

Peace and Prosperity  
in Northeast Asia **Volume II**  
Exploring the European Experience

## **Peace & Prosperity in Northeast Asia [Vol. II]**

Exploring the European Experience

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# Peace and Prosperity in Northeast Asia

Exploring the European Experience

*The 4th Jeju Peace Forum Vol. II*





## Preface

Since its launch in 2001, the Jeju Peace Forum has established itself as one of Korea's most important international conferences drawing key political, business, media, and academic leaders from throughout Northeast Asia and around the world. With the full support of the Korean government and a tremendously successful history, we have been trying hard to institutionalize the Forum as a crucial regional venue for distinguished experts to discuss and carve out a new blueprint for Northeast Asian peace and prosperity.

This volume is a collection of papers and essays presented at the 4th Jeju Peace Forum, which was held from June 21 - June 23, 2007, in Jeju, South Korea as a continuation of the previous 2001, 2003 and 2005 Forums. In an effort to ascertain the future state of the Korean peninsula at a time of momentous change, the Jeju Special Self-Governing Province, together with the International Peace Foundation (with which the Jeju Peace Institute is affiliated) and the East Asia Foundation, planned the Forum based on the theme of "Peace and Prosperity in Northeast Asia: Exploring the European Experience."

The 4th Jeju Peace Forum proceeded in the form of "forums within a forum" by holding two special sessions: Special Session I, titled "From Helsinki to Jeju: Designing the Jeju Process for a Multilateral Cooperation Mechanism in Northeast Asia," and Special Session II, "IT Cooperation in East Asia." This reflects JPI's keen awareness that we need to closely examine the correlation between the formation of a Northeast Asian security/economic community and information tech-

nology that can bring about changes in international relations as well as changes in political, security, and economic processes at a domestic level.

The 4th Forum explored the European experience in political, security and economic fields and applied them to the problems of peace and prosperity in Northeast Asia. In other words, throughout this forum, keeping the key issue of forming a cooperative framework in Northeast Asia in mind, we addressed the European experience during the Cold War and in the post-Cold War era, including the CSCE/OSCE (Conference for Security and Cooperation in Europe/Organization for Security and Cooperation in Europe), German reunification, and the economic and political integration of the EU. We explored applicable ideas and the framework for peace and prosperity in Northeast Asia, and examined whether they would be useful for accelerating the process of institutionalizing regional peace and common prosperity.

In publishing the proceedings of the 4th Jeju Peace Forum, we would like to extend our gratitude to all the participants. We also would like to thank the co-hosts, organizers and co-sponsors for their generous support: the Jeju Special Self-Governing Province, the International Peace Foundation, the East Asia Foundation (co-hosts); the Jeju Peace Institute (organizer); the Ministry of Foreign Affairs and Trade, the Ministry of Information and Communication, the Ministry of Construction and Transportation, the Presidential Committee on Northeast

Asian Cooperation Initiatives, Cheju National University, Jeju Free International City Development Center and the Jeju Development Institute (co-sponsors). We are also grateful for the last-minute efforts on the volume by Dr. Tae-Ryong Yoon, Dr. Bong-jun Ko, Dr. Seong-woo Yi, Prof. Douglas Hansen, Ms. Jeongseon Ko, and Mr. Ben Bong-Kyu Chun.

We hope that the Jeju Peace Forum will continue to serve as a venue for leaders from the public and private sectors to jointly promote common peace and prosperity on the Korean peninsula and throughout Northeast Asia.

May 10, 2008

The Organizing Committee of the 4th Jeju Peace Forum

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China and Northeast Asian Community Building

Japan and East Asian Community Building:  
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## *Northeast Asian Economic Integration: Inventory Checking and New Directions*

**T. J. Pempel**

*This paper examines the growing integration of the economies across Northeast Asia. As measured by trade and investment flows, there can be little doubt about the deepening interdependence among the major economies of that region. Furthermore, the paper demonstrates how recent developments have made these economies more institutionalized, more Asian and more China-centric. These latter processes, however, represent only one part of a much larger set of moves linking East Asia as a whole rather than just being confined to Northeast Asia per se. Finally, though these three trends are unmistakable, it is important to note that overall institutionalization remains limited; Japan remains by far the region's economic colossus; and the economies of Northeast Asia continue to be closely interwoven with those of both Southeast Asia and with the United States. In effect, Northeast Asia remains a powerful hub in the much more comprehensive process of global economic ties.*

Over the last decade, essentially since the Asian crisis of 1997-98, the economic integration of Northeast Asia has been marked by three overarching trends. Economic relations have become: 1) more institutionalized; 2) more "Asian," and 3) more China-centric. These macro-trends will be demonstrated and analyzed in the next section of the paper. But by way of anticipation, however, numerous counter-cutting facts need also to be kept in mind. In essence, recent trends, notable as they are, have by no means reversed three counter-realities: 1) economic ties are still largely driven, less by gov-

ernments and formal arrangements, than by corporations in search of profits and production efficiencies; 2) despite growing economic interdependence across Northeast Asia and between that sub-region and Southeast Asia, Japan, China and South Korea remain heavily linked to global, and particularly US, markets; and 3) though China is an ever more important hub in Northeast Asian trade and investment, Japan remains by far the most powerful economic player in the region.

### **Pre-Crisis Northeast Asia: The Baseline**

Prior to the crisis of 1997-98, the overwhelming majority of links connecting Northeast Asia were economic — as opposed to political or governmental — in nature. It was corporations, their investments, and their trade that fused the preponderant ties. Asian companies rode the broad wave of globalization through bottom-up, largely corporate- and market-driven networks (Hamilton 1996; Katzenstein and Shiraishi 1997, 2006; Pempel 2005, *inter alia*). Increasing amounts of foreign direct investment — substantial portions of it East Asian in origin — created a criss-crossing web of transnational production networks, investment corridors, export processing zones, and growth triangles across the region. These in turn generated substantial increases in intra-regional trade and an escalation of regional economic interdependence. Markets, investments and corporations served as the key drivers of regional ties, leaving formal institutionalization quite thin and top down government controls over regional ties rather minimal. (Grieco 1997) Several formally institutionalized bodies including ASEAN, APEC, and the ASEAN Regional Forum (ARF) operated in pre-crisis East Asia, but all were minimally legalized, thinly staffed, and consequently constrained from exerting binding control to resolve disputes involving member states (Kahler 2000a). Significantly, this trend of corporate, non-political economic linkages was particularly pronounced for Northeast Asia. There were absolutely no regional institutions made up exclusively of Northeast Asian states; instead the bodies in which Northeast Asian states participated were more broadly Asian, or



Asia-Pacific.

A second major characteristic of pre-crisis Asia was the unquestioned dominance of Japan. A mixture of foreign aid, bank lending, technological prowess, foreign direct investment, and dominance within the Asian Development Bank (ADB) as well as the pervasive belief throughout much of Asia that Japan's economic model provided a replicable alternative to *laissez faire* Anglo-American capitalism, were but a few of the forces that combined to situate Japan at the unquestioned top of the regional hierarchy (MacIntyre and Naughton 2005). I once described the situation as an "economic Gulliver in a region of Lilliputs" (Pempel, 1997). Without question, companies from Taiwan, Hong Kong and South Korea were on track to become important investors across the region, thereby contributing to the growing density of regional production networks. But most of these linkages were geographically limited and vastly subordinate to the extraordinary presence of Japan. China's economic growth had been phenomenal, making it the second largest economy in Asia, yet Japan's GNP nonetheless remained ten times larger and its per capita income was roughly ninety times that of China (Pempel 1999a: 72). Asian regional ties in the mid-1990s reflected this Japanese preeminence.

Still a third pre-crisis attribute was the Asia-Pacific nature of most regional bodies involving Northeast Asian countries and the region as a whole. The most emblematic examples of "open regionalism" were APEC (the Asia-Pacific Economic Cooperation forum) and ARF (the ASEAN Regional Forum). With ARF devoted to security matters, APEC was the predominant pan-Pacific regional economic institution. APEC had twenty-one member "economies" including two non-states, Hong Kong and Taiwan, as well as several states geographically "outside" East Asia including the US, Canada, Mexico, and Russia. Also worth noting was ASEAN (the Association of Southeast Asian Nations). With ten Southeast Asian member states ASEAN was Asia's earliest regional body (formed in 1967) but in today's context it is best viewed as "sub-regional" since it has no member countries from Northeast Asia, although as will be noted below, ASEAN has since bolstered its ties to Northeast Asia through the increasingly active ASEAN Plus

Three (APT) process which has come to be the principal driver of today's regional integration efforts. A welter of different regional institutions with non-overlapping memberships left the outer boundaries of many of East Asia's regional institutions both porous and heavily trans-Pacific.

### **Current Economic Trends**

The first point to make about the current economic situation in Northeast Asia is that individual national economies are generally in fine shape. Japan shows consistent signs that the wave of corporate reforms in the late 1990s is beginning to bear fruit: the country is now in the midst of its most sustained growth period over the postwar period. Fears of deflation have been abating, the current account balance is extremely positive (+4.1 percent of GDP), and GNP growth has been above 2.5 percent for the past two years. This is well below the highs of decades ago, but a vast improvement over the torpid performance of the 1990s (Pempel, 2006b). South Korea has also rebounded from the crisis of 1997-98 — much more vigorously than the other affected economies in Asia. GNP is growing at over 4 percent annually and industrial production has returned to pre-crisis levels. Both Taiwan and the PRC are also faring well. China's growth continues at or near blistering double digit levels driven by massive success in enhanced industrial productivity and global exports. Taiwan continues to grow at 4 percent a year. All four countries enjoy positive current-account balances ranging from the ROK (0.3 percent of GDP) to China (7.6 percent of GDP) (*Economist*, May 5, 2007: 121-22). The noteworthy exception to such sweeping success across Northeast Asia is the DPRK. There, despite the tentative economic reforms of July 2002, poverty remains rampant and the economy continues to rely very heavily on outside assistance, particularly from the ROK and the PRC, simply to stave off the worst. Since the DPRK publishes no official economic statistics it is difficult to provide more precise indicators of its troubled situation. Yet it is clear that a national economic ideology of self-reliance

works against the DPRK's more systematic integration into the global and regional markets catalyzing growth in the DPRK's neighboring countries.

In terms of the three broad trends noted in the previous section, the first point to note is that governments have become more active in bolstering economic linkages across Northeast Asia. A new layer of formal institutionalization has been added to Asia's prevailing corporate economic ties. Few of these have centered exclusively on deepening ties within Northeast Asia, however. Most, in fact, have involved substantial numbers of countries outside that region. Most steps taken by the governments of Northeast Asia to bolster regional economic linkages have concentrated on integrating Northeast Asian economies with the broader global or East Asian markets than they have with creating a more explicitly narrow hub of cooperation limited to the economies in Northeast Asia.

This increased role of governments stems from the Asian crisis. When the economic tsunami of 1997-98 struck, most governments in Northeast Asia had been active shapers of their domestic economies but they had done little to structure broader regional economic interactions. The rapidity and devastation of the economic wave that swept across Northeast and Southeast Asia nevertheless brought home the heightened vulnerability of many Asian economies to unfettered markets and highly mobile and exceptionally volatile capital flows — what Winters (1999) aptly characterized as plugging into a global economy without adequate governmental surge protectors. Furthermore, existing regional bodies demonstrated neither the willingness nor the ability to stem the spreading crisis. Finally, the crisis revealed how, with the end of the Cold War, the world had become far more unipolar and the US showed no continued predisposition to tolerate East Asian models of development when these conflicted with broader US economic or security concerns.

The countries of East Asia responded with a combination of increased governmental actions aimed at taking greater control of their (and the region's) foreign economic policies. These represent what I would call governmental "push-backs" against the forces of unbridled

marketization and globalization that many Asian elites concluded had been responsible for the crisis. Formal institutions and overt governmental actions to shape them gained a much more important characteristic of the region. No longer are Asian regional ties the exclusive byproducts of bottom-up market connections. Instead, since the crisis, more and more Asian governments, including those in Northeast Asia, have more actively embraced an enhanced and integrative regional architecture. Among the most powerful of these efforts have been measures to bolster regional cooperation in finance and trade. Alternatively stated, a series of efforts have been aimed at mobilizing the region's underlying financial strengths in a collective effort to ward off any possible repeat of the devastating impact of the global forces that devastated the region in 1997-98.

APEC and ASEAN had been completely feckless in warding off the crisis or in coping with its aftereffects. APEC became further marginalized when the US, with its singular focus on treating it solely as a vehicle for trade liberalization (at the expense of its other two goals of economic cooperation and economic development), lost confidence in that institution after the Early Voluntary Sector Liberalization (EVSL) process failed to open Japanese agricultural markets (Krauss 2004; Tay 2006: 4). Further contributing to APEC's marginalization on economic matters, came as APEC was pressed — as part of what Richard Higgott (2004) has called American efforts to “securitize” economic globalization — to compromise its original economic focus in favor of taking a collective stand in support of the so-called “Global War on Terror.”

Asian governments consequently became more anxious to forge new institutions that might afford them greater political control over the conditions within which their economies functioned. Additionally, given US actions during and after the crisis, a preponderant bias emerged for a response that would replace the previously “Asian-Pacific” orientation with one that was more exclusively “Asian” in character.

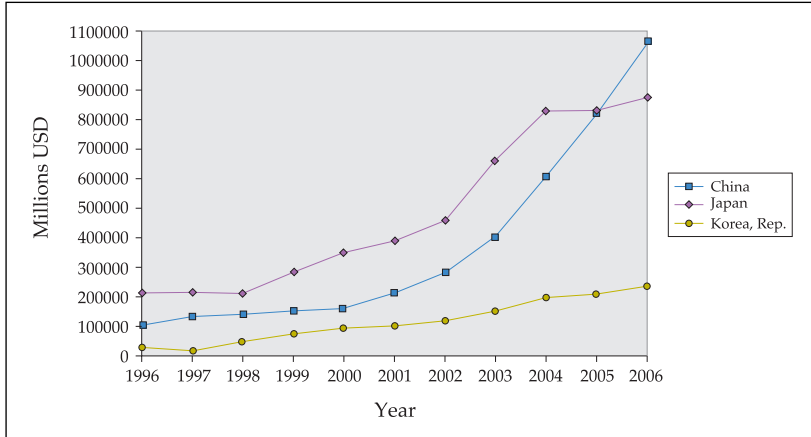
With a few noteworthy exceptions, the ASEAN plus Three (APT) process came to be the predominant vehicle structuring most of the subsequent regional architecture. The APT format had begun in mid-

1995 when ASEAN joined with China, Japan and South Korea offering an Asian counterpart to meet with the European Union. The result was ASEM. But starting in 1997, the ASEAN governments pressed to heighten the independent role of APT, expanding it from a series of meetings among senior officials to becoming a meeting of finance and economic ministers and eventually to forming a more institutionalized set of links with their major northern neighbors that culminated in an annual meeting of heads of state. This thirteen nation summit has since been the major engine fostering cooperation on a variety of regional problems. And of particular note for Northeast Asia the “plus three” countries, Japan, the ROK and PRC typically have met together on the sidelines of the formal 13 country meetings.

Among the first tangible regional moves were those in finance. Hindsight made it clear that Asia’s collective foreign reserves, had they been mobilized during 1997-98, could have alleviated the short term problems in the affected countries, thus obviating the eventual IMF actions. In 1998, for example, the collective foreign reserves of the ten richest countries in Asia totaled \$742 billion — well beyond the bail-out costs involved in the three main IMF packages. By the end of 2006, the reserves of the APT countries had ballooned to nearly \$2.5 trillion, roughly two-thirds of the world total and up from about \$1 trillion in 2001. Figure 1 shows the large increase in foreign reserve holdings of the major economies in Northeast Asia. The People’s Bank of China and the Hong Kong Monetary Authority lead the way with \$1.33 trillion as of June 2005, with Japan a close second at nearly \$900 billion; Taiwan (not a member of APT) held an additional \$265 billion (*Economist*, December 23, 2006:154; <http://www.imf.org/external/np/sta/ir/jpn/eng/curjpn.htm>). Even a small portion of these resources, if mobilized collectively, would have been greater for many countries than what they could receive through multilateral financial institutions (Henning 2002: 13).

Japan, at the instigation of Sakakibara Eisuke then Vice Minister of Finance for International Affairs, had initially attempted to take the lead in generating such a regional mobilization of financial resources to deal with the crisis in 1997-98. But US, Chinese and IMF opposition to

&lt;Figure 1&gt; Foreign Reserves (Minus Gold) Northeast Asia



Japan's proposed Asian Monetary Fund (AMF) quickly derailed that effort (Amyx, 2004). Once the dust cleared many participants worked to strengthen financial ties across Asia but in ways that avoided any direct challenges to existing global monetary arrangements such as that posed by the AMF but that bore some important similarities to the Sakakibara plan.

The major result was the Chiang Mai Initiative (CMI) of May 6, 2000, an initiative generated in conjunction with the annual APT meeting. CMI expanded existing ASEAN currency swap arrangements (ASA) and added a network of bilateral swap arrangements (BSA) among the ASEAN countries, China, Japan and the ROK. These were to provide emergency liquidity in the event of any future crisis (Amyx, 2007; Grimes 2006; Pempel, 2005b; Pin 2007).

When the CMI originally went into effect, considerable stress was placed on the limited amounts of money involved in the swaps, as well as on the underlying requirement that most swaps be congruent with IMF regulations. Yet, by early 2005, some sixteen bilateral swap agreements had been organized under CMI totaling \$39 billion. Then at the 8th meeting of Finance Ministers of the APT in Kuala Lumpur on May 5, 2005 the APT agreed to double the amounts in existing swap arrangements, raising the total to \$80 billion. Current arrangements fall

well short of providing a comprehensive regional financial system. Nor do they constitute an explicit challenge to the IMF. All the same, they created an interim firebreak that enhanced the capacity for Asia to move against future monetary crises and to limit unbridled dependence on the IMF and its policy prescriptions. Of at least equally if not greater importance, the swaps collectively have become a shell within which further regional monetary and financial cooperation can be nurtured.

The more advanced economies in Asia also moved to develop an enriched Asian Bond Fund through the regional central banks, while CMI has pushed an Asian Bond Market Initiative (ABMI). These in combination will provide an additional mechanism of regional financial collaboration and will reduce Asian dependence on the US dollar for financial reserves, currency baskets, and international transactions. On June 2, 2003, the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP), announced the establishment of a \$1 billion Asia Bond Fund. This first ABF involved a group of 11 Asian central banks and an initial size of \$1 billion (US). The APT Finance Ministers' Meeting subsequently opted to develop a local-currency bond market, including a regional clearing and settlement system, a bond rating agency, a trading system and so forth (details in Pempel 2006a; Grimes 2006).

These financial actions obviously involved the ASEAN 10 and not just Japan, the ROK and China. Nevertheless, the three Northeast Asian economies with their exceptional foreign reserves and strong political commitments were critical to the development of these new institutions. As such, they forged much closer financial links and technical cooperation within the sub-region as well as across East Asia as a whole.

The final institutional move that deserves mention is the East Asia Summit. Proposed by the East Asia Vision Group (EAVG) initially under the aegis of APT, the EAS met for the first time in December, 2005. Its primary goal was to move toward the creation of an "East Asian Community" that would cooperate on a host of issues, including, but not restricted to economic cooperation and development. But

in response to worries by some APT countries, most notably Japan, Indonesia, and Singapore who were troubled about the possibly disproportionate influence of the PRC, EAS was kept separate from APT and the EAS membership was broadened to include India, New Zealand and Australia. Its first meeting was long on rhetoric and short on tangible outcomes. But at a second meeting in Manila in January, 2007, the Summit laid out a framework for cooperation on a number of issues, including consideration of a Japanese proposal for a Comprehensive Partnership in East Asia (CEPEA) to contribute to economic integration among the entire expansive membership of the EAS (Frost & Rann, 2006)

The cumulative effect of these new institutions has been to shift from preponderantly “open” and Asia-Pacific ties to links that are more “closed” with memberships more often restricted to “Asians only.” Since the crisis, it has been predominantly the APT countries that have been at the core of new regional ties. APT was the driver behind CMI and the East Asian Summit; the eleven countries in EMEAP (Executives’ Meeting of East Asia-Pacific Central Banks) that drove the ABMI to exclude any on the eastern shores of the Pacific (e.g. the US, Canada and other APEC members). CMI was also the mechanism that triggered the track-two Network of East Asian Think Tanks (NEAT) forged in the wake of the financial crisis. The most noteworthy exception to this model of Asian exclusivity has been the FTAs: many of these have been exclusively East Asian, but almost as many involve ties between East Asian and non-East Asian states.

In October 1, 2002, of the thirty top economies in the world, only five were not members of any such FTAs — Japan, China, South Korea, Taiwan and Hong Kong (Pempel and Urata 2006). Since then, an explosion of bilateral, regional, and other preferential free trade pacts involving East Asian nations have been concluded or explored. Before the crisis the ASEAN Free Trade Agreement (AFTA) was the only government-led initiative in East Asia. According to the World Bank’s C. Lawrence Greenwood (2006, 6) some 95 bilateral and sub-regional FTAs involving East Asian countries were either in place or under negotiation as of 2006 and they were expanding rapidly. As Aggarwal



(2006, 12) argues, many East Asian free traders had become frustrated by the combination of slow progress in WTO meetings in Seattle, and Cancun, by a possible reduction in access to US markets, and the desire to develop enhanced regional trade outlets that might reduce their dependence on the US market. For others, FTAs represented defensive or catch up actions against what were perceived to be anti-Asian trade barriers erected by NAFTA and the EU. Particularly in the cases of Korea and Japan, FTAs were also the favored instruments of domestic liberalizers seeking to overcome home grown resistance to greater economic openness. The result has been an explosion in FTAs involving East Asian countries. As of 2006 FTAs proposed, concluded or under negotiation totaled twenty each for China and the ROK, eighteen for Japan, and eight for Taiwan. But, although four of these involved FTAs with South Asian countries, twelve involved ASEAN countries, and twenty-two were with non-Asian countries, it is significant that only four of these were intra-Northeast Asian (<http://aric.adb.org/10.php>, accessed May 10, 2007). This suggests that the governments of Northeast Asia have been expanding their regional role, as well as their efforts to shape trade relations, but they have not been doing so in ways that provide a governmental imprimatur to economic ties across Northeast Asia. National animosities and a heightened sense of nationalism continue to dominate formal governmental relations in Northeast Asia, and these in turn, have restricted governmental efforts to formalize existing economic linkages.

Despite the fact that the three largest markets in Northeast Asia — Japan, China and the ROK — have done little to advance FTAs with one another, closer economic ties continue to move forward within Northeast Asia (but also between various Northeast Asian countries and major trading partners across the globe).

An ironic exception to the weakness of formal governmental ties around economics in Northeast Asia should be mentioned, namely the Six-Party Talks. Obviously a major goal of the SPT is the denuclearization of the Korean peninsula which in itself is hardly “economic.” But for several participants, including the ROK, PRC, DPRK and most probably Russia, a high ranking subsidiary goal has been to increase

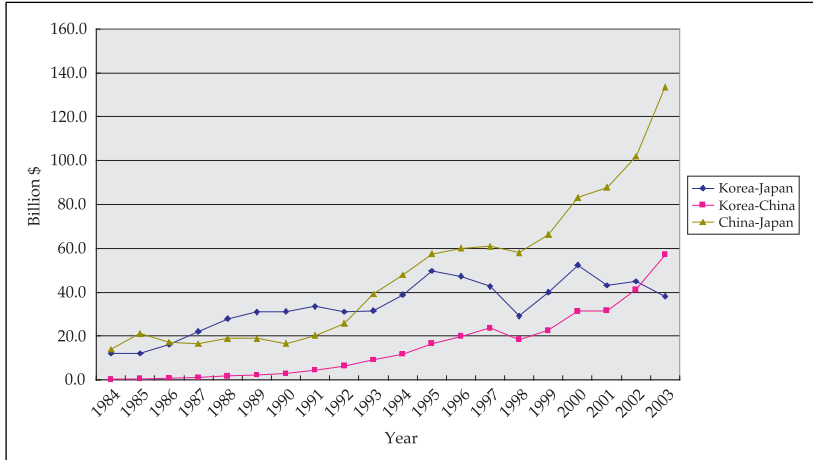
the economic integration of the DPRK with the rest of the region. Certainly, the ROK, PRC and Russia see enhanced economic linkages with the DPRK as a key carrot inducing the current regime to abandon both its nuclear programs and its autarkic *juche* economic policies. The possibilities for a much richer (and more peaceful) region could well be the result of successful negotiations.

Particularly interesting in this regard is the fact that about 37 percent of the DPRK's exports go to China while about 32 percent of its imports come from there (WTO, International Trade Statistics, 2005). Moreover, China, unlike the ROK, has marketized an increasing portion of these exchanges. It has moved away from direct gifts of cash and products in favor of commercial transactions with the DPRK, a measure that may well enhance the internal impetus toward market reforms begun by the DPRK in 2002.

Despite the absence of many formal governmental agreements, trade and investment among the economies of Northeast Asia have deepened significantly in recent years. As Figure 2 shows, bilateral trade between Japan and China has exploded to the upside since 1998; so has trade between the ROK and China. China recently replaced the US as the number one destination for goods from both countries. Today, as Korea's largest export partner, China takes nearly 22 percent of the ROK's exports. In addition, China (including Hong Kong) is Taiwan's number one export destination taking 27.2 percent of its goods in the period 2006-2007. Japan is China's number two destination for exports and its largest source of imports. The ROK is Taiwan's fifth largest trade partner overall. (Taiwan, Bureau of Foreign Trade, 2007). In short, a web of criss-crossing economic ties weaves a net of increased interdependence across the region.

Economic linkages across Asia continue to deepen and expand. But if Japan's financial and manufacturing presence anchored the expanding production networks during the pre-crisis period, its decade of economic slowdown combined with China's continued trajectory of high growth and active regional engagement eroded Japan's once unchallenged regional preeminence. The ROK also became a powerful industrial challenger to Japan in many sectors, including electronics and

<Figure 2> Intraregional Trade in Northeast Asia



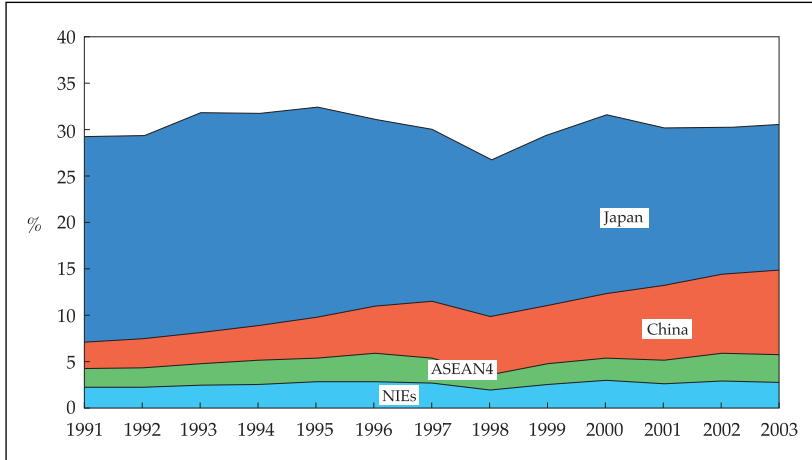
Source: Bank of Korea (1965-2003) *Economic Statistics Annual Report*, Seoul; Bank of Korea; Korean National Statistical Office (1965-2003) *Korean Principal Statistics Index*, Daejeon; National Statistical Office; Ministry of Finance and Economy (1965-2003), *Weekly Economic Trend*, Seoul; Ministry of Finance and Economy.

autos. Equally, Southeast Asia became less attractive as a destination for investment capital while China quickly grabbed pride of regional economic place in many global production chains.

Intra-East Asian trade continues to swell, rising from about 43 percent in 1996 to 55.3 percent in 2005 even though much of this trade represents a re-direction of production networks from other parts of Asia to China, reflecting that country’s rapid economic expansion. Since the crisis, China has become even more attractive than it once was as a target for incoming regional investment; it is now East Asia’s most active processing center taking imports from many parts of the region and exporting them to the richer countries of the region as well as abroad.

As Figure 3 shows, even though East Asia’s share of global manufacturing has remained roughly constant since the early 1990s, China’s portion of that share has jumped considerably.

Much of this expansion of China’s manufacturing capacity has been the result of increased FDI flowing into the country. Figure 3 dramatizes this jump. And again, China has become a vastly greater magnet

**<Figure 3> East Asian Market Share of Global Manufacturing Production**

Note: 1. Markers' production amount represents dollar-based value-added nominal output value.

2. NIEs are South Korea, Hong Kong and Singapore. ASEAN4 are Indonesia, Malaysia, the Philippines and Thailand. East Asia comprises NIEs, ASEAN4, China and Japan.

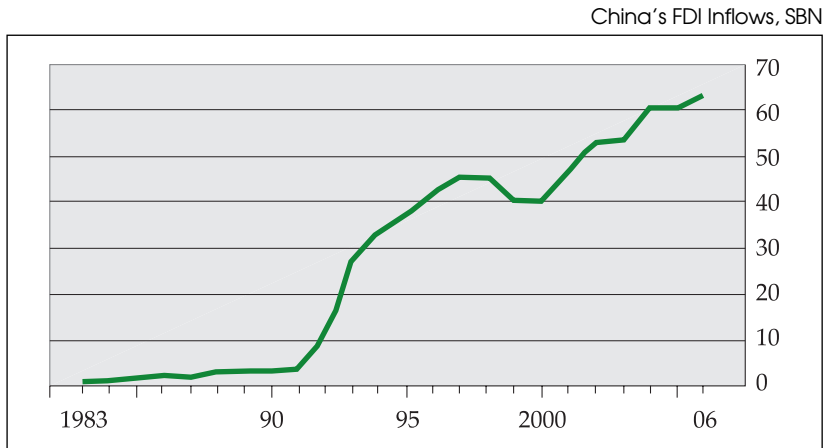
3. Global output total covers production of about 160 countries listed in World Bank data. When the latest year's output data are not available, the preceding year's data are used.

Source: WDI (World Bank).

for FDI than has Japan.

One of China's most important successes in combining its economic power with its regional strategy came with its proposal at the 2000 ASEAN Summit for an ASEAN-China FTA. Psychologically, the proposal helped bolster the impression that China's rise might generate a win-win economic cooperation with Southeast Asia in what would potentially be a market of some 1.7 billion people. Importantly, Chinese negotiators offered an "early harvest" of lower tariffs for agricultural goods from Southeast Asia coming into China. Since agricultural exports are so critical to the growth strategies of most countries in Southeast Asia, particularly its newer members, the Chinese move was particularly deft politically. In addition, it also underscored the extent to which Japan, the United States, and Korea, though much richer,

&lt;Figure 4&gt;



Source: China's Bureau of Statistics; UNCTAD.

were constrained from making similar gestures due to the power of their domestic farm lobbies within democratic political systems.

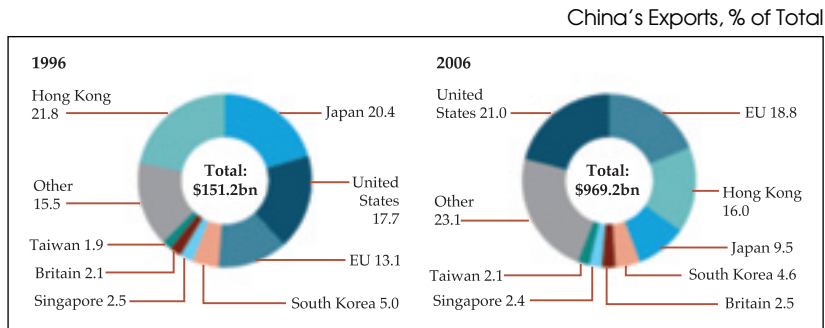
Outside of Southeast Asia, one of China's biggest successes has come in forging intra-regional ties with the ROK. Despite China's long-standing friendship with North Korea, it normalized relations through a "comprehensive cooperative partnership" with the south in 1992. Since then, and with accelerating speed since the crisis, the two countries have cooperated on trade, investment, tourism, educational and cultural exchanges as well as other areas. In 2003 China surpassed the US as South Korea's largest export market and was the number one destination for outgoing Korean FDI.

Equally important has been the continued integration of the economic linkages between Taiwan and the PRC. Today, China buys about 40 percent of Taiwan's exports; and since 2002 more than one half of Taiwan's FDI has been sunk into China (Ross 2006, 143). Roughly one million Taiwanese now live on the mainland and the two economies are increasingly interwoven. At the same time, these ties are largely bilateral, rather than regional in character, although products from Taiwanese-owned factories in the PRC frequently make their way into other Asian markets. But the policies of both governments have

been at least as critical to deepening this integration as have generic market forces.

China's role as an export destination for Southeast Asia exports has also soared. In the early 1990s, Japan was unquestionably the major consumer of merchandise produced in Southeast Asia. In 1993 Japan absorbed 15 percent of total ASEAN production while mainland China consumed only 2.2 percent of ASEAN exports. This relationship has changed significantly over the decade: whereas Japan's total share has gradually decreased to 11.2 percent in 2005, the percentage of total ASEAN exports to China rose to 8.1 percent — Hong Kong excluded, and to 13.6 percent — Hong Kong included. In absolute terms, exports from Southeast Asia to Japan doubled in the last 12 years, while the export flows from ASEAN to China increased more than ten-fold (Plsek: 2007).

<Figure 5> What a Difference Ten Years Make

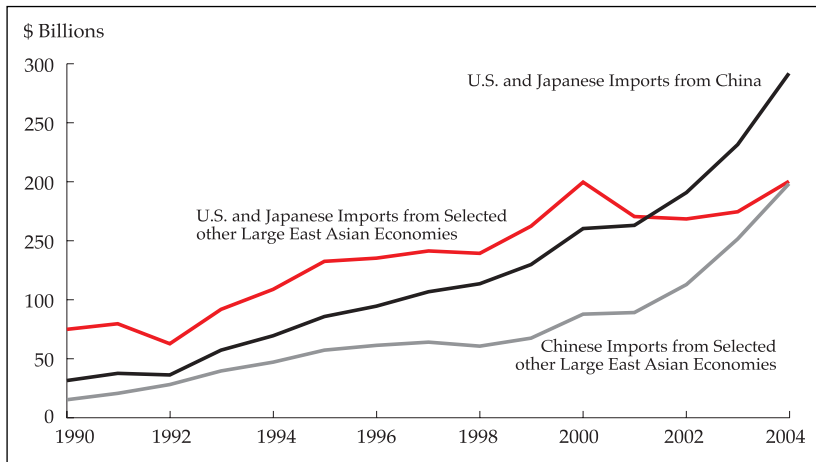


Source: National Statistics.

Furthermore, China's exports are increasingly traveling to richer global destinations. As Figure 5 demonstrates, in 1996, China's largest export market, after Hong Kong was Japan taking 20.4 percent of its goods. The US (17.7 percent) and the EU (13.1 percent) lagged behind. In 2006, Hong Kong and Japan had slipped as destinations, Japan falling to only 9.5 percent of China's goods as the US (21.0 percent) and the EU (18.8 percent) jumped into the first two positions. In 2005, China replaced Japan as the number one exporter to the United States. At the

same time, as Figure 6 demonstrates, China's overall exports to Japan continue to rise as well while Chinese exports rocket ahead of those from the rest of East Asia.

<Figure 6>

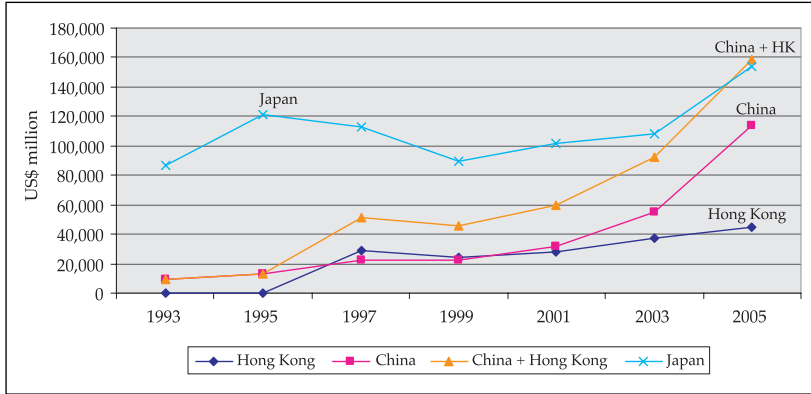


The strong rise in manufactured exports to China and Hong Kong, China, from selected large East Asian trading partners since the early 1990s has been accompanied by an almost equally strong rise in exports from China and Hong Kong, China, to the United States and Japan.

One more measure of trade shows the rise of China and the relative shrinkage of Japan. That concerns ASEAN exports to both countries where China in 2005 essentially matched Japan as a recipient of goods from Southeast Asia. See Figure 7

These figures generally suggest both the absolute economic dynamism of the entire Asian region but also the relative rise of China at the expense of Japan's once preeminent dominance. One final indicator of Japan's diminishing position within the East Asian hierarchy is also connected to FDI. From the 1980s into the end of the 1990s, Japanese investment in the rest of Asia was by far the largest. In the 1980s, for example, as is clear from Figure 8, Japanese investment into the rest of Asia dwarfed that of the US by more than 4:1. Through the 1990s, it was still one-third higher. But since the turn of the century it has been

&lt;Figure 7&gt; ASEAN's Total Trade Volumes with Hong Kong, China and Japan



&lt;Figure 8&gt; Changes of Major Direct Investors to Asia

(\$ million)

	1980 – 2003		1980 – 1989		1990 – 1999		2000 – 2003		2003	
1	Japan	103,358	Japan	19,684	Japan	65,426	US	35,368	US	7,432
2	US	85,444	US	4,821	US	45,255	Japan	18,248	Japan	5,351
3	UK	23,288	UK	3,055	UK	14,133	Belgium	8,112	Belgium	5,049
4	Germany	15,234	France	648	Switzerland	10,643	Germany	6,722	UK	2,280
5	France	12,083	Germany	561	Germany	7,950	UK	6,100	ROK	1,684

Note: 1. In this figure, Asia refers to China, Indonesia, Malaysia, Philippines, Singapore, Thailand, and India.

2. Belgium for 2000-2003 includes Luxembourg.

3. Due to changes of statistics, Belgium for 2000-2003 represents its investments for 2000-2001.

Source: *Kensho: Nihon No Higashi Asia Eno Keizaireki Kouken* (Japan Center for Economic Research, December 2005).

the US providing the largest share of incoming FDI to the region.

At the same time, despite the relative rise of China, Japan still dwarfs China both in ASEAN and the rest of Asia with its FDI and its economic might. In addition to simple matters of GNP, technological sophistication, organizational density, and the like, Japan plays a large regional economic role through the huge share of ODA it provides to developing Asia. Japan has unquestioned potential to play an ongoing role in shaping economic developments across the region; it is not, however, clear that Japanese governmental policies will continue to be



focused on doing so, nor that the rest of the governments in Asia will be as impressed by Japan's current predominance as they are with China's growth potential.

## Conclusion

This paper has examined the growing integration of the economies across Northeast Asia. As measured by trade and investment flows, there can be little doubt about the deepening interdependence among the major economies of that region. Furthermore, the paper demonstrated how recent developments have made these economies more institutionalized, more Asian and more China-centric. These latter processes, however, represent only one part of a much larger set of moves linking East Asia as a whole rather than having been confined to Northeast Asia *per se*.

Finally, though these three trends are unmistakable, it is important to note that overall institutionalization remains limited; Japan remains by far the region's economic colossus; and the economies of Northeast Asia continue to be closely interwoven with those of both Southeast Asia and with the United States. In effect, Northeast Asia remains a powerful hub in the much more comprehensive process of global economic ties.

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# *Assessing the Roh Moo-Hyun Initiative for Economic Community Building: Constraints, Opportunities, and Prospects*

**Kyung-Tae Lee**

*Northeast Asia is the only region in the world that has not established an economic integration body, such as a free trade agreement (FTA) or a common market. President Roh, Moo-Hyun of Korea proposed the Northeast Asian Cooperation Initiative, which is to bring peace and prosperity to the region by creating two pillars of integration: i) a Peace Community and ii) an Economic Community. The Northeast Asian Cooperation Initiative is based on the philosophy that the Northeast Asian region should overcome the distrust caused by historical legacies and develop as one of the major driving forces of economic growth in the world. It may be premature to discuss the Initiative's achievements given the long-term characteristics of realizing a Northeast Asian Economic Community. However, there have been several advancements and examples of progress although they may not be satisfactory at times. These include advancements made in FTAs, financial cooperation, energy, and environment cooperation, while there has been little progress in infrastructural development, such as railways and ports.*

## **Introduction: Background and History of the Initiative**

**N**ortheast Asia is the only region in the world that has not established an economic integration body, such as a free trade agreement (FTA) or a common market. Currently, the three key countries in Northeast Asia, China, Japan and Korea, have been

cooperating in several areas, such as energy, logistics, and environment, since the 1990s and more intensively since the China-Japan-Korea Summit in 1999. However, the integration process has not been that impressive due to political barriers and other obstacles. A lack of a community spirit, rivalry between major countries, historical legacies and security issues, lack of leadership, and the proliferation of nationalism have led to delays in institutional economic integration in Northeast Asia.

In his inauguration speech in February 2003, President Roh, Moo-Hyun of Korea proposed the Northeast Asian Cooperation Initiative to realize "Northeast Asia with Peace and Prosperity": "[The] Northeast Asian Era should start from the economy. We should realize a Community of Prosperity and then contribute to the prosperity of the world through it. This will eventually develop into a Community of Peace (25 February 2003)."

This Initiative is to bring peace and prosperity to the region by creating two pillars: a Peace Community and an Economic Community. Since then, the Northeast Asian Economic Community has emerged as one of the most important national agendas for Korea. The Participatory Government established the "Presidential Committee for a Northeast Asian Economic Hub" and focused its effort on promoting tasks related with "Prosperity," building a financial and logistics hub, attraction of FDI, promotion of economic cooperation in energy, railroads, environment, and so on. However, the nuclear issue in North Korea and an unstable security situation in Northeast Asia have made the stepwise evolution from prosperity to peace rather difficult. In light of these obstacles, the Government chose a more tactical option of simultaneously pursuing prosperity and peace and renamed the Committee as the "Presidential Committee on Northeast Asian Cooperation Initiative." This Committee has been appointed the task of reconciling and realizing this dual objective.

The Northeast Asian Economic Community is one of two pillars to achieve a broader Northeast Asian Community, and its goal is to lay the foundations for co-existence and co-prosperity in Northeast Asia. Realization of the Northeast Asian Economic Community means estab-

lishing stronger ties and a common vision among Northeast Asian countries, which will eventually lead to full economic integration. Considering the current political and economic situations, economic integration in Northeast Asia is definitely a long term goal. However, discussions on how to lay the foundation for deeper cooperation have continued since the 1990s. Scholars in the region suggest Northeast Asia will emerge as one of the three major economic blocs in the world through economic integration as in the case of Europe.<sup>1</sup>

In the following sections, we review the vision, goals and strategies for the Northeast Asian Economic Community and then assess the Initiative and its achievements.

## **Vision and Strategies for a Northeast Asian Economic Community**

The vision and strategies for a Northeast Asian Economic Community have become more concrete as of late. The detailed description of the vision, strategy, and roadmap appears in the Committee's April 28, 2006, report to the President. In this section, I will introduce the vision, goals, benefits, principles and roadmap as detailed in the report.

### **A. Vision, Goals, and Benefits**

The vision of creating a Northeast Asian economic community is to lay the foundations for co-existence and co-prosperity in Northeast Asia.<sup>2</sup> This economic community building initiative is a regional strategy to establish peace and prosperity in Northeast Asia through economic cooperation and integration. It is also a national strategy to create peace and prosperity on the Korean peninsula and to strengthen national competitiveness through innovation and economic reforms. Korea would act as a bridge, a hub, and a facilitator for the creation of peace

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<sup>1</sup> Ahn and Lee (2003), p. 422.

<sup>2</sup> Kim (2007), p. 100.

and prosperity in Northeast Asia, as well as an economic community.

The vision is based on the philosophy that the Northeast Asian region should overcome the distrust emanating from historical legacies and develop as one of the major driving forces of economic growth in the world. In other words, in the process of resolving political obstacles and expanding economic cooperation, an open and dynamic market would be created, thereby eliciting the world's leading industries and companies to actively operate in the region; Northeast Asia would, thus, become a major driving force of the world economy.<sup>3</sup>

The goal of Northeast Asian economic cooperation is to establish a Northeast Asian Economic Community by promoting economic integration in various areas. Northeast Asian Economic Cooperation can be regarded as a step towards institutionalization of comprehensive economic cooperation, including liberalization in trade, investment, and services. The first step is to create an "Economic Cooperation Body" to discuss common regional issues, such as environment, energy, logistics and regional disparity, and then to conclude an FTA in the region. The next step is to create an "Economic Community" which would adopt common trade policies in the short run and a common currency and liberalization of human resource movement in the long run. The two-step approach is a very rational choice based on the precedent set by economic integration in other regions, especially the European Union. The initial step would be more challenging given the lack of cooperative spirit in the region.

By establishing the Northeast Asian Economic Community, we can expect several potential benefits. First, economic competitiveness will improve through the economic collaboration of countries in the region and facilitation of trade. Second, common issues that cannot be resolved at a national level, such as currency system crises and environmental problems, could be resolved through multilateral discussions and cooperation. Third, the creation of a Northeast Asian Economic Community will provide opportunities for the countries to reconcile with each other and could even stimulate North Korea to open

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<sup>3</sup> Yoo (2003).

up and eventually speed up the reunification process on the Korean peninsula. Lastly, Northeast Asia as a region will have a larger voice in the international arena, thereby playing a major role in global issues.

### **B. Three Basic Principles**

There are three basic principles for the creation of a Northeast Asian Economic Community: a step-by-step approach, simultaneity, and linking the economic community building to North-South Korean economic cooperation.<sup>4</sup> The step-by-step approach means starting cooperation with simple and easy projects and then proceeding to more advanced level projects. Expansion of bilateral FTAs to a regional FTA would be a good example. Simultaneity or simultaneous promotion can be understood as promoting bilateral FTAs and cooperative projects at the same time as a means to reaching the final goal of a Northeast Asian Economic Community in the long run. Linking the initiative of Northeast Asian economic cooperation to North-South Korean economic cooperation is to encourage North Korea to open up and adopt reform measures through Northeast Asian economic cooperation. The planning of North-South Korean economic cooperation projects should be designed in such a way that would maximize the synergy between Northeast Asian economic cooperation and North-South Korean economic cooperation.

### **C. Three Stage Road Map**

Establishment of a Northeast Asian Economic Community is rather a long-term project. It took half a century for Europe to achieve integration after overcoming many obstacles and challenges. Therefore, the road towards realizing a Northeast Asian Economic Community will require lots of time and a gradual approach; in response, the Korean government has proposed a three-stage roadmap.<sup>5</sup>

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<sup>4</sup> [www.nabh.go.kr](http://www.nabh.go.kr).

<sup>5</sup> Park (2006), p. 353.



The first stage is a period of institutionalizing economic cooperation and creating appropriate conditions for a China-Japan-Korea (CJK) FTA. The main objectives for this period are completion of a joint study among industries, the government and academia, resumption of Japan-Korea FTA negotiations, multilateralization of the CMI, initiating discussions on the creation of a common currency system, energy cooperation with China and Russia, and development cooperation with North Korea, China, and Russia. In the second stage, the role of government will be more significant as the institutionalization of economic cooperation is to be implemented during this period. The main goals will be the completion of a China-Korea FTA and Japan-Korea FTA, which will eventually lead to the establishment of a CJK FTA. In addition, preparations for a common currency system, creation of a regional development cooperation fund, energy cooperation, and the connecting of the Trans-Korean Railway (TKR) to the Trans-Siberian Railway (TSR), as well as TKR and the Trans-China Railway (TCR), will be the other remaining tasks. The third stage is the period of expanding Northeast Asian Economic Cooperation into a Northeast Asian Economic Community. The main assignments will be the creation of a single market and a single currency system, establishment of common economic policies, and creation of a supranational organization for decision-making. Through these three-stage integration processes, Northeast Asian Economic Cooperation should be able to successfully evolve into an economic community.

#### **D. Achievements and Assessments**

It may seem a bit premature to discuss the achievements given the long-term characteristics of the objectives in realizing a Northeast Asian Economic Community. However, some progress has been made although it does not seem satisfactory at times. This section reviews the achievements by sector and assesses the outcomes.

## **E. Free Trade Agreement (FTA)**

Signing a FTA is the first step towards institutional economic integration. Three kinds of FTAs are conceived for Northeast Asia: a Korea-Japan FTA, Korea-China FTA, and finally a Korea-China-Japan FTA. Negotiations on the Korea-Japan FTA have discontinued due to differing views on agricultural trade. For the Korea-China FTA, a tripartite joint study among businesses, government, and academia was launched at the start of 2007 and is currently in progress. For the CJK FTA, a business-academic joint study is underway. Chances of initiating a Korea-China FTA in the medium term are very high. The joint study on a CJK FTA has had a positive role in expanding research into a tripartite study with government participation. These are rather promising signs of building a Northeast Asian economic community that has been achieved since the launch of the initiative.

At this point in time, only Japan is cautious of promoting the CJK FTA joint study to the level of a formal business-government-academic joint research. To advance the Northeast Asian economic cooperation, it is important to conclude the Korea-China FTA joint study sooner and start negotiations on the Korea-China FTA.<sup>6</sup>

Korea-Japan FTA negotiations should also resume so as to lead to the CJK FTA in due course. In particular, Korea needs to examine how the KORUS FTA could be utilized for the benefit of a Northeast Asian Economic Community as the US seems to be somewhat uncomfortable with the concept of a Northeast Asian Community. Thus, Korea needs to come up with alternatives and persuade China and Japan to understand that the Korea-US (KORUS) FTA could promote Northeast Asian economic integration.

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<sup>6</sup> China and Japan have different views regarding Northeast Asian economic integration. China has a more positive disposition to the CJK FTA; in contrast, Japan is not so keen on the CJK FTA. Instead, Japan has chosen to pursue a Comprehensive Economic Partnership in East Asia (CEPEA), which includes ASEAN+3, Australia, New Zealand, and India.

## **F. Financial Cooperation**

The goal of financial cooperation is to prevent future financial crises from occurring in the region and advancing the financial system in order to strengthen the potential for economic growth. In addition, stabilization of the regional currency system, creation of a single currency in the long term, and building a mechanism of reserve pooling arrangements are additional objectives. Financial cooperation has been discussed at ASEAN+3 Forums. Achievements in this area, include mutualization of the CMI in which the bilateral swap system was expanded into a multilateral swap system and fruitful discussions on a regional currency unit and concrete proposals. In addition, the Asian Bond Market Initiative is advancing smoothly.

The progress in financial cooperation is quite remarkable and reveals different characteristics of Asian economic integration. In general, trade integration precedes financial integration in most cases; in East Asia, however, financial cooperation seems to have preceded trade integration. For future cooperation, institutionalization of a multilateral currency cooperation system needs to be advanced. For this, the use of a regional currency needs to be expanded, and the monitoring system should be strengthened.

## **G. Energy Cooperation**

In Northeast Asia, there exist countries with vast territories and huge energy resources, like China and Russia, on the one hand, and countries that import energy resources, like Japan and Korea, on the other. Thus, there is a potential for mutual benefits for both groups through energy cooperation. Also, there are many on-going projects regarding cooperation in energy resources, such as gas, oil, and electricity. Korea is pushing for several energy cooperation projects: under the Korea-Russia Gas Agreement signed in September 2004, Korea is cooperating with China and Russia to bring in gas to Korea; regarding an oil pipeline project, the Korean government is supporting Korean companies to participate in the construction of pipelines in East Siberia.

In the future, Korea needs to consider participating in Russia's East Siberian oil supply development project, and also in Sakhalin's oil and gas development projects.

## **H. Regional Development Cooperation**

Regional development cooperation in the past has been rather slow with few results having been achieved so far. However, countries in Northeast Asia have recently been accelerating regional development cooperation: China is promoting the construction of railways and roads and establishment of free trade zones under the three province development plan in Northeast China; Russia is interested in connecting the TSR-TKR and development of a new port in the region; Korea is developing specific plans and strategies to participate in regional development cooperation.

Korea needs to consider participating in the TKR-TSR pilot project and the Rajin port development project. In addition, Korea should take the lead in developing multilateral cooperation models for resource development in North Korea, the three provinces in Northeastern China, East Siberia, and East Mongolia. Northeast Asian regional development requires cooperation through international funding. The Northeast Asian Development Financing Council established by the Industrial Bank of Korea, Mizuho Bank of Japan, and the Development Bank of China needs to be revitalized, and the creation of a Northeast Asian Development Bank and Northeast Asian Development Fund needs greater consideration.

## **I. Environmental Cooperation**

Environmental cooperation has made great progress, especially in the yellow dust issue. The Korean government started a project to provide funds to plant trees to block the yellow dust originating in China's desert areas. Environmental problems have to be solved through multilateral cooperation; to resolve intensifying environmental problems in Northeast Asia, there needs to be further cooperation among the princi-

pal countries. For this reason, Korea is seeking to conduct joint research with China and Japan on examining the current environmental conditions in Northeast Asia. In particular, establishment of a Northeast Asian environmental fund to resolve environmental problems, such as yellow dust and pollution in the Yellow Sea, that affect surrounding countries needs to be examined.

## **Conclusion**

The Northeast Asian Cooperation Initiative is the first proposal to promote peace and prosperity in the Northeast Asian region since World War II. The Initiative intends to mitigate and eventually eliminate hostility and distrust prevailing in the region so that countries in Northeast Asia can build a peaceful and prosperous community, as in the case of the EU. The key countries in the region, such as China and Japan, have not shown enough enthusiasm to promote regional cooperation, not to mention regional integration. The Northeast Asian Cooperation Initiative in that sense is an epoch-making regional proposal. Reconciliation and cooperation in Northeast Asia is a historic task for all the people living in this region and the Initiative is a timely proposal to achieve this objective.

From an economic perspective, a Northeast Asian Economic Community envisions co-prosperity among Northeast Asian countries. To maximize the utility of the economic dynamism and fully realize the growth potential in this region, institutional integration beyond the functional integration should proceed and the Initiative aptly addresses these issues.

However, there are many challenges to overcome for the establishment of a Northeast Asian Economic Community. To point out a few, the Northeast Asian countries will need to, first of all, share a common vision and value, which will facilitate the integration process in the region. Second, establishing and strengthening the market economy in the region is essential. One of the key elements that led the EU and NAFTA to become successful models of economic integration was the

fact that member countries had a mature market economy. Finally, but most importantly, the region requires determined and like-minded leaders who will promote the vision and encourage the member countries to join in this cause. The leadership displayed by France and Germany in the process of European economic integration should also be taken as an example in this region.

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# China and Northeast Asian Community Building

Yunling Zhang

*Diversity is the reality of the region. Differences are not the reason that leave any regional member left out of community building. Northeast Asian economic cooperation has developed in a multi-layered structure in both institutional and non-institutional ways. The Northeast Asian community will be represented not by a unique regional organization, but by a comprehensive framework combining multi-layered cooperation mechanisms supported by formal agreements, cooperation programs both on the central and local government levels, exchanges of civil societies, as well as some possible institutional establishment. We should encourage Northeast Asian cooperation beyond the trilateral level. Community building needs political trust and cooperation among the countries in the region. The Northeast Asian region firstly needs political reconciliation based on normalized and improved bilateral relations. The current fact is that the political reconciliation process has started, but still has a long way to go.*

## Introduction

Community building is a concept that has been gradually accepted in East Asia. What does “community building” mean? In nature, it means countries and people in the region live peacefully and share common interests and destiny. Due to the great diversity and also the culture of the Northeast Asian region, a community does not mean a European type regional organization with a power managing the regional affairs. The aim of Northeast Asian



community building is to create an environment for living together peacefully and for realizing prosperity through cooperation.

Economically, a community will make the regional economies highly integrated and willing to share great interests for common prosperity. Intra-regional trade and investment flow are well developed through liberalization and cooperation arrangements. The nature of a Northeast Asian community is probably not to establish a super regional organization, but to make the regional economic activities performed according to rules and standards through agreements. If necessary, the regional institutions can only be for consultation and coordination.<sup>1</sup> By a community, the region should develop a spirit of cooperation aiming at solving common issues, like the environment, transportation, energy, etc. together and helping the less developed economies to catch up.

Politically, a community will make the region stable and trustful through cooperation. Northeast Asia shares history and culture, but also has grievances and even conflicts. Based on the spirit of community, countries in the region should develop their good neighbor policy and culture and solve their differences through consultation and cooperation. Diversity is the reality of the region. Differences are not the reason that leave any regional member left out of community building. Political respect and tolerance should be a culture for Northeast Asia. Mass media and new information means especially should help to create this shared culture and value in the modern society. The real cooperation of three major countries, i.e. China, the Republic of Korea (the ROK) and Japan, is essential in leading the region toward a community. Leaders of the three countries should establish a formal cooperative mechanism both for normal exchanges and emergent meetings.

In the security aspect, a community should realize the lasting peace of the region. Northeast Asia is still divided by two means: the division of the Korean peninsula, as well as the security architecture. Communi-

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<sup>1</sup> Chang-Jae Lee: Rational for institutionalizing Northeast Asian economic cooperation and some possible options, at *Strengthening economic cooperation in Northeast Asia*, edited by Yoon-Hyung Kim, Chang-Jae Lee, KIEP, Seoul, 2004, p. 23.

ty building should foremostly help to resolve the confrontation on the Korean peninsula and also to develop an integrated security framework for all members, which may be based on the existing "Six-Party Talks" if they can move forward with success. A community with security should also develop the spirit for solving the remaining or emerging problems through consultation and cooperation.

A Northeast Asian community will be represented not by a unique regional organization, but by a comprehensive framework combining multi-layered cooperation mechanisms supported by formal agreements, cooperation programs both on the central and local government levels, exchanges of civil societies, as well as some possible institutional establishment. It is too premature to predict how the Northeast Asian region will be governed by an integrated regional organization with all countries participating.<sup>2</sup>

Yes, it is true that suspicion prevails concerning Northeast Asian community building since there are so many obstacles on the road. By calling for the community building, the first thing we need is cultivating a spirit and value of regional cooperation and trust, not just between governments, but also in societies and especially among the peoples. Community is a process that gradually deepens and expands.

## **I. Increasing Economic Integration**

The three economies of China, Japan and the ROK account for the vast majority of the Northeast Asia regional economy. Their economies have increasingly become integrated. This has been reflected by the fast increase of trade and other economic exchanges in three bilateral ways, i.e. between China-Japan and China-ROK and the ROK-Japan.

Importantly, the integration is created by FDI led intra-trade and related service activities. FDI flow becomes a focal factor in making the

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<sup>2</sup> It is difficult to build up a regional organization with real function that could govern the regional affairs. See Zhang Yunling, ed. *Northeast Asian economic cooperation* (Beijing: World Affairs Publisher, 2004), p. 3.

**<Table 1> Trade Relations between China, Korea and Japan**

(In billion US dollars, export and import)

	China-Japan	China-Korea	Korea-Japan
2000	83.1	34.5	52.3
2001	87.8	35.9	43.1
2002	101.9	44.1	44.0
2004	167.9	90.1	53.6*

\* For 2003. Source: China Statistics, JETRO, Statistics and Surveys.

three economies more and more integrated since increasing the share of trade between the three countries are FDI related. For example, for about 40% of Japanese and Korean companies invested in China, their intra-firm trade share is as high as 75%; almost half of Japanese companies invested in China have over 75% of their products sold back to Japan.<sup>3</sup> Although FDI flows are currently mainly from Japan and the ROK to China, the economic integration finds its rationale through efficient restructuring of manufacturing industries. This intra-industrial division of production and also services has helped to build up a network, which made the three economies highly interdependent and beneficial to each other. It is obvious that economic linkages emerge within the three economies, which are different from simple trade. Furthermore, the restructuring of manufacturing industries has created new business in services, like finance, transportation and logistics; and also it has encouraged more and more movements of human resource among the three economies. Seeing into the future, following China's economic progress, capital flow from China to Japan and the ROK will also increase, which will help to create a more balanced structure of the economic integration.

This economic integration has been mostly market driven by companies based on their business strategies for economic efficiency and profit. Criticism argued that the market driven restructuring by compa-

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<sup>3</sup> Zhang Qi, Major impediments to intra-regional investment between China, Japan and Korea, paper presented at symposium on "strengthening economic cooperation in Northeast Asia," Beijing, Sept. 29, 2002.

nies would hurt the home economy since it would create the “hollowing out” effects. The fact has shown that the new division of production and service based on comparative advantages has created significant benefits to all sides and the dynamic effects seem very positive even to FDI home countries due to their rational restructuring. China has benefited largely from receiving FDIs from the ROK and Japan that has helped China to develop its modern manufacturing industries and to build up the competitive capacity for export and also the domestic market. At the same time, both the ROK and Japan have also benefited from timely restructuring of their economies that help to improve their competitiveness for the long term. This complementary structure of economic linkages among the three economies will continue to exist in the future.

We understand that economic integration calls for institutional transparency and stability, market liberalization as well as close macro-economic coordination. Market driven integration is not perfect. Without institutional arrangements business transactions may be still blocked by all kinds of barriers, both tariff and non-tariff measures. As a matter of fact, among the major economies of China, the ROK and Japan, non-tariff restrictions still largely exist.

Furthermore, from the perspective of the Northeast Asian region as a whole, the participation of other economies in the region should be encouraged. Mongolia, Russia, as well as the Democratic People’s Republic of Korea (DPRK) are the members of the region. Trade exchanges and investment flows, as well as network building should be gradually extended to those economies.

## **II. Progress of Economic Cooperation**

Economic integration leads to economic cooperation. Northeast Asian economic cooperation has developed in a multi-layered structure in both institutional and non-institutional ways. On an institutional level, the FTA arrangement is the most important development. The ROK and Japan have already signed their investment agreement and

started their FTA negotiation in 2003 and it seems it plans to be concluded by the end of 2005. China and the ROK started their FTA feasibility study in 2005 and it seems to have started in 2006. Only China and Japan have not prepared to start their FTA process yet. Japan calls for a bilateral investment agreement first, but China hopes to negotiate a close economic partnership agreement including trade, investment and service. As for a trilateral FTA the joint study group submitted to the Trilateral Summit Meeting in 2003 “a report and policy proposal on strengthening the trilateral cooperation” evaluating mainly the economic effects of a feasible trilateral free trade agreement, with a conclusion that the trilateral free trade agreement would bring about substantial macroeconomic effects favorable to the three countries. A joint study on a possible modality of trilateral investment arrangements was conducted and the Joint Study Group held several meetings, with the common understanding that the promotion of trilateral investment would increase dynamism of the three countries’ domestic economies and strengthen trilateral economic cooperation. The Joint Study Group Report suggested that a legal framework should be explored concerning trilateral investment. But considering the differences of the policy priorities and interests, trilateral FTA for China, the ROK and Japan seems not on the immediate agenda though China calls for an early start for it.<sup>4</sup>

Important progress is the joint declaration on promotion of tripartite cooperation among the three countries signed in Bali, Indonesia on October 7, 2003, during the leaders’ meeting of China, Japan and Korea. As the declaration stated with geographical proximity, economic complementarity, growing economic cooperation and increasing people-to-people exchanges, the three countries have become important economic and trade partners to one another and have continuously strengthened

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<sup>4</sup> Michael G. Plummer argued that rising levels of interregional trade and investment flows in Northeast Asia derive mainly from interaction with China, rather than between both Japan and South Korea. He suggested that “if the flag is to follow trade, the agreement should be three-way”. See Yoon Hyung Kim, Chang Jae Lee, eds., *Strengthening Economic Cooperation in Northeast Asia* (Seoul: KIEP, 2004), p. 174.

their coordination and cooperation in regional and international affairs. The cooperation among the three countries demonstrates the gratifying momentum for the development of their relations.<sup>5</sup> The leaders of the three countries held regular informal meetings since 1999. The departments of various areas have established mechanisms for meetings at the ministerial, senior official and working levels. The areas of cooperation include trade and investment facilitation measures ranging from customs, transportation and quality supervision, inspection and quarantine.<sup>6</sup> For example, the customs authorities developed dialogue and cooperation for trade facilitation. Bilateral meetings on customs have been held and views have been exchanged on measures on swift customs clearance. The customs mutual assistance agreement (CMAA) between China and the ROK has been already in place, the ROK-Japan CMAA seems ready and a China-Japan CMAA is now under negotiation. In the transportation area, the Northeast Asia Port Directors -General Meetings have been held since September 2000. They conducted joint studies on promotion of cruising, investment and free-trade zones as well as the new design method of port facilities. In the information and communications technology area, the trilateral ICT Ministers' Meetings were formalized and the ministers agreed on a closer trilateral cooperation and the framework of the "East Asia (CJK) ICT Summit." The working groups were set up for cooperation on six areas (the next generation Internet (IPv6), 3G and next generation mobile communications, network and information security, telecommunication service policies, digital TV and broadcasting, and open source software); and they held meetings accordingly.

Environmental cooperation is another important area that has

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<sup>5</sup> Declaration on promotion of tripartite cooperation among the three countries, Bali, Indonesia on October 7, 2003.

<sup>6</sup> The leaders agreed in the Joint Declaration to the promotion of cooperation in 14 areas including economy and trade, culture, people-to-people exchanges, and politics and security, as well as the establishment of the Three-Party Committee, which is headed by the foreign ministers of the three countries to study, plan, coordinate and monitor the cooperation activities. See Joint Declaration on the Promotion of Tripartite Cooperation, Trilateral Summit, 2003.

achieved progress: a comprehensive sub-regional environmental cooperation mechanism in Northeast Asia, and the monitoring and early warning network system for dust and sand storms, the Acid Deposition Monitoring Network in East Asia, the Northwest Pacific Action Plan for the protection of the regional marine and coastal environment and a North East Asia Sub-regional Program for Environmental Cooperation. Cooperation for sustainable development for seas of East Asia has been made in the framework of the "Partnerships in Environmental Management for the Seas of East Asia."

Energy cooperation is considered as one the most important areas in which Northeast Asian countries should cooperate both for energy consumption and energy supply. China, the ROK and Japan are Asia's three largest energy consumer countries. An energy ministers' meeting was held in 2004 for consultation and the three ministers agreed to further deepen their cooperation and partnership. However, due to their competition for energy supply security, real cooperation needs real action. An energy community can only be built up by a cooperative spirit and cooperative policies, not just for major energy consumers, but also for energy suppliers. Viewing from the reality, none of the major energy consumer countries, nor key energy supply countries have taken real action in moving toward the direction of an energy community.

The cooperation in the IT area among the three countries has been developing in depth through both company initiatives and governmental efforts. The three countries now are cooperating in developing the Northeast Asian IT R&D standard and network (new generation internet, phone system, etc). It is proposed that an IT common market should be firstly developed by China, the ROK and Japan which would form an important foundation for the Northeast Asian real FTA.<sup>7</sup>

Cooperation for promoting tourism in the Northeast Asian region has been given special attention in recent years. In order to stimulate

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<sup>7</sup> Kim Yong Ho: New pattern of economic cooperation in Northeast Asia and the cooperation among Korea, China and Japan, *Journal of Northeast Asia Studies*, No. 1, 2005, Tianjin, China, p. 8.

tourism demand, China, the ROK and Japan tourism authorities have launched joint tourism promotion programs linking the three countries as a single destination. Trilateral exchanges of tourism have become more active with this new initiative. In the other areas, like education, cultural exchange, tourism promotion, etc., the cooperation among China, the ROK and Japan has also been developed. Besides, there are other kinds of cooperation in the region. For example, the sub-regional cooperation, like the Truman River development program, the China-Russia border close economic ties, the newly emerging ROK-DPRK Kaiser industrial development zone, etc. The cooperation between the local cities and communities on port linkage, resource development, urban management etc. has been developed more actively than by the central governments. The community building for the region usually finds its momentum in this "grass roots" movement.

