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CHINA'S AFGHAN POLICY: 
THE FORMING OF THE “March WEST” STRATEGY?

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Abstract

Traditionally, Afghanistan has been a low diplomatic priority for China, and China did not have strong influence there. But recent years have found that as the U.S. is to withdraw its troops from Afghanistan and China’s interests in the country are rapidly growing, Beijing has adjusted its stance from cultivated disinterest to growing engagement. Indeed, from a broader perspective, Afghanistan is an ideal channel for China to implement its “March West” strategy to expand its economic and strategic influence to Central Asia, the Middle East and beyond.

Key words: China–Afghanistan, China–U.S., security concern, terrorism, economic influence

After the Obama administration took power in 2008, the U.S. adjusted its counter-terrorism policy in Afghanistan and South Asia. In 2009, the U.S. announced to withdrawal its troops from Afghanistan starting from 2011. In 2010, the “Kabul Process” was implemented, the Afghan government will gradually take over all security and management functions, leaving Afghanistan looking after its own security, and not being a haven for terror, without the involvement of foreign troops. However, as the NATO–led Western military forces prepare to withdraw from Afghanistan by the end of 2014, every one of the states involved in the region
is nervous about what will happen there, after the U.S. leaves. They are worried about a civil war in Afghanistan, insurgents taking over the country, or terrorism spreading. It is in such a rapidly evolving geostrategic context that the major powers have been keen to change their Afghan policies and expand their influence in the region, and China is no exception.

One could argue that in history, Afghanistan had been invaded by many big powers and imperial rulers (Aryans, Persians, Greeks, Arabs, Mongols, English, and Soviets), but China was not among them and had little influence on this country. As a consequence of negotiations between the United Kingdom and Imperial Russia in the late nineteenth century as part of the ‘Great Game’, China acquired a land border with Afghanistan in the form of the Wakhan corridor, a narrow strip of land on the northern edge of the Hindu Kush running between Tajikistan and Pakistan. But the border, located in a remote and inhospitable region with a sparse population, has been closed for the past 100 years and direct communication between Afghanistan and China has been non-existent during that period, as has Chinese interest in Afghanistan.¹

After the founding of the People’s Republic of China, the then Kingdom of Afghanistan announced its recognition of the Chinese government in January 1950, and the two countries formally established diplomatic relations in January 1955. In the 1950s and 1960s, the two countries followed the peaceful coexistence of five basic principles and lived in harmony and equal treatment. During the anti-Soviet jihad in the 1980s, China took advantage of the situation to sell large quantities of arms including assault rifles, rocket-propelled grenade-launchers and even Type 59 tanks to the Afghan mujahedeen via the CIA (Central Intelligence Agency). But China never sought direct engagement with the Afghan mujahedeen, preferring always to work through either U.S. or Pakistani proxies.² After the Soviet defeat and the subsequent withdrawal of Soviets and Americans in the late 1980s, Afghanistan

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¹ Toby Dodge and Nicholas Redman, Afghanistan to 2015 and Beyond, Routledge Press, 2011, p.219
² Ibid, p.220
during the period of civil war and under the Taliban was particularly shut out from Chinese consciousness.

The bilateral relations between China and Afghanistan recovered and developed greatly since the Afghan provisional government was formed at the end of 2001. Since then, China and Afghanistan have maintained normal high-level official contacts and friendly relations. President Karzai paid his first visit to China in January 2002; his first state visit to China was made in 2006, followed by his second state visit to China in 2010. However, China’s involvement in the country was mainly focused on the economic sphere, especially in natural resources investment while making a limited contribution to security and politics in Afghanistan, not to say sending troops. Thus critics argue that China is free-riding on the U.S.-led stabilization in Afghanistan because Chinese companies are benefiting from a public good to which China has not contributed. Specifically, Erica Downs, a research fellow of the Brookings Institute, analyzed that “China has not offered any troops, equipment, or funds to the International Security Assistance Force (ISAF) in Afghanistan. Yet, ISAF has made Afghanistan safe for Chinese investment.” This is a reflection of a rising global expectation for China to assume greater responsibility for addressing regional and global problems.

