ISSN 1010-1608

The Journal of EAST ASIAN AFFAIRS

Volume 21 Number 1 Spring/Summer 2007

Institute for National Security Strategy

The Journal of
EAST ASIAN AFFAIRS

Vol.21, No.1
Spring/Summer 2007

THE JOURNAL OF EAST ASIAN AFFAIRS

Publisher : Jungbong Kim

Editor-in-Chief : Taehwan Yin

Editors : Hyunsoo Yang, Byungkwang Park

The Journal of East Asian Affairs is published twice a year by Institute for National Security Strategy (INSS). Institute for National Security Strategy, which was restructured from the former Research Institute for International Affairs, is a nonprofit organization founded in 1977 in Seoul, Korea. The Institute is dedicated to the development of policy recommendations in international relations, economics policy, security and inter-Korean relations. Currently, it has around 50 resident analysts, many of whom have been trained in the U.S., Europe, and East Asia. The Institute has been publishing *The Journal of East Asian Affairs* since January 1981. It has around 1,800 worldwide subscriptions, primarily among academics, government officials, and journalists. The Journal can be widely found in the libraries of major universities and research institutes around the world.

The Journal welcomes the submission of manuscripts and review articles associated with East Asia in the fields of international politics, economics, social, and security aspects of contemporary East Asian affairs. Those wishing to contribute articles to the Journal should read the submission guidelines located on the last page of this issue.

Annual Subscription Rates (two issues including postage):
Domestic: ₩30,000; Overseas: US $30

ISSN 1010-1608; Printed in 2007 at Seoul, Korea

Instopia Bldg. 16th Floor, 467-23
Dogok-dong, Kangnam-gu, Seoul, Korea
Tel: 82-2-572-7090 extension: 222
E-Mail: joeaa@inss.re.kr
Website: http://www.inss.re.kr

THE JOURNAL OF EAST ASIAN AFFAIRS

Vol.21 Spring/Summer 2007 No.1

CONTENTS

CONTRIBUTORS

Abanti Bhattacharya is Associate Fellow at the Institute for Defence Studies and Analyses (IDSA), New Delhi. She specialises in Chinese domestic and foreign policy with a particular focus on nationalism and ethnicism. She received her doctoral degree in "Chinese Nationalism" in 2004 and has contributed articles to *Issues and Studies, East Asia: An International Quarterly and Strategic Analysis.* She has been part of the government exchange programme and undertook Chinese language training at Fudan University, Shanghai.

Stephen Blank is Professor of Russian National Security Studies at the Strategic Studies Institute of the U.S. Army War College in Pennsylvania. Dr. Blank has been Professor of National Security Affairs at the Strategic Studies Institute since 1989. During 1998–2001 he held the *Douglas MacArthur Professor of Research Chair* at the War College. He has published over 500 articles and monographs on Soviet/Russian, U.S., Asian, and European military and foreign policies, testified frequently before Congress on Russia, China, and Central Asia, consulted for the CIA, major think tanks and foundations, chaired major international conferences in the USA and abroad in Florence, Prague, and London, and has been a commentator on foreign affairs in the media in the United States and abroad. He has published or edited 15 books focusing on Russian energy, military and foreign policies and on International Security in Eurasia. His most recent book is *Russo-Chinese Energy Relations: Politics in Command,* London: Global Markets Briefing, 2006. He has also published *Natural Allies?: Regional Security in Asia and Prospects for Indo-American Strategic* Cooperation, Carlisle Barracks, PA: Strategic Studies Institute, US Army War College, 2005.

Walter C. Clemens, Jr. is Professor of Political Science, at Boston University, and also an Associate at the Harvard University Davis Center for Russian and Eurasian Studies. A former exchange student at Moscow State University, he has written several books and many articles on arms negotiations with the USSR, China, and North Korea. He is also the author of *Dynamics of International Relations: Conflict and Mutual Gain in an Era of Global Interdependence* (2d ed.; Lanham, Md.: Rowman & Littlefield, 2004). The present article derives from a project entitled "Getting to Yes in Korea." He obtained a Ph.D from Columbia University. Dr. Clemens can be reached at <wclemens@bu.edu>

Hitoshi Hirakawa is a Professor of Economics specializing in Asian economies at the Economic Research Center, Graduate School of Economics, Nagoya University, and a former professor at Tokyo Keizai University, Ibaraki University and others in Japan. He was director of the ERC from 2003 to 2005. He is the author of many articles and books on Asian economic development and economic history, including *Newly Industrializing Economies(NIEs): World System and Development* (Tokyo 1992, in Japanese), (with Shimizu Hiroshi) *Japan and Singapore in the World Economy: Japan's Economic Advance into Singapore 1870–1965* (London and New York 1999), and (with Kim Young-ho as co-editor) *Co-design for a New East Asia after the Crisis* (Tokyo and Berlin, 2004). He obtained a Ph.D from Kyoto University. He can be reached at hhirakaw@soec.nagoya-u.ac.jp.

To-hai Liou is Professor of Diplomacy and Director of the Center for WTO Studies, College of International Affairs, National Chengchi University, Taiwan and currently visiting fellow, Department of International Relations, Research School of Pacific and Asian Studies, the Australian National University. He is the author of the book entitled *South Korea's Foreign Relations Since the mid 1980s*(1997), and co-author of two books, *International Politics*(1996) and *Introduction to Korean Studies* (2001). He is also editor of three journals including *Taiwanese Journal of WTO Studies, Taiwanese Journal of Australian Studies, and Taiwanese Journal of International Affairs.* He has contributed many articles to academic journals such as *Journal of International Relations, Journal of Strategic and International Studies* and so on. His research interests focus on international relations of Asia Pacific, comparative foreign policies, foreign policies of two Koreas, Japan and Australia and India. He obtained a Ph.D from University of Arizona.

Werner Pascha is Professor of East Asian Economic Studies at the Department of Business Studies and at the Institute of East Asian Studies of Duisburg-Essen University in Germany. His latest publications include *"Wirkung und Wandel von Institutionen. Das Beispiel Ostasien"* (The impact and changes of institutions. The case of East Asia; ed. with C. Storz, 2005) and "The role of regional financial arrangements and monetary integration in East Asia and Europe in relations with the US", *The Pacific Review* (forthcoming in 2007). He can be reached at werner.pascha@uni-duisburg-essen.de.

Ihn-hwi Park is a professor at the Graduate School of International Studies of Ewha Womans University, Seoul, Korea, where he teaches

international politics since 2004. He published many scholarly articles and book chapters in leading journals such as *Korea Journal of Defense Analysis, Korean Journal of International Relations, Strategic Studies, National Strategy,* etc. His representative works include "Sino-Japan Strategic Rivalry and the Security of the Korean Peninsula (2007)," "Toward an Alliance of Moderates: Nuclear Crisis and Trilateral Policy Coordination (2004)" "Northeast Asian International Relations and Korea's National Interest: On the Perspective of the U.S.-China-Japan's Power Balance (in Korean, 2005)," etc. He obtained a Ph.D from Northwestern University.

NORTH KOREA'S FUTURE: WHAT PYONGYANG, SEOUL, AND WASHINGTON COULD LEARN FROM EAST EUROPE, THE FORMER USSR, AND CHINA

WALTER C. CLEMENS, JR*.
Boston University

Abstrat

This essay seeks to spell out the lessons from East Europe, the former USSR, and China that may be relevant to North Korea-lessons that could be useful for policy-makers and analysts in the DPRK as well as in the USA, the ROK, and other countries concerned about security and development in Northeast Asia. All the Communist regimes in Eastern Europe, the former USSR, and China changed due to internal reasons-not from external pressures. The East German case, however, shows that internal pressures within the disenfranchised group of a divided people tend to accumulate and may explode if central controls weaken. When one government fears and dislikes another but cannot overthrow it, planners may seek to ignore, isolate, contain, or engage the target regime; while ignoring or isolating is the opposite of engaging, engagement can contribute to containment. This is a cardinal lesson of U.S. policy towards the former USSR and Communist China. Applied to North Korea, this lesson calls for engaging Pyongyang as a way to contain and, in time, help reform or transform the existing regime. Like the rulers of the People's

* The first draft of this essay was written while the author served as a POSCO Fellow at the East-West Center, University of Hawaii. The paper benefits greatly from help by Dr. Kim Choong Nam and others at the Center. Dr. Robert A. Scalapino and Dr. Jun Zhan also discussed the essay and contributed valuable insights.

Republic of China (PRC), those in Pyongyang wish to avoid the fate of erstwhile comrades in Moscow and other bygone citadels of Communist rule. For North Korea's leaders the East European and Soviet examples offer some hope: Engagement with the U.S. can improve living standards and buy time in which to reform an inefficient system. China's Communists have prospered and retained power even as they engage the capitalist world and foster economic liberalization. Optimal societal fitness, however, requires self-organization, not top-down control. If North Korea's leaders wish to save their system, they must embark on far-reaching economic and political reforms. China's example shows that market reforms are possible while retaining strong political controls. Top-down rule is not optimal for development, but may preserve the regime for some years. If the United States and the Republic of Korea seek arms control with North Korea and wish to promote peaceful change, then they should reexamine their policies towards Pyongyang. Neither an ultra-hard nor an ultra-soft approach works well in foreign affairs. Neither zero-sum nor win-win assumptions are wise. The lesson from U.S. dealings with the former USSR and present-day Communist China (as well as Libya in the past) can be summarized: If you can't overthrow a regime you dislike, engage it and work for positive change.

Key Words: WMD, GRIT (Graduated Reciprocity in Tension Reduction), Regime Change.

THINKING ABOUT CHANGE

What does the future hold for North Korea? This essay seeks to spell out the lessons from East Europe, the former USSR, and China that may be relevant to North Korea – lessons that could be useful for policy-makers and analysts in Pyongyang as well as in Seoul and Washington and in other places concerned about security and development in Northeast Asia

For decades, top leaders of the Democratic People's Republic

of Korea (DPRK) hoped for and sought unity with South Korea (Republic of Korea or ROK) on Communist terms. Particularly after the collapse of the USSR, however, Pyongyang's elites have feared for the survival of their own regime and their personal safety. Like the rulers of the People's Republic of China (PRC), those in Pyongyang wish to avoid the fate of their erstwhile comrades in Moscow and other bygone citadels of Communist rule. The East German case underscores that internal pressures within the disenfranchised group of a divided people tend to accumulate and may explode if central controls weaken.

For North Korea's leaders the East European and Soviet examples also offer some hope: Engagement with the outside world – including the United States and its allies as well as with China-can improve DPRK living standards and buy time in which to reform an inefficient system. China's Communists have prospered and retained power even as they engage the capitalist world and foster economic liberalization. Complex systems theory, however, cautions that optimal societal fitness, however, requires self-organization-not top-down control.

Several implications for U.S. and ROK policy to North Korea emerge from Western experiences dealing with Communist regimes in Eastern Europe, the USSR and China. All these regimes changed due to internal reasons-not from external pressures. When one government fears and dislikes another but cannot overthrow it, planners may seek to ignore, isolate, contain, or engage the target regime. While ignoring or isolating is the opposite of engaging, engagement can contribute to containment. This is a cardinal lesson of U.S. policy toward the former USSR and Communist China. Applied to North Korea, this lesson calls for engaging Pyongyang as a way to contain and, in time, help reform or transform the existing regime.

THE GOOD AND BAD NEWS FOR PYONGYANG FROM COMMUNIST EXPERIENCES ELSEWHERE

The Good News from the USSR, Yugoslavia, and Czechoslovakia

"Every unhappy family is unhappy in its own way," Tolstoy tells us on the first page of Anna Karenina. Whatever the problems of North Korea, the country is unique in many respects. Some of its distinctions are captured in its mythical past. Legend says that the first king to rule the "Dragon-Backed Land" of Korea was Tan Kun, son of the Spirit King and a "she-bear." During a reign that lasted 1000 years, Tan Kun taught a previously wild and untutored people all the arts of living, including how to make *kimchee*. He founded Pyongyang, his capital, in the shape of a boat. Since a boat will sink if a hole is bored into its bottom, it was "forbidden in those early times to dig wells inside this boat city. That is why the people there had to carry all their water such a long way" (Land of Morning Brightness in Carpenter 1973: 27–35) – a harbinger perhaps of even greater hardships to come.

Tan Kun's successor, Ki Jan, is called the "Father of Korea." He had been a high official in China but was unhappy with the wicked emperor there and wanted to rule a kingdom where people could live safely and in peace. He crossed the "Duck Green River beneath the Ever-White Mountains," bringing with him five thousand "good Chinese" doctors, scholars, mechanics, carpenters, fortune tellers, and magicians; he also brought the precious worms that spin silk. Ki Jan gave his subjects the Five Laws that taught them their duties. Those were golden days, when travelers were safe from robbers and gates could be left open. According to local guides, Ki Jan's tomb can still be seen near Pyongyang, where Kim Il Sung, father of today's DPRK, reposes in a mausoleum much grander than that of Lenin or Mao Zedong.

Ki Jan's successor kings demanded sons and sometimes acquired them in strange ways. One worried king found his successor, a tiny boy under a stone, but whose skin glistened like gold. Another heir to the throne was conceived when the wind of a passing

cloud placed an egg inside the dress of a royal wife. This boy's jealous brothers tried to kill him, but he fled south. He used magic to cross the dark-green waters of the River Apnok and then charm its waters to swallow up his pursuers. Later, this boy's name – *Chosun*, "Light of the East," became the name of the entire country.

Perhaps these legends help explain why North Korea is the only Communist country that has experienced a dynastic succession – father Kim Il-sung, son Kim Jong-Il, slated to be followed by one of his children – and why these dear leaders can adorn themselves in superhuman superlatives, even as they act in ways that many observers see as not only odd and also as quite harmful to most North Koreans.

Another distinction is that North Korea is ethnically homogeneous. Indeed, all of Korea – north and south – is one of the most ethnically homogeneous places in the world. By contrast, the largest national grouping in the former USSR, Russians, made up barely half the total population; while in Yugoslavia, Serbs were the largest ethnic group, but numbered just over one-third the total. Dissident nations within each multinational state – Estonians, Latvians, Lithuanians, Slovenes, Croats, Bosnians-split from the metropole when central controls weakened. Even after the Soviet breakup, the Russian Federation is only 80 percent Russian and its leaders fear separatist movements – from tiny Chechnya to huge swaths of Siberia.

Czechs made up nearly two-thirds the population of the former Czechoslovakia; Slovaks, only about a one-third. Slovaks had long complained of discrimination and consequently formed their own state after Communist rule collapsed.[1]

Nearly all the former Communist countries of Eastern Europe and the former Soviet Union have ethnic, religious, and linguistic divisions that impede national unity. Albania, once an ally of Maoist China, is sometimes compared to North Korea because it is relatively homogeneous. But Albanians are deeply divided by clan,

---

1 Czechoslovakia expelled most of its German population in 1945. Czechs and Slovaks barely tolerated the Roma in their midst.

in ways unknown to Korea, and confront differences between the Muslim majority and Orthodox and Catholic minorities (circa 20% and 10% respectively of the total population before World War II) (Krieger 2001, 19).

Most of the Soviet successor states must cope with serious ethnic or religious divisions. Across what Moscow calls its "near abroad" there is a Russian diaspora, unhappy that it now lacks direct backing from Moscow. Indeed, every Soviet successor state wrestles with uneasy combinations of culture and language, the result of historical migrations and of Stalin's malevolent mapmaking. In many republics Christians feud with Muslims, while in Central Asia secular elites struggle with both political Islamists and religious purists (McGlinchey 2006, 123-44).

Most of the erstwhile Yugoslav republics also face serious minority issues-not just the well known ones between Albanian- and Serbian-speakers in Kosovo, but even in relatively harmonious Slovenia.

On the surface, China seems less troubled. More than 90 percent of its people are Han, but China's borderlands are restive. Uigurs and Kazaks-Muslim and speaking their own languages-live in lands rich in mineral deposits and where oil pipelines carry resources vital to China's industrial heartlands. The status and future of Inner Mongolia, Tibet, and borderlands close to Indochina are not certain (Safire 1998). Even Hans are divided by language (Mandarin, Cantonese, and other variants) and cultural orientation. Hans are also split between relatively affluent urban and coastal regions and the less advantaged countryside (divided 5:1) by income, according to Gallup surveys. Many middle-class residents of Shanghai live better than their counterparts in the United States, while nearly half of China's people live on less than $2 a day (Florida 2006a).

Why the East German Example Is Troubling

Pyongyang's leaders face a more difficult challenge than ethnic demands for autonomy or separation. It is a problem more difficult

to handle than the ethnic diversity that weakened the USSR and Yugoslavia. Kim Jong Il has no need to juggle constitutional formulas for federation or consociation. The ethnic-cultural challenge facing the DPRK leadership resembles that which sapped and finally destroyed the German Democratic Republic. Like East Germans, North Koreans feel themselves part of a larger nation. Indeed, East Germans and North Koreans are outnumbered more than 2 to 1 by their kin to the west and the south. While East German living standards were at least one-third those of West Germans, North Korea's GDP per capita has become minuscule compared to the South's (perhaps 1:50 or less). Many North Koreans still believe they live better than their non-Communist kin, but more and more North Koreans are becoming aware of the reality. While North Korea has no ethnic cleavages, its people (like those of China and Russia) are divided between privileged urban elites and the rural poor.

It could well be easier to maintain unity in a multinational state than to continue a separate national existence right next to kinsmen who are more numerous, better fed and clothed, freer, and – probably – more content. This assumption is confirmed by history: anti-Communist sentiments erupted in a violent revolt in East Germany in June 1953 – earlier than in any other Soviet satellite.[2] Though repressed in 1953, these feelings soon fed a persistent exodus through West Berlin, halted only by the Wall erected in 1961. In 1989, as East Germans found ways to skirt the Wall, some 2 percent of the population migrated to West Germany. In November of that year the Wall collapsed. In 1990 the GDR Volkskammer (parliament) voted to accede to the Federal Republic of Germany under Article 23 of the FRG Basic Law.

Analogous to what happened in divided Germany, mass defections by North Koreans to China and South Korea (over 5,000 to South Korea alone since the end of the Korean War) weaken the DPRK economy still further and cast doubt on the legitimacy and viability

---

2 In the three Baltic republics, however, "Forest Brethren" waged guerrilla attacks against Soviet forces from 1944–1945 to the early 1950s.

of Communist rule. If push came to shove, we simply do not know what percentage and what segments of North Korean society would support or oppose the regime.[3] The dilemma for the DPRK leadership is captured by the concepts "voice" and "exit." If the regime continues to limit "voice," many of North Korea's most energetic people will "exit" by escaping or by becoming more inwardly defiant. If the regime permits more openness, however, the leaders may themselves be compelled to exit.[4]

Prospects for normalization of DPRK relations with Washington improved in 2007, but international recognition of a divided nation does not assure the stability of their regimes. Diplomatic recognition of the German Democratic Republic and acceptance of its borders by the United States and other Western powers did not secure the East German regime. Wider recognition of the DPRK government would not assuage whatever demands the North Korean people have for a better life. Indeed, greater access to the world outside DPRK borders might well feed a revolution of rising expectations and nearly insatiable demands. Meanwhile, many U.S. and DPRK officials would probably continue to see their regimes as opponents in a nearly zero-sum relationship.

The uncertain future of the DPRK regime is ironic, because Communists in the North for many years seemed more devoted to national unity than leaders in the South. Indeed, the North's

---

3 Outsiders' information about Soviet Eastern Europe was much greater than it has been about North Korea, but Western experts tended to exaggerate the strength of Communist power in the Soviet sphere. One example: After the Wall stopped the flow of refugees from East to West Germany, many West European reports asserted that another Wirtschaftswunder was taking shape in the East. But when Soviet and other Warsaw Pact forces entered Czechoslovakia in August 1968, American alpinists in the High Tatra resort of Stary Smokovic observed that many East German tourists – mostly from elite segments of the German Democratic Republic – signed their names to a ledger in the town hall supporting "socialism with a human face" and opposing Warsaw Pact intervention.

4 These concepts, derived from Hirschman (1970) are applied by Kim, Choong Nam (2000, 247–76). Short-and long-term political and economic prospects are outlined in his Table 1.

armies crossed the 38th parallel in 1950 confident that kinsmen in the South would join their sweep toward national unification. Even after the fighting stopped, DPRK diplomacy for decades appeared more devoted to unification than that of the South, which tended until the late 1990s to be more cautious and defensive. Even as many North Koreans fled their homeland, some DPRK guides in the early 21st century still told visitors that unification would soon take place on Communist terms, because Kim Jong Il is supported by all the North Korean people and half of those in the South.

Many (but not all) citizens of the ROK yearn for unification with their kin across the DMZ. Many – especially those without direct memory of the Korean War – see their nation – North and South – as "victimized" by foreign imperialists. They press for withdrawal of U.S. forces as a step toward national "liberation."

But national unification would bring its own problems. Germany's federal government since 1990 has expended many billions in grants of all kinds to the East – many times more than West Germany received per capita during three years under the Marshall Plan, but living standards and public spirit in the East still lag the West by large margins. A syndrome of dependency and depression still grips the East, nearly two decades after unification. But the gaps between North and South Korea – in mentality as well as in material infrastructure – are far greater than existed in divided Germany. Just to care for the millions of children in the North whose minds and bodies have been stunted by malnutrition could pose heavy burdens.

East Germany's last two Party secretaries were tried by courts in a reunified Germany and found guilty of high crimes.[5] Still, there is also some good news from the former Communist realm for

---

5 East Germany's top leader for eighteen years, Erich Honecker, was condemned for high treason by a court in reunified Germany but allowed, due to his poor health, to take exile in Chile. His successor in late 1989, Egon Krenz, and two associates, were sentenced to several years in jail for instigating manslaughter at the Wall.

today's elites in Pyongyang. Few of the former Communist leaders in Eastern Europe and the USSR suffered persecution when the old ways gave way to new. Indeed, many quickly adapted to the times and used their privileged positions and networks to become capitalist managers or owners of newly privatized firms; some, too elderly to make such a transition, were pensioned in comfortable circumstances. Some of Russia's liberals tried but soon gave up conducting any serious legal review of possible crimes by the old regime. Instead, Vladimir Putin, ex-KGB agent, became Russia's president and brought many of his former associates into high positions in Moscow and the provinces.

The exceptions to this rosy picture took place in the Balkans. In Bucharest the dynamic Ceausescu duo, husband and wife, resisted the waves of change sweeping Eastern Europe and were shot dead in a jail yard. Slobodan Milošević and some other Yugoslav warlords also fought the tides of freedom and self-determination, but were eventually driven from power – many of them later tried for war crimes.

For DPRK leaders the lesson is clear: Accommodate change before it is too late. The supreme accommodationist, former Soviet president and party leader Mikhail S. Gorbachev, received a Nobel Peace Prize for his efforts and headed the much praised and quite wealthy Gorbachev Foundation. "Gorby," of course, did not play a major role in repressing Soviet citizens, while Kim Jong Il has presided over a massive gulag and permitted more than a million of his subjects to starve. Thus, the grounds for a criminal trial against Kim Jong Il are even more substantial than against the last two East German leaders, each found guilty of authorizing border troops to kill would-be escapees. The "dear leader" and his close comrades would be advised to try and negotiate some kind of amnesty before events spiral out of their control.

CAN A LESS-THAN-EFFICIENT AND UNPOPULAR REGIME JUST MUDDLE THROUGH?

Can Tanks and Rockets Uphold Communist Rule?

Bountiful weapons of mass destruction (WMD) did not save- or destroy-Communist rule in the USSR. Huge and costly deployments of missiles, tanks, and manpower on each side played only a marginal role. Communist rule imploded without any direct pressure or blows from within or from outside.

To be sure, the economic burden of maintaining a large modern force was enormous-as much as 25 percent of Soviet GDP. Also, the coercive use of Soviet military power in neighboring Hungary, Czechoslovakia, and Afghanistan eroded Soviet morale and confidence in Communist rule. Kremlin efforts to complete with the revolutions in military technology promoted by the Reagan administration probably diverted Soviet R&D programs from more constructive pursuits. But the awesome forces of a military superpower did not save Communist rule in the USSR and its empire.

If North Koreans study the Soviet experience, they should conclude that a large military establishment tends to impede overall development and, hence, weaken regime security. The large fraction of GDP that the Kim Jong Il regime devotes to its military efforts must have an absolutely disastrous effect on living standards as well as on economic growth.[6] To be sure, Pyongyang probably wants a deterrent against the risk of an American attack – especially after the George W. Bush administration demonstrated its willingness to initiate preventive wars against regimes it defines as "evil." Even without nuclear and other WMDs, however, DPRK

---

6 Some South Korean estimates place the defense burden in the North at 30 percent of GDP. The CIA World Factbook (2006) suggested that DPRK defense outlays amounted to $5.2 billion in 2002, but in 2007 the Factbook simply said "not available," https://www.cia.gov/cia/publications/factbook/geos/kn.html#Military. This reference work was very tentative in 2006 and 2007 about estimating DPRK GDP, but said that during 2005–2006 it might have amounted to $40 billion in purchasing power parity terms.

missile and artillery firepower suffice to hold South Korea hostage against any American attack on the North.

It may be useful for Communist (and other) governments to provide military and military-industrial elites with adequate resources to buy their support. But this can be done on a far more modest scale than practiced by the Soviet-era Kremlin or the DPRK. Chinese leaders in recent years have shown that they can provide generous resources for military R&D and procurement, as well as for the prestige and comfort of military and military-industrial elites, without disrupting overall development.

DPRK leaders might take some comfort from the fact that it is not easy to overthrow a totalitarian regime. Some Cuban Communists may have thought they needed a nuclear deterrent to protect their regime, but long experience after the missile crisis in 1962 showed this was not so. But while Soviet and Chinese Communists started to reform their systems from the top down (in the mid-1950s and late 1970s), North Korea's autocracy may be crumbling from below – as happened also in much of Eastern Europe (Lankov 2006, 95–121).

Do Communist Regimes Need a Foreign Bogey to Justify Shortages and Sacrifice?

This question is urgent for the DPRK regime as it was in previous times for the leaders of the USSR and other Communist regimes. Stalin probably reckoned that his regime needed the image of a foreign bogey. He warned his countrymen in 1946 that the hostility of world capitalism would compel the USSR to concentrate for more than a decade on developing heavy industry so as to acquire the essential means for self-defense. But most Soviet leaders after Stalin, starting with Khrushchev, counted on détente and summit meetings to add credibility to their promises of a better life. An opening to the West, they hoped, would boost their domestic support and help modernize the economy. Though this opening narrowed from time to time, it served to weaken the Soviet regime. Freer contacts with the West helped erode ideological

zeal and fed local dissatisfaction with Communist rule.

The hard reality is that isolation and autarky are barely viable in an interdependent world. The central principle of North Korea's ideology has been *juche* - self-reliance. The only East European regime that seriously pursued its own version of juche was Communist Albania. Poor to begin with, it remained - after many decades of isolationist Communism - the poorest country in Europe.

Apart from Albania, all other Communist regimes in Europe or the USSR recognized that they needed Western technology to keep up with innovations in the West. This technology could be acquired by theft (Vladimir Putin's forte), education, scientific exchanges, or as a byproduct of trade. If Communist exports had a market in the West, they would also earn hard currency with which to buy technology.

The Soviet approach resembled that of Japan's Meiji reformers. They wanted Western technology but without ideological contamination. To obtain the one without the other, however, became more difficult in the late 20th century than in the 19th. Why? Modern technology transfer required tapping some of the cultural as well as the material components of Western life. Soviet graduate students went to Stanford to study physics or engineering, but brought home jazz records and novels still deemed anathema by the Kremlin. The man who, decades later, did much to inspire Gorbachev's "new thinking" in the 1980s learned a new way of thinking at Columbia University in 1958–1959 where he studied how Roosevelt's New Deal helped save American capitalism.[7]

Gorbachev's reforms did too little too late to save the Soviet system. But Hungarians, Poles, and other East Europeans initiated major reforms even while Communist regimes still held sway. For these countries the transition to post-Communism was much smoother than for Russia and the other Soviet succession states.

Mao Zedong and Zhou Enlai opened China to a wide range of contacts with the United States and other countries in the 1970s,

---

7 For his final, rather somber reflections, see Yakovlev 2003.

but were cautious about internal reform. Starting in 1979, however, Deng Xiaoping presided over a transformation to what may be called Leninist capitalism. How long Leninism can coexist with capitalist development in an era of global interdependence is not clear. Still, for more than a decade, China remained a one-party state even as it led the world in economic growth. Communist China, unlike post-Communist Russia, even joined the World Trade Organization, with foreknowledge of its many pressures to reduce barriers to free trade.

Whether the Chinese Communist Party can cope with the political challenges of the Information Age is not clear. China permits many privately owned computers but tries to restrict the information they access. Even when Google and other search engines cooperate with PRC censors, however, ingenious free thinkers find ways around restrictions. This is a game where the reactionary defense seems unable to counter the multiple thrusts by those determined to shake the status quo.

So up tight is the PRC regime that it has banned Wikipedia, the online encyclopedia available free in many languages - a model of "from each according to his abilities." When China's leading Internet Company, Baidu.com, began to develop and release its own "Baidupedia," the PRC government required that official censors vet all submissions. Contributors were told not to submit articles critical of the government, that gave details about terrorist acts, that promoted "negative views of life, were "boring," or "might make other people feel upset or unhappy (Dickie 2006)."

Constraints on free thought are not good for innovation. In 2006 China ranked 36th out of 45 countries on the Global Creativity Index, a measure of technology, talent, and tolerance; looking only at technology, China ranked 28th, on a par with Croatia and Ukraine but behind India (Florida 2006a).[8]

The heavy hand of government in the Chinese economy generates many negative features. Still unrealistic about the value of money, the government encourages banks, with little oversight, to loan

8 For the larger picture, see Florida 2006b.

huge sums to keep the economy humming and sustain employment. Several Western accountancy firms estimated that in 2006 bad loans in China were much higher than official estimates and could even exceed the country's gigantic foreign reserves. Indifferent to the value of money, Chinese firms spend $5 of fresh capital for each $1 of additional output - far less boom for the buck than in India, not to speak of OECD countries (Guerrera 2006),

If the DPRK regime wishes to strengthen and modernize its economy, it must admit and foster foreign ties of many kinds. It could seek to follow the Chinese model and try to prevent or at least limit the wider liberalization that occurred in most East European Communist countries. But the Kim Jong Il regime would probably be reluctant to surrender control over so much of the economy as has been opened to private entrepreneurs in China.[9]

DPRK leaders face a special handicap. Their subjects know less about the outside world than did the citizens of China and most ex-Communist lands. Thus, more encounters with outside reality will come as a greater shock to most North Koreans than it did to their counterparts in other Communist states. The longer the ruling circles delay the opening, the more painful will be the ultimate shocks; the greater the shock, the greater the prospect of disillusion with the existing regime and its deceptions. Already, DPRK troops stationed at the DMZ can compare the bright lights of South Korea with the darkness that shrouds the North.

Allowing more foreign contacts of all kinds is essential for North Korea's development but presents severe risks for the regime. Pyongyang's rulers face unpleasant choices. Probably they must opt either to open the country within a few years, despite the risks to their own privilege and power, or put off change and say

---

9 Reports from Guangzhou say that when Kim Jong Il wished to stay in the White Swan Hotel, its management promptly cleared out its 24 floors of foreign business people, even those with long-term contracts. On one visit to China the DPRK leader was so shocked by the bustle and gleam of China's boom towns that he could "not sleep all night" and later asked high level comrades, sometimes led by one of his relatives, to look for themselves, "learn from the Chinese comrades," and report to him.

"*aprés nous le déluge.*"

Top-down Rule vs. Self-Organization: Insights from Complex Systems Theory

North Koreans have lived under one dynasty for more than half a century. Have the ruling family and its network of supporters established sufficiently deep roots so that they can hang on, no matter the challenges at home and abroad? Communists ruled Russia from 1917 to 1991 and China from 1949 to the present day - long reigns that persisted despite huge blunders and the repercussions of state-sponsored politicide, genocide, and democide.[10] North Koreans might try and follow the Chinese example of Communist politics with economic liberalization. If so, could they succeed?

The history of evolution, human as well as general, shows that survival requires fitness. Complex systems theory holds that, for human societies, fitness means the ability to meet complex challenges. Fitness flows from *self-organization* - and never from top-down, directed development. Societal fitness requires a polity that is neither too rigid nor too loose.[11] In the 21st century, however, the creative energies and strengths needed for fitness are likely to be found close to the edge of chaos, as in the United States and – since the 1980s, in South Korea, and very far from the hierarchical structures of authoritarian regimes.

---

10 Politicide is killing political rivals on a large scale; genocide is killing "another" people or their culture (Tibetans); democide is killing one's own (Han) people, as happened in the Great Leap Forward and the Cultural Revolution. These terms are developed and applied by Rummel 1996.

11 Like a fractal, this pattern holds true on many levels throughout the chain of being, from large groups and entire organisms down to the heartbeat of an individual. For more on complexity theory and contributions by Nobel Prize winners in economics and physics, see the web sites of the Santa Fe Institute, New England Complex Systems Institute, and David Suzuki Foundation. For applications in politics, see Harrison 2006 and Clemens 2001.

Self-organization has done much to boost South Korea's social and economic development. The ROK government in 1970 launched the New Village Movement (SaeMaul Undong) to mobilize the human and material resources of villages. Two years earlier, however, the Planned Parenthood Federation of Korea (PPFK) began to organize "Mothers' Clubs" in villages to promote family planning and community development. Soon, women in Oryu Li, one of South Korea's poorest villages, used their club not just for family planning but also to transform their way of life. Just a few years later, the husband of the club leader observed: Our "village was once known for its lack of cooperation. But now, because of the Mothers' Club activities, there is much better cooperation." The club minimized the role of clan membership and enlightened women to the advantages of cooperation – working in the fields together, planting trees, and even starting a weaving facility so that girls could earn as they studied. Injections of material resources and information were important, but the Oryu Li experience showed the importance of changing the old ways of communication. What leaders of the club said and did at key junctures was critical to the direction and rate of change. Women became not just followers but change agents in a traditionally hierarchical and male-dominated society (Kincaid and Ym 1976).

By the end of the 20th century, labor unions had become very powerful in South Korea and women's rights in the work place were radically improved over previous decades. Union activity was repressed during and after the 1997–1998 financial crisis, but unions continued to use the Internet to promote resistance to chaebols.

Along with other forces, greater self-organizationfor both genders helped convert South Korea from a society averse to change to one that seeks progress on all fronts.[12] One of the most "wired" countries in the world, the ROK taps the

12 Some cultures are "progress-prone" while others are "progress-resistant" (Martin 2006).

self-organizing resources of the Internet - highly restricted in China and off limits to most North Koreans. The best available measure of societal fitness is probably the UN Human Development Index, which aggregates ratings on income, public health, and education. The ROK in 2006 placed 26th, just below Singaporeand above Slovenia, while China ranked 81stth, behind Armenia and just above Peru. Still closed to outside scrutiny, the hermit kingdom of North Korea is not listed at all on the UN website page at: http://hdr.undp.org/hdr2006/pdfs/report/HDR_2006_Tables.pdf.

Self-organization is antithetical to hierarchical organization, as in the Confucian-Communist system of North Korea. Confucian culture instills discipline and respect for authority, and has been exploited by the Communist rulers of North Korea to control and command their subjects. Confucian (along with Christian) traditions have shaped all of Korea, but all vestiges of hierarchy have been eroded by the forces of "modernity" in South Korea (as also in Hong Kong, Shanghai, and many other Chinese cities). The fact that Communist rule has merged with some pre-Communist traditions will make it harder for the North to modernize.

The ultimate reason for the collapse of Communist rule in the USSR and Eastern Europe is that top-down dictation (euphemistically called "democratic centralism") cannot maintain or generate a high level of societal fitness.[13] Heavy industry grew at rapid rates for a few decades in Stalinist economies thanks to heavy inputs of surplus labor from the countryside and "primitive socialist accumulation" - aka extracting grain from hungry peasants. By the 1950s, however, these resources were no longer available and the burdens of arms racing on the Soviet system intensified.

---

13 For centuries, many Russian leaders perceived the need to decentralize power and responsibility. To do so, however, they had to depend on the same apparat whose flaws contributed to the existing stagnation. The reformers who tried to impose their own ideal blueprint (Catherine II, Alexander I, and N.S. Khrushchev) were less successful than those who tried to change government in tune with the needs and wishes of a changing populace (Alexander II and Nicholas II) (Starr 1989, 49).

By 1963 the USSR began importing grain from arch rival America.[14] By the early 1970s infant mortality began to rise in Russia and other Soviet republics.[15] Having overreached in all respects, the Kremlin could not muster the imagination or flexibility needed to reform and save the Communist system.

Much of China's economic growth results from energies by local initiative - what complexity theory terms "self-organization." But overall direction is still top-down and hierarchical; without open criticism of government plans, there is too little check on hare-brained schemes. Communist authorities basically ignored environmental constraints in pursuit of gross national product. Having been mauled and raped, Mother Nature became less forthcoming. Hunger in the Soviet Union could be averted by importing surpluses from a few grain exporters. If food shortages strike a billion plus Chinese, surpluses from other states may not suffice. If complexity theory is correct, China faces severe challenges for which an authoritarian regime is poorly equipped. Much of the country's material progress rests on shallow foundations. Starting in the late 1970s, China's economic reforms advanced from a very low base line. Even though liberated from Mao Zedong's whims and dictates, the Party leadership has persisted in vast schemes such as the Three Gorges Dams without public discussion of the pros and cons. Like Soviet-era planners, Beijing has embraced grandiose schemes for example, to pipe water thousands of kilometers to thirsty cities, while ignoring leaky pipes and (like some U.S. leaders) treating conservation as at best a private virtue. Human rights as well as "human development" (as measured by the United Nations Development Programme) remain very low for an economic colossus like China.

---

14 Many subsequent Kremlin concessions in arms control and other facets of East-West relations coincided with poor Soviet harvests. For more on the helpful and necessary conditions for arms accords, see Clemens 1990, 251–86, where economic factors are analyzed at 265–67.

15 Infant mortality in the United States also began to rise in the early 21st century. Even wealthy Americans were suffering from more debilitating diseases and dying earlier than their English counterparts, not known for their healthy life styles. American fitness was not guaranteed for all time.

"Self-organization" equates to "civil society" - the institutions that stand between citizens and government and help shield them from the potential brutalities of untrammeled free markets. Civil society is nearly absent in Kim Jong-Il's DPRK, but it was also quite weak in China at the beginning of the 21st century. By contrast, in 2006 China's once totalitarian system was "facing growing pressure from a population awakening to the power of independent organization. Uncounted millions of Chinese, from the rich cities of the east to the impoverished countryside," were "pushing an inflexible political system for redress over issues from shoddy health care and illegal land seizures to dire pollution and rampant official corruption (French 2006, A1, 8)." Early in the 21st century it is impossible to know whether China's incipient civil society will undermine the one-party dictatorship or transform it perhaps as happened in Taiwan. Thus, October 2006 saw authorities in Beijing charge 17,000 Communist Party officials across China with corruption, but they did so in part to assuage popular unrest. Bottom-up displeasure led to a top-down crackdown.

North Korea's life - political, economic, cultural - is far more centralized and hierarchical than in today's China or in Eastern Europe and the USSR when Communist rule there collapsed. The DPRK system is profoundly unfit. One expert believes that Stalinism has steadily eroded since about 2000 and that the regime has lost its will and ability to control outside influences (Lankov 2006). Other experts believe the Kim Jong Il regime is determined and able, - at least for the presentto resist fundamental change.

So while admitting our uncertainties about the pace and direction of change in North Korea, there is a chance that Communist rule there could be preserved for some years. Probably this will require major reforms - perhaps along Chinese lines. Can outsiders help? Should they try? If so, how?

CAN COMMUNISTS AND NON-COMMUNISTS COOPERATE FOR MUTUAL GAIN?

Non-Recognition and Other Options

When one government fears and dislikes another but cannot overthrow it, planners may seek to ignore, isolate, contain, or engage the target regime. The United States refused to recognize the Communist regime in Moscow for sixteen years (1917–1933), in China for thirty (1949–1979), and in Pyongyang for more than half a century.[16] The United States has recognized the Communist government of Vietnam, which it fought for more than a decade, but not that of Fidel Castro-ruler of Cuba since 1959. And while Pyongyang has delivered many signs it wants U.S. recognition, the Bush White House is loathe to promise any kind of normalized relationship unless North Korea carries out major policy changes in many domains. When the DPRK hints at a concession, the White House often raises the bar.

Disempowered peoples who feel themselves captives in larger empires welcome news that their cause is not forgotten. Washington's refusal to recognize Soviet annexation of Estonia, Latvia, and Lithuania in 1940 kept the legitimacy of Communist rule there in doubt and helped the three Baltic "Davids" to undermine the Soviet Union in 1991 (Clemens 1991). Also, Radio Free Europe and Radio Liberty transmissions stirred discontent in Eastern Europe and among Soviet dissidents. But efforts by U.S. and other Western clandestine services to inject agitators and saboteurs to undermine Communist rule in these countries served only as pinpricks. Criticism and harassment by outsiders often leads people to rally around their own rulers, even when their faults are blatant – as

16 The U.S. State Department refused even to invite the Soviet regime to the 1921 Washington Naval Conference on the grounds that the Communist rule was immoral and could not last. Hence, the U.S. would represent Russia's interests in Far Eastern matters at the conference. Not until 1933, when the depressed U.S. economy sought new outlets, did Washington recognize the USSR.

in theocratic Iran.

On balance, there is little evidence that Washington's long refusal to recognize Communist rule produced much positive change in the USSR, China, Cuba, or North Korea. Changes in each country, whether large or small-scale, stemmed mainly from economic and other internal pressures.

Zero-Sum vs. Variable-Sum Perspectives

Mutual distrust if not outright hostility usually dominated relations between most of the world's former or present Communist regimes and Western powers led by the United States. Both Communists and non-Communists tended to view their relationship as zero-sum. For decades, Soviet Russians asked, "*Kto kovo*-who [will destroy] whom?" Over time, however, each party tended to alter its mindset to allow temporary collaboration for parallel objectives, such as defeating Hitler. Then, after many bouts of Cold War crisis followed by short-lived détentes, each side gradually transformed its rationale for short or medium-range cohabitation into acceptance of a need to collaborate for the indefinite future. Thus, Article XV of the antiballistic missile treaty signed by Leonid Brezhnev and Richard Nixon in 1972 provided that it was of "unlimited duration" but allowed either party to withdraw on six-month notice after stating the "extraordinary events" associated with the treaty's subject matter that jeopardized its "supreme interests."[17]

While the Kremlin in earlier decades denounced the concept of "interdependence" as a mask for U.S. imperialism, the Brezhnev regime conceded the need for all countries to cooperate on "global problems so complicated that they cannot be resolved by any one

---

17 The Bush White House did not explain what "extraordinary events" justified its withdrawal from the treaty in 2002 nor did it ask Congressional approval to withdraw, even though treaties are the highest law of the land and require the approval of the Senate or the entire Congress to become binding. For the text of the ABM treaty, see *Encyclopedia of Arms Control and Disarmament,* vol. 3, 1253–59.

state alone, no matter how powerful." Later still, Gorbachev's Kremlin joined with the Reagan and first Bush administrations to work for long-term cooperation in many domains. Gorbachev argued that "human" needs should prevail over national and even over class considerations (Clemens 1978 and 1990). When disagreements arose between the Kremlin and the White House, they were moderated by the personal rapport cultivated by each side. Not only Gorbachev but also his successors, Boris Yeltsin and Vladimir Putin, enjoyed good ties with their American counterparts - Reagan, Bush the elder, Clinton, and Bush the younger.

Communist China's cooperative relationship with the United States began only in the 1970s but developed rapidly, despite deep differences over Taiwan - an issue for which there was no counterpart in Soviet-U.S. relations. Unlike the USSR but like North Korea, the PRC had suffered - and inflicted - substantial losses fighting American-led forces. In the 1970s and later, however, Chinese and Americans relegated these events to the past and focused on present and future issues. American presidents, despite U.S. campaigns for human rights, seldom allowed this issue to obstruct agreements with Moscow or Beijing on security or trade.[18]

The scientific rationale for this cooperation came from game theorists such as Thomas C. Schelling (co-winner of the Nobel Prize in Economics in 2005) who analyzed mixed-motive games (Schelling 1980). Applied to relationships between adversaries, game theory identified "variable-sum" situations in which each side could win, each side could lose, or one win and the other lose. The implications for foreign policy were clear: If conflict risks mutual loss and if one-sided gains are not feasible, enlightened self-interest dictates that each side look for a mutual gain outcome - provided, of course, that the gains of each side are somewhat balanced if not absolutely equal or symmetrical. Also, whatever deal is reached should contain internal safeguards so that neither

---

18 Even as Nixon and Brezhnev pursued détente, however, Soviet refusal to permit wide-scale Jewish emigration thwarted a most-favored-nations trade agreement.

side can exploit the new situation to damage the other. As President Reagan liked to say, "Trust but verify - *doveryai no proveryai*."

A broader policy implication has been underscored by a retired diplomat who helped represent the UK at the UN Security Council until mid-2002: "In this era of globalization, agreements that fail to take into account the interests of all concerned parties are not good or sustainable and, too often, they fall apart. The ultimate effect is a less stable world. If people are ignored, they tend to find ways - sometimes violent - to get heard." The conclusion: "To really get your way and sustain it, in diplomacy as in life, you have to include, not exclude. It is harder work at first, but ultimately, the result would be a more stable world (Ross 2006)."

These ideas contribute to two propositions: First, the optimal way to enhance one's own interests is to pursue a strategy of mutual gain, buttressed by safeguards against exploitation by the other side. Policies oriented to zero-sum outcomes, by contrast, tend to get nowhere or, if they achieve some quick gains, tend subsequently to backfire. Second, policies framed, planned, and implemented in the open - at home and abroad - tend to generate long-term outcomes better than those conceived and carried out away from public scrutiny.[19] Conforming to both these standards, the European Recovery Program (Marshall Plan) has been judged the most successful U.S. foreign policy for more than a hundred years - perhaps ever.[20] Washington's Indochina and 2003 Iraq campaigns, by contrast, violated both these principles, with dire consequences for all parties.

These concepts derived both from game theory and recent history take us to the nub of DPRK relations with the ROK, with the USA, and with other parties concerned with security and other issues on the Korean peninsula. Taking for granted the deep mistrust if not hostility between and among most of these players,

---

19 Thee propositions are illustrated by more than a dozen case studies in Clemens 2004.

20 This opinion was expressed in three surveys of experts on U.S. foreign policy conducted by the author and in public opinion polls on the 50th anniversary of the Marshall Plan (Clemens 2000: chapters 1-2).

is there any basis for negotiations that could lead to mutual gain?

Increasingly isolated after the fall of the USSR and China's normalization of ties with the ROK, the DPRK leadership in the 1990s intensified its dedication to self-reliance *(juche)* - buttressed by acquisition of a nuclear deterrent. By 1993 U.S. intelligence reckoned that the DPRK already possessed or could soon produce several nuclear bombs. Further alarmed by DPRK withdrawal from the Nuclear Nonproliferation Treaty, the Clinton administration deployed additional military forces that could attack and disarm North Korea. At this juncture, however, several private American envoys met with Kim Il-sung. One of them, ex-president Jimmy Carter reported to the Clinton administration in mid-1994 that Pyongyang agreed to the outlines of a deal to resolve the current crisis and set the stage for longer-term accommodation (Creekmore 2006). Tensions subsided and, within a few months, DPRK and U.S. representatives signed an "Agreed Framework" to freeze and later destroy DPRK plutonium facilities under international inspection in return for heavy oil shipments and construction of two light-water reactors to help meet North Korea's energy needs. Initial estimates were that the heavy oil deliveries and two reactors would cost 4 to 5 billion dollars, but Washington hoped most of the costs would be borne by Japan and the ROK. Both Tokyo and Seoul (followed later by the European Union and nine other countries) joined the United States in the Korean Peninsula Energy Development Organization (KEDO) to supply oil and nuclear power to North Korea.[21]

Problems on all sides kept KEDO from breaking ground for the LWRs until 2002-eight years after the framework agreement was signed. In late 2002-early 2003 both Pyongyang and Washington declared the agreement null and void, each blaming the other for not fulfilling its terms. Beginning in December 2002, KEDO suspended shipments of heavy fuel oil to the DPRK. In 2003 KEDO suspended work on the light-water reactor (LWR) project but endeavored to preserve and maintain the LWR project assets

21 For history and implementation, see http://www.kedo.org/

at the construction site in North Korea and at manufacturers' facilities around the world. In November 2005, KEDO's Executive Board members began discussions regarding termination of the LWR project. On January 8, 2006, KEDO completed the withdrawal of all workers from the LWR project site in Kumho, DPRK.

WHAT FACTORS AND DIPLOMATIC TECHNIQUES CONDUCE TO TENSION-REDUCTION AND ARMS CONTROL?

Deterrence

The Cold War confrontation took shape rapidly during the period 1945–1947 but required many decades to dissolve. It was rooted in many factors: opposed and rival political systems and ideologies, contending aspirations for East Central Europe, Turkey, and Iran-all exacerbated by the personalities of Iosef Stalin and Harry S. Truman. These differences were all aggravated by a strategic weapon asymmetry. Starting in 1945, America could destroy the USSR while the Kremlin lacked a credible nuclear deterrent (delivery systems as well as warheads) until the mid or late-1950s. Similar to the USSR, China also needed years to marry its nuclear warheads (first tested in 1964) to a credible delivery system that could threaten U.S. allies near to China or its Communist rival, the USSR.

Fear of nuclear war and confidence in mutual deterrence brought the two nuclear superpowers to the negotiating table. Starting in the late 1950s, Moscow and Washington reached dozens of arms controls – most of them quite limited. In 1987, however, they agreed and began to destroy an entire class of up-to-date, highly lethal weapons – all their intermediate-range nuclear missiles – with on-site verification.[22] Far reaching commitments on reducing intercontinental strategic weapons were reached in the 1990s,

22 Warheads and guidance systems, however, could be saved and used in other weapons.

though this process was halted or reversed by the George W. Bush administration. By the 1990s if not earlier, China also had a credible deterrent against the United States – at least twenty ICBMs, plus nuclear warheads that could be carried by plane or shorter-range missiles to China's neighbors.

How to Build Confidence

If two or more antagonistic parties want an agreement, they must still overcome mutual distrust. This may require confidence-building measures to reach an accord and reliable safeguards against cheating, if an accord is reached. A strategy to build confidence was laid out by psychologist Charles E. Osgood (1962). He proposed a program called GRIT - graduated reciprocity in tension-reduction. One side, usually the stronger, must take the initiative to get off the treadmill of "mutual defection." It must announce publicly that it is embarking on a long-range strategy to reduce tensions and improve relations. It must then commence with symbolic gestures that, if reciprocated, must be followed by more substantive concessions. It should not expect reciprocal steps immediately, but should give the other side time to assess the new situation and, if it too wishes to reduce tensions, offer symbolic and then substantive moves to show its good will.

Soviet leader N.S. Khrushchev and U.S. President Dwight D. Eisenhower moved toward their own versions of GRIT in 1955 and again in 1959. Later, presidents John F. Kennedy and Lyndon Johnson, with their Soviet counterparts, adapted the technique to build de´tente during 1963–1964. Once the process of tension-reduction begins, of course, all kinds of monkey wrenches can break the momentum. Thus, improving relations between Moscow and Washington were interrupted by the Hungarian revolt in 1956, the U-2 incident in 1960, and escalation in Vietnam in 1965 and later. In the early 1970s, however, Henry Kissinger and Zhou Enlai utilized GRIT-like moves to begin normalizing U.S.-PRC relations. M.S. Gorbachev employed the technique to improve Soviet relations with Beijing as well as with Washington (Clemens

2004: chapters 6–7).

Assuming goodwill on each side, the parties also need the fine art of diplomacy to conceive of trade-offs that create values for each side. While Americans tended to focus on technical arms control accords with the USSR, Soviet leaders often had their eyes on easier access to trade and technology to benefit their lackluster economy. Even between the two superpowers, asymmetries in military forces made it difficult to reach accords. Soviet warheads were often larger than those of the U.S., while Americans deployed not just intercontinental and submarine-based missiles, but also thousands of bombers on land and at sea for which there was no Soviet equivalent. Washington also had two nuclear-armed allies, while Moscow had none.

Military Asymmetries on the Korean Peninsula

The USSR had produced a credible deterrent by the late 1950s and China a decade or so later. Starting during 2002–2003, DPRK representatives sometimes claimed that their country possessed nuclear weapons - essential, they said, for deterrence. Like the Arab world vis-à-vis Israel, North Korea in 2007 still lacked a credible nuclear deterrent - a weapons of mass destructionthat could reach the United States. Without long-range aircraft or ICBMS or submarine-launch systems, Pyongyang's nuclear weapons (if they existed) might menace the ROK, Japan, China, or Russia but not the regime's main concern, the United States. There is even the remote possibility that, if ROK-American relations become more antagonistic, the North's capacity to harm the South might not stay Washington's hand in the event of a fraught crisis.[23]

Adding bite to this situation, Pyongyang has existential grounds to fear America's strategic power. While U.S. forces have never attacked the USSR or China, American planes carpet bombed the North Korean capital in the 1950s; this could happen again. The Clinton administration gave signs it was ready to attack the DPRK

23 On the state of the alliance, see, for example, Bechtol 2005.

during the crisis period of 1993–1994, while the George W. Bush administration for several years placed North Korea on the "axis of evil" or among the "tyrannical states," and advocated "pre-emptive" war as a legitimate way to save American lives. To be sure, the Bush team often declared its intention to resolve its problems with North Korea by diplomacy, indeed, by multilateral diplomacy. But Pyongyang has to wonder, if Iraq ever settled down, whether the bell would not toll next for North Korea.

Insights from Libya

Washington's experiences with Libya as well as with Communist regimes suggest lessons for dealing with America's perceived adversaries on the world stage. U.S. officials have sometimes suggested that North Korea should emulate Libya by dismantling its nuclear facilities and renouncing terrorism. President George W. Bush and Vice President Dick Cheney credited the changes in Libya to the initial successes of the U.S. invasion of Iraq (Lindberg, 2003; Ignatius 2004). However an analysis of the factors that brought Libya, another putative "rogue state," to these actions illustrates why U.S. policies toward the DPRK did not soon achieve similar results.

American policy toward Libya went through three phases: First, the Reagan administration relied on hard-line pressures - including bombing - to intimidate the Libyan government and perhaps kill its leader, Mu'ammar Quaddafi. Second, the George H. W. Bush and Bill Clinton administrations mixed coercion with multilateral diplomacy. This blend helped initiate secret U.S.-UK negotiations with Tripoli that produced positive outcomes in 1999 and, continued under the George W. Bush administration, in 2003 (Jentleson and Whytock 2005/06).

The winning approach balanced credible force (economic sanctions as well as military threat) with deft diplomacy - and did so consistent with three criteria: proportionality, reciprocity, and coercive capability. It demanded major policy changes of Libya but not regime change. It exploited the willingness of domestic

elites in Libya to act as a "transmission belt," pressing the top leader to move the country into the international community.[24] Indeed, the Libyan case even suggested that rogue nations can be reformed when the top leader believes his regime can be better preserved by engagement than by global radicalism (Jentleson and Whytock 2005/06: 81–2).

CONTAINMENT OR ENGAGEMENT OR BOTH?

During 1946–1947 the United States gave up on efforts to continue its wartime partnership with the USSR and embarked on a strategy to contain Communist expansion. The initial version of containment sought to restrain rather than to engage the USSR; but attempts over many years to isolate politically and economically the USSR and, later, other targeted countries - including Communist China, Cuba, and Libya failed to alter the policies or character of their regimes. When Washington shifted to an engagement strategy, however, it normalized relations with Moscow, Beijing, and Tripoli - setting the stage for accords useful to each party.[25] Only when Washington offered positive incentives against a backdrop of credible U.S. hard power did it enhance American objectives.

As noted earlier, the Kremlin and White House began efforts to reduce Cold War tensions in 1955. Trade and cultural exchange were on the table along with security issues when President Eisenhower met with Soviet leaders in Geneva. Three years later the U.S. and USSR embarked on a wide range of cultural and scientific exchanges. Each program served a specific goal, for

---

24 Qaddafi's son stated that the December 19, 2003 agreement with the U.S. was a "win-win" deal for both sides. "Our leader believed that if this problem were solved, Libya would emerge from the international isolation and become a negotiator and work with the big powers to change the Arab situation."

25 By contrast, nearly half a century of unremitting pressure against Fidel Castro's Cuba deprived U.S. as well as Cuban citizens of many potential benefits.

example, an exchange of editors from youth magazines. The Kremlin saw the exchanges as a way to gain respectability and acquire Western technology. For Washington, the exchanges contributed to a grand strategy to moderate and perhaps transform an authoritarian and often dangerous regime.

