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Building a Peace Regime on the Korean Peninsula: The Implications for the US-ROK Alliance

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Center for Strategic and International Studies

Abstract

This article examines what building a peace regime on the Korean Peninsula would mean, what it might look like and what the implications might be for the U.S.-ROK alliance. Such changes will undoubtedly pose risks as well as opportunities for the region. One key challenge has been one of sequencing. For Washington, a peace regime presupposes the North's denuclearization. But for North Korea, the key to denuclearization is for the U.S. to first end its "hostile policy" and work towards building a peace regime *before* it could eliminate its nuclear weapons. Denuclearization and a peace regime are two sides of the same coin and negotiations on these two issues must proceed simultaneously. There is no prospect of an immediate breakthrough in talks with Kim Jong Un but it is important to think through how the process would work in order to shape the U.S. and South Korean approaches to North Korea in the Biden administration.

Key Words: peace regime, peace process, peace declaration, peace treaty, peace guarantee

Introduction

It's hard to overstate the importance of building a peace regime on the Korean Peninsula, particularly for the U.S.- ROK alliance. Up for debate is the fate of U.S. troops in South Korea and other security and diplomatic arrangements that have come to be taken for granted over the past 70-plus years. These arrangements have underpinned the political and economic developments of South Korea into one of the freest and prosperous states in the world even while keeping that state in nuclear and military peril from the North.

The 1953 Korean Armistice Agreement signed by military commanders on each side established a military truce, but it was envisioned as only a temporary arrangement to suspend hostilities until a “final peaceful settlement” could be realized.¹ The U.S.-South Korea Mutual Defense Treaty (MDF), signed in October 1953, which serves as the backbone of the military alliance, was also designed with the goal of preventing the two Koreas resorting to renewed conflict. Both the Armistice Agreement and the Defense Treaty, with a shared task of keeping the peace on the Korean Peninsula, have proven more durable than anyone in the 1950s could have predicted, despite dramatic changes in both the international context and the South Korean domestic political scene over the next seven decades. The U.S.-ROK alliance has withstood numerous changes of government and even a change in South Korea's form of government as South Korea transitioned from being a dictatorship to a democracy. The question today is whether it is possible to transition from armistice to peace while retaining the alliance, and if so, what form should the US-ROK alliance take in order to survive and thrive for another 70 years or more? To what extent are the Armistice Agreement and the Mutual Defense Treaty interdependent? Is it possible to transform the former into a peace treaty with the North

¹ The Korean War Armistice Agreement, Article IV, Paragraph 60, https://www.usfk.mil/Portals/105/Documents/SOFA/G_Armistice_Agreement.pdf.

while keeping the latter intact?

Peace is hardly on the verge of dawning; North Korea remains in many ways more threatening than ever. But it is vital for policymakers both in Washington and Seoul to have an accurate, in-depth, and timely overview of the possible nature of a peace regime so as to guide their actions in future negotiations with Pyongyang and their overall policy towards the Korean Peninsula. This is all the more important now that the negotiations with North Korea are again in an impasse and their future is uncertain under the Biden administration.

The key questions this paper thus seeks to answer are: How should we think about a peace regime on the Korean Peninsula and what it might look like (the purpose and desired end-state)? What are the elements and sequencing of building a peace regime? Would a peace regime replace or complement U.S. Forces Korea and the U.S.-ROK alliance commitments, particularly if a formal peace agreement or permanent political settlement replaces the armistice? And, finally, what would a peace regime mean for peace and stability in Northeast Asia with the dissolution of the “Cold War structure” and the possible normalization of U.S.-DPRK and Japan-DPRK relations?

Background: Denuclearization and Peace Process

North Korean leader Kim Jong Un has engaged in historic dialogue with the leaders of the U.S., South Korea, China, the U.S., and other regional powers since early 2018. Yet, in the aftermath of the three historic meetings between former US President Donald Trump and Kim Jong Un in Singapore on June 2018, in Hanoi on February in 2019, and at the Demilitarized Zone on June 2019, and several meetings between South Korean President Moon Jae-in and Kim Jong Un, little progress has been made towards denuclearization. Building a peace regime on the Korean Peninsula remains an elusive goal as ever. President Trump

refused to grant Kim's demand in Hanoi to lift major economic sanctions in return for the closure of the Yongbyon nuclear facility and the talks ended in failure.

This failure was largely due to different expectations between the U.S. and North Korea. For Washington, a sustainable peace on the Korean Peninsula simply could not occur without denuclearization first. The U.S. demanded that the North take concrete steps towards denuclearization such as declaring its WMD programs and agreeing to a roadmap, timetable, and verification mechanism for denuclearization *before* Washington takes any step toward providing sanctions relief and working towards building a peace regime. The North, on the other hand, demanded maximal sanctions relief from the U.S. in return for disabling parts of its nuclear program (such as the Yongbyon reactor) and, as laid out in the Singapore Declaration itself, says it wants to "establish new relations with the U.S." and build a peace regime *before* or *in* exchange for "the denuclearization of the Korean Peninsula."² From the North's perspective, the Singapore Declaration reaffirms elements of the September 19, 2005, Six Party-Joint Statement that denuclearization, peace, and normalization are all interlinked.³ During the meeting with the South Korean delegation of envoys on March 5, 2018, Kim Jong Un himself linked the idea of denuclearization and a peace regime process, saying, "The North Korean side clearly stated its willingness to denuclearize" and that the North had "made it clear that it would have no reason to keep nuclear weapons *if* the military threat to the North was eliminated and its security guaranteed."⁴

Today, the U.S. and North Korea are yet again at an impasse. The

2 "Joint Statement of President Donald J. Trump of the United States of America and Chairman Kim Jong Un of the Democratic People's Republic of Korea at the Singapore Summit," June 12, 2018, <https://www.whitehouse.gov/briefings-statements/joint-statement-president-donald-j-trump-united-states-america-chairman-kim-jong-un-democratic-peoples-republic-korea-singapore-summit/>.

3 "Joint Statement of the Fourth Round of the Six-Party Talks," Beijing, September 19, 2005, <https://2001-2009.state.gov/r/pa/prs/ps/2005/53490.htm>.

4 Sang-hun Choe and Mark Landler, "North Korea Signals Willingness to 'Denuclearize,' South Says," *The New York Times*, March 6, 2018.

aspirational goals announced at the Trump-Kim summit in Singapore have not materialized. There continues to be a lack of clarity on what building such a regime on the Korean Peninsula might mean for the two Koreas, the U.S.-ROK alliance, and the region, as well as sequencing of next steps. Making the situation worse for Washington is the fact that the Biden administration has found itself with even less bargaining power in dealing with the North than the Trump administration enjoyed in Singapore and Hanoi given the impressive progress North Korea has made in developing its nuclear and missile arsenal since the Singapore Summit.

North Korea today has amassed some 20 to 30 nuclear warheads and continues to churn out fissile material. Pyongyang has conducted over 30 ballistic missile tests just since the Hanoi Summit, and at the past October 10th parade which celebrated the 75th anniversary of the ruling Workers Party of Korea, the North paraded two massive new sea- and ground-based intercontinental ballistic missiles. “Pyongyang is now in possession of an arsenal that is more advanced than ever before,” the *Wall Street Journal* notes, and President Biden is “the first American president to enter office since North Korea demonstrated it has a missile capable of hitting the U.S. mainland.”⁵ Given these grim realities, the Biden administration has reassessed Washington’s North Korea policy and is attempting to chart a new course, striking a balance between President Trump’s “go big or go home” all-or-nothing grand-bargain, leader-to-leader diplomacy and President Obama’s arm’s length, “strategic patience” policy.⁶

While the specifics of the proposal to pursue a phased agreement with North Korea is unclear, the new approach for the Biden administration might mean that Washington might have to finally pursue an approach that treats steps toward denuclearization and a peace process as

5 Andrew Jeong, “With Biden in Charge, No More Flashy Kim Jong Un Summits,” *The Wall Street Journal*, November 15, 2020.

6 John Hudson and Ellen Nakashima, “Bide Administration Forges New Path on North Korea Crisis in Wake of Trump and Obama Failures,” *Washington Post*, April 30, 2021.

simultaneous and inseparable – an approach hinted at but never realized by the Singapore and other previous agreements. This may mean that the Biden administration will need to explore whether, even without a comprehensive agreement on denuclearization, it would be in the U.S. interest to pursue negotiations that will result in an *interim* freeze deal which seeks to limit North Korea’s nuclear weapons capabilities as an initial step while making moves toward building a peace regime, such as an end-of-war declaration, military-to-military dialogue and other confidence-building measures, accompanied by partial sanctions relief. As Evans Revere, a veteran Foreign Service officer who was a former acting Assistant Secretary of State for East Asian and Pacific Affairs, noted in an interview with *The Wall Street Journal*, at least some of Biden’s advisors are in favor of this approach and “would like to begin an ‘arms control’ dialogue” with Pyongyang to “manage the problem,” by putting a cap on North Korea’s nuclear weapons.⁷ This may mean the Biden administration could seek to quantitatively and qualitatively limit, rather than seeking to eliminate, North Korea’s nuclear weapons capabilities, at least in the beginning, while examining what the initial steps in a long-term process of building a “peace regime” might look like.

The Trump administration itself was amenable to an end-of-war declaration that would at least mark a symbolic end of the Korean War and an exchange of liaison offices with the North which could have at least begun the process of building a peace regime on the Korean Peninsula.⁸ It ultimately didn’t happen because the Hanoi talks failed when Kim demanded maximal sanctions relief. What is now clear is that neither denuclearization nor building a peace regime can be

7 Jeong, “With Kim Jong Un’s Larger Nuclear Arsenal, Biden to Take a Traditional Approach.”

8 Leading up to the Hanoi Summit, senior officials sent out strong signals that both peace declaration and opening up liaison offices were on the table for negotiation. See for example, Stephen Biegun, “Remarks on DPRK at Stanford University,” Depart of State, January 31, 2020, <https://www.state.gov/remarks-on-dprk-at-stanford-university/>. Also see Alex Ward, “Exclusive: Trump Promised Kim Jong Un He’d Sign an Agreement to End the Korean War,” *Vox*, August 29, 2018.

achieved quickly and given the severe lack of trust between the U.S. and North Korea, it may be worthwhile to avoid maximalist demands from either side, such as complete and unilateral denuclearization or complete relief from financial sanctions, which have proven to be unworkable and unrealistic. Instead, the goal should be to build momentum and trust through pragmatic, acceptable measures by both sides.

The Purpose and Desired End-State: What Is a Peace Regime and What Is It Supposed to Produce?

Establishing a peace regime on the Korean Peninsula has been an ongoing task since the Armistice Agreement ended the Korean War. But there remain many questions as to what a peace regime is and what it is supposed to produce. Without a consensus on what the term means, it is subject to dispute. Is it an updated version of the armistice, with an added political agreement to end the war, and would it endorse a framework for reconciliation along the lines of the Agreement on Reconciliation, Non-Aggression, and Exchanges and Cooperation the two Koreas signed in 1991?⁹ This would be only a slight change from the status quo based on hope for improved North-South relations over time. Or is it a more ambitious construct linking directly to the process of reconciliation, to settle thorny issues like the West Sea Northern Limit Line (NLL) dispute, to facilitate cross-border traffic, trade, and communication, and to produce meaningful military confidence-building measures that could reduce military forces along the DMZ? For the purpose of this paper, “peace regime” is a concept that aims to replace the armistice regime, which includes the Korean Armistice

⁹ “Agreement on Reconciliation, Non-Aggression, and Exchanges and Cooperation between South and North Korea,” December 13, 1991, https://peacemaker.un.org/sites/peacemaker.un.org/files/KR%20KP_911213_Agreement%20on%20reconciliation%20non%20aggression%20and%20exchangespdf.pdf.

Agreement of July 27, 1953. It is a comprehensive framework, and it includes the institutionalization of “peace” on the Korean Peninsula, including declarations, agreements, explicit and implicit norms, principles, rules, procedures and decision-making processes and institutions aimed at building and sustaining a “stable peace.”¹⁰

Building a peace regime then is process, not a single event. It begins with an end-of war-declaration, tied to actions by Pyongyang to at least begin a denuclearization process by verifiably freezing or capping its nuclear program. While the peace declaration itself would be a non-binding statement of political intent with no immediate bearing on the disposition of exiting forces or diplomatic arrangements, it is at least a beginning point which represents a commitment by all parties to engage in a process of building a peace regime on the Korean Peninsula. Furthermore, denuclearization steps and sanctions relief, while important components of a peace regime, are not enough for a comprehensive peace on the Korean Peninsula; other diplomatic, security and economic components are also necessary, ranging from conventional force reduction to more sensitive issues such as addressing the Northern Limit Line and human rights. A peace regime would be ultimately consummated by the establishment of a permanent “peace treaty” that would involve the two Koreas, the U.S., and China, and the peace regime would be guaranteed through legal and institutional means and by inter-Korean political engagement, military and security confidence building, military balance, and arms control on the Korean Peninsula, and finally, an international endorsement. Ultimately, the hope is that the peace regime process produces a normalization of relations between the two Koreas as neighbors committed to peaceful co-existence, and between North Korea and the U.S. as well as between North Korea and Japan.

¹⁰ Economist and peace activist Kenneth Boulding defined “stable peace” as a situation in which a probability of conflict is so small, it does not really enter into calculation of any of the actors involved. Kenneth E. Boulding, *Stable Peace* (Austin: University of Texas Press, 1978), 13.

The Conditions and Sequencing a Peace Regime

The Necessary Conditions and Sequencing for Building a Peace Regime

What are the necessary conditions and characteristics for building a successful and sustainable peace regime process? Some important steps identified by the U.S. and the U.S.-ROK alliance in the past include verifiable denuclearization, reducing the forward – deployed DPRK forces along the DMZ, and scaling back the North’s missile programs. Herein lies the biggest obstacle to building a peace regime – sequencing. Pyongyang believes that denuclearization should be the result, rather than the cause, of improved bilateral relations. As such, the Kim regime has focused on ending what it perceives as a “hostile” US policy and transforming its overall relationship with Washington. North Korea’s demands include not only suspending/curtailing U.S.-ROK military exercises, which already occurred under President Trump, but also cutting U.S. forces or military investment on the Peninsula, relaxing or lifting international and U.S. sanctions on the Kim regime and halting criticism of the North’s illicit activity and human rights violations. Given this scenario, what should be the necessary conditions and sequencing of building a peace regime? How do we break the impasse? Who should go first, or should the two parties agree to simultaneous concessions?

The main obstacle to building a peace regime on the Korean peninsula from Washington’s perspective is first and foremost Pyongyang’s nuclear weapons program. In fact, during the October 10th parade in 2020, the world witnessed more North Korean technology on display – both conventional and weapons of mass destruction – than ever before. North Korea showcased everything from a new air defense radar system and anti-tank guided missiles to a new Pukkuksong-4 submarine-launched ballistic missile and a “new strategic weapon,” the Hwasong-

16, which Kim Jong Un himself had promised he would reveal in 2020.¹¹

The capabilities of the Hwasong-16 are such that it not only has a range capable of hitting the entire American mainland, there is a very large, advanced payload section. Its dimensions strongly suggest it would have the capacity to loft Multiple Reentry Vehicles (MIRVs), each of which could pursue its own trajectory toward a target. If the North were to successfully test the Hwasong-16 in the coming months, even if such a test were on a “lofted” trajectory into nearby waters, as were the ICBM tests of 2017, this would immediately increase the credibility of the North Korean threat to the continental United States and would call into question the ability of U.S. ballistic missile defenses to protect against the North Korean threat. MIRVs are much harder to hit in the final flight phase than a single warhead.¹² Given such an advancement on the North’s nuclear and ballistic missile capabilities, for Washington, building a peace regime must be premised on at the North at least taking steps toward denuclearization.

North Koreans, meanwhile, have consistently claimed that they developed nuclear weapons because of America’s “hostile policy.” Hence, from Pyongyang’s perspective, the key to denuclearization for North Korea is for the U.S. to first end its “hostile policy,” which means “stopping political, security, and economic confrontation in return for eliminating their nuclear weapons.” The last thing that Pyongyang wants is being required to unilaterally and comprehensively denuclearize before reaping any benefits, as Libya did. As North Korea watcher Joel Witt tells it, by “political,” North Korea is referring to the U.S. recognizing North Korea as a sovereign state through establishment of diplomatic

11 Kim vowed that “the world will witness a new strategic weapon the DPRK will possess in the near future,” and he threatened to walk away from his unilateral moratorium on nuclear and ICBM tests. Report on 5th Plenary Meeting of the 7th Central Committee of the Workers’ Party of Korea, January 1, 2020, <https://kcnawatch.org/newstream/1577861427-214400281/report-on-5th-plenary-meeting-of-7th-c-c-wpk/?t=1581967486984>.

12 Markus V. Garlauskas, “We Must Prevent North Korea from Testing Multiple Reentry Vehicles,” *Beyond Parallel* (CSIS, November 5, 2020).

relations between the two countries (from Pyongyang's perspective, North Korea is only one of a handful of countries that the U.S. has never recognized, which reveals and reaffirms Washington's hostile intent vis-à-vis the North). By "security," the North is referring to formally ending the state of war by replacing an Armistice Agreement with a formal peace treaty. The "economic" part consists of the international community and the U.S. lifting trade restrictions and sanctions imposed on the Kim regime.¹³ Other Korea watchers, such as Leon V. Sigal, have also long argued that the North's denuclearization requires the end of America's "hostile policy" first and a peace treaty to replace Armistice. He summarized his view in a *Foreign Affairs* article: "The North wants to reconcile with Washington Pyongyang has called for a peace treaty to replace the armistice that terminated the Korean War. It is inconceivable that Pyongyang would dismantle its nuclear and missile programs, never mind its nuclear weapons, without such a treaty."¹⁴

But the so-called "pre-conditions" the North is demanding for denuclearization are a non-starter for Washington, particularly given impressive advances on the North's nuclear program. Moreover, the problem for Washington is that thus far there is no reason to believe that relieving economic sanctions, concluding a peace treaty, or even normalizing relations would be a panacea for solving the North Korean crisis, which ranges from its nuclear program to its human rights violations. How can anyone be sure that the North Korean regime would ever abide by any deal it signs?

Even though the U.S. has never had formal diplomatic relations with North Korea, four U.S. administrations going back to the days of President Bill Clinton in the 1990s have tried to address the North Korean threat through negotiations – at first bilateral, then multilateral

¹³ Joel S. Wit, "What the North Koreans Told Me about Their Plans," *The Atlantic*, May 20, 2018.

¹⁴ Leon V. Sigal, "Negotiations Can Work with North Korea: What the White House is Losing by Shunning Pyongyang," *Foreign Affairs*, September 21, 2011, <https://www.foreignaffairs.com/articles/asia/2011-09-21/negotiation-can-work-north-korea>.

through the six-party mechanism, and then back to bilateralism in the Trump administration. The path of negotiations has proven no more promising in the era of Kim Jong Un than during the days of his father or grandfather. All the previous talks with North Korea, in whatever form, including summits at the highest level, have failed in Washington's goal of achieving North Korean denuclearization. While Pyongyang has been willing to make promises of ending its nuclear program in return for aid and recognition, it has not been willing to carry out its pledges. Given these realities, how do we establish necessary conditions for building a peace regime - the sequencing and verification problems between denuclearization and a peace regime?

It's important both parties recognize that denuclearization and a peace regime cannot be achieved quickly. Overcoming decades of mistrust will require painstaking years of negotiations, most likely through intermittent breakdowns, as we've seen in the past. The process will also have to be based on reciprocity and proportionality, and neither side should expect the other to make concessions without receiving reciprocal concessions. A mutually acceptable deal with proportional commitments toward denuclearization and guaranteeing regime security with an end-of-war declaration and limited sanctions relief might be a reasonable starting point.

Interim Deal to Freeze the Nuclear Program and Reduce the Threat. North Koreans have advocated "peace regime first, and denuclearization later," while the U.S. – and, to a lesser extent, South Korea – have insisted on ensuring the denuclearization of the Korean Peninsula in advance of establishing a peace regime. A "grand deal" pursued by the U.S. which would insist on the North's "complete" and extensive denuclearization, ranging from nuclear weapons and ballistic missiles to biological and chemical weapons – in return for sanction relief and normalization of relations seem even more out of reach than before particularly given incredible advances the North has made in its nuclear program in recent years.

Increasingly, the most realistic deal that could be reached appears

to be a smaller, interim deal that would seek to limit North Korea's nuclear weapons, at least initially. While it is unclear yet exactly what course the incoming Biden administration will pursue, in assessing what is realistically possible, the immediate goal of the Biden administration will likely be to quantitatively and qualitatively limit North Korea's nuclear weapons capabilities while maintaining a long-term goal of working toward "a denuclearized North Korea and a unified Korean Peninsula."¹⁵ As former National Intelligence Office for North Korea Markus Garlausakas explained, while "Denuclearization is the appropriate long-term strategic goal and should be maintained," the United States also will need to also pursue "realistic short-term goals."¹⁶

Kim Jong Un himself left an opening for a freeze deal when he suggested that he is willing to freeze or reduce his nuclear program if conditions are met.¹⁷ But for Kim Jong Un to accept such an agreement, he would have to calculate that the benefits of the concessions provided are more valuable than the additional coercive leverage that would come from a larger, better-equipped nuclear weapons arsenal. Negotiations for a peace regime can only begin in earnest when North Korea declares a verifiable freeze to suspend the production of nuclear materials.

Peace Declaration and nonaggression/security guarantees. With an interim "freeze" agreement, the U.S. could then shift the focus to negotiations for a pathway to establishing "a new relationship" referenced in Singapore and other previous agreements. In return for the North verifiably freezing the North's nuclear and missile program, Washington could sign a peace declaration with the North as a first step to normalize ties with the North, give the North security assurances by signing a US-DPRK non-aggression pact, and agree to exchange liaison

¹⁵ Sigal, "Negotiations Can Work with North Korea."

¹⁶ Jeong, "With Biden in Charge, No More Flashy Kim Jong Un Summits."

¹⁷ KCNA, "Supreme Leader Kim Jong Un Makes Policy Speech at First Session of 14th SPA," April 13, 2009, <https://kcna.watch.org/newstream/1555126238-94365971/supreme-leader-kim-jong-un-makes-policy-speech-at-first-session-of-14th-spa/?t=1577076290560>. Also see "Kim Jong Un's 2019 New Year Address," The National Committee on North Korea, January 1, 2019, https://www.ncnk.org/resources/publications/kimjongun_2019_newyearaddress.pdf/fileview.

offices and some level of sanctions relief.

An end-of-war declaration and nonaggression guarantees are the first important preconditions that needs to take place once there is an interim agreement. Once a peace declaration is signed, Washington and Pyongyang would then negotiate additional denuclearization steps, including a verifiable declaration and roadmap, in an atmosphere of greatly reduced trust. A peace declaration could come in many forms. It could be inter-Korean or come in the context of a future possible Biden-Kim summit, but there is also value in considering a trilateral or even a quadrilateral declaration that clearly indicates U.S.-ROK cooperation on knitting together the conventional and nuclear dimensions of a peace-making and peace-building process. A possible precedent is the 1990 Treaty on the Final Settlement with Respect to Germany which was negotiated not only by East and West Germany but also by the four powers (the Soviet Union, United States, France, and Britain) which had occupied Germany at the end of World War II. In Korea's case, the declaration would be a non-binding statement - political rather than legal - that all the parties consider hostilities terminated. It would have no immediate bearing on the disposition of existing forces and/or diplomatic arrangements. It would simply express the formalization, and presumable commitment, of all parties to engage in a process of peace-building.

