "comfort women" agreement in December 2015. Abe chose to satisfy the Americans and moderates instead of the domestic revisionists, and Park backed away from her previously strong anti-Japan stance. This, along with the aligned stances on North Korean provocations, has strengthened the image of a U.S.-Japan-ROK triangle and perhaps highlights Seoul's decision to reaffirm its identity on the U.S. side, and in opposition to North Korea and China. This top-down identity shift is made all the more stark by the disparity between elite-driven foreign policy priorities and domestic citizen protests against the "comfort women" agreement as well as the deployment of THAAD.

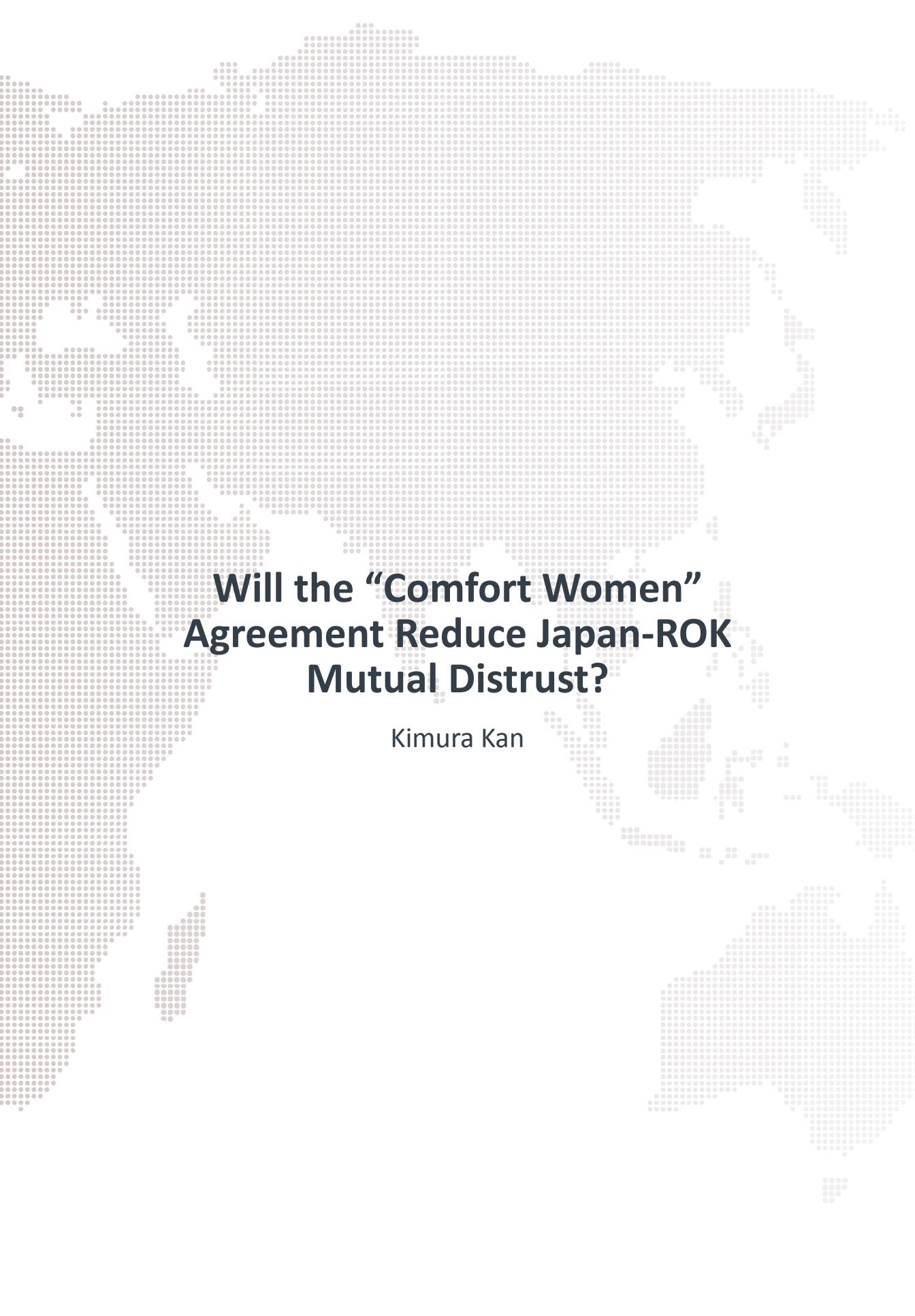
Driven by external security events, the national identity gap between Japan and South Korea may be narrowing, as both governments grapple with repositioning their countries and leaders adjust their political rhetoric to allow for more amenable bilateral and trilateral cooperation. The North Korean issue presents an excellent opportunity for trilateral cooperation, although ROK national identity might be sensitive to any apparent constraints by Washington and Tokyo that limits the pursuit of its own policy preferences toward the North. External security pressures are prompting in both countries a reexamination of conventional notions of identity and how to manage this alongside strategic imperatives. Japan is grappling with how to reconcile the need to respond to external threats with longstanding "pacifism" and a wariness of using military force. National identity is also in flux in South Korea, adjusting to its middle power aspirations and perhaps most importantly questioning Beijing's role in Korean reunification. Managing identity issues alongside security threats will remain a delicate balance for all sides.

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Will the “Comfort Women” Agreement Reduce Japan-ROK Mutual Distrust?

Kimura Kan

On December 28, 2015, the Japanese and South Korean governments announced their agreement on the “comfort women” issue. This sudden breakthrough 70 years after the end of WWII and 24 years after the issue in 1991 had become a fundamental diplomatic issue for the two countries proved to be a great surprise not only for the two societies but also for international society. One question being asked is why at this particular time did the two governments find a way to reach the agreement. Another is would this agreement signify some kind of big change in bilateral relations, which had been intensely split over the history question before this point.

Before considering these questions, it is first necessary to consider what has been driving the obsession with historical memory questions in this bilateral relationship.¹ For this, I reflect on three factors. First, today’s historical consciousness issues are not simply a result of events prior to the conclusion of WWII. Many issues, beginning with the “comfort women” one, that are known as contentious, historical memory divisions in bilateral relations today, are problems that aroused heated arguments beginning only in the 1980s or early 1990s. They did not, to the same degree, draw attention continuously from the end of the war. Second, one reason for this kind of intensification of historical consciousness issues in Japan-ROK relations is due to the lowering for both countries of the importance of the other country against the background of the transformation in the security environment after the end of the Cold War. In addition, in this period, with the economic development and globalization of South Korea widening its options, there was less necessity for cooperation between the two countries.

Third, along with the reduced salience of this relationship, historical memory issues that had long been present served to deepen mutual distrust. In Japan, feelings of distrust toward South Korea intensified in 2012 following President Lee Myung-bak’s visit to Takeshima/Dokdo Islands. Similarly, South Korean feelings of distrust were aggravated, playing a role in hardening mutual emotions about a range of historical memory issues. The December 2015 agreement and what led to it need to be seen in this context. This paper draws heavily on public opinion polls, reflecting on long-term changes.

FROM HISTORICAL QUESTIONS TO TREATY QUESTIONS

Looking back before the end of the Cold War at the narratives in Japanese and South Korean textbooks, we find a huge discrepancy in consciousness of the period of Japanese control over the peninsula. Japanese textbooks not only treated very simply the time of Japan’s advance onto the continent with the Sino-Japanese and Sino-Russian wars, and the colonization of Korea, they had almost nothing to say about conditions on the Korean Peninsula during the time of Japan’s control. In Japanese society interest has remained extremely low in Japan’s colonization of the Korean Peninsula. For many Japanese, the period of this control has little significance for Japanese history in the time frame from the Meiji Restoration to the defeat at the end of WWII.

The lack of interest in this period, however, has gradually changed. One main reason is the heightened interest in historical consciousness inside both Japan and South Korea. In South Korea from the early 1980s in circles of historians, a large-scale reexamination of historical consciousness has been occurring on both the left and the right, and a lively debate

has unfolded.² A similar thing is happening in Japan. Before the 1970s, the colonial era and WWII were discussed mainly as objects of nostalgia, and from the mid-70s, they became objects for confessions. Progressive researchers and the media were raising their voices in a quest for taking responsibility. To understand the situation in both states, it is important to recognize that this was a time of large-scale change in both societies from the prewar to the postwar generation. We saw this happen in the transition from the Park Chung-hee to the Chun Doo-hwan regime in South Korea. A generation that did not bear direct responsibility for colonial control nor WWII era events occupied mainstream society which made the search for responsibility for past events easier (through people who did not know the substance of the reality), and began a “historical rediscovery” event by event. Historical consciousness in both countries became a matter of a new generation uncovering the facts that they did not know and impeaching the views of the “old generation.”

Along with this “rediscovery” of history in both countries, there were lively debates on historical consciousness, finally arousing interest in the historical consciousness of the other country concerning the shared attention to the era of colonialism and WWII. The first dispute over historical textbooks, which erupted in 1982, was a representative expression of this.³ Japanese and South Koreans both discovered that on various themes of historical consciousness they had big differences, which became the object of sharp contention. At the same time that they were rediscovering history, both countries found that they had growing doubts about the way the past had been treated in their country to that point. They strongly criticized the “old generation’s” compromise management of control over the colony, and this was easily linked to criticism of the existing political forces in each country. Representative expressions of these views were forced migration of Korean labor mobilized during WWII, which peaked in the 1990s, and the question of “comfort women” serving the military, which continues to today.

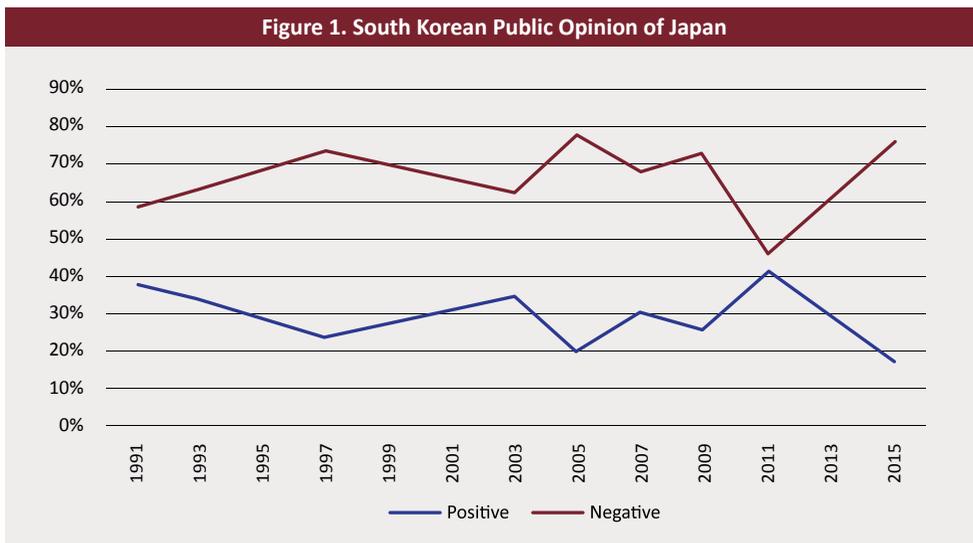
Even when there was an explosion of historical consciousness, bilateral relations of that period—at the very least, good diplomatic relations between Tokyo and Seoul—might be sustained. For example, when Nakasone Yasuhiro visited the Yasukuni Shrine on August 15, 1985, despite fierce criticism in the South Korean media and a formal protest from the ROK government, it had no big influence on the existing good ties between the Nakasone and Chun Doo-hwan administrations. In 1983 Nakasone had made the first visit by a Japanese prime minister to South Korea, and in 1984 Chun made the first official visit of a South Korean president to Japan. There was little harm to relations from the Yasukuni visit.

Entering the 1990s there was a big change in Japan-ROK relations, especially in 1991 when the “comfort women” issue rose to the forefront. On August 14, there was the coming out of the first former “comfort woman” in South Korea, and through the start of a court case against the Japanese government in December, this developed into a diplomatic issue between the two countries. In January 1992 the ROK government shifted from the joint stance it formerly had taken with the Japanese government that the fundamental treaty between the two states had completely resolved the issues between them, as the ROK expounded the view that the “comfort women” issue was not included in the concerns negotiated in 1965 and lies outside the framework of that agreement. This shift by the ROK had great significance in the evolving relationship of the two concerning historical consciousness. Their difference over history was no longer only a matter of consciousness about the past; it transformed into a question of interpretation of the 1965 treaty, which served as the foundation of the bilateral

relationship.⁴ Moreover, this current of treating issues as outside the treaty framework spread to South Korean atomic bomb victims, Koreans left behind in Sakhalin, and finally through the Korean Supreme Court and Constitutional Court it developed to encompass conscripted labor who were mobilized during the final period of Japanese rule. As for the impact this split on historical consciousness had on public opinion in the two states, we turn next to that.

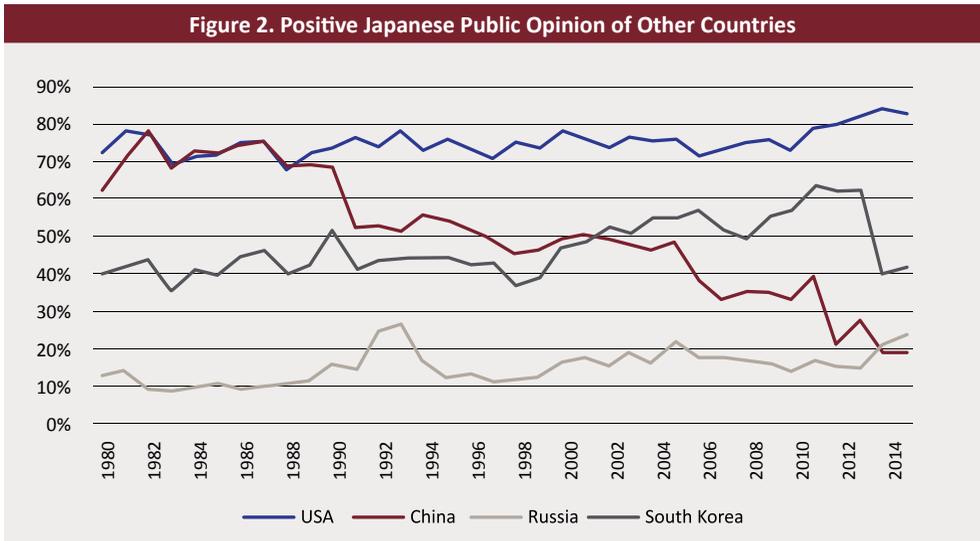
THE BREAKDOWN OF MUTUAL TRUST

Over the past 20 years, the two states have had conflicting interpretations of the treaty that is the foundation of their relationship; however, this did not heavily influence public sentiments. For example, as seen in Figure 1, Korean views regarding Japan consistently were at a more negative level than Japanese views of South Korea, but I do not think that this level was much affected by historical consciousness. Rather, in 2011 after Japan had suffered great destruction from the East Japan earthquake, Korean opinion toward it rose appreciably.



Source: Korea Gallup, <http://www.gallup.co.kr/> (last visited on January 28, 2016)

The fact that the growth in historical consciousness did not have great impact is even more evident when we look at Japanese public opinion. Figure 2 presents the results of a survey by Japan's Cabinet office of Japanese consciousness toward South Korea. Despite the diplomatic opposition on historical matters from the 1990s, positive attitudes were consistently on the rise until 2012. For both countries 2012 proved to be a turning point when feelings toward the other country sharply deteriorated, and prior to 2016 there was no sign of a turnabout.

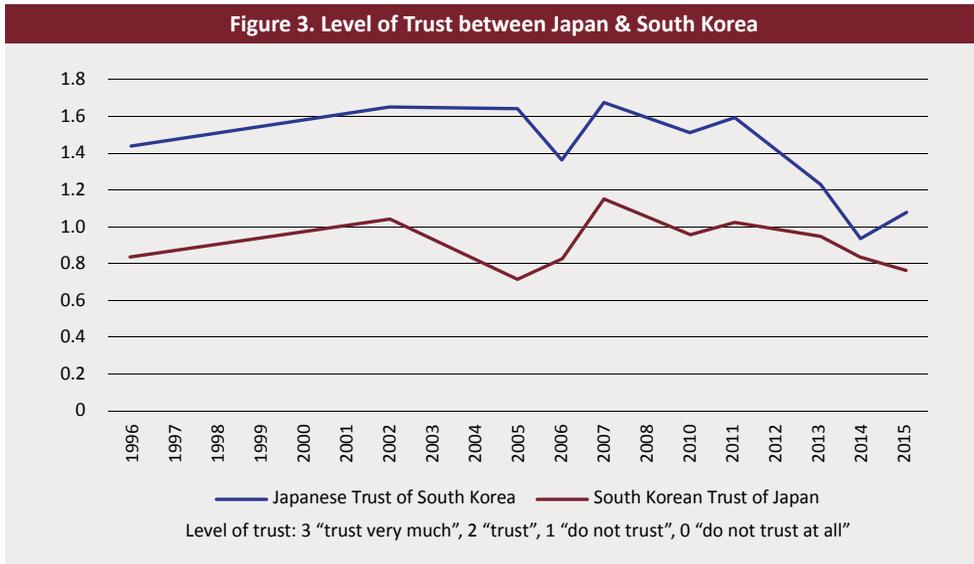


Source: Gaiko ni Kansuru Yorochosa, Naikakufu, <http://survey.gov-online.go.jp/index-gai.html> (last visited on January 28, 2016)

Usually, the cause of this change is attributed to the visit of President Lee Myung-bak in August 2012 to Takeshima/Dokdo and his statement afterwards about seeking an apology from the Emperor.⁵ However, such conditions, as rare as they were, could be seen before. There has been opposition over this island from the time of the establishment of the ROK in 1948, and in 2006 the Japanese government had planned to send a surveying ship to the vicinity of the island, raising the possibility that a clash could have occurred at any instant. What was primary in the 2012 situation was that South Korea had difficulty in explaining their behavior that provoked the Japanese and thereby hurt Japanese feelings toward the ROK.

Why did such a big change occur in mutual attitudes? The key to grasping this, as seen in Figure 3, is the fact that the level of mutual trust fell sharply at this time. In particular, there was a dramatic downturn with 2012 as the turning point in the Japanese level of trust toward South Korea. My hypothesis is that while opposition over historical consciousness had long continued at the political level, what was different prior to 2012, especially on the Japanese side, was that there remained a high level of trust toward the other side such that deterioration of diplomatic relations between the two countries did not lead to worsening public attitudes. If relations were troubled, this was a problem for politicians and diplomats, not reason for mutual antipathy in the public.

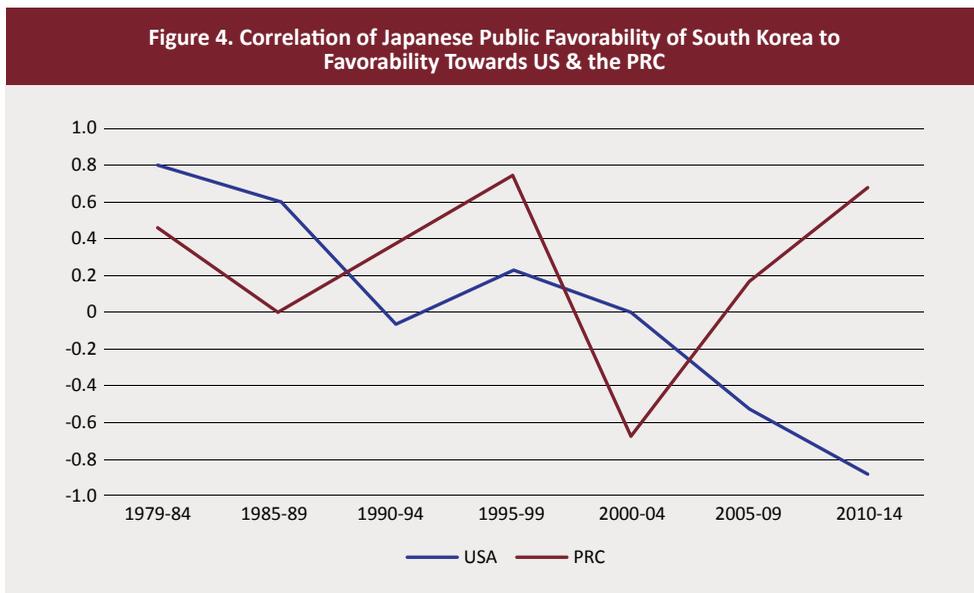
Something new appears to have been taking place in regard to historical consciousness. The other side’s untrustworthy behavior became more startling, not just at the elite level, and hope was lost that the two nations could resolve their historical memory problems.⁶



Source: Yomidas Rekishikan, <https://database.yomiuri.co.jp/rekishikan/> (last visited on January 28, 2016)

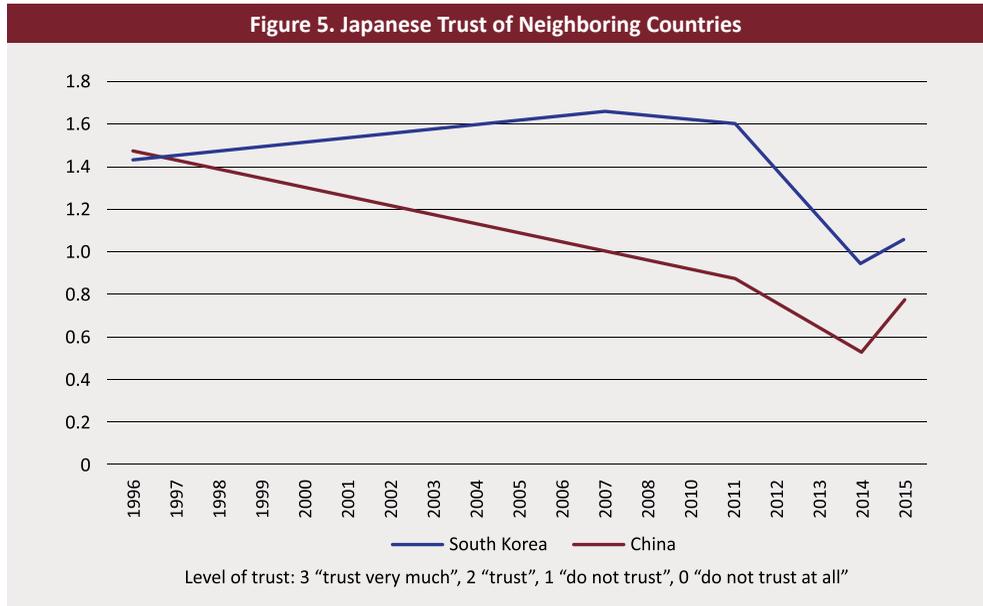
REASSESSMENTS AMID SHIFTING RELATIONS WITH CHINA

I start by looking at Japan, for which data are relatively abundant. For the 2012 turning point in feelings of friendship and trust toward South Korea to a sense of opposition toward South Korea, we need to understand the linkage to Sino-Japanese relations. Increasingly, Japanese perceived that China and South Korea were forming one camp, using the issue of historical consciousness in concert to attack Japan. We can verify with data South Korea’s image in Japan in regard to China. For example, Figure 4 shows friendship toward South Korea and its mutual relationship to attitudes of friendship toward the United States, Russia, and China.



Source: Gaiko ni Kansuru Yoronchosa, Naikakufu, <http://survey.gov-online.go.jp/index-gai.html> (last visited on January 28, 2016)

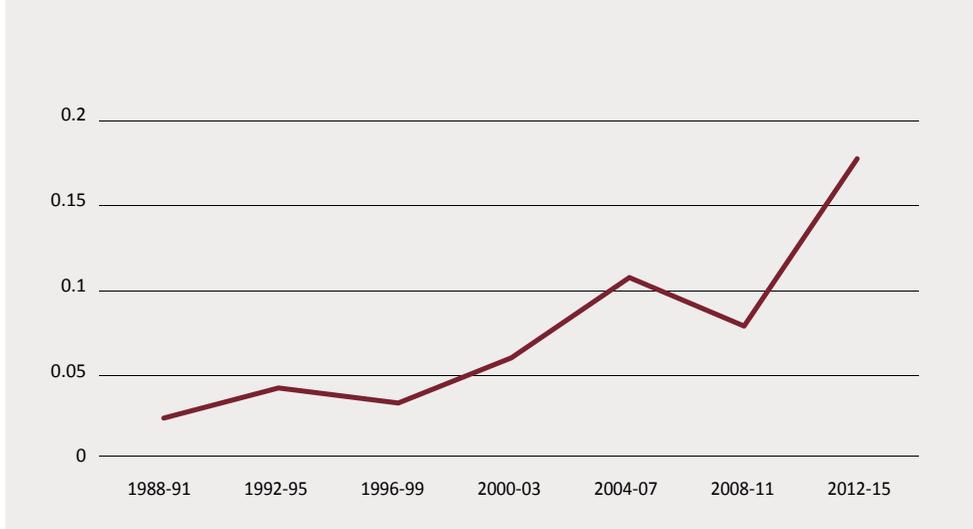
What is clear is that coming out of the Cold War era, Japanese feelings toward South Korea were mainly of friendship, as the ROK had mutual relations with the United States. Entering the 2000s, however, this situation was changing, and after 2005 a high degree of linkage with China could be observed. We can see something like this in the data on mutual trust shown in Figure 5. We see linked movement from 2011 in the level of trust toward China and South Korea, which to that time had not been connected.



Source: Yomidas Rekishikan, <https://database.yomiuri.co.jp/rekishikan/> (last visited on January 28, 2016)

In the background of a deterioration of friendship and trust among Japanese toward South Korea, we discern a linkage between the evolution of historical consciousness issues and Sino-Japanese relations, which after 2010 rapidly deteriorated as a result of the Senkaku (Diaoyu) question. In other words, issues that had to that time been seen as specific to Japan-ROK relations were reconceptualized amid the shifting power balance in Northeast Asia. They were now seen in an entirely new meaning. As seen in Figure 6, historical consciousness in Japan-ROK relations was gradually not seen in the vein of the opposition between these two countries but interpreted as part of the vein of opposition between Japan and China plus South Korea.

Figure 6. Percentage of Japanese Media Articles on the Historical Disputes Between Japan & South Korea in which Issues with China are also Included



Source: Yomidas Rekishikan, <https://database.yomiuri.co.jp/rekishikan/> (last visited on January 28, 2016)

This kind of rethinking by the Japanese people was occurring amid South Korea's visibly improving relations with China after the Park administration took office. As Chief Cabinet Secretary Suga said in July 2014, "Any attempt by China and South Korea to coordinate in picking apart past history unnecessarily and making it an international issue is utterly unhelpful for building peace and cooperation in the region."⁷ As a result of the spread of the "theory of South Korea leaning to China" in Japan, the understanding soon spread that South Korea is a "country in the other camp," standing beside China opposed to Japan on the Senkaku issue and others. More than a friendly state which is an ally through the intermediary role of the United States, South Korea was rather reconceived as a latent enemy which could not be trusted and supports China, which is antagonistic to Japan and to the United States, which is the ally of Japan. Then, the Japanese government and media, and even more public opinion, which interpreted Japan-ROK relations in this way, finally aroused a strong reaction from South Korea. For example, a South Korean journalist stationed in Washington expressed the following dissatisfaction with Japanese reporters who clung to the "theory of South Korea leaning to China." "Not only today, at news conferences of the foreign ministry, if Japanese reporters have the opportunity they repeatedly raise questions intimating there is a widening distance in ROK-U.S. relations. At various seminars convened in Washington, DC, the same thing occurs over and over." In this atmosphere, historical consciousness questions should be understood as increasing the distance between Japan and South Korea in the midst of the greater international structural confrontation in East Asia, which further exacerbated Japan-ROK distrust. In turn, this influenced diplomatic relations between the two countries.

FROM “GOVERNMENT TO GOVERNMENT OPPOSITION” TO “PEOPLE TO PEOPLE OPPOSITION”

In a May 2015 joint survey of public opinion by *Asahi Shimbun* and *DongA Ilbo*, we can see the impact on attitudes in both Japan and South Korea of the China questions being linked to historical consciousness in Japan and, subsequently, affecting attitudes toward South Korea. As in other surveys, this one shows only a low level of friendliness toward each other. On the Japanese side only about 10 percent of respondents answered that they “like” South Korea, and 54 percent stated that over the past five years their impression of South Korea had worsened. The situation on the Korean side was even worse, with only 5.4 percent answering that they “like” Japan, while 59.4 percent asserted that their image of it had worsened over this time frame. Behind these figures, one finds no relationship between the degree of friendliness shown by Japanese and the political character of South Korea, as seen in Table 1, and almost no relationship between friendliness to Japan and its political character on the Korean side, as shown in Table 2.

Table 1. South Korean Ideological Positions & Attitudes Toward Japan (as a percentage)

	Like	Dislike	Neither
Conservative	3.9	58.4	36.7
Centrists	8.1	41.3	49.6
Progressive	4.9	46.3	48.2
Don't Know, No Answer	5.4	5.4	48.3

Source: *Dongailbo Guggyojeongsanghwa 50nyeon, dongailbo-asahisinmun gongdong yeolonjosa gyeolgwa bogoseo*, Research & Research, June 1, 2015.

Table 2. South Korean Support for the Government & Attitudes Toward Japan (as a percentage)

	Like	Dislike	Neither	Don't Know or No Answer
Support the government	11	29	59	2
Do not support the government	10	23	65	1
Do not know or no answer	8	18	68	7

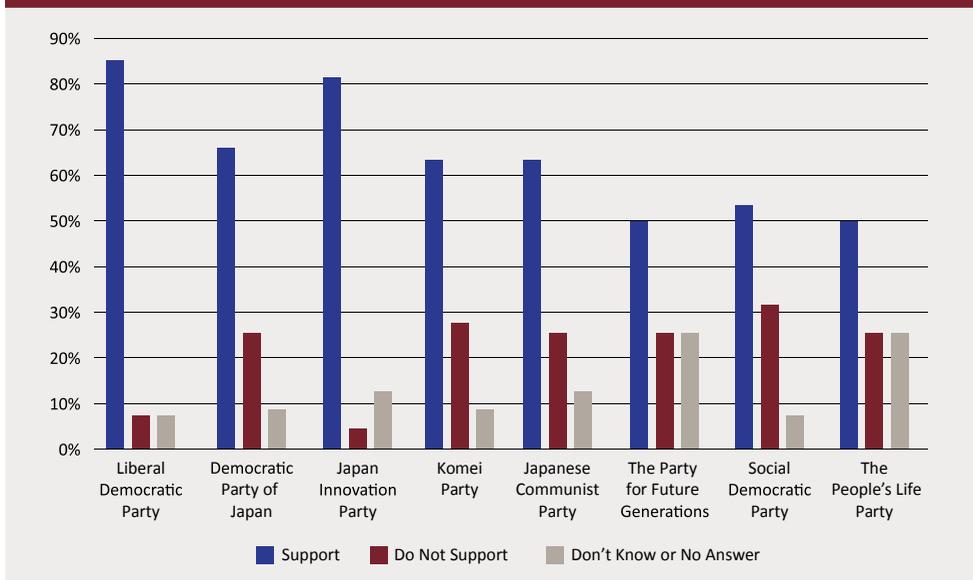
Source: *Dongailbo Guggyojeongsanghwa 50nyeon, dongailbo-asahisinmun gongdong yeolonjosa gyeolgwa bogoseo*, Research & Research, June 1, 2015.

Until the December 28, 2015 “comfort women” agreement, South Korean political parties in and out of power have had the same stance on questions of historical consciousness, such as on “comfort women” and the territorial question, therefore it is not surprising that conservatives and progressives think alike when it comes to Japan’s posture on these matters. But in Japan the parties’ positions are split when it comes to historical consciousness issues and especially “comfort women.” The governing LDP and Komeito follow the government’s position that the 1965 Japan-South Korea fundamental treaty fully resolved all questions concerning the rights to compensation in bilateral ties. In contrast, the DPJ, which is the leading opposition party, while agreeing with the basic government position, takes a moderate stance that it is necessary to make certain “efforts” in order to resolve these questions. In greater contrast, the

Communist Party and Social Democratic Party, also in the opposition, similar to the South Korean government, say it is necessary for the Japanese government to pay compensation on the “comfort women” question. At the political elite level in Japan there is great divergence on this issue.

While Japan’s political elite is split on important questions dealing with South Korea, supporters of the government are not alike in their thinking, as seen in Figure 7. Even 63 percent of the supporters of the Communist Party, which continuously since the 1990s has strongly criticized the government on the “comfort women” issue, back the government’s position today. We can see that more than the political elite, public opinion has coalesced around a unified understanding in relation to South Korea. A situation had arisen where the people of Japan and South Korea had, across the board, lost trust in each other, transcending their support for political parties and their ideology.

Figure 7. The Japanese Government Claims that Legal Problems Concerning South Korean Comfort Women Have Already Been Settled & Finally by the Agreement Between the Two Countries in 1965. Do You Support This Claim?

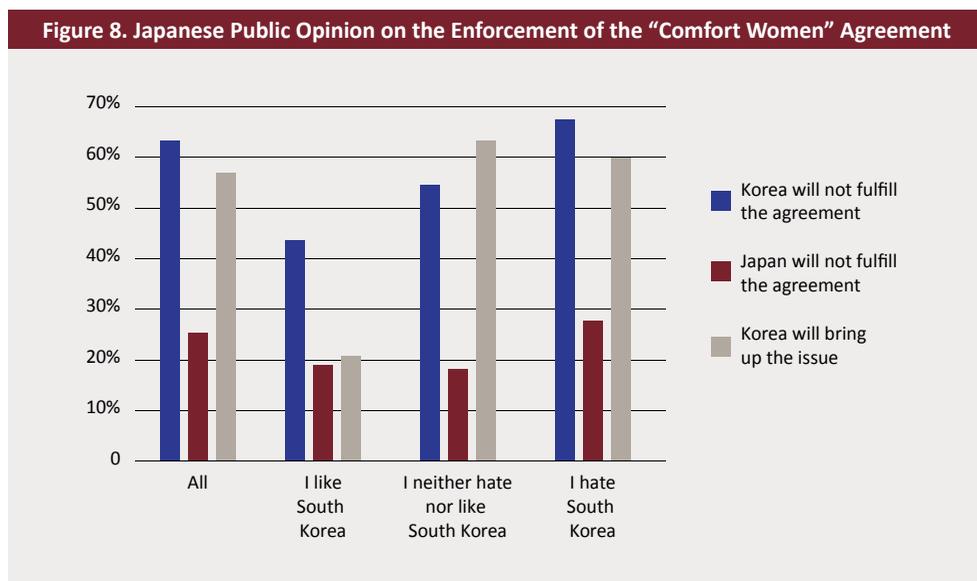


Source: Dongailbo Guggyojeongsanghwa 50nyeon, dongailbo-asahisinmun gongdong yeolonjosa gyeolgwaga bogoseo, Research & Research, June 1, 2015.

What, then, was the impact of the December 28, 2015 agreement on attitudes? The fact that the South Korean government abandoned its quest for legal compensation on the “comfort women” issue means that the two governments have resolved the most important question that they were facing regarding historical consciousness. Since the divergence in their interpretations of the 1965 treaty had sprung from their divide on the “comfort women” issue, if the South Korean government takes a similar stance on the other historical consciousness questions facing the two governments, it will be very easy to resolve them. In the same manner, by means of funds and apologies—in exchange for funds to assist different types of victims of Japanese colonial control and Japanese government official apologies, the South Korean government would declare that it had forsaken further demands—it would be possible to apply the same format to other issues.