The development of cooperation in the Northeast Asian region, currently mainly among China, the ROK and Japan, serves as a gradual process for community building. However, the progress of this process seems too slow and limited for such a high-level economic integration and interdependence of the three countries. The trilateral cooperation on the government level is more reflected by meetings or forums. In the key areas, like macro-economic coordination, the trilateral FTA, the energy community, etc. the real institutional building and joint actions are far from satisfactory.

We should encourage Northeast Asian cooperation beyond the trilateral level. There are two key areas that have great potential: one is energy cooperation with the participation of all Northeast Asian countries, China, Russia, Japan, South and North Korea, as well as Mongolia. Energy cooperation should be designed as a comprehensive strategy concerning energy development, energy use and an energy network. It time to initiate a Northeast Asian energy leaders meeting. Another is sub-regional development, for example, developing the joint border development area with trade and investment facilitation arrangements.



### **III. East Asian Cooperation Context**

When talking about Northeast Asian cooperation, we should link it to the process of East Asian cooperation since it becomes an integrated part of the East Asian cooperation process. The East Asian cooperation process, currently in the form of “10 plus 3,” i.e. 10 ASEAN countries plus China, Japan and Korea, formally started from 1997 after the financial crisis. Notable achievements have already been made: an institutional framework for regional cooperation through annual leaders’ meetings, ministers’ meetings (currently 10 areas) and senior officials meetings; real progress in financial cooperation through the Chiang Mai Initiative, the preferential trade arrangements (PTA), like AFTA, China-ASEAN FTA, Japan-Singapore closer economic partnership agreement (JSCEP) and ongoing Japan-ASEAN, as well as the ROK-ASEAN FTA negotiations, as well as sub-regional development projects, like the Great Mekong Development Project.

The foundation of East Asian cooperation rests on the increasing economic convergence of the region in which Northeast Asian economies have played the key role. The economic convergence started by a “flying geese model” led by Japan and followed by the “four dragons.” This helped to build a “vertical” chain through capital flow, technological transfer and the supply of manufacturing parts, thus formulating an intra-regional economic connection based on a kind of economic development chain. The regional economy went well until the 1997 financial crisis. The crisis revealed the vulnerability of East Asian market-based integration, the environment and the structure of East Asian economic growth. As an aftermath of the financial crisis, there emerged a new push for regional cooperation, which led to the first ASEAN plus China, Japan and Korea leaders’ meeting in Kuala Lumpur in November of 1997. This meeting opened the way for a new regional cooperation process based on shared interests and common desire, which implied a newly defined regional identity, i.e. East Asia.

East Asian cooperation can be featured as multi-layered process. ASEAN is a pathfinder in promoting regional integration and cooperation and has a unique role in bridging East Asian countries into an East

Asian cooperative process. Japan as the largest economy in the region is a key factor in any regional integration. Japan started its first FTA negotiation with Singapore and now is negotiating both bilateral and sub-regional FTA (Japan-ASEAN). Japan has shown its interest to move toward an East Asian FTA in the future. The ROK played an active role in promoting East Asian community building by proposing the EAVG and now seems ready to adopt a more active regional FTA strategy. China started to become active in joining the regional arrangement after its accession to the WTO. It moved ahead of others to a FTA with ASEAN.

The train of East Asian cooperation seems to be moving faster by starting an East Asian Summit in 2005. Although there is no consensus yet on the final goal for regional cooperation, the train will not stop anyhow. East Asian countries try to adopt a pragmatic approach. A multi-layered model mostly referring to trade and investment liberalization fits the regional reality. Importantly, by concluding the negotiated agreements, it helps to follow the rules and standards for the regional economic activities, which constitutes the legal foundation for regional institution building. East Asian cooperation and integration is a comprehensive process. Although it is difficult to envisage a regional identity like the EU as the final goal, gradual institutional building seems inevitable. By starting with a multi-layered process, it is necessary for East Asian countries to consolidate all the different processes into an integrated process and finally to move to a single regional arrangement.

As for Northeast Asia, it should play an active role in supporting and promoting East Asian community building due to its great weight in the region. While making more efforts to move its own regional cooperation process, it should show its key role in moving the process faster. Although ASEAN will continue to play a special role in leading East Asian community building, the key role of Northeast Asia's three countries, China, the ROK and Japan, should be designated. To play the key role, it is important for the three countries to show their joint effort either to move the Northeast Asian FTA faster, or to push an East Asian FTA (EAFTA) together based on three "10 + 1" FTAs (China-

ASEAN, Japan-ASEAN and the ROK ASEAN). Also, the three countries should play a significant role in helping the less developed countries in East Asia to improve their economies and enhance their capacity to meet the challenges of market liberalization.

On the other hand, the East Asian cooperation process also helps to facilitate Northeast Asian cooperation. For example, it is the "10+3" process that helps to bring the three Northeast Asian leaders together and set the course for a formalized leaders' meeting every year and for other governmental cooperation mechanisms. In this aspect, East Asian cooperation serves as a binding factor in bringing Northeast Asian countries together and encouraging them to move faster.

#### **IV. Vulnerable Political Trust**

Community building needs political trust and cooperation among the countries in the region. Due to the historical grievances as well as current differences, the Northeast Asian region firstly needs political reconciliation based on normalized and improved bilateral relations. The current fact is that the political reconciliation process has started, but still has a long way to go.

The three countries of China, Korea and Japan started their high level political dialogue under the framework of "10+3" from 2000. This mechanism of top leaders' dialogue has led to the trilateral economic cooperation that was mentioned above. Also, this mechanism helps to improve political relations and enhance the understanding and trust among the three countries. However, this trilateral cooperation still needs sound bilateral relations. Due to the special history factor, the trust building cannot be done without consolidating the understanding of the history among the three countries. The misleading trend on Northeast Asian historical issues in Japan puts its political trust with China and the ROK in crisis. This makes the political foundation for trilateral cooperation very vulnerable.

How can this vulnerability be overcome? In order to overcome the current dilemma, Japan should do more to trust the other Northeast

Asian countries through its actions on the issue of history. The other Northeast Asian countries, especially China and the ROK should also take more forward-looking measures in helping people to put aside the suffering past. Government officials have a great responsibility to reduce rather than to increase the hostility among the peoples. The trust between China and Japan is crucial for Northeast Asian community building. In facing China's quick rise, the Japanese seems to have "an ill feeling" that China's rise would hurt Japan's interests. This has a negative impact on the Japanese government's efforts to make a bold policy toward China. It is thought that Japan's hesitation about its relationship with China reflects a lack of strategic vision.<sup>8</sup> On the Chinese side, people still do not trust Japan's sincerity on its past guilt, but also on its current policy intention toward China.<sup>9</sup> The "anti-Japanese feeling" among the young people even has gotten worse.

On Korea-Japan relations, a similar situation appears. Despite the efforts on improving the bilateral relations made by the two governments, the newly emerging conflicts on historical issues and disputes over an island have deteriorated hurting the foundation of bilateral trust.

The problem is considered a result of emerging nationalism. As worried by a leading Japanese columnist, "Such hostile attitudes toward one another, if unchecked, could have a disastrous effect."<sup>10</sup> Then what can be done? The first thing to do is to improve the bilateral relations through new efforts. As history is a special issue that cannot be simply overcome, the Japanese government should do by itself to create trust with the others by taking real actions to correctly move away from the distorted history. Current disputes on territory and sea zones should be

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<sup>8</sup> Takahara Akio, "Japan's political response to the rise of China, Kokubun Ryosei," Wang Jisi ed., *The rise of China and a changing East Asian order* (Tokyo: JCIE, 2004), p. 170.

<sup>9</sup> Xu Jian, a Chinese scholar argued that compared with other powers, Japan seems to have even more reservations over the rapid development of China. Paper presented on "The international symposium on peace and prosperity in Northeast Asia", Seoul, January 13, 2005, Conference papers, p. 30.

<sup>10</sup> See Yoichi Funabashi, source same as footnote 7, p. 41.

handled through cooperation and the preparation for negotiation on those disputes should be done cooperatively among the related parties. Since there is already a trilateral mechanism for high level dialogue and cooperation, those issues should be discussed during the summit meeting. This requires that the role of the leaders' summit should be strengthened. Furthermore, only government to government dialogues are not enough, some times even not helpful; thus the role of people to people exchanges and the role of NGOs should be encouraged. Northeast Asia needs more regional based civilian cooperative institutions. On the one hand, the community building in Northeast Asia needs all bilateral relations improved, on the other hand, the process itself should significantly help to enhance their relations. It is clear that desire for economic cooperation that is reflected in leaders' statement requires a strong political back up. Ideally, if real progress is to be made, the current cooperation mechanism of the three countries will become a core institution to invite the other members in Northeast Asia to join the community building. However, currently, its foundation is too weak.

Security is another area that needs to be handled well for the Northeast Asian community. There are two general security challenges: one is the divided security structure, i.e. the US military alliance and the others. This division is a result of the Cold War, but it still exists. The division of the Korean peninsula may be the excuse for its maintenance, but this is not helpful for solving the peninsula division. Now we have the mechanism of the Six-Party Talks for solving the nuclear issue of the DPRK. It is clear that the nuclear issue cannot be solved independently without other comprehensive arrangements since it involves a complex relationship that has accumulated for decades. It is desirable if this Six-Party Talk mechanism could become a Northeast Asian security framework arrangement when it shows that it is functional for solving the nuclear crisis and ending the confrontation. The US participation in the Northeast security framework is necessary since it is a key factor to all security matters.<sup>11</sup> However, the real test for the Northeast Asian

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<sup>11</sup> Kent Calder and Min Ye, "Regionalism and critical junctures: explaining the organization gap in Northeast Asia," *Journal of East Asian Studies* 4, 2004, p. 215.

security framework is whether it can be changed from a confrontational to a cooperative nature, i.e. a new cooperative security arrangement.

Due to the complexity of the Northeast Asia political and security situation, people just try to talk about economic cooperation and community building. The fact shows that the Northeast Asian community needs a broad foundation including economic, political, as well as security mechanisms though the economic mechanism should and could develop faster than the other areas.

## **V. China and the ROK Should Work Together**

China and the ROK are two key players in Northeast Asian community building. This has been reflected on three layers: one is their individual position and role in the region; another is their mutual relationship and the third is their joint efforts. China, though still a developing country, with its large size, big population and fast growing economy, is playing a special role not just in keeping the regional economic dynamism, but also in promoting regional cooperation and helping regional stability. The role of China's market in the region becomes increasingly important. China's market is the binding factor through trade and FDI flows bringing Northeast Asian economies together under a production and business network. China is an active player promoting and participating in regional cooperation. In 2001, China proposed to set up an economic and trade ministers meetings. In the following year, China proposed to start an academic study on the feasibility of a trilateral FTA between China, the ROK and Japan.

In political and security aspects, China bases its peace and development on a long strategy and "good neighbor policy" and plays a positive role in reducing regional tension and improving the security environment by initiating and participating in the Six-Party Talks.

The ROK as a member of the OECD is more advanced economically than China. It has competitive advantages in IT and some other areas. The ROK becomes an important source for FDI flow especially to China. Based on its long strategy, it makes efforts to become an impor-

tant center for Northeast Asian logistics, IT and culture industries. The ROK's position and role is unique in transforming the conflicted Korean peninsula into a cooperative and finally a united and peaceful place. Its "one Northeast Asia" vision and initiative helps to create a "shared value for trust, mutual interest and living together which is the foundation for Northeast Asian community building."<sup>12</sup>

China-ROK relations have developed in a comprehensive way. Economically, the two countries have established a kind of highly independent structure. China become the largest export and FDI market for the ROK. In 2004, the two-way trade between the two countries exceeded 90 billion US dollars and in 2005 it will surpass 100 billion US dollars. An important change is that the trade between the two countries has moved to a high structural level with the majority as capital and high-tech products. FDI from the ROK to China has increased fast, and in 2004, it was the largest among all FDI flows to China. The accumulated investment size reached 25.8 billion US dollars, the fourth largest FDI by country, only after the US, Japan and Singapore. It is estimated that more than 40% of the ROK companies have investments in China. China has gained significantly from receiving FDI flows and importing IT intermediate products, and the ROK also has benefited remarkably from investing in China. It is necessary for restructuring its economy and keeping it competitive. The highly complementary nature of China-ROK economic relations will continue to exist in the future.<sup>13</sup> More importantly, the two economies have become integrated from the internal structure and rely on each other. Considering China's great potential, it will provide a long and secure huge market for the ROK. This is a win-win formula, no one is a loser though both sides have to manage to meet the future competitive challenge from each other on the one hand and from other parties on the other hand.<sup>14</sup>

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<sup>12</sup> Moon, Chung In, "Northeast Asian economic community and coping strategy," *Journal of Northeast Asian Studies*, No. 1, 2005, p. 6.

<sup>13</sup> China's investment in the ROK will increase along with its economic upgrading. China may become the largest investor in the ROK in the coming future. Cao Shigong, "An evaluation on the economic relations between China and Korea," *Northeast Asian Studies*, No. 1, 2004, p. 11.

An early comprehensive structured FTA for China and the ROK is highly beneficial to both. The two governments now prepare for the negotiation and hope to complete it next year. A China-ROK FTA will facilitate the process of a China-Japan FTA and may be the trilateral FTA in general since there are two FTAs, i.e. the ROK-Japan FTA and the China-ROK FTA.

For developing a real comprehensive cooperative partnership relationship, the trust between China and the ROK must be enhanced. Differences should be solved through consultation and cooperation. Thus, China and the ROK should cooperate in broader aspects than just the economic area. The two countries share the common interest in keeping peace based on gradual transition of the Korean peninsula relations. They play key role together in engaging the DPRK and integrating it into the regional community building.

For Northeast Asian community building, in general terms, China-ROK cooperation will be helpful for China-Japan relations that now appears to be a difficult situation.<sup>14</sup> As mentioned above, in order to build a Northeast Asian community, the three countries must first improve and make close three bilateral relations. China and the ROK should take the lead in this direction.

However, Northeast Asian community building should not just include China, Japan and the ROK. The DPRK, Mongolia and also Russia should be engaged as early as possible. A cooperation movement parallel to the "ASEAN +3" process in the Northeast Asian region that embraces all members in the region on economic cooperation should be initiated now and a Northeast Asian security architecture should be designed at an early time. The Northeast Asian community is a vision and also a dream that needs great efforts to be realized both through a good spirit and real actions.

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<sup>14</sup> It is thought that Korea should take China's challenge as a catalyst for its industrial upgrading and domestic reforms, rather than seeing China simply as a threat. Nam Young-sook, "China's industrial rise and the challenges facing Korea," *East Asian Review*, Vol. 16, No. 2, summer 2004, p. 64.

<sup>15</sup> Jong-Pyo Hong, "Regional integration in Northeast Asia—approaches to integration among China, Korea and Japan," KIEP, CHAEC Research Series 04-04, p. 18.



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## *Japan and East Asian Community Building: Constraints, Opportunities and Prospects*

**Kenichi Ito**

**E**xcellencies and distinguished participants, ladies and gentlemen, it is my honor to have a chance to speak to this prestigious Forum on the topic of “Japan and East Asian Community Building: Constraints, Opportunities and Prospects.” Needless to say, Japan’s voice on Japan’s role in community building in East Asia is not one. There are so many different voices. Therefore, what I will say here today will be only my voice and will not represent Japan as a country. Having said that, now let me look back for a moment at how our perception of an East Asian Community has fared. To tell the truth, until recently we Japanese were passive, if not indifferent, to the concept of an East Asian community. Of course, it didn’t mean that we Japanese failed to understand the importance of regional cooperation in East Asia. On the contrary, Japan has always been one of the major promoters of regional cooperation in East Asia. Suffice it to say that Japan was one of the countries that played a leading role in tackling the 1997 financial crisis in East Asia, as demonstrated by her role in organizing the Chiang Mai Initiative which decisively contributed to the resolution of this financial crisis. But still, we Japanese had been behind the move advocating community building in the region until sometime later.

Probably the tide turned when in December 2003 at the Japan-ASEAN Special Summit meeting held in Tokyo, Prime Minister Koizumi made it clear that Japan would support the idea of community building in East Asia. In the private circle as well, changes in the

mind of many people were taking place. In my personal case, it was my experience to attend the 1st "Network of East Asian Think Tanks (NEAT)" Conference held in Beijing in September 2003. Let me say that I saw there for the first time in my life Asians coming from different countries speaking in one voice and aspiring for one purpose. I was touched by the enthusiasm of the people assembled in that NEAT Conference.

After returning home from Beijing, we who attended the Conference called on our countrymen to organize an all-Japan intellectual platform where we could deepen our understanding of the concept of an East Asian community by way of conducting research and promoting policy debates among ourselves. Thus, "The Council on East Asian Community (CEAC)" was inaugurated in Tokyo on 18 May 2004. As of today, the membership of CEAC consists of representatives of 13 public policy think tanks such as Japan Forum on International Relations, Japan Institute of International Affairs, Japan Center for International Finance, etc. and 14 business corporations such as Nippon Steel, Toyota Motor, Tokyo Electric, etc. in addition to 93 individuals who are mostly scholars but also include some journalists and politicians. In response to our call, four government ministries such as the Foreign Ministry, Finance Ministry, Trade and Industry Ministry, Education and Science Ministry also joined the activities of CEAC in their advisory capacity of Counselors. Former Prime Minister NAKASONE Yasuhiro was elected Chairman, and myself President. In a series of CEAC plenary meetings where all the Members and Counselors met, we discussed such issues as whether an East Asian community was really necessary and feasible. What should be the geographical coverage of an East Asian Community was also one of the topics that invited heated discussions among us.

Taking some of the conclusions reached in the discussions of CEAC into consideration, but not exclusively relying on them, I would like to present today my personal view on the topic of "Japan and East Asian Community Building: Constraints, Opportunities and Prospects." After the end of the Cold War the trend of regionalism spread all over the world hand in hand with another trend of globalization. However, it was conspicuous until about a decade ago that two regions in the

world were devoid of such regionalism. One was the Middle East and another was East Asia. Whereas it was understandable that the Middle East failed to have its regionalism because of the political, economic and cultural consequences of the Arab-Israeli conflicts, the absence of regionalism in East Asia was never as justifiable as in the case of the Middle East. Certainly, it was true that this part of the world has been long characterized by its unique diversity in levels of economic development, traditional values, cultures, ethnicity, religions, languages, political regimes, etc. During the Cold War era political and ideological barriers hindered closer regional cooperation. But these excuses had to give way to the more powerful forces of integration which had brought about a gigantic change in the region, i.e. a drastic expansion of intra-regional exchanges and interdependence, particularly after the end of the Cold War. Today's East Asia is a center of dynamic economic developments. Now, a third of the world population resides in this region. Its share of the global GDP accounts for one fifth, and countries in the region now hold more than a half of the world foreign reserves. The 1997 financial crisis in East Asia awakened people of the region to the need for a regional approach to secure their prosperity. It is said that a friend in need is a friend indeed. Thanks to the crisis, we realized that our friends indeed were nobody but our neighbors in the region.

Let me now proceed to the question of the perspective of community building in East Asia. When I think about the history of regional integration in East Asia, I cannot help admiring the efforts made by our ASEAN friends. In East Asia where many handicaps exist for regional integration, ASEAN has always played a leading role. It has hosted a number of key forums of regional cooperation, including ASEAN+1s, ASEAN+3, PMC and ARF. These forums have nurtured the basis of community building in East Asia. Now those members of East Asia, who reside in the northern half of the region, Japan, Korea and China, must take it more seriously that it is their turn now to take initiatives not only for the promotion of the integration among themselves but also for that of the integration of the region as a whole.

In contrast to the European Union, where rule-making and institutionalization has been a driving force for integration, in East Asia the

idea of community building was originally inspired by the progress of a variety of functional cooperation. To list just a few of them, we can mention Economic Partnership Agreements, the Chiang Mai Initiative, the Asian Bond Market Initiative, the Asia Broadband Initiative, Mekong Region Development, and many other examples of cooperation in the fields of terrorism, illicit drug trafficking, sea piracy, non-proliferation, energy security, environmental protection, food security, health, intellectual property, etc. I must say that this approach to community building was better fit to the reality of East Asia as diversity was more salient here than in other regions. I am of the opinion that the functional approach is a natural choice for community building in East Asia.

Having said that, however, I have to hurriedly add that community building cannot be achieved by the mere promotion of functional cooperation alone. If left alone to the mercy of either market forces or arbitrary diplomatic bargaining, it can drift and lose its sense of direction. Here I would like to call your attention to the importance of the creation of a "sense of community" or a "shared identity as an East Asian." A European friend of mine once told me that he was then a German but that he would become a European once European integration had been achieved. He further added that then his German identity would not matter for him anymore. We East Asians are still at the stage of talking about "economic integration," or at best "economic community." Through the strengthening of our functional cooperation, we may be soon able to talk about "energy community," "environmental community" and many other types of "community" in the not so distant future. Here, however, we must be reminded that we need a beacon that guides us in the direction toward community building. Simple proliferation of functional cooperation alone is sure to lead us nowhere. Of course, it is true that the functional cooperation facilitates the so-called "enmeshment process," which is indispensable for forging a "sense of community" in East Asia. But "enmeshment process" as such alone again fails to provide us with a beacon that is to guide us in our direction toward community building. Some other people argue that to narrow the developmental gaps among countries in the region is the

most important means for achieving a “shared identity as an East Asian.” I agree with them. But let me add that narrowing the developmental gap is one of the means to achieve an objective of a “shared identity.” By nature, it fails to be a beacon that guides us to the objective of “shared identity.” What then can be the beacon that can give us a sense of direction toward our goal of “community building”? What will take us in the direction toward the objective of a “sense of community” and a “shared identity as an East Asian”? In Europe it was their conviction that they will never turn Europe into a battlefield again that played the role of such a beacon in their process of integration.

Ladies and gentlemen, we need something more powerful than a “common interest.” Something beyond a “common interest” is needed. That is a “common value” to be shared by everybody in the region. It is my strong conviction that a “sense of respect” for each other and a “principle of equality” among each other are prerequisite for any meaningful “community building” in the region. This must be very clear to anybody if he or she is reminded that the opposite “sense” and “principle” are a “sense of superiority” and a “principle of domination.” Every nation, rich or poor, must be respected. No nation, big or small, is allowed to dominate. On the basis of this “sense of respect” and this “principle of equality,” we can and should build confidence among ourselves. Our region must become a region where each of us can be confident that our neighbors will never resort to the threat or use of force as a means to settle international disputes. This is what is stipulated in Article 2, Section 4 of the Charter of the United Nations. Japan has its own Article 9 of the Constitution stating, “Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes.” But, to tell the truth, what really matters is not a legal framework but a state of affairs as having been achieved. Look at, for instance, Europe, where community building has reached its highest level of development. Along the borders dividing any member countries of the European Union, we see no tanks, missiles or fortresses directed against each other. For many reasons other than legal, i.e. political, economic and

other, the member countries of the European Union have come to a stage where it can be called a “no-war community.”

Let me now conclude my speech. We need a “common value” that goes beyond a “common interest.” Starting from the “sense of respect” and the “principle of equality” among ourselves, we can and should build confidence among ourselves. The confidence that our neighbors will never resort to the threat or use of force as a means to settle international disputes would take us to the higher level of “community building.” Here, what really matters is not a legal framework but a state of affairs as having been achieved. Our “community building” can start from “economic community,” and add “energy community,” “environmental community,” etc. But it must, before reaching the final stage of an “East Asian Community,” accomplish a “no-war community” in the region. Thank you very much for your kind attention







*The Future of Shaping the Peace  
and Prosperity of Jeju:  
Visions and Challenges*

The Role of a Jeju Center for Peace Operations

Promoting Prosperity in Jeju:  
Free International City and Foreign Investment

Jeju Jamestown:  
Concept and Status Report



## The Role of a Jeju Center for Peace Operations

Yasushi Akashi

*We live in an era in which the influence of China, Japan and Korea keeps growing, and their great potential for contribution to world peace also expands enormously. On the part of the United Nations, its requirements for peace-keeping operations as well as for post-conflict peace-building activities become more extended and more complex. In this juncture, it is recommended that Jeju be selected as an ideal location for a sub-regional activity of research and training in international peace-keeping, diplomatic mediation, conflict prevention and peace-building activities because of the island's geographical proximity to major capitals and other cities of North-east Asia, and for the modern history of Jeju as well as its scenic beauty and mild climate. Establishment of such a center on the island itself will be an important act of confidence-building and cooperation among the countries concerned and enhance the participation and contribution of the sub-region to world-wide moves towards more effective and better coordinated UN efforts in peace-making, peace-keeping as well as peace-building. Activities of the proposed center will help train a greater number of civilian, police, and military personnel who are well-versed in the theory and practice of peace operations centering around the United Nations.*

### Changes in East Asia

The first years of the 21st century have followed one decade of great turmoil of ethnic and other conflicts in the 1990s. East Asia today is, however, a dramatic illustration of the dynamic processes taking place all over the world. In fact, the phenomenal

growth of China, which is expected to continue for at least another ten years, has been a subject of a great deal of attention because of its far-reaching implications for the Asian balance of power as well as for global equilibrium. The Chinese economy is nominally smaller than that of Japan, but is already larger than Japan if we use purchasing power comparison. In addition, the emergence of North Korea as a new nuclear weapon state has made it necessary for others, especially the rest of the members of the Six-Party Talks, to adjust to the situation of this odd country, economically on the brink of collapse, and yet exerting considerable negotiating clout vis-à-vis even the United States, the only superpower.

We are witnessing multiple sets of emerging free trade agreements and economic partnership agreements. Such economic collaboration among countries in East Asia is bringing about mutual benefit to the countries concerned. It is not unreasonable to assume that the dynamics towards closer economic cooperation will lead to a greater political collaboration. Moreover, ASEAN+3 and ASEAN+6 are some of the experiments to foster movements which go beyond sub-regional ASEAN grouping.

The Six-Party Talks on North Korea may provide an institutional framework on which the community of Northeast Asian countries could be formed in the future. However, it is unrealistic to think of "Northeast Asia" as distinct from "Southeast Asia." Even "East Asia" as a whole cannot be a completely self-sustained geographical region. In the long run, we will have to think of a Pacific community, for which the APEC may perhaps serve as a more satisfactory umbrella organization, analogous to the OSCE.

China and Japan face an unprecedented challenge of forming a new truly egalitarian relationship, which is radically different from the 1,000 years of Chinese supremacy prior to the Meiji Restoration as well as from the 100 years of modern Japan's supremacy over Northeast Asia from the Meiji Restoration to Japan's defeat in 1945. This sub-region will also have to accommodate itself to the phenomenal rise of South Korea as a confident and vibrant middle power. It appears inevitable that the growth of China will exert influence far beyond the economical

domain. Political democratization of Chinese society will become a reality someday. In the interval, China will face an enormous task of having to cope with issues such as uneven domestic economic development, overwhelming environmental challenges, and mounting energy needs. China's military budget has been making consecutive double digit growth for the last fourteen years. This, together with the resources which sustain such growth, contains far-reaching implications for neighboring countries.

### **Necessity for Rapprochement in the Sub-Region**

China, Korea and Japan will have to move towards the strengthening of their respective bilateral relations. They also have to work together on the institutionalization of sub-regional collaboration. They are also well advised to work at the United Nations to maximize the influence of the sub-region as a whole. In view of the increasing challenge to the United Nations in the peace and security field, particularly in light of the expansion of UN peacekeeping operations in Asia, Central Asia, the Middle East, Africa as well as the Caribbean, it is recommended that Northeast Asian countries work together wherever they can to make their contributions to UN operations more effective.

In this connection, it is suggested that China, Korea and Japan study together the recommendations contained in the Brahimi Report, issued in the year 2000. Of particular interest is the recommendation to preserve three time-honored principles of UN peacekeeping, namely, (a) consent of the parties, (b) UN impartiality, and (c) the minimum use of force for self-defense, and, at the same time, to move towards more "robust" rules of engagement in operations. How to harmonize these seemingly contradictory requirements is a baffling question, which has to be answered if UN peacekeeping is to become more effective and relevant in the future. Other matters of importance to be explored include:

- (i) A focus on conflict prevention and early engagement

- (ii) Implications for human rights observance
- (iii) Enhancing the capacity to contribute to peace-building
- (iv) Strengthening the capacity to deploy a complex operation in the field rapidly
- (v) How to train civilian police monitors, in the context of greater emphasis on the “role of law”

### **Expansion of Such Regional Confidence-Building**

Countries of Northeast Asia have to move vigorously towards enhancing their broader mutual confidence-building measures. The sub-regional concentration of efforts to promote greater transparency and joint research and training activities in peace and security, particularly in peacekeeping, peace-building and conflict prevention is in the interest of the individual countries as well as of the region as a whole. With its central geographical location between the Korean mainland, China and Japan, Jeju Island enjoys the position of the navel of the sub-region. Its complex and tragic modern history makes the island an ideal candidate to become a symbolic catalyst to promote peace, reconciliation and humanitarian joint work for both natural disasters and man-made conflicts. The island’s scenic and hospitable atmosphere is conducive to informal in-depth dialogue and discussion. The fact that the incumbent UN Secretary-General comes from Korea is another good reason in favor of establishing a dynamic sub-regional center for peacekeeping on Jeju Island, dedicated to UN and regional and sub-regional assignments.

# *Promoting Prosperity in Jeju: Free International City and Foreign Investment*

**Sung-Kyu Ko**

*Jeju, a premium island, has a dream to become the major hub in Northeast Asia like Hong Kong and Singapore in Southeast Asia. In order to achieve this goal, the role of foreign direct investment (FDI) is very important. Including Korea, the world now is full of liquidity. As long as a project is feasible with reasonable returns, soliciting investment funds from domestic or international sources should not be so difficult. The bottom line is to create a marketable project which has a differentiated concept. Jeju is welcoming strategic investors who can provide Jeju with marketing expertise to bring customers from their countries, management and technical know-how. But Jeju is not seeking financial investors who are just looking for stable yields. The mission to build the Free International City is achievable only when the Korean Government continues to show solid will toward the market so that they make Jeju Island a real Free International City. If the Government fails to show such strong will and hesitates to improve the investment climate for investors because of a nation wide balance policy in developing, the market could erase the word “Free” and “International” from the official name of “Jeju Free International City.”*

## **I. Free International City, Jeju’s dream**

### **A. Basic Strategies and Efforts**

**A** free international city means in general “a city with no border and no restrictions” where people, goods and capital move freely. In other words, it is a specific zone that provides a max-

imum level of convenience for business, and a city that performs multi-functions such as trading, manufacturing, international finance, residence and tourism. To promote and develop Jeju as a free international city, the Korean government has adopted two main strategies:

- Transfer the entire authority of the central government, except national defense and diplomacy, to Jeju Special Self-Governing Province step by step
  - High level of autonomy through differentiated power decentralization will support Jeju to realize its development strategies appropriate to its local condition.
- Deregulation up to global standards to ensure Jeju's competitiveness over other international cities such as Hong Kong and Singapore
  - Injecting a free market economy into Jeju will enable Jeju to foster the core industries — tourism, education, medical services, clean green primary industry, and high-tech industry (IT and BT)

With these two main strategies, the Korean Government aims to:

- Establish Jeju as the base of the Korean economy's opening and liberalization, by developing Jeju as the center of Northeast Asia with a maximum level of freedom for business activities guaranteed
- Improve Jeju people's income and welfare through strengthening competitiveness of Jeju's industry
- Maximize synergy of the tourism industry by developing its related industries such as medical services and education

Development of Jeju Free International City is a national strategic project as well as a local development project. This paper will briefly mention the central government's efforts to set up a free market economy in Jeju which is the first consideration for foreign investment inducement. Then, it will go over to the main topic, foreign investment promotion.

The Korean government legislated the Special Act on Jeju Free International City in 2001, and promoted the development of Jeju as a multi-functional city for global logistics, finance and tourism. However, the accomplishment of the effort has been unsatisfactory due to the



strategies dependent upon the central government and the lack of differentiated institutional competitiveness with other free economic zones in Korea. To cope with these limitations, the present Korean government made the Special Act on Jeju Special Self-governing Province and Jeju Free International City in February 2006 and established the Jeju Special Self-Governing Province. Also, the Council on Jeju Development Policy was established as an affiliated organization to the Prime Minister's office, which takes the role of coordinating and consolidating the relationship between central ministries and Jeju local government and makes efforts for further institutional improvement to build a free market economy model.

Introduced below are the major institutional improvements to revitalize international investments to Jeju, which include the attainable improvements:

- Expanding and strengthening tax incentives to improve Jeju's investment environment
  - Lowering the current corporation tax rate (13%-25%) to the rates of other competitive countries (Singapore 22%, Hong Kong 17%)
- Including IT, BT, education, and medical services to the industries favored for tax reduction and exemption
  - Easing the requirement of the investment amount to get the tax reduction and exemption from the current 10 million dollars to 5 million dollars
- Creation of better conditions for revitalization of tourism
  - Expanding no-visa entry from the current 169 countries to 180 countries
  - Gradual introduction of the open sky policy
  - Easing the purchase restriction at the JDC duty free shop for domestic tourists
- Deregulation and fostering of education and the medical service industry to improve the investment and living environment for foreign investors:
  - Building the Jeju English Town
  - Providing the legal and institutional ground for inviting international schools for global education and inviting prestigious foreign medical centers

## **B. Tough road to materialize Jeju's Dream**

Regardless of the efforts so far, it seems that more creative efforts of the related organizations and Jejuans need to be applied to Jeju's dream, Jeju Free International City. The Korean government has inspired Incheon as a Free Economic Zone, which is dependent on foreign investment procurement. It gives a lesson for us to learn. For example, Songdo International City, which is far better than Jeju in terms of investment environment, has only two cases of actual foreign capital investment for the last four years. Songdo is close to Seoul and other metropolitan cities, and it is adjacent to the Incheon International Airport. The main development projects are implemented by Incheon Free Economic Zone Authority under the Ministry of Finance and Economy. The director Hwan Kyun Lee did an interview with the Chosun Daily as follows. He expressed the difficulties in attracting foreign capital and we have similar difficulties for the Jeju Free International city development projects.

"Geographically, Incheon Free Economic Zone is perfect. But it could not attract foreign capital because of regulations and restrictions. Lacking government support, strict regulation and administrative restriction are big problems. The original purpose of the Free Economic Zone is to compete with other international cities like Shanghai, Singapore, and Hong Kong. This is not for domestic competition. However, there are a lot of restrictions such as the Balanced National Development Policy, the Metropolitan Regulation Policy, and the Real Estate Sales Regulation Policy which have been applied to all cities including free international cities. If our goal is to compete internationally, then it is not appropriate to apply the same Korean laws and regulations to free international cities. A free international city should meet global standards in terms of its laws and regulations. The administrative bodies diversify from the ministries of the central government, the Free Economic Zone authority to the City of Incheon, so that providing one-stop service is difficult and administration takes a long time. It takes about 6 months to get just one business permit. And that is why the complaints occur that there is no freedom in the Free Economic Zone. It

is also the reason why we haven't invited any global corporation like INTEL or MICROSOFT Inc."

"To attract top-class companies or research institutes, exceptional incentives should be offered. How could you compete with other global cities when you apply the same regulations as other domestic cities? Even worse, we don't have enough time since we started more than twenty years later than other global cities. In China, Singapore, India and Vietnam, the President or Prime Minister leads local development projects to strengthen national competitive power. That approach is also necessary for the success of free international cities in Korea. Legal and institutional restrictions should be resolutely repealed if they are not essential, and national treasury support for constructing infrastructures should be increased. Tax reduction and exemption superior to the cities in other countries should be provided. The Korean Government's logic of the balanced community development policy is meaningful domestically; but a Free Economic Zone should be an exception and should contribute to national future competitiveness.

## **II. JDC Is Answering the Dream of Jeju**

### **A. JDC's Role for Investment Promotion**

JDC (Jeju Free International City Development Center) was established in May 2002 as a special government agency under the Ministry of Construction and Transportation. It is a specialized organization for developing Jeju Free International City, functioning similarly to IDA in Ireland. Its establishment was based on the government's analysis that identifies the reasons why the Jeju Free International City development is progressing slowly are due to an absence of responsible organizations and a shortage of budget support.

Since its establishment, JDC is dedicating itself to implementing the development projects of Jeju's core industries, the so called four plus one industries, which are tourism, medical services, education, clean green primary industry and high-tech industry, in attracting invest-

ment from home and abroad, in marketing and holding public relations activities for investment procurement, and in operating the duty free shop at the Jeju airport to secure development funds.

The development projects divide into two parts; core projects and strategic projects, according to their priorities. The core projects which are feasible in an earlier stage include a Resort-type Residential Project, Myths and History Theme Parks, the Seogwipo Tourism Port Project, Health Care Town Project, and the Campus Town of Foreign Educational Institutions Project. Strategic projects, which are medium and long-term plans, include a Premium Shopping Outlet Project, Ecology Theme Park Project, etc. The current progress of each project is as follows.

- **Resort-type Residential Complex Project**

JDC is developing a world-class resort-type residential complex which combines residential, leisure and medical functions, near Jungmun Tourist Complex with superior natural settings and climate conditions, with an investment of US\$ 900 million.



Our negotiation with a private business partner applicant is in progress, and we expect the success of the negotiation to lead us to set up a joint venture company and start a site construction this year.

- **Myths and History Theme Parks Project**

JDC is developing a world-class theme park near the Andeok-myeon area in Seogwipo City, utilizing Jeju's cultural heritage including legends, myths and history.



We plan to finalize the contract of US\$ 1.2 billion investment memorandum of agreement with American investor, GHL, on a movie theme park and with the Hong Kong investor, GIL, on an international cultural theme park focusing on a China town, and to commence this year.

- **Seogwipo Tourism Port Project**

The Seogwipo Tourism Port project is a plan to create one of the most beautiful ports in the world and a celebrated marine tourism venue on its beautiful natural surroundings. Basic design with artistic view design and execution drawing has started, and the construction will start soon.



- **Premium Shopping Outlet Project**

JDC will develop a shopping complex with premium goods outlets to stimulate shopping tourism for domestic and international tourists, including Chinese and Japanese visitors, and to revitalize local economy.



- **Jeju Healthcare Town Project**

JDC will develop a world-class medical resort complex with a theme of healthcare, near Seogwipo City. A project committee of professional members in various fields was organized to propel the project from the second half of this year.



- **Campus Town of Foreign Educational Institutions Project**

It is to offer visitors an educational and living environment similar to that of the corresponding countries in order to absorb Korea and Northeast Asian students' demand for studying abroad in English-speaking countries, and to attain an 'English speaking for daily use' environment which is crucial for a free international city.

Currently, the project is being planned, considered the connection with the central government project of English Town Project.





- **High-Tech Science and Technology Complex Project**

The project will be developed as an industrial complex of knowledge-oriented science-technology such as IT and biotechnology, near Ara-Dong in Jeju City, utilizing Jeju's abundant biological resources, and clean environment. Collaboration contracts have been made with successfully running science parks in other countries like Singapore and Germany to maximize the synergy of networks with them, in order to guarantee full support for business activities of the tenant companies. Currently the site construction is about 61% completed and the recruitment of tenant companies will begin from September this year.





## B. Foreign Investment in Jeju: Strength and Weakness

### 1) Strength

Geographical position is at the center of the economic collaboration among northeast Asian countries such as Korea, Japan and China. Jeju's geographical importance as the hub of northeast Asia is generally supported by the fact that Jeju is located in the center of the triangle zone linking Seoul, Shanghai and Osaka, within one hour flight from Jeju. Besides that, Mr. Pietro Doran (CEO of Doran Capital partners), while being involved in the investment inducement for the Songdo Free Economic Zone, originated the 'Yellow Sea Economic Basin' concept, which appears creative and persuasive. The quotation of his interview is as follows (*Korea Times*, 26 Oct. 2004);

*"The Yellow Sea Economic basin (YSEB), referring to the area lying within 200 miles of the rim of the Yellow Sea, is emerging as an economic powerhouse not only in Northeast Asia but for the world. The YSEB countries include China, South Korea, North Korea and Japan, while the population of the region reaches 200 million. It posted \$1.3 trillion in economic output as of 2001. Within the newly highlighted region are about 60 cities with a population over 1 million, including Beijing, Qingdao, Shanghai, Seoul, Pusan, Pyongyang, and Fukuoka, all of which are within two hours flying time of each other.*

*The concept has had an impact on the meaning of a hub for a region and Songdo will become a hub. We have to change to thinking that Songdo belongs to South Korea. People have a great misunderstanding over the term "hub" and even more limited understanding of the need for an economic region such as YSEB with its very unique specialization in terms of market, service, and products.*

*Southeast Asia has Hong Kong and Singapore serving as specialized regional hubs. So the YSEB also needs specialized hubs focusing on core strengths to serve the entire region. We don't have to keep comparing Songdo with Hong Kong and Singapore because those two cities states have no relevance to the YSEB."*

Mr. Pietro Doran strongly believes that Songdo will be developed as an ideal destination for global business people working and living in a

friendly environment and he added it is most important for the Government to have the courage to achieve the vision.

My personal opinion is that Jeju Free International City, which is in the center of the Yellow Economic Basin, has great potential as another hub when it is differentiated from Songdo Free Economic Zone by putting up its advantages such as a clean natural environment.

- **Importance of Foreign Investment**

Including Korea, the world is contending with over-liquidity in terms of funding. In the case of Korea, the foreign exchange reserves are at an all-time high of 200 billion dollars. Floating funds seeking a profitable investment destination are about US\$ 5500 billion, and the reserve fund buffer of top 10 listed companies is over US\$ 1500 billion. Therefore recruiting funds from domestic and international sources should not be so hard if there is a good project with feasibility and with reasonable return.

Most of the international funds are considering the risks a little bit higher than domestic funds, therefore the cost of foreign capital must be higher. In this context, the international funds that Jeju is looking for are not financial investors who are looking just for stable yield, but strategic investors who can participate from the planning stage of a project who can support international marketing, and who can also offer management and technical know-how.

JDC considers investment inducement as a total marketing activity which includes planning and developing the Korean only and brand new products, Jeju Free International City, and promotion and sales of products at home and overseas, and providing after-sales service. JDC is trying to recruit strategic foreign investors by developing differentiated projects reflecting market needs.

## 2) Weakness

- **Building Up a New Jeju Brand: Premium Island**

In the past, Jeju has had a domestic brand power known as the three absences and three abundances. However, nowadays, the image of Jeju

is not outstanding to either Koreans or foreigners. Therefore, a joint overseas promotion should be strengthened; Jeju's image should be created to let domestic and foreign tourists feel something different from the Korean mainland. Furthermore, a differentiation strategy should drive to consolidate the new Jeju brand image as the best premium city in northeast Asia as well as in Korea. It is important to develop a long-term plan to build a brand of Jeju that depends not only on the blessed natural settings such as Mt. Hallasan and clean ocean, but also on other factors such as the beautiful and convenient airport which is the gateway to Jeju, convenient road signs written in Korean, Chinese and Japanese, standardized signboards on the street, unique building designs, and the kind smiles of Jeju people.

Also, Jeju needs to have a positive image such as Singapore's transparent society with no corruption, Hong Kong's market friendly policy, and Shanghai's growing international market and vast domestic market.

- **Developing World Best Project**

In order to achieve the goal of attracting 10 million annual tourists by 2011, when the first phase of Jeju Free International City development is to be completed, it is important to execute premium projects with creativity and originality through a choice and focus strategy. A simple reference or poor imitation of successful projects will surfeit tourists and will let investors move to more profitable projects. For the success of premium projects, target marketing should be strengthened, which means recruiting investors who know the needs of target markets such as China, Japan, and the Middle East and promoting the projects jointly with the investors from the early stage of project planning.

- **Scarcity of Appropriate Lands for a Project**

After execution of several big projects in the near future, it will be very difficult to secure available and appropriate sites for further projects due to environmental and ecological problems. Therefore, in order to overcome this scarcity of project sites, we need to hurry up to develop knowledge-based industries such as IT-related industries, for exam-

ple, a ubiquitous city and mobile test bed project, which do not require spacious lands and suit the characteristics of Korea and Jeju.

### **III. Future Steps to Go**

The accomplishment of building up the Jeju Free International City will require keen competition with the global cities in the Pacific region as well as other Korean cities. Here are the keys among several requisites that Jeju Free International City should satisfy.

#### **A. Improvement of the Investment Environment**

The Korean Government should show the foreign and domestic investors its strong and solid will for the Free International City's success. Laws and regulations need to be adjusted to global standards. The master plan needs to be reviewed to gain the investors' trust. Revitalization of domestic and foreign investment to Jeju will reinforce Jeju's competitive power over other foreign cities, and vice versa. Then, our dream to build Jeju Free International City will be feasible faster. However, if the government shows a passive attitude toward improving the investment climate for investors to keep its balanced community development strategy, the market will erase the words "Free" and "International" from the official name of "Jeju Free International City."

#### **B. Strong Will and Self - Confidence**

Building Jeju Free International City is a national strategic project which will contribute to national prosperity as well as regional development. Thus, this vital project is not achievable by a few government officers or local leaders. Those who are involved in the Jeju Free International City development project, including central and local government, related agencies, and Jeju people, should put their efforts together to challenge for the change. Jeju people's self-confidence and strong will to improve the controllable conditions inside are more

important than relying on outside circumstances including government policies, the exchange rate, oil prices, etc.

We, all the Jejuans, need to shift our vision and perspective towards the Pacific from Mt. Hallasan with open minds desiring prosperity for the next generations. To build a successful Jeju Free International City, we will continue to strive to set up a new development model by making the most use of Jeju's uniqueness, not just following other successful global cities. Let me close this paper stating my strong belief in Jeju Free International City that will paint a unique Jeju and will not only improve the quality of Jeju people's lives but also contribute to the peace and prosperity of Northeast Asia and the World.

# Jeju Jamestown: Concept and Status Report

**Daniel E. Bob**

*The attached provides a concept for building a new English-language town on Jeju Island, Korea that has direct links to New York State and its towns, cities, and pre-eminent public schools and universities, with closest links to Jamestown, Chautauqua Institution, the State University of New York (SUNY) system, as well as top public K-12 schools from around the state. The town would be developed with the aim of educating and preparing Korean and other Asian students for US colleges, and for participation in an ever more globalized world. It would offer cultural, educational and arts programs including music, dance, theater, lectures and other activities for residents and visitors alike. The town would establish people-to-people links between New York State and Korea, and would be built and planned as a green community, and one in which personal contact and a sense of community were integral to the town's design.*

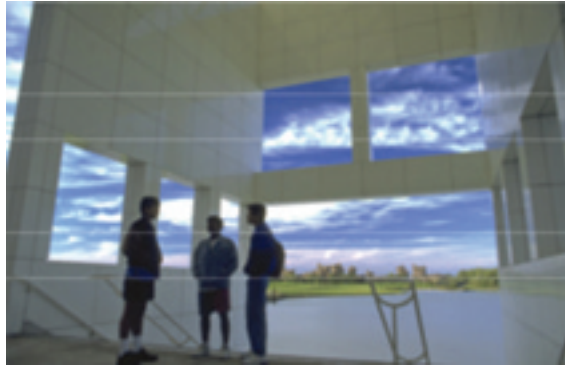
## I. Concept

### A. Build New English-Language Town on Jeju Island

**B**uild new English-language town on Jeju Island, Korea that has direct links to New York State and its towns, cities, and preeminent public schools and universities, with closest links to:

- Jamestown and Jamestown Community College
- Chautauqua Institution

- State University of New York (SUNY) system
- Top public K-12 schools from around the state
- Students would live with their parents or guardians within the new Korean town, though boarding options would be available for students whose parents lived elsewhere.



**SUNY Buffalo Campus**

## **B. Educate and Prepare Students for US Colleges**

The town’s students — citizens of Korea and other Asian countries — would enroll in English-language schools linked to the best public schools in New York State. The schools in the town would prepare students for entry into top US universities, and would treat applicants to



**SAT preparatory programs and guidance on applying to America’s Ivy League schools would also be organized.**

the various SUNY universities as New York State residents. The SUNY system is America's largest — and arguably best — state university system with more than 400,000 students (including more than 10,000 foreign students) and 64 campuses throughout the state.

### C. Develop Direct Ties to New York State's Public Schools

Develop direct ties to New York State's best public schools and allow the best teachers from the state to teach in the new town's schools. The public school system in New York State is one of the best in the United States, partly because it is well-funded through relatively high real estate taxes. In 2004, New York State spent an average of \$12,930 per public school pupil — second only to New Jersey of all 50 states. In fact, a number of public schools in New York, such as the Bronx High School of Science, Stuyvesant High School in Manhattan and City Honors (grades 5-12) in Buffalo are rated among the best in the country — public or private. According to *Newsweek*, which annually compares all public high schools in the United States, City Honors was ranked #4 in the country.



The Bronx High School of Science



Stuyvesant High School



City Honors School

### D. Establish Exchange programs

Teachers from New York State — and other states and other countries — would apply to teach at the schools in the new Korean town. The application process would be rigorous and only the best accepted. To enhance the quality of the applicants, teachers' salaries would be substantially higher than those they receive from their home schools. In addition, for teachers from New York coming to Korea for limited periods of time, every attempt would be made to conclude agreements with the New York schools from which they came to guarantee the



teachers a job back at their home school after completing their teaching duties in Korea. In addition, the teacher's time abroad would be counted toward New York State retirement and pension programs. Exchanges, home stay and year-abroad programs with select high schools in New York would be developed to give students from the new Korean town a chance to spend significant time in the United States even before going to college.

### **E. Offer Culture, Education, Recreation and Arts Programs**

Offer cultural, educational, recreational and arts programs including music, dance, theater, lectures and other activities for both residents and visitors; 1) such programs would greatly enhance the town's appeal to residents and visitors alike. A steady flow of tourists would also help ensure the town's financial viability; 2) such programs would also be offered as lifelong learning programs for adults in the new community. The design would be patterned after — and developed in conjunction with — Chautauqua Institution (<http://www.ciweb.org/>), a town that has played a unique and important role in American intellectual and cultural history.

### **F. Proper City Planning Is the Key to Success**

Key to the success of Jeju-Jamestown would be proper city planning and architectural excellence. The architects and builders who have worked to restore and maintain Chautauqua Institution's large number of Victorian-era homes, guest houses, hotels and other buildings — among the largest collections of Victorian structures in America — would provide expertise in designing the town on Jeju-do. Chautauqua strictly limits the number of cars on its grounds, and the design of the buildings and layout of the institution as a whole encourage interaction among its residents.



Typical Chautauqua architecture

## G. Chautauqua Institution at a Glance

Chautauqua is a gated a community. Visitors must purchase a pass to enter the grounds in order to attend events and participate in activities, with the exception of Sundays. That day, the grounds open at no cost to allow anyone to participate in the many religious services or other programs offered. On Monday through Saturday, once on the grounds, visitors are free to attend most events and activities. Theater and opera require additional tickets and fees. Residents of Chautauqua pay an annual fee as well to ensure that a steady flow of high-quality cultural and intellectual leaders come to the Institution. Such a system would be adapted to the new town in Korea. Chautauqua, like Jeju, is located on the water, permitting a variety of watersports and recreational activities to be available for visitors and residents



**<2007> Typical Week at Chautauqua Institution  
Week Three: The Rise of China and India**

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
			<b>JULY</b>			
<b>8</b> 10:45 – Service of Worship & sermon. The Rev. Alastair H. Symington, pastor, Troom Old Parish Church, Troom, Scotland 2:15 – Theater. “Ah, Wilderness!” 2:30 – Washington (Pa.) High School Steel Band 5:00 – Vespers 8:00 – Theater. “Ah, Wilderness!” 8:00 – Sacred Song Service: ‘Carols at the Manger’	<b>9</b> 9:15 – The Rev. Alastair H. Symington 10:45 – Ronnie Chan, chairman, Hong Kong Properties, Hong Kong 2:00 – Arun Gandhi, founder, M.K. Gandhi Institute 4:00 – Seth Waxman, former solicitor general of the US 4:00 – Janaki String Trio 7:30 – Opera. The Elixir of Love 8:15 – Music School Festival Orchestra. Timothy Muffitt, conductor	<b>10</b> 9:15 – The Rev. Alastair H. Symington 10:45 – Richard Celeste, president of Colorado College, former ambassador to India and Peace Corps director 2:00 – Anantanand Rambachan, chair, dept. of religion, St. Olaf College 5:00 – FES: In Jest 7:00 – FES: In Jest 8:15 – Chautauqua Ballet Company. Jean-Pierre Bonnefoux, director. Chautauqua Symphony Orchestra	<b>11</b> 9:15 – The Rev. Alastair H. Symington 10:45 – Elizabeth Economy, C.V. Starr senior fellow and director of Asia studies, Council on Foreign Relations 2:00 – Traleg Kyabgon Rinpoche IX, president and spiritual director, Kagyu E-Yan Buddhist Institute 4:00 – Contemporary Issues Forum: Raul Fernandez, CEO, ObjectVideo 8:15 – Ragamala Music and Dance Theater “From Temple to Theater”	<b>12</b> 9:15 – The Rev. Alastair H. Symington 10:45 – Shashi Tharoor, under- secretary-general for communications and public information, United Nations 2:00 – Traleg Kyabgon Rinpoche IX 4:00 – CLSC Roundtable / Lecture: Jeanne Braham: <i>The Light Within the Light</i> 8:00 – New Play Workshop 8:15 – * Amp Piano Recital: Alexander Gavrylyuk	<b>13</b> 9:15 – The Rev. Alastair H. Symington 10:45 – Morning Lecture 2:00 – Dean Sluyter, Buddhist prison chaplain and film critic 4:00 – New Play Workshop 8:15 – An Evening with Irish Tenor Roman Tynan	<b>14</b> 2:15 – New Play Workshop 3:00 – Contemporary Issues Forum. Louise Radcliffe Institute for Advanced Study 8:15 – Chautauqua Symphony Orchestra. Uriel Segal, conductor; Alexander Gavrylyuk, piano  <i>Public Radio Day</i>

The Chautauqua Institution was founded in 1874. The Institution, originally the Chautauqua Lake Sunday School Assembly, was founded in 1874 as an educational experiment in out-of-school, vacation learning. The Chautauqua Institution is a not-for-profit, 750-acre, educational center beside Chautauqua Lake in southwestern New York State, where approximately 7,500 persons are in residence on any day during a nine-week season, and a total of over 142,000 attend scheduled public events. The Chautauqua Institution is a National Historic District, listed on the National Register of Historic Places. It was designated a National Historic Landmark June 30, 1989. Ronald Reagan addressed the Third General Chautauqua Conference on US-Soviet Relations via satellite in 1987. Over 8,000 students enroll annually in the Chautauqua Summer Schools which offer courses in art, music, dance, theater, writing skills and a wide variety of special interests. The oldest continuous book club in America, the Chautauqua Literary and Scientific Circle (CLSC), has enrolled at least a half-million readers and at one time sponsored 10,000 reading circles throughout the country.



**Chautauqua transportation: walking!**



**Hotel Atheneum**



**Bratton Theater**





## **H. Establish People-to-People Links**

Establish people-to-people links between New York State and the new town, with special links to Jamestown, New York; set up home-stay and exchange programs for students and residents of the new Korean town in New York State — and vice versa; Jamestown is a small, safe, western New York State community with 25,000 residents, 20 minutes away from Chautauqua Institution; Chautauqua’s season of activities runs for only 10 weeks during the summer each year, so establishing a relationship with a year-round town will be important. The mayor of Jamestown is committed to working with Jeju to assist in the development of the new town.

## **I. Jamestown at a Glance**

Jamestown is also the hometown of Robert Jackson, arguably the most influential Supreme Court Chief Justice of the 20th century. The Robert Jackson Center in Jamestown holds a variety of programs designed to extend his judicial legacy and would open a companion center in the new town and/or offer programs for Jeju-Jamestown. Roger Tory Peterson, the most influential ornithologist in the United States after James Audubon, also grew up in Jamestown. His legacy, and broader interest in nature and the environment, is furthered by the

Roger Tory Peterson Institute, which would also open up a companion institute and/or offer programs in the new town.



Robert H. Jackson center, Jamestown



Roger Tory Peterson Institute, Jamestown

• **Jaemstown at a Glance**

The new commissioner of the National Football League, Roger Goodell, comes from Jamestown. A link to American sports such as football would be established. Ice skating would be emphasized as Jamestown is home to an important ice rink, which holds international competitions.

Another famous Jamestownner was Lucille Ball, in her time, the most famous American comedienne of both film and television. The Lucille Ball museum provides a look at her career and broader American pop culture, and might establish links to the new town.





## **J. Internationalize the New Town in Jeju**

Encourage residents of New York and other states to live and work in the new town; having Americans live and work in Jeju-Jamestown will encourage the use of English outside the classroom for students, residents and visitors alike, and broaden and deepen the links to the United States; 1) Residents of New York State would be given preference in terms of opening branch businesses and providing services in the new Korean town. Citizens of Jamestown and Chautauqua Institution would be given greatest preference. But any American citizen could apply to become a resident of the new town for a defined period of time; 2) Any American citizen given permission to live and work in the town would qualify for Korean national health insurance and be given one free round-trip ticket to Korea as well as subsidized housing; 3) Jamestown and Jamestown Community College would set up a facility to provide those moving to Korea with an immersion course in Korean culture and history, and general preparation for moving to Jeju-Jamestown.

## **K. Establish a Satellite Campus of Jamestown Community College**

Establish a satellite campus of Jamestown Community College (JCC) in the town. JCC has 4,000 students on two campuses, and a special arrangement with SUNY mandating that any graduate of JCC's two-year degree program is entitled to enter one of SUNY's four-year colleges to gain a bachelor's degree. Because JCC is inexpensive, the cost of a bachelor's degree for students who start at JCC and finish at a SUNY campus is dramatically lowered. JCC would set up a branch campus in the new Korean town that would allow advanced students to take college-level courses beyond the AP and IB courses typically offered at American high schools. Completion of those courses is recognized by any American university, thereby shortening the period of time students need to complete a bachelor's degree. In addition, as JCC accepts almost any student, parents of students attending the schools in



Jeju-Jamestown would be able to get a bachelor's degree from a SUNY university.

#### **L. Develop an Environmentally Friendly City**

Design the town as a model community to create global citizens and minimize environmental damage. The aim of the new town would be to create truly global citizens. Though located in Korea, the town would be open to students and residents from anywhere, though with a special emphasis on Asia. The new town would be planned and designed as a green community, aiming to use the lowest possible amount of energy per person possible, to emit the smallest possible amount of carbon dioxide and pollutants, and generally to minimize environmental damage.

### **II. Project Status and Other Considerations**

On September 18-25, 2006, the CEO and Korea Representative of NYROK Partners toured the state of New York and met with key officials from Jamestown, Chautauqua Institution, the Governor's Office, the State Assembly, SUNY and New York's US Senate and House of Representatives' offices. Without exception, the concept outlined above was greeted positively, and in most cases, enthusiastically. Since then, NYTHE has maintained contact with the key officials about the project's status. New York State encompasses New York City, the greatest city in the country (and arguably, the world). The state is extraordinarily varied, with the largest park in the continental United States (Adirondack Park), Niagara Falls, middle-sized cities such as Buffalo and Syracuse, as well as small towns and communities in the western part of the state that are culturally part of the mid-west.

New York State's political leaders include two of the leading candidates to become the next President of the United States: Hillary Clinton is one of the State's US Senators and Rudolph Giuliani is former mayor of New York City. Clinton's staff has supported the concept. Moreover,

**Niagara Falls**

by enlisting Hillary Clinton, NYROK would also pursue the assistance of former President Bill Clinton. Gaining support and cooperation from two of America's most prominent politicians would help elevate the standing of the town on Jeju Island. NYROK partners is perfectly positioned to gain the further support and cooperation of New York State given the close relationships that the CEO of NYROK partners has maintained with people across the state. The CEO grew up in Jamestown, spent summers in Chautauqua, worked in the US House of Representatives for a Congressman representing Jamestown and Chautauqua (the Congressman later became the Deputy Governor of New York State), and spent almost 10 years in the US Senate, developing close ties to the New York Congressional delegation.



*History, National Identity  
and Conflicts in Northeast Asia*

History, Conflicting Memories, and Reconciliation in Northeast Asia

History, National Identity, and Conflicts in Northeast Asia:  
A Chinese Perspective

History, National Identity, and Conflicts in Northeast Asia:  
A Japanese Perspective

Towards a Transnational East Asia:  
A Korean Perspective



## *History, Conflicting Memories, and Reconciliation in Northeast Asia*

**Gi-Wook Shin**

Northeast Asia has witnessed increased intra-regional exchanges and interactions, especially in the realms of culture and economy. China, Japan, and South Korea are active participants in regional institutions such as ASEAN plus Three and the East Asian Summit. There also exists a good deal of discussion about establishing an East Asian community. Yet wounds from past wrongs — committed in times of colonialism, war, and dictatorship — are not fully healed. All nations in the region have some sense of victimization and often blame others, rather than taking responsibility. Anti-Japanese sentiments seem undiminished in China and Korea, even among the younger generation with no experience with colonialism or war. The Japanese suffer from “apology fatigue,” questioning why they must continue to repent for events that took place six or seven decades ago.

As with many other cases around the world, reconciliation between countries in Northeast Asia first occurred between governments. Japan established diplomatic rapprochement with countries it had once invaded or colonized: with the Republic of China in 1952, with the Republic of Korea in 1965, and with the People’s Republic of China in 1972. Yet, these nations have failed to come to terms with the past. Japan paid no reparations to its former colonies — though it gave “grants and aid” to South Korea for normalizing their relations — and China and Korea were excluded from the San Francisco Treaty that settled Japanese war crimes and atrocities. Historical issues such as dis-

puted territories and Japan's colonial rule were largely swept under the rug in the Cold War system.

The failure to address historical injustice and to reconcile their differing views of the past has strained Sino-Japanese relations, and friction between Japan and South Korea about Japan's colonial past remains intense. Even South Korea and China are sparring over the history of the ancient kingdom of Koguryō. Taiwan as well is immersed in a re-examination of the historical past. The history question touches upon the most sensitive issues of national identity and now fuels the fires of nationalism in Northeast Asia.

In Korea, nationalism has produced master narratives of colonial history and offered a dominant framework for dealing with historical injustice such as comfort women and forced labor. It forces issues to be framed in binary opposition — victims vs. aggressors — and leaves little room for any alternative. Koreans are reluctant to acknowledge their atrocities during the Vietnam War, but readily criticize similar acts committed by the US during the Korean War. Disputes over the kingdom of Koguryō reflect the lingering Korean nationalism in the concept of “irredentism” as well as China's rising nationalism.

In Japan, uncertainties and anxieties created by the post-Cold War security environment and a decade of economic stagnation provided a fertile ground for nationalist politics. Nationalist scholars are making headway in producing textbooks to “make Japanese proud of themselves” and the restoration of such symbols as the flag and the national anthem are part of Japan's quest to become a “normal nation.” Prime Minister Abe's initial gesture for a conciliatory Asia policy has been undermined by his recent remarks on the comfort woman issue. If there is any difference between Korea and Japan, it is that the left in Korea — as opposed to the right in Japan — is at the forefront of nationalist politics.

China is promoting nationalism to bolster social and political cohesion. Beijing needs a new unifying force to mobilize the nation in pursuit of common goals, such as economic modernization, and the “glue” is nationalism. In the post-Tiananmen era, the Chinese leadership appealed to nationalism (patriotism) to shore up their tainted legitima-

cy. Nationalism also underpins Chinese foreign policy, both in the region and elsewhere. Territorial disputes, human rights issues, non-proliferation issues — all of these touch the nationalist nerves of Chinese leaders in Beijing. They do not want to jeopardize relations with their Asian neighbors, but neither do they want to lose face.

Thus, despite increased intra-Asian trade, cultural exchange, and talk about East Asian community building, Korea, Japan, and China all still find politics of national identity appealing. After all, nationalism is not only about ideology, but also thrives on narrowly defined “national interests.” Disputed territories always serve as symbols of national sovereignty that cannot be compromised. The mutual suspicion of Japan and China over the disputed Senkaku/Diaoyu Islands and other territorial waters, as well as the recent escalation of Japan-Korean tension over Tokdo/Takeshima are but two potent reminders.

There is widespread recognition of the need for reconciliation and the final resolution of historical injustices. But there is a fundamental obstacle to reconciliation — the existence of divided, even conflicting, historical memories. All of the nations involved are bound by very distinct perceptions of history, often contradictory and separated by different accounts of the past and of the context of events. These perceptions are deeply imbedded in public consciousness, transmitted by education, popular culture and through the mass media.

Thus, the most daunting task is coming to a common understanding of the past. Whereas a shared view of the past (World War II at least) served to unify (Western) Europe after two devastating wars, history still divides the three close neighbors. Reconciliation has been “thin,” and the history issue continues to mar regional cooperation. To achieve a “thicker” reconciliation, they need to move beyond nation-state-oriented, binary victim/aggressor concepts and approaches, and to understand reconciliation as a mutual, interactive process. Citizens’ groups, NGOs, victim-activist groups — are they domestic, transnational, or international, and regardless of political orientation — should be more actively involved.

Second, Northeast Asian nations must recognize that elements in their shared past may contribute to promoting regional reconciliation.

China, Japan, and Korea often argue over history, but it is nonetheless true that elements in their past may also contribute to a regional identity. Coping with Western influence since the nineteenth century is but one area of common ground. Their experience of building modern nation-states and economies is another example. There exist ample cases and instances of common experiences that can be readily used to formulate a shared view of Northeast Asia's modern history.

Third, we need to encourage and teach young Asians critical and independent thinking about their respective pasts. In particular, we need to cultivate a mutually acceptable, new national history of each country, resituated in a shared regional identity. Nationalism, regionalism, and internationalism will always coexist, but they need not contradict one another. In this critical time of change and a desire to cultivate a shared view, we need to redefine these mutually reinforcing ideologies beyond a narrow, exclusive sense of nation.

Ultimately, building a vision for Northeast Asia's future beyond narrow national and political interests requires enlightened political leadership. Interpretations of the past are unavoidably political, producing divided memories, and there is strong temptation to politicize the process for current ideological purposes. However tempting, politically convenient, and even psychologically satisfying it may be to blame others, such an approach will neither heal past wounds nor provide a foundation for the future. We need political leadership that can build public support for sometimes unpopular policies aimed at regional reconciliation. This is particularly so for Japan, since the country must take the first, vital step before reconciliation can truly take place in the region.

It is a critical time for a new Northeast Asia. The forces of regionalism may be powerful enough to contain excessive nationalism and create a stable peace regime. Despite a growing rivalry, China and Japan have strong incentives to avoid a conflict. China is so dependent on Japanese investment and its market that a rift with Japan would threaten China's "peaceful rise." Japan, too, has a strong stake in avoiding economic dislocation, political instability, and environmental degradation in China. Lately, there are growing concerns and criticism



within the Japanese ruling circles about Japan's "Asia Policy." Despite such encouraging signs, regional institutions remain weak, nationalist politics persists, and tensions between Japan and its Asian neighbors over history issues, especially the China-Japan rivalry, give us grave concerns. In the end, overcoming the historical injustice that has divided the countries of Northeast Asia is not only a sensible basis for true reconciliation; it is a prerequisite for building a prosperous regional community.