Mutual security guarantees and a non-aggression pact among the two Koreas, the US, and China could come in the form of both negative security assurances (promising not to attack) and positive ones (promising to protect from attack by others).¹⁸ Washington has in the past extended negative security guarantee to North Korea numerous times, including the 1994 Agreed Framework, and the September 2005 Joint Statement of the Six Party Talks by "affirming that it has no nuclear weapons on the Korean Peninsula and has no intention to attack or invade the DPRK with nuclear weapons or conventional weapons."¹⁹ Most recently, the

¹⁸ Frank Aum et al., "A Peace Regime for the Korean Peninsula," *Peaceworks*, no. 157 (February 2020): 31.

¹⁹ "Joint Statement of the Fourth Round of the Six Party Talks."

Singapore Statement also underscored that “President Trump committed to provide security guarantees to the DPRK.”²⁰ Despite these instances, Washington will need to reaffirm explicitly through a formal agreement its commitment to not attack North Korea using either conventional or nuclear weapons. Pyongyang will likewise need to also forswear all threats against the U.S. and its allies, South Korea and Japan. An end-of-war peace declaration hopefully could further strengthen the credibility of mutual security guarantees.

Confidence building, tension reduction, and arms-control. The second important precondition to a peace building process is reducing tensions on the Korean Peninsula. Concrete measures by both sides that reduce the risk of military conflict and potential for miscommunication can strengthen mutual confidence in security guarantees. As progress is made with an interim deal and peace declaration, various tension-reduction and confidence-building measures should be pursued, including establishing effective ways to manage and defuse potential conflicts through non-military means.

This means conventional arms control and disarmament talks should proceed in parallel with the progress on denuclearization. Reducing the size and scope of conventional military forces on both sides of the Military Demarcation Line could help lower the potential for sudden conflict and build confidence toward a stable peace. Specific arms control methods and organization between the two Koreas should be based on previous inter-Korean agreements, such as the 1972 North-South Joint Statement, the 1991 Inter-Korean Basic Agreement and related addendum,²¹ and the September 2018 Panmunjom Declaration Between the Two Koreas in the Military Domain (a.k.a. the Comprehensive Military Agreement, CMA).

²⁰ White House, “Joint Statement of President Donald J. Trump of the United States of America and Chairman Kim Jong Un of the Democratic People’s Republic of Korea at the Singapore Summit,” June 12, 2018.

²¹ “Agreement on Reconciliation, Non-aggression, and Exchanges and Cooperation between South and North Korea.”

Initial steps have already begun through efforts to implement the Panmunjom Declaration although thus far they have been limited to symbolic measures.²² The 2018 agreement outlined initial steps to ease military tension and to transform the demilitarized zone from a military border into a normal border, “a peace zone,” between two peaceful states. The two Koreas agreed to take substantive military measures prevent accidental military clashes and ensure safe fishing activities by turning the area around the Northern Limit Line in the West Sea into a maritime peace zone, to devise military assurances necessary to invigorate exchanges and cooperation, as well as various measures for mutual military confidence building.²³ The North and South could continue to use the CMA as a starting point for putting into place an armistice-like process to ensure that there is no resumption of hostilities. The CMA established an “Inter-Korean Joint Military Committee,” which could be used to expand the CMA and develop a comprehensive mechanism and process to maintain the peace treaty.

For confidence-building measures to be more than simply symbolic, however, sustained conventional military reductions and confidence building would be needed to entail detailed and *verified* implementation of troop and equipment pullback from areas near the DMZ, the establishment of regular military exchanges, and rules of interaction between the two Koreas. Subsequent steps would include more robust inter-Korean mechanisms for managing and defusing potential conflicts and further steps to transform the border with civilian customs and border control arrangements like any other land border in the world.

A more effective and robust tension reduction process would involve the implementation of transparency and verification measures on the model of the Conventional Armed Forces in Europe Treaty (CFE),

22 “Agreement on the Implementation of the Historic Panmunjom Declaration in the Military Domain,” September 19, 2018, <https://www.ncnk.org/sites/default/files/Agreement%20on%20the%20Implementation%20of%20the%20Historic%20Panmunjom%20Declaration%20in%20the%20Military%20Domain.pdf>.

23 “Agreement on the Implementation of the Historic Panmunjom Declaration in the Military Domain.”

often referred to as the “cornerstone of European security.” The CFE treaty, negotiated during the final years of the Cold War and signed on November 19, 1990, eliminated the Soviet Union’s overwhelming quantitative average in conventional weapons in Europe by setting equal limits on the types and number of military forces, including the number of tanks, armored vehicles, artillery, combat aircraft, and attack helicopters, that NATO and the Warsaw Pact could deploy between the Atlantic Ocean and the Ural Mountains.²⁴ While the specificity and level of transparency of such an agreement would likely be unrealistic for North Korea, the two Koreas could nonetheless adopt the CFE focus on eliminating or reducing major military weapons systems such as attack helicopters, heavy artillery, tanks, and so on. Following this path could also include greater transparency and information sharing on military activities, organization, and plans (such as notification of major military activities, exchange of information on defense policy, manpower, and so on). At a minimum, Pyongyang’s willingness to engage in and implement such a process would be a step toward proving the sincerity of the North’s commitment to building a peace regime. This would in and of itself provide powerful momentum toward the credibility of an inter-Korean peace process.

Verification. Another important precondition will be verifying tension-reduction and supporting the implementation of pledges to reduce arms and troops as well as the North’s denuclearization efforts. On conventional arms and troops reduction, third parties may play a wide range of roles, particularly during a transition from an end-of-war peace declaration to the establishment of a permanent peace settlement. The armistice already encompasses a number of international roles, including a UN Command role (admittedly diminished since the establishment of a US-ROK Combined Forces Command in 1978). From a U.S. perspective, there is comfort with a continued role for the

²⁴ “Treaty on Conventional Armed Forces in Europe,” <https://www.osce.org/files/f/documents/4/9/14087.pdf>.

UN Command to remain in place until the process of arms and tensions-reduction has verifiably reached an advanced stage. The roles of the USFK and U.S.-ROK Combined Forces Command are distinct from the roles and authorities of the UN Command, because their purpose is tied to the execution of commitments under the Mutual Defense Treaty rather than the Armistice Agreement, which provides the bilateral legal justification for the presence of US troops. Consequently, if the inter-Korean tension reduction process were to move from a symbolic phase to an operational one, the UN Command could take on a peacekeeping role as a buffer between Northern and Southern forces. The UN Security Council could provide a new mandate for a UN Peacekeeping role on the Korean Peninsula as well.

Verification functions, in theory, could be also managed bilaterally or trilaterally through arrangements that might approximate the U.S.-Russian experience with Cooperative Threat Reduction (CTR) arrangements post-Cold War, which was created for the purpose of securing and dismantling weapons of mass destruction and their associated infrastructure in the former states of the Soviet Union.²⁵ CTR program had objectives that could be applied in the case of the Korean Peninsula, which included verifiably consolidating and securing WMD and related technology and materials, increasing transparency and encouraging higher standards of conduct in adherence to nuclear agreements and nonproliferation activity, and supporting defense and military cooperation with the objective of preventing proliferation.²⁶

Finally, on dismantling and verifying the North's nuclear weapons facilities and programs, the United Nations five permanent members - China, France, Russia, the UK and the United States - could provide related technical support in assisting and monitoring North Korean nuclear

25 "The Nunn-Lugar Cooperative Threat Reduction Act of 2005," <https://www.congress.gov/bill/109th-congress/senate-bill/313/text>. Also see Justin Bresolin, updated by Brenna Gautam, "Fact Sheet: The Nunn-Lugar Cooperative Threat Reduction Program," June 2014, <https://armscontrolcenter.org/fact-sheet-the-nunn-lugar-cooperative-threat-reduction-program/>.

26 "The Nunn-Lugar Cooperative Threat Reduction Act of 2005."

technicians' dismantlement efforts. In addition to removing North Korea's existing arsenal of nuclear devices, ready-made component parts and stockpiles of fissile material, this effort would include neutralizing the North's nuclear infrastructure. Major capabilities to be destroyed and verified include both declared and undeclared facilities that produce weapons-grade fissile material.

Verification is, in the final analysis, perhaps the most difficult challenge. During all the previous talks with the North, it was Pyongyang's inability to agree on a written verification procedure for North Korea's declared nuclear activities and stockpiles led to the collapse of all negotiations and agreements. Compounding the problem is that verification with absolute certainty likely does not exist in the Korean case given the incredible resources and manpower required for monitoring and the fact that the North's WMD program is spread across numerous facilities, both known and covert underground facilities, tunnels, and sites. Nevertheless, an extensive and stringent verification and monitoring regime will be necessary to enforce any agreement and keep tabs on both North Korea's reduction of conventional forces and denuclearization.

Peace Treaty and establishment of diplomatic relations. All parties will then need to think about the roadmap for full denuclearization and the conclusion of a peace regime. But a peace regime should proceed in parallel with actual progress in the denuclearization process. If serious negotiations proceed and the actual denuclearization process starts, we will be able to discuss a roadmap for peace.²⁷

The peace building process would be ultimately consummated by the establishment of a permanent peace treaty involving the two Koreas, the U.S., and China as signatories. Signed at the end of the process, a Korean Peace Treaty would replace the Armistice Agreement and codify a permanent peace on the Korean Peninsula. Beyond formally ending

²⁷ Duyeon Kim, "Prospects for North Korean Denuclearization and Peninsular Peace" (presented at 2019 Seoul-Washington Forum, September 23, 2019).

the Korean War, it would address all outstanding inter-Korean issues, including thorny territorial and border disputes, such as the Northern Limit Line and the Northwest Islands, the North's chemical and biological weapons, movement of people, goods, and services across the border, any guidelines for future confederation or reunification, and human rights. Human rights issues can be incorporated into the peace negotiation process in a number of ways, but one way is following the model of the 1975 Helsinki Accords, which established the foundation for later reforms in Communist states in Eastern Europe.²⁸ Signed by 35 states representing the rival Eastern and Western blocs of the Cold War, it introduced the concept of universal human rights as a basis of relations between states. Getting Pyongyang to engage on human rights will be a significantly challenging pursuit, but it still needs to be addressed in some form before a peace treaty could be concluded.

A Korean peace treaty would formally ratify the two Koreas' commitment to peaceful co-existence and thus would rely on commitments between the two Koreas themselves. What is certain is that the Peace Treaty should not be signed until nuclear materials and weapons are moved from North Korea. The Peace Treaty and full diplomatic relations should be then ratified by the US Congress as well as the South Korean National Assembly. Technically, the two Koreas agreed to normalize their relations in December 1991, but this didn't have legal effect domestically because it was never ratified by the South Korean National Assembly.

Once the peace treaty is signed, the U.S./North Korea and Japan/North Korea will be able to normalize relations, although normalization could potentially come before a peace treaty. Although Japan was not a belligerent in the Korean War, its role as a base for the U.S. and multinational forces during the conflict and a major power in the region makes North Korea-Japan normalization an important part

²⁸ "Helsinki Final Act, 1975," Office of the Historian, <https://history.state.gov/milestones/1969-1976/helsinki>.

of the peace regime process. Pyongyang and Tokyo adopted the Three-Party Joint Declaration in 1990, and between 1991 and 1992, they conducted eight rounds of normalization talks to establish ties and resolve outstanding claims from colonial Japanese rule. North Korea and Japan held additional rounds of normalization discussions in 2002 and adopted the Joint Declaration when former Prime Minister Junichiro Koizumi visited Pyongyang in 2002. Kim Jong-il admitted to abducting Japanese nationals and Japan expressed remorse for its colonial past.²⁹ Little progress has been made on the diplomatic front since then, and the abduction issues (Japanese citizens were abducted by North Korea during the 1970s and 1980s) and compensation for colonization demanded by the North remains unsettled.³⁰ Other bilateral aspects of the Korean War, such as the prior state of conflict between the U.S. and China, and between South Korea and China, have already been resolved through the normalization of diplomatic relations in 1972 and 1992, respectively. Pyongyang-Tokyo normalization will need to follow.

The Parties for Building a Peace Regime

Formal negotiation of a permanent peace regime would naturally involve the two Koreas, the U.S., and China. The geopolitical centrality of the Korean Peninsula in the region means that efforts to establish a permanent peace on the Korean Peninsula might not be sustainable without buy-in from nearby major powers, most significantly the U.S. and China.

But questions about which parties have the authority to act on behalf of the belligerents remain because the armistice was signed by the

²⁹ "Japan-DPRK Pyongyang Declaration," September 17, 2002, http://nautilus.org/wp-content/uploads/2011/12/CanKor_VTK_2002_0917_pyongyang_declaration_japan_dprk.pdf.

³⁰ Gavan McCormack and Wada Haruki, "The Strange Record of 15 Years of Japan-North Korea Negotiations," *The Asia-Pacific Journal: Japan Focus*, vol. 3, issue 9 (September 28, 2005), <https://apjif.org/-Gavan-McCormack--Wada-Haruki/1894/article.pdf>.

UN Command; the Korean People's Army (KPA), the North Korean military; and the People's Volunteer Army, a now-defunct military force Beijing created solely to aid the North Koreans. It is therefore unclear whether the U.S. can sign on behalf of the United Nations, whether South Korea can sign at all, and whether the unofficial status of the former People's Volunteer Army allows Beijing to sign a subsequent agreement on its behalf.

Legal scholars have argued that both Koreas, the US, and China could justifiably sign an agreement to replace the armistice.³¹ Historically, building a peace regime on the Korean Peninsula has been discussed in several main ways. The first is the so-called "2+2" method where the two Koreas come to an agreement and conclude a peace treaty and the United States and China sign a peace treaty agreement as guarantors of security to their allies. In this scenario, however, the U.S. and China themselves do not sign a formal peace treaty, because they did not declare war.

The other method is the "4+2+2" method where the two Koreas, the United States, and China conclude the umbrella treaty, and two supplementary agreements - one between North and South Korea and one between the United States and the North = are added as sub-agreements. (This was a proposal that was discussed in the previous four-party talks, which took place from 1997 to 1999.) The North-South supplementary agreement includes arms control and normalization of inter-Korean relations, and the U.S.-DPRK one includes the denuclearization of North Korea, the abandonment of a so-called "hostile" U.S. policy toward North Korea, and the promise of establishing diplomatic relations between the U.S. and North Korea.

If China does not enter the negotiation, the existing "4+2+2" method could be reconstructed into a "2+2+4" method: first, the two

31 Patrick M. Norton, "Ending the Korean Armistice Agreement: The Legal Issues," Nautilus Institute for Security and Sustainability, March 1997, <https://nautilus.org/napsnet/napsnet-policy-forum/napsnet-policy-forum-online-2-norton-ending-the-korean-armistice/>.

Koreas conclude an inter-Korean framework sub-agreement, then the U.S. and North Korea conclude a framework agreement of their own as denuclearization negotiations progress, and finally, all four countries - including China - conclude a comprehensive treaty for the peace of the Korean Peninsula.

The aim of an inter-Korean framework agreement is to update the former 1992 Inter-Korean Basic Agreement to reflect the changing situation. It could be made legally binding domestically through ratification in South Korea's National Assembly. Alternatively, the National Assembly could ratify the Panmunjom Declaration, announced on April 27, 2018, which would have a similar effect without concluding a separate framework agreement. While the Inter-Korean Framework Agreement can be concluded relatively independently, the other two agreements under discussion would require progress on denuclearization to be realized.

Regardless of which path is ultimately pursued, it seems logical that the main parties involved would be the United States, South Korea, North Korea, and China – the four belligerents of the Korean War. Japan and Russia could also affix their signatures in support of the peace treaty in turn would be ratified by each country's legislative body.

Implications of a Peace Regime for US-ROK Alliance and Peace and Stability in Northeast Asia

Establishing a peace regime on the Korean Peninsula is like opening a Pandora's box in Greek mythology, a “present” which seems valuable but source of an unexpected outcome – it can have a great impact on the existing security order of the Korean Peninsula, the U.S.-ROK alliance, and East Asia in general. If building a peace regime is successful, it could catalyze a new phase of dramatic economic growth for not only the two Koreas but for the region. But if the transition were to go wrong, the current stable regional security environment could slide

toward renewed conflict and an even greater threat from North Korea than we currently face.

Many in Washington are concerned that traps lie on the road to peace. There continues to be lingering and understandable doubt of the North's sincerity in pursuit of a peace treaty and peace regime. Many wonders how the North could justify its existence if normalization with the U.S. occurs and it has to abandon the confrontational anti-Americanism that constitutes one of its last remaining sources of legitimacy. Is the real reason that North Korea seeks a peace treaty is because that a such a treaty would cause all sides – including South Koreans and Americans – to question the need for continuation of the US military presence in Korea, leading ultimately to their removal, thus making South Korea easier to coerce in the future? The peace regime process culminating in a peace treaty, then, ultimately poses risks as well as opportunities for South Korea, the U.S., and the Northeast Asian region.

Some policymakers and Korea watchers worry that North Korea's strategic aim is still unification of the Korean peninsula on the North's terms to ensure regime survival, and that, to be successful, it must split the U.S.-ROK alliance and force the removal of U.S. forces from the peninsula.³² Former National Security Advisor H. R. McMaster explained in an interview that Kim Jong Un's quest to hold the U.S. mainland at nuclear risk with his ICBM program could be well advance his goal of conquering South Korea in the long-term. McMaster concluded that North Korea's intentions "are to use that weapon for nuclear blackmail, and then ... to 'reunify' the peninsula under the red banner ... and to drive the United States and our allies away from this peninsula that [Kim] would then try to dominate."³³ Skeptics point to the 2019 revision

32 See, for example, Nicholas Eberstadt, "The North Korea Endgame: However Difficult, Unification Must Be the Ultimate Objective," *The Wall Street Journal*, April 30, 2020.

33 James Jeffrey, "What If H.R. McMaster Is Right about North Korea?" *The Atlantic*, January 18, 2018, <https://www.theatlantic.com/international/archive/2018/01/hr-mcmaster-might-be-right-about-north-korea/550799/>.

of the North's constitution, which still uses the word "revolution" multiple times in the preamble alone, and calls for completing the revolution to rid of the peninsula of foreign influence and unify it under northern domination, thus completing the "Juche revolution."³⁴

The conclusion of a peace treaty also cannot help but inevitably raises difficult security questions for Washington about the U.S.-ROK alliance and other contentious issues, such as joint military exercises, conventional arms control, extended deterrence, the American military presence in South Korea, the Combined Forces Command and United Nations Command (UNC), and the larger U.S. strategic posture in Northeast Asia. These are all sensitive issues that can cause great changes in the security environment in East Asia. Any moves within a peace process that undermine the pillars of the existing U.S.-led regional security architecture would encounter significant opposition domestically in the United States. The U.S. understandably seeks to avoid weakening its strategic posture in Asia, especially if the promises of a peace regime prove illusory.

Yet, while it is true that the status of U.S. forces on the Korean peninsula will inevitably be called into question by the signing of a peace treaty, the end of the Armistice and of the UN Command does not necessarily require the automatic withdrawal of US troops. While the UN Command will likely be dissolved by the UN Security Council when a peace treaty is signed, U.S. forces on the peninsula are outside the authority of the United Nations. The 1953 Mutual Defense Treaty provides the bilateral legal justification for their presence. While the fundamental mission of the alliance has been widely understood as the defense of South Korea, the text of the treaty makes no reference to North Korea but refers only to the "Pacific area."³⁵ This is because the U.S.-ROK alliance was concluded at the height of the Cold War, at a

³⁴ "DPRK's Socialist Constitution" (Full Text), http://www2.law.columbia.edu/course_00S_L9436_001/North%20Korea%20materials/98091708.htm#Preface.

³⁵ "Mutual Defense Treaty between the United States and the Republic of Korea," October 1, 1953, https://avalon.law.yale.edu/20th_century/kor001.asp.

time when not only North Korea but China and the formal Soviet Union were perceived as posing threats to U.S. security interests.

Thus, the future status of U.S. troops will be decided ultimately by mutual agreement of the U.S. and South Korean governments. It will likely depend on South Korean threat perceptions and future security needs in a hypothetical post-North Korean threat environment. South Korean threat perceptions will also likely be shaped by how an inter-Korean peace process unfolds, which will affect both South Korea's perceived needs and American public willingness to fulfill those needs.

North Koreans themselves have been equivocal about how they view the issue of U.S. troops on the Peninsula. There are some indications that North Korea's attitude toward USFK may have evolved. Kim Yong-chol, the member of the State Affairs Commission who visited the White House on January 18, 2019, delivered Kim Jong Un's message to President Trump that "even though the peace regime on the Korean peninsula is established, he wouldn't demand the withdrawal of USFK."³⁶ This is not the first time when a high-level North Korean official expressed acceptance of USFK directly to a U.S. official. According to the memoir of former U.S. Secretary of State Madeleine Albright, when she visited Pyongyang in October 2000, she asked Kim Jong-il about his attitude toward the presence of US troops on the Korean Peninsula; Kim Jong-il told her that "his government's view had changed since the Cold War: American troops now played a stabilizing role."³⁷ Meanwhile, Robert Gallucci, a former US official who negotiated the 1994 Agreed Framework, also noted that "from time to time there have been indications that the North would like more political freedom and less economic dependence on China and is not so enthusiastic about

36 김지훈, "北 김영철, 트럼프에 '주한미군 철수 거론 않겠다' 약속," *Newsis*, February 7, 2019, https://newsis.com/view/?id=NISX20190207_0000550689&clD=10301&pID=10300.

37 Madeleine Albright, "At the Door to the Hermit Kingdom," *Vanity Fair*, September 2003, <https://www.vanityfair.com/news/2003/09/madeleine-albright-north-korea>.

an American departure from the region.”³⁸

The U.S. and South Korea alliance has uses beyond deterring North Korea, so it is likely to survive peace with the North. The two countries are working to upgrade, modernize, and transform the alliance, broadening it to a regional and global partnership that includes political, economic, diplomatic, and cultural cooperation. The Joint Statement of June 16, 2009, issued by President Obama and President Lee Myung-bak, committed the U.S. and South Korea to “building an Alliance to ensure a peaceful, secure, and prosperous future of the Korean Peninsula, the Asia-Pacific region, and the world.”³⁹ They further proclaimed that with the Mutual Defense Treaty as the “cornerstone of the U.S.-ROK security relationship ... we will build a comprehensive strategic alliance of bilateral, regional and global scope, based on common and mutual trust.”⁴⁰ And in the Asia-Pacific region, the alliance partners would work to “promote human rights, free markets, and trade and investment liberalization” and, at the same time, “address the global changes of terrorism, proliferation of weapons of mass destruction, piracy, organized crime and narcotics.”⁴¹ In the subsequent Joint Declaration of 2013 and again in 2015, the U.S. and South Korea further reaffirmed their commitment to the objectives outlined in the 2009 statement and promised to strengthen and globalize their cooperation. The more the alliance expands beyond its original threat-based rationale to an alliance based on common values, such as democracy, human rights, and free markets, the less likely that any future deal between the U.S. and North Korea or between the two Koreas could lead to the end of U.S.-ROK alliance.

³⁸ Robert L. Gallucci, “Lessons to Be Learned from Negotiating with North Korea,” *38 North*, September 17, 2019, <https://www.38north.org/2019/09/rgallucci091719/>.

³⁹ Office of the Press Secretary, “Joint Vision for the Alliance of the United States of American and the Republic of Korea,” White House, June 16, 2009, <https://obamawhitehouse.archives.gov/the-press-office/joint-vision-alliance-united-states-america-and-republic-korea>.

⁴⁰ Office of the Press Secretary, “Joint Vision for the Alliance of the United States of American and the Republic of Korea.”

⁴¹ *Ibid.*

The important task for Washington and Seoul is to design a bold road map that can creatively combine the issues of denuclearization of the North and of establishing a durable peace regime. The first step would be for Seoul and Washington to be in a lockstep and in agreement on the “end-state” of policy toward the North. If the ultimate policy direction is different between Washington and Seoul, success in peacemaking is unlikely. If Washington and Seoul are also divided over denuclearization, then not only denuclearization but also establishing a peace regime on the Korean peninsula will not be realized.