The question remains whether this format can be applied by the two governments in the future. According to a Korean Gallup poll, 54 percent of Koreans perceive the agreement as a “mistake,” and an even larger 58 percent consider that it is necessary to “renegotiate” the deal. In the case of Japanese, 59.7 percent responded that they approve of the agreement, and 64.1 percent view the removal of the “comfort women statue” in front of the Japanese embassy in Seoul, which lies outside of the main agreement, as a necessary condition. In contrast, in the poll on the South Korean side, 72 percent are opposed to its removal as a reason for why they object to carrying out the agreement.⁸

Even more important is how the people of both countries will interpret the agreement in the future. According to the same poll, 81.2 percent of Japanese foresee, despite this agreement, that the “comfort women” issue will be rekindled between the two countries. In the background is deep distrust of South Korea, to the point that many Japanese expect that it will be broken by the Korean side “moving the goalposts.” Distrust exists on the Korean side too. The same South Korean Gallup poll found that 72 percent of Koreans did not think that the “apology” by Abe read by Foreign Minister Kishida at the foreign ministers’ meeting reached the level of an “apology.” After all, it did not take the form of a Japanese government apology; so it was not a genuine apology. We can find the same situation in Japan. Many people expect that the South Korean government will not fulfill the agreement or they will bring up the issue against Japan, as Figure 8 shows.⁹



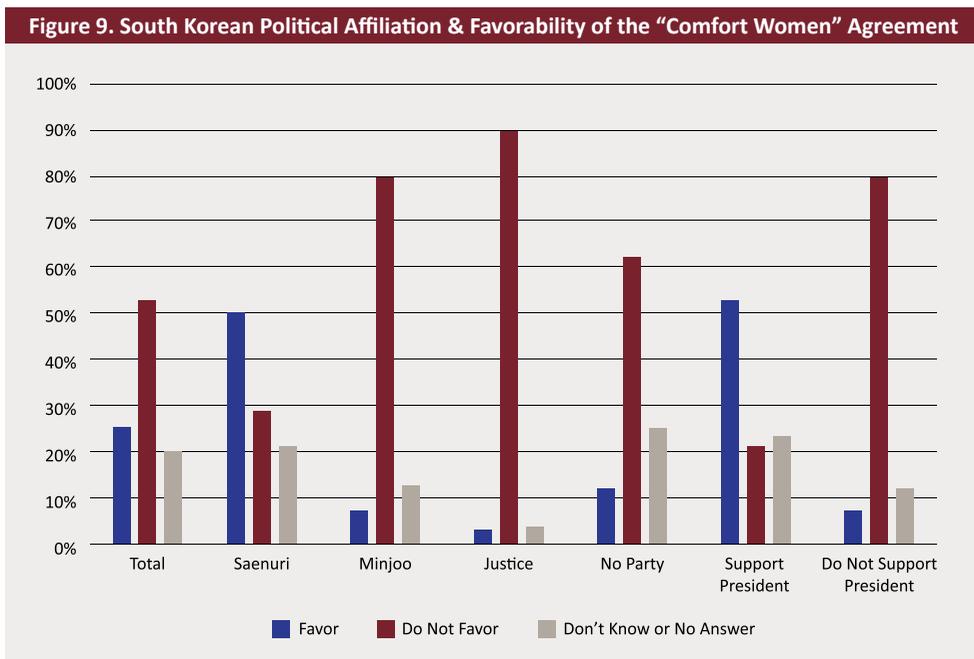
Source: Masaki Hata, “Jugunianfugoi no nikkangoi ni kansuru risutojikkenn keka no hokoku,” http://www2.kobe-u.ac.jp/~108j055j/hata_song20151230.pdf (last visited on March 18, 2016).

However much distrust persists, the situation following the “comfort women” agreement is different in some respects. As opposed to the case of Japan, where the agreement did not result in a big change in existing public understanding of historical consciousness issues and South Korea, in South Korea it resulted in a split of public opinion. One can see despite some improvement in friendliness to South Korea, distrust toward how the South Korean

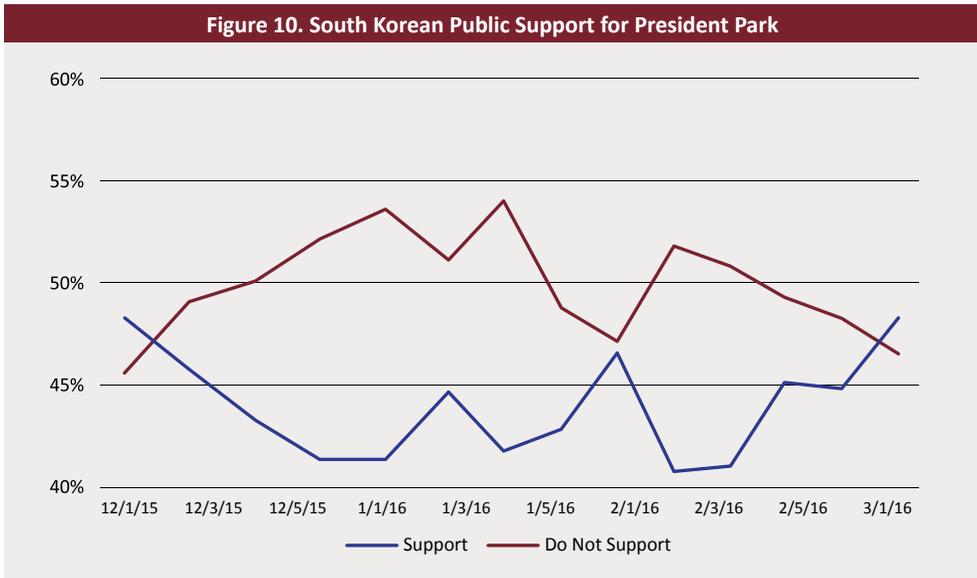
side will fulfill the terms of the agreement—and the fact that the distrust toward South Korea transcends political party and ideology—has not been wiped away. The ruling and opposition political parties support the deal, and it is not seen as causing a divide in political circles.

For Japan, another important element is the reaction of the nationalists, who are an important political base for the Abe government, because they have criticized past deals with South Korea on the issue. It is said that they are influential in the policy making process of the government; however, they failed to express any severe criticism toward the agreement.¹⁰ For example, Hata Ikuo, one of the most influential conservative historians in Japanese society, spoke on a TBS radio program on January 5, as follows, “I am frustrated with the agreement but I believe that it must be a product of deep thinking by the prime minister.” This is typical of the discourse of Japanese nationalists about the agreement. Abe is their hope to realize their ideology, and it is hard for them to find an alternative among influential politicians in Japan. Hence, they cannot deny any diplomatic results achieved by the prime minister.

The situation in South Korea differs greatly because this agreement has the effect of splitting public opinion in regard to historical consciousness issues. Support for the agreement is closely related to support for the Park administration: 54 percent of those who favor the



Source: Korea Gallup, <http://www.gallup.co.kr/> (last visited March 18, 2016)



Source: Realmeter, <http://www.realmeter.net/> (last visited March 5, 2016)

administration back the agreement, while 80 percent of those who do not oppose the agreement, as Figure 9 shows. Supporters of the foremost opposition party are 80 percent against. Thus, the agreement has aroused a domestic political struggle in South Korea unlike in Japan, but it did not result in much change in the support level of the president.

As seen in Figure 10, despite the unpopularity among the people of this agreement between the Japanese and South Korean governments, it seems comparatively easy to carry out the agreement in South Korea. Filtered through the domestic political divide, since the agreement has little impact on the support level of the government, there is no serious barrier. In Japan, it is the same: there are no barriers to support for the administration. Regarding this agreement, one can see a split in the nationalist media that has taken the most hard-line posture. For example, right after the agreement in the issue of *Will*, a representative nationalist journal, published in January, there was a clear division pro and con among commentators, who, to that point, had been unified in support of the Abe administration. A similar tendency could be found in other nationalist media. There is little possibility that there will be a large opposition force to the Abe administration from those taking a clear stance opposed to this agreement.

Then, why did such an unpopular agreement barely damage the political bases of the two governments? It is simply because the historical disputes are never a serious concern for the public in the two countries, if compared with other issues. As we saw in the South Korean parliament elections in April 2016, which occurred just four months after the unpopular agreement, the main concerns of the people were domestic issues, especially ones related to their economy. Moreover, even among international issues, the historical issues with Japan were never regarded as important, compared with other issues such as the nuclear test and missile launches of North Korea or the arguments regarding the deployment of the THAAD missile defense system, which was strongly pushed by the U.S. government.

The same situation can be found in Japan. In the July 2016 Upper House elections, no media in Japan have found the issue of the relations with South Korea to be likely to have any importance. Given strong public interest in the economic performance of the government's monetary policies linked to "Abenomics," security issues concerning China, questions about U.S. military bases in Okinawa, or the prime minister's aggressive moves toward amending the Constitution, Japan-South Korean relations are easily forgotten by the Japanese public.

This is natural. For many people, past issues are never as important as present issues, which directly affect their everyday lives. Hence, even when we look back since 1990 when historical disputes between the two countries became serious diplomatic problems, there has been no government whose popularity was seriously damaged by the disputes. Yet, both governments have been afraid of the reactions of the people and avoided diplomatic concessions. But now we find that it was just a product of over-anxiety.

CONCLUSION

The December 2015 agreement was a big, diplomatic breakthrough even if the base of support for carrying it out remains fragile. As before, the agreement did not wipe away the distrust between the people of the two countries that has formed since 2012. This means that if something happens between Japan and South Korea or if the two sides do not carry out the agreement and it collapses, there will be a refocusing on distrust toward the other side with the possibility it will even intensify. Yet, the political environment has changed the situation to make it even easier than at first anticipated to carry out this deal. In Japan not only have parties in and out of power welcomed the agreement, it has been received well by public opinion, and no great barrier to its fulfillment is in sight. Even if in South Korea there is insufficient cooperation from the remaining "comfort women" and their supporting associations and, even more, the agreement has been the object of serious criticism, this situation has not shaken the support base of the administration.

This does not mean that the current political environment is guaranteed to last for a long time. The current administrations have already been in office for more than three years, and it is not known how long this stability will continue. The term of the South Korean president is limited to five years, and it is customary in the second half of the term for the level of support to drop appreciably. The current administration will have difficulty escaping from this pattern. This puts a burden on both governments to strive to fulfill the terms of the agreement early in the midst of what may be temporarily stable conditions, especially when great mutual distrust as before prevails in public opinion on both sides. We should expect efforts by both governments to use a precious opportunity effectively.

ENDNOTES

1. Kimura Kan, *Nikkan rekishi ninshiki mondai towa nanika?* (Tokyo: Mineruba shobo, 2014).
2. Yun Jong-Yeong, *Gugsa Gyogwaseo Padong* (Seoul: Hyeon, 1999); “Gugsa Gyogwaseo Padong (1),” *Silhag Sasang Yeongu*, 1995; “Gugsa Gyogwaseo Padong (2),” *Silhag Sasang Yeongu*, 1996; Sakai Toshiki, *Gendai Kankoku niokeru Rekishi Kyoiku no Seiritsu to Katto* (Tokyo: Ochanomizu shobo, 2003).
3. “Discovery of Disputes: Collective Memories on Textbooks and Japanese–South Korean Relations,” *Journal of Korean Studies*, Vol. 17, No.1 (Spring 2012).
4. Kimura Kan, *Nikkan rekishi ninshiki mondai towa nanika?*
5. Nihon Gakujutsu Kaigi, ed., “Hokokusho: Saikin no taigaiteki Kincho kankei no kaisho to Nihon niokeru tabunka kyosei no kakuritsu ni mukete,” *Nihon Gakujutsu Kaigi*, 2014, pp. 1-6.
6. In Japan this situation was called “apology fatigue.” See, for example, author? *Hannichi no shinso* (Tokyo: Bunshun shinsho, 2014).
7. “Japan hits back at Beijing-Seoul WWII commemoration proposal,” *The Japan Times*, July 4, 2014.
8. Korea Gallup, “Deilli opinieon je193ho (2016nyeon 1wol 1ju) - Chongseon jijijeongdang, wianbu munje habui,” <http://www.gallup.co.kr/> (last visited on January 28, 2016)
9. Masaki Hata, “Jugunianfugoi no nikkangoi ni kansuru risutojikkenn keka no hokoku,” http://www2.kobe-u.ac.jp/~108j055j/hata_song20151230.pdf (last visited on March 18, 2016).
10. See also other editorials on Japanese nationalistic journals such as *Seiron*, *Voice*, or *Will* published after the agreement.



ECONOMIC RELATIONS BETWEEN NORTH KOREA & ITS NEIGHBORS

INTRODUCTION

Most analysis of the extended nuclear crisis that first broke in 2002 has focused, quite legitimately, on the realm of high politics: the diplomatic and military strategies of the contending parties and their consequences. But the course of the crisis, and the prospects for reaching a durable settlement, have always rested in no small measure on economic issues. Could economic engagement and side payments moderate North Korean behavior, the central bet of the Kim Dae-jung and Roh Moo-hyun years? Or are sanctions a more effective route to getting North Korea's attention, as hawks have long argued?

These questions have taken on much greater significance in the wake of the fourth nuclear test (January 6), another satellite launch (February 7), and a succession of short- and intermediate-range missile tests, including most recently an apparent test of a submarine-launched ballistic missile. The reasons have to do with the passage of UN Security Council Resolution 2270 on March 2, 2016, which appeared to break ground with prior resolutions in seeking to constrict North Korea's commercial trade.

The willingness of Beijing to acquiesce to a more sweeping sanctions resolution is potentially an important development. However, China has stated repeatedly that its intention in signing on to a new sanctions resolution was not simply punitive; the purpose was to jump-start the Six Party Talks, which have been in abeyance since their collapse in 2008.

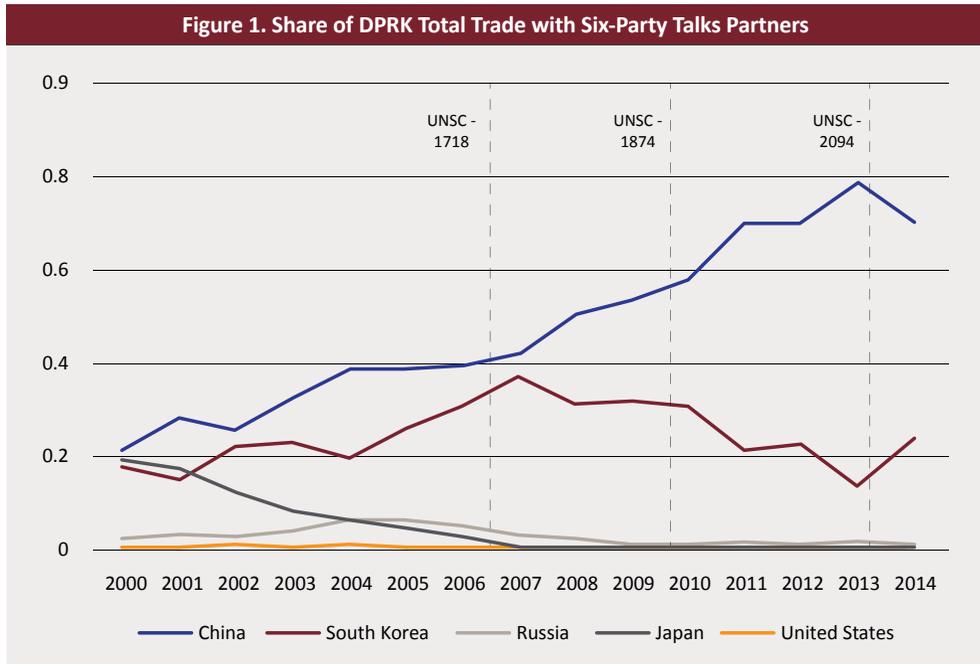
The chapters in Part 3 dissect the bilateral economic relations between the DPRK and four of the five parties engaged in those talks. The analysis of China by Li Tingting and of South Korea by Moon Chung-in and Lee Sang-kuhn cover the DPRK's two most important trading partners over the course of the crisis. The analysis of Russia by Liudmila Zakharova and Japan by William Brown consider two countries which have historically had highly significant economic relations with North Korea, but with which trade and investment relations have fallen off quite substantially. Nonetheless, both play potentially significant diplomatic roles in the crisis.

In this introduction, I provide a brief overview of the overall economic relationship between North Korea and the five parties, highlighting several perverse effects of sanctions, including the unusual concentration of North Korea's trade on China. I then turn to a brief analysis of recent sanctions and close with consideration of the complex strategic game between the United States, China, and North Korea over the possible resumption of talks. If China fully implements the sanctions and North Korea is forced to signal an interest in negotiations, the United States will come under pressure to re-engage. However, if China hesitates with respect to sanctions, or North Korea absorbs the cost of them and remains defiant, there will be little reason for the United States to reconsider its approach to the North, and the issue will effectively pass to the next administration. As of this writing, the latter course appears the more likely of the two.

THE POLITICAL ECONOMY OF THE SIX PARTY TALKS

Simply looking at the share of the five parties in North Korea's trade since 2000 reveals a tremendous amount about the broader strategic setting in which negotiations have taken place as well as the strategies of the different players. The first point to note is that over the course

of the crisis, North Korea’s trade with the rest of the world has shrunk quite dramatically. In 2000, the five parties accounted for roughly 60 percent of North Korea’s total trade, with the rest of the world accounting for the remaining 40 percent. By 2014, the five parties accounted for over 90 percent of the country’s total trade, with the rest of the world accounting for less than 10 percent. These estimates fail to capture trade with countries such as Iran, which also do not publish statistics, and may also miss trade passing through China to third parties. Nonetheless, the combination of increasing country risk and sanctions appear to have had some effect in limiting North Korea’s commercial possibilities.



Note: (1) 10 percent CIF/FOB conversion applied to values reported from from partner countries; (2) Includes inter-Korean trade designated as “non-commercial” by MOU.
 Source: Haggard and Noland (forthcoming).

The second point that is immediately apparent is the rapid growth of trade with China despite a succession of sanctions resolutions. Li offers somewhat different estimates of China’s trade. She also emphasizes not only the fall off in 2014 but a further slowdown in 2015, a result less of sanctions than of slowing growth and a fall in commodity prices. Nonetheless, it is clear that the nuclear crisis has been associated with growing North Korean dependence on China.

This pattern is, arguably, not surprising and might be explained largely by economic factors. China has grown rapidly over this period, and the broad pattern of greater trade focus on China—albeit not in such an extreme form—is visible in many countries in the region. As Li’s contribution points out, this trade growth is driven in part by a commodity boom, suggesting that North Korea’s political economy may be looking more like a rentier state. But as she also points out, trade growth has a political foundation. Kim Jong-il opened cautiously to China after 2000, and China reciprocated by pursuing a strategy of deep engagement with

the country. It did so even in the wake of the second nuclear test of 2009 and tensions with South Korea following the sinking of the *Cheonan* and shelling of Yeongpyeong Island in 2010. The open question is whether this strategy of deep engagement has come to an end with UNSC Resolution 2270.

The third point to note is the highly politicized nature of South Korea's trade with North Korea. By the onset of the nuclear crisis, South Korea already accounted for over twenty percent of North Korea's trade. Rather than falling off following the onset of the crisis, South Korea's trade share rose through the end of the Roh Moo-hyun administration before turning down under Lee Myung-bak and Park Geun-hye. Aid under the two conservative presidents fell to practically nothing, and commercial trade outside of Kaesong withered following the imposition of sanctions in the aftermath of the sinking of the *Cheonan*. The remainder of trade shown here emanated almost entirely from Kaesong, with South Korea's share falling after North Korea's brief closure of the industrial complex in 2013, rising again, before collapsing in 2016 with the shuttering of the complex in the aftermath of the fourth nuclear test.

The fourth point to note is the relative insignificance of trade at the current conjuncture with the United States, Japan, and Russia, but for altogether different reasons. In the case of the United States, North Korea was covered by a complex blanket of sanctions, some dating to the 1950 Trading with the Enemy Act and most imposed even before the onset of the nuclear crisis.

In 2000, Japan accounted for roughly the same share of North Korea's trade as China or South Korea. As William Brown shows in his contribution, policy gradually drifted toward a virtual embargo with the country in the aftermath of revelations about the Japanese abductees and, after 2006, in response to the first nuclear test. This occurred, in part, by gradually clamping down on remittances that had wound their way through the *Chosen Soren* (or *Chongryon* in Korean), the pro-North organization of Korean residents in Japan. At the moment, the only card that North Korea possibly holds with respect to Japan is entirely prospective, and, Brown argues, it has been misplayed. Prior to this last round of tests, a final settlement of the abduction issue might have opened the way for normalization of diplomatic relations that would come with an aid package similar in magnitude to that granted South Korea in 1965.

Russia's trade with North Korea, by contrast, is minimal but not for lack of trying. Liudmila Zakharova shows how during the Putin era, Russian interest in re-entering the Asian arena led to an uptick in activity with North Korea, including a final settlement of Soviet era debt, some investment in rail infrastructure, and promises of other large-scale investments. Unlike China and South Korea, however, economic complementarities are limited aside from advantages Russia could gain from transport or pipelines through North Korea. The collapse of oil prices and sanctions on Russia following the invasion of Crimea and intervention in Eastern Ukraine limited Russia's financial capacity to take a leading role in the country and despite stated plans, trade between the two countries has failed to take off except for the re-export activities through Rason—now under stress too.

Several more general points emerge from this overview. It is a virtual cliché in the literature on sanctions that they are unlikely to work in the absence of coordination among the sanctioning parties. As can be seen, North Korea has been able to maneuver between the sanctioning and non-sanctioning countries; note, for example, how the increase in China's trade share with

the DPRK almost exactly offsets the decline in Japan's share, and in a context of overall trade growth, not contraction. Similarly, multilateral sanctions were unlikely to have much effect as long as trade with the rest of the world was being replaced by trade with China. Will it be different this time?

Efforts to engage with North Korea on the part of China and South Korea have also been stymied by political resistance—although at different times—from South Korea and the United States, through which any political settlement on the peninsula must ultimately pass. Engagement strategies no less than sanctions face coordination dilemmas; Lee and Moon make this point quite forcefully in arguing that the hawkish posture of the U.S. under the Bush administration undercut the efforts of Kim Dae-jung and Roh Moo-hyun to engage.

SANCTIONS: THE LATEST PHASE

As I have provided a more detailed analysis of UNSC Resolution 2270 elsewhere,¹ I limit myself here to a few comments on features of the new multilateral sanctions that appear distinctive. In the past, all UNSC resolutions have targeted trade, investment, finance, and shipping that is directly related to the WMD programs, leaving commercial trade largely untouched; thus, the rapid increase in the commercial trade with China over the period. This time appears different. In terms of material value, by far the most significant component of the sanctions resolution is the potential restriction on coal exports (paragraph 29). If implemented, the rest of the resolution would be superfluous: coal accounts for about 40 percent of the DPRK's exports to China. In addition to coal, the resolution bans exports of gold, titanium, vanadium, and rare earths. These generate much more limited income, but as with coal the effects of these restrictions are twofold: not only do they interrupt trade, but they also deter potential investors in these activities, investors North Korea desperately needs to develop these resources. Another trade prohibition that is harder to gauge concerns small arms sales and service contracts related to conventional weapons, where purchasers are likely to be less cooperative with the sanctions effort. On the import side, the resolution bans aviation fuel, with potential effects on the ability of Air Koryo—let alone the air force—to even operate.

In addition to these trade measures, the resolution also places restraints on shipping and designates a number of specific entities, including Ocean Maritime Management; as a shipping company, its ships could be seized as assets of a designated entity, and one such ship was initially seized by the Philippines before being released. The resolution also authorizes restraints on financial transactions with the regime, although with the caveat that such restraints would be targeted at activities that could be linked to the country's weapons programs. Assessing the effects of any sanctions effort encompasses at least four elements:

- the statute itself, what is proscribed and with what precision or country-level discretion;
- the likelihood that any given provision will be implemented;
- the effect of the measure not only directly on the targeted party but on markets and particularly foreign exchange and commodity markets;
- the ability of the target to circumvent the restriction by substituting for the export or import in question and diversifying into new activities.

On the first two points, it appears that China has written the resolution with just enough bite to send a serious signal to North Korea, while including adequate caveats—including with respect to protecting people’s livelihood and links to the WMD program—that it can moderate implementation as it sees fit. It is a revealing sign of the current political economy of China that no sooner had it issued a quite visible and detailed order with guidelines on the implementation of the sanctions than it simultaneously shut down online customs statistics on trade with the country. As of this writing, we simply do not know how far and fast China is willing to move.

The material effects of the sanctions and capacity to circumvent them will depend on implementation, but, as Li’s contribution on China shows, North Korea has proven pretty adept in the past at adjusting to various sanctions measures. For example, it is widely believed that North Korea was a “Soprano state,” relying heavily on missile and weapons exports and a variety of illicit activities ranging from counterfeit \$100 bills to narcotics. However as this activity was squeezed by interdiction efforts, North Korea moved into the export of minerals and even some light-labor intensive manufacturing. We cannot rule out that it can continue to adjust.

That said, a plain reading of the resolution suggests that it should be extremely hard for North Korea to fully circumvent this round of sanctions if fully implemented. Trade with the rest of the world was already low, and the passage of the resolution has been accompanied by diplomacy urging strong vigilance on North Korean activities. Moreover, the effects of the sanctions do not only work on the sanctioned sectors. As we have seen from the Iranian sanctions, they can have an impact via the exchange rate and the drying up of capital flows as well as through trade. Moreover, such effects are felt widely through the economy and even in the non-traded goods sector. Again, as of this writing, the black market exchange rate appeared to be holding steady, perhaps because of hidden reserves, perhaps because the declining terms of trade with respect to exports are partly offset by lower oil prices. But if China fully implements the sanctions, we should see signs of material distress, manifest ultimately in efforts to get back to the nuclear negotiations.

THE DIPLOMATIC STATE OF PLAY

Although Japan and Russia may have future roles to play in the negotiations, the extent of their trade makes them diplomatic followers at this juncture. The one exception would be if Russia attempted to play a spoiler role by extending life-support to the North. But such a role is unlikely given that Russia has been consistent in its opposition to North Korea’s nuclear program and also signed on to Resolution 2270. Recently, Russia signaled its willingness to abide by the spirit and terms of Resolution 2270 by imposing financial sanctions on North Korea.

Surprisingly, South Korea’s role in the current diplomatic setting has also been compromised somewhat by Park Geun-hye’s decision to shutter Kaesong. By taking a very strong line and tying further progress in North-South relations to progress on the nuclear issue, South Korean diplomacy will hinge largely on what happens between China, the United States, and North Korea, and we focus on those three actors here.

U.S. policy toward North Korea is focused fairly narrowly on the question of denuclearization. Its strategy since the early Obama administration has been called “strategic patience,”

which can be defined as a stated willingness to negotiate, but only if North Korea makes a move to demonstrate the seriousness of its intent. Such a signal has involved a shifting set of prerequisites, such as a monitored freeze on the Yongbyon complex, although those conditions have been moderated in the past and could, in theory, be moderated further.

Given this stance, the two central questions driving U.S. diplomacy at the moment are: whether China actually implements Resolution 2270; and, if it does, whether the sanctions are adequate to get North Korea back to the negotiating table. In recent remarks at Hiroshima, Secretary Kerry recommitted quite publicly to the objectives of the 2005 Joint Statement and expressed a willingness to follow China's lead. However, the secretary also delivered an important caveat: that "[the resumption of talks] all depends on the North making the decision that they will negotiate denuclearization, which is the agreed-upon policy of China, the United States, Japan, Korea, Russia." In short, if Resolution 2270 is not implemented, or if it is implemented and China is unable to coax North Korea back to the negotiating table, the United States feels no obligation to move.

Certainly the current political conjuncture in the United States—during a presidential election year—provides few incentives for President Obama to take risks on a low-probability event that could have electoral costs.

The United States does retain one other option, however, in the form of quite broad secondary sanctions legislation. If that legislation is read closely, it reveals a clever structure, mirroring quite closely UNSC Resolution 2270. If 2270 is not implemented or fails to generate a North Korean response, then the president could come under pressure to take out this weapon and use it. Such action would require both financial intelligence on which firms to target and a more difficult political decision to employ this weapon against Chinese firms. Whether these sanctions would be effective is an open question, particularly given Chinese opposition to them. But, as of this writing, the choice to deploy them has not been forced on the United States.

From China's perspective, the coverage of UNSC Resolution 2270 has clearly been lopsided. All of the emphasis has been placed on sanctions, while ignoring the fact that the resolution also calls on the parties to return to the Six-Party Talks. From the perspective of the United States, these concessions may appear hortatory; from China's perspective they are decidedly not. China feels that it has made the commitments it was called on to make and that it now falls on the United States—and Japan and Korea—to come back to the negotiating table.

We do not have a public version of the Chinese proposal for such negotiations. But public comments by Chinese officials suggest they hinge on seeking a compromise under which negotiations on denuclearization would be coupled in some way with broader talks for a peace regime. North Korea has long sought such negotiations, and it is assumed they would imply normalization of diplomatic relations with the United States. Such negotiations might be handled through an omnibus Six-Party Talks with subcommittees on the nuclear and peace regime issues or some parallel process at—in the words of the 2005 Joint Statement—an appropriate forum.

The U.S. interpretation of the 2005 Joint Statement—shared by Korea and Japan—is that peace regime negotiations would only be launched, let alone completed, after there was significant progress on denuclearization and perhaps even a meaningful conclusion to this

process. As of this writing, however, the United States has been spared difficult decisions with respect to this sequencing issue by the fact that North Korea has shown little interest in returning to the Six-Party Talks.

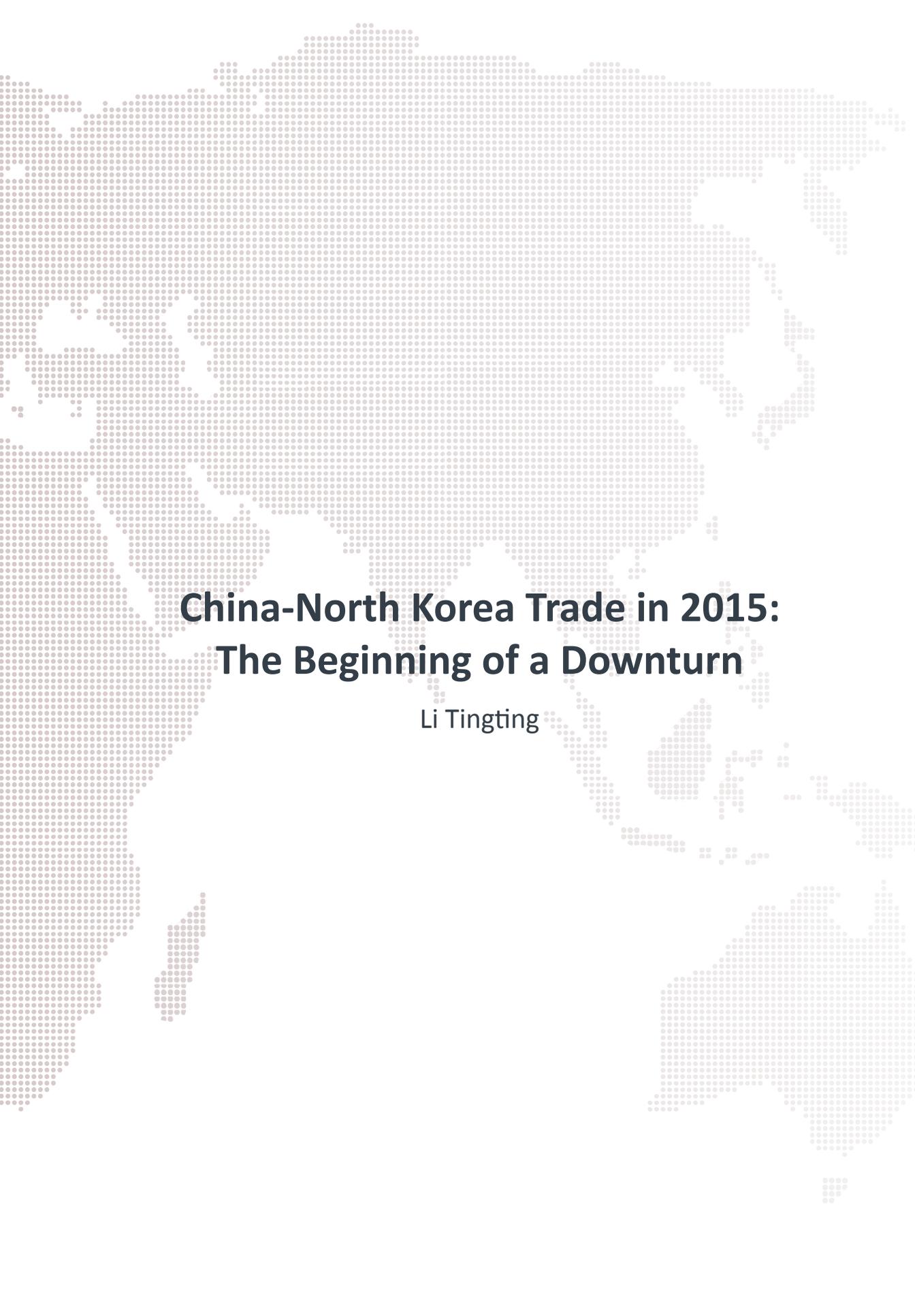
Which brings us finally to the nub of the entire issue: North Korea's actual intentions. To date, North Korea has floated proposals which are complete non-starters from a political point of view. They include a proposal first made in January 2015 that North Korea would suspend or "freeze" nuclear tests in exchange for a suspension of U.S. exercises. In addition to the fact that such a proposal has a blackmail structure—"do not suspend your exercises and we will continue to test"—the proposal says nothing about the question of whether North Korea, in fact, has any willingness to come back to the Six-Party Talks. To date, evidence in this regard is scant. Through various back channels, North Korea has floated trial balloons with respect to the structure of peace regime negotiations, including a willingness to entertain Chinese and even South Korean participation. But at least in public, it has held firm to the position that negotiations on a peace regime would have to precede a return to nuclear talks; it has been some time since there was even a public commitment to the objectives of the 2005 Joint Statement.

What really is North Korea's intent? It is possible, if fully implemented, the current sanctions could force the country back to the Six-Party Talks. But Kim Jong-un has made it particularly difficult to take that off-ramp. The reasons for this difficulty started with the rollout of the *byungjin* line in early 2013, which publicly commits the regime to the simultaneous pursuit of nuclear weapons and economic development. The regime has also used the missile and nuclear programs quite publicly as pillars of domestic legitimation, and may be constrained by the military to remain committed to this path. Nothing that occurred at the 7th Party Congress, convened in May after a 36-year hiatus, gave any signal that Kim Jong-un is departing from the *byungjin* line; to the contrary, he appears to have doubled down on it. Given this domestic political configuration in North Korea, the question is not what the United States will do. The question is whether China has the nerve to fully press the material advantage over North Korea that it so clearly has and how the regime in Pyongyang will respond if it does.

ENDNOTES

1. <http://blogs.piie.com/nk/?p=14880>.





China-North Korea Trade in 2015: The Beginning of a Downturn

Li Tingting

China-North Korea trade accounts for the majority of North Korea's international trade and is considered significant for the economic development and social stability of North Korea. Due to the fourth North Korean nuclear test and the subsequent UN sanctions resolution, the current situation and future prospects of China-North Korea trade are becoming increasingly relevant to the peace and stability of the Northeast Asian region. This paper examines recent trends in China-North Korea trade and analyzes the causes of the ongoing decrease and its prospects, before discussing possible effects and policy implications of a prolonged downturn.

CHINA-NORTH KOREA TRADE: TRENDS, FACTS, & MYTHS

China-North Korea trade has decreased in 2014-2015 in various aspects. The volume of goods traded and its share in North Korea's total volume of trade both dropped, as did China's trade surplus with North Korea. As for trade in services, while North Korean labor exports to China might have slightly increased, China's export of services to North Korea in the form of construction contracting has fallen by roughly one quarter since 2013.

Volume of Trade

The volume of China-North Korea trade in goods fell sharply in 2015. According to the General Administration of Customs of China (GACC), the bilateral trade volume valued at \$5.511 billion in 2015 dropped by 13.39 percent compared to 2014 (see Table 1 and Table 2). This is the second consecutive year the GACC reports a decrease of China-North Korea trade. Some experts consider the 2014 decrease questionable because it might have excluded China's export of crude oil to North Korea, which was valued above \$500 million in 2011-2013 and would have reversed the decrease into a slight increase if included.¹ No matter whether this reputed problem applies to the 2015 numbers or not, it does not change the fact that the trade volume dropped significantly compared to 2014.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
ROK	642	724	697	1,056	1,350	1,798	1,820	1,679	1,912	1,714	1,971	1,136	2,343	2,714
Intl	2,260	2,391	2,857	3,002	2,996	2,941	3,816	3,414	4,174	6,357	6,811	7,345	7,611	N.A.
Total	2,902	3,115	3,554	4,058	4,346	4,739	5,636	5,093	6,086	8,071	8,782	8,476	9,954	N.A.
China	738	1,024	1,377	1,581	1,700	1,974	2,787	1,710	3,466	5,629	5,931	6,545	6,363	5,511
C/T	25.43	32.87	38.75	38.96	39.12	41.65	49.45	33.58	56.95	69.74	67.54	77.22	63.92	N.A.

Source: 통일부 월간남북교류동향 2015년12월호, p. 29; KOTRA 2014북한대외무역동향, p. 3; 中华人民共和国海关总署 (<http://www.customs.gov.cn>).

China's share in the North Korean total trade volume was also reduced. As shown in Table 1, China accounted for 63.92 percent of North Korean trade in 2014, dropping by 13.3 percentage points compared to the historical peak reached in 2013. North Korea's total trade volume in 2015 is not yet available, but it should not be too much lower than 2014, considering that the increase in intra-Korean trade and the efforts to promote trade diversification should have largely made up for the decrease in its trade with China. Assuming the 2015 volume remained the same as that of 2014, China's share in 2015 would have been about 55 percent.