Apart from formal exchanges, Western governments and private parties also provided a "Marshall Plan for the mind" to Soviet bloc intellectuals and professionals. One of its architects, George C. Minden, opined that the West did not face "Marxist obstacles, but a vacuum," and that the West should do "something against frustration and stultification, against a life full of omissions." Over some thirty-seven years, Minden's International Literary Center delivered 10 million Western books and magazines to Eastern Europe and the USSR 300,000 in 1991 alone. Fully a third of the recipients in later years wrote thank-you letters (Martin 2006).[26]

Critics said that engagement would prolong the Soviet dictatorship. Its proponents replied that Washington could not overthrow the Communist regime but that engagement would promote system change. Looking back, we see that détente made it easier for Soviet dissidents such as Andrei Sakharov to speak out. Greater openness meant that Western TV crews were present in Estonia, Latvia, and Lithuania in the late 1980s-early 1990s, inhibiting Soviet use of force to extirpate independence movements in the Baltic republics.[27]

America's experiences with the Soviet realm during its final decade bear great relevance to U.S. and ROK dealings with North Korea. During the first half of the 1980s the Kremlin was headed by three elderly and ailing Party leaders with whom President Ronald Reagan made little effort to negotiate. Reagan wanted to end what he termed "the evil empire" - beginning with East

---

26 Mr. Minden's Center sent several hundred copies of Clemens' 1991 book, *Baltic Independence and Russian Empire*, to readers in Moscow and in the Baltic countries.

27 Fewer than fifty persons were killed as the three Baltic republics regained their independence. One Russian-speaker died in Tallinn in 2007 – one of the few deaths in street fighting since 1918.

Germany and its Wall. He opposed bolstering Soviet capabilities by technology transfer. He called (in vain) on West Germany not to supply high grade steel for Soviet pipelines and urged Western Europe not to become overly dependent on Soviet gas and oil exports.

Things changed after M. S. Gorbachev took the helm in 1985. Then UK Prime Minister Margaret Thatcher informed Reagan that one could do business with the new Soviet leader. Reagan tested these waters and concurred with Thatcher. He and Gorbachev met several times and arrived at some far reaching agreements - an orientation continued during the period l988–1991 by George W. H Bush. The Wall fell in 1989 and the USSR disintegrated in late 1991.

Implications for Dealing with North Korea

The lesson from U.S. dealings with the USSR could be summed up: If you can't overthrow them, engage them and wait for better things to happen. As regards North Korea, however, neither Washington nor Seoul absorbed or applied these lessons well in the early years of the 21st century.

The Agreed Framework signed by U.S. and DPRK representatives in 1994 broke down during 2002–2003; trust and goodwill were lacking on each side. Both sides were at fault, but it is not clear who did what first. Admittedly, the United States and its KEDO partners were slow to fulfill their obligations. By the late 1990s, if not earlier, the North Koreans were conducting an end run by building a clandestine facility to enrich uranium. Still, the Clinton Administration seemed in 2000 to be close to a more comprehensive deal with Pyongyang on missiles as well as nuclear weapons. The George W. Bush team, however, did not continue these explorations. Instead it underscored over and over its disdain for the DPRK leadership (Clemens 2005). Apart from the president's manifest dislike of Kim Jong Il, the Bush team probably had an unspoken motive: to maintain a raison d'etre for the ballistic missile defenses being built in Alaska and

California. The fragile system had no hope ever of thwarting a Russian or even a Chinese attack, but might intercept at least some DPRK missiles (Clemens 2004).

Adopting quite the opposite orientation, South Korea's Sunshine Policy offered bountiful concessions to the North with virtually no demand for reciprocity (Kim, Choong Nam 2005). If zero-sum policies fail, does this mean that a win-win orientation must win? The answer is "No." Actors without scruples will be tempted to take one-sided advantage of unconditional generosity. East Germany's Communist leaders accepted economic largesse from West Germany but did little to reciprocate. Their Wall finally collapsed due to internal discontent - driven in part by anger that the regime had prevented travel to the other side. Similarly, Seoul's Sunshine Policy in the early 21st century produced few positive changes in North Korea.

As detailed below, however, Pyongyang signed what could prove to be major denuclearization accords in September 2005 and February 2007. These moves probably derived from a blend of new confidence and desperation in Pyongyang-shaped only marginally by ROK carrots. But when Pyongyang stalled on implementing the February 2007 commitment, Seoul held back on delivery of rice promised to North Korea. As soon as Pyongyang reaffirmed its February commitment in June 2007, Seoul delivered the rice. The ROK implicit demand for a quid pro quo represented a toughening of the Sunshine orientation and gave the DPRK another incentive to proceed with the February accord.

Like Communist East Germany, the DPRK continued to limit penetration by outside influences. Kim Jong Il put off his meeting in 2000 with Kim Dae Jung by one day until the cash reward offered him under the table was securely in his coffers.[28] The

---

28 The "cash for summit" inducements to Kim Jong Il in 2000 seem to have totaled at least half a billion North another $600 million for its Mt. Jumgang and two other projects (Kim, Choong Nam Kim 2005: 11–12). The International Literary Center was covertly funded by the CIA, but this is rather different from making cash bribes to DPRK potentates. While Hyundai and the ROK government seemed to be following complementary tracks in

existence of slush funds - in both Koreas - may not fit with Confucian ideals, but Korean children have been taught to expect that lesser officials will "squeeze" government funds for personal advantage.[29] Lacking much sense of a Heaven-ordained vocation (as Max Weber imputed to European Protestants), many South Korean business people curry favor with political elites, providing them with tokens of appreciation for favors received (Kim, Yong-nok. 1973). For their parts, North Koreans, isolated and impoverished, may take satisfaction from tales that relate how the small but clever can outwit the large and powerful, even those who speak with honey on their lips while they carry a knife close to the heart. (The Rabbit That Rode on a Tortoise in Carpenter 1973: 125–139 at 130).

Because most relationships are variable-sum, however, neither hard-line cynics nor overly optimistic idealists do well in international politics. Neither an unmitigated hard line nor an altruistic soft approach is likely to achieve its underlying goals (Deutsch 1988: 153).

North Korea, ROK prosecutors intensified their battles with corruption. In April 2006 authorities arrested Chung Mong Koo, the head of Hyundai Motor, charging him with embezzlement of $106 million to create a slush fund to buy political favors, and of breaching his obligations by damaging his company's fortunes by over $300 million. In May 2006 the South Korean stem cell researcher Dr. Hwang Woo-suk was indicted on charges of criminal fraud, embezzlement, and violating bioethics laws. The chief ROK prosecutor compared the case with the shoddily made Sungsu Bridge that collapsed in 1994 killing 32 people. Meanwhile, serious corruption cases also occurred in many other countries and capitals including Washington, D.C.

29 "You've often heard your father complain of officials who take for themselves a fat share of the taxes the people pay to the King. Well, that is a squeeze (Carpenter: 1973: 169)."

PROSPECTS FOR KOREA: ALTERNATIVE FUTURES

True GRIT?

Is there any analog on the Korean peninsula to the dissemination of ideas fostered by the International Literary Center? John P. C. Matthews, who worked on the book program, wrote in 2003 that the library had sprinkled reality into an "unnatural and ultimately irrational" system. It also laid the foundation for a smoother relationship among opinion leaders in the West and in the East, because they had been reading the same books (Martin 2006). Shrill radio broadcasts with semi-official views of the U.S., DPRK, and ROK governments are not the same thing as books that may do "something against frustration and stultification, against a life full of omissions (ibid.)."[30] The Asia Foundation sends many books to North Korea, but is not sure who gets to read the physics and biology texts-not to speak of those dealing with social science.[31] As Korean children learn, the Jade Emperor may grant the status of court scholar [paksa] to those whom he pleases-not necessarily for their "pure learning (Carpenter 1973: 143)."

Could GRIT and the arts of diplomacy help bring peace to the Korean peninsula? More than half a century after the 1953 Armistice,

---

30 The Korean CIA in 1970 showed me what looked like *Time* Magazine with DPRK propaganda inside. Perhaps the ROK sent similar "publications" to the North. But such "transmissions" are in no way as credible or influential as sending a Soviet reader the same material as that meant for Western audiences. Besides smuggled publications, the USSR and U.S. governments agreed to exchange a limited number of magazines in the other's language. *Amerika* was very popular in the USSR and commanded high prices for used copies. Many of its articles were translations of articles originally written for publication in the United States.

31 When Robert Scalapino lectured in Vladivostok, a student from North Korea challenged him on the origins of the Korean War. Having summarized the relevant documents for the class, Scalapino invited the student to talk to him later in his room. The student duly appeared, but with two colleagues – insurance against crossing any lines. Scalapino's recollections in a conversation on May 1, 2006, Berkeley, California.

there was still no peace treaty ending the Korean War. Wartime memories and fears of renewed fighting remained. Distinct political cultures divided the parties, fostering misperceptions and communication failures. As suggested in Table 1, the reasons for Kim Jong Il to resist an accommodation with the non-Communist world are much stronger than those that faced other Communist leaders at crucial junctures.

Despite overhanging clouds, Pyongyang and Washington had deep reasons to reach a new and broader accommodation. The outlines of an accord that could benefit the DPRK and United States (and Washington's partners) were well known. As a Brookings Institution study published in 2003 argued, normalized relations would probably rest on moves - all in tandem - toward nuclear disarmament by the North in exchange for security assurances, major economic assistance, and diplomatic recognition. The basic quid pro quo would probably resemble that of the 1994 Framework Agreement - DPRK denuclearization in exchange for security assurances and economic assistance.[32]

Though the Bush administration balked at direct bilateral talks as sought by Pyongyang, the U.S. took part in six-party talks brokered by China (including also the ROK, Russia, and Japan). Usually, however, one step forward was followed by one or more steps backward. The initial rounds of these negotiations saw U.S. diplomats demand a sequence of moves that Pyongyang was sure to reject - what could be called a "joker" (Spanier and Nogee 1962). Thus, Washington insisted on verified dismantling of the DPRK nuclear facilities first, with energy and other assistance to

32 This "Geneva 2" would fill in details left vague or empty in 1994 and take account of the many changes that have occurred in the years since the 1994 accord. It would establish a constructive role for the other four parties in the six-party talks and some of the many states that joined the KEDO. The Brookings proposal included two items missing from the September 2005 and February 2007 agreements discussed later in this paper. The Brookings "grand bargain" suggested substantial reductions by DPRK, ROK, and American conventional forces. It also stipulated that Pyongyang permit all kidnapped Japanese to leave and open discussions on other human rights issues (O'Hanlon and Mochizuki 2003).

follow later. North Korean diplomats, understandably, wanted parallel tracks to be followed simultaneously - a sequence like that agreed to in 1994.

In September 2005 the six-party talks reached an accord on general principles that raised hopes another grand bargain was in sight. Washington confirmed that it had "no intention to attack or invade the DPRK" and that "the DPRK and the United States undertook to respect each other's sovereignty, exist peacefully together and take steps to normalize their relations subject to their respective bilateral policies." The accord called for a process going forward "commitment for commitment, action for action." But within days the agreement in principle fell apart as both Washington and Pyongyang insisted on different sequences of implementation.

How near and yet so far. Petulant and proud, neither the DPRK nor the United States wanted to take the first step to break the impasse (Onishi 2006). Adding to the discord, Washington charged that the North engaged in drug trafficking, money laundering, and making counterfeit of dollars-accusations that Pyongyang denied. Beginning in late 2005, the United States began to crack down on North Korean companies and the financial institutions that deal with them. U.S. pressure managed to freeze some $25 million of North Korean assets in a Macao bank. Pyongyang refused to talk about its nuclear weapons until the United States lifted its siege and the $25 million was repatriated. Washington replied that the six-party nuclear talks could and should proceed without regard to the financial crackdown, while North Korea linked the two spheres – saying that the money laundering charges showed Washington's underlying hostile intent. While the U.S. position was understandable, Washington had put up with the DPRK machinations for years, and counterfeit dollars could be seen as a trivial issue next to nuclear disarmament.[33]

---

33 The BBC World News (April 18, 2006) reported that DPRK agents had counterfeited $45 million since the 1970s when a "Bureau 39" began to create a slush fund for Kim Jong Il.

Looking at the increase in the number of countries possessing nuclear arms and the quest by terrorists to obtain such weapons, a lead negotiator for Ronald Reagan and other Republican presidents wrote in 2006 that he had never been more worried about the future of his children and grandchildren. "Unfortunately," he observed, "the goal of globally eliminating all weapons of mass destruction is today not an integral part of American foreign policy (Kampleman 2006)."

Confounding many hopes and adding to many fears, North Korea tested a three-stage missile and detonated a nuclear device in 2006. The missile fell apart in mid-flight and the device was puny. Much further research and development would be required to produce nuclear warheads sufficiently small and light to fit atop a missile. Much work would also be needed to develop missiles that were reliable and accurate. But Pyongyang was developing the essentials of a minimum nuclear deterrent. Would this prospect make a grand bargain less or more feasible?

The United Nations Security Council took a hard line on both tests. Resolution 1695 adopted unanimously on July 15, 2006 condemned the recent DPRK missile launches and demanded the suspension of all related ballistic missile activity. It urged North Korea to return immediately to the six-party talks without preconditions.[34] Resolution 1718, adopted unanimously on October

---

34 The resolution condemned the multiple launches by the DPRK of ballistic missiles on 5 July 2006 local time. The text spelled out that the Security Council:

1. *Demands* that the DPRK suspend all activities related to its ballistic missile programme, and in this context re-establish its pre-existing commitments to a moratorium on missile launching;
2. *Requires* all Member States, in accordance with their national legal authorities and legislation and consistent with international law, to exercise vigilance and prevent missile and missile-related items, materials, goods and technology being transferred to DPRK's missile or WMD programmes;
3. *Requires* all Member States, in accordance with their national legal authorities and legislation and consistent with international law, to exercise vigilance and prevent the procurement of missiles or missile

14, 2006, demanded that the DPRK "abandon all nuclear weapons and existing nuclear programmes in a complete, verifiable and irreversible manner." It provided stronger teeth than the earlier resolution.[35]

The events of late 2006 and early 2007 could push the parties toward or away from a deal. But U.S. and DPRK diplomats met on a bilateral basis and then in a fifth round of multilateral talks again brokered by Beijing. On February 13, 2007 the six parties signed a document entitled "Initial Actions for the Implementation

---

related-items, materials, goods and technology from the DPRK, and the transfer of any financial resources in relation to DPRK's missile or WMD programmes;

4. *Underlines*, in particular to the DPRK, the need to show restraint and refrain from any action that might aggravate tension, and to continue to work on the resolution of non-proliferation concerns through political and diplomatic efforts;
5. *Strongly urges* the DPRK to return immediately to the six-party talks without precondition, to work toward the expeditious implementation of the 19 September 2005 Joint Statement, in particular to abandon all nuclear weapons and existind nuclear programmes, and to return at an early date to the Treaty on Non-Proliferation of Nuclear Weapons and International Atomic Energy Agency safeguards;
6. *Supports* the six-party talks, calls for their early resumption, and urges all the participants to intensify their efforts on the full implementation of the 19 September 2005 Joint Statement with a view to achieving the verifiable denuclearization of the Korean Peninsula and in north-east Asia;
7. *Decides* to remain seized of the matter.

35 For teeth, the resolution provided that shipments of cargo going to and from North Korea may be stopped and inspected for WMD or associated items. (In deference to China and perhaps to the ROK, however, the resolution did not obligate member states to perform such inspections.) It banned imports and exports of "battle tanks, armored combat vehicles, large calibre artillery systems, combat aircraft, attack helicopters, warships, missiles or missile systems", "related materiel including spare parts" and any other items identified by a sanctions committee. UN member states were to freeze the overseas assets of individuals and companies involved with the DPRK's weapons programs. An international travel ban was placed on program employees and their families last but not least, the resolution forbade UN members to export luxury goods to North Korea.

of the [September 19, 2005] Joint Statement. The February 13 accord seemed to meet many of the basic needs of each party, but implementation raised both technical and political problems for all parties. Pyongyang refused to seal the Yongbyon reactor or carry out other required moves until it got the $25 million sequestered in Macao. But even when the U.S. Treasury Department authorized release of the money, the DPRK government claimed not to have received it. North Korea wanted assurances that its banking links would be liberated from any tinge of dirty money.

The financial transfer was finessed in June 2007 by wires from Macao to Washington to Moscow, where the DPRK had banking representation. Having received the $25 million, Pyongyang said it was ready to seal the Yongbyon reactor. It invited IAEA representatives to arrange verification. Many other steps remained on the road to denuclearization. Only time would reveal whether the February 13 accord marks a significant breakthrough, or whether it was just another speed bump on the road to a more intense confrontation. Experts argued the case pro and con.[36]

ALTERNATIVE FUTURES

What do the foregoing arguments imply for the major alternative futures facing North Korea?

The status quo – a continuation of present political, economic, and military trends – is unlikely to hold beyond a few years. Stalinism may already be suffering a natural death. Top-down controls and juche isolation are not viable – especially given the vibrant dynamism of South Korea and the increasing permeability of the North.

Some of the worst imaginable worlds are also quite feasible. Stalinism might not wither gradually. Instead, North Korea could

---

36 Was the February 13 deal an event worth celebrating? See, for example, the debate between Henry Sokolski and Andrew J. Grotton on March 16 at Council on Foreign Relations 2007.

implode or explode. It could suffer an economic breakdown and intense civil strife. The regime would probably respond with even more repression, but it could also collapse, yielding anarchy. Societal fitness would decline even further as North Korea veered between rigid order and sheer anarchy. Refugees would flood into South Korea and China, creating major disruptions.[37]

On the other hand, if the Communist regime hangs on and the DPRK becomes a credible nuclear armed power, both optimistic and pessimistic scenarios are plausible. Optimists hope that regional security would improve because Pyongyang could rest secure behind its minimum deterrent. Neighboring countries such as Japan would take few countermeasures because they trust in their burgeoning antimissile defenses and America's nuclear umbrella. By contrast, pessimists worry that a nuclear equipped DPRK would provoke Japan, the ROK, and perhaps Taiwan to join the nuclear club – goading China and then India and then Pakistan to take compensatory actions; growing fears of a nuclear confrontation in the region could stimulate capital flight from South Korea and Japan. To prevent this outcome the United States might try to disarm the DPRK by force, a move that would probably incite a cross-border attack on South Korea and push China, Russia, and Japan to bolster their own defenses. The chaos of war might even lead to hostilities between China or Russia and the United States.

If all sides play their cards well, however, a variety of not-so-

---

37 China does not want chaos on the Korean peninsula, but it is doubtful that Beijing would try to inject military force to save a brother Communist regime or establish a client state. Apart from Tibet, China has not used force abroad for regime change. Beijing places great weight on good ties with Seoul and may even see Korean unification as inevitable. Against this prognosis, however, Dr. Jun Zhan notes (e-mail dated May 11, 2006) that several years ago China replaced its military police with regular People's Liberation Army units at the border with North Korea and that elite PLA units then conducted maneuvers in the region. While Beijing values good relations with the ROK, it would not welcome loss of a deep (some 3,000 km.) buffer zone, permitting hostile forces to advance to the Duck-Green River-Mao Zedong's 1950 nightmare. For analysis of efforts to bridge differences between Beijing and Taipei, see Zhan 1993.

bad alternatives are attainable. Emulating China, the Communist regime in North Korea might retain its central role but try to foster a market economy. It might engineer a "bold switchover" – shifting the lion's share of resources away from the military to a broad development orientation (Noland et al. 2006). Like the U.S. and former Soviet Union, Washington and Pyongyang could replace vituperation and tension with a program to reduce tensions and normalize relations. Dénente and some entente between Pyongyang and Washington could set the stage for a more constructive relationship between the two Koreas-confederation if not federation or union. These actions, in turn, would help East Asia become a stable zone of peace and prosperity.

Which scenarios prevail will depend on a welter of factors, but ultimately hinge on the perceptions and decisions of individuals in key places.

REFERENCES

Bechtol, Bruce E., Jr. 2005. The ROK-US Alliance During the Bush and Roh Administrations: Differing Perspectives and Their Implications for a Changing Strategic Environment. *International Journal of Korean Studies.* 9(2): 87–115.

Burns, Richard Dean, ed. 1993. *Encyclopedia of Arms Control and Disarmament.* ABM treaty. New York: Scribner's. 3(3): 1253–59.

Carpenter, Frances. 1973. *Tales of a Korean Grandmother.* Boston, Ma.: Tuttle.

CIA. *World Factbook* in 2006. http://cia.gov/cia/publications/factbook/geos/kn.htm#Econ Accessed May 11, 2006.

CIA. *World Factbook* in 2007/ https://www.cia.gov/library/publications/the-world-factbook/index.html. Accessed May 17, 2007.

Clemens, Walter C., Jr. 1978. *The U.S.S.R. and Global Interdependence: Alternative Futures.* Washington, D.C.: American Enterprise Institute.

Clemens, Walter C., Jr. 1990. *Can Russia Change? The USSR Confronts Global Interdependence.* Boston: Unwin Hyman.

Clemens, Walter C., Jr., 1991. *Baltic Independence and Russian Empire.* New York: St. Martin's.

Clemens, Walter C. Jr. 2000. *America and the World, 1898–2025: Achievements, Failures, Alternative Futures.* New York: St. Martin's.

Clemens, Walter C., Jr. 2001. *The Baltic Transformed: Complexity Theory and European Security.* Lanham, Md.: Rowman & Littlefield.

Clemens, Walter C. Jr. 2004. *Dynamics of International Relations: Conflict and Mutual Gain in an Era of Global Interdependence.* 2d. ed.; Lanham, Md.: Rowman & Littlefield.

Clemens, Walter C. Jr. 2004. Almost Back to Square One [in North Korea]. *Bulletin of the Atomic Scientists.* 60(5): 22–25.

Clemens, Walter C., Jr., 2005. Negotiating Weapons of Mass

Destruction in North Korea. *International Negotiation Journal.* 10: 453–86.

Council on Foreign Relations 2007. http://www.cfr.org/publication/12791/is_the_north_korea_deal_worth_celebrating.html?breadcrumb=%2Fregion%2F276%2Fnorth_korea. Accessed May 26, 2007.

Creekmore, Marion V., Jr. 2006. *A Moment of Crisis: Jimmy Carter, the Power of a Peacemaker, and North Korea's Nuclear Ambitions.* New York: Public Affairs.

Deutsch, Karl W. 1988. *The Analysis of International Relations.* 3d ed.; Englewood Cliffs, N.J.: Prentice-Hall.

Dickie, Mure. 2006. Censors Turn China's Baidupedia Into Closed Book. *Financial Times.* May 13/14: 4.

Florida, Richard L. 2006a Do not get impaled on the spikes of China's success. *Financial Times.* April 7: 8.

Florida, Richard L. 2006b. *The Flight of the Creative Class: The New Global Competition for Talent.* New York: HarperBusiness.

French, Howard W. 2006. Chinese Turn to Civic Power As a New Tool. *New York Times.* April 11: A1, 8.

Guerrera, Francesco. 2006. China is in Danger of Sinking. *Financial Times.* May 6/7: 12.

Harrison, Neil, ed. 2006. *Complexity in World Politics.* Albany, N.Y.: State University of New York Press.

Hirschman, Albert O. 1970. *Exit, Voice and Loyalty.* Cambridge, Ma.: Harvard University Press.

Ignatius, David. 2004. A Gaddafi Cover-Up. *The Washington Post.* October 26.

Jentleson, Bruce W. and Christopher A. Whytock. 2005/06. Who 'Won' Libya? The Force-Diplomacy Debate and the Implications for Theory and Practice. *International Security.* 30(3): 47–86.

Kampleman, Max M. 2006. Bombs Away. *New York Times,* April 24: A23.

Kim, Choong Nam. 2000. Pyongyang's Dilemma of Reform and Opening – How to Compromise Economic Benefits with Political Risks. *Korea and World Affairs.* 24(2): 247–76.

Kim, Choong Nam. 2005. The Roh Moo Hyun Government's Policy

toward North Korea. *International Journal of Korean Studies.* 9(2): 1–33.

Kim, Yong-nok. 1973. On Korean Entrepreneurship in *Listening to Korea: A Korean Anthology,* edited by Marshall R. Pihl. New York: Praeger: 227–233.

Kincaid, D. Lawrence and June Ock Ym. 1976. The Needle and the Ax – Communication and Development in a Korean Village in *Communication and Change*: The Last Ten Years – and the Next, edited by Wilbur Schramm and Daniel Lerner. Honolulu: University Press of Hawaii: 83–97.

Kampleman, Max M. 2006. Bombs Away. *New York Times.* April 24: A23.

Korean Peninsula Energy Development Organization. http://www.kedo.org/. Accessed May 17, 2007.

Krieger, Joel, ed. 2001. *Oxford Companion to Politics of the World.* 2d ed.; New York: Oxford University Press.

Lankov, Andrei. 2006. The Natural Death of North Korean Stalinism. *Asia Policy.* 1 (January): 95–121.

Lindberg, Tod. 2003. A Policy of Prevention: The Administration's Strategy against WMD Is Working. *Washington Times.* December 30.

Martin, Douglas. 2006. George C. Minden, Who Smuggled Books in a Cold War of Words, Is Dead at 85. *New York Times.* April 23: 29.

Martin, Lawrence E. 2006. *The Central Liberal Truth: How Politics Can Change a Culture and Save It from Itself.* New York: Oxford University Press.

McGlinchey, Eric. 2006. Islamic Leaders in Uzbekistan. *Asian Policy.* 1 (January): 123–44.

Noland, Marcus et al. 2006. *The Regional Economic Implications of North Korea's Security Behavior – the "Bold Switchover" Concept.* Seattle, Wa.: National Bureau of Asian Research.

O'Hanlon, Michael and Mike Mochizuki. 2003. *Crisis on the Korean Peninsula: How to Deal with a Nuclear North Korea.* New York: McGraw-Hill.

Onishi, Norimitsu. 2006. Key Diplomats Together Again, But Not

Meeting on North Korea. *New York Times.* April 11.
Osgood, Charles E. 1962. *An Alternative to War and Surrender.* Urbana: University of Illinois Press.
Ross, Carne 2006. We must hear the unheard for a more stable world. *Financial Times,* April 6: 13.
Rummel, Rudolph J. 1996. *Death by Government.* New Brunswick, N.J.: Transaction.
Safran, William, ed. 1998. *Nationalism and Ethnoregional Identities in China.* London: Frank Cass.
Schelling, Thomas C. 1980. *Strategy and Conflict.* Rev. ed.; Cambridge, Ma.: Harvard University Press.
Spanier, John W. and Joseph L. Nogee. 1962. *The Politics of Disarmament: A Study in Soviet-American Gamesmanship.* New York. Praeger.
Starr, S. Frederick. 1989. A Peculiar Pattern. *Wilson Quarterly.* 13(2): 37–50.
United Nation Development Programme 2006. Human Development Report at http://hdr.undp.org/hdr2006/pdfs/report/HDR_2006_Tables.pdf.
Yakovlev, Aleksandr N. 2003. *Sumerki.* Moscow: Materik.
Zhan, Jun. 1993. *Ending the Chinese Civil War: Power, Commerce, and Conciliation Between Beijing and Taipei.* New York: St. Martin's.

<Table 1> Why Some Communist Leaders Would Be Reluctant to Negotiate Détente with the West

(CODE: Low, Medium, or High rating in the given year; author's evaluations)

	LENIN 1918 (Before the Brest-Litovsk Treaty with Germany)	STALIN 1946 (Before the Cold War Intensified)	MAO ZEDONG 1970 (Before Normalization of Relations with Washington)	KIM JONG IL 2007 (Before Committing to the February 13 Accord)
PERSONALITY				
Insecure	L	M	L	?
Rigid, Inflexible	L	M	M	?
Personality Cult	L	H	H	H
Deified	L	H	H	H
HISTORY				
Remote From Western Culture	L	M	H	H
Perceived Abuse by the West	M	M	M	H
POLITICAL SYSTEM				
One-Party Rule	M	H	H	H
Totalitarian	L	H	H	H
Factions Opposed to Detente	H	M	M	?
Dependency on Military Elites	L	L	M	?
Zero-Sum Worldview	H	M	M	H
Expansionist Ideology	H	M	L	H
Ethnic-Nationalist Centrifugal Forces	H	M	L	L

	LENIN 1918 (Before the Brest - Litovsk Treaty with Germany)	STALIN 1946 (Before the Cold War Intensified)	MAO ZEDONG 1970 (Before Normalization of Relations with Washington)	KIM JONG IL 2007 (Before Committing to the February 13 Accord)
Nationalist Ideology	L	H	M	H
Self - Reliant Economy	M	M	M	H
Need Foreign Bogey	L	M	M	H
POWER BALANCE				
Perceived Threat	H	M	H(from USSR)	H
Perceived Hostility from Western Leaders	H	M	L - M	H
Reliance on a Military Deterrent	L	M	M	H
Foreign Allies and Sympathizers Against Détente	M (workers' parties)	L	L	L
Secrets to Keep from Foreigners	M	H	M	H
Divided Nation with Rival Next Door	L	L	M	H
Foreign Aid even without Détente	L	L	L	M-H

CHANGING U.S. ALLIANCE STRATEGY AND THE LIMITS OF BILATERAL ALLIANCE STRUCTURE IN NORTHEAST ASIA

IHN-HWI PARK
Ewha Womans University

Abstract

Throughout the Cold War, Korea-US and US-Japan alliances in Northeast Asia functioned as United States' major security network. However, as the substance of both global and Northeast Asian regional security relations is transforming, theoretical and policy-oriented reconfiguration of the bilateral alliance is rapidly making progress. It is understood that changes in the identity of the ROK-U.S. and U.S.-Japan alliance in terms of threat perception and security goal are fairly differentiated. In case of ROK-US alliance the common foundation of the alliance such as perception on deterrent subject is slowly collapsing. At the same time the U.S. has shown a firm vision on the ROK-U.S. alliance and confirmed a continuous discussion and compromise with its counterpart. The U.S-Japan alliance is affected by more complicated diplomatic relationship between the two nations. Most importantly, the future U.S-Japan alliance will act as an institutional tool contributing not only for Northeast Asia's security, but for Japan to contribute for international security.

Key Words: Alliance, Northeast Asian Bilateral Structure, Korea-US Alliance, US-Japan Alliance, Military Strategy.

INTRODUCTION

After the Second World War, the United States, overcoming its geographical identity as merely a continental state of North America, moved to bolster its position as part of the Northeast Asian regional order by consolidating its military security relations with Northeast Asian allies: the Republic of Korea, Japan, and Taiwan (Calder 2003; Ikenberry 1998/9; Buckley 1992). Consequently, the two alliances, the ROK-U.S. alliance and the U.S.-Japan alliance, served as key mechanisms to advance U.S. strategic national interest in the Northeast Asian region. However, new changes in the Northeast Asian regional security complex are forcing the United States into pursuing new alliance strategies. Currently, these changes are taking shape in two dimensions: first the U.S. no more shares the military goals of the alliances with their Northeast Asian allies as they did during the Cold War period, and, second, the U.S. has faced a new trend of regional integration among Northeast Asian countries in the post-Cold war era (Pempel 2005; Krauss & Pempel 2004).[1]

Considering this background, it is absolutely necessary to review theoretical and policy oriented countermeasures to the changes in the military relations among the ROK, the U.S. and Japan. Especially after 9.11 and the advent of the 'War on Terrorism,' the trilateral relationship in the past that comprised the U.S.-Japan and ROK-U.S. alliance is losing common ground on Northeast Asian security as the two bilateral alliances each continue to evolve and find new directions (Armitage 2007; Cha 2002, 129). At this juncture it is indispensable for analysis purposes to provide a theoretical framework within which to review the policy options

---

1 The U.S. believes that the rise of Northeast Asian regional integration could undermine American national interests in the region: with regard to this subject see Joshua Kurlantzick, Pax Asia-Pacifica? East Asian Integration and Its Implications for the United States. *The Washington Quarterly* 30(3), 2007, 67–77; Daniel Twining, America's Grand Design in Asia. *The Washington Quarterly* 30(3), 2007. 79–94.

facing the U.S; this framework needs to take into account various scenarios concerning the North Korean nuclear issue, the so-called China threat and related issues regarding the future of the Northeast Asian power structure, as well as the asymmetrical regional structure that exists between economic development on the one hand and the security framework on the other.

It is this paper's objective to analyze the process of transformation in the Northeast Asian bilateral structure of the ROK-U.S. and U.S.-Japan alliances which is confronting a new security environment in the 21st Century. Throughout the Cold War, the two bilateral alliances in Northeast Asian region functioned as a major security network for the U.S., typically helping to protect its military and security interests and its geopolitical relations across the whole Eurasian Continent. However, as the substance of both global and Northeast Asian regional security relations is transforming, reconfiguration of the bilateral alliance both in theory and practice is rapidly underway. It is also clear that while both the ROK-U.S. and U.S.-Japan alliances are undergoing change, they are substantially different in terms of threat perception and security goals. Thus, the purpose of this research is to individually compare and analyze how the development of each alliance, ROK-U.S. and U.S.-Japan, has unfolded amidst vast changes in the Northeast Asian security order due to diverse variables including global terrorism, China as a rising power, Northeast Asian economic development, Japan's normalization, and North Korea's nuclear problem, etc. Also, this paper explores policy-oriented suggestions according to a comparative analysis. First the paper carries out an analysis of the special features of the global and Northeast Asian security environment of the 21st Century from the perspective of U.S. strategic interests. Based on this analysis, explanations will be provided for the new direction of development and nature of the ROK-U.S. and U.S.-Japan alliances. Lastly, the paper will cover the significance of changes in the Northeast Asian security complex in terms of how they relate to Korea's national security policies.

CONCEPTUAL CHANGES IN SECURITY AND THE U.S. ALLIANCE STRATEGY

New Concept of Security

Since 9.11, a chain of events in the international security environment induced the United States to pursue fundamental changes in its national security policy by creating an entirely new concept of security (Lebovic 2006; Mandelbaum 2002). At the outset, one country's national security strategy starts by outlining a view of the 'world.' The United States' view of the world in the 21st Century can be encapsulated as securing 'efficient sovereignty.' This approach requires a different understanding than that of traditional sovereignty.[2] Sovereign control does not indicate superior control of the strongest over various subordinate interest groups within a specific territory anymore. From a legal standpoint, sovereignty means direct control by a state over the administration of a territory's subjects and property. Simultaneously, it implies a certain consciousness of responsibility on the part of the sovereign power and provides a role for multilateral peacekeeping under a pluralistic international order. According to this logic, the United States bestows a unique consciousness of responsibility on itself where international peace and security are concerned.

At the present time, a conceptual reconstruction of national security is taking place along the lines of the following.[3] First, the

---

2 Traditional understanding of sovereignty focuses on the concept of 'absolute sovereignty,' while post-cold war concept of sovereignty confines itself to the narrow notion of 'efficient sovereignty.' For more specific discussion see, Helle Malmvig, *State Sovereignty and Intervention: A Discourse Analysis of Intervention and Non-Interventionary Practices in Kosovo and Algeria*. London: Routledge, 2006.

3 This explanation is mainly based on the following reference: Barry R. Posen. Command of the Commons: The Military Foundation of U.S. Hegemony. *International Security* 28(1), 2003, 3-43; Thomas Donnelly. What's next?: Preserving American Primacy, Institutionalizing Unipolarity. *AEI National Security Outlook*, New York: AEI, 2003; Philip Zelikow. The Transformation of National Security. *The National Interest* 71, 2003.

United States is establishing afresh the geographical basis for national security. In the past, an enemy was given that title only after a specific scale of military forces had been mobilized and stationed ready for combat. This approach is in stark contrast to the one taken in a post-9.11 environment of asymmetric threats, where frontiers of national security are basically ubiquitous. The threat from terror attacks conspicuously explains this development, and the frontier-vaunting national security policy of the United States thus responded by newly reorganizing and establishing institutions for systematic defense. The department of Homeland Security was created, and the FBI was required to carry out reorganization on a massive scale, 30 years or so after the last major US Congressional Inquiry had forced it to do likewise in the wake of the Watergate scandal (1972) and the subsequent congressional hearings of 1976. Above all, the Department of Defense has been undergoing revolutionary structural reform through the US' military strategy, Revolution in Military Affairs (RMA). Usually, diplomatic relations concisely express the domestic values and thoughts within an individual society. As a result, the fact that the United States' national security interests are set outside any spatial conceptions of national boundaries indicates that the U.S. geopolitical aspirations have expanded more than ever before. Thus, for the foreseeable future, it is predicted that the United States will continue to exert its influence on the international political stage to achieve its national interests in global security.

Secondly, the United States' conceptual reconstruction of national security has an integrating trait between realism and liberalism (Hoffman 1977). After WWII, what used to be the most common theoretical division of labor – between realism and liberalism – in U.S. external policies became meaningless in policy making (Malone and Yuen 2003, Ch. 1). One of the most symbolic changes that the 'War on Terrorism,' and the Iraq War indicates in US policy-making is the combination of 'power,' and 'principle' (Park 2003, 62–65). In pursuing its objectives concerning national security, the United States has shown a disposition to resort to policy in which the end justified the means. In the annual State

of the Union Address delivered by President Bush in 2002, he asserted his administration's commitment to the "non-negotiable demands of human dignity." As evident in the Iraq War, the moral high ground the United States has claimed has been different in substance from that of any of the other strong powers in the international community. Hence, what is inevitably referred to as the moral high ground seems to easily invite the criticism that it has been a mere excuse for the eventual victors to justify military intervention throughout history. The problem is how this sort of concept subscribed to by the United States will influence international order and security. The future of intenational security depends on a large extent on what values and principles the US, as the sole superpower, will accommodate for ensuring that just such a goal is achieved (Twining 2007, 82-83). Even after the current Bush administration becomes replaced by the next administration, it is quite likely that the combination of power and principle shall continue to reign in shaping national security policy. This can be explained by the fact that the current Bush administration comprises several influential so-called 'neo-cons' – a group of considered by many to be neither distract nor isolated from the universal values and aspirations shared by the U.S. as a whole. In spite of external criticism, the neo-con's strategic options can be understood as part of the American society's general ideological values.[4] One may expect a new policy direction for U.S. foreign policy after the presidential election of 2008. At the same time some would claim that Democratic foreign policy has tended to be more morally based than that of the Republicans' and that in recent Democratic administrations overseas military interventions have largely been restricted to humanitarian and peacekeeping role.

Thirdly, the conceptual change in U.S. national security strategy entails integrating the universal principles of international politics into a system of great power politics. In other words, the newly

---

4 For the further discussion on the Neo-con position on U.S. foreign policy see, Irwin Stelzer. *The Neo-con Reader*. New York: Grove Press, part II, 2004.

established U.S. perspective on national security has its focus on inducing subordination of the international political structure under U.S. influence. One of the most conspicuous traits of international politics observed over the centuries is the rivalry of great powers (Mearsheimer 2001; Snyder 2002). Nevertheless, in this transformed international security environment, the United States has employed negotiation and cooperation with the great powers in the world to its advantage (Walt 2006, Ch. 4; Nye 2003, Ch.1). While history shows us that intense rivalry among a number of great powers was prevalent throughout at least the first half of the 20th century giving rise to two world wars, the global landscape is significantly different today. The fact that the overwhelming superiority of U.S. military power actualized a sole superpower indicates that the United States' steadfast pursuit of neoliberal values and institutions will also serve as a tool for the attempted establishment of a U.S.-centered international order. Realistically, it is estimated that the U.S. has the capacity to continuously set the major agendas for the international arena, provided it continues close cooperation with the great regional powers on the Eurasian continent. In fact, ever since 9.11, the United States has been developing stronger ties with certain strategically influential countries such as Russia, China, and India. The U.S. believes that the crux of its national security lies in maintaining effective partnerships with such countries.

Changes in U.S. Military Strategies

The Bush administration has emphasized the importance of unilateral diplomatic approaches (Walt 2006, Ch. 2; Bush 2002). Passing beyond traditional strategic concepts of Republican conservatives, such as 'deterrence,' 'containment,' and 'collective security,' they pursue hegemonic policies with regard to almost every security-related issues. This distinct policy shift is the root cause of the changes in U.S. security strategies. The Bush administration takes pride in the fact that the foundation of the United States is based on a universal value for human kind: liberal democracy. The United States largely relies on its traditional

national and historical view of 'exceptionalism,' and 'sense of mission' which is to spread these kinds of American values to the rest of the world. The United States' sense of mission amidst the transforming international order of the 21st century is to take the lead in setting up an international order that is more progressive than at any other time in the past. For this, the Neo-cons who dominate the Bush administration believe the American standards and values should be practiced at a universally global level.

Accordingly, the Neo-cons believe that a relative decline in the power of the United States will eventually lead to the deterioration of the ideological system of international community, as well as overall global welfare (Park 2003, 66). So, they argue further that the United States' hegemonic interventionist policy is necessary not only for American national interest, but also for the welfare of international human society.[5] For this belief to be actualized, they believe the core preconditions should be based on moral lucidity, active diplomacy, and military superiority. Also, in order to realize all such national interests, they see advantage in fundamentally changing the past alliance relations that focused on the function of deterrence. The Neo-cons who watchfully attended to this system contend that the United States is now confronting a historically unprecedented 'Unipolar Moment' throughout world history, and that the role of the U.S. inevitably originates from this given status (Layne 2006, Ch. 6, 7; Krauthammer 2002).

The U.S. preference for unilateral diplomacy has been further strengthened since the 9.11 terrorist attacks. In understanding the 9.11 terrorist incident, there have also been voices of reflection

---

5 Of course this kind of American linkage of the country's national interests to overall global interests was already founded before 9.11: see Samuel Huntington. The Lonely Superpower. *Foreign Affairs* 1999, 78(2); Joseph Nye. Redefining the National Interest. *Foreign Affairs* 1999, 78(4). However, these trends have become more popular both with policy makers and academic thinkers after 9.11: see, Chris J. Doran. *In War We Trust: The Bush Doctrine and The Pursuit of Just War*. Burlington, VT: Ashgate Publishing Company, 2005; Ivo H. Daalder and James M. Lindsay. *America Unbound: The Bush Revolution in Foreign Policy*. Hoboken, NJ: John Wiley & Sons, Inc., 2003.

claiming that America's coercive diplomacy policy rather backfired: to them, US policy provoked anti-sentiments of peripheral powers left out of the U.S.-centered international order, and intensified the solidarity of anti-U.S. sentiments. Nevertheless, this sense of reprimanding reflection will not entirely stop the unilateral tendency of the Bush administration's diplomacy policy which previously has been running its course for some time now. In particular, since 9.11, the U.S. could further officially legitimize its unilateral diplomatic line through the process of building an international cooperative structure for the U.S.-centered 'anti-terrorism' war. This is because the success in the execution of the war on terrorism essentially requires active measures by a combination of both U.S. military power and U.S. leadership. Needless to say, the Bush administration is not directly objecting to a cooperative system involving the great powers in international politics with the purpose of efficiently managing international order. Rather, the U.S. considers the unpredictability and complexity of the current international order as fundamental grounds for multilateral cooperation that will eventually lead to the success of U.S. diplomacy policy (Walt 2006, 180; Layne 2006, 130). Depending on how the United States utilizes its alliance relations, treaties with other countries, and international organizations, it is the stance adopted by the U.S. that it believes it may either be helpful or harmful to it national interests.

Against this background, it is worth assessing the Iraq War as the most typical precedent of the Bush administration's diplomacy policy that underscores its unilateralist approach. To the U.S., the legitimacy of the Iraq War was established by the need to respond to asymmetrical threats that can break out anywhere around the globe. America's traditional European partner countries expressed their dissatisfaction that the United States excessively relied on unilateral diplomacy during the execution of the War on Iraq (Lansford and Tashev 2004, Ch. 14). This sense of discontent was further heightened since the Bush administration favored taking an offensive diplomatic approach towards the so-called rogue states in the name of 'Preventive Diplomacy' in 2002. Still,

it is the United States' main argument that these deviant states are not only supporting international terrorism, but also that they are pursuing the production and proliferation of Weapons of Mass Destruction, and that these actions have the potential to ultimately hurt U.S. national interests.

Northeast Asian Security Structure

Compared to Europe or the North American region, the Northeast Asian international order has experienced a distinctly unique process of formation. Unlike the European case in which countries of similar status in economic development, social stability, and at similar scientific and technological development stages, etc., formed its regional security order through a process of reciprocity, the state of international relations among Northeast Asian countries could be seen as a result of the proliferation and spread of the Western way of diplomatic relations (Park 2005, 10). This kind of historical characteristic has considerably influenced the regional security order as well. A case in point is the fact that there still remains a tradition of bilaterally resolving major security issues which originates back to the Cold War period (Park 2007, 82-83; Hughes and Fukushima 2004, 66-68; Christensen 1999; Freidberg 1993/4). Traditions like the former are institutionalized in the form of a 'fragmented array of bilateral relationships' (Park 2005, 8). The United States is in the very middle of such institutionalization, since the U.S. substantially secured its position as part of the Northeast Asian security framework during the Cold War.

What the United States' new global strategy means to Northeast Asia does not differ much from what it means to the rest of the world. The United States' primary goal regarding its interest in Northeast Asia is to effectively deter the advent of a Northeast Asian rival power that may challenge U.S. hegemony, and at the same time, to create a U.S.-friendly environment by relying on existing alliance relations (Christensen 2006, 82-84). Although not officially announced, most specialists agree that within Asia, China is most carefully monitored by the United States. China's

rapid modernization and rise in Northeast Asia may bring about severe rivalry with Japan; furthermore, the possibility of Taiwanese independence is another reason why the U.S. is wary of China's rise. Moreover, the U.S. does not want to see any disequilibrium in the regional security balance, nor any unstable situations arise over the issue of due to North Korea's nuclear weapons program.

From this perspective, it is possible to say that the future direction of the Northeast Asian security order ultimately comes down to the trilateral power relations among the United States, China, and Japan. The year 1997 can be seen as a pivotal point that brought about the biggest changes in the trilateral power relations in the post-Cold War period. Ever since then until now, the strategic partnership relations in the U.S.-Japan military alliance have been fortified, and China has been successfully carrying out specific programs for its economic growth. There is, however, a certain degree of 'imbalance of relations' in the trilateral relations. In other words, Japan's policy towards China is still to a certain extent under the influence of the U.S. itself and the U.S.-Japan alliance. Compared to the past, Japan has partly established an independent domain in diplomacy towards China, yet simultaneously makes an effort to intentionally keep a certain diplomatic distance from China.

To explain how the US maintains its geopolitical relations in order to ensure its Northeast Asian interests are protected, one has to take into consideration overall U.S. global strategy. The current Bush administration is actively embodying an American way of pursuing peace, and as mentioned previously, major policy makers known as Neo-cons are prevalent in executive government positions; these ideologically consist of a coalition of Wilsonians of the right and Jacksonian unilateralists (Park 2003, 62–63). The United States' general national interests at a global level can be summarized as: to prevent the proliferation of WMDs; obstruct the advent of a regional hegemonic state; maintain stability among the great powers in Eurasia; achieve peace in the Middle East, as well as securing and maintaining influence in the region; and secure global economic growth (Twining 2007, 86–89; Park 2005,

16; Ikenberry 2004, 45-47). Similar national interests can be applied to the Northeast Asian region: the probable intention of the U.S. is that it will attempt to seek reinforcement of its hegemony by helping to resolve the North Korean and Taiwan problem, and also will concentrate its diplomatic efforts to ensure that China's economic growth can be effectively incorporated into the U.S.-centered world economic order (Kurlantzick 2007, 74-76). For its national interests to be materialized, the U.S. needs the overall cooperation of its contemporary alliance nations.

Currently the United States secured military bridgeheads in Northeast Asia, Central Asia, Southeast Asia, and in all parts of Eurasia. Also, it is planning to develop a U.S.-led Northeast Asian military network by strengthening the network with its traditional allies such as South Korea, Japan, and Australia (Armitage and Nye 2007, 5-10; Hughes and Fukushima 2004, 84-86). In particular, the United States is concentrating its efforts on thoroughly separating military issues from socio-economical issues, and it is probably fair to say that this approach is likely to receive support from the members of alliances with the United States.

After 9.11, China has been pursuing a strategic partnership with the United States.[6] This practical stance is an absolutely necessary precondition for China's economic development considering the need for China's access to U.S. capital, technology, and market; also, ensuring regional stability is a significant factor in contributing to China's overall economic development. China accepts the overwhelming power of the U.S., and at the same time, continuously pushes to decentralize the present state of unipolarity of the international system. Naturally, for success in its 'decentralization strategy,' both external and internal conditions should be fulfilled: 1) securing sustainable economic development as well as securing minimum military deterrence as a counterbalance to U.S. military

6 For a further comprehensive introduction on China's foreign policy both in the period before and after 9.11, see Robert S. Ross and Ilastair Ian Johnston. *New Directions in the Study of China's Foreign Policy*. Stanford: Stanford University Press, 2006.

power, and 2) coalescing a strategic Anti-American solidarity movement internationally.

On the other hand, China has been emphasizing the need for a multilateral approach to the issue of regional security since the 1990s. It appears that such a policy changes took place because China thought it was wise to safeguard its national interests by seeking to actively dissolve the much talked about the so-called "China Threat" pervading the international society. At this point it is difficult to assess how well the 'Multipolarization Strategy' is progressing, yet China is effectively responding to U.S. unilateralism, while at the same time working hard to achieve its diplomatic goal of conveying its image as the leader of the East Asian region. Such efforts are guided by taking a diplomatic approach based on pragmatism. For economic development, China is maintaining friendly foreign relations with other great powers, and it is also actively participating in regional and global international multilateral forums (Shambaugh 2004/5, 66−70; Johnston 2003, 7−12). China is particularly maintaining international political relations with the United States, while at the same time developing diplomatic strategies that do not allow the U.S. to hinder Chinese economic and geopolitical aspirations. As can be seen by China's consistent stance on resolving the North Korean Nuclear crisis, China is actively cooperating in regional security issues such as the problem of the Korean peninsula.

Japan basically attempts to unite its roles as a 'normal state' and as a 'global civilian power' (Berger 2003; Heginbotham and Samuels 2002). The most meaningful development in America's new strategic values in the dimension of Northeast Asia is the changed nature of the U.S.-Japan alliance. Japan understands that the current changes in alliance strategy pushed for by the United States are necessary at all costs. Therefore, Japan accepts the U.S.-centric world order, explores ways to maximize its roles within this international order, and actively cooperates with the U.S.-led "Japan as Asia's Great Britain" policy. Ever since the 1997 US-Japan Defense Cooperation Guideline, the scope of the U.S.-Japan security cooperation system is transforming itself into

a security mechanism that transcends Asia. Such transformations, in particular, include a series of specific provisions such as: a 'law on special measures for terrorism' in 2001; a 'law on measures in arms-use situations;' a 'self defense force law;' a 'safety guarantee council installation law' in 2003; and the 'safeguard principle' in 2004. These movements are gradually widening the scope of Japan's role in international security since 9.11. In summary, the U.S.-Japan alliance can be thought of as the crux of the United States' Asian security network.

THE CHANGE OF THE KOREA-U.S. ALLIANCE AND THE U.S.-JAPAN ALLIANCE

American National Interest and Alliance Strategy

After the World War II, alliance strategy in the international order evolved around the center of the United States' external security policies. As Germany and Japan lost in the Second World War, the Soviet Union emerged as the next security threat to the United States. Pursuing a containment policy against the Soviet threat made it necessary to form long term military alliance. At the same time, some felt that there was a lesson to be learned in that U.S. aloofness from European politics during the 'inter-war period (1919-1939),' the period between WWI and WWII, was a contributing factor in causing the breakout of World War II. The 'Double Containment' policy and formation of alliances with Western Europe and Japan made the achievement of national security as well as industrial development and economic development possible after the end of World War II.[7]

NATO, the military alliance in Europe, alienated the former

7 'Double Containment' means the goal of the U.S. foreign policy to contain both communist bloc and the two main axes, Germany and Japan. For more specific introduction, see Thomas McCormick, *America's Half Century: United States Foreign Policy in Cold War and After* (Baltimore: Johns Hopkins University, 1995), pp.72-80.

Soviet Union by treating it as an outsider and keeping it out of European power politics because of its communist form of government, while at the same time it systematically ensured Germany's growth and importance within the framework of international security, and secured the United States' Europeanization. NATO was a definite mechanism of enforcement of US geopolitical policy from a strategic perspective. As a result, a U.S. Cold War military strategy of pursuing a network of military alliances was executed globally with NATO at the core. Throughout the Cold War, a chain development of alliance relations was established: most typically SEATO (Southeast Asia Treaty Organization), an alliance of Southeast Asian countries, ANZUS (the security treaty formed between Australia, New Zealand, and the U.S); core bilateral alliances such as the ROK-U.S. and U.S.-Japan alliance; and CENTO (Central Treaty Organization), a security pact involving Great Britain, Iran, Turkey, Pakistan, and Iraq (until 1958). Of course, the United States assumed the chief role within all of these alliance relations.

From this perspective, the realistic management of 'containment policy' took the appearance of a U.S.-led alliance of nations surrounding the former Soviet bloc's territorial influence. In fact, U.S. victory in the rivalry with the Soviet Union can be viewed as the result of maximizing the strategic effect of alliance relations. Alliance strategy was expressed realistically as comprising an integrated form of two strategic aspects: national security and economic security. In the course of the U.S. executing its military and economic strategy policy, the U.S., being one of the hegemons in the bipolar system that existed during the time of the Cold War, uncomplainingly accepted certain economic loss if it could fulfill its geopolitical objectives. Although for a time during the 1970s the United States was under a heavy economic burden from its military expenditure on the Vietnam War, the validity of the actual alliance strategy itself was sustained by demanding expense sharing with traditional friendly nations such as Japan and Germany. Of course, the successful management of the U.S. Cold War alliance strategy presupposes the United States'

overwhelming superiority in its military power. Introduced in the 1950s, the "Rational Deterrence Theory" was the theoretical edifice within which military rivalry of the powers of the East and West was rountinely conducted and within this context the U.S. alliance strategy operated efficiency by nurturing the cooperative spirit of the Western powers (Mogan 2003, 42-45).

Provided that the ultimate purpose of the alliance strategy lay in efficiently carrying out the US containment policy, the demise of the former Soviet Union, and the end of Cold War rivalry presented a critical question related to the efficiency and vitality of alliance strategy. Decisively since 9.11 and the outbreak of the Iraq War, the course and direction of US national security interests has been clearly laid out, and because of this, a new form of cooperative international security relations as distinct from past alliance strategies are essential in the more geopolitically complex world of the 21st century.

As a result, changes in alliance relations including those within NATO, and others have begun to take shape since the start of the Iraq War. The issue is not about whether alliance relations are still relevant in the post-Cold War world, but rather, at least from a US perspective, how to create an international environment that would not interrupt the realization of U.S. national interests regardless of whether the various US alliance in Asia and around the world continue or are broken up. If viewed from this aspect, the legitimacy of the United States' current "War on Terrorism" which has already been called into question, could be a significant turning point in influencing changes in future alliance strategy; especially that which is founded on the premise of effecting regime change in a country perceived to pose a threat to the respective alliance members through the use of traditional military intervention. Particularly, the rift among NATO members in the course of the Iraq war was a significant incident. The contrasting stances between the traditional core NATO states, Germany and France and the newly included Easter European states is a good example of the potential for change in alliance strategy.

Critical Factors of the Recent Change of the U.S. Alliance Strategy

In realistic terms, the changes in U.S. alliance strategy evolved around the axis comprising US overseas military bases and military forces, and the readjustment in military strength. These new military strategic guidelines began to take shape starting from the latter period of year 2003. For now, plans on readjusting the stationing of U.S. military forces overseas has been proceeding by re-categorizing all U.S. military bases in the world into four different stages, following the steps outlined in the blueprint for U.S. military relocation known as the Global Posture Review (The U.S. Dept of Defense 2004; The U.S. Dept. of Defense 2005a). The first stage is the Power Projection Hub (PPH), that is, a key base from which to unfold large-scale military power, and equipment. A PPH may exist abroad, but usually it stays within the United States, such as in Hawaii, Florida, Guam, although countries like Japan and the UK are also reviewed as possibilities for locating PPHs by the United States Department of Defense. The American government identified that PPH will be limited to the mainland United States, Guam, the UK, Japan, and Australia. The second stage is the made up of Main Operating Bases (MOB), the function of which is to ordinarily support the training of the U.S. military, and to maintain cooperative security relations with neighbor countries. The third stage comprises a permanently stationed small-scale force ready for emergency: Forward Operating Sites (FOS). Lastly, the fourth stage comprises Cooperative Security Location (CSL), a host-nation facility in charge of maintaining a small-scale staff for liaison purposes and to provide minimum training facilities. The United States stated that according to the strategy announced in 2004, the U.S. military bases in O-san, Pyeongtaek will transform into middle stage bases of MOB or classified as bases somewhere between PPH and MOB bases, which will ultimately reduce the scale of the U.S. Armed Forces currently stationed in Korea (USFK). It has since been made public that South Korea and the United States have agreed on keeping the scale of the USFK down to a force of around 25,000.

The United States stressed that this sort of classification is purely based on functional grounds, and not based on any lessening in importance of the US-ROK alliance, and asked for people not to judge the significance of the alliance purely on the numbers of troops stationed the country.