The two allies must continue to stay united in their efforts at both denuclearization and the peace process, to provide an alternative to a dark future, in which North Korea will continue to wield nuclear weapons for extortion and violate human rights with impunity. Given the undesirability of such a future, on the 70th anniversary of the Korean War, we need to explore the potential for a better path rather than settling for the risk-aversion that inevitably will characterize an increasingly unsustainable status quo. At the end of the day, without a fundamental transformation of the relations between the two Koreas and the U.S. and North Korea, all nuclear negotiations are bound to eventually collapse. We need a road map from an armistice regime toward a peace regime, however unlikely it may appear now, because any other path to the future is too dangerous to contemplate.

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Winter Is Coming: Emerging War in the Taiwan Strait?

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Abstract

Following the election of Tsai Ing-wen and the DPP in Taiwan in January 2020, US-China-Taiwan relations stand at a crossroad. Since 2016, Cross-strait relations deteriorated into stagnation while US-Taiwan relations improved steadily, such development has edged the Taiwan Strait closer to conflict, as Beijing long regards the issue of Taiwan as un-negotiable. If US-China-Taiwan relations remain unchanged, conflict may likely be inevitable in the near future. This article reviews the development of Cross-strait relations and US-Taiwan relations over the past five years and identifies key variables that will implicate security in the Taiwan Strait. The authors argue that stringent peace in the Taiwan Strait offers little to be optimistic about, as the danger of conflict may be closer than expected.

Key Words: US-China-Taiwan relations, Cross-strait relations, Taiwan Strait, East Asia

2020 Taiwan President Election

On January 11, 2020, people in Taiwan casted their ballots and chose their leader for the next four years. Garnering more than 57% of overall support and a record setting 8,170,231 votes, Tsai Ing-wen and the Democratic Progressive Party (DPP) achieved a landslide victory and secured their rule until 2024. Tsai, the incumbent president defeated the runner up Kuomintang (KMT) candidates Han Kuo-yu by more than two million votes, humiliating the once dominant party in Taiwan once again. The reaction from Beijing was as expected – displeased and unentertained. While more than 80 countries around the world, including the United States, sent their greetings to Taiwan, China remain unmoved. As Cui Tiankai, Chinese ambassador to the US, commented before the election, “the election is a local election of China and there is only one China in the world.”¹ Following US former Secretary of State Mike Pompeo’s congratulatory statement commending Taiwan’s “robust democratic system” and “President Tsai’s commitment to maintain cross-strait stability in the face of unrelenting pressure [from China],”² Chinese Foreign Minister Wang Yi dismissed the election result and retorted indignantly that “splitting the country is doomed to leave a name that will stink for eternity.”³

Little has changed indeed since 2016. The relationship between China and Taiwan remains tense. The DPP is long regarded by Beijing as the representative of separatist forces in Taiwan, which Chinese leaders cannot accept and vow to defeat. With the DPP in power, the past five years witnessed the severance of official communication and exchange across the strait while China increased its diplomatic and military pressures towards Taiwan. If bilateral relations since 2016 serve as useful guidance for the near future, the estrangement between China and Taiwan may become

1 Wendy Wu, “China ‘Will Honour’ US Trade War Deal Promises as Talks Progress ‘in Earnest’,” *South China Morning Post*, December 29, 2019.

2 Michael R. Pompeo, “On Taiwan’s Election,” Press Statement, January 11, 2020.

3 Huizhong Wu, Lusha Zhang and Judy Hua, “Separatists Will ‘Stink for 10,000 Years,’ China Says after Taiwan Vote,” *Reuters*, January 14, 2020.

entrenched while Beijing loses its patience over the issue of unification.

In light of China's strong pressure to isolate Taiwan in the international arena while limiting the tourist flow in order to undermine the island economy, the latter is facing a dilemma between the economy and sovereignty. Over the past decade or so, KMT and DPP – the two major political parties in Taiwan – have come to represent the choices respectively: choosing the economy suggests voting KMT. Harboring a more conciliatory stance towards China, the second largest economy in the world, KMT is considered to be more capable of fostering economic growth by bringing about political stability across the Taiwan Strait. In contrast, the DPP stands for independent sovereignty, a value that China cannot accept and brings about clashes between Taiwan and China.

For many reasons, the 2020 presidential and legislative election might be a turning point for Taiwan. First, the election result suggests that Taiwanese identity seems to have further hardened on the island. The outcome corresponds with a long term identity study conducted by the Election Study Center in Taiwan that finds those who identify solely as being Taiwanese to be at an unprecedented 64.3% of the populace in 2020.⁴ The driving forces behind the further consolidated Taiwanese identity may be the increased diplomatic pressure that Beijing unloads on Taiwan, and the constant harassment by Chinese military planes in Taiwanese air space. Despite Beijing's efforts to win over the Taiwanese people, most notably in the form of 31 preferential measures granted towards the Taiwanese in 2018,⁵ the latter remains unmoved. In light of unrest and violence in Hong Kong generated by anti-government and anti-Chinese sentiments, in the words of former AIT director Richard Bush, “for now, one country two systems have no market on Taiwan as a basis for resolving differences with

4 Election Study Center, National Chengchi University, “Changes in the Taiwanese/Chinese Identity of Taiwanese as Tracked in Surveys by the Election Study Center, NCCU (1992-2019),” <https://esc.nccu.edu.tw/course/news.php?Sn=166#>.

5 For a thorough discussion of Cross-strait relations from 2008 to 2016, see Tung-Chieh Tsai and Tony Tai-Ting Liu, “Cross-Strait Relations and Regional Integration: A Review of the Ma Ying-jeou Era (2008-2016),” *Journal of Current Chinese Affairs*, vol. 46, no.1 (2017): 11-35.

China.”⁶

Second, besides losing the presidential election by more than 2 million votes, the KMT gained 38 seats in the legislature – only three more than in 2016 – and remains as a weak opposition against the DPP, which holds on to a majority with 61 seats. Meanwhile, extending from the emergence of the New Power Party (NPP) in 2016, including independent candidates, small parties such as the newly established Taiwan People’s Party, the NPP and the Taiwan State-building Party, altogether, garnered 14 seats, which in turn forms a third-party opposition in the legislature. In other words, Taiwan seems to be slowly moving away from a two-party system towards a more diverse structure. Such trend entails the complication of identity, which may further challenge Cross-Strait relations in the future.

Third, the election demonstrates a generation gap. The group under forty years old is generally more favorable towards DPP while the group over forty years old favors KMT.⁷ Regardless of whether the Taiwanese society is torn by clashing political values due to the generation divide, following the DPP victory, it does mean that the younger generation is a group that is to be reckoned with and all future governments need to respond to its demands. Meanwhile, evident from China’s courtship of Taiwan’s young generation through the introduction of preferential measures in recent years, young people stand as a large target group for Beijing’s unification efforts. The emphasis on young people in both China and Taiwan hints at their potential impact on the future development of Cross-strait relations.

“Winter is coming,” as Lord Eddard Stark, a character from the popular television series *Game of Thrones*, says. Noting the outcome of Taiwan’s election in 2020, how do we make sense of the Taiwan Strait in the near future? Will the Taiwan Strait relapse into a flashpoint? How would

6 Richard C. Bush, “Beijing’s Goal Is Re-unification with Taiwan – Why Can’t It Get There?” *Brookings Blog*, January 7, 2019, <https://www.brookings.edu/blog/order-from-chaos/2019/01/07/beijings-goal-is-re-unification-with-taiwan-why-cant-it-get-there/>.

7 For an extended discussion on this point, see Chung-li Wu and Alex Min-Wei Lin, “The Certainty of Uncertainty: Taiwanese Public Opinion on US-Taiwan Relations in the Early Trump Presidency,” *World Affairs*, vol. 182, no. 4 (2019): 350-69.

US-China-Taiwan relations evolve? In this article, we argue that winter is about to set in in the Taiwan Strait as one can expect China-Taiwan relations and the US-China relations to become further entrenched in conflict.

Escalating Rivalry between US and China

In response to Clause 1261 of the National Defense Authorization Act for Fiscal Year 2019 (NDAA 2019), in the publicly released *US Strategic Approach* to the PRC in May 2020,⁸ besides admitting that the policy of engaging China in the past decades has failed,⁹ Washington proclaimed that the US has decided to change its strategy towards China to the open exertion of pressure to contain the latter's economic, military and political expansion. Accordingly, the hotly discussed New Cold War between the US and China gained further attention.

When the China threat theory first emerged around 1995, David Shambaugh released an article titled "The United States and China: a new Cold War,"¹⁰ and pioneered the study on US-China relations by pondering the possibility of serious confrontation. Strained relations between the US and China further deepened after the Congress investigation on Chinese espionage on US classified material on nuclear weapons in 1998, the US bombing of the Chinese embassy in Yugoslavia, and the release of the *Cox Report* in May 1999.¹¹ Comparable to developments in 2019-2020, passing of the Taiwan Security Enhancement Act in 2000 in Congress, President Bill Clinton's signing of an act in support of Taiwan's participation in the

8 See "United States Strategic Approach to the People's Republic of China," White House, <https://www.whitehouse.gov/wp-content/uploads/2020/05/U.S.-Strategic-Approach-to-The-Peoples-Republic-of-China-Report-5.20.20.pdf>.

9 Anthony Lake, "From Containment to Enlargement," *US Department of State Dispatch*, vol. 4, no. 39 (1993): 658-64.

10 David Shambaugh, "The United States and China: A New Cold War?" *Current History*, vol. 94, no. 593 (1995): 241-7.

11 According to the commissioned report "US National Security and Military/Commercial Concerns with the People's Republic of China" drafted by Republican Congressman Chris Cox (the so called Cox Report), China was noted as strengthening herself by using planned tactics to acquire classified material concerning nuclear weapons from the US.

World Health Organization (WHO), and President George W. Bush's adjustment of China's status from a "strategic partner" to a "strategic competitor," signaled Washington and Beijing's entry into a new phase of strategic interactions.

According to Clause 1202 of NDAA 2000, the US Department of Defense is required to evaluate China's military development and report to Congress on a regular basis. Since 2001, Congress began to release the *Military and Security Developments Involving the People's Republic of China* while the Defense Intelligence Agency (DIA) also released the *China Military Power* report since 2019. Both reports emphasize the rapid expansion of China's military power and suggest that the US should respond cautiously. US caution towards China can also be observed from the Pivot to Asia in 2009 and the Re-balance to Asia strategy in 2012. From the 2010 and 2014 *Quadrennial Defense Review* (QDR) and the 2010 and 2017 *National Security Strategy* (NSS) report, it is clear that China is deemed as the potential enemy.

Observers such as David Shambaugh have pointed out the complex character of US-China relations as presented by co-opetition and competitive co-existence.¹² Since 2015, Graham Allison repeatedly stressed the danger of the US and China falling into crisis or the so called "Thucydides Trap."¹³ In early 2019, Robert Kaplan pointed out that competition between the US and China would last for many decades, especially in the Asia Pacific – while China is trying to expel US military presence from the Western Pacific, its intent to internalize the South China Sea as domestic waters is quite similar to US strategy towards the Caribbean in the 19th century.¹⁴ Robert Sutter, meanwhile, notes the reality of growing difference in US-China relations while pointing out that Washington's sausage strategy in upgrading US-Tai-

¹² David Shambaugh, ed., *Tangled Titans: The United States and China* (Lanham: Rowman & Littlefield, 2013), 4.

¹³ Graham Allison, *Destined for War: Can America and China Escape Thucydides's Trap* (New York: Houghton Mifflin Harcourt, 2017).

¹⁴ Robert D. Kaplan, "A New Cold War Has Begun," *Foreign Policy*, January 7, 2019, <https://foreignpolicy.com/2019/01/07/a-new-cold-war-has-begun/>.

wan relations is unprecedented.¹⁵ In particular, following the outbreak of trade war in 2018 and the COVID-19 pandemic since 2020, former trade advisor to the Trump administration Clete Willems openly expressed that “tensions between the US and China is elevating quickly, and we must confront the reality of a new Cold War.”¹⁶ In short, as US strategy towards China grows more direct and confrontational, many possibilities are open in the future.

In contrast with the Obama administration’s four efforts at pushing for the freedom of navigation in the South China Sea in 2015-2016, from May 2017 to January 2021, the Trump administration made 23 attempts to emphasize US presence in the region. Since ascending to the White House in 2021, the Biden administration carried out two transit efforts in February and April. In addition, since ex-Secretary of State Mike Pompeo’s public statement denouncing China’s claim in the South China Sea as “completely illegal” in July 2020, incumbent Secretary of State Anthony Blinken echoed his predecessor’s statement by rejecting China’s position, noting the latter as in violation of international legal norms and supporting the states of Southeast Asia in balancing the China challenge. At the same time, in response to the People’s Liberation Navy (PLN) adopting island patrols in 2017 and increasing the pressure on Taiwan through military demonstrations in 2018, in the three years between 2018 and 2021, US warships sailed through the Taiwan Strait 28 times. The thirteen transits made by the US navy in 2020 was unseen in more than a decade, which hints at the elevation in confrontation between the two powers.¹⁷ In fact, since 2020, the activity of US aircraft carriers in the South China Sea and waters in the vicinity became random and unpredictable, which hints at an increased intention

¹⁵ Robert Sutter, *US-China Relations: Perilous Past, Uncertain Present*, 3rd edition (Lanham: Rowman & Littlefield, 2018), 5-7.

¹⁶ Yen Nee Lee, “This Is the Start of a New Cold War,” *CNBC*, May 5, 2020, <https://www.cnbc.com/2020/05/05/coronavirus-ex-trump-trade-official-clete-willems-on-us-china-tensions.html>.

¹⁷ The number of transits is as follows: 11 times in 2015, 12 times in 2016, 5 times in 2017, 3 times in 2018, 9 times in 2019 and 13 times in 2020. Since the end of March 2021, the US has already made 3 transits. The most recent voyage was made by the USS John Finn on March 10.

for combat readiness. Based on the objective of securing freedom of navigation and establishing partnerships beneficial for maritime security, the frequency of aircraft carriers traveling in and about the South China Sea increased to approximately ten times annually.

In *China Naval Modernization: Implications for US Navy Capabilities* released by the Congressional Research Service in July 2020, it is worth noting that China is deemed as boasting the largest navy in the world.¹⁸ Accordingly, besides the unilateral application of pressure against China, in 2020, the US joined hands with Japan and Australia and carried out exercise Sea Dragon in February, a trilateral exercise with the USS Ronald Reagan in July, a multinational group sail in September, exercise Pacific Vanguard in September and a trilateral exercise in the South China Sea in October. Noting the scarcity of hosting five joint military exercises in the span of one year, Malabar 2020 - the first exercise of the QUAD – was carried out in November. Following the transition to the Biden administration, aside from the hosting of the first virtual summit of QUAD in March 2021, Washington reached out to France to participate in a joint exercise in the Bay of Bengal carried out by QUAD plus.¹⁹ In short, the aforementioned developments clearly demonstrate increased rivalry between the US and China. While both countries continue to make efforts towards avoiding potential misunderstandings and conflict, it is hard to simply ignore the increased risk of even just a limited war.

US-China-Taiwan Relations in Flux

With Tsai Ing-wen and the DPP voted into power again in 2020, Cross-Strait relations continued to stagnate. In the eight years from 2008 to 2016, China and Taiwan enjoyed the “golden years” of exchange and dialogue,

¹⁸ Congressional Research Service, “China Naval Modernization: Implications for US Navy Capabilities,” updated March 9, 2021, <http://fas.org/sgp/crs/row/RL33153.pdf>.

¹⁹ In 2018, French President Emmanuel Macron proposed the establishment of the Paris-Delhi-Canberra axis in the Indo-Pacific region.

as both sides agreed to diplomatic truce, greatly reduced the possibility of conflict, reinitiated dialogue, signed an Economic Cooperation Framework Agreement (ECFA) and opened up more than sixty flight connection points.²⁰ In comparison, relations began to sour in May 2016, when Beijing demanded a newly inaugurated Tsai to concede to the 1992 Consensus and the latter refused.

Cross-Strait dialogue grounded to a sudden halt-highlighted by the severance of communication between the Taiwan Affairs Office (China) and the Mainland Affairs Council (Taiwan). In the diplomatic realm, seven countries switched their recognition from Taiwan to China, including Sao Tome and Principe (2016), Panama (2017), Dominican Republic (2017), Burkina Faso (2018), El Salvador (2018), Kiribati (2019) and Solomon Islands (2019). Internationally, Taiwan was barred from participating in the World Health Assembly (WHA) and the annual meeting of the International Civil Aviation Organization (ICAO).

If the previous five years speak for the near future, a plausible scenario is further progress down the road of conflict between China and Taiwan. The proposal rests on the assumption that China will continue with a carrot and stick strategy of “hard gets harder, soft gets softer” against Taiwan while the DPP government resists. Allegedly coined by Lin Chong-pin, former Deputy Minister of Taiwan’s Ministry of Defense, the statement describes the China’s strategy to coerce and cajole Taiwan into reunification with China through a combination of means.²¹ Xi Jinping waved the stick at Taiwan when he openly remarked that “political differences across the strait cannot pass from generation to generation and must be resolved gradually.”²² Beijing showed the carrots with the subsequent introduction of the 31 preferential measures in 2018 and the 26 preferential measures in

20 On the 31 preferential measures, see “Guotaiban 31 Tiao Huitai Cuoshi Quanwen” (Taiwan Affairs Office 31 Preferential Measures for Taiwan), *China Post*, March 1, 2018.

21 Ping-yu Wang, “Xuezhe Guandian: Hu Jintao Duitai Yindegengyin Ruandegenruan” (Academic Perspective: Hu Jintao’s Taiwan Policy – Hard Gets Harder, Soft Gets Softer), *Liberty Times*, January 30, 2005.

22 Teddy Ng, “Xi Jinping Says Efforts Must Be Made to Close the China-Taiwan Political Divide,” *South China Morning Post*, October 6, 2013.

2019 that aim at courting the favor of the Taiwanese population through the relaxation of the Chinese job market. The outcome of Taiwan's election in 2020 proved to be a disappointment for Beijing, though perhaps not too much of a surprise.

On the other hand, according to a long term survey carried out by UDN News, between 2018 and 2019, the proportion of people in the Taiwan that is interested in relocating to China for work or to commence business dropped significantly, which suggests that the effects of China's seductions are minimal.²³ As Beijing fails to gain satisfying result from its efforts, one can expect the Chinese leadership to revert to stronger pressure towards Taiwan. For example, China continues to send warplanes to operate around Taiwan constantly, sometimes crossing the median line in the Taiwan Strait, while the Liaoning, China's first aircraft carrier, made several passages around Taiwan in 2019. The possibility of conflict is not so far away.

In contrast, US-Taiwan relations made significant progress in the past five years. In the Ma Ying-jeou period (2008-2016), Taipei adopted an equidistant policy that leaned slightly more towards the US. However, since Washington could not remove herself from the Middle East at the time, its position towards Taiwan wavered. As the 2007 RAND report *US-China Relations after Resolution of Taiwan's Status* suggests,²⁴ the US should adopt an eclectic policy – while Taiwan puts its drive for independence under self-restraint, the US will push for a peace agreement between Taiwan and China - that shifts its role to one of an honest broker. Thomas Barnett suggested that the US obligation to defend Taiwan is not only an invalid strategy, Taiwan was also clearly not worth the cost.²⁵ Charles Glaser proposed that the US should accept China's takeover of Taiwan in order to avoid an undesired hegemonic war while John Mearsheimer openly

23 “Liangyan Guanxi Niandu Dadiaocha Junshi Jinzhang Xingao” (Annual Survey of Cross-strait Relations, Military Tensions at New High), *UDN News*, September 24, 2019.

24 Roger Cliff and David A. Shlapak, *U.S.-China Relations after Resolution of Taiwan's Status* (Santa Monica: RAND, 2007).

25 Thomas Barnett, *Blueprint for Action: A Future Worth Creating* (New York: Berkley Books, 2005), 160-1.

suggested that the US should “say goodbye to Taiwan.”²⁶ Since the fragmentation of China in 1949 and the reconciliation between China and the US in 1979, Taiwan once again faced severe strategic challenges.

Since the DPP returned to power and the US turned over to a new administration five years ago, the tide began to shift. In May 2016, the US Congress adopted a concurrent resolution (No. 88) in support of Taiwan, reaffirming the Taiwan Relations Act and the Six Assurances as cornerstones of US-Taiwan relations.²⁷ For the first time in history, the Six Assurances was formally raised in letter form in Congress. On December 2, 2016, Donald Trump’s phone call with Tsai Ing-wen was the first time in 37 years that a president-to-be of the US communicated directly with Taiwan’s leader. Not only Trump followed with the signing of the Taiwan Travel Act in March 2018, both Congress and White House proposed and ratified a series of pro-Taiwan acts successively, which effectively centered attention on the deepening and upgrading of US-Taiwan relations.

Set in the context of efforts to contain China, Taiwan figures prominently in US regional policy since 2016, more so compared with the Barack Obama administration. The reason for Washington’s heightened attention on Taiwan may be the Trump administration’s interpretation of China as the top challenge to US national security.²⁸ In contrast with its predecessor the Trump administration wasted little time to express its discontent over China, as demonstrated by conflict in the South China Sea and continued engagement in a trade war with China. Taiwan forms

²⁶ Charles Glaser, “Will China’s Rise Lead to War,” *Foreign Affairs*, vol. 90, no. 2 (2011): 80-91.

²⁷ The Six Assurances were first proposed by the US in 1982 as informal promises towards Taiwan. Adopted as law in 2016, the Assurances confirm that the US has not agreed to set a date for ending arms sales to Taiwan; will not play a mediation role between Taipei and Beijing; will not exert pressure on Taiwan to enter into negotiations with China; has not altered its position regarding sovereignty over Taiwan; has not agreed to revise the Taiwan Relations Act; and has not agreed to consult China on arms sales to Taiwan.

²⁸ The interpretation came on April 29, 2019, when the director of policy planning at the US State Department, Kiron Skinner, was quoted as saying that “this is a fight with a really different civilization and a different ideology and the United States hasn’t had that before.” See Joel Gehrke, “State Department Preparing for Clash of Civilizations with China,” *Washington Examiner*, April 30, 2019.

the third front of the US counter offensive towards China.

Meanwhile, the Taiwan Travel Act encouraged the bilateral exchange of high level officials. While the Act has yet to bring about the exchange of top level executive leaders between both sides, former Assistant Secretary of Defense of Indo-Pacific Security Affairs, Randall Schriver, paid a visit to Taiwan while William Lai, Taiwan's Vice President elect, visited the US and attended the National Prayer Breakfast in Washington. Meanwhile, Senators Marco Rubio and Ted Cruz, both former presidential hopefuls, supported the Taiwan Symbols of Sovereignty (SOS) Act, a proposal that allows visiting military personnel and diplomats from Taiwan to wear their uniforms and openly display the Taiwanese flag in the US.²⁹

Less observed but perhaps more important is Washington's military support for Taiwan, which remains crucial in deterring Beijing's resolve to resort to the use of force. While the Taiwan Relations Act provides the US with the advantage of carrying out "strategic ambiguity" in the Taiwan Strait, such an edge is fast reducing due to China's military advancements that have severely tipped the military balance in the region.³⁰ Reacting to the situation, US-Taiwan defense cooperation strengthened in the past five years, most notably with the US arms sale of MIA2T battle tanks and F-16V aircrafts to Taiwan in 2019. Concurrently, in response to China's constant threats to overwhelm Taiwan militarily, US naval ships have constantly sailed through the Taiwan Strait in recent years as a show of support, with US warships making nine transits in the region in 2019 alone. Noting the vulnerability of Taiwan against potential cyberattacks from China, in the National Defense Authorization Act adopted in 2019, the US included unprecedented clauses supporting US-Taiwan collaboration in the realm of cybersecurity.