*History, National Identity  
and Conflicts in Northeast Asia:  
A Chinese Perspective*

Liping Xia

**Introduction**

From the perspective of China's history, the northern and eastern neighbors of China have usually been more important to China in the security field than the southern and western neighbors, because northern and eastern neighbors were much nearer to China's political and economic centers. So the Korean peninsula is one of the most important neighbors of China. On one hand, it may become a buffer zone of China's northeast land borders and a protective screen for China's northeast and eastern sea borders; on the other hand, it may also become a gangplank which a third country can use for invading China. From the standpoint of current geopolitics, the Korean peninsula is located in the center of Northeast Asia, where the interests of the four major powers — China, the United States, Russia, and Japan — all intersect. From this perspective, the strategic importance of Northeast Asia is greater than that of South Asia and Southeast Asia for China.

Even in ancient history, due to Chinese culture, Chinese people have long hoped to maintain peaceful relations with their neighbors in Northeast Asia, especially on the Korean peninsula. Chinese emperors established tributary relations with China's neighbors. Since the Ming Dynasty, China has had two objectives in mind concerning its policy

towards the Korean peninsula. One is that China would not like to see Korea be unstable. Another is that China would not like to see a third country use the Korean peninsula as a gangplank to invade China. Since the establishment of the People's Republic of China (PRC), to some extent, China's policy towards the Korean peninsula has still clung to these two objectives. For example, in the 1950s, the focus of China's policy towards the Korean peninsula was to prevent a third country from using the Korean peninsula as a gangplank to invade China.

Since the establishment of the PRC, China has abandoned all instincts toward tributary relations. Instead, China's foreign policy has been based on the Five Principles of Peaceful Coexistence. The focus of China's policy towards the Korean peninsula has been to guarantee a long-term peaceful and stable security environment, which is beneficial for China's domestic economic and social development.

### **Prospects of China-Japan Relations**

Since Japanese Prime Minister Abe Shinzo paid the "ice-breaking" visit to Beijing in October 2006, China-Japan relations have been back on the right track. Chinese Premier Wen Jiabao's "ice-melting" visit to Japan in April of this year has further improved the atmosphere of the two countries' relations. China and Japan share many common interests in economic and security fields. Both China and Japan have agreed that they make efforts to establish the strategic relations of mutual benefit between them. Although there are still many problems between China and Japan, if the two countries can deal with the sensitive issues with great care and continue to develop their relationship with significant efforts, they will have more cooperation based on their shared common interests in many fields.

Since the end of the Cold War, nationalism has been rising in the Asia-Pacific region. Nationalism can be divided into two kinds: rational nationalism and irrational nationalism. Rational nationalism is patriotism in every country. Irrational nationalism is extremist nationalism.

How to prevent irrational nationalism from becoming the mainstream of any government's policy is a very significant issue in China-Japan relations. In China it was irrational nationalism when the demonstrators threw stones and bottles at the Japanese Embassy and Consulate, and turned over cars during the anti-Japanese demonstrations in Beijing and Shanghai in April 2005. In the United States it is irrational nationalism for the Bush Administration to pursue the policy of unilateralism. In Japan it is irrational nationalism for Japanese Prime Minister Koizumi Junichiro to visit the Yasukuni Shrine.

It is the first time in history that both China and Japan are strong powers in Asia at the same time. They are faced with the problem of accepting each other. They should have the new concept of win-win. At present, we live in a world of interdependence. Economic exchanges and trade between China and Japan have been developing quickly, which have led to more economic interdependence between the two countries. The two countries must abandon the model of "two tigers" and accept the new model of "two horses," which means that China and Japan should be like "two horses" to cooperatively draw Asia to a new period of modernization and integration so as to realize long-term stability and common prosperity. The model of "two horses" is much better than the model of "two tigers," and will be beneficial for the two countries as well as Asia.

### **The Six-Party Talks Is the Best Framework to Resolve the North Korean Nuclear Issue**

The future of the Korean peninsula will mainly depend on the internal situation and policy of North Korea. At present all the other parties, including the United States, Russia, Japan, the ROK, and China would like to see stability and peace on the Korean peninsula. Since the beginning of the North Korean nuclear crisis, China has been playing a very positive and active role to resolve the problem. China has hosted six rounds of the Six-Party Talks in Beijing. China has made great efforts to try to persuade North Korea to give up its nuclear weapons option.

China will try its best to contribute further to resolving the Korean nuclear issue. On February 13, 2007, the third phase of the fifth round of the Six-Party Talks in Beijing reached a joint agreement, which is an important breakthrough towards a nuclear-weapon-free Korean peninsula. If honored, it will be the first step in the right direction. Because the North Korean nuclear crisis is very complicated, it will take a long time to resolve the problem.

### **Trends of Sub-regional Institutions of Economic and Security Cooperation**

With the rapid development of economic globalization and regional economic integration, countries in Northeast Asia are more interdependent in economic and security fields. During recent years, regional institutions have also made some progress in Northeast Asia, which is beneficial for economic and security cooperation in East Asia. ASEAN+3, three ASEAN+1 and China-Japan-ROK are moving toward the goals to establish free trade areas. The ASEAN+3 framework has been developing with great scope and depth. It will go towards creating an "East Asia Free Trade Area (EAFTA)." The future Asian community should be open to other countries, including the United States. The United States will continue to play a very important role in Asia. The United States should also maintain balanced relations with both China and Japan. That will benefit stability and prosperity in Asia as well as US national interests. China, the United States and Japan should have a more balanced trilateral relationship. China-ROK-Japan trilateral cooperation provides a very important multilateral mechanism. China has become the biggest trade partner of both South Korea and Japan. If the North Korean nuclear issue can be resolved under the framework of the Six-Party Talks, the framework should be further developed into a mechanism of security dialogue and cooperation in Northeast Asia.

*History, National Identity and Conflicts  
in Northeast Asia:  
A Japanese Perspective*

Masaru Tamamoto

Memory of victimization by the Japanese empire continues to shape national identity in both South Korea and China, while Japan stumbles in its efforts toward reconciliation. There is an awkward rigidity in the way history is politically employed that hampers the freedom of positive action. Now, there is a new element to the history question welling in Japan, often dubbed Japan's "normalization." Without astute management, there is danger of Japan's normalization exacerbating regional differences, fueling an air of suspicion and nervousness.

The concrete goal of normalization is the reacquisition of the military as an instrument of foreign policy, something Japan had abandoned after 1945. There is a move to assert the right of collective defense, namely with the United States, in the effort to transform a one-sided dependence to more like an alliance normally understood. This Japan will be able to fulfill its responsibilities of global peace and security, so the proponents assert. Toward these ends, Japan needs to revise its "pacifist" constitution, whose article nine literally prohibits the possession of arms. The current government of Prime Minister Abe Shinzo heralds constitutional revision as its paramount task.

The talk of normalization is about much more than calculated security policy. It is also about the rise of romantic nationalism — herein

lies the problem. While not all normalcy advocates are romantic nationalists, it is hard to differentiate. Romantic nationalists are dissatisfied with Japan's post-1945 order, seeing in it a crippled state of compromised sovereignty and independence. They seek to "cast off the post-war order," which is the slogan of Abe's premiership. They have declared a culture war, seeing Japan today as the victim of its postwar history that robbed the Japanese of their authenticity. The claim of ever-nebulous authenticity has been a set tool of conservative reaction everywhere. And it is history's flexibility and tradition's malleability that give nationalism such potent force.

But the Japanese, on the whole, have been satisfied with the post-war order that has brought great prosperity, remarkable social stability, and no war. A recent *Asahi* newspaper public opinion poll found that two out of three respondents were simply not interested in the issue of constitutional revision. Of those who expressed interest, the majority wanted more guarantees of individual liberty, not less as the romantic nationalists are prone to argue. The nationalist urge to constitutionally mandate patriotism and associated duties are lost on the people. Facing an uphill battle, nationalists of the political class centered on the ruling Liberal-Democratic Party are betraying their illiberal tendencies, for instance, trying to legally prohibit educators from expressing their opinions on constitutional revision, on the present constitution that guarantees academic freedom and the freedom of thought and expression.

Japan's highest law was written by the American army of occupation and imposed upon the Japanese in the name of democracy and demilitarization. To date, for sixty years, not a single word has been changed. Japan is a country with a foreign constitution and a foreign protector. The US-Japan security treaty has, in a sense, stood above the highest law of the land. The one-sided American commitment to protect Japan has provided a certain buffer from the harshness of international politics understood to be a system of war. Japan's dependence has allowed the cultivation of its willful innocence of international politics (which is a major reason for Japan's failure to arrive at historical reconciliation with its neighbors). This arrangement has served Japan

and the United States well. Still, it is inconceivable that anyone in America would have lived under a foreign constitution for decades.

There is a powerful, emotional craving for national independence — to be whole again — propelling Japan's romantic nationalists. Their culture war against postwar history is about its alienation, about falling victim to an order designed by a foreign conqueror. The original intent of the American-authored constitution was to proscribe Japan from ever becoming a great power, Prime Minister Abe has written. But the culture war cannot be against the United States. Northeast Asia is not (yet) Europe; there are unresolved security concerns. So the quest for national independence translates into a set of policies thought to make Japan "more equal" with the United States through enhanced cooperation on security matters, thus aiming to reduce Japan's dependence.

Accordingly, there is a new thrust in Japanese foreign policy, of "peace and prosperity." With the call for spreading universal values such as democracy, capitalism and human rights, Japan has been reaching out to countries with "shared values," forging strategic relations with Australia, India and NATO. The problem is that this tends to exclude China and to balance a rising China; and a balance of power assumes that international politics is a system of war. Of course, Japan is not contemplating war with China, but balance of power thinking tends toward zero-sum behavior. In this new Japanese foreign policy thrust, lacking are ideas of the European model such as the rejection of power politics, a concert of powers, and the constitutionalization of world order. And the greatest contribution Japan can make to world peace and prosperity is to forge solid and friendly relations with China by encouraging the growth of Chinese prosperity and pluralism. A prosperous and middle-class China will become so integrated into global capitalism, its borders so porous, its international relations so functionally differentiated, that balancing will not be an issue.

It is precisely because enough countries in East Asia have been tending toward Japan's postwar model — the rejection of power politics, concentration on market oriented economic growth, and reliance on global economic interdependence — that today's regional prosperity and order could be had. So the rejection of the postwar order by



leading elements of Japan's political class is paradoxical.

Moreover, in the long run, Japan's nationalistic urge to recover independence and sovereignty can be better realized by eliminating security concerns in northeast Asia, especially in relations with China, than by the pursuit of a "more equal" yet ever junior military relationship with the United States. The creation of a Northeast Asian concert of powers and a constitutionalized order including the United States is obviously desirable. But many nationalists in Japan today are flailing, fearful of the specter of Japan's dependence on a successful China decades hence. Hopefully, the Japanese foreign policy initiative of balancing is but a minor and momentary move of a country that had not thought seriously about international security and politics for sixty years, except narrowly about the relationship with its American protector.

## *Towards a Transnational East Asia: A Korean Perspective*

**Jie-Hyun Lim**

In the winter of 1999, a Japanese neo-nationalist group published *The History of Nation*, as a pilot edition of the forthcoming *A New History Textbook*, which was soon authorized as one of the texts approved for use in Japan's Junior High Schools. This authorization evoked criticism and furious responses in Japan and abroad because of its historical affirmation of Japanese colonialism, its shameless nationalism, and its comfortable negligence of wartime atrocities such as the 1939 Nanjing massacre and Korean 'comfort women' or 'sexual slaves.' In the midst of these tumultuous debates, the *Sankei Shimbun*, a conservative Japanese daily newspaper in full support of *A New History Textbook*, published a series of articles dedicated to the analysis of East Asian history textbooks in that it urged the Japanese revisionist historians to adopt official Korean history textbooks as a model for Japanese ones.

What is worthy of notice in Korean history textbooks, according to the *Sankei Shimbun*, is not their Korea-centric interpretation but rather their narrative strategy that have a firm footing in national history and ethno-centrism. In those dozen articles dedicated to the analysis of Korean history textbooks, the *Sankei* correspondent tried to justify 'A New History Textbook' by referring repeatedly to Korean history textbooks. He found a common thread of combining Korean and Japanese history textbooks in the master narrative that 'our nation' is the subject of the history. In fact Korean history textbooks confirm his conviction

that history textbooks should teach the children of all the nationality the 'national pride' and 'love for our own history'.

This farcical episode is highly useful for understanding the topography of competing national histories in East Asia. Leaving aside some of the contemporary issues, the historical controversy over finding a common past in East Asia is not a question of 'right or wrong' concerning historical facts, but the inevitable collision of the conflicting nation-centered interpretations. Behind the conflicting scenes, however, the national histories of Korea and Japan have formed a relationship of 'antagonistic complicity.' It is not hard to find the cultural transfers and antagonistic acculturation in the century-long history of competing historiographies in this region. Indeed the basic concepts that anti-colonial movements have adopted were very often the discursive products of imperialist cultures.

What history textbooks in East Asia teach seems to be not history, but the political idea. History ceases to be history. Historical polemics have been very often overlapping territorial disputes over Dokdo (Takeshima) Island and the Senkaku (Diaoyu) Islands, which has caused a rising tide of nationalism in the East Asia region. Thus history disputes in East Asia have been a powerful tool to discipline civil society through renationalization in each country. Nationalism remains the dominant discourse in East Asia insofar as national histories form the relationship of 'antagonistic complicity' to strengthen each other's nationalism.

East Asian historians are not free from the Balkanese historians' self-criticism that history textbooks have nourished negative stereotypes against neighbors and generated ethnic intolerance among school girls and boys. If history textbooks have been identified as one of the potential causes of recent interethnic conflicts and violence culminated in the brutal ethnic cleansing in the Balkans, East Asian history textbooks have fed regional conflicts along the national borders. The upshot is that national conflicts in East Asia are epistemologically based on national history education, which has induced masses' voluntary involvement in national conflicts.

As elsewhere 'History' in East Asia became the scientific apologia

for the nation-state and the people looked to national history to illuminate the course of human progress culminating in the nation-state. It invoked the desire of ordinary people to be positioned in the course of national history and subjected them to the hegemony of state power. In this way national history disciplined the masses for the cause of the nation-state and masses were mobilized voluntarily into scenes of national conflicts. That explains why a paradigmatic turn from national history to transnational history among professional historians, publicists, school teachers and curricula is a starting point for the future of an East Asia free of national conflicts and ethnic hatred.

While national history as an academic discipline would not stand the criticism of time any more, national history as an institution remains intact. In East Asia national history education tends to be strengthened rather than weakened. In so far as the vicious circle that national history education feeds national conflicts and national conflicts justify national history education among East Asian countries, any political project such as the common home of East Asia would be fundamentally flawed. Without the disciplinary project of 'beyond national history' the political project of 'beyond the nation-state' would be a top-down project of politicians and intellectuals without massive support from below. That is why a transnational history of East Asia should be a prelude to a transnational community of East Asia.

Transnational history as a discipline pursues not only the constative problematic as to how to accurately represent the past in historiography, but also the performative problematic as to what historians do by inquiring into 'transnational' or 'national' history. Transnational history never demands a unified view of the East Asian common past. With the insights of 'cultural turn,' 'agency theory,' 'border history,' 'Beziehungsgeschichte,' 'world system theory,' etc, it is more of an orientation rather than a paradigm. Multiple interpretations of the East Asian common past might be conflicting. If those conflicts are not arrayed on the national boundaries, they can coexist and compete for academic supremacy on the level of constative problematic.

What is really problematic is the conflict on the performative level. In so far as historians stick to a national history paradigm, historical

disputes are intertwined very closely with political arguments. Still it is worse that political arguments, if combined with historical disputes, descend from political elites to grassroots. Very often it is not political elites but masses who stress the righteousness of hard lines against a neighboring nation in the name of truth and justice. A transnational community of East Asia is unimaginable without unlearning national history in the whole East Asian region. Eric J. Hobsbawm was right in saying that "history is as dangerous as nuclear physics."



**PART  
IV**

*Managing the Regional Nuclear  
Dominoes and the Future  
of the NPT Regime*

Managing the Regional Nuclear Dominoes  
and the Future of the NPT Regime

Solution of Korean Nuclear Issues:  
Hopes and Difficulties

Pyongyang's Nuclear Endgame and Unending Agonies





## *Managing the Regional Nuclear Dominoes and the Future of the NPT Regime*

**Hirosi Tanaka**

The shock of North Korea's October 2006 nuclear weapons test made the fragile state of the Nuclear Non-Proliferation Treaty (NPT) abundantly clear. Although much of the focus in the aftermath has been on the threat that a nuclear-armed North Korean regime poses for the security of the region, what is of still greater significance is the potential impact that this development could have on the future of the NPT. North Korea's unprecedented 2003 withdrawal from the Treaty, coupled with its now proven nuclear weapons stockpile, presents the most significant challenge to the continued viability of the already-weakened NPT regime in its nearly forty-year history.

At present, there are two serious issues with the potential to further undermine the Non-Proliferation Treaty regime: Iran's gradually developing nuclear program and the continued existence of nuclear weapons on the Korean peninsula. While Iran is often cited as a threat to the NPT — and it may very well ultimately prove to be one — at the present moment there is no incontrovertible evidence that Iran is actively pursuing the development of nuclear weapons in violation of its Treaty obligations. Rather, Tehran continues to maintain that it merely seeks nuclear technology for peaceful purposes, a right that is expressly sanctioned by the NPT. What has invited international skepticism and suspicion are its continued defiance of international organizations such as the UNSC and IAEA and rejection of offers from the international community for assistance in pursuit of its "peaceful"

nuclear program, particularly in light of its past history with clandestine nuclear development. While Iran clearly poses a medium-term threat to non-proliferation efforts and should under no circumstances be allowed to further advance its HEU program, the larger and more imminent danger is clearly North Korea.

North Korea's October 2006 test was hardly unprecedented, with both India (1974) and Pakistan (1998) also having previously conducted tests outside the NPT. However, the particular significance of North Korea's test lies in the fact that neither India nor Pakistan had ever been a member to the NPT, while North Korea had (accession, 1985; withdrawal, 2003). Given its history as an NPT signatory state, if North Korea is allowed to maintain its nuclear weapons program, the consequence for global efforts at non-proliferation could be catastrophic. This is particularly true given the long history of agreements relating to the nuclear issue, such as the US-DPRK Framework Agreement, the North-South Declaration, and the Japan-DPRK Pyongyang Declaration. If current efforts to denuclearize the Peninsula fail, such agreements would be rendered irrelevant and the world could see a flood of current member states following North Korea's example; withdrawing from the NPT and developing nuclear weapons with impunity.

Beyond the potential global ramifications of North Korea's actions for the NPT, the immediate and direct military threat its weapons pose for states in the East Asia region can not be overlooked. The February 13, 2007, Joint Statement is based upon the September 2005 Statement, which called for the "verifiable denuclearization of the Korean peninsula." Taken in this context, given its calls for North Korea to only "seal" the Yongbyon nuclear reactor and "disable" (rather than "dismantle") all existing nuclear facilities, it is clear that the February 13 Statement is only a transitional agreement. There is no doubt that preventing North Korea from further proliferation and/or exporting nuclear technology is imperative, yet any reorientation to a singular focus on non-proliferation and away from total, verifiable, and irreversible denuclearization could have serious consequences for regional stability. It is dangerous to apply "rational deterrence theory" (i.e. the philosophy that as long as North Korea only has a few nuclear weapons

there is no chance that they would actually use one since doing so would result in a devastating retaliatory strike) to a state like North Korea, which if backed into a corner could potentially lash out in desperation.

Failure to irreversibly denuclearize the Korean peninsula will lead to a very serious debate both within and between countries about security in East Asia and the future of the NPT regime itself. As the country most likely to be the target of a North Korean nuclear strike, the continued existence of even a single nuclear weapon on the Korean peninsula poses a serious threat to Japan and could potentially result in domestic debate over whether Japan should acquire nuclear weapons for deterrence. As a country whose post-war history has been in large part defined by pacifism and a strong anti-nuclear posture, the very act itself of Japan engaging seriously in such a debate could have an adverse effect on regional stability. Given the monumental political costs Japan would have to bear were it to develop nuclear weapons — international criticism, UNSC sanction, and an almost guaranteed collapse of the NPT (which could lead to a domino effect whereby more countries — particularly in the region — go nuclear) — the likelihood that Japan would pursue this path is relatively low. However, it is unclear exactly how Japanese public opinion would react in response to a clear, immediate, and continued nuclear threat on its doorstep, especially if the nuclear umbrella provided by the United States were to ever come into serious doubt. While unlikely, it is not altogether inconceivable that public sentiment towards nuclear weapons could change. The path leading to verifiable denuclearization of the Korean peninsula may prove lengthy and painful. Nevertheless, the potential consequences of failure are simply too serious to allow.

## *Managing the Regional Nuclear Dominoes and the Future of the NPT Regime*

**Vladimir Nazarov**

**M**r. Chairman, Ladies and Gentlemen, we welcome the activity of the Jeju Peace Forum as a major informal dialogue mechanism for the discussion of security and cooperation issues in the Asia-Pacific Region. You make an invaluable contribution to launching initiatives and an ideas bank for politicians and diplomats to work over. I would like to begin with a general point. Peace and prosperity in Northeast Asia as everywhere are possible only when the most dangerous and challenging threats to international security are dealt with collectively, using universally recognized mechanisms, first of all those of the United Nations.

The danger of nuclear proliferation is recognized to be a major threat to the very existence of humankind. According to President V. Putin's assessment, it is one of the most dangerous challenges to international security in the twenty-first century. Unfortunately, some Governments continue to view nuclear weapons as an ultimate tool to achieve their goals in order to manipulate or blackmail the fears and decision-making of the international community. Possession of nuclear weapons still remains an attribute of power politics as if it were possible to achieve a new quality by threatening the world with this kind of weapon. We should do everything possible to prevent this domino theory from spreading, especially in the Asia-Pacific Region.

During recent years, a negative tendency emerged in world affairs to give more importance to the factor of force which negatively affected

the process of disarmament and non-proliferation. The degree of unpredictability in the sphere of international security has increased dramatically. Most disturbing is the rising risk of external interference into internal affairs of sovereign States under the pretext of solving the problems of WMD (Weapons of Mass Destruction) proliferation. The following of this logic creates prerequisites for decreasing the threshold of use of nuclear weapons. Unfortunately, the CTBT (Comprehensive Nuclear-Test-Ban Treaty) is still not in force.

The nuclear arms race of the Cold War period should have been over, but the world powers continue to develop their nuclear military potentials. Existing disarmament and non-proliferation instruments are not used to react adequately to new threats to international security, including the risk of terrorists' possession of WMD. Let's be frank, the proliferation of nuclear and other sensitive technologies goes on and expands. The NPT is undergoing a difficult stage.

One of the key issues in the region remains a peaceful solution to the Korean peninsula problem. Pyongyang, among others, follows very closely the development of the situation regarding the US-India nuclear deal and, needless to say, the situation around Iran. The double standards in approaching these issues give the DPRK a substantial argument in defending its right to pursue the nuclear program. At the same time, in spite of the new UN sanctions imposed by the recent Security Council resolution, Tehran's unyielding position gives Pyongyang a wrong feeling that the US cannot deal with two "nuclear crises" simultaneously. And vice versa, this kind of attitude has a similar effect on Iran that it is not alone in its "holy struggle" for a full nuclear cycle.

The Democratic People's Republic of Korea suspended its participation in the NPT and conducted a nuclear test. A lot of questions remain unanswered regarding Iran's obligations under the Treaty. Unfortunately, India and Pakistan are still outside the NPT. Israel does not confirm or deny the possession of nuclear weapons. All this provokes other countries to think of nuclear potential as being a major factor in increasing their international or regional status. According to the IAEA Director General M.Al-Baradei, today there are about thirty countries

that have the capability to develop nuclear weapons.

On the other hand, transparency of the goals of nuclear non-proliferation allows all interested parties to deal with that issue in a straightforward manner. With regard to this understatement all the interested countries have to give more attention to the deep-rooted causes that make the violators undermine the Nuclear Non-Proliferation Treaty of 1968. In spite of the fact that it is almost a forty-year old document, it remains a cornerstone of international stability not only in the nuclear field; but it has preserved its value because the NPT gives political perspectives for nuclear crises settlement.

Introducing amendments to the NPT now is counterproductive: it would disrupt the fragile balance between the obligations of nuclear and non-nuclear States which were reached when they signed the NPT. What could improve the NPT? First of all, the NPT can be reformed by strengthening the system of the IAEA safeguards and providing possible assistance to the universalization of the Additional Protocol to the Safeguards Agreement with the IAEA. Unfortunately, the existing system which operates in accordance with the IAEA Agreement does not allow the uncovering of covert nuclear activities. By 1997 the IAEA had worked out a model Additional Protocol to the Safeguards Agreement which seriously widened its potential in detecting undeclared nuclear materials and activities. The Agency has received extensive rights to access the information, nuclear reactors and other locations of nuclear materials.

Regrettably, today there are still more than one hundred States that are not covered by the additional protocol provisions. At the same time it is absolutely necessary to provide positive incentives for the countries that are trying to develop peaceful uses of nuclear energy. This means working out practical measures to assure access to the benefits of nuclear energy for the countries which scrupulously fulfill their obligations in the field of non-proliferation.

Regarding the available mechanisms to prevent nuclear proliferation, it is appropriate to mention the existing system of non-proliferation combining international and bilateral treaties, export control regimes and other arrangements. Only a sincere and unbiased desire to

work out really effective measures to curb proliferation can bring positive results. There is a good chance to improve the situation in the sphere where one can see a sort of stagnation especially after the “fruitful” late 60s and early 70s. But simply insisting on restrictions would produce just the opposite result.

It seems that today there is simply no sound alternative to progress and development. The transformation in the attitude of society and the world as a whole to the use of nuclear energy and readiness and even eagerness by some countries to build new nuclear power plants confirm my belief that we cannot just ban whatever refers to peaceful nuclear technology. The Group of Eight and some other international forums are involved in in-depth discussions of how to help developing countries over what kind of assistance can be organized to divert some ambitious Governments from getting an extra strong nuclear muscle. It is very important for those countries that possess nuclear weapons to set a good example to the rest of the world by ensuring that the disarmament process is still alive. A very good and most recent example of such peaceful tendencies is the proclamation in Semipalatinsk in 2006 of a Nuclear Free Zone in Central Asia. The Bangkok Treaty on South East Asia Nuclear Free Zone of 1995 is another good example. One should work in Northeast Asia in the same direction.

Unfortunately, the fervent calls for non-proliferation from nuclear powers to the rest of the world meet just a cold reaction of distrust. The latest developments in the preparation process of the 2010 NPT Review Conference do not help much to change this impression. No doubt the non-proliferation process has its absolute value. It enjoys unanimous support of all the responsible countries. Strictly following the aims of non-proliferation and trying not to substantiate them by any other motives will allow gathering international support and assistance for political solutions to the most complicated problems.

Before approaching these difficult issues, one should ask whether all the diplomatic and non-military methods have been used. How sincere are the policies of some States that proclaim their adherence to the aims of non-proliferation? Aren't they trying to substitute the goal of

providing security by their intentions to proceed to force democratization of other societies that view their own future differently? We all witness the results of the “speedy democratization” of Iraq. Peaceful development of that country is still a remote future. The present international situation, including the region of Northeast Asia, requires more effective international mechanisms.

We recognize that the existing treaties and agreements in the non-proliferation and disarmament fields are not perfect, but we still propose to deal with the new threats and challenges on their merits. Only collectively can we strengthen the non-proliferation regime, preserving whatever is positive in international conventional disarmament and preventing a legal vacuum and a new arms race trend from occurring. One of the long-term advanced measures to strengthen the non-proliferation regime is President V.Putin’s initiative to create an international network of uranium enrichment nuclear centers under the IAEA control together with the US GNEP (Global Nuclear Energy Partnership) incentive.

The creation and strengthening of the nuclear-weapon-free zones would enhance the NPT, legally providing security guarantees to its participants. Here, we should try to put forward a set of political instruments and economic incentives which could encourage States not to develop their own facilities for the nuclear fuel cycle. The Six-Party Talks (Russian Federation, USA, China, Japan, North Korea and the ROK) are the best formula for achieving a universal solution to the nuclear problem of the Korean peninsula. It should include the provision of lasting and credible security safeguards to all the countries of the region, normalization of the North Korea-US relations, creation of conditions for peaceful development of the DPRK and the region as a whole. The key element is implementation of the Joint Statement of September 19, 2005, based on the results of the fourth round of the negotiations.

It is imperative to work out a realistic and detailed road map that would reflect a sequence of steps to settle the nuclear problem of the Korean peninsula. A positive outcome of the Six-Party Talks could open the way toward a permanent dialogue mechanism on security



and cooperation issues in Northeast Asia. The ultimate aim of this exercise is not only to ensure a non-nuclear status of the Korean peninsula, but also to set up conditions for strengthening peace and security in Northeast Asia, for comprehensive cooperation between all the countries of the region. With the recent decision to establish five working groups (Russia leads the one on a peace and security mechanism in Northeast Asia) we hope to achieve these aims. It is of utmost importance to secure continuity of the talks. But any talks are doomed if there is no political will for compromise. A non-peaceful solution of the Korean problem would do political, economic and social damage to the whole Asia Pacific Region.

All the parties concerned should strictly fulfill their obligations. Already situations have occurred where unilateral actions had thrown back the whole process and it took years to get it back on track. In the case of North Korea we lost almost a decade because of the break in the negotiations process. Now, in some respects, we have returned to the initial point now burdened by the humanitarian crisis in North Korea.

Recently, I came across a report "Solving the North Korean Nuclear Puzzle" by David Albright and Kevin O'Neil from the Institute of Science and International Security (Washington DC ) prepared in 2000 where the authors put a final question: Can a policy of engagement be successful without adjustments in the US security posture on the peninsula? The answer is probably "no," because the changes the United States seeks in North Korea's security posture are a renunciation of the weapons of mass destruction, ballistic missiles and, ultimately, reductions in its conventional forces; they are only possible if accompanied by changes in the US posture on the peninsula. In part, this will mean serious consideration of a transition from the 1953 armistice agreement and accompanying arrangements such as the multilateral Military Armistice Commission. But it also probably will mean serious consideration of reductions in the US military presence on the peninsula (North Korea is not demanding a US withdrawal) and a close look at the future of US relations with South Korea. I wonder whether this question is still valid.

After all, one shouldn't exclude a possible reversal of the Korea

process unless there is mutual trust between the key players and a real desire to build a long-lasting security in Northeast Asia. Only through multilateral and mutually beneficial and transparent cooperation can a safer and more secure world emerge. Thank you.

## *Solution of Korean Nuclear Issues: Hopes and Difficulties*

**Chengxu Yang**

### **Prospects for the Solution of the Korean Nuclear Issue**

**O**n February 13, 2007, the third phase meeting of the fifth round of the Six-Party Nuclear Disarmament Talks was concluded with a joint document, which mainly includes:

- The Democratic People's Republic of Korea (DPRK) will shut down and seal the Yongbyon nuclear facility, including the reprocessing facility, aiming at giving up nuclear weapons finally.
- The Republic of Korea (The ROK), China, the US and Russia will provide the DPRK with assistance equivalent to 1,000,000 tons of heavy fuel oil.
- The DPRK and the US, and the DPRK and Japan will start bilateral talks on bilateral ties.

The document gained highly favorable comments from the various countries in the world, who believed it was a breakthrough in the evolution of the Korean Nuclear Issue, bringing the Six-Party Nuclear Disarmament Talks from the stage of "Commitment-for-Commitment" to the stage of "action-for-action." US Secretary of State Condoleezza Rice indicated that this was a hopeful step in the right direction, a good beginning in the process of denuclearization of the Korean peninsula. After this meeting, the first phase meeting of the sixth round of the Six-

Party Nuclear Disarmament Talks was held in Beijing from March 19 to 22. It was indicated in the Chairman's Statement that all sides agreed to adjourn the meeting for a while and resume it as soon as possible to continue and draw up the action plan for the next stage. What obstacles emerged at the meeting?

Korea suggested that it could not shut down and seal the Yongbyon nuclear facility by April 14th, i.e. within 60 days, and insisted that the issue of transferring the funds of US\$ 25 million frozen in the Banco Delta Asia be settled first. The kernel of this issue is that, alleging that North Korea was using its account in Banco Delta Asia to conduct money laundering and counterfeit US dollar bills, in September 2005, the US Department of the Treasury ordered all American financial institutions to stop business exchanges with the bank, which subsequently interrupted its business with North Korea, including freezing the US\$ 25 million deposited by North Korea in the Bank. Korea on its part denied the accusation of the US.

The US expected that the problem could be easily solved. However, as it is involved with US law, the operation doesn't seem to be easy. On June 6, the Russian Foreign Minister Lavrov suggested that Russia is assisting the US with the problem. The Russian side maintains that, on the one hand, North Korea should agree with the proposal, on the other, the US should guarantee that it will not sanction the Russian bank involved in solving the problems. After a series of twists and turns, the US appears to have the ability and methods to solve the problem.

The significance of the 2.13 Joint Document lies in that: 1) both the two key players, the US and North Korea, have displayed sincerity in solving the Korean nuclear issue. Around this meeting, both sides met each other directly in Berlin and New York successively. If everything goes smoothly, Mr. Christopher Hill, US Assistant Secretary of State, will pay a visit to Pyongyang upon invitation; 2) after a period of suspension, the ROK-DPRK ties were started again. A North Korean cargo ship for the first time sailed into Pusan harbor. The North-South railway was re-opened for trial operation after 56 years of suspension. The conference for economic cooperation between the North and the South

was held in Pyongyang.

A domino effect could result from the containment of the North Korean nuclear experiment. On October 8, last year, North Korea conducted a nuclear experiment, which indeed roused the worry of the international community that a domino effect would be created. Mr. Shoichi Nakagawa, policy chief of the ruling Japanese Liberal Democratic Party held that a discussion could be opened on Japanese nuclear armament, while the Japanese Foreign Minister, Mr. Taro Aso, said that it's important to discuss whether Japan should have nuclear arms. Thereafter, the Japanese Prime Minister, Mr. Shinzo Abe, indicated that the discussion on Japanese nuclear arms "has been concluded." However, the argument on Japanese "nuclear arms" is far from being over. Therefore, if the 2.13 Joint Documents would be put into smooth implementation, strong support could be lent to the Japanese anti-nuclear arms force.

"It is the first step that costs." Now that the solution of the Korean Nuclear Issue has achieved a good beginning, people hope that, with the joint endeavors of the six parties, the issue will head for a solution step by step. It can be predicted that, after North Korea has sealed the Yongbyon nuclear facility, the next step would be even harder. For instance, North Korea thinks that it is not only the North Korean Nuclear Issue to be solved, but also the nuclear issues on the Korean peninsula. Obviously, this also includes whether the US will deploy nuclear arms on the Korean peninsula, and whether South Korea sustains the intention of holding nuclear arms. As for the denuclearization of the Korean peninsula, it would be an even longer way to go to realize that.

However, in terms of the betterment of nation-to-nation relations, mutual trust is achieved in the course of overcoming the obstacles one after another. Only after a relationship of mutual trust is established, could the seemingly impossible of today become the possible of tomorrow.

China's Basic Position is that China always opposes North Korea having nuclear arms, worrying that this will lead to a domino effect, counterproductive to the global efforts of non-proliferation. However,

China sincerely hopes that the Korean Nuclear Issue could be solved peacefully through negotiations. Therefore, China always sticks to the principle of “promoting negotiations and urging peace” in the Six-Party Talks on the Korean Nuclear Issue, hoping that denuclearization could be realized on the Korean peninsula, relations between the relevant countries could be normalized and the Northeast Asian peace and security mechanism could be established through negotiations. A solid foundation would definitely be laid if this objective is realized.

# *Managing the Regional Nuclear Dominoes and the Future of the NPT Regime*

John S. Park

## **I. Overview**

This paper examines the prospects of nuclear dominoes falling in northeast Asia and the role that regional powers can play to mitigate the risk of horizontal proliferation by supporting a reinvigorated NPT regime. The key point derived from this examination is that China's planned modernization of its nuclear arsenal, combined with the reality of the DPRK's nuclear capability increases the probability of accelerating fundamental shifts in Japan's nuclear posture. While it is important to monitor and multilaterally attempt to dismantle the DPRK's nuclear weapons program, we should not lose sight of the larger need to cooperate to prevent a perfect nuclear storm from rising in northeast Asia.

## **II. Assessing the Core Differences Between the 1st & 2nd Phases of the DPRK Nuclear Crisis**

A brief analysis of the core differences between the 1st phase (1992-2002) and the 2nd phase (2002-present) of the ongoing DPRK nuclear saga provides a useful backdrop to examining the current status of nuclear proliferation in the region. During the early 1990s, there was an unprecedented level of cooperation between the US and the IAEA. In

the 1st phase, we witnessed the political decision by the Clinton administration to share US intelligence with the IAEA and to open up US nuclear labs to IAEA technical experts. A reinvigorated inspections regime developed in the aftermath of heavy criticism for failing to detect Iraq's nuclear program, combined with enhanced intelligence resources, enabled the IAEA to detect discrepancies in the DPRK's Initial Declaration of nuclear material and equipment. Two major points highlight the difference between that period and the current one. First, from the outset the international response was carefully formulated within the integrated framework of the IAEA, the NPT, and the UN. Countries reacted through multilateral diplomacy and multilateral venues in Vienna and New York. Second, the Kim Young Sam government took a hard-line stance against the DPRK compared to the Clinton administration during the early days of the first phase of the nuclear crisis. President Kim warned his younger US counterpart of the folly of engaging the DPRK and appearing soft.

In contrast, in the early part of the 2nd phase, we had a largely unilateral US response following the October 2002 James Kelly-Sok Ju Kang confrontation in Pyongyang. In a carefully calibrated move, Pyongyang formally left the NPT regime. Moreover, we had a reversal in US and the ROK approaches. In the post-9/11 era, Washington dealt with the DPRK as a member of the Axis of Evil and demanded an immediate nuclear rollback through its formulation of complete, verifiable, irreversible dismantlement. Seoul sought to preserve its sunshine policy and continue along the road of deepening engagement.

At present, the Six-Party Talks process is the primary mechanism for negotiating with the DPRK; the NPT regime is secondary at this point, though there is a concerted effort to bring the IAEA back into the denuclearization process. The Six-Party Talks represents a pragmatic rather than an ideological approach to effecting denuclearization in the DPRK.



### **III. What Are the Prospects of Nuclear Dominoes Falling in Northeast Asia?**

In analyzing the DPRK nuclear crisis, insights emerge regarding the dynamics among regional powers on the question of national nuclear policy. On the surface, it appears that in many cases, there is much to be alarmed about.

**DPRK:** With respect to the DPRK, its July 2006 missile test, October 2006 nuclear test, and continuing production of nuclear material in its Yongbyon reactor largely overshadows incremental progress in the Six-Party Talks. As the newest member of the nuclear club, Pyongyang has adopted a firmer stance in the talks.

**PRC:** Beijing is currently embarking on a program to modernize its aging nuclear arsenal. While the stated objective is to improve the quality rather than the quantity of its arsenal, China's increasing defense budget has led to growing concerns in Washington and Tokyo that this modernization could be the prelude to a major increase in China's nuclear weapons. If US and Japanese interpretations and perceptions become reality, their responses could initiate unintended consequences.

**Japan:** In light of its advanced civilian nuclear energy program and commercial satellite launching expertise, the IAEA has estimated that should Japan make the political decision to develop a nuclear deterrent, it would take 6-8 months. To its neighbors, primarily China, Japan's efforts to change its defense doctrine and acquire longer-range operational capabilities to counter the DPRK missile and nuclear threat is an alarming transformation. There is mounting concern in the region that the change in military doctrine may open the door to a more vibrant internal debate about a Japanese nuclear deterrent. In an atmosphere of well-established DPRK nuclear advancements and a perceived PRC nuclear build-up, the first major question is whether traditional factors — like the nuclear taboo and the US-Japan alliance — will remain sufficient in keeping Japanese discussions about nuclear arms development just a topic of debate rather than policy.

**ROK:** A formative experience for the ROK was the intense US reaction to its clandestine nuclear weapons program in the 1970s. Seoul

remains cognizant that if it goes nuclear, it would severely damage the US-ROK alliance. More importantly, it would undermine the moral authority and high ground vis-a-vis the DPRK that Seoul requires to both pressure and entice Pyongyang to give up its nuclear weapons program.

**Russia:** Despite maintaining the world's second largest nuclear arsenal, Russia no longer has the major regional security influence it once had. At present, such an influence is not Moscow's priority. Russia seeks regional stability and is an active leader in efforts to mitigate nuclear proliferation as it is focused on larger economic development activities in its far eastern regions. Railway concessions and pipeline deals are viewed to be mutually beneficial arrangements as they are deemed to be both commercially lucrative and important confidence building measures in a region that is anemic in this regard.

**Taiwan:** Like the ROK and Japan, Taiwan has the advanced technological capability to develop a nuclear arsenal after a political decision to do so. (There is also a precedent of Taiwan seeking a nuclear arsenal in the 1970s). However, the mitigating factor is the huge reliance on the US as the counterweight to Beijing. Difficulty maintaining secrecy of a program long enough so that it can acquire nuclear capability further reduces the likelihood that Taiwan will risk losing its US security guarantee and access to US arms sales.

#### **IV. What Are the Key Takeaway Points Regarding the Prospects of Nuclear Dominoes Falling in Northeast Asia?**

The DPRK, PRC, and Japan are high risk candidates in terms of nuclear proliferation potential. As each of these countries is analyzed closely, important distinctions emerge among the three. If viewed specifically from the perspective of nuclear dominoes falling, the DPRK has already tested — it has been widely acknowledged, though not accepted, as a nuclear power. The PRC has long been a member of the nuclear club. Given the increasing vulnerabilities felt by Japan due to

the DPRK's nuclear test and the PRC's nuclear arsenal modernization, it is unclear how much security Japan will continue to derive from the de facto missile shield its Aegis destroyers currently provide. What is the tipping point for Japan to move from a missile shield to a nuclear deterrent? Given the short timeframe estimated by the IAEA for Japanese nuclear deterrent development, nascent crisis management capabilities in the region would be tested in an unprecedented manner.

Should Japan acquire a nuclear deterrent capability, such nuclear proliferation would be particularly destabilizing as it would upset the nuclear status quo in the region in a dramatic fashion. The addition of a new Japanese nuclear power in the region — in response to the quantitative proliferation of the DPRK and the qualitative improvement of the PRC's arsenal — would increase the likelihood of a perfect nuclear storm. A cyclone effect could quickly accelerate as Japanese nuclear armament could, in turn, cause the DPRK and the PRC to engage in more proliferation activity.

## **V. What Can Be Done?**

First, the NPT regime has to be revitalized. The regime is only as strong as the support it receives. Without US and other countries' support, the regime will become less relevant and less of a priority. Why bother? Pursuing a multilateral, consensus-driven approach to preventing the spread of nuclear weapons maintains important nonproliferation norms. The alternative is to adopt an ad hoc approach. This stance becomes problematic as it quickly undermines the ability to maintain a semblance of even-handedness as there would be different responses to different countries. Double-standards and exceptions could spell the beginning of the end of the regime.

When fully supported, the NPT regime can be quite resilient and adaptable. Overall, US leadership is required to reinvigorate sustained support for multilateral organizations and approaches. In terms of resources and capabilities, going it alone stretches those resources making it difficult to maintain a unilateral approach. US focus is high in the

beginning, but wanes over time as other ad hoc situations require its attention. A multilateral nonproliferation approach is more difficult to implement in the early phase, but increases the chances of producing sustained substantive results. Second, a regional nonproliferation body — perhaps structured as the sixth working group in the Six-Party Talks process with close affiliation with the IAEA — is required. Such an organization would seek to increase nuclear transparency and multilateral dialogue — particularly regarding the PRC's announced nuclear arsenal upgrading as it has the potential to spark the advent of fundamental shifts in the nuclear status quo as other countries react.

Models for structuring such a regional body can be drawn from confidence-building organizations like the Conventional Forces in Europe and the ASEAN Regional Forum. While the models are not directly transferable to nonproliferation work, crucial lessons can be distilled and applied from an examination of the processes and mechanisms that both models utilize to address security concerns, improve transparency, and increase communication. By collectively working towards revitalizing the NPT regime and structuring a regional CBM-focused body, the prospects of a perfect nuclear storm in northeast Asia could be significantly reduced.

## *Pyongyang's Nuclear Endgame and Unending Agonies*

Taewoo Kim

### **Boon or Bane?**

President Bush's abrupt transformation from a non-compromising hard-liner to a flexible pragmatist in his North Korea policy evoked both sighs and cheers in Washington. For some Americans, the February 13 accord was an overdue shift from neo-conservative intoxication to a pragmatic nuclear diplomacy while others interpret it as subjection on the part of President Bush caught in the Iraqi quagmire and defeat in domestic politics. A similar dichotomy is seen in Seoul, too. To some South Koreans, President Bush's decision to kick out the neo-conservatives and turn to a pacificatory North Korea policy came as a boon that would help remove the major obstacle to inter-Korean reconciliation. Others worry that it may be a bane giving more time to Pyongyang for its deceptive nuclear game. Naturally, the former are eagerly looking forward to seeing a settlement of the BDA dispute. A remaining question, however, is: Will the BDA settlement and North Korea's implementation of the February 13 agreement guarantee a nuclear peace on and around the Korean peninsula?

### **2·13 Accord Is Not a CVID**

Undoubtedly, the 2·13 agreement produced in the third session of

the 5th Six-Party Talks was heartening news though not enthralling. At least it edged a bit closer to denuclearization of North Korea. For South Korea, an end to North Korea's freedom to produce plutonium and bombs without outside interference would greatly improve the nation's security. In the agreement North Korea agreed to shut down and seal all nuclear facilities and programs and admit International Atomic Energy Agency (IAEA) inspectors within 60 days and later disable them. Other parties, except Japan, promised to provide North Korea with energy assistance. Washington pledged to hold bilateral talks for normalization of relations as well as for exclusion of North Korea from the list of terrorism-sponsoring states and a completion of application to North Korea of the Trading with the Enemy Act.

Nevertheless, the 2·13 agreement is not much different from the 9·19 Joint Statement in that it contains some mine fields. In addition to the built-in obscurity centering around such terms as 'shut-down,' 'sealing,' and 'disablement,' it omits disposal of the bombs and plutonium in Pyongyang's possession and the enrichment program many US and South Korean watchers believe to exist. The agreement does not oblige North Korea to come back to the NPT, either. North Korean compliance with the 2·13 agreement alone will neither produce results like CVID nor guarantee North Korea's resumption of full membership of the NPT. This is painfully true though the value of the agreement itself as a valuable *modus vivendi* should not be overlooked.

### **North Korea as a Winner**

At least in the short term, North Korea must be a winner in the nuclear endgame. Right after the nuclear test, North Korea immediately rejected the UN Security Council Resolution No. 1718 and held mass rallies celebrating their great leader's nuclear achievement. Toward South Korea, the agreement and the wind of peace that followed helps the Pyongyang government widen the spectrum of policies. It can both maintain strategic superiority over South Korea and expect resumption of the North-bound assistance by injecting new impetus to the Seoul

government's appeasement policy. The minimum nuclear deterrence to be left even after compliance with the 2-13 agreement will still overwhelm South Korea's technological and economic edges in conventional forces. Annual supplies of 400,000~500,000 tons of rice and 300,000 tons of fertilizer are by no means negligible for the malfunctioning North Korean economy.

Interestingly, one should not overlook the value of the BDA issue as a decoy which North Korea can utilize to stall the multilateral talks or to earn more time. When the money issue is settled, North Korea can come back to the negotiation table in a majestic manner, saying, "Now the US satisfied our demand." North Korea has not implemented the 'shut-down' and 'sealing' by the time of this writing seemingly because of the delay in freeing up North Korean money in the BDA. It would be too unrealistic, however, to believe that the Pyongyang government is truly pinning the destiny of the Six-Party Talks on the money totaling less than 25 million dollars.

North Korea's triumph is in sharp contrast to the bruises and slashes visible in President Bush's North Korea policy. President Bush has moved back his 'red line' at least twice. During the early 1990s, Washington said, "Don't make plutonium." During the early 2000s when North Korean possession of nuclear bombs was becoming an open secret, President Bush demanded: "Don't test the bombs." After North Korea's nuclear test in 2006, his administration asks North Korea not to proliferate them. In addition, President Bush had to abdicate the 'three Nos' he avowed as unshakable principles toward North Korea. President Bush, who swore in with the slogan of ABC (anything but Clinton), openly pledged "no direct negotiation with North Korea," "no compensation for bad conduct," and "no other deal than CVID." Now he is coming back to NBC (nothing but Clinton). In January his administration invited Gyekwan Kim to Berlin for direct talks. In February, it promised a variety of compensation for the nuclear test and signed an agreement much different from a CVID. Though President Bush's pragmatic initiative may have achieved some results, they represent a pyrrhic triumph at best for President Bush.

## **Besieged NPT**

The NPT is already besieged. Challenges come from various directions: Iran's enrichment activities, the US-Russia MD controversies, China's desperate attempt to catch up with the US-Russia nuclear supremacy, the 2006 US-India nuclear cooperation accord, etc. The single largest dilemma for the Iranian matter lies in the fact that enrichment and reprocessing activities are not, and should not be, illegal under the NPT as long as the hosting country pledges peaceful use. Put differently, as shown in the North Korean case, a country can continue the activities legally until its military intention is proved. Washington, thinking it is difficult to outlaw the activities, seems to focus on nonproliferation of enrichment and reprocessing, thus proposing the Global Nuclear Energy Partnership (GNEP) program. The underlying logic is that user states (countries without enrichment or reprocessing facilities) would agree not to obtain any such facilities and fuel cycle states (countries possessing such facilities) would agree not to provide them to user states while for user states fresh nuclear fuel supply and spent fuel removal are guaranteed by a multilateral agreement. However, if the program is to divide once again the world of enrichment and reprocessing into "haves" and "have-nots" following the NPT that divided the nuclear world into "haves" and "have-nots," its future must be uncertain.

The US-Russia MD controversies, China's desperate attempt to develop MIRVed nuclear missiles, and China's test of an anti-satellite (ASAT) weapon on January 11 are like dormant volcanoes that can ignite "vertical nuclear proliferation" while the US-India nuclear cooperation agreement signed on March 2, 2006, will not fail to precipitate "double standards" controversies, thus further weakening the NPT. The US-India accord, in which Washington provides a de facto recognition of the nuclear status of India, a non-member country of the NPT, promises peaceful cooperation on 14 nuclear facilities out of 22. By doing so, the US pledged to connive on the military secrecy of the 8 nuclear facilities. The US wanted to isolate India, a newly emerging global power, from the Sino-Russia influence sphere, thus undermining the NPT legitimacy. This is why some American analysts call the



accord "a triumph of Power Politics over Nonproliferation Principles." The repercussion of a failure to quench the nuclear stories in North Korea will be even more enormous.

## **North Korea's Nuclear Future**

When President Bush was sticking to the 'three Nos' principles, North Korea had only two choices: to proceed with nuclear development and brave international sanctions or to give up nuclear weapons and enjoy rewards. But now, feeling "the wind of peace," it has reasons to believe that a third scenario may be possible. It may desire to keep a minimum nuclear deterrence even while pursuing all rewards which the international community would have given upon complete denuclearization. If North Korea complies with the 2-13 agreement and does no more and if the wind of peace continues to blow, this assumption remains tenable.

On March 5, 2007, in a meeting with his US counterparts, Gyekwan Kim demanded that the US tolerate North Korean bombs as it did Indian nuclear weapons. This is not surprising to one who knows Pyongyang's die-hard nuclear ambition. Similar indications had been detected earlier. Immediately following the nuclear test in October 2006, North Korea declared that it would not sell or proliferate nuclear bombs to third parties and that it was willing to have nuclear arms control talks with the US as a nuclear weapon state. This message indicated that US recognition of North Korea as a nuclear-weapon state had long been Pyongyang's desideratum. Gyekwan Kim must have been seeking the same when he mentioned so-called 'US-DPRK strategic relations' in a speech to the Asia Society on March 5, 2007. By using that expression, he may have been casting an amorous glance at the US decision-makers seeking an "American permit," pointing to Israel, India, and Pakistan that succeeded in making their bombs as a new status quo under American connivance. Above all, their ill-gotten leverage may have led the Pyongyang government to believe that it can negotiate with Americans with some bombs in its hands.

If North Korea opts for a third scenario, it implements the 2-13 agreement though with some malingering and delay as shown in the BDA ado. Upon US request for following the agreements to complete denuclearization, Pyongyang will procrastinate on one pretext or another, or retort that the two nations must begin separate nuclear arms control talks in a showdown between the two nuclear-weapon states.

### **Unending Agonies**

To South Korea, the third scenario could be detrimental militarily, socially, and politically. On the security front, even a minimum nuclear deterrence to be left after implementation of the February 13 accord will pose a grave asymmetric threat to South Korea. The third scenario can deepen the 'conservative-reformative fissure,' a phenomenon increasingly visible since the Sunshine policy. Politically, such a scenario may make it easier for North Korea to intervene in South Korean domestic politics. This is why some South Koreans continue to ask President Bush: "Did you give a tacit consent that the US would tolerate DPRK bombs in exchange for the nation's promise to refrain from proliferation and production of additional bombs?"

A failure to completely remove the bombs in North Korea, including the third scenario, will cast more uncertainties over the Korean peninsula and the surrounding region. To South Korea, it would be unending agonies on top of existing frustrations. For example, by the Inter-Korean Joint Declaration for Denuclearization of the Korean peninsula in which both sides agreed to renounce enrichment and reprocessing as well as nuclear weapons, South Korea disavowed possession and operation of enrichment and reprocessing, giving tribulations including the spent fuel disposal problem to the nation's atomic industry. South Korea alone complies with the Joint Declaration whereas North Korea ignored it until it became a nuclear weapon state by its 2006 nuclear test. The humiliating situation still continues. Currently, South Korea's atomic scientists grapple with two simultaneous tasks: "How to permanently dispose of the piles of spent fuel rods without a

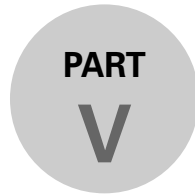
reprocessing plant" and "How to comply with the nonproliferation norms." This is the background that leads an increasing number of South Korean scientists to pay attention to pyroprocessing. Japan's pursuit of a unilateral technological edge and plutonium surplus combined with the military potential of its atomic industry is another source of stress.

North Korean nuclear problems, if allowed to go on, can kindle new rounds in an arms race, eventually including nuclear competition. Today, it is very unlikely for Japan under the alliance with the United States to go nuclear. The "bottle cap" role of the alliance remains robust. Domestic opposition, citizens' allergic reaction to an idea of going nuclear, and public opinion opposing nuclearization also remain as strong support for nonproliferation, preventing Japan's nuclear rethinking. However, if Japan refuses to stay a hostage of North Korean bombs some say, Sino-Japan competition could be spurred. In such a situation East Asia may be ruthlessly pushed onto a stark crossroads. If a nuclear arms race is prompted, strategic marginalization of non-nuclear South Korea will be an inevitable consequence.

## **Preventing the Proliferation Domino**

To free East Asian countries from the nuclear nightmare of a North Korean bomb should be the bottom line. For regional nonproliferation, the sharing of peace dividends would be much better than a monopoly of a unilateral technological edge by particular powers. Japan may need to pay more attention to the geopolitical, psychological, and diplomatic impact of its quest for state-of-the-art nuclear technologies. For North Korea, it is most important that it comes to the realization that having the bombs will backfire in the long run as a threat to the very political system it is trying to preserve with the bombs. North Korea only deepens its isolation and accumulates greater internal discontent. In this context, the February 13 agreement itself will not suffice. It should be a stepping stone leading to North Korea's return to the NPT safeguards and complete denuclearization.





*The Automobile Industry &  
Regional Cooperation*

Inter-company Cooperation Among Korea,  
Japan and China in the Automobile Industry

Policy Coordination for the Automobile Industry:  
China, Korea and Japan



# *Inter-company Cooperation Among Korea, Japan and China in the Automobile Industry*

**Hiroyuki Itami**

## **I. Sense of Magnitude**

**T**he phenomenal rise of Chinese auto production in the last ten years is truly amazing. US production is declining slowly and Japan and Germany are growing slowly, Korea a bit faster.

**<Table 1> World Top 5 countries (2006)**

Rank	Country	Production (millions of cars)	
		2006	1997
1	Japan	1148.4	1097.5
2	USA	1126.4	1213.1
3	China	718.9	158.0
4	Germany	582.0	502.3
5	Korea	384.0	281.8
	World Total	6912.7	5311.7

Japan, Korea and China are all in the top 5 in 2006, and these north-east Asian countries produced 22.6 million cars in 2006, which is about 1/3 of world total car production. This region is already the world center of auto production. The fast rise of Chinese production is due to the

amazing growth of the Chinese car market. In 2006, the Chinese market became the second largest in the world with 7.2 million cars sold, after the US and in front of Japan. The Chinese car market is expected to be the world's largest early in the next decade. Huge domestic demand in China attracts foreign direct investment.

Production in Japan and Korea is done mostly by Japanese and Korean firms, respectively. Production in China, on the other hand, is done to a large extent by joint ventures between Chinese firms and major foreign automobile firms. Japanese and Korean firms produce not only in their homeland but also in other countries, including China. Japanese firms produced 11 million cars outside Japan, many in the US and Europe. In total, Japanese firms produced 22.5 million cars worldwide, about 1/3 of total world production. Korean firms produced in their domestic plants 3.8 million cars in 2006 and produced overseas an additional 1 million.

If we add all the production by Japanese, Korean and Chinese firms (including joint ventures) worldwide, the total volume in 2006 was 34.5 million cars, which is about half of world total production. This is the magnitude of control by the firms of the three countries over the world auto industry. With this magnitude, inter-company cooperation among the car makers in this region is both desirable and inevitable not only for the growth and stability of the economy in this region but for our global environment, Spaceship Earth.

## **II. China as the Focal Point**

In principle, there can be three patterns of inter-company cooperation as follows. But, the focal point in the near future seems to be the joint ventures in China; 1) Joint Ventures; 2) Joint Technology Development Projects; 3) Technology Licensing and Parts Supply. The Chinese market is the focus of cooperation among the companies of Japan, Korea and China. China is, in a sense, "forcing" inter-company cooperation among Korea, Japan and China through its industrial policy on foreign direct investment and the amazing pace of market growth.



China's industrial policy effectively limits auto imports and permits auto production by foreign firms only through joint ventures with Chinese firms. Japanese and Korean firms are eager, along with Americans and Germans, to enter the Chinese market through various joint ventures.

### **III. Complicated Pattern of Joint Ventures in China**

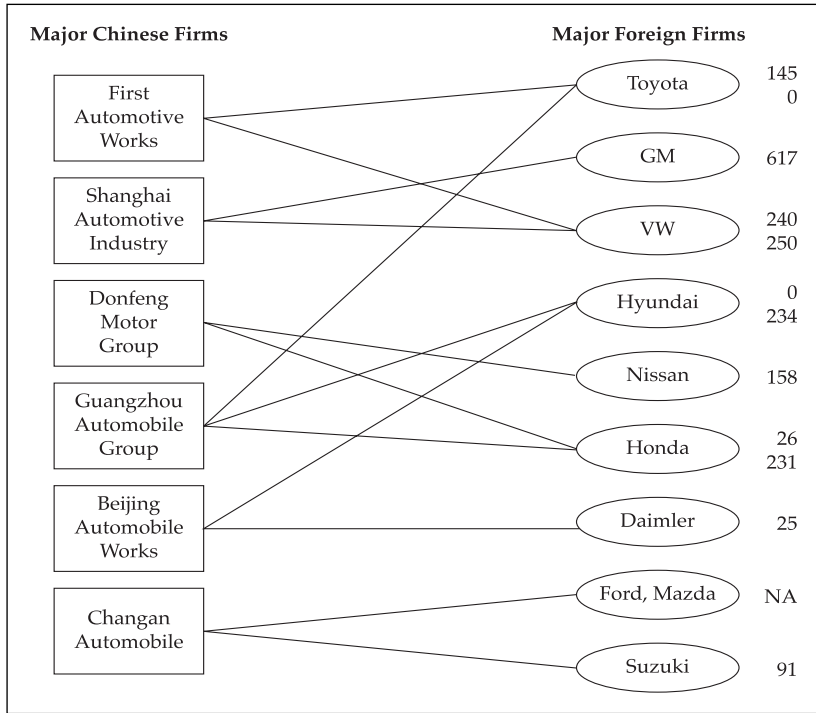
There are 'Three plus six' major Chinese automobile firms in China. The 'Three' are the big three in China, which are First Automotive Works in the north, Shanghai Automotive Industry Corporation in the Shanghai area and Dongfeng Motor Group in the middle of China. They are former state enterprises and were hand picked by the government to be the founding firms of the Chinese automobile industry;

- Among the smaller six, which are also given various priorities by the government, Beijing Automobile Works, Guangzhou Automobile Group and Changan Automobile are very active in forming joint ventures with foreign firms.
- Local independent firms like Cherry Automobile are a part of the smaller six and are growing very fast.
- On top of these major firms, there are more than 100 car makers of various kinds in China. Industry reorganization will be inevitable.

The pattern of joint venture relationships with foreign firms is very complicated. Each major Chinese firm has established joint ventures with two or more foreign firms as shown in the figure below, mostly for passenger car production. There are other joint ventures by other foreign firms, but they are much smaller.

The sales numbers in the figure are for passenger cars, data taken from a research report by Development Bank of Japan, 2006.6.29. Zero production numbers for Toyota and Hyundai in this figure mean that these joint ventures are very recent and are still in the startup process. These two recent joint ventures are both with Guangzhou Automobile Group in the south, showing the great interests of Japanese and Korean

<Figure 1> Entangled Joint venture Relationship in China



Eash line represents a joint venture relationship between the firms. One line may include several separate legal entities.

Numbers besides the company shows 2005 passenger car sale (thousands) for the joint ventures, the upper number corresponding to the upper line venture.

firms in this region of China.

In terms of timing of starting the joint ventures, VW had a head start and GM followed. Toyota was late in coming. That timing is still reflected in the market share in the passenger car market. Honda and Hyundai are successful despite their late timing. Honda and Hyundai were able to catch the passenger car boom in the last five years. Though dominated by these joint ventures, Chinese independent firms are rising very fast in the Chinese passenger car market and recently have begun to garner a substantial market share. The following is the market share in China for the types of companies in passenger car sales in 2002

and 2005. A fast decline of European (VW) and American (GM) joint ventures (JV), and impressive rises of both Chinese local firms and the Korean joint venture are noticeable.

**<Table 2> Share by Types of the Firm in Chinese Passenger Car Market (%)**

	2002	2005
European/American JV	63.7	34.9
Japanese JV	14.9	17.9
Korean JV	0.3	8.7
Chinese Local	18.8	38.3

Data: Marklines

#### IV. Key Concerns

In discussing the inter-company cooperation, especially the future of these joint ventures in China, we should not be concerned only as to who will win. The process will be inevitably what one might call 'competitive cooperation'. But its impact will go much beyond the competitive outcome. The following is a list of the potential impacts:

- Technology transfer and technology spillover in China, which are so important for internal technological capability building for car production within China
- Chinese industrial infrastructure
  - a. Automobile production infrastructure is a base for many machinery-related industries and can contribute to the building up of Chinese industrial infrastructure in general.
  - b. Future prosperity of the region depends on the healthy development of Chinese industries
- East Asian production network and division of labor
  - a. We should not be concerned only with the industrial structure within China. With such a big market and final assembly capability in China and the huge auto parts and machine tools production networks in Japan and Korea already in place, there will arise an international production network with E. Asia-wide division of

labor.

(1) Japan produces more than half of the world total machine tools production, for example.

- b. The extent of this international division of labor will depend not only on the corporate behaviors of the firms in the three countries, but also on the industrial policies of the three governments.
- Reduction of environmental problems
  - a. Huge production and the rapid growth of the car market in China naturally imply a potential for huge environmental problems in the region. This is perhaps the biggest key concern of all.
  - b. Japan and Korea should cooperate to reduce emission gas problems caused by cars made and used in China. The impact of atmospheric pollution in China goes far beyond the Chinese border since China is located on the west side of Korea and Japan, the upstream side of the eastward jet stream.
  - c. More than this, there is the green-house gas problem with so many cars sold in this region and with so many cars produced worldwide by the firms in the three countries.

## V. Key Factors

In determining the competitive outcome and other impacts from the process of competitive cooperation focusing on the Chinese market, the following is a list of key factors.

- **Chinese Industrial Policy:** 1) How will they adjust their policy for foreign direct investment? Will they permit 100% investment?; 2) How will they reorganize the auto industry in China with so many firms jockeying for a competitive position? The distribution channel may be a decisive factor in this reorganization
- **Chinese Intellectual Property Right Policy:** Although technology transfer into China is both necessary and desirable, one key factor to determine the willingness of the foreign firms to allow technology inflow into China is the intellectual property protection. This can be a major obstacle.

In determining more international impact including environmental protection, the following is a list of key factors.

- **Depth of Environmental Concerns, Both by the Governments and the Firms Concerned.**
- **Industrial Policies of the Governments of the three Countries for East Asian Division of Labor**

These policies may be related to a larger issue of Northeast Asian economic community building.

## **VI. How Will It Play Out?**

Northeast Asia (China, Japan and Korea) will be the undisputed world automobile center in the next decade. Auto production in the region can top 40% of the world total in the next decade. Among Chinese, Japanese and Korean firms, they will produce worldwide close to 2/3 of total world production in the next decade.

Entangled joint venture relationships may be a bed for industrial reorganization in China and an international division of labor. In that process, the future of Chinese joint ventures is a bit uncertain. It depends mainly on the industrial policy of the Chinese government. The best scenario will be such that major foreign firms keep a big presence in Chinese production, with a wide division of labor in East Asia in various stages of major parts production. This way, fuel-efficiency and other green technology for automobiles will keep flowing into Chinese production. This is so important for the future of the environment of Spaceship Earth and the neighboring countries like Japan and Korea.

Whether this scenario materializes depends on healthy competitive cooperation among the firms in this region and prudent industrial policies by the governments of the three countries. Major auto firms in this region, especially Toyota in Japan, Hyundai in Korea and First Automotive Works and other major firms in China, have to recognize their roles in this competitive cooperation. These firms are responsible not

only for the economic return for their investment but also for keeping our environment clean. Not only the Chinese government but also the governments of Japan and Korea need to think about their roles in making the auto industry in this region contribute not only to the industrial progress of the region but also to global environmental protection.

## *Policy Coordination for the Automobile Industry: China, Korea and Japan*

**Rongping Mu**

The Chinese automobile industry has experienced profound changes since 1980. In 2006 China produced 7.28 million automobiles, about 3.9 times of that in 1999, and 28.7 times of that in 1980. The expansion of automobile production capacity has resulted to a large extent from the continuous importation of advanced foreign automotive technology, through channels such as foreign direct investment, technology transfer, technological licensing and consultants as well as exchange of technical personnel. The value-added in the automobile industry accounts for 1.81% of total GDP in China.