One widely reported myth about China-North Korea trade is that China accounts for over 70 percent, or even 90 percent, of North Korea's total trade volume and that North Korea is depending more and more heavily on China for trade due to the country's increasing isolation. The main reason why China's share has been exaggerated is because the most widely used statistics on North Korea's total trade volume are from South Korean sources, which do not include intra-Korean trade as North Korea's international trade. Instead of mistaking the South Korean statistics on North Korean international trade for the latter's total trade volume, we should recalculate the numbers by adding the volume of intra-Korean trade, which is large enough to make a significant difference in the results (see Table 1). In addition, South Korean statistics might be so far the best numbers we can get about North Korean total trade volume using "mirror statistics," but they do not include every trade partner of North Korea and, thus, tend to underestimate the actual amount. For instance, in the KOTRA (Korea Trade-Investment Promotion Agency) statistics of North Korean international trade in 2012-2014, respectively 71, 80, and 72 countries are included.² Besides, it is not true that North Korea's trade dependency on China keeps growing. North Korea has been emphasizing trade diversification in recent years in order to prevent too much dependence on China as well as to make up for the decrease in its trade with China. As shown in Table 1, China's share in North Korean trade began to drop heavily since 2014, almost back to the 2010 level by the end of 2015.

Balance of Trade

China has maintained a favorable balance of trade with North Korea over the past few years. According to GACC, China reported a \$380 million trade surplus with North Korea in 2015, which marks the fourth consecutive year that the surplus has decreased (see Table 2). The 2014 decrease, again, needs further verification as to whether crude oil was actually exported to North Korea yet not included in the statistics, as argued by Nam Jin-wook.³ If this were indeed the case for 2014 and 2015, the actual surplus would have been larger, but that would not affect the decreased amount of the surplus in 2015.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Import	271	396	582	497	468	582	754	501	1,188	2,464	2,485	2,912	2,842	2,565
Export	467	628	795	1,085	1,232	1,393	2,033	1,210	2,278	3,165	3,446	3,633	3,523	2,946
Total	738	1,024	1,377	1,581	1,700	1,974	2,787	1,710	3,466	5,629	5,931	6,545	6,363	5,511
Surplus	196	232	213	588	764	811	1,279	709	1,090	701	961	721	681	380
C/T	25.43	32.87	38.75	38.96	39.12	41.65	49.45	33.58	56.95	69.74	67.54	77.22	63.92	N.A.

Source: 中华人民共和国海关总署 (<http://www.customs.gov.cn>)

These numbers raise questions about another myth, which claims that trade with China is North Korea's major source of hard currency, which might be used somehow by the North Korean government to finance its nuclear and missile projects. This claim is becoming particularly relevant as North Korea's fourth nuclear test and subsequent rocket launch have heated up international concerns about its growing nuclear capability. This claim is based on records of North Korea's exports, the majority of which have been to China. But if we look at the balance of trade to see North Korea's net hard currency income, the picture would be very different. As shown above, North Korea is recording a trade deficit with China every year, which means that instead of earning a net surplus by trading with China, it has to use

hard currency earned from other sources, such as intra-Korean trade, to finance the deficit. As such, the claim that trade with China is North Korea's major source of hard currency is telling only half the story and could be misleading.

Service Trade

Labor exports are becoming an important source of hard currency for North Korea. In particular, North Korea is believed to have sent larger numbers of laborers overseas in recent years to make up for decreasing revenue from goods exports due to the “May 24 measures” imposed by the South Korean government and later the shrinking exports to China. According to Lee Suk, labor exports are becoming so significant for North Korea that it might be even more effective to give higher priority to trade in services, in particular labor exports, than trade in goods when considering new sanction measures after North Korea's fourth nuclear test.⁴

There is no readily available data on the exact number of North Korean laborers working in China, at least to the knowledge of this author. One source from which we can get some hints is the number of North Korean visitors to China compiled by the China National Tourism Administration (CNTA). As shown in Table 3, respectively over 184,000 and 188,000 North Koreans visited China in 2014 and 2015, reduced by about 20,000 compared to 2013. The decrease mostly took place in the “business” category, whereas the numbers under “working and crew” remained as high as around 90,000 since 2013. It is hard, however, to figure out the exact meaning of the numbers under the “working and crew” category, as to how much of these numbers are repeated counts of multiple entries of the same persons and how many of these people are working as contracted laborers in Chinese companies, serving at North Korean restaurants in China, or simply temporary visitors on short-term working missions.

Table 3. North Korean Visitors to China (2010-2015) (unit: Thousand Persons)

	Total	Business	Tourism	Relatives & Friends	Working & Crew	Others
2015	188.3	25.9	1.5	0.1	94.2	66.7
2014	184.4	33.9	1.5	0.1	89.1	59.7
2013	206.6	55.1	2.9	0.3	93.3	55.0
2012	180.6	55.2	4.5	0.2	79.6	41.1
2011	152.3	39.0	4.6	0.1	75.3	33.3
2010	116.4	25.3	4.3	0.4	53.9	32.4

Source: 中国国家旅游局, <http://www.cnta.gov.cn/>

Table 4. China's Service Export to North Korea (2002-2014) (unit: \$ million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Projects	2.55	4.87	34.87	26.34	28.74	7.22	33.49	18.01	30.18	56.10	106.67	120.88	90.49
Labor	5.17	4.15	4.37	5.12	5.47	6.41	7.39	5.37	4.82	N.A.	N.A.	N.A.	N.A.
Consulting	0.15	-	0.15	0.10	0.16	-	0.80	-	-	N.A.	N.A.	N.A.	N.A.
Total	7.87	9.02	39.39	31.56	34.37	13.63	41.68	23.38	35.00	N.A.	N.A.	N.A.	N.A.

Source: 中国国家统计局, 《中国统计年鉴》各年版, <http://www.stats.gov.cn/tjsj/ndsj>

Note: Projects refer to overseas construction projects contracted to Chinese enterprises; Labor refers to Chinese labor force organized to go abroad to provide service to foreign agencies (note by source).

One thing for sure is that the actual number of North Korean laborers in China should be significantly smaller than these rough data. According to a report of the Asan Institute for Policy Studies, there are a total of 52,300-53,100 North Korean laborers working overseas as of 2013, of which about 19,000 were working in China and about 20,000 in Russia.⁵

It is often overlooked that service trade between China and North Korea works both ways. While North Korea exports laborers to China, some Chinese companies are working as contractors of construction projects and/or providing labor and consulting services in North Korea. According to the *China Statistics Yearbook*, which classifies these services as “economic cooperation,” contracted projects account for the majority of China’s service exports to North Korea, amounting to \$90.49 million in 2014 (see Table 4). Similar to the trend in goods trade and the total number of North Korean visitors, China’s service exports to North Korea also peaked in 2013 and began to drop in 2014, falling by about \$30 million and roughly one quarter.

THE POLITICAL ECONOMY OF SHRINKING TRADE: CAUSES & PROSPECTS

The ongoing decrease of China-North Korea trade is caused primarily by the decline of North Korean mineral exports and the suspension of some existing economic cooperation platforms after the execution of Jang Sung-taek, neither of which is likely to be reversed in the foreseeable future. China recently launched a number of infrastructure projects in areas near to or along the China-North Korean border under its Belt and Road Initiative. These projects could have opened some new possibilities for China-North Korea trade, but this is very unlikely for the near future given the January 2016 North Korean nuclear test and the UN sanctions resolution adopted thereafter.

Decline of North Korean Mineral Exports

As some experts have pointed out, the decline in North Korea’s export of minerals, anthracite in particular, is the main economic cause of the decrease of China-North Korea trade in 2015. North Korea began to enlarge mineral exports to China and rely on them as the major source of hard currency after the South Korean government imposed the “May 24 measures” in 2010, before which it used to rely on a trade surplus with South Korea to finance most of its trade deficit with China. Lee Suk has quantitatively tested this mechanism in a regression analysis, proving that there is one-way Granger causality between North Korea’s exports to China, especially the export of anthracite, and its imports from China after the issuance of the “May 24 measures.”⁶

Anthracite accounts for over 40 percent of North Korea’s export revenue to China in 2011 to 2013; however, anthracite exports to China began to decline in both price and volume: The unit export price dropped from \$83.30/ton in 2013 to \$73.40/ton in 2014, and the export volume shrank from 16.49 million tons to 15.43 million tons, resulting in a 17.7 percent decrease in the yearly export revenue.⁷ Determinants for this decline, according to Jong-Kyu Lee, include the falling export unit price, declining demand due to China’s withering steel industry, and the Chinese government’s plans to strengthen environmental regulations and further restructure the steel industry.⁸ These factors continued to push down North Korean anthracite exports to China in 2015, resulting in another 7.6 percent decrease in export revenue.⁹

Iron ore, North Korea's second largest export item to China for years, shrank even more severely in 2014 and fell out of North Korea's top five export items in 2015. The yearly export revenue reached as high as \$298.7 million in 2013, accounting for 10.26 percent of overall exports to China. The unit price of North Korean iron ore, however, fell from \$97.69/ton in January 2014 to \$54.42/ton in December 2014, and further to around \$45/ton by the end of 2015. The export volume showed relatively minor decreases at first, dropping from 3019.75 thousand tons in 2013 to 2793.83 thousand tons in 2014, but began to fall sharply to less than 1500 thousand tons in 2015. As a result of the decrease in unit price and export volume, the yearly revenue from North Korean exports of iron ore to China fell by 25.7 percent to \$221.9 million in 2014 and again by 67.2 percent to \$72.8 million in 2015.¹⁰

Suspended Cooperation Platforms

The difficult political relations between China and North Korea did not help to slow the decrease in bilateral trade. On the contrary, the execution of Jang Sung-taek in December 2013 resulted in the suspension of some existing economic cooperation platforms, which worsened the conditions of trade from 2014. The two governments initiated a variety of economic platforms when their leaderships decided to strengthen bilateral economic cooperation in 2010. The momentum of cooperation was maintained for some time after the death of Kim Jong-il, with Jang taking charge on the North Korean side. Platforms established under the 2010 initiative include the North Korea Investment Office in Beijing, the China-North Korea Co-development and Co-management Committee of the Rason Economic and Trade Zone, the Huangjiping and Weihua Islands Economic Regions, and the China-DPRK Economic Trade Cultural and Tourism Expo. These platforms played an important role in the rapid expansion of trade from 2010, not only as signals of the political will of both sides to promote bilateral economy cooperation but also as institutional improvements that can better facilitate economic transactions on the ground.¹¹

Some of these platforms, in particular those claimed to have Jang as the backer, were suspended soon after his execution. One example is the North Korea Investment Office in Beijing, which was established in July 2010 and reportedly was the only overseas branch established thus far by the DPRK Committee on Joint Ventures and Investment that had just been upgraded the previous month from the Bureau of Joint Ventures and Investment Guidance into one of five committees directly reporting to the cabinet. The office held a variety of events to fulfill its mission to attract Chinese investments to North Korea, including conducting online and offline promotion of North Korean investment policies and projects, providing daily investment counseling, organizing potential investors to conduct on-site business trips, and establishing the North Korea Investment Fund.¹² No updates can be found about the office from shortly after Jang's execution until April 2015 when South Korea's Yonhap news reported its closure.¹³ It is hard to know the exact amount of trade revenue or investment that had actually been attracted to North Korea via this office, but it certainly received wide publicity and raised expectations among interested Chinese investors about the North Korean government's willingness to improve the business environment. The closure of the office, likewise, did not only shut down a channel for attracting investments, but also brought down investors' expectations about North Korea's economic prospects.

The Huangjiping and Weihua Islands Economic Regions (hereafter the Two Islands), the establishment of which owed deeply to Jang, were also suspended after his execution. Construction work on the site was reported to have cooled off by mid- December 2013,¹⁴ and

remained largely untouched since then. The only reported new development is the exterior work on an office building designed for the managing committee, which is said to have been almost finished as of October 2015.¹⁵ The Two Islands were once expected to become the new frontier of China-North Korea economic cooperation, as their location connected to Dandong is even more advantageous than that of Rason. The expectations soon faded after the execution of Jang, together with a real estate boom in Dandong, leaving only the unsold apartments to remind people of the uncertain prospect of this bilateral economic cooperation.

Meanwhile, the other cooperation platforms in which Jang was involved less deeply continued functioning and kept playing an important role in facilitating China-North Korea trade. For instance, the China-DPRK Economic Trade Cultural and Tourism Expo that was initiated in 2012 held its third and fourth annual meetings in October 2014 and 2015, attracting over 100 North Korean companies each year to come to Dandong to meet with hundreds of companies from China as well as other parts of the world.¹⁶ Another example is the China-North Korea Co-development and Co-management Committee of the Rason Economic and Trade Zone. Established in 2012, it played a key role in the formulation and amendment of trade and investment laws in Rason in 2013,¹⁷ and is continuing to perform as coordinator in law enforcement and dispute resolution between Chinese and North Korean companies in the Rason area.

China's Belt and Road Initiative and Infrastructure Building

Aside from the above economic and political factors that tended to push the China-North Korea trade downward, it is noteworthy that some new projects favorable for bilateral economic cooperation were initiated in 2015. They are mostly infrastructure built by the Chinese side under the Belt and Road Initiative (B&R), which focuses on connectivity and cooperation among relatively underdeveloped countries. The projects have not brought significant changes so far to the shrinking China-North Korea trade as most of them are just completed or not fully utilized due to the lack of a high-level political push on reviving bilateral economic cooperation, but are important, nonetheless, because they are opening some new possibilities for China-North Korea trade.

To be clear, North Korea is not an official partner of the B&R to this day, yet China has decided not to exclude the China-North Korea border areas from the grand initiative of infrastructure building and upgrading. In fact, the Chinese government did not take North Korea into much consideration in the early B&R policy drafts, but took a more open stance as local governments bordering North Korea proposed various projects in their local B&R plans and defined North Korea as an important potential partner for long-term economic development.¹⁸ Later in April 2015, the new Chinese ambassador Li Jin-jun upon his arrival in Pyongyang introduced the B&R to the North Korean minister of external affairs and expressed hopes for the two countries to work together to push forward bilateral economic cooperation. North Korea, however, maintained its long held cautiousness about multilateral economic mechanisms and made no official response on this matter. According to two Kim Il-Sung University professors, there have not been many public discussions about the B&R in North Korea as of September 2015.²⁰

Despite the absence of inter-governmental partnership on the B&R, China began to launch infrastructure projects in areas bordering North Korea where infrastructure works proved necessary for the long-term development of the locality. These projects include: 1) border

economic zones, such as the Helong Border Economic Cooperation Zone (approved March 3)²¹ and the Guomenwan Border Trade Zone at Dandong City (October 15);²² 2) a shipping route between China and North Korean ports, namely the Longkou-Nampo break bulk cargo and container-shipping route (September);²³ and 3) renovation of ports of entry, such as construction of the New Tumen River Bridge.²⁴

From the Chinese point of view, these projects are launched more as part of the grand work to upgrade infrastructure in border areas, not necessarily for the purpose or as signals of the immediate revival of China-North Korea economic cooperation. It would be unfair to disadvantage the Northeast provinces and leave border facilities out of the B&R just because relations with North Korea are somewhat difficult for the moment, considering the fact these provinces are suffering from a low economic growth rate and most of the land border checkpoints between China and North Korea were built before the 1940s under Japanese rule. Whether and when these new facilities will be utilized at full capacity, however, is another matter subject to the influence of many factors, as shown in the indefinite postponement of the opening of the New Yalu River Bridge. It would have benefited people on both sides of the border if the facilities could have been put to the best use soon, but this does not seem likely given the fourth North Korean nuclear test and the UN resolution expanding sanctions against it.

EFFECTS OF FURTHER DOWNTURN: HINTS FROM RECENT DATA

How will the further decrease of China-North Korea trade affect North Korea? One way to answer this question is to get some hints from changes on the North Korean side during the decrease so far, although it has not been long since the decrease started. First, North Korea's trade deficit with China was reduced in 2015 despite its shrinking exports. As shown in Table 2, the deficit shrank from \$681 million in 2014 to \$380 million. While exports to China fell by \$227 million, North Korea reduced imports from China by \$578 million and improved its balance of trade by about \$300 million. North Korea had to cut its imports from China to counter the decrease in export revenue, having no easy access to cover it by enlarging a trade surplus with other partners. The fact that imports were reduced by a larger amount than the decrease in exports leads to two possible interpretations about North Korea: the first, it is very sensitive to the unfavorable expectation of export revenue losses that it reacted by reducing the outflow of hard currency sharply; the second, it is quite elastic in terms of import demand, which is not that hard to understand given the high level of state influence over imports and the recent campaign of increasing domestic production of consumer goods. In short, the recent data on North Korea's balance of trade show that it is quite sensitive to the decrease of export revenue from China but might not be so fragile as to change due to its flexibility or elasticity in imports.

Ready-made garments (RMGs) are the key export items that helped North Korea lessen the decrease of exports to China. As shown in Table 5, North Korea's export to China of four kinds of RMGs, namely men's overcoats, men's suits, women's overcoats, and women's suits, increased by 24.2 percent, 25.1 percent, 17.6 percent, and 66.5 percent respectively in 2014, earning \$124 million more of export revenue than the previous year (see Table 5). The growth rate did not remain as high in 2015, but the total export revenue of the four RMG

Rank 15'	HS Code	Item	2013		2014		2015	
1	2701	Coal	1379.8	15.1%	1135.7	-17.7%	1049.8	-7.6%
2	6201	Men's overcoats	126.7	42.6%	157.3	24.2%	168.5	7.1%
3	6203	Men's suits	122.2	59.0%	152.9	25.1%	151.3	-1.1%
4	6202	Women's overcoats	116.5	32.3%	137.1	17.6%	130.5	-4.8%
5	6204	Women's suits	63.3	24.2%	105.3	66.5%	96.9	-8.0%
6	2601	Iron ores	298.7	20.1%	221.9	-25.7%	72.8	-67.2%
Total North Korean Export to China			2,911.5	17.2%	2,841.5	-2.4%	2,564.5	-9.7%

Source: 한국무역협회, www.kita.net

Rank 15'	HS Code	Item	2013		2014		2015	
1	5407	Woven fabrics of synthetic filament	136.8	14.0%	152.8	11.6%	138.2	-9.5%
2	2710	Petroleum oils	104.5	-35.5%	154.8	48.2%	116.5	-24.8%
3	8704	Motor vehicles for goods transport	143.3	1.5%	108.7	-24.2%	108.1	-0.5%
4	1507	Soya bean oil	85.0	21.4%	112.2	32.0%	104.0	-7.4%
5	8517	Line telephone or telegraph	74.7	-19.9%	112.3	50.4%	73.5	-34.6%
-	100630	Rice	28.5	6.8%	37.0	29.6%	10.8	-70.9%
-	100590	Maize	31.9	56.5%	5.7	-82.3%	3.0	-46.7%
Total North Korean Import to China			3,633.2	5.4%	3,522.5	-3.0%	2,946.5	-16.4%

Source: 한국무역협회, www.kita.net

items stayed at the 2014 level, and all of them surpassed iron ore to become top five export items to China. Considering the fact that North Korea once managed to replace intra-Korean trade with mineral exports as the primary source of hard currency after the South Korean government issued the “May 24 measures” in 2010,²⁵ it is not impossible for it to attempt another round of trade restructuring by replacing minerals with labor-intensive products as the primary export items, although this attempt should be more challenging than the previous round since the promotion of export-oriented labor-intensive industries would require closer coordination with international partners than the mining industry.

On the import side, all of North Korea's major items from China decreased as its exports continued to shrink in 2015, although the rate of decrease varied. Among North Korea's major imports, grain, freight cars, telephones, and petroleum fell most sharply in the last two years. As shown in Table 6, North Korea's import of rice, maize, telephones, and petroleum from China decreased by 70.9 percent, 46.7 percent, 34.6 percent and 24.8 percent, respectively in 2015, more severely than the overall export decrease. Freight cars, the third largest import item, dropped by merely 0.5 percent in 2015, but had already fallen by 24.2 percent in the previous year. Of the top five import items, only filament fabrics, which are the main raw materials for export-oriented RMG production, and soybean oil fell by a smaller percentage than the decrease in the overall North Korean imports from China. The import of rice and maize dropped most heavily over the last two years. One possible explanation is that North Korea has become more self-sufficient and less in need of grain imports under Kim Jong-un's "North Korean Style of Economic Management," but this is not likely the case in 2015 since the country's major agricultural areas suffered historical droughts over the year. In any case, it is important to figure out how the downturn of China-North Korea trade might affect each import item and the overall composition of North Korean imports from China, as North Korea relies heavily on China for the import of food and consumer goods that are closely related to ordinary people's livelihood.

CONCLUSION & IMPLICATIONS

China-North Korea trade has decreased in 2014-2015, and the downturn is very likely to continue in the near future. The primary causes of the recent decrease, namely the decline in North Korean mineral exports and the suspension of some of the existing cooperation platforms between the two countries, do not seem to be reversing. The possibilities once opened by the new infrastructure built under China's Belt and Road Initiative are largely closed after North Korea's fourth nuclear test. North Korea might be sensitive yet not so fragile to the prolonged downturn of China-North Korea trade, and will possibly further reduce imports and enlarge the export of labor-intensive products to minimize the damage.

The expected downturn has become almost inevitable after the adoption of the new UN Security Council resolution on North Korea (UNSCR 2270), which contains the toughest set of sanctions imposed by the UNSC in more than two decades and many rigorous provisions unprecedented in the North Korean sanctions regime. In particular, provisions like mandatory cargo inspections and sectoral sanctions on North Korean trade in natural resources will impact China-North Korea trade the most, as they will increase transaction costs and further accelerate the decrease of North Korean mineral exports to China. Chinese Foreign Minister Wang Yi emphasized on multiple occasions China's commitment to fully implement the sanctions resolution.²⁶ This came before President Xi Jinping reconfirmed China's stance that "all parties should implement the resolutions of the UN Security Council on the Democratic People's Republic of Korea in a complete and strict way"²⁷ when meeting with President Obama during the fourth Nuclear Security Summit. The resolution provisions are reportedly being carried out strictly at Chinese ports and border checks so far, and the Ministry of Commerce and the GACC jointly announced on April 5 a list of mineral products embargo against North Korea²⁸ to provide more detailed guidance on sanction enforcement. Until North Korea returns to the negotiating table and makes sincere efforts to meet the international community's demand for denuclearization, these sanction provisions will continue to add to the downward pressure of China-North Korea trade.

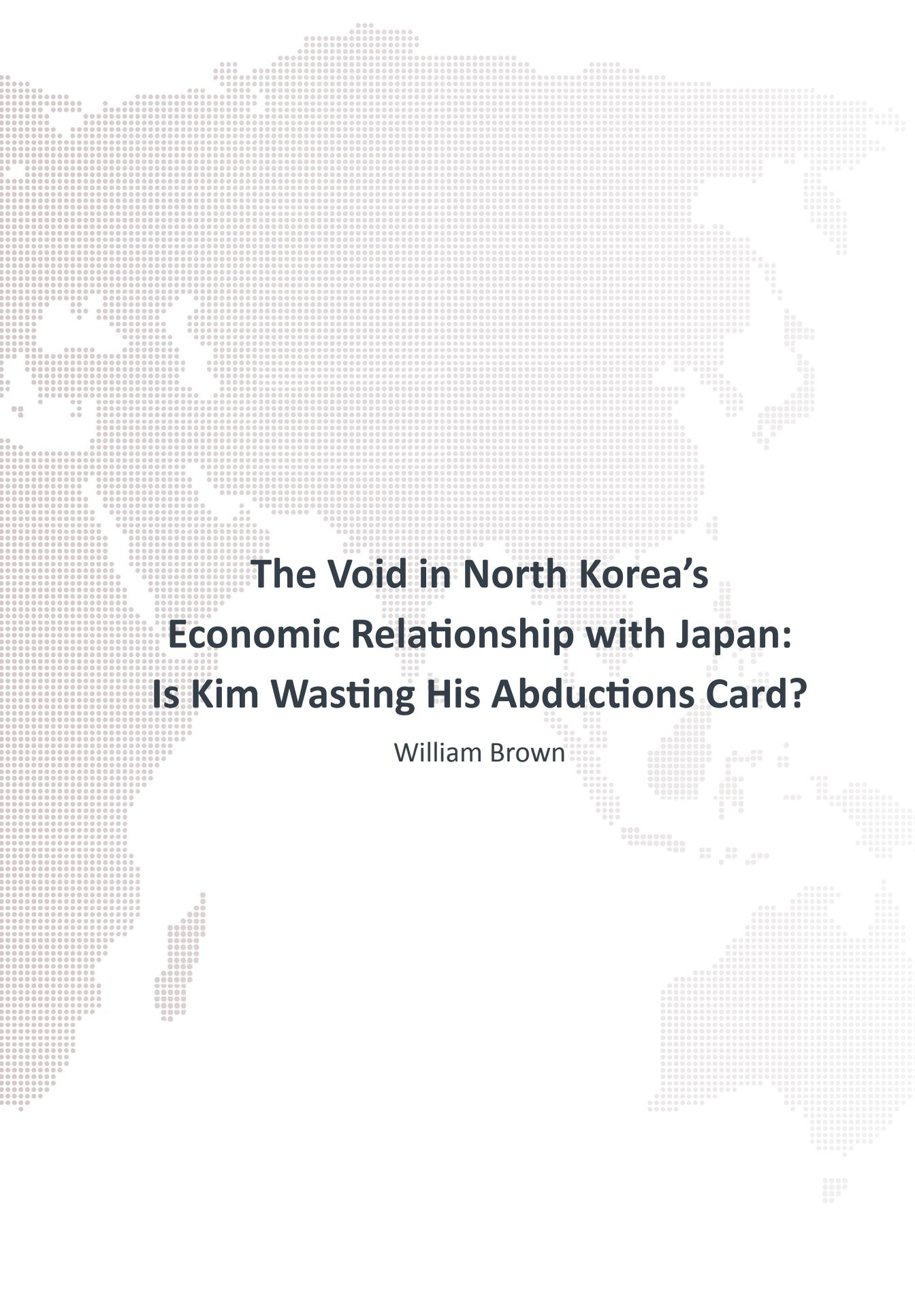
In relation to the prospect of the new sanctions regime, the findings of this paper deserve attention at least in three aspects. First, further studies are needed to reveal the mechanism of how North Korea has been financing its trade deficit with China, in order to better assess the role China can play to influence North Korea's behavior under the new sanctions regime. This is not to say China is not the key player in sanction enforcement. The point is that it would be problematic to evaluate China's role only based on its trade volume with North Korea, while balance of trade is an equally, if not more important indicator of North Korea's source of hard currency. Even if we take into account China's FDI to North Korea, which was \$86.20 million in 2013 and \$51.94 million in 2014,²⁹ there is still a large deficit with China that North Korea should have had financed from surpluses elsewhere, which would be highly relevant to the possible effectiveness of sanctions. Secondly, the further decrease of China-North Korea trade is not unexpected to North Korea, regardless of the new UN resolution. While enhanced sanctions can undoubtedly accelerate the decrease of North Korea's export to China, it is not as certain how this will affect, at least in the short term, North Korea's balance of trade or net income of hard currency, considering its flexibility in import control and recent efforts to pursue self-sufficiency of consumer goods as shown in the recent decrease of China-North Korean trade. Not least, North Korea's major import items from China are highly sensitive to the decrease of North Korean export revenue. Most of these items are closely related to ordinary people's livelihood and humanitarian needs, which are important contents of the new sanctions resolution in addition to the goal of denuclearization. As such, it would be important to figure out the mechanism of change of these major import items and how such changes might affect the livelihood status of the North Korean people, in order for the comprehensive and concerted implementation of the new sanctions resolution.

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**The Void in North Korea's
Economic Relationship with Japan:
Is Kim Wasting His Abductions Card?**

William Brown

Much is made in Western circles of North Korea's economic dependence on China amid questions of whether and how much leverage this gives Beijing. In an end game, however, Pyongyang may think it has other cards to play, and Beijing, knowing this, leans toward caution. One important card long held by the North Koreans, and perhaps a trump card, is the relatively easy ways that Pyongyang could repair or at least improve relations with Japan, and from that gain great economic benefit. This may seem surprising and unlikely given the frosty, if not frozen, current relations between Pyongyang and Tokyo, and the virtual absence of bilateral economic activity, but it is this void in relations, and the possibility that it could be filled quickly to the benefit of both sides, that provides Pyongyang some room to maneuver should it run into real trouble. A few years ago, simply accepting a little more blame for Japanese-Koreans abducted two generations ago, and providing more data on that ill-advised Kim Il-sung project, might have led to normalization of political relations and ten billions dollars or so in Japanese colonial-era reparations, enough to rebuild a great deal of the country's dilapidated infrastructure. The amount of money would certainly be large enough to give new credibility to Kim Jong-un's desire to build an economically prosperous country.

Tokyo's move to restore tough sanctions in February 2016, in the wake of the North Korean nuclear and missile tests earlier in the year, the tough new UN sanctions, and Pyongyang's immediate response of shutting down a promised internal investigation of the abductions, makes chances of separating the abductions issue from the nuclear issue more difficult.¹ Kim may have just lost his easiest path to the Japanese economy and to badly needed aid and investment. Still, after this dust is settled, one can imagine the young North Korean leader showing or even playing the abductee card, and, thus, tossing Japanese politics into a row by conceding just a few more points on the abductees. This he could hope would achieve movement toward normalization and the big pot of reparations money and, perhaps, blur the nuclear weapons issue so important to the Americans. This, by extension, would throw Beijing, Seoul and Washington all into policy confusion. Japan, after all, for the last ten years has been the most steadfast of countries in employing economic sanctions against Pyongyang. A breakthrough on abductions is just the kind of surprise Kim would seem to like to employ. No doubt he understands that Japanese investigations could implicate his grandfather but as economic and political pressures on his regime rise, it will be well worth watching Pyongyang-Tokyo maneuvering to see if there are signs of a deal and how Japan is responding.

For most of the past 100 years, North or northern Korea has had strong economic ties with Japan, in most ways stronger than with neighboring China or Russia. Ten years ago, and after a long slide, these ties were severed in a largely emotional reaction in both capitals to the abductions issue, compounded and reinforced since then by Pyongyang's series of nuclear and long-range missile tests and by a not unrelated shift to the right in Japanese politics. This paper analyzes the facts of the unusual void in trade, investment, and tourism relations and speculates on the implications for North Korea should it, at some point, decide it needs an accommodation with Tokyo and Tokyo chooses to reciprocate.

JAPAN AN INDISPENSABLE PARTNER, UNTIL IT WASN'T

As trade barriers go, the Sea of Japan or, from the Korean perspective, the East Sea, has become as impenetrable as the DMZ that splits the Korean Peninsula. Relations between Japan and North Korea are frozen solid as Tokyo reacts to Pyongyang's January nuclear test and February space launch, and perhaps more important, a two-year disappointment in promised North Korean reports on Japanese citizens abducted to North Korea in the 1970s and early 1980s. Pyongyang has now abandoned that project and Japanese are now prohibited by their government from trading, traveling, or transferring money to North Korea, and no North Korean ships, or foreign ships coming from North Korea, can visit Japan, altogether as tough as any set of national sanctions imposed on North Korea. Even the United States allows limited trade with North Korea, but only with prior governmental approval, and Americans are free to travel to North Korea at their own risk. Historically speaking, this break with Japan is a big, almost shocking, change. Japan has long been more than a little different in its relationship with North Korea from the United States and its other allies and until recent years had cultivated trade and investment ties with Pyongyang, a result of the unusual role North Korea and its citizen's organizations in Japan plays in Japanese domestic politics, itself the result of extensive and long-standing business and personal interactions between the two countries.

North Korea is often treated by Western media and specialists as a "hermit kingdom," especially in its foreign economic relations. Given the nuclear and long-range missile tests, and the predictable up-tick in economic sanctions imposed by the UN Security Council, Pyongyang may be rapidly on its way to hermit status, but at least up to now this has not been an adequate description of its economy. Much more so than Japan, for example, Korea traded fairly extensively with China through the 19th century, and late in that century it developed trade relations with the United States and a few other Western countries. Japan's interest in Korea during the colonial period (1910-1945), especially in mineral rich northern Korea, focused on exploitation of agricultural, mineral and metal resources, and abundant cheap labor; and a complex, integrated, imperial type economy was formed with extensive links to both Japanese held Manchuria and the Japanese islands. Electric power, railroads, and ports were constructed to enable trade with Japan, and these remain the core infrastructure of the country today. As a result of the 1945 division, the following war, and the creation of Pyongyang's socialist command economy system, North Korean trade with the West almost entirely ceased, constrained by barriers on both sides since its new command economy system could not tolerate trade with capitalist countries and since it was excluded from U.S. trade by the 1950 Trading with the Enemy Act (TWEA) and other American sanctions. But in the place of Western trade, Pyongyang built extensive linkages to the Soviet-bloc countries, never formally joining the bloc economic system but coordinating economic five-year plans. Under them a large amount of industrial equipment from Eastern Europe and the Soviet Union was bartered for North Korean mineral and metal products. North Korean factories, thus, created extensive linkages, especially with East European factories, and trade flourished. Trade with China developed more slowly but expanded sharply after oil was discovered in Northeast China with it gradually replacing Soviet oil as North Korea's main source of transportation energy. By the 1960s, North Korea was, thus, much better integrated into its sphere of world trade than was South Korea.

North Korea since the 1970s has emphasized an ideology of self-reliance, what it calls “*juche*,” adding to the notion of it being a “hermit kingdom,” but this is probably because it senses, in my view correctly, that it has suffered from the opposite, a high level of dependence that the Japanese imperial system and Soviet central planning built into its economy. Even Western aid since the collapse of its command system in the 1990s has had a negative impact by destroying natural incentives to build an export industry. Pyongyang may now wish to be self-reliant, but it is, in fact, one of the most dependent countries in the world, unable to even feed itself or supply its people and factories with adequate volumes of energy. Perhaps, the best example of dependency today is the degree to which enemy currency, U.S. dollars, flows freely within the economy, substituting for the local *won*.

PERSONAL TIES IMPORTANT TO RELATIONSHIP

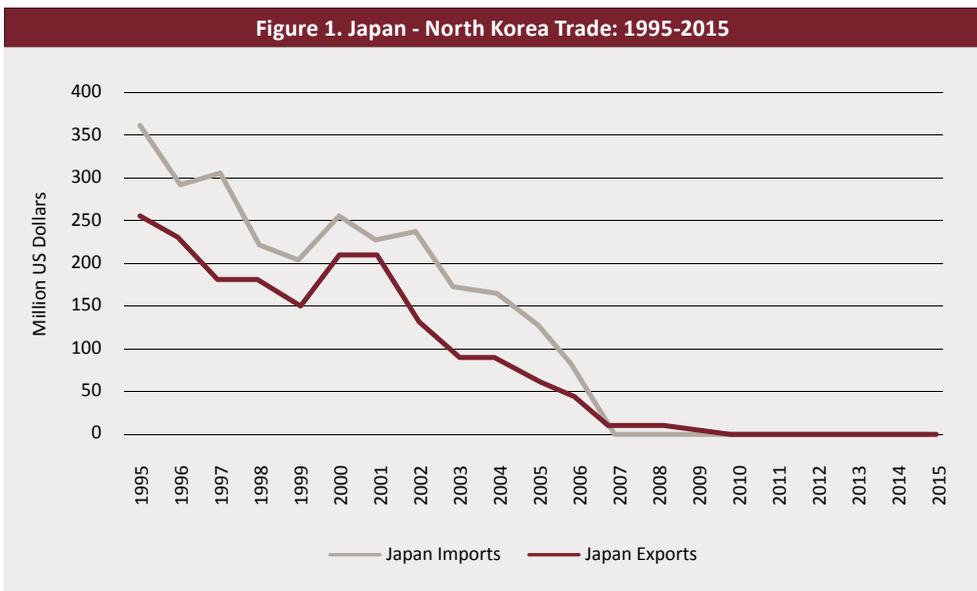
Despite the break in North Korea’s economic relationship with most market economies after the Korean War, trade and investment relations with Japan were largely maintained, reflecting the strong people-to-people linkages that had developed during the colonial period. Hundreds of thousands of Japanese had lived in the Korean colony and had managed many, if not most, aspects of Korean industry, most of which was in the north. With Korean liberation they left for Japan but did not disappear overnight, retaining knowledge and interest in Korean industry. Meanwhile, several million Korean workers had been moved to Japan during the colonial period, especially during World War II, and about 640,000 remained in Japan after the war. Some 90,000 of these Japanese-Koreans were voluntarily repatriated to North Korea in the late 1950s, and they and their descendants also have maintained some links with their compatriots in Japan through strong Japanese political organization run largely by the North Korean government and Worker’s Party. This organ, the *Chosen Soren*, as pronounced in Japanese, Chongryon in Korean, has acted as a virtual North Korean embassy and community association in Japan, generally serving about a half to a third of the 640,000 Japanese-Korean population. The other half has affiliated with a similar but more South Korea-oriented group. Strains with North Korea in recent years, and severe financial problems caused in large part by bad business deals with North Korea, have shrunk *Chosen Soren*’s membership from 290,000 in 1975 to about 200,000 or less today.²

Even a shrunken *Chosen Soren* role is still central to the Japan-North Korea relationship, however. Owing to poor treatment of Korean-Japanese, beginning with the fact they are not Japanese citizens and, thus, do not have passports, *Chosen Soren* provides them valid travel documents, much as a North Korean consulate would. It maintains a Korean language school system, a credit union network, and a host of social services. It is supervised in part by North Korean officials and even has membership in North Korea’s national legislature. Pyongyang pretends to give aid to the group, providing a few million dollars of donated money a year, but the flow of funds is hugely in the opposite direction. Taking advantage of being something of an outcast group, and through an affiliated underworld member of Japan’s *Yakuza*, *Chosen Soren* has had oversized roles in Japan’s gambling, prostitution, and illegal drug businesses, and through these connections to Japanese politicians. Members have remained loyal to North Korea and have provided several billion dollars in hard currency remittances to Pyongyang over the years, a significant share of North Korea’s hard currency earnings. Estimates of these remittances vary greatly, but probably amounted to about \$100

million a year in the 1980s and 1990s. Additionally, Japanese Koreans travelled extensively to North Korea on a ship owned by *Chosen Soren* and provided more hard currency earnings.³

These connections became particularly important to North Korea following its default on credits provided by Western Europe and Japan in the mid-1970s, a result of the failure of Pyongyang's attempt to open up its economy to market driven foreign trade and investment. With no credit, trade with Europe quickly dried up, but trade with Japan held up reasonably well since Pyongyang found a ready export market among Japanese Koreans, and because their remittances continued to pour in, giving North Korea a significant current account surplus with Japan, avoiding the need for credit. This allowed for selective imports of technology not available in the Soviet or Chinese economies but little in the way of capital equipment. Then, following the collapse of the Soviet Union in 1989, and the end of the Chinese planned economy, North Korea was suddenly bereft of its usual barter-oriented trade partners and badly needed hard currency. Thus by the mid-1990s, as the debt problem continued to fester, Japan emerged as probably North Korea's most important economic partner and certainly its largest source of foreign exchange.⁴

Without access to credit, and weakly developed export industries, Pyongyang relied heavily on foreign aid and in Japan, the *Chosen Soren*, for essential imports. Japanese official aid was sporadic and at times large—500,000 tons of rice priced at an exaggerated one billion dollars was provided in 2001—, but more important were the remittances provided through *Chosen Soren* and the large flow of Japanese tourists. As with others who have tried to deal on a friendly basis with Pyongyang, its poor business practices eventually got many of the *Chosen Soren* firms into financial trouble. It had borrowed heavily from its system of credit unions and sent the funds to North Korea, but continued North Korean defaults, combined with the 1990 Japan stock market crash, forced many of these into foreclosure, forcing a Japanese government bailout that cost Japanese taxpayers about \$3-4 billion. By now *Chosen Soren*'s only significant asset is its Tokyo headquarters building, which is in the midst of a never-ending foreclosure process.