29 Ching-tse Cheng, "Taiwanese Diplomats and Military Allowed to Display National Flag: US Senators," *Taiwan News*, February 14, 2020.

30 Steven Lee Myers and Chris Horton, "Once Formidable, Taiwan's Military Now Overshadowed by China's," *New York Times*, November 6, 2017.

Key Variables to Observe

In short, US-China-Taiwan relations, especially US-China relations, currently stand at a critical juncture. If a comparable case can be drawn from history, the present state of things displays semblance with the situation at the turn of the century two decades ago - when Taiwan had its first party turnover and elected DPP presidential candidate Chen Shui-bian into office, China was under the leadership of Jiang Zemin and George W. Bush assumed office in 2001. At the time, in the aftermath of the 1995-96 Taiwan Strait Crisis, both China-Taiwan and US-China relations remained tense. Perhaps emboldened by US support in the missile crisis, former President Lee Teng-hui declared China and Taiwan as “special state-to-state relations” in 1999, which in hindsight, commenced the drifting apart of China and Taiwan that was hastened under President Chen and the DPP. In the same year, US warplanes under NATO bombed the Chinese Embassy in Belgrade, which gave rise to severe tensions in bilateral relations. Meanwhile, the “China threat” gained popularity with some observers preaching the coming conflict between the US and China and others predicting the coming collapse of China.³¹ The *Cox Report*, released by the Select Committee on US National Security and Military/Commercial Concerns with China, stirred further tensions by alleging the theft of nuclear technology by Chinese operatives in the US in the 1970s and 1980s. John Mearsheimer’s *The Tragedy of Great Power Politics* first hit the shelf in 2001, adding to the debate on US-China relations.³²

In 2020, Taiwan remained under the leadership of the DPP and relations across the Taiwan Strait remained cool. The US and China locked heads over the South China Sea and bilateral trade while Taiwan

31 Richard Bernstein and Ross Munro, *The Coming Conflict with China* (New York: Alfred A. Knopf, 1997); Bill Gertz, *The China Threat: How the People's Republic Targets America* (Washington, DC: Regnery Publishing, 2000); Steven W. Mosher, *Hegemon: China's Plan to Dominate Asia and the World* (San Francisco: Encounter Books, 2000).

32 Mearsheimer’s argument of the inevitable clash between powers in transition has been a popular concept for interpreting US-China relations since its introduction in 2001.

sought to consolidate relations with the US. Mearsheimer's argument continues to attract attention and is complemented by the so called "Thucydides Trap," a term mainly describing the inevitable conflict when power is redistributed between two leading powers, namely the US and China in this case.³³ According to Michael Pillsbury, China might want to establish a whole new world order.³⁴ Despite the similarities, of course, there are notable differences today. China is a stronger and more confident nation today, evident from its initiation of global projects such as the Belt and Road Initiative (BRI) and the Asia Infrastructure Investment Bank (AIIB). The power balance between Taiwan and China is greatly tipped in favor of the latter and Taiwan finds itself ever more isolated in the world. The US is no longer preoccupied with the Middle East as China takes priority, yet some observers also argue that Washington is retreating into isolation.³⁵ Conflict has taken on a new façade, as tariffs, drones and cyberattacks seem to be favored over the deployment of men, machines and planes into battle.

Noting the absence of military demonstrations and firing of missiles in the Taiwan Strait for more than two decades, coupled with China's strategic shift to win over Taiwan through economic inducements rather than military force, is there reason to be optimistic about the current state of US-China-Taiwan relations? Even with a pro-independence DPP government in Taiwan since 2016 and the US and China facing off over the South China Sea and bilateral trade, however fragile, peace seems to have prevailed as no wars broke out.

If history is useful as wisdom for the future, US-China-Taiwan relations may be passing through the eye of a storm. The lull is aided by Taiwan's demonstrated restraint in not provoking Beijing, domestic disarray that distracts China from stressing resolution of the Taiwan issue as a priority,

³³ On the Thucydides Trap, see Graham Allison, *Destined for War*.

³⁴ Michael Pillsbury, *The Hundred-Year Marathon: China's Secret Strategy to Replace America as the Global Superpower* (New York: St. Martin's Griffin, 2016), 214.

³⁵ See Bret Stephens, *America in Retreat: The New Isolationism and the Coming Global Disorder* (New York: Sentinel, 2015).

shifts in US foreign policy. The Taiwan Strait is steadily sliding into conflict again noting the following variables.

US-China Relations

US position towards China remains the most important variable. On the issue Taiwan, a general rule of thumb is the party affiliation of the US president. With the exception of Richard Nixon, Republican presidents since Eisenhower tend to adopt policies more favorable towards Taiwan, whether in terms of arms sales or actions to check Chinese power, and Donald Trump seems to correspond with the pattern. Accordingly, US-Taiwan relations made notable progress while Washington took a hardline against China. From a structural point of view, in the foreseeable future, China will still be the top challenge for the US. Not only does the Eurasia Group continues to highlight US-China relations as a top risk,³⁶ competition between the two countries range from global leadership and economic performance to geopolitics and 5G technology. The range of issues at stake suggest that the difference between the US and China is wide, – perhaps too wide to settle – and destined for the Thucydides Trap, as some pessimists believe.³⁷ The situation brings up the chronic question of how the US should respond to China.

The fact is that US presence in the Taiwan Strait serves as an important morale support for Taiwan and any move by Washington that improves relations with Beijing is a loss for US-Taiwan relations from the point of view of Taipei. Interestingly, noting the indirect economic impact on Japan and South Korea due to the initiation of the trade war against China and heightened demands on Japan and South Korea to increase their support for US military presence in both countries,

³⁶ Eurasia Group, “Top Risk in 2021,” January 4, 2021, <https://www.eurasiagroup.net/live-post/top-risks-2021-risk-4-us-china-tensions-broaden>.

³⁷ Peter Van Ness, “Are China and the US Falling into the Thucydides Trap?” East Asia Forum, August 17, 2017, <https://www.eastasiaforum.org/2017/08/17/are-china-and-the-us-falling-into-the-thucydides-trap/>.

whether Taiwan would fall into a similar situation in the near future remains to be observed. Such may be the price Taiwan needs to pay in the face of a strong China.

China Rising

China's rise over the past four decades is another key driving force for the changing environment. As China grew economically, its leaders become more confident, not only in taking on a larger role on the international stage – whether in combatting climate change or advocating for free trade – but also in resolving the issue of Taiwan. With more economic and political means at its disposal, China has the ability to isolate Taiwan diplomatically by luring the latter's allies away while keeping the US at bay by raising the stakes of war in the Taiwan Strait through the strategy of A2D2.³⁸ Nonetheless, perhaps counterintuitively, China is not at its most dangerous when it is strong. China becomes a challenge when it is plagued by domestic issues. For example, the legitimacy of Chinese Communist Party (CCP) is premised on the economic wellbeing of the country. Despite the fact that China boasted economic growth in 2019, the fact is that its economy has steadily slowed down in recent years. The US-China trade war put further pressure on Beijing to keep its economy robust while, the national outbreak of coronavirus in 2020 severely tests the leadership of Xi Jinping and the CCP.

In terms of US-China-Taiwan relations, a major challenge is when China finds itself overwhelmed by domestic issues and seeks the resolution of the Taiwan issue as a way to divert public attention, especially when Beijing plans to celebrate the for the establishment of the CCP in 2021. What could possibly provide China with more legitimacy and glory than to finally reclaim

38 Oriana Skylar Mastro, "China's Anti-access-Area Denial (A2/AD) Capabilities: Is American Rebalancing Enough?" in *American Strategy and Purpose: Reflections on Foreign Policy and National Security in an Era of Change*, ed. William H. Natter III and Jason Brooks (Lexington: CENSA, 2014), 118-40.

the long lost island that serves to remind China of its dismal past? In the past few years, China was not short of major challenges – a slowed economy, rising unemployment, trade war, air pollution, political struggles within the party, anti-Chinese movements in Hong Kong, to name but a few. The coronavirus pandemic is the latest addition to the list. Perhaps in response to a media report that derided China as the “Sick Man of Asia,”³⁹ Beijing deployed more military aircrafts around the island and the Taiwan Affairs Office described the move as “a warning to Taiwanese independence activists, a preventive act against new dealings between Taiwan and the US, and a strong recommendation to the DPP government to not play with fire.”⁴⁰ The connection between the pandemic and the deployment of warplanes is worth pondering.

The Taiwan’s Strategic Response

While China’s rise seems to be slowing down, from an alternative perspective, it is also an observable fact that China has grown bigger and much stronger over the past decade. The increase in comprehensive power suggests that China has much more resources now, in contrast with the years of Mao Zedong and Deng Xiaoping, to influence Taiwan and usher the island towards reunification. As the power gap widened between China and Taiwan, under tense relations, Beijing continued with its diplomatic offensive to shut out Taiwan on the world stage. Nonetheless, less is said of Taiwan’s economic situation that develops alongside the politics.

Although some observers look to the ECFA signed in 2010 as giving a strong boost to the Taiwanese economy, the truth is that economic growth steadily declined for Taiwan since a decade ago. Such downward trend is evident from Taiwan’s former status as the sixteenth largest economy in the

³⁹ Walter Russell Mead, “China Is the Real Sick Man of Asia,” *Wall Street Journal*, February 3, 2020.

⁴⁰ “Taiwan’s DPP Administration Urged Not to ‘Play with Fire’,” *China Daily* (Hong Kong), February 10, 2020.

world to being the twentieth largest economy today, according to the International Monetary Fund. While 2019 witnessed Taiwan reclaiming top position in terms of economic growth among the Asian Tigers, such growth shies in light of the fact that Taiwan remains outside the many trade liberalization and integration movements in the Asia Pacific. Negotiations for the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) continue to move forward without Taiwan. Once complete, member states of the RCEP and the CPTPP make up more than fifty percent of Taiwan's export market, which would inevitably hurt and marginalize the Taiwanese economy.

An important reason that Taiwan remains vibrant today is its economic health, besides its embrace of democratic values. If the island nation's economic wellbeing is under threat, its national security would become challenged as well. As such, Taiwan may react strongly, as its survival becomes in question. In addition to the DPP's electoral victory in 2020, in a sense, the outcome partially reflects a considerable portion of the Taiwanese population's fear of unification with China. In turn, the DPP is given the mandate for another four years and support to strengthen relations with the US while keeping China at bay. Besides arms purchases from the US, near the end of 2019, Taiwan refloated the idea of signing a trade and investment framework agreement (TIFA) with the US, a proposal that has been set aside for more than three years. If complete, TIFA may relieve Taiwan of its marginalization in the Asia Pacific and perhaps provide further opportunities to strengthen its economic status.⁴¹ However, progress is slow and China remains watchful. As Taiwan seeks to move away from China, China may feel the need to tighten its grasp on the island, perhaps even at the expense of conflict if the situation deems.

⁴¹ Evan A. Feigenbaum and Barbara Weisel, "Deepening US-Taiwan Economic Partnership," Carnegie Endowment for International Peace, March 4, 2021, <https://carnegieendowment.org/2021/03/04/deepening-u.s.-taiwan-economic-partnership-pub-8397>.

Conclusion

In the *Game of Thrones*, winter came and power struggle for the throne ensued, which paved the way to episodes of calculation, realpolitik and violence. If the acclaimed drama can be taken as an accurate depiction of global politics, how should we understand the development of US-China-Taiwan relations in the near future? Is conflict in the Taiwan Strait inevitable? Rising Just because the rising military tensions in the Taiwan Strait bring back vivid memories of a crisis that shook the world in March 1996. While the US has sent their aircraft carrier battle groups to the region more frequently, Japan and Australia – close allies of the US – both echo and warn about China's threat and potential conflict in and around the Taiwan Strait.⁴²

While a number of developments – trade war between the US and China, China's slowing economy, strengthening of the Taiwanese identity among others – no doubt pushed the US, China and Taiwan towards misunderstandings, conflict in the Taiwan Strait may not be inevitable. However, it is also a fact that constant provocations jointly carried out by, by the US and China, and their corresponding responses in the past five years, seem to have pushed the US-China-Taiwan relations towards confrontation. Activities such as the transfer of a US warship through the Taiwan Strait, the crossing of Chinese warplanes into Taiwanese air space and the scrambling of Taiwanese warplanes are all signals that demonstrate resolve by the respective parties. Luckily, none of the signs were misread so far, which may be the reason why the Taiwan Strait remains at peace despite rising tensions.

Yet the stringent peace offers little to be optimistic about, as war in the new century has taken on different forms and is effectively at work already in the Taiwan Strait. On top of the traditional feud over

42 Hiroyuki Akita, "To Prevent War in Taiwan Strait, Japan Needs to Unite with US," *Nikkei Asia*, April 27, 2021, <https://asia.nikkei.com/Spotlight/Comment/To-prevent-war-in-Taiwan-Strait-Japan-needs-to-unite-with-US>.

sovereignty and ideology between China and Taiwan adds the great power competition between the US and China that played out as a trade war. As a part of Asia's Cold War legacies, Taiwan sits in the middle of a "new Cold War" between the US and China that consists of everything short of direct military confrontation. In short, various wars have commenced already and it is difficult for Taiwan to stay aloof, especially noting the island's strategic location and tense relationship with China, which makes the island nation a convenient card to use for Washington in its efforts to check Chinese power.

The likelihood of war in the Taiwan Strait ultimately rests with how well the leaders in Washington, Beijing and Taipei can continue to read the signals that are sent across the Strait and the Pacific, and whether leaders are willing to make efforts to avoid conflicts. The danger, as the experience of the 1995-96 missile crisis shows, is the possibility of a series of missteps that push all parties over the tipping point towards conflict. However, as Charles Glaser notes, "U.S. policymakers have reached a near consensus on China: the country is a greater threat than it seemed a decade ago, and so it must now be met with increasingly competitive policies."⁴³ As long as China continues to be seen as a powerful competitor by the US, the shadow of war will continue to loom over the Taiwan Strait.

43 Charles Glaser, "Washington Is Avoiding the Tough Questions on Taiwan and China: The Case for Reconsidering U.S. Commitments in East Asia," *Foreign Affairs* (April 28, 2021), <https://www.foreignaffairs.com/articles/asia/2021-04-28/washington-avoiding-tough-questions-taiwan-and-china>.

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US-China Rivalry for Hegemony and South Korea's Way

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Abstract

The United States and China have competed for global hegemony. Some specialists argue that a new cold war has arrived between the two great powers. The U.S.-China rivalry has developed in at least four fields: trade, high technology, territorial sea, and ideology.

The Chinese government set two centenary goals: First, China aims "to build a moderately prosperous society in all respects" with an emphasis on targeted poverty reduction and alleviation measures by 2021; Second, China aims to "build a modern socialist country that is prosperous, strong, democratic, culturally advanced and harmonious" by 2049.

The United States began to alert against the "reemergence of a new rival" after the collapse of the Soviet Union in the early 1990s. The U.S. policy of deterrence and encirclement against China includes: the Obama Administration's strategy of "Pivot to Asia" or "Asia Rebalancing," the Trump Administration's "Indo-Pacific Strategy," and the Biden Administration's plan for "the Quad Plus," expansion of the "Group of Seven (G7)" to "G10" or "G11," and convening a global Summit for Democracy.

This situation puts South Korea in an unfortunate predicament. It finds itself in two interrelated yet separate dilemmas, stuck in the middle of a power struggle between the relatively declining superpower and the rapidly rising challenger as well as hostile relationship between a powerful distant ally and a dear neighboring brother. As a middle power, South Korea would rather weaken than strengthen its dependent military alliance with the United States. It has enough national power and national status to develop "balanced and equidistant diplomacy" or neutrality between the two great powers.

Key Words: new Cold War, U.S.-China competition for global hegemony, Korean-American alliance, South Korea-China relationship, balanced and equidistant diplomacy

The United States and China have competed for global hegemony. This rivalry is likely to continue for several decades. Some specialists argue that a new cold war has arrived between the two great powers. This new cold war may develop into a collision course for a hot war. The United States wants to strengthen its alliance with South Korea. While China, as the biggest trade partner to South Korea, says that military alliance is a legacy of the Cold War. This paper is to evaluate whether the Korean-American alliance is desirable for South Korea and to suggest feasible alternatives.

A New Cold War?

Some scholars have claimed that a New Cold War between the United States and China already began since the 1990s. Others have asserted that the two countries are not in the state of a cold war yet. Even if they were to agree the Second Cold War began, it is difficult to make an agreement on when it did. It depends on how the term “cold war” is defined to discern whether Cold War II already began, and, if so, when it did.

The definitions of “cold war,” generally found in dictionaries and encyclopedias, are as follows: “a state of political tension and military rivalry between nations that stops short of full-scale war”; “an extended period of conflict between nations that does not include direct warfare”; “the ideological conflict between the United States and the Union of Soviet Socialist Republics during the second half of the 20th century”; “a conflict over ideological differences carried on by methods short of sustained overt military action and usually without breaking off diplomatic relations”; “the open yet restricted rivalry that developed after World War II between the United States and the Soviet Union and their respective allies”; “the shifting struggle for power and prestige between the Western powers and the Communist

bloc from the end of World War II until 1989.”¹

Based upon the definitions above, I can clarify what a cold war is not: neither an overt military conflict nor a direct warfare. However, it is difficult to clarify its scope. According to the first two definitions above, serious and prolonged political tension or military rivalry between nations may be considered as a cold war. Other definitions tend to limit the term as ideological conflict between capitalism and communism.

I do not want to confine a cold war as an ideological conflict between capitalism and communism or as a specific event between the United States and the Soviet Union. I agree with arguments that a new cold war or the Second Cold War has begun between the United States and China for the following reasons.

First, Haas argued that the Second Cold War between the United States and China began immediately after the end of the First Cold War between the United States and the Soviet Union, particularly with President Bush’s declaration of the New World Order in the early 1990s. Although openly designated potential competitors to American power after the collapse of the Soviet Union were Russia, Germany, Japan, and India, Haas interpreted that China was considered as “the first and most serious” challenger to American hegemony in the declaration.²

Second, according to Galtung, Cold War II already began in the 1990s as the United States, the only remaining Superpower, expanded NATO to Eastern Europe and announced the Joint Declaration on Security with Japan in 1996. He argued that the eastward NATO expansion and AMPO (U.S.-Japan security treaty) led China and Russia to cement anti-NATO pact with Sino-Russian defense.³

Third, Small argued that the year of 2005 was likely the first year of

¹ *Webster’s New World Dictionary and Thesaurus*, 2nd edition (Hungry Minds, 2002); *Merriam-Webster’s Collegiate Dictionary*, 11th edition (Merriam-Webster, 2003); *The New Encyclopaedia Britannica*, 2007 edition (Encyclopaedia Britannica, 2007); *The Columbia Encyclopedia*, 6th edition (Columbia University Press, 2001).

² Michael Haas, personal interview with me at the University of Hawaii in August 1992.

³ Johan Galtung, “The USA, World Hegemony and Cold War II” (paper presented at the Copenhagen Peace Research Institute, Copenhagen, September 1996).

the Second Cold War. The United States and China were demonstrating unprecedented level of cooperation that could only be compared to that of the early 1970s. But he saw in 2005 as follows: growing anxiety about China's military modernization, U.S.' ostracism from the Asia Pacific, China's thirst for resources, Chinese acquisition of advanced technologies, and China's gradual shift from a close partner during the first phase of the Global War on Terror to a natural opponent focused on ending tyranny strategy.⁴

Then, during the Trump Administration, there was a heated debate over "a new cold war." Robert Kaplan argued in 2019 that the present situation was "nothing less than a new cold war." Valeri Modebadze also declared in 2020 that "we are entering now a new era – The Sino-American Cold War." On the other hand, Thomas Christensen firmly refuted in 2021 that there would not be a new cold war.⁵

U.S.-China Rivalry for Hegemony

As noted above, many scholars and analysts may disagree that a new cold war between the United States and China already began. But there seems to be no denying that the two great powers have been engaged in competition for global hegemony. The U.S.-China rivalry has developed in at least four fields: trade, high technology, territorial sea, and ideology.

First, the United States and China have waged a trade war. The Trump Administration imposed a 25% tariff on imports of Chinese goods in July 2018. China immediately retaliated with a 25% tariff on imports of U.S.

4 Andrew Small, *Preventing the Next Cold War: A View from Beijing* (London: The Foreign Policy Center, 2005), vi-vii.

5 Robert Kaplan, "A New Cold War Has Begun," *Foreign Policy* (January 2019), accessed June 21, 2021, <https://foreignpolicy.com/2019/01/07/a-new-cold-war-has-begun/>; Valeri Modebadze, "US-China Rivalry for Global Hegemony," *Journal of Liberty and International Affairs*, vol. 6, no. 2 (2020), 171; Thomas Christensen, "There Will Not Be a New Cold War: The Limits of U.S.-Chinese Competition," *Foreign Affairs* (March 2021), accessed June 21, 2021, <https://www.foreignaffairs.com/articles/united-states/2021-03-24/there-will-not-be-new-cold-war>.

goods. In September 2018, the Trump Administration escalated its trade war by imposing a 10% tariff on Chinese products. China responded with tariffs on U.S. products.⁶

Unless U.S. trade deficit with China dramatically declines, there seems to be no end in sight to this trade war. The amount of trade deficit with China is much more than the sum of trade deficits with the next four biggest trade partners, as table 1 shows below. According to the United States Census Bureau 2021, average of U.S. trade deficit with China for recent five years (2016-2020) is \$359.0 billion, while for the same period with Canada \$17.4 billion, with Mexico \$84.7 billion, with Japan \$65.9 billion, with Germany \$64.2 billion, and with South Korea \$22.9 billion.⁷

Table 1. U.S. Trade Deficit with Major Partners (2016-2020)

rank	country	2016	2017	2018	2019	2020	average
1	China	346,825	375,168	418,233	344,312	310,264	358,960
2	Canada	10,985	16,292	18,843	25,958	14,921	17,400
3	Mexico	63,272	69,058	77,713	99,841	113,731	84,723
4	Japan	68,753	68,808	67,065	69,089	55,743	65,892
5	Germany	64,524	63,574	67,957	67,440	57,636	64,226
6	S.Korea	27,625	23,060	17,921	20,975	25,092	22,935

* United States Census Bureau, 2021

* all figures are in millions of U.S. dollars

Second, the United States has waged a technological war against China. The battle lines of this conflict include: the 5th generation

⁶ Min-hyung Kim, "A Real Driver of US-China Trade Conflict: The Sino-US Competition for Global Hegemony and Its Implications for the Future," *International Trade, Politics and Development* (November 2018), 30.

⁷ "U.S. Trade in Goods by Country," United States Census Bureau, accessed June 21, 2021, <https://www.census.gov/foreign-trade/balance/index.html>.

telecommunications (5G), artificial intelligence (AI), biotechnology, robotics, space technologies, and other advanced components of 21st century economic and military advantage. More specific technology issues have been drawn: China's "Made in China 2025" industrial policy, Huawei's participation in 5G infrastructure, the race to master AI, and economically motivated cyber-espionage. The United States intends to force China to abandon its policies in high-tech industries and technology transfer from foreign enterprises in order to maintain its global supremacy. Its technological war attempts against China mainly include trade sanctions, investment control, export control, and restrictions on the exchange of technological personnel.⁸

A good example is U.S. sanctions against Huawei, China's major tech-industry, during the Trump Administration. A report said as below:

"The US government has targeted Huawei over alleged espionage and ties to the state, claiming that the company's 5G wireless equipment poses a security risk..... The US has banned Huawei networking equipment from domestic 5G networks and persuaded other countries, including the UK, Canada, and Australia, to impose similar restrictions. Last year, the US also imposed export controls to cut off the supply of high-end chips to Huawei and advanced chipmaking equipment to China, effectively crippling Huawei's ability to make high-end smartphones."⁹

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- 8 Haiyong Sun, "U.S.-China Tech War: Impacts and Prospects," *China Quarterly of International Strategic Studies*, vol. 5, no. 2 (2019), accessed June 21, 2021, https://www.researchgate.net/publication/337166263_The_US-China_Tech_War_Impacts_and_Prospects/link/5dc95de092851c8180446f96/download; Darren Lim, "The US, China and 'Technology War'," *Global Asia*, vol. 14, no.1 (2019), accessed June 21, 2021, https://www.globalasia.org/v14no1/cover/the-us-china-and-technology-war_darren-lim; Michael Callahan and Curtis Milhaupt, "The Rule of Law in the US-China Tech War," accessed June 21, 2021, <https://www.law.ox.ac.uk/business-law-blog/blog/2021/05/rule-law-us-china-tech-war>.
- 9 WIRED, "US Sanctions Are Squeezing Huawei, but for How Long?," accessed June 21, 2021, <https://www.wired.com/story/us-sanctions-squeezing-huawei-how-long/>.