**<Table 1> FDI in China's Automobile Industry 2000-2005**

(million US Dollars)

Year	2000	2001	2002	2003	2004	2005
Number of Project	213	329	578	865	1134	1015
On Contract	861	930	1708	4142	6112	5486
Actual Used	1090	1018	1230	2003	3353	3405

Source: China FDI Report 2006.

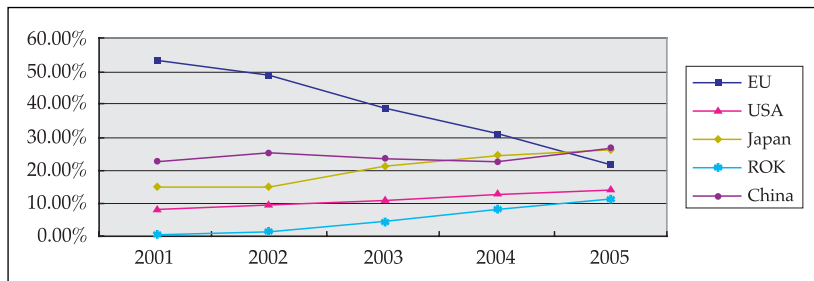
So far, most leading passenger carmakers are joint ventures, while multinationals have controlled almost all popular brands and product technologies in the Chinese passenger car market. The 24% of the total

FDI in the Chinese automobile industry comes from Hongkong SAR in 2005,<sup>1</sup> while 20% comes from the ROK, 15% from Japan, 9% from EU countries, 7% from the Taiwan region, and 7% from the USA.

## I. Development of Carmakers & Suppliers with Technologies from Japan and Korea

The Carmakers & Suppliers with Japanese brands and technologies are mainly concentrated in Guangzhou, while others with Korean brands and technologies are concentrated in Beijing and Shangdong province. Usually the Carmakers from EU countries and North American countries buy parts and components globally, while the Carmakers from Japan and Korea prefer to set up their own supply system for parts and components so as to reduce the cost of total production.

<Figure 1> Chinese Market Share of Cars with brands from EU, USA, Japan, The ROK, China



Source: China Automobile Technology Research Center.

## II. The Evolution of Automobile Industry Policy in China

China issued its first automobile industry policy in 1994 and the second in 2004. The first automobile industry policy has some positive

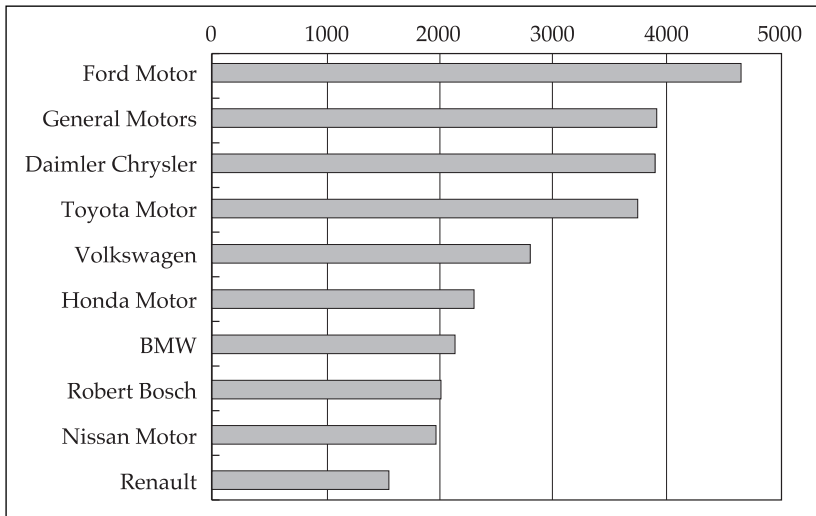
<sup>1</sup> Source: Department of Commerce, China.



impact on the development of the China automobile industry, especially the points such as “to meet family needs for a car” and “to encourage that parts and components be made domestically.” The second automobile industry policy points out clear objectives, namely “to promote the harmonious development within the automobile industry, related industries, traffic infrastructure and environmental protection” and “to enhance the innovation capability of the automobile industry.” Thereafter, Chinese carmakers have invested increasingly more money in R&D, especially in development of new products. However, both the investment of R&D and the capacity for innovation in the Chinese automobile industry are still not comparable to that of multinationals.

**<Figure 2> Top 10 R&D Investors in the Automobile Industry in the World in 2006**

(million US\$)



Source: [http://www.innovation.gov.uk/rd\\_scoreboard/](http://www.innovation.gov.uk/rd_scoreboard/)

As to the interaction with society, Chinese carmakers and their suppliers are ready to take on their social responsibility to develop and make use of new technology for reducing gas emissions, controlling noise and improving traffic safety, while the Chinese government is

trying to improve the environment of laws and regulations so as to encourage other enterprises to take on their social responsibility.

### **III. Policy Coordination for the Automobile Industry: China, Korea and Japan**

International policy coordination is one of the key issues in international economic and technical cooperation. The primary objective of international policy coordination is to avoid conflict and to reduce waste, while the advanced objective is to create complementarities and synergies among different policies. The international policy coordination activity could be classified into two types, namely: the policy coordination body such as the WTO and OECD (the coordination with enforcement), the policy coordination mechanism such as APEC (the coordination without enforcement). The trend of International policy coordination is to pursue general benefits by using the mechanism of the WTO and to pursue special benefits by signing a free trade agreement.

The FTA negotiations among China, Korea and Japan are still in preparation, but the industry cooperation among these three countries has made lots of progress. For example, the regular triple minister meeting and workshop etc. have contributed very much to the development of the information industry in Northeast Asia. However, there is no effective policy coordination activity in the automobile industry among China, Korea and Japan, although these three countries have done much work toward cooperation and development, such as holding the automobile forum in Changchun and the parts and components exhibition in Seoul.

In order to strengthen the policy coordination in the automobile industry among China, Korea and Japan, three issues should be taken into consideration as follows: (1) To initiate a strategic study concerning a policy coordination mechanism and possible policy coordination body in the automobile industry. (2) To make a roadmap for setting up a policy coordination mechanism and a policy coordination body

among these three countries for automobile industry development. (3) To promote the cooperation among carmakers and their suppliers from China, Japan and Korea to develop the model of an Oriental Car so as to synergize and strengthen their international competitiveness.



**PART  
VI**

*Think Tank Networks and Forming  
an Epistemic Community in East Asia*

The Northeast Asia Cooperation Dialogue:  
An Experiment in Track 1 <sup>1</sup>/<sub>2</sub> Diplomacy

Epistemic Community Matters:  
NEAT in the East Asian Cooperation Process

Forming an Agenda for an Epistemic Community in East Asia:  
A View from Moscow

Think Tank Networks and Forming an Epistemic  
Community in East Asia: A Japanese Perspective



## *The Northeast Asia Cooperation Dialogue: An Experiment in Track 1 1/2 Diplomacy*

**Susan L. Shirk**

The early 1990s were a period of great flux in East Asian international relations. The Cold War had ended. Some Americans were advocating a military withdrawal from the region to concentrate resources on domestic priorities. The risk of war on the Korean peninsula and in the Taiwan Straits remained. US-China relations had been devastated by the trauma of Tiananmen. Japan was the main rising regional power, but Asians were starting to talk about an emerging China threat. In this context, the Clinton administration was receptive to exploring the utility of multilateral security cooperation in East Asia.

In 1993, the University of California Institute on Global Conflict and Cooperation based at UC-San Diego founded the Northeast Asia Cooperation Dialogue (NEACD) as a track-two experiment to explore the value of multilateral security cooperation in Northeast Asia. The Department of Energy's office for regional nonproliferation funded NEACD and the departments of State and Defense agreed to send deputy assistant secretary-level officials to participate. IGCC opted to limit NEACD participation to the six countries with the most direct stake in the stability of Northeast Asia — China, Japan, Russia, the US, the Republic of Korea, and the Democratic Republic of North Korea.

NEACD's participation formula consists of one foreign ministry official, one defense ministry official, one military officer, and two academics from each country. The officials participate as private individuals, not as government representatives, which facilitates a candid

exchange of views. Candor is also protected by the rules against reporting the discussions to the press. (The substance of the discussions is channeled directly into the policy process through internal reporting by the government participants.) After the first few sessions when the group agonized over a press statement, it abandoned the practice because the negotiations over the statement dominated the discussion.

NEACD meetings always open with a government official from each country giving a brief ten-minute presentation, followed by fifty minutes of sharp questioning. This give and take brings into the open the anxieties and misperceptions that others have about a government's policies and it allows the government to clarify its intentions and explain the domestic context for decisions. On the second day, the group discusses a particular security-related topic, beginning with one or two brief presentations by experts.

Since 1993, NEACD has met 17 times and has become the most institutionalized security dialogue process in Northeast Asia. The venue for the meetings rotates among the countries. IGCC serves as the organizer, but decisions about agendas and study projects are made by consensus. A military-to-military subgroup called the Defense Information Sharing Study Project meets for two days before or after the larger NEACD meeting. NEACD often holds an additional one-day workshop on a special economic topic with security implications such as energy, transportation, maritime trade, and most recently, the DPRK economy.

## **Institution Building**

From the beginning, IGCC hoped that NEACD would lay the foundation for an official process of security cooperation in Northeast Asia. Regular governmental consultations among the six countries, particularly China, Japan, Russia, and the US, would constitute a kind of concert of powers to help stabilize East Asia as a whole. It also would provide a practical way for the US to maintain its active role in the region



while learning to share responsibility with the rising regional powers. Institution-building has always been on the NEACD agenda. For more than ten years, the foreign ministry officials have met together separately over lunch on the second day to discuss the prospects for an official multilateral process for Northeast Asia. All the foreign ministries, including North Korea, have come to believe that it is only a matter of time before such a formal process is established.

The design of the Six-Party Talks on the North Korean nuclear issue was inspired in part by the NEACD experience. Ambassador Fu Ying, a senior official in the Asia Department of the Chinese Foreign Ministry, attending the NEACD meeting in Qingdao that followed on the heels of the first meeting of the Six-Party Talks, called NEACD the “shadow Six-Party Talks.” A NEACD study project made proposals to governments on how to move toward a track-one official process. The active involvement of governments in NEACD and the fact that the majority of participants are government officials makes NEACD a Track 1 1/2 rather than a Track 2 dialogue.

### **DPRK Participation**

Vice Foreign Minister Kim Gye-gwan, attending the NEACD meeting in Tokyo in April 2006, told the press that the DPRK was a founding member of NEACD. At the first NEACD meeting, held at UCSD in 1993, the DPRK was an enthusiastic participant. (China was much less enthusiastic and decided only at the last minute to attend and sent a low-ranking diplomat.) Following the 1993-4 nuclear crisis, the DPRK stopped attending NEACD despite the efforts of the other countries to persuade it to return. Pyongyang returned to NEACD in 2002 following Prime Minister Koizumi’s visit and at the same time as Assistant Secretary James Kelly’s visit to Pyongyang.

With each NEACD meeting, the comfort level of the DPRK participants rose. Instead of the leader being the only one to speak, other delegation members spoke up too. Instead of only replying to questions, they raised questions of others. This evolution followed the pattern of

Chinese participation which over time became increasingly relaxed and active.

## **NEACD Achievements**

NEACD has always been about more than just Korean peninsula issues. For eight of NEACD's fourteen-year history, the DPRK wasn't even present. Much of the discussion has centered on China-Japan relations (especially US-Japan cooperation on theater missile defense and issues related to World War II history) and the US role in the region. Many difficult issues that are avoided or touched on superficially in official meetings are discussed thoroughly at NEACD. China and the US, the two countries which traditionally have been most skeptical about regional multilateralism in East Asia, have become more positive about its value to their own national interests.

Participants have floated new ideas for promoting mutual trust and cooperation. One example is a collective regional effort to patrol sea lines of communication. NEACD participants adopted a set of principles to govern international relations in Northeast Asia that includes human rights, freedom of navigation, and nonproliferation. As with the nature of most diplomatic processes, it is difficult to identify dramatic breakthroughs achieved by NEACD. At the April 2006 session, the Six-Party Talks negotiators converged on Tokyo in a high profile but unsuccessful effort to restart the stalled official negotiations. But behind the headlines, nine DPRK delegates engaged in candid discussions that covered a host of subjects that included the prospects for DPRK economic reforms if the nuclear problem were solved.

## **The Future of NEACD**

What will be NEACD's role if a permanent multilateral mechanism forms in Northeast Asia? Should it disband? If not, what should be its function? Whenever the foreign ministry officials discuss this question

over lunch, they say they are reluctant to abandon NEACD. Even if there is an official process, they would value this opportunity for informal, unscripted give and take which is difficult to replicate in any official meeting. NEACD could continue to function as a kind of retreat for the officials engaged in Northeast Asian diplomacy together with their academic counterparts.

NEACD also could supplement the work of official multilateralism by conducting research projects and making proposals for the officials to act upon. The ROK organizers of the Energy and Economics Working Group and the Russian organizers of the Peace and Security Mechanism Working Group of the Six-Party Talks have suggested that NEACD provide this kind of input to the work of their groups.

## *Epistemic Community Matters: NEAT in the East Asian Cooperation Process*

Liqun Zhu

Since the end of the Cold War, the world has been in a great transition, not only in a sense of power structure, but also of interdependence and interaction among states. We are now living in an increasingly interconnected global order with multiple global actors, who show greater capacities to act in more complex networks. The epistemic community is one of them, playing a very important role in national, regional and international affairs. According to Peter M. Haas, "An epistemic community is a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area."<sup>1</sup> The epistemic community plays its role in every stage of the policy making process, including policy innovation, selection, diffusion and persistence.<sup>2</sup> A good example of these is the Network of East Asian Think Tanks (NEAT), a second track channel in the East Asian regional cooperation process.

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<sup>1</sup> Peter M. Haas, "Introduction: Epistemic Communities and International Policy Coordination," *International Organization*, Vol. 46, No. 1 (Winter 1992), p. 3.

<sup>2</sup> Emanuel Adler and Peter M. Haas, "Conclusion: Epistemic Communities, World Order and the Creation of a Reflective Research Program," *International Organization*, Vol. 46, No. 1 (Winter 1992), p. 375.

## I. NEAT as an Epistemic Community

NEAT is one of the 17 short-term measures proposed by the East Asia Vision Group. Its basic function is to pool the wisdom of scholars of ASEAN plus Three countries and provide intellectual support for East Asian cooperation. At the end of 2003, my university — China Foreign Affairs University (CFAU) was designated to be the Chinese Country Coordinator of NEAT. In August 2004, at the Second Annual Meeting of NEAT, CFAU and Thammasat University of Thailand were appointed Co-interim Coordinators of NEAT.

In past years, NEAT has not only developed itself into a well-functioning track II organization, but also built an epistemic community to carry out in-depth research, submitted valuable policy recommendations to the leaders of ASEAN plus Three and APT summit meetings, and effectively promoted the East Asian cooperation process in various fields.

First, it has taken great institutional-building efforts, which is conducive to the maintenance of the epistemic community building. NEAT has developed its own charter — Basic Rules and Framework — to guide its operation. It has also developed its working mechanism, with an annual meeting, country coordinators meeting and working groups. Last year, we set up 8 working groups, which carried out research in different areas such as East Asian economic integration, East Asian community building, energy security, financial cooperation and investment cooperation, etc. The reports and policy recommendations by these working groups were integrated into the final report of NEAT and distributed at the 10+3 summit meetings.

Second, China Foreign Affairs University is entrusted with setting up NEAT's website,<sup>3</sup> because NEAT members realized that a platform for exchanging views and building consensus among intellectuals and elites is important for epistemic community building. We all realized that mass education is of critical importance to the process. Information

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<sup>3</sup> The website of NEAT is <http://www.neat.org>. Publications and events can be found on the website.

sharing through a website is a way for us to consolidate the social foundation, nurture the sense of “we-ness” and help the socio-cultural community building.

Third, NEAT has also developed its distinctive research style, which is action-oriented, pooling together the wisdom of governments, businesses and academia. Media has played an important role in raising the awareness of regional cooperation. NEAT has carried out its studies and research on the process of East Asian cooperation, focusing on priority areas including working out measures and suggestions to help promote the process. Recently we have been focusing on the possibility and feasibility of financial cooperation in the East Asian cooperation process and we identified two major risks confronting East Asian countries: namely, the shortage of energy and the deterioration of the environment. Energy security is an issue of great concern. On the one hand, East Asia has the fastest growing demand for oil. On the other, it depends excessively on oil imports from outside the region. Moreover, the oil reserve system in East Asia is far from being sound, which results in the lack of a self-adjustment mechanism. Furthermore, “Asian Premium” has placed East Asia in a particularly disadvantageous position. To tackle the energy security problem, we have to take concrete measures to strengthen regional cooperation such as setting up a strategic oil reserve system, conducting cooperation in energy-saving techniques, carrying out joint research to develop and utilize renewable energy resources and even building an East Asian Oil Futures Market. The other area on our priority list is environmental protection. Frequent breakouts of natural disasters are, to a great extent, a result of the continuing degradation of the natural environment. East Asia, with the highest economic growth rate in the world, has also experienced the worst environmental degradation and natural disasters. We agreed that we should carry out joint research and share expertise, especially in the field of environmental protection technologies and disaster relief, and also establish rapid and efficient information sharing and early-warning systems.

Fourth, NEAT has played an active role in pooling the intellectual resources in the region. It has not only networked the member think-

thanks in the region, but also co-sponsored and co-organized many academic activities, such as the East Asian Investment Forum, the Joint Study Convention of East Asia Cooperation, the Seminar on East Asian Cooperation and Sino-US Relations and the conference on Rethinking European Integration and East Asian Community Building. These activities have greatly enhanced the understanding and association among scholars of East Asian countries and other regions.

## II. Epistemic Community Matters More in East Asia than in Europe

An epistemic community plays an important role in building consensus and identity for community building and regional integration. This is true both for Europe and East Asia. But I have to say the epistemic community matters even more in East Asia since the process of East Asian community building just got started ten years ago and is still very much in a preliminary stage. The process in East Asia needs more consensus and more vision from the leaders and people of the region to build trust and cooperation among them. The process of East Asian Cooperation is far from being the same as that of European integration. Compared with the legally binding European integration, East Asian cooperation presents a different approach called the "Asian way,"<sup>4</sup> and different characteristics which can be summarized as follows.<sup>5</sup>

- **Small Actors Led:** Among 10 ASEAN countries and three Northeast Asian countries, China, Japan and South Korea, ASEAN has been taking a lead since the very beginning of the process. Her leading role has been supported by all participating countries, and all agreed the ASEAN is the core for the success of East Asian cooperation. In the process, every country, big or small, rich or poor, is equally respected

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<sup>4</sup> Amitav Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and The Problem of Regional Order* (London and NY: Routledge, 2001).

<sup>5</sup> Qin Yaqing and Wei Ling, "Structure, Process and Socialization of Power: China and East Asian Cooperation," *World Economy and Politics*, No. 3 (2007).

and has an equal say.

- **Socially Interacted:** Social trust building has been enhanced by the close interactions among people and gradually norms are shared by all actors. The most important consensus NEAT members have reached is on the emerging East Asian identity. Ambassador Wu Jianmin summarized it as 5 "C"s plus 1 "O," that is, cooperation, consultation, consensus, closeness, comfort level and openness or open regionalism. These distinctive characters have enabled East Asian cooperation to fulfill today's achievements and they will continue to strengthen identity awareness in their future development of East Asian cooperation and in the pursuit of an East Asian community.
- **Process Focused:** East Asian cooperation is still in an initial stage, but the process has begun. Even though people involved in the process are more concerned about and sensitive to the sovereignties, and attach great importance to the comfort level, the consensus building in East Asia is much more important than making a decision. Someone criticized the ASEAN way and dismissed it as useless and a talk show. The process, however, can produce fruitful results, especially in the way of trust and identity building.

The epistemic community matters more in East Asia since this region is facing greater challenges. Three of them need to be highlighted. First, East Asia is undergoing a power transition. That does not necessarily mean the East Asian countries are going to have conflict, but it is for sure that there will be uncertainty which might cause tensions and suspicions. Second, a Cold War legacy is, to some extent, still haunting Northeast Asia. Even though each country focuses on their respective economic development and the economic relationship is becoming more and more interdependent, traditional security concerns still attract much attention in this area. Third, the rise of nationalism is an obvious phenomenon here in the region. Nationalism is needed for nation-building, but it can go too far to be good for regional integration. How to maintain a balance between nationalism and internationalism is still a problem facing the East Asian countries. So a lot of work needs to be done to bring cooperation in East Asia and also to make more room for the epistemic community to function.



In order to have all these challenges manageable, NEAT as an epistemic community can help stimulate the integration process by facilitating functional cooperation, cultivating coordination habits, bridging differences and building trust among countries. So NEAT is aiming very clearly at four objectives:

- Enhance the exchanges among academic institutions in the region to share information and resources;
- Attach great importance to the study of potential problems and risks we may encounter in community building;
- Strengthen the interaction among governments, business, academia and the general public;
- Be open and carry out exchanges with institutions of other regions and learn from their experiences.

*Forming an Agenda for an Epistemic  
Community in East Asia:  
A View from Moscow*

**Gennady Chufirin**

The currently debated proposal for establishing an epistemic community in East Asia is motivated by various reasons and necessities. One of them is connected with the need to mobilize intellectual efforts undertaken at a national level in regional countries to address in a focused way most important political, security or economic problems facing East Asia. Lately Russia started to participate more vigorously in the regional political and economic life of East Asia after largely overcoming severe domestic problems it experienced in the 1990s following the breakup of the Soviet Union. Russia's national interests are influenced in this part of the world to a very large extent by an urgent need to develop Siberia and the Russian Far East at a fast rate in the coming decades. For this Russia needs a peaceful international environment and close cooperation with regional countries on a wide range of issues.

With these goals as the basis of its policy in East Asia, Russia is strongly interested in resolving existing conflicts here and in minimizing its security risks. Therefore it is prepared to actively participate in regional efforts, both in the official and Track II formats, aimed at creating and maintaining an atmosphere of cooperation, peace and stability in the region and at resolving outstanding political and economic issues.

There are a number of extremely important and challenging issues in the region that require an in-depth analysis in the form of a continuing dialogue between interested parties. Such a dialogue may be conducted at an official level but it may, and in fact should, be supplemented by similar efforts at an academic level. Among those issues of regional and global importance that require such a double track analysis on a priority basis one may mention the North Korean nuclear issue or formation of an East Asian Community or unification of Korea. The need for such a dialogue, be it an official or an academic one, is particularly important since views existing in various regional countries on the above issues may be not only divergent but even contradictory. From Russia's perception taking part in think-tank networks in East Asia may help not only to clarify those differences and contradictions but also contribute to their effective resolution.

Taking the problem of unification of Korea as one of the most challenging issues in international relations, one may be reminded that during the last half century two great nations that were divided for several decades — the Vietnamese and the Germans — managed to overcome that division successfully. But if for Vietnam national reunification came only at the end of a bloody war, the Germans succeeded in a peaceful unification. Needless to say that it is the second option that is clearly preferable both for the Korean nation to resolve its division as well as for the outside world.

The on-going Six-Party Talks on the North Korean nuclear issue is probably the best instrument now for the international community to resolve existing problems on and around the Korean peninsula by political means. Progress achieved at these talks may not only create solid conditions for lasting peace and stability on the Korean peninsula but also improve prospects of Korean unification and outline concrete steps that may contribute to the success of this process.

However sometimes questions are raised if outside powers and especially immediate neighbors of the DPRK and the Republic of Korea are indeed sincerely interested in their eventual unification and in what particular manner. Might the consequences of Korean unification become even more embarrassing to the outside world than the present

situation? After all, the result of that unification will be a large, economically strong and militarily powerful nation that may demand a different and much more active role in international relations, especially in Northeast Asia, than either or even both of the Korean states play now on a separate basis.

Such questions seem to be rather premature judging from the present state of the Korean unification process. It is significant, however, that they are raised already in various publications and public statements which means that the issue of unification of Korea in the eyes of the international community is becoming more real than at any time during the last half century. They should be addressed therefore quite objectively and seriously.

Of course, the prospects for Korean unification rest above all with the two Korean states, while the inter-Korean dialogue seems to be the best possible method of bringing closer the long coveted goal of national reconciliation of the Korean people. Therefore a dialogue between Seoul and Pyongyang should be supported even though the dialogue itself is often interrupted and subjected to contradictory trends and developments. This does not mean to deny the role of outside powers in promoting this process, but any outside interference in the problem should be left to a minimum.

There seem to be different scenarios according to which the unification of Korea may be realized. Thus some experts strongly advocate the already mentioned German unification experience while addressing the Korean realities. However one should keep in mind that the merits of that experience are far from being absolute if only because the German unification served as a prologue to the NATO eastward expansion which in turn challenged Russia's security interests. It happened because international terms of this unification were never properly codified and Russia's national security interests remained, as a consequence, legally unprotected. It is essential therefore that in the case of Korean unification, while building up on the positive aspects of the German unification (its peaceful character), its negative ones should be avoided and national security interests of all the parties involved in the process should be addressed in a balanced way. If this is not done, then

international tensions in Northeast Asia will remain and even grow.

One comes to this conclusion after comparing views existing in the USA or Japan or China or Russia on the issue of unification of Korea, which appear to be highly divergent and even conflicting, reflecting different perceptions and security apprehensions existing in these countries.

Thus in the opinion expressed by a number of US analysts, the most preferable scenario of Korean unification for the USA would be a political and economic collapse of the DPRK followed by an incorporation of North Korea into the ROK. In that case the USA would expect the new Korean state to retain basically a pro-US orientation in its foreign and security affairs. Consequently the network of political and security arrangements now governing the US relations with the ROK would likely remain largely intact and cover future US-unified Korea relations.

However, such a unification scenario seems to be hardly acceptable for China. First, Beijing does not want the collapse of North Korea as a buffer state separating China from having a US military presence on its own borders. Second, the possible collapse of North Korea as a sovereign state may force many thousands of its citizens and their families to try to cross the border with China, thereby creating a large-scale humanitarian problem on Chinese territory. Third, anticipating an imminent standoff with the US in East Asia over a range of problems, including the future of Taiwan, China does not want to strengthen US positions there by letting down its own ally. Therefore China seems to prefer the preservation of the status quo, at least for some time

Existing views in Japan towards prospects of Korean unification appear to be highly contradictory. On the one hand Japan would welcome a collapse of the DPRK. On the other Japan fears that the emergence of a unified Korea may give birth to a state whose policy will be influenced by strong nationalism having anti-Japanese overtones and thus may change the existing regional situation to Japan's disadvantage.

Russia as one of the closest neighbors to the Korean peninsula also cannot be indifferent to the way Korean unification may be carried out. The Korean peninsula is located in an area which is vitally important

for Russia's own security — political, military and economic. These geopolitical considerations presuppose the necessity of active efforts by Russia in this part of the world including steps helping to promote the process of political and economic interaction and cooperation between the Korean states. In its stand on Korean affairs Russia pursues the goal of maintaining a stable and predictable situation on the peninsula.

For this purpose Russia has strived lately to conduct a policy of partnership with both Korean states. The previous one-sided approach towards Korean affairs when Moscow alternatively supported first the DPRK (during the Soviet times) and then the ROK (in the 1990s) limited its ability to assist with an inter-Korean dialogue and the processes of cooperation on the peninsula.

Being in favor of Korean unification, Russia sees it as a gradual process passing through a number of successive stages that are agreed upon in the course of a constructive political dialogue between the two Korean states.

In Russia's view a growing economic cooperation between the ROK and the DPRK may contribute significantly to political stabilization on the Korean peninsula. Also progress in economic relations between the two Korean states may strongly assist their political rapprochement, help to end a long period of hostile relationship between them and eventually create appropriate conditions for their peaceful unification.

From Russia's perspective progress in North-South economic cooperation will help to de-escalate international tensions in the area close to Russian national borders. Also improvement in the economic climate on the Korean peninsula will facilitate implementation of such projects that are potentially attractive for Russia too. Among them is the Trans-Siberia — Trans-Korea railway project (TSR-TKR) which, when realized, will result in clear economic advantages for all of its participants including Russia. Other large-scale multi-lateral economic projects involving both Korean states and Russia may include laying of transnational gas pipelines either from Sakhalin to the Korean peninsula across the Maritime province of Russia or from the Kovytkino gas field across territories of China and North Korea to South Korea.

Along with efforts taken by the Russian government and aimed at

maintaining peace and stability on the peninsula as well as at helping both Korean states to overcome major mutual differences and move towards national unification, an important role in analyzing these issues and in working out possible scenarios of achieving these goals belongs to the Russian academic community. The central role in this community belongs, in its turn, to the Russian Academy of Sciences and such institutions as IMEMO, Institute of the Far East or Institute of Oriental Studies. The majority of Russian scholars specializing in Korean studies are concentrated in these research centers where they research Korean history, culture, language, traditions as well conduct studies of modern political, security and economic issues on and around the Korean peninsula in a systematic way and on a regular basis. Their efforts are supplemented by Korean studies carried out in a number of Russian universities — in Moscow, St. Petersburg, Vladivostok and elsewhere.

Along with purely academic tasks scholars in these academic and university research centers address pragmatic issues related to Russia's relations with the two Korean states as well as the international situation in the area. Obviously the issue of Korean unification and alternative scenarios of its possible implementation take a prominent place in their studies.

In the opinion prevailing among Russian scholars and analysts dealing with the Korean situation, eventual unification of Korea should be considered as a welcome development since it will put an end to the longest international conflict in post World War II history. This conclusion was formulated by a group of prominent Russian academic experts who published in 2003 a major research paper on inter-Korean relations which clearly stated that Russia "is interested in a united Korea as a peaceful, democratic state, playing an independent role in international relations." Such views are shared also by many other scholars from IMEMO, Moscow State University, and the Moscow State Institute of International Relations (MGIMO) under the Ministry of Foreign Affairs, etc.

In their opinion, however, until the North Korean nuclear problem is finally and satisfactorily resolved, any large-scale economic coopera-

tion with North Korea, especially on a multi-lateral level, will experience significant difficulties. Any sizeable progress in the political rapprochement between the DPRK and the ROK will also depend on a sustainable agreement on the nuclear issue.

Under these circumstances it would be crucial to continue a search for concrete ways and methods of resolving these all-important issues not only at the national academic/university level but also in cooperation with scholars from similar research centers in the ROK, the USA, China, Japan and elsewhere. Needless to say, the involvement of North Korean political scientists in this process would be highly desirable. In other words, the issue of Korean unification may be among the principal ones helping to form the agenda of an epistemic community in East Asia.



## *Think Tank Networks and Forming an Epistemic Community in East Asia: A Japanese Perspective*

**Tadashi Yamamoto**

The Japan Center for International Exchange (JCIE) was established in 1970 as one of very few truly nonprofit and non-governmental institutions in Japan in the international affairs field. It was generally perceived around that time that Japan, as an emerging advanced industrialized nation, should take greater international responsibility, commensurate with its economic power. Those who were involved in launching this new organization believed that it was essential for Japan to promote stronger international cooperation — buttressed by intensive and substantive international exchange and dialogue efforts — if it was to play any significant international and regional role. In turn, they also believed that developing a network among fledgling research institutions in Japan and throughout the Asia Pacific region as well as in the global context would be indispensable. On the other hand, there had been growing interest among political and intellectual leaders in the United States and Europe in engaging Japan in the joint task of managing the international relationship. JCIE was approached by David Rockefeller, Zbigniew Brzezinski, and others to serve as the Japanese secretariat to a newly proposed international organization, the Trilateral Commission, which was to foster closer cooperation among the three advanced industrial regions with shared leadership responsibilities in the wider international system. The North

American and European groups of the commission included many representatives of major think tanks, and its task force activities involved policy experts from these think tanks. Japan was suddenly thrust into the network of think tanks without much preparation.

Faced with such an enormous challenge, what JCIE did was to launch a major research project with encouragement and funding from the National Institute for Research Advancement (NIRA) from 1986 to 1987 on the "Role of Private Institutions in International Affairs." The project was designed to help Japan learn from the experience of the United States and Europe, and it put a major focus on looking at lessons from trans-Atlantic relations. JCIE, which regarded contributing to the construction of an Asia Pacific regional community as its priority task, felt that there was a great deal to learn from the experience of networks among policy research and dialogue institutions to build and sustain the alliance relationship between the United States and Europe. They included prominent conferences and institutions such as the Bilderberg Conference series, the Atlantic Institute, and the Ditchley Foundation.

Around the time JCIE was established in 1970 — and then quickly moved onto the task of promoting regional cooperation among policy research institutions — there were significant other initiatives aimed at developing similar regional cooperative activities by other institutions and intellectual leaders. They have played a catalytic role in creating the regional organizations in the policy research field.

In the security field, CSIS-Jakarta, for example, working with research institutions in other ASEAN countries, contributed to the creation of ASEAN-ISIS in 1988, which in turn led to the creation of the Council for Security Cooperation in Asia Pacific (CSCAP) in 1993 through cooperation among five ASEAN policy research institutions. Similarly, it was at a meeting of ASEAN-ISIS that the concept of the ASEAN Regional Forum (ARF) was first introduced, which was later formally adapted by the ASEAN governments. In 1994, the ARF was launched as a forum for government-level talks on a new framework for the security of the entire Asia Pacific region.

On the economic side, those policy-oriented economists associated

with the Pacific Trade and Development (PAFTAD) forum, created in 1968 as a forum for economists and researchers associated with research institutions within the region, have played important roles in the creation of the quasi-official Pacific Economic Cooperation Council (PECC) and the intergovernmental Asia Pacific Economic Cooperation (APEC) forum. The PECC, established in 1980, has committees representing more than 20 Asia Pacific economies and has created numerous forums and working groups, generally associated with one or more think tanks and educational institutions in the region. APEC can be regarded as a set of networking activities, often involving nongovernmental experts and institutions. These APEC-related institutions include the Pacific Eminent Persons Group (EPG), the Pacific Business Forum (PBF), the APEC Study Centers, and the Human Resource Development (HRD) networks.

Given the theme of the 4th Jeju Peace Forum, which emphasizes exploring European experiences, in addition to the reference made to JCIE's project on "the Role of Private Institutions in International Affairs" — which was designed to learn from the Atlantic relationship — brief mention should be made of a few Europe-related projects with which JCIE has been associated. The Europe-Japan Conference, nicknamed "the Hakone Conference" after the venue of the first meeting in 1975, was launched by JCIE in close cooperation with several European policy research institutions — including the Royal Institute of International Affairs (Chatham House), the French Institute of International Relations (IFRI), the Research Institute of the German Society for Foreign Affairs (GDAP), and others — in order to correct the imbalance of the trilateral relationship in which Japan's relations with Europe were singularly weak and lopsided as compared with the Atlantic relationship and the US-Japan relationship. The conference series has been held fifteen times — from 1975 to 1995 — and involved many representatives of European research institutions and other intellectual and political leaders, contributing substantially to the creation of the intellectual network between Europe and Japan. More recently, the Council for Asia-Europe Cooperation (CAEC) was created as a response to a request made at the first Asia-Europe Meeting (ASEM) in March 1996

and consists of six think tanks in the Asia Pacific region and six in Europe.

It is difficult to go into a substantive analysis of the challenges to and opportunities for further promoting regional networks of think tanks in the Asia Pacific region in this limited space, but there are a few major issues that should be mentioned to conclude this brief paper. One of the major challenges for most of the think tanks in this region is maintaining their autonomy to enable them to undertake objective joint policy analysis and dialogue. Another related challenge is having a strong enough financial base to sustain their nongovernmental nature. Thirdly, these think tanks have to develop policy expertise in order to be able to provide policy advice to the governments and to stimulate the policy debate on the public level, including that on the growing civil society sectors.

Lastly, it would be appropriate to end this paper with a quote from a speech made by then Foreign Minister Yohei Kono in July 1995 just before he left for the ASEAN Regional Forum and the ASEAN Post Ministerial Conference in Brunei: "Further enhancing the sense of community in the Asia-Pacific region demands promoting exchanges and dialogue in all spheres of life throughout the region, and it is especially important to support intellectual exchanges among researchers and research institutions." This was accompanied by his proposal to ask the leading exchange organizations in the region "to discuss an agenda for promoting intra-regional joint research and dialogue for the region's development, help these organizations establish a network, carry out joint research projects, and train young researchers." This proposal led to the creation of the Asia Pacific Agenda Project, which has been undertaking efforts such as those described in Mr. Kono's speech.

**PART  
VII**

*Energy Cooperation in Northeast Asia*

Russia's Energy Strategy in Northeast Asia

Energy in Sino-American Relations:  
Putting Mutual Anxiety in Context

Prospects for Sino-Japanese Energy Relations:  
Competition or Symbiosis?



## *Russia's Energy Strategy in Northeast Asia*

Igor Tomberg

*Power aspects in the foreign policy of Russia have recently occupied a dominating role. All it means is that the energy factor is the most powerful in negotiations with other countries. To keep high export incomes and influence in world politics, Russia should urgently reorient oil and gas export from Europe to Asia. This process will take time, but as a result will allow Russia to lower the intensity in its relations with the European countries and to become closer with the neighbors in the east, first of all, China and India. Taking into account Russia's dominant position in supplying energy resources to Europe, this bid for leadership in the Asian Pacific region is an attempt to broaden the window of opportunity, which emerges due to the oil importers' progressing concern about the stability of supplies from the traditional sources (the Middle East and Africa). Obviously, this is Russia's attempt to convert its energy potential into political influence. Official installation - in the near future up to 30 % of Russian oil and gas exports will go in the eastern direction. As it has been declared recently, after the start of an oil pipeline Eastern Siberia-Pacific Ocean (ESPO) with full capacity Russia's share in the Asia Pacific oil market can reach 6-6.5 %. Besides, energy breakthrough in the APR has obvious in-Russian preconditions. Integration and preservation of unity of economic space of the country are forming fundamentals of territorial integrity, creating at the same time the infrastructure of energy expansion to the eastern direction.*

### **Russia Changes Its Global Positioning**

**R**ussia finds itself in a unique position — it is the only major oil producing country which now has a chance to become a central, influential, and independent element of the new global oil

market composition. However, this will not happen automatically. A great deal of work has to be done to reform not only the fuel and energy complex, but the entire economic structure of the country. Hence the importance of elaborating on state policies aiming to raise qualitatively the economic benefits from Russia's presence in the international energy markets. This is not so much about a substantial increase in the revenues from the energy exports resulting from their higher physical volume. These days, the issue is that Russia may get a new and stronger geopolitical position thanks to the expansion of its presence in the global energy space.

As early as 2003 Russian President V. Putin essentially positioned Russia as the prime guarantor of the Asian Pacific region's energy security at the Summit of the Asian Pacific Economic Collaboration in Bangkok. In 2005 on the eve of the APEC summit in Pusan (Korea) the President of Russia pointed out the main strategic directions of cooperation with this region: "We take a very serious and responsible attitude toward the areas of our common activities, such as energy and transport. Because of its geographic position and resource potential — not only raw materials but also technological and intellectual ones — Russia is prepared to play a key role in the formation of a new transport and energy architecture in the APR. Naturally, we are prepared to do that together with our partners, employing their potential, including investments."<sup>1</sup>

Now as the main result of Russia's presiding over the G8, Moscow emphasizes the special role of the Russian fuel and energy complex in global energy stability. Taking into account Russia's dominant position in supplying energy resources to Europe, this bid for leadership in the Asian Pacific region is an attempt to broaden the window of opportunity, which emerges due to the oil importers' growing concern about the stability of supplies from the traditional sources (the Middle East and Africa). Obviously, this is Russia's attempt to convert its energy potential into political influence. This potential is substantial and it is grow-

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<sup>1</sup> President of the Russian Federation Vladimir Putin, "Russia-APEC: Broad Horizons of Cooperation," (November 17, 2005) in *APEC-countries*.



ing. Over 34% of the natural gas and about 13% of the proven world oil reserves are concentrated on 13% of the world's territory inhabited by less than 3% of its population.

Russia is the global natural gas trade leader and now the world's #1 oil (and oil products) exporter. As a result of the analysis of the leading international energy organizations, including CERA and IEA, those materials and its own research, the Russian government came to the conclusion that in the forthcoming decades the energy security situation will be determined by the following two key factors. First, the world economy will require more and more energy for its sustainable development. The growth of demand for energy in developing countries to 2030 will account for over 70% (China alone – 30%). Second, in the period to 2030 fossil fuels will still dominate the structure of the world energy balance.

Speaking about the place of Russia in the world market of oil and petroleum products, the picture is as follows. Current estimates show that by 2015 oil production in Russia can reach 530 million tons, and its export — 310 million tons. Throughout this period of time, the West Siberian oil and gas bearing province will remain the country's main oil base. At the same time new oil industry centers will be created in Eastern Siberia and the Sakha Republic (Yakutia) producing up to 50 million tons in 2015, on the Sakhalin shelf (25-26 million tons), in the Barents Sea and in the Russian sector of the Caspian Sea. Oil production in the Timano-Pecherskaya province will increase.<sup>2</sup>

The Russian government considers the development of the significant hydrocarbon potential of the region to be essential according to objective criteria. The following factors predetermine the geo-economic and geopolitical necessity of developing the energy sector of East Siberia and the Far East.<sup>3</sup>

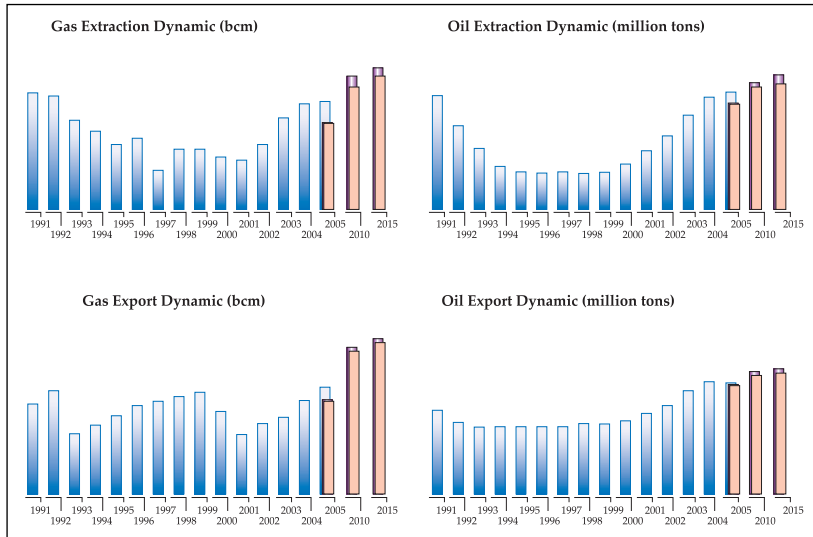
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<sup>2</sup> Viktor Khristenko, Russian Minister of Industry and Energy, "Prospects of development and use of the systems of transportation of hydrocarbons and products of their processing." Remarks at a meeting of the Government Commission on the Fuel and Energy Complex (September 2006), <http://www.minprom.gov.ru/eng/appearance/36>.

<sup>3</sup> Nodari Simonia, "Russian energy policy in East Siberia and the Far East – The

Given the expected rate of growth of this market, the targets set by the Energy Strategy of diversifying export shipments and an insignificant increase in the volume of transit (from 24 million tons to 29 million tons) the volume of oil supplies to the European market will remain stable (235 million tons) and oil shipments to the Asia Pacific countries will increase to 80 million tons and to the US to 12 million tons, which would assure for Russian export oil a share of over 20% in the end consumption in Europe, more than 5% in the PRC and about 1.0% in the US.<sup>4</sup>

<Figure 1> Oil and Gas Extraction & Export Dynamic 1991-2015



Given the trends in the development of the world gas market and Russia's possible place in that market and the strategic decision to diversify export shipments, the structure of Russian gas export will be fundamentally changed: due to the development of resources in the

Energy Dimension in Russian Global Strategy," The James A. Baker III Institute for Public Policy of Rice University (2004).

<sup>4</sup> Viktor Khristenko, Russian Minister of Industry and Energy, speech at the 23rd World Gas Congress in Amsterdam (May 2006).

Eastern part of Russia (Sakhalin-1 and -2) as well as the Shtokman field, the share of liquified natural gas delivered to the APR markets and to the east coast of the US will reach 61 billion cubic meters (22% of the total exports); along the western route to China (Altai project) 30 billion cubic meters will be shipped (11%).<sup>5</sup>

<Figure 2> Regional Structure of Russian Gas Export



The Program of creating the uniform system of gas extraction, transportation and supply in Eastern Siberia and in the Far East with an eye to possible export of gas to markets in China and other Asia-Pacific countries is nearing the design stage. The total capital investments in geological prospecting, extraction, processing and helium storage and gas transportation across Russian territory are variously estimated at \$27 – 59 billion.

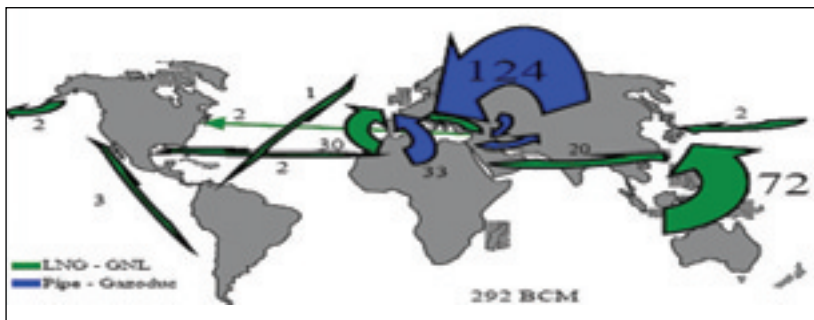
At present it is particularly important to have a complex and systematic approach to the design and implementation of the projects of the exploration, development, production, and transportation of ener-

<sup>5</sup> Oil and gas Industry, 13.03.2007

gy resources. This approach must reflect the priorities and concepts of the Russian Energy Strategy. In particular, such an approach materializes in the Program of the creation of a unified system of gas production, transportation, and supply in Eastern Siberia and the Far East including the potential for exports to the markets of China and other Asian Pacific countries. It is also employed in the construction of the East Siberia-Pacific Ocean oil pipeline network, which is related to the Program of exploring and leasing the East Siberian and Far Eastern hydrocarbon deposits.

The substantial available and potential resources of natural gas in Eastern Siberia and the Far East make it possible to create new gas production centers in this region both to serve the domestic needs and to export gas eastward. It is expected that the gas production in this region can increase by over 10 times by 2015 and by 15 times by 2020 compared with the current level. Russia's joining the list of the oil production leaders is of an independent geopolitical significance. This makes the strategic decision of the Government on the development of the energy infrastructure an integrated feature of the general strategy of the social and economic development of Russia.

<Figure 3> Interregional Trade 2000



Source: IGU

Russia's geographic position determines its special role in the transit of the energy resources in the Eurasian continent, making it possible to form the most efficient energy infrastructure not only in the "east-

west," but also in the "south-north" direction. This feature of the energy resources potential of Russia is of an exceptional significance for the entire global economy.

The problem of new directions of the export of energy resources is directly related to the task of strengthening Russia's position as a leading oil power. The key fact is that the powerful network of oil and gas pipelines, which was created back in the USSR times, is inconsistent with the picture of today's hydrocarbon market. The migration of the production and consumption centers brings up new requirements for fuel logistics. Whereas the oil pipeline infrastructure in the western and southwestern directions is gradually becoming excessive, its shortage in the Russian East has evolved into the major cause of the East Siberian resources' being developed all too slowly.

According to the available estimates, about 54% of the minable oil resources in Russia are found in Western Siberia, and 20% on the shelf. Eastern Siberia ranks third with some 14% of Russian oil resources. This makes about 10 billion tons of minable oil. In terms of gas, the picture is somewhat more uniform despite the unique resources in Western Siberia. First, the Russian shelf, particularly the Arctic shelf is uniquely rich with gas. The very first explorations in the Kara and Barents seas revealed three extremely large deposits at once. The share of Western Siberia is slightly over 40%. The shelves account for approximately 30%. About 20%, or over 40 trillion cubic meters, are found in Eastern Siberia, Yakutia, and Sakhalin.

However, the extraction and use of these extensive resources require massive investments. According to the calculations of the Oil and Gas Geology Institute of the Siberian Division of the Russian Academy of Science, about \$26.5 billion must be invested in exploration in Western Siberia. At least \$14.5 billion have to be invested in order to produce 80 million tons of oil till 2030 in Eastern Siberia. As for the Sakhalin shelf — the corresponding amount makes \$2.8 — 3 billion. Siberian experts estimate that, assuming the oil cost to be \$26 per barrel, this is just 2% of the cost of the oil sold (that is much less than oil companies normally spend). Therefore the exploration promises to be highly effective and can attract serious investors. The problem is that

these investors are yet to be attracted. So far, according to the existing plans, the investments in the region in 2005-2007 totaled about \$1-1.5 billion.<sup>6</sup>

### **Diversification of Markets: A Strategic Maneuver**

If Russia is destined to rely on the export of raw commodities as the basis of its competitive potential, it should minimize the risk of becoming a mere raw commodities provider for the global economy. The only way to counter the dependence of the Russian economy on export revenue is a diversification of markets. It is impossible to influence the global oil market transporting oil in just one direction. At present 95% of the entire hydrocarbon export goes to Europe. This situation may entail serious risks. For example, there is a risk of losing a part of the market. The hydrocarbon consumption growth in Europe is not as fast as in the world on a whole. Besides, last year the EU adopted norms concerning the diversification of the fuel supply sources. The political risks of exporting via the territories of other countries are also high (the Bosphorus problem being just one example).

Finally, the "immigrant rebellion" in France in November 2005 and the peril of its spreading to other countries demonstrate the internal instability of the European Union. Analysts warn that the movement of Muslims to European cities will continue. The result will be a decline of economic activity and the Euro exchange rate, as well as a slash of fuel imports. The factor of the overall instability of Europe will combine with the problems of prices, quotas, and safety. This will aggravate substantially the negative aspects of the dependence of Russian hydrocarbon exports to the European market.

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<sup>6</sup> Formation of the East Siberian oil and gas complex and creation in east regions of the country's powerful energy and industrial centers - a strategic problem of economic development of Russia and strengthening of its Euroasian position. Proceedings of the Committee of Commercial and Industrial Chamber of the Russian Federation on power strategy and thermal power station development (May 2005).

Since the crisis of the European trend of Russian oil exports is obvious, overcoming Europe's monopsony in the area of energy export becomes an important factor of the Kremlin's foreign economic strategy. During his September 2005 visit to Germany President V. Putin said that Russia intends, plans, and will start shortly to construct the oil and gas pipeline networks in the eastern direction — towards the Pacific Ocean. The speed of implementing our projects will be chosen depending on how our agreements with our European partners are fulfilled. In other words, the less flexible the Europeans are in their political interaction with Russia, the faster a redistribution of the hydrocarbon transportation flows proceeds.

The second most important market after Europe, whose degree of influence will increase, is the market of the Asian Pacific region. The political decision was formulated by RF President V. Putin: the share of Asia's Russian oil exports will increase from today's 3 % to 30 % in 2020 (i.e. 100 million tons growth in absolute volume) and natural gas exports — from about 5 % to 25 % (growth to 65 billion M<sup>3</sup>).<sup>7</sup>

**<Table 1> Russian Hydrocarbon Exports, in million tons/% of Production**

	2000		2010		2020	
	Russia Total	Asian Part	Russia Total	Asian Part	Russia Total	Asian Part
Export	303	3.4	505-525	30-45	500-570	80-155
– total	38.3	0.5	50	3-5	47-48	9-16
of which	148	3.4	300-310	20-30	300-330	50-105
– oil	45.7	1.5	60	5-8	60-61	12-25
– gas	155	–	205-215	10-15	200-240	30-50
	33.2		37-38	2-3	35-36	6-9

Source: Energy Research Institute of Russian Academy of Sciences

The enormous efforts to improve the transportation infrastructure of Russian energy exports and the pipeline “Eastern maneuver” are integrated into a more general Phenomenon, which can be termed as

<sup>7</sup> Opec.ru, 19.05.2007.

the turn of the Russian strategy towards the East. Besides the problems of export diversification and new markets development, energy breakthrough to PR has an obvious in-Russian underlying reason. According to Russian analysts, today the main internal threat is the present condition of the east part of the country — Eastern Siberia and the Far East. The region's economy is in deep crisis, depopulation and deindustrialization processes increase, and the standards of living decrease. Today the question of the country's unity is extremely real, and in terms of integration and preservation of the unity of the economic space of the country, association in an economic and industrial complex of enormous territories increases more sharply. Base signs of such integration are a uniform communication system, electricity transmission, iron and highways and pipelines. In the case of pipelines as well as industrial complexes accompanying them, which actually are lacking, that damages the integrity and stability of all systems of infrastructural support of territorial integrity.

In this situation, plans in the energy sphere, such as the program of development of Eastern Siberia and the Far East (including the Sakhalin projects) and the project of the East oil pipeline which will connect Siberia with the Pacific coast, become factors for lifting the economy of the east part of Russia. The infrastructure in this case becomes the tool of development of the industry, giving a push to the development of deposits. In its central points there are manufacturers of raw materials processing and there are industrial centers.

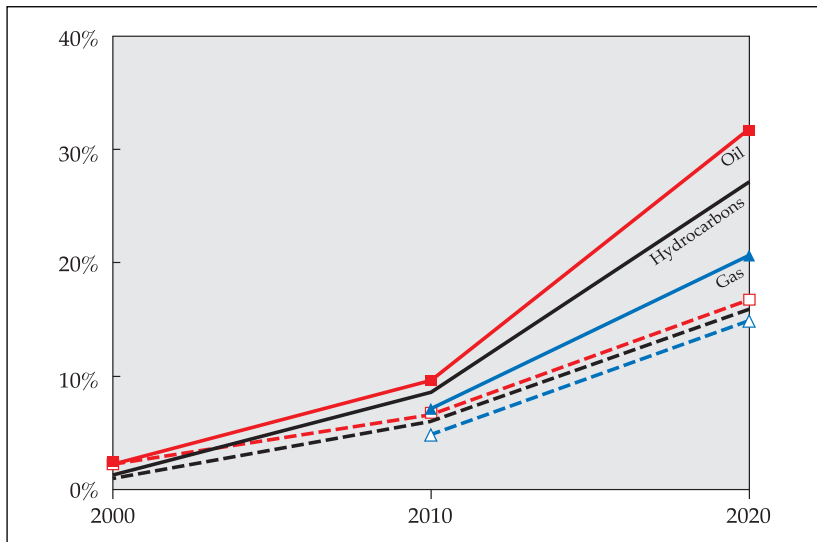
Step forward in the strategy of development of the region: development of gas and a petroleum industry here assume not only traditional use of hydrocarbons as fuel, but also the creation of a new base of oil and gas processing and a petrochemical industry. In particular, at the moment the civil-engineering design of new refineries at the destination point of the pipeline system in Eastern Siberia-Pacific Ocean is being actively discussed. Development of a power infrastructure, thus, is urged to serve simultaneously and as an entry of Russia into the Asia Pacific fuel and energy markets, and to regional development of Siberia and the Far East.

According to Russian analysts, the problem of the unity and the ter-



territorial integrity of Russia in the 21st century will be resolved in the East. It is of vital importance to perform a "double integration" of Siberia and the Far East, keeping them as a part of the Russian territory and at the same time turning them into a constituent of the dynamically developing Northeast Asia region. For Russia to be taken seriously in the world, everything must be done to make the enormous potential of the TransUral area work. The major geopolitical background of these processes is the rapid growth of the power of China and India. Therefore, Russia should pay no less attention to these countries, than to Europe and the US. In 2006 when President V. Putin received the G8 leaders in his hometown of Saint Petersburg, Chinese and Indian leaders were special guests of the summit. This is a real chance for Russia to return to the international stage as one of the forces determining global developments.<sup>8</sup>

<Figure 4> The Share of APR Countries in Russian Hydrocarbon Export



Source: Energy Research Institute of Russian Academy of Sciences

<sup>8</sup> Igor Tomberg, "Geopolitics of Pipeline Communications in Eurasia," *World Affairs*, Vol. 10, No. 1 (2006).

## **Asia Pacific Energy Markets: Outstanding Potential Versus Visible Risks**

Power aspects in the foreign policy of Russia have occupied recently a dominating role. All it means is that the power factor is the most strong in negotiations of Russia with other countries. To keep high export incomes and influence in world politics, Russia should urgently reorient oil exports from Europe to Asia. This process will take not just one year, but as a result will allow Russia to lower the intensity of relations with European countries and to approach its neighbors in the east, first of all, China and India.

Official installation — in the next years up to 30 % of Russian oil and gas exports will go, unlike at present, in an easterly direction. Besides, as it has been declared recently, after the start of an oil pipeline Eastern Siberia-Pacific Ocean (ESPO) at full capacity Russia's share in the Asian-Pacific market of oil can reach 6-6.5 %.<sup>9</sup>

The Asian Pacific countries purchased over a billion tons of oil in 2003. The increase of demand from the new leaders — China and India — plays a progressively more important role in the transformation of the global oil market. So, in 2004 China's share in the increase in global oil demand was 30%. According to some estimates based on the GDP growth data for the region, by 2020 the oil consumption there will be at least doubled, and by 2030 its level will reach 2.3-2.4 billion tons annually. Its increase in South Korea will be 1.5 times at most, and even less in Japan (furthermore, it may happen that the oil consumption in Japan will actually shrink thanks to the use of novel technologies).

The economy of the People's Republic of China, whose growth rate in 2006 was 10.7 %, demands more and more fuel. China's domestic reserves are getting depleted rapidly — hence the rising significance of oil imports. In 2003 China imported more than Japan and became the second largest oil importer. Oil consumption in China grew by 9.3 % in 2006 due to the high economy growth rate. In 2006 China imported 162.87 million tons of oil making up 47 % of its consumption.<sup>10</sup> The

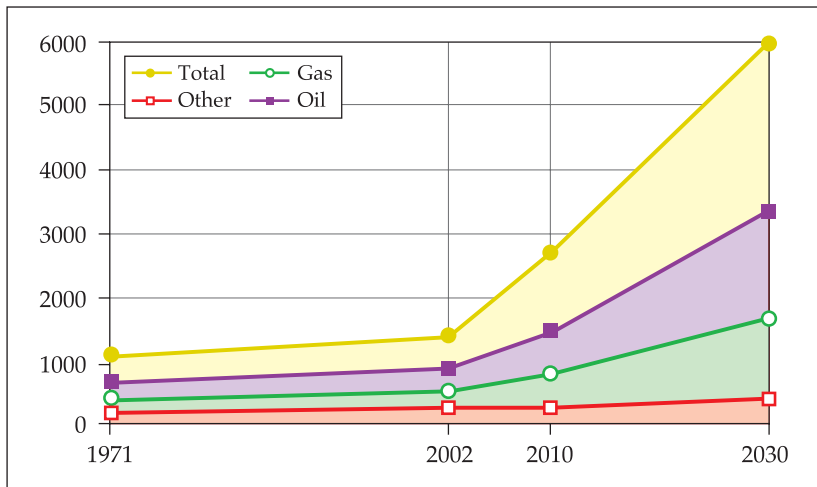
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<sup>9</sup> Priorities of the "Oriental policy," Oil and gas industry, 13.03.2007

experts of CNPC — the leading oil and gas corporation — forecast that by 2010 oil imports will increase to 200 million tons and will be 50 % of total consumption, and by 2020 it will reach 240-300 million tons a year.<sup>11</sup>

<Figure 5> Primary Energy Demand in China

(Million tonnes oil equiv)



Source: IEA

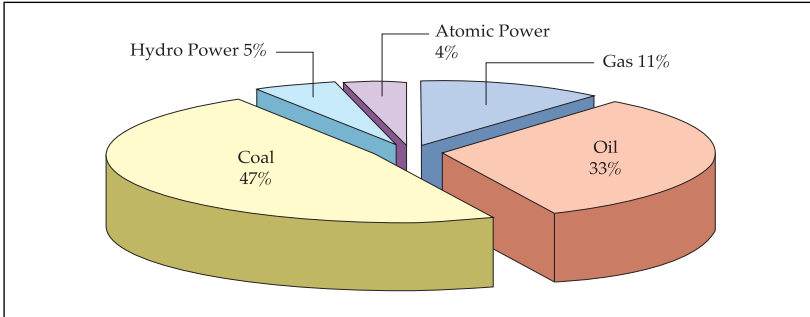
The oil demand in India rises by 10% every year. The total Asian share of global oil consumption increased 90%. Up to 2010 the consumption of gas in the Asian Pacific region can reach 770-820 billion cubic meters. The share of China, Japan, and South Korea is 340-390 bcm. The government of China expects an increase in internal demand for natural gas to 100 billion cubic meters a year<sup>12</sup> (12). Now the share of natural gas as fuel in China is 2 %; within the next five years this % can increase to 10 %.

<sup>10</sup> China's Ministry of Commerce, 14.05.07 <http://www.k2kapital.com/news/er/172329.html>.

<sup>11</sup> *China Energy Statistical Yearbook*, 2006.

<sup>12</sup> 中石化集团与中海油集团签署天然气合作框架协议, "Sinopec and CNOOC have signed cooperation agreements in the field of natural gas," Xinhua (May 2007)

&lt;Figure 6&gt; Asia Pacific Region



Source: Accounts of Institute of natural monopolies research

In March 2006 Gazprom and the Chinese national oil and gas corporation (CNPC) signed “The Report on deliveries of natural gas from Russia to the People’s Republic of China.” In the report the basic arrangements on terms, volumes and routes (Western and Eastern) of gas deliveries and principles of formation of the price formula were fixed. Deliveries will be carried out on the basis of the uniform export channel of Gazprom. Now the parties are carrying on commercial negotiations.

The prime route of deliveries of gas to China is the Western route (the project “Altai”), based on the resource base of traditional areas of extraction of Gazprom in Western Siberia. At the second stage the delivery will be carried out as well on an Eastern route. In total the volume of deliveries of gas on the two routes should reach 68 bcm a year. The first deliveries of gas should begin in 2011.<sup>13</sup>

Large-scale plans of deliveries of Russian natural gas to the People’s Republic of China are raising questions. China having its own resources for satisfying current gas demand, has no sufficient infrastructure for distribution and further consumption of the declared volume of gas. In recent years in China there was a serious shift to gas consumption. Nevertheless, since extraction and gas consumption in the People’s Republic of China are at a low enough level, about 40 bcm, a significant

<sup>13</sup> Gazprom Internet site.

necessity for the import of natural gas before 2010 will not arise, and purchases can be made only in the case of acceptance by the supplier of conditions of the buyer.

According to some experts, the Russian gas pipelines (as well as discussed gas pipelines projects from Kazakhstan and Turkmenia to the Chinese "East-West" pipeline) are necessary to China not so much for satisfaction of the requirements for gas, but for strategic attachment of these countries to the market and maintenance of the transmission of gas to Korea and Japan through Chinese territory.

Declared volumes of supply also raise certain doubts. So much gas for deliveries in the eastern part of Russia is not needed now and is not anticipated. To increase the volume of exports from the present 207 bcm to almost 300 bcm will require huge investments during the next ten years, but nothing similar to the investment plans of Gazprom.<sup>14</sup>

So the risks are quite obvious: China might fail to accept the declared big quantities of gas while Russia might fail to find these volumes for deliveries. Meanwhile on the APR direction the limited possibilities of Russia in respect to the declared growth (presently about 3 % to 30 % of all volume) of energy resources exports also should be observed. For indicated goals it is necessary to "throw" to the East not less than 60 million tons of oil and 65 bcm of gas per year. In the next 10 years this problem is technically very complicated and its solution is also very doubtful both from the point of view of investment possibilities of the Russian companies, and in respect to commercial expediency.<sup>15</sup>

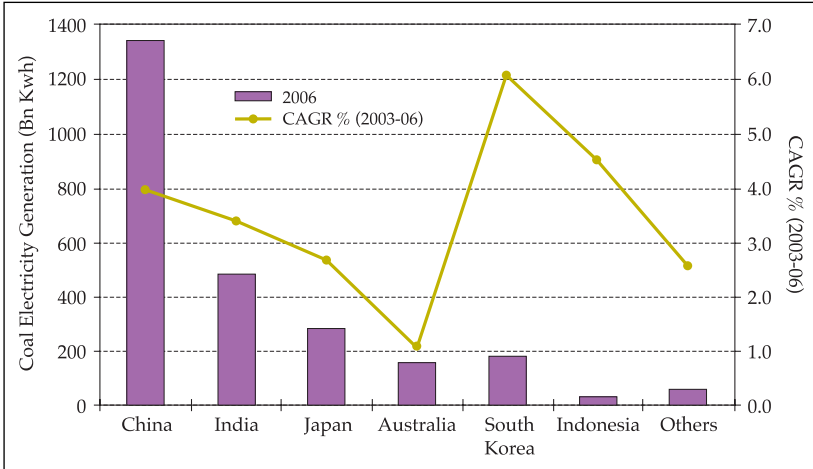
As shown in the figure below, APR countries traditionally have a high share of coal in their energy balance. Now ecological reasons make them switch to other energy sources, more acceptable from an ecological point of view. But the process takes time, so a sharp demand for Russian hydrocarbons is a future option.

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<sup>14</sup> Igor Tomberg, "The Basic Tendencies of Russia - China energy dialogue," *Economic Aspects of Power Cooperation of Russia with Other Countries and Security* (Moscow: IMEMO of the Russian Academy of Sciences, 2006).

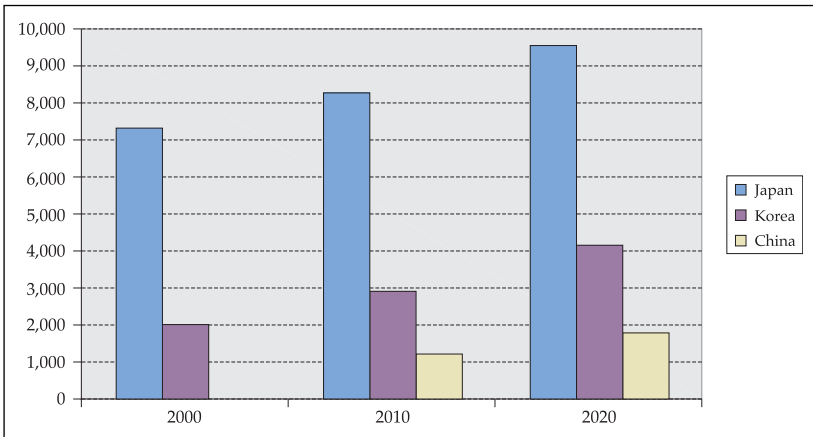
<sup>15</sup> External conditions of development of the Russian Federation in 2007-2017 – Situation in energy sector, Materials of Rio-Centre, Moscow 2007. <http://www.riocenter.ru/energy.doc>.

<Figure 7> Asia-Pacific Coal Power Generation (Bn KWh)



Source: Abstract from Power Equipment Decision Support Database, Frost & Sullivan.