ABDUCTIONS & NUCLEAR ISSUES PLAGUE RELATIONS

The abductions and nuclear weapons issues that have caused the break in economic relations are well covered elsewhere.⁵ Suffice it to say that Prime Minister Koizumi's trips to Pyongyang in 2002 and 2004—bold attempts to resolve an issue in which Japan had long claimed that North Korean spies had abducted Japanese citizens and taken them to North Korea for use in training spies—backfired and caused recriminations in Tokyo and Pyongyang. Then Kim Jong-il, in what he probably thought would resolve the issue and allow normalization talks to begin, admitted to Koizumi that under the regime of his father, Kim Il-sung, such abductions had taken place. He released five of the abductees; another eight he said had died but remains returned to Japan failed to prove that. Japan's public reacted as one might expect, demanding a full investigation of the North Korean activity amid accusations that some of the abductees were still alive and were not being returned, and that many other suspected abductees remained to investigate. Kim Jong-il may have realized he had overstepped in acknowledging criminal activity by his father's regime and, faced with demands for formal investigations from Japanese lawyers, pulled back. Japan's government reacted by imposing its most severe economic sanctions on North Korea, essentially ending all trade, investment, and tourism relations and cut back on the ability of Japanese North Koreans to send remittances to their home country.⁶

These sanctions, more severe than subsequent UN sanctions imposed after North Korea's succession of nuclear and missile tests beginning in 2006, prevented almost all economic transactions for nearly a decade. Shinzo Abe, an official involved in the 2002 Koizumi visit to Pyongyang who had used the abductions issue to rise in political prominence, when selected prime minister, focused on resurrecting the Koizumi deal. Talks were held with Pyongyang in 2014 and seemed to make progress. Tokyo relaxed some travel and remittance restrictions in anticipation of a North Korean investigative report on the abductions that was expected within a year, and a roadmap for much further progress toward normalization was outlined. After two years, however, nothing has been seen of the promised investigative reports. In mid-February in the aftermath of the January nuclear test and the February missile test, Japan restored the sanctions to the previous high level, consistent with the new UN sanctions. Pyongyang immediately reacted, saying that the 2014 deal was over and its investigation of the abductee issue would stop.⁷ This leaves North Korean relations with Japan, arguably, at a new low in post-Korean War history.

EXTRAORDINARY ECONOMIC POTENTIAL, ON HOLD FOR NOW

With economic relations at a total standstill, it is difficult to conceive of how relations might develop, and even harder to consider what Kim Jong-un might do to try to take advantage of the huge potential for economic gain. Gains that could accrue to North Korea as a result of settling the abductions issue and moving toward normalization of diplomatic relations can be separated into four categories: colonial era reparations (which Japan would call by another name), trade complementarities, travel and tourism earnings, and Japanese direct investment. Taken in sum, they would resolve, temporarily, most of Pyongyang's current economic difficulties. If combined with economic reforms along the lines pursued by Seoul

when it made similar accommodations with Tokyo in 1964, North Korea could jump onto a growth track to enable it to start catching up economically with its South Korean rival, presumably high on the list of Kim Jong-un's wish list.

Colonial Era "Reparations"

The strongest incentive for Pyongyang to work out a political settlement with Tokyo is the promise of ten billion dollars in Japanese colonial era reparations, or a large aid package as Tokyo prefers to have such a deal called. This has been on the table for a long time, however, and Pyongyang has never tried hard to get it, a matter of considerable curiosity. The closest they have come was during the 2002 Koizumi visit when Kim Jong-il appeared to back down on several previous demands. The subsequent fallout, and North Korea's overt moves toward creating a nuclear weapons program since then have stymied progress. Pyongyang does raise the issue occasionally, as in a 2010 KCNA remark about Japanese colonial-era apologies to South Korea,⁸ but it is not specific in terms of amounts or procedures for moving towards a settlement. Tokyo does not deny that it owes Pyongyang a large, but as yet underdetermined, amount of money but naturally will not make such a transfer until an overall political settlement can be found, including normalization of diplomatic relations, and in recent years Tokyo has included resolving the abductions issue as part of such a settlement.

When it is finally adjudicated, the amount of such an indemnity is likely to be linked to the procedure used in Japan-South Korean normalization in 1965, early in President Park's father's government. That deal provided Seoul \$300 million in grants and about \$500 million in public and private low interest loans. Seoul, aided by changed U.S. official aid policies that focused on balance of payments support and export development instead of commodity aid, managed to use these funds exceedingly well, bolstering the then failing South Korean economy and jump starting its historic economic growth process. One can imagine a similar set of grants and loans doing the same for North Korea should Pyongyang combine the money with major reform measures.

Rough estimates have been made as to how much money North Korea might expect to receive. Mark Manyin, with the Congressional Research Service, for example, published estimates in 2002, just prior to Koizumi's trip to Pyongyang. His document puts the value of the 1964 Seoul reparations within a wide range of \$3.4 to \$20 billion, adjusted for the smaller North Korean population. Reports at the time suggested Tokyo was thinking in terms of a payment to Pyongyang of somewhere between \$5 and \$10 billion; other reports indicated Tokyo would try to subtract \$2 billion from this for North Korean debts owed to the KEDO nuclear facility and to pay off bad North Korean debt held by Japan's Export Import Bank.⁹ Today's prices, accounting for U.S. dollar inflation,¹⁰ but not the proposed deductions, would raise these levels by a factor of about 1.30. An alternative measure is to assume the funds had been invested in 2002 in 20-year U.S. Treasury bonds at the then rate of about five percent, effectively doubling the value of the aid package by 2016.¹¹ This would put the range between \$6.8 billion and \$40 billion and the considered Japanese response between \$10 and \$20 billion.

These figures are just illustrative since Manyin and others emphasize that South Korea was given a complex mixture of grants, public low interest loans, and private loans, and these would be hard to replicate in today's terms. South Korea's population was, and is, about two times that of North Korea so on a per capita basis Pyongyang should expect

only half as much as South Korea. Yet, Japan is a much richer country today than it was in 1965, returns on investment have been high in East Asia, and many South Koreans now say their compensation should have been greater. The agreement did not, for example, include payment against “comfort women” claims.¹²

Without question the amount of aid, even at the lower end of these ranges, would be a huge boost to the North Korean economy. Last year, for example, all of its imports from China were worth only about \$5 billion, plus free crude oil deliveries worth probably around \$600 million. Estimates of North Korean GDP vary widely but at the higher end, the Japanese aid could be the equivalent of an entire year of aggregate production. If used similarly to the way South Korea used its funds, Pyongyang could restore stability to what is now a “dollarized” monetary system, bring solid value to the North Korean *won*, and restore international credit worthiness. And it could rebuild significant industries.¹³ In 1965, for example, Seoul spent about \$130 million of the Japanese money to construct the POSCO integrated iron and steel plant, now one of the world’s largest steel producers and a major competitor to Japan’s industry. With a stable monetary system and improved industry and infrastructure, economic reforms as undertaken then by South Korea, and later by China, would be much easier and more effective.

Highly Complimentary Potential Trade Relationship

Profitable trade is driven by differences in comparative advantages and it would be hard to find two economies as close together as Japan and North Korea with larger differences, or complementarities. Japan provides an ideal market for almost everything Pyongyang has to offer, in terms of minerals and metals, coal, labor-intensive manufactured products, seafood, and particular Korean products aimed at the Korean-Japanese population. Japan, for its part, has the capital goods needed to restore North Korean industry and infrastructure. Since Japanese firms built North Korea’s original rail transportation, ports, mines, and electric power systems, systems still in service but in very poor condition, it has a natural advantage in competing for new work rebuilding them. Nonferrous metals mines, now virtually closed, for example, were developed with Japanese industry in mind and could easily be restored with Japanese funds and the Japanese market a short 400 miles away. And North Korea has a large but underperforming fishing industry that easily can find customers in Japan.

	JAPAN		CHINA	
	1995	2015	1995	2015
Total	338	0	64	2,438
Textiles	116	0	1	63
Fish	63	0	11	108
Veg	42	0	.1	12
Coal	17	0	7	1,057
Iron/Steel	13	0	19	53
Zinc	11	0	.3	6
Apparel	11	0	.2	166
Grain	.5	0	.5	15
Iron Ore	7.4	0	7	204

Source: Global Trade Atlas, February 2015.

Table 2. North Korea Imports (\$ million)				
	JAPAN		CHINA	
	1995	2015	1995	2015
Total	254	0	486	2,946
Fabrics	26	0	.5	15
Machinery	23	0	13	252
E. Mach.	15	0	33	332
Syn. fiber	18	0	9	9
Vehicles	18	0	7	196
Grain	1	0	7	14
Apparel		0	3	33
Crude Oil	0	0	131	600 ¹
Pet Prod	0	0	18	116
Coal	0	0	47	8

Source: Global Trade Atlas, February 2015.

¹Assumes 2013 rate. China has stopped including crude oil in its export statistics.

To illustrate this potential see North Korean trade with Japan and China in 1995 and 2015 (Table 1) which includes selective products as ranked by 1995 Japan-North Korea trade. Japan was a far better export market for North Korea in 1995 than was China, with Japan accepting many agricultural and small-scale manufacturing products that North Korea had to offer. Imports were important but smaller than imports from China, consisting mostly of machinery and equipment and inputs for the textile industry. The result was a North Korean current account surplus with Japan. China in 1995 was a weak export market for North Korea, and Pyongyang, thus, ran a large trade deficit, although China also provided a significant amount of aid that covered the costs of the crude oil and some other commodities. The situation by 2015, 20 years later, is dramatically different. Trade with Japan had fallen to zero and trade with China had shot up about ten times. China's economic growth and especially its foreign trade is exceptional by all accounts and one would not have expected Japan-North Korean trade to grow as rapidly. Still there is no reason to think that with improved political conditions, much of the gap between North Korea's China and Japan trade could be made up. Very important to North Korea is the reasonable chance that Japan would again become the country's top export market or at least that it would have found a useful competitor to China.

Travel and Tourism Potential

Since taking power in 2013, Kim Jong-un has focused attention on the country's tiny tourism industry, pushing a goal of receiving one million foreign tourists by some undetermined date. This would be an increase from only about 100,000 visitors received in 2015, according to informal estimates by industry experts, most of whom came from China, but still would be a small number compared to the ten million received by South Korea. Tourism might seem an odd industry for North Korea to target, given its tight security apparatus and concern for foreign influence, but it is a relatively easy way to earn foreign exchange and is a standard economic development practice.

What seems to be missing in its tourism approach, however, is the ubiquitous Japanese traveler, ready for short week-end visits. Japanese travel and money restrictions have stymied such visits, and potentially lucrative tourist destinations on North Korea's long and scenic east coast are barely visited by Chinese and other travelers. A small change in policy and acceptance of Japanese investments could easily bring in hundreds of thousands of Japanese tourists, each spending a thousand dollars or so a visit. South Korea received about 1.8 million Japanese tourists last year; a third of that for North Korea would not seem out of the question, helping achieve Kim's goal and bringing in several hundred million dollars a year.

Potential for FDI into North Korea

Foreign-invested industrial facilities are strewn across North Korea, the result of Japan's colonization and industrialization of the country (1910-45), Soviet and East European attempts to build what by now are long obsolete factories and power plants, and misguided West European investments in cement, petrochemicals, mines, power plants and nonferrous metals that never worked well enough to pay off the debts. Then there is the U.S. organized KEDO skeleton, a would-be 2,000 MW nuclear power plant that will never be finished. The newest such failed investment projects are South Korean: the Kumsongsan tourist resort and now the Kaesong Industrial Zone.¹⁶ These failures cast a gloom on North Korea's economy and make it unlikely new foreign investment will come. Most had problems related to the command economy system in which they were placed—a system that does not encourage exports needed to repay the loans and which denied direct payment to workers, making productivity problematic. Pyongyang claims it is open to foreign investment and has set up a large number of special zones with liberalized regulations aiming to induce projects; however, no real successes can be shown to date. It is clear that major reforms to the economic system will be required for foreign investment to again play a large role in the economy.

Coupled with reform and large-scale Japanese reparation funds, however, North Korea could be an ideal place for FDI, going back to the reasons Japan was so interested in the country in the first place. Japanese investment in North Korea's largest industrial establishment, the Kimchaek steelworks in the large industrial city of Chongjin might be appropriate. When it was built by Mitsubishi for Nippon Steel in 1938, Kimchaek was one of Asia's largest steel mills and conveniently tapped Asia's largest iron ore mine at Musan, on the Chinese border. Its port facility easily exported iron and steel to Japan. The plant currently employs about 33,000 workers, but has fallen into disrepair, leaving a large well-trained work force with little to do. Massive rebuilding costing billions of dollars is needed but, arguably, would pay off very well both for the foreign investor and the North Korean economy given the ideal location and nearby resources.

Many more such potential projects are easily apparent, especially in the minerals and metals area. North Korea has some of the world's largest zinc reserves and high volumes of many other metals, including large deposits of rare earths and some gold. Less apparent but possibly more profitable and helpful to the North Korean economy would be investments in skilled labor industries, such as textiles, that could find ready markets in Japan. South Korea, despite being a relatively weak host for FDI—it prefers to have its own independent firms borrow funds from banks rather than accept foreign equity investments—has an accumulated total of about \$32 billion in Japanese FDI. A North Korea seeking to catch up with the South could easily bring in much more than that from Japan.

CONCLUSION

The void in the current economic relationship with Japan is very costly to North Korea, but it offers potential for economic progress should Pyongyang be pushed into a situation that causes it to reach out in desperation, perhaps with parallels with South Korea in 1965 in mind. The opportunity cost of maintaining isolation and an unreformed economy is growing as sanctions bite, and, conversely, the benefits of reaching an accommodation with Tokyo are looming large, even lifesaving. Kim Jong-un probably thinks he is in the driver's seat and can opt for rapprochement at any time with little cost and plenty to gain. However, as Japanese sanctions rise in response to the nuclear issue and not the abductions issue, Kim may be losing some of his leverage. Japanese politicians, and Abe himself, may feel they would gain by getting only the abductions issue settled so the question for them would become how much would they be willing to give Pyongyang if it gave in on abductions without resolving the nuclear problem. One suspects Tokyo, at some point, could find ways to rationalize solving one to help solve the other. But if not carefully communicated and discussed with the United States and the other Six-Party Talks players, this could drive a wedge that would dramatically weaken the international sanctions effort. Kim, no doubt, understands this well.

ENDNOTES

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Russia-North Korea Economic Relations

Liudmila Zakharova

Russia shares a border with the Korean Peninsula, and its declared interest is to maintain peace and stability in the region. During Soviet times, its Korean policy was based on the alliance with the DPRK. After the establishment of diplomatic relations with the ROK in 1990 and the dissolution of the Soviet Union in 1991, the situation changed. Moscow terminated its military alliance and began to actively build ties with the ROK, which damaged its relations with North Korea. However, since the beginning of this century Moscow has been trying to pursue a balanced policy towards the Korean Peninsula, which, its leaders contend, corresponds to the long-term national interests of the Russian Federation.

The current Russian policy is characterized by a high degree of pragmatism. In February 2013 the Russian president approved a new foreign policy strategy, according to which, Russia aims to maintain friendly relations with the DPRK and the ROK based on the principles of mutually beneficial cooperation. Russia declares that it wants to use the potential of these relations to accelerate regional development and to support inter-Korean political dialogue and economic cooperation as an essential condition of maintaining peace, stability and security in the region.

Russia condemns North Korea's nuclear program and is making efforts to achieve denuclearization on the peninsula through dialogue and negotiations. Russia supported and fulfills all the resolutions of the UN Security Council imposing sanctions against the DPRK. However, the government considers that isolating North Korea would not help to solve the problem and makes efforts to engage with Pyongyang in the economic sphere not connected with the DPRK's military programs.¹

Some Russian experts claim that the political component has been dominating in the two countries' relations of late. Pyongyang regularly supports Moscow's position on a wide range of issues in the international arena. Politically, by strengthening ties with Russia, Pyongyang has been seeking an opportunity to exit from international isolation while maintaining a policy of parallel development of the economy and the nuclear program.² At the same time, the Russian government would like to be more active on the Korean Peninsula and understands that improved relations with Pyongyang will make Russia's voice better heard.³

Settlement of North Korea's debt to Russia after several years of talks is an obvious confirmation of Russia's interest in developing economic ties with it. For many years Pyongyang did not recognize the debt, regarding the Soviet Union's support as assistance to the "eastern outpost of socialism." Moreover, at the beginning of the 21st century, Russia was writing off massive debts granted by the Soviet Union to some other Asian countries, such as Vietnam and Mongolia. North Korea obviously expected at least the same approach. On September 17, 2012 Russia and North Korea signed an agreement on settlement of North Korea's debt to Russia under loans it had contracted from the former USSR, which came into effect after the law ratifying it was signed by the Russian president on May 5, 2014. The debt was estimated at \$11 billion, including accrued interest, with consideration for the exchange rate of the ruble at the time. Russia agreed to write off 90 percent of it, with the remaining 10 percent (or over \$1 billion) to be credited to the Russian Vnesheconombank's account opened with a North Korean bank. Under the terms of the agreement, this amount can be used to fund joint Russian-North Korean humanitarian (in education and health care) and energy projects.⁴ So, basically North Korea can build a school and call it a joint project with Russia claiming reduction of some part of the remaining debt, or it can provide a plot of land for the construction of a pipeline from Russia, and Moscow will "pay" the rent for it from the account of Vnesheconombank.

THE CURRENT ECONOMIC RELATIONSHIP BETWEEN RUSSIA & NORTH KOREA: BACKGROUND

The USSR played an important role in the process of building the economy of the DPRK. For many years it was a major trade and investment partner for North Korea. However, the break-up of the Soviet Union brought a radical turn in the economic relations of the two countries. Very quickly Russia became a marginal economic partner. A change in the cooperation mechanisms and economic crises in both countries in the 1990s contributed greatly to this decline. With the economic growth of the 2000s, Russia and North Korea started to look at each other with more interest.

Besides security considerations, Russia has important economic goals the achievement of which could be facilitated through cooperation with the two Koreas. The policy aimed at rapid economic development of the country's Far East requires advancing economic relations with other states of Northeast Asia including the DPRK. The North Korean leadership, in turn, tries to move away from excessive economic dependence on China through further expansion of contacts with Russia.⁵ One important economic policy under Kim Jong-un is increasing the number of special economic zones in the DPRK and attracting foreign investment into them. Pyongyang realizes a need for diversifying its external economic relations. In doing so, North Korea is trying to prioritize cooperation with Russia over other partners.

From the Russian side, the Far East Development Ministry created in 2012 has become the main power pressing to develop relations with the DPRK. Far East Development Minister Alexander Galushka heads the Russian part of the Intergovernmental Commission on Trade, Economic, Scientific and Technical Cooperation between Russia and North Korea (the Korean part of the commission is headed by Minister of External Economic Relations Ri Ryong Nam). The Intergovernmental Commission (IGC) is the main body responsible for promoting bilateral economic relations. It also has several sub-commissions dealing with specific areas of cooperation such as trade, transport, forestry, interregional cooperation, and cooperation in science and technology. Moreover, there are several working groups created between the regional administrations of Russia and the DPRK's government.

At the IGC's meetings the two countries' delegations comprised of government officials and businessmen to exchange proposals on economic cooperation, discuss current and prospective projects, and identify measures for their implementation. After 2011 there was a three year break in the IGC meetings. Since 2014 regular meetings have resumed. The 6th meeting of the IGC was held in Vladivostok in June 2014 and the 7th took place in Pyongyang in April 2015.

During the IGC meetings the North Korean participants made a presentation on special economic zones of the DPRK. The parties outlined priorities for the expansion of bilateral cooperation in the trade, energy, and natural resource sectors. Exploration of oil and gas in North Korea, participation in the development of mineral deposits, including non-ferrous and rare metals, cooperation in gold mining, manufacturing of goods in North Korea, and joint agricultural projects were among the regularly discussed areas of mutually beneficial cooperation.

In 2014 Russia-North Korea economic relations were given a new impulse. Bilateral visits of high-ranking delegations intensified, and the number of agreements signed in the economic sphere grew. In fact, 2015 was officially declared the Year of Friendship between Russia and the DPRK. A North Korean delegation even took part in the Eastern Economic Forum organized in Vladivostok in September 2015.

In 2014 North Korea demonstrated an unprecedented level of openness and willingness to cooperate in negotiations with the Russians. The DPRK authorities expressed their willingness to create improved business conditions for Russian companies. In particular, they agreed to facilitate the issuing of multiple-entry visas, provide Russian investors with modern communications systems (mobile phones and the Internet), and provide easier access to information on legislation in the DPRK. In the second half of 2014 twelve Russian businessmen received long-term multiple-entry visas to the DPRK for the first time.⁶

The Russian approach to economic cooperation with North Korea is totally different from the model used in Soviet times, which was based on friendly prices and credit. The current policy is to provide administrative and political assistance to mutually beneficial and profitable projects. According to the Far East Development Ministry, cooperation in such economic fields as trade in consumer goods, metallurgy, transport infrastructure, the energy sphere, and mineral resources, as well as education, science, and technology, has the best potential in terms of profit for both sides.⁷

The current status of economic cooperation between Russia and North Korea can be described in four major areas: trade, joint projects (investment cooperation), labor migration, and humanitarian assistance.

THE CURRENT ECONOMIC RELATIONSHIP BETWEEN RUSSIA & NORTH KOREA: TRADE

In the early 2000s, Russia's trade with North Korea showed an upward trend, increasing from \$105 million in 2000 to \$233 million in 2005. It started downhill in 2006, bottoming out at \$49 million in 2009. In 2010 and 2011, bilateral economic cooperation recovered some lost ground, springing back to \$113.7 million (less than 1.5 percent of North Korea's total foreign trade) in 2011, only to slide back again to \$76 million in 2012.

Experts attributed the Russian business community's sluggish performance in the DPRK to: the few export choices North Korea had on offer; high solvency risks that North Korean companies are suffering and the distrust in which they are held by Russian companies; lack of modern infrastructure; and financial settlement problems precipitated by international sanctions against North Korea. North Korea's debt to Russia, too, had long been a serious obstacle to more extensive economic ties between the two countries.

After the economic contacts between Russia and the DPRK were revitalized in 2014 the two countries' authorities set a goal of \$1 billion in direct trade by 2020.⁸ However, bilateral trade accounted only for \$92.8 million in 2014.⁹ It is mostly imports from Russia, with North Korea's exports to Russia still insignificant. This imbalance causes North Korea to run a chronic deficit. Between 2005 and 2014, though, the deficit narrowed from \$219.5 million to \$75.6 million, mostly because of the decline in overall bilateral trade.

Table 1. Russia's Exports to DPRK (unit: \$ thousand)

Product Label	Value in 2012	Value in 2013	Value in 2014
All products	58,428	103,426	82,157
Mineral fuels, oils, distillation products, etc.	23,298	43,586	33,984
Vehicles other than railway, tramway	74	9,605	17,027
Cereals	637	69	12,954
Machinery, nuclear reactors, boilers, etc.	1,118	22,878	7,865
Wood and articles of wood, wood charcoal	1,003	2,423	3,523
Fish, crustaceans, mollusks, aquatic invertebrates	0	1,003	1,820

Table 2. Russia's Imports to DPRK (unit: \$ thousand)

Product Label	Value in 2012	Value in 2013	Value in 2014
All products	11,081	9,291	10,032
Articles of apparel, accessories, not knit or crochet	2,730	3,850	4,699
Machinery, nuclear reactors, boilers, etc.	861	1,131	1,465
Musical instruments, parts and accessories	787	1,281	1,374

Source: ITC calculations based on UN COMTRADE statistics

As can be seen in Table 1 and Table 2, North Korea's principal imports from Russia in 2014 were mineral fuels, oils, and distillation products (41 percent), vehicles other than rail cars, tramways (21 percent), cereals (16 percent), and machinery (10 percent). In the same year North Korea's principal exports to Russia included articles of apparel, accessories, not knit or crochet (47 percent), machinery (15 percent) and musical instruments, parts and accessories (14 percent). In 2015 mineral fuels, lumber, and cereals were among the biggest North Korean imports from Russia. Both sides recognize that they need to work hard on diversifying their trade. North Korea tries to find Russian clients for a wide range of its products – from machinery and minerals to foodstuffs and cosmetics.

At the 7th meeting of Intergovernmental Commission in April 2015 Russia and North Korea signed 16 veterinary certificates for live animals and animal products for export from the Russian Federation to the DPRK. North Korea expressed interest in importing pork and poultry from Russia.

When the Russian government set a goal of increasing direct trade with North Korea it was aware that due to the international and American economic sanctions imposed against the DPRK the country was virtually isolated from the international financial system. There were no North Korean accounts at Russian banks. So, the two sides needed to arrange and facilitate bank transactions. In 2014 Moscow and Pyongyang reached an agreement on a transition to payments in rubles and establishing cooperation between Russian and North Korean banks, which resulted in opening correspondent accounts in the banks of the two countries.

The first contracts on opening North Korean accounts at Russian banks were signed in June 2014 between the Russian AKB Regional Development Bank and the Foreign Trade Bank of the DPRK. The first settlements in rubles between the assigned banks were conducted in October 2014, facilitating financial transactions for businesses of the two countries.¹⁰ Some Russian companies still do business with North Korea through Chinese banks; there is potential to increase bilateral turnover by redirecting these flows into Russian financial institutions.

Another problem is transportation. To boost trade cooperation between Russia and North Korea it is important to improve logistics between them. The two share only a tiny land border; so all trade between them is conducted by sea, or by rail across a single bridge. However, the North Korean side has long been asking for the construction of a road bridge. In March 2014 the two sides agreed to speed up the preparation of an intergovernmental agreement on international road transport. And in April 2015 such an agreement was signed in Moscow. The prospect of building a floating road bridge between Russia and North Korea at the Khasan border crossing is currently being discussed, and has the support of both the Russian government and the authorities of the Primorsky Territory where the bridge is to be built. The details of the plan are now being discussed by an international working group comprised of the two countries' representatives.¹¹

At the beginning of 2015 Russia and North Korea set up the Russia-DPRK Business Council at the Chamber of Commerce of the Russian Federation. Its main goal is to assist businessmen and companies of the two countries in establishing business relations to ensure effective development of trade and economic relations. The first meeting of the Business Council took place on February 25, 2015 and lasted for more than five hours. Among the participants were senior officials of both countries as well as representatives of Russian companies interested in dealing with North Korea. According to the Russian officials, the new mechanism will play a coordinating role for Russian companies, consider their business projects, and submit them to the level of intergovernmental discussion.¹²

Over the course of 2014-2015 Russia and North Korea put several initiatives into motion. Traders from the two countries started to transact in Russian rubles, and a bilateral business council allocated project managers to oversee larger initiatives. Moreover, the two countries agreed in principle to set up a joint trading house, which will aim to further promote trade turnover. The 2nd meeting of the Joint Workgroup on Trade of the IGC took place in December 2015 in Pyongyang, where Russian business leaders declared their intent to launch a number of new projects in the DPRK, for instance, to open a chain of drugstores, several fast food restaurants, and even a taxi company, which will be importing Russian cars.

The Current Economic Relationship between Russia and North Korea: Investment and Joint Projects

Investment-related cooperation between Russia and North Korea has until recently been just taking off. According to data provided by the Russian Ministry of Economic Development, Russia had \$2.552 million in cumulative investments in North Korea in 2008 (almost all of them in manufacturing) and \$2.505 million in North Korean investments back home. The only large-scale project that Russia has implemented so far is rebuilding the 54-kilometer-long section from Khasan station to port Rajin, North Korea, and building a freight terminal in Rajin for freight transshipments to the Trans-Siberian Railroad. It was launched in 2008

and has increased Russian investment into North Korea to about \$300 million. In 2006, Russia, North Korea, and South Korea called this project the first stage in the restoration of the full length of the Trans-Korean Railroad (its leg running along the eastern coast of the peninsula). Relations between the two Koreas, however, plunged into crisis in 2008, and the ROK stayed away from the project.

Despite the South's withdrawal, Russia and North Korea completed all repair work on the railroad, and the double-track between Khasan and Rajin was

given a trial run in October 2011. In March 2014 a universal freight terminal was built in the port of Rajin. According to the initial business plan, a container terminal was to be built in Rajin, its infrastructure intended for transferring containerized freight brought by ship from South Korea (and other APR countries) to the Russian railroad network. South Korea having withdrawn from the project and no containerized freight traffic expected with certainty, the remaining project participants had no choice but to depart from the original container terminal construction plan and replace it with facilities to transship bulk freight, including coal (from Russia to China and Southeast Asian countries).

South Korea was looking at options to return to the Khasan-Rajin project. During the visit of President Vladimir Putin to Seoul in November 2013 Russia and the ROK signed a memorandum of understanding according to which a consortium of South Korean companies including POSCO, Hyundai Merchant Marine Co., and Korail Corp. would consider an opportunity to join the Khasan-Rajin logistics project. On May 24, 2010 the South Korean government had imposed trade and economic sanctions against the DPRK prohibiting any investment cooperation between the two. Therefore, South Korean businesses could enter this project only through cooperation with Russia, for example, by acquiring part of the Russian share in the joint venture of Russia and the DPRK called RasonKonTrans which operates the infrastructure. Currently 30 percent of the shares in the joint venture are owned by the North Korean side and 70 percent belong to the Russian OJSC Russian Railways Trading House (a subsidiary of OJSC Russian Railways). Part of this 70 percent could be sold to South Korean companies.

Since late 2014 Rajin was mainly used by Russian companies to move coal from Russia to China. In 2014 more than 100,000 tons of coal was shipped through the port. In 2015 the volume grew to almost 1,200,000 tons of freight.¹³ The growth of the cargo volume could have been bigger, but declining prices for natural resources, especially coal, had a negative impact on the delivery volumes. The target of RasonKonTrans is to handle about 5,000,000 tons of cargo annually. In 2014 and 2015, Rajin also served as a connectivity point for the transportation of bituminous Russian coal to South Korea. A pilot shipment of 40,000 tons of coal from Siberia to the South Korean port of Pohang through Rajin was carried out in November 2014. In April-May 2015 there was the second test shipment of about 140,000 tons of coal to the South Korean ports of Dangjin, Gwangyang, and Boren. The third batch of coal was delivered to South Korea through North Korea in November 2015. Approximately 120,000 tons of Russian coal and 10 containers of Chinese mineral water were shipped through Rajin at that time.

An agreement on South Korean companies' participation in the Khasan-Rajin logistics project was expected to be signed in the spring of 2016. But after the DPRK's nuclear and rocket launches at the beginning of 2016 the ROK declared its intention to suspend cooperation until there is progress in denuclearization of North Korea.

Russian Railways, which participates in the Khasan-Rajin project, is a state-owned company and, although the whole initiative is implemented on market principles, it has massive support from the state, including a loan from a state bank. However, private Russian companies have started to show an interest. In 2014 Russian company Mostovik made headlines with its intention to invest \$25 billion in the modernization of the North Korean railroad. In the current economic climate Russian firms are very short of money; so the cooperation plan was not based on direct investment from Russia into North Korea. The new formula of cooperation meant that Russian companies would participate in infrastructure projects in the DPRK in exchange for access to North Korean mineral deposits. This “Victory” project planned to extract North Korean minerals, including coal and iron ore, sell them in international markets, and use the funds to guarantee investment in the railroad modernization and other areas. The joint venture between Mostovik and the North Korean ministry was signed in April 2014.

According to Mostovik’s CEO Oleg Shishov, the company was looking to develop and upgrade railway infrastructure, factories, plants, and the processing of natural resources. The prospective plan was to modernize 3,500 kilometers of the North Korean railroads (almost half of its railroad grid) and also build new roads around Pyongyang. The first project in this 10-stage effort was to restore the section of the Jaedong-Kangdong-Nampho railway. The groundbreaking ceremony took place at the East Pyongyang Railway Station in October 2014. However, due to internal developments in Russia, there have been no updates on the project’s progress since then. In the middle of 2015 Mostovik was officially declared bankrupt. But the main idea of the Victory project, i.e. to extract and sell North Korean mineral resources and invest the profit into Russian companies’ projects in the DPRK, became a new, basic formula for the Russian government push for investment cooperation with Pyongyang.

In 2015 more Russian companies declared the start of work in North Korea. Northern Mines Ltd. planned to create a joint venture with the Korean Zinc Industry Association to develop gold and silver deposits in South Hamgyong Province.¹⁴ Sever Group was promoting cooperation with the DPRK in ferrous metallurgy. In the middle of 2015 the company’s delegation visited North Korea and agreed on cooperation in cold-rolling production, modernization of the Kim Chak factory facilities, and a production increase in the conversion of pig iron.

North Koreans have recently shown increased interest in the implementation of agricultural projects in the Russian Far East. Since 2011 various options for cooperation with the Amur region; including joint projects for setting up dairy and beef farms, as well as cultivation of grain and soybeans; have been discussed. In the middle of 2013 the consul general of the DPRK in Nakhodka at a meeting with the governor of Primorsky Territory said that North Korea plans to invest \$1 million in processing corn and soybeans as well as to consider joint projects in cattle breeding in Primorye.¹⁵ North Koreans currently have an experimental agricultural enterprise in the Dalnerechensk district of Primorsky Territory.

In 2014 DPRK officials announced that they were interested in renting 10,000 hectares in the Khabarovsk region to grow vegetables, breed cattle, and set up processing enterprises using Korean labor and equipment. There were reports of possible involvement of investors from the Middle East in the financing of these projects. Most of the products produced in Russia at North Korean agricultural enterprises would then be exported to the DPRK to improve the food situation.

Another important area of bilateral cooperation that has been regularly discussed by Russia and North Korea is electric power production and supplies. Different options are being considered. RAO Energy Systems of the East is looking to supply North Korea's Rason region with electricity. This project is the closest to being implemented as a preliminary feasibility study for it has already been completed. The Russian company's potential customers could include the numerous Chinese companies and joint ventures currently operating in Rason.