Third, the United States and China are engaged in an ideological battle between democracy and authoritarianism, although not a traditional ideological struggle between capitalism and communism. U.S. Department of State argued in *The Elements of the China Challenge* released in November 2020 that one of the major components of China's conduct was "preservation of a Marxist-Leninist dictatorship." And President Biden declared in "Interim National Security Strategic Guidance" released in March 2021: "I firmly believe that democracy holds the key to freedom, prosperity, peace, and dignity." The Guidance said: "Authoritarianism is on the global march, and we must join with likeminded allies and partners to revitalize democracy the world over..... We will support Taiwan, a leading democracy and a critical economic and security partner, in line with longstanding American commitments..... And we will stand up for democracy, human rights, and human dignity, including in Hong Kong, Xinjiang, and Tibet."¹⁰

The Biden Administration has elevated the concept of rivalry over governance models, as a fundamental difference over core values, from respecting human and democratic rights to abiding by the rules-based international order. Those basic differences were publicly displayed at the U.S.-China talks in the Anchorage meeting held in March 2021. Specifically, the United States criticized China for its actions in Xinjiang, Hong Kong, and Taiwan.

An internal party document, the "Communique on the Current State of the Ideological Sphere," spelled out the greatest threats for China: universal values, constitutional democracy, civil society, neo-liberalism, and the denial of the country's socialist nature. A documentary made by elements in the Chinese military warned of how the United States was secretly trying to subvert China by democratizing it while arguing the great struggle between the two countries would be an ideological one.

¹⁰ Office of the Secretary of State, "The Elements of the China Challenge" (Washington, D.C., 2020), 1, 4, 27; The White House, "Interim National Security Strategic Guidance" (Washington, D.C., 2021), 1, 19, 21.

On the other hand, China has offered a proven governance and development model: combining political control reinforced by digital authoritarianism with market mechanisms encouraging foreign direct investment and exports. It is a model of authoritarian state-led capitalism as opposed to one of open-market democracy.¹¹

Fourth, tensions between the United States and China in the South China Sea have been on the rise. As China has engaged in artificial island reclamation activities in the sea since 2013, the United States has also hardened its posture and military presence in the disputed waters. The U.S.-China dispute over freedom of the seas for military ships and aircrafts has converged in the controversy over military outposts China built on disputed features in the South China Sea. For instance, both the United States and China were conducting naval exercises in the disputed area around the same time in July 2020.

The United States and China disagree over what rights international law grants foreign militaries to fly, sail, and operate in a country's territorial sea or Exclusive Economic Zone (EEZ). The United States has engaged in increasing number of Freedom of Navigation of Exercises. The presence by the U.S. military has been further stepped up with the deployment of two aircraft carriers in the contested waters in July 2020. The Trump Administration penalized twenty-some Chinese companies onto a 'trade blacklist' for helping China in the artificial island building in the disputed islands and reefs in the South China Sea in August 2020. The Chinese Embassy in the United States labelled this move "an act of hegemony in serious violation of international law and basic norms governing international relations."

11 Hung Tran, "Is the US-China Strategic Competition a Cold War?," Atlantic Council, April 2021, accessed June 21, 2021, <https://www.atlanticcouncil.org/blogs/new-atlanticist/is-the-us-china-strategic-competition-a-cold-war/>; Andrei Lungu, "The U.S.-China Clash Is about Ideology after All," *Foreign Policy* (April 2021), accessed June 21, 2021, <https://foreign-policy.com/2021/04/06/us-china-ideology-communism-capitalism/>; Matthew Kroenig, "The Power Delusion," *Foreign Policy* (November 2020), accessed June 21, 2021, <https://foreignpolicy.com/2020/11/11/china-united-states-democracy-ideology-competition-rivalry-great-powers-power-delusion/>.

China's "One Belt One Road (OBOR)" initiative or "Belt and Road Initiative (BRI)" is essential to realize "Chinese Dream." Both OBOR and "Chinese Dream" are connected to the South China Sea. The United States has strengthened the "Indo-Pacific Strategy" to block and encircle China around the disputed waters. Thus, tensions and struggle between the two great powers may be intensified in and around the South China Sea as time goes on.¹²

Background of Rivalry for Hegemony: China's Rapid Rise and National Objectives

China initiated its policy of "reform and opening up" in 1978, and began to open "special economic zones" in 1979. It adopted "socialist market economy" or "socialism with Chinese characteristics" in 1992, and joined the World Trade Organization (WTO) in 2001. Through this procedure, China averaged almost 10 percent of annual economic growth rate for more than 30 years from the late 1970s.

As a result, China surpassed all the "Group of Seven (G7)" members which had led world economy since the 1970s, only except the United States, by the year of 2010. It overtook Canada in 1993, Italy in 2000, France in 2005, the United Kingdom in 2006, Germany in 2007, and Japan in 2010. Other statistics shows: China became the biggest exporter of goods in the world in 2010, the largest trading volume nation in 2012, the greatest GDP country in purchasing power parity (PPP) terms in 2014.¹³

Based upon these rapid and continuous economic growth, China has expanded its military expenditure to a great extent since the 1990s. Its rate

¹² Premesha Saha, "US-China Tensions and Its Impact on the South China Sea Dispute," Observer Research Foundation (September 2020), accessed June 21, 2021, <https://www.orfonline.org/expert-speak/us-china-tensions-impact-south-china-sea-dispute/>.

¹³ Jae-Bong Lee, "The U.S.-China Competition for Hegemony and Peace on and Unification of the Korean Peninsula" (in Korean), *Tongil Gyoungje (Unification Economy)* (July 2018).

of increase in military spending, averaging 12% yearly, had been higher than that of economic growth since the 2000s. Its military spending was the lowest among the seven biggest military spending countries including the U.S., Russia, France, the U.K., Japan, Germany, and China, until the late 1990s. But China's military expenditure has recorded the second largest in the world only after the United States since 2005.¹⁴

Along with considerable military expenditure, China has strengthened its maritime power, and prepared a strategy to deter U.S. military operations around the Taiwan Strait, the South China Sea, and the East China Sea. This “anti-access and area-denial (A2/AD)” strategy is designed to disrupt freedom of navigation for the United States in the region using advanced ballistic and cruise missiles in conjunction with air and maritime defense systems.

China set two centenary goals, written into the Chinese Communist Party (CCP)'s Constitution in 2012 and reported at the National Congress of the CCP (NCCCCP) held in October 2017. First, China aims “to build a moderately prosperous society in all respects” with an emphasis on targeted poverty reduction and alleviation measures by 2021, the 100th anniversary of the CCP which was founded in 1921. Second, China aims to ‘build a modern socialist country that is prosperous, strong, democratic, culturally advanced and harmonious’ by 2049, centennial of the People's Republic of China (PRC) which was established in 1949.¹⁵

More importantly, Xi Jinping, General Secretary of the CCP since 2012 and President of the PRC since 2013, set the “Chinese Dream” which will put China into a leading global power by 2050. Several important means and process to realize that dream are as follows. First, the “One Belt One Road” initiative or “Belt and Road Initiative” is a massive infrastructure project that would stretch from East Asia to Europe through

14 Stockholm International Peace Research Institute, *SIPRI Yearbook 2007: Armaments, Disarmament and International Security*, accessed June 21, 2021, <http://yearbook2007.sipri.org>.

15 Xinhua, “Full Text of Xi Jinping's Report at 19th CPC National Congress” (November 3, 2017), accessed June 21, 2021, http://www.xinhuanet.com/english/special/2017-11/03/c_136725942.htm.

both land and sea. Second, the “Asian Infrastructure Investment Bank (AIIB)” is a development bank dedicated to lending for infrastructure projects. Third, “Made in China 2025” is a national strategic plan to further develop the manufacturing sector of China, which strives to secure China’s position a global powerhouse in high-tech industries. Fourth, “military modernization 2035” is a program to basically complete the modernization of national defense and armed forces by 2035.¹⁶

U.S. Responses to China: Policy of Deterrence and Encirclement

The United States remained as the only superpower after the collapse of the Soviet Union in 1991. The U.S. Department of Defense began to issue an alert against the “reemergence of a new rival” in 1992. The “Defense Planning Guidance” designed by the Pentagon suggested that the United States should work actively to block the emergence of any potential competitor to American power. Of course, China was considered as “the first and most serious” challenger to American hegemony in shaping the New World Order, which was declared by President Bush in 1991.¹⁷

Since 2000 the Department of Defense had published *Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China* for 20 years by “the National Defense Authorization Act.” The act provided that the Secretary of Defense should submit a report “in both classified and unclassified form,” on military and security

¹⁶ Suisheng Zhao, *China’s New Global Strategy: The Belt and Road Initiative (BRI) and Asian Infrastructure Investment Bank (AIIB)* (Routledge, 2019); Harvard University, “China Innovation Project: A Guide to Understanding China’s Next Wave of Innovation, ‘Made in China 2025 Explained’” (March 2020), accessed June 21, 2021, <https://projects.iq.harvard.edu/innovation/made-china-2025-explained>; Office of the Secretary of Defense, “Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China 2020” (Washington, D.C., 2020).

¹⁷ The U.S. Department of Defense leaked a draft Defense Planning Guidance in February 1992, and the *New York Times* published an excerpt from it in March 1992.

developments involving China.

In 2001, the Pentagon released the *Report of the Quadrennial Defense Review*, which focused on U.S. force posture in Asia and on the prospects and nature of a war with China. This was the only major power conflict being seriously entertained in the first Defense Review of the 21st Century.¹⁸

In January 2012, the Department of Defense introduced a new defense strategic guidance, titled *Sustaining U.S. Global Leadership: Priorities for 21st Century Defense*. This guidance, as a blueprint for the joint force of 2020, emphasized a shift in geographical priorities toward the Asia-Pacific region. It added: “we will of necessity rebalance toward the Asia-Pacific region.” It also specified that the U.S. military would invest as required to ensure its ability to operate effectively under the China’s anti-access and area denial (A2/AD) environments.¹⁹

The Obama Administration’s strategy of “Pivot to Asia” or “Asia Rebalancing” was introduced in Secretary of State Hillary Clinton’s speech and article a year before. Clinton affirmed an “American vital interest in freedom of navigation in the South China Sea” at the ASEAN Regional Forum (ARF) convened in Hanoi, Vietnam, in July 2010. She also emphasized in “America’s Pacific Century” contributed to *Foreign Policy* in October 2011: “the future of politics will be decided in Asia..... and the United States will be right at the center of the action..... Strategically maintaining peace and security across Asia-Pacific is increasingly crucial..... through defending freedom of navigations in the South China Sea.....”²⁰

The Trump Administration adopted “Indo-Pacific Strategy” to deter and encircle China, modifying the above strategy of “Asia Rebalancing.” The Indo-Pacific region represents “the most populous and economically

18 Office of the Secretary of Defense, “The Quadrennial Defense Review Report” (Washington, D.C., 2001).

19 Office of the Secretary of Defense, “Sustaining U.S. Global Leadership: Priorities for 21st Century Defense” (Washington, D.C., 2012).

20 Hillary Clinton, “America’s Pacific Century,” *Foreign Policy* (October 2011), accessed June 22, 2021, <https://foreignpolicy.com/2011/10/11/americas-pacific-century/>.

dynamic part of the world.” President Trump argued, in the *National Security Strategy of the United States of America*, publicized in December 2017, that “China’s efforts to build and militarize outposts in the South China Sea endanger the free flow of trade, threaten the sovereignty of other nations, and undermine regional stability.” Thus, he claimed that the United States would “maintain a forward military presence capable of deterring and, if necessary, defeating any adversary,” and would “seek to increase ‘quadrilateral cooperation’ with Japan, Australia, and India.”²¹

President Biden has intensified his policy of deterrence and encirclement against China. He pledged in his election campaign to rebuild global alliances, to hold a summit for democracy, to combat authoritarianism, and to advance human rights. These pledges were no doubt to isolate and contain China. The Biden Administration publicized and clarified these through *Interim National Security Strategic Guidance*, released in March 2021, as follows:

“We face a world of rising nationalism, receding democracy, growing rivalry with China..... Democratic nations are also increasingly challenged from outside by antagonistic authoritarian powers..... China, in particular, has rapidly become more assertive. It is the only competitor potentially capable of combining its economic, diplomatic, military, and technological power to mount a sustained challenge to a stable and open international system..... We can do none of this work alone. For that reason, we will reinvigorate and modernize our alliances and partnerships around the world.....

We will recognize that our vital national interests compel the deepest connection to the Indo-Pacific..... We will work alongside fellow democracies across the globe to deter and defend against aggression from hostile adversaries..... We will convene a global Summit for Democracy..... This agenda will strengthen our enduring advantages,

21 The White House, “The National Security Strategy of the United States of America” (Washington, D.C., 2017).

and allow us to prevail in strategic competition with China..... And we will stand up for democracy, human rights, and human dignity, including in Hong Kong, Xinjiang, and Tibet.”²²

The Biden Administration has further strengthened encircling China. First, it has driven forward so called “the Quad Plus.” a new alliance to counter China. The “Quad” means “quadrilateral cooperation” of four countries (the United States, Japan, Australia, and India) in Indo-Pacific region as the Trump Administration designed. The “Plus” may include South Korea, New Zealand, and Southeast Asian countries in the region. Thus, rumors have spread that “the Quad Plus” will develop to “Asian NATO.”

Second, the Biden Administration has also pursued to expand the “Group of Seven (G7)” to “G10” or “G11.” The “G7” is the world’s largest economies and wealthiest liberal democracies, including the United States, Japan, Germany, the United Kingdom, France, and Italy. At the G7 summit, held in U.K. in June 2021, invited were India, South Korea, Australia, and South Africa. Of course, China, the second largest economy, will be excluded and isolated by the United States.

On the other hand, the United States has placed much emphasis on the military alliance with Japan to deter and block China since the 1990s. The U.S. and Japan adopted new defense guidelines in 1997 that expanded where Japan’s military could operate, from its home islands to “surrounding areas” including the Taiwan Strait. Since China’s rapid rise had been a top concern for the alliance, as China surpassed Japan as the world’s second-largest economy, the U.S. and Japan revised their defense guidelines once again in 2015, expanding the scope of their military cooperation and focusing the alliance on current threats including one from China. More remarkably, the Trump Administration switched the U.S. stance on the long-standing territorial dispute over the Senkaku/Diaoyu Islands in the

²² The White House, “Interim National Security Strategic Guidance” (Washington, D.C., 2021).

South Korea's Way: Choice between the United States and China

The U.S.-China competition for global hegemony has been intensifying, and the rivalry is likely to continue for several decades. As Graham Allison has long argued, and many other specialists quote, the two great powers may develop into “a collision course for war.” Allison has used the well-known “Thucydides Trap” model to describe a tendency towards war when a rising power (Athens or China) challenges the status of a dominant and declining hegemon (Sparta or America).²⁴

This situation puts one particular country in an unfortunate predicament. To South Korea, the United States is its only military ally while China is its biggest trade partner. The U.S. wants to strengthen its alliance with South Korea, and China says that military alliance is a legacy of the Cold War. On the other hand, the divided country considers North Korea as the partner for cooperation and unification, while the superpower, its only military ally, treats that partner as an enemy. Thus, South Korea finds itself in two interrelated yet separate dilemmas, stuck in the middle of a power struggle between the relatively declining superpower and the rapidly rising challenger as well as hostile relationship between a powerful distant ally and a dear neighbouring brother.

Many specialists maintain that South Korea should strengthen military alliance with the United States on the one hand, and that it should intensify economic cooperation with China on the other simultaneously. Would it

²³ Lee, “The U.S.-China Competition for Hegemony and Peace on and Unification of the Korean Peninsula”; Mark Manyin, “The Senkakus (Diaoyu/Diaoyutai) Dispute: U.S. Treaty Obligations,” *Congressional Research Service Report* (March 2021), accessed June 22, 2021, <https://fas.org/sgp/crs/row/R42761.pdf>.

²⁴ Graham Allison, *Destined for War: Can America and China Escape Thucydides's Trap?* (New York: Houghton Mifflin Harcourt, 2017).

be possible to do both at the same time? Perhaps if the U.S. and China look past their competition and resume their amicable partnership.

Now we should think about the purpose of South Korean-American alliance. Military alliance needs a mutual target or a potential enemy. Is that China? China is the primary competitor and rival of the U.S, but it is also the biggest trade partner of South Korea. As Table 2 shows below, South Korea's trade amount and surplus with China have more than doubled those with the U.S. since 2009. It is important to note here that one of South Korea's national objectives is economic prosperity and growth as it highlights the significance of South Korea-China relationship. South Korea simply cannot achieve its economic goals without trade with China.

Table 2. Korea Trade with the U.S. and China (2016-2020)

		2016	2017	2018	2019	2020	average
U.S.	total	109,678	119,359	131,588	135,223	131,608	125,491
	surplus	23,246	17,860	13,852	11,465	16,624	16,609
China	total	211,413	239,980	268,614	243,432	241,450	240,978
	surplus	37,453	44,260	55,636	28,974	23,680	38,001

* Korea International Trade Association (KITA), 2021

* all figures are in millions of U.S. dollars

If not China, is it an alliance against North Korea? North Korea is an enemy of the U.S., but it is also the divided half and the long-lost brother of South Korea. South Korea's unification policy has been realization of peaceful unification through reconciliation and cooperation with North Korea since 1989. To make this policy to come true is South Korea's imperative national objective. It would be impossible to unify with the North while considering it an enemy.

The South Korean-American alliance is certainly beneficial for U.S. national interests. But it is absolutely not for South Korea's. It is by and large detrimental to economic prosperity and a hindrance to peaceful

unification.

The U.S. “Pivot to Asia to deter China” has led to ‘Pivot to a Cold War structure in Northeast Asia’: strengthening U.S.-Japan alliance versus China-Russia’s large scale joint military exercises in the narrow sense or U.S.-Japan-South Korea trilateral security cooperation versus China-Russia-North Korea trilateral security cooperation in the broader sense.

More dangerous is the possibility of military conflicts and engagement between the two great powers. If military conflicts were to break out around the Taiwan Strait, the South and the East China Sea, South Korea may turn into a fierce and fiery battlefield, as Pyeongtaek in South Korea is home to America’s largest overseas military base near China.

Thus, it is desirable for South Korea to practice “balanced and equidistant diplomacy” or neutrality between the two great powers for its national interests: economic prosperity and peaceful unification. There is an old Korean proverb: “when whales fight, a shrimp’s back is broken.” It is a reminder of South Korea’s struggle with its more powerful neighbors including the U.S., China, Russia, and Japan. Historically speaking, the Korean Peninsula was really a shrimp in whales’ fight: between China and Japan in 1894-95, between Russia and Japan in 1904-05, between the United States and the Soviet Union during the Cold War era. But contemporarily, South Korea is no longer a shrimp between whales. Its economic power has steadily strengthened, ranking the 10th in the world, among the top 5 percent of 200 some countries. Its military power ranked the 6th, among the top 3 percent. As a middle power, South Korea would rather weaken than strengthen its dependence on the military alliance with the United States. It has strong national power and secure national status enough to develop “balanced and equidistant diplomacy” or to keep neutrality between the two great powers.

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Sino-Japanese “Third-market” Cooperation: Policy Challenges and Case Studies in Southeast Asia

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Abstract

Under China’s Belt and Road Initiative (BRI) and Japan’s Free and Open Indo-Pacific vision (FOIP), recent scholarship has intensively addressed the escalating Sino-Japanese rivalry in a global context. On the other hand, the Sino-Japanese relations have demonstrated certain signs of resilience since Prime Minister Abe’s visit to Beijing in 2018. Despite Japan has been reluctant to participate in China’s BRI, the two countries initiated a “third-party market cooperation” (TPMC) mechanism as an alternative plan.

This study examines the evolvement and outcomes of TPMC in Southeast Asia - a region that has been widely viewed as one of major battlefields of Sino-Japanese rivalries. This research puts forward two existing asymmetric barriers for ongoing TPMC projects. First, “temperature gaps” occur as China has displayed high enthusiasm in utilizing the TPMC to pave way for the “go-out” strategies of its enterprises in BRI target countries, whilst Japan merely acts in a reactive and passive way and has not formulated a long-term action plan for TPMC. Second, the business-to-business asymmetry refers to uncertainty whether China’s state-owned enterprises can work out a mutually-compatible business mode with Japanese counterparts that are more cautious in risk managements and cost-profit analysis. The failure of a joint bidding for railway construction in Thailand’s Eastern Economic Corridor (EEC) is a lesson in this regard.

Key Words: China, Japan, third-party market cooperation, rivalry, Southeast Asia

Introduction

Recent years have witnessed an escalation of rivalry between China and Japan in a global context. China proposed the ambitious Belt and Road Initiative (BRI) in 2013 and established Asian Infrastructure Investment Bank (AIIB) in 2015, and has since then, largely accelerated the process of oversea investments and export of infrastructure products. In response, Prime Minister Abe Shinzo declared to create the Partnership for Quality Infrastructure (PQI) in 2015 and committed to provide massive financial support for infrastructure investment in Asia. In the following year, Japan declared the vision for a “Free and Open Indo-Pacific” (FOIP), marking the start of a full-scale regional rivalry with China in all political, economic, and security dimensions.

Amid the intensifying of Sino-Japanese rivalry, the two countries initiated a new third-party market cooperation (TPMC) mechanism in 2018. Since 2017, the Sino-Japanese relation has shown certain signs of resilience, followed by Abe’s visit to Beijing in late 2018. Against this backdrop, the TPMC has also been considered as one of most significant achievements for the resilience of the Sino-Japanese relation in recent years. TPMC was initiated by the China side, and further welcomed by the Abe administration in the context that Japan was reluctant to participate in China-led BRI directly, and meanwhile wished to accommodate the economic benefits of China’s rise for its own economic recovery. For Japan, TPMC is considered as a back-up policy alternative to the participation in the BRI, given that the latter may incur more resistance and criticism from the Japanese society. The purpose of TPMC is to join hands between China and Japan’s enterprises in oversea investments, business activities, and infrastructure projects in developing economies.

As a newly emerging mechanism, TPMC has drawn attention from researchers on Sino-Japanese relations. Optimists see TPMC as a new direction for Sino-Japanese relations that can ease escalating

rivalry.¹ On the other hand, skepticism also rises up, pointing out main challenges such as incompatible business models between the two countries' enterprises, as well as the concerns from the "third-market countries."² This article looks at follow-up actions of TPMC between China and Japan and examines two research questions. First, what cooperative outcomes have been achieved so far? Second, what challenge and obstacles hinder the advancing of TPMC in the future? In particular, this research looks at case studies in Southeast Asia. Without denying the existence of several well-performed business cooperation between China and Japan's firms, this research presents a relatively pessimistic vision, and hypothesizes two main policy obstacles. First, an obvious "temperature gap" can be found between the two governments when formulating cooperative action plans, as Japan has not displayed much strategic interests as China does. Second, this article does not find much confidence on the compatibility and operability between the business models between the two countries' private firms.