Basically, the new form of alliance relation that the United States seeks to achieve through reforming its alliance strategies can be summed up as the following. The United States separates the number of military forces from the concept of military strength, and practically strategizes not to let the reduction of military forces lead to a decline in military strength. The U.S. is reforming its military strategy in order to maximize the use of advanced weapons technologies. The United States has changed the concept of its overseas military stationing, and is constantly trying to readjust its stationing of overseas forces in order to prove a flexible response to strategic threats. Accordingly, the U.S. aims to set up a structure in which an alliance partner country flexibly allows freedom in commitment and withdrawal of U.S. troops, and helps to support such procedures (The U.S. Department of State 2003; The U.S. Dept. of Defense 2005b). In addition, the U.S. draws attention to terrorist groups located in regions in the Bush administration's so-called *arc of instability*, and WMD proliferation as the major security threats of the 21st century; therefore, to help to contain these threats the U.S. seeks cooperation from its alliances. The scope of this cooperation should also transcend any regional concepts such as spheres of influence. The United States believes in the importance of upward mobility and flexibility in freely locating its troops on a regional or global basis as it sees fit.

The US is pursuing a long-term policy of developing a friendly alliance environment for the stationing of its military forces overseas under the logic that the War on Terrorism is a long-term war, and that the war may not bear the fruits of success easily. Thus, it seeks readjustment that focuses on maintaining friendly relations with the government, and citizens of the stationing country, and attempts at fundamental troop readjustment if its troops stationed overseas are treated with hostility. At the same time, the United

States is always conscious of rivalry with some of the world's strong powers while focusing on such threat-containment strategies as the Anti-terrorism war, and the non-proliferation and counter-proliferation of WMD. Yet, it still tries to include the great regional powers in the U.S.-centric structure under the common, yet primary objective of cooperating in the fight against terrorism. Finally, as mentioned previously, the United States is using developments in weapons technologies to accelerate the transformation of its military capabilities, and at the same time wants to create a mutually beneficial system of defense and security to ensure the strategic cooperation of other alliance member countries.

Such changes in alliance strategy can be seen by taking as an example of the characteristic changes currently transforming the 'NATO alliance.' The major focus of changes in the NATO alliance is 'the inter-operationality of military force units.' The United States is concerned that there is a high possibility of losing its leadership to enemies in regions that lack a large-scale U.S. troop presence, and also predicts that hostile powers may arm themselves and confront the United States with atmospheric defense systems, long-range ballistic missiles, WMDs and the like. Therefore, the U.S. is stressing the need to be prepared to face such situations with the concept of network centric warfare(NCW) based on its troop adjustment strategy. Under the NCW approach, network troops will have access to more information and be able to share it easily, have more of a flexible and concentrative military strength, and will have the characteristics of a light weight, small-scale and swift troops unit. Simultaneously, they will have the quality of easily adjusting to duties and changes in field situations.

Under such a military operational executions, and in order to enhance the changes in US-led military operational plans, and the 'inter-operationality' between NATO troops, the 'NATO alliance' emphasizes the following: First, that inter-operationality should occur in all strategic areas including operational tactics, the art of war, and the technology (Reynolds 2006; Gordon 2004, Ch. 7). A military strategist has a tendency to consider inter-operationality as a tactical, technical problem. However, the concept of inter-

operationality here is much broader in that all aspects of military operational plans are closely interconnected with each other. Especially, the important point is that the political objective of military operational plans will influence the characteristics of military strategies, and the art of war. Securing a reliable common system of communication among alliances with the same political objectives will affect the efficiency of military operations (Snyder 2002; Chun 2004, 148).

Secondly, alliances must perceive and resolve the very fundamental problems related to inter-operationality. For example, dissonance in political purposes can produce severe problems. In other words, inter-operationality means making political decisions on deciding the degree of damage to inflict on the enemy during warfare and the degree of readiness to bear the perceived risk and burdens prior to the conduction of military operations. Thirdly, to achieve success in operations, the structure should guarantee flexibility in its system, principle, and procedure. There have been differences in the past among NATO alliances on what kind of missions are in need, on what countries should participate, and on what kind of military support individual countries should provide. For these kind of issues to be solved, a collective command structure that coordinates each country's role, and a permanent organization that executes plans, training, and practice should be established.

Such precedents from the NATO show that based on structural changes in the U.S. military strategy, the United States is comprehensively pursuing conceptual changes in military operations from three key perspectives: on the basis of inter-operationality by using NATO troops; on the basis of unification in political objectives when executing the War on Terrorism by securing an appropriate level of military preparedness for the War on Terrorism through implementation of changes in military strength and flexibility by creating rapid reaction units; and finally on the basis of comprehensive multilateral cooperation by ensuring the support of the European Union when combating terrorism.

Change and Future of ROK-U.S. Alliance

Now we will examine how the previously mentioned change in US alliance strategy have affected the US-ROK alliance. The US alliance strategy change towards South Korea has stemmed in part from the changed nature of the US-ROK alliance itself, and this transformation started from a change in perception of the threat posed by North Korea, which was the reason why the two nations originally formed an alliance (Park 2007, 233-4). Historically it is natural that once the perceptions of the relevant parties to an alliance diverge, then the nature of the alliance itself changes. The key reasons for this change usually include such factors as the weaker nation's rising levels of economic development or military capability, a statues change in the international community, and an increase of national pride. South Korea and the US shares a mutual security values during the Cold War period, but the alliance between the two nations has sometimes caused a conflict of interests in the past. Despite these different interests at times between South Korea and the US, they did not arouse any fundamental problems. Especially, in the post-Cold War period the ROK-U.S. alliance did not confront the need for any fundamental changes due to North Korea's continuous and realistic threat on the Korean peninsula.

However, with South Korea unwilling to perceive North Korea as a realistic threat after the North-South Korea summit on June 15, 2000, the intrinsic nature of the alliance was bound to alter. Amid this time of alliance transition, the U.S. embarked upon its war against terrorism and consequently, a traditional security dilemma occurred, regarding the respective alliance dilemmas of 'entrapment' and 'abandonment;' any reluctance to dispatch troops to Iraq, which from a US perspective could be seen avoiding one's responsibility as an ally, and therefore logically understood to be in violation of the provision of ROK-U.S. alliance (Lee 2004).[8]

---

8 Entrapment and abandonment are normally known as 'alliance dilemma.' For the more specific explanation on these terms, see Glenn Snyder. *Alliance Politics*. Cornell University Press, 1997. Ch. 9.

Nevertheless, if participation in the alliance is more advantageous for U.S. interests, a change in the nature of the alliance between South Korea and U.S. is inevitable. It is more likely that there will be increasingly various forms of alliance rift in the future. This is because the common foundation of the ROK-U.S. alliance's perception on deterrence is slowly disintegrating (Kim & Lim 2007, 75–78). Also, with the intensified U.S. unilateral diplomacy adopted since the advent of the Bush administration, criticisms has been mounting that the ROK-U.S. alliance is tilting towards primarily US interest.

To elaborate, the strategic change affecting the United States Forces in Korea (USFK) has been announced and implemented. Currently, there are 28,300 troops in the army, 8700 in the air force, and 480 in the navy, adding up to a total of approximately 37,500 troops comprising the USFK contingent. Of this total, 3,600 troops of the Second Brigade in the Second Division are currently in stationed in Iraq. When the Second Brigade's troops are withdrawn from Korea, the army will have approximately 24,700 USFK troops remaining. The U.S. has informed the Korean government that it will reduce the size of the USFK by deploying a new weapons system which will help streamline the USFK and turn it into a leaner, swifter and more flexible unit (Korea Times 2006a).

The U.S. plan can be summarized as reducing the size of USFK forces and transforming the contingent into a special strike force; in which case the future role of a more flexible and trimmed down USFK should be pondered. The US has not yet indicated a specific goal for the ROK-U.S. alliance role change, and explained that there will be many situations in the future that will require bilateral cooperation (Dept. of Defense of the U.S. 2005a). Only through the sporadic opinions found in the US can we perhaps understand the nation's thoughts. On August 27, 2006 Commander of the US Army B. B. Bell said that the "South ROK-U.S. alliance forces are not only for humanitarian operations but can also act as Northeast Asia's peacekeeping forces" (Korea Times 2006b). Until recently the issue of the USFK's strategic flexibility has given rise to

intense debate, with the Korean government taking the position that this flexibility should not extend beyond the Korean peninsula. Even though a final decision has yet to be taken, from the aspect of the change in alliance strategy discussed previously, a fundamental transformation of the role of USFK forces could be immensely influential for South Korea's security (Korea Times 2007).

The military unit comprising a 'Striker Brigade,' from the 2nd Platoon, A Company, the 1-27th Infantry Regiment, which will eventually replace the US Army's 2nd Infantry Division in actual military maneuvers, has recently arrived at the Daegu base and has participated in the 2007 RSOI(Reception, Staging, Onward Movement and Integration) military maneuvers conducted by South Korea and the US. The military unit Striker Brigade, a strategic symbol of the US Revolution in Military Affairs (RMA), comprises the US' swift combat response team that can be dispatched to any conflict area in the world within 96 hours and execute military tactics. The number of soldiers that are stationed with the brigade in Korea is only 1/5 of the current Second Division, but its military capability shows no significant degradation. With the US' swift response strategy now in place, it has been greatly shortened US forces' redeployment time from the Okinawa base to the Korean peninsula, as well as strengthened the navy's landing capability and the ability to pre-arrange armament material readiness. Against this background, the following explains specific directions of change for the ROK-U.S. alliance.

Although the number of USFK forces will be decreased, the future $11 million earmarked for investment together with improved weapons systems and deployment should ensure that the currently projected downsizing will not lead to a weakened force capability. The US, however, is seeking to change the concept of the USFK, while at the same time it is constantly trying to ensure that its forces around the world can be transferred swiftly to strategic areas it considers threatened. Since the US perceives that the major security threats of the 21st century are threats from terrorist groups and the proliferation of weapons of mass destruction, it will expect the ROK-U.S. alliance to play a certain role in supporting

its overall objectives of threat containment. This includes the expectation that the South ROK-U.S. alliance will play a role in combating any attempted terrorist attacks in Northeast Asia and will also support the multilateral effort to prevent North Korea obtaining weapons of mass destruction (WMDs). Conceptually, the US desires that USFK and Korean military forces can be flexibly switched between the roles of either local or international forces as the situation dictates. Currently, the Korean government strictly opposes this approach, so we should take notice of whether future circumstances elicit any change in the government's position.

The U.S. is looking for a suitable stationing environment for its troops in Korea in order to fight a long-term war against terrorism, and it is trying to re-locate the USFK forces to Pyeongtaek, which lies south of the Han River. The US feels that it needs to be able to extend the role of the USFK beyond that of purely a defense force limited to providing a deterrent against an attack from North Korea. The U.S. is conscious of its relationship with China in restructuring the ROK-U.S. alliance, but in the long run, it feels that China should be included in the fight against terrorism currently being led by the U.S. Also, under the basic goal of anti-terrorism, the U.S. and China will need to make bilateral cooperation their utmost priority. Therefore, the U.S. is accelerating the implementation of its Revolution in Military Affairs (RMA) strategy in accordance with its Global Posture Realignment (re. Global Posture Review) by using advanced technology to upgrade its military capabilities, and accordingly requires the Korean military to prepare for participation in a system of military and strategic regional and global cooperation.

As mentioned previously, the U.S. is expediting plans to both reduce and relocate the number of USFK forces stationed in Korea. Also the U.S. is trying to establish a new role for USFK under the goal of protecting regional security as well as significantly enhancing its threat response capabilities. The previously discussed participation of the Stryker Brigade unit in the recent RSOI military maneuvers is an example of US desire to enhance regional security capability, as well as the measures taken to improve intelligence

gathering and operational capability, including the scrapping of the system of War Reserve Stocks for Allies (WRSA) – involving the pre-positioning of military supplies in times of emergency – together with the increased use of advanced precision kill weapon systems (APKWS). These steps are all being taken as part of the US's overall policy of ensuring the strategic flexibility of the USFK. Moreover, to enhance ballistic missile capability, measures are currently underway to replace the missiles used in the USFK Patriot units in South Korea since 1994, with a newer version of the Patriot missile, the PAC-3. Replacing the older attack helicopters with the latest AH-64D Apachi Long Borough is also being considered (Nam 2007; Han 2006).

These changes have been implemented in accord with the U.S.'s firm vision of the future role of the ROK-U.S. alliance in consultation and negotiation with its counterpart, South Korea. Furthermore, as shown in the Iraq crisis, the U.S. has high hopes regarding the capacity of the ROK-U.S. alliance to overcome US limitations of military personnel and budget constraints by providing an enhanced and more flexible strategic response to asymmetric threats. Not only is the ROK-U.S. alliance dealing with containment of the threat posed by North Korea, its original goal, but it has taken on new goals such as helping to maintain regional security and participating in the worldwide war against terrorism. When it comes to its Northeast Asian policies, it would seem that the U.S. still takes a hegemonic perspective, albeit in the context of a transformed post-Cold War geopolitical environment. So, from the U.S viewpoint, the value of the ROK-U.S. alliance lies in its capacity to both contain the North Korean threat as well as restrain the rising hegemony potential of Russia and China. Therefore, even if North Korea's threat to regional security diminishes, the U.S. will continue to view the South ROK-U.S. alliance from its hegemonic perspective (Park 2007, 97–99). If the U.S. needs the alliance for that purpose, it will search for various legitimacies to maintain the alliance as it did with the NATO and U.S-Japan alliances. In which case, South Korea should prepare contingency measures in the event of significant change in the characteristics of the ROK-U.S. alliance.

Change and Future of U.S.-Japan Alliance

In the so called era of terrorism, from the aspect of the changing nature of alliances, the U.S-Japan alliance is undergoing more fundamental changes than the ROK-U.S. alliance. As with the ROK-U.S. relationship where a wide spectrum of diplomacy deciphers the nature of the ROK-U.S. alliance, the same is true for the U.S-Japan alliance. However, in the case of the U.S-Japan alliance, a more complicated diplomatic relationship exists between the two nations, making it necessary for both nations to consider a wider range of policy variances. In a nutshell, there are two concrete questions concerning what U.S. national interests are facing in Northeast Asia. First, is the question of whether the U.S-Japan alliance and Japan itself are satisfactory choices for the US to protect its interests in Northeast Asia. Second, as seen from the recent concerns of neighboring nations, is the question of whether Japan will disengage from the U.S-Japan alliance and strike out on its own to bolster its military and become a hegemonic power itself in the Northeast Asian region.

To answer the second question, two recent objective sources concerning an analysis of Japan's military will be referenced, namely: the NDPG (National Defense Program Guidelines) released in December of 2004, and the MTDP (Mid-term Defense Program) unveiled in February 2005. These two sources are the most important in examining the direction of Japan's military policies and military development by showing how the approach taken by the Department of Defense, together with the process of policy decision-making by the government and the respective military chiefs of Japan's armed forces. The NDPG comprised the second revision to a policy statement outlining measures that were first implemented in 1976 and revised again in 1995, when they were released as the National Defense Outline. As regards the MTDP, which was first announced in 1986, policy revision has been made almost every five years. Therefore, the recently announced fifth version of the MTDP will act as an important guideline in deciding Japan's military direction until 2010. These two policy documents

show the changing environment of international and regional security in the 21st century from Japan's strategic perspective, in terms of its national interests, the concept of a flexible defense posture, and the military capability to cope with diverse security threats, which are the main reasons for its defense policy revision (Park 2007, 89–91; Hwang 2005).

To summarize, there are three factors to consider when examining both the NDPG and the MTDP policy statements (National Defense Program Guideline 2005; Mid-Term Defense Program 2005). First, Japan is trying a new approach to the issue of ensuring security in the Northeast Asia region. Especially, by identifying North Korea and China as new areas of instability, it is looking for ways to cope strategically with diverse threats, both military in nature, such as that posed by North Korea's weapons development program, or economic in nature, such as that posed by China's violation of intellectual property rights (IPR). Secondly, Japan asserts that it will adopt three appropriate policy approaches in order to attain its national security objectives: self-effort, U.S-Japan security, and cooperation with the international community. This means that the U.S-Japan alliance will maintain its original national security framework and eventually expand its security role in the international community. Third, for specific defense improvements, Japan is emphasizing a policy of enhanced coordination and interoperability among the U.S. army, navy, air force and her self defense forces, strengthening intelligence gathering and implementing technological improvements. In this connection, Japan has unveiled specific enhancement plans for military operations, such as deploying an Aegis-system missile cruiser and establishing Patrol Aircraft forces, special forces military units, and ballistic missile defense military units.

The new policy direction taken by the NDPG and MTDP gives the impression of a significant departure from the approach taken by Japan under the previous "Defense Only Policy." Since the publication of the two documents, China and North Korea have been strongly and repetitively asserting that Japan's security policy direction runs the risk of undermining Northeast Asia's

peace and stability. Whether Japan's persistence in pursuing a more militaristic defense policy ultimately results in it becoming a stronger regional military power and this in turn stimulates an arms race with China resulting in the destabilizing of Northeast Asia's security remains to be seen. Although it is subject to scholarly interpretation, bolstered military power generally refers to the situation where a nation is superior in military power to its neighboring nations or persists in pursuing a militaristic rather than a benign defense policy and thereby becomes an intimidating stronger power. Nevertheless, judging Japan's recent moves to enhance its military capability in this light would seem to be too extreme given the present circumstances.[9]

In connection with the first question raised previously regarding the US-Japan alliance, from a US perspective it is debatable whether the alliance is an appropriate mechanism for the US to achieve its national interests in the region. Despite its limitations, however, the U.S's pivotal strategy towards Northeast Asia does indeed comprise the alliance, as the US-Great Britain relation in East Asia. The rationale for the belief by the US that the alliance is its most efficient policy alternative can be explained by considering the factors that the US and Japan have in common such as: democracy, an advanced civil society, high growth in a market economy, responsibility and influence in the international community, and a shared perception of strategic concerns in the Northeast Asian region. Currently, there is no regional control mechanism in Northeast Asia of the type enforced by the Japanese themselves during their colonial period. Nowadays, the institutionalized U.S-Japan alliance performs two functions. The first is that in the

---

9 The rise of Japan's military capability centers on the future instability of the Northeast Asian security order. There is no academic agreement to articulate whether Japan's military capability is one of the main threats of the regional security. To compare two traditional conflicting views, see Dan Blumenthal and Christopher Griffin, "Japan: A Liberal, Nationalistic Defense Transformation," *Asian Outlook*. Nov. 17, 2005 (Washington, D.C.: AEI); Yumi Niwatari, "Revisiting Japan's Defense Strategy: Changing Strategic Environment and National Security Policy," AAS Annual Meeting. Apr. 6, 2006.

future the U.S-Japan alliance will act as an institutional mechanism contributing not only towards Northeast Asia's security, but also enabling Japan to contribute towards ensuring international security (Hughes and Hukushima 2004, 71–73). The second important function that the alliance serves is by acting as a restraining mechanism to limit the extent to which Japan can enhance its military capability and thereby destabilize the security situation in the Northeast Asia region. From a U.S. perspective, it is a status quo maintenance strategy and one which also guarantees its interests in the region, while at the same time it is the most effective method the US has to prevent a revival in Japanese nationalism and jingoism. Since the 1990s, this kind of environment has led to Japan making developing its alliance with the US a priority of its national security policy as well as pursuing various multilateral avenues and diplomatic channels to ensure its interests are protected in the region (Berger 2003).

The U.S perspective of the importance of its alliance with Japan also takes into consideration the crucial impact of China's emergence on the world's geopolitical stage. Japan and China's diplomatic relationship in the 21st century is the blueprint justifying the strategic policy approach taken by the U.S in promoting cooperation with both aligned and non-aligned nations in order to avoid conflict in the Northeast Asian region. More than anything else, the U.S-Japan alliance is acting as a restraint on China's economic and military emergence. Since the end of the Cold War, China has been concerned about the strengthening of the U.S-Japan alliance and the increasing role and responsibilities of Japan's self defense forces as part of its overall national defense policy; China perceived the alliance as exerting a policy of containment based on the its view of China representing a threat to mutual US-Japan regional interests. Also, China opposes the stationing of foreign military forces in the Asia Pacific region, but has an ambivalent viewpoint on the U.S-Japan alliance. Therefore, on the one hand, China is aware of the possibility of an undeclared policy of containment operating through the U.S-Japan alliance, and yet on the other hand, it recognizes the fact that the alliance plays an important

role in restraining Japan's military and nuclear aspirations.

Another factor to consider is how the U.S. is strategically responding to the movement within East Asia towards regionalism. The gathering momentum behind the issue of regionalism in Northeast Asia in the post-Cold War period can't be ignored. To put matters succinctly, the U.S. believes that for the purposes of regional security threat containment, widening the scope of the current U.S.-Japan alliance is preferable to pursuing a multilateral approach. Even so, the U.S. at times takes an ambivalent approach to the issue of Northeast Asian regionalism, sometimes actively supporting the movement, while at other times showing its policy preference for the U.S.-Japan alliance; but overall the U.S. believes that the regionalism movement should not devalue the importance of the U.S.-Japan alliance (Krauss and Pempel 2004).

SIGNIFICANCE OF THE U.S. NEW ALLIANCE STRATEGY ON THE KOREA'S NATIONAL SECURITY

In the beginning of the 21st century, the era of a technological revolution in military affairs, many nations are looking to secure their national interests either by aligning themselves with the U.S. or remaining non-aligned, or in some cases taking a position in conflict with US interests. While NATO and Japan had a cooperative relationship with the U.S. and generally accepted its geopolitical policy, using US technical know-how to enhance their respective military capabilities, nations like China and some of the countries of the Middle East paved their own paths through the adoption of their own respective revolutions in military affairs. Nations like North Korea chose a nuclear development strategy to intentionally take a conflicting position to that of the US and the majority within the international system. How international politics change and the position the U.S. takes in the future will give some indication as to which of the above approaches prove to be the most effective.

Within the context of this research, a number of suggestions spring to mind that the Korean government might consider when

it comes to future policymaking decisions in response to the changes in U.S regional alliance strategy. First, unless there is a fundamental change in the Northeast Asian regional order, the ROK-U.S. alliance and US-Japan alliance need to share a common approach to regional security consistent with their respective security interests. Although China's growth is astounding, it is uncertain if this will lead to any significant transformation in the Northeast Asian security structure. Alliance relationships rely on mutual strategic objectives and a strong commitment to military and defense cooperation, but of course, from the junior partner's perspective security alliance membership involves loss of a certain degree of sovereignty in return for the guarantee of national security. Furthermore, in a region where there are both US-aligned and non-aligned states, as exists in Northeast Asia, alliances are often inextricably linked, as is the case with the ROK-U.S. and US-Japan alliances, and consequently the interests of one member in one alliance are linked to those of its counterpart in another. Therefore, the protection of South Korea's national interests, as outlined previously, depends to a large extent on the existence of a stable diplomatic relationship between the US and Japan vis-à-vis the US-Japan alliance. Furthermore, a shared common vision on the part of the US, Korea and Japan for a comprehensive security framework not only for Northeast Asia, but also for the entire East Asian region will help ensure a security environment conducive to stable international relations in Asia-Pacific.

Second, it is also important to note that the stability of the U.S.-China-Japan power balance is a prerequisite condition for establishing a permanent peace settlement on the Korean peninsula. It is perhaps difficult for a weaker power like South Korea to negotiate effectively with a stronger power on issues directly affecting its national interests. Nevertheless, when a firm foundation has been laid for U.S.-China-Japan relations, the two Koreas should be prepared to take advantage of that window of opportunity to negotiate a mutually acceptable peace settlement on the peninsula. Therefore, now is the ideal time to take concrete steps towards resolving the North-South Korean confrontational state of a

temporary ceasefire that still exists between the two brother-nations, particularly in light of the long history and institutionalized nature of the US-Japan alliance at a time when diplomatic cooperation between the U.S. and China is being accentuated.

Third, cooperative efforts between the Northeast Asian nations to maintain regional security must be ongoing. In the unlikely event that internal instability led to social collapse in China or, as would be more likely, in one of the other countries in the region such as in underdeveloped North Korea, this would precipitate a security dilemma for the regional security community. However, clear communication channels with an efficient security network management system will help to limit the contagion effects from the outbreak of such a crisis. Many scholars in international relations contend that the Six Party Talks are a positive starting point from which to discuss Northeast Asian security issues. This is true in theory, but in practice it is extremely difficult to continuously maintain the momentum generated in the wake of the Six Party Talks. With U.S involvement as a basis for conducting negotiations, a multilateral regional security framework in the future may include commonly agreed regional security agendas such as issues covering: arms race control, economic growth, macro-economic policy, environment, education, labor mobility, cultural exchanges, anti-terrorism measures, etc.

Fourth, in order to maintain mutual confidence in the worth of the ROK-U.S. alliance, the government and civic groups need to rally round and publicly declare their wholehearted support for the alliance. If Korean society continues to raise fundamental questions regarding the need for the alliance, there is the possibility that the United States may ultimately dissolve the alliance. In essence, the security fears stemming from the pending relocation and restructuring of the USFK originate more from political concerns than military concerns. The positioning of USFK troops on the Korean peninsula is a meaningful display of US resolve to provide a security umbrella for the South, but the more significant security commitment is the dispatch of reinforcements to the Korean peninsula in case of an emergency. The ROK-U.S. Mutual Defense

Treaty stipulates that the Assembly's consent or the president's power of ratification is required before there can be any dispatch of US reinforcements to the Korean peninsula, so there is no automatic intervention rule in the event of an outbreak of war with the North (Selig 2001, Ch. 9; Cha 2002a). Therefore, without a firm determination of Korea's future security needs in the event of a crisis the U.S will be limited to the extent with which it can provide an early countermove to an attack by the North. Recovering trust between allies doesn't require a large sum of money nor political rhetoric. Understanding a counterpart nation's values, interests, and institutions is an essential step in striving to develop a relationship of shared understanding.

Fifth, self-defense efforts should be strengthened in accordance with the ROK-U.S. alliance. By 2008, 12,500 USFK troops will be redeployed from Korea. This is by no means an insignificant number and the decrease in troop strength should be compensated for by a corresponding improvement in military operational and technological capabilities. In the meantime, early feasibility of self-defense and U.S. military reinforcement should go side by side. Cooperative self-defense is a bilateral alternative to unitary self-defense and it is an important security policy approach used to develop international cooperative relations. For the embodiment of a cooperative self-defense policy, well-equipped and highly-trained national military forces, integrated within a bilateral or multilateral security framework are mandatory prerequisites. One of the goals of Korea's self-defense policy is to develop a mutually complementary national and regional security framework to the ROK-U.S. alliance within the next 10 years[10]. The plan to carry out an $11 billion investment in upgrading USFK military capability over the next 3 years should be implemented as soon as possible, and the goal to create an independent self-defense force for Korea

10 The Department of National Defense published Defense Reform 2020 in June 2006 in which Korean government comprehensively showed visions and policy options to achieve 'Cooperative self-defense' identifying the future of ROK-US alliance: see http://www.mnd.go.kr/mndEng/DefensePolicy/DefenseReform2020/ebook/index.jsp .(searched on May 5, 2007).

must be advanced by reinforcing its current military capabilities through high tech weaponry as a matter of urgency, including the deployment of such advanced systems as AWACS, aegis-level destroyers, C4I (command, control, communications, computers and intelligence), and so on.

Ultimately, the most important question is whether the Korean government has an accurate master plan on how to utilize the ROK-U.S. alliance for long term security. South Korea is within the sphere of influence of a number of powerful nations: the U.S. which is accelerating a "military revolution" for hegemonistic geopolitical purposes and enforcing various changes in security diplomacy; China taking a quantum leap in science and technology by successfully launching a manned spaceship; Japan which is capable of nuclearization within months due to its advanced technology; Russia which is overcoming the loss of its empire after the end of the Cold War and is now expanding its influence in Northeast Asia; while even an underdeveloped North Korea is focusing on nuclear weapon development and engaging in nuclear brinksmanship. South Korea, under the influence as it is of major and militaristic powers in Northeast Asia, must attain a certain level of national and military power if it is to ensure its own national defense and security; otherwise, if this proves too difficult a task it needs to form a powerful alliance.

Historically, possibilities of betrayal existed in all alliances, and there are many cases in which alliances ended with betrayal. In the future, the alliance between South Korea and the U.S. will face many conflicting factors, opinions, and power struggles, which of course are natural in international relations. All of these problems will be resolved through a peculiar process of alliance negotiation. With the prospect of South Korea leaning towards a more equitable alliance, it must develop a more sophisticated negotiation strategy when dealing with the US. A win-win strategy in negotiations maximizing each party's interests and avoids the situation where only one side can profit as in a win-lose strategy. The wisdom to consider the respective positions of both South Korea and the U.S. is essential if mutually rewarding negotiations are to take

place. For South Korea, in the immediate post-Korean war period, the alliance with the US was merely a question of guaranteeing its survival; of course this will, to a certain extent, remain a consideration in the future. Long-term strategic thinking, however, will be required in order to anticipate to what degree Korea's national security policy will be impacted by a number of diverse elements originating from the fluctuating state of the geopolitical landscape and regional political and security dynamics in the 21st century; factors such as these will raise a number of questions regarding the future of the ROK-US alliance, and how South Korea's alliance policy should change to accommodate such an environment. Most importantly, while pursuing a cooperative self-defense policy, the principle of autonomy in national security decision-making within an overall bilateral security framework should be considered at the same time.

CONCLUSIONS

Northeast Asia's accomplishment in economic growth and democratic development in the post-1945 world order was in large part due to the influence of the U.S in its role as a superpower, whether we admit it or not. Confronting the changing regional security environment in the 21st century, it is anticipated that the current network of U.S. led security alliances will dominate the region for the foreseeable future, with the U.S. intervention based ROK-U.S. alliance and U.S.-Japan alliance predicted to continue in one form or another until at least 2030. Meanwhile, China, under its modernization program, is expected to have completed its transition from an agrarian to a fully industrialized society around the same time. Also, as the newly revised Guidelines for US-Japan Defense Cooperation will continue to provide the framework to support the U.S. and Japan alliance until 2030, there seems little prospect for significant change in the Northeast Asian balance of power in the short-term. In the meantime, China and Japan will continue to pursue policies of military expansion to secure their

national interests, while the U.S. will sustain a geopolitical policy of containment: on the one hand using its alliance with Japan to contain its partner's autonomous policy of military expansion, while on the other using the alliance as a way of containing China's geopolitical aspirations in the region, and thereby avoiding the need for having to take any direct military intervention in the region.

In the case of the future shape of the ROK-U.S. alliance, the resolution of North Korea's nuclear crisis is the key point, but the U.S. would oppose having the Korean Peninsula influenced unilaterally by either China or Japan. Regarding the Korean peninsula, the current status quo of division between North and South Korea will likely continue; if the North Korean nuclear crisis isn't peacefully solved, then the higher the probability becomes. So, if the unification process on the Korean peninsula is hastened by South Korea taking the lead, then from a strategic perspective, the ROK-U.S. alliance will be an effective buffer against Japan's potential for interference. If China and Japan at some point face a military confrontation over gaining a position of hegemony in Northeast Asia, then South Korea's approach to its national security policy including the ROK-U.S. alliance will enter into a critical new phase of potentially being thrust into a role of mediation between Korea's two belligerent neighbors. As mentioned above, this potential scenario involving conflict over the reorganization of the balance of power in the region is unlikely to unfold until sometime after 2030.

Domestically, there are diverse voices arising that reflect the environmental changes taking place in the international political arena. Those voices include calls for a non-aligned foreign policy, the establishment of a Northeast Asian institution for security, the appointment of a Northeast Asian power balancer (such as the ROK) and so on. In conclusion, unless South Korea and the U.S. annul their status as partners, then ROK-U.S. and ROK-China parallel alliance relations are in practice an impossibility, while realistically, there is little prospect of a weaker nation such as South Korea being in a position to unilaterally secure its interests in the event that they clash with those of either the U.S. or China.

Assuming that the basic structure of the geopolitical landscape remains as it is until at least 2030, and assuming that South Korea is not preparing to become the next hegemony, which of course is a fair assumption, then building a strategic alternative to accommodate a post-U.S. world order isn't likely to happen for at least another 20 to 30 years or so.

It is not easy to have a strong voice in geopolitical affairs as a weaker power in Northeast Asia. The Korean peninsula, separated into two by the world's most heavily fortified border, and site of one of the bloodiest wars in modern history, has been an area of strategic importance to successive world powers since the start of the last century, and is likely to remain so for most of this century as well. Since the end of the Second World War, and up until the present-day, save for an interruption by a hot war, in the form of the Korean War (1950–53), a permanent Cold War state has existed on the peninsula, making it the focus of geopolitical tensions between the U.S., as currently the sole superpower, and China, as a past and present-day strong power, and to a lesser extent the former superpower, the Soviet Union. Nowadays, of course the region's balance of power paradigm is shifting with the rise of China, giving cause for concern over the possibility of an eventual confrontation between the U.S. and China for hegemonic supremacy in the region. The regional security situation is also further complicated by a number of unresolved issues including of course the aforementioned security situation on the Korean peninsula and the issue of Taiwanese claims to independence in the face of Chinese claims to sovereignty. The complexity and interconnectedness of the region's security issues highlight the limitations of bilateral alliance structures as mechanisms capable of providing long-lasting security for the region, and is all the more reason why a multilateral approach to regional security in Northeast Asia is now more than ever the way toward ensuring that strategic interests at both the state and regional level are protected.

REFERENCES

Chun, Chae-sung. 2004. (in Korean) Alliance Theory and Korea's Alliance Strategy. *Defense Studies* 47(2).

Lee, Sang-hyun. 2004. (in Korean) *New World Order and Northeast Asian Security. Sung-nam*: Sejong Institute.

Park, Ihn-hwi. 2005. (in Korean) Northeast Asian International Relations and Korea's National Interest: On the Perspective of the U.S.-China-Japan's Power Balance. *National Strategy* 11(3).

Park, Ihn-hwi. 2003. (in Korean) Theoretical Foundation of the U.S. Hegemonic Strategy in the Unipolar Moment: Multilateralism vs. Unilateralism. *Korea and World Politics* 19(3).

Armitage, Richard and Joseph Nye, Jr. 2007. *The U.S.-Japan Alliance: Getting Asia Right Through 2020.* Washington, D.C.: CSIS.

Berger, Thomas. 2003. Japan's International Relations: The Political and Security Dimensions in *The International Relations of Northeast Asia*, edited by, Samuel Kim. Lanham, MD: Rowman & Littlefield Publishers.

Blumenthal, Dan and Christopher Griffin. 2005. Japan: A Liberal, Nationalistic Defense Transformation. *Asian Outlook*. Nov. 17. Washington, D.C.: AEI.

Buckley, Roger. 1992. *US-Japan Alliance Diplomacy, 1945–90 (Cambridge Studies in International Relations)*. Cambridge, UK: Cambridge University Press.

Bush, George W. 2002. *The National Security Strategy of the United States of America.*

Calder, Kent. 2003. The U.S. and the Northeast Asia in The *International Relations of Northeast Asia*, edited by Samuel Kim, Lanham, MD: Rowman and Littlefield Publishers, Inc.

Cha, Victor. 2002a. Mistaken Attribution: The Untied States and Inter-Korean Relations. *Asia-Pacific Review* 9:2.

Cha, Victor. 2002b. Forward Presence, Anti-Americanism, and the

U.S.-Korean Alliance's Future. *Korea Observer* 33(4).
Christensen, Thomas J. 2006. Fostering Stability or Creating Monster?: The Rise of China and U.S. Policy toward East Asia. *International Security* 31(1): 81–126.
Christensen, Thomas J. 1999. China, the US-Japan Alliance, and the Security Dilemma in East Asia. I*nternational Security* 23(4): 49–80.
Christensen, Thomas J. 1996a. *Useful Adversaries: Grand Strategy, Domestic Mobilization, and Sino-American Conflict 1947–58*. Princeton, NJ: Princeton University Press.
Cumings, Bruce. 1999. *Parallax Visions: Making Sense of American-East Asian Relations at the End of the Century*. Durham, NC: Duke University Press.
Daalder, Ivo H. and James M. Lindsay. 2003. *American Unbound: The Bush Revolution in Foreign Policy*. Hoboken, NJ: John Wiley & Sons, Inc.
Donnelly, Thomas. 2003. What's next?: Preserving American Primacy, Institutionalizing Unipolarity. *AEI National Security Outlook*. New York: AEI.
Doran, Chris J. 2005. *In War We Trust: The Bush Doctrine and The Pursuit of Just War*. Burlington, VT: Ashgate Publishing Company.
Friedberg, Arron. 1993/94. Ripe for Rivalry: Prospect for Peace in a Multipolar Asia. *International Security* 18(3): 5–33.
Glosny, Michael A. 2004. Strangulation from the Sea? A PRC Submarine Blockade of Taiwan. *International Security* 28(4): 125–160.
Gordon, Philip and Jeremy Shapiro. 2004. *Allies at War: America, Europe and the Crisis of Iraq*. New York: McGraw-Hill.
Green, Michael. 2001. *Japan's Reluctant Realism: Foreign Policy Challenges in the Era of Uncertain Power*. New York: Palgrave.
Han, Yong-sub. 2006. Analyzing South Korea's Defense Reform 2020. *The Korean Journal of Defense Analysis* 18(1).
Heginbotham, Eric and Richard J. Samuels. 2002. Japan's Dual Hedge. *Foreign Affairs* 81(5): 110–21.
Hoffman, Stanley. 1977. An American Social Science: International

Relations. *Daedalus* 106.
Hughes, Christopher W. and Akiko Fukushima. 2004. U.S.-Japan Security Relations-Toward Bilateralism Plus in *Beyond Bilateralism: U.S.-Japan Relations in the New Asia-Pacific*, edited by Ellis Krauss and T. J. Pempel, 55–86. Stanford: Stanford University Press.
Huntington, Samuel. 1999. The Lonely Superpower. *Foreign Affairs* 78(2).
Hwang, Balbina Y. 2005. Japan's New Security Outlook: Implications for the U.S. *Background 1865*. Washington, D.C.: Heritage Foundation.
Ikenberry, John G. 2004. America in East Asia: Power, Markets, and Grand Strategy *in Beyond Bilateralism: U.S.-Japan Relations in the New Asia-Pacific*, edited by Ellis S. Krauss and T. J. Pempel. Stanford: Stanford University Press.
Ikenberry, John G. 1998. Institutions, Strategic Restraint, and the Persistence of American Postwar Order. *International Security* 23(3): 43–78.
Ikenberry, John and Michael Mastanduno. 2003. *International Relations Theory and the Asia-Pacific*. Columbia: Columbia University Press.
Japan's Ministry of Defense. 2005. *National Defense Program Guideline for* 2005.
Japan's Ministry of Defense. 2004. *Mid-term Defense Program for year* 2005–2009.
Johnshon, Chalmers. 2004. *The Sorrows of Empire: Militarism, Secrecy, and the End of the Republic*. New York: Metropolitan Books.
Johnston, Alastair Iain. 2003. Is China a Status Quo Power? *International Security* 27(4): 5–56.
Kang, David. 2003. Getting Asia Wrong: The Need for New Analytic Frameworks. *International Security* 27(4).
Kim, Sunhyuk and Wonhyuk Lim. 2007. How to Deal with South Korea. *The Washington Quarterly* 30(2): 71–82.
Korea Times. 2006a. US to Maintain Troops after Control Lapses. August 7, p.4.

Korea Times. 2006b. ROK-US Alliance and Northeast Asia Peace Keeping Forces. August 27, p.4.

Krauss, EllisS. Krauss and T. J. Pempel. 2004. *Beyond Bilateralism: US-Japan Relations in the New East Asia*. Stanford, CA: Stanford University Press.

Krauthammer, Charles. 2002. The Unipolar Moment Revisited. *The National Interest* 70.

Kurlantzick, Joshua. 2007. Pax Asia-Pacifica? East Asian Integration and Its Implications for the United States. T*he Washington Quarterly* 30(3): 67–77.

Lansford, Tom and Blago Tashev. 2004. *Old Europe, New Europe and the U.S.: Renegotiation Transatlantic Security in the Post-9/11 Era*. Burlington, VT: Ashgate Publishing Co.

Layne, Christopher. 2006. *The Peace of Illusion: The American Grand Strategy from 1940 to the Present*. Ithaca: Cornell University Press.

Lebovic, James. 2006. *International Terrorism and Rogue States: US National Security Policy since 9/11*. London: Routledge.

Lott, Anthony D. 2004. *Creating Insecurity: Realism, Constructivism, and US Security Policy*. New York: Ashgate.

Malmvig, Helle. 2006. *State Sovereignty and Intervention: A Discourse Analysis of Intervention and Non-interventionary Practices in Kosovo and Algeria*. London: Routledge.

Malone, David and Yune Foong Khong, eds. 2003. *Unilateralism and U.S. Foreign Policy: International Perspective*. Boulder, CO: Lynne Rienner.

Mandelbaum, Michael. 2002. *The Ideas That Conquered the World: Peace, Democracy, and Free Markets in the Twenty-first Century*. New York: Public Affairs.

Mearsheimer, John. 2001. *The Tragedy of International Politics*. New York: W.W. Norton.

McCormick, Thomas. 1995. *America's Half Century: United States Foreign Policy in the Cold War and After. Baltimore*, MD: Johns Hopkins University Press.

McDevitt, Michael. 2004. The Security Situation Across the Taiwan Strait: Challenges and opportunities. *Journal of Contemporary*

China 13(4): 411-25.
Morgan, Patrick. 2003. *Deterrence Now (Cambridge Studies in International Relations)*. Cambridge: Cambridge University Press.
Morrow, J. D. 1991. Alliances and Asymmetry: An Alternative to the Capability Aggregation Model of Alliances. *American Journal of Political Science* 35.
Nam, Chang-hee. 2007. Realigning the U.S. Forces and South Korea's Defense Reform 2020. *The Korean Journal of Defense Analysis* 19(1).
Niwatari, Yumi. 2006. Revisiting Japan's Defense Strategy: Changing Strategic Environment and National Security Policy. AAS Annual Meeting. Apr. 6, 2006.
Nye, Joseph, Jr. 2003. *The Paradox of American Power: Why the World's Only Superpower Can't Go It Alone*. Oxford: Oxford University Press.
Nye, Joseph, Jr. 1999. Redefining the National Interest. *Foreign Affairs* 78(4).
Office of Force Transformation. 2004. *Elements of Defense Transformation*. Washington, D.C.: Department of Defense.
Office of Force Transformation. 2005. *Implementation of Network-centric Warfare*. Washington, D.C.: Department of Defense.
Park, Ihn-hwi. 2007. Sino-Japan Strategic Rivalry and the Security of the Korean Peninsula. *The Korean Journal of Defense Analysis* 19(1): 79-102.
Pempel, T. J. ed. 2005. *Remapping East Asia: The Construction of a Region*. Ithaca: Cornell University Press.
Posen, Barry. 2003. Command of Commons: The Military Foundation of U.S. Hegemony. *International Security* 28(1).
Reynolds, Kevin P. 2006. Building the Future Force: Challenges to Getting Military Transformation Right. *Contemporary Security Policy* 27(3).
Ross, Robert S. and Ilastair Ian Johnston, *New Directions in the Study of China's Foreign Policy* (Stanford: Stanford University Press, 2006).
Selig, Harrison. 2003. *Korean Endgame: A Strategy for Reunification and U.S. Disengagement.* Princeton University Press.

Shambaugh, David. 2004/5. China Engages Asia: Reshaping the Regional Order. *International Security* 29(3): 64–99.

Snyder, Glenn H. 2002. Mearsheimer's World Offensive Realism and the Struggle for Security: A Review Essay. *International Security* 27(1): 149–73.

Snyder, Glenn H. 1997. *Alliance Politics.* Cornell University Press.

Snyder, Glenn H. 1993. Arms Versus Allies: Trade-offs in the Search for Security. *International Organization* 47(3).

Stelzer, Irwin. 2004. *The Neo-con Reader*. New York: Grove Press, Part II.

Twining, Daniel. 2007. America's Grand Design in Asia. *The Washington Quarterly* 30(3): 79–94.

The U.S. Department of State. 2003. *Military Transformation: A Strategic Approach*. Department of State of the United States.

The U.S. Department of Defense. 2004. 2004 *Secretary of Defense Annual Report to the President and Congress*. Department of Defense of the United States.

The U.S. Department of Defense. *2005a. 2005 Secretary of Defense Annual Report to the President and Congress*. Department of Defense of the United States.

The U.S. Department of Defense. 2005b. *National Defense Strategy of the United States of America.*

Walt, Stephen. 2006. *Taming American Power: The Global Response to U.S. Primacy*. New York: W. W. Norton.

Zelikow, Philip. 2003. The Transformation of National Security. *The National Interest* 71.

CAN EAST ASIA DARE TO TIE ITS ENERGY SECURITY TO RUSSIA AND KAZAKHSTAN?

STEPHEN BLANK

Strategic Studies Institute, US Army War College

Abstract

Due to the global energy crisis many analysts and even policymakers have contended that Russia could become the next energy superpower or that it already is. Presumably it could then be a supplier of either first or last resort to East Asia, the most dynamic region of the global economy, in times of crisis in the Middle East and possibly even replace the Middle East as primary supplier. Other observers have also cited the increased attention paid by East Asian regimes to Central Asian energy producers as they seek to diversify their sources of supply, while Central Asia seeks to diversify its customer base and build new pipelines not controlled by Russia. This essay examines both the interaction between East Asia and Central Asia on the one hand and with Russia on the other and casts a rather skeptical look upon the possibilities for these states reaching their full potential to supply East Asia. The difficulties involved are primarily structural, stemming from embedded political and economic structures that invariably point to sub-optimal outcomes insofar as energy production is concerned. Undoubtedly Russia and China will be major suppliers for East Asia, but it is quite unlikely that either of them or both regions together can achieve their full potential vis-à-vis East Asia without large-scale reform and investment,. Unfortunately it is precisely current policies that precludes either the reform or of the investment necessary leading to a vicious circle by which these producers will ultimately fail to supplant the Middle East in East Asian energy calculations.

Key Words: Russia, East Asia, Central Asia, Energy.

INTRODUCTION

The title question is deceptively simple. But its answer is complex and lengthy. Nevertheless this essay attempts to answer that question and its underlying presuppositions. First, it assumes that Russia and Kazakhstan (or more accurately Central Asia as a whole) can replace the Middle East and the Gulf as energy providers to Asia. Thus it presupposes a common understanding of energy security among Russian and Central Asian energy producers and major Asian consumers. It also presupposes that Russia and the Central Asian producers can and will satisfy steadily rising demand for oil, gas, and other forms of energy like uranium and electricity among Asian and Russian consumers at acceptable market prices. And since energy is increasingly a state-owned product, it also presupposes that policymakers in producer and consuming states can develop a consensus on energy security and prices. Thus this question implicitly raises a host of political issues at the highest level of the interested states' policymaking processes and reflects the politicization and even securitization of energy policy across Asia.[1]

Today national interests now collide with each other in the international energy market, making access to energy supplies a strategic issue for many states. Diplomacy, defense, economic, environmental, and trade policies all intersect with energy issues across Asia and for many, if not all, Asian governments.[2] Simultaneously Asian and Central Asian states are also developing major infrastructural and energy projects to connect Central and East Asia. These states' energy interests and investment needs are quite complementary. Russia, like Central Asian states, desperately needs markets,

---

1 Barry Buzan, Ole Waever and Jaap de Wilde, Security: *A New Framework for Analysis,* Boulder, Colorado: Lynne Rienner, Publishers, 1998 for a discussion of the concept of securitization.

2 Tsutomu Toichi, "International Energy Security and Japan's Energy Strategy," Paper Presented to the Conference on India's Energy Security organized by TERI and the Konrad Adenauer Foundation, Goa, India, September 28–29, 2006, p.1.

pipelines, and investment capital for its energy holdings. Japan, South Korea, China, and India need reliable and affordable energy sources to meet their rising demand for energy without excessive dependence upon OPEC and have the capital and technical skills to invest abroad.

This complementarity of economic interests has stimulated Asian governments' security interests in Central Asia's internal stability as they now recognize the importance of stable diversified energy sources for their own vital national interests. Thus their economic and security interests appear to be very compatible with those of Russia and Central Asian governments who need foreign investment to help further develop their economies and prevent internal destabilization due to economic stagnation. This apparent harmony of interests creates or at least should facilitate creation of a durable basis for long? lasting energy cooperation between East Asia, South Asia, and Central Asia.[3] And yet this rosy scenario faces many obstacles to its realization.

WHY RUSSIA AND CENTRAL ASIA CANNOT RESOLVE ASIAN DEMAND

Despite the aforementioned premises of the title question, virtually every analysis of Asian energy demand, most notably China's demand for energy but including Japan, India, and South Korea, concludes that this goal is simply not possible given the high rate of that demand. But there are also other reasons for reaching this conclusion. While a future Middle Eastern crisis might force this attempted solution on Asia, and the specter of such crisis is a constant preoccupation of China's government, if not others, the

---

3 Robert A. Manning, The Asian Energy Factor: Myths and Dilemmas of Energy, Security, and the Pacific Future, New York: Palgrave and the Council on Foreign Relations, 2000; Robert Ebel and Rajan Menon, Eds., *Energy and Conflict in Central Asia and the Caucasus,* Lanham, MD.: Rowman and Littlefield Publishers, 2000; Kent E. Calder, Pacific Defense: Arms, Energy, and America's Future in Asia, New York: William Morrow & Co., 1996.

infrastructure for both Central Asian and Russian energy producers to satisfy Asian demand under such conditions still does not exist and is only beginning to be built.

Even though a supposedly natural complementarity exists between energy abundant Russia and energy starved countries like China, Japan and South Korea, in fact all potential pipeline projects advocated for providing either oil or for gas from Eastern Siberia to Asian countries are based on political advocacy rather than on the hard economic analysis that should precede major investment. Moreover, it is unclear how much energy there is in Russia that can be brought to market to satisfy not just Asian, but also European and domestic Russian demand, how much pipelines for this energy will cost, the price at which this energy must be sold for producers to make profit, and who will pay for what inevitably will be multinational pipelines – the nightmare of energy companies. Often these questions are still in dispute. Critical feasibility studies either have not been done or are only starting now despite years of discussion, negotiation, and even prior feasibility studies.[4] Yet pipeline construction on major projects like the East Siberia Pacific Ocean Pipeline (ESPO) has already begun before these questions have even been clarified let alone answered. As Transneft's President, Semyon Vainshtock, said in April, 2006 after President Putin had unilaterally changed the route of the pipeline,

> Vainshtock said that, as far as he knows, the task set by the president is as follows: to start building the pipeline and

4 "Oil Pipeline Route in Eastern Siberia Still Undecided," *Alexander's Gas and Oil Connection,* XI, NO. 9, May 4, 2006, www.gasandoil.com/goc/news/ntr61808.htm; Neil Buckley and Richard McGregor, "Moscow, Beijing, Face Pricing Rift in Natural Gas Agreement," *Financial Times,* March 23, 2006, www.ft.com; "Study Begins on Siberia-China Pipeline Spur," *Alexander's Gas and Oil Connection,* XI, No. 20, October 26, 2006, www.gasandoil.com/goc/companycnr64569.htm; Moscow, Interfax, in English, April 26, 2006, *Foreign Broadcast Information Service, Central Eurasia*(Henceforth FBIS-SOV), April 26, 2006; "Russia, China To Map Out Nine-Year Program for Energy Cooperation," Interfax Central Europe, November 7, 2006.

> at the same time develop the new route and its feasibility study, to carry out an ecological assessment, finalize all agreements, and continue building the pipeline.[5]

Similarly, James Dorrian observed in 2004 (Dorrian 2005, 59) that,

> I believe that the oil pipeline proposals in Eastern Siberia are a case where the cart was brought before the horse. The pipeline route was identified and even the terms of the contracts with Japan and China were identified and detailed for 20 to 25 years; yet they have not yet assessed the oil resources in Eastern Siberia. So that certainly would have to be done. All indications to this point suggest that the region is a much more gas-prone rather than oil-prone area. Production costs for oil fields in Eastern Siberia would be much higher than in Western Siberia. Many people believe that Eastern Siberia will resemble Western Siberia in terms of oil production potential, and that is not necessarily the case.[6]

Yet according to Putin Russia will build two gas pipelines to China and the Pacific, one from Western Siberia whose construction is apparently already underway, and another, to be determined, from Eastern Siberia. However, there are at present no plans for an oil pipeline which is what China really needs now.[7]

Therefore we should not confuse discussions, signed agreements

---

5 FBIS-SOV, April 26, 2006.

6 James Dorrian,: "Emerging Russia-China Energy Relations: Will Needs Be Met by Supplies," F. Joseph Dresen Ed., *Russia in Asia – Asia in Russia: Energy, Economics, and Regional Relations,* Conference Proceedings, Occasional Papers of the *Kennan Institute for Advanced Russian Studies,* No. 292, 2005, p.59.

7 Sergei Blagov, "Putin Hedges on Commitment to Meet China's Oil Needs," *Eurasia Insight,* March 22, 2006; Irina Kezik, "Chinese Being 'Strung Along' Again: Rosneft and Transneft Sign Framework Agreements with Chinese," *Nezavisimaya Gazeta, March 22, 2006 BBC Monitoring.*

on paper, and endless and often incorrect publicity about future projects for actually constructed pipelines and explorations. Indeed, Russia today only exports about 3–5% of its oil and gas to Asia, and one major reason is precisely this lack of infrastructure. Although everything points to Asia emerging as a primary consumer, this infrastructure is only now being put into place.

Since we should not confuse plans with actual realities, consumers and producers must start building that infrastructure now and investing enormous amounts of capital into those projects in order to make these energy sales feasible. For that to happen these investments must be both economically and politically justified because consumers have existing alternative sources of supply from the Middle East even if Asian consumers must pay the so – called Asian premium.[8] And the climate for foreign investment must be welcoming because the needs of countries like Russia, whose infrastructure is quite dilapidated are immense, far beyond Moscow's ability to satisfy. This is not only due to the size or amount of money necessary, but also because Russian oil and gas companies are not investing in their own infrastructure but in acquiring more and more foreign assets. While Moscow trumpets plans to triple its investment to $20 Billion in infrastructure by 2008–09, in fact it needs $100 billion to meet its needs and foreign contracts effectively.[9] Worse yet the cumulative effect of policies like those being conducted now against the owners of Sakhalin 1 and 2, Yukos, Ukraine, Belarus, and Georgia make it clear that foreign investment is not welcome except under unsatisfactory conditions of risk to investors and that Russia invariably will use energy as a political weapon and break contracts with customers.

---

8 Amy Myers Jaffee and Ronald Soligo, "The Future of Saudi Price Discrimination: The Effect of Russian Production," Paper Presented as Part of the Project *The Energy Dimension in Russian Global Strategy,* James A. Baker III Institute for Public Policy, Rice University, Houston, 2004, Yoshiki Ogawa, *The Asian Premium and Oil and Gas Supply from Russia,* Ibid.

9 Moscow, ITAR-TASS, in English, April 11, 2006; *FBIS-SOV,* April 11, 2006.

Undoubtedly the Asian premium adds still more compelling economic reasons to fears about the interdiction of supplies to Asia and thus the justification for finding reason for alternative suppliers. But because energy issues are now major policy questions for every Asian government, unless the price and political conditions are right that infrastructure will not be built; while both the price of the energy and the size of the initial investment outlays is a major consideration in deciding whether or not to construct the necessary infrastructure in the first place. Furthermore, since the critical major questions antecedent to major investments in Asian energy infrastructures have not yet been answered, Here it must also be understood that the price of the energy to be shipped to China, India, Japan, Korea, etc. from Russia, if not many Central Asian sources as well, has not yet been decided. Consequently, without resolution of these issues not much can or will happen. So even though Asian consumers want to escape the burden of the Asian premium, this cannot and will not happen for several years under the best of circumstances. Moreover, if pipeline construction begins without being preceded by agreements on price, payment and reasonable estimates of the amount of the energy that is available for sale abroad, then it is quite likely that the outcome will be economically, if not politically sub-optimal from every standpoint, leaving consumers, if not producers, dissatisfied with the results. Therefore, for the forseeable future a long time the Middle East and the Gulf will remain the largest sources of Asian energy and Asian governments will have to continue paying the Asian premium for it.

Because Caspian producers earn their greatest or highest returns by selling to Western markets, all things being equal, pipelines will be built to the West rather than to Asia or already have been built to the West. For Asian countries to compete to buy vital supplies today, they must outbid Western consumers to compensate for the absence of infrastructure and for the higher risks incurred in selling Middle Eastern oil and gas to Asia.[10] Furthermore, because

---

10 Amy Myers and Ronald Soligo, *Re-Evaluating U.S. Strategic Priorities*

Saudi Arabia can manipulate prices in the key regional markets of North America, Europe, and the Far East, Asian consumers must pay a premium on every barrel they buy which has grown steadily in the recent past to about $1−1.50/barrel. This premium represents a net annual transfer of $5−10 Billion to Gulf oil producers even in times of tranquility.[11] Actual or potential shocks to the regularity and availability of Persian Gulf supplies would only push this premium higher by magnifying the risks to future supplies. Since an estimated 30−40% of current oil prices is exclusively based on risk assessment, which obviously grows in times of Middle Eastern crisis, every Asian consumer state, especially China, has a large financial incentive to find energy sources closer to home if possible even if this entails high initial costs of investment in infrastructure and pipelines.