A bigger project of constructing an energy bridge to the ROK through North Korea was also discussed. Russia had preliminary talks with such South Korean countries as K-Water, KEPCO, and POSCO, which were interested in participating in this initiative.¹⁶ In December 2015 a group of energy specialists from Russia visited the DPRK, going to East Pyongyang thermal power plant, and Kумыgang and Namgang hydroelectric plants, and holding talks with their Korean counterparts on cooperation aimed at coping with the energy deficit in the DPRK. During that visit an agreement on cooperation in the field of electric power between the governments of the DPRK and the Russian Federation was signed.

THE CURRENT ECONOMIC RELATIONSHIP BETWEEN RUSSIA & NORTH KOREA: LABOR MIGRATION

North Korea's ties with Russia's Far Eastern areas, particularly the Amur region and the Primorsky and Khabarovsk territories, have held a prominent place in bilateral economic relations. Recruitment of Korean labor for employment in these regions is the most common interregional cooperation. As federal and regional development programs went ahead, they brought a significant increase in labor recruitment from North Korea. North Korean workers are often favored by Russian employers due to their speed and diligence. In 2010, approximately 21,000 North Koreans held jobs in construction, agriculture, forestry, health care, fisheries, and the textile and leather industries. In 2013, Russia raised the quota of North Korean labor to 35,000.

The advance of the North Korean workforce is greatest in the construction sector. During the agricultural off-season, particularly in Primorsky territory, most North Korean workers work in the construction industry. "Currently, Primorye territory features 15 companies that have subcontracted a foundational work force of North Koreans," said a representative from a construction company association there. "It's enough for North Korean workers to be in charge of more than 30 percent of Primorye territory."¹⁷

In 2015 already 47,364 North Koreans were authorized to work in Russia, according to the Russian Ministry of Labor. There were only two other countries that contributed more foreign workers: Turkey with 54,730, and China leading with 80,662 workers.¹⁸ It has been widely admitted by Russian officials and businessmen that hiring North Koreans is very convenient due to their diligence, discipline, and competitive salaries.

In 2015 the Russian government introduced a new system that requires migrant workers to obtain a work permit, for which they must take a medical exam against contagious diseases, get medical insurance, and present a Russian ID. They also must pass a test in Russian language, culture, and history and receive a certificate. The last part has appeared to be the

most difficult. After negotiations North Korea managed to get the rights to open a testing center and issue these certificates on its territory. This obviously made it easier for North Korean workers to collect all the necessary documents for working in Russia.

The ruble devaluation profits in Russia have considerably decreased for the North Koreans, but working in Russia still seems to be a good job for them, and bilateral cooperation in this area is likely to continue and even expand.

THE CURRENT ECONOMIC RELATIONSHIP BETWEEN RUSSIA & NORTH KOREA: HUMANITARIAN ASSISTANCE

As the economic contacts between Russia and the DPRK intensified, Moscow has delivered several batches of humanitarian assistance to North Korea. In 2014 it included 50,000 tons of wheat, about 3,000 tons of wheat flour, 50 modern fire engines, and equipment sets for field hospitals.¹⁹ In 2015 Russia donated wheat flour worth \$6 million to the UN's World Food Program (WFP) North Korea project, becoming the second largest donor after Switzerland. Another \$3 million donation from Russia to the WFP will be used in the first half of 2016.²⁰

THE OUTLOOK ON RUSSIA'S PROPOSALS FOR FURTHER ECONOMIC ENGAGEMENT WITH THE DPRK

Multilateral projects involving both Koreas have long been central to Russia's economic strategy toward North Korea. The biggest of them are linking the Trans-Siberian Railroad and the Trans-Korean Railroad into an overland transportation route from Asia to Europe, building a gas pipeline across North Korea to South Korea, and supplying Russian electric power to the Korean Peninsula. Even though their economic rationale was evident to all parties, none of these projects has taken off in the trilateral format to this day because of differences between the two Koreas and the situation on the peninsula. A good illustration of this is the situation with the Khasan-Rajin logistics project. After several years of preparation and negotiations South Korea participation in it was halted due to political and military reasons. After Pyongyang's January 6 nuclear test and February 7 long-range rocket launch Seoul declared a new set of unilateral sanctions against North Korea on March 8, 2016, including a ban on vessels entering South Korean waters within six months of visiting the North. The Rajin-Khasan project, which aimed to bring Russian coal to the South through the North Korean port of Rajin, falls under that category.

The project of supplying Russian gas to South Korea through North Korea has been discussed for almost 20 years. After the construction of the main gas pipeline "Sakhalin-Khabarovsk-Vladivostok" was completed in 2011, the infrastructure for building an extension to the Korean Peninsula was ready. North Korea for its part, agreed to provide land for the construction of a gas pipeline. Russia and South Korea came close to discussing a commercial contract on gas supplies. However, in 2012 the parties were unable to agree on the price of gas; so, now the gas project is also shelved.

The electric power supply project with ROK participation is also likely to be suspended in line with Seoul's current policy of cutting any financial flows into the DPRK. The Russian

government will realize that it cannot count on trilateral cooperation in the near future, which will make it even more important to develop economic ties with North Korea if Moscow wants to strengthen its position on the eastern frontier. The institutional base for it has already been laid, as government bodies provide support to Russian businesses. But despite the defining role that the government is playing to stimulate economic relations with North Korea at the present stage, it is important that the initiative is taken by private companies after all the necessary institutional conditions are created and certain experience is acquired.

Russia and North Korea were at the stage of testing new principles and models of economic cooperation looking for a successful result in boosting trade and investment when the DPRK held a nuclear test and a rocket launch at the beginning of 2016. In response to it on March 2, 2016 the UN Security Council adopted Resolution 2270 which contained the harshest-ever sanctions on North Korea. Although Russia supported the resolution, it was not among its main authors and its interests were not fully considered in the new set of sanctions.

Russia supported Resolution 2270 as part of its efforts to prevent proliferation of nuclear weapons, but it managed to exempt its main economic project, i.e. Khasan-Rajin, from it and made sure that the flights between the Russian Far East and North Korea would keep carrying workers which play quite an important role in the Russia's Far Eastern labor market. The restrictive measures will obviously have a negative impact on the prospects of Russia-North Korea economic cooperation and might limit the opportunities to boost bilateral trade. The turnover between Russia and the DPRK is likely to continue falling in the near future, which was a pre-existing trend.

The ban on North Korean exports of coal, iron and iron ore (unless such transactions are determined to be exclusively for livelihood purposes and unrelated to generating revenue for the DPRK's nuclear/missile programs or other activities that constitute UN Security Council resolution violations), and gold, titanium ore, vanadium ore, and rare earth minerals will likely make Russia reconsider its cooperation formula of extracting and selling North Korean mineral resources and investing the profit into Russian companies' projects in the DPRK. However, the two countries' cooperation in the areas unaffected by the new sanctions, such as the Khasan-Rajin logistics projects, energy sector, labor migration, agriculture and trade in other than restricted minerals is likely to continue. RasonKonTrans will keep struggling to find new clients for its services and significantly increase the volume of the cargo handled at Rajin port. Any substantial progress on the Khasan-Rajin project requires the improvement of North Korea's relations with its neighbors, which is unlikely in the near future. At the same time, such mutually beneficial forms of cooperation as recruitment of North Korean labor for working in the Russian Far East have a good chance of expanding giving the DPRK much needed currency to pay for its trade deficit with Russia.

To sum up, there is expected to be some adjustment period in Russia-North Korea economic ties to fit the new international situation and restrictions, but the two countries' line for expanding bilateral relations is likely to be unchanged. So, it will probably take some more time for Russia and the DPRK to see any substantial results of their efforts in the economic sphere.

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**South Korea's Economic
Engagement toward
North Korea**

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On February 10, 2016, the South Korean government announced the closure of the Gaeseong Industrial Complex, a symbol of its engagement policy and inter-Korean rapprochement. The move was part of its proactive, unilateral sanctions against North Korea's fourth nuclear test in January and rocket launch in February.¹ Pyongyang reciprocated by expelling South Korean personnel working in the industrial complex and declaring it a military control zone.² Although the May 24, 2010 measure following the sinking of the *Cheonan* naval vessel significantly restricted inter-Korea exchanges and cooperation, the Seoul government spared the Gaeseong complex. With its closure, however, inter-Korean economic relations came to a complete halt, and no immediate signs of revival of Seoul's economic engagement with the North can be detected. This chapter aims at understanding the rise and decline of this engagement with North Korea by comparing the progressive decade of Kim Dae-jung (KDJ) and Roh Moo-hyun (RMH) with the conservative era of Lee Myung-bak (LMB) and Park Geun-hye (PGH). It also looks to the future of inter-Korean relations by examining three plausible scenarios of economic engagement. Section one presents a brief overview of the genesis of Seoul's economic engagement strategy in the early 1990s, section two examines this engagement during the progressive decade (1998-2007), and section three analyzes that of the conservative era (2008-2015). They are followed by a discussion of three possible outlooks on the future of Seoul's economic engagement with Pyongyang.

ECONOMIC ENGAGEMENT WITH NORTH KOREA: GENESIS & BASIC STRATEGY

Inter-Korean economic relations were thoroughly frozen during the period of the Cold War. Exchanges and cooperation including trade and investment were not allowed. Even a simple personal contact with North Koreans was seen as a violation of the Anti-communist Law and the National Security Law. A major thaw came with the advent of the Roh Tae-woo (RTW) government (1988-1993), which pursued *Nordpolitik*. A South Korean version of Willy Brandt's *Ostpolitik*, it first sought diplomatic normalization with communist bloc countries and then attempted to pursue engagement with North Korea. The shift away from the past defensive posture was a reflection partly of a changing international security environment signaling the end of the Cold War and partly of Seoul's confidence in economic and military standing and national pride gained through the successful implementation of the 1988 Seoul Olympics.³

Nordpolitik was successful. The RTW government normalized diplomatic ties with communist countries, first with Hungary in 1989, then Poland and Yugoslavia in 1989, then Czechoslovakia, Bulgaria, Mongolia, Romania, and the Soviet Union in 1990, and finally China in 1992. Along with the diplomatic offensive toward communist countries, the Roh government undertook an equally proactive engagement policy with North Korea. In the July 7 declaration of 1988, RTW affirmed that South Korea no longer regarded North Korea as a target of confrontation and competition and that North Korea is an integral part of the Korean national community as well as a "benign partner" with which to achieve common prosperity. The declaration allowed inter-Korean trade, which was previously banned, and treated it as intra-national, not inter-state, trade. Moreover, Roh sought balanced economic development with the North, while pledging not to obstruct North Korea's non-military trade with South Korea's allies and friendly nations.⁴

Roh's July 7th Declaration was a milestone in inter-Korean relations in general and inter-Korean economic relations in particular. Following it, his government initiated a series of official talks with North Korea, resulting in the historic Basic Agreement on Non-aggression, Reconciliation, and Exchange and Cooperation in 1991. The Basic Agreement laid the foundation for new principles for confidence-building measures modeled after the Helsinki Final Act of 1975. In addition, the RTW government adopted the principle of separation of economics and politics, significantly fostering inter-Korean economic relations. The volume of trade rose from zero to a cumulative total of \$1.25 billion in 1989-97, and humanitarian assistance to the North also considerably increased.

President Kim Young-sam (KYS) also pledged to continue the engagement policy with the North. In his inaugural speech on February 25, 1993, KYS proposed a summit with Kim Il-sung, stating that "no allies can be better than a nation."⁵ After tensions followed by the first North Korean nuclear crisis, Kim Il-sung accepted KYS's proposal. The two agreed to hold the summit during July 25-27, 1994, but it was aborted as Kim Il-sung passed away on July 8. North Korea's political uncertainty in the wake of Kim's death strained inter-Korean relations, affecting trade. In 1995, the amount of inter-Korean trade was \$287 million, about 2.2 percent of Pyongyang's total trade volume. Most trade involved South Korea's imports of minerals, agricultural, and fishery goods. Seoul's investment in North Korea was restricted, and South Korean firms simply assembled finished goods by bringing raw materials, intermediate goods, and capital goods into North Korea and re-imported them. In addition, North Korea was not ready to induce South Korean investments institutionally.

THE PROGRESSIVE DECADE & ECONOMIC ENGAGEMENT (1998-2007)

In his inaugural speech on February 25, 1998, KDJ announced that his government will seek engagement with the North by facilitating its exchanges and cooperation with the outside world, giving food aid to the North, and promoting economic, social, and cultural exchanges.⁷ He offered assurances that he would enhance economic cooperation by separating economics from politics,⁸ and conceived the sunshine policy as a proactive way to induce incremental and voluntary changes for peace, opening, and reform through patient pursuit of reconciliation, exchanges, and cooperation. It went beyond simple engagement, comprising of components such as military deterrence, international collaboration, and domestic consensus. Its objective was crystal clear: to lay the foundation for peaceful Korean unification by severing the vicious cycle of negative and hostile actions and reactions through peaceful co-existence, exchanges, and cooperation.⁹

The sunshine policy was founded on three fundamental principles as outlined in the inaugural speech. First was the principle of non-tolerance of military threat or armed provocation by North Korea. Second was the official abandonment of the idea of unification by absorption and the negation of any other measures to undermine or threaten North Korea. And the third was the promotion of exchanges and cooperation through resumption of the 1991 Basic Agreement on Reconciliation, Non-aggression, Exchanges, and Cooperation.¹⁰

Its most important operating principle was *flexible dualism*, which was predicated on major changes in the sequential order of inter-Korean interactions. Operational terms of engagement with the North under the Kim government can be summarized as follows: 1) "easy tasks

first, and difficult tasks later”; 2) “economics first, politics later”; 3) “non-governmental organizations first, government later”; and 4) “give first, and take later.” It represents a profound departure from past practices. Previous governments failed to overcome the inter-Korean stalemate precisely because of their rigid adherence to the principles of “government first, civil society later,” “political-economic linkage,” and “the primacy of mechanical reciprocity.” Thus, the sunshine policy can be characterized as incremental, pragmatic, and functionalist in dealing with the North.¹¹

The core of flexible dualism can be found in the separation of politics and economics. Previous governments were preoccupied with the primacy of politics and its linkage to the economy, which entailed structural barriers to the promotion of inter-Korean exchanges and cooperation, not only because of the compartmentalized decision-making structure in the North that separates politics from the economy, but also because of the negative backlash associated with it. Temporal improvements in inter-Korean relations through socio-economic exchanges were instantly wiped out by new political bottlenecks or sporadic military provocations by the North, producing an amplified feedback loop of distrust and hostility. But the Kim government attempted to sever the mechanism of negative reinforcement between the two by pledging to promote economic exchanges and cooperation even if the North engaged in military and political provocation. Infiltration of North Korean submarines into the South, resumption of a negative propaganda campaign by the North, and naval clashes in the West Sea did not block the continued pursuit of economic exchanges and cooperation. It is this functional flexibility that differentiated the sunshine policy from previous governments’ North Korean policy. Such engagement was, by and large, continued by and implemented throughout the RMH period (2003-2008).

The engagement policy during the progressive decade aimed primarily at improving the economic conditions of the North Korean people and fostering its opening and reform. Such developments were, in turn, seen as providing new momentum for easing military tension on the Korean Peninsula and, ultimately, contributing to peaceful co-existence with the North. But equally critical was the economic motive. Both KDJ and RMH strongly believed that inter-Korean economic exchanges and cooperation would bring about mutually beneficial “win-win” outcomes. On the one hand, for the North, lacking capital and technology, economic cooperation with the South would significantly contribute to overcoming its economic stagnation. On the other, such cooperation would be beneficial to the South, suffering from comparative disadvantage in natural resources and labor costs. It was more so because a growing number of South Korean firms were deliberating on relocating their plants to China and elsewhere because of high labor and land costs. Geographic proximity and linguistic and cultural affinity were other factors facilitating economic complementarities between the two Koreas. The two leaders were aware of structural and institutional barriers to such cooperation stemming from the socialist system deeply embedded in North Korea, but they hoped that steady and continual economic exchanges and cooperation would eventually help to remove such barriers.¹²

Economic engagement with the North during the progressive decade (1998-2007) was robust. Total inter-Korean trade, commercial (general trading, processing-on-commission, economic cooperation projects) and non-commercial (trading of goods and services involving governmental and non-governmental assistance as well as social and cultural exchanges and cooperation) rose from \$222 million in 1989 to \$1.79 billion in 2007. From 1989 to 1997

the total amount of imports from the North was \$1.25 billion, whereas that of exports to the North was merely \$293 million, but there was a reversal during and after the progressive decade in which exports to the North exceeded imports, e.g., exports to the North were \$1.03 billion, whereas imports from the North were \$765 million in 2007.¹³ This can be attributed largely to the operation of the Gaeseong Industrial Complex in which South Korean firms' supply of raw materials as well as intermediate and capital goods were counted as exports, and shipments of finished goods from Gaeseong to Seoul as imports.

Data in Table 1 present the amount of inter-Korean trade by type since the first Korean summit in 2000. The overall amount of general trading and processing-on-commission increased more than three times from \$236 million in 2001 to \$790 million in 2007. The amount of money allocated for joint economic projects such as the Mt. Geumgang tourist project and the Gaeseong Industrial Complex rose rapidly from \$19 million in 2001 to \$640 million in 2007. Meanwhile, non-commercial trade such as governmental and non-governmental assistance increased steadily from \$148 million in 2001 to \$367 million in 2007. Such an expansion was due partly to KDJ's new engagement policy emphasizing the separation of economics from politics and partly to several institutional changes. On April 30, 1998, the KDJ government introduced a "measure to activate North-South economic cooperation" that simplified procedures for economic engagement with the North and removed the ceiling on the amount of investment in the North. In addition, since the June 2000 Korean summit, regular inter-Korean ministerial talks and the operation of the South-North Economic Cooperation Promotion Committee helped resolve various obstacles by reaching agreements on investment guarantees, prevention of double taxation, procedures related to the settlement of commercial disputes, and maritime cooperation.¹⁴

	Type	1989-2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Commercial	General Trade & Processing-on-commission Trade	2,034	236	343	409	347	419	557	790	808	666
	Joint Economic Cooperation projects	120	19	25	21	89	270	371	640	904	976
Non-Commercial	Gov't and nongov't assistance and goods and services related to social and cultural exchanges	373	148	273	294	261	366	422	367	108	37
	Total	2,527	403	642	724	697	1,056	1,350	1,798	1,820	1,697

Source: Korea International Trade Association, <http://www.kita.net/interkorea2/html/business/namb3.jsp> (accessed April 23, 2016).

Table 2 shows data on Seoul's public and private assistance to Pyongyang during the progressive decade. Prior to the KDJ government, Seoul's assistance involved mostly the supply of heavy oil and the construction of two light water nuclear reactors in Shinpo, North

Type	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gov. Assistance & Grants	24.0	15.4	33.9	97.8	97.5	114.0	109.7	131.3	136.0	227.3	198.3	43.8
Gov. Food Loans	0	0	0	105.7	0	151.0	151.0	135.9	178.7	0	150.5	0
Private Assistance & Grants	18.2	27.5	22.3	38.7	78.2	57.6	76.6	155.8	77.9	70.9	90.9	72.5
Total	42.2	42.9	56.2	242	175.7	322.6	337.3	423.0	392.6	298.2	439.7	116.3

Source: ROK Government Index, http://www.index.go.kr/potal/main/EachDtlPageDetail.do?idx_cd=2784 (accessed April 23, 2015).

* Government assistance includes expenses related to transportation costs and other overhead costs, but private assistance does not include those costs.

Korea.¹⁵ The KYS government also provided 150,000 metric tons of rice to the North in 1995. Assistance rose considerably after the inauguration of the KDJ government in 1998, owing to an increase in both government and private sector humanitarian assistance. As can be seen in Table 2, total assistance increased almost ten times from 42.9 billion *won* in 1998 to 439.7 billion *won* in 2007. Government assistance rose from 15.4 billion *won* in 1998 to 227.3 billion *won* in 2006 and 198.3 billion *won* in 2007. Private humanitarian assistance was 27.5 billion *won* in 1998, but peaked at 155.8 billion *won* in 2004. It was maintained at the level of 70 billion *won* on average during 2001–2007. The Korean Red Cross played a pivotal role in extending private humanitarian assistance to the North.¹⁶

The most noticeable trend is a sharp expansion of food loans from zero in 1998 to 178.7 billion *won* in 2005 and 150.5 billion *won* in 2007. At the beginning, food aid took the form of grants, but from 2002 it changed into loans with an annual interest rate of 1 percent with 30 years' maturity because of the opposition party's insistence. It was required that South Korean agents purchase and deliver food on behalf of North Korea in order to prevent the diversion of Seoul's food loans for other purposes. No food loans were provided when relations worsened. For example, when Pyongyang undertook missile tests and the first nuclear test in 2006, the South refused to provide food loans. But they resumed when the North agreed to hold the second inter-Korean summit in October 2007. Likewise, food aid was linked to a political agenda even during the progressive decade.

South Korea's private investment in the North was negligible prior to the KDJ government. As Table 3 demonstrates, the South Korean government approved only three cases during 1991–1997. After 1998, however, 325 cases were approved, of which 274 were for the Gaeseong Industrial Complex. The successful launching of this complex in 2004 had positive spillover effects on investments in other areas, which were mostly concentrated in Pyongyang and Nampo, each equipped with relatively good infrastructure.¹⁸

The most successful cases were the Mt. Geumgang tourist project and the Gaeseong Industrial Complex. The former was launched in November 1998 through a sea route linking Donghae in the south to Jangjeon in the north. It continued without disruption despite such incidents as the infiltration of a North Korean submarine in June 1998 and a controversy over suspected nuclear facilities in Geumchangri, North Korea. The KDJ government's operating principle of separating economics from politics persisted; however, the Mt. Geumgang

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TOTAL
Gaeseong Industrial Complex	-	-	-	-	-	-	-	-	17	26	15	163	53	274
Other Areas	1	2	6	0	2	5	1	2	6	10	4	6	9	54

Source: ROK Ministry of Unification, *Intra-Korean Exchange & Cooperation Monthly*, August 2010, p. 107.

tourist project using the sea route was losing money because of the long travel time, high costs, and procedural difficulties related to border control. North Korea fixed these problems by designating the Mt. Geumgang area as a tourist district and relaxing border passage control procedures in 2002. It also allowed travel through a ground route as road construction between Goseong, South Korea and Mt. Geumgang was completed in 2003. As a result, the number of South Korean tourists visiting Mt. Geumgang exceeded 20,000 per month. 345,000 tourists visited in 2007, and the cumulative total reached 1.95 million until it was closed in 2008 by the MB government.¹⁹

Two months after the first Korean summit in June 2000, Hyundai-Asan and the Asia-Pacific Peace Committee of North Korea signed an agreement to develop the Gaeseong Industrial Complex in three stages in which 8 million *pyong* (1 *pyong* is equivalent to 3.3 square meters) was allotted for plant sites, and 1,200 million for supporting facilities. The first stage was to develop a one-million-*pyong* industrial complex, but no progress was made until North Korea enacted the Law on Gaeseong Industrial District on November 27, 2002 that stipulated provisions on the development, administration, establishment, and operation of firms, and dispute resolution. Such progress notwithstanding, however, removal of mines in the DMZ, which was essential for the launching of the complex, and opposition by the North Korean military remained major barriers. The RMH government initiated the launching ceremony on April 1, 2004. It started with a pilot project of 28,000 *pyong* and the first shipment of “made in Gaeseong” products occurred on December 15, 2004. By the end of 2007, 65 South Korean firms had set up plants in Gaeseong, hiring 22,538 North Korean workers and producing goods worth \$100 million.²⁰

In addition, KDJ placed emphasis on railway connections with North Korea since he was interested in connecting the Seoul-Shinuiju railway to the Trans-China railway and the East Coast railway to the Trans-Siberian railway. Such connections, if materialized, could have not only reduced logistical costs between South Korea and Europe, but also allowed South Korea to escape the geo-economic position of an isolated peninsula.²¹ KDJ called both the trans-China and trans-Siberia railways the “Iron Silk Road.”

The RMH government honored and even intensified inter-Korean economic cooperation projects. The October 4th joint summit declaration, which Roh and Kim Jong-il adopted, identified specific projects for mutual cooperation. They include the launching of the second stage of the Gaeseong Industrial Complex, the establishment of the “West Sea Special Zone for Peace and Cooperation” in Haeju and its vicinity for common fishery areas, a special economic zone, and joint utilization of the Han River estuary. In order to follow up the joint declaration, the North-South Joint Commission for Economic Cooperation was established at the level of deputy prime minister and designated 45 major projects for inter-

Korean economic cooperation. They included the exchange of the North's minerals for the South's raw materials for light industry, the construction of joint shipbuilding complexes in Nampo and Anbyeon, setting up pig farms, and a wide range of cooperative projects in the agricultural, fishery, and environmental sector.²² But the agreements were reached too late in his tenure, and the succeeding LMB government did not honor them.

Both the KDJ and RMH governments sought active economic engagement with North Korea; however, assessments of their performance seems polarized. Conservative critics argue that economic engagement during the progressive decade was an outright failure because it could not foster opening and reform in the North as well as improve the living conditions of the North Korean people. On the contrary, they claim, unilateral "give aways" (*peojugi*) helped the North to develop nuclear weapons and sustain its regime. Meanwhile, progressive pundits in South Korea advocate for the economic engagement policy by claiming that it did contribute to inducing opening and reforms in the North, albeit limited, and helped ameliorate North Korea's economic hardship. They further maintain that inter-Korean economic exchanges and cooperation had a positive impact on tension reduction and peaceful co-existence. More importantly, they argue that the Gaeseong Industrial Complex greatly benefitted South Korean small and medium-sized firms.²³ In sum, we can draw at least four major implications from the economic engagement policy of the progressive decade.

First, economic engagement of the progressive decade definitely contributed to improving economic conditions of the North Korean people. The North could overcome severe food shortages owing partly to Seoul's humanitarian assistance, and income from economic cooperation projects assisted Pyongyang in managing chronic hard currency shortage problems, enabling it to import much needed food, fuel, and other necessary goods. As a result, economic engagement played an important role in stabilizing overall social and economic conditions in the North, with generous side benefits to its ruling elite.

Second, economic engagement has undoubtedly influenced the North Korean people's mindsets. Increasing frequency of contacts with South Koreans made North Koreans aware of Seoul's economic prosperity, and North Koreans gradually expressed their appreciation of the South's humanitarian assistance and began to change their image of the South and its people. More importantly, North Koreans began to appreciate the value of money, especially hard currency, as South Koreans spent cash in Mt. Geumgang, Gaeseong, Pyongyang, and elsewhere. Bureaucrats and managers also learned the logic of market operations through interactions with South Korean counterparts. Likewise, exposure of North Koreans to South Korea and its people has profoundly affected their psychological status.

Third, extensive economic engagement was conducive to inter-Korean confidence-building and overall military tension reduction. There were two naval clashes in the West Sea during the KDJ period, of which North Korea's naval provocation in June 2002 during the World Cup match in Seoul particularly enraged South Korean people. But Pyongyang immediately sent Seoul unprecedented words of regret. Both sides maintained hot lines as well as multiple channels of communication, which served as effective means to avoid misperceptions and conflict escalation. It is also noteworthy that North Korea did not undertake any overt military provocations during the RMH government. It did carry out its first nuclear test on October 9, 2006, but that can be seen as a protest against the Bush administration rather than an expression of hostility against the South. All this can be attributed to North Korea's heavy economic dependence on the South, which was an outcome of active economic engagement.

Finally, the economic engagement policy during the progressive decade was not necessarily a unilateral, altruistic gesture. The South also greatly enjoyed benefits from the engagement. Improved inter-Korean relations reduced the level of political risk on the peninsula and enhanced Seoul's credit rating.²⁴ And the Gaeseong Industrial Complex and other offshore production sites in Pyongyang and Nampo provided small and medium-sized firms with new opportunities for business operation, and they began to enjoy greater profits.

THE CONSERVATIVE ERA & SETBACKS TO ECONOMIC ENGAGEMENT (2008-2015)

Transition to the LMB government was accompanied by big changes in inter-Korean relations. In sharp contrast to the progressive governments, Lee emphasized “principled engagement” with the North, advocating linkage between politics and economics rather than separating them, as evidenced by his “De-nuke, Open 3000” policy. He pledged that if the North abandoned its nuclear ambition, his government would help it achieve \$3,000 per capita income within ten years. Thus, economic engagement was contingent on its denuclearization. Lee was extremely critical of previous governments’ “give first, take later” policy, and instead stressed a mechanical reciprocity in economic exchange with the North. He viewed the flexible reciprocity of “give first, take later” as an excuse for a “unilateral give away” to the North. The LMB government also adopted the principle of “government first, civil society later” in promoting exchange and cooperation with the North. In so doing, his government virtually suspended non-governmental actors’ interactions with the North. Finally, LMB was skeptical of gradualism of “easy things first, difficult things later,” saying no meaningful progress in inter-Korean relations would be possible without tackling the nuclear problem. LMB’s operational principle in dealing with the North was diametrically opposed to that of the progressive decade. This is, in part, due to his perception of inter-Korean relations. He believed that as long as the North played the nuclear weapons card, there would be no chance for inter-Korean confidence-building. Equally critical was his perception that the sunshine policy failed to foster opening and reform in North Korea. For him, forced change through pressure was more probable than voluntary change through cooption and persuasion. Finally, he, arguably, believed in the coming collapse of the North Korean regime. Thus, extending economic assistance to the North was tantamount to prolonging the evil North Korean regime. For all her rhetoric, President Park’s policy line seems no different than LMB’s.²⁵

The two conservative governments were radically different from the progressive governments in dealing with the North. Empirical data show three paradoxical outcomes. First, total trade volume between the South and the North almost doubled from \$1.79 billion in 2007 to \$2.71 billion in 2015, and it steadily increased during the conservative era until 2016. Second, North Korea’s exports to the South unexpectedly surpassed exports to the North during this period.²⁶ Finally, North Korea’s provocative behavior did not impede the overall nature of inter-Korean trade. Despite the second nuclear test in 2009, the *Cheonan* naval vessel being torpedoed by a North Korean submarine, and the shelling of Yeonpyeong Island in 2010, the overall volume of inter-Korean trade was on the rise. The successful operation of the Gaeseong Industrial Complex made such paradoxical outcomes possible.

Table 4. Inter-Korean Trade by Type during the Conservative Era (2008-2015) (unit: \$ million)

Type	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Commercial Trade	General Trade & Processing-on-commission Trade	557	790	808	666	435	4	1	1	0	0
	Economic Cooperation (Gaeseong Complex)	371	640	904	976	1,454	1,698	1,961	1,133	2,338	2,704
		299	441	808	941	1,443	1,698	1,961	1,132	2,338	2,704
Non-Commercial Transactions	422	367	108	37	23	12	9	3	4	10	
Total	1,350	1,798	1,820	1,697	1,912	1,714	1,971	1,136	2,342	2,714	

Source: Korea International Trade Association, <http://www.kita.net/interkorea2/html/business/namb3.jsp> (accessed April 23, 2016); "Inter-Korean Trade Statistics," Newsletter on Inter-Korean Trade, Vol. 2 (February 2012), http://www.sonosa.or.kr/newsinter/test_edition2/sub4.html (accessed April 25, 2016); ROK Ministry of Unification, Unification White Paper 2015, p. 61.

Table 5. Assistance to North Korea during the Conservative Era (2008-2015) (unit: billion won)

Type	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Gov. Assistance & Grants	227.3	198.3	43.8	29.4	20.4	6.5	2.3	13.3	14.1	14.0
Gov. Food Loans	0	150.5	0	0	0	0	0	0	0	0
Private Assistance & Grants	70.9	90.9	72.5	37.7	20.0	13.1	11.8	5.1	5.4	11.4
Total	298.2	439.7	116.3	67.1	40.4	19.6	14.1	18.3	19.5	25.4

Source: ROK Government Index, http://www.index.go.kr/potal/main/EachDtlPageDetail.do?idx_cd=2784 (accessed April 23, 2015).

Table 4 presents data on inter-Korean trade during the conservative era, when trade was increasing. However, general trade and processing-on-commission went down from \$808 million in 2008 to \$1 million in 2012 and to zero in 2014 and 2015. Non-commercial transactions such as government and private sector assistance to the North also decreased from \$367 million to \$9 million in 2012 and to \$4 million and \$10 million in 2014 and 2015 respectively. The PGH government allowed a bit more than the LMB government, but an overall decrease in commercial and non-commercial trade has been a common pattern. The only exception was trade exchange involving the Gaeseong Industrial Complex, where trade rose from \$808 million in 2008 to \$2.70 billion in 2015. Shipment of raw materials, intermediate and capital goods to Gaeseong was less than shipment of finished goods to the South, implying that operation of this complex has become normal and even profitable.

As the data in Table 5 demonstrates, Seoul's assistance to the North has been rather limited during the conservative era. Overall assistance declined from 439 billion *won* in 2007 to 14.1 billion *won* in 2012 and 25.4 billion *won* in 2015. Assistance and grants decreased from 198.3 billion *won* in 2007 to 43.8 billion *won* in 2008 and 2.3 billion *won* in 2012. The figure increased to 13.3 billion *won* in 2013 and 14.0 billion *won* in 2015 during the PGH government, but compared with the progressive decade, the amount seems negligible. And no food aid or loans were extended to the North during the conservative period. The LMB government was initially interested in extending food loans to the North, but required Pyongyang to come up with a detailed proposal on how the food would be distributed. Pyongyang refused, and no food loans took place.²⁷ Private assistance to the North shows a similar pattern, but, though limited, the LMB government was more generous than the PGH government in allowing it.

During the conservative era, three noticeable incidents negatively affected economic engagement with North Korea. The first is the shooting death of a South Korean female tourist by a North Korean soldier in a restricted military zone of the Mt. Geumgang area on July 11, 2008. The LMB government demanded that the North make a formal apology, pledge not to repeat similar incidents, and show its commitment in writing to protect the safety of South Korean tourists. As the North Korean authorities responded in a lukewarm way, the LMB government suspended the entire Mt. Geumgang project, which has never reopened. Hyundai Asan paid \$486 million to North Korea for the 50-year concession of the Mt. Geumgang area and made an additional investment of 226 billion *won* for the construction of various facilities. The Korea Tourist Corporation and other firms also invested 132 billion *won* in the area. All these investments were confiscated by North Korea. What was once a blessing turned into a curse.

The second incident involved the sinking of the Cheonan naval vessel in March 2010. Two months later, the ROK government joint investigation team concluded that the naval vessel had been torpedoed by a North Korean submarine, and announced the May 24th measures that suspended inter-Korean trade, banned further investments in North Korea inclusive of the Gaeseong Industrial Complex, prohibited North Korean vessels' passage in South Korean territorial waters, and stopped assistance to the North with the exception of humanitarian aid for children and the vulnerable. In addition, South Koreans were no longer allowed to visit North Korea, including Gaeseong and Mt. Geumgang. The May 24th measures fundamentally altered the terms of interaction with North Korea, signaling an end to engagement with the North.

Finally, North Korea undertook its third nuclear test on February 13, 2013 even before the new PGH government was inaugurated. The ROK and the United States responded to the provocation by elevating the intensity of annual joint military exercises and training. The United States deployed strategic forces capable of delivering nuclear bombs such as F-22s, B-2 strategic bombers, nuclear submarines, and a carrier battle group. Pyongyang reacted hysterically and announced a temporary suspension of the Gaeseong Industrial Complex operation on April 8 until military tension on the peninsula was reduced.²⁸ PGH was angered by the provocation and refused to resume the operation without North Korea's assurance that it would not close the operation for political and military reasons. She prevailed over the North and *won* Pyongyang's consent to insulate operation of the complex from political and military pressures on August 14. The agreement stated, "under any circumstances, the North will guarantee the safe passage of South Korean personnel, normal attendance of North Korean workers, and protection of private properties in the Gaeseong complex."²⁹ The incident implied that the Gaeseong Industrial Complex, which was considered a Maginot line of inter-Korean economic relations, would not be vulnerable to political and military purposes on either side.

Conservative governments placed the utmost priority on political and military concerns over economic ones. Denuclearization was the top priority, and economic engagement was seen as a source of nuclear and conventional military build-up and regime survival. But such thinking has costly consequences for the South. Hawkish engagement in the name of mechanical reciprocity brought adverse effects on the South. For example, damage from the suspension of the Mt. Geumgang tourist project has been hurting South Korean firms more than the North. As of November 2014, the sales loss of Hyundai Asan due to the closure of

the project was estimated at about 809 billion *won* and that of other firms related to the project about 325 billion *won*.³⁰ Damages incurred by the May 24th Measure have been known to be far greater. Whereas North Korea lost about \$2.6 billion as a result of the measure, South Korean firms suffered from a total loss of \$8.9 billion (\$1.1 billion from the failure to resume the Mt. Geumgang project, \$30 million from the failure to resume Gaeseong tourism, \$3.2 billion from a ban on additional investment in the Gaeseong Industrial Complex, \$4.3 billion from the suspension of inter-Korean trade, and \$80 million incurred from the diversion of air routes).³¹ A four month suspension of the Gaeseong Industrial Complex by the PGH government also turned out to be costly: 234 South Korean firms engaged in the complex reported that they lost 1.56 trillion *won* in these four months. This figure does not include losses for state enterprises, the Woori Bank, and Hyundai-Asan.³² All of this implies that sanction measures have been self-damaging.