This article consists of four parts. The first section reviews the evolvement and performance of Sino-Japanese TPMC in recent years. The following second and third sections focus on major challenges of TPMC from government and business perspectives, respectively. Finally, the final section concludes the paper and underlines to what extent China and Japan

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- 1 See Yuli Gu, "Sino-Japanese 'Third-market' Cooperation: Opportunities, Challenges and Responses," *Contemporary Economy of Japan*, vol. 227 (2019): 44-54; Ying Zhang, "China's New Model of International Economic Cooperation - The Third-market Cooperation," *Contemporary International Relations*, no. 4 (2020): 44-51; Alisher Umirdinov, "Generating a Reform of the BRI from the Inside: Japan's Contribution via Soft Law Diplomacy," RIETI Discussion Paper Series 19-E-076 (The Research Institute of Economy, Trade and Industry, 2019), 1-24; Corey Wallace, "Japan's Strategic Contrast: Continuing Influence Despite Relative Power Decline in Southeast Asia," *The Pacific Review*, vol. 32, no. 5 (2019): 863-97.
 - 2 Youyi Zhang, "Third-party Market Cooperation under the Belt and Road Initiative: Progress, Challenges, and Recommendations," *China International Strategy Review*, no. 1 (2019): 310-29; Hong Liu, "An Analysis of Sino-Japanese Cooperation under the Belt and Road Initiative," *Northeast Asia Forum*, vol. 143 (2019): 90-101; Shihong Bi and Jie Qu, "Sino-Japanese 'Third-market' Cooperation in ASEAN Countries: An Analysis from Multilateral Perspective," *Asia-Pacific Economic Review*, no. 1 (2020): 23-30; Aurelio Insisa and Guilio Pugliese, "The Free and Open Indo-Pacific versus the Belt and Road: Spheres of Influence and Sino-Japanese Relations," *The Pacific Review* (2020), <https://www.tandfonline.com/doi/abs/10.1080/09512748.2020.1862899>.

can work out common agendas on third-party market cooperation in a global context.

Nascent Sino-Japanese TPMC Initiative

Sino-Japanese Relations: From Rivalry to TPMC

In recent years, the configurations of “Sino-Japanese conflicts” have expanded from conventional historical and security disputes into rising competitions in a global landscape. Scholars of international relations have articulated Japan’s new approach of “soft-balancing”/ “institutional-balancing” against the rise of China.³ Since the mid-2000s, the two countries have presented conflicting governance structure of East Asian regionalism. (China’s support to ASEAN+3 versus Japan’s proposal of an expanded framework incorporating Australia, New Zealand and India) After Abe Shinzo’s return to Prime Minister in 2012, Japan collaborated with the United States and jointly initiated the FOIP strategy in order to counterbalance the China-led BRI strategy. The great power rivalry between China and Japan has far-reaching impacts to the power structure in East Asia. Increasing studies have addressed the Sino-Japanese rivalry in Southeast Asia in trade, investment, infrastructure and energy sectors.⁴ The rising rivalry has also led to increasingly homogenized approaches between China and Japan’s overseas investment and aid policies, so that Japan has learned from China’s approach of heavy

3 Christopher W. Hughes, “Japan’s Resentful Realism and Balancing China’s Rise,” *The Chinese Journal of International Politics*, vol. 9, no. 2 (2016): 109-50.

4 Kai Schulze and Verena Blechinger-Talcott, “Introduction Special Issue: Dimensions of Sino-Japanese Rivalry in a Global Context,” *The Pacific Review*, vol. 32, no. 5 (2019): 725-47; Hidetaka Yoshimatsu, “New Dynamics in Sino-Japanese Rivalry: Sustaining Infrastructure Development in Asia,” *Journal of Contemporary China*, vol. 27 (2018): 719-34; Hong Zhao, “China-Japan Compete for Infrastructure Investment in Southeast Asia: Geopolitical Rivalry or Healthy Competition,” *Journal of Contemporary China*, vol. 28 (2019): 558-74; Wallace, “Japan’s Strategic Contrast: 863-97.

government involvement.⁵ In the meantime, existing studies have also shown ASEAN states' policy dilemma towards the Sino-Japanese rivalry. On one hand, ASEAN states tend to welcome the Sino-Japanese rivalry, so that they can adopt a hedging strategy and elevate their own positions between China and Japan.⁶ On the other hand, when it comes to specific development plans and projects, ASEAN states also look forward to closer cooperation between China and Japan. For instance, Thailand's development of its Eastern Economic Corridor (EEC) program presents such a case in point. Thailand may emerge as a major beneficiary of closer Sino-Japanese collaboration, as it needs China's provision of loans and fast-speed capacity of infrastructure construction, and also desires for Japanese enterprises' advanced technology and experience in project management and risk controls.⁷

In this context, TPMC emerged as a new institution between China and Japan. The initial idea was proposed by China during the 4th China-Japan High-level Economic Dialogue in April 2018. To follow, during Chinese Premier Li Keqiang's visit to Japan to attend the China-Japan-South Korea trilateral summit in May 2018, the two countries agreed to establish a new committee of public-private partnership (PPP) involving the public and private sectors, in order to facilitate bilateral business cooperation in the third countries. The two countries also agreed to hold a business forum among on the occasion of Prime Minister Abe's visit to China at the end of 2018. In this context, the first China-Japan Third-party Market Cooperation Forum was inaugurated in October 2018 as a side event for Prime Minister Abe's visit to China. Approximately 1500 participants from state-owned enterprises, private

5 Yang Jiang, "Competitive Partners in Development Financing: China and Japan Expanding Overseas Infrastructure Investment," *The Pacific Review*, vol. 32, no. 5 (2019): 778-808.

6 Zhao, "China-Japan Compete for Infrastructure Investment in Southeast Asia": 558-74; Jessica C. Liao and Ngoc-Tram Dang, "The Nexus of Security and Economic Hedging: Vietnam's Strategy Response to Japan-China Infrastructure Financing Competition," *The Pacific Review*, vol. 33, no. 3-4 (2018): 669-96.

7 Umirdinov, "Generating a Reform of the BRI from the Inside"; Corey Wallace, "Japan's Strategic Contrast: Continuing Influence despite Relative Power Decline in Southeast Asia," *The Pacific Review*, vol. 32, no. 5 (2019): 863-97.

firms, and representatives from local governments attended the forum. 52 Memorandum of Understanding (MOU) were signed during the forum with a total value of approximately 18 billion US dollar.

Table 1 shows a list of major ongoing TPMC programs between China and Japan's leading enterprises in four categories: transportation and logistics; energy and environment; banking, financing, and insurance support for oversea investment; industrial cooperation and collaboration in industrial zones. In detail, the two countries envisioned four cooperation scenarios.⁸

- 1) Joint bidding between China and Japan's enterprises for local projects;
- 2) Chinese firms work with Japanese counterparts by providing engineering, procurement, and construction (EPC) services or facility supplies;
- 3) Establish joint venture enterprises and do business in a third-market country;
- 4) Japan's enterprises' supplies of industrial facilities or machineries to China's firms in third countries;

Table 1. List of Major of Sino-Japanese Third-market Cooperation Projects

Sector	Cooperation Parties	Cooperation Areas and Main Contents
Finance / Banking/ Insurance	China Development Bank (CDB) & Japan Bank for International Cooperation (JBIC)	signed an agreement on TPMC, aiming to support cooperation in investment, energy and infrastructure through co-financing, guarantees and settlement services in the third-party markets.
	Export-Import Bank (Eximbank) of China & Sumitomo Mitsui Banking Corporation	
	China Pacific Insurance & Mitsui Sumitomo Insurance	signed a MOU and put forward cooperation measures to ensure Chinese enterprises to expand overseas insurance markets as well as to promote the economic development of China, Japan and third-party countries
	CITIC Group, Sinosure & Mizuho Financial Group	

⁸ Sadahiro Sugida, "Japan-China Third-party Market Cooperation," *J+C Economic Journal*, no. 295 (2018): 16-20; Masahiya Koyama, "An Analysis of Business Models of Japan-China Third-party Market Cooperation," *J+C Economic Journal*, no. 306 (2019): 14-21.

	China Investment Corporation & Nomura Holdings, Daiwa Securities, Mitsubishi UFJ, Sumitomo Mitsui Banking Corporation and Mizuho Financial Group	signed an agreement on the Sino-Japanese Industrial Cooperation Fund of US\$1 billion
Energy	New China Water Renewable Resources Investment & Hitachi and Hitachi Capital Leasing (China) Co., Ltd	signed an agreement on promoting business cooperation in energy saving, environmental protection, clean energy, and water treatment in third-party countries
	Dongfang Electric & Marubeni Corporation	China's Eximbank and JBIC jointly funded phase II of Vietnam's Hai Phong Power Station project. The owner of the project is Hai Phong Thermal Power Co., Ltd, established by the consortium of Dongfang Electric & Marubeni Corporation
	Sinopec and Marubeni Corporation	jointly developed an oil refinery project in Kazakhstan in 2012
IT	Baidu Network Technology & Panasonic	signed a MOU on the strategic cooperation of the next generation of in-vehicle space
	Shanghai Information Investment & Fujitsu	signed an agreement on launching the use of IT technology and initiating cooperation in healthcare and elderly service
Oversea industrial zones	Jiangsu Jiaruicheng Construction Corporation & Yokohama Metropolitan Technology	signed a trilateral MOU with Thailand's Amata on promoting Green City Initiatives and Smart Industrial Estate in Thailand's Amata Industrial Zone
Transportation /logistics	Nippon Express & China Railway	Nippon Express's use of China-Eurasia railway to carry out regular transport business in Central Asia

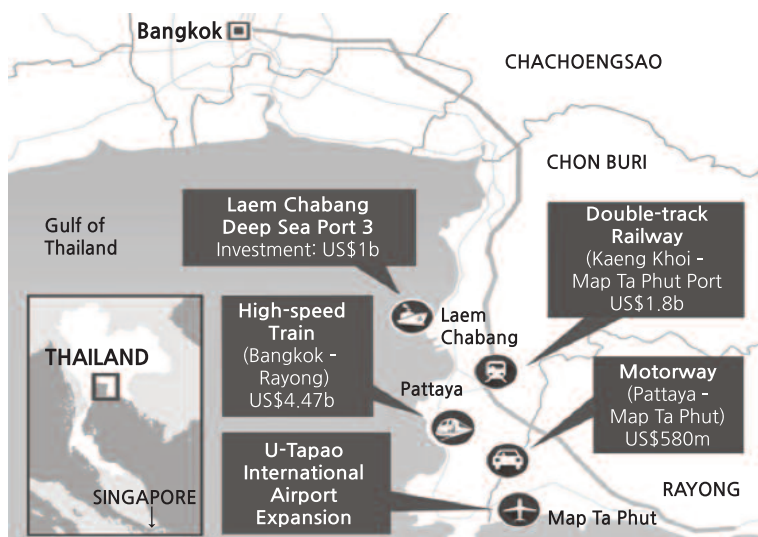
Source: Ernst & Young, "Borderless Win-win Cooperation in Building the Belt and Road," Ernst & Young China, 2019, updated by the author.

A Major Setback in Thailand's EEC

Business collaboration between China and Japan in Thailand's EEC presents a case study for Sino-Japanese TPMC. In the past decades, Thailand was known for its hedging policy between China and Japan in infrastructure projects, including its cooperation with Japan on Bangkok-

Chiang Mai high-speed railway and with China on China-Thailand railway project. Since the announcement of the EEC project in 2017, the Thailand government has revealed an increasingly welcoming stance toward the Sino-Japanese cooperation in financial, industrial, and infrastructure sectors. According to Thailand government's development plan issued in 2017, the EEC would cover three of its eastern provinces, namely Chon Buri, Rayong and Chachoengsao, and will grow into Thailand's major industrial base that covers approximately one-third of the country's industrial production. The EEC development plan firstly points to transportation infrastructures including high-speed railways, highways, ports, and airports, and also includes the building of industrial zones and smart cities. (Figure 1) The Thailand government announced that a total of 700 billion baht worth for 173 projects would be invested for EEC development, which include both government investment and PPP between state enterprises and private sectors.⁹

Figure 1. Infrastructure Projects in Thailand's Eastern Economic Corridor



⁹ Fujita Corporation et al, "Study on the Development of High Speed Commuter Railway and Station Area Development in Thailand" (Policy Report Submitted to Japan's Ministry of Economy, Trade and Industry, 2017).

Thus, the Thailand government has raised increasing demands for capital investment and technological assistance from China and Japan sides. In the meantime, Thailand was increasingly concerned that the disordered political-economic rivalry between China and Japan would also damage its development plan in EEC, leading to duplicated infrastructure constructions and the adoption of varying industrial standards. For example, scholars have specified that different construction standards and management systems between China- and Japan-led high-speed railways have created the difficulty of railway connections.¹⁰ Against this backdrop, a well-performed Sino-Japanese collaboration in Thailand can contribute to Thailand's vision as a production hub in the greater Mekong region. In the meantime, China and Japan each has vast overseas investment in Thailand, for which EEC has been prioritized as a pilot program for the Sino-Japanese TPMC since 2017.¹¹ In the first China-Japan Third-party Market Cooperation Forum inaugurated in October 2018, "regional development in the EEC and smart cities" was arranged as one of the key sessions.

Nonetheless, it appears that the Sino-Japanese TPMC in the EEC was confronted with certain setbacks. The flagship project in the EEC - a 220km high-speed railway - was expected to be the first joint infrastructure project between China and Japan in Thailand. According to the initial plan, Thailand's Charoen Pokphand (CP) Group was hoping to build a three-party consortium including China Railway Construction and Japan's Itochu Group and Hitachi, and then to start the joint bidding for this railway project. The joint infrastructure was encouraged and supported by both of the Chinese and Japanese governments in 2018 for political

10 Shihong Bi, "How Chinese Researchers View the Belt and Road Initiative and Sino-Japanese Third-party Market Cooperation?," in *New Regional Orders and Strategies in Asia: Thai and CLMV, China, Japan*, ed. Akira Suehio et al (Tokyo: Institute of Social Science, the University of Tokyo, 2020), 243-66; Koji Sako, "China's Proactive Participation into Thailand's EEC: China's Existence in Infrastructure Sectors under the Belt and Road Initiative," Policy Report (Mizuho Research Institute, February 18, 2019).

11 Yoshifumi Fukunaga, "The Advancement of Japan-China Third-party Market Cooperation," *J+C Economic Journal*, no. 300 (2019): 20-1; Sugida, "Japan-China Third-party Market Cooperation": 16-20.

motivations, as both sides would like to utilize this TPMC project as a demonstration of goodwill prior to Prime Minister Abe's visit to Beijing. Nonetheless, at the last minute of the joint bidding, Itochu Group and Hitachi declared to withdraw from the project due to the concerns about business risks and long-term profitability. At last, the railway project ended up as a bilateral agreement between CP Group and China Railway Construction. In consequence, the "flagship" railway project did not show up in the first China-Japan TPMC Forum.

Policy Asymmetries between China and Japan

TPMC and China's Global Strategy

From China's policy perspective, TPMC mechanisms have been initiated in recent years with the aim to invite other advanced economies to participate into China's BRI in developing countries. China hopes to align its industrial productivity with advanced technologies of developed countries, and meanwhile with the rising development demand of developing countries. In particular, the Chinese government promotes that the TPMC takes an "open and inclusive" approach and draws upon each other's strengths, in order to work together for better industrial development, infrastructure improvement, and higher living standard in third-party countries, achieving the effect of $1+1+1>3$.¹² Against this backdrop, along with the expansion of BRI in developing countries since 2014, China also strived to build its TPMC networks proactively. China has displayed full diplomatic tactics in the promotion of TPMC. Given that China's BRI has aroused widespread skepticism from western countries, China purposely avoids mentioning BRI cooperation with western developed countries. Instead, China has wisely chosen the term "third-party" instead, which appears much less politically sensitive. Thus, TPMC literally refers to

¹² China's National Development and Reform Commission, *Third-party Market Cooperation Guidelines and Cases* (Beijing: National Development and Reform Commission, 2019).

business-to-business cooperation with limited government involvement. In this sense, TPMC can help reduce the diplomatic caution and domestic resistance from western countries.

France became the first TPMC partner with China in 2015. During Chinese Premier Li Keqiang's visit to France in June 2015, China officially raised the concept of TPMC for the first time, and the two countries signed a joint statement on third-party market cooperation. So far, China has signed TPMC-related MOUs and joint statements with 14 countries, including France, Italy, Germany, the UK, South Korea, and Japan.¹³ In 2019, China's National Development and Reform Commission issued a *Third-party Market Cooperation Guidelines and Cases*, in which the Chinese government formulated five main categories of existing TPMC cases: products and services, engineering and construction, investment, industry and finance combination, and strategic business cooperation.

The Sino-Japanese dyad is undoubtedly, one key part of China's global TPMC strategy. The incorporation of Japan into its global TPMC frameworks bears particular strategic significance. Unlike European countries and South Korea who take relatively open attitudes towards BRI and have participated into China-led AIIB, Japan has revealed high concerns on BRI and made clear its stances on infrastructure competition with China via FOIP. As Chinese scholar argue, the Sino-Japanese TPMC is a flexible and pragmatic diplomatic approach through which China can engage with Japan in a closer way, whilst it also takes full consideration on Japan's sense of comfortableness.¹⁴ Thus, China does not intend to pressurize Japan for deviating from its US-centered foreign policy routes, and firmly understands that Japan stays highly wary of China's BRI. China offers TPMC to Japan as a purely economic and business approach, and strives to as a delink TPMC with existing political confrontations between the two countries. Meanwhile, China proposes a business and enterprises-oriented approach,

13 "China has Signed Third-party Market Cooperation Documents with 14 Countries," *Xinhua News Agency*, September 5, 2019, http://www.xinhuanet.com/world/2019-09/04/c_1124960824.htm.

14 Bi and Qu. "Sino-Japanese 'Third-market' Cooperation in ASEAN Countries": 23-30.

and calls for a more flexible participation of the two governments.

Furthermore, from a business perspective, China clearly sees the benefit of partnering with Japanese enterprises in Southeast Asia. According to a survey conducted with China's state-owned and private enterprises, Southeast Asia is ranked as the first place among all other regions where BRI projects are currently carried out.¹⁵ In Southeast Asia, Japanese business groups have accumulated decades of experience on overseas investment and localization, and have set up full-blown supply chains and industrial parks in local areas. In comparisons, Chinese business enterprises remain confronted with varying pressing problems and challenges. For instance, as the survey also indicates, among all barriers that Chinese enterprises are confronted with, "marketing strategies in new business entry," "business management in new markets," and "assessment of investment environment and risk controls" rank as the top three.¹⁶

Table 2. Strengths and Weakness on Infrastructure Sectors, Chinese versus Japanese Enterprises

	Japanese Enterprises	Chinese Enterprises
Strengths	<ul style="list-style-type: none"> - technology and quality control - project management - international credibility - experience on overseas business activities - globally-based industrial supply chains 	<ul style="list-style-type: none"> - competitiveness on production capacity and project constructions - fast decision-making process - solid government support - full capital support - high capacity on risk-taking
Weaknesses	<ul style="list-style-type: none"> - high operation costs - inefficient decision-making process - low capacity on risk-taking 	<ul style="list-style-type: none"> - risk control and risk management - lack of project management experience - limited overseas investment experience - lack of international credibility

Source: summarized and edited by the author

¹⁵ In the survey, when asked "which regions along the BRI target areas do you feel interested in overseas investment?" 83 percent of the respondents chose "Southeast Asia," followed by South Asia (27%), central and eastern Europe (27%), Middle East and Africa (22%), central Asia and west Asia (20%). See Hong Kong Trade Development Council, "Chinese Enterprises Looking for BRI Business Opportunities: Survey Results in Southern Part of China" (2016), <https://research.hktdc.com/sc/article/MzYzOTYxMDk3>.

¹⁶ Hong Kong Trade Development Council, "Chinese Enterprises Looking for BRI Business Opportunities."

As summarized in the Table 2, Sino-Japanese TPMC can potentially lead to win-win situations, generating higher benefits and project efficiency for both sides. The two countries' enterprises – each holding its own comparative advantages – share a wide range of mutual complementarity. On one hand, although the Japanese government has been proactively encouraging domestic business groups to expand overseas infrastructure investment via PPP models, Japanese enterprises are worrisome of profitability and risks in local areas, as well as the insufficient financial capacity. Thus, to jointly finance these infrastructures with Chinese firms can help ease their concerns. Further, Japanese business groups also prefer to outsource the EPC part to Chinese counterparts, considering the latter's strengths on infrastructure construction with price advantages. On the other hand, despite Chinese enterprises have been well-known for its capital abundance, infrastructure construction capacities, and fast decision-making processes, they have limited experience in emerging market development, risk and cost control, as well as localization. In this regard, partnering with Japanese firms becomes a preferable shortcut for business explorations in Southeast Asia. More importantly, Sino-Japanese TPMC would also contribute to the credibility of China's overseas investment, which suffers from the criticism for the lack of openness and transparency. Thus, to join hands with Japanese partners would significantly reduce the distrust from local governments and people.¹⁷

Japan's Lukewarm Responses and Two-faced Stances

In comparison with China's top-down support for TPMC and Chinese enterprises' increasing outreach to overseas markets, Japan has basically revealed a two-faced response. Japanese business groups have shown increasing interests on Sino-Japanese TPMC, whilst the Japanese

¹⁷ Also see Naoki Tsukioka, "The BRI and Possibilities for Japan-China Cooperation," *J+C Economic Journal*, no. 292 (2018): 14-7; Mei Xu, "The Belt and Road Initiative and the Vision of Sino-Japanese Third-market Cooperation," *Northeast Asia Forum*, vol. 143 (2019): 55-67.

government remains largely indifferent and has not provided substantial support to domestic firms that seek to partner with firms.

First, TPMC appears to be increasingly appealing for Japanese business groups, who realize the benefits of collaborating with Chinese counterparts in EPC and in the raise of funding.¹⁸ A recent survey conducted by Japan Bank for International Cooperation (JBIC) in 2021 can be of great research reference. It indicates that approximately one-third of Japanese enterprises with overseas business are currently operating TPMC with other firms from US, Europe, China, and India. Particularly in Southeast Asia's newly industrialized economies (Thailand, Indonesia, Malaysia, the Philippines, Vietnam, Cambodia, Laos, and Myanmar), the number of TPMC cases with China (35) has overrode those with US-European countries (29). It shows that in Southeast Asia, Chinese firms have grown into a prioritized choice for Japanese business groups when selecting TPMC partners.¹⁹ Nowadays, Thailand appears to a hub for Sino-Japanese TPMC with 12 ongoing joint projects between the two countries. In this regard, business rivalries and collaborations between China and Japan's firms coexist in Thailand. Business competition is mostly likely to deteriorate in automobile industries, as China's making of electric vehicles and technological development in renewable energy have brought about challenges to Japan's traditional fossil fuel-based car industry. Meanwhile, business collaboration is highly potential between manufacturing enterprises of Japan, and infrastructure construction companies and telecommunication sectors of China side.²⁰ In particular, several mega-business groups in Japan have been taking the lead in Sino-Japanese TPMC. For example, when Japan-China Economic

¹⁸ Raymond Yamamoto, "China's Development Assistance in Southeast Asia: A Threat to Japanese Interests?" *Asian Survey*, vol. 60, no. 2 (2020): 323-46; Wallace, "Japan's Strategic Contrast": 863-97.

¹⁹ Japan Bank of International Cooperation (JBIC), *Research Report on Japan's Manufacture Enterprises' Oversea Business – Survey Result of Outward Foreign Direct Investment in 2020* (Tokyo: JBIC, 2021).