Consequently to answer the title question positively a package of solutions needs to be found that includes increased Russian and Central Asian production marketed through pipelines from those countries to the Far East. Although that increase in Russian and Central Asian supplies of all kinds of energy, including nuclear energy, is not enough in and of itself to overcome this premium, it certainly is a key part of the puzzle in any effort to reduce Riyadh's leverage and the Asian premium and to create what many analysts hope will be a regional energy system in Northeast Asia.[12]

---

in the Caspian Region: Balancing Energy Resource Initiatives With Terrorism Containment, Paper Presented as Part of the Project *The Energy Dimension in Russian Global Strategy,* James A. Baker Ⅲ Institute for Public Policy, Rice University, Houston, 2004, p.12.

11 Jaffee and Soligo, "The Future of Saudi Price Discrimination: The Effect of Russian Production."

12 Jaffee and Soligo, "The Future of Saudi Price Discrimination: The Effect of Russian Production,", p.20; Kent Calder, "East Asia and the Middle East: A Fateful Energy Embrace," *The China-Eurasia Forum Quarterly,* Ⅲ, No. 3, November, 2005, pp.8−9; Shoichi Ito, Vladimir I. Ivanov, Zha Daojiong, "China, Japan, and Russia: The Energy Security Nexus," Niklas Swanstrom, Ed., Conflict Prevention and *Conflict Management in Northeast Asia,* Uppsala Silk Road Studies Program, Uppsala University, 2005, pp.121−142, available at www.silkroadstudies.org.

But until then somebody will have to put up the enormous investment capital for those projects to reduce Saudi leverage. And it is worth adding that many Russian analysts believe that the amount of investment needed to make Siberian energy competitive far exceeds the available Sino-Russian capital and requires foreign investment on a large scale. Unfortunately Russia's current autarchic and monopolistic policies of neo-Muscovite control over the state economy, as outlined in its energy strategy and actual policies, impede foreign investment, and the integration with Asia necessary to effectuate sound economic interaction with Asian consumers.[13] So an unsatisfactory happy outcome is almost certainly guaranteed from the inception of construction. Meanwhile there is also still discord among the parties on major projects over key issues of the price of oil or gas, the cost of building pipelines, and who will pay for them.[14]

Given the scope of these issues and the players involved a

---

13 Russia, Ministry of Energy of the Russian Federation, *Energeticheskaya Strategiia Rossii Na Period do 2020 Goda,* Moscow, 2003; Peter Baker and Susan Glasser, *Kremlin Rising: Vladimir Putin's Russia and the End of Revolution,* New York : Scribner's, 2005, p.417, Steven Rosefielde, *Russia in the 21st Century: the Prodigal Superpower,* Cambridge: Cambridge University Press, 2004; Marshall T. Poe, *The Russian Moment in World History*, Princeton, NJ: Princeton University Press, 2003; Stefan Hedlund, *Russian Path Dependence*, London; Routledge, 2005; Emil Pain, "Will Russia Transform Into a Nationalist Empire," *Russia in Global affairs,* Ⅲ, No. 2, April-June, 2005, pp.71-80; Stephen Kotkin, "Its Gogol Again," Paper Presented as part of the project *The Energy Dimension in Russian Global Strategy*, James A. Baker Ⅲ Institute for Public Policy, Rice University, Houston; Martha Brill Olcott, "Vladimir Putin and the Geopolitics of Oil," Paper Presented as part of the project *The Energy Dimension in Russian Global Strategy*, James A. Baker Ⅲ Institute for Public Policy, Rice University, Houston, 2004; Michael Fredholm, *The Russian Energy Strategy & Energy Policy: Pipeline Diplomacy or Mutual Dependence,* Conflict Studies Research Centre, Camberley, Surrey, September, 2005; Jan Leijonhielm and Robert Larsson, *Russia's Strategic Commodities: Energy an Metals as Security Levers,* Stockholm; Swedish Defense Research Agency, 2004.

14 Stephen Blank, *Russo-Chinese Energy Relations: Politics in Command,* London: Global Markets Briefing, 2006.

single paper cannot give a conclusive answer or explanationns for this state of affairs, though we can try to set out a framework for analysis. But based upon the observed behavior of Russia and the major other producers in and out of the former Soviet Union, as well as the needs and behavior of the Asian consumers in question, particularly China, it is highly unlikely that even in peacetime Russia and Central Asia could provide energy security to Asia and wholly supplant the Middle East and Gulf producers' place in Asia.

CENTRAL ASIA, RUSSIA, AND EAST ASIA

This answer does not mean that energy sales of oil, gas, uranium, atomic energy, and electricity to Asia will not grow and occupy a considerable place in the calculations of Asian states as they enter the energy market. The growth of sales from Central Asia and Russia to East and South Asia is almost inevitable barring a major crash in demand. But it does mean that the signs point to sub-optimal outcomes as far as all the parties, both producer and consumer alike, are concerned. In large measure this is because in the producing states as well as in key consuming states decisions about energy are fundamentally political ones made by states rather than by firms. And because these states have been making decisions about energy policies for a long time they have created institutions and policies to deal with these issues which have now become entrenched. They have thereby created a path dependence among both producers and consumers which is highly dysfunctional insofar as an efficient use of energy at home or its sale or purchase abroad are concerned. Thus efforts to reorient energy policies require immense political effort and are generally only taken over a long period of time and incrementally if at all.

At the same time they often involve some of the most sensitive issues in these states' overall national security policies. For example, Indian Prime Minister Manmohan Singh has said, "energy security is second only in our scheme of things to food

security."[15] While from the producers' standpoint it is not farfetched to say that Russian energy holdings, particularly natural gas, are the strongest card in Moscow's diplomatic arsenal. The same point probably applies equally to Kazakhstan and Turkmenistan. Consequently, once established, such policies and the institutions that administer them are highly resistant to change and often occupy influential positions within the government from which to defend their established practices.

Hence in Asia's energy agenda more often than not politics and not the market or considerations deriving from market based logic is in command. Certainly this is true for Russia's energy relations with its Asian neighbors.[16] At the same time, we can see a mounting interdependence and interlinking of both Central and East and South Asia thanks to globalization in general and the building of transportation and energy infrastructures.[17] Due to these previous and ongoing efforts and the heightened importance of energy as a source of revenue and indispensable component of economic growth and security, Asian interest in Central Asia and Central Asian regimes' interest in Asian markets and investment have grown steadily since the 1990s.[18]

Kazakhstan, for example, has a "huge plan" to expand oil and gas links with China.[19] Not only did the Atasu-Alashankou pipeline

---

15 Edward Luce and Quentin Peel:. "FT Interview Manmohan Singh," *Financial Times,* November 8, 2004, p.5; Quentin Peel, "India's Terms of Engagement," Financial Times, November 11, 2004, p.15.

16 Blank, *Russo-Chinese Energy Relations: Politics in Command.*

17 Stephen Blank, "Central Asia and the Transformation of Asia's Strategic Geography," *Journal of East Asian Studies,* XVII, No. 2, Fall/Winter, 2003, pp.318-351.

18 Kent E. Calder, "Japan's Energy Angst and the Caspian Great Game," *NBR Analysis,* VII, NO. 1, March, 2001; Michael Robert Hickok, "Japan's Gambit: an Asian View of Eurasia," *Problems of Post-Communism,* XLVII, NO. 3, May-June, 2000, pp.36-47; Birgit N. Schlyter, *Korean Business and Culture in Former Soviet Central Asia,* Asian Cultures and Modernity, Research Report, NO. 2, Department of Oriental Languages, and Political Science, Stockholm University, 2002.

19 Mevlut Katik, "Kazakhstan Has "Huge Plan" to Expand Energy Links with China," *Eurasia Insight,* March 13, 2006.

open in late 2005 with the promise of being extended westward to improve access to Kazakhstan's Caspian fields, China is seeking to build a second gas field to link Shanghai with the gas fields in the Amu Darya in Turkmenistan and potentially Uzbekistan or alternatively with Kazakh gas fields in Aktyubinsk or Aktobe.[20]

Kazakhstan has also sought Japanese investment since at least 2002, if not before, especially as it has just as ambitious plans to expand investment in its energy infrastructure in the next few years.[21] For example, Kazakhstan will invest $800 million between 2006 and 2008 in gas pipelines to boost exports and diversify them to China and Asia "to avoid excessive dependence upon a single consumer."[22] In addition, Astana also expects investment into development of the Caspian oil and gas sector to reach $12.9 billion during in 2006–2010 and &16.8 billion sometime during in 2011–2015.[23] Kazakhstan also plans to export electricity to China.[24] Therefore Kazakhstan certainly seeks to increase energy sales to China if not other Asian markets. Obviously much of this foreign investment that it simultaneously hopes for will be Asian investment. Kazakhstan also is considering joining an Asian-Pacific trade agreement to broaden its overall economic profile in East Asia.[25] Finally Kazakh experts also believe that because it controls 21–25% of world uranium stocks, Kazakhstan can also serve as a

---

20 Moscow, Kommersant.com in English, April 14, 2006; FBIS-SOV, April 14, 2006.

21 Almaty, *Khabar Television* in Russian, December 9, 2002, FBIS-SOV, December 9, 2002; *Radio Free Europe Radio Liberty Newsline*, August 29, 2006.

22 "Kazakhstan to Invest $800 mm in Gas Pipelines in 2006–2008," *Alexander's Gas and Oil Connection*, XI, No. 18, News and Trends, Central Asia September 27, 2006, www.gasandoil.com/goc/news/ntc63974.htm.

23 "Investments into Development of Kazakhstan's Caspian Sector to Reach $16.8 Billion in 2011, *Newsletter of the International Institute for Caspian Studies*, October 2, 2006.

24 Astana, *Kazakh TV1* in Russian, March 28, 2006; *FBIS-SOV*, March 29, 2006.

25 Almaty, *Interfax-Kazakhstan*, in Russian, March 13, 2006; *FBIS-SOV*, March 13, 2006.

potential source for covering the global uranium shortage and providing nuclear energy for civilian purposes to foreign consumers.[26]

Asian states, whose demand for energy is growing, also show increased interest in Russian and Central Asian energy sources. Mongolia, for example, is interested in laying a pipeline from Irkutsk to its territory.[27] Japan has pursued an ever greater interest in Central Asia, its energy, and its politics since its Eurasian Initiative of 1997.[28] In 2006 the Ministry of Economy, Trade, and Industry (METI) proposed a series of measures called "Securing Stable Energy by Strengthening Fuel Strategy." These recommendations include:

- Independent development of oil and natural gas in strategic areas such as Russia
- Diversification of supply sources
- Protection of Japanese mining rights in the East China Sea and elsewhere
- Strengthening of Japan's relationship with other oil and gas supplier countries.[29]

Commenting on this strategy Tsutomu Toichi, Senior Managing Director and CKO of the Japanese Institute of Energy Economics also observed that, (Toichi 2006, 4):

---

26 Moukhtar Dzhakishev, "Uranium Production in Kazakhstan as a Potential Source for Covering the World Uranium Shortage," World Nuclear Association Annual Symposium, 2004, www.world-nuclear.org/sym/2004/dzhakishev.htm.

27 Moscow, *ITAR-TASS*, in Russian, March 20, 2006; *FBIS-SOV*, March 20, 2006.

28 Michael Robert Hickok, "Japan's Gambit: an Asian View of Eurasia," *Problems of Post-Communism*, XLVII, NO. 3, May–June, 2000, pp.36–47; Tadashi Toriyama, "Japan Angles for Clout in Energy-Rich Central Asia," Tokyo, *The Daily Yomiuri Internet Version*, in English, August 30, 2004; *FBIS-SOV*, August 30, 2004.

29 Vladimir Ivanov, "Russia's Energy Politics: Focusing on New Markets in Asia," *Joint U.S.–Korea Academic Studies: New Paradigms for Transpacific Collaboration*, Vol. XVI, 2006, Washington, D.C.: Korea Economic Institute, 2006, p.70.

> The key issue is how to encourage oil companies to invest in the development of oil and gas resources in Russia, In the "Action Plan for Global Energy Security" agreed at the G8 summit in St. Petersburg in July of this year, emphasis was placed on strengthening and expanding the rule of law as well as on establishing and empowering predictable, efficient fiscal and regulatory regimes. It seems to me that this is a very important implication for the foreign investment in oil and gas resources in Russia.[30]

These aspects points of Japan's new strategy are close to other calls for a comprehensive Japanese energy strategy, suggesting an emerging elite consensus on of energy strategy.[31] Clearly Japan fully intends to continue reaching out to Moscow and to Central Asia in pursuit of energy security even if that aggravates the continuing rivalry with China for priority access to Russian energy, leaving no doubt that Japan remains very interested in acquiring access to Russian energy.[32]

As part of the effort to diversify sources Japan has also improved relations with Azerbaijan to foster increased Japanese investment in exploration of Azerbaijani oil and natural gas.[33] More recently, in August 2006 Prime Minister Junichiro Koizumi traveled to Kazakhstan and Uzbekistan to seek more access to negotiate oil, gas, and uranium deals so that Japan can continue to receive oil and gas from this region, which is important precisely because it is not the Middle East. Japan also needs uranium to ensure that its nuclear powered electricity network will not

---

30 Tsutomu Toichi, "Japan's Strategy for NEA Energy Cooperation," *IEEJ*, September, 2006, p.4, Tokyo, *JIJI* Press, in English, March 22, 2006; *FBIS-SOV*, March 22, 2006.

31 Toichi, "International Energy Security and Japan's Energy Strategy," pp.3–10.

32 "Japan Interested in East Siberian Oil and Gas,' *Alexander's Oil and Gas Connection*, www.gasandoilcom/goc/company/cnr62579.htm.

33 Tokyo, *Kyodo World Service*, in English, March 9, 2006; *FBIS-SOV*, March 9, 2006.

encounter shortages.[34] Furthermore, before Koizumi's trip, a meeting of foreign ministers in Tokyo agreed on an action plan for regional cooperation to include support for border management programs, counter-narcotics and counter-proliferation in Central Asia. But beyond acknowledging the need for action against poverty and proving in support for of economic development, Tokyo will also help construct infrastructural projects to connect Afghanistan to Tajikistan, and the broader Central Asian region and facilitate the movement of oil and natural gas across the region.[35]

Japan's interests here though are not strictly economic. Although it has long championed the reconstruction of Afghanistan and its integration into Central Asia, observers believe that Tokyo's growing interest in Central Asia is also intended to assert its position there in the face of Russian and Chinese opposition.[36] Since Japan, like China depends now on Middle Eastern oil and gas for virtually all of its supplies and is no less vulnerable to possible cutoffs of supplies in a time of crisis, it competes with China for both Siberian and Central Asian energy access. So even if Japan confines itself, at least formally, to advancing only its economic interests it cannot sidestep the political rivalry among the great powers for influence in Central Asia and over the distribution of Siberian energy assets. This remains the case even though Tokyo has stockpiled enough oil so that if another crisis breaks out in the Middle East that imperils oil supplies it has enough oil reserves to weather the crisis.[37]

---

34 *Radio Free Europe Radio Liberty Newsline*, August 29, 2006; "Japan to Discuss Energy With Kazakhstan," *Alexander's Gas and Oil Connections, News & Trends Central Asia*, XI , NO. 17, September 11, 2006, www.gasandoil.com/goc/news/ntc63763htm; "Japan Goes Energy Shopping in Central Asia," *Alexander's Gas and Oil Connections, News & Trends, East and Southeast Asia*, XI, No. 18, September 27, 2006, www.gasandoil.com/goc/news/nts63945.htm.

35 "Central Asia: Regional Countries, Japan Agree on Action Plan," *Radio Free Europe Radio Liberty, Features*, June 5, 2006.

36 *Ibid.*

37 "Japan Now Almost Entirely Independent from Middle Eastern Oil," *Alexander's Oil and Gas, News & Tenders, E & SE Asia,* XI, o. 18, September 27, 2006, www.gasandoil.com/goc/newsmts 63936.htm.

Neither is South Korea neglecting the Caspian basin. Already in 2003 it saw pipelines from Russia as an alternative source of energy to North Korea in place of its nuclear reactors and selected the pipeline project as one of the government's ten major tasks during its tenure along with the proposed "iron silk road" railway linking both Koreas to the Trans-Siberian railroad in order to turn South Korea into a regional economic hub.[38] Simultaneously, members of the government and the Presidential Transition Committee (PTC) envisaged the gas projects on Sakhalin as a means of achieving the same objectives.[39] Since then South Korea, facing the same situation as its neighbors, has moved to promote more efficient use of energy and to diversify its oil supply by acquiring equity in fields across the globe.[40] A major part of this program is energy summit diplomacy conducted during President Roh Moo-hyun's trips abroad to negotiate with energy producing countries.[41] For example, he traveled to Azerbaijan in the spring of 2006 and it was soon afterwards revealed that the South Korean National Oil Company was considering buying shares in Azerbaijan's State Oil Company (SOCAR) to exploit the promising Inam deposit.[42] So, like Japan, the South Korean government has improved ties with to Azerbaijan.[43] Undoubtedly this "energy offensive owes something to the ROK's disappointment with the failure to achieve tangible results in either oil or gas from Russia

---

38 Seoul, *Yonhap*, in English, February 27, 2003; *FBIS-SOV*, February 27, 2003; Moscow, *ITAR-TASS*, in English April 26, 2006; *FBIS-SOV*, April 26, 2006.

39 Nam Mun-Hui, "Sakhalin Gas Excellent Remedy for Resolving North Korea's Nuclear Issue," Seoul, *Sisa Journal*, in Korean, March 13, 2003; *FBIS-SOV*, March 13, 2003.

40 Yoo Soh-jung, "Korea Diversifying Oil Supply: Long-Term Policy Emphasizes Future-Oriented Energy Outlook," *The Korea Herald*, March 22, 2006.

41 Lee Joo-hee, "Korea Rolls Out Energy Diplomacy," *The Korea Herald*, March 22, 2006.

42 Baku, *Trend News Agency* in Russian, May 11, 2006; *FBIS-SOV*, May 11, 2006; "South Korea Eyes Offshore," UNDP Azerbaijan Bulletin, May 12, 2006, http://www.un-az.org/undp/bulnews38/koreacbn.php.

43 *ANS Television*, Baku, May 11, 2006 from BBC Monitoring.

through 2005-06."[44]

The ROK has also recently signed a deal with Uzbekistan to ship 300 tons of uranium ore concentrate to South Korea annually from 2010-2014.[45] Both governments also agreed to explore two oil wells in Uzbekistan with an estimated combined deposit of 820 million barrels and two gas fields whose deposits are estimated at 191 and 84 million tons respectively.[46] South Korea and Uzbekistan also signed an agreement giving South Korea's state-run Korea National Oil Corporation (KNOC) a 20 percent stake in an international consortium to develop gas resources in the Aral Sea.[47] During February and March, 2006 South Korean investors formed a consortium with a Canadian firm to explore for oil in Eastern Russia, in the Tigli and Icha regions of Kamchatka. These fields hold an estimated 250 million barrels of oil.[48] In addition, in February, 2006 the South Korean government set up an Energy Board composed of 14 state-run agencies and business conglomerates to target investment in multiple energy sources, particularly in Africa, Central Asia, and Russia.[49] South Korea's global drive is clearly closely tied to the global campaign by the KNOC to gain access to wells abroad, where it was working on 21 projects in 14 countries as of 2005. But overall South Korean firms are operating in 82 projects in 24 countries suggesting the extent of their search for energy access. Justifying this global strategy, South Korean observers like Kim Hyun-tae of the Korea Institute

---

44 Blank, *Russo-Chinese Energy Relations: Politics in Command*, Stephen Blank,"Kovykta: Russian Gas and Asian Markets," *Northeast Asia Energy Focus*, Korea Energy Economics Institute, III, NO. 2, May, 2006, pp.34-42.
45 *Radio Free Europe Radio Liberty Newsline*, September 28, 2006.
46 Seoul, *JoongAng Ilbo Internet Version*, in English, March 29, 2006; FBIS-OV, March 29, 2006.
47 *Radio Free Europe Radio Liberty Newsline*, September 5, 2006.
48 Seoul, *Yonhap*, in English, February 14, 2006; *FBIS-SOV*, February 14, 2006; Seoul, *Yonhap*, in English, March 27, 2006; *FBIS-SOV* March 27, 2006.
49 Kim Yon-se, "Energy Board Targets overseas Resources," Seoul, *The Korea Times Internet Version*, in English, February 22, 2006; *FBIS-SOV*, February 22, 2006; Seoul, *Chosun Ilbo Internet Version*, in English, February 27, 2006, *FBIS-SOV*, February 27, 2006.

of Geoscience and Mineral Resources argue that like Russia, China, and India,

> the most effective way to accomplish the goal is to concentrate all resources into one enterprise by creating a world-class major energy corporation-We're facing a fierce competition against state-run companies from China and India fully backed by their governments, not to mention major energy corporations.[50]

Finally China's explosive entry into the world energy market is now recognized not only as a fact of life but even as a potential threat to U.S. national security because of its penchant for "locking up" energy supplies with big long-term contracts.[51] In keeping with its policy, during in 2005–06 China began to make big deals with Kazakhstan, opening up the oil pipeline from Kazakhstan to China, discussing gas pipelines from Uzbekistan, Kazakhstan, and Turkmenistan to China which it will build, and signing major deals with Iran for gas and oil from its share of the Caspian oil and gas reserves.[52] In September, 2006 China approved construction of a the multibillion dollar pipeline from Turkmenistan to its Southern business center of Guangzhou. This pipeline will carry some 30BCM a year, but the cost is undisclosed although it could run into tens of billions of dollars.[53] China is also increasing the amount of oil it buys from Kazakhstan by buying another $1.9 billion of Kazakh oil reserves. It will be necessary to move that oil from Western Kazakhstan to the existing oil pipeline from

---

50 Seoul, *Yonhap, in English, March* 2, 2006; FBIS-SOV, March 2, 2006.
51 The White House, *National Security Strategy of the United States*, Washington, D.C., 2006, www.whitehouse.gov,; "US Warns China About Energy Ties to Iran," *Alexander's Oil & Gas Connections*, September 28, 2005 ww.gasandoil.com/goc/news/ nts53999.htm.
52 Stephen Blank, "Turkmenistan Completes China's Triple Play in Energy," *Jamestown China Brief*, VI, no. 10, May 10, 2006.
53 "Report: China Approves Pipeline to Move Imported Turkmen Gas," *International herald Tribune*, September 27, 2006, www.iht.com/articles/ap/2006/ 09/27/business/ AS_FIN_China_Turkmenistan_Gas.php.

Atasu to Alashankou,[54] while just like everyone else, it is expanding ties with Uzbekistan and Azerbaijan to obtain energy sources from them even if it must loan them the money to begin exploration as it did by lending Tashkent $600 million in 2005.[55] Beyond that China is turning to Russia, Kazakhstan, Mongolia, and Australia for nuclear energy and electricity and discussing pipelines from Central Asia or Iran through Pakistan to China even if it has to go through the Himalayas in order to ensure these supplies.[56] Obviously the aim of such actions is to reduce dependence on oil and gas and upon one set of suppliers for China's energy needs.[57]

Obviously Russia is also playing an increasing role in East Asian energy issues. Indeed, one might arguably say that outside of its overall strategic partnership with China and the issue of North Korean nuclear proliferation (which in itself comprises a considerable energy dimension) Russia's Asia policy and the future development of Asiatic Russia is almost completely staked on being the region's main energy producer. Indeed, the scope of Russian planned programs for energy exploration and sales to Asia is very ambitious.

---

54 "China Buys Up More Kazakhstan Oil, *BBC News*, October 26, 2006.

55 Fariz Ismailzade, "Azerbaijan and China Move to Increase Security and Economic Cooperation," *Eurasia Daily Monitor*, March 22, 2005; "China After Old Oil Wells in Azerbaijan," www.zaman.com, March 26, 2006; Moscow, Interfax, in Russian, May 16, 2005; *FBIS-SOV*, May 16, 2005.

56 "China's State Grid Corp to Boost Electricity Imports from Russia," www.forbes.com, May 26, 2006;"Sino-Russian Extensive Power Cooperation Starts," *Comtex News Network*, July 4, 2006; "China to Import Electric Power from Russia, Mongolia, and Kazakhstan," *Xinhua News Agency*, June 19, 2006; Marat Yermukanov, "Astana Seeks Equal Footing in Particular with Beijing," *Central Asia Caucasus Analyst*, May 3, 2006; "Pakistan Considers Energy Route for China," *United Press International*, February 22, 2006; "China Mulls Development of Foreign Uranium," *Radio Free Europe Radio Liberty Features*, February 21, 2006; Shai Oster, "Moscow Courts Beijing Over Nuclear Power,' *Wall Street Journal*, March 23, 2006, p.A6; "China to Buy Australian Uranium," *BBC News*, April 3, 2006; "China Interested in Pakistan's proposal for a trans-Himalayan Pipeline," *Alexander's Gas and Oil Connection*, www.gasandoil.com, XI , NO. 21, November 9, 2006, www.gasandoil.com/goc/news/nts64595,htm.

57 Oster, p.A6.

RUSSIA'S ASIAN PROGRAM

Precisely because energy is Russia's only enduring card in East Asia, so much rides on its energy program for the region. The Draft Russian Energy Reform Program proffered by the UES electricity firm in 2002 began by stating that, (Gleason 2003, 45)

> Russia possesses substantial reserves of energy resources, enabling the development in the country of a powerful fuel-energy complex that is the foundation not only for the development of the national economy, but also serves as an instrument of foreign policy. In large measure, the role of the country in world energy markets determines the country's geopolitical influence.[58]

As most recently stated, Russia intends to raise its share of oil supplies to East Asia from 3% to 10% by 2016. It plans to increase the number of Asia-Pacific countries to whom it exports oil and natural gas ten and five-fold respectively by 2020. Thus the share of Asia-Pacific countries who receive its exports will increase to 30% by 2020 and natural gas will go from 5% to 25%. Obviously these figures depend on implementation of both new and developed eastern energy projects, including those in Sakhalin.[59] Industry and Energy Minister Andrei Dementyev also said that,

> A program for the development of natural gas resources in East Siberia and the Far East would be submitted to the Russian government in 2006. A single system of gas production, transportation, and supplies will be created in the region, (able to support) exports to the markets of China, the world's largest energy consumer, and other Asia-Pacific countries.[60]

---

58 Quoted in Gregory Gleason, "Russia and the Politics of the Central Asian Electricity Grid," *Problems of Post-Communism*, L, No. 3, May-June, 2003, p.45.
59 "Russia to Drastically Raise Oil Exports to Asia-Pacific-President," *RIA Novosti,* September 17, 2006.

According to Dementyev, construction of the East Siberian Pacific Ocean (ESPO) pipeline, the estimated cost for which is $11.5 Billion (although considered by experts to be far too low given previous estimates), began in April, 2006 and since then over 100 kilometers have been built and 330 kilometers have been prepared for pipe installation. ESPO is supposed to pump 60–80 million metric tons of oil annually with 30 million going to China via an offshoot of ESPO, the whose construction for which is about to begin.[61] Russia claimed in 2006 that it plans to increase oil supplies to China (by rail – a vastly more expensive route than by pipelines) from 10 million metric tons to 15 million while China's demand for crude oil is expected to grow 5–7% annually.[62] Russia is also vigorously pushing President Putin's idea of for building an international center for spent fuel and nuclear energy, and nuclear waste in Russia and the construction of atomic power centers in Asia, hoping to raise its profile in the export of nuclear energy to the global market, and reach orders of $25 Billion.[63] This program not only aims allegedly to curtail nuclear proliferation, it also aims to augment Russia's capacity for getting a hold of the CIS (Commonwealth of Independent States) members' uranium stocks for its own purposes, depriving them of the means of exporting it and then on its own exporting atomic energy and the technology for of building such stations abroad.

It is also clear from Dementyev's and Putin's statements that Russia may regard China as its primary intended partner in Asia, but it is not confining itself to an exclusive energy relationship with China. The ESPO pipeline may yet produce energy for Japan and South Korea, or at least it is regularly stated by Russia that it will do so. Indeed, it is now reported that South Korea will have

---

60 *Ibid.*

61 *Ibid.*

62 *Ibid.*; "Over 7mm Tons of Oil Delivered to China by Trans-Siberian Railway," *Alexander's Gas and oil.com, XI , No. 21, November 9, 2006,* www.gasandoil.com/goc/ news/ntr64527htm.

63 www.president.ru. January 25, 2006; Moscow, *ITAR-TASS* in English, April 6, 2006; *FBIS-SOV*, April 6, 2006.

to use it and pay market prices for the energy it receives in order to get its energy from Russia. Yet this is also because China is intransigently holding out for prices below market prices for its energy which Russia opposes. Therefore the ROK's subsidy is necessary to justify the cost of this pipeline, a telling example of the bizarre political and anti-economic logic that apparently is now de rigueur in these deals.[64]

At the bilateral level Moscow continues to seek an active expansion of its economic and energy ties to both Koreas. The idea of connecting the Trans-Siberian railroad to a projected Trans-Korean railway and supposedly trumping the European Union and China's projected program is still very present in the minds of Russian policymakers.[65] Moreover, the goals announced by Dementyev and Putin in September, 2006 envisage the completion over a decade of huge pipelines and equally enormous deals with Asian consumers for energy that would go far to validate Russia's ambition of becoming "an energy superpower in the Asia-Pacific region.[66] Indeed, these deals, if they were to be consummated with intended Asian partners would span China, Japan, both Koreas, and if we include the projected pipelines running from Turkmenistan and Iran to India, the South Asian subcontinent as well.

---

64 "South Korea to Pay for Russian Pipeline to China," *Alexander's Gas and oil Connection*, XI, No. 21, November 9, 2006, www.gasandoil.com/goc/company/cnr64593.htm; Buckley and McGregor.

65 "Russia Launches a More Active Policy in the Korean Peninsula," *EASTWEEK*, No 57, October 19, 2006, Centre for Eastern Studies, Warsaw; Stephen Blank, "Economics and Security in Northeast Asia: The Iron Silk Road, Its Context and Implications," Global *Economic Review*, XXXI , NO. 3, 2002, pp.3-24.

66 Ivanov, pp.61-79, Nodari Simoniia, "Russian East Siberia and The Far East," *Global Asia*, I, No. 1, September, 2006, pp.71-79.

OBSTACLES TO INTEGRATION

Given the scope of both Asian demand and of both Russian and Central Asian ambitions to connect with Asian consumers in many major projects why do we argue that Asia cannot rely on those sources of energy to supplant Middle Eastern and Gulf producers? In fact, beyond the arguments adduced above there are many reasons for this pessimism or skepticism about Russia and Central Asia; reasons that are structurally embedded in the politics and economics of the producers, and even in the politics and economics of consumers like China.

For example, many states in Europe and Asia, including Ukraine and Russia, now depend on Turkmenistan to ship gas or to produce enough in the future to justify the deals that are now being made, e.g. the Sino-Turkmen pipeline plan. Yet Turkmenistan is an economic disaster area. As one 2004 account describes it, (Sabonis-Helf 2004, 172)

> The governance strategy in Turkmenistan is one familiar to many OPEC states: following the "no taxation, no representation" model, the state is failing to establish competence in taxing or budgeting. A complete lack of transparency has made even the most basic statistics suspect, yet-based on the promise of hydrocarbons-the international community remains willing to lend money where it is unwilling to invest.[67]

Other accounts highlight the fact that the sultanistic rule of Sapirmurad Niyazov has created the most unfavorable investment climate in Central Asia: the currency is essentially worthless, as noted above statistical analysis of published figures is useless or

---

67 Theresa Sabonis-Helf, "The Rise of the Post-Soviet Petro-States: Energy Exports and Domestic Governance in Turkmenistan and Kazakhstan," Dan Burghart and Theresa Sabonis-Helf, Eds., *In the Tracks of Tammerlane: Central Asia's Path to the 21st Century*, Washington, D.C.: National Defense University Press, Center for Technology and National Security policy, 2004, p.172.

misleading at best, and Niyazov and his family, and cronies, have completely personalized all economic ventures in the country, especially the crucial energy sector.[68] Since one person controls the economy indecision and a lack of real coordination and implementation are rife.[69] Exchange and interest rates have no function in the economy and governance is a mater of caprice.[70] Although change may come in the future afterafter Niyazov's death on December 21, 2006, we have yet to see it and this skepticism concerning Turkmenistan's future economic and political prospects continues.[71] Accordingly it is impossible to put much faith in Turkmenistan's ability to finish the pipeline on schedule, at cost, and to supply China with 30bcm of natural gas as promised, while at the same time fulfilling its obligations to Ukraine, Russia, and Iran. For example Turkmenistan's contracts with Gazprom call for it to send at least 30bcm of gas this year to Russia and between 70-80bcm by 2010.[72] There is no way to verify these figures and most outsiders remain highly skeptical that Turkmenistan can fulfill those contracts.[73]

Kazakhstan is light years ahead of Turkmenistan in transparency and openness despite being corrupt and authoritarian in its governance.[74] Nonetheless, even if Kazakhstan were to be fully developed it alone could not replace Middle Eastern supplies to East Asia's major consumers: India, China, South Korea, and Japan. Their combined demand is simply too great and the investment

---

68 Martha Brill Olcott, *Central Asia's* Second Chance, Washington, D.C.: Carnegie Endowment for International Peace, *2005, pp.98-104.* Her findings correlate with those of Sabonis-Helf, pp.158-172.

69 Richard Pomfret, *The Central Asian Economies Since Independence*, Princeton, NJ: Princeton University Press, 2006, p.101 and his findings concur with those of Olcott and Sabonis-Helf.

70 *Ibid.*; Olcott, pp.88-93, Sabonis-Helf, pp.158-172.

71 International Crisis Group, *Central Asia's Energy Risks*, Brussels, 2007, pp.27-28.

72 A. Medvedev, "Gazexport: Achievements and Prospects," *International Affairs* (Moscow), No. 5, 2006, p.148.

73 International Crisis Group, pp.27-28.

74 *Ibid.*, pp.25-27; Olcott, pp.88-93.

in infrastructure needed to bring Kazakh energy to Asian markets is so huge that those states would have to build pipelines and refinery facilities and pay for the energy. Or else they would have to buy huge equity shares which Kazakhstan is not going to give them as it has moved to take ever greater control of its energy industry.[75] So while Kazakhstan can provide large amounts of energy to Asian consumers, it cannot replace Iran and Saudi Arabia, or even an efficient Russia, as a supplier of first resort.

However, even if Central Asian governments start today to behave in an optimally efficient way to provide Asian consumers with energy, Russia will do everything it can to block Central Asian gas and oil sales to other consumers. Russia and China are strong rivals for Central Asian energy assets.[76] For example, Rosneft, Transneft, and Lukoil already want to sell oil to China through the Kazakh pipeline to prevent Kazakhstan from monopolizing such sales and this is only one example of a general pattern of Russia's highly visible monopolistic practices in Central Asia.[77] Russian energy producers have steadily rebuffed China's projects for obtaining energy supplies in Central Asia. Russia is also determined to maintain autarchic control over energy firms and thereby exploit its strategic resources to enable it and to be able to manipulate prices in its favor by being a monopolistic producer. Sergei Kuprianov, Gazprom's Press Secretary, stated in 2004 that,

> Sharing mineral resources with foreign companies is against our policy. In fact, sharing oil with the Chinese would be even more inappropriate. After all, their stake in Yuganskneftgaz (the former main asset of the now defunct Yukos energy company-author) could

75 Olcott, pp.90–91.

76 Yuri Fedorov, "The Shanghai Hub; Russian-Chinese Cooperation is Actually Rivalry," Moscow, *Kommersant.com*, in Russian, April 10, 2006; *FBIS-SOV*, April 10, 2006.

77 Sergei Blagov, "Russian Oil to Flow to China Even before Pipeline Completed," *Eurasia Daily Monitor*, May 11, 2006.

complicate future price negotiations (for oil purchased by CNPC).[78]

Similarly Russian and American energy companies have obstructed and are still obstructing China's efforts to buy energy holdings in Central Asia, forcing China to depend on external suppliers or on its own bilateral deals rather than gain equity holdings there.[79] Moscow has regularly sought to monopolize the transport of Kazakhstan's enormous oil and gas deposits, still opposes Kazakhstan's participation in the Baku-Ceyhan pipeline system (BTC), still deprives Turkmenistan of the free choice of markets and pipelines for its gas, and obstructs efforts to build pipelines that would connect Turkmenistan with Pakistan and the Indian Ocean.[80] Not surprisingly these efforts anger Kazakhstan's officials, e.g. its Minister of Energy and Natural Resources who said "Russia must share the markets it controls."[81]

Indeed, in November, 2005 Gazprom concluded a deal with KazMunaiGaz, Kazakstan's main gas and gas pipeline firm to increase gas transit of Turkmen and Uzbek gas via Kazakhstan so that Gazprom will control virtually all of Central Asia's gas exports. While observers say this is aimed first at Ukraine, it also will constrict Chinese options in Central Asia.[82] Thus Moscow's

---

78 Aleksandr' Tuttushkin, Irna Reznik, Rodion Levinsky," Without a Struggle Gazprom Talked China Out of Bidding on Yuganskneftgaz,' *Vedomosti*, December 10, 2004; FBIS-SOV, December 10, 2004.

79 Shiping Tang, "Economic Integration in Central Asia: the Russian and Chinese Relationship," *Asian Survey*, XL, No. 2, 2000, pp.360-376 and the sources cited there; "Statement of Dean P. Girdis," *China's Energy Needs and Strategies: Hearing Before the U.S.-China Economic and Security Review Commission*, October 30, 2003, www.uscc.gov, pp.45, 51.

80 Stephen Blank, "Pipelines: Conduits for Terrorism," *Asia Times Online*, March 5, 2003, and "Assassins in Gray Suits," *Marco Polo Magazine, Acque et Terre*, No. 2, 2003, pp.3-7.

81 Galina Bazina, "Far East Instead of East Siberia," Moscow, *Gazeta.ru*, January 11, 2005; FBIS-SOV, January 12, 2005.

82 "Gazprom Established Control Over All Gas Resources of Three Asian Republics," *The Russian Oil and Gas Report*, November 14, 2005, Retrieved from Lexis-Nexis; "Russian, Kazakh Companies Sign Gas Transit Agreements," *ITAR-TASS*, November 11, 2005, Retrieved from Lexis-Nexis.

subsequent pressure upon Turkmenistan to join it has been notable, even to the point of helping to facilitate an attempted coup there in late 2002.[83] More recently it negotiated a deal with Ukraine that stipulates that in return for Kyiv's commitment to buy Central Asian and especially Turkmen gas exclusively from Russian pipelines, Ukraine could buy gas for 2007 at $130–135 per tcm of natural gas.[84] That deal, whatever its implications for Ukraine, perpetuates Moscow's stranglehold over Turkmen gas exports. So its efforts to block independent Chinese access to Central Asia are hardly surprising.

Indeed, those actions reflect equally compelling geoeconomic and geostrategic perspectives for Moscow. In 1998 the Kazak political scientist Nurbulat Masanov wrote that, (Trofimenko, 1998)

> U.S. and Western trans-national corporations are active in the exploration of Central Asian resources and are particularly interested in reducing Russia's influence in the region. When new transport routes, such as the Trans-Caucasus corridor, become operational, Russia is expected to experience serious negative consequences. The point is that the flow of export goods from Central Asia across Russia, unites the Urals, the Volga region, Western Siberia, and the Far East into a single complex. If this flow takes alternative routes *it is quite possible that the territorial integrity of Russia will be endangered. And with China playing a larger role in the eastern part of Russia, this process is fraught with even greater unpleasantness.* (Italics author)[85]

Russian officials have repeatedly reiterated their opposition to

---

83 Blank, "Assassins in Gray Suits," pp.3–7.

84 "Russian, Ukrainian Gas Traders Sign Gas Deal for 2007," *RIA Novosti,* October 24, 2006.

85 Genrikh A. Trofimenko, "The Central Asian Region: US Policy and Problems with Oil and Gas Exports," Moscow, *Ssha*, in Russian, No. 11, November, 1998; *FBIS-SOV*, October 6, 1998.

being merely China's source for raw materials and demand equal status in economic-technological exchanges with China.[86] Russian leaders also know that if they fail to be competitive economic players in East Asia, they will also be at a serious disadvantage at home and in Central Asia. For, if Russia fails to become "a worthy economic partner" for Asia and the Pacific rim, Deputy Prime Minister Aleksei Kudrin warned that, "China and the Southeast Asian countries will steamroll Siberia and the Far East."[87] China would then also steamroll Russia in Central Asia too. Certainly Russian energy policy betrays a definite reserve, if not something stronger, about ceding too much influence in Russia or Central Asia to China.[88]

Russia and Central Asia are thus rivals in the energy market and much of Moscow's neo-imperial designs upon this region stem from the fact that it must capture Central Asian energy rents to sustain its own autocratic and anti-market system. This is because Central Asia's oil and probably gas too are cheaper to extract than are Russia's. As Mikhail Khodorkovsky, Yukos' Chairman and CEO, told the Carnegie Endowment in 2002, a key reason why Russian oil has a high cost is transportation costs and its most pressing needs are for liberalization and new markets

---

86 Sergei Blagov, "Russia Wants to Be More than China's Source for Raw materials," *Eurasia Daily Monitor,* September 30, 2005.

87 Moscow, *Interfax*, Presidential Bulletin, in English, August 21, 2001; FBIS-SOV, August 21, 2001, "Asia and the Russian far East: The Dream of Economic Integration," *AsiaInt Special Reports*, November, 2002, pp.3-6, www.Asiaint.com.

88 Michael Lelyveld, "Russia: Moscow's Oil Pipeline Plan to China Stalls," *Radio Free Europe Radio Liberty* (Henceforth RFERL), *Newsline*, December 10, 2002, on Slavneft see, Le-Min Lim, "China Sees Russian Barrier to Slavneft," *International Herald Tribune,* December 17, 2002, "Anti-China Sentiment Plays into Duma vote," *www.stratfor.com,* December 16, 2002, "Chinese Drop Plans to Bid for Slavneft," *Rosbusiness consulting,* December 17, 2002, www.top.rbc.ru; Peter Wonacott and Jeanne Whalen, "China and Russia Prepare to Sign Pipeline Agreement," *Wall Street Journal*, December 2, 2002, "Japan, Russia Discussing Pipeline Construction," *Moscow Times*, December 28, 2002.

(Khodorkovsky, 2002).[89] But the state will not let go of its control of pipelines and this will maintain the excessively high costs of Russian oil and deprive Russia of markets even as Russia has to "push aide" other producers by expanding its pipeline network to take their oil through its pipelines.

Khodorkovsky conceded as well that Caspian oil is indeed competition for Russian oil so if that energy goes onto markets before Russian energy capabilities are developed, the latter will not have room to compete.[90] Furthermore, given the importance of oil companies to Russia's economics, it is urgent for them to restrict Central Asian production and infrastructure to mainly or even exclusively Russian channels lest their oil and gas become less competitive due to its own high cost and wasteful monopolistic structure and dilapidated infrastructure.[91] And since domestic consumption is subsidized and Russia will not undo this despite the EU's demands for doing so, it must dominate Central Asian energy and restrict its flow to other consumers lest its own economy become unhinged. Since the domestic economy is spending subisdized energy with little regard for its true price, it is obvious that if real market prices for energy were to be charged to private and public users like municipalities the ensuing economic hardship would be enormous and many economic organizations might well go under in the ensuing economic crash.

Central Asia's abundant gas deposits, if marketed abroad, could erode Russia's competitiveness in world markets, especially the Asian markets of India, Japan, China, and South Korea that are widely expected to surge with vastly increased rates of demand for fossil fuels. Given the centrality of oil and gas to Russia's economy that would be a catastrophe. Thus Moscow must realize the grand Eurasian design sketched out by Putin since 2000 and

---

89 Mikhail Khodorkovsky, "Stabilizing World Oil Markets: Russia's Role in Global Recovery," Carnegie Endowment for International Peace, February 28, 2002, www.ceip.org/files/events.

90 *Ibid.*

91 *Ibid.*

his proposals for an OPEC-like cartel over natural gas so that Central Asia's efforts to build infrastructure be limited to those compatible only with Russia. Apart from the grand design for Asiatic railways and pipelines to major East Asian states this means the successful completion of not only those two goals but also of major transportation and energy projects in Central Asia, including the north-south corridor including Central Asia, Iran, and India. Given that scenario, Russia could then truly become the Eurasian hub of a vast series of trade routes tying together Europe, Central, South, and East Asia together.[92]

Meanwhile Moscow's and Gazprom's quest to monopolize Central Asian gas continues in order to use it to overcome the dangers facing Russia from a lack of investment in its own dilapidated gas and oil infrastructure and the unwillingness to end the domestic subsidization of natural gas. Although these factors predate Putin; the monopoly status of Gazprom and the gradual state takeover of oil firms creates an enormous incentive for a lack of investment at home and for the depletion of resources in a scramble to export, as well as the stagnating productivity of labor and of gas fields. The natural gas industry, led by Gazprom, remains the least marketized sector of the Russian economy and has proven highly resistant to efforts to introduce market reforms. Thus Gazprom it already breeds conditions harmful to the growth of that sector and to Russia's long-term economic development.[93] Since Gazprom controls both upstream production facilities and downstream distribution institutions, it constitutes a major obstacle to consumer choice and market economics in its chosen sectors. Moreover, it is the monopoly exporter of gas exports and the monopsonistic buyer of gas produced by oil companies even as it expands into the electricity and nuclear sectors. Gazprom expects domestic

---

92 Robert Cottrell, "Putin Seeks Eurasian Alliance of Gas Producers," *Financial Times*, January 22, 2002, www.ft.com, "Putin Seeks Four-Nation Gas Alliance, Ties with Turkmenistan," FBIS SOV, November 14, 2000.

93 Rudiger Ahrend and William Tompson, "Unnatural Monopoly: The Endless Wait for Gas Sector Reform in Russia," *Europe-Asia Studies*, LVII, NO. 6, September, 2005, pp.801−821.

demand to rise steadily albeit slowly and demand for its exports to continue rising as well through 2010. Yet because of decaying infrastructure, which still suffers from a lack of investment, output, has been and is likely to remain flat in the face of this rising demand.[94]

As Lilia Shevtsova of the Carnegie endowment observes, (Shevtsova 2006, 71)

> The limits of Russian bureaucratic capitalism are difficult to ignore. Despite extremely favorable conditions on the world market, economic growth in Russia is slowing down from 7.3 percent growth in 2003 to 6.4 percent in 2006. The Russian ruling elite seems not to understand that the country, as presently organized, is approaching the natural limits of the "petro-economy." State-owned energy companies have proven far less efficient than privately owned companies: oil output has grown by 47 percent in the private sector over the last six years, compared to just 14 percent in the public sector. Independent producers of natural gas have doubled their output, while state-controlled Gazprom has increased output by just 2 percent.[95]

Nevertheless the state juggernaut roles on seeking monopolies throughout strategic sectors of the economy and not just in energy. Because the domestic energy economy, especially in gas is anything but a market, Russia has to regulate exports in order to sustain it, lest producers export everything they can to get a the higher return on their product. For example the deal with Ukraine is for 55bcm to be shipped there in 2007 even though Ukraine's previous annual use is 73-76bcm a year. As Ukraine is a notoriously inefficient consumer of energy it is virtually inconceivable that it could have made such economies in only one year. As a result

---

94 *Ibid.*; Lilia Shevtsova, "Imitation Russia," *the American Interest,* Ⅱ, no. 2, November-December, 2006, p.71.

95 *Ibid.*

observers are speculating that Russia is holding back 18−20bcm of Central Asian gas in order to satisfy rising demand at home which it cannot do from its own production For example, Roman Kupchinsky of Radio Free Europe writes that, "The fall in Ukrainian gas imports is likely not by preference − but can rather be directly traced to Russia's own rapidly rising domestic demand."[96] Under these circumstances Russia's ability to satisfy East Asian demand for gas or for oil is not to be taken for granted. Meanwhile this lack of investment amidst rising consumption at home and abroad may lead to a "gas hunger" and major energy crisis in Russia. Indeed Russia is already is undergoing a gas crisis.[97]

Forecast extraction for gas is from 610bcm in 2004 to nearly 640bcm Billion in 2010 while domestic consumption is expected to rise from 430 to 470bcm. Thus Russia may lack about 30bcm in 2010 to meet its domestic and foreign commitments. Central Asian gas, bought at cheap prices may be used to supply Russia's domestic markets, thereby forcing those producers to bear the costs of the domestic subsidy and forego the profits they would accrue by selling on the open market.[98] Accordingly, Russia's drive for monopoly reinforces its drive for empire, while both these goals are attainable only at the cost of perpetuating Central Asia's socio-economic backwardness, which most observers believe will sooner or later trigger a massive explosion of civil disorder

---

96 Roman Kupchinsky, "Deciphering New Russian Gas Deal," *Radio Free Europe Radio Liberty, Features*, October 10, 2006.

97 Pavel K. Baev, "Russian Politics and Economics Face an Energy Crisis," *Eurasia Daily Monitor*, October 23, 2006; Arkady Ostrovsky, "Russia Faces Chilling Prospect of Winter Short of Gas," *Financial Times*, November 7, 2006, www.ft.com"; Interview with RAO YeES Rossii Board Chairman Anatoly Chubais by Irik Immutadinov, Aleksandr'' Privalov, Maksim Ryabchenko," Moscow, *Ekspert*, in Russian, April 24, 2006, *FBIS-SOV* April 24. 2006; Roman Kupchinsky, "Russia: Will Moscow Face a Cold, Dark Winter,?" *Radio Free Europe Radio Liberty Features*, October 23, 2006.

98 Lilia Shevtsova, "Imitation Russia," *the American Interest*, II, no. 2, November - December, 2006; Ewa Paszyc and Iwona Wisniewska, The Russian Economy Under Putin. Growth Factors and Impediments to Economic Development. Warsaw, Centre for Eastern Studies, www.osw.waw.pl, 2006, pp.40−41.

there. The geopolitical and commercial implications of this policy, which redounds neither to Russian, Central Asian, or Chinese long-term interests are obvious and potentially ominous.

So it is hardly surprising that despite protestations of mutual identity of interests and eternal friendship in high-level Sino-Russian meetings, in energy and economics the reality has been mutual suspicion and tough bargaining.[99] Putin has at least twice publicly voiced suspicion of Chinese economic power in Asia and Russian officials have publicly opposed any Chinese military presence in Central Asia. Consequently, despite an anti-American strategic partnership on strategic issues, Russo-Chinese energy relations reflect mutual irritation and suspicion.[100] This Russian pressure over Central Asian energy capabilities constitutes one of the fundamental question marks hanging over any Central Asian ability to satisfy East and South Asian demand, apart from the unsettled situation in Afghanistan and Indo-Pakistani rivalries; it is bound as well to the nature of the Russian energy industry as a whole which has come under ever greater state control.

RUSSIAN OIL AND GAS INDUSTRIES

These geostrategic and geoeconomic trends also powerfully reflect the internal constitution of the Russian energy sector which is the most strategic sector of the state and subjected to increasingly stultifying state control. Given the monopolistic, rent-seeking, and suboptimal tendencies that are structurally embedded in this industry, it is unlikely that Russia can satisfy China, let alone South Korea, Japan, its own consumers, and Europe or achieve sufficient revenues for investment in its own infrastructure with regard to gas and oil. Since the gas industry is subject to vastly greater state control and even ownership than is the oil industry,

---

99 Moscow, *Interfax*, in English, March 3, 2006; *FBIS-SOV*, March 3, 2006; *FBIS-SOV*, April 10, 2006.

100 *Ibid.; The Russian Economy Under Putin*, pp.40–41; Tang, pp.360–376.

the Russian government has far can exercise much greater ability to manipulate gas prices at home and abroad and gain increased control over natural gas markets.[101] But while the oil industry does not yet reflect quite this degree of state control, it is falling under greater state control as time passes and is at the mercy of the state agency Transneft which controls the pipelines.

Although there are ten private oil firms in the Russian oil industry, in actual fact only but five major ones dominate it. Julia Nanay listed these five dominant firms: Lukoil, Yukos, TNK, Surgutneftgaz, and Sibneft. Since then Yukos has been broken up and taken over by the state and Sibneft has also been brought under state control. Juxtaposed against the private oil firms are three key state-owned firms: Rosneft, the oil company, Gazprom, the gas company and Transneft, the pipeline monopoly. In September, 2004 the government announced the takeover of Rosneft by Gazprom (thus demonstrating the latter's ambition cited above to be a major energy firm on a global scale and to be a monopolist in the field.) When Yukos was taken over shortly thereafter by Rosneft, which had already been earmarked for assimilation to Gazprom, this state takeover displayed the ambition, spelled out by Putin earlier, to create companies which would be the Russian equivalent of Saudi Arabia's Aramco.[102] In keeping with this policy, since then Gazprom is evidently moving also to take control of Russia's electricity and nuclear energy industries.[103] This trend, though of global significance, has a particular significance for Sino-Russian energy relationships.

A Russian political analyst even suggested that the merger

---

101 Adam N. Stulberg, "Moving Beyond the Great Game: The Geoeconomics of Russian Influence in the Caspian Energy Bonanza, " *Geopolitics*, X., No. 1, 2005, pp.101-125; Leijonhielm and Larsson, p.37.

102 Julia Nanay, "Russia and the Caspian Sea Region," Jan H, Kalicki and David L. Goldwyn, Eds., *Energy and Security: Toward a New Foreign Policy Strategy*, Baltimore and Washington, D.C.: Johns Hopkins University Press and Woodrow Wilson Center Press, 2005, pp.128-129.

103 www.stratfor.biz, "Special Report Pt. Ⅱ: the Rise of Gazprom Inc.," October 21, 2004, www.stratfor.biz."

> between Gazprom and Rosneft would only be the starting point of the establishment of the biggest energy company in the world. The analyst pointed out a kind of holdings company named "Gosneftgaz" composed of Gazprom, Rosneft, Surgutneftgaz, Lukoil, Yukos, and Sibneft could be established before the end of president Putin's second term, that is 2008. He added that approbation of the creation of a single state oil and gas corporation will be under the control of the St. Petersburg Chekists group which is very conscious of China's rise. So they are determined to control the oil and gas supply sources to China.[104]

But since Gazprom is legally constrained to supply natural gas to producers, especially the existing state-run electricity firm, RAO UES, at ridiculously low and subsidized domestic prices, its profits come almost exclusively from its ability to export. If it cannot export, the whole house of cards might collapse and force major fuel and electricity price hikes in Russia that Putin has ruled out even though they have been demanded by the EU. has demanded them. Consequently any attempt to establish a truly market based energy economy inside Russia would precipitate an economic and thus political catastropherash.

But to the degree that Gazprom and Transneft can establish control over the entire energy sector, they will export all the deficiencies of their monopolies to that sector and to Russia's its foreign policies. Nevertheless the creation of an ARAMCO like company in Gazprom and the status of Transneft as "king of the castle" in the Russian oil sector is a logical culmination of the outlook shared by Putin and other officials. Therefore those hoping to obtain access to major Russian energy supplies are likely to be quite disappointed.

As has already been discussed, Gazprom's monopolistic control over the gas industry has restricted both the overall growth of

---

104 Keun-Wook Paik, "Russia's Oil and Gas Exports to Northeast Asia," *Asia-Pacific Review* XII, No. 2, 2004, p.62.

that sector and hampered Russia's long-term economic development,[105] as well as limiting consumer choice in a state-controlled market; while because of insufficient investment in infrastructure Gazprom will be unable to keep pace with forecasted rising domestic and export demand through 2010, a situation further aggravated by the fact that gas prices to commercial and private consumers are heavily subsidized.[106] Furthermore, it is likely that domestic demand is rising faster than Gazprom predicted, leading to the gas hunger mentioned previously and the diversion of exports to the domestic market.[107]

Moreover, Gazprom as a monopolist is not content simply with regulating exports as it also acts to suppress potential rivals.[108] Thus

> One of things Gazprom wants is to ensure that BP's entrance into the ranks of the Russian majors does not mean an end to Gazprom's export monopoly. BP merged its assets with Russian oil firm TNK in 2003 to create TNK-BP. One of the merged firm's major goals was to export natural gas from the Kovykta superfield near Irkutsk to China and Korea-an $18 billion project. To protect its interests, Gazprom will continue to sabotage the Kovykta project until TNK-BP relents and allows it in as the operator-an operator that has every intention of letting the other "partners" pay its way.[109]

Obviously this means more delays for China and the ROK who hoped to buy the gas from the Kovykta site, as well as and higher costs, assuming that the pipeline ever gets built. And sure enough,

---

105 Rudiger Ahrend and William Tompson, "Unnatural Monopoly: The Endless Wait for Gas Sector Reform in Russia," *Europe-Asia Studies*, LVII, NO. 6, September, 2005, pp.801-821.