Another negative externality was North Korea's growing dependence on China, which now accounts for almost 93 percent of North Korea's external trade. While North Korea was able to make up for losses from economic transactions with the South by diversifying into China until China announced its own sanctions in March 2016 after the fourth nuclear test, South Korean firms lost business opportunities in the North, and many of them ultimately went bankrupt. The LMB and PGH governments were initially confident that they could prevent Pyongyang's military provocations by utilizing economic leverage. But their calculations proved wrong, and their economic leverage became futile in the face of continuous military provocations such as nuclear tests, missile launches, the sinking of the Cheonan naval vessel, and the shelling of Yeonpyeong Island.

Judged according to the indicators above, economic non-engagement during the conservative era has been quite disappointing. It failed not only to prevent the North from undertaking nuclear tests and missile launches, but also to change its economic policy behavior. Despite eight consecutive years of hard works to isolate, contain, and punish North Korea, its regime remains intact.

CONCLUSION

February 10, 2016 will, arguably, be recorded as a tragic page in inter-Korean history because the South Korean government closed the Gaeseong Industrial Complex unilaterally and indefinitely as a response to North Korea's nuclear test and rocket launch. The PGH government justified the decision by arguing that Pyongyang has been diverting economic gains (about \$100 million per year) from the complex into nuclear weapons and missile development. Apart from the diversion issue, Seoul had to take the measure in order to set an example before the UN Security Council began to deliberate on a sanctions resolution.³³ Some suggest that a deeper, hidden motive can be found in PGH's personal belief that the North Korean regime is coming to an end and that unprecedented tougher sanctions could foster its collapse.³⁴

Progressive pundits and those who were affected by the decision strongly opposed it. They argue that there is no concrete evidence of Pyongyang diverting cash from Gaeseong to nuclear and missile development. Since the amount of money earned from Gaeseong is not large enough, the closure of Gaeseong would not stop North Korea's nuclear weapons ambition. On the contrary, the decision would transform Gaeseong, the zone of peace, into a military

zone, eventually heightening military tension. Moreover, they claim that the closing of the Gaeseong Industrial Complex would be seen as a sign of high political risk such as imminent war. More critical was the loss of government credibility. They were particularly angry because the Park government abruptly closed the complex without any prior consultation and even sufficient notice for evacuation. Ironically, it was the PGH government, not North Korea, which violated the August 2013 agreement not to “close the complex under any circumstances.” Consequently, 54,000 North Korean workers and their families, along with 5,000 South Korean firms, fell prey to collateral damage.³⁵ Finally, the Gaeseong Industrial Complex was seen as the most successful model of economic transformation for the North as well as a confidence-building measure, but with its closure, a ray of hope for economic engagement with the North, its opening and reform, and inter-Korean confidence building has become a distant dream.

What, then, is the outlook for economic engagement with North Korea? Three scenarios can be envisaged. The first is the most desirable, but least feasible. Under this scenario, North Korea would comply with international calls for denuclearization and seek economic benefits from the international community. Economic engagement will be maximized under this scenario. Judging by Kim Jong-un's remarks at the 7th Party Congress of the Korea Workers' Party on May 7, it is highly unlikely. He not only declared a continuation of the *byungjin* (simultaneous pursuit of economic development and nuclear weapons) line, but he also took great pride in testing a hydrogen bomb in January and launching the satellite *Gwangmyongsung 4*.³⁶

The second scenario is least desirable, but highly probable. Under this scenario, the North would continue to undertake nuclear tests and missile launches in response to international sanctions. Thus, any chance for economic engagement will be slim, and military tensions could be heightened. The outbreak of major or limited military conflicts cannot be ruled out.³⁷

Finally, the scenario of short-term confrontation and mid-term transformation could be possible. This could become plausible if a progressive candidate is elected in the 2017 South Korean presidential elections. The new president would seek a parallel approach of resuming inter-Korean dialogue, while attempting to resolve the North Korean nuclear quagmire through the Six-Party Talks process. South Korea under new leadership would take a more proactive role in linking denuclearization of North Korea to a peace regime on the Korean Peninsula and likely would resume economic engagement with the North.

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SHAPING THE FUTURE OF ECONOMIC ARCHITECTURE IN EAST ASIA

INTRODUCTION

Lately, many questions have been raised about how new currents are reshaping the economic architecture in East Asia, ranging from the Russian Far East to the Indian sub-continent with narrower geographical spans usually drawing most attention as long as they keep in mind either the inclusion or exclusion of the United States. Has TPP, despite complications in ratification by the US Senate, gained the upper hand over RCEP, which missed its deadline at the end of 2015? Has China’s “One Belt, One Road” begun to remake the map of economic integration in Asia, involving both a northern route split between the Russian Far East and Central Asia and a southern maritime route? Is the slump in oil and commodity prices altering the prospects for investments and economic integration? In the ensuing set of chapters, authors take the viewpoints of three major players in the search for a new economic architecture.

Through these chapters, we find several bases of comparison. First, are authors now optimistic or pessimistic about the looming prospects for regional integration along lines that favor their country’s strategy? Second, how do they weigh different types of centrality—by ASEAN? By the United States? By China? Third, how do they link the economic and security dimensions of foreign policy in East Asia? The chapters raise these themes, and this introduction summarizes some of their arguments in advance of drawing comparisons of their overall conclusions looking ahead.

THE VIEW FROM ASEAN

Kaewkamol Karen Pitakdumrongkit (Karen for short) considers recent thinking about ASEAN’s prospects for forging regional integration in support of ASEAN Centrality. She defines the area of interest—not as TPP’s slicing across Southeast Asia nor as RCEP’s expansive inclusion of India as well as Australia and New Zealand—as the boundaries of ASEAN + 3. Karen analyzes ASEAN’s viewpoint on three issue areas – trade, finance, and physical infrastructure –, finding them the most advanced initiatives. Recognizing that her overview does not substitute for recognition of diverse state actors in Southeast Asia or for drawing attention to the way great powers view these initiatives, Karen keeps her gaze on what applies to ASEAN as a separate force in pursuit of regional integration.

This chapter seeks to grasp ASEAN’s approaches for influencing economic governance, for enhancing complementarities and reducing conflicts among economic preferences, for contributing to the building of regional architecture, and for maintaining and enhancing ASEAN Centrality. In this inquiry repeated attention is drawn to Northeast Asian states, mostly China and Japan, and to how well ASEAN members can operate as a group; it is only able to exert its clout via collaboration.

In regard to trade, Karen shows states export-oriented, outward-looking, and disposed to open regionalism; however, reliance here has been on a fervent hunt for bilateralism, rather than on comprehensive deals involving all ASEAN participants and their trade partners. This has led to the “noodle-bowl syndrome” of overlapping rules of origins and dissimilar regulations despite the recent shift to collective action to forge a region-wide FTA. Yet, Karen worries that if RCEP fails, governments may fall back to their old way of discretely concluding or upgrading deals with non-ASEAN counterparts. Such actions could overwhelm the collective effort to merge dissimilar deals into a comprehensive package, making East Asian

trade regionalism even more fragmented. As to whether ASEAN Centrality will be sustained, which was possible at the start of the RCEP process by taking advantage of Sino-Japanese competition, Karen suggests that states enjoying dual membership in TPP and RCEP may change their trade priorities and become less incentivized to advance RCEP, even if it is welcome as a means to tackle the noodle bowl effect. Indonesia has recently turned inward, employing trade protectionism. Declining commodity prices have mounted pressure on exporters such as Malaysia and Brunei, increasing the likelihood of them raising barriers. The global slowdown may tempt some ASEAN states to focus their priorities on addressing grievances at home. In these concerns about trade, Karen offers a mostly bleak picture despite rays of hope.

The picture for financial regionalism is more positive, we are told, largely shaped by the ASEAN Way, emphasizing non-interference in others' domestic affairs and respect of national sovereignty. Cooperation is often fostered by informality, flexibility, consultation, and conflict avoidance. Karen anticipates that future financial regionalism will likely follow a stop-and-go pattern. Crises can to some degree catalyze the progress, but in "peace" times, inertia dominates as the ASEAN Way underlies collaboration. Yet, integration into a regional currency area is unlikely to materialize, due to technical issues such as "which currency will serve as an anchor" and "how would policy coordination be implemented," as the euro-zone crisis revealed the enforcement issues with a single currency zone. Political obstacles matter too; achieving a common currency area requires participants to give up their monetary policy autonomy and allow supranationality to determine policy. This would clash with the ASEAN Way. Even so, Sino-Japanese tension enables smaller members to gain leverage and punch above their weights and makes it unlikely that Northeast Asian states would wield their financial clout at the expense of ASEAN Centrality. Compared to trade, ASEAN's approach to building East Asian financial architecture has been more unified as most initiatives were under ASEAN +3; however, the prospects for East Asian financial regionalism could grow dimmer.

As for physical infrastructure, despite being aid recipients, ASEAN nations were able to wield clout over regional connectivity schemes and retain centrality. Yet, signs of weakening centrality have surfaced, e.g., the construction of the Xayaburi mega-hydropower dams in the Mekong River by Laos despite the alarm in downstream states. This made clear that ASEAN lacks effective mechanisms to manage disputes concerning the spillover effect of economic activities on the security sphere. Being increasingly attracted to financial and other assistance from the outside, different countries may end up having divergent views on the future of ASEAN connectivity, lessening internal cohesion and hence centrality. As self-interest looms large, governments may no longer be able to stick together and jointly determine cooperation outcomes, leaving the shaping of the future of regional infrastructure development more in the hands of their Northeast Asian neighbors, Karen concludes. The prognosis is for more spillover effects ahead.

THE VIEW FROM CHINA

Tu Xinquan argues that the institutional regional architecture of East Asia is much less developed and falling far behind the actual economic integration and that competition for influence among China, Japan, and the United States results in somewhat overlapping but also conflicting patterns of regional integration. While China has its own preferences, he appeals

for it to be more pragmatic about the future East Asian institutional regional architecture to accept realistic divergence in place of idealistic, China-centered unity in East Asia. If from 1997, the shared identity of an East Asian community appeared to be progressing smoothly, the situation suddenly changed in 2005, Tu finds, due to a split between China and Japan. As seen in the United States too, the power shift to China was proceeding rapidly, changing the calculus about regionalism, even in ASEAN, which decided to expand ASEAN +3 to ASEAN + 6, despite China's view on regionalism.

Tu sees Japan, apart from a brief period in 2009-10, as unwilling to accept the kind of regional integration sought by China, and the United States as interfering with this goal since it would never accept an East Asian community led by China and excluding it. Instead, it favors the concept of "Asia-Pacific." Japan as a U.S. ally has been assisting this effort. That is the main reason why so many pan-regional initiatives including non-Asian countries have emerged. The United States could tolerate a non-American EU but not a non-American East Asian community, Tu asserts, adding, East Asia has no inherent regional identity, no overwhelming regional hegemony, no imminent outside threat, but instead, persistent external penetration and involvement from the single superpower in the world. He, therefore, focuses on more modest integration objectives. Although China is enthusiastic about the identity of East Asia--Southeast Asia plus Northeast Asia--, it is not powerful enough to set up the regional architecture it prefers, while relations with ASEAN and South Korea are complicated due, respectively, to the South China Sea issue and North Korean nuclear experiments, causing China to rethink its strategy for East Asian regional integration, to lower expectations and turn to a more pragmatic approach. Attention is now paid to the One Belt, One Road initiative, in which East Asia is just a part of China's peripheral diplomacy and global strategy. In East Asia, the main approach has shifted from regionalism to bilateralism since the latter is more feasible. While the CJK FTA is stalled, China signed its FTA with South Korea in 2015. Since there is no possibility to develop an institutionalized East Asian community, the choice is to bring down actual trade and investment barriers through bilateral agreements.

China still has to face another challenge in dealing with the recently concluded TPP, adds Tu, who see it as a U.S. wedge into East Asia, aiming to disintegrate the regional integration promoted by China in the past decade. He calls it a well-conceived and intelligent U.S. move. China's responses are limited, as two acceptable but not preferable choices are CJK requiring Japan's interest and RCEP depending on India as well as Japan agreeing. RCEP is worth trying for China simply because it has significant trade benefits; however, it is not a feasible approach for FTAAP, which China advocates. As long as TPP is ratified, no matter what will happen to RCEP, the pathway to FTAAP would be set through TPP, Tu concludes, summarizing his findings on trade and investment.

The financial crisis of 1997-1998 provided even stronger impetus for East Asian financial cooperation, and the demand for this continued to grow, Tu observes. Yet, he does not see this as a path to regionalism, insisting that China is not trying to establish a closed Asian or Chinese organization but an open international organization complementing the current system. In comparison to regional trade and investment liberalization, China has requested less in regional financial cooperation. It has wider global interests in the financial field as well as larger influence. There is no desire or need for China to form a closed regional financial system. The better and more feasible approach of East Asian integration might be open regionalism without exclusion of outside powers and soft regionalism without institutionalized architecture, Tu adds.

THE VIEW FROM THE UNITED STATES

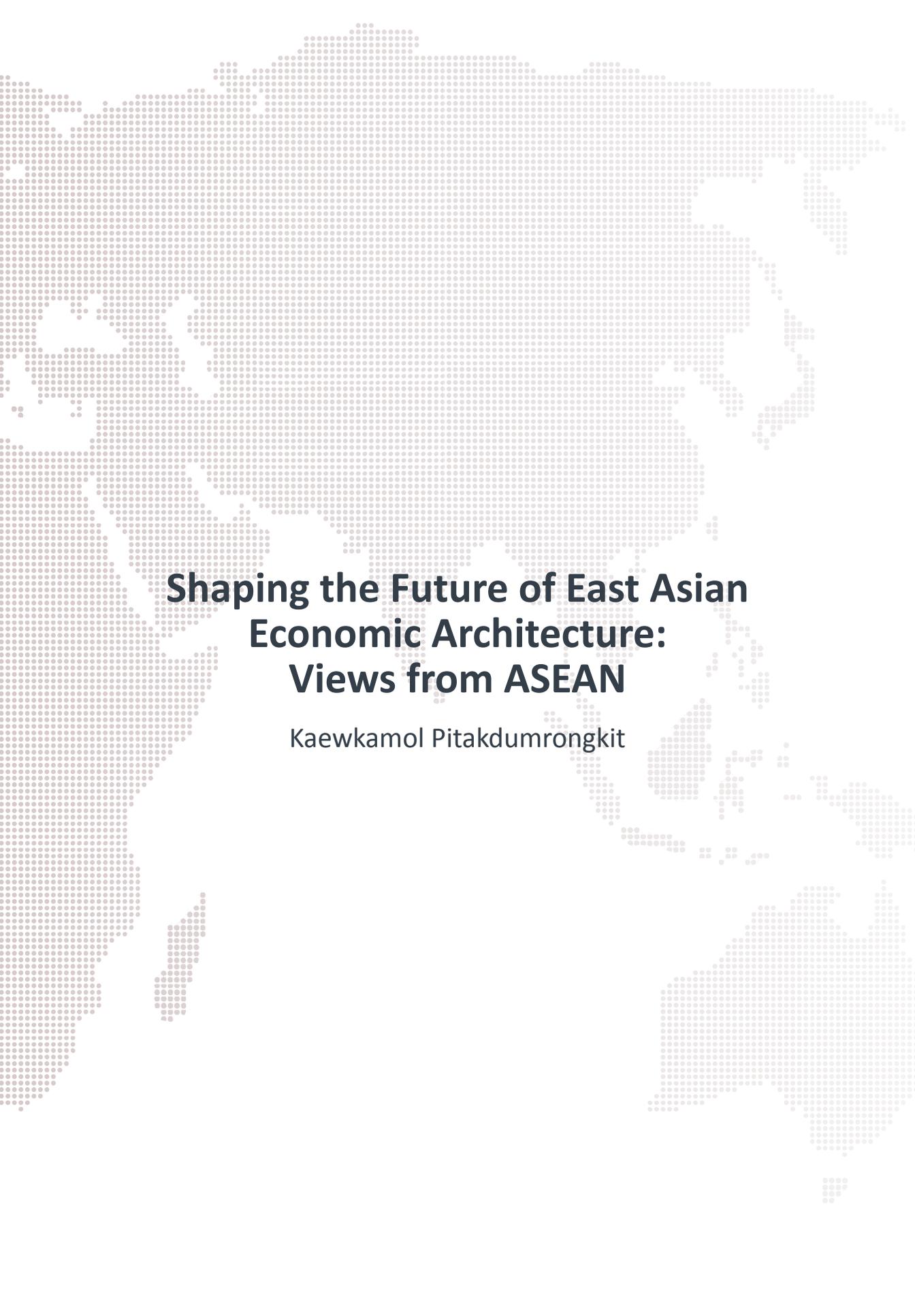
Gary Hufbauer and Eujin Jung detail the security and economic case for why the United States should care about economic integration in East Asia inclusive of it. Given a record of involvement in East Asian wars, Washington must engage the region to avoid a repeat. The authors go further in arguing that economic integration fosters trade growth, thereby reinforcing political stability and reducing reliance on military guarantees, i.e. it benefits the United States by lowering demands on its military budget. Strong economic ties do not erase disputes between China and Taiwan, or over control of the Senkaku/Diaoyu islands, but they help keep military solutions off the table, the two assert. As for the South China Sea, China will likely keep pushing, but not so far or so fast that it provokes a military response or economic retaliation. The standoff satisfies no one, but it is far better than conflict, and it rests on the mutual economic interests of all parties, we are told.

What type of economic regionalism do these authors have in mind? They assume that the United States will gradually wind down its military forces in Asia and economic integration will become an essential security guarantor. TPP, the CJK investment and trade agreements, and ASEAN agreements with the northern Asian powers, and the Asian Infrastructure Investment Bank (AIIB) are all critical building blocks for East Asian security during the next half-century. The more agreements, the better is the message.

The economic case is made separately by Hufbauer and Jung, who say Asian economic integration makes it much easier to operate value chains that exchange intermediate goods and services between multiple locations and sell final goods and services to millions of customers, and an integrated market, with U.S. participation provides a better top region for U.S. merchandise trade with East Asia; therefore economic integration is most important there. If deeper East Asian economic integration advances with the United States. as a party to trade and investment pacts, then U.S. commercial interests will benefit from larger markets and faster growth. This makes it clear that integration with the U.S. included has special significance. Indeed, TPP, as it advances to more East Asian states, can provide a template for the WTO. The authors proceed to identify some chapters in TPP with such wider potential. One example is groundbreaking transparency provisions, which require countries to provide other TPP members with a list of all SOEs and furnish specific information when requested. All SOE provisions are subject to the dispute resolution mechanism of the TPP, meaning that any violation could ultimately result in trade sanctions.

Reviewing other forums for East Asian economic integration including AIIB and other vehicles for implementing China's One Belt, One Road initiative, the authors do not necessarily see them as threatening U.S. interests. Regional self-help may reduce the U.S. burden in the next financial crisis, and faster assistance may forestall political instability in the region. The AIIB can supplement the World Bank and the Asian Development Bank by supporting roads, railways, and harbors throughout Asia, the chapter states. It proceeds to warn that U.S. failure to ratify TPP would amount to a colossal policy error. Even without TPP, economic integration will move forward, but at a slower pace and with weaker rules of the commercial road. In contrast, if TPP is ratified and then expanded, and if through an FTAAP or some other configuration the United States and China enter into deeper economic relations, the region will prosper and security tensions will dissipate or even disappear. This is an optimistic rendering of the promise of more economic integration, in which the only pessimism comes from the failure to proceed.





Shaping the Future of East Asian Economic Architecture: Views from ASEAN

Kaewkamol Pitakdumrongkit

The world has witnessed significant changes in its economic and strategic landscape since the Cold War era. In today's multipolar system, states have a variety of partners that they can choose to engage. Also, globalization has not only deepened economic interdependency but also made several issues transnational. Increasing linkages heighten the importance of international cooperation to tackle existing problems. East Asia—comprised of the ten states in ASEAN, China, Japan, and South Korea—is no exception.

This chapter focuses on ASEAN's perspective regarding the prospect of constructing a regional architecture—a subject deserving study because the organization has been influential in shaping a series of cooperative initiatives. Ignoring this viewpoint renders any understanding of the development of East Asian economic regionalism incomplete. Also, if unable to grasp the general picture of regional governance, policymakers may fail to provide feasible policy recommendations toward future pathways. I analyze ASEAN's viewpoint on three issue areas—trade, finance, and physical infrastructure—since they contain the most advanced initiatives in East Asia. Moreover, recent developments such as the emergence of mega-free trade agreements (mega-FTAs) and the establishment of the Asian Infrastructure Investment Bank (AIIB) can affect the future course of cooperation.

Following this introduction, part 1 identifies major issues ASEAN must ponder in order to effectively respond to the changing environment, part 2 shows how ASEAN has addressed these matters as well as its role in affecting the future of East Asian economic architecture in the realm of trade, finance, and infrastructure development, and part 3 offers conclusions and suggests some opportunities for future research. Of course, any attempt to treat ASEAN as a unitary actor cannot replace recognition of its diverse state actors.

ASEAN'S RESPONSES TO A CHANGING ENVIRONMENT

Against the backdrop of the multipolar state system, the deepening of globalization forces, and increased engagement with external players, a pressing issue facing the ten member states is: “how to respond to the changing environment?” As ASEAN is part of a wider East Asian setting, its actions can somehow shape the future of regional economic governance. Four major issues can be identified.

What approaches can ASEAN use to influence the development of East Asian economic governance? ASEAN's first challenge is to find approaches for cooperation with Northeast Asians. Such choices matter because different approaches can lead to dissimilar ways of forging collaboration, which can beget divergent outcomes. Certain modalities are more likely than others to enable the ASEAN participants to advance their interests and alter the results of East Asian economic cooperation at odds with their aims.

How can complementarities be enhanced and conflicts reduced between alternative preferences for economic arrangements? ASEAN has been implementing intra-ASEAN initiatives, most recently the ASEAN Economic Community (AEC). As the Southeast Asian countries have been participating in broader East Asian economic cooperation, ASEAN's own mechanisms may differ from those elsewhere in East Asia, resulting in divergent rules and regulations, which cause conflicts among alternative frameworks. If such clashes are not well addressed, the ASEAN states may no longer see East Asian cooperation as beneficial to

themselves and may stop pursuing it, which could undermine the advancement of regional economic governance.

How can ASEAN contribute to the building of regional architecture, despite having lesser structural power than its Northeast Asian neighbors? Despite being smaller powers, the Southeast Asian nations are able to employ various strategies to influence collaboration outcomes. For example, soft balancing or hedging is sometimes used against the more powerful.¹ On other occasions, ASEAN members facilitate cooperation, such as by convening ASEAN-centered platforms or using an ASEAN co-chair position to set the tempo of discussion and shape the meeting agendas and results.² Given this track record, how can ASEAN continue to affect the development of regional economic architecture?

Through engagement with the Northeast Asians to foster regional economic cooperation, how can “ASEAN Centrality” be maintained and enhanced? Regarding its external collaboration, ASEAN’s main goal is to sustain “ASEAN Centrality,” the main principle of its interactions with outside partners. For example, the ASEAN Charter highlights that its purpose is to “maintain the centrality and proactive role of ASEAN as the primary driving force in its relations and cooperation with its external partners in a regional architecture.”³

Despite the repetitive use of this expression, neither the charter nor other official documents says what ASEAN Centrality really is,⁴ apart from stress on “together-ness.” By operating as a group, it is believed that ASEAN members can have their interests addressed and shape the outcomes of wider cooperation. It should be noted that there are some doubts whether the Centrality can enable the organization to influence regional cooperation outcomes. Yet, evidence suggests that Centrality has been key to the entity’s ability to exert its clout via collaboration.⁵

ASEAN’S ROLE IN SHAPING EAST ASIAN ECONOMIC ARCHITECTURE

How has ASEAN addressed the above issues and influenced East Asian economic architecture? Answers differ across issue areas.

Trade

ASEAN economies are, in general, export-oriented and outward-looking, thanks to a regional trend towards structural reform, market deregulation, and trade liberalization since the 1980s. Recognizing the importance of economic interdependency, ASEAN has adopted “Open Regionalism” as an approach to reap the benefits of globalization characterized by global production networks (GPNs). This approach is outward-looking and inclusive in the sense that it embraces the world economy to advance regional economic activities, supports the governing rules of global multilateral institutions, and avoids discrimination against extra-regional nations.⁶

Open Regionalism appears in several agreements. The prime objective of the 1992 ASEAN Free Trade Agreement (AFTA) is to “promote the region as an international production centre so as to attract an increasing share of global FDI.”⁷ The AEC Blueprint 2025 notes that “ASEAN is continuing to make steady progress towards integrating the region into the global economy through FTAs and comprehensive economic partnership agreements (CEPs).”⁸ The

blueprint encourages the improvement of “economic partnerships with non-FTA Dialogue Partners by upgrading and strengthening trade and investment work programmes/plans . . . and engagement with global and regional institutions.”⁹

Although Open Regionalism helped ASEAN foster trade ties with the outside world, it has been carried out in a less unified way, marked by FTAs signed by individual Southeast Asian states and outsider stakeholders rather than more comprehensive deals involving all ASEAN participants and their respective trade partners. The fervent hunt for bilateralism was well reflected by the burgeoning of such arrangements during the 1990s and 2000s. Moreover, when a region-wide East Asian Free Trade Area (EAFTA) was proposed by China in 2004, ASEAN did not immediately embrace it, but set up expert panels to do a feasibility study. Instead of the EAFTA, ASEAN struck separate deals with the +3 governments individually—ASEAN-China FTA (ACFTA), ASEAN-Korea FTA, and ASEAN-Japan Comprehensive Economic Partnership (AJCEP).¹⁰

Do such less unified practices under the umbrella of Open Regionalism undermine the prospects of ASEAN centrality? That is unlikely because ASEAN has realized that the wide array of FTAs and CEPs members have signed actually obstruct international trade in the end. Such arrangements cumulatively lead to the “noodle bowl syndrome” of overlapping rules of origins and dissimilar regulations.¹¹ As an example, ACFTA consists of ten different deals as each member selected its own trade preferences and market access, putting a burden on businesses and authorities. Consequently, Open Regionalism has recently become more unified, shifting away from each Southeast Asian country’s separate deal making with trade partners toward the collective action of creating a region-wide FTA.

Such a shift can be seen by looking at the AEC Blueprint 2025, which ensures the “alignment of competition policy chapters that are negotiated by ASEAN under the various FTAs with Dialogue Partners.” Another example is the Regional Comprehensive Economic Partnership (RCEP) launched in 2013 by ASEAN+6 (Australia, India, and New Zealand are added). Yet, the effort of consolidating several FTAs into a single agreement is ambitious because it is difficult to follow recommendations such as increasing the flexibility of rules of origin, aligning origin administration systems, and enhancing other supporting mechanisms.¹³ As a result, the RCEP negotiations are still ongoing, missing the initial deadline to be concluded at the end of 2015. The latest 14th round was held in Vietnam in August 2016, and the upcoming round will take place in Vietnam in October 2016.

From ASEAN’s standpoint, its future involvement in East Asian trade governance will partly hinge on RCEP’s fate. The initiative’s successful completion would effectively showcase that Open Regionalism can be conducted in a more unified manner, via larger trade deals which involve all ASEAN states. If RCEP fails, governments may fall back to their old way of discretely concluding or upgrading deals with their non-ASEAN counterparts. Such actions could eventually overwhelm the collective effort to merge dissimilar deals into a comprehensive package, making East Asian trade regionalism even more fragmented.

ASEAN possesses less material power than the +3, raising questions about “how can the lesser powers have a say in the crafting of regional trade rules?” and “how can ASEAN Centrality be enhanced through cooperation?” Evidence indicates that ASEAN was able to shape the agenda-setting of some regional trade arrangements, especially RCEP. In the pre-RCEP years, two proposals for a region-wide FTA were tabled—China’s idea of

EAFTA (with ASEAN+3 membership) and Japan's proposal for a Comprehensive Economic Partnership of East Asia (CEPEA) (with ASEAN+6 membership). The rivalry between Beijing and Tokyo heated up in 2006, which halted the advancement of East Asian trade regionalism. ASEAN counter-proposed RCEP as a compromise between the two projects. That this initiative was based on the "ASEAN ++ formula" as it is to be built upon the existing five ASEAN-centered (or ASEAN+1) FTAs reflected the Southeast Asian effort to entrench ASEAN Centrality.¹⁴

Centrality was ingrained within the RCEP bargaining processes. According to the Guiding Principles and Objectives, the negotiations are to be carried out with recognition of this notion. The framework endorsed at the 19th ASEAN summit in November 2011 posits that the scheme is to "establish an ASEAN-led process by setting out principles under which ASEAN will engage interested ASEAN FTA partners in establishing a regional comprehensive economic partnership agreement."¹⁵ Moreover, the initiative contains the Special and Differential Treatment (SDT), which grants flexibility to the less developed ASEAN members, namely Cambodia, Laos, Myanmar, and Vietnam (CLMV). Such provisions did not appear in other FTAs such as the Trans-Pacific Partnership (TPP). The SDT clause has been applied to all ASEAN+1 FTAs, showing the continuation of dialogue partners' acceptance of "Centrality" and their accommodation to the different needs of individual Southeast Asian stakeholders. In addition, all of the eight RCEP working groups covering eight areas of cooperation were chaired by ASEAN nations.¹⁶

Will ASEAN Centrality be sustained? This will partially depend on how well ASEAN is able to manage competition among non-ASEAN partners. The RCEP case suggests that ASEAN took advantage of the Sino-Japanese contestation to advance its influence. The future functionality of Centrality also hinges on all ten members concurring to pursue it. There are worries that the success of TPP would eventually undercut it.¹⁷ Some ASEAN governments enjoying dual membership in TPP and RCEP may change their trade priorities and become less incentivized to advance RCEP as they have TPP on which to fall back.

The outlook for East Asian trade regionalism from ASEAN's perspective is that RCEP will be pursued by Southeast Asian nations mainly because they see it as a means to tackle the noodle bowl effect, which has prevented their economies from reaping the full benefits of GPNs. However, this effort faces serious technical and political challenges, including doubts about the political will of certain countries. For example, Indonesia has recently turned inward by employing trade protectionism.¹⁸ Declining commodity prices have mounted pressure on exporters such as Malaysia and Brunei, increasing the likelihood of them raising the barriers. Additionally, the global economic slowdown may tempt some ASEAN states to focus their priorities on addressing grievances at home instead of pursuing trade cooperation abroad, undercutting ASEAN's commitment to shape East Asian trade governance in the future.

It is too early to precisely gauge how TPP will alter the preferences and priorities of ASEAN TPP and non-TPP members. The former might be less enthusiastic than before to advance RCEP, while the latter would be more eager to seal the deal to alleviate the trade-diversion effect that TPP has on their economies. If the latter force prevails, the advancement of East Asian trade governance could be bolstered. If the opposite occurs, the future trade architecture in East Asia may become bleak.

Finance

As in the case of trade, ASEAN adopted Open Regionalism to advance financial cooperation with the +3. Yet, when compared to trade, the approach was executed in a more unified way as East Asian financial regionalism has largely developed under the ASEAN+3 framework. Why ASEAN+3? An answer can be found by looking at the 1997-1998 Asian financial crisis (AFC). Starting with the collapse of the Thai *baht*, contagion spread to other regional states as their currencies came under pressure and their economies faced financial turmoil. The AFC not only revealed the vulnerabilities of the region's banking and financial systems but also the fact that "East Asian economies were inextricably linked to each other and could not afford to ignore what was happening elsewhere within the region."¹⁹ To alleviate the crisis' impact, Indonesia and South Korea resorted to the IMF for assistance. However, wrong-headed IMF policies worsened the situation. Not only was the IMF heavily criticized, as seen in Jeffrey Sachs likening its structural adjustment program to "the wrong medicine for Asia,"²⁰ the poor performance also generated IMF resentment across the region. This collective experience among East Asian nations resulted in the emergence of ASEAN+3 to provide a "firebreak" mechanism against future crises.²¹

Financial cooperation under the ASEAN+3 framework focuses on three main areas: (1) a reserve sharing arrangement – represented by the Chiang Mai Initiative (CMI) and its successor the Chiang Mai Initiative Multilateralization (CMIM); (2) the development of regional bond markets– represented by the Asian Bond Markets Initiative (ABMI); and (3) surveillance mechanisms – such as the Economic Review and Policy Dialogue (ERPD) and ASEAN+3 Macroeconomic Research Office (AMRO).²² ASEAN welcomed these entities as complementary to its own mechanisms, reducing its economic vulnerabilities. For example, the CMI/CMIM supports the ASEAN Swap Arrangement (ASA) formed in 1977, providing, instant foreign exchange liquidity for members to alleviate short-term liquidity problems. ASA's size was originally \$100 million, which was doubled to \$200 million in 1978, increased to \$1 billion in 2000 when it was incorporated into the CMI, and then again doubled to \$2 billion in 2005. According to the ASEAN+3 Joint Statement in May 2000, the CMI "involves an expanded ASEAN Swap Arrangement that would include all ASEAN countries, and a network of bilateral swap and repurchase agreement facilities" among ASEAN+3 nations, including the ASA. The original size was \$80 billion, which was increased to \$120 billion upon the establishment of the CMIM in 2010, and doubled to \$240 billion in 2012. In addition, the prior absence of regional bond markets and collective surveillance bodies rendered the ASEAN+3 mechanisms attractive to the Southeast Asian parties.

The conduct of East Asian financial regionalism is largely shaped by the ASEAN Way, a set of governing principles the Southeast Asian nations use to manage their relations and resolve matters among themselves, emphasizing non-interference in others' domestic affairs and respect of national sovereignty. Cooperation is often fostered by informality, flexibility, consultation, and conflict avoidance.²³ Decisions are generally made by consensus, and peer pressure is deployed to extract compliance. Reluctance to delegate power to supranational bodies looms large. Although these characteristics can be found in other parts of the world, non-interference and national sovereignty are persistently upheld by ASEAN and have influenced the integration process since its origin.²⁴ This notion is usually adopted by outsiders in negotiations with the Southeast Asian parties in platforms ranging from the

ASEAN Regional Forum to ASEAN+3.²⁵ As Tan contends, although ASEAN+3 members “do not claim (not publicly at least) the ASEAN Way as their diplomatic model, their status as ASEAN-centric arrangements effectively ensures ASEAN’s way of doing business.”²⁶

The ASEAN Way has manifested itself in the ASEAN+3 process. For example, developing the elements of CMI/CMIM and ABMI was marked by incrementalism via slow increases in the CMI/CMIM size, bit-by-bit reductions in the IMF-linked portion, and the unhurried transformation of surveillance entities from a less intrusive ERPD to a more intrusive AMRO.²⁷ Instead of setting up a centralized storage for the liquidity pool, the CMI/CMIM contributions take the form of a commitment letter whereby the governments keep their own reserves until the monies are disbursed after a currency swap line is activated. These features indicated that the ASEAN Way was exercised to ensure that all participants, especially ASEAN, were comfortable with moving cooperation forward.

Equal burden-sharing—another ASEAN Way of managing matters—was used in the ASEAN+3 process. For example, the contributions to the CMIM fund by the ASEAN-5 (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) were based on each of them putting in \$4.552 billion (the amount was later adjusted to \$9.104 due to the doubling of the CMIM total size).²⁸ Regarding the ABMI, the investments into the Credit Guarantee and Investment Facility (CGIF) by the ASEAN-5 also followed the same principle.²⁹

Will the ASEAN Way continue to undergird the ASEAN+3 process and affect the East Asian financial architecture? Some might assert that the transformation of AMRO into an international organization in February 2016 was a break from the ASEAN Way as a consequence of the participants now permitting the institution to oversee their conduct. Such a view is mistaken. Its capacity is still small in terms of manpower and budget, and its autonomy is also questionable.

AMRO. . . assists the [CMIM] Executive Level Decision-Making Body (ELDMB) to make decisions on issues such as approving lending. But the ELDMB is mandated to oversee AMRO’s activities. The ELDMB consists of the deputy-level officials of the ASEAN+3 finance ministries and central banks. As such, AMRO is inevitably tied to governments.³⁰

The fact that AMRO is small and not entirely independent from power politics indicates the ongoing hesitation at having a supranational body undertake surveillance. The ASEAN Way, which upholds national sovereignty and non-interference in domestic affairs, is still intact.