²⁰ Shotaro Kumagai, "Chinese Enterprises in Thailand and Its Impacts to Japanese Local Enterprises," *RIM*, vol. 20, no. 76 (2020): 94-119.

Association (JCEA), a leading pro-China business community in Japan, arranged a business delegation's visit to Beijing in 2017 and had a meeting with Chinese Premier Li Keqiang, the business representatives from Marubeni Corporation and Mitsui Sumitomo expressed their interests in TPMC infrastructure projects with Chinese counterparts.²¹ In the following year, among the 52 MOUs signed in the first China-Japan Third-party Market Cooperation Forum, Mizuho Financial Group, Mitsui Sumitomo Banking, Sumitomo Corporation, and Marubeni Corporation have each signed several business agreements with Chinese state-owned enterprises (SOEs).

Furthermore, the signing of MOUs between the two countries' development banks marks special significance. It is because Japan has been confronted with rising difficulty in forming PPP, as the private sectors are highly concerned with insufficient funding when investing in overseas infrastructure projects. In the 39th Infrastructure Strategic Conference held by the Japanese *kantei* (prime minister office), such issue was specifically raised, for which the TPMC with China was widely considered as one way-out. In this context, the MOU between two countries' financial institutions would contribute to the funding-raise and risk-share in infrastructure sectors between two countries' private sectors.²²

On the other hand, the Japanese government has so far, revealed a rather indifference stance towards the TPMC with China, despite of the rising interests from the business communities. In this context, some Japanese enterprises start to complain that they have not gained sufficient support from the government side. They wish to understand the demands of Chinese firms and has difficulty in reaching suitable business partners from the China side. For these reasons, Japan business enterprises expect the Japanese government to provide support in information-gathering,

²¹ See the full context of "Japan-China Economic Association's Meeting Record with Chinese Premier Keqiang Li," *J+C Economic Journal*, no. 288 (2018): 6-10.

²² These bilateral MOUs include: Mizuho Financial Group – China Development Bank, Mitsui Sumitomo Bank - China Development Bank, Mitsui Sumitomo Bank – Export-import Bank of China, Japan Bank for International Cooperation (JBIC) - China Development Bank.

network building, as well as to put forward more specific action plans on the TPMC. However, the Japanese government does not appear to be highly supportive to the Sino-Japanese TPMC in a consistent way. The Abe administration did not consider participating into the China-led BRI and AIIB in 2015. Instead, in May 2015, prime minister Abe publicly announced to initiate PQI in 2015 and promised to provide 110 billion US dollars for quality infrastructure investment in Asia by 2020. In the following year, an expanded PQI was further announced, in which Japan made a commitment to contribute another round of 200 billion US dollars from 2017 to 2021, declaring a full-scale rivalry in infrastructure sectors against China. In this context, Japan's engagement with China via the TPMC appears to be a minor and marginalized policy initiative that merely targets at business and economic purposes rather than national strategic ones. Japan constantly insisted on four quality-based principles – transparency, accountability, openness, and international standards – as pre-conditions for the Sino-Japanese TPMC projects. More analyses have addressed that, prime minister Abe's reforms on foreign policy making process have also led to the centralization and concentration of kantei (prime minister's office) in drafting and formulating China-related policies and strategies. Despite the Ministry of Economy, Trade and Industry of Japan, together with the business interest groups, prefers to adopt pro-China policies and has constantly addressed the necessity of Sino-Japanese TPMC, they now have limited power in lobbying the highest policy makers in Japan.

For this reason, many policy experts point out Japanese government's high profile in TPMC in 2017-2018 as merely a temporary diplomatic gesture that seeks for the resilience and improvement of the Sino-Japanese relations. Particularly, Japan sought to utilize the TPMC as a signal of diplomatic goodwill to China on the eve of prime minister Abe's visit to Beijing in late 2018. Media reports from Japan also discovered that, the Japanese government strongly urged Itochu Group to sign the three-party joint bidding agreement with China Railway Construction and CP Group for the high-speed railway project in Thailand's EEC, expecting the project

can develop into a pilot program for TPMC.²³ Unfortunately, the last-minute decision of withdraw from Itochu Group disappointed the Japanese government's policy makers, leading to the lack of tangible cooperation outcomes of TPMC. In the following years, Japanese government's strategic interests towards the TPMC seem to be fading out, for which the second Sino-Japanese TPMC Forum has not been convened yet. As Insisa and Pugliese cited from Niwa Uichiro, the former Ambassador to China, "third-market infrastructure cooperation between China and Japan consisted of more rhetoric than tangible actions."²⁴

Conflicting Business Modes and Case Studies of Thailand's EEC

Another pressing challenge that lies in the way of Sino-Japanese TPMC is the conflicting business models between China and Japan's enterprises. At present, China's SOEs have been taking a predominant role in oversea investment. Furthermore, the recent analysis has shown that even China's private firms have political and economic motivations to align their business decisions with state preferences to access massive government-generated rents and resources.²⁵ Therefore, Chinese enterprises (especially the SOEs) also act as pioneers for carrying out the BRI national strategy and enjoy solid support from the Chinese government, for which the project profitability is not always the top priority for their business decisions. For this reason, despite both China and Japan's business groups share the common willingness of third-market

23 See "Illusions of Sino-Japanese Cooperation in Thailand's High-speed Railway," *Asahi Shimbun Globe*, December 29, 2018, <https://globe.asahi.com/article/12033580>.

24 Aurelio Insisa and Guilio Pugliese, "The Free and Open Indo-Pacific versus the Belt and Road: Spheres of Influence and Sino-Japanese Relations," *The Pacific Review* (2020), <https://www.tandfonline.com/doi/abs/10.1080/09512748.2020.1862899>.

25 Yoon Ah Oh and Suyeon No, "The Patterns of State-firm Coordination in China's Private Sector Internationalization: China's Mergers and Acquisitions in Southeast Asia," *The Pacific Review*, vol. 33, no. 6 (2020): 873-99.

cooperation in a broad sense, it is yet unknown that to what extent their business models can be compatible with each other.

In reality, despite of a high-profile promotion of Sino-Japanese TPMC, there remains to be limited tangible cooperative outcomes so far. Admittedly, the signing of MOUs between the two countries' private and public sectors in 2018 was a noticeable advancement for cooperation. Nonetheless, the signing of those MOUs remains to be ambiguous and weak, and it is still unclear that to what extent these non-committed cooperation proposals can be materialized into real action plans with detailed working agenda. In addition, as analyzed in the previous section, both Chinese and Japanese governments held high expectation on the high-speed railway project in Thailand, which unfortunately ended up with the unilateral withdrawal of Itochu Group from the Japan side. The two countries failed in producing a pilot case of Sino-Japanese TPMC that can draw demonstration effects and generate a business model that can be applicable in a broader context. It thus gives a warning to the Sino-Japanese TPMC that business models between China and Japan's enterprises substantially differ. China's state-owned companies have its strength in fast decisions and government-backed support, whilst Japan's

Figure 2. High-speed Railway in Thailand's Eastern Economic Corridor (EEC)



private enterprises are cautious on profitability, project management, and risk controls. In this section, this study will conduct a specific case study on EEC high-speed railway project, which exactly makes a telling example for explaining the asymmetry of two countries' business modes.

The High Speed Rail (HSR) line in the EEC connects two Bangkok airports (Don Mueang and Suvarnabhumi) with U-Tapao airport, located midway down the country's southeastern coast. Thailand's Ministry of Transport announced its transport infrastructure investment Action Plan 2017, in which the HSR was listed as one of the prioritized projects for the EEC development. On the other hand, the Thailand government found it difficult to finance the project solely by government funding, and tried to keep the ratio of public outstanding to GDP below 60%. For this reason, the Thailand government planned to spend around 2.4 trillion baht (or 20% of the national GDP) on infrastructure projects for 8 years from 2015 to 2022. The financial investment in this HSR comes from the budget from the Government (20%), borrowings of SOE (45%), PPP (20%), income of SOE (10%) and infrastructure funds (5%).²⁶ In this context, the Thailand government welcomes to incorporate foreign enterprises to invest in this project.

In July 2018, a total of 31 companies from seven countries announced their initial interests in competing for the HSR railway project, including two local conglomerations in Thailand: the CP Group and BTS Group Holding Co. According to the initial plan, CP Group's partnerships include state-owned China Railway Construction and Japan's Itochu Group and Hitachi Group. In fact, both China Railway Construction and Japan's Itochu and Hitachi have actively enrolled into various projects in Thailand's EEC. For instance, China Railway Construction not only participates in the HSR railway project, but also gets involved in other infrastructure projects such as the expansion of Laem Chabang port, Map Ta Phut port, as well as the re-construction of the Utapao international airport. On the other hand,

²⁶ Fujita Corporation et al, "Study on the Development of High Speed Commuter Railway and Station Area Development in Thailand."

Japan's trading conglomeration Itochu is also a solid business strategic partner with CP Group in Thailand.²⁷ Nonetheless, in the following stage, when the real bidding for the railway began in November 2018, Japan's Itochu and Hitachi bowed out, despite of previous speculations that they would join the tripartite bidding consortium. Eventually, the bidding was won by the CP – China Railway Construction team, as they offered an investment package that can reduce the public investment from the Thailand government.

The HSR railway project in Thailand's EEC gives a telling example on the divergence of business models between China's SOEs and Japan's private firms. The former has strong government back-up and can endure short-term profit loss, whilst the latter appears to be more cautious on infrastructure investment and much less vulnerable to business risks. Regarding Itochu and Hitachi's withdrawal from the three-party consortium for the joint bidding, many analyses have pointed out the issue of profitability in the HSR railway project as the main concerns for Japanese private sectors. For instance, in a joint study report conducted by Japanese private sectors and then submitted to Japan's Ministry of Economy, Trade and Industry in 2017, political risks and invisible long-term profitability were listed as two main challenges.²⁸ For instance, the U-tapao international airport remains as a local airport that mainly serves the tourists travelling to Pataya city, so that the HSR railway project that connects downtown Bangkok with U-tapao airport may not necessarily guarantee substantial business benefits.²⁹ Meanwhile, although the Thailand government promised to give the land development rights along the HSR line to the investor, Japanese private firms were highly concerned on the huge investment costs of the project, particularly considering the needs of massive land acquisition along the HSR line. Thus, Japanese

27 Itochu Corporation, "Annual Report 2020," http://www.itochu.co.jp/en/ir/doc/annual_report/index.html.

28 Fujita Corporation et al, "Study on the Development of High Speed Commuter Railway and Station Area Development in Thailand."

29 Sako, "China's Proactive Participation into Thailand's EEC."

private investors expected the Thailand government to provide a mechanism of government subsidies in case that sufficient profits cannot be achieved. However, the Thailand government rejected such proposal in following business negotiations.³⁰ In addition, Japan is also wary of the lack of transparency on EEC development schedules and annual budget plans made by the Thailand government, and is also concerned that Thailand's political instability may affect the construction of the railway project.

Conclusion

To conclude, the establishment of TPMC mechanisms is an emerging effort between China and Japan. In the broad context of Sino-Japanese rivalry in a global landscape, TPMC indicates a new pattern of mutual coordination of interests and business collaboration in other developing countries. Under the current geopolitical competition between China-led BRI and Japan-led FOIP, TPMC makes a major breakthrough and also marks certain resilience for the Sino-Japanese bilateral relationship.

At present, ASEAN is currently a key target area for both countries' overseas investment and has been listed as primary strategic partner for both China's BRI and Japan's FOIP. For this reason, Southeast Asian region also grows into a pivot area for the practices of TPMC. Yet, this study does not find much confidence on the performance and future visions of TPMC, and doubts whether TPMC can substantially help to ease the vicious rivalry between China and Japan in the near future. This research finds that TPMC has not achieved many tangible cooperative outcomes as expected so far. Two major asymmetrical barriers seem to have restrained the advancement of TPMC projects, that is, the gap of government policy input between China and Japan, and the conflicting business models from the two countries' firms. Despite that both sides

30 "Illusions of Sino-Japanese Cooperation in Thailand's High-speed Railway."

conducting high-profile promotion campaigns in 2018, TPMC appears more of a temporary diplomatic show for the purpose of building a constructive and benign environment for Prime Minister Abe's state visit to China. In particular, the Japanese government strongly urged its domestic business groups to engage with Chinese counterparts and to come up with the signing of more than 50 MOUs in 2018. Nonetheless, these bilateral MOUs between the two countries' business sectors mostly stop by ambiguous and non-committed "talk shop."

In the meantime, this study does not find consistent policy activeness from the Japanese government to support its domestic pro-TPMC business groups. The leadership transition from Prime Minister Abe to Suga and the COVID-19 global pandemic also detracted Japan's policy makers from TPMC to domestic issues in recent two or three years. Current Prime Minister Suga appears to be occupied by anti-COVID-19 issues and the opening of Tokyo Olympic Games in the summer of 2021. In this regard, it remains questionable to what extent specific follow-up actions can take place among China, Japan, and third-party stakeholders.

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The US and Reset of World Trade

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Abstract

Generalization of international trade is producing a greater number of varied disputes between bilateral or multilateral entities. These disputes seem to expand and generalize from advanced to developing nations. There are many reasons that disputes increase, first among of them is the trade policy of the United States itself. In the world trade, the influence of the United States has expanded abruptly since World War II. After the war, the US has started to apply the protective, free and fair trade policy to international society.

Even though the trade policy of the US has shown the fair trade to the International society, it could be argued that core of trade policy is directly or indirectly connected to the interest and benefit of the United States and that it is closely connected with the hegemony of the US; paradoxically, that could stimulate more potential disputes because international society loses core leadership of the United States. The last reason is rapid expansion, easier share and access of information through generalization of sophisticated communication technology and developing information apparatuses such as SNS, cellphone and internet. Easier share, access and expansion of information could stimulate more disputes possibilities to involving developed and developing nations.

Key Words: US, protective trade, free and fair trade, trade policy making process, executive branch, lobbyist

Introduction

The Eminent economist, Dambisa Moyo said that it is wrong to separate by politics and economics; realistically, politics and economics are inseparable. The background of this paper is of broad approach to international trade, limited to merely the economic scope. It especially focuses on the relationship between political, economic and diplomatic factors and trade disputes. The United States had been leading international commerce and retained huge power in the area' thus, it is impossible to understand correct viewpoint to international commerce without referring to the US. It is of foremost importance to analyze the relationship between political, economy, military and diplomatic aspects of the US considering the US when considering that country's current portion in the world as one of the most influential countries in trade. Thus, the purpose of this paper is to check causes and reasons, domestic and foreign of various disputes and their political and economic correlation.

This paper contains six chapters. The first chapter shows the purpose and background of this paper. The second chapter shows that historical backgrounds on international US trade. The third chapter covers how political, economic and diplomatic factors effect international trade organization and various negotiations. The fourth chapter touches on international trade policy. The fifth Chapter shows the causes and possibilities of potential disputes through politics, economics, and diplomatic factors within US diplomacy suggest some alternatives. The sixth chapter will be conclusion of this paper.

An Analysis on Political Influences in International Trade

Currently, nobody doubts that the US is playing the leading role in making the world economic order. Since 1900s, commerce policy of the US has been divided by three polices-protectionism, free trade and fair

trade. The commerce policy of the US in its early days was protective trade, but it is hard to say that the US had critical influence on the world economy at that time. However, after World War II, the US, which was among the victorious countries, began to lead and to make a bridgehead of current state for world economy order. The second policy is free trade, which the US had applied as a new trade policy because of great conflict with international society. The US free trade began and emerged under reciprocal trade agreement and it took shape through Bretton Woods Conference in 1944. The third is fair trade. The world economic order under Bretton Woods system faced a new situation in 1970. At that time, the US had experienced a huge trade deficit. It stressed that the cause was unfair trade of opponent party (nations) and asked its opponent parties to practice free, but fair trade. Nevertheless, fair trade was criticized as neo-protectionism. Through fair-trade, the US had applied to quantitative restriction, voluntary export restraints and orderly marketing for steel, auto and large scaled process industry, which were uncompetitive US industries, which had tried ambivalent back door efforts its under commerce system.¹

Analysis of US Trade Policies

In 1920, the US economy was stable, with the exception of agriculture. Special procurements for war were suddenly dropped as exports to Europe. After World War I, Europe was no longer in the mood for war and its dependency on farm also decreased. Around 1920-21, development of family farm in the US came to an end, finished and farm surplus accumulated and price dropped sharply.

Consequently, a sharp decrease in exports and depression of domestic demand had caused a shift in focus of interest to items such as imported good and tariff matters. In this situation, on September 21, 1922, the US

¹ Sang Han Wang, *Truth and Illusion of American Commercial Law* (Seoul: Hyunmoon Press, 2002), 11-4.

president, Warren Gamaliel Harding, signed into law the Fordney-McCumber Tariff Act. At that time, many concerned economists were against the Fordney-McCumber Tariff Act, but president, Harding held the view that high rated tariff would contribute to US economic development and he assured others that it would. Yet, a consequence of activating this was that the US became isolated and lose their market of American products, because of their excessive tariff rate imposed on imported goods. Aggravation of public opinion toward the Fordney-McCumber Tariff Act became a hot issue in the 1924 presidential election.² The election resulted in the Republican candidate, John Calvin Coolidge winning the election and continuing as president. At that time, a majority of people still believed that high tariff was idea for US farmers.³

In the early 1930s, newly elected president, Herbert Hoover intensified the protective policy of Coolidge. Just within 1930, the tariff rate rose more than 50% on 20,000 goods and the Smoot-Hawley Tariff Act activated in that period. The Smoot-Hawley tariff Act was enacted soon after the Great Depression began. Therefore, the Smoot-Hawley Tariff Act was now direct cause of the Great depression but it had affected the US recession.⁴ In spite of the Great Depression, the Smoot-Hawley Tariff Act passed as did the Hoover Moratorium in 1930. However, the Smoot-Hawley Tariff Act fueled a controversy related to the Great Depression. Consequently, the US could not collect on loans of funds lent to allied nations, which aggravated the US economic situation.

Exports of America's products sharply decreased because of retaliatory tariff of trade partners and demand froze because of inflation. In 1933, unemployment of the US rose more than 25% and GDP decreased to two thirds compared to 1929, before the Smoot-Hawley

2 After implementation of Fordney-MacCumber Tariff law, revenue of tariff had increase around 0.6 billion dollars annually, Edward S. Kaplan and Thomas W. Ryley, *Prelude to Trade Wars: American Tariff Policy 1890-1922* (Connecticut: Greenwood Press, 1994), 1-4.

3 Kaplan and Ryley, *Prelude to Trade Wars*, 20-4.

4 John A. Carraty, *The Great Depression* (New York: Anchor Press of Doubleday, 1987), 21-3.

Tariff Act activation.⁵ In addition, unemployment and economic recession contributed to serious social unrest in the US.

In 1932, Franklin D. Roosevelt was elected president of the United States ending an era of the Republican leadership. In addition, foreign policy started to change from 1932 through Senator Cordell Hull, an advocate of free trade who became Secretary of State in 1933. And he persuaded the president of US and finally, he succeeded to submit the bill of Reciprocal Trade Agreement Act to congress, in 1934, actually, this bill became a law to be in force only three years for a limited period, and under approval of congress, it could prolong the period. However, despite much disturbance, bill was passed by 274 to 111 and approved 57 to 33 in the senate.⁶ Soon after approve by 1937, sixteen countries engaged in a trade agreement with the US. In consequence of agreement, US export increased more than 60% compared to 1935, before the agreement. Based on practical result, by 1943, the number of countries that had signed agreements with the US had increased to a round 43 nations. Through the Reciprocal Trade Agreement Act, the US could alleviate their political and economic confrontation and conflict against European and South American nations. Through this opportunity, the US gained the position as a leader of international society.

As Trade Reform Act was submitted in 1973, during President Nixon's administration, and approved by Congress during President Ford's time in office. The Trade Reform Act introduced the concept of "fair trade" into the US trade legal. Under this law, the US applied "right to execute (unilateral trade sanction) and other specific actions in response to trade practices of foreign nations under trade agreement. Specially, article 301 of trade act permitted the right to retaliate against nations that engaged in illegal, unfair trade and breached agreement with the US. After that, in 1988, the US intensified efforts to achieve fair trade for the purpose of better promoting fair trade and improving the competitiveness of American

5 Joseph M. Jones, Jr., "Tariff Retaliation," *Journal of Political Economy*, vol. 43, no. 3 (June 1935): 415-6.

6 Jones, Jr., "Tariff Retaliation": 415-6.

enterprises. Finally, it was enacted as Omnibus Trade Bill and this bill intensified government intervention in trade.⁷

The Omnibus Trade Bill strongly intensified the relief remedy, which was regulated by article 301 against unfair trade customs of foreign government. Specially, the Omnibus Trade bill contained Super 301 which was amended article 301.⁸ The Omnibus Trade Bill of 1988 reinforced protection for domestic industry against unfair trade custom through revision of article 337 of trade law of 1930.⁹ The US used countervailing duties and other means against anti-dumping. It imposed anti-dumping tariff and countervailing duty to specific imported goods. Through this means, it offset dumping and efficiency of subsidy and for its domestic industries protection. Theoretically, a commerce policy of the US was fair trade but that was another type of protective trade.

The US and International Trade Organizations

GATT has started as a reflection of the protective trade war that caused World War II. GATT was formerly the ITO. After World War II, the allied forces kept up discussion for liberalization of international trade. In November 1944, the US had recognized the necessity for supplementation of the international currency system and advocated suggestions for international trade and employment extension. To attain this purpose, ITO established a code for fair transaction of international trade and in October 1947, in Geneva, 23 nations, including the US, England and France, attended and negotiated tariff. Each regulation was tied to one pact (treaty). Thus began GATT, the General Agreement on

7 Paul Freedendberg, "The 1988 Omnibus Trade Bill: Issues and Perspective," 1989 BYU L. Rev. 365 (1989), 365-8, accessed June 1, 2021, <https://digitalcommons.law.byu.edu/lawreview/vol1989/iss2/1>.

8 Article 301 was started from commercial law 301 in 1974 and added article 309 and 310. In the code, it became the provision of the constitution as 18 U. S. C. Section 2420, "What is the purpose of Article from 301 to 304," accessed March 27, 2021, <https://www.bing.com/search?q=article+301&qsn&form=QBRE&sp=-1&pq=article+301&sc=0-11&sk=&cvid=DC056F129C5F466FAF83E869ECE8E663>.

9 19 U. S. C. Section 1337, "19 U.S. Code §1337 - Unfair Practices in Import Trade," accessed March 28, 2021, <https://www.law.cornell.edu/uscode/text/19/1337>.

Tariff and Trade. However, GATT contained unstable factors which were related interests between the US, England and France. First, even though GATT regulations came through international negotiations, lack of unity existed. Second, GATT had restricted binding power as a legal efficiency of international agreement, because fulfillment of member country's duty was limited to their domestic scope, so legal restrictions were very limited. Third, GATT was just a treaty, recommended rules only; it did not qualify as an international economic organization.¹⁰ GATT was not properly founded; it was just tentative treaty organization. Consequently, GATT could not offer any practical support for developing nations because it had many drawbacks from the beginning.

On March 23, 1948, 53 nations signed and adopted the Havana Charter to establish ITO. The US State Department made the ITO draft, but it faced strong opposition in US Congress. Congress was baffled, because ITO could possibly be menace regarding sanctions and adverse agreement against US interests. Another reason the US could not accept it was that though it is a powerful nation, it would have just one vote in ITO. As a result, the resolution for ITO's establishment could not get approval from the US congress, while GATT was not an organization whose views enforcement and GATT agreements seemed slack to powerful nations like the US. They thought GATT was an easy organization to handle; it was possible to withdraw a proposal randomly and to follow regulations selectively. In situations involving complex trade relationship, even though GATT was recognized as an international organization, but practically speaking, ITO agreements were considered to have flexibility and were interpreted pragmatically.¹¹ Even though GATT sets forth its role, however it had many limitations as an international organization.¹²

¹⁰ Young Kyu Jeong, *International Area Economy* (Seoul: Seoul Economy Management, 2004), 204-18.