106 *Ibid.*

107 Kupchinsky, "Ukraine: Deciphering New Russian Gas Deal."

108 *Ibid.*

109 www.stratfor.biz, "Special Report Pt. II: the Rise of Gazprom Inc.", October 21, 2004, www.stratfor.biz.

in 2006 BP announced that it was selling its majority share in its joint venture with TNK in Kovykta to Gazprom which has waged an unrelenting campaign to gain control of that field and other TNK-BP projects for its own purposes.[110] Even so, it is not clear whether the gas from this field will go to Asia or to domestic consumers. Certainly, we cannot make any assumption as to the eventual outcome, particulalry when we consider the pervasiveness of the struggle between of Gazprom and Transneft, the state monopoly over pipelines, backed by powerful government authorities to establish monopolies not just over the domestic industry but also over neighboring foreign producers. Thus Gazprom has hinted at an interest in Russia's foreign oil company Zarubezhneft and we know that the energy sector, acting under state direction is a powerful, if not the most powerful leverage Russia has in foreign policy towards the Baltic States, Poland, Belarus, Ukraine, Moldova, and Georgia.[111]

ENERGY SECURITY ESPO AND KOVYKTA

Given the nature of the Russian energy industry it is not surprising that Russia's concept of energy security clashes with that of every consumer, not just Asia. Essentially this concept is autarkic,

---

110 "TNK-BP Ready to Give Up Control of Kovykta Gas Field to Gazprom," *Alexander's Gas and Oil Connection*, XI, No. 4, February 27, 2006, www.gasandoil.com/goc/company/cnr60997.htm; Catherine Belton, "TNK-BP License Under Attack," *Moscow Times*, November 8, 2006; Blank, "Kovykta: Russian Gas and Asian Markets," pp.34-42.

111 *Ibid.*; Janusz Bugajski, *Cold Peace: Russia's New Imperialism*, Washington, D.C. and Westport CT.: Praeger Publishers, 2005; Richard J. Krickus, "The Presidential Crisis in Lithuania: Its Roots and the Russian Factor," Remarks at the Woodrow Wilson Center, Washington, D.C., January 28, 2004, provided by the kind consent of Dr. Krickus; See also his monograph, Iron Troikas, Carlisle Barracks, PA: Strategic Studies Institute, US Army War College, 2006; Keith C. Smith, *Russian Energy Politics in the Baltics, Poland, and the Ukraine: A New Stealth Imperialism?*, Washington, D.C.: Center for Strategic and International Studies, 2004; Leijonhielm and Larsson, pp.116-129.

i.e. Russia alone controls the pipelines that take its oil and gas to consumers, and that they must be locked into long-term contracts with Russia alone at a price Russia sets.[112] Energy security duly translates into a guarantee for protected markets free from any outside scrutiny or regulation by the market. Energy security here entails a supposedly risk-free privileged domain in the CIS if not beyond which diminishes the sovereignty of CIS members and forces consumers to subsidize Russian oil and gas and pay Russian prices for the privilege of doing so. Decision making is essentially political, not economic and inherently sub-optimal and inefficient.

China's approach on the other hand is governed by its paranoia, not too strong a word, about controlling energy under all circumstances and bypassing its so called Malacca issue, i.e. that the U.S. or Indian Navy can interdict supplies from Middle Eastern producers.[113] Hence China is interested in overland pipelines from Iran, Pakistan, and Central Asia. China also, as everyone has noted, pays top dollar to "lock up' oil and gas supplies for years and to gain equity access so it owns the oil or gas at all stages of production and transportation to China. This too is an essentially anti-market, political approach to the problem of energy security. But in its dealings with Central Asia and Russia, China has sought to induce both Russia and local producers to sell it oil and gas through projected pipelines that have yet to be built at below market prices.[114] This has naturally triggered staunch Russian resistance

---

112 *Ibid.;* Michael Fredholm, *The Russian Energy Strategy & Energy Policy: Pipeline Diplomacy or Mutual Dependence,* Conflict Studies Research Centre, Camberley, Surrey, September, 2005, p.7; *Energeticheskaya Strategiia Rossii Na Period do 2020 Goda,* Moscow, 2003.

113 For two recent analyses of Chinese energy policy see Aaron l. Friedberg, "Going Out": China's Pursuit of Natural Resources and Implications for the PRC's Grand Strategy, *NBR Analysis*, Settle, Washington: National Bureau of Research, Asia, XVII, NO. 3, 2006; John Keefer Douglas, Matthew B. Nelson, Kevin Schwartz, *Fueling the Dragon's Flame: How China's Energy Demands Affect its Relationships in the Middle East,* Testimony Presented to the U.S.–China Economic and Security Review Commission, September 14, 2006, www.uscc.gov.

and delayed negotiations, showing just how incompatible the respective approaches of the two countries to energy security are and how hard it is therefore to reconcile them.

Similarly the experience of Russia's on and off decisionmaking about the ESPO and the gas fields at Kovykta through 2005 cannot inspire confidence that Russia will make and implement an economically rational decision that provides energy supplies for all consumers at reasonable prices.[115] Nor does the new crisis around the Sakhalin gas fields help matters. Russian claims of environmental violations and of tax defaults look and feel like other previous attempts to drive Gazprom's rivals out of business and to revise by unilateral pressure and coercion existing Production Sharing Agreements (PSAs) and have raised a storm of protest in Japan and Europe.[116] But since the Kovykta project failed to get off the ground, Sakhalin remains the only available functioning source of LNG to East Asia and Gazprom is clearly determined to monopolize it.[117] Moreover, it is making many hints about taking the gas from South Korea and Japan and buying out the foreign companies in order to give it to China to reflect the political necessity of reaching a deal with China.[118] Thus Japan and South

---

114 "South Korea to Pay for Russian Pipeline to China, "; Buckley and McGregor; Tokyo, Kyodo, in English, January 27, 2003; FBIS-SOV January 27, 2003; Tian He "What Do Difficulties in Sino-Russian energy Cooperation Indicate,?" Hong Kong, *Hong Kong Hsian Kang Shang Pao*, in Chinese, January 14, 2003; FBIS-SOV, January 14, 2003.

115 Stephen Blank, *Russo-Chinese Energy Relations: Politics in Command*, passim; Stephen Blank, "Kovykta: Russian Gas and Asian Markets," pp.34-42.

116 Miriam Elder, "EU, Japan Issue Warning on Sakhalin, "Moscow *Times*, September 20, 2006; Joseph Ferguson, "Sakhalin Oil and Gas Projects: What is Behind Russia's Coercive Behavior,?" *Eurasia Daily Monitor*, October 3, 2006; "Sakhalin International Project Under Fire in Moscow,' *Current Digest of the Post-Soviet Press*, LXIII, No, 38, October 18, 2006, pp.4-5.

117 "China May Get All Sakhalin Natural-Gas Exports," *Alexander's Gas and Oil Connections*, XI, No. 21, November 9, 2006; *Radio Free Europe Radio Liberty Newsline*, September 22, 2006; www.gasandoil.com/goc/company/cnr64581.htm; Sergei Blagov, "Gazprom Tightens Control Over Far Eastern Gas Riches," *Eurasia Daily Monitor*, November 3, 2006.

Korea might not even receive the gas they have come to expect. Similarly ESPO's final terminus remains to be determined along with the cost, along with the issues of who will pay for it and the price of energy supplies exported to China. So while major projects are being discussed or are just now being embarked upon, in fact numerous question marks continue to surround the realization of Russia's grand design.

CONCLUSIONS

The foregoing analysis has suggested numerous reasons why Russia and Central Asia cannot serve as reliable surrogates for the Middle East and the Gulf with regard to Northeast Asian demand for energy supplies. In some respects this is simply because that demand is too great to be supplied by Russia and Central Asia alone. But this fact is also inextricably linked to preexisting economic and politically embedded structures of the strategic energy industry and state decision making in those countries. Indeed, as noted above Russia is already beginning to feel the effects of a gas shortage and is trying to change its strategy to relieve the pressure of its own demand on its domestic supplies.[119] However, barring fundamental structural political change in these countries, efficient and rational decision making with regard to energy is not likely anytime soon. China too must be more willing move faster to consider changing its approach because it is excessively expensive economically unviable for it to pay top dollar for overvalued energy access and because of the strains it places upon its relationship with key countries like the United States, Iindia, and Japan. Though Washington is stating this to

118 *Ibid.*

119 The Russian Economy Under Putin, pp.40–41; Baev, Ostrovsky; FBIS SOV April 24. 2006; Kupchinsky; "Russia Changes Energy Strategy," Alexander's Gas and Oil Connection, www.gasandoil.com, XI , No. 21, November 9, 2006, www.gasandoil.com/ goc/company/cnr64587.htm.

China and some Chinese and Asian academics are making the point too, Beijing has yet to come to terms with the need for systematic reconstruction of its overall energy policy process.[120]

Nonetheless, the points made here highlight the need for greatly enhanced international cooperation among consumers. India and China talked about doing this earlier this year but little has come of it so far.[121] More recently, there are signs of discussions among China, India, America, Japan, and South Korea about establishing a viable form of multilateral cooperation on energy. Market based cooperation of this kind would go far to alleviate both the security anxieties and the market shortcomings that currently undermine efforts to deal with potential energy shortages and great power rivalries. But these activities remain in their infancy for now. Nevertheless it is clear that this is the only way for consumers and producers to reach a sustainable supply equilibrium and ensure genuine energy security. For the kinds of monopoly practiced by OPEC and by Russia have become nothing more than pillars for autocracy, backwardness and neoimperialism. Irrespective of whether or not under these conditions East Asia eventually gets the energy it needs from Russia and the CIS, those outcomes of the current Russian and CIS political economies will inevitably give rise to new security threats even as their respective state interventionist approaches are likely to fail to meet Asia's needs for energy.

---

120 Ito, Ivanov, Zha Daojiong, pp.121-142,.

121 Stephen Blank, India, China, and New Trends in South Asian Energy Security," *Marco Polo Magazine Acque et Terre*, NO. 2, 2006, pp.3-8 (English), 23-28 (Italian).

REFERENCES

Ahrend, Rudiger and Tompson. William. 2005. Unnatural Monopoly: The Endless Wait for Gas Sector Reform in Russia. *Europe-Asia Studies,* 57, NO. 6, pp.801-821.

Alexander's Gas and Oil Connection. 2006.

Blank, Stephen. 2006. *Russo-Chinese Energy Relations: Politics in Command*. London: Global Markets Briefing.

Blank, Stephen. 2006. "India, China, and New Trends in South Asian Energy Security," *Marco Polo Magazine Acque et Terre*, NO. 2, pp.3-8 (English), 23-28 (Italian).

Blank, Stephen. 2006. Kovykta: Russian Gas and Asian Markets, *Northeast Asia Energy Focus*. Korea Energy Economics Institute, 3, No. 2, pp.34-42.

Blank, Stephen. 2006. Turkmenistan Completes China's Triple Play in Energy. *Jamestown China Brief*, 6, no. 10, May 10, 2006.

Buzan, Barry, Ole Waever and Jaap de Wilde. 1998. *Security: A New Framework for Analysis*. Boulder, Colorado: Lynne Rienner, Publishers.

Calder, Kent E. 1996. *Pacific Defense: Arms, Energy, and America's Future in Asia*. New York: William Morrow & Co.

Calder, Kent. 2005. East Asia and the Middle East: A Fateful Energy Embrace. *The China-Eurasia Forum Quarterly*, 3, No. 3.

Calder, Kent E. 2001. Japan's Energy Angst and the Caspian Great Game. National Bureau of Research, Asia. *NBR Analysis*, 12, NO. 1.

Dorrian, James. 2005. Emerging Russia-China Energy Relations: Will Needs Be Met by Supplies," F. Joseph Dresen Ed., Russia in Asia-Asia in Russia: Energy, Economics, and Regional Relations. Conference Proceedings, Occasional Papers of the Kennan Institute for Advanced Russian Studies, No. 292.

Douglas, John Keefer, Matthew B Nelson, Kevin Schwartz. 2006. Fueling the Dragon's Flame: How China's Energy Demands Affect its Relationships in the Middle East. Testimony Presented

to the U.S.–China Economic and Security Review Commission, www.uscc.gov.

Ebel Robert and Menon Rajan, Eds. 2000. *Energy and Conflict in Central Asia and the Caucasus*. Lanham, MD.: Rowman and Littlefield Publishers.

Fredholm, Michael. 2005. *The Russian Energy Strategy & Energy Policy: Pipeline Diplomacy or Mutual Dependence*. Conflict Studies Research Centre, Camberley, Surrey.

Friedberg, Aaron L. 2006. "Going Out": China's Pursuit of Natural Resources and Implications for the PRC's Grand Strategy. *NBR Analysis*. Settle, Washington: National Bureau of Research, Asia, 17 NO.3.

Gleason, Gregory. 2003. Russia and the Politics of the Central Asian Electricity Grid. *Problems of Post-Communism*, 50, 50, No.3.

Hedlund, Stefan. 2005. *Russian Path Dependence.* London; Routledge.

Hickok, Michael Robert. 2000. Japan's Gambit: an Asian View of Eurasia. *Problems of Post-Communism*, 47, No.3, pp.36–47.

International Crisis Group. 2007. *Central Asia's Energy Risks*, Brussels.

Ito, Shoichi, Vladimir I. Ivanov, Zha Daojiong. 2005. China, Japan, and Russia: The Energy Security Nexus, Niklas Swanstrom, Ed., *Conflict Prevention and Conflict Management in Northeast Asia.* Uppsala Silk Road Studies Program, Uppsala University, pp.121–142.

Ivanov, Vladimir. 2006. "Russia's Energy Politics: Focusing on New Markets in Asia," *Joint U.S.–Korea Academic Studies: New Paradigms for Transpacific Collaboration.* Vol. XVI, 2006, Washington, D.C.: Korea Economic Institute.

Jaffee, Amy Myers, and Ronald Soligo. 2004. The Future of Saudi Price Discrimination: The Effect of Russian Production. Paper Presented as Part of the Project *The Energy Dimension in Russian Global Strategy*. James A. Baker III Institute for Public Policy, Rice University, Houston.

Jaffee, Amy Myers and Ronald Soligo. 2004. Re-Evaluating U.S. Strategic Priorities in the Caspian Region: Balancing Energy

Resource Initiatives Withwith Terrorism Containment. Paper Presented as Part of the Project *The Energy Dimension in Russian Global Strategy*. James A. Baker III Institute for Public Policy, Rice University, Houston.

Leijonhielm, Jan and Robert Larsson. 2004. *Russia's Strategic Commodities: Energy an Metals as Security Levers*. Stockholm; Swedish Defense Research Agency.

Manning, Robert A. 2000. *The Asian Energy Factor: Myths and Dilemmas of Energy, Security, and the Pacific Future.* New York: Palgrave and the Council on Foreign Relations.

Nanay, Julia. 2005. Russia and the Caspian Sea Region," Jan H, Kalicki and David L. Goldwyn, Eds., Energy, *Energy and Security: Toward a New Foreign Policy Strategy*. Baltimore and Washington, D.C.: Johns Hopkins University Press and Woodrow Wilson Center Press.

Olcott, Martha Brill. 2005. *Central Asia's Second Chance.* Washington, D.C.: Carnegie Endowment for International Peace.

Olcott, Martha Brill. 2004. *Vladimir Putin and the Geopolitics of Oil.* Paper Presented as part of the project *The Energy Dimension in Russian Global Strategy*. James A. Baker III Institute for Public Policy, Rice University, Houston.

Ogawa, Yoshi. 2004. The Asian Premium and Oil and Gas Supply from Russia. Paper Presented as Part of the Project *The Energy Dimension in Russian Global Strategy*. James A. Baker III Institute for Public Policy, Rice University, Houston.

Paik, Keun-Wook. 2004. Russia's Oil and Gas Export to Northeast Asia. *Asia-Pacific Review* 12, No. 2, 2004.

Paszyc, Ewa and Iwona Wisniewska. 2006. The Russian Economy Under Putin. Growth Factors and Impediments to Economic Development. Warsaw, Centre for Eastern Studies, www.osw.waw.pl.

Rosefielde, Steven. 2004. *Russia in the 21st Century*: the Prodigal Superpower. Cambridge: Cambridge University Press.

Russia, Ministry of Energy of the Russian Federation. 2003. *Energeticheskaya Strategiia Rossii Na Period do 2020 Goda.*

Sabonis-Helf, Theresa. 2004. The Rise of the Post-Soviet Petro-States: Energy Exports and Domestic Governance in Turkmenistan

and Kazakhstan. Dan Burghart and Sabonis-Helf Theresa, Eds., *In the Tracks of Tammerlane: Central Asia's Path to the 21st Century. Washington, D.C.:* National Defense University Press, Center for Technology and National Security policy, 2004.

Schlyter, Birgit N. 2002. *Korean Business and Culture in Former Soviet Central Asia.* Asian Cultures and Modernity, Research Report, NO. 2, Department of Oriental Languages, and Political Science, Stockholm University.

Shevtsova, Lilia. 2006. Imitation Russia. *The American Interest,* 2, No. 2,.

Simoniia, Nodari. 2006. Russian East Siberia and The Far East. *Global Asia*, 1, No. 1, pp.71-79.

Stulberg, Adam N. 2005. Moving Beyond the Great Game: The Geoeconomics of Russian Influence in the Caspian Energy Bonanza. *Geopolitics,* 10, No. 1 pp.101-125.

Toichi, Tsutomu. 2006. Japan's Strategy for NEA Energy Cooperation. *IEEJ.*

Toichi, Tsutomu. 2006. International Energy Security and Japan's Energy Strategy. Paper Presented to the Conference on India's Energy Security organized by TERI and the Konrad Adenauer Foundation, Goa, India. September 28-29.

NEW OPTIONS FOR NORTHEAST ASIAN COOPERATION IN DEVELOPMENT FINANCE

WERNER PASCHA*
Duisburg-Essen University

Abstract

While market integration has progressed steadily in Northeast Asia, government-backed cooperation is still lacking, which makes the region vulnerable to shocks and does not fully exploit the potentials of regional integration. In this paper, we will discuss the potential role of cooperation in development finance to counter cross-border external economies, e.g. environmental pollution and to overcome cooperation failure for cross-border investment projects like infrastructure development. Earlier attempts to create a Northeast Asian Development Bank are surveyed and alternatives discussed. It is argued that cooperation in development finance can be a sensible mechanism to promote cooperation and realise welfare gains for the region, provided that organisational issues like a clear agenda, private sector participation, and appropriate membership levels can be managed appropriately. Such a mechanism may also be helpful to support the integration of North Korea into the regional economy at a later stage.

Key Words: Northeast Asia, Development Finance, Development Bank, Regional Cooperation and Integration, North Korea.

---

* This paper is a shortened and modified version of a study prepared for the Research Series of the Center for Northeast Asia Economic Cooperation of the Korea Institute for International Economic Policy, Seoul, ROK. Support of the Center, allowing the author to work as a Visiting Scholar at KIEP in February/March 2007, is gratefully acknowledged. Helpful comments were received during presentations at CNAEC, particularly from Sung-Hoon Park of Korea University, and at the Nagoya-Freiburg Joint Economic Seminar, both in March 2007.

INTRODUCTION

Northeast Asia, with China, Japan and Korea at its core, has become the most dynamic economic region of the world, despite setbacks like the 1990 burst of the Japanese bubble and the Asian financial crisis in the latter half of the 1990s. While the enterprise sector has been a dynamic engine for market interaction between the economies of the region, government-backed cooperation is still lacking, which makes the region vulnerable to shocks and does not fully exploit the potentials of regional integration. How to overcome this institutional gap has been a concern for many years.

Cooperation in development finance is one meaningful way for Northeast Asia to promote integration and increase regional welfare. In the following paper, we will consider the case for such cooperation. First, it is sensible to discuss earlier attempts. They can be roughly summarised under the idea of creating a Northeast Asian Development Bank. This concept, which originated in the early 1990s, was never realised, and it is important to understand the reasons. Second, the case for regional cooperation in development finance will be made, taking more recent developments into account. We will show that there is a rationale for such cooperation, given situational changes of the 21st century, even though such a scheme would be rather different from an old-style development bank. In part three, features for a contemporary approach towards cooperation in development finance will be discussed. One issue is setting a clear focus on which tasks to initiate. Another issue is how to organise public-private interaction in an organisational framework. A third issue concerns membership. Fourth, we will discuss whether such a mechanism could contribute to the North Korean problem. We will close with a summary of major findings and an outlook.

EARLIER ATTEMPTS TO CREATE A NORTH EAST ASIAN DEVELOPMENT BANK

While this is not the proper forum for a detailed history of the

many proposals, comments and criticial remarks on Northeast Asian cooperation in development finance are necessary to frame the issues. In the early 1990s, concerns mounted that the successful regional economies would hit a glass ceiling in terms of an inadequate capital base to finance the huge investment needs of the region. Duck Woo Nam (1991), a former prime minister of the Republic Korea, at that period introduced the idea of a Northeast Asian Development Bank (NEADB) to overcome this gap. This innovative concept was also pursued by the Northeast Asia Economic Forum, which has a secretariat at the East-West Center in Hawaii, and promoted by Lee-Jay Cho in particular. Stanley Katz elaborated on the concept in several contributions[1], and it was discussed in various international meetings during the latter 1990s and beyond. While the years following the Asian financial crisis were not beneficial in the formation of a new development bank (ostensibly to raise fresh funds for the discredited region), the idea did not totally fade from view. In 2002, the Tokyo Foundation, supported by a network of Japanese politicians, undertook a larger study and again proposed the creation of a NEADB for the region. The concept was again taken up by South Korea. In a 2004 conference hosted by the Korea Institute for International Economic Policy (KIEP) and EXIM Bank, Woo-Sik Moon and Deok Ryong Yoon developed a somewhat leaner concept of a Northeast Asian Investment Corporation; this can be regarded as another major intellectual step to find an organisational basis for regional cooperation in development finance (see also Kim and Lee 2004; Li 2004, etc.).

These efforts thus far have not come to fruition. If one considers it worthwhile to reconsider the case for such cooperation in the near future, it is important to understand why so many worthwhile initiatives have failed-whether the reasons are still valid or if new conditions warrant new considerations. The first reason why calls

---

1 A helpful guide to major positions can be found in Cho and Katz 2001. For a summary of the early contributions of the Northeast Asia Economic Forum, see Nam 1999.

to found a new development bank have met with scepticism is, of course, the fiscal cost involved. Proposals by Nam and Katz suggested a total capital base of some 20 to 40 billion USD, of which half might be paid-in capital. The Tokyo Foundation proposal was somewhat more modest, requesting 6 (then 3) billion USD, but this is still a considerable capital outlay.

If there had been no other organisation available to fill the needs of a development bank for Northeast Asia, fiscal prudence might not have turned out to be such an important concern. There is, however, the Asian Development Bank (ADB), founded in the 1960s to serve the whole region from South Asia to the Pacific Islands (including Northeast Asia). The establishment of a sub-regional bank might appear wasteful, and it is understandable that many would object. Clearly, the proponents of the NEADB concept were aware of this criticism. There are several arguments to counter it:

First, a sub-regional bank for Northeast Asia would not be without precedent. There are several examples in Africa and the Caribbeans, just below the level of the African and the Inter-American Development Bank respectively. Indeed, if no hierarchical overlap of development banks could be legitimized, there would not be regional banks like ADB in addition to the International Bank for Reconstruction and Development (IBRD, "World Bank") in the first place. Hence, the asserted raison d'etre for a sub-regional bank is important, not simply as an overlap per se. In this respect, proponents of NEADB have argued that the resources of the ADB are too thinly spread over the whole Asia-Pacific region to do justice to the enormous developmental needs of the rising Northeast Asian region. This holds, it is argued, both for the financial resources and for technical expertise. In terms of the latter, ADB is expected to serve the needs of the populous, agricultural economies of South Asia, the transformation economies of Central Asia, resource-rich economies in Southeast Asia, the tiny Pacific Island economies, plus the needs of rapidly industrialising Northeast Asia. It is dubious how ADB could possess specialised expertise for all these disparate interests. With respect to the

resources of ADB, it is obvious that the regional development bank would not be in a position to fill this gap. Presently, the share of all ADB resources received among the region is considerably lower than the regional share relative to GDP or population. Of course, this is also related to the fact that Japan is not a developing member country, and that China, because of its size, cannot easily be compared to ADB averages. Nevertheless, this situation demonstrates that ADB is not entirely adequate to handle Northeast Asian matters.

Even if one agrees that traditional organisations cannot fulfill all the needs for development finance and expertise for the Northeast Asian sub-region, the question remains whether a new development bank is a sensible instrument to overcome the gap. In that respect, the NEADB proposal of the early 1990s was badly timed. In 1992, the so-called Wapenhans Report had severely criticized the effectiveness of the World Bank in delivering development goals (World Bank 1992). For instance, more than a third of the projects that had undergone internal evaluation were found to be unsatisfactory, with a "culture of approval" as a major hindrance. By extension, it could be argued that all multilateral development banks share problems of governance and effectiveness. In effect, the mood turned against yet another bank.

Apart from the economic aspects mentioned above, there were also political reasons why the idea of a NEADB did not gain a wider following. The US has always been rather critical of regional concepts originating in East Asia, in which they would not play a key role. While proponents like Nam and Katz argued that the US should be a major shareholder, possibly the largest, it could be expected that the US would not be as central for the Northeast Asian scheme, either in ADB or the World Bank. The Japanese also did not endorse the proposal. Tokyo had fought hard to be a major player within the ADB, always appointing the president since its inception, so to lend a hand in founding a NEADB could be seen as questioning the status and the role of its "own" earlier project of an ADB. Even if not for these critical positions of single players, it has always been extremely difficult to get China, Japan, Russia and the US moving together,

given their struggle for regional leadership roles-or their moves to stop each other becoming one.

While those in favour of a NEADB originate from various countries, it is noteworthy that Koreans and Korean organisations always have had more than an equal share in making the case for a new regional development bank. From a political point of view, this is not particularly surprising. As a country "at the center" of Northeast Asia[2], but rather weak vis-à-vis China, Japan or the US, it would profit proportionately more from better intra-regional relations and welfare-increasing cooperation in development finance. According to Rozman (2006), even Korea's concern for regional cooperation was rather shallow in those years.

THE NEW CASE FOR NORTHEAST ASIAN COOPERATION IN DEVELOPMENT FINANCE

The main change affecting the thinking on development banks in recent years is the dramatic rise in international financial liquidity. There are several reasons for this on a global level, including the huge financial income of resource-rich countries that are re-channelled into the world economy. Since the latter 1990s, Pacific Asia has also become a capital-surplus region with more savings than regional investment. Foreign reserve holdings of major East Asian economies now easily surpass two trillion USD. While some of the changes are due to global imbalances that may be expected to be only temporary, few observers would doubt that overcoming an absolute capital shortage is no longer the principal raison d'etre for development banking.

Capital being on average more abundant than ever before, development banks can no longer (and do not have to) compete with private lenders on price. For instance, while net disbursements of the Inter-American Development Bank have risen by about 6

2 The book title and concept behind Armstrong et al. (eds.) 2006.

percent in 1999, they have since entered negative territory and declined by 2 percent in 2006 (Economist, 12 May 2006a). These problems also concern the Asian Development Bank. In January 2007, for instance, China undercut the Bank by providing 70 million USD for improving the water supply of Manila, the "home town" of ADB (Economist, 12 May 2006b).

The Asian Development Bank has begun to react to the changing circumstances. For the 2007 General Meeting, an Eminent Persons Group (EPG) has presented a report on suggestions for a "New ADB", which is worth studying carefully (EPG 2007, 1–2). Major findings include:

- The traditional role of a development bank to transfer official capital "will become redundant,"
- More knowledge-based services based on a strengthened institutional capacity should be offered and blended with finance,
- The bank should become more focused and concentrate on a small number of core activities,
- It should more often engage in regional endeavours and with an "ultimately global focus,"
- Reduce transaction cost in operations,
- Strengthen "responsibilities and contributions of the regional members,"
- Create "clusters of technical staff in regional hubs" to overcome the "drawbacks of its location in Manila" (EPG 2007, 23).

These are refreshingly sober-minded statements, a welcome change from earlier euphemising eulogies. Three items stand out: first, development financing with governmental or inter-governmental participation only makes sense in a clear division of labour with private financial markets; second, ADB is currently not well prepared to handle the new management tasks, which include more sub-regional initiatives and sub-regional presence; third,

governance will also have to make adjustments to live up to changed expectations.

The question remains whether ADB is the most adequate mechanism to handle the development finance needs of the Northeast Asian region. If one assumes that the new major fields of engagement will be poverty alleviation in low-income and fragile economies as well as new challenges for middle-income economies, as is suggested by the EPG Report (2007, 2), it remains doubtful that Northeast Asia will be a more prominent focus of ADB activities in the future, thus a search for an alternative would seem reasonable.

To what extent are there clearly identifiable, major challenges for development finance in Northeast Asia that would justify considering a new organisational mechanism? The capital needs of the region are still enormous. However, it should be clear that the domestic capital needs of countries like China are better served by private capital markets in combination with domestic governmental efforts. Indeed, in case there is a domestic need for government-supported development finance efforts, it is doubtful that the national governments would offer the most attractive projects to an inter-governmental body. Rather, there will be adverse selection and a NEA development finance body would end up with the least-promising projects.

A supra-national initiative is warranted in case of regional issues, which would be ill-served otherwise, due to either market or government failure. From an economic point of view, a classical case is international external economiecs, a case in point-environmental degradation. Examples are as follows: yellow dust from China carries toxic ingredients towards Korea and Japan, Chinese emissions lead to acid rain in Korea and China, or pollutants spoil the Yellow Sea and impair fishing in these waters. There is no market solution for this problem, and national governments would not generally take up the issue either because the utility derived would benefit another country. Incidentally, the more developed the region becomes, the more these environmental externalities will escalate, until they eventually become a burden or even a barrier for further regional economic growth.

Another case for intra-governmental action in development finance is a lack of an institutional framework for market solutions. A necessary condition for markets to function is that there are rules and mechanisms for enforcement that the potential market players can rely on. Normally, states fulfil this function in a domestic environment, but in case of cross-border investment projects, this condition may not be fulfilled. Take the hypothetical case of a cross-border infrastructure investment involving the territories of countries A and B and an investor j from A. j will need authorization, possibly real estate property etc., not only at home, but also in country B. Once j has invested, it will be vulnerable to exploitation from B, given that j cannot liquidate its earlier investment or only at a very high loss. In such cases, cross-border investment between A and B will be sub-optimal; even if exploitation has not occurred, potential investors will take the additional risk into account and act accordingly-by lower investment levels, foregoing chances of profit and welfare. Would a regional agreement on development finance make a difference? By supporting j' s project under the joint scheme, governments A and B would signal their support. While it cannot be totally excluded that B at some stage would still turn exploitative against j, the probability is much lower. Since B has committed itself to the regional scheme, defecting would jeopardize its reputation vis-à -vis A and other countries screening B' s business practices. This is a serious matter, the opportunity costs for B would be considerable, and the danger of an asymmetrical, potentially exploitative situation for j could be significantly reduced, thus encouraging companies like j to invest.

It should be noted that the latter case does not rest on either A or B subsidizing the project, but on laying the groundwork for private market solutions in a cross-border framework. Some financial involvement between A and B may be sensible to increase the credibility of the support signal, but this would not interfere with the general message that only those profitable projects would be eligible, under the context of a reliable institutional groundwork covering transactions from a private financial market perspective.

In the former case mentioned above, market externalities,

specifically, the internalisation of cross-borders externalities through the involved governments would have to involve some element of subsidization or regulation with a certain tax equivalent. Consider the case of a Chinese power plant off the China Sea coastline that blows its exhaust emission towards Korea and Japan. The easiest way to offer an incentive for an emission-reducing investment would be to subsidize it. Another possibility would be stricter regulation, which would effectively impact the power plant like a tax. From a domestic perspective, China would be expected to have little interest, because of the cross-border externality, in either subsidizing or restricting the Chinese power plant. Involving Japan and Korea could help overcome this problem, as both might be willing to contribute financially to a solution, because they would profit significantly or even exclusively. There are two problems, however, one is to determine the appropriate public financial assistance and another is how to distribute it between the various regional governments.

Due to information asymmetries between the emitting plant and the government, there is always the possibility that the plant could overcharge the government, so, in effect, the subsidy would be in excess and propagate pork barrel spending. In the case of cross-border effects, this problem would be even more severe because neither the plant nor the host government would have an economic incentive to be precise in their figures. Essentially, there would thus be an inbuilt incentive to overcharge the beneficiaries abroad. Such a scheme would be under constant threat to collapse due to real or alleged improprieties. Ultimately, this mechanism would have to be constructed very carefully.

Related to the second problem mentioned above, as for the distribution of burdens, there would also be an incentive for the waste producing country to overcharge others. If, in the regional framework, the regional balance between causation and impact of environmental damage would be more or less even, a problem could be avoided due to the symmetric violability. In the Northeast Asian context, however, it can be assumed that the impact is more directed towards Korea and Japan, while China (and Russia)

would more often be home to the polluting units. There would thus be an incentive to overcharge, and an agreement difficult to achieve.

In summary, from an economic point of view, even in a world of considerable savings and financial liquidity, inter-governmental involvement in development finance on a regional level makes sense in the following cases:

- Creating a credible institutional framework to engage in cross-border investment,
- Internalizing external economies like in environmental pollution.

In the latter case, some element of subsidization will be involved, which inherently will create problems in designing a suitable organisational framework.

What about the earlier political obstacles to reach an agreement between Northeast Asian countries, provided that the economic issues outlined above could be successfully settled? Are there reasons to assume that the regional players are more willing to engage in an agreement in the future, overcoming historical mistrust and the competition for regional leadership? Indeed, there are several factors that might lead to a favourable political environment in the forthcoming years:

- The US may be become more multilateral again, encouraging initiatives that promise to stabilize this and other world regions.
- Japan may be looking for practical ways to involve itself in continental Northeast Asia. While the Abe-led government of 2006 has improved relations with China and Korea somewhat in its first months, they have not been able as of yet to follow up on their symbolic politics with concrete deeds[3].
- If the WTO negotiations continue to falter and Asia-Pacific or Pacific regional integration agreements are difficult to reach,

---

3 For instance, see the statement by Vice Minister Toshiaki Kitamura of Japan's Ministry of Economy, Trade and Industry (METI) (Kitamura 2006).

it becomes more attractive to look for minilateral deals in Northeast Asia. As the issue of a trilateral FTA or partnership agreement between China, Japan and Korea seems formidable, cooperation in development finance may become a meaningful trust-building measure and stepping-stone towards more ambitious integration projects.

- Reducing environmental externalities or creating cross-border goods like transportation infrastructure are highly visible, welfare-enhancing measures that can be communicated favourably to the public and thus create advantages for the participating governments-more so than complex trade agreements with its dualism of winners and losers. Politicians may become more eager to tap this potential for gaining public approval.
- (Regional) investors search for attractive investment opportunities. There is a mismatch between strong regional savings plus foreign reserve accumulation and scarce investment opportunities. Governments may become even more interested to keep more savings in the region and develop better mechanisms to persuade investors to avoid an overexposure to extra-regional assets.

ORGANISATIONAL ISSUES OF NORTHEAST ASIAN COOPERATION IN DEVELOPMENT FINANCE

As we have seen above, a careful organisation of a mechanism for Northeast Asian development cooperation would be essential to avoid failure and waste, and eventually create value added mechanisms. We will concentrate on two governance issues here: relationship of a new mechanism to the ADB and incorporation of the private financial sector.

Is it really meaningful to create a new organisation to augment the services of the ADB and thus incur additional costs? Several solutions with a growing degree of independence from ADB are conceivable:

1. A Northeast Asian Special Fund for Northeast Asia within ADB, following the precedent of other special purpose funds created within ADB or other multilateral development banks.
2. A branch office in the Northeast Asian area with special responsibility for cross-border projects in that region, advocated within the 2007 EPB Report of ADB, possibly combined with mechanism (1). This branch would have to go much beyond the current "resident missions" in ADB's developing member countries.
3. A subsidiary of ADB for Northeast Asia with greater autonomy than a branch office.
4. An independent organisation for Northeast Asia.

A special fund for the sub-region (1) has been sometimes suggested as a minimum measure. It would serve as an allocator of public funds, however, the important arguments about how to administer them within the region will not be considered. There is another, more technical issue; one advantage that makes development banks attractive for governments is the leverage effect of capital subscriptions. Only a portion, considerably less than half, of the subscribed capital has to be raised immediately as paid-in capital. There is another lever as the bank would be able to raise a multiple of its capital base through issuing bonds on the international financial markets. This advantage would be forfeited in the case of a special fund that is not related to the capital base.

Mechanism (2), a branch office of ADB somewhere in the region, would counter at least some of the arguments against a special fund; a specialized unit could concentrate on specific projects relevant in a Northeast Asian context. However, to the extent that the branch office would have to report to headquarters, it is questionable whether it could really serve the sub-region well. Checks and control through the ultimate bodies of ADB (the Boards of Governors and of Directors) would be diluted and governance inefficient. A more independent

mechanism would better be able to achieve congruence between tasks and responsibility. Moreover, regional governments and the public would not fully associate with a branch office as "their" instrument, and the whole endeavour could not fully function as a means to create an *esprit d'corps* that improves relations within the Northeast Asian region.

Upgrading a potential branch office to the status of a subsidiary with some degree of autonomy in its governance structure (3) might counter some of the latter concerns. However, its main advantage would be a face-saving measure with respect to ADB, while governance would still not be entirely transparent. For instance, what would happen if Northeast Asian countries followed a different environmental strategy not endorsed by the Pacific-Asian majority? Given a subsidiary-type situation, this would be the beginning of political manoeuvring with an unclear outcome, possibly some form of an ineffectual compromise, whereas a duality of strategies in different regions could initiate a healthy competition of concepts with a clear distribution of responsibilities.

We conclude that an independent mechanism (4) would indeed be the best solution in terms of a transparent and responsible governance structure. It may be sensible to invite ADB to hold a minority stake to enhance coordination, as the ADB would also still be active in Northeast Asia, particularly in those sectors in which the Northeast Asian entity would not specialise. There are precedents for such a solution. For instance, the European Investment Bank holds a minority stake in the European Bank for Reconstruction and Development, which was founded in the early 1990s for the transformation of Central and Eastern Europe.

The second organisational issue mentioned relates to the incorporation of the private sector. As argued, a lack of private funds is no longer the bottleneck for development finance in Northeast Asia; so, in order to reduce possible friction between public and private needs, it is reasonable to involve private sector concerns into the organisation and processes of a development finance mechanism. There are several options with a rising degree of private sector involvement:

1. Traditional development bank model with the involvement of public or semi-public financial organisations like the Development Bank of Japan or the Industrial Bank of Korea.
2. Development bank model with private financial organisations like banks as (minority) shareholders.
3. Umbrella organisation with governmental involvement, administering privately managed funds for various projects or project families.
4. Private joint venture of financial institutions of the region and beyond, sharing funds for specific projects, enjoying government support through a standardized agreement.

An involvement of public or semi-public financial organisations in a newly founded development bank for the region (1) would increase the responsiveness of the bank towards private sector needs. However, such partly-public bodies would themselves be somewhat distant to the players of the private financial markets and would only be second-best, in case a more direct participation cannot be achieved. Solution (2) would involve the direct participation of private players. However, there might be legal concerns whether such an entity could still enjoy the privileges of an international (public) organisation. Moreover, a selective acceptance of some private-sector banks might raise the question to what extent their involvement in a semi-public venture with its privileges and guarantees would distort competition. An umbrella organisation for privately collected funds (3), which Moon and Yoon (2004) would call a Northeast Asian Investment Corporation, allows private entities to enjoy preferred creditor status and provide them with the additional advantage of a multi-government supported regulatory framework. As the number of associated project funds would be open, problems for competition enforcement could be reduced to a minimum. Private joint ventures (4) have already come into existence. For instance, Korea Development Bank, China Development Bank and Mizuho Corporate Bank signed an agreement in

2004 to cooperate in a Northeast Asia Development Financing Council (NADFC). As a first measure, a syndicated loan was arranged with certain banks for a project in Guangdong, China[4]. However, progress is halting; it seems difficult to keep the momentum of cooperation alive. In similar cases, cooperation and a standardised support by regional governments would also be difficult to achieve, resulting in time-consuming ad-hoc deliberations with minimal progress.

In essence, mechanisms close to (4) encounter almost the same cooperation failure problems, as relying on the private financial sector exclusively. Among the other options, (3) seems particularly attractive, because it involves the least degree of government involvement. Solutions (1) and (2) offer more scope for government initiative, provided that government failure can be reduced to a minimum.

Avoiding such failure depends on making reasonable choices among design alternatives when constructing the new mechanism. Issues include:

- Clear agenda. Following the preceding analysis, we suggest (a) cross-border environmental measures, cross-border projects with public or meritocratic properties, i.e. (b) traffic infrastructure or with respect to (c) energy/resources.
- Membership selection. The delineated membership reflects the Northeast Asian arena of activities, the better an organisation can develop relevant competence, the more direct governance can be organised, and the more relevant, visible and regional spirit-creating the mechanism can function. Non-regional partners should not feel excluded. It is debatable to what extent small, single-digit minority stakes really make sense, as they dilute governance[5] and would not be necessary for a Northeast Asian scheme to raise capital subscriptions. While

4 See the KDB webpage http://www.kdb.co.kr.

5 See critical remarks on the role of the membership of EU economies in ADB in Pascha 2007a.

cross-regional participation, e.g. EU involvement in a Northeast Asian scheme, can have beneficial effects on generating ideas or in overcoming standstills (Pascha 2007b), it may be more sensible to create a special observer status than to propose minority stakes.

- Design of public-private partnership. Experience in East Asia[6] and elsewhere shows that strong supervision of public-private partnerships (PPP) is necessary, both to avoid bid-rigging during the planning stage and to counter moral susceptibility hazard during project execution. Fortunately, much data has been compiled from more than a decade of intensive trial-and-error with respect to PPP schemes, in addition to international organisations like the European Bank for Reconstruction and Development.

WHAT ABOUT NORTH KOREA?

Heretofore, we have yet to pose an obvious question: To what extent should a mechanism for cooperation for North East Asian development finance attempt to cover development finance demand in North Korea? It goes without saying that considerations based on the economics of development finance depend on a favourable political framework. In early 2007, hopes were being raised that it may be possible to engage North Korea in a process initiated under the six-parties-talks that would encompass security considerations, developmental and humanitarian concerns. From that perspective, it is pertinent to ask about the potential role of North Korea in a Northeast Asian scheme. It should be clear, though, that due to considerable political uncertainties, including North Korean development issues cannot currently constitute one of the basic raison d'stre for a Northeast Asian development

6 Experiences with PPP in South Korea might turn out to be particularly important in this respect; see Noumba and Dinghem 2005.

finance scheme; for the time being, it can only be an additional consideration that may become relevant under some future scenarios.

As a baseline scenario, it is sensible to consider the following situation. (a) At some stage, the huge developmental needs of the North Korean territory will have to be tackled with assistance from external sources, under the auspices of a functioning North Korean government or otherwise. (b) South Korea will not be able to handle this alone. It is well known that compared to German unification, the differential of the populations and the GDP gap is much more significant. (c) The question remains how to organise multilateral participation in that case. A number of solutions are conceivable for treating the development finance needs:

1. Handle it through existing levers like the six-party-talks process that gradually evolves into a more encompassing mechanism for handling North Korean affairs.
2. Rely on ad-hoc solutions, for instance, bilateral assistance from major partners like the US or China, possibly coordinated with or by South Korea.
3. Handle it through existing multilateral organisations, like giving the World Bank the principal role covering macro and micro-economic reform as well as humanitarian support.
4. Use a focussed Northeast Asian scheme, like the mechanism for development finance discussed in this paper.

These options have their advantages and disadvantages: political and security-related mechanisms (1) will probably develop along a trajectory quite alien to economic and business considerations. One can expect political motives to be more important than economic considerations. Moreover, the North Korean government would have a strong voice in political engagement schemes. It is doubtful whether this will benefit the effectiveness of their development finance needs. Such a solution based on (1) may be quite probable because it follows the logic of political-economic path dependency, but this should not be confused with economic rationality. Ad-hoc

solutions (2) may also be likely, as they do not involve multi-level/tiered agreements, but again their economic rationality may be doubtful. Moreover, this may lead to problematic goals for more or less sensible projects by various ambitious regional or non-regional powers. (3) Existing multilateral institutions may have significant expertise, but the huge developmental needs of North Korea may surpass even the resource capacity of such organisations, particularly if there are other major project areas to supervise. Moreover, it is doubtful whether the diluted governance framework of an organisation like the World Bank or ADB would be suitable to handle North Korean affairs well. The voice of South Korea, for instance, which has the highest stake in North Korean development, is not particularly strong in such organisations, which may lead to structural friction. Finally, North Korea cannot easily become a member of international organisations; significant conditions would have to be met, and this process could be very time-consuming and politically biased.

This leaves us with mechanism (4), a Northeast Asian scheme for development finance. It may not be very likely, because it presupposes the existence of such a new mechanism, and it is not all encompassing, because it can only handle those policy areas the scheme is designed for, i.e. non-humanitarian aid.

However, there may be some positives that potentially could outweigh the negatives:

- The scheme would be able to channel considerable expertise when evaluating the critical long-term bottleneck of progress in North Korea: economic development.
- It would involve both the public and private sector, and this would constitute a step forward for economic rationality within politicised surroundings.
- The scheme would give South Korea considerable, but not exclusive voice in handling North Korean development.
- Depending on the political situation of North Korea, membership in the regional development scheme would be a first step

towards aspiring members to join the more senior multilateral organisations like the IMF, World Bank or ADB[7]. Fulfilling obligations and installing reform measures to qualify for the development finance scheme would go some way to fulfilling more ambitious conditions elsewhere, thus initiating a phased-in integration process into the multilateral community.

In summary, at this juncture, while one could not seriously propose a regional scheme for development finance to address North Korean matters, it is possible to argue that if such a scheme existed, it would offer a sensible stand-by mechanism for eventually making a significant contribution to resolving North Korean issues.

CONCLUSIONS

Since the early 1990s, a number of renowned politicians and academics have argued in favour of a Northeast Asian Development Bank. The timing was somewhat unfortunate, however, as their calls coincided with a growing critique of multilateral development banking in conjunction with the ensuing Asian financial crisis. Still, the case for closer, government-supported cooperation in development finance is still relevant, despite the fact that the earlier, simple argument of overcoming a serious investment-saving gap is not so relevant or pertinent henceforth. There is still market and government failure with respect to cross-border investment projects among successful Northeast Asian economies, however, the challenge of external economies, like cross-border environmental pollution, has not yet been met; indeed, it is getting quite alarming.

Now is a propitious time to reconsider the framework for multilateral development finance. The financial architecture on the global level, including the future roles of the IMF and the World Bank, are being questioned, and so is the future of the Asian

7 On the issues and the timing of such an integration of North Korea into the international financial organisations, see Babson 2006.

Development Bank. At the same time, the idea of development banking is not obsolete; the European Bank for Reconstruction and Development has made a notable contribution to transforming Eastern European economies and, clearly, lessons can be learned from that endeavour. Moreover, the Russian Federation is currently considering establishing a development bank to support unsatisfactory investment in its regions (Wiede 2007). While major Northeast Asian countries have found it difficult to cooperate in a confidence-building manner in the past, circumstances are evolving for the better. For instance, Japan may decide to actively participate and make a credible contribution to a successful regional integration. At some point, a new development finance mechanism for Northeast Asia could even prove helpful to integrate North Korea with its complex developmental needs into the multilateral community.

We have argued that a mechanism for Northeast Asia should not simply be a "branch office" of the Asian Development Bank. Responsibility/competence for action and accountability for the said action should not be diluted, so the scheme should be independent from other bodies-while conceiving scenarios inclusive of minority stakes or an observer status. Moreover, compared to a traditional development bank, the new Northeast Asian mechanism should be more convincingly based on a close public-private partnership. Significant private financial funds are available in the region and beyond for investment purposes, provided that the public sector can ensure a reliable, well functioning institutional framework for such investments. From that perspective, the new scheme would rather resemble an "investment corporation" than a "bank," but this is a question of political symbolism and not substance.

REFERENCES

Armstrong, Charles K., Gilbert Rozman, Samuel S. Kim, and Stephen Kotkin, eds. 2006. *Korea at the Center: Dynamics of Regionalism in Northeast Asia,* Armonk and London: M. E. Sharpe.

Babson, Bradley O. 2006. Visualizing a North Korean "Bold Switchover": International Financial Institutions and Economic Development in the DPRK. *Asia Polisy*(2): 11-24.

Cho, Lee-Jay and Stanley Katz. 2001. A Northeast Asian Development Bank? *NIRA Review* 8(1): 41-47.

Economist. 2007a. The Development Banks in Latin America. Fading Brands. May 12:52.

Economist. 2007b. The Asian Development Bank. What are we for?, May 12:56.

EPG (Eminent Persons Group, Asian Development Bank). 2007. Toward a New Asian Development Bank in a New Asia. Report of the EPG to the President of the ADB. Available http://www.adb.org/Documents/Reports/EPG-report.pdf. Accessed May 15, 2007.

Kim, Yoon Hyung and Chang Jae Lee, eds. 2004. Strengthening Economic Cooperation in Northeast Asia. Conference Proceedings 04-01, Seoul: Korea Insttiute for International Economic Policy.

Kitamura, Toshiaki. 2006. Japan's New Deal for Asia. *Far Eastern Economic Review.* September. Available www.feer.com. Accessed September 26, 2006.

Lee, Hyong-Kun. 2004. Evaluation on the Debate on NEADB and its Implications for Northeast Asian Development (in Korean with English summary). Paper on Hub Strategy for Korea 04-04. Korea Institute for International Economic Policy.

Li, Gang-Zhe. 2004. The Paradigm Change of Regional Cooperation in Northeast Asia and Financial Cooperation. Economic Research Center Discussion Paper, No. 150. Nagoya University, Japan. October.

Moon, Woo-Sik, and Deok Ryong Yoon. 2004. Promoting Development Financing for Northeast Asia. Presentation for a KIEP/EXIM Conference on Development Cooperation in Northeast Asia.

December 15. Seoul, Republic of Korea.

Nam, Duck Woo. 1991. The Prospects of Economic Cooperation in Northeast Asia. Paper presented at the Conference of the Northeast Asia Economic Forum at Tianjin, China, September 2-7. Available http://www.dwnam.pe.kr/409_1nea.html. Accessed May 15, 2007.

Nam, Duck Woo. 1999. Why Is a Northeast Asian Development Bank Needed?. Summary of Discussions in the Northeast Asia Economic Forum. Available http://www.dwnam.pe.kr/ma_emain02_2.html. Accessed May 20, 2007.

Noumba, Paul and Severine Ginghem. 2005. Private Participation in Infrastructure Projects in the Republic of Korea. World Bank Policy Research Working Paper WPS3689.

Pascha, Werner. 2007a. On the potentials of inter-regional policy cooperation-The case of Europe's participation in the Asian Development Bank, in *International Relations between Asia and Europe* (working title), edited by Jürgen Rüland et al.. London: Routledge (forthcoming in 2007).

Pascha, Werner. 2007b. In Favour of Cross-Regionalism, Op-ed on the website of the Korea Institute for International Economic Policy (KIEP), February 27. Available http://www.kiep.go.kr/publication/kiep column view.asp?num=177557. Accessed March 28, 2007.

Rozman, Gilbert. 2006. Regionalism in Northeast Asia. Korea's Return to Center Stage, in *Korea at the Center. Dynamics of Regionalism in Northeast Asia*, edited by C. Armstrong, Gilbert Rozman, Samuel S. Kim, and Stephen Kotkin, 151−166. Armonk and London: M. E. Sharpe.

Tokyo Foundation. 2002. Five Proposals for the Establishment of a Northeast Asian Development Bank (NEADB). Towards the Japan-China-South Korea Summit, prepared by a project team led by Jaw-Yann Twu. Tokyo, July.

Wiede, Thomas. 2007. Russland sucht häderingend Investoren für marode Infrastruktur. *Handelsblatt*. May 22, 2007: 6.

World Bank. 1992. Effective implementation: Key to development impact. Report of the Portfolio Management Task Force. Washington D.C., US.

DEVELOPMENT OF JAPAN'S EAST ASIAN REGIONAL INTEGRATION POLICY AND PROBLEMS

HITOSHI HIRAKAWA
Nagoya University

Abstract

The currency and financial crisis in 1997 marked a significant turning point in the regionalism movement in East Asia, spurring the movement on over the ensuing period since then so as to ensure growth and stability in the region. Institutional frameworks, like the ASEAN+3 summits and the East Asian Summit rapidly turned into reality, and even discussion about forming an East Asian community has been initiated. How does Japan cope with these developments and to what extent has Japan taken part in the development of regionalism in East Asia? In this paper, the author will evaluate Japan's policy change in the area of trade and FTA negotiations, starting from the very end of the last century to the beginning of the 21st century. Such an evaluation will show that Japan's trade/FTA policy is in a backward state vis-à-vis the other Asian countries. These policies were mainly a response of the Japanese ministries and government to the ROK and ASEAN, especially China's initiatives concerning regional integration policy and the phenomenon of a global surge towards regionalism. Japan started FTA negotiations with Asian countries without coordinating among ministries in order not to lose political initiatives in East Asia. As for the building of an East Asian community, the paper will argue that by taking the initiative ASEAN can play an extremely important role in its formation, while at the same time it becomes more and more necessary for Japan to position her East Asia regional integration policy within a more regional framework.

Key Words: ASEAN+3 Summit Meeting, East Asian Community, Economic Integration, FTAs, Japan's Initiative, Kim Dae Jung, Regionalism.

INTRODUCTION

At the beginning of the 21st century, the East Asian Region faces a critical turning point. Japan started rapid economic growth from the early 1960s, followed by the Asian Newly Industrializing Economies (NIES) in the late 1960s, and then by the main countries of the Association of South East Asian Nations (ASEAN) and the People's Republic of China (hereafter, China) since the second half of the 1980s. Except for Japan, which has stagnated an inordinately so long time after the burst of its bubble economy, this region since then has literally been the world's growth pole.

The development mechanism in this region has in the past been is one wherein each East Asian country pursues a growth policy of export-led and/or state-led industrialization and gradually opens up the possibility of building of self-supporting economic zones in East Asia itself by increasing intra-regional trade; although it has to be said that the USA has continued to be the biggest export market for East Asian manufactured goods. The idea was also popularized that only through a free market mechanism would East Asia be able to realize economic growth.

This trend was drastically changed by the East Asian currency crisis starting with the fall of the baht in Thailand in July 1997. At a very early stage of the crisis, main stream economists and foreign policy makers in the USA, international financial institutions and the like who believe in the so-called "Washington Consensus", wherein the market mechanism is seen to be more important than anything else, perceived the crisis mainly being the fault of institutions and organizations in East Asia. However, as it increasingly became clear that the Washington-Consensus prescription did not work well for the crisis-hit countries, an alternative view was gaining advocacy that the Asian crisis arose from the instability

associated with globalization. This spurred an East Asian regionalism movement for the purposes of ensuring economic growth and stability in the region. Institutional frameworks, like the ASEAN+3 summits and the East Asian summit that no body thought possible before the crisis, rapidly turned into reality, since then the situation has changed completely to the extent that summit meetings in the region have been held each year, and many kinds of policy measures for regional cooperation are now under way.

Incidentally, in Japan there has already been a considerable amount of research undertaken regarding regional integration and economic cooperation in East Asia, where all the facts have been analyzed in detail. However, in my opinion, studies in Japan that have objectively tried to analyze Japan's response to regional cooperation and integration policies in East Asia are fewer than would be expected. How did Japan make a policy change toward East Asian economic integration, and what are the characteristics, contributions and problems of Japan's policy change? Where is Japan's policy to East Asia heading? The purpose of this paper is to address such issues in order to form the basis for a new way of thinking about how to building a new regional society in East Asia.

JAPAN AND ITS POLICY CHANGE TOWARD INTERNATIONAL TRADE

The Japanese Business Community's Proposal of Trade Policy Change

The last year of the 20th century was a turning point for the Japanese government, as it began to change its trade policy focus from a multi-lateral trading system based on the GATT/WTO framework to a multi-layered approach that pursues policies towards regional integration as well as observing the rules of the WTO's trading system. The first proposal to facilitate the change necessary in the government's trade policy was made

by the business community and related institutions apparently in 1999.[1] At the Japan-Mexico Economic Committee held in November 1998, then Mexican President Ernesto Zedillo proposed a free trade agreement to the Keidanren or the Japan Federation of Economic Organizations, which then set up the 'Working Group on Japan-Mexico Bilateral Treaties' in January 1999. The working group submitted the "Report on the Possible Effects of a Japan-Mexico Free Trade Agreement on Japanese Industry" three months later in April, and concluded that an FTA between the two 'has a large possibility of bringing various benefits to both Japan and Mexico' and that 'it is strongly hoped that, through the efforts of the public and private sectors in Japan and Mexico, an agreement between the two will be realized as soon as possible in such a way as to give maximum benefit to both.'

Looking back over its policy before that time, the Keidanren supported the multilateral free trading system of the WTO.[2] Subsequently, an FTA proposal by Mexico made Japan reconsider its trade policy. In the policy proposal, entitled "An Urgent Call for Active Promotion of Free Trade Agreement: Toward a New Dimension in Trade Policy", the Keidanren formally declared its intention to change its basic trade policy stance in July of the year 2000. The proposal was stated as follows.

> Japan has yet to undertake a single free trade agreement. As a result, Japanese companies are losing out on business

---

1 Unless otherwise indicated, Keidanren's Proposals and papers used in this paper are fundamentally downloadable from the homepage of the Keidanren. (http : www.keidanren.or.jp/janpaness/policy/index.html).