<Figure 8> LNG Consumption in Asia Pacific Region (bcm)



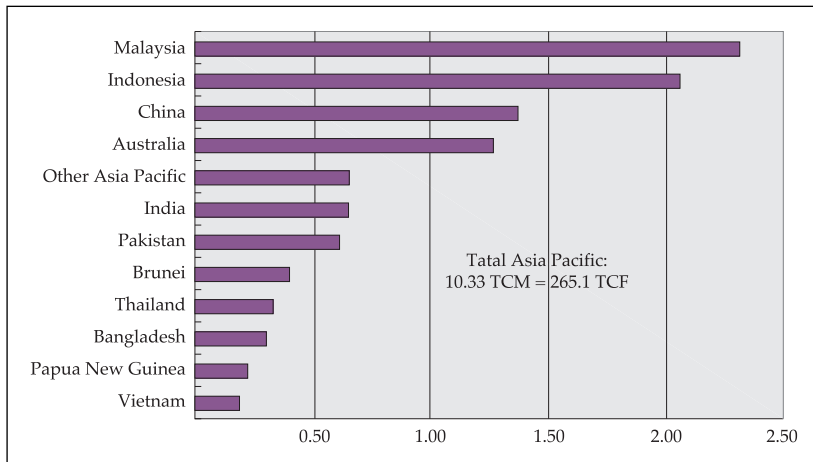
Source: Institute of natural monopolies research

The most serious and actual challenges in the medium term is a shortfall of Russia in the technologies connected with production and transportation of LNG. At present the LNG market grows at a rapid rate. The Japanese power companies, for instance, intend to raise the

share of LNG as fuel for thermal power stations, replacing coal and fuel oil. The share of LNG of the total amount of fuel for thermal power stations in the next five years will increase from 43 % to 47 %. It cannot be excluded, that by 2020, LNG will become a direct competitor to pipeline gas.<sup>16</sup>

Concerning the fulfillment of the scale LNG projects in Russia there is a pessimistic enough picture. Practically all the volume of LNG within the limits of the Sakhalin-2 project (the sole Russian LNG project which can be started in the near future) is sold in advance, though variants of expansion of capacity of the given enterprise are considered.

<Figure 9> Asia Pacific Gas Reserves 2000 (TCM)



Source: Derived from BP Statistics 2002. TCM: (10<sup>12</sup>) cubic meters, TCF: 10<sup>12</sup> cubic feet

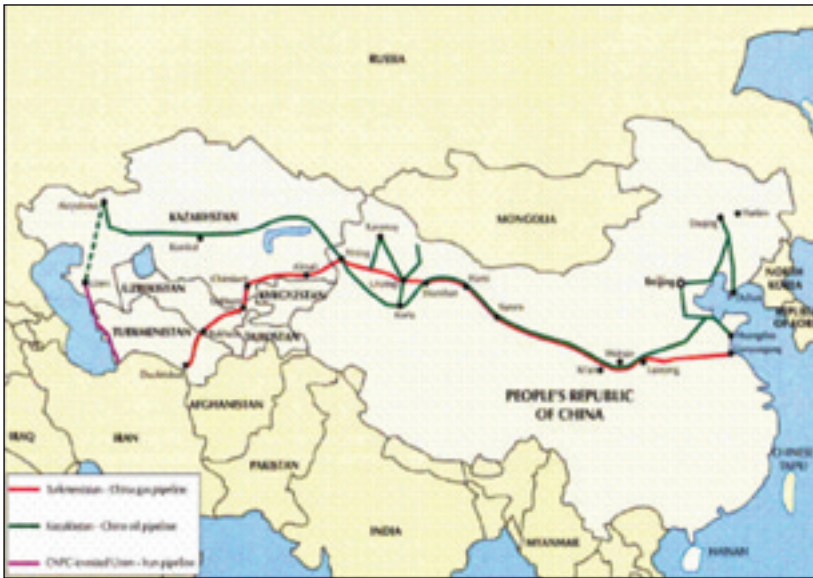
As a general problem for Russian gas expansion to the APR, self-sufficiency of the given region in gas supply may be considered. The gas-rich countries of Southeast Asia plus the extraction possibilities of Australia could cover a big part of the demand in the region. Meanwhile, excluding the ASEAN pipeline project, the major trend is LNG deliveries,<sup>17</sup> which leaves Russia and other FSU countries enough

<sup>16</sup> Oilru.com (May 2007).

space for a commercial initiative in the sphere of hydrocarbon trade? As mentioned below, Russian companies will shift their activity to the Asia Pacific markets.

Russia will face growing competition in APR gas markets. China is preparing a number of projects which in case of realization will act as competitors to the Russian ones: oil and gas pipelines from Kazakhstan, a gas pipeline from Turkmenistan and Uzbekistan.

<Figure 10> Proposed Central Asian Pipelines



Source: International Energy

The need of the Asian Pacific countries to expand their fuel sources intensifies, but their import sources are not diversified: they depend heavily on the OPEC countries (Japan, Korea) and the deliveries of liquefied natural gas from the Middle East (Japan, Korea). At the same

<sup>17</sup> Working Committee 10 "Gas and Developing / Transit Economy Countries" of the International Gas Union (IGU), ASEAN Pipelines Seen from Gas Importing Economies, triennium of 2000-2003.



time the Asian markets are practically out of reach for the Russian oil and gas due to Russia's not having deepwater ports, a strategy of exporting liquified natural gas, and the infrastructure for transporting oil and gas in the eastern direction.

It is impossible to perform an extensive geographic export diversification without reliable outlets at the Eastern borders — the borders with China or the Pacific Ocean ports. Therefore the availability of an oil pipeline will make it possible to fulfill two major tasks:

- Carry out the strategically necessary territorial and economic integration of the PreUral and TransUral areas;
- Make exports more competitive and utilize cheaper natural resources in the interests of the fuel and energy complex. Naturally, the creation and concentration of a system of infrastructure installations (pipes, roads, and electric power transmission lines) will contribute to the development potential substantially.

Generally the vector of Russian politics in the area of energy is defined — it points to the East. The question remains, how long will it take Russia to realize what its new role in the global oil market is. The experts' common opinion is that this role must be to provide stable deliveries to the regions, on which the global economic climate depends — to East Asia and primarily to the Asian Pacific region.

## **Preparing Preconditions for the “Great Leap” Eastward**

The Energy Strategy of Russia provides creation of the East-Siberian export direction which would provide formation of the new oil provinces in Eastern Siberia and Sakha (Yakutia) Republic and Russia's entry to the energy markets of the Asian-Pacific region. In December 2005 within the framework of the Energy Strategy of Russia a decision on construction of a pipeline system the “Eastern Siberia — Pacific Ocean” (ESPO pipeline) was made. The pipeline will be 4670 km long (2764 km at the first stage, have a diameter of 1067/1220 mm) and a design capacity of 30 million tons at the first stage and 80 million tons

when completed. On April 28, 2006, construction began on the first start-up complex of the pipeline system. By April 2007 almost 1000 km of pipes were laid. Besides the "Transneft" company has finished the feasibility study for the project of the specialized oil transshipment port Kozmino.<sup>18</sup>

For today a priority for Russia is the performance on contract obligations on delivery of energy resources in the direction of China. For this purpose "Transneft" is considering the construction of an export oriented oil refinery with a capacity up to 20 million tons per year at the destination point of the ESPO pipeline. Up to the end of 2007 "Transneft" will make substantial investments in the construction of a branch pipeline from Skovorodino to the Chinese border. The corresponding report was signed in the spring 2006. The Russian company now has finished development of the declaration on intentions, and this document has already been transferred to the Chinese side. The company plans to start construction of the branch line to China simultaneously with construction of the first stage. The branch line is planned to be completed by the end of 2008. However, despite the priority of deliveries to Russian refineries, orientation to the domestic supply will be kept at a high enough level: up to 7 million tons per year to the Komsomolsk-on-Amur refinery and to up to 5 million tons to the Khabarovsk refinery.<sup>19</sup>

The project of the Program of creation in Eastern Siberia and in the Far East of a uniform system of gas production, transportation and supply in view of possible export to the markets of China and other APR countries has been prepared. As a result of the realization of the Program, not only the new centers of gas extraction — Sakhalin, Yakut, Irkutsk, Krasnoyarsk — should be developed, but also petrochemical and gas chemical production (totaling by 2030 up to more than 13 million tons) are to be developed.

A new gas transportation system is being designed in the east of our country. Along with the development of the Sakhalin shelf, this will

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<sup>18</sup> Transneft Internet site.

<sup>19</sup> Ministry of Industry and Energy of Russian Federation Internet site.

&lt;Figure 11&gt; Gas Export Geographic Diversification



Source: IGU

enable the transfer of Russian oil and gas from new eastern provinces to the Asia-Pacific Region markets. In 2020 the share of the APR in Russian oil exports might increase to 30% from the current level, and in natural gas exports, to 25%.<sup>20</sup>

At the moment Gazprom sets an ambitious target: to double gas export in the next quarter century. The general scheme of development of the gas industry till 2030 will provide growth of export deliveries of Russian natural gas to Europe, the Asian-Pacific region and the USA from the current 155 bcm to 310 bcm in the case of a "moderate" variant of GDP growth (low energy efficiency of the countries' industries) and to 375 billion by an "intensive" variant (sharp increase of energy efficiency).

As said in the document, two scenarios of development of the resource base of the Far East and Eastern Siberia, "Vostok-25" and

<sup>20</sup> "The role of Russia in strengthening of global energy security, Theses to A.G. Reus' performances at the international conference," *КЭРА Week* (Houston: February 2007).

“Vostok-50,” will provide to 2030 deliveries of pipe gas to Northeast and the Bohai gulf areas of China and the Republic of Korea 25 bcm by a “moderate” variant and 50 bcm — by “intensive.” Deliveries of LNG will make 27 bcm in both variants. Central, east and southern areas of China from the “Altai” gas pipeline should receive 30 bcm.<sup>21</sup>

### **Prospects for Russia**

For Russia the APR fuel market offers good prospects, considering that the Russian oil and gas deposits are located in relative proximity to the mentioned markets. At the same time, for example, in China, oil fields in the South China Sea are considerably removed from its consumers in the northeast provinces of the country. It, according to the Chinese experts, makes oil deliveries to that part of the country from Siberia extremely attractive. Judging by statements of representatives of India and China, both countries have far reaching intentions concerning Russian oil and gas resources. China would not mind turning all 80 million tons of oil planned for swapping from the ESPO pipeline to the Chinese territory. Moreover, China supports the Russian Railways company that plans to expand railroad deliveries of Russian oil to China up to 30 million tons a year. Though the current volume of deliveries is rather modest, the increase is achievable. In 2006 Russia exported to China about 16 million tons of oil, 25 % more than in 2005. Thus, the Russian Federation became the fourth leading oil exporter to China.<sup>22</sup>

Claims of India are more reserved, but the country also faces the problem of satisfying 3/4 of internal demands for oil at the expense of imports. In October 2006 the minister of oil and gas of India Murli Deora during his visit to Moscow declared that India is interested in acquisition of 50 million tons of Russian oil annually.<sup>23</sup> India is actively

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<sup>21</sup> Gazprom Internet site.

<sup>22</sup> Rusenergy Org (December 2007).

<sup>23</sup> Rusnet.nl (November 2006).

searching for ways of joining large oil and gas projects. ONGC has a long-term plan to purchase oil and gas assets. The company's activity in Russia may hardly be called successful. ONGC participates only in "Sakhalin-1" as one of the minor shareholders. ONGC management has declared its intention to receive a share of 49 % in the "Sakhalin-3" project. The Kirinsky block, with about 720 bcm of gas and 453 million tons of oil reserves represents quite a clear interest for India.<sup>24</sup> While in India alternatives for the supply of gas for the country are being discussed, the Russian-Indian energy dialogue is starting to consider real projects. Whether the pipeline variant or LNG deliveries will be chosen, in both cases in this process Russia can occupy an important place.

Russian Gazprom, Stroytransgaz, Zarubezhneft and ITERA have already taken strong enough positions in the Indian gas industry. However scales of their participation remain till now insignificant. A break is possible today in five basic directions:

- Prospective participation of Gazprom in building and management of a gas pipeline Iran — Pakistan — India;
- Participation of Gazprom in gas production in the Bay of Bengal;
- Building degasification terminals on the coast of the Arabian Sea. Suntera (the joint venture of ITERA and the Indian investment group Sun Energy Resources) has already concluded appropriate an agreement with the Gujarat State Petroleum Corp. on building a \$565 million terminal with a 5 million ton annual capacity;
- LNG exports within the limits of the "Sakhalin-1" project in volume up to 10 bcm;
- Russian companies' participation in construction of gas transportation and distribution networks in India.

The geographical proximity is key for deliveries of Russian oil to Japan and South Korea. In 2007 the company Rosneft is planning to begin negotiations with KNOC about a joint venture creation. The Russian company is interested in participation in the country's oil refining. In the future the company intends to deliver to Korea crude

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<sup>24</sup> Lenta.ru (January 2007).

oil for processing. In exchange KNOOC, possibly, will have an opportunity to expand its presence in Russia.

Japanese companies started purchasing Russian oil from projects in the north of Sakhalin in the beginning of 2007. Agreements on acquisition of the Sakhalin oil were concluded by six large Japanese companies. Considering that almost 90 % of the oil imports of Japan are from the unstable Middle East, the question of diversification of delivery sources has special value. Besides, delivery from Sakhalin to Japan takes 5-6 days, that is almost four times faster than from Middle East deposits.

In October 2006 Gazprom carried out the first LNG delivery to the Republic of Korea. Gas was bought from Mitsubishi Corporation of Japan and was delivered to the degasification terminal Phentek of the National Korean gas company (Kogas) in the volume of 145 thousand cubic meters (about 92 million cubic meters of natural gas). The choice of the counterpart South Korean Kogas is not arbitrary. For today South Korea consumes some 15 % of the world's LNG, thus its share in the general gas balance of the country reaches 100 %.<sup>25</sup>

The first deliveries of Russian pipeline gas to Korea can begin in 2012-2013. The volume of deliveries is planned at 10 bcm annually. Further this volume can be increased. A condition for an increase in deliveries is the conclusion of a long-term contract for 30 years.<sup>26</sup> In August 2006 Gazprom fulfilled the first LNG delivery to Japan. Gas was bought from Mitsubishi Corporation of Japan and was delivered to the degasification terminal Chita of the Chubu Electric Power company, Inc. in a volume of 145 thousand cubic meters (about 92 million cubic meters of natural gas). By delivering LNG to the different countries, Gazprom thus "probes" the largest commodity markets.

Japanese Osaka Gas has already contracted for 200 thousand tons of "Sakhalin-2" project LNG a year. Thus, 98 % of the total future LNG production is already sold. Japan will receive LNG for 23 years. Deliveries will start on April 1, 2008, and supposedly gas will be delivered to

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<sup>25</sup> RBC Daily (December 2006).

<sup>26</sup> Vremya novostey (October 2007).

the port of Osaka.<sup>27</sup> Russia is unique as a country from which gas to Japan can be delivered by pipeline transport. Negotiations on construction of a gas pipeline between Japan and Russia have been conducted from 1970. In 2006 a small company which is based on Hokkaido, Japan Pipeline Development Organization (JPDO), began negotiations with Gazprom on the creation of a joint venture for natural gas retail trade in the Japan domestic market. After the signing of an appropriate contract a special intergovernmental agreement is also planned to be signed. The share of this joint venture in the gas market of Japan can reach 10 % and more. At the first stage gas will be delivered only to the northern island of Hokkaido in a volume up to 8 bcm a year. Gazprom will be responsible for the organization of the gas-transport system to the island. Costs of the project may reach \$2.6 bln. The second stage (under research now) will possibly extend a gas pipeline to Honshu — to Tokyo. In this case the volume of deliveries can increase to 16 bcm.

The initial capacity of the gas pipeline will be 3 bcm a year. Construction can begin in 2008 and first deliveries are expected in 2011. Possibly, one of the Sakhalin projects will become the source of gas for the project. At the end of 2006 in an interview to the Japanese television channel NHK the head of Gazprom Alexander Medvedev confirmed that Gazprom intends to reduce the export to Japan and to sell gas not only to enterprises, but also to private clients as already occurs in other countries.<sup>28</sup>

Considering the wide prospects for the development of extraction and gas consumption in the countries of Southeast Asia, in 2005-2006 Russia has begun active penetration into the gas branch of the region. For long years the basic partner of Russia in the Southeast Asia was Vietnam. Interaction occurred within the limits of a joint venture on oil recovery and gas, "Vietsovetpetro." However, specializing, first of all, on oil recovery, natural gas remained in the second stage of work of the joint venture. So, within 2006-2010 the enterprise, Vietnam plans to extract on the Vietnamese shelf of 6.5 bcm of gas.

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<sup>27</sup> Reuters (February 2007).

<sup>28</sup> Gazeta (January 2007).

Besides, in November 2006 a declaration on cooperation in geological investigation and gas production in Vietnam till 2010 was signed. Simultaneously Gazprom and Petrovietnam have concluded the cooperation agreement on investigation, extraction, transportation, processing and distribution of natural gas, and also on development of a gas transportation infrastructure for Vietnam. In November 2005 Gazprom and Vnesheconombank signed a cooperation agreement with Thai PTT on exploration, transportation and distribution of natural gas, oil, other energy commodities, such as construction of pipelines, oil and gas storage facilities, and organization of a joint distributive network. In June 2005 the president of Russia V. Putin carried on negotiations for cooperation in the gas sphere with the Sultan of Brunei Hassanal Bolki-ah. Besides, the possibility of signing a memorandum of mutual understanding between Gazprom and Malaysian Petronas is now being considered. Till now the parties co-operated only in the project of development of the second and third stages of a deposit in the Southern Pars in the Persian Gulf. In September 2006 ITERA and Zarubezhneft signed an agreement with MOGE and Indian Sun Group about hydrocarbon processing on block M-8 in the Gulf of Martaban in Myanmar.<sup>29</sup>

The strategic goals of Russia in Southeast Asia are an increase of deliveries of natural gas and helium and an exit to the end user markets of the region. However, a similar expansion is realizable only with the active cooperation of the local companies, probably by creation of joint ventures, Activity of the Russian oil and gas companies in Southeast Asia can be most fruitful in the following directions: carrying out prospecting works;

- Joint development of deposits;
- Creation of a gas-transport infrastructure, including large international projects;
- Spot LNG deliveries to third countries.

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<sup>29</sup> Institute of Natural Monopolies Research, Monthly Review of State of Russian gas industry (November 2006).



Actual prospects of deliveries of Russian gas to the countries of Southeast Asia are quite low owing to self-sufficiency of the given region in gas supply. However, in the case of the beginning of development of the Kovyktinsky and Chajandinsky deposits, Russia can gradually occupy key positions here with the deliveries of helium and other rare gases used in the chemical industry.

## **Conclusion**

Power aspects in the foreign policy of Russia have recently occupied a dominant role. All it means is that the power factor is the most strong in negotiations of Russia with other countries. To keep high export incomes and influence in world politics, Russia should urgently reorient oil and gas export from Europe to Asia. This process will take not just one year, but as a result will allow Russia to lower the intensity in relations with the European countries and to become closer with its neighbors in the east, first of all, China and India.

Besides, the energy breakthrough in the APR has an obvious in-Russian underlying reason. Integration and preservation of unity of the economic space of the country — whose signs are a uniform communication system, electricity transmissions, iron and highways and pipelines — form the fundamentals of territorial integrity and create the infrastructure of energy expansion to the East at the same time.

Energy cooperation offers the best prospects as a field of mutual interest for Russia and APR countries. Rich and geographically reachable Russian deposits present extremely good possibilities for Northeast Asian countries to avoid an energy shortage and compensate for risks of delivery from the distant and unstable Middle East and Africa. Thus Russia is step by step positioning itself as a substitute to the traditional sources of hydrocarbon supplies.

## *Energy in Sino-American Relations: Putting Mutual Anxiety in Context*

Daojiong Zha

*Between Beijing and Washington, there exists a growing level of mutual anxiety over energy and related geo-strategic matters. The United States cannot tolerate obstruction, real or perceived, to its access to sufficient volumes of foreign oil, now or in the future. In that context, the United States sees China as the most probable challenger. Nor can China be comfortable with prospects of a major reduction in or deliberate disruption to its foreign energy supply. As in the past, American and Chinese oil companies will still have to compete against each other for the same oil/gas assets in third countries. There thus seems to be a lack of mutual dependence in the field of energy between China and the United States. This orientation, however, falls short of the goal of effectively managing competition between the two countries. Instead, future activities and programs should aim at mutually offering reassurance about a benign strategic intent towards the other side.*

In September 2005, then US Deputy Secretary of State Robert Zoellick put forward a new proposition for managing bilateral relations between the United States and China: the US would like to work with China as a “responsible stakeholder,” which includes collaboration in managing regional and global affairs as well. The notion of the US dealing with China as a “stakeholder” is a major departure from that of making China a subject for engagement, containment, or a mixture of both.<sup>1</sup> The keyword here is, of course, whether or not in the eyes of Washington, Beijing behaves in a *responsible* manner. When it comes

to China's pursuit of a foreign energy supply, Zoellick, echoing a popular view in Washington, saw Beijing taking actions to "lock up" energy resources around the world and pursuing a mercantilist strategy. Among other developments, China's oil investment in Sudan and Beijing's reluctance to side with Washington to apply United Nations sanctions on the Sudanese government over the worsening human rights situation in that country is frequently cited as a concrete case of China's *irresponsible* behavior.

Indeed, since the creation of the US-China Economic and Security Review Commission in 2000, the United States Congress has made numerous inquiries into China's pursuit of foreign energy supplies and its implications for bilateral, regional, and international diplomacy. Hearings the Commission organizes do not generate unanimous conclusions about how serious a challenge China poses to the United States in terms of energy supply and the US foreign policy in more general terms. But they do demonstrate a sustained concern about China's impact on the US pursuit of energy security for itself and larger American foreign policy goals. In the summer of 2005, the China National Offshore Oil Corporation (Cnooc) competed against Chevron to acquire the oil assets of the California-based Unocal Corporation. The view that prevailed in the intense debates in Washington was overwhelmingly negative about Chinese intent.<sup>2</sup> The Cnooc vs. Chevron over Unocal episode has come and gone. In the United States, Congress and the Administration continue to differ how best to affect China's behavior, particularly in the economic field. Meanwhile, Beijing went on to pursue its energy diplomacy, including the hosting of a China-Africa Forum summit, which brought top leaders of forty-eight countries from Africa to Beijing in early November 2006.

There is a good prospect for energy to become a more contentious issue area between Beijing and Washington in the coming years. In the

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<sup>1</sup> Robert B. Zoellick, "Whither China: From Membership to Responsibility?" Remarks to the National Committee on US-China Relations (New York, September 21, 2005). Available from [www.state.gov/s/d/rem/53682.htm](http://www.state.gov/s/d/rem/53682.htm).

<sup>2</sup> Editorial, "America's Summer of Discontent," (*New York Times*, August 11, 2005), p. A22.

United States, between now and the 2008 presidential election, dealing with America's dependence on imported oil is likely to receive political interest from both the Republican Administration and Democratic Congress. Although an effective energy policy agenda must include a domestic portion, as a recent Council on Foreign Relations study recommends,<sup>3</sup> there is no question that the United States cannot tolerate obstruction, real or perceived, to its access to sufficient amounts of foreign oil, now or in the future. Also between now and the 2008 Olympics Games in Beijing, China will find it a paramount imperative not to suffer from a major reduction in or deliberate disruption to its foreign energy supply. As has been true in the past, American and Chinese oil companies will still have to compete against each other for the same oil assets in third countries.

In short, mutual anxiety seems bound to increase between Beijing and Washington over energy and related geo-strategic matters. Before we deal with areas of geo-strategic anxiety, it pays to take note of the lack of mutual dependence in the field of energy between China and the United States.

### **Absence of Mutual Dependence in Energy**

For over half a century until the 1930s, American oil companies were the single most important source of the supply of oil to China. American oil geologists participated in exploring oil in China and achieved a limited measure of success, although the international consensus of the day was that no large amounts of oil were to be found in continental China.

With the beginning of the Korean War in 1950, the United States organized a comprehensive trade embargo and naval blockade against China. The 'who lost China' debate notwithstanding, until President Nixon's first trip to Beijing in 1972, the China market was off limits to

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<sup>3</sup> Council on Foreign Relations, "National Security Consequences of US Oil Dependency," (October, 2006).

interested US oil companies. Meanwhile, China achieved self-sufficiency in oil supply in the mid-1960s.

The United States resumed its interest in working with China to enlarge the latter's energy supply soon after it was diplomatically possible. In 1978, a year after the US Department of Energy (DOE) was created, DOE Secretary James R. Schlesinger traveled to Beijing to explore possibilities of joint production of oil and gas in China. The Chinese government reciprocated by sending its deputy premier in charge of the oil industry to Washington in early 1979. Then, in 1980, China opened development of its offshore oil and gas to international cooperation. One year later, Arco-Santa Fe became the first US firm to sign a cooperative agreement with China to explore oil in the continental shelf off China's Hainan Island in the South China Sea.<sup>4</sup> Since the early 1980s, US oil companies have launched dozens of joint ventures with Chinese partners to conduct geological surveys and engage in the refining sector in China.<sup>5</sup> In addition to oil, US-based energy companies also participated in developing China's coal industry. The best known case is Occidental Petroleum Corporation's coal mining project in Shanxi, China's famed coal producing province, from 1982 till 1991.

China has been a major producer of oil in the world since the early 1970s. Domestic oil production peaked in 1985 but still ranked the sixth largest worldwide in 2005. But, for US-based and other foreign companies, China has maintained certain limits to foreign participation in exploration and development of its oil resource. For example, Chinese laws do not allow a foreign oil company to operate in China without a local partner or hold majority shares in such a joint venture. Meanwhile, most if not all oil producing countries impose barriers of one kind or another against foreign participation in exploration and development.<sup>6</sup> In any case, today the issue is not how to make China a more

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<sup>4</sup> Bob Williams, "Arco, Santa Fe Sign Pact to Drill off China," *Oil and Gas Journal* (June 15, 1981), p. 52.

<sup>5</sup> Department of Energy, "National Security Review of International Energy Requirements" (February 2006), p. 53. Archived at <http://www.pi.energy.gov/pdf/library/EPACT1837FINAL.pdf>

<sup>6</sup> *Ibid.*, pp. 47-50.

significant producer because China itself is relying on growing amounts of imported oil.

When it comes to energy trade, the US market was, for a number of years after 1980, the second most important export destination (after Japan) for Chinese crude oil exports. In 1993, crude oil export to the US represented 15% of the Chinese total, but its contribution to total US imports was negligible.<sup>7</sup> Since then, China has had less and less oil for export. Since the Second World War, the United States has never been a major supplier of oil to China. Both China and the United States are self-sufficient in coal. Natural gas is one important energy source China is set to rely on imports for meeting domestic needs, too. In short, between the two countries there exists a lack of mutual dependence in terms of everyday energy trade. This situation is likely going to continue in the future.

In a diplomatic sense, China and the United States have managed to meet their respective overall domestic energy supply needs independently of assistance by the other side. Even in multilateral forums, US pursuit of its energy supply security, at least since 1973, had more to do with members of the International Energy Agency (IEA) and the Group of Seven (G7) countries. The IEA did not find it necessary to formally engage China until 1996. "During the G7's first decade following its 1975 creation, China was relevant to it largely as a matter of context. China formed part of the adversarial environment the G7 faced as it increasingly dealt with a host of largely geopolitical issues."<sup>8</sup> China did not join the Organization of Petroleum Exporting Countries (OPEC) when it was still a net exporter. Nor has China shown a particular interest in upgrading its relationship with the IEA, although the organization's membership rule of requiring OECD status is one of the technical causes on both sides.

The above short review of history illustrates to us the geo-strategic

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<sup>7</sup> Haijiang Wang, "China's Impact on the World Crude Oil Market," *The Journal of Energy and Development*, Vol. 19, No. 1 (Autumn 1993), pp. 85-86.

<sup>8</sup> John Kirton, "The G7 and China in the Management of the International Financial System," available at <http://www.g7.utoronto.ca/scholar/kirton199903/china3.htm>.

nature of energy-related mutual anxiety between China and the United States. The absence of mutual dependence in energy trade implies that the American business lobby — which has since 1979 served as an importance force of stabilizing bilateral ties — does not have a vested interest in educating either Washington or Beijing when political/diplomatic tensions arise over energy. This provides a futile background for alarmist views about each other to sustain, because the material stake for each other is so small and unlikely to become bigger.

Against the context of structural changes in overall bilateral relations between China and the United States since the end of the Cold War, it is easy for China's pursuit of a foreign energy supply to be conceived of as part of a Chinese grand strategy to "expand its wealth and influence and to achieve regional pre-eminence in East Asia *at the expense of the now-dominant United States*" (emphasis added by the authors).<sup>9</sup> Few in China explicitly identify the United States as an obstacle for China to meet its energy supply security or increase its power and prominence in the Asian region and beyond. However, increasingly, energy has emerged as a particularly thorny issue in China and the United States thinking strategically about each other. The two outstanding issue areas are competition in third-country supply markets and utilization of maritime transportation routes.

### China's "Going Out," at US Expense?

In November 2002, amid volatility in the global oil markets, the Chinese government identified "going out" as a key strategy for meeting the challenges, energy and natural resources included, for continuing to develop the country's economy. Since then, the phrase "going out" has captured a growing amount of attention outside China. A popular view among US analysts is to see China's pursuit of foreign energy supply as an integral part of China's grand strategy of building up the

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<sup>9</sup> Warren I. Cohen, "China's Power Paradox." *The National Interest* (Spring 2006), p. 129.

country's power, albeit through avoiding conflict with established powers, primarily the United States, in the short term. Between China and the United States, resource diplomacy "will become one aspect of an intensifying struggle for mastering in Asia and on the wider world stage."<sup>10</sup>

Let us take a brief tour of China's history in "going out." In the Chinese political vocabulary, "going out" (*zou chu qu*), which literally means "reaching out [to international markets]," is twin to another strategy for pursuing economic growth: "bringing in" (*qing jin lai*), which literally refers to "inviting [foreign economic forces] into China."<sup>11</sup> As a government policy initiative, these twin strategies were first enunciated in 1984, when a key central government economic policy directive envisioned Chinese enterprises becoming capable of utilizing the domestic and foreign markets as well as natural resources. To put it differently, Chinese companies were told to learn to live without continuing to rely on the country's self-reliance as an ideology or a viable option for corporate survival and expansion. But for much of the 1980s, China fared better in "bringing in" than "going out," partly because of the difficulties associated with reform of the country's state-owned enterprises. In 1991, the Chinese government accelerated the pace of internationalizing China's economy, against the background of the slow pace in G7 member countries' lifting their embargoes imposed in the wake of the 1989 Tiananmen Square incident. Besides, the incoming Clinton Administration had won its campaign by arguing for linking Washington's review of China's human rights record with normal access to the American market for China. By pushing Chinese companies, state-owned ones included, to "go out" of China, it was hoped that countries that received Chinese investment would be more hesitant to alter normal trade ties with China and even become sympathetic

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<sup>10</sup> Aaron L. Friedberg, "Going Out: China's pursuit of natural resources and implications for the PRC's grand strategy," National Bureau of Asian Research, *NBR Analysis*, Vol. 17, No. 3 (September 2006), p. 34.

<sup>11</sup> "China Will Do Better Job in 'Bringing In' and 'Going Out'," *People's Daily* (November 8, 2002), available at [http://english.people.com.cn/200211/08/eng20021108\\_106486.shtml](http://english.people.com.cn/200211/08/eng20021108_106486.shtml).



with China in the then emerging human rights-trade conflict with the United States in multilateral diplomatic arenas.

Partly because of government policy change, but also in anticipation of a shortfall in domestic energy production meeting demands, China's state-owned energy and natural resource companies began, in earnest, to explore overseas opportunities in the early 1990s. The China National Petroleum Corporation (CNPC) began its "going out" program by making its first foreign investment in Canada in 1992.<sup>12</sup> For the rest of the 1990s, CNPC and other Chinese oil companies launched and announced dozens of oil exploration and development projects in over a dozen countries.<sup>13</sup>

Here it is important to bear in mind that in the world of the resource extraction business, the announcement of a deal to explore a potential field is significant in and of itself, because it raises expectations about actual production to follow, which in turn can boost the contracting company's share value in the stock markets. After successful exploration comes a decision about a contracted field's commercial value for development. In other words, there is a great distance between an announced deal and an actualized deal.

Until today, an accurate and authoritative accounting of China's "going out" for energy and resources has yet to be forthcoming. This is in part a result of changes in the Chinese government's bureaucracies for managing the country's energy industry. In 1988, China abolished its ministries of coal and oil to form a Ministry of Energy, which was again abolished in 1992. Since then, there has been no ministerial level agency to perform the basic function of compiling and presenting authoritative data about the country's energy industry, including overseas investment activities. As one analysis puts it, confusion built into the Chinese government's multiple bureaucracies with a role to play in running the country's energy industry is one powerful cause for the prevailing sense of insecurity about the country's energy situation.<sup>14</sup>

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<sup>12</sup> Zha Daojiong, "China's Oil Diplomacy in Africa," *International Politics Quarterly* (Guoji Zhengzhi Yanjiu) (December 2006), pp. 59-61.

<sup>13</sup> Erica Downs, *China's Quest for Energy Security*, Santa Monica: RAND (2000), pp. 21-23.

Relevant to this discussion is that, for Chinese and foreign observers alike, it is difficult, if not impossible, to assess the extent of Chinese energy companies' overseas activities, before independent analysis of their nature is possible. Indeed, the Chinese government should be encouraged to allay foreign concerns about its "going out" policy by becoming transparent about what Chinese energy companies have in fact achieved in doing overseas. Such transparency will be helpful for assessing the extent of a market-level challenge China is in reality posing to the United States and other major oil-importing countries.

American concerns seem to have moved beyond the scale of Chinese investments in overseas oil assets. Because in some instances Chinese oil companies are found to "have shown a willingness to pay high prices in order to secure exploration and production contracts, sometimes overbidding international oil companies,"<sup>15</sup> the question that arises is why or what drives a Chinese oil company to be so aggressive, at least in a market sense.

One speculation, of a benign nature, is that Chinese oil companies fear being kept out of a third country market and are therefore willing to pay a premium for being a late comer. The 2003 incidence of CNOOC trying to join international oil companies in exploration and development of a promising oil field in the Caspian Sea is revealing. According to the *New York Times*;

*"CNOOC signed a deal with BG [group, formerly British Gas] in March to buy half of BG's one-sixth share of the development, the North Caspian Sea Project, for \$615 million. The project includes the Kashagan oil field, believed to be the fifth largest in the world, with estimated recoverable reserves of 15 to 20 billion barrels."*<sup>16</sup>

Clearly, Cnooc was far from attempting to edge out the group's partners and, given the small share it was proposing, would have to

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<sup>14</sup> Bo Kong, "Institutional Insecurity," *China Security* (Summer 2006), pp. 64-88.

<sup>15</sup> Flynt Leverett and Pierre Noel, "The New Axis of Oil," *The National Interest*, 84 (Summer 2006), p. 66.

<sup>16</sup> "China Oil Giant Dealt a Setback," *The New York Times* (May 13, 2003).

abide by rules established by the group's existing members anyway. Still, "the existing partners in the development had exercised their right to pre-empt Cnooc's bid for a share being sold by BG." Although the case cited above may have been the most notable, if not only, case of its kind known to the general public, it does lend some support to arguments to the effect that Chinese energy companies must go out before accessibility to foreign markets becomes more restricted by the world's established energy companies.

A more serious issue is whether or not for a late-comer such as China in the global oil industry, making equity oil investments overseas is in the interest of the industry, and in turn, that of the country's energy supply security. As pointed out earlier, we do not yet have comprehensive data about the extent of China's overseas equity oil investments. Chinese oil industry strategists are generally affirmative about the necessity of making equity oil investment overseas.<sup>17</sup> In contrast, American analysts argue that while overseas equity investment, in principle, may be conducive to an oil company's growth strategy, holding equity oil assets abroad has little to do with securing a country's oil supply.<sup>18</sup>

US anxiety about China's pursuit of a foreign oil supply also has to do with the fact major Chinese oil companies engaged in "going out" are national oil companies (NOCs), as opposed to international oil companies (IOCs) that supply the American market while operating globally. An NOC easily conjures the image of its senior managers behaving as passive subjects of government control rather than independent business agents who actively seek autonomy from their government owners. Furthermore, Chinese NOCs have reached deals with NOCs of several countries on a diplomatic/political collision course with America: Iran, Sudan, Venezuela, for example. Such a combination can easily lead to an uncomfortable if not ominous conclusion:

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<sup>17</sup> Linda Jakobson and Zha Daojiong, "China and the Worldwide Search for Energy Security," *Asia Pacific Review*, Vol. 13, No. 2 (2006), pp. 64-65.

<sup>18</sup> Kenneth Lieberthal and Mikal Herberg, "China's Search for Energy Security and Implications for US Policy," National Bureau of Asian Research, *NBR Analysis*, Vol. 17, No. 1 (April 2006).

China uses its NOCs as diplomatic agents; US diplomatic/strategic interests are at stake.

Indeed, China must address such concerns on the part of the United States on the diplomatic front. After all, in terms of China's overall foreign economic ties, China has a higher stake in reducing frictions with the United States. Meanwhile, it can also be helpful for US analysts to hold judgment about China's diplomatic intent before it is possible to ascertain to the extent to which a Chinese NOC functions as an agent bent on mounting a political/strategic contest with the United States.

Critics of China's "going out" for energy and natural resources also need to address such questions as: what countries are left for Chinese companies to go without inviting concern and criticism from countries with established interests? Arguably, Sudan is the lone example of a Chinese NOC operating the entire chain from exploration, production, transportation, to refining. When a Chinese NOC subcontracts from and provides labor/technical servicing to an IOC in a third country, there does not arise much of a commentary about China's "going out" at all. Then, outside China, is it acceptable for a Chinese NOC to do more than subcontracting? Indeed, such questions frequently arise when in-house analysts for Chinese oil companies respond to international concerns about a Chinese NOC operating overseas.

### **Maritime Transportation Routes: Space for China and the United States to Share?**

Between Washington and Beijing, a more serious aspect to their energy-related mutual anxiety has to do with ensuring that oil acquired overseas can be safely transported for consumption in their respective home territories. This is because a perception of vicious competition for access to oil fields in third countries around the world can, to a good degree, be ameliorated by the business dynamics of the international oil industry itself. In contrast, dealing with each other's vulnerability in oil transportation through maritime routes can easily evolve into a zero-sum competition for strategic influence, which comes with the risk

of turning into reality the prophecy of a possible military conflict between China and the United States.

Both China and the United States have been and will continue to be dependent on oil imported from the Persian Gulf. This dependence is dictated upon both countries by the geological existence of oil reserves around the world. Africa and Russia are producing more oil for the world market, but a replacement of Persian Gulf supplies is simply not in sight. A reduction in the amount of oil imported from the region does not change the nature of dependence, either. As a matter of fact, it is easier to talk about reducing that dependence than making it possible. Foreign oil companies have a long history of investing to get Persian Gulf oil out of the ground in the first place. These oil production companies and the oil processing industry they generate have established a business path that's technologically dependent on each other. Even the government of a major country, like China or the United States, must take these realities into consideration even if they choose to task their oil companies to behave in line with government geostrategic preferences. As such, no matter how Beijing and Washington design and pursue their respective strategies for managing supply security, they just have to continue giving priority to securing the physical flow of oil from the Gulf to their respective home markets.

China began to import Persian Gulf oil (from Oman) in 1983. Since then, there has been no US effort to hamper movement of oil from the region to China. For decades, China has been having a free-ride on the tranquility — brought about in a good part thanks to US naval and military presence in the region — in the maritime oil transportation routes from the Gulf to its shores. Chinese commentators who are critical of US military involvement in the Persian Gulf and wider Middle Eastern region often fail to see the stabilizing effect of the US military presence there. A repetition of deliberate mining of the Hormuz Strait by a Gulf state, as happened in 1979, is certainly not in China's self-interest, either.

The United States comes into the equation for China to assess its vulnerability in maritime oil transportation more because of historical experience: for twenty years before the rapprochement of 1971, China

lived under a comprehensive embargo organized by the United States. China managed to soften the impacts of the embargo by utilizing a virtually underground economic connection with Hong Kong. Great Britain, the colonial government of Hong Kong of the day, tolerated such illicit trade across the border for fear of societal instability resulting from Mao's China revolutionizing the labor force manning Hong Kong's harbors. To a limited degree, US and British interests converged in Hong Kong.<sup>19</sup> But today, under Chinese sovereignty, Hong Kong can no longer play the 'buffer' role it once did in history. Instead, Hong Kong itself stands to suffer from being included in a hypothetical new comprehensive embargo against China.

The Strait of Malacca is another essential international waterway that has contributed to the sense of vulnerability in China about transporting oil it purchases in the Persian Gulf and Africa to China free from deliberate sabotage. The United States again enters the equation due to its naval outreach to the Southeast Asian region, on top of the Chinese memory of history. Here, again, it is important to emphasize that since the early 1970s no party, the United States included, has ever attempted or threatened to adversely affect China's use of the Malacca Straits or the South China Sea waters. Maritime pirate attacks in these waters do pose a challenge and have inspired a geo-strategic competition of sorts among countries in East Asia. The United States is drawn into this geo-strategic exercise, too.<sup>20</sup>

Thanks to one news report summarizing recollections by unnamed individuals described to have been briefed about a November 2003 meeting China's President Hu Jintao chaired to review the country's economic situation, there has been a growing amount of discussion about a 'Malacca Dilemma' in reviewing China's energy security. The notion begins with worries about the Malacca Strait being turned into a choking point against China's energy imports and that 'certain major

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<sup>19</sup> Yun-Wing Sung, *The China-Hong Kong Connection: the Key to China's Open Door Policy* (Cambridge: Cambridge University Press, 1991), chapter 2.

<sup>20</sup> Zha Daojiong and Hu Weixing, *Building a Neighborly Community: Post-Cold War China, Japan, and Southeast Asia* (Manchester, UK: Manchester University Press, 2006), chapter 6.

powers' (hinted: the United States and its East Asian allies) are bent on controlling the Strait. Therefore, China needs to find strategies to reduce its vulnerability stemming from relying on the Straits of Malacca, so goes the argument.<sup>21</sup>

The Malacca Strait is indeed crucial to maintaining China's security in energy supply. Over eighty percent of China's imported oil — from the Persian Gulf and Africa combined — must pass through the Malacca waters to reach China. In addition, when it comes to long-distance maritime shipping, China's strength has been in container shipping of dry goods, to transport light industry products out of China and raw materials and semi-finished products into China for processing. As a result, China has been relying on foreign owned tankers for transporting imported oil to its shores. In 2005, foreign owned tankers were responsible for moving ninety percent of the crude oil China imported.

Plans are underway in China to build a national tanker fleet capable of carrying nearly three-fourths of its oil imports within the next fifteen years. Financially speaking, this is an ambitious goal, although it does contribute to upgrading China's shipbuilding capacity. While there is geo-strategic appeal to the notion of having Chinese purchased oil transported to China on Chinese owned tankers, pursuit of such a scheme, if without due regard to the economic opportunities spare oil shipping capacity offers to China, would be unwise. As a matter of fact, the current situation implies that the owners and operating companies of those foreign tankers are left to deal with non-business related complexities and risks in the process of bringing oil to Chinese shores. In other words, this situation actually frees up diplomatic resources China would otherwise have to spend. The paradox is that "the buildup of a state-controlled, Chinese flagged tanker fleet may actually increase [China's] vulnerability to energy supply interdiction."<sup>22</sup>

Talk of a 'Malacca Dilemma' for China has inspired a growing interest in military-strategic reasoning in the United States as well. In a

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<sup>21</sup> Wen Han, Hu Jintao Cu Po 'Maliujia kunju' [Hu Jintao Urges Dealing with the 'Malacca Dilemma'], *Ta Kung Bao* (January 14, 2004).

<sup>22</sup> For example, Gabe Collins, "China seeks oil security with new tanker fleet," *Oil and Gas Journal* (October 9, 2006), p. 20.

report titled 'Energy Futures in Asia' commissioned in 2005 by the US Department of Defense's Office of Net Assessment, China is identified to be pursuing a 'string of pearls' maritime strategy;

*"String of Pearls" describes the manifestation of China's rising geopolitical influence through efforts to increase access to ports and airfields, develop special diplomatic relationships, and modernize military forces that extend from the South China Sea through the Strait of Malacca, across the Indian Ocean, and on to the Arabian Gulf.<sup>23</sup>*

Such a characterization leaves little space for thinking otherwise: China is working to chip away US geo-strategic influence in these regions, all with sensitive implications for ensuring maritime transportation security and safety. Accordingly, a comprehensive strategic-military response is warranted. China's alleged 'string of pearls' strategy has even inspired the writing of a US Air Force Academy dissertation, arguing that the US air force too has a role in cutting loose that Chinese string.<sup>24</sup>

Granted, such views do not represent the official policy of the United States government or even the US military establishment. But they do serve as a reminder of the rhetorical environment against programs aimed at confidence building between Beijing and Washington. By the way, there is no shortage of alarmist rhetoric and proposals for confrontation from analysts in China, either. This state of affairs is indicative of the fact that energy has been a thorny strategic issue between China and the United States, and requires careful management in order to prevent conflict from coming true.

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<sup>23</sup> Christopher J. Pehrson, "String of Pearls: Meeting the Challenge of China's Rising Power Across the Asian Littoral," Strategic Studies Institute of the US Army War College (July 2006). <http://www.strategicstudiesinstitute.army.mil/pdffiles/PUB721.pdf>.

<sup>24</sup> Major Lawrence Spinetta, "The Malacca Dilemma: countering China's "String of Pearls" with Land-Based Airpower," *US Air Force Academy* (June 2006). <https://research.au.af.mil/papers/ay2006/saas/spinetta.pdf>.



## **The Way Forward: Strategic Reassurance**

As large oil importers with a negligible level of interdependence in energy trade, China and the United States are finding each in the other's way of securing overseas supply and transporting oil acquired overseas to domestic shores. Mutual anxiety goes beyond the market level and has reached strategic heights. As stated at the outset of this paper, the chances for that strategic thorn to rear its head higher are great in the coming years. It is encouraging to see more and more deliberations in search of sensible ways for managing competition between the two countries.<sup>25</sup>

For government-to-government diplomacy to address company level competition, an ideal way forward is for Beijing and Washington to jointly explore and produce policy measures that encourage Chinese and American oil companies to collaborate in third country markets. When Chinese and American companies are more comfortable with each other, there is a better chance for reducing misperceptions about the role of politically /strategically motivated government policy behind a company move. And, when the mutual comfort level between Chinese and American oil companies increases, foreign policymaking communities in both Beijing and Washington stand to benefit from insights that are generally not known to observers not directly involved in the oil business.

China and the United States should continue and indeed increase government sponsorship of scientific projects aimed at promoting efficient energy use in China. As a matter of fact, the United States has for the past three decades played an important and positive role in the development of China's energy industry. The 1979 umbrella Agreement on Cooperation in Science and Technology, signed by President Jimmy Carter and China's leader Deng Xiaoping, has led to over 30,000 scientific projects between American and Chinese energy-related research institutes and individuals.<sup>26</sup> Such projects have the advantage

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<sup>25</sup> Flynt Leverett and Jeffrey Bader, "Managing China-US Energy Competition in the Middle East," *The Washington Quarterly* (Winter 2005/06), pp. 187-201.

of bringing together American and Chinese experts with shared expertise and a professional interest in dealing with energy technology and energy policy issues anywhere in the world, making their cooperation more resistant to change in political moods. It is in the strategic interest of the United States for American scientists to be part of preventing runaway, wasteful, and environmentally damaging growth in Chinese energy consumption. Clearly, the tremendous environmental and public health challenges China continues to face today means that China stands to benefit from further cooperation with all foreign parties willing, the United States included. On a broader scale, energy saved through more efficient means of consumption in China (and in America as well) means reduced pressure on the international energy market, which is in turn conducive to lessening the necessity for competition in third country markets.

On a strategic level, for the United States, defining responsible behavior on the part of China in its pursuit of foreign energy has to do with considerations of the geopolitical 'rise of China': the US cannot tolerate a China that works to challenge US efforts to maintain its global preeminence. For China, on the one hand, pursuit of greater power and status cannot be possible without stabilizing its relations with the United States.<sup>27</sup> On the other hand, the United States would fall short of Chinese expectations of responsible behavior when it is viewed to be sabotaging China's development agenda.

Today, virtually every policy dialogue mechanism between Beijing and Washington includes energy as a necessary subject for discussion. Three of these venues are exclusively devoted to energy: energy policy, the oil and gas industry, and peaceful use of nuclear technologies. Much effort has been spent on feeling each other out and searching for clues indicative of benign or aggressive strategic intent. This orienta-

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<sup>26</sup> Kelly Sims Gallagher, *US-China Energy Cooperation: A Review of Joint Activities Related to Chinese Energy Development since 1980* (Cambridge, MA: Belfer Center for Science and International Affairs, 2001), BCSIA Discussion Paper, Discussion Paper 2001-21.

<sup>27</sup> Wang Jisi, "China's Search for stability with America," *Foreign Affairs* (September/October 2005), pp. 39-48.

tion falls short of the goal of effectively managing competition between the two countries. Instead, future activities and programs should aim for mutually offering reassurance about a benign strategic intent toward the other side. In the process, strategic decision making communities in both Beijing and Washington stand a better chance of fostering a political environment conducive to the growth and maturing of groups of societal forces — beginning with those directly involved in the energy industry — with shared interests in stabilizing the strategic relations between the countries. Under this scenario, differences between the two countries will be more appropriately managed.

## Prospects for Sino-Japanese Energy Relations: Competition or Symbiosis?

Kent E. Calder

*In a world of tightening markets for oil and gas, animated by China's explosive economic growth, the prospects for energy rivalry between Asia's economic giants, China and Japan, appears increasingly real, and contrast sharply to cooperative patterns of the 1980s. The fundamental areas of prospective future tension and conflict of interest are the Middle East, Russia, and the East China Sea. Geopolitical rivalries could potentially aggravate prospective differences with respect to energy-resource development. Sino-Japanese energy relations are, however, a "double-edged sword" for the broader bilateral relationship. They have an important cooperative dimension, rooted in contrasting resource endowments and energy policies. Japan has long emphasized energy efficiency and limiting perverse environmental consequences; it has relevant technologies of considerable potential value to China. Furthermore, the disputed East China Sea oil and gas fields are configured so as to be most easily accessed from China's southeastern coast, where the resources are badly needed. The PRC thus has asymmetrically strong energy incentives to desire a bilateral agreement which should aid rapprochement, should Japan desire that from a broader geopolitical or economic perspective, as appears likely.*

Together, Japan and China are the economic, and potentially the political, giants of Asia, locked in a complex political-economic scorpion's dance. They account for around two-thirds of the economic product of the region, and more than half of its military spending. Sino-Japanese trade is among the most vigorous and dynamic

on earth, more than doubling over the past five years. In a world of tightening markets for oil and gas, animated by China's explosive economic growth, the prospects for energy rivalry between Asia's two economic giants, China and Japan, appears increasingly real. Yet the prospects for energy cooperation are also rising. Energy ties are an especially interesting aspect of the Sino-Japanese relationship because they are a powerful "double-edged sword," with the potential to sharply leverage either cooperation or conflict between these two massive political economies.

### **Contrasting Resource Endowments**

Japan, as is well-known, is singularly deficient in energy resources, with only 59 million barrels of proven oil reserves — about ten days supply at current rates of consumption.<sup>1</sup> China, by contrast, is significantly better endowed with domestic energy resources, including coal reserves that rival those of the United States as the largest on earth, and significant oil reserves as well. Indeed, China remains the world's sixth largest oil producer,<sup>2</sup> continuing to draw heavily on large Northeastern fields such as Daqing, which are only slowly moving toward depletion. And it is the world's largest coal producer, as well as its largest consumer of coal. Yet environmental and infra-structural problems, compounded by a Chinese reluctance to offer foreign investors the incentives necessary to access state-of-the-art drilling technology, prevent China from realizing its full domestic energy production potential.

The major Chinese domestic reserves, of oil in particular, are located in the North and the West, as indicated in Figure I. Meanwhile, energy demand is surging in the South and the East, where the bulk of China's newly affluent middle class is concentrated. And the railways and pipelines needed to transport oil, coal, and natural gas from one part of

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<sup>1</sup> In 2004 Japan consumed about 5.35 million barrels. See US Department of Energy. *Country Analysis Brief*, at: <http://www.eai.doe.gov/emeu.cabs/china.html>.

<sup>2</sup> BP. *Statistical Review of World Energy*. 2006 edition. at: <http://www.bp.com/productlanding.do?categoryId=6842&contentId=7021390>.

the country to another remain under-developed, and in a woeful state of disrepair. Offshore oil fields in the East and South China Seas could provide a partial escape from these painful energy dilemmas, but they often present problems of their own, in the form of territorial disputes with China's neighbors.

<Figure 1> China's Complex Energy Geography



Source: Department of Energy Office of Fossil Energy.

China's coal reserves, as indicated above, are even more massive than its substantial oil deposits, and the country depends on coal for seventy percent of total primary energy consumption.<sup>3</sup> Yet transportation also stands as a significant barrier to full exploitation of those

<sup>3</sup> *Ibid.*

deposits, just as in the case of oil. Long-distance transportation, of course, is especially cumbersome, since coal is so bulky. The largest coal fields are in the Northeast — particularly in Shandong and Shansi — while the most rapidly expanding energy demand is several hundred miles to the south, along the southeastern coast.

### **Differing Energy Security Imperatives**

Flowing from their differing resource endowments and positions in the global political economy, China and Japan have contrasting conceptions of energy security. The details have varied somewhat across their respective modern histories, and have produced broad contrasts in incentive structures. These contrasting imperatives animate the shifting patterns of cooperation and conflict that have emerged over the past two generations of interaction between these two great powers of Asia.

Japan has by far the largest economy in Asia, with a GDP of well over \$4 trillion. Reflecting its huge economy, and its radical lack of domestic energy reserves, Japan also has by far the largest oil imports in the region, at over 4 million barrels per day, as well as LNG imports that reach roughly half of the entire world's total. These imports of both oil and gas flow heavily from the Middle East, where Japan gets nearly 90 percent of its oil and around one third of its gas. The bulk of energy imports flow through either Japanese trading companies or multinational energy firms, since the private-sector Japanese energy producers are not well-developed.

Although its economy is massive, Japan is not growing rapidly, and has not been doing so for more than fifteen years. In energy, compared to China, it is the “pioneer,” rather than the “pursuer,” having established its presence in previous years, and feeling only limited need to expand.<sup>4</sup> Japan's energy interests are conservative and entrenched,

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<sup>4</sup> On this terminology, applied in another industrial context, see Daniel Okimoto. *Pioneer and Pursuer: The Role of the State in the Evolution of the Japanese and American Semiconductor Industries* (Stanford: Stanford University Northeast Asia-United States Forum on International Policy, 1983).

especially in the Persian Gulf. Geo-politically, those interests are safeguarded by the United States, Japan's principal global ally, making Japan relatively comfortable with dependence on extended sea lanes from the Gulf to Yokohama that are dominated by the US Navy.

China's energy-security imperatives are decisively different from Japan's. Most fundamentally, China has much more rapidly expanding energy needs, flowing from its relatively small, but explosively growing economy. China's oil consumption, for example, rose 2.9 percent in 2005, compared to only 1.4 percent in Japan.<sup>5</sup>

In absolute terms, China's energy demand remains surprisingly small, relative to its huge population, due to low per-capita energy consumption. In 2005 China consumed less than seven million barrels of oil per day, little more than one third the total of the United States, although slightly more than Japan's 5.36 million barrels per day.<sup>6</sup> Yet this aggregate demand seems fated to grow massively in the future, as Chinese per capita energy consumption is still only one fifth of the US and one tenth of Japanese levels. Thus, a major energy security imperative for China is necessarily thinking about *new sources* of energy — both geographical and functional — to feed an economic machine that is fated to be much larger in a decade or two than it is today.

Although China faces a much stronger *supply-expansion imperative* than does Japan, it does not confront such an extreme scarcity of domestic energy resources. As noted earlier, the PRC has relatively substantial domestic energy reserves, particularly of coal. In the short-term, China's energy-security problem has a much larger *infra-structural* component than does Japan's. China badly needs railways, ports, and pipelines to transport energy. Japan already has them.

The third major difference between Japan and China's energy incentive structure is geo-political. Japan is a close ally of the United States, with its commanding influence in the global sea lanes, while China remains on delicate terms with Washington. Consequently China tends

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<sup>5</sup> BP *Statistical Review of World Energy* (June, 2006), p. 11.

<sup>6</sup> *Ibid.* Japan, of course, had a nominal GDP over three times the size of China, although its oil demand was less than one third greater.



to see its energy security as enhanced by overland pipelines which avoid the sea lanes that America dominates. Beijing especially favors overland pipelines from adjoining nations such as Russia and Kazakhstan, in a way that island Japan does not.

## **A History of Energy Cooperation**

Ironically, in view of recent geo-political rivalries, yet understandably, considering national resource endowments, Japan and China have a long history of energy cooperation. China began exporting oil to Japan in 1974, half a decade before the economic acceleration impelled by the Four Modernizations. And this Sino-Japanese energy-supply entente continued for thirty years. Reflecting their close geo-political alignment from the early 1970s until Tienanmen, China and Japan were important energy partners to one another for nearly two decades.

Chinese oil exports to Japan following the Oil Shocks of the 1970s were attractive to both nations. For Japan, they allowed diversification away from the Western majors, which controlled around 65 percent of Japanese oil imports during this period. Imports from China also provided Japan with a way to offset the strategic vulnerabilities of large-scale dependence on the Middle East, while gaining increased leverage in bargaining for lower prices with the producer countries and oil majors. For influential Japanese manufacturers such as Nippon Steel, energy imports from China also provided a means of increasing Japanese manufactured exports, by linking Chinese oil exports to China's steel, industrial plant, and machinery imports from Japan.<sup>7</sup>

For China, oil exports to Japan provided foreign exchange, and also access to Japanese technology. Between 1972 and 1974, just as oil exports to Japan were about to begin, Japan concluded agreements for the sale of seventeen industrial plants to China, with a value of \$470

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<sup>7</sup> Tanaka Akihiko website on legal documents regarding Sino-Japanese Relations: <http://www.ioc.u-tokyo.ac.jp/~worldjpn/documents/texts/JPCH/19780216.OIJ.html>.

million, including fertilizer and petrochemical factories. These oil supplies gradually expanded into gas exports as well.

Amidst this symbiotic energy interdependence, both China and Japan de-emphasized their complex and conflicting territorial claims against one another. China, for its part, strove to lure Japan away from the USSR through its energy exports, leaving disputes over the East China Sea and the Diaoyu/Senkaku issues to the side. Japan, on the other hand, refrained from exploring resources in the East China Sea both because it expected to continue oil flows from China, and also because its own companies had been frustrated in their own search for offshore oil.

### **China's Expanding Economy Changes the Geopolitical Landscape**

This felicitous energy symbiosis between Japan and China continued into the 1990s. As noted above, in 1990 Japan still imported over \$1 billion annually in oil from China. This Chinese oil was attractive to Japan not so much for its quality — Saudi light was more attractive for gasoline, aviation fuel, and many other sophisticated applications — but due to the trade-expansion opportunities that it created for Japanese trading companies. Oil generated hard currencies for Chinese producers, and indirectly for the Chinese government, which could in turn be exchanged for the technology, plants, and machinery needed to propel China's own industrial development.<sup>8</sup>

Ultimately it was the explosive, sustained economic growth triggered by the Four Modernizations, generating enormous and rapidly growing new energy demand, which critically deepened energy rivalries between Japan and China. Despite substantial domestic reserves, geographical imbalances, coupled with related infra-structural weaknesses, prevented local Chinese producers from supplying their country's own internal demand. Given China's massive domestic coal

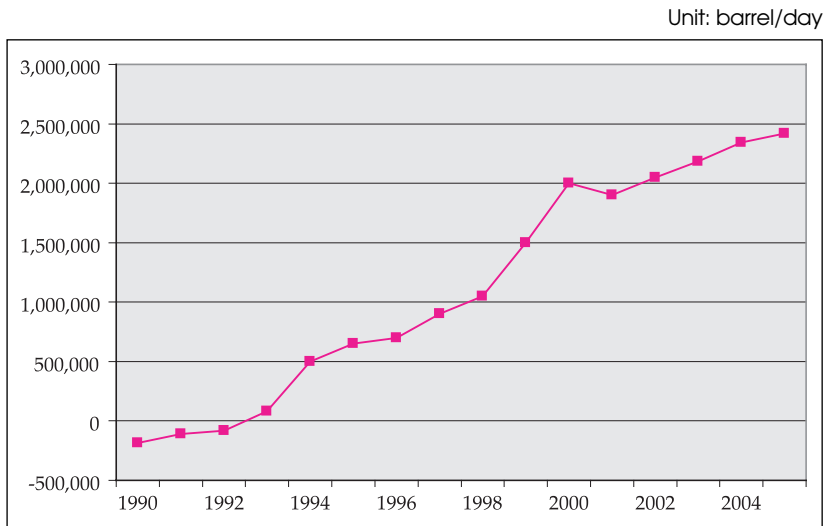
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<sup>8</sup> Japan-China Economic Association website: <http://www.jc-web.or.jp/lt/2.htm>

reserves, the new rivalries across the East China Sea not surprisingly centered on oil and gas.

In 1993 China's longstanding global oil trade surplus turned to deficit. That imbalance steadily deepened over the ensuing decade, as noted in Figure II. By the end of 2005 China was importing a net 3.38 million barrels/day, or roughly two thirds of Japan's massive total.<sup>9</sup>

<Figure 2> China's Net Oil Imports



Source: PRC Statistical Yearbook (until 2003) and BP. Statistical Review of World Energy, 2005 and 2006 edition (until 2005).

Between 2000 and 2005 rising Chinese oil demand accounted for slightly more than a third of global demand increases.<sup>10</sup> Fueled by rising automobile ownership and surging petrochemical production, China's oil consumption passed Japan's in 2002, and by 2005 was nearly seven million barrels per day, compared to 5.4 million bbl/day for Japan. Virtually all of the incremental demand was supplied from

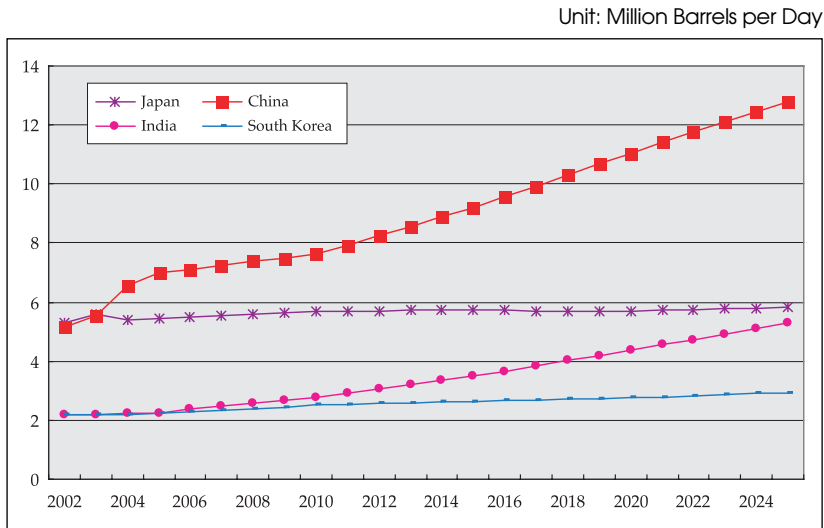
<sup>9</sup> BP Statistical Review of World Energy (June, 2006), p. 20.

<sup>10</sup> B. Statistical Review of World Energy (2006), <http://www.bp.com/productlanding.do?categoryId=6842&contentId=7021390>

imports, due to the domestic supply constraints discussed above.

As shown in Figure III, the prospects are strong for substantial future increases in Chinese oil demand, fueled by industrial and consumer demand, as well as lingering inefficiencies and price misalignments. Gasoline in China, for example, in mid-2005 retailed for \$1.80 a gallon, and remains substantially below world prices.<sup>11</sup> Refiners for their part, continually complain about price controls that inhibit needed investment. Chinese currently consume around two barrels of oil per person per year, compared to 28 barrels in the US, and China’s usage will inevitably rise.

<Figure 3> China’s Net Oil Imports



Source: US Department of Energy. Annual Energy Outlook, 2005 edition.

<sup>11</sup> Under criticism from economists, the Chinese government has raised retail gasoline prices twelve times since 2003. Under converse pressure from consumers, however, it announced a price cut, even though retail prices had not yet reached global market levels. *South China Morning Post* (January 15, 2007).

## The Deepening Reality of Sea Lane Dependence

Japan has been dependent on energy sea-lanes from Southeast Asia and the Middle East throughout its modern history. China, as its oil and gas imports steadily rise, is following a similar, if less pronounced course. In 2002 China imported nearly 70 million tons of crude oil, yet only 7 percent of this total — mainly from Russia and Kazakhstan — arrived by rail. The rest — a full 93 percent, or close to two million barrels a day — came by sea.

Energy sea-lane dependence stirs little anxiety in Japan, and is an increasingly important economic rationale for its close political alliance with the United States.<sup>12</sup> Yet sea-lane dependence is inherently disquieting for many in China, as has been noted, due to Chinese strategic vulnerability at sea. Apart from more obvious political-military considerations, China also has other unique vulnerabilities flowing from its rising sea-lane dependence that are of national concern. Only 10 percent of its imported oil comes in Chinese tankers, with 90 percent being shipped to China by foreign fleets. And between 80 and 85 percent of China's oil imports come through the Straits of Malacca, only 1.5 miles wide at its narrowest point. Handling 11 million barrels of oil and 40 billion cubic meters of natural gas daily, the Straits are a natural target of terrorists, and an interdiction point in the event of prospective conflict with foreign partners.

The historical record suggests that China dislikes energy dependence on the broader world, and that it has some reason to do so. Soviet advisors in the 1950s played a major role in the Chinese oil industry, and their departure following the Sino-Soviet split of 1960 precipitated severe energy shortages in China. It also left China dependent on the Soviet Union, a new adversary, for over half of its refined oil product consumption. China has also been sobered by the post-Soviet use of both oil and natural gas as a geo-political lever in Russia's dealings with neighbors such as Ukraine, Moldova, and even Belarus over the

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<sup>12</sup> Kent E. Calder, *Pacific Defense: Arms, Energy, and America's Future in Asia* (New York: William Morrow, 1996).

past decade.

Chinese analysts appear to see the United States as a prospective threat to China's energy security, although Beijing's rapidly escalating energy needs may also have reinforced China's short-term inclination to avoid confrontation with Washington.<sup>13</sup> The US Navy, after all, dominates the 7,000-mile sea-lanes from Shanghai to the Straits of Hormuz through which half of China's oil supplies must pass. At a minimum, as Beijing sees it, the US appears disinclined to address issues of Sino-American energy interdependence in a positive spirit, as evidenced by rejection of China National Oil Corporation (CNOOC)'s bid for Unocal in the summer of 2005.

### **Reducing Energy Vulnerability: Sino-Japanese Approaches in Comparative Perspective**

Conceptually speaking, Japan and China should have at least five strategic options for reducing vulnerability to prospective international pressure in the energy area: (1) Increasing energy efficiency; (2) Functional diversification away from oil, in favor of nuclear power, hydroelectric power, and natural gas, the supply of which is generally less susceptible to sea-lane interdiction; (3) Geographical diversification of energy supplies; (4) Reducing reliance on international majors, while conversely increasing the share of energy imports flowing through domestically owned or controlled intermediaries; and (5) Developing the military capability to independently protect domestic energy supplies.