The ASEAN Way will keep on driving East Asian financial cooperation. According to Benjamin Cohen, “punctuated equilibrium” has explained the progress of ASEAN+3 financial regionalism since the 1990s as the collaboration “tends to be characterized by long periods of stability, punctuated only on occasion by large, though less frequent, changes caused by major shifts in society or government.”³¹ After decades of little financial regionalism, the AFC suddenly triggered the ASEAN+3 process, which crafted mechanisms such as the CMI and ABMI. These schemes advanced more slowly until the 2008 Global Financial Crisis (GFC) sparked an acceleration. The GFC led to the multilateralization of the CMI and its expansion from \$80 to \$120 billion, and the creation of the New ABMI Roadmap to speed up the strengthening of regional bond markets.³²

Even a crisis is no guarantee that East Asia will again witness collective regional responses like the ones in the post-AFC era. Studies showed that the effect of the GFC in advancing financial regionalism was less than that of the AFC.³³ Future financial regionalism will likely follow a stop-and-go pattern. Crises can to some degree catalyze the progress, but in “peace” times, inertia tends to dominate as the ASEAN Way still underlies collaboration.

Deeper integration into a regional currency area is unlikely to materialize in the short or medium term. Despite many proposals to create an optimal currency area,³⁴ such a zone is difficult to form, technically and politically. On the technical front, issues such as “which currency will serve as an anchor” and “how would policy coordination be implemented” need to be carefully assessed.³⁵ Also, the euro-zone crisis revealed the enforcement issues with a single currency zone, reminding the East Asian governments to have second thoughts before embarking on such an endeavor of their own. Regarding political obstacles, achieving a common currency area requires participants to give up their monetary policy autonomy and allow a supranationality to determine policy. This would clash with the ASEAN Way, which dearly guards states’ sovereignty, making such a scheme less likely to become a reality.

Concerning ASEAN’s lesser financial capacity and expertise than the +3, some observers may postulate that the future of financial architecture in East Asia will be shaped by the +3, especially China and Japan. On the contrary, evidence suggests that there exist particular niches in which ASEAN can exercise ASEAN Centrality to alter the outcome, resorting to the ASEAN Caucus, a coalition-formation allowing countries to together propagate their influence over the course of international cooperation between themselves and external parties. Bargaining collectively was found to increase ASEAN’s voice in determining results in broader forums such as APEC.³⁶ In addition, the caucus sometimes has enabled the ASEAN participants to take advantage of contestation among their Northeast Asia counterparts. “Some ASEAN officials involved in the process privately express the view that a degree of Sino-Japanese tension is desirable because it enables smaller members to gain leverage and punch above their weights.”³⁷

In the CMI/CMIM negotiations, the ASEAN Caucus was utilized on several occasions. For instance, prior to and after the talks, the Southeast Asian governments convened an informal meeting to craft their shared position before negotiating with the +3.³⁸ The Caucus was also called upon by the ASEAN co-chair in the middle of the negotiation rounds, usually in the form of a coffee break, in which the ten members went to a separate room to formulate a common stance and/or convince disagreeing partners to get on board with the prevailing position.³⁹ Doing so not only decreased the likelihood that the +3 nations would cut separate deals with individual ASEAN states, which could further weaken the grouping, but also boosted the latter’s clout over certain outcomes. The Philippines’ CMIM contribution is a case in point. After the GFC, Manila faced certain financial difficulties, rendering it unable to contribute the amount it had earlier pledged. It asked whether it could temporarily reduce its portion before later raising it to \$4.552 billion, as promised. Disputes emerged when Singapore refused to accept the Philippines’s plea, causing a deadlock. The Thai co-chair stepped in by resorting to the ASEAN Caucus, citing “issue exclusiveness” or the exclusive nature of the issues being discussed and gesturing to the South Korean co-chair that the matter was ASEAN’s internal affair, which was to be decided solely by its members. As a result, Seoul did not intervene. Bangkok successfully resolved the issue with Singapore and the negotiations were able to move forward.⁴⁰

Will ASEAN Centrality be sustained as regional financial cooperation progresses? An answer will partially hinge on the degree to which the +3 will embrace the ASEAN Caucus. In the CMI/CMIM example, the Northeast Asian stakeholders saw it as beneficial as it sped up the talks.⁴¹ They did not need to bargain separately with individual ASEAN members but waited to hear a collective stance and negotiated from that point onwards.⁴² If in the future the +3 states still view the Caucus as useful, they are likely to support it, and Centrality can persist. If, however, the Northeast Asian parties perceive the method as neither helpful nor necessary, sustaining Centrality becomes uncertain. Rivalries among the +3 would provide room for ASEAN to keep with the practice. If the Northeast Asians no longer were at odds with one another, the chances would be reduced accordingly.

In conclusion, when compared to trade, ASEAN's approach to Open Regionalism in building East Asian financial architecture has been more unified as most initiatives were under the ASEAN+3 framework. Although the ASEAN nations are comfortable having the ASEAN Way propel collaboration, relying on it can complicate the ASEAN+3 process and prevent it from crafting ready-to-use mechanisms in a next crisis. That Singapore and South Korea did not resort to CMI facilities to ease their liquidity problems during the GFC exposed the fact that progress in regional financial cooperation had been too slow to provide helpful tools for the participants in a timely manner. Moreover, the GFC altered the regional states' way of addressing financial turmoil, shifting away from fostering regional arrangements towards national-level measures (e.g. domestic stimulus) and activism on the global stage such as the G-20 and IMF.⁴³ If such trends endure, the prospect for East Asian financial regionalism will be dimmer.

Physical Infrastructure

Infrastructure is important to ASEAN economies. Realizing that better infrastructure not only boosts trade and financial ties but also enhances economic development, members unveiled the Master Plan of ASEAN Connectivity (MPAC) in 2010 to bolster infrastructure building, ranging from transport and energy to information-communications technology. To date, the MPAC has identified 15 priorities including the ASEAN Highway Network (AHN), the Singapore-Kunming Rail Link (SKRL), and ASEAN Power Grids. The ASEAN Infrastructure Fund (AIF) was founded in 2012 to serve as the MPAC's funding arm. At the same time, ASEAN recognizes financial and technical constraints that might undercut its connectivity aspirations. For example, the Asian Development Bank (ADB) estimated that Southeast Asia would require \$60 billion each year until 2022 to meet its infrastructure needs,⁴⁴ but the AIF's lending commitment through 2020 was about \$4 billion.

As a result, ASEAN has adopted Open Regionalism by seeking support from external actors. The MPAC text calls for forging and strengthening "partnership with external partners, including Dialogue Partners, multilateral development banks, international organisations and others for effective and efficient implementation of the Master Plan."⁴⁵ ASEAN saw its own connectivity projects as closely linked with broader East Asian ones. As seen in the Chairman's Statement of the 15th ASEAN Summit in 2009, "[i]ntra-regional connectivity would benefit all [ASEAN Member States] . . . and serve as a foundation for a more enhanced East Asian connectivity."⁴⁶ ASEAN had employed an Open Regionalism approach to engage Northeast Asian peers before the MPAC was launched, as reflected by the +3's involvement in sub-regional programs such as the Greater Mekong Sub-region (GMS) and Brunei Darussalam-Indonesia-Malaysia-the Philippines East ASEAN Growth Area.⁴⁷ Yet, the recent deepening of GPNs has heightened the importance of the approach.

ASEAN perceived its cooperation with external partners as a win-win situation. Because some of its projects were stalled by lack of access to public and private funding and uneven development of the member states,⁴⁸ external assistance can complement and accelerate the MPAC progress, enhancing its production networks and competitiveness.⁴⁹ Unsurprisingly, the members positively greeted China's recent One Belt, One Road Initiative and joined its Asian Infrastructure Investment Bank (AIIB), seeing the latter as an alternative financing source.⁵⁰ The +3 see the MPAC as beneficial to themselves. For instance, China supported the AHN and SKRL because their completion will offer its provinces of Sichuan, Chongqing, and Yunnan access to the Indian Ocean.⁵¹ Japan identified the MPAC as a key to implementing its East-West and Southern Economic Corridors.⁵² Moreover, South Korea created the Mekong-ROK Foreign Ministers' Meeting in 2011 as a main cooperative body to better tap Southeast Asia's inexpensive labor, natural resources, and growing markets.⁵³ Driven by financial and technical needs, ASEAN will likely maintain its course of Open Regionalism, fostering collaboration with external actors. The interplay among major multilateral development banks, especially the AIIB, ADB, and the World Bank, will affect regional infrastructure advancement. Despite the fact that the ADB and AIIB agreement to collectively search for co-financing opportunities is a good sign,⁵⁴ little is known about how well they will work together. Because dissimilar institutions differ in their priorities, standards and practices, and other operational procedures, observers will have to wait and see how rules such as lending conditions, procurement policy, and labor standards will be jointly determined. Even if these entities end up competing with one another, ASEAN is unlikely to shut its door on either of them due to its infrastructure deficit. However, the conflict can tempt Southeast Asian stakeholders to be more cautious, fearing that such contestation may undermine their own connectivity initiatives and slow East Asian infrastructure development.

Skeptics worry that relations between Southeast and Northeast Asian states may be lopsided, with the former standing at the receiving end, leaving in doubt how they will be able to advance connectivity in East Asia. The MPAC agreement highlights the importance of maintaining ASEAN Centrality in infrastructure development. The text posits that the initiative is to be "[o]utward-looking and serve to promote healthy competitive dynamics among external partners and also help preserve ASEAN centrality."⁵⁵ However, engagement with several partners showed that ASEAN was inevitably embroiled in power politics, especially the Sino-Japanese competition. For instance, after Beijing defeated Tokyo by winning the \$5 billion high-speed rail project in Indonesia in October 2015 as the former required no Indonesian government guarantee, the latter quickly pledged that it would halve the processing time needed to disburse its Official Development Assistance (ODA) loans and "revise the current practice of requiring without exception recipient governments' payment guarantees."⁵⁶

Despite being aid recipients, ASEAN nations were able to wield clout over regional connectivity schemes and retain centrality via implementation of the MPAC initiative.⁵⁷ ASEAN acted as a broker, which took resources from the +3 stakeholders and allocated them to CLMV countries where needs were greater.⁵⁸ However, ASEAN Centrality may risk deterioration, rendering it no longer a main principle driving the MPAC. Signs of weakening centrality have surfaced, e.g., the ongoing construction of the Xayaburi megahydro-power dams in the Mekong River by Laos was strongly opposed by the downstream states of Cambodia and Vietnam, which argued that they would alter fish migration patterns and decrease the flow of nutrients necessary for rice production, hurting their fishery and

agricultural sectors.⁵⁹ The conflict of interest emerged when Vientiane saw that electricity sales from these dams would bring a lucrative income to its land-locked country, while Phnom Penh and Hanoi feared that their food security would be in jeopardy if the building continued. This action violated the 1995 Mekong Agreement (a treaty among Cambodia, Laos, Thailand, Vietnam, promoting shared use and management of the Mekong river basin) as Laos did not seek prior approval from the Mekong River Commission (MRC). The MRC protested, but, to date, it has failed to elicit Vientiane's compliance.⁶⁰

One lesson learned from the above is that ASEAN lacks effective mechanisms to manage disputes concerning the spill-over effect of economic activities on the (non-traditional) security sphere. Also, the outcome of the Xayaburi case will set a precedent for how an issue of this kind can be resolved in the future. Governments may calculate that they can develop infrastructure while not being held accountable for the implications of their actions. There are a dozen or more projects approved by the Laotian government, some of which will be financed by external players such as China.⁶¹ ASEAN has yet to craft rules to address the disputes over infrastructure building when some stakeholders are non-ASEAN members. Thus, the issue of dam building is a litmus test for the organization.

Being increasingly attracted to financial and other assistance from the outside, different countries may end up having divergent views on the future of ASEAN connectivity, lessening internal cohesion and hence centrality. As self-interest looms large, the Southeast Asian governments may no longer be able to stick together and jointly determine cooperation outcomes, leaving the shaping of the future of regional infrastructure development more in the hands of their Northeast Asian neighbours.

In sum, Southeast Asia has employed Open Regionalism by seeking support from external parties to achieve its connectivity agendas. Due to the level of assistance needed, it is unlikely to reverse course. Increasing interactions with outside actors, namely the +3, can shape the future outcome of East Asian connectivity, as the dynamics among financial and supporting entities are changing. The AIIB is a “new kid on the block” and its joint cooperation with the incumbent ADB is just beginning. As these banks have different priorities and procedures, the outlook will partly depend on how they interact. Another factor concerns the future of ASEAN Centrality, as internal clashes over infrastructure development can decrease ASEAN's influence over the direction of East Asian connectivity architecture. If the internal conflicts are not well-resolved, the members may be more divided over the future course of regional connectivity projects, and the prospects for East Asian infrastructure architecture will be determined more by the Northeast Asian counterparts.

CONCLUSION

This examination of ASEAN's perspective on the future of East Asian economic architecture in trade, finance, and physical infrastructure has certain limitations. First, I did not scrutinize the roles of ideational elements, especially the influence of epistemic communities and a sense of regional identity (or a sense of solidarity) on regional economic governance. Epistemic communities, defined as the networks of knowledge-based experts which act as “channels through which new ideas circulate from societies to governments as well as from country to country”⁶² were found to affect international economic cooperation.⁶³ Also, a sense of identity (or a sense of solidarity) can serve as a building block of regionalism as

it makes actors aware of their shared goals.⁶⁴ For example, Terada discovered that the AFC and regionalism in the other parts of the world helped promote the self-other dichotomy necessary for the successful formation of an East Asian identity.⁶⁵

Another limitation is that this study did not assess the effect of the private sector on the construction of regional architectures. East Asian countries have enhanced private players' participation in policymaking processes, as seen in the formation of the East Asian Business Council in 2004. As the inputs from non-state actors are increasingly considered by governments, future research should explore how the dynamics between private and public stakeholders will affect future regional collaboration.

Furthermore, the analysis did not take into account the influence of geopolitics, such as the territorial disputes in the East China Sea and South China Sea. Although little evidence suggests that these issues have significantly affected the economic realm, history has taught us that what happens in the security circle should not be ignored as it can cause rifts among regional states, corrode trust, and undermine international cooperation. For instance, disagreements over whether to incorporate remarks concerning the South China Sea matters into the meeting's statement resulted in ASEAN's failure to deliver a joint communiqué in 2012. Thus, scholars interested in scrutinizing the future of East Asian economic regionalism should pay attention to the spill-over effect of international security issues on economic ones.

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China's Visions of Future East Asian Economic Integration

Tu Xinquan

East Asia has been the fastest growing area in the world in recent decades. Starting with Japan in the 1950s, East Asian countries have consecutively taken part in the global economic system and have become connected with each other through the market economy. East Asia is among the most economically integrated regions along with Europe and North America. The intra-regional trade share of East Asia (ASEAN+3) in 2014 was as high as 45 percent, much greater than 26 percent in North America and 18 percent in Latin America, and only lower than the 65 percent in the European Union.¹

In contrast, the institutional regional architecture of East Asia is much less developed and falling far behind actual integration. While there is NAFTA in North America, MERCOSUR in Latin America, and the EU in Europe, there is no comparable region-wide arrangement in East Asia yet. This does not mean East Asia lacks institutional arrangements, but just the reverse, there are too many institutions covering various issue areas. Since the first sub-regional institution, ASEAN, was established in 1967, a number of regional and pan-regional economic integration initiatives have been launched, such as APEC in 1989, ASEAN+3 in 1997, the East Asia Summit in 2005, Trans-Pacific Partnership in 2009, China-Japan-Korea FTA and Regional Comprehensive Economic Partnership in 2012, along with other sub-, trans-, and pan-regional groupings in the political, financial, and security areas. The fragmentation in the approaches toward East Asian regional integration reflects the region's unique historical, cultural, and political characteristics. In particular, the competition for influence between China, Japan, and the United States results in somewhat overlapping but also conflicting patterns of regional integration.

As the biggest country in the region, China was once the indisputable center of East Asia in cultural, economic, and military terms. As a responsible stakeholder in the area, China has been active in advancing regional integration. However, subjective goodwill is far from enough to produce the desired outcome. China should be more pragmatic about the future of East Asian institutional regional architecture.

EAST ASIA INTEGRATION: IDEALISTIC UNITY VS REALISTIC DIVERGENCE

In geographical terms, East Asia refers to China (including Hong Kong, Taiwan, and Macau), Mongolia, the Korean Peninsula, Japan, and Southeast Asia. This definition also has strong cultural and historical foundations since many societies in the area have been, more or less, part of the Chinese cultural sphere. However, the China-centered system in East Asia has been gone for more than a century and a half since China was occupied by Western powers and subsequently defeated by Japan. Modern East Asia since WWII has experienced both cold and hot wars among its members under the influence of outside powers. Through the 1980s these neighboring countries formed several camps struggling with each other. ASEAN, originally formed by five small countries in 1967, was an alliance intended to survive under the severe circumstances of the Cold War and to counter China's aggressive foreign policy. There was no central power or leading country in East Asia, the very name of which was nothing but a geographical concept.

A region without internal cohesion is always open to external influence. Thus, the first established region-wide East Asian regional organization—APEC—was proposed and chaired by Australia in 1989. It should be noted that APEC is not an East Asia group but an

Asia-Pacific organization. A new regional concept—Asia Pacific—was introduced so that the United States, Canada, Australia, and New Zealand could be included. ASEAN initially disliked this idea, but member states were afraid to oppose it publicly. Instead, Malaysian Prime Minister Mahathir bin Mohamad proposed the East Asian Economic Caucus (EAEC), a regional FTA for Asian economies. However, this competing project was quickly suppressed by the United States along with its Asian ally Japan since the timing was poor, as the United States was about to see its overwhelming triumph in the Cold War. The ASEAN Regional Forum (ARF) launched in 1994 was also opened to these U.S.-led, non-Asian countries. Therefore, the beginning of East Asian integration was not limited to East Asia itself.

Only after the 1997 Asian financial crisis did East Asian economies start to realize that the United States was not so reliable and regional cooperation was needed to protect the collective interests of the region, given that APEC did not work effectively in this sense. As a result, ASEAN+3 (China, Japan and Korea) emerged at the end of 1997 to kick off East Asian economic integration. At the height of the financial crisis, Japan proposed an Asian Monetary Fund, which was killed by the United States for fear of being excluded.² However, the distrust of the United States finally led to the establishment of the Chiang Mai Initiative in order to avoid the recurrence of a regional financial crisis in 2000. Chinese premier Zhu Rongji suggested that China could negotiate an FTA with ASEAN in the same year. Later on, ASEAN signed separate agreements with each of the three Northeast Asian economies. The East Asia Vision Group mandated by ASEAN+3 delivered its report in 2001 and suggested the final goal of an East Asian Community.³ An East Asia Study Group consisting of government officials also echoed this proposal and recommended the evolution of ASEAN+3 into the East Asian Summit (EAS).⁴ Starting from 2004, ASEAN+3 formed an expert group to conduct a feasibility study on establishing an East Asian FTA covering all 13 economies.

While all seemed to be progressing smoothly toward a shared identity of East Asia including ASEAN plus China, Japan and Korea, the situation suddenly changed in 2005. The fundamental reason is that divisions between the two major powers in East Asia—Japan and China—re-emerged over the Diaoyu (Senkaku) Islands and Yasukuni Shrine after a period of tacit understanding. Prime Minister Koizumi Junichiro repeatedly irritated China and Korea with his annual visits to the shrine. Japan was also concerned with the rapid growth of China after its accession into the WTO and its unexpected and significant expanding influence in the region after the Asian financial crisis. The ratio of China's GDP to Japan's rose from one quarter in 2000 to one half in 2005. The United States shared this concern with its ally. Support for or tolerance of China's development by the two turned into worry and wariness. Indeed, the prospect of the East Asian Community had already faded because it had become clear that the power shift ahead would always be in favor of China.

The first conflict between China and Japan happened during preparations for the first EAS over what countries were qualified to attend. China still followed the previous approach of ASEAN+3 while Japan suddenly proposed inviting the United States, Australia, New Zealand, and even India, which is not an APEC member. The intention of counterbalancing China was straightforward, and China's opposition was obvious.⁵ But ASEAN, which was committed to an East Asian Community, changed its mind after Mahathir retired at the end of 2003. China was isolated and afraid to be labeled as excluding U.S. influence. In the end, the original ASEAN+3 expanded to ASEAN+6, which further expanded to include the United

States and Russia in 2011. The EAS almost became another APEC, which does not focus on inward regional integration but on outreach through pan-regional cooperation.

In 2009, there was a brief chance of revival of the East Asian Community when the Democratic Party of Japan won the Japanese election and Hatoyama Yukio became prime minister with the intention of improving the relationship with China and strongly advocating the concept of an East Asian Community. Unfortunately, his policy of moving a U.S. military base in Okinawa infuriated the United States, and he soon lost his job. Of course, his inclination to China and Asia also worried the United States.⁶ Thereafter, no Japanese prime minister would dare to mention the concept of an East Asian Community. In fact, the three leaders of East Asian integration—China, Japan, and ASEAN—from then have had their own approaches which are nonetheless not coinciding with each other.

The decision of Japan to join the TPP in November 2011, to some extent, stimulated progress toward a China-Japan-Korea FTA and investment treaty negotiation. The former was launched in November 2012, and the latter was concluded in May 2012. Moreover, RCEP talks, including all of ASEAN+6, kicked off in November 2012. All of these developments were largely in response to the aggressive expansion of TPP, especially Japan. However, this does not imply that East Asian countries have made a determination to seek further unification, but it reflects the internal competition and differences over the direction of East Asian economic integration. While TPP was concluded in October 2015, RCEP missed the deadline again at the end of 2015. The inclusion of India complicates the negotiations further since the Sino-Japan relationship already complicates the talks enough.

Up to now, there have been dozens of regional initiatives with different coverage within and extending beyond East Asia (Table 1). They are mostly overlapping or even competing with each other. None of them have been recognized as the best platform. The vision of an East Asian Community is even further from realization, indicating that it might have been too visionary at the very beginning when it was brought up in the late 1990s. At that time, the birth of the EU was hailed as an unprecedented experiment of regional integration in human history, setting an example of peacemaking among longtime rivalries and of economic unification in a region. This was envied by many leaders in East Asia as well as all the world. The success of NAFTA was also a strong stimulus. Besides, the Asian financial crisis highlighted the necessity of helping each other among regional neighbors. Nevertheless, the situation in East Asia is quite different, particularly in terms of leadership. While European integration largely depends on the Germany-France axis, which successfully designed the whole architecture at the outset, East Asian integration has been steered by ASEAN, which is itself a loose small-country group. The two major powers in the area, Japan and China, have no clear consensus on their bilateral relationship, let alone regional structuring. As a result, the approaches to regional integration are either bilateral agreements or non-binding, open to everyone. Countries have just been doing what is convenient or easier for them. The sense of crisis after the Asian financial crisis eventually faded in East Asia, unlike Europe, which had been under the imminent threat of the Soviet Union for decades. Finally, although there have been a lot of wars and conflicts in Europe as in East Asia, the cultural and blood connections among European countries have been much closer than those in East Asia, resulting in a stronger identity as a European community.

Table 1. Regional Regimes in East Asia

Pan-regional	the ASEAN Regional Forum (ARF), the Council on Security Cooperation in the Asia-Pacific Region (CSCAP), the Asia Pacific Economic Cooperation (APEC), the Conference on Interaction and Confidence-Building Measures in Asia (CICA), the Northeast Asia Cooperation Dialogue (NEACD), the Shangri-La Dialogue, the Six-Party Talks, Transpacific Partnership (TPP), etc.
Trans-regional	the Asia Europe Meeting (ASEM), the Shanghai Cooperation Organization (SCO), etc.
Sub-regional	the China-Japan-ROK Summit, CJK FTA, etc.
Regional	the ASEAN, the ASEAN Plus Three (APT) ("10+3"), the East Asia Summit (EAS) ("10+6"), Regional Comprehensive Economic Partnership (RCEP, 10+6)

Source: based on Pan Zhongqi (2008), "Dilemmas of Regionalism in East Asia," *Korea Review of International Studies*.

The role of the United States in East Asian integration is also complicated, and mostly interfering. At first, European integration also worried the United States with its fear of exclusion and discrimination. But the existence of a common enemy, the Soviet Union, made the U.S. tolerant of this. At the same time, the trade negotiation rounds and membership expansion of the GATT could help alleviate trade diversion of European integration. Also, in comparison to Japan, the European countries are less dependent on the United States, daring to insist on their own vision of a Europeans' Europe as President de Gaulle stated. Maybe more importantly, a potential leader of the East Asian Community in China is a complicated presence to the United States. The mutual mistrust and interdependence between the two countries result in a volatile relationship. The United States would never accept an East Asian Community led by China and excluding the United States, which is obviously not an East Asian country. It sees the best approach as introducing the concept of Asia-Pacific and inserting itself along with its allies in the Western Hemisphere into it. Japan as a U.S. ally also has been assisting this effort. That is the main reason why so many pan-regional initiatives including non-Asian countries have emerged. The United States could tolerate a non-American EU but not a non-American East Asian Community.

In sum, there is neither necessity nor feasibility to form a unified and institutionalized East Asian Community from both internal and external perspectives. East Asia has no inherent regional identity, no overwhelming regional hegemony, no imminent outside threat, but instead, persistent external penetration and involvement from the single superpower in the world. However, this does not mean that East Asian countries have no interest in further cooperation to reduce trade and investment barriers and other obstacles among them under some workable framework.

WHICH APPROACH TO INTEGRATION? A CHINESE PERSPECTIVE

East Asia in the Eyes of China

As the biggest country in Asia, and even in the world for centuries, China hardly had a sense of region. China considered itself the center of the world. Only after the western powers overwhelmingly defeated the Qing Dynasty and forced the country to open its gates and eyes

did the Chinese people begin to observe the world from the perspective of a country located in East Asia. In the first three decades of the PRC, the relationship between China and its East Asian neighbors had been difficult due to ideological differences. China developed a few alliances for a short period of time, but made more enemies for a longer time in the region. Closeness in distance by no means guaranteed close relations in these years.

However, the rapid development of former ideological opponents became a mirror for China to reflect on its own backwardness and seclusion. Deng Xiaoping's visits to Japan, Singapore, Thailand, and Malaysia a year after his return to the top leadership and a month before the 3rd plenum of the 11th Party Congress were considered a strong stimulus for him to make the decision to reform and open up the Chinese economy. These neighbors set a good example of economic development in front of China, which was eager to learn from and cooperate with them. China's openness was also a great opportunity for these countries, in particular the overseas Chinese community. In the early years of China's opening up, FDI from overseas Chinese in Hong Kong, Taiwan, and Southeast Asia accounted for the majority of inbound investments to China.

The relations between China and East Asian countries have grown closer over time. China joined APEC in 1991. China and South Korea established their diplomatic relationship in 1992. The first summit between China and ASEAN took place in 1997. During the 1997 financial crisis, China's refusal to devalue the RMB created a critical buffer for its neighbors, which, in return, were grateful for China's assistance. China's accession to the WTO once raised concerns in East Asian countries, especially in ASEAN, which were afraid of China's competition for foreign investments as well as exports to developed countries. However, ASEAN states warmly accepted Zhu Rongji's proposal for a China-ASEAN FTA and signed the agreement in 2002 with the aim to establish an FTA in 2010.

From the 1990s China re-emerged as a major power in the region; however, it is not the center of East Asia anymore and faces the incumbent powers of Japan and the United States. Although China is sincerely enthusiastic about the identity of East Asia—Southeast Asia plus Northeast Asia—it is not powerful enough to set up the regional architecture it prefers. More than that, relations with ASEAN and South Korea are complicated due to the South China Sea issue and the North Korean nuclear issue, respectively. All of these differences and issues are causing China to rethink its strategy for East Asian regional integration. With no pressing need to build up an East Asian Community, China has chosen to lower expectations and has turned to a more pragmatic approach.

Moreover, along with the rapid development of its power, China began to look beyond East Asia. China does not see itself as only a regional power, but also as a global actor. Beijing has been trying to establish more frameworks beyond East Asia with an aim to bypass the constraints of Japan and the United States. In 2000, China started the China-Africa Cooperation Forum, which held its 2015 summit in Africa. China took the lead to establish the Shanghai Cooperation Organization (SCO) in 2001 and assumed the 2014-2016 presidency of Conference on Interaction and Confidence-Building Measures in Asia (CICA), which was initiated by Kazakhstan. In 2014, the China-Latin America Forum was launched in Beijing. Most attention has been paid to the One Belt One Road Initiative, which was proposed by President Xi Jinping in 2013. Although the contents and intentions of such a wide-ranging and ambitious initiative have not been fully disclosed, it is obvious that East Asia is just a part of its peripheral diplomacy and global strategy.

Of course, East Asia is still very important for China in terms of trade and investment relations, but the main approach has shifted from regionalism to bilateralism since the latter is more feasible. While the CJK FTA has stalled, China signed its FTA with South Korea in 2015. China also finished an updated FTA with ASEAN and a long-overdue FTA with Australia in the same year, indicating that China is more pragmatic about regional integration in East Asia as well as the Asia Pacific. Since there is limited possibility to develop an institutionalized East Asian Community, the better choice would be to bring down actual trade and investment barriers through bilateral agreements, which are easier to make. However, China still has to face another challenge in dealing with the recently concluded TPP, which would possibly transform the whole picture of East Asian regional integration.

FTAAP, TPP or RCEP: How Should China Choose?

TPP has become the real focus in Chinese trade and diplomacy circles since President Obama announced the framework of a TPP agreement at the Honolulu APEC summit in November 2011. Although the U.S. government repeatedly denies the intention of containing China through TPP, both Chinese and American observers are quite sure that this is the intention. Jagdish Bhagwati, a leading trade economist, claims that “America’s design for Asian trade is inspired by the goal of containing China, and the TPP template effectively excludes it.” Therefore, “it is no surprise that the TPP template includes numerous agendas unrelated to trade, such as labor standards and restraints on the use of capital-account controls, many of which preclude China’s accession.”⁷ Jane Kelsey clearly points to “TPP as a lynchpin of the US anti-China strategy.”⁸ Peter Drysdale sees TPP as economic containment of China.⁹ Bergsten and Schott frankly say, “TPP would accomplish important security objectives,” which are to “ensure continued US economic and military engagement in the region as a balance against Chinese hegemony.”¹⁰ Elms argues, “it is a political statement about binding together different regions of the world. Member countries want to use TPP participation as a means of cementing their relationship to Asia.”¹¹

In short, TPP is partly designed as a U.S. wedge into East Asia, aiming to disintegrate the regional integration promoted by China in the past decade. It is surely a well-conceived and intelligent move of the United States. The Chinese government was unprepared and surprised at first, and they found that there is no way to counteract it since TPP has included Japan and some ASEAN countries which are supposed to be key partners in the East Asian Community. Actually, many Chinese specialists proposed that acceleration of the CJK FTA would be the best countermeasure. Zhao Jinping argued that China should accelerate its strategy of integrating East Asia in the form of “10+3,” “10+6,” and the CJK FTA, rather than struggling to fit into the rigorous, U.S.-style standards of the TPP.¹² Unfortunately, the development of the CJK FTA also depends on Japan, which is clearly on the side of the United States and whose relationship with China sunk to its lowest point due to a series of conflicts concerning the Diaoyu (Senkaku) Islands since 2010.

Another alternative is RCEP, through which ASEAN intends to merge five ASEAN+1 FTAs and maintain its centrality in East Asian regional integration. However, ASEAN is the hub, not the leader. The intra-regional trade share of ASEAN is only 24 percent.¹³ ASEAN itself has not integrated enough yet. The key players in RCEP are China, Japan, and India. RCEP is based on ASEAN+6 and is strongly advocated for by Japan. For China, it is not preferable but acceptable. But the participation of India, with its strong protectionist reputation, complicates the negotiations even further. While Japan has made great concessions in TPP

and wants higher market access commitments from both China and India, India is reluctant to do that partly due to the fear of Chinese competition. China also expects India to lower its trade barriers but is unwilling to meet such high requirements from Japan. Again, there is no way for China to bypass Japan in RCEP as in CJK FTA or ASEAN+3.

At the 2014 APEC summit, China took advantage of its presidency to propose the launch of FTAAP, which had actually originated from the United States in 2006. This is a smart tactical move, making China the promoter of Asia-Pacific economic integration. However, China did not deliver a pathway of FTAAP either through TPP or RCEP. Some specialists have suggested a hybrid approach to merge the two agreements.¹⁴ Even though this is workable, the more possible scenario would be TPP absorbing RCEP since the former has much wider and deeper disciplines on market access and domestic regulations. Of course, RCEP has its own attraction since China and India have large markets and relatively higher trade barriers, meaning that marginal liberalization benefits under RCEP will be greater. But the question is whether TPP members who have not joined RCEP will join it after its conclusion, such as the United States, Canada, Mexico, Peru, and Chile. There is also the case of whether RCEP members who have not joined TPP will join it later. Indonesia, South Korea, the Philippines, and Thailand are already performing due diligence on TPP to assess the potential benefits.¹⁵ In contrast, the North American countries would not apply to join RCEP. Peru and Chile already have FTAs with China without a need to do this. If only China and India are RCEP members who do not join TPP, how could one imagine that the FTAAP would follow the RCEP approach? In addition, India is not an APEC member, which leaves it ineligible for FTAAP membership.

In short, RCEP is worth trying for China simply because it has significant trade benefits. However, it is not a feasible approach for FTAAP. As long as TPP is ratified, no matter what will happen to RCEP, the pathway to FTAAP would be set. China does not have enough power to dominate or lead the regional economic integration in East Asia. Besides, China is not in a position to make new rules of further economic integration and liberalization since there are too many domestic restrictions and deficiencies in China's own economic and political systems.

For China, goodwill is not good enough. It must be pragmatic and realistic. The better way is not to pursue the ideal, institutionalized East Asia Community, but to work together with others to promote actual economic cooperation in various ways.¹⁶ China should invest less in trying to establish an East Asian Community, but allocate more resources to promoting unilateral liberalization under the APEC framework, encouraging more workable bilateral trade and investment arrangements and supporting the multilateral trading system. It is also not necessary for China to compete with TPP since most countries in the region are still more comfortable with U.S. leadership rather than anyone else's. In the end, China's economic development does not depend on its institutional arrangements with its East Asian neighbors but on its own economic and political reforms, which will, in turn, define the nature and future of its relationship with East Asia.

There are two kinds of integration: institutional and actual. The former is a means while the latter is the goal. In this sense, East Asia has been one of the most integrated areas in the world although there has been no region-wide formal institution as in Europe and North America. The effect of the institutional integration on the actual one tends to be overestimated. For

example, Korea and China had become among the most important economic partners for each other long before the China-Korea FTA was signed. For China, it is not necessary to envy U.S. leadership in institutional structuring, which is the result of comprehensive powers. The key target is to expand and increase its own powers, which will, in turn, enhance its leadership in the region as well as in the world.

East Asian Financial Cooperation: A More Pragmatic Process

In comparison to regional integration in the fields of trade and investment, the financial crisis of 1997-1998 provided even stronger impetus for East Asian financial cooperation. The sufferings of East Asian countries during the crisis created a strong will to establish a regional mechanism to help each other, reacting to the volatile exchange rate of the U.S. dollar. Japan proposed establishing the AMF in September 1997 at the meeting of the G7/IMF, which was really an improper time and place. Undoubtedly, this proposal was bitterly opposed by the United States and IMF, which were concerned about their own dominance in the region. Again, the United States would not tolerate East Asian cooperation without its involvement. However, the demand for regional financial cooperation in East Asia still existed and increased over time. In May 2000, the finance ministers of ASEAN+3 agreed to strengthen the existing cooperative framework in the region through the Chiang Mai Initiative (CMI). This time they kept a lower profile with a less headline-grabbing title but focused more on the substantive contents of cooperation. The cooperation program was designed to help solve problems with members rather than to set up an institution to either supplement or replace the incumbent international financial organizations. Significant progress has been made in implementing the CMI. The ASEAN Swap Arrangement (ASA), one of the main components of the CMI, increased to \$1 billion, effective November 17, 2000, and encompasses all ASEAN member countries.¹⁷ The IMF and the United States cautiously welcomed the CMI since it provided that the use of most swap currency is subject to the conditions set by the IMF and the foreign exchange reserve pool is largely denominated in the U.S. dollar. In the end, the CMI does not intend to exclude the influence of the United States and IMF.

However, the swap agreements under the CMI were not used due to a variety of reasons, one of which is no country was in need of financial aid until the global financial crisis. However, during the crisis in 2008 some member countries sought other sources of liquidity rather than activating CMI swaps, which highlighted the necessity of further regional cooperation. At the 12th financial ministerial of ASEAN+3 in May 2009, members agreed to transform the series of bilateral swaps into a centralized swap system, turning the CMI into the Chiang Mai Initiative Multilateralization (CMIM). Through this change, members also expanded the size of the foreign exchange reserve pool and reformed loan conditions. In May 2010, the 13th ministerial conference announced the establishment of the ASEAN +3 Macroeconomic Research Office which is mandated to conduct regional economic research and to provide decision-making support. The entirety of the reserve pool rose to \$240 billion in 2014. The development of the CMIM is reflective of the demand and willingness for regional financial cooperation among East Asian countries. While there is no visionary design of regional financial integration as in Europe, East Asian financial cooperation has been practical and gradually advancing.