Nevertheless, as the situation changes, China does appear to be positioning itself to play a more proactive role in Afghanistan and beyond to Central Asia, South Asia and the Middle East. Beijing is now more actively initiating and participating in new development projects in Afghanistan, India, Pakistan, Central Asia,

3 Such free-ride argument is a powerful critique as China’s limited military contribution to the US-led stabilization efforts in Afghanistan is inconsistent with its image as a rising power. But the free-ride argument overemphasizes the military involvement as an indicator of the level of China’s contribution to the stabilization efforts in Afghanistan. Instead, other factors should also be taken into account, such as economic aid and investment contribution to the reconstruction of Afghanistan.

and throughout the Caspian Sea region, all the way to Europe. Given China’s growing influence and status in world affairs, China cannot dismiss consideration of its responsibility and it must adopt new attitudes and positive initiatives while conducting expanded worldwide operations.\(^5\) In this context, China’s so-called “March west strategy” appears driven by both China’s interests in the region, as well as its growing willingness to demonstrate its responsibility in world affairs.

Then how does China adjust its Afghan policy, and what active role it can play in Afghanistan? How can China’s role contribute to China–U.S. relations and what economic impact this can create in the region? This paper attempts to answer these questions by looking at China’s security concerns, its economic expansion and strategic considerations in Afghanistan. After examining them, it argues that, apart from an economic role, it is also necessary for China to further strengthen its regional security strategy and assume a greater responsibility for regional stability in a coordinated fashion. This includes a more active role in China–U.S.–Pakistan relations on the Afghan issue. Finally, it concludes by saying that, in the west and on issues such as Afghanistan and Pakistan, China and the U.S. not only have common interests, but also have potential areas of cooperation toward a more balanced and new type of China–U.S. relationship. In this sense, China’s “march west” strategy is of greater significance and yields more positive effects.

CHINA’S LOW PROFILE ON AFGHANISTAN

Central Asia has historically been an important passageway between Asia and the West. In more recent times Afghanistan has figured even more prominently in the continuing clashes and confrontation between world civilization and Islamic fundamentalism. With the Soviet invasion in 1979 and the subsequent backing by the U.S. of the Afghan Mujahideen, Afghanistan played a crucial role in the cold war between the Soviet Union and the United States. After the Soviet defeat in the late 1980s Afghanistan went into civil war. In September 1996 Taliban soldiers seized control of Kabul, sending President Burhanuddin Rabbani and his interim government fleeing into exile. To most of the world the Taliban seemed to represent the most extreme and the most violent fundamentalist faction the Islamic world had yet produced.

With the outbreak of the war in Afghanistan in 2001, the U.S. and its European allies entered Afghanistan in a massive way and took the role of political supervisor and military guarantor in Afghanistan. In this process China is regarded as keeping the lowest profile on Afghanistan among all the big powers. Although Beijing once offered to share intelligence with Washington and provided limited logistics to U.S. air forces via its Yunnan province, China cautiously restricted itself from military involvement: it did not send troops to join the International Security Assistance Force (ISAF), and did not respond to American demarche to open the

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8 The International Security Assistance Force (ISAF) is a NATO–led security mission in Afghanistan that was established by the United Nations Security Council in December 2001. Its main purpose is to train the Afghan National Security Forces and assist Afghanistan in rebuilding key government institutions but is also engaged in the 2001–present war with insurgent groups.
Wakhan Corridor as a transit route for supplying NATO troops in Afghanistan. In January 2010, U.K. Prime Minister Gordon Brown once again urged China to consider participating in the international coalition in Afghanistan, Chinese Foreign Ministry spokesman Qin Gang reaffirmed that China would not change its position on the Afghanistan issue, restating that it was impossible for China to send a single soldier to join the NATO military action in Afghanistan, unless its UN peacekeeping operations were approved by the UN Security Council. China is only a minor donor to Afghanistan (international donors pay nearly the entirely cost of Afghanistan’s police force and army). According to the Afghanistan Ministry of Finance, Beijing’s pledge of $197 million in official development assistance for 2002–2013 ranked China twenty-third on the list of donors to Afghanistan published by Kabul in 2009.