The two countries have adopted a markedly different mix of approaches to the problem of assuring energy security, among the foregoing possible alternatives. This important reality concentrates the arena of prospective bilateral confrontation over energy into a small

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<sup>13</sup> Aaron L. Friedberg, "Going Out: China's Pursuit of Natural Resources and Implications for the PRC's Grand Strategy," National Bureau of Asian Research, *NBR Analysis*, Volume 17, Number 3 (September, 2006), p. 30.

number of critical areas, such as off-shore oil development in East Asian waters, and competition over pipelines and third-country concessions. The divergence in Japanese and Chinese approaches also, however, builds complementarities between them, which could well open avenues for future cooperation.

Japan has given strong priority to domestic industrial transformation as a primary means of coping with problems of energy security. In this regard, three policy priorities have been especially important: (1) energy efficiency; (2) development of alternative-energy forms that enhance energy independence; and (3) industrial-structure transformation toward knowledge-intensive sectors, and away from energy-intensive areas. Together, initiatives in these areas have allowed Japan to remarkably reduce the energy intensity of its economy since the mid-1970s. This rising efficiency, coupled with more than a decade of economic stagnation, has significantly moderated the need that Japan felt so keenly a generation ago to compete aggressively in global energy and raw-materials markets.<sup>14</sup>

Intra-sectoral improvements in Japanese energy efficiency since the Oil Shocks of the 1970s have been especially impressive, as shown in Figure IV. Overall indices of Industrial Production (IIP) per unit of energy consumed in Japan have dropped nearly 40 percent from levels of the 1970s.<sup>15</sup> In non-ferrous metal production, for example, Japan in 2004 consumed only 45.8 percent as much energy per unit of production as in 1973. In chemicals this ratio was 53.1; in paper/pulp 53.6; in steel 67.5; and in cement 86.1.<sup>16</sup>

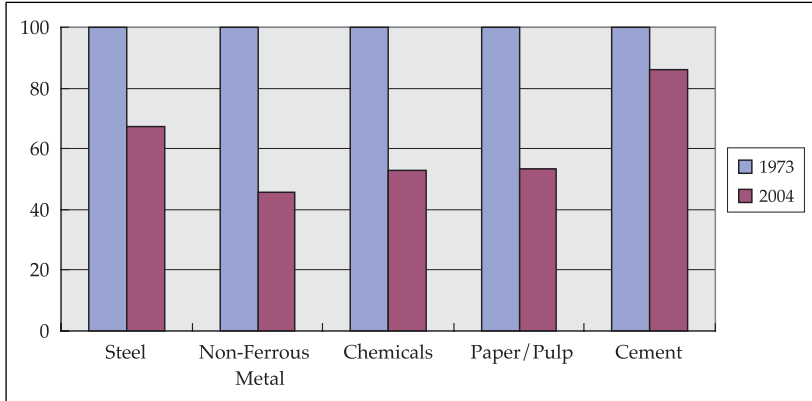
Industrial-structure transformation — away from energy-intensive materials sectors like steel and petrochemicals, and toward areas that consume little energy, such as electronics — has also helped to substan-

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<sup>14</sup> Raymond Vernon. *Two Hungry Giants: The United States and Japan in the Quest for Oil and Ores* (Cambridge, Massachusetts: Harvard University Press, 1983).

<sup>15</sup> Agency for Resources and Energy, Japan's Ministry of Economy, Trade and Industry, *Energy White Paper* (2006), <http://www.enecho.meti.go.jp/topics/hakusho/2006EnergyHTML/html/i2120000.html>.

<sup>16</sup> Energy Conservation Center, *Handbook of Energy and Economic Statistics in Japan* (2006), pp. 68-69.

**<Figure 4> Japan's Improvement in Energy Efficiency**

Note: Calculated with 1973 figure as 100.

Source: Energy Conservation Center. *Handbook of Energy and Economic Statistics in Japan*, 2006 edition, pp. 68-69.

tially reduce aggregate energy demand in Japan. Overall, non-raw material-intensive industries in Japan have grown nearly twice as fast as their raw-material intensive counterparts since the mid-1970s. This differential was especially sharp during the 1975-1985 decade, and was strongly encouraged by industrial policy.<sup>17</sup> As a consequence, the share of energy-intensive materials industries, such as cement and petrochemicals, in Japanese industrial production fell from 33 to 21 percent during 1975-2005, while those of less energy-consuming machinery sectors grew from 30 to 53 percent.<sup>18</sup>

Japan has also pursued active alternative-energy policies that increase autonomy from hydro-carbon imports. The most significant among these has been support for nuclear power that has few equals anywhere else in the world, apart from France, Sweden, Russia, and South Korea. In 1973 only 0.6 percent of Japan's primary energy supply

<sup>17</sup> Energy Conservation Center, *Handbook of Energy and Economic Statistics in Japan* (2006), pp. 62-63.

<sup>18</sup> Ministry of Economy, Trade and Industry Agency for Resources and Energy, *Energy White Paper* (2006), <http://www.enecho.meti.go.jp/topics/hakusho/2006/EnergyHTML/html/i2120000.html>.



was provided by nuclear power, but that ratio rose to a high of 13.7 percent in 1998.<sup>19</sup> After years of economic uncertainty, political controversy, and deregulation during and just after the Asian financial crisis, the Japanese government has recently begun to re-emphasize nuclear power once again, and to re-build the policy consensus to support it.

The conventional wisdom regarding Japanese foreign-economic policy has long emphasized its mercantilist character, and the formidable effectiveness of Japanese state strategy in dealing with international economic matters.<sup>20</sup> What is striking in the energy area, however, is how *little salience* state corporations, or government policy companies, have in Japan, and how weakly they are supported by state power. In comparison with China, or even the United States, what has been remarkable, until the coming of the Abe administration, is not the scope of Japanese government efforts at energy diplomacy, but rather the lack there of, and the relative ineffectiveness of such efforts as have been made.<sup>21</sup>

Japanese and Chinese approaches diverge sharply with respect to the three final options discussed above for assuring energy security. With respect to geographical diversification, Japan has heretofore largely accepted the long-term market logic of reliance on Middle Eastern oil supplies. It has consistently relied on a small number of producers in the Persian Gulf — particularly Saudi Arabia, the United Arab Emirates, and Iran — for well over 80 percent of its total imports.<sup>22</sup>

China, in sharp contrast to Japan, has made substantial efforts to diversify away from the Middle East, resulting in a dependence ratio in 2005 on that region of only around 45 percent, or little more than half that of Japan. Although China has to some degree exploited geopoliti-

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<sup>19</sup> Energy Conservation Center. *Handbook*, p. 36.

<sup>20</sup> Chalmers Johnson. *MITI and the Japanese Miracle* (Stanford: Stanford University Press, 1982).

<sup>21</sup> Stephen Krasner, *Defending the National Interest: Raw Materials Investments and US Foreign Policy* (Princeton: Princeton University Press, 1978). During 2005-2007 Krasner served as Director of Policy Planning in the US State Department.

<sup>22</sup> In 2004, 89.5 percent of Japan's oil imports came from the Middle East, including 26.2 percent from Saudi Arabia, 25 percent from the United Arab Emirates, and 15 percent from Iran. See *Handbook*, pp. 152-153.

cal tensions between the US and Iran to encroach on Japan's traditional special relationship with the latter country,<sup>23</sup> what is far more striking is the vigor of its new relationships with African energy producers with which Japan is virtually un-involved. China procured nearly one third of its oil imports from Africa in 2005;<sup>24</sup> the continent is only a marginal supplier for Japan. Indeed, in 2006-2007 Angola competed closely with Saudi Arabia as the largest exporter of oil in the world to China. Chinese oil imports from Angola in 2005, at over 7 million tons annually, were well over triple what they had been in 2002.

Reflecting its deepening energy interdependence with Africa, China has given a substantial priority to that continent in its diplomacy that has in turn further deepened the already substantial energy interdependence between the two. In late 2006 Beijing sponsored an Africa-China summit conference in the PRC, which 48 African heads of government attended.<sup>25</sup> Chinese President Hu Jin-Tao has also given considerable precedence to African energy producers in his own personal summit diplomacy with his visit three times already, making a point of visiting such nations as Angola and Nigeria, which are major oil exporters to China. Japanese Prime Minister Koizumi, more concerned about obtaining African support for Japan's bid to become a permanent member of the UNSC, visited no major energy producers at all in his African travels.

China has also utilized national policy companies much more actively and effectively than has Japan. China National Oil Company (CNOOC), in particular, has become extremely active overseas, evolving into a major market player in Africa and Kazakhstan, for example. CNOOC has received substantial government support in that effort. Japanese energy development companies have been less dynamic, although diplomatic cross-pressures in Iran and elsewhere have at

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<sup>23</sup> For example, China approached Iran during the negotiations between Japan and Iran concerning Azadegan oil field interests. Although Iran threatened Japan with the prospect of turning Japanese contracts over to the Chinese if Japan did not accede to Iranian terms, Teheran did not in fact do so.

<sup>24</sup> *Financial Times* (October 19, 2006).

<sup>25</sup> *AFP* (November 5, 2006).

times slowed their advance. Although nominally a Socialist nation, China has used market mechanisms, such as IPOs that capitalize on favorable long-term demand prospects in its energy future, to leverage the strength of public-policy companies like CNOOC in international markets.

### **Flashpoints of Sino-Japanese Competition**

Although direct Sino-Japanese energy competition over the past decade has been surprisingly subdued, due to a domestic-transformation oriented Japanese energy strategy, there is a good chance that bilateral rivalry will intensify substantially in future. Rapidly rising Chinese hydro-carbon demand, interacting with broader geo-strategic tensions, could be important catalysts. Another could be an increasingly coherent and insistent Japanese energy diplomacy, whose outlines have become visible within the past two years, and which have become increasingly clear-cut under the Abe administration.

The most dramatic recent manifestation of Sino-Japanese energy competition has been close to home: in the East China Sea. Estimates vary regarding actual reserves, but both oil and gas deposits appear to be substantial. Chinese estimates range from 175 trillion to 210 trillion cubic feet of gas, while Japanese estimates of oil suggest “well over 94.5 billion barrels of quality oil.”<sup>26</sup> The attractiveness of these reserves to China, in particular, is enhanced by their close proximity to areas of rapid energy demand increase along China’s southeastern coast, as shown in Figure I, for which there are few alternative sources of supply. The East China Sea gas reserves are especially attractive to China, given the high efficiency of gas as a residential fuel, and its favorable environmental characteristics.

The political origins of the Sino-Japanese energy conflict in the East

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<sup>26</sup> Selig S. Harrison. “Seabed Petroleum in Northeast Asia: Conflict or Cooperation?” in *Seabed Petroleum in Northeast Asia: Conflict or Cooperation* (Washington D.C.: Woodrow Wilson International Center for Scholars, 2005), pp. 5-6.

China Sea are rooted in the geography, and its relationship to recent evolution in international principles for governing exploitation of submarine resources. Under the U.N. International Law of the Sea, the Exclusive Economic Zone (EEZ) of a nation is 200 nautical miles from that nation's continental shelf. In the East China Sea, however, the widest separation between China and Japan is only 360 nautical miles. China and Japan have adopted different criteria for setting their conception of EEZs in the area, with Japan adopting the median line principle, and China insisting on configuring its EEZ based on the prevailing continental shelf in the relatively shallow East China Sea waters.<sup>27</sup>

The flashpoint for conflict has recently been the Chunxiao/Shirakaba gas fields, only four kilometers on the Chinese-side of the median line, where China began serious exploratory operations in May 2004. In May 2005 Japan's Ministry of Economy, Trade, and Industry (METI) authorized Japanese firms to explore in contested areas. In September 2005 Chinese warships appeared at the now-active fields, on the eve of Japan's national elections. And between November 2006 and January 2007 the PRC began actually tapping both oil and gas from these East China Sea fields, and supplying it to mainland China, despite Japanese protests.

The outcome of this dispute remains uncertain, but prospects are rising for a compromise agreement. China needs the gas, as well as funding for large-scale development. Japan, under Prime Minister Shinzo Abe, appears to desire some symbolic relaxation of tensions with China, as evidenced by Abe's October 2006 visit to Beijing, even as Japan prepares to counter China on broader security matters, and to attain its acquiescence in an enhanced Japanese military posture. High-level discussions have been informally bringing the two nations closer on this issue since the fall of 2006.

Other important flashpoints for conflict — prospectively less tractable than the East China Sea — clearly remain. Among the most

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<sup>27</sup> On the technical details of this conflict, see Selig Harrison, *Seabed Petroleum in Northeast Asia: Conflict or Cooperation* (Washington D.C.: Woodrow Wilson International Center for Scholars, 2005).

difficult concern energy relations with Russia, especially with respect to pipeline diplomacy. China's energy imports from Russia have been rising, with Russia becoming China's fifth largest oil supplier in 2004. Yet Japan also has strong aspirations to access Russian gas reserves — nearly a third of the world's proven total, and oil as well.

Between 2003 and 2005 the two countries fought a bitter, and ultimately inconclusive bidding war with one another for a pipeline accessing the Angarsk oil field just northwest of Lake Baikal. Although favoring Japan over China in 2004, Moscow in April 2005 virtually rejected a \$12 billion Japanese offer helping financing the pipeline,<sup>28</sup> in favor of a lesser Chinese bid, and backed away from positions favoring a limited territorial deal with Japan that it had maintained for more than a decade. Ultimately, still wanting to secure as many Asian customers as possible, Russia decided to branch the prospective 4,188-kilometer pipeline at Skovorodino near the Russian-Chinese border, the midpoint of the entire route. Doing so would supply 20 million tons of oil a year to China and 10 million tons to be transferred by rail to the Pacific coast to Japan. Construction under this compromise plan started in April 2006.<sup>29</sup>

During 2006 Russia also forced two major Japanese trading companies, Mitsubishi and Mitsui, into an unfavorable re-negotiation of the strategic and long-standing Sakhalin II liquefied natural gas project, using nominal environmental concerns as a wedge, with Chinese energy concerns a complicating background factor for Japan's energy aspirations.

Iran is another potential flashpoint in Sino-Japanese energy relations. In Iran, both Japan and China received major, separate oilfield development concessions during the 2003-2005 period — the Japanese at Azadegan and the Chinese at Yadaravan.<sup>30</sup> Yet the Iranians have strong incentives, in the context of the continuing nuclear crisis, to force

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<sup>28</sup> *Kyodo News*, May 19, 2005 and April 27, 2005.

<sup>29</sup> *Kyodo News*, April 28, 2006.

<sup>30</sup> In October 2004, state-controlled Sinopec, one of China's three major oil companies, concluded a \$70 billion, 30-year deal with the Iranians to develop the Yadaravan oil field, and to buy 250 million tons of liquefied natural gas.

the Japanese and Chinese to compete with one another. China's strong geo-political ties with Iran, and Japan's difficulty in matching them due to the US-Japan alliance, are a particular frustration for Japanese aspirations that could seriously complicate Sino-Japanese, and even US-Japan relations.

In the longer-run a crucial issue in Sino-Japanese energy relations must inevitably be the respective roles of the two Asian giants in the Persian Gulf. Japan currently is by a substantial margin the largest customer in the world for Persian Gulf oil, but China's rapidly rising demand will almost certainly alter that situation. How Sino-Japanese rivalries work themselves out in the Gulf, especially as Chinese energy demand rises to many times its current levels, and as the nature of American involvement in the Middle East changes, is a question of utmost importance for the global geo-political future, that is clearly on the mind of Japanese policymakers, in the wake of Prime Minister Shinzo Abe's May 2007 diplomatic trip to the Middle East. That rivalry has already begun is clear both from developments in Iran discussed above, and the Sino-Japanese competition during 2004-2007 to sign free-trade agreements with the Gulf Cooperation Council states of the Persian Gulf.<sup>31</sup>

### **Cooperative Prospects: Too Little, Too Late?**

Looking to the future, there are clearly deepening competitive prospects looming in Sino-Japanese energy relations, especially in Russia and the Middle East. Sino-Japanese competition could be exacerbated by still indeterminate conflicts in the East China Sea, perhaps interacting with territorial issues, or a Taiwan crisis. To what extent can revived cooperative ventures, building on the substantial successes of Japan in the 1970s and 1980s in energy conservation, now blaze a path-

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<sup>31</sup> China began discussions with the GCC in 2004, followed by Japan in 2006. Both China and Japan hope to finalize with the GCC during 2007. See *Financial Times*, September 8, 2006 and January 18, 2007.

way of global importance that China can emulate?

The prospects for revived cooperation — different from the 1970s and 1980s, but nevertheless consequential — appear relatively good, especially if they are encouraged by the United States. China clearly needs Japanese energy-conservation technology, as well as access to the disputed East China Sea fields. And the Abe government appears bent on building bridges in non-military fields to China, for its own broader political and diplomatic reasons.

Besides energy conservation, clean energy technology is another field for prospective cooperation. As previously mentioned, 70 percent of Chinese primary energy consumption is coal, and the air pollution it generates impacts Japan in the form of acid rain. This grim reality has driven the two countries to cooperate in clean-coal technology through METI's Green Aid Plan since 1992. In 2003, Japan and China set up a joint venture, Fushun Hubo Clean Coal Co., Ltd., to produce clean coal in Fushun City in Liaoning province.<sup>32</sup>

The high priority that China is coming to assign to energy and environmental matters where Japan can meaningfully cooperate was dramatically expressed in Prime Minister Wen Jia Bao's March 2007 opening address at the National People's Congress in Beijing.<sup>33</sup> Wen reaffirmed the central importance of rapid economic growth as a national priority, but also warned that growth could be seriously constrained by energy and environmental problems. China's current five-year plan calls for a 20 percent reduction in energy consumption per unit of GDP, but Wen noted that that goal had not been met in the first year of the program. He called for redoubled efforts on both energy conservation and reducing overall pollution-discharge levels.

Another field for potential enhanced cooperation is nuclear energy. In 2006, China announced that it would speed up the construction of nuclear power plants, from the current 8,700 megawatts capacity to 40,000 megawatts by 2020.<sup>34</sup> In the same year, Japan also announced its

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<sup>32</sup> *Sinocast China Business Daily News*, October 13, 2003.

<sup>33</sup> See *New York Times*, March 5, 2007.

<sup>34</sup> *AFP* (March 2006).

plan to raise the nuclear power ratio of total electric power production from 29 percent in 2004 to 30-40 percent in 2030, and re-affirmed the importance of civilian nuclear cooperation as a major area for energy cooperation with Asia, including China.<sup>35</sup>

The only question is whether the geo-strategic tensions, and the cycle of grass-roots mistrust between the two Asian giants has escalated to such a point that the sort of pragmatic accommodations that are so much in the global interest will be politically possible between them. The United States, while re-affirming its alliance with Japan as its principal Pacific ally, needs to re-affirm that it sees the importance of Sino-Japanese, and indeed US-Sino-Japanese, energy cooperation, within the context of renewed efforts for the political-economic stabilization of Northeast Asia.<sup>36</sup>

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<sup>35</sup> The other areas for cooperation included energy conservation, clean coal technology, alternative energy, and energy storage. See Agency for Natural Resources and Energy. *New National Energy Strategy Digest*. 2006. [Available online] <http://www.enecho.meti.go.jp/english/index.htm>.

<sup>36</sup> A positive step was taken in this direction with the December 2006 Beijing energy ministerial meeting, involving energy ministers from Japan, China, South Korea, India, and the US. They discussed energy security, stability, and sustainability, including cooperation in clean-coal and nuclear technology. For a summary, see *Xinhua News Agency*, December 18, 2006.



**PART**  
**VIII**

*Prospects of Regional FTAs  
in Northeast Asia*

Will the Proliferation of FTAs in Northeast Asia  
Lead to a Northeast Asia FTA?

Functional Cooperation as a Strategy Against the  
“Obstacles and Variables of Northeast Asian FTAs”

Regionalization and FTAs in Northeast Asia:  
A Critical Perspective



# *Will the Proliferation of FTAs in Northeast Asia Lead to a Northeast Asia FTA?*

**Chang-Jae Lee**

*When it comes to regionalism, Northeast Asia is quite different from other major economic regions. There is still no bilateral FTA between Northeast Asian countries, let alone a region-wide FTA. On the other hand, despite the absence of a regional trade agreement, functional economic integration seems to have proceeded rather robustly. The three Northeast Asian countries, Japan, Korea and China, joined the worldwide FTA bandwagon quite late. Yet, despite this fact, all three major Northeast Asian countries have concluded a number of bilateral FTAs within a relatively short period of time. Furthermore, they also seem to be interested in a region-wide FTA in East Asia. This paper analyzes the trends of functional economic integration in terms of trade in Northeast Asia, and reviews the emergence and recent proliferation of FTAs involving Northeast Asian countries. Then, it attempts to find out whether the proliferation of FTAs involving Northeast Asian countries will lead to bilateral FTAs between Northeast Asian countries and ultimately to a region-wide FTA. It argues that FTA proliferation in Northeast Asia could play a positive role for the formation of FTAs between Northeast Asian countries and even for a China-Japan-Korea FTA. In this regard, the three FTAs, i.e., the recently concluded KORUS FTA, the ongoing Korea-EU FTA, and the EAFTA now in discussion, deserve special mention*

## **I. Introduction**

**W**hen it comes to regionalism, Northeast Asia is quite different from other major economic regions. First, it belatedly adopted regionalism, which had begun in Europe in the

1950s and became a worldwide phenomenon by the 1990s. Yet, no country in Northeast Asia, which represents about one fifth of the world economy, had established a free trade agreement (FTA) until 2001. There is still no bilateral FTA between Northeast Asian countries, let alone a region-wide FTA. On the other hand, despite the absence of a regional trade agreement, functional economic integration seems to have proceeded rather robustly.

The three Northeast Asian countries, Japan, Korea and China, joined the worldwide FTA bandwagon quite late. Japan became the first Northeast Asian country to form an FTA when the Japan-Singapore Economic Partnership Agreement (JSEPA) went into force in 2002. Since then, all three major Northeast Asian countries have concluded a number of bilateral FTAs within a relatively short period of time.

Japan concluded EPAs with Mexico, Malaysia, the Philippines and Thailand, while Korea concluded FTAs with Chile, Singapore, the European Free Trade Association (EFTA)<sup>1</sup> and the United States, as well as a Trade in Goods Agreement with ASEAN (excluding Thailand). China formed FTAs with ASEAN, Chile and Pakistan, as well as Closer Economic Partnership Arrangements (CEPAs) with Hong Kong and Macao. In addition, there are many ongoing FTA negotiations involving these countries. Furthermore, they also seem to be interested in a region-wide FTA in East Asia.

This paper first analyzes the trends of functional economic integration in terms of trade in Northeast Asia and compares them with those of major economic regions. Secondly, the emergence and recent proliferation of FTAs involving Northeast Asian countries will be reviewed. Third, the main factors motivating the proliferation of FTAs in the three Northeast Asian countries will be addressed, as well as the reasons behind the absence of an FTA among Northeast Asian countries. Finally, an attempt will be made to find out whether the proliferation of FTAs involving Northeast Asian countries will lead to bilateral FTAs between Northeast Asian countries and ultimately to a region-wide FTA.

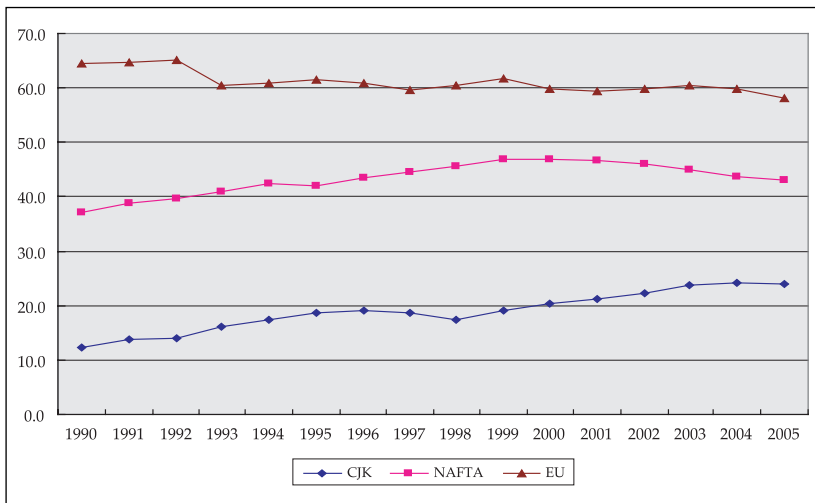
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<sup>1</sup> The EFTA is an arrangement comprised of Switzerland, Iceland, Liechtenstein and Norway.

## II. Functional Economic Integration in Northeast Asia

The importance of intra-regional trade between China, Japan and Korea has risen substantially since 1990. The share of intra-regional trade among these countries increased from 12.7 percent in 1990 to 23.9 percent in 2005. Trade shares rose consistently between 1990 and 2004, except during the Asian financial crisis (1997-98), before diminishing slightly in 2005.

<Figure 1> Share of Intra-regional Trade in Northeast Asia, NAFTA and the EU



Source: Annex Table 1.

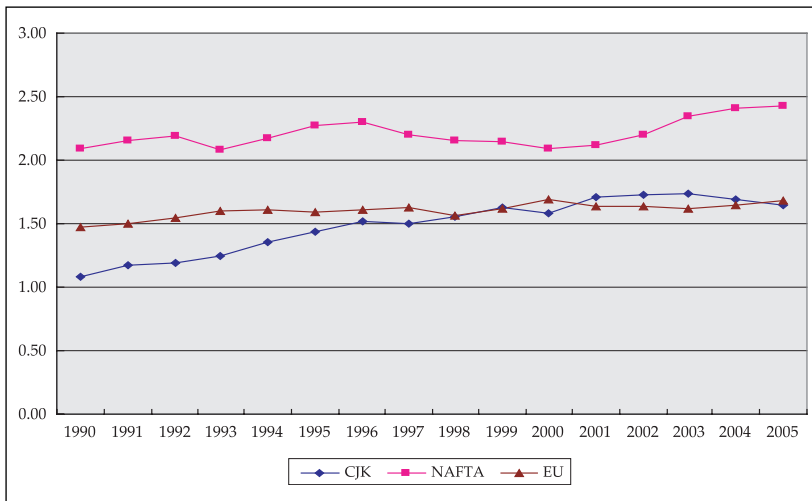
As a result, the gap between the share of intra-regional trade among the three Northeast Asian countries and those of the EU<sup>2</sup> and NAFTA shrank significantly during 1990-2005. Nevertheless, trade levels were still much lower than those of the EU and NAFTA, which were 58.2 percent and 43.0 percent, respectively, in 2005.

However, since a larger group results in a higher share of intra-regional trade, the share of intra-regional trade is not a good measure

<sup>2</sup> EU-15.

of regional trade concentration. To obtain a better measure, we adjust intra-regional trade shares by the region's share in world trade and calculate a simple intra-regional trade concentration ratio. Figure 2 shows the movements of the simple intra-regional trade concentration ratios of the three Northeast Asian countries, the EU and NAFTA. From 1990-2005, the intra-regional trade concentration ratio of the three Northeast Asian countries increased from 1.13 to 1.64. According to the results, the ratio for the three Northeast Asian countries was noticeably lower than that of NAFTA, but actually higher than that of the EU from 2001-2004.

**<Figure 2> Simple Concentration Ratio of Intra-regional Trade in Northeast Asia, NAFTA and the EU**



Source: Annex Table 1.

These figures clearly show that the functional economic integration of the three countries in terms of trade strengthened during 1990-2005. Furthermore, even without a region-wide trade arrangement, the intensity of intra-regional trade among the three countries has been similar to that of the EU since 1996.

The growing trade interdependency between China, Japan and

Korea is also reflected in each country's major trade partner rankings.<sup>3</sup> In 2005, Japan and Korea were the second and fourth largest trading partners, respectively, for China.<sup>4</sup> For Japan, China and Korea represented the second and third most important trading partners,<sup>5</sup> respectively, after the US; while for Korea, China and Japan were the first and second largest trading partners, respectively.<sup>6</sup> It is important to note that due to the rise of the Chinese economy, China has emerged as the most important trading partner for Korea and the second largest trading partner for Japan.<sup>7</sup>

### **III. Proliferation of FTAs in Northeast Asia**

In addition to the worldwide rise of regionalism, the Asian financial crisis was also another major factor that prompted East Asians to seriously consider economic regionalism. In the wake of the Asian financial crisis, the basic institutional framework for regional economic cooperation was established in East Asia: the first ASEAN+3 (China, Japan and Korea) Summit Meeting was held in Kuala Lumpur in December 1997 and has been conducted on an annual basis ever since. To support the Summit Meetings, various ASEAN+3 Ministerial Meet-

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<sup>3</sup> Comtrade Database.

<sup>4</sup> For China, Japan and Korea represented the third and fourth largest export destinations, respectively, while they were China's largest and second largest import sources, respectively, in 2005.

<sup>5</sup> China and Korea represented the second and third largest export destinations, respectively, for Japan, whereas they were Japan's largest and sixth largest import sources, respectively, in 2005.

<sup>6</sup> For Korea, China and Japan represented the largest and third largest export destinations, respectively, while they were Korea's second largest and largest import sources, respectively, in 2005.

<sup>7</sup> Considering that the average growth rates of Chinese-Japanese trade and US-Japanese trade were 13.8 percent and 0.6 percent, respectively, for 1994-2004, which amounted to US\$168.3 billion and US\$192.4 billion, respectively, in 2004, China is likely to become Japan's largest trading partner in the near future. In fact, China including Hong Kong was already Japan's largest trading partner (US\$205.3 billion) by 2004.

ings and Senior Officials Meetings have also taken place regularly since 2000. It was within the ASEAN+3 frameworks that the dialogue channel between the leaders of the three Northeast Asian countries was first established. At the ASEAN+3 Summit Meeting in Manila in November 1999, the leaders of the three countries came together for the first time at a historic meeting. Since then, this three-way Leader's Summit has also become an annual event.<sup>8</sup>

Then in the early 2000s, Japan, Korea and China belatedly joined the FTA bandwagon: Japan signed a New Age Economic Partnership Agreement with Singapore in January 2002, which went into force on November 30, 2002; Korea signed an FTA with Chile in February 2003, and the Korea-Chile FTA came into force on April 1, 2004; China signed separate Closer Economic Partnership Arrangements (CEPA) with Hong Kong and Macao in 2003, both of which went into force in January 2004, and the China-ASEAN preferential arrangement, which went into force in July 2003.<sup>9</sup> Subsequently, the three Northeast Asian countries have signed a number of additional FTAs. Japan signed EPAs with Mexico, Malaysia, the Philippines and Thailand. Korea signed FTAs with Singapore, EFTA and the United States, as well as a Trade in Goods Agreement with ASEAN (excluding Thailand). As for China, it signed FTAs with ASEAN, Chile and Pakistan.

In addition, there are many ongoing FTAs, some under negotiation and others at the study phase.<sup>10</sup> Japan is in negotiations with Korea, Indonesia, Brunei, ASEAN, Chile and the Gulf Cooperation Council (GCC).<sup>11</sup> Korea is negotiating FTAs with Japan, Canada, Mexico, India and the European Union, while China is negotiating with Australia, New Zealand, the GCC and Singapore. Among these, the following FTAs deserve special mention: the Korea-Japan FTA negotiations,

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<sup>8</sup> Lee (2003). A Summit Meeting was not held in 2006 due to political tensions between the three countries.

<sup>9</sup> It was reported to the WTO under the Enabling Clause in December 2004.

<sup>10</sup> Since there are numerous ongoing FTAs, we will concentrate mainly on those officially under negotiation.

<sup>11</sup> The GCC consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.



which began in December 2003 but have been stalled since November 2004; Korea and China's launching of an official tripartite joint study on a Korea-China FTA in March 2007; and, finally, the negotiations meeting on the Korea-EU FTA, which was held in Seoul in May 2007.

On the other hand, the debate on an East Asia FTA (EAFTA) has also begun. In fact, the East Asian Vision Group (EAVG) recommended the formation of an "East Asia Free Trade Area" in a report submitted to the leaders of ASEAN + 3 on October 31, 2001. On November 4, 2002, the East Asia Study Group (EASG) followed suit by also proposing the initiation of an EAFTA.

However, no serious efforts had been made until the 8th ASEAN+3 Summit in Vientiane, November 29, 2004, which welcomed the decision by the ASEAN+3 Economic Ministers to set up an expert group to conduct an EAFTA feasibility study. Following four workshops, the Joint Expert Group for Feasibility Study on an EAFTA submitted its report, "Towards an East Asia FTA: Modality and Road Map," to the ASEAN+3 Economic Ministers at a meeting held on August 23, 2006. Unfortunately, the Ministers failed to put the EAFTA on the economic cooperation agenda at the 10th ASEAN+3 Summit in 2006. The first meeting of the EAFTA Study Phase II, initiated by Korea, was recently held in Seoul on May 31, 2007. Moreover, the first CEPEA study group meeting, which includes India, Australia and New Zealand in addition to ASEAN+3 countries, is scheduled to take place in Tokyo from June 15-16, 2007.

#### **IV. Motives Behind Northeast Asian FTAs**

The waves of FTAs in Northeast Asia were initially caused by increasing worldwide regionalism and the Asian financial crisis. But how can we explain the subsequent proliferation of Northeast Asian FTAs occurring today? The benefits of forming an FTA are well known. Through reciprocal concessions on trade barriers, participants enjoy larger market access and the achievement of economies of scale. Another conventional economic motive is that a unified market pro-

vides a more competitive environment for firms, thus raising economic efficiency.

In addition to economic benefits, there are political motives as well: some countries participate in regional trade agreements to help lock in domestic reform policies. Yet another objective is to raise the bargaining power of the members in the international arena, including multinational trade talks and international financial institutions. Also, one cannot underestimate the importance of strategic motives in regional economic integration. For instance, the main motive of European integration was to prevent war breaking out again in Europe, and economic cooperation was an effective means of achieving this goal. Finally, an alternative rationale for the proliferation of regionalism is provided by Baldwin's domino theory of regionalism, which is based on the dynamics of domestic politics.<sup>12</sup>

The initial FTA activities of Japan, Korea and China can be characterized as "me, too" regionalism,<sup>13</sup> since these countries did not want to lag behind in the worldwide rise of regionalism. However, the motives behind the recent proliferation of FTAs among major Northeast Asian countries are not as simple. Today FTAs seem to be caused by a combination of diverse motives, such as economic, political and strategic factors. However, it is the author's view that geopolitical motives have been the main underlying forces behind the recent proliferation of FTAs, especially those between Northeast Asian countries and Southeast Asian neighbors.<sup>14</sup>

In 1999, the Korea Institute for International Economic Policy (KIEP) and the Institute of Developing Economies (IDE) in Japan initiated a joint study commissioned by the respective governments on the implications of an FTA between Korea and Japan. The study, however, fell short of producing a cogent recommendation for a Korea-Japan FTA. China subsequently proposed the formation of an ASEAN-China FTA

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<sup>12</sup> Lee (2004); Baldwin (1999).

<sup>13</sup> Jeffrey J. Schott and Ben Goodrich (2004).

<sup>14</sup> A World Bank publication notes also that the main driving forces behind the proliferation of trade blocs in the 1990s were diverse political forces (World Bank, 2000).

in 2001, and signed the Framework Agreement on Comprehensive Economic Cooperation with ASEAN in 2002. China's sudden interest in RTAs (Regional Trade Agreements) took many people and countries by surprise and produced some new developments in the region. First of all, China's actions prompted Japan to actively pursue FTA talks with Southeast Asian countries and accelerate the Korea-Japan FTA process, which led to the start of negotiations in December 2003.<sup>15</sup> Korea, on the other hand, started FTA negotiations with Singapore, and ASEAN, in January 2004 and February 2005, respectively.

The events following the initiation of Korea-Japan FTA talks can better be explained, by a "new domino theory" that is based on the dynamics of international politics. In fact, there has emerged a sort of competition between Japan and China, since both are fearful of being left behind in a race to conclude FTAs with neighboring countries. The Japanese government's recent attempt to launch a study group to form a region-wide FTA in East Asia (CEPEA) apart from the existing EAFTA Joint Expert Group Study (which was originally initiated by China) can also be explained in the same vein.

## **V. Impacts of FTA Proliferation on a Northeast Asian FTA and Prospects for a Region-wide FTA**

As argued earlier, the recent proliferation of Northeast Asian FTAs, especially those between Northeast Asian countries and Southeast Asian countries, can best be explained by, *inter alia*, geopolitical motives. The supremacy of non-economic motives over economic rationale can also be used to explain the dearth of FTAs between Northeast Asian countries. In fact, most commonly cited obstacles to a CJK FTA are usually non-economic factors such as rivalry between China and Japan, different political systems, historical remnants, and lack of community spirit. As shown above, the economic interdependency in terms of trade between the three Northeast Asian countries has grown quite

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<sup>15</sup> Lee (2004).

rapidly during the past 15 years. Yet, so far, they have failed to conclude any FTAs between themselves. In particular, no serious attempt has been made to form an FTA between China and Japan. However, in our view, recent and ongoing developments could play a positive role for the formation of FTAs between Northeast Asian countries and even for a China-Japan-Korea FTA.

First, the recently concluded FTA between Korea and the United States could provide a positive impact when it is ratified. Although there have been many FTAs involving Northeast Asian countries, the KORUS FTA is the first bilateral FTA between major economies. In fact, when ratified, this FTA between the world's largest and the eleventh largest economies will be the largest bilateral FTA currently in force.

The KORUS FTA will help to stimulate an FTA between Korea and its Northeast Asian neighbors in many ways: on the one hand, the KORUS FTA makes Korea a more attractive FTA partner for China and Japan; on the other hand, this agreement makes it easier for the Korean government to pursue other major FTAs, which would, in turn, increase Korea's appeal. Moreover, as mentioned earlier, Korea has started FTA negotiations with the European Union, and a Korea-EU FTA is expected to be concluded by 2008. For the same reasons that the KORUS FTA will be beneficial, an FTA with the EU will further produce a positive impact on a Korea-Japan FTA and Korea-China FTA; it is also likely to stimulate ensuing FTAs.<sup>16</sup>

Thus, a KORUS FTA and, to a lesser degree a Korea-EU FTA, will indirectly benefit the formation of a CJK FTA in the following ways.

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<sup>16</sup> According to the Trilateral Joint Research on the sectoral implications of a CJK FTA (2004), a regional trade agreement (RTA) between major economic partners such as a CJK FTA, is likely to result in additional FTAs, which will minimize losses caused by trade diversion. For instance, because under a CJK FTA, countries exporting agricultural products would exert pressure on Korea and Japan, it would also be in the interest of Japan and Korea to lower their tariffs on agricultural products to non-member countries. The same logic applies to the Chinese automobile sector, which would necessarily involve major automobile manufacturing countries, such as countries in the EU and the United States. Therefore, the KORUS FTA and a Korea-EU FTA, which pertain to major players in many sectors, are likely to bring about other FTAs involving Northeast Asian countries.

First, if a Korea-Japan FTA and a Korea-China FTA are concluded, they may give rise to an environment that is conducive to the creation of a CJK FTA. Second, after the KORUS FTA and Korea-EU FTA are established, a CJK FTA is much less likely to be regarded by the US or the EU as a trade bloc. Third, the KORUS FTA could contribute to a CJK FTA by weakening a possible obstacle. The United States, a major military ally to both Korea and Japan, could very well feel reservations about a CJK FTA, but the existence of a KORUS FTA could alleviate this concern.

However, the main positive impact of a CJK FTA would come from the recently emerging interest in a region-wide FTA among East Asian countries. Since it is difficult to imagine a region-wide East Asian FTA in which a major Northeast Asian country is absent, a region-wide East Asian FTA would not be possible unless there is a de facto FTA between China, Japan and Korea. Moreover, a CJK FTA would facilitate the formation of a region-wide FTA in East Asia.

**<Annex Table 1> Share of Intra-regional Trade and Its Simple Concentration Ratio in Northeast Asia, NAFTA and the EU**

	China-Japan-Korea		NAFTA		EU	
	Share <sup>1</sup>	Ratio <sup>2</sup>	Share <sup>1</sup>	Ratio <sup>2</sup>	Share <sup>1</sup>	Ratio <sup>2</sup>
1990	12.7	1.13	37.2	2.09	64.5	1.47
1991	13.9	1.18	38.9	2.16	64.7	1.50
1992	14.1	1.20	39.7	2.19	65.2	1.55
1993	16.1	1.25	41.0	2.08	60.5	1.60
1994	17.5	1.35	42.4	2.17	60.9	1.61
1995	18.6	1.43	42	2.28	61.6	1.59
1996	19.0	1.52	43.5	2.30	60.8	1.61
1997	18.6	1.50	44.5	2.20	59.6	1.62
1998	17.4	1.56	45.7	2.16	60.5	1.56
1999	19.2	1.63	46.8	2.15	61.8	1.62
2000	20.3	1.58	46.9	2.10	59.8	1.70
2001	21.8	1.81	46.6	2.12	59.4	1.64
2002	22.4	1.73	46.1	2.20	59.9	1.64
2003	23.7	1.74	44.9	2.35	60.6	1.62
2004	24.1	1.69	43.7	2.42	59.9	1.63
2005	23.9	1.64	43.0	2.43	58.2	1.68

Notes: 1. Share of intra-regional trade

2. Simple concentration ratio of intra-regional trade

Source: IMF, 2007. *Direction of Trade Statistics*.

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## *Functional Cooperation as a Strategy Against the “Obstacles and Variables of Northeast Asian FTAs”*

**Yukiko Fukagawa**

*Around 2008, the first round of ASEAN+3 (Japan, China, Korea) FTA negotiations is to compete as the three sets of ASEAN+1. The policy makers of each country are requested to think about the second round, reflecting on the factors that emerged in the process. Despite the fanfare, the China FTA ended up under the enhancing right to virtually assure uncertainty in the implementation, and the major economy of Thailand withdrew from Korea. Japan was shadowed by Japan's protectionism on the agricultural sector. Japan-Korea negotiations failed, pushing Korea's priority toward the US or EU, and Japan herself toward Australia and India. China's FTA has started to be threatened by energy/resource security at the global level. These revealed the endogenous obstacles in “real” liberalization, as well as political difficulties in sustaining the centripetal force. However, on the other hand, there is a very unique production network and complicated division of labor in the region, which has served as the real engine of the growth. Reconsidering this reality, the traditional FTA package negotiated by nations may not only be politically infeasible but also ineffective in the region, especially among +3. Functional cooperation to reduce the service-link cost of the network may be a solution for the constraints, such as finance, logistics, Standardization, and a Mutual Recognition Agreement (MRA) as the strategic targets for functional cooperation. Functional cooperation has been promoted even in APEC, but the strategic projects complementing FTA are essentially different, in that they are to go with FTA negotiations enhancing the market, which is the real power for the integration.*



## Introduction

In the post crisis period, East Asia rushed into Free Trade Agreement (FTA) negotiations, as the late comer in regionalism. However, after a decade, each FTA has failed to converge into certain institutions or coverage, losing even the original framework of ASEAN+3 (Japan, China, Korea) as the goal. Japan, which actually did set the framework, has switched for +3 +3 (Australia, New Zealand and India), while China has become desperate in negotiating with resource-rich developing economies globally. No matter her intention, Korea's recent agreement for Korea-US FTA (KORUS) may work as the further centrifugal force for the region. Interestingly enough, the evolutionary process seems to have been haunted by the "open regionalism" in APEC (Asia-Pacific Economic Cooperation), the only framework in tradition.

However, as long as FTAs are the exception under the WTO regime, the integration through FTAs will not mean a simple return to APEC, another principle of which was the "voluntary liberalization." After establishing ASEAN Free Trade Area (AFTA), ASEAN has negotiated with China, Korea and Japan (ASEAN+1). The share of intra-regional trade for ASEAN+3 economies has reached around 55%, which is far larger than NAFTA and similar to the level of EU15 in 2005 already. It will be further boosted by +1 FTAs, and ASEAN is now seeking for "deeper integration" through movement of natural persons, logistics, and a Mutual Recognition Agreement (MRA) on certain specific industries. The new stage will require more functional cooperation beyond traditional FTAs to promote conversion. Japan has welcomed this trend, by announcing the "Asia Gateway" approach in May 2007, aiming at deeper economic ties with China.

Needless to say, trade liberalization remains the hard core of any FTA, but considering the region's unique market-driven, precisely FDI-driven integration, an additional functional approach may help real integration, while avoiding energy consuming FTA politics. To identify the functionalism, this paper tries to explore the specific agendas for cooperation. The first section reviews the remaining constraints for the

region's integration, to be followed by a second section on the mechanism of market-driven integration. The final section will discuss the possible agendas for FTA-enhancing cooperation, which may work on +3 negotiations positively.

## **I. Structural Constraints in an East Asian FTA**

Since around 2000, FTA negotiations have mushroomed in East Asia. Considering the diversities, institutional convergence of each FTA has never been regarded as easy from the beginning, but several constraints have emerged in the mean time. In the early period, the region did share the memory of the financial crisis, enhancing the commitment for regionalism, but this positive pressure has faded away along with the complacency about piling up foreign reserve. More than that, familiar constraints have come back deeply rooted in the structure that had hindered APEC from making the real vehicle for regionalism.

First of all, in both the EU and NAFTA, certain core economies existed, like France-Germany or the United States, which can set the framework based on their dominating market size, in addition to the political will. However, in East Asia, Japan-China relations remain still politically immature, and even in limited economic relations, it is unrealistic for Japan to admit China as a fully-fledged market economy instantly,<sup>1</sup> which has become virtually the precondition for China to kick off FTA talks. Recently Japan decided to put Australia and India on a shorter list of FTA negotiation than China, suggesting so-called +3+3 against the FTAAP (Asia-Pacific FTA) idea by the US. The stumbling block of Japan-China relations has made room for a non-“natural member” — namely the US — to break in, making the smaller economies as the stepping stones. KORUS was a typical but an extreme case in that even Thailand or Malaysia had FTAs with both Japan and China when they approached Washington.

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<sup>1</sup> Present WTO framework takes into account the difference between capitalist and socialist regimes when claims are made for an anti-dumping judgment.

Since the US tends to seek a highly institutionalized, codified, comprehensive framework in FTAs, having the largest impact on the counterparts, negotiation requires intensive devotion to resources, automatically pushing down the priorities of others. In addition, for the size of the economy, a FTA with the US inevitably affects the other small economies: Not only for the fear of being discriminated against in the access for the world's largest market, but also for the fear of losing FDI and other capital flows. Accordingly, one FTA with the US may trigger competition among others, which enables the US hub-and-scope strategy in the end.

**<Table 1> The Impact of KORUS by KIEP (2006)**

Macro	China	Japan	Asean	Australia	Canada
GDP (%)	-0.14	-0.10	-0.21	-0.14	-0.18
Export (Million \$)	-0.18	-0.06	-0.16	-0.23	-0.16
Export (Million \$)	-0.17	-0.10	-0.16	-0.24	-0.18
<b>Output (Million \$)</b>					
Grain	-39.46	21.13	-0.74	-32.59	8.71
Veg/Fruits	-24.60	-9.73	-21.23	-18.58	12.39
Others	-23.85	-15.21	-25.95	-71.74	-12.18
Meat	-14.29	-3.73	-35.39	-73.86	-11.81
Food	-119.63	-66.49	-141.80	-128.47	-46.56
Manufacturing	-83.78	-334.52	-459.88	166.58	-585.27
Total	-781.12	-867.36	-1241.70	-1031.71	-1237.45

As Korea herself admitted as in Table 1, the negative impact of KORUS is expected to be largest for ASEAN, or China, not for Japan. The US entrance may impose centrifugal momentum for regionalism, no matter the intention.

Secondly, reflecting the diversity of the region, East Asian FTAs tend to vary in content, coverage and rules, embracing the classic risk for stumbling blocks. As in Table 2, Japan, Korea, and Singapore have committed to a "comprehensive FTA," but the coverage of a China-ASEAN FTA, based on enhancing rights,<sup>2</sup> remains still in trade of

&lt;Table 2&gt; Different FTAs in East Asia

	Goods	Service	Investment	IPR	MRA	Compe.	Desputes	Facilitation	Labor	Trans.
Japan-Singapore	O	O	O	O	O	O	O	O	O	X
Japan-Mexico	O	O	O	O	O	O	O	O	O	X
Korea-Chile	O	O	O	O	O	O	O	O	O	X
Korea-Singapore	O	O	O	O	O	O	O	O	O	X
Korea-USA	O	O	O	O	O	O	O	O	O	O
Shingapore-USA	O	O	O	O	O	O	O	O	O	O
Thailand-Australia	O	O	O	O	O	O	O	O	O	X
AFTA	O	O	O	X	O	X	X	O	X	O
China-ASEAN	O	Δ	Δ	X	X	X	X	O	X	X
NAFTA	O	O	O	O	O	O	O	O	O	X
EU-Chile	O	O	O	O	O	O	O	O	X	O*
EU-Mediterranean	O	X	X	O	X	O*	O	X	X	X
MERCOSUR	O	O	O	X	O	O	O	O		X

Source: Global Economic Prospects 2005: Trade, Regionalism and Development, World Bank. [Http://www.dfat.gov.au/trade/negotiations/aust-thai/tafta\\_toc.html](http://www.dfat.gov.au/trade/negotiations/aust-thai/tafta_toc.html).

日本貿易振興機構(2005)他

Note: 1) IPR (Intellectual Property Right), MRA (Mutual Recognition Agreement), Compe. (Competition Policy Coordination), Disputes (Disputes Settlement), Facilitation (Trade Facilitation), Trans. (Transportation).

2) \* Future negotiation expected.

goods and trade facilitation, and the agreement on services and FDI seems to require more time. While negotiating a “high-standard FTA” with the matured economies, Korea faces different standards in a Korea-ASEAN FTA, which remains at the level of China-ASEAN for a certain period of time. This is in part inevitable when ASEAN-10 includes the latecomers of Vietnam, Cambodia, Laos and Myanmar, which have little experience in the WTO regime.

The potential cost for the variety of FTAs is known as the “Spaghetti Bowl” effect, or “Noodle Bowl effect” in East Asia, which all the different

<sup>2</sup> For instance, ASEAN and China agreed that once certain items are designated as “sensitive” or “highly sensitive” by the counterparts, there won’t be any obligation for tariff reduction for both parties based on the reciprocity principle. This means that liberalization speed may become slower than was announced.

Rules of Origin (ROO) will bring about. As long as a FTA is a preferential arrangements negotiating parties try to protect against detour imports or free riders from outside. Experiences in precedent FTAs have shown that stringent rules tend to impose significant cost for the firm, including time and energy for compliance. As a result, they may try either to diverge trade and FDI strategies, or rather use MFN tariffs. Krueger (1999) pointed out the protectionist effect of strict ROO in preventing competition.

In fact, there are already a variety of ROOs in the region. While enhancing a right-based FTA can be generous about ROO, matured economies tend to complicate them. In AFTA, ROO is based on 40% of value content with full accumulation, and China-ASEAN has followed this standard. However, Australia-Thailand has brought in more complicated changes in the heading number, while restricting accumulation. Japan claimed very high value content on some sectors, like 90% in processed food and agriculture in the Japan-Thailand FTA, with little accumulation. Despite some compromise KORUS has to take in the notorious ROO in textile products, and most probably Thailand will face similar ROO once the Thai-US FTA is agreed to. Then, firms operating in Thailand will have to follow all the different ROOs, according to the destination of their products. Unless the government makes an intensive effort for transparency in ROOs and for its implementation process even with the additional administration cost, different FTAs may bring diverging and protectionist incentives.

The political difficulty in identifying the real members has also shared the open characters of APEC, to stretch out from ASEAN+3 to invite not only the US but also Russia, Chile, and Mexico. The diversity naturally has shaped the non-binding, voluntary character in both trade liberalization and cooperation, which hardly functioned at the time of the financial crisis. There has been a traditional gap between the US, sticking to rapid trade liberalization and other Asian members, stressing cooperation in gradual market opening, which blurred the focus while diversifying the concrete agendas. FTAs with a variety of partners in different standards and content may bear similar characters, if no efforts are made.

FTA-based regionalism in post crisis was, at the beginning, based on the certain consensus that the region had been too much dependent on the American market, and dollar settlement intensively as a result. Strong growth of the Chinese market was expected to offer the chance for improving concentration through regional integration and the financial cooperation was promoted to sustain the efforts.

However, it is a fact that China remains smaller as the exports absorber of *final goods*, while her own purchasing power depends on export including to the US (METI (2005)). As in the Figure, using I-O table of 2000, Kuroiwa (2006) gave evidence that China's industrial linkage within the region is still minor, though growing in forward linkage, compared to Japan or the US. Kuroiwa accounted for the number of combinations in the table, where the impact of the linkage exceeds 5% of production of the counterparts. While the number is 53 (forward linkage remains 38) for Japan, and 17 (the same 41) for the US, China had 0 but (17).<sup>3</sup> The American market has offered an export boom at the time of the IT bubble, and since then, still some Asian currencies have shown closer linkage with the dollar than any others. China has not replaced the US yet, despite the high growth.

In this structure, it was natural that once Washington started to intervene into FTAs, some countries are attracted, accepting the centrifugal force for the region. And it was also natural for the US to negotiate for a comprehensive and explicit FTA for a more substantial market opening than the voluntarism in APEC. After all, the political / economic structure for regionalism has not changed drastically even after the crisis, which has paved the path-dependent development of FTA-based integration.

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<sup>3</sup> In terms of Japan, the number was 72 in 1990 and 65 in 1995, which means that the region is more for the horizontal division of labor for Japan.

## **II. Market-led Integration with a Unique Division of Labor Network**

While institutional convergence faces challenges, real integration is more led by the market forces, driven by the very unique division-of-labor networks. The network was born and developed since the FDI boom in the late 1980s, triggered by Japan's industry reallocation after the Plaza Accord, and restructuring of export industries of NIEs and leading ASEAN members that followed. Intra-regional FDI has established industrial accumulation in several parts of the region, especially in China, and a very complicated network among them. What was striking was that the network had never been dominated just by intra-firm trade by big multinational enterprises (MNEs) but was actively participated in by local firms.

Kimura (2003) has related the network to recent development in international trade theories, such as 1) Fragmentation, 2) Agglomeration, and 3) Internalization by firms, to emphasize the uniqueness of the regional economy. In traditional trade theory, trade patterns were dominantly explained by comparative advantage in industries and locations with factor endowments. On the other hand, 1) theory claims that production of goods can be dissolved and fragmented based on the advantage, but what is most significant in this process is the linking service cost among each of the production sites, such as in logistics, telecom, and administration. Since these service costs are influenced by the government policies and regulations, the FDI attraction especially by developing economies needs better policies. And in fact, the development process of the network in East Asia has been a typical case where competition to attract FDI had promoted the public services such as roads, telecom, industrial parks, etc.

In contrast, agglomeration theories focus the mechanism of industrial accumulation in certain limited locations. 2) theory highlights the merit of concentration for economy of scale and productivities, supported by fastest information on production as well as changes in demand (Puga and Venables (1996), Fujita, and Krugman and Venables (1999)). Cases of IT hardware accumulation in China and automobile

parts in Thailand are typical samples, but there are many other developments in different businesses in different places in East Asia.

In the world of comparative advantage, locations are influenced by non-endogenous factors such as innovation or factor endowments, so that once the advantage is lost, firms move seeking for better places. The migrating behavior by MNEs has been a common phenomenon in developing countries. However, since accumulation has its own endogenous merit by information, MNEs tend to stay there relatively long, by flexibly developing intra- and inter-firm trade through outsourcing strategies. This provides more opportunities for supporting industries to enhance agglomeration further.

Then, firms have to decide what should be internalized and outsourced from whom and how (Dunning, 1993). 3) Internalization theory has implied the cases of fragmentation and decentralization of internalized production. In East Asia, technological catch-ups and development by local firms have been fast enough to participate in the fragmenting process, offering many modes of outsourcing like OEM and EMS for flexible allocation. Therefore, MNEs are engaged in the dynamic process of 1), 2) and 3) to sophisticate intra- and inter-firm linkage.

The network with this mechanism is essentially different from the simple vertical division of labor, common in the world, where developing countries only assemble or process the imported materials and export back. First, since the accumulation is opened to the global market, the transactions are multi-lateral. Concentrated firms are from all over the world, or at least across the border, and trading firms are the same. Second, once the concentration starts, it tends to grow much faster than simple export processing so that the whole economy is led and depends substantially on the development. As real concentration is relatively long-lasting, participation in the network becomes so crucial for the regional economies.

How the complicated network has developed in the region needs more careful examination, including the mechanism that theory 1) to 3) can synchronize. However, industrial accumulation as a whole, may suggest the following hypothesis, which may imply some practical



agenda in FTA-based integration.

First, there has been a fierce competition among the countries for FDI. This has reduced the service cost within the region by better infrastructure, deregulations, trade facilitation and other sophisticated administrative services. Rapid adoption of IT technology in internet and mobile phones helped the network greatly, while the production paradigm was innovated by a module system or standardization by ISO systems in some industries. These changes have brought better access for local firms to access foreign MNEs, as well as among them, supporting flexible production of MNEs to accelerate agglomeration further.

Second, in the traditional flying geese pattern of development, there has been a constant competition for the latecomers to catch up to the frontrunners, and the leading firms try to keep the competitiveness by further flexible production through intra-and inter-firm trades. In an earlier stage, the reallocation of Japanese industries may have been more based on the comparative advantage such as cheap labor supply. However, since the major industries were machinery, not foot-loose light industries anymore in East Asia, firms have tried to survive in the constant changes of wage hike and exchange rate fluctuations, by shifting more value-added products and by expanding the network.

Third, as present Supply Chain Management (SCM) changes in response to rapid change in market demand, especially in IT products, managers have been required to be swift in decision and bold in where to concentrate. Efficient outsourcing has become far more important than before, which has provided more incentives for MNEs to engage in developing the network. IT industries were the most benefited by virtually free trade in the region without tariffs but standardization, and firms in Korea, Taiwan, and China have shown outstanding success based on the network, catching up and winning the competition with Japanese firms. The complicated and open regional network has made the region the home of the most advanced IT producers in the world.

However, though the dynamic network exists, there still remains the gap in other industries facing higher trading barriers. In the previ-

ous study Kuroiwa showed that the combination of strong industrial relations increased from 55 in 1990 to 93 in 2000 in electronics, but nothing happened in the automobile industries, which kept the level of 30 and less in general machinery at around 20. This implies that not only are firms facing different business environments in different countries or locations, but also different trading conditions among different businesses.

In East Asia, unlike Europe, the movement of capital and labor is not liberalized fully. Therefore, the process of shrinking comparative advantage by free movement of factors, leading to horizontal division of labor, has not been experienced on a large scale yet. The network based on 1) to 3) theories does not completely exclude comparative advantage, and rather may have developed because of a combination of both, reflecting the mixed free trade regime and controlled regime.

If we are to interpret the network as above, it is inadequate to compare East Asian integration directly with the EU, especially in FTA-based integration. Probably more studies and energies should be devoted to how to practically promote this unique division-of-labor network as the engine of regional growth. Above all, the interpretation of the realities may suggest certain segmented priorities in East Asian FTAs. For instance, in the less developed and less opened capital markets without full-fledged fair trade laws, industrial restructuring through cross-border M&A may not be realistic yet, except in some developed economies. Coordination of competition policies may not be the real urgent issue for the region. On the other hand, because of the developing mechanism, intra-regional FDI is so crucial for the region's FTA, as well as services reducing the linking cost, which will be discussed in the next section.

Second, not only the peculiar priorities in FTAs but also the network may also suggest the significance of regional efforts and actions for FTA-based integration. Since the network is essentially open in its character, the complication of rules and increasing compliance cost among different FTAs should be painful. At the same time, the scale and depth of the network are still very different, but each FTA negotiation has to consider the other less integrated industries as a part of a

national economy, like the IT and automobile industries. Therefore, different businesses require different environments which may not be realized well enough by traditional FTA coverage, and non-traditional parts of logistics, Intellectual Property Rights (IPR), MRA and movement of persons have emerged as crucial as tariff reduction. Considering this complexity, functional cooperation will be in a good position to enhance the market force, rather than a traditional package of FTAs.

### **III. Functional Cooperation in FTA-Based Integration**

#### **A. Priority Agenda for East Asian FTAs**

Despite the unique mechanism above, FTA arguments are still dominated by comparative advantage, and in a worse case, by mercantile ideas, like in which industries will exports grow and imports bring more competition?<sup>4</sup> CGE models are popular in simulating the macro effects of FTAs, including growth, welfare improvement, and change in trade and industries. However, even the finest CGE model cannot foretell the results of FTAs perfectly, after dynamic response from the market. Rather, CGE model simulations are often misused to set up a macro goal for FTA negotiations, and negotiators can exhaust their energy for inputting measures to realize the certain goal in the agreement.<sup>5</sup> However, as the network has already been established powerfully and many FTA negotiations are still going on, dynamic trade diversions are always possible but are difficult to predict based on the sequences. Therefore, too much bilateral talk on the macro economy may be less meaningful, and more attention should be paid to the

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<sup>4</sup> Mercantile populism against FTAs may not be peculiar to East Asia. In explaining the “FTA domino” in the European experience, Baldwin (2001) also mentioned the trend. However, export-oriented development and its success in East Asia may support it.

<sup>5</sup> Typically in the negotiation, the Korean government was absorbed in vain in securing “commitment” by the Japanese government for narrowing Korea’s consistent trade deficit, which shaped the indirect structure for the breakdown of negotiations.

impact of FTAs on the regional network. Considering openness and competition as the basic conditions for the network's success, FTAs should not sacrifice these conditions for the sake of each bilateral macro balance, and should be clear enough about the first priorities for the consumers, rather than producers or policy makers.

The second reason for the clear and common priorities lies in time and energy constraints in negotiating different FTAs. Upon the diversities, different FTAs are inevitable, but too diversified FTAs may require converging the cost for the network, for the market has been integrated already by market forces, and a FTA is a process to confirm and institutionalize the reality *ex post*, while keeping WTO negotiations on the other hand. A "high-standard FTA" is fine in comprehensive FTAs, especially for highly developed economies, but considering the resource constraints for the negotiation, there should be certain priorities. As was repeated, since the network has already been spread out in the region, across the bilateral borders, the priorities should be carefully chosen to maximize the potential.

After nearly a decade of FTA boom, the priorities have emerged for Japan, China and Korea. Japan has focused on the improvement of the business environment for Japanese MNEs in the region by a comprehensive FTA package, while trying to protect the agricultural market. China has urged the counterparts to recognize China as a market economy, while trying to secure resource allocation. Korea has claimed special treatment for the ROO on the products made in Kaesong Industrial Park, which is the most political priority among +3 negotiations. In fact, the +3 group has studied the feasibility of a trilateral FTA for many years through think-tank networks,<sup>6</sup> but these different priorities still need adjustment for the first common ground for +3 negotiations.

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<sup>6</sup> Studies have been promoted by Japan's NIRA, China's Development Center, and Korea's KIEP since 2001.

**a) Priority I: Simple, Generous ROO**

Besides the priorities at the policy level, the production network obviously needs a simple, generous ROO to prevent the “Noodle Bowl effect.” In electronics, the tariffs are almost abolished or very minor already among the major producer countries, and the trade diversion is not expected to be large. However, as mentioned, automobile and general machinery are different, and tend to have a more complicated process than electronics. Setting a high standard for value content and complicated standards for the change in heading number may bother fragmentation, having the potential for worse protection than explicit tariffs. Protectionist temptation may be the most in agriculture and agro-based products, for the implementation and monitoring is more difficult.

If the ROO is stringent, complementing measures like Roll-up, De minimis, and Accumulation should be considered. If the intermediate goods were produced under certain conditions, Roll-up may mitigate the complication in the network. De minimis to waive ROO for a certain amount of imports may also be a realistic measure if carefully designed. Full accumulation like in AFTA and diagonal accumulation should be helpful for the production network. However, another aspect is that the combination of mitigating measures are to add another cost for complication, so that ROO should be designed comprehensively with those measures seeking simplicity. Japan should be extremely careful about accumulation with ASEAN, for the FTA approach is both bilateral with leading 5 and regional, which may need coordination of each ROO.

**b) Priority II: Investor Protection and Transparency**

Without explanations, investor protection will be another priority, but the issue is how far, including transparency in the business environment, TRIMS in WTO rules, national treatment, performance criteria, and specifies (1) local content requirement, (2) export-import balance, (3) trade restriction in currency exchange control, and (4) export and other performance on the “Negative list” formula. GATS regulates

the 3rd mode of services in foreign capital control, restrictions on joint ventures and other forms of investment, employment requirements, and others. APEC also deals with national treatment before and after investment, MFN status, minimization of performance requirements, entrance permit for managerial and technical staffs, free transmission of profits, expropriation and compensation, dispute settlements and transparency. ASEAN has the ASEAN Investment Area (AIA) to admit national treatment for all until 2020.

On the other hand, after all, developing countries have a strong desire to maintain control over foreign firms, and a wish to mobilize their activities for development goals. As FDI started to play a greater role in development, the fear of losing control is justifiable to a certain degree. Accordingly, WTO has a waiver for developing countries in TRIM measures, APEC's framework remains to be a "Non-Binding Investment Principle," and AIA has a long list of "Temporary exclusion list" and "Sensitive list."

However, several factors have started to influence the sovereignty issue after the crisis. First, again the competition for FDI is there, and among ASEAN, Thailand and Malaysia decided to give up the waiver in TRIM measures in 2003. For better catch-up, Vietnam also agreed to a new type of BIT with Japan admitting national treatment before investment. Performance requirements such as technology transfer, employee training, and supporting industry promotion can be integrated in the cooperation framework in FTAs, which can be another reason for further deregulation.

Second, in response to the series of capital market openings to allow M&A, financial liberalization and deregulation in foreign exchange controls, protections for local firms have started to be difficult. This was the major reason for Korea or Singapore to package sophisticated BIT into FTA negotiations. Following Japan, NIES, leading ASEAN members and China have already become capital exporters by net basis, to share investors' interest on the control. In recent BIT negotiation with Japan and Korea, China has started to show a positive attitude towards further investment liberalization and transparency, which is regarded as very significant steps toward +3 FTAs.

One of the positive aspects of a FTA having a priority in investment and transparency is that the major concern can be concretely specified by both parties. While developing countries feel incentives to improve the business environment for FDI, investing countries can also extend capacity building cooperation if necessary. However, by the nature of preferential arrangement, different BIT with different partners may have a risk of frequent renegotiations while discriminated investors continue to make claims. To keep the open character of the production network, MFN at least among major investors is nothing less important than a common investment rule and transparency,<sup>7</sup> and early coordination of rules in +1 FTA should be on the priority list.

### **C) Priority III: Strategic Liberalization of Services**

Compared to ROO, investment and transparency, importance of service liberalization looks less obvious. However, judging from fragmentation and agglomeration theories, “strategic” liberalization appears to be crucial for the production network. Some countries like the US have pushed rapid liberalization of services, but generally developing countries were not positive enough. GATS in WTO rule 155 kinds of services in mode 1 (cross-border trade), 2 (overseas consumption of services), 3 (services provided by FDI firms and offices) and 4 (services provided by movement of persons), but actually the liberalization has been only based on the “Positive list” voluntarily offered by members. General obligations are only MFN and transparency. By nature, there are usually more regulations on services, and transparency has more problems, including information opening, reference, procedures for operation, etc. compared to goods.