¹¹ Richard Peet, *Unholy Trinity: IMF, World Bank and WTO* (Seoul: Samin Books, 2007), 318-20.

¹² John H. Jackson, *The World Trading System: Law and Policy of International Economic Relations* (Cambridge, Massachusetts: The MIT Press, 1989), 303; Hyo Sang Jang, *International Trade Law* (Seoul: Bupyoungsa, 1996), 21-3.

The background of the Uruguay Round is as follows; GATT founded in 1947, was to focus on tariff lowering after World War II, but after 1980s, GATT was misused by means of protective trade to balance the international payment of powerful nations. Namely, it created a gray zone; and was abused by indirect means of GATT such as misuse of anti-dumping tariff system, voluntary export restraints and market order agreement. Another matter was market confusion because broad-based exceptional measure had applied for textile and farm products field beyond restriction of GATT and because international trade scopes expanded to new industries such as service and intellectual property right, so new agreement was indispensable factor. In this situation, eighth Uruguay Round (UR) had started publicly for multilateral negotiation to make a supplement and maintaining of GATT system.¹³

Consequently, through rigorous course, in December 1993, at cabinet meeting the first international organization, WTO was established with 117 nations as well as France and the US. The first international trade organization was established under recognition of necessary the all-around of industries trade agreement under UR purpose and the saving clause which the US could withdraw from the WTO, if the US get damage for its national interest.¹⁴

Analysis on Commerce Policy and Protective Trade of the US

Various interest groups' opinions are reflected fully in the trade policy making process that is very unique characteristic of the US. The procedure of policy making is very public, transparency and mediation function of the US is developed well. On the other hand, trade policy of the US is consisting through various interest groups attendance such as people,

¹³ Jeong, *International Area Economy*, 219-20.

¹⁴ Wang, *Truth and Illusion of American Commercial Law*, 97-116.

lobbyist, media, congress, business and labor world and administration. Therefore, trade policy making process of the US seems very complicate and diverse and hard to figure out.¹⁵ In this sense, it is also very important to figure out on public and non-public participant on trade policy making procedure.

Analysis on Commerce Policy of the US

American administrative is organization where is policy making and executive organ under president. Practically, negotiation, establishment and implementation of international trade are performed by executive branch of the US. Congress is organization where is supervisory role and delegate authority to executive branch where had specialized knowledge and organizing ability. Major administration branches which related trade policy are the United States Trade Representative State department, Commercial department, the Ministry of finance, the department of agriculture and Ministry of labor.

American administration had usually liberalism tendency on international trade, because it makes plan for national interest standpoint and performs for diplomatic roles. And administration is more free position than congress because it gets less pressure from public, business or union world. The executive branch's stance is very clear to support for free trade, however even they are keeping for free trade that they had clear stance no patience for damage to domestic industry or weakness of trade law.¹⁶

President of the US toward trade policy is taking a very neutral position, but he or she is not free completely from influential industry or big financial aid organization's pressure for protective trade. Specially, such as textile, clothing, steel and automobile are very influential industry and many congressmen belong to those industries. So, if president gets much pressure from member of the parliament who received financial aid

¹⁵ Hong Ryul Kim, "Trade Policy Decision Mechanism of the USA and Implication to Korea," Policy Research 02-22 (Korea Institute for International Economic Policy, 2002), 9.

¹⁶ Kim, "Trade Policy Decision Mechanism of the USA and Implication to Korea," 43-4.

from influential organization and the general public, president could decline toward protective policy, so, he is not free to avoid protective policy tendency.¹⁷

Basically, authority of foreign trade policy regulations are belong to congress. This is very unique characteristic of the US in comparison with other nation. According to the federal constitution article 1(section 8) of the US, congress have right to impose and collect the tariff and restriction for foreign trade. Namely, legislation right to restrict the foreign commerce is belongs to congress, if parliament did not delegate authority to the executive branch, it means that president could not suggest new legislation for foreign trade. According to this regulation, ultimate authority for commerce policy of the US belongs to congress. It means that congress could control full authority for foreign trade.

In the congress, the relationship between lawmaker and party is very loosely structured, therefore most members of the legislative usually comply with constituency's request rather than party's opinion. The policy of election district priority is for purpose of reelection, so, even party is supports for free trade however member of the legislative could choose the different party line to manage election district.

After 1970, political activities of congress of the US have been centered on subcommittee. Through expansion of subcommittee, many members of the legislative could exercise their influences to specialized policy for field and authority was divided effectively.¹⁸ Among of subcommittee, representative committee is house ways and means committee and senate finance committee. However, actual authority belongs to subcommittee on trade under house ways and means committee. This committee could review on all submitted bill which related international trade and convey the result to high rank committee, above all, this committee exercise the right of veto against unfavorable legislation which disadvantages to

¹⁷ Ibid, 43-5.

¹⁸ Chan Wook Park, "The Dynamics of Trade Policy Making Process in the U.S.: The Role of the United States Congress in Trade Policy Making," *American Studies*, vol. 17 (1994): 53-77.

interested group. Whereas, the subcommittee on international trade committee under senate finance committee has exercised advisory roles to international trade. Currently, in the standing committee have contained 17 different committee under senate and 19 different committee under house and there are 80 subcommittee under senate and house and in each subcommittee, there are aid staffs who constituted as predicate committee member like specialist.

The Protective Trade of the US

It could possibly understand on trade policy of the US through the trade policy making mechanism and relation of organizations. As touched above, for trade policy, varied interest groups' opinions, ideas and pressures should be reflected in the trade policy of the US, namely, from highest position like president to consumer group should be involved to trade policy making process. We could understand that trade policy of the US should be declined to protective trade stand point. In the trade policy of the US, actually, the president and executive branch should advocate the free trade based on reciprocal trade agreement but almost the whole rest of organizations such as congress, business, union, consumer and many subcommittees had strong tendency to protective trade. Specially, the president and the executive branch need to cooperate with congress for foreign trade, so president and executive branch recently tend to protective trade tendency. The strong basis of protective trade of the US result from huge debt from trade and sales purpose, but main factor is caused by complexity of mechanism and excessive opinions reflection of interest groups to trade policy making process of the US. Particularly, most part of authority of the president depends on congress, for example, if assembly suggest on restriction of tariff reduction and restriction of free trade agreement, president's authority will be restricted, moreover, if congress exercises the re-voting right to right of veto of president that will be more restriction to president. And in trade policy resolution, even president had great power that is

impossible to push the trade policy autonomously because assembly had authority on taxation and budget.¹⁹

Consequently, to set for trade policy of the US, core of policy legislative is that main agent is not president and the executive branch. Even president of the US, he could not drive by himself with his intention, because this trade policy mechanism of the US was not made through short-term period so, it is impossible to change of procedure and mechanism of foreign trade policy of the US. Above all, recently, international trade policy of each nation is showing more protective trade tendency that could get more conflict and make more dispute possibility against the US.

The US and Trade Dispute in World Trade

Recently, in international trade, varied disputes are generalized between treaty powers and many developing nations and regional trade groups make own voice to make more benefit in international trade. Specially, China is main challenger against the US. China could not out from risky relationship with the US. That is because free trade became to generalize and became the part of life in international society. And sudden economic declining of the US has offered more chance to make a dispute between nations. It is caused one-sided and dogmatic trade action of the US. Until a recent date, most information was dominated and monopolized by the advanced nations. However, in current time, information is generalized and equalized in international society and it could be the catalyst of varied disputes.

After World War I, the US had started to exercise its leverage in international trade and through the victory of World War II, the US have got position to lead the global trade in earnest. Since World War II, the international trade of the US realistically had been contributed essentially

¹⁹ Byung Sun Choi, *Trade Politic and Economic Theory* (Seoul: Parkyoungsa, 1999), 125-30.

to make their absolute benefit.

If so, how does global trade market effect by the US and why does global trade market realign with US. It could summarize by three factors. First, US became one of the most powerful nations in the world through political, economic and military capability. And through this foundation, the US could set for globalization frame in the world. Second, through this hegemonic power, the US has constructed biggest consumption market and became most preference nation in the world. Third, the various cultural (art, sport, music and science) and systematic factors (non-governmental organization, institution, and the legislative system) of the US contributed to make the frame of Americanization. In the processing of globalization and Americanization, many nations are facing and experiencing the coercive pressure from the US in the international trade, however they could not withdraw from globalization of the US because most of nations have used to adapt the order and frame of the US. And external and internal factors of the US have affected to international society since World War II. Simultaneously, political, economic and military power had used to restrict to unfriendly nations such as Iraq, Iran and former and current communist nations China, North Korea, Vietnam and Burma (Myanmar).

An Internal Trade Policy of the US

In mechanism of trade policy making process of the US, the legislation procedure of trade policy is very self-regulating and independent and links with many organizations. First of all, these procedures are based on national system. Namely, the US is consisted by fifty-one states and each state had national power and authority, therefore member of legislative of each state who represent each state and could get great power.

As a result, each members of legislative are trying their best to get interest and benefit for their states. Second, because the relationship between member and party tied very loosely, The US have been developed

for the two-party politics, each member of congress had great power and they reflect fully the opinions of their local constituency. The loose connection between member and party could make more attention to their local constituency without any conflict with own party, this is very unique two-party politics of the US, Particularly, this unique system could react more sensitively in the trade policy making process. Third, because global company or representative firms of each state have great power and wield strong influence to lawmaker and country. Global company of the US had very different status and level compare to corporations of other nations, because the US is positioned center of world economy and finance. Moreover, political support fund from company is legal and enormous for lawmaker. Fourth, because legal lobbyist and private advisory group have wielded strong and practical influence to decide the policy, these are very unique system of the US compare to other countries.

Practically, lobbyist and private advisory group give education for government officials when they do the trade policy making process and entitle to educate them because had brilliant career and know-how system but consequently, congress is leading specific trade policy, ultimate decision making by congress, so president could not overturn its decision physically. Based on various domestic unique systems, trade policy of the US is always variable and it will be catalyst to stimulate for potential dispute in international trade market.

Table 1: The Role of Hard and Soft Power of the US

Hard Power: Political, Economic and Military power	Foundation of Americanization
Soft Power: Art, Sport, Culture, Science, Institute etc.	Foundation of Globalization and Refining of Globalization
Hard Power + Soft Power	Foundation of Free Trade and Systemization of Globalization

Source: by author

An External (Foreign) Factors and Dispute Increase

On the above, practically, unipolar world of the US had contributed for expansion and upgradability of international commerce market. Simultaneously, one-sided and enforced expansion of international trade system of the US has produced possibility of potential dispute. If so, what are the external factors of international trade dispute? And what is the comprehensive cause? First, it was political and economic vacuum through hegemony absence of the US. Paradoxically, sudden economic weakness of the US made a vacuum of unipolar system. It lost the forceful pivot of trade system in international society. These did not relate with political, economic and diplomatic negative things of the US. It was just because of absence of powerful linchpin in international society. Consequently, this situation occurs from empty of leadership to lead some specific direction and complexity of international trade. Second, the weakness of political, economic and military of the US could make to palpate the enormity and unity of other region, specially, regionalization based on similar political pattern, economic condition, similarity of culture, language and commercial condition could make more collective confrontation and conflict against the US. As well, these factors could be the cause of dispute growth.

Global trend 2030 has touched as follows: uncertainty of the US evolution aspect will be main factor to decide the future international order. In comparison with emerging market, economy declining of the US is inevitable and occurred already in current time, so it is hard to guess the role of the US (omit). If the US could recover its economy that will be plus to viewpoint of international competence, but it should be difficult and could not guarantee to overcome independently against many obstacles of international society. On the other hand, weak and defensive US is struggling to fight against global resistance.²⁰ Third, in the

²⁰ *Global Governance 2025: At a Critical Juncture*, trans. Dong Chul Park and Hang Woong Park (Seoul: Hanwool, 2011), 124-8.

international trade system, demand increase of business world and public of treaty powers will be cause of dispute on trade policy. As touched above, in the mechanism of trade policy making process of the US, they have been reflected and collected drastically from on-site opinion, advice, financial aid and idea from public such as consumer, business, labor, media, institute and lobbyist to its trade policy.

However, in developing and less developed countries, trade policy making process was led by state-oriented negotiation without on-site opinion and demand. Consequently, maximization of on-site demand of emerging nations could get more chances to break for dispute against advanced nations. Fourth, to equalize and generalize of information could make more dispute possibility in the international trade market. These factors will be very critical point to organization, society, nation and world level, these complexity and diversity of sharing information could make complexity of dispute. So far, information monopoly of the US had supplied to the US with much advantageous position in the world, specially, in commerce field, it offered the privilege status for the US. Therefore, information such as internet, mobile phone and social network service could be the critical means to stimulate and increase the international trade.

Free information sharing, information expansion, and easier information access were not impossible to developing nations. Just decade ago, most developing nations who were alienate from even basic information, so they were always positioned in a disadvantageous condition from limited information accessibility, however, these days, even developing nations could be possible to access to diverse information through various means such as internet, smartphone and various social network services. Even private person can be accessed or accumulated high quality information. Even secretive information leaks out by whistle blower. Namely, through various information means, the gap of information between advanced and developing nation will be reduced that will be another potential dispute cause between both parties. Consequently, equal and free information are possibly to stimulate more disputes possibility between treaty powers. Last one is that because complexity of trade policy making process of the US

and trade law of the US is dominating to international trade. After World War I, the US had played key role to establish the international trade organization. Naturally, the US led and became pivotal position in international trade. Since World War II, trade policy of the US had centered on its own interest. Even they have expressed in formula as free and fair trade, the attribute of protective trade of the US became stronger than before.

Recently, inter-national and inter-regional free trade generalized to international society. Most sensitive part in the international trade is ironically US of position in the trade market, in other words, without understanding of American's legal system and political structure, it is hard to understand an essence of trade disputes. Consequently, trade dispute between treaty powers will be expanded and even most treaty powers are to urge the free trade but realistically to try to protect their industry. That will be most critical goal to each nation.

Trade War between the US and the China²¹

In 2001, China joined WTO as a member. Through membership of WTO, China could acquire and accumulate the know-how of the world market and system. The US expected that China could open and reform to world through developing of economy. The intention of the US was to change the system of socialism China. But China re-armed as a stronger socialism system and ideology through wealth and power and tried to threaten the US. Consequently, trade and economic war was expanded to

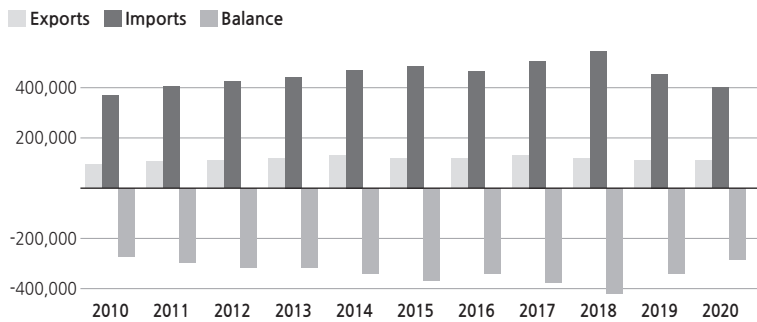
²¹ The China–United States trade war is an ongoing economic conflict between China and the United States. U.S. President Donald Trump in January 2018 began setting tariffs and other trade barriers on China with the goal of forcing it to make changes to what the U.S. says are "unfair trade practices" and intellectual property theft. The Trump administration stated that these practices may contribute to the U.S.–China trade deficit, and that the Chinese government requires transfer of American technology to China. In response to US trade measures, the Chinese government has accused the Trump administration of engaging in nationalist protectionism. On January 15, 2020, the two sides reached a phase one agreement, however tensions continued to persist. Wikipedia, "China–United States Trade War," accessed March 15, 2021, https://en.wikipedia.org/wiki/China%E2%80%93United_States_trade_war.

system competition between the US and China.

Now, trade war is ongoing fiercely between the US and China. Specially, in Trump administration, the US and the China regularly collided because of issue of unfair trade and intellectual property theft.

The U.S. trade deficit with China for 2020 was \$283.6 billion as of November of that year. That's 18% less than 2019's \$345.2 billion deficit. The trade deficit exists because U.S. exports to China were only \$110 billion while imports from China were \$393.6 billion.²² China's biggest imports from the United States are commercial aircraft, soybeans, automobiles, and semiconductors.²³ In 2018, China canceled its soybean imports after US President Donald Trump started a trade war, imposing tariffs on Chinese steel exports and other goods. By 2019, soybean imports had bounced back to \$8 billion, still less than the \$12 billion imported before the trade war.²⁴ While Trump's tenure ended in January 2021, experts expect the trade war to continue under the Biden administration as President Joe Biden has no plans to end the tariffs in place.

Table 2: Annual U.S. Trade Deficit with China



Note: All figures are in millions of U.S. dollars
Source: United States Census Bureau

- 22 U.S. Census Bureau, "Foreign Trade - Trade in Goods with China," accessed April 23, 2021, <https://www.census.gov/foreign-trade/statistics/product/enduse/imports/c5700html>.
- 23 U.S. Census Bureau, "U.S. Exports to China by 5-Digit End-Use Code 2009 - 2019," accessed April 22, 2021, <https://www.census.gov/foreign-trade/statistics/product/enduse/imports/c5700html>.
- 24 Kimberly Amadeo, "US Deficit with the China and Why it's so High," April 30, 2021, accessed May 28, 2021, <https://www.thebalance.com/u-s-china-trade-deficit-causes-effects-and-solutions-3306277>.

Consequently, trade war between the US and China was developed as a hegemony competition and this hegemony competition is going to system competition like cold war.

Alternative and Response against Dispute in Korea

There are many hurdles to Korea to overcome against various challenges in world trade. To overcome for various challenges, first of all, Korea needs to set lobbyist system. In advanced nations, legal lobbyist system is useful manpower and key figure to encourage for government and public in trade policy making process. In the US, lobbyist is deeply engaging on policy making process because they could collect valuable demands from public and beef up the policy.

In Korea, the relationship between government and public is very loose so, to collect opinion, idea and advise to policy from public is very limited and government could not reflect the opinion from public sufficiently to policy. So, Korean lobbyist system will be indispensable factor for policy making process. Second is necessity of semi-government organization against trade dispute. Currently, Korea is negotiating or negotiated with more than fifty nations however government had not been reflected the opinions, advices and ideas from the public and corporation. And this condition had been made much conflict between government and public. In 2010, KIEP have conducted survey on preferential tariff to more than seventy enterprises. KIEP asked why each enterprise did not apply for FTA preferential tariff, but 27 enterprises (38%) among of total 71 enterprises could not apply because they did not know how they utilize the preferential tariff, and around 25.4% enterprises were not eligibility of preferential tariff, 14.1% said that they are qualify but because of red tape formalities, last one, for 11.3% enterprises said that they don't need apply for customs refund. Total 88.8%, around 63 enterprises did not apply for preferential tariff.²⁵ This survey is proving clearly on situation of

²⁵ Mee Jin Cho et al., "Korea Rules of Origin for East Asia Integration," Research Report 10-04 (Korean Institute for international Economic Policy, 2010), 210.

conception for free trade in Korea.

In Korea, still there are big gap between government and enterprise. So, to overcome the big gap between government and enterprise, semi-governmental organization which connects between two parties is very essential foundation for huge free trade market. Third is to expand for free trade education for teenager. Teenagers of current time should face practical free trade effect and FTA will be part of their life. In this research, we will be named the current teenagers as a “FTA generation” because they will mingle with free trade world. So, to educate actively to teenager is very necessary for future free trade generation. Fourth, in the world, the populations of Korean foreigner of Korean nationality who live other nations are more than 7 million in 180 nations²⁶ except Korean peninsula.

Currently, whole population of Korean peninsula is 70 million, namely one tenth of total Korean are living other nations. And many young generations are researching and studying at various field, schools and universities in the world. They could naturally utilize the bi-lingual and multi-cultural capability it means that they could be very big potential manpower for various fields. However, Korea government still not accepts to get dual nationality because of army draft, but it needs to consider seriously for future Korea’s political and economic upgradeability in international society. Specially, in free trade era, Korea needs more expert and fit-person for international trade from local area. So, Korea needs to consider the dual-nationality actively. Fifth, in Korea, current time, more than 1.6 million multi-cultural families are living in Korea that will be 3.6% portion of total population in Korea. Many experts expected in 2020, multi-cultural population would be more than 2% (1 million 9 thousand) portion of total Korea population.²⁷ The multi-cultural families in Korea

26 Ministry of Foreign Affairs, “The Report on Total Number of Korean in the World,” September 25, 2019, accessed April 2, 2021, https://www.mofa.go.kr/www/brd/m_4080/view.do?seq=369552.

27 Hae Won Cheon, “Korea Association of Multicultural Family and Healthy Family Support Center: Beautiful Accompanying with Multi-cultural family,” *Sisa Today*, November 1, 2019, accessed May 9, 2021, <https://blog.naver.com/dkdrkwl/22169485468>.

are big foundation in free trade era because they are sharing the multi-national, language and cultural things in the family naturally. Current time, Korea has agreed more than 50 countries for free trade. For free trade, it is important to understand the culture, language and economic status of treaty power. So, to foster and produce the fit-person from multi-cultural in Korea will be another way to cover for future free trade base in Korea.

Conclusion

The top agenda of trade policy of the US is national interest, it decides through diverse, independent, autonomous organizations and complex procedures and it is the compromised fruit through multilateral engagement which has been intervened interests through complex procedure without rational process.²⁸

After World War II, international trade led by advanced nations as well as the US. Specially, the US was positioned in the center of world trade. It was possible because enormous hard powers (external pressure) such as political, economic, and military system of the US and had intervened to international trade since World War II. Simultaneously, soft power such as cultural thing, legislative system, international organization, language, art and institution became mouthpiece for commerce of the US. Both Hard (external) and Soft (internal) powers were strategic factors which were focused for homeland's interests and benefit. However, recent, sudden economic declining of the US made rupture on political, economic and diplomatic system of the US. And these factors debilitated trade policy toward international society and made restriction of demand of interest groups and trade-related organizations of the US. In contrast, in international society, various new emerging powers such as BRICs (Brazil,

²⁸ Ho Yeol Lee, "Trade Policy Decision-Maker of the USA," *The Federation of the Korean Industries*, no. 375 (February 1996): 58-61.

Russia, India and China) nations, non-governmental groups and regional trade groups are emerging to compete with the US and automatically, the possibility of conflict were increased against interest group of the US. Simultaneously, between a powerful countries and small and medium sizes nations had chance to get more trade disputes because various information sharing and for exhaustive homeland or regional interests. In this situation, Korea needs to active responsive rather than passive attitude against commercial dispute, and it is very important to research the external and internal powers elaborately such as political, economic and diplomatic tendency and culture, science and ideology field. To correspond to commercial dispute against advanced nations such as EU and the US, Korea needs to utilize correctly legal and systemic complement for commercial dispute.

Consequently, since World War II, the US had kept the position as a commercial and military supremacy in the international society and applied unilateral and compulsory trade policy to international society and finally, it made a confrontational circumstance between the US and other nations specially China. Ironically, declining of political and economic of the US could make more potential disputes possibility and stimulate the dispute because of an absence of unipolar power of the US.

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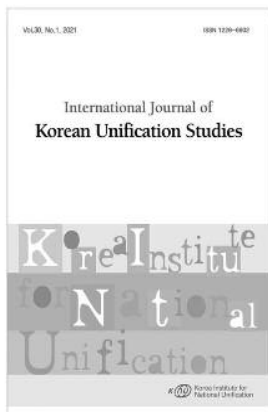
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