2 For example, see Keidanren's proposals like "Toward a Strong WTO: Further Developing the International Rules-Based Multinational Trading System" issued March 17, 1998, and "Toward Economic Recovery in Asia" issued July 2, 1998. In particular, the latter mentioned that 'we believe that the current regional disorder should not be allowed to distract us from our long-term focus. For the sake of long-term development in Asia, it is important that regional countries adhere to the agenda for trade and investment liberalization that already have been adopted by the Asia-Pacific Economic cooperation (APEC) and other regional forums.'

> opportunities in the international arena, and also finding themselves placed at a competitive disadvantage in doing business with countries that have already concluded FTAs elsewhere. While Japan should remain strongly committed to the WTO system, we need to also simultaneously pursue a more active use of FTAs as a new pillar in its trade policy.

Hereafter, the Keidanren stated officially its recommendation of promoting an FTA negotiation between Japan and Singapore in October 2000. It also issued a recommendation entitled "Towards the Implementation of Strategic Trade Policies: A Grand Design of Japan's Policy as a Nation built on Trade" in June of the next year, which referred to the concept of the market integration of East Asia, which was proposed by then Singapore Prime Minister Goh Chok-Tong at the Summit Meeting of ASEAN+3 (Japan, China and Republic of Korea) in November 2000 from the viewpoint of 'creating common business infrastructures in East Asia' for Japanese companies' global operations, and supported the concept of East Asian economic integration.

This policy was taken over by the Nippon Keidanren (Japan Business Federation), which is a comprehensive economic organization born from the amalgamation of the Keidanren and the Nihon Keizai Dantai Rengokai (Nikkeiren: Japan Federation of Employers' Association), in May 2002. Its vision in January 2003 titled "Japan 2025: Envisioning a Vibrant, Attractive Nation in the Twenty-First Century" called on Japan to lead the way in actualizing a 'free economic sphere in East Asia' at least by 2020 with the participation of other East Asian countries to which Japan has close geographic and economic ties. These East Asian economies will increasingly face the challenge of global competition. The Japan Forum on International Relations (JFIR), established in 1987 and strongly tied to the political and business communities, also made a policy recommendation in May 2003, titled "An East Asian Economic Community and the Role of Japan"[3], in which JFIR made recommendations that East Asian economic community member countries and regions should

integrate their separate FTAs by 2015, and form a customs union, and that the year of 2025 should be set as a target for the creation of a common currency in East Asia.

Behind the making of recommendations by such private institutions, there seemed to be the report of the Mission for Revitalization of the Asian Economy sent to East Asian countries by the Japan Ministry of Foreign Affairs, as well as the disadvantages faced by Japanese exports to Mexico because of being a non-NAFTA member country. The Mission, in which Mr. H. Okuda, then Chairman of the Board of Toyota Motor Corporation participated as the head, visited Korea, Vietnam, Thailand, Malaysia, Indonesia, the Philippines, and Singapore from late August to early September of the year 1999, and searched for methods to enable the crisis-affected East Asian countries to revitalize their economies. The report defined Japan and other East Asian countries as 'a community with a common fate' because the Asian financial crisis forced us to confirm that the two were inseparably bound to each other. Therefore, it proposed a development course of combining economic integration in East Asia with Japan's structural reform.

Japanese Government's Policy Change toward International Trade

Among the ministries of the Japanese government, the Ministry of Economy, Trade and Industry (METI) was the first to change its trade policy. The first FTA proposal with of Mexico was presented to the Ministry of International Trade and Industry (now METI) by Mr. N. Hatakeyama, then vice-minister for International Affairs of the MITI in August 1998, and the METI set up a study team on the proposed FTA to handle cope with it. However, the study team did not complete its report on the FTA until Mexican President Zedillo visited Japan that November. The report was eventually prepared for the ministerial meeting between Japan and Korea in late November, and the two countries started a joint

3 An English version of this recommendation was issued the following month under the title of "Japan's Initiative for Economic Community in East Asia".

study for a future FTA (Hatakeyama 2002, 25; ibid 2003; Hirakawa 2005, 6).

In such a manner, the Japanese government started a study on an FTA in response to a the request from the outside. An indication of a distinct change in trade policy by the METI was officially found in the 1999 White Paper on International Trade. Until then, the white papers had supported establishing the free trade rules on the basis of the multilateral trading system of the WTO. As for regional integration, the white papers urged caution over it, saying that 'keeping watch on FTAs not to restrict trade was needed' (MITI 1998, 328). It was Japan's stance on regional grouping to stress GATT consistency and the negative impact on extra-regional countries. In spite of that, in the white paper issued in May of the year 1999, the assessment of regional integration changed from a negative to a positive view, stating that FTA policy 'is positively effective for revitalizing a regional economy and increasing income inside and outside the region by means of preventing negative effects like the diversion effect of trade.' Moreover, the white paper of the following year concluded, after surveying research works on regional integration in the global research arena, that 'economic benefits were expected from regional integration', and 'it should be understood as complementary to the WTO's multilateral trading system' (METI 2000, 123).

Thereafter, every white paper on international economy and trade or on international trade successively clarified the future direction giving rise to 'a multi-layered trade policy' (METI 2001, 72) or 'multi-layered approach' (METI 2002, 125) to pursue both an FTAs and the WTO trading system. The 2002 White Paper has the subtitle of 'East Asian Development and Japan's Course.' Chapter two of the 2003 White Paper is entitled 'Deepening Economic Relations in East Asia and Japanese Corporate Activities,' and in chapter four mentions that for the purpose of institutionalizing an East Asian business zone, 'Japan is looking forward to the realization of economic partnership with East Asia as a whole in the future, and it is important to first of all proceed with efforts with ASEAN as a whole as well as individual ASEAN countries

such as Thailand, the Philippines, Malaysia, and the ROK. In the future, a strategic issue will be to widen efforts towards economic partnership with ASEAN and the ROK to include Japan-China-ROK and ASEAN+3 efforts, linked also with Taiwan and Hong Kong, in order to realize regional economic integration over a wide region of East Asia' (METI 2003, 182). The 2005 White Paper, the subtitle of which is "toward a new dimension of economic prosperity in Japan and East Asia," proposed the idea that Japan should strive for a new economic prosperity through further economic integration with the rest of East Asia , something that has taken on greater urgency given the fact that Japan is experiencing a declining and aging population; the paper also referred to an East Asian community (METI 2005, ChapⅢ)

How about the Ministry of Foreign Affairs? The Ministry adopted a cautious approach to a move by countries towards regional integration until the Diplomatic Bluebook was issued in April 1999. The 1999 Bluebook wrote that regional integration policy should ensure consistency with the WTO rules and should also strengthen or complement the multilateral free trading system (MOFA Bluebook 1998, 79). The bluebook issued in April 1998 referred to the second ministerial meeting of WTO member countries and the fiftieth memorial meeting of the multilateral trading system in the previous year, held to commemorate the fiftieth anniversary of the foundation the GATT, and wrote that 'in connection with the Asian currency crisis, each member country showed recognition that it is necessary that each country does not adopt protectionist measures, continue market liberalization, and spread the benefits from the multilateral trading system to the developing countries.'

However, the 2000 Bluebook took a new viewpoint regarding the relationship between the currency crisis and globalization in chapter two that the international financial system as it was in the 1997−98 economic crisis appeared not to cope with the reality of the new international economic situation which had been driven by globalization. On the one hand, it also stated that 'regional trade agreements can be trade barriers to countries outside a region but they could also be a driving force for open trade if

these agreements are consistent with the multinational trading system.' In short, the bluebook changed its stance towards an FTA-supplementary approach. Furthermore, an assessment of regional integration by the Japanese Ministry of Foreign Affairs became much more positive in the 2003 Bluebook where it was asserted that FTAs create more benefits than the WTO rules. The 2003 Bluebook said as follows:

> Free trade agreements and economic partnership agreements (FTA/EPAs) are effective means of strengthening partnership in areas that are not covered by the World Trade Organization (WTO) and achieving liberalization beyond levels attainable under the WTO. In recent years, FTA/EPAs[4] have been rapidly increasing in number as a means of complementing and strengthening the multinational free trading system under the WTO. (MOFA Bluebook 2003, 160)

Here, if we were to confirm the time of MOFA's change in policy, it would be late 2002. A policy paper entitled "Japan's FTA Strategy" in October of that year recognized the significance of EPA/FTAs, and said that 'it is important for a stable development of Japan and East Asia that a regional economic system in East Asia is established and maintained under Japan's leadership.' 'It could naturally be said that the priority of East Asia is high from the viewpoint of the economy,' and 'to begin with, Japan should pursue FTAs with the Republic of Korea and ASEAN, and based on these foundations, efforts should be made over the mid-to long-term to conclude FTAs with other countries and regions in East

4 The Japanese government started is becoming to prefer usage of the term "Economic Partnership Agreements" (EPAs) instead of Free Trade Agreements (FTAs) from around 2004. According to the Government it is because 'EPAs surpass the scope of Free Trade Agreements, which have traditionally focused on the trade of goods presupposed on the existence of national borders, by expanding their scope to incorporate a broad range of areas, including investment, trade in services, intellectual property and cooperation' (MOFA Bluebook 2006, 172-173).

Asia, including China' (MOFA Economic Affairs Bureau 2002). Prompting MOFA to make this policy paper was probably the development of China's FTA negotiations with ASEAN, coupled with MOFA taking a proactive position in response to the METI's preceding FTA policy in the domestic field, and so on.

Since then, the bluebooks have stressed the active promotion of EPAs and FTAs. From the 2005 edition, the bluebooks specified five main themes for promoting economic foreign policy. The first theme was 'maintaining and strengthening the multilateral trading system and promoting economic partnership,' while the third was 'strengthening multi-layered economic relations,' one concrete policy of which is the 'strengthening foreign policy with Asia toward the creation of East Asian community through developing ASEAN+3 and Japan-China-ROK relations (MOFA Bluebook 2005, 162).

Now, the government level decision, which is considered to be the earliest display of interest towards regional integration, can be seen in the economic deliberation council report, entitled "Government Policy for the Real Economic Society and Economic Rebirth" submitted in July 5, 1999. The report mentions that within Asia by 2010 Japan, having an economic size that up until now has rivaled that of the NIEs, ASEAN, China, and India put together, has to play the role of setting the leading example of furthering Asian regional development through access to free markets, and has to strive for the continuous strengthening of the global free trade and investment system through its display of leadership in the WTO and the like. But at the same time, the report continues, Japan has to aggressively play the role of promoting Asian regional economic integrationtie through the active use of APEC and the like based on the complementary function to a multilateral trading system of forming a regional economic integration (Economic Deliberation Council 1999, 14). The same report mentioned that while moving 'towards the promotion of an intra-regional tie-up in the Asian region in the long term, bearing in mind the formation of a "common market," which also ventures into the harmonization of systems,' that 'as a first step in this

process, an attempt should be made to maintain an economic environment of the bilateral relations with South Korea, which geographically and economically, development-wise, is the nearest to Japan' (Economic Deliberation Council 1999, 23). It was the efforts of the former Economic Planning Agency that resulted in the cabinet making a decision to pursue the regional integration initiative, which also includes a referral to an eventual "economic community," in which right now there is undoubtedly a high level of interest. According to then Vice-Director General T. Shioya, on in the 1st of January of the same year, the EU's economic integration took a quantum leap forward with the birth of the common currency the euro; this event undoubtedly generated interest and perhaps even a sense of crisis within the Economic Planning Agency, which ultimately led to the inclusion of regional integration in the report (Shioya 2006).

As these developments occurred during this period, cooperation among Japan, China, and South Korea rapidly progressed. Between Japan and South Korea, based on the proposal of 'strengthening economic ties' by President Kim Dae Jung during his visit to Japan in October 1998, a joint project on an FTA between the Institute of Developing Economies (IDE) and the Korean Institute for International Economic Policy (KIEP) was initiated in the following November, and a tentative FTA was proposed in the report submitted in on May 2000. This was because of the benefits that an FTA could provide for both countries' economies; in Korea's case, Korean firms would be able to become more competitive through Japanese competition, despite a projected increase in the South Korean trade deficit vis-à-vis Japan at the start due to the higher average tariff rate of 7.9% of South Korea's against 2.9% of Japan's. (JETRO-IDE 2000)

Also, in the Japan-China-Korea summit meeting that was realized during the ASEAN+3 summit meeting held in on November 1999 in Manila, joint research on economic cooperation among the three countries was formally agreed, which was originally initiated through a proposal of President Kim Dae Jung, and was eventually undertaken beginning in 2001 by China's Development Research Centre, the

State Council (DRC), the Korea Institute for International Economic Policy (KIEP), and Japan's National Institute for Research Advancement (NIRA). Every year since 2001, research results and policy implications were submitted to the 3-country summit meetings. From 2003, the aforementioned three research institutes initiated a research project on the "economic effects of a realizable China-Japan-Korea FTA", in which a Japan-China-Korea FTA would be a medium-term goal (NIRA 2005).

As can be seen above, interest in regional economic integration rapidly grew within bureaucratic agencies and ministries as well as think-tanks deeply involved in international economic movements, which were witnesses to the Asian currency crisis and the surge of regionalism in the EU as well as the United States. Interest in such regional integration was also present in Korea, but eventually this was not a movement that was initiated from the inside of any of the respective countries but forced from outside. Hence, such movements were confronted with stiff resistance both in Japan and Korea.

Japan's Changes in Trade Policies and Domestic Coordination among Ministries and Domestic Interests

The Japanese business community, to begin with, called for a change in trade policy, eventually followed by the METI and MOFA, in response to the surge of regional integration and FTAs that had taken place worldwide excluding East Asia, and from which business and industry in Japan had inevitably suffered. Moreover, Japan's political initiatives towards East Asia were being threatened by China's political and economic development as will be described later. However, before progress could be made on the international front, domestic coordination problems emerged. We can confirm this, for example, by considering how the Ministry of Agriculture, Forest and Fisheries (MAFF) has tried to cope with these particular issues since 2003. In January 2003, the MAFF produced a publication entitled, "On the State of Free Trade Agreements", which summarized cases of how the

main FTA countries treated agricultural, forest, and marine products. Then, it confirmed that 'in many regional trade agreements there are exceptions, starting with agricultural, forest, and marine products,' and it 'is nenecessary to pay enough attention to avoid having Japan suffer from the negative influences in its endeavors to ensure food security and to carry out structural reform.'

This publication went through a series of revisions. It seems to have been first revised in June 2003. Then the "Basic Policy on Treatment of Agricultural, Forest, and Marine Products in EPA/FTA Negotiation" was published in June 2004. In November of the same year, before the APEC and ASEAN+3 summit meeting, a policy document: "On Promotion of EPAs with Asian Countries in the Field of Agriculture, Forestry, and Fisheries: Green Asia-EPA Promotion Strategy" was created. The Green Asia EPA Promotion Strategy is the basic strategy for promoting EPA negotiation, and selected six important points to observe in promoting EPAs related to agriculture, forestry, and fisheries; (i) stabilization/multi-polarization of food importation to Japan, (ii) ensuring importation of safe/secure food, (iii) promotion of exportation of Japanese brands of agricultural, forestry, and marine products/food, (iv) development of a business environment for the food industry of Japan, and (v) solution of problems like poverty in rural areas in Asia. This strategy's basic stance is one that makes a small concession on agricultural liberalization while still avoiding more general liberalization as much as possible, and provides development cooperation to address in rural problems in Asia instead. It could be said that the strategy aims to develop Japanese agriculture while adopting a protective policy towards agricultural products.

Actually, the Japan-Singapore Comprehensive Economic Partnership Agreement (JSEPA) concluded in January 2002 in Singapore was originally proposed by then Prime Minister Goh Chok Tong in November 1999, and negotiations were started between the two countries in October 2000 with the condition of finishing the negotiations at least by the end of 2001 in order not to loose momentum. The JSEPA was regarded as an agreement that met the conditions of GATT article 24 concerning the forming of FTAs,

in that they 'must eliminate duties and other restrictive regulations of commerce with respect to substantially all the trade,' even though it generally avoided the liberalization of agriculture, forestry, and fisheries. Nevertheless, as for products from these three industries it was decided that it would be a good idea to put about 900 items of agricultural, forest, and marine products onto Japan's liberalization list. But these comprised partly items which had already been promised duty free treatment at the WTO, while the rest had been treated as duty free items even though they were dutiable goods. According to Japan's judgment, the JSEPA met GATT's conditions through such manipulation.

In this connection, the document that the Central Board of Japan Agricultural Co-operatives (JA) made for members to study in April 2003 wrote about its policy toward FTAs and stated that the 'Singaporean Model in terms of agricultural, forest, and marine products should be fundamental' (Central Board of JA, 2003). The Asahi Shimbun Newspaper commented on the stance of the JA in stating that FTAs were regarded as acceptable measures even though the JA adopted an overall policy of absolute anti-liberalization; this was due to the fact that FTAs could contain exception measures for agricultural products. Fundamentally, the JA is opposed to liberalization in agriculture, forestry, and fisheries.

At this time in East Asia, China was proceeding with aggressive negotiations for an FTA with ASEAN. China proposed an FTA to ASEAN leaders at the ASEAN+China Summit in November 2000, and reached an agreement to finalize an FTA within 10 years by at the end of 2010. Eventually, at the summit meeting between the two parties in November 2002, the China-ASEAN Comprehensive Economic Cooperation Framework was signed. It was felt at the time that China had finished making concessions to ASEAN countries regarding the liberalization of agricultural products. As a countermeasure, Prime Minister Koizumi proposed the Comprehensive Economic Partnership (EPA) to ASEAN countries. However, strong opposition flared up in Japan among agricultural cooperatives, the political community, and other sectors across the country.

The Nihon Keizai Shimbun Newspaper discussed an FTA in East Asia in an editorial entitled "Building a Free Trade Zone in Asia Should be Led by Japan" on November 4, 2002, because 'China is aiming to take a leading role in building a free trade zone in East Asia.' Nevertheless, an editorial on in May 9, 2003 had the title of "Dark Clouds Spread Over FTAs" and wrote that 'the MAFF and the Liberal Democratic Party opposed the lifting of the tariffs on agricultural, forest, and marine products and showed they were ready to refuse further negotiations of FTAs.' The Asahi Shimbun Newspaper also issued an editorial on June 2, 2003, entitled "Why Prime Minister Kizumi Does Not Take Action", as follows:

> Thailand, the Philippines, and Malaysia have responded to Prime Minister Koizumi's approach on EPAs. …Notwithstanding these developments, there have been calls for a stop to these negotiations before they enter their final stages. The LDP's diet members, who are backed by agricultural, forestry, and fisheries' interests, and the MAFF are strongly opposed to starting negotiating FTAs due to the fact that the liberalization of the importation of chicken among other areas requested to be liberalized by the Thai government will have negative impacts on domestic farmers and related business circles. Because of this, there is no clear consensus among government departments and officials on how to respond to these demands… Besides, since the METI objects to the MOFA leading the negotiations with Thailand, the pace of negotiations could not be maintained. Negotiations currently being made with Mexico have also run into difficulties as there are opponents in government circles and in the LDP who are against the liberalization of the pork industry.

In the midst of opposition against agricultural liberalization, Japan signed the "Framework of the Comprehensive Economic Partnership" at the ASEAN-Japan Summit on October 8, 2004. In response to this landmark decision by Japan, each ministry concerned with formulating and overseeing FTA policy set up a special bureau

to cope with FTA negotiations. The METI set up the "Head Office for Promoting Economic Partnership (FTA) Negotiations" on October 24 of the same year; the MAFF set up the "EPA/FTA Head Office" on November 14 that year; while the MOFA started the "Promotion Headquarters for the Promotion of Free Trade Agreements and Economic Partnership Agreements" on the 12th of the same month. However, it was not until March of the following year that coordination among these government offices was initiated.

The cabinet meeting for the promotion of economic tie-ups was created in March of the following year, in 2005, with the prime minister presiding. The decision to adopt the "Basic Policy on the Promotion of Future Economic Tie-Up Agreements" was made on December 21st of the same year during the 3rd meeting of the related ministries.[5]

However, dissonance could also be heard among the different ministries. Nihon Keizai Shimbun reported an apparent 'failure to fall in step' between the economic ministry, which emphasized enlarging ASEAN to a group of 10 countries, including Japan: ASEAN 10, and the foreign ministry, which emphasized bilateral talks (Nikkei, August 16, 2002). Recently, the agricultural and foreign ministries have expressed puzzlement over the economic ministry's basic policy on "global economic strategy" adopted in March 2006. This strategy aims for EPA negotiations by 2008 with a total of 16 countries consisting of ASEAN+Japan, China, and Korea+India, Australia, and New Zealand (Nikkei, April 5 and 8, 2006). In the cabinet meeting for the promotion of economic tie-ups held in March 2006, Japan decided to lower its negotiation goals to agreements on FTAs and investment treaties in order to catch up with China and Korea in negotiations with the ASEAN.

---

5 In this document, the following policies were raised: 1. the EPA would complement the multilateral free trade position of the WTO and promote the structural reform of Japan and other related countries; 2. promote the building of the East Asia community; 3. "devote all efforts to the swift conclusion" of agreements; 4. to consider as options so-called non-FTA economic tie-ups, for example, the conclusion of investment agreements and mutual approval treaties, and provision of the right investment climate.

This is based on the interpretation that Japan's EPA was aiming for high quality agreements, which included investment liberalization and protection of intellectual property rights, and was the reason for the delay. However, an editorial in the of Nihon Keizai Shimbun the following day (March 7, 2006) stressed that the reason for the delay was not only the quality of the EPA but also the poor collaboration among the various ministries and agencies.

Counterpart countries have already expressed their strong irritation about Japan not being a consistent negotiator when it comes to FTA negotiations. Notwithstanding Japan's launching of the FTA negotiations with Korea in December 2003, no negotiations have been held since the sixth round of November 2004 to the present. Similar to its East Asian Community Initiative, which we shall look at in the next section, the Japanese government's FTA proposal to the ASEAN is driven by a strong sense of rivalry with China's initiative towards East Asian economic integration, but unfortunately bereft of domestic and inter-ministry coordination. Such an initiative remains unchanged even up to the present. Actually Korea concluded its FTA with the USA on in April 2, 2007 in Seoul, and this surely forces the Japanese Government to expedite matters in order to conclude its FTA negotiations. Japan is now faced with the prospect of concluding its FTA negotiations especially with East Asian countries by somehow finding a way out of its dilemma over agricultural issues.

EAST ASIAN COOPERATION AND JAPAN'S INITIATIVE

East Asian Community and the ASEAN

The East Asian Community initiative is said to have started with then Malaysian Prime Minister Mahatir's East Asian Economic Group (EAEG) initiative made known at the end of 1990. The EAEG met with stiff resistance from the U.S., which saw it as a separation from the Asia-Pacific Economic Cooperation (APEC) that had just been created the previous year. The EAEG, with

much disappointment, was renamed as the East Asian Economic Caucus (EAEC). Thereafter, there was an attempt to set up a venue for East Asian leaders to get together, and on the 30th anniversary of the ASEAN in December 1997 such an invitation to the conference was realized. This conference, being held by chance in the midst of the Asian currency crisis at the time, quickly developed into the ex post facto organization for regional cooperation.

The ASEAN+3 summit meeting a year later agreed upon the holding of regular meetings and the establishment of the East Asia Vision Group (EAVG) proposed by then Korean President Kim Dae Jung. The 3rd summit meeting held in November of the following year, 1999, resulted in the "Common Declaration on Cooperation in East Asia", and agreed upon the establishment of the East Asia Study Group also under the leadership of Korean President Kim. In the summit meeting of November 2000, following China's FTA proposal to the ASEAN, Prime Minister Goh proposed the East Asian Free Trade Investment Area. In the EASG, such a proposal was raised as an issue to be deliberated in the ASEAN+3 summit meeting. The EAVG submitted to the summit meeting of 2001 a report entitled "Towards an East Asia Community." In the summit meeting of the following year, the final report of the EASG was submitted and the establishment of an FTA and an East Asian summit conference was deemed to be as an issue for future consideration.

Following these proposals, the East Asia summit meeting that was realized in December 2005 acknowledged that it had a 'major role' to play in the formation of an East Asia Community. Agreements were made in the following ASEAN+3 summit meeting to consider such a meeting as the 'main means' of forming the aforementioned community, and the 2007 meeting in January, which marks the 10th anniversary of these meetings, was earmarked to make the second joint declaration about East Asia cooperation.

However, in terms of economic scale, ASEAN accounts for less than 10% of the GDP of the East Asian economies, while is exhibits large intra-regional economic gaps; nevertheless it is sensitive to

the need to preserve its own initiatives. From the outset, the ASEAN+3 summit meetings have been held at the invitation of the ASEAN. As in the First East Asia summit meeting, it is the rule that ASEAN, being the 'driving force' of the meeting, will sponsor the summit meetings; ASEAN is in sole charge of determining the scheduling of the process of forming a community.

Looking back, the ASEAN, in the 2nd summit meeting of 1997, adopted the "ASEAN Vision 2020", targeting the realization of the ASEAN community by 2020. In connection with that, during the 9th summit meeting in October 2003, the 2nd declaration of the ASEAN accord was issued, wherein a community was pledged to be achieved in the following three sectors, comprising of the ASEAN Security Community (ASC), the ASEAN Economic Community (AEC), and the ASEAN Social and Cultural Community (ASCC). Moreover, in the following year, together with the adoption of the Vientiane Joint Plan and the agreement to take of concrete steps toward forming the community, a pledge was made for the strengthening of the Initiative for ASEAN Integration (IAI) for the correction of intra-regional disparities. In the 38th ASEAN economic ministers' meeting of August 2006, it was agreed to push forward by five years, to 2015, the completion of the ASEAN economic community (AEM 2006). In the 12th ASEAN summit meeting in January 2007, leaders 'affirmed their strong commitment to accelerate the establishment of an ASEAN Community by 2015 as envisioned in the ASEAN Vision 2020' (Chairman's Statement of the 12th ASEAN Summit).

When we consider here an "East Asia Community" focusing on the ASEAN, it is natural to view the "East Asia Community" as an expanded version of the ASEAN community though little attention has been was paid to this fact among academics in Japan. It could then be expected, although many doubts have been raised about the role of the ASEAN, that the forming of the East Asian Community will follow a process of consultations and agreements in such a way as to mutually respect the individual sovereignty of member nations and to fully abide by the principle of non-intervention, in what has come to be called as the "ASEAN Way."

As was projected by the Chinese ambassador to Japan, Mr. Wan Yi, the process of pushing forward with the East Asia Community will be led by the ASEAN's unification (Wang 2005, 6-7). Realistically speaking, in this process, where at present there is mutual distrust especially among Japan, China, and Korea, it is without doubt that by taking the initiative ASEAN can play an extremely important role in forming an East Asia Community.

Junichiro Koizumi, the Japanese Government and the "East Asia Community" Initiative

The East Asia Community initiative has often been credited to Prime Minister Junichiro Koizumi. During his visit to five ASEAN countries in January 2002, Prime Minister Koizumi, in his policy speech in Singapore, called for the creation of a "community that acts together and advances together" on which Japan-ASEAN relations will be based. This speech by Koizumi was eventually considered to be the inception of a proposal for an the East Asia Community. The decisive factor solidifying this proposal was the Tokyo Declaration in the Japan-ASEAN special summit meeting held in December of the following year, where both sides publicly declared the pursuit of an "East Asia Community" through a partnership of "acting together and advancing together."

The Koizumi proposal further became the basis for a "discussion paper drafted by the Japanese government regarding regional integration in East Asia." The Japanese government discussion paper, which was prepared for the ASEAN+3 foreign ministers meeting, covered the following three issues: (a) an East Asia Community; (b) functional cooperation; and (c) an East Asia summit meeting. In terms of an approach towards community formation, it also considered the following three points: (i) functional promotion; (ii) the future introduction of institutional practices on a regional scale; (iii) formation of a 'community' awareness. It acknowledges the ASEAN's initiative when it states that the ASEAN free trade area planned for establishment by 2010, and the three ASEAN communities founded on the three

pillars of economic, security, and social/cultural co-operationaspects, pledged for creation by 2015 or at the latest 2020, will continue to be a very important medium for the promotion of regional-wide cooperation towards community building. The discussion paper therefore indicates the Japanese government's support for an eventual East Asian free trade area, and is noteworthy for the fact that it formally links ASEAN with the establishment of an East Asia Community discussed in the previous section.

However, Koizumi's 'community' proposal has certain key features, the first of which is the following. Even throughout the government discussion paper, the Japanese word *komyunithi* in katakana was used of the word *kyoudoutai,* using the kanji characters. The use of the kanji characters in "East Asia Community" is said not to have come until after September 2004 (Council on East Asian Community 2005, 10). Such discrimination in usage can be due to the strong image that accompanies the kanji character version of the term "community." This actually shows the divided and free debate regarding the constitution of the East Asia Community itself. This is caused by a strong tendency to view a community as a society which holds common values and government rules that to a large extent limit rights.[6]

Another feature is that the Koizumi proposal, at the start, referred to a 'Greater East Asian Community' that included Australia and New Zealand. In the East Asia summit meeting of December 2005, India, Australia, and New Zealand participated. In contrast to China's preference to limit countries participating to ASEAN+3, Japan stressed expansion. In pre-negotiation venues, Japan even proposed the participation of the U.S. as an observer (Nikkei, December 8, 2005). The reasons for this may be the concern over China's hegemony and the unanimous consideration towards the United States. This is

---

6 For example, Noboru Hatakeyama, former official of the Ministry of International Trade and Industry, takes the view that 'within the ASEAN community initiative there is no preparedness whatsoever to yield partly on sovereignty…. The ASEAN economic community bears the name of a "community" but it is nothing else but an FTA' (Nikkei, May 11, 2005, Nikkei Keizai Kyoushitsu).

also related to the Japanese government's emphasis on an "open cooperation" in the building of an East Asian community.[7] Actually, some academics and the media have contributed to the mistrust towards China and the strengthening of the Japan-U.S. alliance.[8]

Equally noteworthy is the absence of the leaders of important member countries China and Korea in both venues where Koizumi espoused the 'maximum use of the ASEAN+3 framework' by Japan and ASEAN for the promotion of the East Asia Community.[9] Through ASEAN, Japan, which is alarmed at what it considers to be the threat posed by a rising China and dependent on as well as considerate of the U.S., was made to choose its East Asia foreign policy out of necessity. In the press conference after the

---

7 For example, Takashi Shiraishi (2006) "Hold A Tripartite Meeting of Japan, U.S., and China" CEAC Koramu, August 4, 2006.

8 Toshio Watanabe, one of the famous economists of Asian Studies in Japanese academic society, unreservedly comes up with the critique: 'it is a truly dangerous existence for the whole of East Asia, if it does not see China's hegemonism in the background of community formation' (Watanabe 2005, 6) Moreover, even in the editorial board of the Nihon Keizai Shimbun's autographed column *kazamidori* (October 1, 2006) under the title of "The Next 'Asianism' Will Mislead the Nation", the East Asian community is treated as an "Asianism" which opposes the United States. The column comes up with the assertion that 'if an island country east of the Eurasian continent thinks about equilibrium looking at a map, the natural thought would be the strengthening of the Japan-U.S. alliance.'

9 In my opinion, what Koizumi wanted to emphasize in the Singapore speech was not the East Asia komyunithi but the phrase "walking together, and advancing together", which was conscious of the "heart to heart contact" used in the Fukuda doctrine of the summer of 1977 (Hirakawa 2005, 15). At that time, then Prime Minister Takeo Fukuda announced in Manila to ASEAN leaders three principles of foreign policy, in which he emphasized 'the need to construct better relationships based on mutual trust and a better understanding of each other's cultures' (S. Sudo 2005, 12) and his doctrine was considered to have signaled a made the new foreign policy approach towards ASEAN countries. Koizumi appears to the author as also wanting to initiate make a new stage in of foreign policy with ASEAN countries and to inscribe on ASEAN as well as Japanese people's heart his phrase which is 'walking together and advancing together'. It appears to the author that he, as an eminent politician, choose this phrase in his speech in rivalry with Fukuda.

Japan-U.S. summit meeting in November 2005, Koizumi stated that 'good relations with China, Korea, and other countries can be established for as long as Japan-U.S. relations are good', while he forced himself to visit the Yasukuni Shrine amidst strong criticisms from both China and Korea, and followed the conventional tactic of standing up to China through Japan's diplomatic relations with ASEAN. The East Asia Community initiative, at least as far as Koizumi is concerned, is a strategic positioning which serves to block the move towards an independent East Asia with China undoubtedly taking the initiative, and at the same time it secures Japan's initiative in East Asia.[10] Such a perspective could be a balanced interpretation of these events.

THE ISSUES AND POSSIBILITIES OF JAPAN'S ASIAN REGIONAL INTEGRATION POLICY

The Asian Currency Crisis and Japan's Financial Cooperation

The currency crisis, which started in Thailand in July 1997, was quickly 'transmitted' (via so-called *financial contagion*) to other countries such as Indonesia, Malaysia, Hong Kong, and Korea. Japan's important contribution in response to this situation was to hammer out the Asia Monetary Fund (AMF) initiative, which was initially held back by U.S. and IMF criticism, but was finally implemented in October of the following year as the New Miyazawa initiative, wherein a total of 30 billion dollars equivalent yen worth of short-to mid/long-term emergency financial support was approved.

These proposals by Japan raised hopes in the ASEAN countries regarding Japan's financial cooperation during the crisis and

10 During the Koizumi administration, the "Basic Strategy of Foreign Policy for the 21st Century" report drafted by the 'Foreign Relations Task Force', which was promulgated in September 2001, also proposed promoting the fortification of the Japan-U.S. axis.

prompted various institutionalization efforts. Such efforts included the agreement on bilateral swaps in May 2000 (the Chiang Mai Initiative), the ensuing expansion of the swap framework, an Asian security market created in June 2003 by 11 central banks in the region at the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) and the Asian Bond Markets Initiative (ABMI) under the ASEAN+3 framework in August of the same year. Research is also being pursued by the Asian Development Bank (ADB) on an Asian Currency Unit (ACU), as decided by the 9th ASEAN+3 financial ministers meeting in May 2006 as part of an attempt towards a future common currency. Incidentally, such an attempt towards an ACU is said to be meeting with strong criticisms from the U.S. and international fund managers (*Emerging Market,* May 4, 2006).

In any case, Japan's financial cooperation is getting deeper, and it has taken a firm step towards East Asia economic integration and the eventual formation of an the East Asia Ccommunity. Japan's initiative will be very helpful in this area and it enables Japan to build mutual trust with other East Asian countries.

Japan's Response to the East Asia Community

It was the Council on East Asia Community (CEAC) established in Japan in May 2004, which sought to look for a response to the call for the building of a "community" that caught the imaginations in East Asia. This council was brought into existence through the efforts of the directors of the Japan Forum for International Relations, Kenichi Ito, and others who attended the two meetings for the establishment of the two organizations, which were originally recommended for creation by the existing groups EAVG and EASG, namely, "Network of East Asian Think Tanks" (NEAT), formed from the industry-government representatives of each country, and the East Asia Forum (EAF) of the intra-regional research institutions.

According to Ito, 'the establishment was advocated of an "East Asia Community Council" and this was born from the common

recognition that Japan could not afford to be careless, upon coming back and witnessing the strong determination shared by the other country representatives.' This council was formed as an 'All Japan Intellectual Platform,'[11] spanning both private and public sectors, presided by former Prime Minister Yasuhiro Nakasone and participated in by: 11 think tanks including the Japan Institute for International Affairs, Japan Center for International Finance, and the National Institute for Research Advancement; 13 major corporations including Nippon Steel Corporation, Toyota Motors, Mitsui & Co., and Matsushita Electric Industrial; 40 intellectuals, and 9 representatives of various ministries/agencies including the cabinet, foreign ministry, finance ministry, economic ministry, and the agricultural ministry. As chairman, Ito made the following statement: This council 'is not an association for the promotion of the "East Asia Community". It is an attempt to study the essence of the "East Asia Community", including the value or necessity of its promotion' (East Asia Community Council opening remark "Objectives and Mission").

As can be seen from Ito's opening remarks, Japan's response towards the East Asian Community initiative was spurred on by the Asia's fervor towards community building. We find here a complicated mixture of sentiments. A policy bulletin board, Hyakka Soumei, has been set up on the council's official home page, and has been drawing various opinions, true to its literal translation

11 Kenichi Ito, in one of his speeches, stated the following. "The participants (of the Beijing general assembly for the establishment of NEAT) were from different countries in East Asia but irrespective of country of origin, each one did not speak in "their own language" but in the "East Asian languge. Those came to the meeting where people who have been long involved with the problem of regional integration of East Asia. They know each other as specialists, and are so to speak members of the mafia….The Japanese belonging to this mafia would supposedly be myself, Professor Akihiko Tanaka (at the University of Tokyo), and Dr. Yoshitomi Masaru (Chief Research Officer of the Research Institute of Economy, Trade and Industry), but we ourselves were surprised at how such ambiance and fervor (towards the building of an East Asia community) in this region could come to such intensity (Ito 2005, 8)

of 'letting one hundred schools of thought contend.' On the other hand, in the policy report published in August 2005 by the council's policy main assembly about Japan's national strategy, the basic strategy is stated as such: 'the policy of forming the "East Asia Community" will be aggressively pursued but this would always be premised on holding fast to the Japan-U.S. alliance' (Objectives and Mission, 40). The report focused not just on economic growth but also on Japan's basic policy in response to China's political and military strengthening.

But, how would we assess such a response by Japan? Broadly speaking, currently Japan could adopt one of three different positions with regards to the economic integration and community initiative. Firstly, it could take the position of aggressively tackling integration and community building, as well as nourishing East Asian independence, reflecting the deepening of economic integration between Japan and other East Asian countries centered on China (Hirakawa and Kim 2004; Taniguchi 2004). Secondly, it could take the position of rejecting community building despite accepting economic integration and bearing in mind the economic and military threat of a growing China (Watanabe 2005; Watanabe ed. 2005). Thirdly, there is an intermediate position it could take, namely that of espousing the promotion of community building, but balancing China-Japan relations together with the strengthening of the Japan-U.S. alliance (Council on East Asia Community 2005). Even though the Japanese government would probably leans strongly towards the third position, it is perhaps safe to say that in reality these positions are interrelated in a complicated way. Which position would dominate is likely dependent on Japan's internal and external conditions at the time.

The important point here is the fact that any initiative in East Asia hammered out by a Japan conscious of a rising China will part from Japan's hands as soon as it is proposed and will transform itself into an initiative that the NIEs, or ASEAN, or China will lay claim to. Giving rise to this risk of course, is the Japanese government's lack of an economic policy towards East Asia, but there is also the reality that East Asia's economic

structure would shift from a mono-polar one headed by Japan to a multi-polar one comprising of the NIEs, ASEAN, and China. Economic might in Asia's future will be measured not simply by scale but also to a large extent by the ability to grow. Asia's political and economic structure in the future will undergo a stronger tendency towards multi-polarization, reflecting the economic growth of the ASEAN, and especially China.

Japan's East Asian foreign policy at present is bounded by the bilateral politics of the Cold War period, which until now have supported Japan's remarkable economic strength. The 'politically cold but economically hot' complex relationship structure between Japan and China, which was formed by Koizumi's foreign policy, has spawned distrust especially between Japan and China, a situation that has been further exacerbated by choosing to strengthen the Japan-U.S. axis amidst a climate of anti-China or China-as-threat sentiments, while at the same time using diplomatic relations with the ASEAN in the process of furthering Japanese interests. Ideally, the type of foreign policy that is sought from Japan is one that continues to pursue "national interests", but under a regional framework based on a new structure of East Asia. However, it seems certain that the current approach, in which Japan seems to seesaw under the old school of thought between the Japan-U.S. alliance axis and Asia, will continue for the time being. It is not hard to imagine, however, that in steadfastly abiding by the Japan-U.S. axis principle, that the current stirring up of nationalism will grow ever stronger in Japan.

However, even with regards to taking the initiative in furthering East Asian regional integration, something which the Japanese government sees as an urgent need, this could only be realized after the unfolding of an East Asia community dialogue under a regional framework, just as in Japan's advocacy of cooperation during the Asian financial crisis. Through the development of China, Korea and the ASEAN, the advance of regional integration, and the deepening of mutual flows in people, goods, and money, it becomes more and more necessary for Japan to position its East Asian regional integration policy within a more regional

framework. It is not beyond the realm of possibility for Japan to shift its emphasis in foreign policy so that it not only acquires a new role for itself in promoting East Asian integration, but that it also acquires a new East Asian awareness of the Japanese people, even though this shift may take some time.

REFERENCES

AEM: ASEAN Economic Ministers. 2006. *Joint Media Statement of the Thirty-eighth ASEAN AEM Meeting,* 22 August.

(The) Central Board of the JA (Japan National Federation of Cooperatives. 2003. WTO Nougyou Koushou wo meguru Jousei to Wagakuni Nougyousha ni totteno Kadai ni tsuite (Status on WTO Agricultural Negotiations and Issues Related to our Country's Agricultural Producers), April.

(The) Council on East Asian Community: Higashi Ajia Kyodotai Hyogikai. 2005. Seisaku Hohkokusho: Higashi Ajia Kyodotai Koso no genjo, haikei to Nihon no Kokkasenryaku (Policy Paper: The East Asia Community's Present Situation, its Background, and Japan's National Strategy), August.

EASG: East Asia Study Group. 2002. *Final Report of the East Asia Study Group,* November 4.

EAVG: East Asia Vision Group. 2001. *Towards an East Asian Community: Region of Peace, Prosperity and Progress,* October 31.

Economic Deliberation Council.(1999) 999. Keizai Shingikai Toushin: Keizai Shakai no Arubeki Sugata to Keizai Shinsei no Seisaku Houshin (Economic Deliberation Report: The Vision for the Economic Society and Policy Directions for Economic Rebirth). July 5. http://www5.cao.go.jp/99/e/19990705e-keishin.htlm.

Hatakeyama, Noboru. 2002. A Short History of Japan's Movement to FTAs, *Journal of Japanese Trade and Industry*, November/December.

Hatakeyama, N. 2003. *Japan's Movement toward FTAs: Chairman's Speech at Columbia Business School,* Oct. 16, 2003, Japan Economic Foundation.

Hirakawa, Hitoshi. 2005. Keizaitogo to Higashi Ajia Kyodotai Koso (Economic Integration and an Idea of East Asian Community), Kokusai Mondai Kenkyusho Kiyo *(Bulletin of Institute of International Affairs),* Aichi University, No.126, October.

Hirakawa, H. and Kim, Young-Ho eds. 2004. *Co-Design for a New East Asia after the Crisis,* Tokyo and Berlin: Springer Verlag.

Ito, Ken-ichi. 2005. Higashi-Ajia kyodotai no yume to genjitsu (Dreams and Realities of an East Asian Community) http://www.ceac.jp/j/pdf/051012_ito.pdf.

JETRO-IDE: Japan External Trade Organization-Institute of Developing Economies. 2000. Kankoku Jiyuu Boeki Kyoutei no Kanousei wo Fukumeta Keizai Kankei Kinmitsuka ni tsuite no Kyoudou Kenkyuu Houkoku (A Joint Report on the Closing of Economic Ties, which includes the Possibility of a Korean Free Trade Agreement), May 23.

METI: Ministry of Economy, Trade and Industry, White Paper on International Economy and Trade, various years (after 2001).

MITI (Ministry of International Trade and Industry), White Paper on International Trade, various years (before 2000).

MOFA: Ministry of Foreign Affairs, Bluebook, *Diplomatic Bluebook,* each annual year issues.

MOFA Economic Affairs Bureau. 2002. *Japan's FTA Policy,* October.

NIRA: National Institute for Research Advancement. 2005. NiChuuKan Kyoudou Kenkyuu: Ni-Chuu-Kan FTA ni mukete: Tenbou to Kadai-Kyoudou Kenkyuu Houkoku Oyobi Seisaku Teigen- (Japan-China-Korea Joint Research, Towards a Japan-China-Korea FTA: Prospects and Issues [Joint Research Report and Policy Recommendations]), December.

Shindo, Eiichi and Hirakawa, Hitoshi eds. 2006. Higashi Ajia kyodotai wo Sekkeisuru, (Designing an East Asian Community), Tokyo: Nihon Keizai Hyoronsha.

Shioya, Takafusa. 2006. NEASE-Net+Ajia Kyoudoutai Kenkyuu Kai Godokenkyuukai de no Hirakawa Houkoku ni taisuru Komento

(NIRA) (A Comment on my Presentation Made in the NEASE-Net+Asia Community Research Group's Joint Meeting in NIRA), December.

Sudo, Sueo. 2005. *Evolution of ASEAN-Japan Relations,* Southeast Asia Background Series No.6, Singapore: Institute of Southeast Asian Studies.

Taniguchi, Makoto. 2004. Higashi Ajia Kyoudoutai : Keizaitougou

no yukue to Nihon(An East Asian Community : Traces of Economic Integration and Japan), Tokyo: Iwanami-shoten.

Wan Yi. 2005. Ajia Chiiki Kyouryoku to Chuu-Nichi Kankei (Asia Region Cooperation and China-Japan Relations) *Kokusai Mondai,* No.540, March.

Watanabe, Toshio. 2005. "'Higashi Ajia Kyoudoutai' towa Ikanaru Sonzaika'"(What Kind of Being is 'the East Asian Community', Nihon Sohken, *RIM,* Vol.5, No.19.

Watanabe, Toshio ed. 2005. Nihon no Higashi Ajia Senryaku-Kyoudoutai he no Kitai to Fuan (Japan's East Asia Strategy-Expectations and Apprehensions about a Community), Tokyo: Touyou Keizai Shinpousha.

ASIA'S RESPONSE TO CHINA'S FTA STRATEGY: IMPLICATIONS FOR ASIAN ECONOMIC INTEGRATION

TO-HAI LIOU*

The Australian National University

Abstract

China's proactive FTA strategy since 2000 has become the driving force behind Asian economic integration. Hence, examining how Asian neighbors respond to rising China and its FTA strategy contributes to the understanding of the dynamics of current Asian economic integration and future development. This article attempts to piece together a jigsaw of seven Asian actors' perceptions and approaches to China FTA strategy. Those actors include Australia, New Zealand, ASEAN, South Korea, Japan, India, and Taiwan.

Key Words: FTA, China, Japan, Korea, Asian Economic Integration.

INTRODUCTION

With the advent of the 2000s, the rise of China has dramatically transformed the global economic and security environment. In particular, the political and economic impact of rising China has greatly expanded when Beijing has taken active economic diplomacy based on two pillars of WTO and FTA since the early 2000s.[1]

---

* A draft of this paper was presented in the 5th Annual International Conference on WTO and China, China Institute of WTO Studies, the University of Business & Economics in Beijing on October 27-29, 2006.

1 Li Cheng(2001), p.90; Dali Yang(2002), pp.15-18.

China, as the world's fourth largest economy with the largest populace and the largest foreign reserves of US$ 1 trillion in the globe, is so gigantic, enormous and formidable that few countries by themselves can hardly deal with it. As a result, how to manage China has become the most important factor that preoccupied with the mind of decision-makers in Asian countries. This has initiated debate among countries all over the world as well as among a country's domestic elite over a rising China representing an opportunity or threat.[2] This is particularly true for countries in Asia, given its geographic proximity and increasing impact on their prosperity and security. There are many articles dealing with rising China but most focusing on security. Perhaps the most systematic, concise and broad range of analysis on rising China's impact on Asia was done by an American institute, Honolulu's Asia-Pacific Center for Security Studies in December 2003, namely Asia's China Debate.[3] The electronic book was published for the U.S. security consideration. Even those on the rising China's economic implications are related primarily to a single country's perspective rather than a systematic survey of Asian countries' perceptions and policy toward rising China.

The purpose of this paper is to explore the perceptions and policies of countries within the parameters of the Asian economic community on emerging China's economic power and its proactive approach to FTA and implications for prospects for Asian economic integration. I intend to first explore the general impacts of China's proactive FTA strategy since November 2000 on Asian economic integration, then to highlight seven Asian actors including Australia, New Zealand, ASEAN, South Korea, Japan, India, and Taiwan respectively in terms of their perceptions of rising China, their governmental approaches to China FTA strategy, domestic debate over how to deal with China and finally their perceptions and policies with respect to the China factor in Asian economic

---

2 *China: The Balance Sheet*, Center for Strategic & International Studies and Institute for International Economics, 2006.

3 Satu Limaye(2003).

integration. A state's image of China in this survey consists its perceptions of China's rising economic capacity, their relative capacity versus that of Chinese and their coping strategies as well as relevant policies and implications for Asian economic integration.

CHINA'S ACFTA PROPOSAL AND ASIAN ECONOMIC INTEGRATION

On the whole, rising China and China's proactive FTA strategy has at least four significant impacts on Asian economic integration, namely expediting the Asian economic integration; the extension of the scope of economic integration from East Asia to Asia; a leadership change from Japan to China; and the uniqueness of the proposal. The first is that China's FTA proposal to ASEAN in November 2000 has greatly accelerated the Asian economic integration. Actually, China was not first country to adopt active FTA policy. Singapore was the first East Asian country to start FTA initiative, followed by Japan and South Korea. However, the China's proposed accord would create the world's biggest free trade zone of nearly two billion people with a combined gross domestic product of US$ 2 trillion by 2010. Because of this, other Asian countries were so nervous that the ASEAN-China Free Trade Area(ACFTA) deal would deteriorate their national competitiveness in export and eventually make them economically marginalized.[4] For survival, those countries then have accelerated their FTA negotiations with other Asian neighbors, ASEAN in particular.

The second impact of China's active FTA strategy is that economic integration has extended from East Asia(ASEAN plus three since 1997) to Asia exemplified by the first East Asian Economic Summit of sixteen countries with new comers including Australia, New Zealand and India, in December 2005. Both Singapore

4 An FTA allows its parties concerned special favors, such as non-tariffs in exporting. To-hai Liou(2006), p.130.

and Thailand FTA strategies are driven by increasing competitive challenges posed by China. For instance, securing free trade access to large markets such as the U.S. and Japan gives their firms based in the two countries a relative export price advantage over their China-based rivals.[5] South Korea and Japan held their first government-level talks on the formation of a bilateral FTA in June 2001.[6] In addition, ASEAN countries started to look for other potential FTA partners such as Australia, New Zealand, India, South Korea and Japan, and vice versa. Against this background, ASEAN and India signed a Framework Agreement on Comprehensive Economic Cooperation at Bali in 2003. This envisages elimination of tariffs with the advanced members of ASEAN by 2011 and with the less developed countries such as Vietnam, Myanmar, Cambodia and Laos by 2016.[7] On the other hand, initially ASEAN countries rejected a New Zealand-Australia proposal to form ASEAN-CER FTA in October 2000, with Malaysia, Indonesia and the Philippines opposed. Malaysia's Trade Minister, Rafidah Aziz, said that the environment was "just not right" to launch the negotiations.[8] Nevertheless, ASEAN countries agreed to initiate ASEAN-CER FTA in June 2004 after Chinese President Hu Jintao in his trip to Canberra accepted Australian Prime Minister John Howard's proposal to engage in FTA negotiations in October 2003.[9] It was reported that the ASEAN-Australia-New Zealand FTA talks could be concluded in 2007, despite some wrangling over issues like government procurements and environment.[10] In November, 2004, South Korea and ASEAN in Vientiane, Laos

5 Christopher M. Dent(2006), p.95.

6 http://www.koreaherald.co.kr/SITE/data/html_dir/2002/05/02/200205020022.asp.

7 G. Parthasarathy, "Asian Economic Integration: Pathway to Security and Prosperity," October 23, 2003, http://www.thehindubusinessline.com/2003/10/23/stories/2003102300030800.htm.

8 "Wheels come off Asian market bid," New Zealand Herald, October9, 2000, http://list.jca.apc.org/public/asia-apec/2000-October/001612.html.

9 Joint Communique of the 37th ASEAN Ministerial Meeting, Jakarta, 29-30 June 2004, http://www.aseansec.org/16192.htm.

10 "ASEAN-Australia-NZ FTA May Be Concluded in 2007," August 25, 2006, http://www.bilaterals.org/article.php3?id_article=5671.

announced the Joint Declaration on Comprehensive Cooperation Partnership to begin official FTA negotiations. Subsequently, the two sides(except for Thailand, which continues to negotiate due to concerns about agriculture) signed an FTA in May 2006, which took effect in July 2006.[11]

The third significant meaning for China's ACFTA proposal is a leadership change of East Asian economic integration from Japan to China. With its ballooning economic clout due to the double appreciation of Yen's value in 1985 since the Plaza Agreement, Japan was vigorously and rapidly expanding its economic influence in East Asia, Southeast Asia in particular, since the mid 1980s. Between 1985 and 1990, Japan's FDI in Asia shot up from US 1.4 billion to more than US$ 7 billion. In the same period, Japan's trade with the region nearly doubled, from US$ 83 billion to over US$ 156 billion. This figure doubled again in the period of 1990-1995. Against this backdrop, Shintaro Ishihara, a former Diet member and now mayor of Tokyo, authored a book with former Malaysian Prime Minister Mahathir Mohamad, entitled *'No'* to ieru Ajia(The Asia That Can Say 'No') in 1992. They urged Japan to embrace its Asian neighbors and become more assertive in dealing with the United States.[12] In fact, Japan was regarded as the head of what-so-called flying geese pattern in the early 1990s.[13] Alternatively, before the 1997 Asian financial crisis, APEC was also widely considered as the landmark of East Asian economic integration since it was established in 1989 in response to the emergence of the single European market in 1985 and the U.S.-Canada FTA signed in 1988. However, the failure of the early voluntary sectoral liberalization(EVSL) in 1998 and the impact of the 1997 Asian financial crisis, the liberalization process had lost momentum and the expectation from APEC had diminished.[14] For

---

11 "ASEAN signs FTA with South Korea after Thailand opts," The Nation, Bangkok, May 16, 2006, http://www.bilaterals.org/article.php3-id_article=4737.
12 Christopher B. Johnstone(1999); pp.367-369.
13 Hank Lim, "Japan and the Asian Newly Industrializing Economics," in Harry H. Kendall and Clara Joewono(1991), p.216.
14 Ippei Yamazawa(2001), p.21.

a brief period, the ASEAN Plus Three summit replaced the APEC as the driving force of East Asian economic integration. It was then displaced by ACFTA. Japan was surprised by Chinese Premier Zhu Rongji's FTA proposal to ASEAN in November 2000 "The November 2001 agreement between China and ASEAN to negotiate a free trade agreement(FTA) sent a shock wave throughout Japan."[15] Since then, Japan has attempted to compete with China in the Asian economic leadership but remains in a disadvantageous position.

The fourth significant meaning for China's ACFTA proposal is that it is very unusual in the sense of composition of FTA and the procedure of materialization. The proposal is against conventional wisdom of economists who believe that the optimal FTA model should be one between a developed economy and a developing economy rather than one between developing economies for the former has a much better strong complementarity. Anthony J. Venables at World Bank and London School of Economics finds that FTAs between low income countries tend to bring about divergence of their income levels, while agreements between high income countries lead to convergence. Hence, he suggests that "developing countries are likely to be better served by 'North-South' than by 'South-South' FTAs," for developing countries seem to gain more from FTAs with high income countries where there are better chances for convergence of their income levels with high income members.[16] Moreover, the FTA process between ASEAN and China is against the normal procedure whereby the agreement would first be negotiated and signed and only then take effect and be implemented. In November 2002, the two sides first signed a preparatory Framework Agreement on Comprehensive Economic Cooperation expressing their willingness to set up an

---

15 Naoko Munakata, "Seize the Moment for East Asian Economic Integration," *The Center for Strategic and International Studies,* February 1, 2002, http://www.globalpolicy.org/globaliz/econ/2002/0202seize.htm.

16 Anthony J. Venables, "Regional Integration Agreements: A Force for Convergence or Divergence?," paper presented in the Annual Bank Conference on Development Economies in Paris in June 1999.

FTA, implementing measures while negotiations were still ongoing. The first set of measures including agricultural, fishery and livestock(and some industrial products), and a unilateral reduction of customs duties by China on imports from ASEAN nations was implemented in January 2004 and is referred to as the Early Harvest Program(EHP).[17]

Australia

As a middle power paying special attention to trade in conducting foreign policy,[18] Australian perceptions of rising China are largely positive. Focusing primarily on economic potential,[19] Australia tends to perceive China "as both an emerging market economy and a responsible player in the Asia Pacific" and thus choose to engage China, given China's huge market and enormous political influence.[20] According to Colin Mackerras, a prominent China specialist in Australia, economic relations have constituted the main stabilizing factor within the Sino-Australian bilateral relationship in a context with a potential for volatility. Several factors that once seemed highly divisive no longer appear so, possibly in part because of the increasingly asymmetrical nature of the relationship with the rise of China as a regional and world power.[21] Moreover, an Australia's nationwide poll in 2006 shows that most Australians believe that rising China poses no threat to Australia, only more than 20 percent of respondents regard China's emergence as a world power a potential threat to Australia. Among the thirteen threats of the

---

17 Honigmann Hong, "ASEAN and China Sign 'Dirty' FTA," *Taipei Tim,* December 18, 2004, http://www.bilaterals.org/article.php3?id_article=1065.