In fact, East Asian countries are generally not very competitive in service industries, and the liberalization pressure within the region has remained weak, except pressures from the US. In the FTA with Australia, Thailand accepted liberalization for business services, distribu-

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<sup>7</sup> Japan has criticized the special status of US firms protected by bilateral trade treaty, and MFN in investment was the major issue in Japan-Thailand FTA.

tion, education, leisure, and construction. With Japan she also agreed on logistics consulting, computer related services, maintenance of electric appliances, etc., but the commitment towards financial services were almost none. However if Thailand and Korea succeed in a FTA with the US by opening their service markets substantially, liberalization is expected to accelerate in the region, because of their interests in mode 1 after mode 3 to host FDI from the US, as well as their own firms.

Then, having a regional discussion on how to open the service industries, strategically targeting the service links seems to be meaningful. For instance, transportation, warehouse, logistics, telecom, distribution and maintenance services are all significant for reducing the link cost further. While many countries put priority on certain services in each FTA, heavily regulated services still need the exchange of experts and regulating officials to understand the market realities, as well as capacity building for latecomers for better externalities. APEC has promoted several services at the level of trade facilitation, but again they were all on a voluntary basis, without having many interfaces with the private sector. While many countries started to promote logistics as a surviving strategy, innovation of intra-regional logistics by encouraging private sector participation may serve to converge different FTAs.

## **B. Functional Cooperation for +3 FTAs**

A FTA is an originally binding and institutionalized framework, and then it has to be accompanied by legal changes at home. A number of changes that Korea is going to go through after KORUS is a typical case. The EU could start from common value and basic structure, including an open capital system, fair trade law, company law, and the civil society for law implementation. However, East Asian integration has been led by the market solely, and institutionalization efforts by FTA are the processes to admit the realities within the legal capacity of each nation. Very “deep integration” by giving up sovereignty, even a part of, is still unrealistic, especially in the security, political and social



context. Even in economic integration, if countries interpret every liberalization as challenges to their sovereignty, the FTA ends up covering goods only at best with so many exceptions. Or, it may be weak in implementation despite the political and diplomatic commitment, or in mere “cooperation” without major industrial adjustments like APEC.

As argued, the network in the region has been sustained by both old and new economic infrastructure, such as service links, information networks, module-based productions, and various modes of outsourcing. Then, if the region is to maximize the development potential of the network, integration based on FTAs has to meet two issues at the same time: One is that the institutions have to promote deep integration further, at least partially in the machinery sector, despite sovereignty. The other is that since the network has stretched out the border already, a regional approach to complement the bilateral negotiations is indispensable. The former may indicate certain priorities in FTAs, which was mentioned in a previous section, but at the same time, it should be better complemented by functional cooperation in the latter. And the latter will be affected by the new FTA menu with priorities. While a major part of liberalization and facilitation will be led by FTAs, a regional approach will have to shift into more cooperation and to specify the issues, which are out of FTA boundaries by nature, but are crucial for the network. The function of regional cooperation then, can be far more focused along with the priorities in FTAs, especially for +3 group to go on to the FTA negotiations.

### **a) Financial Cooperation**

After the crisis, financial cooperation was started by the Cheng Mai Initiative (CMI) to establish a swapping network of foreign reserves, monitoring of short-term capital flows and the data exchange, as well as macro surveillance. However, now the pressure for cooperation has faded away, and even surveillance has not been said to be enough. Intensive financial liberalization and market opening may have improved the financial environment for the firms in the network, but at the same time it has raised the question of financial supervising

capacities.

Another issue of enhancing the Asian bond market needs intensive efforts too. After the crisis, many countries reformed the market system by imposing a strict information opening obligation for the listed firms, a new accounting system and penalties for window dressing accounting, new corporate law to clarify the accountability of managers, investor protection, etc. Based on this reform, regional cooperation has promoted issuance of local currency-denominated bonds, issuer increase, a guarantee system, credit rating, settlements, etc. The progress is gradual, however, and even the bond issuance has been limited to sovereign, while corporate bonds remain minor. Despite reform, transparency of firms is facing a lot of challenges, including collapse of venture capital, increased overseas transactions, defending behavior against M&A by managers, etc. For dynamic development of the network, further transparency and especially accumulation of company information with their credit status is very crucial. For this purpose, along with financial cooperation, a new agenda like sophisticated SME accounting, exchange of rating information, etc. should be promoted feeding back from the needs of networking firms.

#### **b) MRA**

Another link which may potentially reduce the service cost, is MRA and movement of persons. WTO has TBT (Technical Barrier on Trade) agreement and SPS (Sanitary and Phytosanitary) agreement, but for the real trade facilitation, coordination of standards to seek a MRA must be a very crucial target for the region. APEC only committed to the compliance of the WTO requirement, and many bilateral FTAs scarcely discussed MRA. However, as a number of trade disputes started already concerning the food security and environment, TBT or SPS can easily be the trade barrier for the production network. Considering deeply rooted distrust in Northeast Asia, a MRA based on scientific, neutral information can be another strategic cooperation through joint study and research.

A MRA also relates to the movement of natural persons. A person's

movement within Northeast Asia is far behind the level of the EU, even behind AFTA. Japan has the most reluctant attitude on the issue, but finally started to agree to receive skilled labor in certain categories such as nurses and massagers, pressured by the market. A MRA on the qualification for the skill is expected to back up the implementation, and further measures to prevent double taxation, a pension system in addition to the visa requirement can be a discussion target. Japan-Korea has led this cooperation and can be a certain model for Japan-China, and Korea-China relations.

### **c) Northeast Asian EDI as the Symbolic Project**

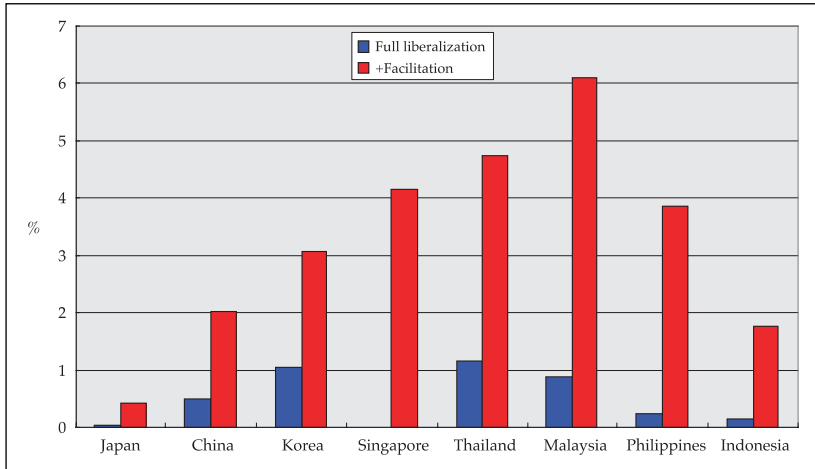
Finally, Electric Data Interchange (EDI) has turned out to be crucial in trade facilitation, especially after the introduction of the CTPAT system by the US to prevent terrorism. Though East Asia has made many efforts for trade facilitation in APEC, since each FTA tends to define specific measures, again, certain coordination will be needed. A preset EDI system in each country is different at both the integrated level as well as in security. Japan, Korea and Singapore have been leading EDI development, which is to process the whole trade procedure in a linked network (Single Window system), but China is handicapped by its scattered economic zones and linkage with the local areas. In fact, as ASEAN is going ahead in establishing an 8-digit common code (ASEAN Harmonized Tariff Number, AHTN) for trade data, which is a step toward connected EDI, +3 does not even have a discussion on similar cooperation despite the huge trade volume and the big potential.

So far East Asia, especially China, has been competitive enough for production costs, but the sophisticated SCM has started to require more efficiency as well as security in logistics, which is sustained by EDI and another advanced economic infrastructure. Since the externalities are huge, this is the very part that the market-driven integration does not cover, and where there is a positive contribution by +3 with relatively powerful technocrats and a strong IT basis. The benefit of Japan-China-Korea EDI will not be limited only to the members naturally, but also benefit all outsiders of the region, especially based on

China's huge stock of global FDI. More importantly, EDI is a highly technical project which mobilizes various experts but is less political by nature, even though administrative coordination is essential for its success. Lacking in trust, +3 needs a symbolic project confirming the success in cooperation, and EDI seems to be an ideal start, which carries the tradition of open regionalism and cooperation in the region.

## <Appendix>

### The Impact of Trade Facilitation on GDP (Ando,2006)



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## *Regionalization and FTAs in Northeast Asia: A Critical Perspective*

Samuel S. Kim

**D**espite its unparalleled geopolitical and geoeconomic significance, or perhaps because of it, Northeast Asia (NEA) has had enormous difficulty finding a comfortable regional identity in the global community. In the burgeoning literature on regionalism, the absence of any reference to NEA as a distinct region in its own right is striking. NEA can be said to be experiencing economic regionalization with little political regionalism, security regionalism, or even economic regionalism. This position/discussion paper presents a framework of analysis for exploring the possibilities and limitations of NEA regionalism and makes a case for taking a functional approach towards “open regionalism” as “a working peace system” (Mitrany 1966). The following are sketched out in summary form: (1) the meanings of regionalization and regionalism, (2) the catalysts for NEA regionalism; (3) the major obstacles standing in the way of true NEA regionalism, and (4) the case for a gradual functional approach to open regionalism as a working peace system.

### **Regionalization Versus Regionalism**

Since “regionalism” and “regionalization” have been applied in var-

ious ways to Northeast Asia, East Asia, and even Asia, often interchangeably and without conceptual consistency or clarity, a conceptual distinction between the two related terms is necessary. Like globalism, regionalism is a normative concept referring to shared norms, identity, and institutions. In contrast, regionalization, akin to the term globalization, refers to non-state-driven — usually market-driven — processes of transactions. Regionalization can be said to breed regionalism, as the latter term is used in a more general sense to refer to state-led projects of cooperation that emerge from intergovernmental dialogues and agreements.

Regionalism can be distinguished from regionalization in terms of intergovernmental collaboration: the former is shorthand for regional intergovernmental cooperation to manage various problems while the latter refers to an ongoing process of economic integration deriving primary motive force from markets, trade, and investment by multinational corporations. In East Asia, regionalization and some embryonic regionalism is most salient in the economic realm. In the security domain, the remnants of the Cold War framework still exist, albeit in attenuated form, influencing state security thinking and behavior, so that the concept of regionalism provides less explanatory power.

### **Catalysts for NEA Regionalism**

Since the end of World War II, there have been at least two major waves of regionalism. Both arose in the context of successive milestones in Europe — first from the creation of the European Coal and Steel Community in 1952 and the establishment of the European Community in 1957 and second from the coming of the single market and currency after 1986 (the Single European Act and the Maastricht Treaty). The first wave (“old regionalism”) faltered and gradually fizzled out in the 1960s and early 1970s, especially in the wake of the 1965 European Community crisis and the challenge to supranationalism posed by de Gaulle’s high politics. It was the rejuvenation of European integration, epitomized by the Single European Act of 1986, which once

again served as the initial catalyst.

This was accompanied by a number of major changes associated with the transformation of world politics, including: (1) the end of superpower conflict, which left more space for local and regional forces to exert themselves in world politics (2) the erosion of the Westphalian state system, accompanied by relentless globalization dynamics; (3) recurring fears over the stability of the GATT-based global trade regime associated with the Uruguay Round, which gave rise to the Asia Pacific Economic Cooperation (APEC) in 1989 and the North American Free Trade Agreement (NAFTA) in 1994; (4) a more permissive attitude in Washington toward various economic regional arrangements; and (5) changed attitudes and policies toward neo-liberal economic development and the associated adoption of export-oriented developmental strategies in the developing and post-communist countries.

This second wave gave a shot in the arm to the so-called “new regionalism” that was associated with or caused by a multitude of recent developments, such as the Asian financial crisis (AFC) of 1997-1998; the stagnation of global trade liberalization, epitomized by the collapse of the World Trade Organization (WTO) talks in Seattle in 1999 and again in Cancun in 2003; and the launching of the Euro in 1999.

The catalysts for East Asian regionalism are multiple and interactive. Most importantly, the AFC served as an impetus for economic cooperation and the linking of the Northeast Asian powers with Southeast Asia in ASEAN plus Three (APT). China, Japan, and South Korea all responded with moves to break out of the tough neighborhood of Northeast Asia and strengthen wider regional ties, although China remains at the center in several respects (geographically, demographically, economically, and increasingly diplomatically). The timing of the first-ever APT summit in late 1997 in the heat of the AFC proved to be serendipitous in facilitating such widening beyond NEA for greater cooperation and competition in the more congenial Southeast Asian environment. There have also been some gestures toward security regionalism, but even in this arena economic interdependence is the primary factor.



The APT process now has the potential to become the dominant engine for regionalism in East Asia, organically linking the three core states of Northeast Asia (NEA-3) with the ASEAN-10. This process is not so much anti-globalization, nor a closed regionalist movement, but rather a search for new and better ways of managing the forces of globalization to the region's advantage by combining the resources of Northeast Asia and Southeast Asia. All the same, APT has had the broader strategic objective of enmeshing an increasingly powerful China into a regional finance regime in the making (similar to Japan's 1997 proposal for an Asian Monetary Fund, which was withdrawn in the face of strong US opposition). This functions in parallel to China's integration into the global multilateral trading system through its accession to the WTO. Such regional financial integration has been identified in Japan as a critical function of APT. In Southeast Asia, APT is seen as a soft East Asian-style regime for coping with the rise of China as a "great power," in sync with the more explicitly security-oriented ARF (ASEAN Regional Forum).

With the AFC fully exposing the many institutional problems and pitfalls of ASEAN and APEC as they existed in 1997 while simultaneously illustrating the rise of China and economic interdependence as the two main driving forces behind the East Asian political economy, we witness in APT the emergence of an embryonic regime trying to create closer integration between Southeast Asia and Northeast Asia. APT is another example of how ASEAN countries coaxed the NEA-3 — Asia's three largest economies — into Southeast Asia's open regionalism to play a collective leadership role in the making of East Asian economic regionalism. Indeed, the perceptual impact of the rise of China on ASEAN, more than any other factor, seems to have served as the motive force in catalyzing three East Asian regional arrangements: the Council for Security Cooperation in the Asia Pacific (CSCAP), the ARF, and APT.

The most important accomplishment of the APT process to date has been the so-called Chiang Mai Initiative. Meeting in May 2000 on the sidelines of the annual Asian Development Bank meeting in Chiang Mai, Thailand, the finance ministers of the APT endorsed an expanded

bilateral currency-swap arrangement among the member states' central banks. This was designed to avert AFC-II. The Chiang Mai Initiative is now claimed as constituting the first step of East Asian monetary integration, which could eventually lead to a monetary union. In May 2007, almost a decade after the (East) Asian financial tsunami, thirteen APT regional economies agreed on a more ambitious multilateral currency-swap scheme by pooling funds from the region's vast foreign-exchange reserves.

### **The Long Road Ahead**

There are many reasons for stunted regionalism, especially security regionalism, in Northeast Asia. Where there is a high level of great-power conflict and rivalry, there will also be a low level of regional security cooperation. It is hardly surprising that Northeast Asia has been more resistant than Southeast Asia to new forms of regional multilateral security dialogue and forums. Unlike in Europe, the primary threat after the post-World War II era remained intra-regional, not extra-regional. The comfort level that exists in security dialogue in Southeast Asia does not exist in Northeast Asia. Lacking cooperative breathing space in the tough neighborhood, Japan, China, and South Korea often think and act out of the box in their attempts to capitalize on Southeast Asian or Asia-Pacific open regionalism.

Japan as an economic superpower obviously looms large in NEA's regional international politics. However, the difficulty of Japan's role as a regional hegemony is vastly compounded by the long shadows of the Greater East Asian Co-Prosperity Sphere, an ever present reminder of pernicious regionalism during the heyday of Japanese imperialism, coupled with Japan's seeming inability and unwillingness to come clean on its imperial atrocities.

The "Greater China" model is potentially more promising, but it depends on a host of unpredictable variables, including the sustainability of China's relentless economic growth and its international conduct as a responsible great power in the uncertain years ahead. America's

role too is controversial, as bilateralism consisting of Cold War alliances with Taiwan (lapsed or in a state of limbo since 1979), Japan, and South Korea consistently trumps any regional security multilateralism in America's East Asia security strategy.

The fact that Beijing was quicker than Tokyo to embrace AFC-generated East Asian regionalism made Japan feel obliged to join a leadership race. Owing to simmering Sino-Japanese rivalry for leadership, the NEA-3 failed to consider the worth of pursuing an NEA-specific free-trade agreement, not to mention when to start negotiating it, even though they were well aware of the economic benefits it would bring about. As a consequence, we see once again China and Japan breaking out of the tough NEA neighborhood to compete more directly and vigorously for regional economic leadership in East Asia, particularly within the parameters of the APT process, even though Southeast Asia still serves as APT's home turf.

What remains hidden beneath the banner headlines of China's proposal to form an ASEAN-China Free Trade Area (ACFTA) is the fact that the APT process has also provided a mechanism for a growing subregional dialogue among China, Japan, and South Korea. At the annual APT summit, leaders from Beijing, Tokyo, and Seoul hold a separate "Plus Three" meeting, and a parallel set of trilateral meetings has also been launched at the foreign minister level. At the Phnom Penh summit in 2002, Zhu Rongji proposed that a feasibility study be undertaken on a trilateral free trade agreement (FTA), with the goal of beginning talks on a three-way pact after China's negotiations with ASEAN are concluded. Although the trio agreed to conduct a joint study, Japanese Prime Minister Junichiro Koizumi expressed Japan's preference for pursuing a bilateral FTA with South Korea before considering any kind of agreement with China.

By all accounts, multilateral free trade agreements among APT members will not come easily. The ACFTA currently under negotiation is a major undertaking whose fate cannot be predicted at this time. Despite Beijing's increasingly positive view of regional economic integration, it still sees regional dynamics in East Asia primarily in terms of bilateral relations. But the mutual conclusion of China-ASEAN and

Japan-Korea free trade agreements, alongside other bilateral agreements within the region, would do much to set the stage for a slow and steady march toward a *de facto* East Asian FTA. In part, the speed of this march will be determined by China's willingness to act the role of regional great power. If China continues to pursue engagement through regional organizations, it would seem likely, by virtue of its growing economic importance, to pave the way forward for more regionally-conceived economic arrangements. For all the hype about pursuing a full East Asian Free Trade Agreement, the APT progress has made its greatest strides in the area of monetary cooperation, as evidenced by the Chiang Mai Initiative.

To understand the long road ahead is to recognize that the region's chief characteristic is its diversity, expressed in the categories of culture, political freedom, and economic development. Far from having a homogeneous Confucian culture, East Asia still embodies a high degree of historical and national-identity animus, albeit in attenuated form. Likewise, as compared to the near-universality of liberal democracy in the European Union, there is a high degree of variance among types of NEA regimes, ranging from consolidated democracies to illiberal democracies to outright authoritarian states. It is difficult to come to a consensus on regional institutions — particularly those that might have an impact on domestic rule — when the actors are operating under such different assumptions about governance. With regional geopolitics being more divisive than geoeconomics, growing economic regionalization and interdependence have often served as a bulwark against persistent or periodic political tensions in Sino-American, Sino-Japanese, Sino-Taiwanese, and even Sino-South Korean relations.

The region's normative and economic diversities and disparities are not preprogrammed to doom regionalist projects, but they do make it particularly difficult for security regionalism — and to a lesser extent, trade regionalism — to grow and flourish. Regional cooperation to alleviate the security dilemma is not impossible, but it is more difficult to accomplish when the major regional actors are working under the long shadow of historical enmities and contested political identities.

One should not overstate the poverty of security regionalism specif-

ic to East Asia. In the first place, increased economic interconnectedness is likely to aid in the drive toward resolving security issues. And a broader conception of security, one that includes economic and environmental concerns, can be incorporated into and secured through regional economic agreements, whether they are bilateral or multilateral. Over the past ten years, cooperation on security issues has undoubtedly improved. In Southeast Asia, the ARF has provided a mechanism for consultation that includes not only the ASEAN states but also the NEA states and Australia, Canada, the European Union, India, New Zealand, Russia, and the United States. The group has held substantive dialogue on piracy and maritime security, refugees and human smuggling, peacekeeping operations, counter-terrorism, and general regional confidence-building measures. While the group's activities have been limited to conversation and a few practical training seminars, this is a vast change from what was imaginable during the Cold War years.

Meanwhile in Northeast Asia, the second North Korean nuclear crisis has opened the door for regional cooperation as China, in particular, has taken up an uncharacteristically proactive conflict-management role in seeking ways of "finding common ground while preserving differences" (*qitong cunyi*) — that is, restarting diplomatic dialogue and negotiations in a "bi-multilateral" framework.

## Future Challenges and Prospects

There are only a few elements of security regionalism — and nothing resembling Karl Deutsch's pluralistic security community — to be found in East Asia. Even proponents of regional security multilateralism rarely present it as an immediate substitute for the existing security order, which depends heavily on bilateral diplomacy and the American strategic presence. For Washington, Tokyo, and Seoul, the ARF is seen as complementary to bilateral defense cooperation. Another significant trend is the use of regional regimes such as the ARF to supplement — rather than substitute for — global norms and practices developed in broader multilateral institutions like the UN. The so-called "ASEAN

Way," is a rare example in which the leadership role was played by the middle powers of Southeast Asia, thus raising the comfort level for China's participation.

The challenge for the uncertain years ahead is therefore neither one of making a false choice between regionalization and globalization nor one of seeking an alternative supranational regional or global organization. The challenge is rather to find a greater synergy among the many types of state and non-state actors in order to collaborate for more effective prevention, regulation, and resolution of simmering conflict, while simultaneously expanding multilateral dialogues and economic integration as vehicles for the creation of an East Asian community.

Indeed, there is considerable empirical support for David Mitrany's functional approach toward a working peace system — "peace by pieces" — with the pacifying spillover effects of economic interdependence. After all, the region has managed to avoid armed conflict in the post-Cold War era.

**PART  
IX**

*Domestic Politics and Regional  
Community Building:  
What Is to Be Done?*

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Let Us Hold a Four-Nation Summit to Resolve  
the North Korean Nuclear Issue in Jeju This Fall

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Regional Community Building: The China Factor





## *Domestic Politics and Regional Community Building: What Is to Be Done?*

**Igor Rogachev**

The Asia-Pacific region continues to face a number of traditional and non-traditional threats and challenges to peace and security such as terrorism especially considering its current scale and character, illicit drug trafficking and transnational organized crime, including crimes using information technologies, the current state of nuclear weapon non-proliferation, and some others. Proliferation of weapons of mass destruction and their means of delivery remain one of the most serious security challenges of our time. The necessity to maintain peace and stability in the Asia-Pacific region is an important condition of building a multipolar World.

The 15th annual meeting of the Asia-Pacific parliamentary forum held in Moscow January this year stressed the importance of interaction in the interests of creating necessary conditions for phased advance towards creating an integrated collective security system in the Asia-Pacific region with due regard for the specific characteristics of its individual subsystems using for these purposes the authoritative multilateral interstate and informal structures that have taken shape in the region, including the Shanghai Cooperation Organization (SCO), the ASEAN Regional Forum (ARF), the ASEAN Dialogue Partnership System, the Asia-Pacific Economic Cooperation Forum (APEC), the Asia Cooperation Dialogue (ACD), the Conference on Interaction and

Confidence-Building in Asia (CICA), the Council for Security Cooperation in the Asia-Pacific (CSCAP), the Northeast Asia Cooperation Dialogue (NEACD), the Pacific Islands Forum (PIF) with a view for a peaceful and prosperous Asia-Pacific Region.

Russian parliamentary structures have a highly developed system of links with European parliamentarians, and a huge number of documents and agreements on interparliamentary cooperation with organizations in Europe. As for similar ties with Asia, Russia is only at the start of the road and cooperation with APR countries having huge untapped potential. The eastern vector of our foreign policy is as important for us as the European one.

Globalization of world politics and economics and the fast changing world order call for a pooling of efforts between our country and the Asia-Pacific countries in dealing with the issues that arise: environmental protection, energy and nuclear security, the development of transport communications and other pressing political, economic and social issues. The parliamentarians of our countries have a shared interest in having a system of effective international ties in the region, and partnership cooperation which allows for trusting and frank relations. We hope that during our Forum we can discuss such issues as joint work to clean up the aftermath of natural disasters and emergency response, transport logistics, cooperation in the sphere of ecology and public health, the fight against epidemics, the development of a dialogue of civilizations and of interfaith dialogue.

These are just some but, in my opinion, the most important issues that directly impact overall security not only in the subregion of Northeast Asia but the entire Asia Pacific region and beyond. Despite the fact that at present the situation here can be characterized as relatively stable and predictable, hotbeds of tension such as the one around the Korean peninsula capable of creating a serious unbalancing effect still remain. And it is our job and challenge — to work hard not to let this scenario happen. I am positive that together we can identify a course that is both comfortable and that ensures the legitimate interests of all ARF member states including the DPRK. One key task in this range of problems is the solution of the Korean peninsula nuclear prob-

lem. Moscow is interested in a dialogue between the Republic of Korea and the DPRK and we welcome the projects that contribute towards its positive development and toward an improved political climate on the peninsula.

We take note of the positive dynamics of the situation surrounding the Nuclear Problem of the Korean peninsula. The most important development is the renewal of the Six-Party Talks process that, since last December, has been developing in a business-like and active manner. The process has not been easy, of course, considering the negative baggage of the past and the existing contradictions between the parties. Despite all this, we are witnessing yet small but concrete results. I refer, primarily, to the February Agreement on the initial stage measures and the beginning of the institutionalization of the Six-Party Talks through the establishment of five working groups on key settlement aspects.

We appreciate the very fact of the renewal of direct US-North Korean dialogue, which the Russian side has always consistently advocated. We are well aware that this was a hard decision, yet, launching the process on this track, together with the action in the Six-Party Talks format, would serve the cause. In our view, the major achievement of the recent period is that the bold initiatives of the United States, DPRK and other participants have resulted in decreasing the tension that mounted after the well-known events of July-October last year, and in preventing backsliding to confrontation. Presently, it is becoming ever more evident that the political process through negotiations is the only possible option for the settlement of the Nuclear Problem of the Korean peninsula.

Naturally, the process does not always run as smoothly as we all would like it to do. Lack of mutual confidence and an inadequate level of understanding between some participants continue to exert their influence. The dialogue of the six nations is not yet safe from unexpected factors; and there are both breakthroughs and regrettable halts in its development. As an example of such upsets one can mention settlement of the situation with North Korean accounts in the Delta Asia bank in Macao: the difficulties in settling that matter have resulted in the unproductive meeting in Beijing in March and in a delay in the

implementation of the February arrangements. The lesson we learn from this experience is that we should avoid acting in haste trying to solve all complicated problems at once — it is more important now to focus on thoroughly elaborating all the aspects of the proposed measures, including technical ones, and only then to proceed to negotiate specific arrangements.

Russia endorses the idea advanced by the USA and other partners to hold a meeting of the heads of foreign affairs agencies of the countries participating in the six-nation talks with a view to consolidating the results achieved and giving impetus to further steps towards denuclearization. We believe that it should be prepared thoroughly, without rushing its schedule, so that the meeting, should it be decided to hold it, would become a genuinely major landmark event.

*Let Us Hold a Four-Nation Summit  
to Resolve the North Korean Nuclear  
Issue in Jeju This Fall*

**Won-wung Kim**

It is very nice to meet you all. To begin, I would like to express my gratitude from the bottom of my heart to Governor Kim, Tae-hwan of Jeju Province, Vice Chancellor Kwon Young Min of the Jeju Peace Institute, and other people serving the Jeju Peace Forum. I am also very glad to be here at this meaningful event with all those from home and abroad who have a passion for peace — Lawmakers Yoo, Jay-kun and Nam, Kyung-pil from Korea, Lawmaker Nishimura Yasutoshi from Japan, and Director Zhang, Yungling of the Institute of Asia-Pacific Studies at the Chinese Academy of Social Studies. They have all come a long way to this island of peace, Jeju.

Each of the parliaments of most nations around the world have a standing 'foreign relations committee' or 'foreign affairs committee' or something of the like. South Korea's parliament also has a standing committee that deals with foreign affairs. It also addresses trade and the unification of the Korean peninsula. It is the Unification, Foreign Affairs and Trade Committee of the National Assembly, of which I am chair. The committee is unique in that its name starts with 'unification.' This reflects Korea's national mission to rectify its division into north and south.

During the past century, Korea experienced a series of tragedies: colonial rule, national division, and civil war, dubbed the Korean War.

These calamities prevented Korea from exercising its own self-determinism. Our destiny was in others' hands, and this was the main reason for the sufferings of the Korean people during this time. Now, a new century has opened; now, we are just emerging from a dark 100-year passage of national trials and tribulations. The June 15 Joint Declaration agreed to at the South-North summit in 2000 is an expression of our resolve to seize our determinism forever into the future. Korea began to experience calamities early in the 20th century, culminating in the devastation and suffering of modern warfare in the Korean War from 1950 to 1953. The war took the lives of many people, including many innocent civilians. The country was ravaged; families were separated. Confronting each other in hatred and animosity for over half a century, the South and North have poured vast sums into an arms race. The Korean War was in essence a 'war of fools' who did the bidding of powerful nations. Korea suffered one of the most destructive wars in human history and learned a very valuable lesson: another war should never occur on the Korean peninsula for any reason.

What kind of nation do you think is a true ally of Korea? I want to say that a friend of Korea is one that helps us build a lasting peace on the Korean peninsula and resolves the division of Korea. In addition, we can accept the stationing of US troops in Korea only with the condition that they help uphold the peace and rectify the division on the peninsula. In that sense, I believe that the US troops in Korea should assume a different role than they did during the Cold War.

The fundamental goal of the Six-Party Talks is to establish a lasting peace on the Korean peninsula through peaceful resolution of the North Korean nuclear issue. When the issue cropped up, the hard-liners in the US called for military sanctions against North Korea. In addition, when the UN passed a resolution condemning North Korea, Japan strongly contended that Article 7, Paragraph 42 of the Charter of the United Nations be included to open the way for the use of force. The neoconservatives or neocons in short, of the US, in retrospect, are the culprits who have damaged the friendly relationship between South Korea and the US. The recent actions and attitudes of the Japanese government have cast into doubt Japan's sincerity to keep peace on

the Korean peninsula. In particular, the sympathizing of US conservatives with their Korean counterparts, who are descended from those who collaborated with the Japanese during the occupation of Korea and the war, has served as a significant roadblock to the promotion of friendship between South Korea and the US. The US misjudgment during the May 18 Democratic Uprising in Gwangju became a seed for anti-US sentiment in South Korea, and another such mistake should not recur.

History shows that the US took a stern attitude toward the Nazis, but did not hold responsible the emperor of Japan, a known war criminal who ordered the attack on the US. US Asian policy was oriented almost entirely toward strategic gains and gave short-shrift to conscience and morality, two treasured values of humanity. Japan attempts to gloss over its war-time provocations, even suggesting that they were for the common good; and in 2006, Former Japanese Prime Minister Junichiro Koizumi paid reverence at the Yasukuni Shrine, where Japanese war criminals are enshrined. The peoples of the affected nations including South Korea, North Korea, and China sharply criticized his act, but the White House took a neutral stance.

I want to ask if it would be tolerated by the US government and the international community if another nation maintained neutrality on any attempt to gloss over the atrocities by the Nazis. We have closely monitored the discussions and developments in the US House of Representatives regarding a resolution on Japan's use of sex slaves, dubbed the 'comfort women,' during the war. This is the fourth time a resolution on the issue has been raised in the US Congress since 2001. With the decision over the adoption of the resolution at the US Congress within sight, I read a news report stating that Japanese Prime Minister Shinzo Abe said at a meeting with US President Bush, "I'm deeply sorry about the situation in which they [the wartime sex slaves] were placed," and President Bush chimed in by saying, "I accept the prime minister's apology." Why did Japan apologize not to Korea but to the US? And why did the US accept the apology instead of Korea?

In 1998, the so-called Sunshine Policy opened an era of inter-Korean reconciliation and cooperation. The nation has pressed ahead in the

belief that more contacts and cooperation will forge true peace and restore the inter-Korean relationship. In 2006, more than 100,000 people crossed the border between the South and North, and inter-Korean trade soared 27.8% to USD 1.35 billion. Clearly, economic cooperation between the two Koreas has grown steadily despite the ongoing instability arising from the North Korean nuclear issue. These figures reveal an increasingly mature relationship between the South and North. Inter-Korean cooperation and exchange in such forms as the reconnection of railways and roads, the Gaeseong Industrial Complex, and the Mt. Geumgang Tourism project are major steps toward peace. They are also investments for steady mutual growth and peace, and they serve to reduce the division costs. More inter-Korean cooperation and a more solid framework for mutual trust will help North Korea pursue reforms and realize a soft-landing, not only as a member of Northeast Asia but also of the global economy. Bringing about a North Korean soft-landing is a win-win strategy for both Koreas and will further the effort for peace on the Korean peninsula and in Northeast Asia.

On September 19, 2005, representatives from the six nations of South Korea, North Korea, the US, China, Russia, and Japan reached a very important agreement. The crux of the agreement was that 'North Korea gives up its nuclear weapons and programs, and in return, the safety of the North Korean regime will be guaranteed, and to that end, economic support will be provided.' However, the issue of the remittance of North Korean funds frozen in the Banco Delta Asia (BDA) in Macao soon emerged, and in response, neocons in the US government made hard-line remarks against North Korea. From North Korea's viewpoint, the US appeared to have no intention of implementing the September 19 Agreement. Instead, North Korea came to believe that the US was seeking to overthrow the North Korean regime. As a result, the implementation of the agreements reached at the Six-Party Talks was delayed.

The resolution of the North Korean nuclear issue requires that North Korea and the US clarify their policy objectives. The North should choose between becoming a member of the nuclear club and securing the US guarantee for the safety of its regime. The US must



make clear whether its objective is the abolishment of the North's nuclear weapons program or bringing down the North Korean regime. For vagueness gives rise to distrust.

The issue of the North Korean funds frozen in the BDA has now been resolved and initial phase implementation of the February 13 Agreement is under way. In making progress following the initial actions phase of the February 13 Agreement; significant political decision-making should be done in tandem with the dismantling of the North Korean nuclear facility regarding the outstanding issues. Only this way can we expect to turn the current Armistice Agreement into a formal end of hostilities, to remove North Korea from the list of state sponsors of terrorism, to provide economic support to North Korea, to normalize North Korean-US relations, and to completely abolish North Korea's nuclear weapons and materials. Taking into consideration that President Roh, Moo-hyun and President Bush are nearing the end of their terms, there is a need to hold a four-way summit among South and North Korea, the US, and China on this island of peace, Jeju, this fall. I believe that a North Korea-US summit held within the framework of the four-way summit would be extremely productive. At the summit, North Korea and the US need to engage in 'bold give-and-take' in order to establish a peace mechanism on the Korean peninsula.

In conclusion, I hope this Jeju Forum proves fruitful toward exploring ways to promote peace and prosperity in East Asia, and I would like to say thank you again to you all, including the panel members at this round table conference and distinguished guests from home and abroad who have a passion for peace on the Korean peninsula. Thank you.

## *Northeast Asia Calls for A Leader with Courage and Vision*

**Kyung-Pil Nam**

Sharing a clear goal of achieving growth through economic integration was what enabled the European states to share the vision of integration from the very onset. This finding prompts us to search for the root of such awareness, which actually came from outside the European continent. Whether Europe wanted it or not, the singular reason that forced its unity was the presence of its political and economic international competitor, the USA. The presence of America was the very reason that drove Europe to seek unity and integration. The aftermath of the Second World War transferred the predominance of a weakened Europe to the USA, whose rapid growth caused concern among the European states. In particular, the global expansion of the American influence was a sufficient motivation for its archrivals France and Germany to take charge of the European integration. Another condition which enabled the European integration was that there were few sources of military security conflict among the regional powers.

Let's turn our eyes to Northeast Asia. It is difficult to find a critical external common threat that prompts the three countries — Korea, China and Japan — to pursue integration. (I am going to stress the active role of three countries because they are the leading members in the region.) In addition, the on-going arms race between China and Japan and the potential competition for long-term hegemony between the US and China are critical sources of mutual mistrust hindering cooperation. As such, it will not be easy to witness any sign of integra-

tion comparable to that of the European Union in the near future in Northeast Asia.

This, however, doesn't negate the need for international cooperation in the region. The North Korean nuclear problem, the issue of Taiwan's independence and the arms race between China and Japan are all potential sources of critical conflict variables to influence the regional security framework. Therefore, these problems must be well-managed. Paradoxically, different from the European experience, cooperation in Northeast Asia may be desperately necessitated by the need for managing these internal threats.

Such efforts weren't non-existent in the past as efforts in the non-military sector did produce visible advancements. In October 2003, leaders of Korea, China, and Japan held a summit meeting during the ASEAN+3 conference in Bali, Indonesia, and subsequently announced a joint declaration urging economic, social, and cultural cooperation among the three nations. The following year in November 2004, the three leaders met again in the ASEAN+3 conference in Vientiane and adopted an 'action strategy' agreeing to submit annual progress reports.

These promises, however, were not duly upheld. Disputes over Japan's history textbooks re-surfaced in late 2004 and the "Dok-do (Takeshima)" ordinance that passed the Shimane Prefectural Assembly in March 2005 intensified the anti-Japanese sentiment among Koreans. Subsequently in October, Prime Minister Koizumi's visit to the Yasukuni Shrine was enough to enrage the Korean and Chinese people. On the other hand, China's Northeast Asia Project begun in 2002 consistently stimulated the defensive nationalism of the Koreans. Political leaders were likely influenced by such a series of conflicts. As result, in 2005 a Korea-China-Japan summit meeting was not held and the promises among the three leaders were not fully followed through.

As a politician, I am not unaware of the significance the Yasukuni Shrine visit and China's Northeast Asia Project carries in local politics as no single politician can implement policies without the support of the people. But a leader who dreams the grand vision of installing regional peace and stability should endeavor to actively lead public

opinion rather than to chase after it and should be able to persuade his people.

Northeast Asia today calls for a visionary leader with courage, a courageous leader who can cut the roots of conflict and disputes whenever they emerge locally. More specifically, we need a leader with enough self-control to take caution not to push for policies inducing historical problems stimulating nationalism and territory disputes that hurt regional stability; a leader to manage the sources of conflicts through grand efforts for consistent integration and cooperation and to advocate its need to the people.

It goes without saying that Korea, Japan and China are intertwined economically, socially and politically ever more closely. Mutual economic dependence supports the economic foundation of the three nations. The economic and cultural exchange front has gained its own momentum to expand itself without government intervention. The problem is whether we can channel this cooperation to the political military security domain, which depends much on the will of the political leadership. Therefore, we look forward to the birth of three political leaders who can contribute to regional stability and peace through steadfast confidence and trust and who will not be unduly influenced by local political situations.

## *Domestic Politics and Regional Community Building: What Is to Be Done?*

**Yasutoshi Nishimura**

Presently in East Asia, moves have clearly emerged in countries including the ASEAN countries, Japan, China, South Korea, India, Australia and New Zealand to deepen mutual economic ties and institutionalize these economic ties in Asia, so as to build an institutionalized framework of economic integration of the whole of Asia, which realizes a “seamless economic area.” With competition intensifying in the world market, private sectors of East Asian countries have developed their production and distribution networks across borders and have formulated efficient production systems so as to survive such competition through building up production networks extending throughout Asia. Such business activities across borders by the private sector have already realized substantial, de-facto economic integration in the East Asian region. The recent moves among governments towards regional economic integration aim to make present economic ties more solid and stable and ensure the sustainable prosperity of Asia by way of building up a systematic framework upon such substantial, de-facto economic integration.

The process of building a regional community in East Asia should be advanced, keeping in mind that a win-win situation will be created where all countries can develop a domestic economy, through sharing the benefits of such substantial economic integration. The European

Coal and Steel Community (ECSC) (1951) triggered economic integration in Europe. It was also originated in the creation of an artificial framework of institutionalized “international economic ties” between France and Germany, which were a victorious nation and a defeated nation in World War II. The establishment of the ECSC was followed by the complete elimination of tariffs among the six member countries in 1968 and the issue of a common currency in 2002. As seen, the creation of the European Community has been developed step by step, based on the economic integration of Europe; although the situations differ from Asia where substantial, de-facto economic integration has been already developed, as contrasted with Europe where an artificial economic fatalistic community was first created. The “history of regional community building” that Europe has experienced teaches us the fact that the “economy” is a very important “key” for advancing the process of “regional community building.”

Each country has its own culture and history, which differs from country to country. European countries also vary in their respective cultures and histories. However, Asian countries have much more variety not only in their cultures and histories but also in their stages of economic development, with wider diversities in political systems and market economy maturity levels, etc. We should keep in mind this “Asian diversity” when we proceed with the process of establishing a “regional community” focusing on the economic aspects, aiming at further economic development of the region.

In Asia, the economic relationship among countries is intensifying even further; the volume of trade and investment exchange among these countries is still expanding. Trade volume between China and Japan has become three times as much as 10 years ago, and trade volume between China and Korea has expanded even more sharply. However, trade volume between Korea and Japan has not expanded as much as China-Japan or China-Korea. Taking these facts into consideration, it can be said that there must be huge potential benefit for Korea and Japan to conclude a Korea-Japan EPA, aiming at further expanding trade volume between Korea and Japan. We, as members of the political circle of Japan and Korea, should pursue this potential benefit as

eagerly as possible, in order to give these benefits to our people.

It is clearly beneficial for the entire region to try to lower “national barriers” through tariff elimination and harmonization of economy-related systems. However, each country has its own circumstances, and it is also true that various interests and “advantages and disadvantages conflict” among industries and individuals in each country, which differ from country to country. Even in concluding a bilateral FTA, reconciliation of interests is indispensable in the process of establishment of regional economic integration covering the entire region. Reconciliation of each country’s domestic interests, which is much more complicated and difficult, is also indispensable. The most important task for us, as political leaders of Asian countries, is to patiently and vigorously continue sincere efforts for such reconciliation of domestic interests, which are often intricately intertwined and sometimes seem impossible to achieve, and to successfully accomplish reconciliation in the end.

As the history of community building in Europe shows, a regional community brings about various benefits to member countries. However, in order to achieve the goal, it is clear that extremely strong “political will” is indispensable for undertaking necessary measures for that purpose. Furthermore, it is also necessary to obtain the “understanding and support of the people” in reconciling intertwined domestic interests based on such strong political will. The history of Europe also proves these facts.

In the process of reconciling each country’s intertwined domestic interests aiming at the establishment of a regional community, necessary political measures vary depending on each country’s circumstances. These measures may include formulation and enhancement of the Social Safety Net, the creation of a system to improve employment mobility, and the establishment of a social framework which enables “re-challenge” as the Abe Cabinet has been promoting. These various political decisions, including implementation of such policy measures, can be made only by us, politicians of each country who have expertise in each country’s own circumstances.

Economic integration in Asia has just started to be promoted steadily. Asia is now facing a historic turning point. Such circum-

stances make us fully aware of the great expectations of the people. As those with responsibilities for each country's policies, it is the time for us to share the grand goal of the establishment of a regional community and accomplish our mission so as to meet peoples' high expectations of us.



## *Regional Community Building: The China Factor*

**Yunling Zhang**

*China's success relies on the reform and opening policy. China has to reset its development strategy by adopting a sustainable model. China has actively participated in regional cooperation and community building since it helps to create a good peace and development environment. East Asia is a region that provides vital economic and political interests for China. The concept of East Asia and identity are rooted in China's culture and social values.*

### **China's New Development Strategy**

**C**hina has achieved great success in its economic development. For total size of GDP, foreign trade, foreign exchange reserves, etc., China is among the world's leaders, but as a country with a big population, the size of the per capita figure is low; as a developing economy, the efficiency of the economic performance is in the low end of the global economies; and as a country on the road to reform, both political and legal systems are far from being modernized. Thus it has a long way to go to be a well-developed economy with high economic efficiency, high per capita welfare and high consolidation of economic development and political as well as social progress.

China has set a goal to be a well-being society and a mid-level developed country by 2020. China takes the forthcoming 15-20 years as

an opportunity for realizing its grand strategy. However, with the high rising prices of energy and resources, a worsening environment and increasing social disparity, China has to reset its development strategy: adopting a sustainable model nurtured by a scientific development concept. China has to rely on more innovation instead of more capital and labor inputs for future economic growth and a balanced regional development and social friendly policy.

The Chinese economy has experienced a high growth rate for more than 20 years. Questions have been raised whether China can continue to maintain such high growth in the future. The answer is optimistic since as a developing country with a stable political system and open-minded reform, as well as good skilled management for macro-economic performance, China has both great development potential and capacity. According to studies, China can maintain successful development for the next two decades.

Challenges for China's economic development are clear: (1) Restructuring its less efficient economic growth; (2) Creating new areas for growth — new sectors, new regions; (3) Mobilizing domestic purchasing power, thus reducing dependency on the outside market for sustaining growth; (4) Balancing economic, political and social development.

## **Need for a Long-term Peaceful Environment**

China needs a long-term peace for implementing its grand modernization strategy, thus peace and development have become a key policy for the Chinese government. China's rise is a fact that will contribute to regional and global peace and development so long as China follows its commitment as a peace seeking and responsible power. China has adopted forward looking and positive policies in dealing with its relations with the outside world: (1) Cooperative strategy with big powers, especially with the United States, that helps to reduce tensions and create a stable order; (2) Good neighbor policy supported both by bilateral and regional efforts; (3) Increasing contribution to international and

regional peace and development through participating in peace keeping, providing assistance and playing a positive role to reduce conflicts and tensions. (4) With a new spirit and value, China has proposed to establish a harmonious world and region.

China has actively participated in regional cooperation and community building since it helps to create a good peace and development environment. As a fast developing economy, China has provided growing market opportunities for regional members on the one hand, while working closely with other regional members on regional cooperation and community building on the other hand. Regional cooperation and community building help significantly in improving relations between China and other countries, especially its neighbors.

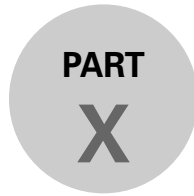
### **Strong Domestic Support**

China has greatly benefited from its opening policy and has a strong domestic sense and spirit for supporting outward looking strategies and policies. Its WTO accession has provided a good example for Chinese leaders and people in meeting the challenges of liberalization, which makes China more confident to liberalize. As the second stage of its opening policy, China has adopted an "investing abroad strategy," which should be supported by RTA arrangements and other cooperative movements.

China has actively participated in the East Asian cooperation process under all multi-layered frameworks. East Asia is a region that provides vital economic and political interests for China. The concept and identity of East Asia are rooted in China's culture and social values though this does not necessarily mean that China wants to create an EU type regional organization.

However, China is facing an uneven development, which means the government has to adopt a stronger social policy to protect the weak regions and weak groups of people. Liberalization has its negative impact on vulnerable sectors (agriculture, SME) and less skilled people (farmers, the unemployed). As China has become an open soci-

ety, different voices will rise strongly that press government to establish more social friendly policies. Community building needs the strong social support and participation of the people, not just leaders and elites. More work needs to be done in facilitating exchanges of people and mobilizing grass roots support.



*Initiative for Northeast Asian  
Community Building:  
Perspectives from Diplomats*

The United States Short- and Long-Term Strategies  
for a Secure and Prosperous Northeast Asia

Initiative for Northeast Asian Community Building:  
A Japanese Perspective

Initiative for Northeast Asian Community Building:  
A European Perspective

Initiative for Northeast Asian Community Building:  
Another European Perspective

Tasks for the Building of a Northeast Asian Community:  
A Korean Perspective



## *The United States Short- and Long-Term Strategies for a Secure and Prosperous Northeast Asia*

**Alexander R. Vershbow**

*The United States' overarching goal for Northeast Asia is for peace, stability, and prosperity in the region. Although the US is not geographically part of the region, our history and alliances here demonstrate our commitment to Northeast Asia. At this time of year, we join Koreans and our UN partners in remembering the beginning of the Korean War 57 years ago, during which we fought together to defend and preserve South Korea's freedom. To work toward peace, stability, and prosperity in the region in this day and age, the US has both short-term and long-term strategies. In the short term, our foremost priority is to strengthen peace and stability in the Northeast Asia region through the denuclearization of the Korean peninsula. Longer-term — but also starting now — we would like to foster interregional cooperation, promote democracy, and participate in the dynamic economic development of this region.*

### **Short-Term: Denuclearization of the Korean peninsula**

**F**irst, let's begin with our short-term goal: getting rid of all nuclear programs in the DPRK. That's easy to say but difficult to do, as the last two decades or so have shown. A North Korea armed with nuclear weapons is not only a direct military threat to the region, and a possible source of nuclear material for terrorists, it is also like a boulder in the middle of the road to peace and security for the peninsu-

la and for all of Northeast Asia. Fortunately, the region is reacting collectively and in an organized way through the Six-Party Talks. Along with the United States, South Korea, Japan, China and Russia understand how a nuclear-armed North Korea undermines security and stability in the region, and leaves the North Korean people cut off from the prosperity that is sweeping the rest of Northeast Asia. They are standing together to meet the challenge that North Korea poses, offering Pyongyang's leaders a clear choice: denuclearize and receive security guarantees, economic and energy assistance, and normal relations with the international community; or refuse to denuclearize, and face continued isolation, sanctions, and economic stagnation.

As you know, this past week we have witnessed exciting news. Yesterday, our Assistant Secretary of State Christopher Hill returned from visiting Pyongyang to discuss how to get the Six-Party Talks back on track. This followed the promising news, after an unfortunate delay of over two months, that the Banco Delta Asia funds were being transferred to a Russian commercial bank and that North Korea announced that it had invited an International Atomic Energy Agency (IAEA) delegation to discuss how to monitor the shutting down and sealing of its Yongbyon facilities — a very important first step toward implementing the February 13 “Initial Actions” agreement.

The United States welcomed this announcement and believes that it is very important that the IAEA delegation, scheduled to arrive in Pyongyang early next week, quickly reaches a productive agreement with the DPRK government, and that the DPRK government promptly shuts down the Yongbyon nuclear facility, so that we can make further progress on implementing the February 13 agreement. One of Assistant Secretary Hill's goals during his trip was to impress upon the North Koreans the need to make up for lost time and jump start the Six-Party Talks, with a view toward achieving the ultimate goal of the complete and verifiable denuclearization of the Korean peninsula. As North Korea fulfills its commitments, the other parties will be able to follow through with the provision of heavy fuel oil and move to the next phase envisaged under the February 13 agreement.

Let me return to the unfortunate delay in implementing the Febru-



ary 13 agreement. We would have all liked to see Yongbyon shut down by now, so the North Korean insistence on having the BDA funds transferred internationally — rather than just released — was unfortunate. But there is another element to this. A constant theme from North Korea has been lack of trust in its Six-Party partners, particularly in the United States. Well, the United States showed extraordinary patience and flexibility in arranging the funds transfer. It proved to be exceptionally difficult because of legal rulings affecting BDA and, more importantly, the understandable reluctance of many countries' banks to deal with a country that is involved in weapons proliferation and a range of illicit activities. But in the end, the United States, with assistance from Russia and South Korea, got it done.

Similarly, Assistant Secretary Hill's visit to Pyongyang demonstrates that the US government is invested in the process and wants to move it forward. We are making every effort — in close partnership with China, Japan, Russia and South Korea — to ensure that the Six-Party Talks succeed in resolving the nuclear problem on the peninsula. The visit also demonstrates our willingness to engage with the DPRK bilaterally within the context of the Six-Party Talks. In fact, the opportunity for this visit came about while Assistant Secretary Hill was in the region to discuss restarting the Talks with the other partner countries; the ROK, China, Japan, and Russia were all aware of his visit. Soon, China's Foreign Minister Yang Jiechi will also visit the DPRK to discuss the nuclear issue, which we welcome, because the US believes that the more countries that are working together toward the common goal of denuclearization, the better chance we have of actually achieving it.

What are the next steps? First, we look forward to the prompt shutdown of the Yongbyon nuclear facility, with IAEA monitoring; then we expect the Six Parties to meet — both at the official level and in working groups on particular issues — to agree on a roadmap for the next phase: disablement of all of North Korea's nuclear facilities and declaration of all of the DPRK's nuclear weapons and programs that are to be abandoned in the third and final phase. At some point in the next few months, we expect Foreign Ministers of the Six Parties to meet to assess progress to date and give impetus to the next stage of the denu-

clearization effort. But I have to be frank: continued forward progress requires political will on the part of the North Korean leadership also, and we are not yet in a position to judge that.

We have a lot of important work to do on the denuclearizing of North Korea, but I would also like to touch on what my government sees as the broader potential value of the Six-Party Talks process. In the short term, the Six-Party Talks are the path toward normal relations between North Korea and the rest of the world, and the establishment of a permanent peace regime on the peninsula. But looking further ahead, the United States also very much hopes that the Six-Party Talks forum can serve as a framework for continued multilateral consultations and cooperation in the region. Just as the Five Parties are using their combined leverage and resources to help convince the North Koreans to abandon their nuclear arsenal, countries in the Northeast Asian region could use their combined leverage and resources to address other issues in the future — whether it is dealing with traditional security and economic challenges; transnational health issues such as avian influenza, tuberculosis, or SARS; or new environmental concerns in the Northeast Asia region, such as yellow dust. We should not underestimate the significance of the fact that China, South Korea, Russia, Japan, and the US are represented at this Peace Forum, given the historical differences we have had in the past.

### **Long-Term: Democracy-Building & Economic Development**

It will not surprise you to hear that the United States also places great weight on promoting democracy — in Northeast Asia as elsewhere in the world. Since World War II, the United States has played a key role in democracy building and economic development here in Northeast Asia. It was during the post-war period that the US forged alliances with two countries in the region, South Korea and Japan. The United States' military and financial support to those countries after the war helped both to develop economically and to usher in strong demo-

cratic societies. US involvement also helped to stabilize Northeast Asia after a turbulent and violent era that had scarred and estranged the countries in the region. Today, South Korea and Japan are among our strongest allies and share many of the values and qualities that the US prizes: freedom of speech, religion, press, and assembly; political parties that compete in fair and open elections; and vibrant and free market economies. The US hopes that these democratic values will spread and be embraced throughout Northeast Asia.

We also have a keen interest — you might even say self-interest — in participating in this region's dynamic economic development. This is Northeast Asia's strong suit. South Korea and Japan are two of the world's strongest economies; combined with China, the three countries account for 18% of world income and 14% of world trade. In the last few years, this region has achieved growth unlike any other area in the world, and with its vast resources, there is potential for even more. US support in the past has helped South Korea and Japan develop at astounding rates, and we hope that the Korea-US Free Trade Agreement, once ratified by both of our legislatures, will be the impetus for continued trade liberalization in Northeast Asia. We noted that China's interest in South Korea increased after the KORUS FTA was negotiated, and we believe it is healthy and natural to see more economic interdependence among the countries in the region; we would even like to help that process along.

Here on the Korean peninsula, there is budding economic cooperation between North and South and the potential for much more. The Kaesong Industrial Complex is not just a powerful symbol for inter-Korean relations, but a chance for North Koreans to get a taste of free-market economics. Restarting the inter-Korean railways last month was another highly symbolic act, one that could link the two Koreas to countries throughout Asia and all the way to Europe. We believe North-South engagement should continue, and that it has contributed to lowering tensions on the peninsula. At the same time, to connect back to the first topic I discussed, the US appreciates the South Korean government's insistence that North Korea make progress on its February 13 commitments before returning to "business as usual" in inter-

Korean relations. We also believe that engagement should lead to the North opening up more, giving North Korean citizens the chance to learn more about South Korea and the outside world.

North Korea could reap considerable economic benefits if it implements the February 13 “Initial Actions” agreement, joining in the general trend of economic integration in Northeast Asia. In addition, economic projects like Kaesong and linking the inter-Korean railway system offer great opportunities for continued economic cooperation between the two sibling countries, as well as potential prosperity and increased openness for North Koreans. Indeed, if the growing economic interdependence we’re witnessing in Northeast Asia develops into more formal economic integration, this may well serve as the basis for broader political cooperation and security and peace dialogues.

But first, the countries in this region must collectively achieve the most urgent goal: the complete elimination of the DPRK’s nuclear weapons and programs. It is only with complete denuclearization that the US government can agree to the complete normalization of relations with the DPRK and the conclusion of a permanent peace regime on the Korean peninsula. The United States has fully and consistently supported South Korea’s goal of peaceful unification of the two Koreas, in part because we firmly believe that a reunified, democratic and prosperous Korea would greatly impact and enhance security and stability in Northeast Asia — which is our overarching goal.

## **Conclusion**

Through the Six-Party Talks and increased economic cooperation, including participation in forums like APEC and the ASEAN Regional Forum, the countries in this region have already demonstrated that they can work together to solve common problems. But the leaders in this region and the US need to decide how to best leverage this multilateral cooperation for maximum impact. Having served as US Ambassador to both South Korea and Russia, I believe that, despite the different types of governments and unresolved historical issues, the prospect

of peace, stability and prosperity within the region could motivate the countries to band together to achieve true breakthroughs — denuclearization of the Korean peninsula among them. The United States will continue to play a lead role in this effort, to strengthen our alliances with South Korea and Japan, to seek out increased trade liberalization in the region, and to strengthen our relationships with China and Russia while encouraging democracy and human rights to help realize the goal of a secure and prosperous Northeast Asia.

# *Initiative for Northeast Asian Community Building: A Japanese Perspective*

**Shotaro Oshima**

## **I. NEA: Its Strength and Vulnerability**

### **A. Strength**

#### **a) Vibrant Economy, Regional Integration**

**N**EA is a vibrant growth center of the world. China has been expanding at a pace above 10% per annum for a considerable stretch. The Korean economy has become the 10th largest in the world. Japan is making a remarkable “comeback” after more than a decade of stagnation. Economies in the region are being increasingly integrated. Japan, Korea and China are respectively one of the largest, if not the largest trading partners for the other two.

#### **b) Favorable and Stable Relationship Between Countries in the Region**

NEA countries enjoy a friendly and close relationship between each other, buttressed by intense consultations at all levels, including the very top. The visit by Prime Minister Abe to China and Korea just after his inauguration last October was a significant step forward in this regard.

### **C) Strong US Presence and Engagement**

NEA greatly benefits from the strong engagement and presence by the United States, politically, economically and militarily, which has played an essential role for the maintenance of peace and stability in the region.

## **B. Vulnerabilities**

### **a) Vestiges of the Cold War**

The vestiges of the cold war in NEA, including North-South division on the Korean peninsula and the tension across the Taiwan Straits are affecting the peace and stability of the region with much broader global ramifications. A product of these “vestiges,” the missile launches by North Korea of July last year followed by the nuclear test in October rocked the peace and stability of this region and the world beyond.

### **b) Rise of Nationalism**

NEA countries are all going through a period of reviewing their respective national identities. Economic successes brought about a “new middle class,” which is challenging the traditional outlook of their respective countries. While these developments can be considered as a very natural course in the evolution of a nation-state, we should always bear in mind the risk of the rise of “extremist” or “exclusionist” nationalism.

## **II. Agenda for NEA Countries**

The following is an agenda for NEA countries, with a view to maximizing the strength of the region and overcoming its vulnerabilities.

### **A. Resolve Urgent Issues: North Korea**

NEA countries, together with the US, should continue to work closely together to find solutions to North Korean threats, such as its nuclear weapons, missiles, human rights issues including abductions of Korean and Japanese nationals, illegal activities like counterfeiting and drug-trafficking. What is necessary is a strategic decision by North Korea to become a responsible member of the international community. Japan is ready to talk with North Korea at any time to settle bilateral issues. Normalization with North Korea is in Japan's strategic interest. At the same time, the Japanese people will not be able to accept normalization while such threats by North Korea as its nuclear weapons, its missiles, and abductions persist. The Japanese nation sees the return of abductees from North Korea as its top priority.

### **B. Enhancing Dialogue**

NEA countries should continue to enhance dialogue among themselves. Six-Party Talks represent a good opportunity to accumulate experience and know-how of close consultation among major NEA members on security issues. Such a format as the Japan-China-Korea trilateral dialogue is also useful.

### **C. Expand Joint Efforts to Advance Mutual Benefits**

NEA countries have already identified specific joint projects, bilateral and trilateral, in such areas as energy development and environmental protection. The implementation and expansion of these joint efforts will further enhance the viability and sustainability of the economic strength of this region, as well as trust and mutual understanding between states.



## **D. Maintaining a Strong US Presence and Engagement in the Region**

The US presence and engagement in NEA will continue to be an indispensable element for the stability and prosperity of the region. NEA countries, including such allies as Japan and Korea, should continue to engage in close consultation with the US, in order to secure its engagement in this region, and to ensure that the US is on the same page as NEA countries on crucial issues.

## **E. Suppressing Extreme Nationalism**

Extreme and exclusionist nationalism can block future efforts to enhance regionalism, and offset the fruits of past efforts, and therefore, is a fatal threat to the stability and prosperity of NEA. Governments in NEA should make efforts to discourage the rise of that kind of nationalism, and avoid instilling nationalistic anger and emotion among their people against others.

# **III. Future of NEA**

In the context of the main theme of this forum, i.e., the relevance of the European experience in NEA, the following factors should be borne in mind: the relativity and universality of the European experience.

## **A. Relativity**

The geopolitical, historic and strategic makeup of NEA as compared to Europe should be differentiated: not all NEA countries adhere to democracy or pluralism; there was never a clear cut West-East confrontational structure in NEA, unlike in Europe during the Cold War Era.

**a) Universality**

At the same time, the European experience seems to point to a universal truth: sustainable prosperity is possible only under freedom and democracy. It is also difficult to question the merit of continued and institutionalized dialogue and consultation.

## *Initiative for Northeast Asian Community Building: A European Perspective*

**Norbert Baas**

The European Union celebrated its 50th birthday this year. An unprecedented historical achievement was reached as a result of the strong determination of far-sighted European leaders and their people to overcome the painful divisions of the past through reconciliation, integration and a partial transfer of sovereignty to common institutions like the European Parliament and the European Commission. The EU now comprises 27 democratic states and a population of roughly 500 million people. It is the world's largest trading bloc. Its future-oriented projects, its economic weight, technological and scientific skills as well as cultural diversity make it a prosperous and attractive partner for the dynamic Northeast-Asian world.

Thanks to its Common Foreign and Security Policy the EU became a key player for stabilising peace, promoting good governance, human rights and the rule of law. The EU's significant development assistance greatly contributed to its perception as a peaceful and stabilising power. In 2005 alone, it contributed 43 bn Euros in public aid to developing countries, which is the equivalent of 0.34 % of GNP of its 25 members states. In the framework of its Security and Defence Policy (ESDP) the EU has conducted 16 civilian and military missions over the last eight years. The major focus for these will remain in its neighborhood. However, the mission to Aceh was a noticeable proof that chal-

lenges in Asia were handled swiftly in spite of the geographic distance.

The EU's primary and most inclusive forum with Northeast Asia is ASEM, the regular Asia-Europe meetings. It comprises all Asian States — with the exception of the DPRK — and all member states of the European Union plus the European Commission. Regular biennial summit meetings are being held. In this year's Foreign Ministers' meeting in Hamburg 28th/29th May, for the first time High Representative Solana and Commissioner Ferrero-Waldner participated. The Foreign Ministers encouraged significant further steps to broaden cooperation stretching now into fields of a more practical importance for the people such as social and educational policy. A first meeting between the deputy Finance Ministers took place recently in Muju, Korea. ASEM enlarges the traditional East Asian community, often seen as ASEAN plus China, Japan and Korea, by India, Pakistan, Mongolia and South-east Asia all sitting at one table with the EU. Also the ASEAN Secretariat was represented. The ASEM community represents roughly 50% of the world's GDP, 58% of the world population and 60% of world trade. All operational questions discussed in this framework may have an impact on decision-making when it comes to the burning issues on the current global agenda.

ASEM is based on a solid network of bilateral relations between the EU and its major Asian partners. That makes for its inherent strength and potential for the future. The EU is keen to develop further its ties with ASEAN, India and Korea by the conclusion of FTAs and the enhancement of political relations manifesting themselves in framework or partnership and cooperation agreements (PCAs). It is important that we face up to the common global challenges by making full use of the contributions each side can make and by convincing those who hesitate.

The EU's close bonds with the US and its strategic and friendly relations with Japan also include Asian topics on which we consult regularly, among them the DPRK nuclear issue. It is a topic in the EU's consultations with China and Russia as well. Many EU members have fought under the UN command on the side of South Korea during the Korea War. Our relations with Korea are in good shape and have fur-

ther potential. The EU is now South Korea's second largest trading partner after China. Its member states have seven diplomatic missions in the DPRK. The EU will continue to support the efforts undertaken in the Six-Party Talks with a view to the de-nuclearization of the Korean peninsula. It has its own and strong interest in a successful outcome of the 6PT. Already for several years France, Germany, the UK and the High Representative of the EU (E3/EU) plus three (China, Russian Federation, US) have undertaken considerable joint efforts towards the de-nuclearization of Iran. Positive developments in North Korea, as envisaged by the initial steps agreement 13th February in the framework of 6PT, may have a beneficial impact on settling the Iranian case. A coherent non-proliferation policy will remain a strong and genuine European interest.

The question is often being asked whether Asians can learn from the EU's integration. Perhaps, ASEAN is a case in point. Whether this can be the case also for the relationship among China, Japan and Korea, will depend largely on their strategic objectives and on the course of the US. Today, it seems that the Six-Party Talks benefit cooperation between the three and with the US. Germany's experience with the 2 plus 4 negotiations on the external aspects of unification was a result of the historic thaw between the US and the then Soviet Union after the latter's reform policy allowed for reforms and the peoples' peaceful revolutions.

Korea's situation at first sight looks similar, but it differs in some important aspects: denuclearization is the negotiation goal — not the external aspects of unity — and the people's movement behind unification in Germany is so far lacking in the DPRK. Common ground in the 6PT between the United States, Russia, China and Japan might set free further positive forces, which could even lead to a framework in which, ultimately, a unification of the two Koreas one day is possible if both wanted it. With regard to the big three in Northeast Asia, any serious efforts towards integration between China, Japan and Korea going beyond multilateral cooperation would probably require a much deeper feeling of responsibility for reconciliation and a solid basis of common values.

The EU could play soon a modest but effective role in pursuing activities that already have started on a limited scale: it can offer, with all its experience in transformation, valuable advice for the DPRK if the latter decided in favour of reforms. In case a multilateral system of security and cooperation based on the Six-Party framework is being established after or parallel to the conclusion of a Korean peace treaty, the EU could thus contribute substantially.

*Initiative for Northeast Asian  
Community Building:  
Another European Perspective*

**Brian McDonald**

Trade and investment links in this part of the world grow each year. East Asians are interacting with each other via business, tourism and popular culture. And we can already see nascent political dialogue fora: the ASEAN+3, the East Asia Summit and the Six-Party Talks. Nonetheless, there is a need to move from a competitive, balance of power system towards a genuine, regional economic and security community. It is only then that this region will be able to guarantee peace and prosperity.

The European Union has progressed from the terror of war in the twentieth century, to a period of unprecedented peace and prosperity. War is now unthinkable between European states inside the European Union. Numerous countries in our neighborhood have joined the EU through a process of sharing sovereignty. Europeans do not see their neighbors as potential threats, but as essential partners in tackling the challenges of our age.

When I am asked how we have achieved the remarkable transition of the last fifty years, I think there are a number of key processes that can be identified. The absence of these will not prevent integration but may slow it down or make it more gradual.

- The existence of common values
- The political will to move towards an integrated community
- Pursuing a step-by-step process towards such a community
- The establishment of strong supranational institutions
- The move from a system of competition towards one of shared sovereignty.