The Asian Bond Market Initiative launched in 2002 has been another functional mechanism to reduce financial volatility. In promoting the issuance of local currency bonds, ASEAN+3 has encouraged its members to issue sovereign bonds to meet their financing needs for the restructuring of financial institutions and state-owned enterprises after the crisis and to establish a benchmark yield curve for the pricing of other fixed income instruments. This encouragement has paid off. Government debt markets in the region grew from just about \$710.8 billion in 2002 to nearly \$3.77 trillion by the end of 2011. As a share of GDP, outstanding local currency government bonds have grown significantly across the region, except in the Philippines and Indonesia, where the governments have taken steps to contain fiscal deficits.¹⁸

China's Role in East Asian Financial Cooperation

During the Asian financial crisis, China had no say in the international financial system yet. Japan dominated early East Asian financial cooperation in the aftermath of the crisis. But the rapid growth of China's economy and trade after its accession to the WTO increased its financial status quickly. By the end of February 2006, China's foreign exchange reserve had already exceeded that of Japan, taking first place in the world. As a result, China's role in East Asian financial cooperation has also been elevated. Under the CMIM, China's share (including Hong Kong) is equal to that of Japan at 32 percent.

China's international financial strategy is not limited to the regional sphere. The 2008 global financial crisis greatly debased the United States in the eyes of Chinese policymakers. Zhou Xiaochuan, governor of the PBOC, publicly called for reform of the existing U.S.-led international financial system and proposed strengthening the role of SDR.¹⁹ Since 2009, the internationalization of the RMB became a policy goal of the Chinese government. The use of RMB in cross-border trade has risen from 3.6 billion in 2009 to 7.2 trillion in 2015. China also has signed local currency swap agreements with over 30 economies. More significantly, the IMF included the RMB in the SDR basket in December 2015. For the purpose of the internationalization of the RMB, China has not put disproportionate emphasis on East Asia. Only five of the 33 countries with swap arrangements and only four countries of the biggest 14 economies in RMB cross-border use are from East Asia.²⁰ China is intending to internationalize rather than regionalize its currency.

Another big effort by China to reform the existing international financial system is the establishment of the Asian Infrastructure Investment Bank (AIIB) in 2015. The bank is supposed to focus on helping develop infrastructure development in Asian developing countries, but its membership is open to the whole world. The participation of Western European countries such as Britain, France, and Germany is quite dramatic. China has no intention of exercising its veto power in the bank. In addition, the AIIB has committed to draw on the experience of established banks and set up a three-tier structure including a council, a board of directors, and management, promising a supervising mechanism to ensure sufficient, open, and transparent policy-making. In sum, China is not trying to establish a closed Asian or Chinese organization but an open international organization complementing the current system. Unlike Japan, which once proposed the idea of an Asian Currency Unit, China has never mentioned this kind of proposal.

China is enthusiastic to push forward regional financial cooperation in East Asia, as its contribution to CMIM and AIIB has clearly proven. But in comparison to regional trade and investment liberalization, China has requested less in regional financial cooperation. It has wider global interests in the financial field as well as larger influence thanks to its huge scale and the existing poorer international financial system.

CONCLUSION

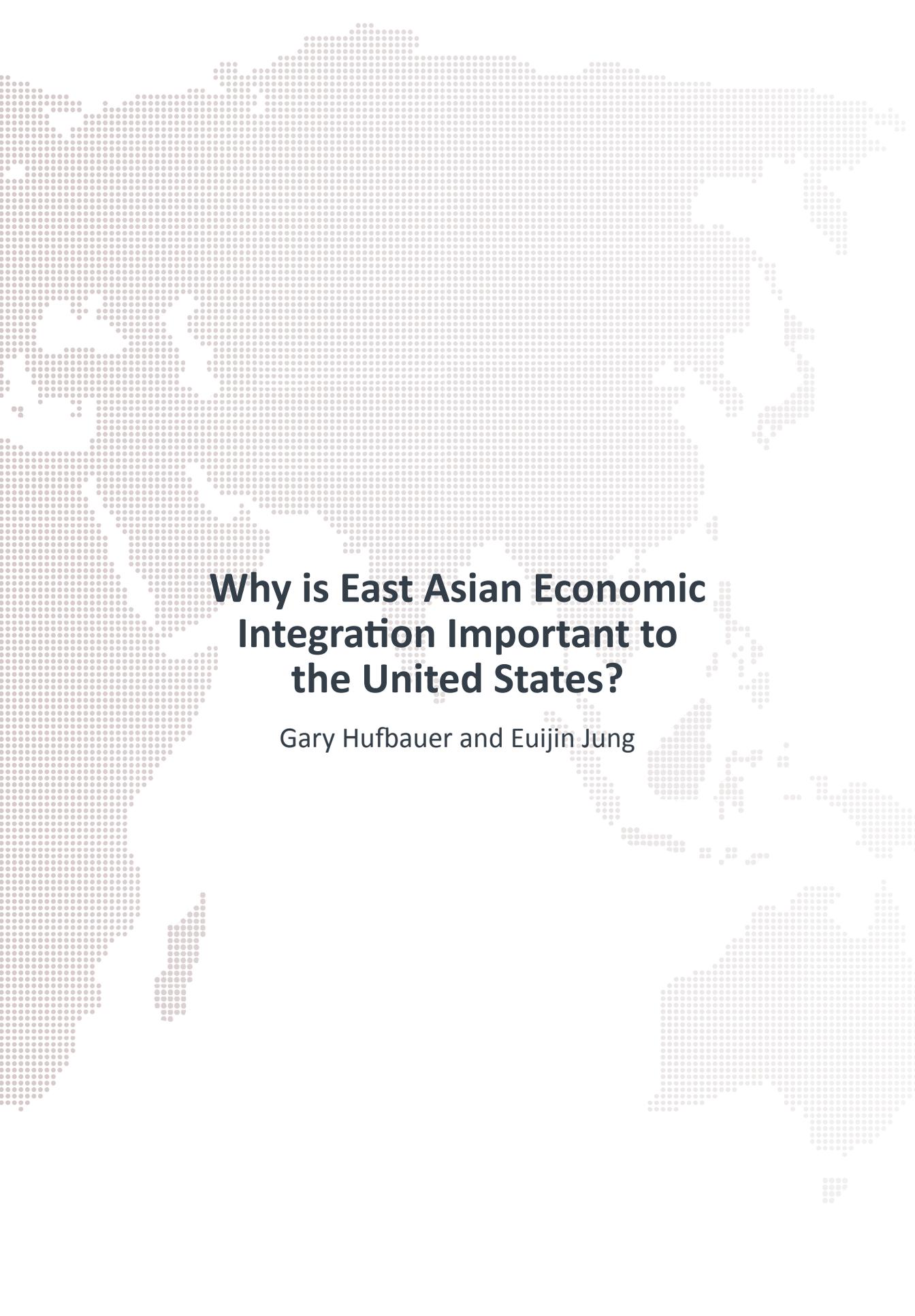
East Asia has been the fastest growing region in the world for the last decades thanks to its openness and market economies, which, in turn, makes for natural trading partners with close economic connections. Multi-track regional arrangements have contributed to the development of regional economic interactions. However, East Asia does not have the foundation for a unified and institutionalized community as Europe had, due to a variety of reasons, in particular the trilateral competition among China, the United States, and Japan. As the biggest country in the region, China has yet to be the most powerful and trusted one. TPP is more popular in comparison with RCEP, which in fact was not originally preferred by China. If TPP is successfully ratified, RCEP would be even less attractive given its lower ambition, not to mention the inclusion of India and Japan complicating negotiations. The Belt and Road Initiative strongly promoted by China looks beyond East Asia as well, with the intention being more to link China to individual states than unifying them together.

Therefore, the better and more feasible approach of East Asian integration might be open regionalism without exclusion of outside powers and soft regionalism without institutionalized architecture. In terms of regional financial cooperation, China would be a generous contributor. However, its interests extend well beyond regional borders. There is no desire or need for China to form a closed regional financial system.

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Why is East Asian Economic Integration Important to the United States?

Gary Hufbauer and Euijin Jung

East Asian economic integration has rapidly advanced through several mechanisms: the economic dialogue in APEC and ASEAN+3, financial cooperation via the Chiang Mai Initiative Multilateralization (CMIM), and infrastructure investment through the Asian Infrastructure Investment Bank (AIIB) and portals for implementing China's One Belt One Road initiative (OBOR). Most recently, the Trans Pacific Partnership joined by 12 Asian Pacific countries has been signed, serving as the cornerstone of the U.S. "pivot to Asia." Why should the United States care so much about the degree of economic integration between East Asian nations – the nations encompassing Korea and Japan in the north, China in the middle, and ASEAN in the south? Like "motherhood and apple pie," economic integration seems like a good thing. But to put the question starkly, does economic integration among the 15 countries of East Asia have any greater importance for the United States than economic integration among the 54 countries of sub-Saharan Africa? The answer is a resounding "yes," both for security and economic reasons. Our paper addresses in turn the security and economic aspects of East Asian economic integration from an American perspective.

THE SECURITY CASE

The security case covers several themes, which boil down to the proposition that the United States has an overwhelming national interest in ensuring that East Asian nations do not go to war with themselves and certainly not with the United States. Since the Second World War, U.S. military involvement in East Asia has sought to prevent territorial conquest and the disruption of regional peace. But military deployments are expensive in blood and treasure. East Asia's burst into the world trading system has focused regional attention on economic gains rather than territorial disputes. States that trade with one another generally prefer peace to conflict, among other reasons owing to the economic losses that result from the interruption of trade.¹ Conversely, regional economic integration fosters trade growth, thereby reinforcing political stability and reducing reliance on military guarantees. In this sense, East Asian economic integration benefits the United States by lowering demands on its military budget.

The French economist, Frederic Bastiat (1801-1850) reportedly declared, "When goods are not allowed to cross borders, soldiers will," but the exact phrasing probably originated with Franklin Roosevelt's eminent secretary of state, Cordell Hull (1871-1955). Hull, a dedicated free trader, was fond of quoting Bastiat, and saw economic integration as the best means of averting a Third World War between European powers. This sentiment worked its way into the American political fabric, explaining why the Truman, Eisenhower, and Kennedy administrations championed the original European Coal and Steel Community (established in 1951 by the Treaty of Paris), and its successor the European Common Market (established by the Treaty of Rome in 1957), even though both organizations contained features contrary to U.S. commercial interests.

In the wake of the First World War, the United States emerged as the world's foremost military power, a role that has continued to grow for the past hundred years. The United States has entered every major war over the past century: the Second World War, the Korean War, the Vietnam War, the Bosnian war, two Iraq wars, the Afghanistan war, and now the Syrian war. These wars are extremely costly and, apart from the world wars, each of them grew more unpopular the longer they lasted.

The State Department and the Pentagon fully appreciate that a serious East Asian conflict will likely engage the United States. The same is not true of conflicts in sub-Saharan Africa. Marauding tribal forces in Congo, Rwanda, and Burundi have been fighting for decades, killing tens of thousands, without attracting U.S. military action. But Korea and Japan are military allies, and the United States has close security ties with Taiwan, Singapore, and other countries in the region. Conflict in East Asia would act as a powerful magnet for U.S. military engagement. Not a happy prospect.

Recalling Cordell Hull, strong economic ties within the region will guard against the escalation of friction into conflict. Economic integration inevitably creates networks of firms and individuals who harbor a strong interest in peaceful relations with their neighbors. From the U.S. standpoint, it is welcoming that Taiwanese corporations have invested many billions in China, and that two-way trade between Japan and China exceeded \$300 billion in 2014. Strong economic ties do not erase disputes between China and Taiwan, or over control of the Senkaku/Diaoyu islands, but they help keep military solutions off the table.

North Korean provocations, South China Sea islands, and the nine-dashed line furnish the East Asian security worries of the moment. Economic ties do not appear to offer an answer to the paranoid provocations of Kim Jong-un. Like his father and grandfather, the current supreme leader minimizes foreign economic engagement. He might be susceptible to strong economic sanctions imposed by China – North Korea's principal trading partner – but, unfortunately, Kim Jong-un resides in a different world than the one envisaged by Bastiat or Hull.

The most critical player in the region, China, holds the key for U.S. security interests. Realists argue that China's rise will threaten the United States by disregarding the rules and institutions of international system to promote its own security, political and economic interests. Liberalists contend otherwise. In their view, China's rise requires an accommodation with international rules and multilateral institutions.² For China, the costs of disruption would be much higher than the gains. Since 2001, China's economic participation in the international system, exemplified by the WTO, deepened its economic interdependence with partners abroad, particularly with the United States. China's merchandise exports to the world increased from \$266 billion in 2001 to \$2.3 trillion in 2015.³ The United States has been the largest export market for Chinese goods, accounting for 20 percent of China's exports in 2015.⁴ The U.S. foreign direct investment (FDI) stock in China rose from \$12 billion in 2001 to \$66 billion in 2014.⁵ To promote continued economic prosperity, China will need to stay in the global trade and investment system, which entails embracing the system's rules and regulations and building bilateral and multilateral trust with its economic partners.

China's militarization of the South China Sea and its claim over vast ocean territory are different matters. China's prosperity, and the Communist Party's monopoly of power, both depend on economic engagement with the world at large. For that crucial reason, China has advanced its territorial claims in small discrete steps separated by months or years – publishing a map, dredging sand, paving runways, building docks, off-loading missiles and fighter planes. China will likely keep pushing, but not so far or so fast that it provokes a military response or economic retaliation. China will not interfere with vast tonnages of merchant marine cargo or warships that pass through the South China Sea daily, but neither

will China withdraw from the islands nor publish a new edition of maps without the nine-dashed lines. The standoff satisfies no one, but it is far better than conflict, and it rests on the mutual economic interests of all parties, including the United States.

The density of merchandise exports between East Asian countries soared over the past four decades, reflecting regional economic integration. Table 1 compares the density of merchandise export trade, expressed as a percent of GDP – an indicator of economic integration – between East Asian countries in 1970 and 2014. Particularly impressive is the outsized role of regional exports for Southeast Asian countries. Average regional exports for these countries increased from 10 percent of GDP in 1970 to 38 percent of GDP in 2014. A large share of GDP in Vietnam and Myanmar in 2014 reflects the impact of obtaining ASEAN membership in the recent past. Meanwhile, South Korea exhibited a six-fold increase in its export dependence on East Asia. This can be explained by its active policies to promote trade liberalization as well as the deep engagement of Korean companies into regional supply chains. For the two East Asian giants, China and Japan, the density of merchandise export trade to the region reached 10 percent and 8 percent of GDP respectively, relatively lower figures than other Asian countries.

Table 1. Density of Merchandise Export Trade Between East Asian Countries as a % of GDP

Country	1970	2014
Australia	5	13
Brunei Darussalam	-	56
Cambodia	3	19
Hong Kong	16	114
China	3	10
Indonesia	8	12
Japan	3	8
South Korea	3	22
Laos	2	33
Malaysia	24	48
Myanmar	1	29
New Zealand	4	13
Philippines	7	15
Singapore	43	97
Thailand	6	34
Vietnam	1	36

Note: Since 1970 data for China and Malaysia is not available, the authors use data for 1990 and 1980 respectively.

Source: IMF Direction of Trade Statistics and UN Statistics

Although these intra-regional trade links contribute to regional political stability as well as the global economy, regional economic integration in the absence of U.S. leadership has sometimes been viewed as a threat to U.S. interests. This mainly reflects the view that China-centered economic groups, such as the Shanghai Cooperation Organization, ASEAN+3, the East Asia Community, the Chiang Mai Initiative Multilateralism, and the Asian Infrastructure Investment Bank could weaken U.S. ties to the region, and lead to Chinese dominance.

However, this is not likely to happen. As Asian countries deepen their economic integration, dialogue among high-level officials will increase, covering both economic and security issues. Most countries will share a common interest in balancing Chinese and U.S. influence. This will diminish the threat to U.S. security interests in the region.

An illuminating example can be drawn from past events. The original inspiration for ASEAN was to dampen guerilla hostilities between Malaysia, Indonesia, and the Philippines. Only slowly did ASEAN acquire the trappings of a free trade area. Indeed, stiff trade barriers still remain between members, and they are being eroded only slowly by the ASEAN Free Trade Area (AFTA). But enhanced economic ties within Southeast Asia, reinforced by the institutional fabric of ASEAN, have almost eliminated the possibility of recurring guerilla wars. In this manner, U.S. security interests were well served by the formation of ASEAN. Today, Asian countries that welcome U.S. commitments in regional security appreciate both U.S. economic engagement and military presence in the region.

For more than 60 years, the United States has stationed large troop numbers in Europe, Japan, and Korea. Table 2 shows current deployments. U.S. forces serve as both tripwires and rapid responders to threatened aggression from Russia, China, or North Korea. Air, naval, and missile support back up the American military presence on the ground. These combined forces provide a military deterrence that has preserved the peace in Europe and Asia for many decades.

The Obama administration has underlined its “pivot to Asia” by such measures as redeploying its naval forces at a six to four ratio between the Atlantic and Pacific fleets. However, it seems unlikely that the United States will continue to station large troop numbers in Europe and Asia for another half-century. Indeed, prominent politicians are already calling on host nations to pay the full cost of current deployments, and voices are heard both in the United States and host nations for complete withdrawal. As the United States gradually winds down its military forces in Asia, economic integration will become an essential guarantor of U.S. security interests in the region. In this light, TPP, China-Japan-Korea investment and trade agreements, ASEAN agreements with the northern Asian powers, CMIM, and AIIB are all critical building blocks for East Asian security during the next half-century.

THE ECONOMIC CASE

An integrated market, with the U.S. as a key participant, provides a better field for the United States to advocate high standard rules of commercial conduct. This section will examine how U.S. economic interests are protected or affected by TPP, CMIM and AIIB.

Economic integration in East Asia advances U.S. economic interests, especially when the United States is in the party. U.S. multinational corporations flourish when they can operate in large markets. East Asian economic integration makes it easier to operate global value chains that exchange intermediate goods and services between multiple locations and sell final goods and services to millions of customers.

It would, of course, be wonderful if feuding countries in the Middle East, North Africa, Sub-Saharan Africa, and South Asia turned their attention to economic integration rather than border conflicts and sectarian strife. From a security standpoint, that improbable shift of statecraft priorities would lessen the call for U.S. military involvement, much to the

Table 2. United States Military Deployment (2015)

Countries	Active Military Personnel	Percent Military Personnel Abroad
Africa and Southwest Asia	33,859	19
Afghanistan	9,800	6
Iraq	3,550	2
Kuwait	12,485	7
Bahrain	3,400	2
Turkey	1,590	1
Djibouti	1,243	1
Qatar	613	0
United Arab Emirates	346	0
Saudi Arabia	338	0
Egypt	263	0
South Africa	231	0
Asia Pacific	77,553	44
Japan	48,828	28
South Korea	27,558	16
British Indian Ocean Territory	504	0
Thailand	298	0
Singapore	187	0
Australia	178	0
Europe	63,536	36
Germany	37,704	21
Italy	11,697	7
United Kingdom	9,074	5
Spain	2,496	1
Belgium	1,196	1
Portugal	589	0
Greece	408	0
Netherlands	372	0
Western Hemisphere	1,348	1
Cuba (Guantanamo Bay)	679	0
Honduras	402	0
Canada	139	0
Greenland	128	0
Total US troops in non-US territories	176,296	100

Note: Some 54 parties have established military alliances with the United States; they are shown in bold type.

Source: Department of Defense, Defense Manpower Data Center

delight of the Pentagon, the CIA, and the American public. But from the standpoint of U.S. economic interests, integration within those regions is far less important than integration in East Asia with the United States as a member.

Table 3 portrays six regions, showing U.S. exports, imports, inward and outward FDI, as well as GDP and population within each region. The foremost partners for two-way U.S. trade and two-way FDI stocks are the European Union and East Asia. In 2014 the top region for U.S. merchandise trade was East Asia, accounting for \$412 billion of U.S. exports and \$868 billion of U.S. imports, respectively 25 percent and 37 percent of total U.S. exports and imports. For foreign direct investment, the EU claims more than half of total U.S. outward and inward FDI stocks, while East Asia's share has grown to 14 percent for outward FDI and 18 percent for inward FDI. Considering these economic facts, in terms of present U.S. economic interests, East Asia ranks second to the European Union, and well above South America and other regions shown in Table 3.

	US exports of goods		US imports of goods		US outward FDI stocks		US inward FDI stocks		GDP	Popula- tion
	%	\$ billion	%	\$ billion	percent	\$ billion	%	\$ billion	\$ trillion at current price	million
European Union	17	279	18	423	51	2,515	59	1,724	19	508
East Asia	25	412	37	868	14	710	18	513	21	2,264
South Asia	2	25	2	57	1	29	0	8	3	1,721
Middle East and North Africa	6	97	5	118	2	82	1	21	3	417
Sub-Saharan Africa	2	26	1	27	1	35	0	2	2	974
South America	8	125	5	113	3	139	0	9	6	626
Rest of world	40	655	32	740	29	1,411	22	625	24	5,340
World	100	1,620	100	2,346	100	4,921	100	2,901	78	11,851

Note: Rest of world includes Mexico, Canada and other countries.

Source: International Trade Centre; Bureau of Economic Analysis; and IMF World Economic Outlook

Trans Pacific Partnership

If deeper East Asian economic integration advances, with the United States as a party to trade and investment pacts, then U.S. commercial interests will benefit from larger markets and faster growth. Table 4 summarizes estimates by Peter Petri and Michael Plummer of U.S. export and GDP gains from various configurations of economic integration: the present 12-member TPP, a 16-member TPP, an FTA of Asia and the Pacific (FTAAP), and a U.S.-China FTA. Under the current TPP, U.S. GDP is projected to increase by \$88 billion or 0.4 percent annually when fully phased in. Exports by 2025 will grow by \$263 billion or 8 percent of the baseline projection. If TPP expands to 16 members, U.S. GDP and export gains are projected at \$328 and \$698 billion respectively.⁶ If the United States and China eventually conclude an FTA, U.S. GDP gains are estimated at 0.6 percent annually, corresponding to U.S. export gains of 13 percent over baseline. The FTAAP would deliver the largest gains, boosting U.S. GDP by 1.6 percent and exports by almost 25 percent.

Table 4. US Export and Income Gains from Various Configurations of Economic Integration

	unit	2025 change from baseline			
		TPP12	TPP 16	FTAAP	US-China FTA
Income gains	\$ billion	88	108	328	130
	percent	0.4	0.5	1.6	0.6
Export gains	\$ billion	263	191	698	373
	percent	7.9	6.8	24.8	13.3

Note: TPP 16 includes TPP 12 members plus Korea, Indonesia, Philippines, and Thailand. FTAAP includes TPP 16 members plus China, Hong Kong, Russia, Taiwan and other Asian countries.⁷

Not only are potential U.S. trade and investment gains quite substantial from these assorted configurations of engagement with East Asia, but also prospective agreements will embrace commercial rules very much to U.S. tastes. This was true of chapters agreed in the TPP, and it will very likely be true of other East Asian agreements with U.S. membership. If such rules are widely adopted in East Asian pacts, they will furnish a new template for the WTO rulebook. To provide a flavor of the new rules, we summarize key features of several TPP chapters – features that might not make an appearance in East Asian pacts without U.S. membership.⁸

National Treatment and Market Access

TPP Chapter 2 extends the general national treatment principle to sub-federal governments, limits performance requirements and export restrictions, and calls for transparent licensing procedures. However, TPP members scheduled numerous exceptions for a wide variety of non-conforming measures. Historically, the elimination of tariffs has been the centerpiece of FTAs. In principle, tariffs on merchandise trade should go to zero in TPP. In practice, negotiators spent a huge amount of time carving exceptions to the zero tariff principle. The exceptions take two main forms: long phase-out periods for certain tariffs and tariff-rate quotas – zero or low tariffs for a defined quantity of imports, then for a time much higher tariffs for imports above the quota for a handful of products, primarily in the agricultural sector. But zero tariffs are the eventual endpoint.

Sanitary and Phytosanitary Measures (SPS)

SPS refers to rules ensuring food safety and animal and plant health standards. TPP Chapter 7 affirms the U.S. position as to the proper operation of an SPS regime: scientific analysis and risk management as the touchstones for excluding doubtful imports. In addition, the TPP text enables trade in genetically-modified organisms (GMOs) in the chapter on national treatment and market access for goods.

Technical Barriers to Trade

TPP Chapter 8 reaffirms the role of sound science in writing technical standards, emphasizes open and transparent rule-making procedures, and commends the adoption of international standards. The novel feature of Chapter 8 is national treatment of certifications issued by conformity assessment bodies located in partner countries. To illustrate, if a competent Japanese conformity assessment body certifies that an X-ray machine made in Japan meets U.S. standards, the relevant U.S. authorities must accept that certification. This feature

carries out the slogan, “Tested once, accepted everywhere.” However, TPP Chapter 8 does not call for mutual recognition of national technical standards – except in select cases like the U.S.-Japanese bilateral side letter on vehicle safety regulations – nor does it establish a process for harmonizing national standards. Consultation yes; progressive harmonization no.

Investment

Heated and often uninformed objections are focused on the Investor-State Dispute Settlement (ISDS) provisions of Chapter 9. ISDS enables a foreign investor to claim damages from a host state on account of denial of national treatment, denial of most favored nation treatment, denial of “fair and equitable” treatment, or expropriation that is not properly compensated. Although a staple of bilateral investment treaties and FTAs for more than 50 years, ISDS has now come under attack. Put succinctly, the opponents list several reasons for opposing ISDS.

- The most basic objection is that corporate investors should not be permitted to invoke international arbitration panels to sue host governments; suits should be pursued solely in the courts of the host country.
- Arbitrators are often corporate lawyers who may be biased against host governments.
- Briefs and proceedings are often closed to the public.
- Corporations use ISDS cases to undermine legitimate environmental, health, and safety regulations.
- Arbitration awards are final; ISDS has no mechanism for appeals.

The ISDS provisions in TPP Chapter 9 are significantly revised from earlier ISDS provisions (for example in NAFTA) and the changes in TPP answer these charges except for the first and the last.

Cross Border Trade in Services

The TPP opens up avenues for more than a hundred services to be sold abroad. Expanded exports of services trade potentially rank among the largest TPP payoffs, especially for the U.S. economy. According to forecasts, in 15 years TPP exports of services will expand by \$225 billion on account of the pact, and of this total U.S. exports will expand by \$150 billion.

Services trade rightly received considerable attention in TPP negotiations. In fact, 12 service sectors and approximately 168 subsectors are identified. Seven TPP chapters are devoted in whole or part to these variegated services. Chapter articles set forth principles of liberalization. In broad terms, with many scheduled exceptions, TPP members have now promised fair and equitable treatment to foreign firms that seek to enter their service markets through trade, investment, or both together.

Telecommunications

Quite simply, the theme of TPP Chapter 13 “Telecommunications” is competition. In every way possible, TPP members are directed or encouraged to open their markets to landline, Wi-Fi, and mobile services and devices offered by public or private firms based in partner countries. Incumbent carriers, often monopolies, are instructed in considerable detail not to

throw up obstacles to foreign firms, and they are directed to make their fixed assets (poles, rights of way, network hubs) available to those competitors at reasonable rates. Roaming rates for mobile phones and other devices should be reasonable.

Electronic Commerce

Chapter 14 ranks among the outstanding achievements of TPP. For the first time a trade agreement covers the exploding field of digital traffic and electronic commerce – and in a meaningful way. Duties on digital commerce (not involving the shipment of merchandise) are ruled out. Free flows of data and other information are ensured, with the important exceptions of financial data (reserved in Chapter 11), and public interest measures to fight cyber-crime and preserve individual privacy. Individuals and firms are allowed to encrypt their electronic transmissions; again, however, this is qualified by a public interest exception. TPP members commit not to require firms to disclose their source codes, and to allow firms to make their own choices with respect to software and equipment.

State-owned Enterprises

TPP Chapter 17 was written with China’s potential entry in mind. China has over 100,000 SOEs, and complaints about their unfair advantages are mounting. Apart from Malaysia and Vietnam, current TPP members do not have many SOEs; so the immediate impact of SOE disciplines in the TPP will be concentrated on those two countries. TPP basically prohibits SOEs from discriminatory behavior towards other TPP firms when buying or selling goods or services. With exceptions, Chapter 17 also prohibits governments from giving subsidies to their SOEs. Local courts must have jurisdiction over SOEs in civil claims concerning commercial matters, and administrative bodies must regulate SOEs in an impartial manner. Groundbreaking transparency provisions require countries to provide other TPP members with a list of all SOEs and furnish specific information when requested. All SOE provisions are subject to the dispute resolution mechanism of the TPP, meaning that any violation could ultimately result in trade sanctions.

Labor and Environment⁹

Chapter 19, “Labor,” adopts the fundamental labor rights recognized by the International Labor Organization (ILO). As a consequence, TPP promotes freedom of association (trade unions), the right to collective bargaining, the elimination of forced labor, the abolition of child labor, and the elimination of employment discrimination. TPP members are required to have domestic laws governing minimum wages, hours of work, and occupational safety and health. To carry out these mandates, the United States will establish bilateral implementation plans with Brunei, Vietnam, and Malaysia.

Chapter 20, “Environment,” addresses environmental challenges such as wildlife trafficking, illegal logging, illegal fishing, and marine pollution. It requires all parties to implement multilateral environmental agreements. TPP also creates enforceable commitments to eliminate tariff and non-tariff barriers to the importation of environmental goods and technologies. As a notable feature, TPP countries agree to ban subsidies to illegal fishermen, and to provide greater transparency for fishery subsidy programs.

Chiang Mai Initiative Multilateralism (CMIM)

The Chiang Mai Initiative Multilateralization (CMIM) is a multilateral currency swap arrangement between ASEAN, China, Japan, and South Korea. It combines the ASEAN Swap Arrangement among ASEAN countries and bilateral swap arrangements among ASEAN+3 nations. The conceptual origin of this arrangement dates to the Asian Financial Crisis of 1997. Launched by ASEAN+3, the Chiang Mai Initiative (CMI) created a short-term liquidity mechanism that supplemented existing international arrangements. CMI member countries were dissatisfied with the way the IMF (dominated by the United States and Europe) handled the 1997 Asian Financial Crisis, and consequently they created a self-help regional mechanism to address future crises.¹⁰

Since its inauguration, the CMI has expanded to the CMIM and added the ASEAN+3 Macroeconomic Research Office (AMRO) in 2010. Recent developments include a larger size of potential swap lines, an IMF de-linked portion, and a broader scope of facilities. The total size of the CMIM capital pool has increased from \$120 billion to \$240 billion, contributed by ASEAN (\$48 billion) and the Plus Three (\$192 billion). The threshold for IMF linked facilities is currently 30 percent, meaning that borrowing members who need to draw more than 30 percent of their maximum amount must meet IMF lending conditions. As for the scope of facilities, the CMIM established the CMIM Precautionary Line (CMIM PL), a facility that assesses policy implementation before making loans, and the CMIM Stability Facility (CMIM SF), a facility that requires certain policies in listed criteria after loans are extended.¹¹

One possible conclusion is that the CMIM will reduce direct reliance on the IMF and thus indirect reliance on the United States.¹² McKay, Volz and Wölfinger argue that a regional financial arrangement can undercut IMF conditionality that requires borrowing countries to adopt rigorous and painful economic policies and structural reforms.¹³ In this regard, Asia's financial integration can be seen to weaken the U.S. economic leadership in the region and point to greater autonomy from the key international monetary and financial institution, the IMF.

A more optimistic conclusion, from the U.S. perspective, is that the CMIM will serve as a supplement to the IMF rather than as a challenger.¹⁴ The norms of the CMIM still reflect IMF norms, which in turn answer to U.S. influence. The CMIM requires countries to meet economic performance criteria after loans are extended, which amounts to ex post conditionality just like the IMF. China, Japan and South Korea—the dominant creditors—also require IMF approval in case of significant CMIM loans, to prevent potential borrowers from shopping for bailout loans without conditions.

However, the CMIM is still a work in progress with respect to ex ante conditionality. It remains to be seen whether CMIM rules in this respect will be aligned with IMF guidelines.¹⁵ In this and other respects, the future evolution of the CMIM will shape Asia's relationship to the IMF and the United States. Asian countries could create one voice to encourage changes in IMF rules and norms – perhaps not to U.S. liking. But self-managed liquidity within Asia and a coordinated Asian policy response could limit the domino effects of future crises. In short, from the perspective of U.S. interests, the CMIM is a mixed package. U.S. influence may be diminished, but Asian crises may be less severe, to the advantage of U.S. business interests as well as Asian economies.

Asian Infrastructure Investment Bank (AIIB)

Launched by China in 2015, the Asian Infrastructure Investment Bank (AIIB) is a new Asian development bank focusing on infrastructure projects. The long-established Asian Development Bank (ADB) has estimated a gap of about \$8 trillion (2008 real terms) infrastructure investment between 2010 and 2020 to maintain Asian growth rates.¹⁶ For example, 800 million Asian households lack electricity, and 600 million people have no access to safe water.¹⁷ The AIIB will narrow these gaps by boosting investment in energy, transportation, water, telecommunication, electricity, and other infrastructure sectors. The AIIB is expected to lend \$10 to \$15 billion per year starting in 2016, both supplementing the World Bank and the Asian Development Bank and co-financing projects with the existing international development banks, gaining from their expertise. The AIIB has 57 members from Europe, the Middle East and Asia, but unfortunately (by their own choice) neither the United States nor Japan.

Infrastructure development is expected to create jobs, decrease trade costs, and promote economic growth in Asia. Many possibilities can be envisaged. For example, construction of roads, railways and harbors can improve access to foreign and domestic markets. Internet cables and wireless towers can engage local firms in e-commerce on a much larger geographic scale. U.S. firms engaged in Asian commerce could obviously benefit these fruits of AIIB activity. Viewed optimistically, TPP can be seen as creating the software for Asian trade and investment, while AIIB can be seen as furnishing the hardware.¹⁸

For geo-strategists, however, the AIIB is viewed as a rival to U.S. dominated financial institutions, notably the World Bank and the Asian Development Bank, perhaps undercutting their effectiveness. But since many European and Asian countries joined the AIIB, it is now an established institution. Even if China is the largest shareholder with 26 percent, the other 56 participating members have a say in drafting governance rules and lending standards. It remains to be seen whether AIIB practices disadvantage U.S. firms at the construction stage or in on-going operations.

In retrospect, the U.S. decision not to join the AIIB at the outset was a mistake. Bergsten argued that, “concerns about [AIIB] backsliding from standards on transparency, procurement, and anticorruption are justified, but the way to address them is to join the institution and work from within.”¹⁹ A future president may accept Bergsten’s view and see the AIIB as complementing the TPP. Conceivably the United States might join the AIIB in the same negotiating package that brings China into the TPP.

CONCLUSION

The United States will achieve substantial security and economic benefits from continued East Asian economic integration, especially with the U.S. as a partner. From a security perspective, regional economic integration in East Asia can help prevent escalation of tension into conflict because, with integration, the costs of conflict will more likely outweigh any gains in terms of nationalistic pride or acquired territorial. As China becomes more deeply involved in the global economic regime, its accommodation with international rules will become a main path for promoting domestic prosperity, which in turn will restrain China from disrupting regional peace and stability with aggressive military actions. Rapid economic integration in East Asia serves U.S. security interests, reducing the risk that tensions will draw the United States into an Asian military

Looked at from an economic perspective, free trade pacts and infrastructure investment in East Asia will not only expand the regional economy, but also will boost the American economy, especially with U.S. participation. TPP can deliver 21st century commercial rules that reflect U.S. values and can serve as a guide for future East Asian free trade agreements. The CMIM can serve as an emergency responder to regional financial shocks, often applying IMF rules and supplementing the IMF's financial resources. The AIIB, alongside the ADB, can design and finance regional infrastructure spurring job creation and business opportunities, and promoting economic development across East Asia. It seems likely that all three functions will improve the economic climate for U.S. business interests in East Asia, even if it takes time and careful monitoring to ensure that the CMIM and AIIB respect international rules.

U.S. failure to ratify TPP would amount to a colossal policy error, compounding the mistaken U.S. decision not to join AIIB, and its sidelined position in the CMIM. Even without TPP economic integration will move forward, but at a slower pace and with weaker rules of the commercial road. If the TPP is delayed by U.S. political opposition, the Regional Comprehensive Economic Partnership (RCEP) could enter into effect well ahead of the TPP and establish the template for future Asian integration. But, the scope and pace of trade liberalization under the RCEP will not be equivalent to what the TPP could accomplish. Delay could cause the United States to miss a golden opportunity to establish rules for Asian Pacific trade and investment liberalization. By contrast, if TPP is ratified in 2016 or 2017, and then expanded to add new members over the next five years, and if through an FTAAP the United States and China enter into closer economic relations, perhaps involving the AIIB, the Pacific region will prosper and security tensions will dissipate over the next decade.

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