18 Kim Nossal, "Middle Power Diplomacy in the Changing Asia-Pacific Order: Australia and Canada Compared," in Richard Leaver and James L. Richardson(1993), pp.210-223.

19 Andrew O'Neil(2006), p.88.

20 Chapter 5, Anthony L.Smith, "Banking on a Constructive China: Australia's China Debate," in Satu Limaye(2003), http://www.apcss.org/Publications/SAS/ChinaDebate_SmithAus.pdf.

21 Colin Mackerras (2004), p.133.

future decade listed in the questionnaire, rising China ranked last.[22]

In addition, analysing the Howard Government's changing attitude and policy toward China since 1996, Hugh White, Head Professor at Strategic and Defence Studies Centre, the Australian National University, indicates that "Now we are closer to Beijing than to Washington. China is seen as the key to Australia's economic future."[23] In fact, the Howard Government upgraded China's priority in Australian foreign policy to the highest level no less than that of the United States, while relegated Japan to the third by 2003.[24] In an interview with the Financial Times to mark his 10th anniversary in power in March 2006, Australian Prime Minister Howard stressed that building relations with China was one of his priorities and Australia's relationship with China would be built on pragmatism owing to China's imports of billions of dollars of Australian minerals and other resources.[25] The growth rate of Sino-Australian bilateral trade in recent years ranked first among China's trade with its major trading partners, while China is Australia's fastest-growing exports market. In 2005, their bilateral trade totaled US$ 27.3 billion, doubling the size of 2003.[26] Australia's goods exports to China grew by 50 per cent in the year and this made China Australia's second largest export market, only next to Japan. More than two-thirds of that was resources.[27] What is more,

---

22 "Most Australians believes that rising China poses no threat to Australia," *Australian Chinese Network,* October 4, 2006, http://www.chinese.net.au/navigator/oznews/5456.php.

23 Hugh White, "After Britain and then the US, China is in Line to be Our New Best Friend," *Sydney Morning Herald,* March 24, 2005, http://www.smh.com.au/news/hugh-white/after-britain-and-then-the-us-china-is-invline-to-be-our-new-best-friend/2005/03/23/1111525218301.html.

24 Maryanne Kelton(2006), p.231; To-hai Liou(2005), pp.175-200. http://www.ausstudy.nccu.edu.tw/publication/abstract/ab6/ab6-6.htm.

25 "Australian PM Eyes Ties with Asia," The China Post, March 2, 2006, p.5.

26 "Ministers confident about reaching FTA," Xinhua, October 4, 2006, http://www.chinadaily.com.cn/bizchina/2006-10/04/content_701562.htm.

27 "Downer says China talks have new energy," The Age, August 3, 2006, http://www.theage.com.au/news/WORLD/Downer-says-China-talks-have-new-energy/2006/08/03/1154198257224.html.

according to the Australian Bureau of Agricultural and Resource Economics(ABARE), "demand from China was the key driver in global commodity markets, helping lift Australia's forecast earning from iron ore exports by 26 percent to US$ 18 billion in 2006-07."[28] Furthermore, so far Sino-Australian FTA negotiations have gone through six rounds. Australian Foreign Minister Alexander Downer indicates that services will be a key focus of Australia. Canberra wants results in a wide range of industries, including professional services, construction, banking and insurance, education, telecommunications, trade logistics and mining.[29] An analysis commissioned by Australian and Chinese governments estimated the bilateral FTA would boost the Australian economy by up to $23 billion, and China's economy by up to $83 billion.[30] Nonetheless, Former Opposition Labor Party's Leader Kim Beazley urged caution in ongoing Australia-China FTA negotiation, saying it should not jeopardise Australian manufacturing. "We have a good relationship with China and an excellent trading relationship, and an FTA would not necessarily add that much to it," he explained further.[31] Additionally, not all the sectors in Australia see themselves as winners from the rise of China as a powerful trading nation. Australian Treasury Secretary Ken Henry pinpoints this fact by saying that emerging China "has driven up the global prices of minerals and other inputs to manufacturing and has put considerable downward pressure on the world prices of manufactured products." Since Australia exports a lot of the former, and are a net importer

---

28 "Australian Commodity Exports to Hit Record," *The China Post*, March 1, 2006, p.13.

29 "Downer says China talks have new energy," *The Age*, August 3, 2006, http://www.theage.com.au/news/WORLD/Downer-says-China-talks-have-new-energy/2006/08/03/1154198257224.html.

30 "Australia-China moving closer on FTA: Vaile," *Sydney Morning Herald*, November 23, 2005, http://smh.com.au/news/NATIONAL/AustChina-moving-closer-on-FTA-Vaile/2005/11/23/1132421689072.html.

31 "Beazley urges caution on China FTA," *The Age*, August 7, 2006, http://www.theage.com.au/news/NATIONAL/Beazley-urges-caution-on-China-FTA/2006/08/07/1154802785277.html.

of the latter, "our terms-of-trade(the ratio of export prices to import prices) have rocketed." He concludes that Australia will experience "a sizeable shift in resources from import-competing manufacturing to resources and other sectors of the Australian economy complementary with China's development needs." As the Australian economy switches from making goods to digging up resources to supply the China-led boom, its manufacturers are expected to face tougher times ahead. This period of adjustment is predicted to be relatively good for capital and not so good for labor.[32]

New Zealand

A New Zealand Treasury working paper found that the conventional theory that economies like New Zealand's which depend on commodity exports are doomed to decline is invalid. It mentions that the rise of China has "assisted New Zealand's terms of trade not only by creating a new market for commodities but by its cheap production of goods driving down import prices." The paper concludes that the future for New Zealand's terms of exports could be positive, if the growing demand from China continues. However, the positive economic outlook could be offset by lower prices for some exports due to increased supply from some emerging markets such as South America, and the higher cost of some imports such as oil driven up by demand from China.[33]

China is New Zealand's fourth-largest trading partner, accounting for 7.8% of the country's international trade. According to New Zealand statistics, two-way commodity trade totaled NZ$ 5.66 billion in 2005(New Zealand's exports to China were NZ$ 1.56

---

32 George Megalogenis, "China-led boom threatens factories," *The Australian*, September 30, 2006, http://www.theaustralian.news.com.au/story/0,20867,20500893-2702,00.html.

33 "NZ economic theory debunked," *New Zealand Herald*, July 30, 2006, http://www.nzherald.co.nz/search/story.cfm-storyid=000DECE6-0A98-14CC-B5AF83027AF1010F.

billion and imports NZ$ 4.1 billion). Based on Chinese figures, their total bilateral trade volume was at US$ 2.68 billion in 2005. In April 2004, New Zealand became the first Western country that recognized China as a market economy and became the first developed economy to launch bilateral FTA negotiations with China in November, the same year.[34] Later, a Joint Feasibility Study concluded that significant complementarities exist between the Chinese and New Zealand economies and that an FTA would deliver positive benefits for both countries. It recommended a negotiation(covering goods, services and investment) begin as soon as possible. The first round of negotiations was thus held in December 2004.[35] Eight rounds have now taken place. Both governments are taking seriously concerns expressed by New Zealand manufacturers and Chinese farmers about the increased competition likely to result from FTA deal.[36] The negotiations had encountered some difficulties in the agricultural and service areas.

Nevertheless, Prime Minister Helen Clark in May 2005 told Chinese leaders she wanted New Zealand to be the first developed nation to sign FTA with China.[37] Then, when Chinese Premier Wen Jiabao visited New Zealand in April 2006, he and Prime Minister Clark set a goal to conclude their bilateral FTA in less than two years. If everything goes well, New Zealand will in all probabilities emerge as the first Western country to clinch a free trade agreement with China.[38] New Zealand would be in a unique position to act as a gateway between Chinese and European and US firms. "Any agreement with China should make New Zealand a more attractive place for investment for companies looking to

34 http://www.mfa.gov.cn/chn/wjb/zzjg/bmdyzs/gjlb/1987/default.htm.

35 http://www.mfat.govt.nz/foreign/regions/northasia/country/chinapaper.html#overviewnz.

36 "True picture emerges of China free-trade deal," *National Business Review*, New Zealand, September 3, 2004, http://www.bilaterals.org/article.php3?id_article=539.

37 "Clark tells China NZ wants to be first," *New Zealand Herald*, May 31, 2005, http://www.bilaterals.org/article.php3?id_article=1989.

38 "NZ-China FTA in two years," *National Business Review*, April 6, 2006, http://www.bilaterals.org/article.php3?id_article=4328.

access the Chinese market."[39] According to economic modeling by the Foreign Affairs and Trade Ministry, total free trade could increase New Zealand exports of goods and services by between $250 million and $400 million a year during the next 20 years. For China, the expected gain would be between $55 million and $100 million.[40] The Clark government is now spending around $9 million a year on official efforts to promote trade with China. But some New Zealanders involved in business and trade in China are worried that New Zealand's trade talks with China might stall because the government is trying to influence Chinese policy on issues such as intellectual property and improved working conditions. They are afraid that Australia might get a free trade deal ahead of New Zealand.[41] Moreover, Charles Finny, former Director of New Zealand's China FTA Taskforce, now chief executive at the Wellington Regional Chamber of Commerce, says "one of the biggest threats to New Zealand would be not getting involved in talks and ending up with tariffs on our products when they have been removed from those of competitors such as Australia, the US or Chile. And that has happened before." New Zealand's dairy market disappeared almost overnight when Mexico joined the North American Free Trade Agreement(NAFTA). "Almost overnight people were no longer interested in buying from us, so we just have to be in this game or we just won't be able to compete. At a simple level, what we gain from being first in the queue is the possibility of having a competitive advantage for a while and setting the FTA framework, rather than following bigger players and having to do a deal on their terms."[42]

---

39 "Technology: China FTA more sweet than sour for. tech firms," February 21, 2005, http://www.bilaterals.org/article.php3?id_article=1335.

40 "China's trade dance with NZ," February 21, 2005, http://www.bilaterals.org/article.php3?id_article=1336.

41 "Free trade warned of PC approach," One News, TV New Zealand, July 3, 2006, http://www.bilaterals.org/article.php3?id_article=5182.

42 "China's, trade dance with NZ." 21 February 2005, http://www.bilaterals.org/article.php3?id_article=1336.

However, not all the Clark's coalition partners support her active FTA approach to China. For example, her Foreign Minister Winston Peters, the New Zealand First leader,[43] openly opposes a free trade agreement with China because of his country's trade deficit with China (US$ 2.2 billion in 2005) will dramatically worsen.[44] He also believes that New Zealand jobs are under a tremendous threat "from Labor and National's obsession with signing Free Trade Agreements with low wage Asian economies. The biggest of these threats is the proposed China FTA."[45] Green Party co-leader Rod Donald who also opposes the bilateral FTA with China, saying it will bring New Zealand manufacturing "to its knees."[46]

ASEAN

The expansion of the ASEAN members from six to ten made it a major attraction of international investment in the early 1990s. Subsequently, China emerged as ASEAN's major competitor in luring FDI in the mid 1990s. ASEAN can no longer compete with China in attracting FDI since the 1997 Asian financial crisis. Furthermore, ASEAN countries, in particular those battered economies, relied heavily on China's promise not to depreciate Reminbi for economic recuperation. ASEAN perceptions of China

---

43 The Labour Party, led by Helen Clark, is the largest party in New Zealand Parliament with 50 seats. In October 2005, Labour formed a coalition government with the Progressive Party (togegher hokding 51 seats), and negotiated confidence and supply agreements with New Zealand First and United Future. The arrangement with NZ First (seven seats) and United Future (three seats) ensures that Labour hokds a majority of 61 seats on confidence and supply in the 121-seat unicameral Parliament. http://www.dfat.gov.au/geo/new_zealand/nz_country_brief.html.

44 "Peters to oppose FTA with China," October 20, 2005, http://www.bilaterals.org/article.php3?id_article=2954.

45 Winston Peters, "Why Jobs Matter and Exports Matter Even More," September 2, 2005, http://www.nzfirst.org.nz/content/display_item.php?t=1&i=2090.

46 "China's trade dance with NZ," February 21, 2005, http://www.bilaterals.org/article.php3?id_article=1336.

thus turned to positive in the wake of the Asian financial crisis. Partly because of their positive image of China, partly because ASEAN countries realized that they could hardly compete with China in trade and FDI attraction in a short term or in a long run, not even as a group. Moreover, ASEAN countries were also worried the possibility of emerging Northeast Asian economic bloc if China turned to Northeast Asia. In fact, China, Japan and South Korea were discussing the possibility of forming a Northeast Asia FTA in the informal meeting during the 1999 ASEAN Plus Three summit. Former Singaporean Prime Minister Goh Chok Tong at the time said that once there was an emergence of Northeast Asian economic bloc, ASEAN countries would suffer and could hardly compete with it. He added that China's robust economic growth and its entry into the WTO made it a huge potential market for ASEAN products.[47] As a result, ASEAN countries decided to engage China and to benefit from booming China market by accepting Chinese Premier Zhu Rongji's proposal to set up ACFTA. Just as Dr. Cao Sy Kiem, Deputy Director of the Vietnamese Central Party's Economic Committee, points out that there are three ways to accommodate to the changes caused by China's rapid expansion: (1) investing in China to produce goods there, then selling the products at a profit in China or on the global market; (2) exporting machines, equipment, and modern inputs to China to join production and export process in China, hence benefiting from the economy's development; (3) exporting raw material and products to China for profit. ASEAN economies have primarily adapted to China's economic boom in either the second or the third way.[48]

Against this background, in November 2001, China and ASEAN consented to establish the ACFTA by 2010 with the six founding members of ASEAN-Brunei, Indonesia, Malaysia, the Philippines,

47 Hong-yu Chen, "China's proposal to set up regional organization has an enormous impact on East Asia's political and economic ecology, *The China Times*, November 26, 2000.

48 Cao Sy Kiem(2006), http://siteresources.worldbank.org/INTEASTASIAPACIFIC/Resources/226262?1158262834989/EA_Visions_7.pdf.

Singapore and Thailand-and by 2015, with the four newer members, Vietnam, Laos, Cambodia and Myanmar. Since then, Sino-ASEAN total trade volume has surged up to US$ 130.3 billion in 2005, 23% increase from the previous year(US$ 106 billion) and fifteen times more than their total trade in 1991. This made ASEAN China's 4th largest trading partner. As China and ASEAN continues to cut down their tariff to each other's goods, their total trade volume is very likely to reach US$ 200 billion by 2008, two years ahead of the targeted 2010.[49] In addition, ASEAN has emerged as one of the major sources of China's trade deficit which was US$ 19.6 billion in 2005.[50] On the investment front, ASEAN invested a total of US$ 3.1 billion in China in 2005, compared with China's investment of US$ 158 million in Southeast Asia. To facilitate investment in the region, China has provided US$ 5 billion in preferential loans to Chinese firms.[51] Hence, it is no surprise to hear the common rhetoric of the ASEAN leaders during their Nanning summit with Chinese leaders in November 2006- "China's rise presents a historic economic opportunity rather than a security threat."[52]

As for Indonesia, China is her fifth largest trading partner. Sino-Indonesian trade volume totaled US$ 7.3 billion in 2002 with a trade surplus favorable to Indonesia. Sino-Indonesia two-way trade volume surged to US$ 16.8 billion in 2005, with an average growth of 20

---

49 In 2005, China's average tariff rate on goods from the ASEAN countries was 8.1% and to be further reduced to 6.6% in 2007 and to 2.4% in 2009 and to zero on the most ASEAN products in 2010 when the CAFTA is fully realized. http://cn.china?vn.com/Read_article.asp?Parentname=中國-東盟自由貿易區&classname=最新信息&ArticleID=9889.

50 http://cn.china-vn.com/Read_article.asp?Parentname=中國-東盟自由貿易區&classname=最新信息&ArticleID=10182.

51 Goh Sui Noi, "ASEAN States Chase the Chinese Investment Dollar," *Straits Times*, November. 2, 2006, http://taiwansecurity.org/ST/2006/ST-021106.htm.

52 Donald Greenlees, "Asean hails the benefits of friendship with China," *International Herald Tribune*, November 1, 2006, http://www.iht.com/articles/2006/11/01/news/asean.php.

percent to 30 percent in recent years.[53] The bilateral trade is expected to increase drastically following the two countries' signing of a 25-year contract in 2002. Under the contract, Indonesia supplies US$ 8.5 billion worth of liquefied natural gas(LNG) from Tangguh in Papua province to Fujian province. Investment from China to Indonesia is similarly on the rise. According to the Indonesia's Investment Coordinating Board(BKPM), total Chinese investment in Indonesia for the five year period ending 2004 reached US$ 6.5 billion, with investments in the energy sector alone reaching $1.2 billion. The main investors are PetroChina and Chinese National Overseas Oil Company(CNOOC).[54]

Indonesia has been an enthusiastic supporter of ASEAN Plus Three and the ACFTA. But, many Indonesian manufacturers, especially footwear industry, fear of losing out economically to China and being wiped out by Chinese imports.[55] The Asian financial crisis ended the New Order era of Suharto. President Abdurrahman Wahid intended to improve relations with China, largely for economic reasons. Since then, Indonesia has stuck to a policy of engagement with the PRC, that is, expanding trade relations, developing political ties, and encouraging China to participate in the region's nascent security architecture. Indonesia believes that this policy is beneficial to China, the region and itself. Like the other ASEAN members, Indonesia hopes that engagement will encourage China to pursue cooperative policies with its neighbors, and help to reduce tensions in the South China Sea. Indonesia has thus supported China's membership of the ASEAN Regional Forum(ARF), APEC, and the World Trade Organization(WTO), and endorsed the annual ASEAN-China summits. In the eyes of the Indonesian leadership, a stable China is more likely to cooperate with its neighbors, and one less prone to foreign adventurism.

During the Asian financial crisis, China offered Indonesia a range

---

53 "China, Indonesia intensify economic cooperation," *Xinhua*, October 7, 2006, http://www.chinadaily.com.cn/bizchina/2006-10/07/content_702604.htm.

54 "Sino-Indonesia ties: Economy comes first," Octoer 09, 2006, http://www.thejakartapost.com/community/china1.asp.

55 Chapter 7, Anthony L. Smith, "From Latent Threat to Possible Partner: Indonesia's China," in Satu Limaye(2003).

of bilateral aid to ease economic hardship in the country. This aid included a US$ 3 million grant aid to buy medicine and US$ 200 million in export credits over a two-year period. Beijing also contributed US$ 500 million to the International Monetary Fund's (IMF's) US$ 43 billion bail-out package for Indonesia. The Indonesian Government was also grateful for the PRC's decision not to devalue the yuan.[56] In November 2006, Indonesian President Susilo Bambang Yudhoyono and Chinese Premier Wen Wen Jiabao on the sidelines of the ASEAN-China summit in Nanning, Guangxi reaffirmed their commitment to boost bilateral trade to US$ 30 billion in 2010, double the worth of trade done in 2005. In addition, China pledged US$ 800 million in soft loans to support investment projects in Indonesia. President Yudhoyono also took the opportunity of the summit to win the signing of a contract of US$ 5 billion investment from China for six energy projects.[57] In spite of government's positive response to ACFTA, Indonesia's labor-intensive, export-oriented manufacturers could not compete with Chinese products in both domestic and international markets. As a result, Indonesian textile industry requested government to impose 40 percent tariff on Chinese products.[58] Rising labor cost in Indonesia compared to those such as China has resulted in relocation of more and more factories of light industry, inter alia textiles, footwear and toys, to other countries.[59] Regarding Malaysia, while visiting Beijing in 2003, Malaysian Prime Minister Abdullah Badawi referred to China a land of opportunity.[60] He believes that "the emergence of China as an economic powerhouse provides Malaysia with a good market."[61] As a result, Badawi turned out to be the biggest beneficiary of the 2006 Sino-ASEAN Nanning summit. His country concluded a US$

---

56 Ian James Storey(2000); p.150.
57 Goh Sui Noi, "ASEAN States Chase the Chinese Investment Dollar," *Straits Times*, November. 2, 2006, http://taiwansecurity.org/ST/2006/ST-021106.htm.
58 Michael S. Malley(2003), p.145.
59 Smith Kipp Rita (2004), p.64.
60 N. Ganesan(2004), p.76.
61 "China provides Malaysia with good market: Malaysian PM," December 10, 2003, http://english.people.com.cn/200312/10/eng20031210_130042.shtm.

25 billion deal with China in which Malaysian oil company Petronas will provide LNG to Shanghai for the next 25 years.[62] When it comes to trade figures, at an annual average rate of 31 percent from 2000 to 2005, Sino-Malaysia bilateral trade hit US$ 30 billion in 2005. China has a trade deficit with Malaysia for two decades, but its exports to Malaysia have grown in recent years. Currently, Malaysia is China's eighth largest trading partner, while China is Malaysia's fourth largest trading partner, export destination and source of import.[63] If based on this growth rate, the bilateral trade between the two countries could reach US$ 50 billion by 2010.[64] Until March 2006, Malaysia's investment in China exceeded US$ 10.2 billion on a basis of contracted capital and the actual utilized capital came to US$ 3.9 billion.[65] Nevertheless, mainly because of higher wage, Malaysia has been losing competitive edge vis-à-vis China in manufacturing, as factories relocated to China.[66]

As most Southeast Asian countries, Singapore is facing the competition for foreign investment posed by China. Nonetheless, Singapore has taken a practical approach to rising China, that is, on the one hand to accelerate the integration of the ASEAN economies so that the region can compete and cooperate with China, on the other hand to promote the ASEAN-China FTA "as a way of forging new synergies with China's market."[67] Singapore is China's biggest trading partner in ASEAN. Their bilateral total trade reached US$ 33 billion in 2005, a 26 per cent increase over the previous year. In August 2006, Singapore and China agreed to start negotiations for a bilateral FTA. A statement from Singapore

---

62 Goh Sui Noi "ASEAN States Chase the Chinese Investment Dollar," Straits Times, November. 2, 2006, http://taiwansecurity.org/ST/2006/ST-021106.htm.
63 "China, Malaysia to expand trade co-op," August 3, 2006, http://english.gov.cn/chinatoday/2006-08/03/content_353867.htm.
64 "China-Malaysia trade rises," September 25, 2006, http://thestar.com.my/news/story.asp?file=/2006/9/25/business/20060925142148&sec=business.
65 "China, Malaysia to expand trade rises co-op," August 3, 2006, http://english.gov.cn/chinatoday/2006-08/03/content_353867.htm.
66 Welshm Bridget(2005), p.158.
67 William Case(2003), pp.169-171.

indicated that "the China-Singapore FTA will also contribute to regional economic integration by injecting additional momentum into the establishment of the China-ASEAN Free Trade Area."[68] Like Singapore, Thailand has also pursued an active approach to FTA and RTA since 2001.[69] Regarding rising China, former Thaksin Government took a similar strategy as its Singaporean counterpart. It has attempted to engage China and to seek for counterweights to China simultaneously. This is particularly true in its FTAs with the U.S. and ASEAN countries. Moreover, after signing FTA with China, Thailand has aggressively pursued similar arrangements with Japan, the U.S., India and Australia.[70] The implementation of Sino-Thai FTA has brought about a largely positive result, though mixed, particularly in agricultural sector. Farmers who produce durian, longan and tapioca have benefited from the FTA, while those who grow garlic, onion and other vegetable have suffered for they fail to compete with their Chinese counterparts.[71]

In the Philippine case, former President of the Philippines Fidel Ramos in the capacity of chairman of the board of the Boao Forum for Asia(BFA), underlined the important role China played in advancing Asia's economic integration process prior to the opening of the forum in 2003.[72] During the Philippine President Gloria Macapagal-Arroyo's trip to China in September 2004, she and Chinese President Hu Jintao expressed hope for the early establishment of a planned ACFTA.[73] Felipe M. Medalla, Professor at University of the Philippines suggests that despite the prevailing

---

68 "Singapore, China to launch talks for bilateral FTA," Channel News, August 25, 2006, http://www.bilaterals.org/article.php3?id_article=5668.

69 Chapter 14, Bradley Mathews, "Bankok's Fine Balance: Thailand's China Debate," in Satu Limaye(2003).

70 Alex M. Mutebi(2004), p.85.

71 Robert B. Albritton(2005), p.172.

72 "Ramos underlines China's role in promoting Asia's economic integration," November 1, 2003, http://english.peopledaily.com.cn/200310/31/eng20031031_127348.shtml.

73 "Manila, Beijing hope for China-ASEAN free trade zone soon," *Philippine Daily Inquirer*, September 2, 2004, http://www.bilaterals.org/article.php3?id_article=531.

negative image of China hollowing out Philippine's manufacturing sector and dealing a terrible blow to agricultural sector, more and more Philippine businessmen are beginning to view China as a market rather than a competitor. In fact, Philippine's exports to China have increased more than six times, from US$ 663 million in 2000 to US$ 4 billion in 2005, and are the most rapidly growing sector of the country's exports and almost matching exports to all ASEAN countries in 2005.[74] During the China-ASEAN summit in Nanning in November 2006, President Arroyo, as the chairwoman of ASEAN in the year, mentioned ACFTA could reduce Southeast Asia's dependence for exports on Western markets such as the U.S. and Europe. Furthermore, she indicated that "the sharp growth in trade with and investment by China was a bonanza for the Philippines." The bilateral trade is at US$ 17 billion in favor of the Philippines. What is more, Arroyo secured an investment deal of US$ 1 billion from Baoshan Iron and Steel, Jinchuan Group and China Development Bank in a nickel mine on the island of Mindanao. China also promised to finance a $400 million extension of a rail line to connect Manila with the industrial center of Clark.[75]

However, Ibon Foundation, an economic research group, warned that ACFTA would have adverse effects on the country's economy. The group predicted that the deluge of cheap imports from China may prove ACFTA to be "more disastrous rather than beneficial for Philippine agriculture and industries." As a result, Ibon urged the government to "rethink its support" for ACFTA.[76] Vegetables are not included in the EHP agreement that the Philippines and China signed in April 2005. According to Santos, the Philippines was able to insist on the exclusion of vegetables under EHP, but acceded to the request of China "to expeditiously complete the Pest Risk Analyses(PRA) for the

74 Felipe M. Medalla(2006).
75 Donald Greenlees, "ASEAN hails the benefits of friendship with China," *International Herald Tribune*, November 1, 2006, http://www.iht.com/articles/2006/11/01/news/asean.php.
76 Sino-ASEAN free trade pact a bane to RP, says Ibon Mindanews, November 13, 2004, http://www.bilaterals.org/article.php3?id_article=1036.

importation of vegetables, in particular, carrots, cabbages, ginger and potatoes from China."[77]

With rising labor cost and skyrocketing rent in China and more preferential measures offered by the Vietnamese Government, foreign investors either have increased their investment in Vietnam like Canon and LG or have relocated their factories from China to Vietnam whose labor cost (US$ 50–60monthly) is now only half of China's. This includes not only labor-intensive industries, but also high-tech corporations. For example, Intel invested US$ 300 million in the country to build a chip factory. Of course, China remains competitive edges in infrastructure and possessing an ample skilled labor vis-à-vis Vietnam.[78] On the trade front, Sino-Vietnamese bilateral trade was valued at over US$ 10 billion last year, up from US$ 8 billion in 2005.[79] Nevertheless, Vietnam's farm products are facing challenges in the Chinese market as a result of the ACFTA, in particular stronger competition from the products of other ASEAN countries. Vietnam must now compete with Thailand in rice, the Philippines in vegetable and fruits, and

---

77 Among the items included in the EHP are pure–bred breeding animals such as live horses, bovine animals, swine, goats, chicks, turkeys, ducks and geese, and chickens. Likewide, live asses, mules and hinies, sheep, primates, whales, dolphins and porpoises, manatees and dugongs, mammals, reptiles, birds of prey and other birds and other live animals are also included in the EHP. Several variety of fish such as trout, salmon, herring, haddock, mackerel, yellow fin tunas, skipjackor stripe–bellied bonito, cod, plaice, sole, eels, carp, halibut are also included in the EHP. Other seafood such as mussel, scallops, oyster, lobster, snails are covered as well. Milk and certain dairy products such as cheeses are also included in the EHP. Certain plants such as roses, trees, shrubs, rhodendrons and azaleas has been included as well. The PRA is a form of non–tariffbarrier which, according to China, is an added impediment to the entry of Chinese vegetables into thd Philippines. "Vegetables not included in 'early harvest' deal with China," *The Philippine Star*, May 2, 2005, http://www.bilaterals.org/article.php3?id_article=1809.

78 "Made in China fever recceded, FDI switches to Vietnam," *The Economic Daily* (Taipei), August 21, 2006, http://udn.com/NEWS/FINANCE/FIN7/3479676.shtml. The original report was carried in *the Los Angles Times*.

79 "Vietnam wants stronger bonds with China: party leader," http://english.peopledaily.com.cn/200602/09/eng20060209_241144.html.

Indonesia and Malaysia in rubber. Vietnam will open its doors to Chinese commodities and impose a zero percent tax rates in 2015, whereas China will abolish duties on Vietnamese commodities in five years till 2010. Vietnam's export turnover of farm produce (mainly fruits and vegetable) to China fell to US$ 35 million in 2005 from US$ 142.8 million in 2001. Meanwhile, its turnover of fruits and vegetable imports from China jumped to US$ 80.2 million in 2005 from US$ 30.9 million in 2001.[80]

South Korea

China's economic rise is widely regarded in South Korea as a positive factor. South Korea's economy has increasingly depended on the fast-growing China market. China has emerged as South Korea's FDI's most favored destination since 2002 and largest exports market since 2003. Total Sino-South Korean bilateral trade volume reached more than US$ 110 billion in 2005,[81] with a trade surplus of US$ 42 billion favorable to South Korea. This makes South Korea China's second largest trade deficit source, only next to Taiwan.[82] Despite the fear of growing Chinese competition, South Korean industries tend to view the rising China as a business opportunity rather than a threat.[83] Changkyu Lee and Inkoo Lee assert that rising China has presented both positive and negative impacts, but more positive than negative. They point out that the continued involvement of South Korean economy in China has contributed to Korea's trade growth and the improvement of

---

80 "Workshop discusses competitiveness of Viet Nam's farm produce in China," posted September 18, 2006, http://www.bilaterals.org/article.php3?id_article=5939.

81 "Notebook: Keep a cool head about China," *the JoongAng Ilbo*, February 17, 2006, http://joongangdaily.joins.com/200602/17/2006021721401518099000 90109012.html.

82 "Taiwan enjoys the largest trade surplus with Mainland China in the world," *Economic Daily*, March 20, 2006, http://udn.com/NEWS/FINANCE/FIN2/ 3220487.shtml.

83 Chapter 12, Seongho Sheen, "Tilting toward the Dragon: South Korea's China Debate," Satu Limaye (2003).

competitiveness. At the same time, they consider the industrial hollowing out due to South Korean firms' relocating their factories to China as one of most important challenges that South Korea has to confront. In the end, they suggest that South Korea should nurture high value added industry by increasing investment in research and development as a coping strategy to rising China's challenges. In addition, they also urge their government to explore new markets through FTA in order to prepare for China's import-substitution that will at last decrease the demand for South Korean immediate products.[84] As a matter of fact, South Korea set FTA with the U.S. as its first priority. Deputy Prime Minister and Finance and Economy Minister Kwon O-kyu described this as "a strategic choice." He said that if Korea became the first East Asian country to sign a FTA with the U. S. and the EU, his country could be the center of FTAs connecting the U.S., East Asia and Europe. Then, he further explained that a FTA with China cannot precede an FTA with the U.S. "Signing a FTA with China would give much trouble to our agricultural sector, mid-and small-sized firms and manufacturing sector. We'll start FTA talks with China after completing an FTA with the United States."[85] It is quite clear that another main reason for this FTA sequence is to seek counterweight against both China and Japan as South Korea's economic size is behind its two large giant neighbors. The conclusion of South Korea-U.S. FTA in April 2007 gives South Korea more bargaining leverage in its forthcoming bilateral FTA negotiations with both China and Japan. Immediately after a FTA was made between South Korea and the U.S., both Japan and China approached Seoul expressing their intent to start bilateral FTA talks. Japanese Prime Minister Shinzo Abe on April 3 suggested resuming negotiations for Japan-Korea FTA. This urge is interpreted as coming from a sense of crisis after the Korea-U.S. FTA was sealed. What is even more, Chinese Premier Wen

84 Changkyu Lee and Inkoo Lee(2006), pp.155-156.

85 "FTA With US Priority for Korea: Minister," *The Korean Times*, August 10, 2006, http://times.hankooki.com/lpage/biz/200608/kt2006081018065411880.html.

Jiabao visited Seoul on April 10 and expressed strong desire to accelerate FTA negotiation with Korea.[86]

With the conclusion of ACFTA, South Korean products have been under dual pressure in both markets. According to the Korea International Trade Association(KITA), the realization of ACFTA would adversely affect South Korea's export competitiveness, in particular for South Korean industrial products such as petrochemicals, textiles, shoes and electrical and electronic products. "More than 21 percent of South Korean exports to China will be subject to tariffs over 10 percentage points higher than those for China-bound ASEAN shipments in 2010, when the FTA is fully implemented," the KITA indicated. There will be no duties on more than 90 percent of the trade between China and ASEAN members by that time. Hence, the KITA urged the South Korean Government to speed up FTA negotiations with ASEAN as soon as possible.[87] Against this background, South Korea was eager to realize its FTA with ASEAN by 2009, one year ahead of the full implementation of ACFTA and two years before the materialization of Japan-ASEAN FTA.[88] The main reasons why South Korea was so anxious to reach a FTA with ASEAN are two folds. The first fold was to get a better strategic position for South Korean products in ASEAN market before Chinese and Japanese products can enjoy duty free. The second fold was to minimize the negative impact of the launching of the early harvest program since July 1, 2005. Based on a report by South Korea's Ministry of Industry and Resources in August 2005, more than 180 items of 200 products(which constitute 81% of the country's exports to China) that South Korea exports to China are facing challenges from ASEAN products.

---

86 "Wen Jiabao Requests the Acceleration of FTA Negotiation," *The Chosunilbo*, April 10, 2007, http://chinese.chosun.com/big5/site/data/html_dir/2007/04/11/20070411000013.html.

87 "China-ASEAN FTA feared to hurt S. Korea's exports: KITA," *Asia Pulse*, July 19, 2005, http://www.bilaterals.org/article.php3?id_article=2331.

88 South Korean Foreign Minister Ban Ki-Moon said so in a press conference on November 24, 2004. *The Korea Economic Daily (Hankuk Kyungje)*, November 25, 2004.

Alternatively, among one hundred products that South Korea's exports to Indonesia, Thailand, Malaysia, Philippines, over sixty products are in competition with China.[89] Another analysis by the Bank of Korea, till December 2004, the competitiveness of South Korean products in China market dropped about 11.2% from the previous year. The other analysis on trend of exports to the four ASEAN countries(Indonesia, Thailand, Malaysia, Philippines) by the KITA shows that the percentage of the four countries' exports to China in their overall exports increased from 2.9% in 1996 to 7.2% in 2003. At the same time, those countries' share of China's imports market also sharply rose from 4.5% in 1995 to 8.2 % in 2004. What is more, the level of products that those countries exported to China also had been upgraded for more and more high-tech products produced by the four countries went to China. For example, 41.7 % of Philippine's exports to China was semiconductor and 17.4 % was computers in 2003. In the same year, 15.3% of Malaysia's exports to China was semiconductor and 12.2% was computers.[90] Another report on a comparative study of China, Japan and South Korea's products in ASEAN market by the KITA in August 2005 indicated that ACFTA has brought about downgrading the competitiveness of South Korean machinery and electronic products vis-à-vis those made in China.[91] Victor Cha also mentioned that South Korea is losing international markets to China.[92] Il-Dong Koh from the Korean Development Institute summarized the impacts of economic integration in East Asia on the Korean Economy into three: concerns over hollowing out; widening gap between export growth and domestic value-adding activity; and interruption of domestic production networks as a result of leading firms' move. He particularly regarded China

89 "South Korea will respond to ACFTA actively," *Yonhap News*, August 29, 2005, http://kr.mofcom.gov.cn/aarticle/jmxw/200508/20050800325620.html.
90 "Korea Needs a New Strategy for Chinese Market," *The Financial News*, October 11. 2005, http://english.fnnews.com/ArticleView.html?arcuid=3204&arccate=10000600.
91 http://kr.mofcom.gov.cn/aarticle/jmxw/200508/20050800269252.html.
92 Victor D. Cha(2005), pp.31-32.

as a major threat to South Korean products but not Japan.[93]

Japan

Japan is the country that has encountered the greatest impact of China's proactive FTA initiative. The ASEAN traditionally had been Japan's sphere of economic influence since the 1960s.[94] However, Japan's economic leadership in the ASEAN was displaced by rising China after the 1997 Asian financial crisis.[95] Japan was caught by surprise by China's bold FTA initiative inaugurated by Premier Zhou Zongji's proposal to set up ASEAN plus one in November 2000. Subsequently, when China and ASEAN reached an agreement to form a free trade area by 2010 in the annual meeting of the ASEAN plus three in 2001, Japanese newspaper Asahi warned Japanese that agreement marked "the beginning of a gradual shift of the axis of the Asian economy to China from Japan."[96] Even though they noticed rising China's manufacturing capacity, Japanese enterprises led by the Keidanren and the Ministry of Economy, Trade and Industry(METI) favor engaging China through cooperation in international trade. But METI's White Paper in April 2001 suggests that "Japan should seek to create a new system that could divide economic roles with China and other countries in East Asia to improve efficiency amid increasing economic competition."[97] Obviously, it had acknowledged that Japan was challenged by China in the leadership of East Asian economic integration. While preoccupied with domestic political transformation and economic malaise,[98] Japanese Prime Minister Koizumi in January

---

93 Il-Dong Koh, "Economic Integration in East Asia and its Impacts on the Korean Economy," November 8, 2004, http://www.tcf.or.jp/data/20041108?09_Il-Dong_Koh.pdf#search=%22Korea%2C%20China% 20and%20Asian%20economic%20integration%22.

94 W. Hatch and K. Yamamura(1996).

95 Takashi Inoguchi and Paul Bacon(2006), p.8.

96 Dali L. Yang(2002), pp.17-18.

97 Chapter 8, David Fouse, "History as a Mirror, the Future as a Window: Japan's China Debate," in Satu Limaye(2003).

98 Edward J. Lincoln(2002), pp.67-80.

2002, expressed his interest in a region wide free trade zone. This announcement was already about two months behind China's specifying its plan to negotiate a FTA with East Asia within ten years. In November 2002 when China and ASEAN reached an agreement on a Framework Agreement on Comprehensive Economic Cooperation aimed to establish a free trade area in 2015.[99] The very next day, Japan and the ASEAN consented to negotiate a comprehensive economic partnership.[100] In fact, Japan was forced to shift its focus of FTA approach from emphasizing signing FTA with ASEAN in a bilateral fashion and insistence on economic partnership agreement(EPA) rather than FTA to the acceptance of signing a FTA agreement with ASEAN as a whole. What is more, China's early harvest scheme towards the ASEAN countries enables Beijing to sustain its lead in the FTA race with Tokyo.[101] China has eliminated tariffs on selected agricultural products from Thailand, Malaysia and the Philippines the first batch of ASEAN countries to join the four-year Early Harvest program started in 2003.[102] This has put Japan in a very unfavorable position vis-à-vis China in terms of leadership competition. Another remarkable example of Sino-Japanese competition for leadership is that China insisted that ASEAN plus three should be core members, while Japan made a counterproposal of an East Asian EPA system of sixteen countries, including Australia, New Zealand, India in addition to ASEAN plus three.[103] India is added to the list because of its potential to rival China in economic growth.[104] FTAs focus exclusively on the abolition of tariffs and regulations on bilateral trade, while EPAs are a pact covering a wide range of investment, service sectors, intellectual property rights, and so on in addition to trade.

---

99 Christopher Findlay(2004), p.75.
100 Robert Uriu(2003), p.90.
101 Ong, Eng Chuan(2003), p.59.
102 "FTA to propel regional economy," *China Daily*, 19 July 2005, http://www.bilaterals.org/article.php3?id_article=2338.
103 Mohan Malik(2006), p.207.
104 "Japan to seek 16-nation pact on business ties," *Asahi Shimbun*, August 3, 2006, http://www.asahi.com/english/Herald-asahi/TKY200608020482.html.

The proposal is designed to position Japan in a leadership role by encouraging the region to adopt the 16-nation EPA system with the participation of Australia, India and New Zealand. Though the ASEAN economic ministers voiced support for Japan's East Asian EPA initiative, they have also strongly encouraged Tokyo to prioritize negotiations with the whole of ASEAN for a comprehensive FTA.[105]

With respect to Sino-Japanese FTA, even though more and more leaders in the Japanese business circle have asked the Japanese government to initiate FTA negotiation with China, former Koizumi Government insisted that his government wanted to make sure that China abide by its commitment to WTO first. In other words, Japan would not negotiate with China until the end of 2006 when China fulfills its commitment to WTO to complete the process of opening its market.[106] Against this backdrop, in response to Chinese Ambassador to Japan Wang Yi's proposal to start bilateral FTA negotiation in February 2005,[107] Japanese Minister of Economy, Trade and Industry Shoichi Nakagawa pointed out that the prerequisite to start Sino-Japanese FTA is China's completing its reforms on basic rules regarding legal system, tax, investment, intellectual property rights and so on.[108]

India

Not until the late 1990s, India's traditional perceptions of China had been obsessed with negative image due to the humiliatory defeat in Sino-Indian war in 1962. Vajpayee's government's China policy shifted from citing China threat to justify nuclear tests in 1998 to non-confrontational diplomacy with China in the early

105 "Japan looks to play leading role in regional trade", http://www.bilaterals.org/article.php3?id_article=5909.
106 "Sino-Japanese Relations decide the East Asian Integration," Editorial, *Nihon Keizai Shmbun*, January 4, 2005, http://www.nikkei.co.jp/news/shasetsu/20050103MS3M0300203012005.html.
107 http://www.nikkei.co.jp/news/kaigai/20050203STXKE023303022005.html.
108 http://www.nikkei.co.jp/news/keizai/20050204AT1F0400304022005.html.

2000s. Its approach to China was to steer a pragmatic course in what-so-called balanced engagement between the hyperrealist(China as a threat) and appeasement(China as a benign power) school of thoughts.[109]

In June 2003, Vajpayee's visit to Beijing, the first by an Indian Prime Minister since Rajiv Gandhi's trip to China in February 1988, paved way for Sino-Indian rapprochement. India was largely motivated by economic interest, to attract Chinese investment and expand the share of India's products in China's market. The Joint Declaration on Principles for Relations and Comprehensive Cooperation between the two countries signed by Vajpayee and Chinese President Hu Jintao called for a Joint Study Group to recommend potential sectors of economic collaboration, set a target of their total bilateral trade volume up to US$ 10 billion by 2005 and pledged to increase their cooperation on the WTO issues.[110] In 2005, India-China trade increased by 37% over 2004 to touch US$ 18.7 billion. Just three years earlier, in 2002, the total volume of bilateral trade was US$ 5 billion. China replaced Japan as India's top trading partner in Northeast Asia a few years ago and is now on track to overtake the United States to become India's No 1 trading partner in the world within the next few years. Indo-US trade stands at about US$ 30 billion. Sino-Indian trade in the first seven months of 2006 reached US$ 13.6 billion, up 27% from the same period the previous year. It's thus widely expected that the trade target set during Chinese Premier Wen Jiabao's visit to India in April 2005, of $20 billion by 2008, will actually be met by the end of 2006.

Nevertheless, their bilateral trade is not free from worry from the Indian side. India's exports to China are overwhelmingly dominated by low-value, primary products with a huge dependence on iron ore. In 2005, ores, slag and ash comprised 56% of India's exports to China. India has thus developed a trade deficit with

---

109 Chapter 6, Mohan Malik, "Eyeing the Dragon: India's China Debate," Satu Limaye(2003).

110 Lawrence Sáez(2004), pp.31-32.

China of US$ 858.5 million so far in 2006. In 2005, India's trade surplus with China stood at US$ 843.2 million, a decline from the US$ 1.74 billion surplus in the previous year. Alternatively, China's top exports to India comprise electrical machinery and other machinery, which together accounted for 43.9% of total Indian imports from the country in 2005.[111] In other words, India's trade surplus may not sustain for a long run.

Concerning China's FTA proposal, India remains hesitant for a FTA with China is not in India's interest. India favors a comprehensive economic cooperation agreement with China for it can benefit more. "Over 50% of China's GDP comes from manufacturing and construction, over 30% from services and just under 15% from agriculture. Clearly enough, manufacturing is China's area of strength and its engine of growth. In contrast, over half of India's GDP comes from services industry and agriculture sharing the remaining less than 50% in roughly equal proportions. For the Chinese, an FTA focused on merchandise trade would enable them to best leverage their comparative advantage. For India, on the other hand, a FTA focusing on merely free movement of goods across borders would be one that gives Chinese manufacturers ready access to Indian markets without a corresponding benefit for India in its area of strength. Another major reason that India's response to China's FTA proposal is lukewarm is that India is wary of cheap Chinese manufactured products which could suffocate Indian industries.[112] However, others argue that "with the ASEAN countries concluding free trade agreements with other major Asian powers like China, India's role and influence in Asia will decline unless it secures duty free access to ASEAN markets. If it desires such access, then it should be prepared, like China, to grant products from ASEAN countries similar access to

111 Pallavi Aiyar, "Chindia: Not quite a juggernaut yet," *Asia Times*, September 16, 2006, http://www.atimes.com/atimes/China_Business/HI16Cb02.html.
112 Shankar Raghuraman, "Why an FTA gives us cold feet," *Times of India*, April 9, 2005.

Indian markets."[113] In fact, to strengthen the economic liberalization initiated in 1991, India started a "Look East Policy" in the same year. It became a Sectoral Dialogue Partner of ASEAN in 1992, Full Dialogue Partner in 1996 and finally summit partner since November 2001. A Framework Agreement on Comprehensive Economic Cooperation(CECA) between the two sides was signed at the Second ASEAN-India Summit on October 2003 in Indonesia, which set the stage for Indo-ASEAN FTA to be operational from 2006.[114] Commerce Minister Kamal Nath also said India wants to explore possible FTAs with Japan, China and the U.S., as negotiations on such deals with Southeast Asian countries progress.[115]

On the investment front, in recent years Indian companies have begun to be attracted by the opportunities China offers. Its high-volume, low-cost investment environment, connectivity to global markets and productive labor force and the presence on Chinese shores of large numbers of multinational clients have lured a small but steady stream of Indian investors in diverse sectors, including information technology(IT), banking, pharmaceuticals, wind-farm equipment, auto components and tyre manufacturing. There does seem to be an increasing willingness to engage with China on the part of India Inc. All the big Indian IT companies, such as TCS, Wipro, Infosys and Satyam, have invested in China.[116] On the area of Indo-China collaboration, experts pointed the win-win scenarios for the two neighbors. While India can benefit by expanding into labor-intensive sectors like apparel, footwear, and toys, especially in light of the rising wages in China, the IT sector is an attractive area for the Chinese.[117] However, Chinese

113 G Parthasarathy, "Delhi India and free trade in Asia," *The Pioneer*, June 14, 2006. http://www.bilaterals.org/article.php3?id_article=4989.
114 Biswajit Nag and Debashis Chakraborty(2006), p.83.
115 "India Exploring Free Trade Deals," September 3, 2004,http://www.bilaterals.org/article.php3?id_article=581.
116 Pallavi Aiyar, "Chindia: Not quite a juggernaut yet," *Asia Times*, September 16, 2006, http://www.atimes.com/atimes/China_Business/HI16Cb02.html.
117 "Pan Asia Economic Foruma at Stanford," June 8, 2006, http://www.indiapress.org/gen/news.php/The_Hindustan_Times/400x60/0.

investments in Indian infrastructure projects have frequently been blocked for security concerns. For example, India does not want any Chinese companies investing in or managing any Indian ports. Chinese telecom companies, such as Huawei, have also been rejected permission to make investments in India in the recent past, out of fears of Chinese espionage. This policy is criticized by the Indian Communist Party, current coalition partner of the Congress Party and requested an explanation how Chinese investors pose security threat to India.[118]

Taiwan

Despite hostile political situation, now more than ever, the cross-strait economy is booming. Total indirect trade between the two sides was only US$ 3.9 billion in 1989, the first year business contact was officially permitted. In 2004, according to Taiwan's Mainland Affairs Council, total trade was under US$ 62 billion-a 16-fold increase in just a decade and a half, and up to more than US$ 70 billion in 2005, with a trade surplus of US$ 31.7 billion favorable to Taiwan. Taiwan-China trade has increased at an average annual rate of 25% since the inauguration of this decade.

In the investment sphere, according to the Investment Commission, ROC's Ministry of Economic Affairs, approved investment to Mainland China by Taiwanese businesses reached a total of more than 34,343 cases, totaling US$ 6.01 billion in 2005, down 18.1 percent from the previous year's level. But this accounted for 71.4% of Taiwan's total overseas investment(US$ 8.45 billion). So far China is the top destination for Taiwanese outbound investment. Due to the sensitive nature of cross-strait investment, most observers agree that the official figures drastically understate the actual influx of Taiwanese FDI into China. Channeled through shell companies in ports of convenience such as the Bahamas, Taiwan-origin FDI in China could be over US$ 120 billion.

With regard to rising China, the pan-green camp including the

---

118 September 28, 2006. http://www.chinese-classifieds.com/php/db_news.php?tab=intnews&id=52570.

Democratic Progressive Party(DPP) and the Taiwan Solidarity Union tends to emphasize threat from China on all the fronts, security inter alia. On the economic front, for survival, Taiwan should limit its investment in China, particularly in high-tech sectors. They also see ACFTA as a threat to Taiwan's trade and refuse to accept China's offer to negotiate Closer Economic Partnership Arrangement(CEPA) on the ground that Beijing intends to downgrade Taiwan's status as a state. Whereas, the pan-blue group referring to Kuomintang(KMT), the People First Party and the New Party stresses the importance of economic cooperation, views cross-strait relations as a matter of peace or war, and seeks to work out modus vivendi with China. With the growing contradiction between economic interest and security interest in its national interest over the Cross-Strait relations since the post-Cold War era,[119] the mainstream of the ruling DPP's anti-China policy has been challenged by business sector and the opposition parties. The business sector seeks to avoid cross-strait tension, so their investments on China will not be jeopardized. Moreover, business leaders also want government to lift the upper limit on Taiwanese investment in China and relax the restriction on investment on sensitive industries. Like many mainlanders in Taiwan, they also would like to see the realization of direct trade and three links as soon as possible.[120] One of remarkable examples of the contradiction between the ruling elite and the business sector is that EVA airways whose boss Mr. Chang Jung-fa used to be a supporter of the DPP publicly complained about the lack of progress in launching direct air travel across the Taiwan Straits.[121] The unprecedented unofficial visits to China by opposition party leaders KMT Lien Chan and People First Party James Soong the following month in 2005 marked a major transformation of Taiwan politics, from the unification versus independence to

119 Nancy Bernkopf Tucker(2002), p.18.
120 Chapter 13, Denny Roy, "Returning Home or Selling Out: Taiwan's China Debate," Satu Limaye(2003).
121 Steve Chan(2005), p.55.

the security threat versus economic collaboration.[122]

CONCLUSION

Rising China's economic power and its active approach to FTA have brought about enormous changes on China's economic interactions with its Asian neighbors and patterns of Asian economic integration. On the one hand, because of its gigantic size and rapid growth, China has altered the balance of economic development in Asia. China's significant demand for inputs and its ability to supply outputs to the world's markets have reshaped the international supply-demand equation as well as modes of operations and management dramatically. For those countries and businesses in the region that can nimbly adapt themselves to the changing dynamics benefit from opportunities brought by rising China.

On the other hand, emerging China's economic capacity has imposed enormous pressure on all countries and markets in the region at various levels. This pressure is multidimensional and involves quality, quantity, durability and price. For no country alone can resist this dynamic change, not even Japan,[123] most Asian economies have chosen to engage China in order to benefit from emerging China's market and the fringing dividend(attracting FDI aiming at advancing China market by investing in peripheral states whose labor cost is lower than that of China) via engaging China. Those countries are Australia, New Zealand, South Korea and ASEAN. Of course, this does not mean that there are no opposition groups in those economies. But they are largely in minority. Other economies comprising Japan, India and Taiwan have sought to resist rising China's temptation for political and security reasons. Nevertheless, there are domestic forces against their governments' approaches to China in the three economies either from business sectors or opposition parties or coalition partners. Those opposing

122 Lowell Dittmer(2006), p.4.
123 Cao Sy Kiem(2006).

forces have imposed tremendous pressure to their governments. India and Japan have been forced to make adjustments to their domestic demands. India has gradually shifted to a balanced engagement policy toward China since the previous government, but has been wary of Chinese bilateral FTA proposal and Chinese bid for major infrastructure projects. With the appointment of Pranab Mukherjee, who has rich experience with China, as the External Affairs Minister by Prime Minister in November 2006, India seems to move closer to Beijing.[124] Alternatively, Former Japanese Prime Minister Koizumi's unfriendly attitude toward rising China has caused backlash from domestic public opinion. This forced his successor Shinzo Abe to court China and made Beijing rather than Washington his first foreign trip in the capacity of Prime Minister.[125]

With regard to the China's proactive FTA approach to Asia economic integration, ASEAN, Australia, and New Zealand view it in a constructive way and are willing to further strengthen their economic integration with China by promoting bilateral FTA with China. Meanwhile, those economies are seeking counterweight to dilute China's emerging economic clout and reduce their dependence on China market by inaugurating FTA talks with each other and other economies such as India, South Korea, Japan and other large economies, the U.S. inter aliies. Alternatively, China's northeast Asian neighbors including South Korea, Japan and Taiwan as well as India do not feel comfortable about ballooning China's economic clout via ACFTA and are reluctant to negotiate FTA with China but join the bandwagons of Asian economic integration such as ASEAN plus three, East Asian Economic Summit except Taiwan who is absent against her own will. Likewise, those

---

124 "Overhaul of India's External Affairs Ministry: Pro-China Group in Charge of its Relations with Cina," *The Australia Daily*(Chinese Edition), November 4, 2006, http://www.chinese.net.au/navigator/intnews/1443302.php.

125 http://www.nikkei.co.jp/news/seiji/20061008STXKA006608102006.html:. If Japan neglects efforts to reduce the friction with its Asian neighbors, it will have trouble flexibly promotion its strategic Asia diplomacy in cooperation with India, Australia and countries of the Association of Southeast Asian Nations. "Abe"s diplomatic mettle about to be tested," Editorial, *The Yomiuri Shmbun,* Oct. 5, 2006, http://www.yomiuri.co.jp/dy/editorial/20061005TDY04005.ht.

economies are also looking for counterweight against China by expediting their FTA negotiations with other Asian economies, the U.S. and even the European Union.

Concerning leadership competition between China and Japan, the pattern of Asian economic integration has shifted from a Japan-led flying geese pattern to a China-centered market-driven pattern since the early 2000s. According to a simultaneous survey jointly conducted by Yomiuri Shimbun, the Korea Times and the Gallop Poll on perceptions of seven countries including Japan, South Korea, Malaysia, Indonesia, Thailand, Vietnam and India, three of this kind survey has been done in the past ten years since 1995. The most remarkable change is rising China. More than 80 percent of Malaysians, Thais and Indonesians interviewed held positive image of China. When asked "the impact of China's development on their own economies," except Japan and South Korea, the rest five countries view it as positive. When asking which country is going to be the most influential one in Asia, those respondents from Malaysia, Thailand, Vietnam ranked China first.[126] The winner of an image war between China and Japan is quite obvious. Nevertheless, both the image and leadership are dynamic, if China continues its current soft approach focusing on common economic prosperity of Asia rather than on political and security maneuver, this will provide a chance to sustain its leadership for a long term. In addition, reaching Sino-Indian FTA or EPA is now the last strategic threshold that Beijing needs to surmount in order to secure its long leadership in Asian economic integration. Moreover, Chinese leaders need to display their wisdom to reach a modus vivendi with both Japan and Taiwan for most economies in Asia do not want to see any political and military confrontation in this part of world. Or they will be distracted from economic development and be forced to painfully and costly choose sides between Beijing and Washington.[127]

---

126 "Polls on Seven Nations: Escalating Expectation on Japan in Asia," Editorial, *The Yomiuri Shimbun*, September 14, 2006, http://www.yomiuri.co.jp/editorial/news/20060913ig91.htm.

127 Yu-Shan Wu(2004), p.617.

REFERENCES

Albritton, Robert B. 2005. Thailand in 2004: The 'Crisis in the South'. *Asian Survey* 45(1): 166-173.

Chan, Steve. 2005. Taiwan in 2004: Electoral Contests and Political Stasis, *Asian Survey* 45(1): 54-58.

Case, William. 2003. Singapore in 2002: Economic Lassitude and Threats to Security. *Asian Survey* 43(1): 167-173.

Cha, Victor D. 2005. South Korea in 2004: Peninsular Flux. *Asian Survey* 45(1): 33-40.

Cheng, Li. 2001. China in 2000: a Year of Strategic Rethinking. *Asian Survey* 41(1): 71-90.