If East Asia is going to progress towards deeper integration, it will depend to a large extent on these principles though every model of integration is different and needs to take account of local conditions.



## *Tasks for the Building of a Northeast Asian Community: A Korean Perspective*

**In-Kook Park**

**N**ortheast Asia, which encompasses the ROK, China and Japan, is fast emerging as one of the most dynamic economic powers in the 21st century. The three economies combined rank third in the global economy following only the EU and NAFTA, accounting for up to 18% of world GDP, 23% of the global population, and 17% of global trade. There is a clear trend of expanding and deepening interdependence across all fields among the three countries. This has been evident especially in the field of economy, trade, and people-to-people exchanges with the full-scale rise of the Chinese economy as an emerging economic giant.

Despite the heightened sense of competition between regional countries, trade and investment is growing dramatically and division of labor in economic activities has intensified. Especially, in the last ten years, trade and economic achievements among the three countries have demonstrated that the basic nature of relations in Northeast Asia does not reflect a zero-sum game but rather a positive sum game, indicating great potential to develop into a dynamic economic community. I believe it is in this light that the US encourages China to become a 'responsible stakeholder' in the international community. As for the non-economic field, a positive development, even though it is still in a burgeoning stage with slow speed, is being made whereby countries

are taking part in various cooperative initiatives within regional or multilateral frameworks, such as ASEAN+3, EAS, APEC, ARF and the ACD.

While these all offer opportunities, numerous challenges lie in our path to creating a positive environment for the building of a Northeast Asian community. Standing in contrast to the trend of economic interdependence, residual bitterness over past history and ideology and security continue to be a source of political confrontations. Unless the region addresses such challenges, there is no chance of establishing a real community no matter how much it develops economically. Especially in the area of security as most Ambassadors put it also, the denuclearization of the Korean peninsula is the cornerstone of peace and stability in Northeast Asia. In this sense, President Roh's speech yesterday has further implications. I quote "the Six-Party Talks, even after the North Korean nuclear issue is settled, might be developed into a multilateral consultative body devoted to peace and security cooperation in Northeast Asia."

Today, as part of exploring the feasibility of the Northeast Asia community, I would like to share any possible lessons from European experiences of integration and its application in the Northeast Asian region. First, we need to give concrete shape to the far-sighted vision of a Northeast Asian community. To this end, greater consensus on such endeavors should be forged not only among political leaders but also experts and civil society. As the East Asian Vision Group had provided fresh ideas on establishing an East Asia Community, a forum or vision group for extensive dialogue could be established to come up with clear visions and concrete cooperative initiatives for regional integration in Northeast Asia as the 'Werner Report' of 1970 in Europe suggested detailed action plans for creating an economic and monetary union in Europe.

Second, to create and maintain a stable security environment, a multilateral security cooperation mechanism based on mutual respect and trust among Northeast Asian countries should be pursued with priority. The recent launch of the Working Group on a Northeast Asia Peace and Security Mechanism in the Six-Party Talks process is mean-

ingful progress, which offers great promise for the promotion of multi-lateral security cooperation in Northeast Asia.

The Six-Party Talks is a comprehensive process which seeks to address the various interests of the participating countries. Through this process, we aim to achieve a change in North Korea's threat perception and convince North Korea that it will be better off without nuclear weapons in its arsenal. As Foreign Minister Song introduced yesterday, the Presidents of the Republic of Korea and the United States shared a strategic perception and agreed upon "a common and broad approach" last year. Such strategic thinking is also well-reflected in the September 19 Joint Statement which lays out the goals and principles of the Six-Party Talks. I believe such "a common and broad approach" will be applicable as an effective principle or tool in pursuing further peace and stability in Northeast Asia as the principle of "diffuse reciprocity" of the Helsinki Process served successfully in materializing its goals in Europe.

Third, we have to focus on the fields in which we can yield more tangible achievements of cooperation. Given the unstable security situation in Northeast Asia and diverse interests of the countries in Northeast Asia, initial efforts could be focused on integration in the economic field. We could start by discussing the promotion of Free Trade Agreements and cooperation in finance and foreign exchange as well as in the energy and environment sectors. Following the financial crisis of 1997, the establishment of a so-called Asian Monetary Fund (AMF) was discussed with a view to strengthening the collective capacity against a possible future financial crisis. Moreover, during the ASEAN+3 Finance Ministers' Meeting held in May 2007, ten ASEAN countries and the the ROK, China and Japan agreed in principle to transform the Chiang Mai Initiative, a regional network of bilateral currency swaps worth up to US\$ 80 billion, into a multilateral framework in order to better cope with a possible financial crisis.

Fourth, US participation and contribution should be secured in the process of building a Northeast Asian community, given the fact that the US played an important role in helping Europe to overcome the ravages of the Second World War and achieve stability and prosperity

in Europe.

Fifth, the countries of Northeast Asia should not deny the past history but strive to come to a shared and future-oriented understanding of it. Following the Second World War, through sincere self-reflection and remorse over its past history, Germany took steps to help redress the past that was characterized by frequent 'wars and conflicts'. In particular, Germany's proposal to jointly write history textbooks with France and Poland provided a psychological basis for overcoming a past of division and advancing into a future of integration by promoting a correct and common understanding of history to the post-war generation.

Sixth, as the integration of Europe has been bolstered by several supporting pillars including NATO, OSCE, EC and the Council of Europe, encompassing a wide spectrum of cooperation, the Northeast Asian community should also expand its horizons to tackle emerging issues of mutual concern, especially newly emerging non-traditional security threats. Such new non-conventional threats include international terrorism, illegal migration, environmental degradation, transnational crime, pandemics, natural disasters and yellow dust. These problems do not recognize national borders and therefore cannot be resolved through the efforts of one or two countries alone. While these challenges can be a source of conflict between nations, they may also, at the same time, serve to encourage countries to cooperate to tackle these issues of mutual concern.

**PART**  
**XI**

*The North Korean Nuclear Crisis  
and Northeast Asia:  
Perspectives from Journalists*

North Korea's Nuclear Crisis and Northeast Asia

Covering North Korea from the South:  
Traveling a Long Road to See into a Nearby Neighbor

The North Korean Nuclear Crisis and Northeast Asia:  
Perspectives from Journalists

The Perspectives of the DPRK Nuclear Crisis



## *North Korea's Nuclear Crisis and Northeast Asia*

**Jie-Ae Sohn**

Covering North Korea's nuclear crisis is like getting on a crazy merry-go-round. One moment, the nuclear crisis seems to be on the verge of resolution: things are happening, people are talking, and then, you find yourself right back where you started. Or the situation worsens and the situation seems to be on the verge of exploding: heated words start flying back and forth, missiles start being fired, nuclear tests are conducted, and then, you find yourself right back where you started. Thus, we find ourselves in the present time and circumstance, on the path to resolution of the nuclear crisis once again. And instead of scenarios of chaos and war, we are contemplating what lies next for the North Korean regime, what happens to the country that is centered around the personality cult of founder and former leader, the late Kim Il-Sung and now around his son, Kim Jong-Il. What happens if the North follows through on the nuclear agreement made on February 13, and it is inducted into the global community?

Granted that is an optimistic view. But since that seems to be the music for the moment on this merry-go-round, and I am a sucker for happy endings, let's take that route. So what will happen to the North Korean regime? As correspondents, that is a question we all get asked and get asked to answer from time to time. Few deny the future of North Korea, and the impact it would have on South Korea hinges on a number of factors.

First, as the recent number of news articles have shown, much of the interest surrounds the health of Kim Jung-II. There have been recent reports published in South Korean and the foreign media about Kim's heart problems and diabetes worsening. One report was supposedly based on a phone call to Kim from one of his sons staying in China. Comments about how Kim should take care of himself were supposedly interpreted as a sign that there was something to be worried about. Another report is based on a visit to North Korea by a group of German doctors. The media report was that they were there to conduct heart surgery on Kim. This report was also promptly refuted by German sources. The worry surrounding Kim's health is directly related to the level of uncertainty that would arise in North Korea if these rumors were true, and how that would affect the resolution of the nuclear crisis, and North Korea's political stability as a whole.

One theory is that if at this stage, something were to happen to Kim Jung-II and a new leader had to be put in place, the odds are that the military would take control. But even under this scenario, many analysts believe the strong personality cult that drives normal North Koreans would dictate that the Kim family support and totally justify any leader. On the other hand, another theory is, that if the nuclear dispute was resolved in a beneficial way for North Korea, and its economic and diplomatic standing in the world improved, that would give Kim Jung-II enough voice to dictate his successor, whether that be one of his sons or someone with a military backing.

As you can see, much of the reporting about North Korea is very different from the types of stories a correspondent would do from other conflict areas. These deal with many theories and hearsay, and intelligence sources, which in many instances turn out to be totally groundless. But there is one story that foreign correspondent cover with a great deal of interest and that is the various plights of North Korea defectors. And in the context of the implications for South Korea in the aftermath of the North Korea nuclear crisis, there is an angle to the story that is especially fascinating for me. That is the story of the former North Koreans as they struggle to adjust to South Korean society. If we suppose that at some point in the merry-go-round story that is



North Korea that we reach a state where North Koreans and South Koreans go through the process of co-existing, then the plight of these North Koreans provide invaluable insight.

We covered a recent job fair for North Korean defectors that was sponsored by the South Korean government. There a couple of hundred North Koreans listened to a lecturer talk about how to get a job, keep a job, then take ID photos, fill out a resume and then sit down for an interview with recruiters from various South Korean companies, mostly small and medium-sized firms who have trouble finding South Korean employees. Some of the North Koreans there were there for an enjoyable day. The job fair was conducted in the morning, in the afternoon, the government provided live entertainment. But for some, it was the serious business of trying to learn what finding a job is all about. There were a couple of observations. First, there was a lack of the intensity of job-seeking that I had seen in other job fairs for South Koreans looking for jobs. You could tell seeking a job was an alien concept for many there. And for many there, one of the reasons was that there was no job that they were suited for. One young man we met made vegetable oil in North Korea before he defected to the South with his young pregnant bride. Now in the South, he needs to find a way to support his family, but has no skills to offer. A reflection of such frustration felt by the North Korean defectors is the experience of the companies that hire them. Some of the most common complaints of South Korean employers is that the North Korean defectors have little concept of time. They also do not feel the pressure to show up on time, many stop coming to work without prior notice. Personal problems, like loneliness or the emotional baggage of having to deal with the issue of relatives left behind in the North also drive many to drink and drug abuse.

It is no wonder that only 15% of the North Korean defectors here manage to hold down full-time jobs. While this is just one example of how North Korean defectors find it difficult to survive in the South, the process could provide valuable lessons if the nuclear crisis is resolved peacefully and North Korea starts down the road to adjusting to a capitalist marketplace. It would also certainly provide crucial lessons if

North Korea were to be unsuccessful in conducting a peaceful leadership succession and had to be absorbed by the South in a short period of time. But lastly, and most importantly, it shows that ultimately the nuclear story will boil down to how the resolution of this issue affects the lives of people living on both sides of the Korean border.

*Covering North Korea from the South:  
Traveling a Long Road to See  
into a Nearby Neighbor*

**Jon Herskovitz**

The two biggest difficulties in covering the North Korean nuclear crisis is that the main player Pyongyang is closed for questioning. To make the situation even more vexing is that the limited communication the reclusive North issues through its official media is viewed through a different and sometimes contrasting perspective from the various main countries trying to defuse the crisis — the United States, South Korea, China, Japan and Russia. The life of a reporter covering North Korea's atomic ambitions would be so much easier if leader Kim Jong-il held a few news conferences. Even the North's official media does not use direct quotes for comments attributed to Kim, as if putting down the words of its Dear Leader on paper would be insulting to a person they describe as a military genius without peer. North Korea is not a normal country. It views the world through a narrow prism where it draws a clear line between its communist aspirations and those forces it sees as evil standing in its way.

Reading the North's official media is a bit of an art form. The first tip to the novice is to read the first paragraph of an official dispatch, where it outlines the problem, and then skip to the final two paragraphs where it usually sticks its solutions, which can range from saying it will build nuclear weapons or stay away from the negotiating table until — you can take your pick — it receives funds frozen in a

Macau bank, the United States withdraws its military forces in the peninsula, the South cancels joint military drills with the US, Japan is barred from the proceedings, Washington drops its hostile policy and so on and so on. For those of you unfamiliar with North Korea's official media, its main voice for the outside world is its Korean Central News Agency wire service that provides stories ranging from gifts of floral baskets from obscure groups to the country's Dear Leader to statements from a Foreign Ministry spokesman, which are typically its highest form of communication with the outside world. Its official TV channel can be viewed in the South by media given permission and there are pro-Pyongyang Web sites run by North Koreans in Japan. Seoul blocks access to these sites, but they can be seen through a server that is not routed through this country. The secretive North can be quite direct and open in its direct media as to its intentions, but the difficult task is to separate the bombast from the rhetoric indicating a bomb blast. On the rare occasions when the North actually allows one of its officials to hold a news conference, the communist state can be far fairer and open to the international media than the democratic South. North Korea opens its press conferences to all media. It usually provides translation.

When I covered a North-South Korean foreign ministers meeting in Vientiane, the North's official was on hand to answer questions almost immediately after the event. The South, which often bars international media from its background briefings, first briefed its local reporters. It then held a separate briefing for international media some two hours later. Compounding the problems of covering North Korea, which does its best to shut out international reporters, are the different perspectives from which its main interlocutors view the reclusive state.

South Korea, which has lived with the threat of the North's massive army stationed near its border for decades, has a tendency to play down any problems with the North and brush aside bad behavior on the part of its neighbor. Often, I will hear from South Korean officials about the special relationship between the brothers on the divided peninsula and how officials in Washington, Tokyo and other places can never truly understand the situation.

For Japan, North Korea is an immediate threat — and a villainous state that kidnaps its nationals. But for the government of Japan, and specifically Prime Minister Shinzo Abe’s Liberal Democratic Party, Kim Jong-il can be their best friend. Let me explain. The conservative LDP has been pressing for years to bolster its military to make it more assertive in the region and to revise its pacifist constitution. Given the baggage from its wartime aggression, it is difficult to convince neighbors and the local population that Japan can be trusted with an increased military strength. But each time North Korea rattles sabres, whether through missile or nuclear tests, it creates a great sense of unease in Japan that can be exploited by the LDP for its purposes.

While the South cannot escape the North, the United States faces a host of international problems and the one concerning North Korea must bide its time for Washington’s attention with troubles arising in Iraq, Iran and other hot spots in the world. There are a myriad of ways in which the US views North Korea, but one of the most troubling is when it is seen as the “threat du jour.” This raises alarms and calls for immediate action leading to an immediate solution to a security threat that will take years, if not decades to solve. The world is keenly interested in what happens in North Korea. If you were to look at the Reuters Web site, you will find that “North Korea” is almost consistently among the top ten most searched terms on our Web site — on days when it is not pushed aside by a perfect storm of news involving Britney Spears, Paris Hilton and Lindsay Lohan.

*The North Korean Nuclear Crisis  
and Northeast Asia:  
Perspectives from Journalists*

**Donald Kirk**

**T**he North Korean nuclear crisis is frustrating for journalists to cover for one overwhelming reason: We're unable to get geographically close to the story, to find out what's really going on — and to supplement the news with basic color and on-scene interviews. For the nuclear test on October 9, we had to rely first on YTN, South Korea's cable news network, then on North Korea's claim, via KCNA, to have conducted the test and, finally, on estimates by scientists and others of the strength of the blast. A cast of commentators from Washington to Seoul was happy to talk about the significance, but no one was able to report first-hand on what officials in Pyongyang were saying, to see if the general public in North Korea was fully aware of what had happened — or to gauge North Korean reaction.

In the case of the nuclear test, or the test-firing of seven missiles in early July, however, covering these stories from Pyongyang might not have made a crucial difference. Whether in Pyongyang, Seoul or Washington, a reporter would still have to rely on official announcements. In fact, the news may have been available outside North Korea first. North Korea's media machinery did not crank out the story until after YTN and others had quoted seismologists as reporting what their equipment had revealed about the size and scope of the blast — much smaller than expected. The nuclear test, three months after the volley of

missile launches, provided some drama in the midst of what a repetitive process of speculating about the Six-Party Talks and, when they happen, what's been said. Whenever a phase of the talk process winds down with a paper or statement, correspondents and analysts are left to chew endlessly over the meaning of sentences, clauses and phrases, the likely response of the signatories, and the likelihood of their honoring the pledges they have made.

It is possible at every stage to exaggerate on the dangers — and the hopes. At times it's not even certain whether there's any nuclear "crisis" at all. If we're confronting a crisis, why do prices on the Korean stock exchange keep going up and why is commerce increasing among the major powers with a stake in the region and, on a smaller scale, between the two Koreas? A crisis of true crisis proportions — nuclear weapons bandied above a military demarcation line on either side of which huge armies have been confronting each other for more than 50 years — would seem to have to involve a marked increase in military tensions. On the southern side of the line, however, US forces are decreasing in size and strength while the South Korean military machine also is slowly paring down in numbers though not necessarily in strength. Whatever the North Koreans are doing, it's not enough to engender a war atmosphere on the streets of Seoul or anywhere else in Korea. As for the impact of the "nuclear crisis" in the United States, Korea rarely makes headlines except when North Korea conducts a test or, conversely, seems to have come to terms on its nukes.

In fact, correspondents and analysts have been known to spread the erroneous impression that the whole problem was resolved. False hopes were raised by the "memorandum" of September 19, 2005, under which the six parties agreed on a vague agenda under which the North would give up its nukes in return for vast quantities of aid. The final agreement of February 13, 2007, setting down a detailed process that would end in a nuclear-free Korean peninsula, triggered another round of optimistic stories. At every airport arrival or departure, between meetings in Beijing, in stopovers in Tokyo and Seoul, Christopher Hill, the chief US envoy, was available for pithy quotes — ideal for advancing the story, and raising hopes, for another few hours,

maybe a day or two.

From the perspective of correspondents covering the region, the nuclear issue, crisis or not, is a story that is not going to end. Anyone who thinks North Korea is likely to give up its nuclear warheads has probably not been following all the twists and turns of a story characterized by recurring waves of optimism and failure. How many people remember the North-South agreement of 1991 and the accompanying promise of “denuclearization” of the Korean peninsula? For that matter, North Korea’s withdrawal from the nuclear non-proliferation agreement of 1993 and the “crisis” that preceded the signing of the Geneva framework agreement of 1994 also are receding from memory.

Perspectives differ, though, from country to country. The rise of rightist rule in Japan has contributed to regional tensions even as China, preserving its own interests in appearing as a peace-maker on the Korean peninsula, holds the North Koreans in check. The United States lurches through shifts in tone and emphasis — though not necessarily a basic change in outlook. If President Bush no longer talks about North Korea’s place in an “axis of evil,” reports of dealings between Pyongyang and Tehran in arms, components and technology do not exactly contradict an impression of something sinister transpiring at opposite poles of the axis.

The most difficult perspective to grasp, though, is that of North Korea itself — whatever Kim, Jong Il and his media machine mean by pronouncements and gestures, “hard-line” positions and hard-won concessions, openings and closings to outsiders, pleas for aid amid passionate declarations of “self-reliance.” If Juche is a religion, it’s got to have been violated as much as any other — though one doesn’t hear of anyone in North Korea taking the names of Kim, Il Sung and Kim, Jong Il in vain. Such is the power of this religion that a pair of North Korean refugees whom I recently interviewed said they still believed in “Juche” even as they told horror stories of what they had seen and survived before escaping to more hardships in China en route to South Korea by way of Thailand.

When I first visited Korea in 1972, negotiators at Red Cross talks in Seoul and Pyongyang were haggling over family visits, commerce and



mail. Could that really have been 35 years ago? The nuclear issue came later, vastly raising the stakes, while all the underlying problems remain unsettled. Could it be that correspondents will still be trying to figure out what to make of it all in another 35 years? Or will something really “happen” — the nightmare of nuclear holocaust or the dream of enduring peace? From the perspective of this correspondent, I’m at a loss for predictions — though I do think talking is far preferable to fighting.

## *The Perspectives of the DPRK Nuclear Crisis*

Akiko Horiyama

### **Initial Action Phase in the February 13 Agreement**

**A**fter the release of some \$25 million in DPRK assets held at the Macao-based Banco Delta Asia, the DPRK is pushing forward with talks with the IAEA in order to shut down and seal the Yongbyon nuclear facilities. Although the February Agreement stipulates that the shutdown is “for the purpose of eventual abandonment,” there is no agreement on how to pursue that. It really depends on negotiations between the DPRK and the IAEA. The shutdown could be at a level agreed at the 1994 Agreed Framework, or at a much lower level. The DPRK will demand the withdrawal of the U.N. sanction before starting talks in the next phase for disablement of all existing nuclear facilities. But there are concerns that the DPRK could insist the nuclear test last October was a success if the U.N. sanctions are not removed to the level prior to the 2002 nuclear crisis. The shutdown should be carried out as early as possible without bargaining for conditions. However, U.N. sanctions should not be removed until the DPRK submits a list of plutonium facilities including the reprocessing one, and plutonium extracted from used fuel rods is put under the control of the Six-Party Talks framework.

## **Denuclearization in the Next Phase**

The United States will try to have a soft-landing approach about the issue of HEU by holding a committee meeting in order to hear from the DPRK about the HEU program. But it is difficult to resolve the issue, because the DPRK would attempt to argue with the United States about the detailed evidence of purchase lists such as the aluminum tubes intended for use in uranium enrichment centrifuges. The DPRK will refuse to submit even the list related to plutonium facilities including the amount of fissile material and the number of nuclear weapons until the end of this year when the United States decides whether to remove the DPRK from the list of state-supporters of terrorism.

In order to press forward the next phase effectively, the six parties need to build a consensus on the disablement of nuclear facilities. The most urgent task is to have IAEA inspectors take control over the DPRK's reprocessed plutonium, in whatever format it exists.

## **Normalization of Relationships with the DPRK**

The six parties will make an effort to hold a foreign minister's meeting within this year. But it will be difficult to achieve a significant outcome, if they cannot agree on the roadmap for disablement of nuclear facilities. It is possible that the United States will cancel the designation of the DPRK as a state-supporter of terrorism before the Japanese abductees issue makes progress toward resolution. The Abe administration may be faced with political conflicts between US-DPRK normalization and Japan-DPRK normalization. The DPRK does not have a serious intention to promote negotiations with Prime Minister Abe. The Abe Administration also will not give up its principle of bringing the more than one dozen Japanese abductees back home alive. The conflict between Japan and the DPRK sometimes gets in the way of other members' efforts in the Six-Party Talks. But in the end, Japan and the DPRK have no other choice but to conclude a comprehensive agreement when the Six-Party Talks set a course for a breakthrough on the

nuclear issue.

The Abe administration must shift the emphasis of its policy on the Japanese abductees issue from bringing them back home to a fact-finding survey coordinated with the DPRK in order to put the issue in parallel with the Six-Party Talks. Among the five working groups for the Six-Party Talks, the one for Japan-DPRK normalization may be delayed most. It is possible that some members of the Six-Party Talks will ask Japan to give up on the abduction issue. But there are no prospects for a resolution at the Six-Party Talks, if they are separated from the abduction issue. It is important to link the abduction issue to the nuclear problem in the Six-Party Talks. That will strengthen the position of moderate factions in Japan that pursue negotiations with the DPRK.

### **Build the Peace Regime**

In order to replace the armistice agreement of the Korean War with a peace agreement, the directly related parties will negotiate at a separate forum. Four parties (the DPRK, the ROK, China, and the US) will make an effort to end the state of war and declare a peace regime on the Korean peninsula. But, in order to develop a permanent peace regime firmly, Japan and the Russian Federation also need to participate in the talks. In the process of building a peace regime, one of the most important issues will be on how to reduce nuclear weapons in the hands of nuclear powers. Only Japan and the ROK are definitive non-nuclear nations in the Six-Party Talks. Therefore, close cooperation between Japan and the ROK is indispensable when discussing how to convert US Forces stationed in Korea to a Peace Keeping Force.

In the final phase of the Six-Party Talks, Japan is due to provide a large collective assistance to the DPRK's economic development, based on the 2002 Pyongyang Declaration. This support is historically significant not only because Japan can contribute to a peace regime in East Asia, but also because Japan can resolve the issues of its early 20th century colonial rule of the Korean peninsula. Through this contribution, Japan should promote regional confidence building in East Asia.

*Closing Remarks*

*The 4th Jeju Peace Forum  
Declaration*



## Closing Remarks

Youngmin Kwon

Excellencies, distinguished guests, ladies and gentlemen, it is time to conclude this Forum. Now I will put back the three bars of Jeong-nang, at the entrance of our home on this island. It will be another two years until we will meet again at the 5th Peace Forum. The three bars of Jeong-nang will signify that the owner of the house has gone out for a long time. The Jeju Peace Forum has been held traditionally every two years. This means we shall remove the bars from Jeong-nang again in 2009 as we did for the opening of this Forum.

The 4th Jeju Peace Forum has been a great success with your enthusiastic participation. Of course, without your active participation in broad and in-depth discussions on the European experience with regard to multilateral cooperation and conflict prevention, this Forum would have met with failure. However, thanks to your great devotion and earnestness, we have discovered the relevance of applying the European experience to Northeast Asia. The ideas for enhancing mutual understanding and confidence building and thus institutionalizing conflict prevention processes in this part of the world could also be the ways and means of facilitating security cooperation and regional integration, so as to safeguard peace and prosperity.

We have adopted the Jeju declaration which is seen as a landmark in our effort. On this island and peninsula and in this region, the attainment of peace and prosperity has historically been desired for a long time. On the island of world peace, as the Korean government proclaimed, we have succeeded in converging our various views and

opinions to reach consensus on at least one point: the need for regional peace, which could lead to world peace. We hope that the declaration can be a roadmap to lead to regional harmony and integration so as to bring about peace and prosperity.

You have stayed on a beautiful, semi-tropical volcanic resort-island for about three days. However, you have been confined only to hotel rooms most of the time. I feel very sorry for this inconvenience. Even though you have achieved a lot in caring about important issues like applying the European experience of confidence building to the prospective cases of Northeast Asia, to stay indoors in such beautiful weather could have been another hardship. I hope you are able to spend more time outdoors next time. I appreciate your perseverance and sincerely thank you for your great contribution and achievement. Thank you and see you all again in 2009.



## **The 4th Jeju Peace Forum Declaration**

**June 23, 2007  
Haevichi Hotel & Resort Jeju  
Jeju, Republic of Korea**

Since the end of the Cold War, Northeast Asia has been emerging as one of the most dynamic regions of the world. While globalization is enhancing mutual dependence and cooperation within the region, elements of conflict, such as the North Korean nuclear issue, territorial disputes, and differences in national historical perceptions are grave challenges to the security of individual states and threaten regional cooperation and integration.

The 4th Jeju Peace Forum, taking as its theme "Peace and Prosperity in Northeast Asia: Exploring the European Experience," was held at the Haevichi Hotel & Resort on Jeju Island from June 21st to 23rd, 2007. Opening with an address by President Roh, Moo-hyun, the Forum assessed the applicability of the European experience of regional cooperation and integration to Northeast Asia. The Forum also considered the impact of technological change in the IT sector on the process of building an East Asian community.

During our deliberations, the participants of the forum, including prominent Asian, European and North American politicians, diplomats, representatives of business, the media and academia, examined the critical political and economic challenges of the region. Our discussions ranged widely, encompassing history, national identity, traditional and non-traditional security challenges, economic cooperation, epistemic community building and the role of a future Peace Operations Center

(POC) in Jeju Special Self-Governing Province.

While Europe's political and security community continues to evolve, the example of the European Union, the Organization for Security and Co-operation in Europe (OSCE) and the associated Helsinki Process demonstrates that Europe, compared to East Asia, is more advanced in terms of successful multilateral cooperation. While differences in history and culture prevent the European example from being mechanically and narrowly applied to Northeast Asia, nonetheless the considerable successes of Europe over the past 30 or so years, demonstrate that individual nation states can overcome parochial nationalism, in the process successfully laying the foundation for the creation of a strong, coherent and durable economic and security community. On the basis of our deliberations, the 4th Jeju Peace Forum hereby declares the following:

- Multilateral mechanisms for the resolution of conflict and the promotion of cooperation and integration in Northeast Asia remain underdeveloped by comparison with Europe.
- Today's critical security issues in Northeast Asia, most notably the North Korean nuclear challenge, arms race pressures, structural instability within the region and newly emerging non-traditional security challenges, urgently require new measures to encourage multilateral security cooperation in the region.
- Such measures should be based on the practical lessons emerging from the European experience of negotiating and establishing the

OSCE. In particular, the European experience highlights the critical role played by small and medium-sized states — most notably that of Finland, Yugoslavia and Switzerland — in facilitating constructive change in the context of the broader superpower confrontation.

- The Republic of Korea, given its size and geographical position, is well-suited to play a comparable critical and catalyzing role in establishing the foundations for an effective security and political community in Northeast Asia.
- The current Six-Party Talks, addressing the North Korean nuclear challenge, and in particular the detailed and constructive elements of the September 19, 2005, Joint Statement and the recently concluded Feb. 13, 2007, agreement provide the necessary means and mechanisms to ensure the construction of a new regional community.
- To ensure a lasting, flexible, and evolving process of dialogue and negotiation between the states, peoples, and public and private institutions of the Northeast Asian region, we advocate a new Jeju Process, modeled on and drawing on the valuable lessons of the Helsinki Process.
- With this in mind, the participants to the Forum recognize and emphasize that Jeju — designated by the Government of the Republic of Korea as an “Island of World Peace” in January 2005 — is ideally suited to serve as the center for such a process and that immediate steps should be taken to promote such a role, building on the success of this and previous forums.



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Daniel Bob is CEO of NYROK Partners, LLC, NY, USA. Previously he served as senior foreign policy advisor to the Chairman of the Senate Finance Committee, top advisor to the regulator of the \$4 trillion U.S. secondary mortgage markets, Japan-based fellow of the Council on Foreign Relations, and senior advisor to a major U.S. law and lobbying firm. In addition to his other duties, he is currently assisting in the development of what will be the world's first carbon neutral coal-fired power plant, and writing a book on U.S.-China relations. While in the Congress, Mr. Bob played a leading role in ensuring China's entry into the WTO; the indefinite and unconditional extension of the Nuclear Non-Proliferation Treaty; and the formulation of the U.S. response to the Asian financial crisis of 1997-98. A life member of the Council on Foreign Relations, Mr. Bob has been an adviser to China's Pudong Academy and Japan's Diet Constitutional Research Commission, served as a visiting scholar at Keio University; participated in the Trilateral Commission; contributed to national intelligence estimates; and was part of the group that produced the first Armitage report, the blueprint for U.S.-Japan relations under the Bush Administration. Mr. Bob also played a significant role in the entrance of Slovakia and Slovenia to NATO. A graduate of Yale and Harvard Universities, and a former Fulbright Scholar in Fiji, Mr. Bob appears frequently as a commentator on U.S.- Asia relations and U.S. economic, trade and foreign policy.

**CALDER, Kent E., Johns Hopkins University**

Kent E. Calder, the Edwin O. Reischauer Professor of East Asian Studies and director of the Reischauer Center for East Asian Studies, joined SAIS in 2003. The first executive director of Harvard University's Program on U.S. Japan Relations, he earlier earned a Ph.D. in government there under the direction of Edwin O. Reischauer. Dr. Calder served as Special Advisor to the U.S. Ambassador to Japan (1997-2001), as Japan Chair at the Center for Strategic and International Studies (1989-1993), and taught at Princeton University for twenty years (1983-2003). He is the author of five books on East Asian politics and security issues, including *Crisis and Compensation*, as well as *Strategic Capitalism*. The most recent, *Pacific Defense*, won the 1997 Mainichi Grand Prix in Asia-Pacific Studies for its analysis of how economic change is transforming the U.S.-East Asia security equation. Calder is also author of the forthcoming *Embattled Garrisons: Comparative Base Politics and American Globalism*, which Princeton University Press will be publishing in October 2007 and co-editor of *East Asian Multilateralism and American Interests*, with Francis Fukuyama.

**CHUFRIN, Gennady, Institute of World Economy and International Relations**  
Gennady Chufrin is Deputy Director of the Institute of World Economy and International Relations (IMEMO), Russian Academy of Sciences. He graduated from Leningrad State University in 1958 and received a Ph.D. in International Economics, Leningrad State University in 1965. In 1981 he received a Professor degree in international economics, Institute of Oriental Studies, Russian Academy of Sciences, Moscow. His previous positions include Member of Soviet economic teams in Indonesia and India (1958-1961); Assistant, Economic faculty, Leningrad State University (1961-1965); Economist, Department Head, Soviet Trade Representation, Indonesia (1965-1969); Senior Research Fellow, Institute of Marketing Research, Moscow (1970-1973); First Secretary, Counselor, Soviet Embassies in India and Pakistan (1973-1978); Department Head, Deputy Director, Institute of Oriental Studies, Soviet/Russian Academy of Sciences (1979-1997); Project Leader, Stockholm International Peace Research Institute (SIPRI), Sweden (1998-2002). He is author and co-author of 15 monographs and over 120 articles on international security and Russian foreign policy published both in Russia and abroad in the Russian, English, French, Chinese, Japanese, Korean, Turkish and Tajik languages. His latest publications are *East Asia: Between Regionalism and Globalism* (Singapore, 2006; co-author and editor) and *Russian Foreign Policy and Security Strategy in East Asia* (Seoul, 2006).

**FIFIELD, Anna, Financial Times**

Anna Fifield is the Seoul bureau chief for the *Financial Times* newspaper. She writes about everything from South Korea's chaebol conglomerates and social issues to North Korea's nuclear programme and the regime's efforts to shore up its decrepit economy. She has visited North Korea nine times, including four trips to Pyongyang. Anna joined the *Financial Times* in London in January 2001, first working on the foreign desk then moving to Sydney as Australasia correspondent, before returning to London to cover the UK economy. She has been in Seoul since September 2004. A New Zealander, Anna studied literature and linguistics at Victoria University in Wellington and then completed a post-graduate diploma in journalism at Canterbury University in Christchurch. She worked as a newspaper journalist in New Zealand before winning a British Council journalism scholarship and moving to London. She regularly discusses Korean matters on international television and radio, as well as speaking about North Korea at universities and conferences.

**FUKAGAWA, Yukiko, Waseda University**

Yukiko Fukagawa is Professor of Political Science and Economics at Waseda

University. After she received a B.A. in political science and economics from Waseda University, she became an analyst at the Overseas Research Department, JETRO. She received an M.A. in international economics from Yale University and finished the Ph.D. program in Business History at Waseda University. She was also a senior economist at the Long-Term Credit Bank Research Institute, and an associate professor at Aoyama Gakuin University. Her expertise is in East Asian development, and development and economic systems. Her publications regarding East Asian economic development include "Kankoku senshinkoku keizairon" (Korea's economic development: a micro analysis on the maturity process), "Chugoku no WTO kamei to NiChuKan boueki no mirai" (China's membership in the WTO and the future of Japan-China-Korea trade).

#### **HERSKOVITZ, Jon, Reuters**

Jon Herskovitz is the chief correspondent for Reuters in South Korea. He was previously the Reuters Dallas Bureau Chief and has served as an Asian affairs correspondent for Reuters based in New York and a reporter in the Tokyo Bureau. Jon Herskovitz has won three Katie Awards presented by the Dallas Press Club for outstanding reporting in the U.S. Southwest. He was also the recipient of a Lone Star Award presented by the Houston Press Club. Mr. Herskovitz graduated with a degree in English literature from the University of Chicago and has a master's degree in Japanese literature from Sophia University in Tokyo.

#### **HORIYAMA, Akiko, Mainichi Shimbun**

Akiko Horiyama has been correspondent in the Seoul Bureau of the Mainichi Newspaper since 2004. Before she joined Mainichi Newspapers in 1991, she attended Ewha Women's University in Korea during 1989-1990 and graduated from Tsuda College in 1991. Since then, she has vigorously covered the issues of Northeast Asia in the Political News Department in charge of the Ministry of Foreign Affairs in 2000 and the Foreign News Department in charge of East Asia in 2002.

#### **ITAMI, Hiroyuki, Hitotsubashi University**

Hiroyuki Itami is Professor of management in the Graduate School of Commerce and Management at Hitotsubashi University. After joining the faculty of Hitotsubashi in 1973, he also taught as a visiting professor at various universities around the world including Stanford University in the US and INSEAD in France. He was the president of the Organizational Science Association in



Japan. He served on many boards and committees of the Government of Japan, including the IT Strategy board at the prime minister's office and the Small and Medium Sized Firm Policy board at the Ministry of Economy, Trade and Industry. His publications include more than 50 books both in Japanese and English.

#### **ITO, Kenichi, Japan Forum on International Relations**

Kenichi ITO is President & CEO of The Japan Forum on International Relations, Inc. (JFIR), The Global Forum of Japan (GFJ), and The Council on East Asian Community (CEAC), and is also Professor Emeritus of Aoyama-Gakuin University. He serves as a Board Member of The Institute of International Studies (IIS), The Japan Institute of International Affairs (JIIA), The Kajima Institute of International Peace (KIIP), etc. After graduating from the Law School of Hitotsubashi University in Tokyo in 1960, he studied Russian at the US Army Language School in 1960-61 and Soviet Russian Affairs at the Graduate School of Arts and Sciences at Harvard University in 1961-63. From then until 1977 he served at the Japanese Embassies in Moscow, Manila, Washington and as the Director of the 1st Southeast Asian Division in the Ministry of Foreign Affairs in Tokyo. Since resigning from the Foreign Service in 1977, he has been active as diplomatic commentator, professor of international politics at Aoyama-Gakuin University and The University of Tokyo, president and/or board member of a number of foreign policy think-tanks and international exchange organizations. He is the author of twelve books, including *Kokka to Senryaku* (State and Strategy), *Taikoku to Senryaku* (Great Powers and Strategy), *Futatsu no Shogeki to Nihon* (Japan's Response to The Two Shocks), *Chiheisen wo Koete* (Beyond the Horizon), and *Cho-kindai no Shogeki* (The Impact of Post-modern Civilization).

#### **KIM, Samuel S., Columbia University**

Samuel S. Kim is senior research scholar at Columbia University's Weatherhead East Asian Institute and editor-in-chief of the "Asia in World Politics" series at Rowman & Littlefield Publishers. He previously taught at Monmouth University (1966-85), Foreign Affairs Institute, Beijing, China (1985-86), Princeton University (1986-93) and Columbia University (1993-2006). He is the author or editor of twenty-three books on East Asian international relations, Chinese and Korean foreign relations and world order studies including *China, the United Nations and World Order* (Princeton University Press 1979); *The Quest for a Just World Order* (Westview Press 1984); *North Korean Foreign Relations in the post-Cold War Era* (ed., Oxford University Press, 1998); *Korea's Globalization* (ed.,

Cambridge University Press, 2000); *East Asia and Globalization* (ed., Rowman & Littlefield, 2000); *Korea's Democratization* (ed., Cambridge University Press, 2003); *The International Relations of Northeast Asia* (ed., Rowman & Littlefield, 2004); *The Two Koreas and the Great Powers* (Cambridge University Press, 2006); and *North Korean Foreign Relations in the Post-Cold War World* (Strategic Studies Institute, 2007). He has published more than 150 articles in edited volumes and leading international relations journals, including *American Journal of International Law*, *China Quarterly*, *Asian Survey*, *International Interactions*, *International Organization*, *International Journal*, *Journal of Peace Research*, *Journal of East Asian Studies*, *World Politics*, and *World Policy Journal*. He received his MA and Ph.D. degrees in international relations from Columbia University in 1962 and 1966.

#### **KIM, Taewoo, Korea Institute for Defense Analyses**

Taewoo Kim received a Ph. D. in Political Science from the State Univ. of New York at Buffalo in 1989. Since then he has worked as a defense specialist with special interest in nuclear issues. Currently Dr. Kim is Senior Research Fellow at the Korea Institute for Defense Analyses (KIDA), the largest defense think-tank under the arm of the Ministry of National Defense. He is one of the most prolific writers in South Korea and the author of some 700 writings (books, papers, newspaper columns, etc.) pertaining to nuclear matters. His writings written in English include: "US-DPRK Nuclear Rapprochement in the South Korean Dilemmas," *Third World Quarterly* (Nov. 1995); "South Korean Patience Wearing Thin," *Bulletin of Atomic Scientists* (Sep./Oct. 1995); "South Korea's Missile Dilemmas," *Asian Survey* (May/June 1999); "Islamic Terrorism and Clash of Civilizations," *Korean Journal of Defense Analyses* (Mar. 2002); "North Korean Nuclear Politics at the Crossroads," *Korean Journal of Defense Analyses* (Fall 2004).

#### **KIM, Won-wung, National Assembly of Korea**

Won-wung Kim is Chairman of the Unification, Foreign Affairs and Trade Committee, 17th National Assembly and Member of the Open Uri Party. Since 2000, he has also served as Director General of the Global Overseas Adoptee's Link. He was Executive Chairman of the Korea People's Party for Reform (KPPR) in 2003.

#### **KIRK, Donald, CBS Radio**

Donald Kirk is journalist and author based in Seoul and Washington D.C. He first came to Korea in 1972 as far east correspondent for the *Chicago Tribune* and has reported from Seoul since then for *The Observer* (London), *USA Today*, the

*International Herald Tribune*, the *Christian Science Monitor*, and CBS Radio, among others. He is the author of two books on Korean business and economic issues, *Korean Dynasty: Hyundai and Chung Ju Yung* (M.E. Sharpe, 1984) and *Korean Crisis: Unraveling of the Miracle in the IMF Era* (St. Martin's/Palgrave, 2000) and numerous book chapters and magazine and journal articles and was co-editor with Choe Sang Hun of *Korea Witness: 135 Years of War, Crisis and News in the Land of the Morning Calm*, published last year by EunHaengNamu for the 50th anniversary of the Seoul Foreign Correspondents' Club.

#### **KO, Sung-Kyu, Jeju Free International City Development**

Sung-Kyu Ko is Investment Senior Director, Jeju Free International City Development Center (JDC). He earned his BA in economics from Seoul National University, Korea (1974). He worked as CEO, Eyang Chemical Corporation (1999-2005), Vice-President, OCI Corporation (1998-99), CEO, Doyang Corporation (1985-1998), the head of the Jakarta Branch, Kukje Corporation (1977-85), and an analyst, Daewoo Securities Corporation (1973-76).

#### **LEE, Chang-Jae, Korea Institute for International Economic Policy**

Chang-Jae Lee is Vice President of the Korea Institute for International Economic Policy (KIEP). He also currently serves as vice president for the Korean Economic Association, and previously served as president of the Korean Association of East Asian Studies, the Korean Association of Northeast Asian Economic Studies, and the Korean Association of Siberian Studies. He has been Korea's chief coordinator of Trilateral Joint Research on "Strengthening Economic Cooperation between China, Japan and Korea," conducted by the DRC of China, the NIRA of Japan, and KIEP since 2001. He has written numerous books and articles on various issues, such as Northeast Asian economic cooperation, East Asian economic integration, Korea's business hub strategy, Korea's ODA policy, international cooperation for Korean unification, and Russian economic reform.

#### **LEE, Kyung-Tae, Korea Institute for International Economic Policy**

Kyung-Tae Lee is President of the Korea Institute for International Economic Policy and Chair of the APEC Economic Committee and member of the Presidential Economic Advisory Council. Before assuming his present position, he served as Korean Ambassador to the OECD. He also served as Vice-President and Research Fellow at the Korea Institute for International Economic Policy. He has published several works including "Korea's Foreign Trade Strategy in the New Millennium," in *Korea's Economic Strategy in the Globalization Era*

(Edward Elgar Co., 2003) co-edited with Oh Yul Kwon and *China's Integration with the World Economy: Repercussions of China's Accession to the WTO* (KIEP, 2001) co-edited with Justin Yifu Lin and Si Joong Kim.

**LIM, Jie-Hyun, Hanyang University**

Jie-Hyun Lim is Professor of History and Director of the Research Institute of Comparative History and Culture at Hanyang University, Seoul. He had been a visiting scholar at the University of Glamorgan, Harvard-Yenching Institute, Cracow Pedagogical University. He serves on the editorial board of *Totalitarian Movements and Political Religions*. He has written extensively on the issues of comparative histories of nationalist movements and the socio-cultural history of Marxism in Northeast Asia and Eastern Europe. Currently, he is leading a comparative research project on mass dictatorship in the twentieth century and 'beyond national history' in collaboration with various international institutes.

**McDONALD, Brian, European Commission Delegation to Korea**

Brian McDonald has been the head of the European Commission Delegation to Korea since 2006. His career over the last thirty years has included various trade and diplomatic postings. He has served at the GATT, the OECD, the United Nations, in Hong Kong and as Head of the European Economic and Trade Office in Taiwan before he was appointed to his current position. A law graduate from University College Dublin and Harvard University Law School, he was called to the Bar in 1968 and has an L.L.D. from University College Dublin. He joined the European Commission in 1973 after serving in the Irish Foreign Ministry. He has published a book titled *The World Trading System: the Uruguay Round and beyond*.

**MU, Rongping, Chinese Academy of Sciences**

Rongping Mu is director of the Institute of Policy and Management (IPM) at the Chinese Academy of Sciences (CAS) and a research professor at IPM. He received his B.S. and Master's degree from the University of Science and Technology of China, and his Ph.D. from Technische Universität Berlin, Germany. Concurrently he is director of the CAS Evaluation Research Center, Editor-in-Chief of *Science Research Management* (an academic bimonthly), and Principal Investigator for Technological Foresight in the next 20 years in China (a key project of CAS). His current research interest is in S&T strategy and policy, S&T management and evaluation, technology foresight and assessment research on industrial competitiveness in the international arena. Prof. Mu is also Executive Director and Deputy Secretary-General of the China High-tech Industry Pro-

motion Society, Vice President of the Chinese Association for Science and S&T Policy Research, and the Chairman of the Sub-commission for S&T Policy under the Association. Prof. Mu has published more than 30 papers in peer-reviewed journals and international conferences. He has one book in English to his credit and chief edited a proceeding of an international symposium. He has led more than 20 research projects entrusted or financed by the State Commission of Development and Reform, the Ministry of Science and Technology, the National Natural Science Foundation of China and CAS. He has won one S&T progress award from CAS and the Beijing Municipal Government, respectively.

**NAM, Kyung-Pil, National Assembly of Korea**

Kyung-pil Nam is a member of the National Assembly. He graduated from the School of Management, Yale University and completed the Ph.D. program, School of Administration, New York University. He is a member of the Unification, Foreign Affairs and Trade Committee. He once served as a Spokesman of the Grand National Party. And he currently holds such positions as the President of the Korea-India Parliamentarians' Friendship Association in the National Assembly and Chairman of Gyung-gi Province in the Grand National Party.

**NAZAROV, Vladimir Pavlovich, Security Council of the Russian Federation**

Vladimir Pavlovich Nazarov was born on October 3, 1950, in Moscow. He graduated in 1973 from the Moscow State Institute of International Relations, majoring in international economic relations. After that he attended the Supreme courses of the Military Academy of the General Staff of the Armed Forces of the Russian Federation, which he completed in 1999 with a diploma in "National Security." Mr. V. Nazarov worked as a civil servant and as a diplomat holding different posts in political sections of Soviet and then Russian Embassies in North America and Europe. Starting from 2005 he held the post of an Adviser to the Secretary of the Security Council of the Russian Federation and then he was promoted to the Deputy Secretary of the Security Council of the Russian Federation. He is currently dealing with issues of international security including strategic planning in this sphere. He speaks Russian, English and German.

**NISHIMURA, Yasutoshi, House of Representatives of Japan**

Yasutoshi Nishimura is a member of the House of Representatives, Liberal Democratic Party (LDP). He graduated from the Department of Law, Tokyo University in 1985, and also graduated from the School of Public Affairs, Uni-

versity of Maryland in 1992. He started his career in 1985 as a bureaucrat at the Ministry of International Trade and Industry (MITI), but resigned from MITI to go into politics in 1999. He was elected as a member of HR (Hyogo 9th District) in 2003 for the first time, and re-elected for a second term in 2005. He is currently serving for the House of Representatives as a member of the Standing Committee on Budget, Director of the Standing Committee on Cabinet, and Director of the Special Committee on Prevention of International Terrorism, Humanitarian Assistance for Reconstruction in Iraq. He is also working for the LDP as Deputy Director-General of the International Bureau, Deputy Chairman of the Joint Division on Strategy of Energy, Director of the Select commission on Global Economic Strategy. And Mr. Nishimura is Secretary-General of the Special Committee on Ocean Matters.

#### **OSHIMA, Shotaro, Japanese Embassy in Korea**

Shotaro Oshima graduated with a Bachelor of Law from the University of Tokyo, and joined the Ministry of Foreign Affairs (MOFA) of Japan in 1968. After some years in the head office, he was assigned to the Embassy in the U.S. (1980-1983), and then to the Embassy in Israel (1983 -1985). He was Director of the First Southeast Asia Division (1985-1987), Director of Policy Planning Division (1987-1989), and Director of the Overseas Establishments Division of MOFA (1989-1991). From 1991 to 1993, he was Minister (political) of the Embassy in Moscow (the Embassy to the USSR and then after 1992 to the Russian Federation); from 1994 through 1997 was Minister (economic) at the Embassy in the U.S. He became Director-General of the Economic Affairs Bureau of MOFA, from 1997 to 1999. He was sent to the Kingdom of Saudi Arabia as Ambassador from 2000 to 2001. In August 2001, he became Deputy Minister for Foreign Affairs and was designated as Personal Representative ('Sherpa') of Prime Minister Koizumi for the G8 Summit. From October 2002 to February 2005, he was posted as Ambassador, Permanent Representative of Japan to the International Organizations in Geneva. During his tenure, he served as Chairman of the Dispute Settlement Body of WTO (2003-04), and Chairman of the General Council of WTO (2004-05). In July 2005, he was designated Ambassador to the Republic of Korea, assuming his post in Seoul in August of that year.

#### **PARK, In-kook, Ministry of Foreign Affairs and Trade of Korea**

In-Kook Park is Deputy Minister of Policy Planning, Ministry of Foreign Affairs and Trade. He graduated from Seoul National University (BA, Chinese Literature) in 1975 and from the Graduate School of Law, Seoul National Uni-

versity (MA) in 1980, respectively. He joined the Ministry of Foreign Affairs (MOFA) in 1978. Since then, he has held positions such as Director, Disarmament and Nuclear Energy Division, MOFA and Director, United Nations Division II, MOFA (1994-96), Director-General for International Cooperation, Office of Planning for Light Water Reactor (KEDO project) (1996-99), Secretary to the President for International Security, Office of the President (2002-03), Ambassador and Deputy Permanent Representative to the United Nations Office and Other International Organizations in Geneva (2005), and President of the Conference on Disarmament (CD) (2006).

**PARK, John S., U.S Institute of Peace**

John S. Park focuses on Northeast Asian security issues and U.S. foreign policy toward the region. He is the coordinator of the U.S Institute of Peace (USIP)'s Korea Working Group, a consultative body comprising senior experts from the government and think tank communities. His current research examines multilateral diplomatic efforts to resolve the North Korean nuclear crisis. Park has been conducting extensive research interviews with core government policy advisers from each of the Six-Party Talks member countries. Prior to joining USIP, Park worked in Goldman Sachs's public finance group in New York. Prior to that, he was the Project Leader of the North Korea Analysis Group, a 'Managing the Atom' working group at Harvard's Kennedy School of Government. Park previously worked in Goldman Sachs's M&A Advisory Group in Hong Kong and The Boston Consulting Group's Financial Services Practice in Seoul. In both positions, he specialized in post-Asian financial crisis economic restructuring in South Korea. Park's writings have appeared in *Asian Wall Street Journal*, *International Herald Tribune*, *Korea Times*, *Korea Herald*, *Globe and Mail*, and *Japan Times*. He has also commentated on the Six-Party Talks on *BBC World Service*, *CNN*, *CNBC Asia*, *Bloomberg TV*, and *Reuters*. Park received his Ph.D. from Cambridge University. He completed his pre-doctoral and post-doctoral training at the Belfer Center for Science and International Affairs at Harvard University.

**PEMPEL, T. J., UC Berkeley**

T.J. Pempel (Ph.D., Columbia) joined Berkeley's Political Science Department in July 2001 and served as director of the Institute of East Asian Studies from 2002 until 2006. There he held the Il Han New Chair in Asian Studies. Just prior to coming to Berkeley, he was at the University of Washington at Seattle where he was the Boeing Professor of International Studies in the Jackson School of International Studies and an adjunct professor in Political Science. From 1972 to

1991, he was on the faculty at Cornell University; he was also Director of Cornell's East Asia Program. His research and teaching focus on comparative politics, political economy, contemporary Japan, and Asian regionalism. His recent books include *Remapping East Asia: The Construction of a Region* (Cornell University Press), *Beyond Bilateralism: U.S.-Japan Relations in the New Asia-Pacific* (Stanford University Press), *The Politics of the Asian Economic Crisis, Regime Shift: Comparative Dynamics of the Japanese Political Economy*, and *Uncommon Democracies: The One-Party Dominant Regimes* (all from Cornell University Press). In addition, he has published over one hundred scholarly articles and chapters in books. He is Chair of the Working Group on Northeast Asian Security of CSCAP, is on editorial boards of several professional journals, and serves on various committees of the American Political Science Association, the Association for Asian Studies, and the Social Science Research Council.

#### **ROGACHEV, Igor Alexeyevich, Council of the Russia Federation**

Igor Rogachev is member of the Council of Federation of the Federal Assembly of the Russia Federation. He graduated in 1955 from Moscow State Institute of International Relations (now MGIMO Univ.), with a degree in history. His previous positions include: Deputy Head of the Russian delegation at Beijing-based Six-Party Talks on the North Korean nuclear problem (2003-04); Ambassador of the RF to China (1992-2005); Ambassador at large and special representative of the RF President to the Democratic People's Republic of Korea (1992); special representative of the USSR President to the Republic of Korea (1991); Head of the USSR delegation at Paris International Talks on Cambodia (1988-91); Head of the USSR delegation at Soviet-Sino political consultations (1987-91); and deputy Minister of Foreign Affairs (1986-91). Since 2005, he has been member of Council of Federation for the Amur region, member of the Committee for International Affairs, and member of the editorial board of "Far Eastern Affairs." He has numerous articles and essays published on the Asian Pacific region, home and external policies of Asian Pacific countries.

#### **SHIN, Gi-Wook, Stanford University**

Gi-Wook Shin is director of the Walter H. Shorenstein Asia-Pacific Research Center, a professor of sociology, and senior fellow at the Freeman and Spogli Institute for International Studies at Stanford University. He is also the founding director of the Korean Studies Program at Stanford and co-editor of the *Journal of Korean Studies*. Shin has published seven books and numerous articles in academic and policy journals. His recent books include *Ethnic Nationalism in Korea* (2006), *Rethinking Historical Injustice and Reconciliation in Northeast Asia*



(2006), and *Cross-Currents: Regionalism and Nationalism in Northeast Asia* (2007). Shin is currently engaged in a number of projects on Korea and Northeast Asia. The Divided Memory project seeks to examine the formation of historical memory and national identity in five nations, China, Japan, South Korea, Taiwan, and the US. He is also engaged in a project of National Identity and US-Korean Relations based on analysis of almost 10,000 articles published in major Korean and US newspapers from 1992-2004. Graduated from Yonsei University and the University of Washington, he taught at the University of Iowa and UCLA before joining the faculty of Stanford University in 2001.

**SHIRK, Susan, University of California in San Diego**

Susan Shirk is director of the University of California system-wide Institute on Global Conflict and Cooperation and professor of political science in the Graduate School of International Relations and Pacific Studies, University of California, San Diego. During 1997-2000, Dr. Shirk served as Deputy Assistant Secretary of State in the Bureau of East Asia and Pacific Affairs, with responsibility for the People's Republic of China, Taiwan, Hong Kong and Mongolia. She founded in 1993 and continues to lead the Northeast Asia Cooperation Dialogue (NEACD), an unofficial "track-two" forum for discussions of security issues among defense and foreign ministry officials and academics from the United States, Japan, China, Russia, South Korea, and North Korea. Dr. Shirk's publications include her books, *How China Opened Its Door: The Political Success of the PRC's Foreign Trade and Investment Reforms*; *The Political Logic of Economic Reform in China*; and *Competitive Comrades: Career Incentives and Student Strategies in China*. Her latest book, *China: Fragile Superpower*, was published by Oxford University Press in April 2007.

**SOHN, Jie-Ae, CNN**

Jie-Ae Sohn is CNN's Seoul bureau chief and correspondent, a position she has held since 1995. Sohn joined the network in 1994, serving as CNN's part-time Seoul correspondent until May 1995. She has covered numerous events for CNN from Korea, including the recent South Korean elections; the fatal collapse of a Sampoong department store, Korea's worst peacetime disaster; and the arrest of former Korean Presidents Roh, Tae-Woo and Chun, Doo-Hwan for securing secret political funds and for their involvement in halting the 1980 pro-democracy movement in Kwangju. She also has provided continuous reports on the Korean peninsula's North-South border tensions, including intrusions into the de-militarized zone. Before joining CNN, she was *New York Times* correspondent for three years. She reported on Korea's developing econo-

my for the English-language magazine *Business Korea* and also has been published in leading international publications, including *U.S. News and World Report*, *Fortune*, and *The Times*. Sohn is fluent in Korean. She earned her BA in political science from Ehwa Women's University.

**TAMAMOTO, Masaru, Japan Institute of International Affairs**

Masaru Tamamoto writes on Japanese national identity and international relations. He resides in Yokohama, Japan. His essays have appeared in *Daedalus*, *World Policy Journal*, *Far Eastern Economic Review*, and the *New York Times*, among others. He was a director and senior fellow of the Japan Institute of International Affairs, Tokyo, senior fellow of the World Policy Institute, New York, visiting professor at Ritsumeikan University, Kyoto, and director and assistant professor of the Center for Asian Studies at American University, Washington, D.C. He has been an advanced research fellow at Harvard, MacArthur Foundation fellow in international peace and security at Princeton, and visiting fellow at Tokyo University. Mr. Tamamoto was born in Tokyo and educated in Japan, Switzerland, Egypt, and the United States. He holds a B.A. from Brown and Ph.D. with distinction from Johns Hopkins.

**TOMBERG, Igor R., Institute of World Economy and International Relations**

Igor Tomberg (PhD in Economics) is senior research fellow in the Centre for Energy Studies at the Institute of World Economy and International Relations (IMEMO) at the Russian Academy of Sciences. Before joining the IMEMO, he was a senior researcher at the Institute of Economics at the RAS for five years. His publications include two books on Russia's and global energy problems, and numerous articles and book chapters.

**TANAKA, Hitoshi, Japan Center for International Exchange**

Hitoshi Tanaka is Senior Fellow at the Japan Center for International Exchange and was Deputy Minister for Foreign Affairs of Japan until August 2005. He has also been visiting professor at the Graduate School of Public Policy, University of Tokyo, since April 2006. He had previously been Director-General of the Asian and Oceanian Affairs Bureau (2001-02) and the Economic Affairs Bureau (2000-01); Consul-General in San Francisco (1998-2000); and Deputy Director-General of the North American Affairs Bureau (1996-98). He was Director for Policy Coordination of the Foreign Policy Bureau, Political Minister at the Japanese Embassy in London (1990-93), a research associate at the IISS, London (1989-90), Director for Northeast Asian Affairs (1987-89), and Director for North American Affairs (1985-87). He has a B.A. in law from Kyoto University

and B.A./M.A. in PPE from Oxford University. Mr. Tanaka has contributed many articles to publications including *GAIKO Forum*, *Bungei Shunju*, *Gendai*, and various newspapers. His latest publication is *Kokka to Gaiko* [The Nation and Diplomacy] (2005).

#### **VERSHBOW, Alexander, US Embassy in Korea**

Alexander Vershbow took up his duties as US Ambassador to the Republic of Korea on October 17, 2005. He is a career member of the Foreign Service and has extensive experience in East-West relations, non-proliferation and European security affairs. Before coming to Korea Ambassador Vershbow served as U.S. Ambassador to the Russian Federation, US Ambassador to NATO, and Special Assistant to the President and Senior Director for European Affairs at the National Security Council. He received a B.A. in Russian and East European Studies from Yale College in 1974 and a Master's Degree in International Relations and Certificate of the Russian Institute from Columbia University in 1976. In October 1997, former Secretary of Defense William Cohen presented Ambassador Vershbow with the first annual Joseph J. Kruzel Award for his contributions to the cause of peace; in June 2001, Secretary of State Colin L. Powell awarded Ambassador Vershbow the State Department's Distinguished Service Award for his work at NATO; and, in 2004 the American Bar Association recognized Ambassador Vershbow with their CEELI award for steadfastly championing the rule of law across the globe.

#### **WON, Hee-Ryong, National Assembly of Korea**

Hee-Ryong Won is a lawyer and member of the National Assembly, representing Yangcheon District. He is also a member of the Grand National Party. From 1995 to 1998, he served as a public prosecutor at the Seoul District Public Prosecutor's Office, the Yeoujo branch of Suwon District Public Prosecutor's Office, and the Pusan District Public Prosecutor's Office. Subsequently, he was a lawyer at Chunchoo Law Firm, and a Legal Advisor for Korea Broadcasting System and Software Property Rights Committee. Since his entry into the National Assembly in 2000, he has served on a number of committees including the Committee on Science, Technology, Communication, and Information (2000), Special Committee on Ethics (2000), Special Committee on Human Rights (2000), Legislative and Judicial Committee (2002), and Special Committee for Political Reform (2003). He was the Deputy Floor Leader (2000) and an advisor for the Korea-Japan Future Research Society and the Korea-China Forum. Currently, he is member of the Foreign Affairs and Trade Committee and the Industry and Energy Committee in the National Assembly. He graduated from the College of Law at Seoul National University in 1989.

**XIA, Liping, Shanghai Institute for International Studies**

Liping Xia is Director and Professor of the Department of International Strategic Studies at Shanghai Institute for International Studies (SIIS), and General-Secretary of the Shanghai Institute for International Strategic Studies (SIISS). He is Vice President of the Shanghai Center for RimPac Strategic and International Studies (CPSIS). He is also Senior Guest Fellow of the Institute of International Technology and Economics in the Center for Development Studies under the PRC State Council. He specializes in China's foreign strategy, US national security strategy, and Asia-Pacific security and arms control. He got the Master's Degree of Law from the PLA Foreign Language University in 1991. From 1996 to 2000, he was Deputy Director of the Department of American Studies at the Shanghai Institute for International Studies (SIIS). From 1989 to 1996, he was Associate Professor of the Institute for Strategic Studies, National Defense University, Beijing. He has published many books and papers. Two of his latest books are *China's Peaceful Rise and Security and Arms Control in the Asia-Pacific Region*. He was Senior Fellow at the Atlantic Council of the United States from 1994-1995, visiting scholar at the Monterrey Institute of International Studies in 1999, Hong Kong University in 2002 and the Stockholm University in 2005.

**YAMAMOTO, Tadashi, Japan Center for International Exchange**

Tadashi Yamamoto is president of the Japan Center for International Exchange (JCIE), which he founded in 1970. He received a B.A. from St. Norbert College and an M.B.A. from Marquette University. He has promoted policy-oriented intellectual dialogue and policy research through the Global Think Net Program, including the Shimoda Conference series, Trilateral Commission, Japan-U.K. 21st Century Group, Japan-German Forum, and the Japan-Korea Forum. He has also promoted the development of Japan's civil society and its involvement in international cooperation through the Civil Net Program which includes the Friends of the Global Fund, Japan, and diverse NGO exchange programs. Through Parliamentary Exchange Programs such as the U.S.-Japan Parliamentary Exchange, Congressional Exchange, and the Japan-Australia Political Exchange he has promoted dialogue and study among politicians. He has been involved in several government commissions including the Prime Minister's Commission. His recent publications include *The Corporate-NGO Partnership in Asia Pacific* (JCIE Books, 1999), *Deciding the Public Good* (JCIE Books, 1999), *Nonprofit Sector in Japan* (Manchester University Press, 1998), and *Emerging Civil Society in the Asia Pacific Community* (Institute of Southeast Asian Studies, 1995).

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Chengxu Yang graduated from Fudan University. After joining the Ministry of Foreign Affairs, he worked as secretary, counselor and minister-counselor successively in Chinese Embassies in the Federal Republic of Germany and German Democratic Republic, and Chinese Ambassador to Austria. After returning home, he was appointed Deputy Director-general of the West European Department, Director-general of the Policy Planning Department, the Ministry of Foreign Affairs, President of the China Institute of International Studies, and Chairman of the China National Committee for Pacific Economic Cooperation and Research Fellow in the China Institute of International Studies. His major research field includes international situations, relations between big powers, and security and economic issues in the Asia-Pacific region.

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Daojing Zha is Professor in the School of International Studies at Renmin University of China. Before joining the faculty of Renmin in 2003, he taught at the International University of Japan for 6 years. He is founder and director of Renmin University's Center for International Energy Security. His publications include 5 books on Chinese energy security, non-traditional security studies in China, East Asian regionalization, and Chinese foreign economic relations, and numerous articles and book chapters.

**ZHANG, Yunling, Chinese Academy of Social Sciences**

Yunling Zhang; born May 8, 1945: is Professor and Director of the Institute of Asia Pacific Studies, Chinese Academy of Social Sciences (CASS), a member of the Foreign Relations Committee, National Committee of the Chinese People's Political Consultative Conference. He served as a member of the East Asian Vision Group (2000-01), China-ASEAN Cooperation Official Expert Group (2001), and Task Force of ASEM (2003-04). Educated at Shandong University and the Graduate School of CASS, China, Professor Zhang was a visiting scholar at Harvard and Johns Hopkins University (1985-1986); visiting professor at the European University Institute (1991-1992); and senior visiting professor at the Massachusetts Institute of Technology (1997). His major publications include *China-U.S.-Japan Relations in Transition* (1997), *International environment for China in the coming 10-15 years* (2003), *East Asian Cooperation: Searching for an Integrated Approach* (2004), and *Emerging East Asian Regionalism* (2004).

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Liqun Zhu is Assistant President of China Foreign Affairs University (CFAU), where she holds a full professorship, teaching courses in International Theories, Post-War International Relations and European Integration and Regional Security Community. She is also supervising MA and Ph.D. students and candidates. As Secretary-General of the China National Association for International Studies, and a board member of the China-EU Association and China Association for World Ethno-National Studies, she is actively engaged in research and activities in international studies in China. She is also Deputy Editor-in-Chief of the *Journal of Foreign Affairs Review*. She earned her BA, MA and Ph. D. degrees respectively from Nankai University, Tianjin and China Foreign Affairs University, Beijing. She did research in the United States and Ireland as a visiting scholar. She was also a Fulbright visiting research scholar from 2003 to 2004 based at the Sigur Center for Asian Studies, Elliott School of International affairs, George Washington University. Her monograph *Security Organizations and Security Structure in the Post-Cold War Europe* was published in 2002, which explored adaptive changes of NATO, CFSP of the European Union, and OSCE and the new security structure in post-Cold War Europe. She is also a co-author of several books on international history and China's foreign policy, including *Concise History of International Relations 1945-2002*, *Focuses on China Diplomacy*, and *Post-Cold War International Relations*. She also has numerous articles that appeared in *International Politics Quarterly*, *World Economics and Politics*, *Journal of CFAU*, and *European Studies*.