Dent, Christopher M. 2006. The New Economic Bilateralism in Southeast Asia: Region-Convergent or Region-Divergent? *International Relations of the Asia-Pacific*, 6(1): 81-111.

Dittmer, Lowell. 2006. Asia in 2005. *Asian Survey* 46(1): 1-9.

Findlay, Christopher. 2004, China and the FTA Route to Reform *Taiwanese Journal of Australian Studies*, 5: 60-75.

Ganesan, N. 2004. Malaysia in 2003: Leadership Transition with a Tall Shadow. *Asian Survey* 44(1): 70-77.

Hatch, W. and K. Yamamura. 1996. *Asia in Japan's Embrace: Building a Regional Production Alliance*, Cambridge University Press.

Inoguchi, Takashi and Paul Bacon. 2006. Japan's Emerging Role as a 'Global Ordinary Power.' *International Relations of the Asia Pacific*, 6: 1-21.

Johnstone, Christopher B. 1999. Paradigms lost: Japan's Asia policy in a time of growing Chinese power. *Contemporary Southeast Asia* 21(3): 365-385.

Kelton, Maryanne. 2006. Perspectives on Australian Foreign Policy, 2005. *Australian Journal of International Affairs* 60(2): 229-246.

Kendall, Harry H. and Clara Joewono eds. 1991.*Japan, ASEAN, and the United States*, Institute of East Asian Studies, University

of California at Berkeley.
Kiem, Cao Sy. 2006. East Asian Economic Integration: Problems for Late-Entry Countries, *East Asian Visions: Perspectives on Economic Development*, The World Bank and the Institute for Policy Studies, http://siteresources.Worldbank.org/INTEASTASIAPACIFIC/Resources/226262115826283498 9/EA_Visions_7.pdf.
Kipp, Rita Smith. 2004. Indonesia in 2003: Terror's Aftermath. *Asian Survey* 44(1): 62-69.
Lee, Changkyu and Inkoo Lee. 2006. The Rise of China and its Implications for Korean Economy. *Taiwanese Journal of WTO Studies*, 4: 155-188. http://www.wtostudy.nccu.edu.tw/english/emain.htm.
Limaye, Satu(ed.) 2003. *Asia's China Debate,* Honolulu: Asia-Pacific Center for Security Studies, December, http://www.apcss.org/Publications/SAS/ChinaDebate/Asias%20China%20Debate%20compete.pdf.
Lincoln, Edward J. 2002. Japan in 2001: A Depressing Year. *Asian Survey* 42(1): 67-80.
Liou, To-hai. 2005. Analysis on the Latest Development in Sino-Australian Relations. *Taiwanese Journal of Australian Studies* 6: 175-200. http://www.ausstudy.nccu.edu.tw/english/epublication/epubcontent/epubcontent6.htm.
Liou, To-hai. 2006. South Korea's Approach to FTAs. *Taiwanese Journal of WTO Studies* 4: 125-154.
Mackerras, Colin. 2004. Australia-China Relations since the Early 1990s: An Overall View. *Taiwanese Journal of Australian Studies* 4: 103-135. http://www.ausstudy.nccu.edu.tw/english/epublication/epubcontent/epubcontent4.htm.
Malik, Mohan. 2006. The East Asia Summit. *Australian Journal of International Affairs* 60(2): 207-211.
Malley, Michael S. 2003. Indonesia in 2002: The Rising Cost of Inaction. *Asian Survey* 43(1): 135-146.
Medalla, Felipe M. 2006. Economic Integration in East Asian : A Philippine Perspective. *East Asian Visions: Perspectives on Economic Development*. The World Bank and the Institute for Policy Studies, http://siteresources.worldbank.org/

INTEASTASIAPACIFIC/Resources/2262621158262834989/EA_Visions)12.pdf.

Mutebi, Alex M. 2004. Thailand in 2003: Riding High Again. *Asian Survey* 44(1): 78-86.

Nag, Biswajit and Debashis Chakraborty. 2006. India's Approach to Asian Economic *Integration. Taiwanese Journal of WTO Studies*, 5: 67-128. http://www.wtostudy.nccu.edu.tw/english/emain.htm.

Nossal, Kim.1993. "Middle Power Diplomacy in the Changing Asia-Pacific Order: Australia and Canada Compared," in Richard Leaver and James L. Richardson eds. *The Post-Cold War Order: Diagnoses and Prognoses*, Allen & Unwin Australia Pty Ltd.

O'Neil, Andrew. 2006. Australia, Japan, and East Asia's Evolving Strategic Environment. *Taiwanese Journal of Australian Studies*, 7: 81-107.

Ong. Eng Chuan. 2003. Anchor East Asian Free Trade in ASEAN. *The Washington Quarterly* 26(2): 57-72.

Saez, Lawrence. 2004. India in 2003: Pre-Electoral Maneuvering and the Prospects for Regional Peace. *Asian Survey* 44(1): 23-35.

Storey, Ian James. 2000. Indonesia's China policy in the new order and beyond: Problems and prospects. *Contemporary Southeast Asia* 22(1): 145-174.

Tucker, Nancy Bernkopf. 2002. If Taiwan Chooses Unification, Should the U.S. Care? *The Washington Quarterly* 25(3): 15-28.

Uriu, Robert. 2003. Japan in 2002: An Up-and-Down Year, but Mostly Down. *Asian Survey* 43(1): 78-90.

Welsh, Bridget. 2005. Malaysia in 2004: Out of Mahathir's Shadow? *Asian Survey* 45(1): 153-160.

Wu, Yu-Shan. 2004. Taiwanese Nationalism and Its Implications: Testing the Worst-Case Scenario. *Asian Survey* 44(4): 614-625.

Yamazawa, Ippei. 2001. Whither East Asian Regionalism. *Asia Pacific Review* 8(2): 18-27.

Yang, Dali L. 2002. China in 2001: Economic Liberalization and Its Political Discontents. *Asian Survey* 42(1): 14-28.

CHINESE NATIONALISM AND CHINA'S ASSERTIVE FOREIGN POLICY

Abanti Bhattacharya
Institute for Defence Studies and Analyses (IDSA)

Abstract

Chinese nationalism is motivated by two broad elements: one nation-building and, two, attainment of great power status. Drawing from the Confucian culturalism, these two elements have defined Chinese nationalism from a culturalist dimension and have shaped China's foreign policy goals. Since Chinese nationalism is aimed at achieving national salvation by removing the stigma of a victim-nation, China is increasingly playing a proactive role in international affairs. It is using nationalism not only to ensure domestic stability but also to create an international order conducive to its national interests. This has led China to advance its national interests in a manner that renders an assertive tenor to Chinese nationalism. Therefore, nationalism has engendered a proactive and an assertive foreign policy. Such a proactive policy is aimed at building an alternative international order, which would distinctly pose a challenge to US unilateralism and hegemonism.

Key Words: Chinese Nationalism, Civilizational State, Culturalism, Patriotism, Beijing Consensus.

Contemporary Chinese nationalism is traceable to the post-Cold War era, which saw the gradual erosion of Communist ideology and an increasing use of nationalism by the Chinese government to shore up party legitimacy. However, nationalism, in one form or the other, has existed throughout modern Chinese history. Modern Chinese nationalism was a reaction to the humiliation that China suffered at the hands of Western and Japanese imperialism. In the late nineteenth and twentieth centuries, nationalism was a

tool employed by the Chinese leaders to attain freedom of the nation, build a strong and rich country, and enhance China's prestige in the world. This aim of a powerful and wealthy nation remains paramount in Chinese domestic and foreign policy considerations today. It also explains the potent cause behind the rise of contemporary Chinese nationalism.

This study is based on the paradigm of cultural nationalism and has sought to explore the nature of Chinese nationalism and its linkage with the Chinese foreign policy. Broadly, it addresses two major issues: first, drawing from a culturalist paradigm it addresses the issue of how Chinese nationalism has taken shape and, second, it deals with the issue of how this nationalism impinges on Chinese foreign policy. Chinese nationalism is motivated by two broad elements: one nation-building and, two, attainment of great power status. These two elements are rooted in China's imperial ideology of Confucian culturalism. Culturalism has deeply shaped the nature of contemporary Chinese nationalism and has motivated China to formulate shape up its foreign policy goals. The paper establishes the fact that contrary to the dominant Western view that Chinese nationalism is aggressive and poses a threat to world peace, as well as the Chinese view that it aims at a peaceful foreign policy strategy, China has in fact employed nationalism as a tool to promote an assertive foreign policy. Since Chinese nationalism is aimed at national salvation by removing the stigma of a victim-nation, China is increasingly playing a proactive role in international affairs. It is using nationalism not only to ensure domestic stability but also to create an international order conducive to its national interests. This has led China to advance its national interests in a manner that renders an assertive tenor to Chinese nationalism. Therefore, Chinese nationalism has engendered a proactive and an assertive foreign policy for China. Such a proactive foreign policy is geared towards aimed at building an alternative international order, which would distinctly pose a challenge to US unilateralism and hegemonism.

UNDERSTANDING CHINESE NATIONALISM

The dominant Western interpretation of Chinese nationalism is that the Chinese Communist Party has constructed Chinese nationalism as a tool to legitimise its rule. However, such a narrow explanation is a reductionist approach to the understanding of nationalism. In fact, Chinese nationalism cannot be interpreted in isolation and must be understood in its domestic and historical contexts. More specifically, history has played a decisive role in China in shaping nationalism and foreign policy behaviour. In this regard the paper argues that the Chinese imperial ideology of Confucian culturalism has to a large extent fashioned Chinese nationalism today. It is essential to understand the contemporary Chinese nationalism from the prism of China's own historical experience rather than from the Western experience of nationalism. Viewing the Chinese state from its own history helps to move away from a Western construct of nation building and arrive at a nuanced view of the Chinese concepts of nation and nationalism. China as a unitary multi-ethnic country in fact, emerged from the fusion of Confucian culturalism and Western nationalism. This fusion informs the nature of Chinese nationalism, its foreign policy making and its strategic behaviour.

Broadly, two major themes have shaped contemporary Chinese nationalism: one is the goal of nation-building; and the other is to acquire a great power status. Both these goals were foremost concerns in the post-Opium War era in Chinese history and the same concerns inform Chinese nationalism today. These concerns are also intrinsic to China's national security, encompassing both internal and external security. Internally, China is confronted with challenges from the sub-national forces of the Tibetan and the Uyghur ethnic separatists. Externally, it is faced with the competing nationalisms of Taiwan and Japan. These national security challenges have led China to use the tool of nationalism to establish national integrity and national greatness. In this task the influence of Confucian culturalism on modern Chinese nationalism is significant.

The People's Republic of China's (PRC's) notion of nation-

building is primarily drawn from the Qing idea of a civilizational state. The civilizational state stretched to incorporate the minority dominated areas of Tibet, Xinjiang, Mongolia and Taiwan. It was guided by the ideology of Confucian culturalism. This ideology that defined the nature of the Chinese state from a civilizational perspective had two elements.[1] First was Confucianism, the perspective of which was universally applicable and transcended the political entity of China. This characteristic was encapsulated in the notion of Tianxia or all under Heaven that essentially reflected the Chinese civilizational state. It encompassed those areas where Chinese culture spread and was assimilated. Tianxia thus defined the Sinic world. The ruler of Tianxia was Tianzi or the Son of Heaven who possessed the authority to rule the entire civilized world.[2] In essence, culturalism engendered the notion of a state based on civilizational identity rather than a territorial nation state with fixed boundaries. The second element of culturalism was the assumed superiority of the Chinese Han culture as evidenced in the rich development of its institutions, systems of thought, language and culture so much so that the neighbouring powers acknowledged Chinese supremacy, accommodated themselves to it and in some cases, even voluntarily assimilated it. Based on Han superiority the civilizational state extolled Han identity and justified Chinese rule over the non-Chinese and thereby incorporated the barbarians (yi) into it. Confucianism, thus, served as an ideology of the empire, and because of the perceived superiority of Chinese Han culture it was an ideology that was accepted by all of the empire's subjects. Therefore, since the Chinese state conceptualized itself as a civilizational state, it overcame the problem of defining nationalities in China. It facilitated the accommodation of all nationalities within itself without raising the question of the principles of national self-determination. This notion of culturalism has

1 James Townsend, "Chinese Nationalism," in Jonathan Unger, ed., *Chinese Nationalism* (New York: M. E. Sharpe, 1996), pp.1-30.

2 See, Marc Mancall, "The Ching Tribute System: An Interpretative Essay," in John K. Fairbank, ed., *Chinese World Order* (Cambridge: Cambridge University Press, 1968).

permeated the modern notion of nationalism and explains why Tibet and Xinjiang are regarded as integral parts of the PRC.[3]

Broadly, in the nineteenth century, confronted with the Western threat and dismemberment of China, the primary task before the Chinese nationalists was the salvation of China. The quest to save China and achieve freedom brought the Chinese nationalists, like Sun Yatsen, to define the Chinese nation. This involved defining both the people of China and the Chinese state. The definition that was arrived at included a conscious imposition of the imperial concepts of culturalism on the modern definition of a nation state. Behind the rhetoric of nationalism was the practical consideration of retaining all the Qing territories in the new nation state. The Qing territories comprised of Xinjiang, Tibet and Mongolia with populations consisting of non-Han groups. These were also areas in on which Chinese control was considered crucial to China's national security and integrity. Thus, to control the strategic areas and to bring the non-Han population within the fold of the new-nation state, Sun Yatsen evolved the idea of the 'five peoples.' Successive nationalists and communists alike adopted the same principle of assimilation to conceive China as a multi-ethnic country.

Drawing from the notion of culturalism, the Chinese Communist Party (CCP) abandoned the earlier notion of self-determination adopted in the 1931 Jiangxi Soviet Constitution.[4] Instead, Mao Zedong urged the minorities to unite with all Chinese against the common oppressors.[5] Mao appropriated the argument of oppression in 1935 in order to deny the right to self-determination to the minorities and instead argued that the CCP was liberating them from oppression by bringing them within the fold of the Chinese

---

3 Townsend suggests how culturalism did not replace modern nationalism; instead, it permeated the modern notions of nationalism in China.

4 Chang Chih-I, A *Discussion of the National Question in the Chinese Revolution and of Actual Nationalities Policy, trans*. George Moseley (London: MIT Press, 1966).

5 Dawa Norbu, "China's Policy Towards its Minority Nationalities in the Nineties," *China Report*, Vol.27, No.3 (1991).

state. In fact, Mao realised the dangerous implications of Lenin's right to self-determination for the unity of China and declined to follow the Soviet model of self-determination. Mao's choices grew out of the painful developments that China had to confront. Within his own lifetime, he saw the loss of Korea and Taiwan, the occupation of Beijing, and the repeated payments of indemnities to foreign powers—the so-called slicing of the 'Chinese melon' as the Chinese themselves referred to the period in their history of persecution and domination by the great powers of the time. Therefore, in Mao's political thought the idea of a strong united state acquired pre-eminence. Stuart Schram noted that if the class concept had certain priority in Mao's thinking, on the "level of sentiment and instinctive reactions", it was always Mao's attachment to the nation that predominated.[6] Tibet, Xinjiang and Inner Mongolia, thus, came within the fold of China's multi-ethnic state in the post-1949 era. This policy of integration and assimilation forms the central tenet of Chinese state policy on minorities and reflects the continuation of Chinese imperial policy.

As argued above, Chinese imperial policy was based on its conceptualisation of the Chinese state as a civilization and not as a nation. Therefore, current challenges of sub-national forces (the Tibetans and the Uyghurs) to Chinese nationalism essentially reflect the complications in Chinese nationalism based on a civilizational state identity, not on a political identity. Further, the current PRC's strategy of promoting economic development in the minority areas to bring about political integration, typified by the Great Western Development Policy, again indicates the impact of Confucian culturalism. The minorities in imperial China comprised those groups who were non-Han, called barbarians (*yi*). The distinction between Han and non-Han was essentially based on stages of economic development.[7] The Han represented the

---

6 See Stuart Schram, *The Political thought of Mao Tse-tung* (New York: Praeger Publishers, 1969).

7 See Owen Lattimore, *Inner Asian Frontiers of China* (New York: Capitol Publishing Co., Inc., 1951).

agricultural based society leading a sedentary life while the non-were largely food gatherers, herders and hunters leading a nomadic life. When barbarians accepted the Chinese notions of development they were looked upon as Chinese, though not as Han. The underlying belief of the PRC that political integration of the minority population can be achieved by promoting economic development is drawn from this notion of Confucian culturalism where the markers of differentiation between the two communities were not based on racial category but on cultural advancement. This form of integrationist policy based on economic criterion became the basis of Chinese nationalism. In the 1990s this aspect of nationalism gained salience in the aftermath of the fall of the Soviet Union Nation. An integration of the minority regions became the primary objective of the PRC with the result that Han immigration and economic expansion became the linchpin of China's nationalist project. This underlying philosophy of economic integration also underscored China's policy toward Taiwan. The nation building aspect hence constitutes an important element in Chinese nationalism as this not only indicates the salience of the Chinese imperial ideology in defining the territorial boundaries of China and its policies toward the minorities, but also highlights China's heavy insistence on domestic stability and security for overall foreign policy goals.

Linked to this nation-building aspect of Chinese nationalism is China's aspiration for achieving great power status.[8] This aspect is again rooted in the Confucian concept of *fuqiang* or wealth and power. This again indicates the decisive role of history in China in defining present policies. From the time of the European intrusion and the first Opium War of 1840, the fundamental issue dominating the Chinese mind was the survival of China and the regeneration of its national wealth and power by adopting the path of modernization.[9]

---

8 Wellington K. K. Chan, "Government, Merchants and Industry to 1911," in Denis Twitchett and John K. Fairbank, eds., *The Cambridge History Of China,* Vol.Ⅱ, Late Ch'ing, 1800-1911, Part 2 (Cambridge: Cambridge University Press, 1980), pp.417-418.

This urge for national wealth and power permeated through the twentieth century in the Chinese national movement and the Communist revolution. This theme was pre-eminent in Mao's perspective of the need for China to achieve economic independence and self-reliance. This was also the emphasis in Deng's China, but this time the quest for modernization of China found its answer in China's integration with the world's capitalist economy. In the post-Cold War era, the same factor motivated the Chinese foreign policy.

The *fuqiang* concept was in essence a cultural and political response to the Western challenge.[10] Since this Western challenge created a crisis for the Chinese imperial state, there emerged a legitimacy crisis. The quest for identity led China to adopt the notion of wealth and power, which in turn engendered legitimacy to the Chinese State. Interestingly, the same quest for wealth and power underscores contemporary Chinese nationalism. Deng Xiaoping's 'socialism with Chinese characteristics' carried the message that while China would follow the socialist path it would also allow its people to get rich. Getting rich was no longer condemnable and Deng, in effect, adjusted socialism to suit with the Chinese conditions and in doing so saw the need for an open door policy and a vigorous reform strategy to make China equal or superior to the Western countries. Therefore, the quest for wealth and power gave and continues to give Chinese nationalism a semblance of a national quest, and the people a common agenda for unity and identity.

The present reflection of the concept of fuqiang is not only evident in China's ongoing military modernisation but also in a series of developmental programmes including the building of the Qinghai-Tibet Railway line, the Three Gorges Dam and the West-to-East pipeline project. These grand projects, massive in dimension

9 See, Tu Wei-ming, et al., eds., *The Confucian World Observed: A contemporary Discussion of Confucian Humanism in East Asia* (Hawaii: Hawaii University Press, 1993), p.11. Also see, Wellington K. K. Chan, ibid.
10 See, Tu Wei-ming, et al., eds., *The Confucian World Observed: A contemporary Discussion of Confucian Humanism in East Asia.*

and immense in their outreach, underscorees China's emergence as a global power. Further, China looks upon the hosting of the 2008 Olympic Games as a symbol of its great power status. In fact, the Olympic Games may be considered a benchmark when China formally announces to the world its arrival as a super power.

Essentially thus, Chinese nationalism underscores two primary objectives: the undertaking and completion attainment of a nation-building project and the eventual achievement of national greatness. However, with the collapse of socialism in Eastern Europe and the disintegration of the Soviet Union in 1991 these objectives came under immense threat. The post-Cold War developments confronted Chinese policy makers and intellectuals with the spectre of social and political collapse.[11] Coupled with this, was the threat stemming from the social forces unleashed by the economic reforms and globalisation. These fears raised the salience of nationalism in China from the 1990s onwards. As a result the PRC spelt out clearly its nationalism in terms of patriotism. In fact, the leadership preferred to call patriotism (*aiguo zhuyi*) rather than nationalism (*minzu zhuyi*) for the latter denoted a negative overtone. It connoted ethno-centrism and anti-foreign sentiments. Therefore, patriotism provided the basic theme around which the Chinese leadership built up the notion of contemporary Chinese nationalism. A Renmin Ribao article on 'Patriotism, a Great Banner with Strongest Rallying Force, Vigour' highlighted that, "Patriotism is the purest, the most noble, and the most sacred feelings of our nation condensed over the past thousands of years for our motherland. It is pure because being patriotic is a dedication."[12] Highlighting the importance of patriotism in current China, an article in the *China Daily* stated, "Patriotism constitutes the broadest-based appeal to unite the Chinese people for concerted efforts towards bringing about a well-off society. From this reasoning, the most basic elements of

11 Joseph Fewsmith, *China Since Tiananmen: The Politics of Transition* (Cambridge: Cambridge University Press, 2001), p.79.

12 Ren Zhongping, "Vigorously carry forward the main theme of the times and the national spirit - on patriotism, collectivism and socialism," *Renmin Ribao,* June 29, 2000; FBIS-CHI-2000-0628, June 28, 2000 at http://wnc.fedworld.com.

patriotism today should include the following: love for the nation's territory, including Taiwan (the dimension of land), care for one's compatriots (the dimension of people), and a willingness to help preserve China's cultural identity (the dimension of culture). Thus defined, patriotism in China today may have a greater unifying and integrating power to bring the people together."[13] This definition of patriotism, subsumed in the three dimensions of land, people and culture, also explicates the salience of the two broad objectives of nationalism discussed above.

The use of patriotism as state policy goes back to the reform era. Christopher Hughes argues that Deng Xiaoping's January 1980 speech on *The present situation and the task before us* points to the important linkage between patriotism and policy making (Hughes 2006, 14). He says that Deng's presentation of 'economic construction' as the condition for achieving unification and opposing international hegemony clearly elevates patriotism as an important component of his 'reform and opening up'. Patriotic education, in fact, became the driving force behind guiding line for China's educational reform when in January 1993 the State Education Commission issued a document, *Programme for China's Education Reform and Development*.[14] The patriotic education campaign reached its climax when the CCP Central Committee published a central document, *The Outline for Conducting Patriotic Education* drafted by the Central Propaganda Department and carried in Renmin Ribao on September 6, 1994.[15] The document outlined that the goal of education in patriotism was "to boost the nation's spirit, enhance its cohesion, foster its self-esteem and sense of pride, consolidate and develop a patriotic united front to the broadest extent, and direct and rally the masses' patriotic

13 "Pondering Over Patriotism," *People's Daily*, September 21 2004 at http://english.people.com.cn/200409/21/eng20040921_157754.html.
14 Suisheng Zhao, "'We are Patriots First and Democratic Second': The Rise of Chinese Nationalism in the 1990s," in Edward Friedman and Barrett L. McCormick, eds., *What If China Doesn't Democratize?: Implications For War And Peace* (London: M.E. Sharpe, 2000), p.28.
15 Ibid., p.29.

passions to the greatest cause of building socialism with Chinese characteristics."[16] Broadly, the patriotic education campaign was aimed at achieving three things. First, it aimed at reviving Chinese tradition and culture. Second, it emphasized on the need to protecting China's national interests and to bolster the CCP's leadership in a country faced with Western-imposed sanctions after the Tiananmen incident of 1989. Third, it aimed at promoting national unity as a buttress against ethnic separatist movements.

Patriotic education also became an effective tool to win loyalty to the party from the growing number of professional personnel upon whom 'building socialism with Chinese characteristics' depended.[17] As China became increasingly entangled in the globalization process, its dependence on the new generation of technocrats, scientists and managers grew. The need to legitimise their role in the new China led Jiang Zemin to formulate his theory of *Three Represents* which proposed to represent the development trend of China's advanced productive forces, the orientation of China's advanced culture and the fundamental interests of the overwhelming majority of the Chinese people.[18] Hailed as the 'Marxism for contemporary China' the *Three Represents* came to be regarded as "fundamental guidance for the implementation of the CPC's work in the New Era and a powerful spiritual pillar for the rejuvenation of the Chinese nation."[19]

Understanding Chinese nationalism from the paradigm of culturalism helps us to arrive at a nuanced view of nationalism in China. This explains essentially why and how Chinese nationalism deals with the cases of sub-nationalism and competing nationalism. In fact, Confucian culturalism has led the Chinese state to behave in a manner which has been very aptly described by Ross Terrill, as neither an empire nor a modern state (Terrill 2003, 28). By

16 Ibid.
17 Christopher R. Hughes, *Chinese Nationalism in the Global Era* (London: Routledge, 2006), p.76.
18 Ibid.
19 "'Three Represents' is Marxism for Contemporary China: Official," *Xinhua,* September 24, 2003 at http://www.china.org.cn/english/government/75922.htm.

constantly harping on the need to build a strong China and to prevent Western efforts in subverting the Chinese nation, the Chinese state today attempts to forge a national identity based on patriotic nationalism (*aiguo zhuyi*). It is little wonder that the Chinese state prefers to call "Chinese nationalism" "as patriotic nationalism" in order to rally all the people of China under the banner of patriotism. Past heritage and past humiliation is employed to evoke patriotism among all people, including the minorities. What does this new nationalism mean for China? This new nationalism is aimed at fulfilling its avowed goal of consolidating China's nation building project and achieving a great power status. These goals are far from complete given the threat of separatism and the existence of Taiwan as a separate state. These goals have imbued Chinese patriotic nationalism with an assertive tenor, and they have in turn, engendered a certain degree of pro-activism in China's foreign policy arena.

IMPACT OF CHINESE NATIONALISM ON FOREIGN POLICY

The dominant Western view holds that Chinese nationalism is aggressive and poses a threat to world peace,[20] while Chinese leadership claims that China is essentially following a foreign policy of peace and harmonious development.[21] This paper argues that nationalism has been employed by China as a tool to promote an assertive foreign policy. A nation's rise in Western discourse implies a shift in hegemony and is, thus, considered a rise that will doom it to an eventual confrontation with existing powers.[22] According to some scholars, Chinese nationalism will probably

---

20 See, Yongnian Zheng, *Discovering Chinese Nationalism in China: Modernization, Identity and International Relations* (U.K: Cambridge University Press, 1999) and Maria Hsia Chang, *Return of the Dragon: China's Wounded Nationalism* (Boulder: Westview Press, 2001).

21 See, Wang Guangya, "A Peaceful Role Player in World Affairs," *Beijing Review,* May 18, 2006, pp.16-17.

therefore, turn xenophobic and harm world peace. However, China's rise as a great power is contingent on its sustained economic growth. Only a stable domestic order and a peaceful external environment will guarantee an undisturbed growth. Therefore, China is determined to integrate itself into the international system rather than challenge it in any fundamental way.[23] China claims to pursue a foreign policy of peace and harmony. However, since Chinese nationalism is aimed at ensuring national salvation and blotting out the stigma of a victim-nation, China is increasingly playing a proactive role in its foreign policy. Such a role envisions creating an international order favourable to China's rise as a great power. Therefore, Chinese nationalism has engendered an approach to foreign policy, which is proactive and assertive in nature. However, this pro-activism is not intended to pose a threat to world order but essentially build an international order in which the US would no longer be a dominant power.

Studies on the rise of great powers indicate that previous great powers relied heavily on "material and military power" to achieve their status. However, the presence of the United States and its preponderant influence, coupled with the existence of nuclear weapons, has demonstrated the futility of achieving great power status through the use of force.[24] Instead, China has increasingly relied on peaceful mechanisms to expand its global role and influence. These mechanisms are mainly geared to create an international order in which the US would no longer be a dominant player. To sustain its economic modernization and to achieve a great power status and thereby fulfil the goal of nationalism, China has adopted a two-pronged strategy.

---

22 Neorealist understanding of hegemonic stability theory is based on the premise that a hegemon supports and maintains an international system in its national interests by coercion. If the system is not in its interests, it would undermine it.

23 See, David Shambaugh, "China Engages Asia: Reshaping the Regional Order," International Security, Vol.29, No.3 (Winter 2005).

24 See, Marc Lanteigne, *China and International Institutions: Alternate Paths to Global Power* (London: Routledge, 2005).

At the rhetorical level, China has put forward ideological concepts like 'peaceful rise'[25] and 'harmonious development.'[26] These concepts are meant to familiarise China's foreign policy motivations to the world and also to legitimise its behaviour in the international arena. At the same time, these concepts are intrinsic to China's rise as a great power. In fact, these concepts portray an assertive China in contrast to Deng Xiaoping's concept of peace and development. In the past, the underlying message of peace and development was to lie low till China became powerful. However, the pronouncement of the peaceful rise concept at the Boao Forum held in Boao on November 3, 2003 indicateds the rise of a confident, strong China. This concept arose mainly in response to as a result of the so-called 'China threat theory' and US hegemonism and unilateralism, which China claims have challenged peace and development of the contemporary world. Further, this concept is fundamental to China's internal growth and domestic stability. Again, with this concept in perspective, China seeks to promote its national interests. China has realised that economic strength alone will not propel it into the category of a major world power, for which purpose it should also be able to formulate rules for the international community.

Rhetorically, the concepts of a peaceful rise and harmonious development are meant to emphasize China's peaceful intentions behind its rapid rise, as well as intending to reflect its determination, as mentioned previously, to become integrated into the international system rather than challenge it in any fundamental way. More importantly, these rhetorical positions underpin China's avowed goal of overcoming the past humiliations inflicted upon it by the West and restoring China to its rightful place in the world. This indicates a paradigm shift in China's foreign policy strategy. China no longer views itself as a 'victim' of international politics but as a confident strong power. This paradigm shift engenders a proactive

25 See, Abanti Bhattacharya, "Revisiting China's 'Peaceful Rise': Implications for India," *East Asia,* Vol.22, No.4 (Winter 2005), pp.59-80.

26 Yu Jun, "In Pursuit of Harmony," *Beijing Review,* Vol.49, No.2 (January 2006), pp.10-13

and assertive foreign policy strategy for China.

Further, China from time to time has also published White Papers on controversial foreign policy issues, such as, human rights, Tibet, Xinjiang, defence policy, nuclear non-proliferation and most recently on democracy. These White Papers are published to showcase and defend China's position on such issues. At the same time it indicates China's assertive foreign policy. Through White Papers China upholds its sovereign rights and brooks no interference by external powers. While it explains China's non-confrontationist strategy, it is also a proactive tool to reshape the world order on its own terms.

At the practical level, China has adopted two major tools to emphasize its assertive foreign policy strategy: multilateral diplomacy and building partnerships. China accepted globalization out of economic necessity but lately it has realized that, apart from advancing Chinese economic interests through greater interdependence, globalization is the means to achieve great power status.[27] Through interdependence and greater cooperation, China can not only enhance its national prestige but also restrain the US unilateralism. More importantly, China's increasing participation in multilateral diplomacy is geared to creating a security environment favourable to itself.[28] Therefore, from the 1990s onwards, China has begun to perceive the importance of the political facet of globalization and began to emphasize on multilateral cooperative mechanisms.[29] In fact, a reassessment of the main threats to China's security in the post-Cold War era, led China to discard its initial reluctance to join multilateral institutions and secure its interests through institutional mechanisms based on common security and common prosperity. Further, the "fear of being left out", the desire to

---

27 See, Yong Deng and Thomas G. Moore, "China Views Globalization: Toward a New Great-Power Politics?" *The Washington Quarterly,* Vol.27, No.3 (Summer 2004), pp.117–136.

28 "Foreign Policy for Regional Stability," *Beijing Review,* Vol.46, No.52 (December 2003), p.16.

29 Yong Deng and Thomas G. Moore, "China Views Globalization: Toward a New Great-Power Politics?"

prevent other countries from ganging up against China, the prospect of regulating the pace and agenda of the various influential forums from inside, and the desire to play the role of a responsible world power, led China to participate in multilateral mechanisms.[30] By launching the Shanghai Five in 1996, which later evolved into the Shanghai Cooperation Organization (SCO), China adopted multilateralism as an important element in its foreign policy mechanisms. China joined the ARF (ASEAN Regional Forum), a regional security forum, as part of a multilateral cooperative effort to preventing disputes among its members from degenerating into open hostilities.[31] China and the ASEAN states signed the framework Agreement on China-ASEAN Comprehensive Economic Cooperation on November 4, 2002 to launch the process for a Free Trade Area (FTA) by 2010. Similarly, regarding on the South China Sea dispute, China and ASEAN signed the Declaration on the Conduct of Parties in the South China Sea in 2002. This was the first political document signed between China and ASEAN on South China Sea issues indicating China's firm move toward multilateralism. These various multilateral fora facilitate China to building its own international order through which it can not only command a great power status but manoeuvre international politics to further its national interests. It also enables China to displace the US as the sole facilitator of multilateralism. The December 2005 East Asian Summit held in Kuala Lumpur, Malaysia indicates that China is seeking to play a dominant role in the forum and that the exclusion of the US from the forum is not by chance but by design. A report from the Congressional Research Service even expressed apprehension about displacing the prospect of the Asia Pacific Economic Cooperation (APEC) organization being displaced from the region by a future the East Asian Community.[32] Manifestations of China'

30 Muthiah Alagappa, "Asian Practice of Security: Key Features and Explanations," in Muthiah Alagappa, ed., *Asian Security Practice: Material and ideational Influence* (Stanford: Stanford University Press, 1998), p.636.

31 Michael Yahuda, "How Much Has China Learned About Interdependence?" in Gerald Segal and D. Goodman, eds., China Rising (London: Routledge, 1996).

s assertive policies are also evident in its recent diplomatic successes on its periphery, including resolution of a long-standing territorial dispute with Russia and entering into border negotiations with India. Other successes include China's handling of the Asian financial crisis and the delicate brokering of the six-party talks on the North Korean nuclear crisis. Likewise, China has built increasingly strong trade relations with its neighbours in East, Southeast and Central Asia, bringing traditionally distrustful countries into its economic sphere.

Cultivating strategic cooperative partnerships has also emerged as an important foreign policy tool for China.[33] The policy of partnership provides China with an effective mechanism to manage its relations with the major powers of the world, particularly at a time when it is rapidly rising. It is through partnerships that China is building up a web of alliances through which it can shape a the security environment favourable to itself. Further, such partnerships enables China to cope with the constraints and challenges posed by the US in the post-Cold War era and to hasten the advent of an international system where the US would no longer be dominant.[34] In fact, China's strategic partnership with the US is primarily driven by the intention to reduce conflict with the world's only superpower while it is 'peacefully' rising in the international system. The policy of partnership is also a means to create a multipolar world order. A multipolar world order offers China the opportunity to assert itself and opens up more avenues to aesccealerate its modernization drive. Since 1996 China has

---

32 Bruce Vaughn, "East Asian Summit: issues for Congress," CRS Report for Congress, December 9, 2005 at http://www.opencrs.com/rpts/RL33242_20060111.pdf.
33 On partnerships see, Avery Goldstein, "The Diplomatic Face of China's Grand Strategy: A Rising Power's Emerging Choice," *The China Quarterly*, No.168 (December 2002), pp.835–64. Also see, Joseph Cheng and Zhang Wankun, "Patterns and Dynamics of China's International Strategic behaviour," in Suisheng Zhao, ed., *Chinese Foreign Policy: Pragmatism and Strategic Behaviour* (London: M.E. Sharpe, 2004), pp.179–206.
34 Avery Goldstein, "The Diplomatic Face of China's Grand Strategy: A Rising Power's Emerging Choice," p.846.

sought to establish some sort of partnership with all the major powers of the world. China signed a Strategic Cooperative Partnership agreement with Russia in April 1996, and since then China has also established strategic partnerships with the following countries: Constructive Strategic Partnership with the US in October 1997; Comprehensive Partnership with France in May 1997; Partnership of Constructive Cooperation with India in 1997; and the recent 2005 Cooperative Strategic partnership with India. Most recently, in April 2005, Hu Jintao's visits to the Afro-Asian nations were intended to further advance its strategic partnerships around the world. These partnerships are all meant to make the international situation more conducive to China's goal of modernization and finally enable it to portray itself as a global power.

CHINESE NATIONALISM AND CHINA'S CONTENTIOUS ISSUES

The nature of Chinese nationalism can be best understood from China's divergent views on most of its contentious issue. These respective is divergent positions while throws light on the nature of Chinese nationalism while at the same time they also provide an insight into China's assertive foreign policy behaviour.

Concerning the most contentious issue of reunification with of Taiwan, China has continued with its assertive diplomacy, despite its growing economic integration with Taiwan. For China, regaining control over Taiwan is part of its nationalist project. It is a matter also of survival for the Chinese party whose legitimacy is tied to the resolution of the Taiwan question. It perceives this to be necessary to bring to an end the 'century of humiliation', to symbolize the success of Chinese nationalism and to achieve national greatness. As a result, China adopted coercive diplomacy toward Taiwan during the 1996 missile tests across the Strait. Also, in July 2004 China declared a time frame to reunify Taiwan. The passing of the Anti-Secession Law in March 2005 legalizing military action against Taiwan was yet another example of China'

s coercive strategy toward Taiwan. However, lately China has toned down its military threats against Taiwan. The resumption of chartered flights and the establishment of the "three direct links" has become the focus of cross-Strait interaction and mechanisms to improve the relations between the two. In China's strategic thinking, greater economic engagement is regarded as a way towards promoting political integration. In fact, instead of outright military intervention, China's present strategy is to achieve reunification through "coercive peace."[35] The recent visits by members of Taiwan's opposition parties to the mainland indicate such a strategy. These visits indicate Beijing's attempt to capitalize on and exploit Taiwan's internal political divisions and further isolate President Chen Shui-bian and his pro-independence Democratic Progressive Party.[36] However, these moderate steps do not mean that China has renounced the use of force in reunifying China. In fact, China's historical experiences with imperialist humiliation and its own construction of the notion of nationalism leave no space for any compromise with its national goal of reunification. Coupled with this are China's own security calculations and the geo-political significance of acquiring Taiwan.

From a historical perspective, the most contentious case is related to the Sino-Japanese relations. Though Shinzo Abe's China visit marked a turning point in Sino-Japanese relations, "the history question," regarding Japan's brutal occupation of China beginning in 1931, is far from resolved. There are significant sections in China who are not supportive of the moderate policies of Hu Jintao towards Japan and hold history to be the key issue between the two sides. In any future solution to the territorial disputes, the history factor is likely to emerge as a key contentious area inhibiting improvement in bilateral relations. In fact, Sino-Japanese

35 The term used by Chinese Ambassador to India, Sun Xi, during an interaction with the author on December 2nd, 2005, Delhi University, India.

36 Kerry Dumbaugh, China-US Relations: Current Issues and Implications for US Policy, CRS Report for Congress, July 8 2005 at http://italy.usembassy.gov/pdf/other/RL32804.pdf.

relations have been determined by a complex enmeshing of two broad issues: history and power competition; issues that have fuelled their competing nationalisms and shaped the present bitter contours of their relationship. Both Chinese and Japanese scholarships hold that for the first time in history both China and Japan are rising and "have become powers with equal weight."[37] This has induced uncertainty and instability in the East Asian region. The rise of China has created fears in the Japanese minds, for it involves not only the emergence of a new great power in Japan's neighbourhood, but also a power poised to dominate the region by attracting long-time American allies to its orbit. The growing Chinese defence spending, with a 17.8 per cent rise from the previous year and the recent demonstration of its potential to engage in the so-called 'Star Wars' military technology race between the US and Russia with its own anti-satellite weapon test, has created new apprehensions in Japan about the rise of China. In response, the Japanese are increasingly defining their state policies on the basis of nationalism and the Japanese government is fast shedding its pacifist approach and pushing Japan towards acquiring a 'normal' state status. Japan is today not only strengthening its alliance with Washington, but has also for the first time (in 2005) recognised Taiwan as a common security concern to both itself and the United States. This has indeed alarmed China, since reunification of Taiwan is central to Chinese nationalism. China's opposition to Japan's bid for a permanent seat in the United Nations Security Council (UNSC) is also indicative of the logic of China's urge to remain the sole great power in the region. In fact, both China and Japan are in the process of redefining their power positions in the international system and this has brought a significant transformation in the Asian balance of power with the two great Asian giants rising and competing simultaneously. This ongoing repositioning of the two countries in the changing global matrix of power has become

---

37 Wang Yingfan, "Building Trust Between China and Japan," *China Daily*, August 08, 2006, http://www.Chinadaily.com.cn/opinion/2006-08/08/content_659299.htm.

inextricably linked with the Sino-Japanese friction over history and has fuelled their competing nationalisms today.

On the contentious issue of human rights, China came up with the notion of Cultural Relativism to challenge the Western notion of human rights. In the Vienna Declaration of the UN World Conference on human rights in 1993, the Chinese representatives argued, "Countries at different development stages or with different historical traditions and cultural backgrounds also have different understandings and practices of human rights. Thus one should not and cannot think the human rights standards and models of certain countries as the only proper ones and demand all other countries to comply with them."[38] By following an indigenous definition of human rights China, resists foreign interference and upholds the sovereign rights of the nation. In general, China regarded Western human rights preoccupations as neo-imperialistic. It essentially views Western human rights criticism as a Western strategy of 'peaceful evolution' (*heping bianyan*) that "attempts to subvert the socialist system of China, suppress its economic development and establish Western hegemonism (*baquan Zhuyi*)."[39] Therefore, it is not surprising that the question of human rights has been a bone of contention between Chinese nationalism and American hegemonism. In response to what is seen as a US onslaught on its sovereignty, China came up with a White Paper criticizing US human rights conditions in 2000.[40] As a counter-strategy, the Asian Values debate has been used by the Chinese to promote Chinese nationalism rather than the cause of human

---

38 Liu hua Qiu, "Proposals for human rights protection and promotion: Speech in Vienna, 1993," *Beijing Review* (June-July 1993), p.9.

39 Maria Svensson, "The Chinese Debate on Asian Values and Human Rights: Some Reflections on Relativism, Nationalism and Orientalism," in Michael Jacobson and Ole Bruun, eds., *Human Rights and Asian Value* (Surrey: Curzon Press, 2000), p.216.

40 *Chinese White Paper on Human Rights,* 2000 at http://www.fmprc.gov.cn.in. The Chinese Government has come out with 8 white papers on human rights so far beginning from 1991; two are exclusively on Tibet's human rights position.

rights per se.[41] The human rights issue, in fact, acts like a double-edged sword. It promotes the cause of both national dignity and China's cultural identity.

On the issue of democracy, China again displays a stiff resistance to the West. China considers Western liberal democracy to be a source of "spiritual pollution." Further, it claims that democracy cannot be "dictated" and "superimposed" upon a country. Democracy, China insists, should take into consideration local characteristics and traditions. China's own model of democracy, "the socialist democracy," emphasizes on economic, cultural and communitarian rights.[42] Hosting the US President George W. Bush in Beijing in 2005, November, Hu Jintao, brushed aside criticism of on China's lack of democracy and declared, "We should respect the right of all countries to independently choose their own development paths."[43] On October 19, 2005, China for the first time came out with a White Paper on democracy to defend its position on "democracy with Chinese characteristics." The White Paper, clarifying China's position on democracy, stated that it should evolve out of local conditions, should have local characteristics, and should cater to local needs. It firmly rejected the idea that China will ever adopt multi-party democracy. Thus, on the issue of democracy, China firmly opposes Western or US intervention, reflecting China's assertive nationalism.

On the contentious issue of border disputes, China again shows the powerful role that nationalism plays in its foreign policy. Constructing the notion of nationalism from the perspective of humiliation has caused China to resolutely guard its territorial integrity. China shares the largest disputed land border with India. China's difficulty in resolving its territorial border with India

41 Maria Svensson, "The Chinese Debate on Asian Values and Human Rights: Some Reflections on Relativism, Nationalism and Orientalism," p.201.
42 Bhartendu Kumar Singh, "China: Democracy, Development and International Relations," February 23, 2005 at www.ipcs.org.
43 Antoaneta Bezlova, "Politics-China: Democracy is Fine but Party Comes First," *IPS Inter Press Service,* November 22, 2005 at http://www.ipsnews.net/print.asp?idnews=31123.

reflects its sensitiveness with regard to its national pride and national survival. China, therefore, regards its territorial disputes with India as 'problems left over from history.' In fact, the border problem is rooted in the competing nationalisms of India and China. As both countries were victims of imperialism, they uphold territorial integrity and sovereignty as their supreme national interests. Also, both regard their territorial claims as righteous; coupled with this are their competing strategic interests in an overlapping geo-political region. It was no coincidence that Jawaharlal Nehru regarded China as a threat for he felt Indian and Chinese cultures have been contesting for supremacy for hundreds of years in Central Asia, Burma, Tibet and the countries of Southeast Asia.[44] Due to competing nationalisms and diverse strategic considerations of both the countries, a final solution of the border dispute has remained elusive.

ASSESSMENT

An understanding of Chinese nationalism suggests that China's twin goals of nation-building and attainment of great power status has injected an assertive tenor into Chinese nationalism. This assertive foreign policy strategy is motivated by the principal goal of maintaining a peaceful environment to support China's internal growth and domestic stability. While China's foreign policy objectives are indeed driven by domestic considerations, its proactive policies indicate a fundamental shift in its foreign policy, which is intended to create an international system favourable to itself and in which the United States would no longer be the sole super power. In fact, the relatively recent new expression of nationalism has enabled China to expand its global influence in an assertive manner, which in effect has brought a fundamental shift in its foreign policy, that is, from that of a nation with a 'victim' mentality to one possessing a 'great power' status.

---

44 B. N. Mullik, *My Years with Nehru* (New York: Allied Publishers, 1972), p.8.

The manifestation of China's emergence as a great power is most visible in its relations with the US. The US Deputy Secretary of State, Robert Zoellick, injected new vitality into Sino-US relations by proposing China to be a "responsible stakeholder."[45] China believes that this significant turn in Sino-US relations was spurred by basically two factors: One, China's rapid development and its ability to influence US interests, and two, the US' own limitations in dealing with security challenges and therefore the need for coordination and cooperation in the international sphere.[46] Furthermore, China's growing confidence is visible in the Chinese President's preference for describing his country as a 'partner' in constructive co-operation instead of calling itself a mere 'stakeholder'. Hu Jintao stated that China and the US "shared extensive and important strategic interests in safeguarding world peace and promoting mutual development."[47] China's April 2006 six-point proposal on bilateral ties with the United States underlined that "the two sides should maintain close consultation, take up challenges and strengthen communication and coordination on major international and regional issues."[48]

In addition, China has entered in a big way into areas which had long been the domain of the US. The recent visits of Hu Jintao to the Latin American and Afro-Asian countries testify to China's expanding influence in the US's backyard. It is making inroads in a peaceful manner based on a strategy of non-interventionist and non-ideological foreign policy. In fact, China's policy of cooperation without intervention has made it an attractive country for the Latin American and African countries to engage with. The

---

45 Deputy Secretary Zoellick Statement on Conclusion of the Second U.S.-China Senior Dialogue at http://www.state.gov/r/pa/prs/ps/2005/57822.htm.
46 Wu Xinbo, "Two Giants, A Global Arena," Beijing Review, Vol.49, No.8 (February 23, 2006), p.18.
47 "China, US more than Stakeholders: FM," *Xinhua,* April 23, 2006 at http://www.chinadaily.com.cn/china/2006-04/23/content_574480.htm.
48 "Chinese President Makes Proposals on Advancing Sino-US Relations," People's Daily Online, April 22, 2006 at http://english.people.com.cn/200604/22/print20060422_260247.html.

African Policy Paper issued by China on January 12, 2006 underscores China's policy of cooperation without intervention. It states that, "China will do its best to provide and gradually increase assistance to African nations with no political strings attached."[49] On the issue of military co-operation, the policy paper outlined that China "will continue to help train African military personnel and support defence and army building of African countries for their own security."[50] Some scholars are also talking about a 'great game' being enacted in Africa between China and the US for access to natural resources. As opposed to the 'Washington Consensus' typified by political liberalisation and economic reforms, China is seeking to create a kind of 'Beijing Consensus' based on common development, strong belief in sovereignty, multilateralism and the principle of non-interference. Joshua Cooper Ramo, a former Foreign Editor of Time magazine who coined the term 'Beijing Consensus,' sees its emergence in new attitudes to politics, development and the global balance of power.[51] China's rise is thus posing a serious challenge for the US.

China's proactive foreign policy strategy, derived from its notion of nationalism, is hence aimed at not only protecting its security interests, but also at shaping its security environment conducive to its national interests and growth. This strategy seeks to build up an alternative international order, which would distinctly pose a formidable challenge to US unilateralism and global hegemony. It also provides a new vision for to developing countries, which wish to move away from the present US-dominated world order to an future alternative international order. Chinese assertive foreign policy seems to be determinedly moving towards creating just such an international order.

---

49 China's African Policy, January 12, 2006 at http://www.fmprc.gov.cn/eng/wjb/zzjg/fzs/xw1b/t230615.htm.

50 Ibid.

51 Joshua Cooper Ramo, *The Beijing Consensus,* The Foreign Policy Centre, May 2004 at http://fpc.org.uk/fsblob/244.pdf.

REFERENCES

Alagappa, Muthiah, ed. 1998. *Asian Security Practice: Material and ideational Influence.* Stanford: Stanford University Press.

Bezlova, Antoaneta. 2005, November 22. Politics-China: Democracy is Fine but Party Comes First. *IPS Inter Press Service.* Available at http://www.ipsnews.net/print.asp?idnews=31123. Accessed March 03, 2006.

Bhattacharya, Abanti. 2005. Revisiting China's 'Peaceful Rise': Implications for India. *East Asia* 22(4): 59-80.

Chan, Che-po and Brian Bridges. 2006. China, Japan, and the Clash of Nationalisms. *Asian Perspectives* 30(1): 127-156.

Chan, Wellington K. K. 1980. Government, Merchants and Industry to 1911 in *The Cambridge History Ofof China, Vol. II, Late Ch'ing, 1800-1911, Part 2,* edited by Denis Twitchett and John K. Fairbank, 416-62. Cambridge: Cambridge University Press.

Chang Chih-I. 1966. *A Discussion of the National Question in the Chinese Revolution and of Actual Nationalities Policy,* trans. George Moseley. London: MIT Press.

Chang, Maria Hsia. 2001. *Return of the Dragon: China's Wounded Nationalism.* Boulder: Westview Press.

Cheng, Joseph and Zhang Wankun. 2004. Patterns and Dynamics of China's International Strategic behaviour in *Chinese Foreign Policy: Pragmatism and Strategic Behaviour,* edited by Suisheng Zhao, 179-206. London: M.E. Sharpe.

Deng, Yong and Thomas G. Moore. 2004. China Views Globalization: Toward a New Great-Power Politics? *The Washington Quarterly* 27(3): 117-136.

Dumbaugh, Kerry. 2005, July 8. China-US Relations: Current Issues and Implications for US Policy. *CRS Report for Congress.*

Fewsmith, Joseph. 2001. *China Since Tiananmen: The Politics of Transition.* Cambridge: Cambridge University Press.

Goldstein, Avery. 2002. The Diplomatic Face of China's Grand Strategy: A Rising Power's Emerging Choice. *The China*

Quarterly 168(December): 835-64.
Guangya, Wang. 2006. A Peaceful Role Player in World Affairs. *Beijing Review* May 18.
Hughes, Christopher R. 2006. *Chinese Nationalism in the Global Era.* London: Routledge.
Jun, Yu. 2006. In Pursuit of Harmony. *Beijing Review* January.
Lanteigne, Marc. 2005. *China and International Institutions: Alternate Paths to Global Power.* London: Routledge.
Lattimore, Owen. 1951. *Inner Asian Frontiers of China.* New York: Capitol Publishing Co., Inc.
Mancall, Marc. 1968. The Ching Tribute System: An Interpretative Essay in *Chinese World Order,* edited by John K. Fairbank, 63-89. Cambridge: Cambridge University Press.
Masaki, Tanaka. 2000. *What Really Happened in Nanking: The Refutation of a Common Myth.* Tokyo: Sekai Shuppan, Inc.
Mullik, B. N. 1972. *My Years with Nehru.* New York: Allied Publishers.
Norbu, Dawa. 1991. China's Policy Towards its Minority Nationalities in the Nineties. *China Report,* 27(3): 219-233.
Okazaki, Shigenori. 2005, June. Behind Japan's Foreign Policy. *Far Eastern Economic Review* 168(6).
Qiu, Liu hua. 1993. Proposals for human rights protection and promotion: Speech in Vienna, 1993. *Beijing Review* June-July.
Ramo, Joshua Cooper. 2004, May. The Beijing Consensus. *The Foreign Policy Centre,* Available http://fpc.org.uk/fsblob/244.pdf Accessed, June 12, 2006.
Schram, Stuart. 1969. *The Political thought of Mao Tse-tung.* New York: Praeger Publishers.
Shambaugh, David. 2005. China Engages Asia: Reshaping the Regional Order. *International Security* 29(3): 64-99.
Singh, Bhartendu Kumar. 2005, February 23. China: Democracy, Development and International Relations. *Institute of Peace and Conflict Studies,* Available www.ipcs.org Accessed February 29, 2005.
Svensson, Maria. 2000. The Chinese Debate on Asian Values and Human Rights: Some Reflections on Relativism, Nationalism

and Orientalism in *Human Rights and Asian Value,* edited by Michael Jacobson and Ole Bruun, 199–225. Surrey: Curzon Press.

Terrill, Ross. 2003. *The New Chinese Empire: And What It Means for the United States.* New York: Basic Books.

Townsend, James. 1996. Chinese Nationalism in *Chinese Nationalism,* edited by Jonathan Unger, 12–39. New York: M. E. Sharpe.

Vaughn, Bruce. 2005, December 9. East Asian Summit: issues for Congress. *CRS Report for Congress,* Available Accessed January 15, 2006.

Wei-ming, Tu, et al., eds. 1993. *The Confucian World Observed: A contemporary Discussion of Confucian Humanism in East Asia.* Hawaii: Hawaii University Press.

Xinbo, Wu. 2006. Two Giants, A Global Arena. *Beijing Review,* February 23.

Yahuda, Michael. 1996. How Much Has China Learned About Interdependence? in *China Rising,* edited by Gerald Segal and D. Goodman, 6–26. London: Routledge.

Zhao, Suisheng. 2000. 'We are Patriots First and Democratic Second': The Rise of Chinese Nationalism in the 1990s in *What If China Doesn't Democratize?: Implications For War And Peace,* edited by Edward Friedman and Barrett L. McCormick, 21–48. London: M.E. Sharpe.

Zheng, Yongnian. 1999. *Discovering Chinese Nationalism in China: Modernization, Identity and International Relations.* U.K: Cambridge University Press.

Zhongping, Ren, 2000, June 28. Vigorously carry forward the main theme of the times and the national spirit–on patriotism, collectivism and socialism. *Renmin Ribao, FBIS-CHI-2000-0628.* Available http://wnc.fedworld.com Accessed January 15, 2003.

Zoellick, Robert. 2005. Deputy Secretary Statement on Conclusion of the Second U.S.-China Senior Dialogue. Available http://www.state.gov/r/pa/prs/ps/2005/57822.htm Accessed Janaury 17, 2006.

CALL FOR PAPERS

The Journal of East Asian Affairs

Institute for National Security Strategy (INSS) would like to invite you to contribute manuscripts focused on contemporary East Asian issues in the fields of international relations, inter-Korean relations, politics, economics, social matters, and security for *The Journal of East Asian Affairs*.

Those who are interested in contributing articles to the Journal should follow the submission guidelines available upon request. A summary of the submission guideline is as follows:

The manuscript should be more than 20 and no longer than 45 pages (5,000-11,000 words), including an abstract of less than 200 words, 3-5 key words, resume, footnotes, references, tables, figures, charts, and appendices. All material should be in 11-point type. Times New Roman font, double-spaced using Microsoft Word. The page-size of the manuscript is based on standard U.S. 8.5×11 inch paper. Notes should be marked by superior numbers and listed consecutively in the footnotes. References are also required. The style of the manuscript must conform to the submission guideline.

Submissions should be manuscripts that have not been published previously, and are not under consideration for publication elsewhere. Simultaneous submission to other journals for consideration must be indicated.

E-mail submission of the manuscript is required. All manuscript should be submitted via e-mail in Microsoft Word file format. Once a manuscript is formally accepted, authors may be asked to make additional revisions and will be required to assign the copyright for their article to the Institute for National Security Strategy. Assignment of copyright is a condition of publication. Manuscripts will not be returned to the authors. Send your manuscripts or inquiries to the e-mail address listed at the bottom of this page.

Institute for International Security Straegy
Instopia Bldg. 16th Floor
467-23, Dogok-dong, Kangnam-ku
Seoul, 135-856 Korea
Tel: 82-2-572-7090, extension. 222; Fax: 82-2-576-3303
E-Mail: joeaa@inss.re.kr
Website: http://www.inss.re.kr