There are several reasons for China’s low-profile policy and limited contributions to Afghanistan. Traditionally, Afghanistan has been a low diplomatic priority for China. From the 1950s to the 1980s, Afghanistan had been in the former Soviet sphere of influence. It was under Soviet occupation from 1979 until 1989 when the Soviet Union withdrew its troops and civil war ended. In 1996 the Taliban took national power. China did not recognize the Taliban regime. When the Afghan war broke out, the U.S. and its allies entered the country and had the overall dominant influence on Afghanistan issues, ranging from political and military build-up to economic reconstruction.

10 Chen Zhenyu, “yingguoshouxiangjianyizhongguochubingafuhan, zhuangjiacheng dui zhongguowuyi” (UK Prime Minister suggested China send troops to Afghanistan, but experts believed it is not in the interest of China) ⟨http://world.people.com.cn/GB/10707146.html⟩
Domestically, there were different views on China’s role and participation in the Afghanistan issue. Many people believed that if China increased its military involvement that would be more in line with the Obama administration’s strategy rather than with China’s core interest in Afghanistan. Some analysts argued that the U.S. asked China to open the Wakhan Corridor in the name of counter-terrorism, but the real intention was to take the opportunity to spy on strategic areas of western China. They also treated the U.S. presence in Pakistan with suspicion and warned that the U.S. activities in Afghanistan and Pakistan might threaten China’s border security and weaken the strategic relationship between China and Pakistan. Therefore there was no reason for China to succumb to the will of the U.S., to the detriment of the interests of its own safety.

The NATO-led role in Afghanistan further deepened this perception. Beijing remains deeply skeptical about NATO’s long-term intention in Afghanistan and sees NATO and the U.S. as transformational actors in Afghanistan, something anathema to China’s regional and global outlook. Chinese memory is still heavily hurt by the bombing of the Chinese embassy in Belgrade in 1999. Therefore, Chinese military officers have no direct contact with the NATO. Although relations have improved recently, many Chinese officials continue to view NATO as a military organization aiming at promoting Western democracy.

Indeed, there were distinct differences between China and the U.S. in the fight against terrorism. China questioned the validity

of relying solely on the use of force to resolve the Afghanistan
problem. It stressed that the key to eliminating the root causes
of terrorism is to promote economic development, improve local
people’s livelihood, and to enhance the government’s governing
ability.\textsuperscript{16} In addition, there are significant differences in Chinese
and American perceptions regarding the nature of the regime in
Kabul. While the U.S. focuses on a Western style of democratic
regime in Kabul, the Chinese leaders would rather let the Afghans
choose a type of government based on their local culture, tradition
and domestic conditions. The Chinese leaders have reassured
President Karzai that Beijing will not join the chorus of disapproval
over corruption, cronyism and electoral fraud plaguing this
government.\textsuperscript{17} The 10 March 2010 joint statement between Afghanistan
and China further reaffirmed “the principle of non-interference
into other countries’ internal affairs, its respect for Afghanistan’s
independence, sovereignty and territorial integrity, its respect for
the Afghan people’s choice of a development road suited to their
national conditions.”\textsuperscript{18}

China is unwilling to become directly involved in a controversial
war that could force it to take sides. Beijing has refrained from
actively supporting American efforts in Afghanistan out of concern
that this support might create a perception in the broader Islamic
world that China is part of an alliance against Islam and encourage
separatists in China’s Xinjiang Province.\textsuperscript{19} China’s strategic calculus
and interests are different from that of the West, as Pantucci
said, “Western powers want to see a stable democratic Afghanistan

\textsuperscript{16} Zhang Li, “zhongguo dui afuhanjushi wending de zuoyongtantao” (China’s
role in the stability of Afghanistan), \textit{South Asian Studies Quarterly}, No.4,
2010.
\textsuperscript{17} Christopher Bodeen, “China backs Karzai, claims total agreement on
2010/03/25/china-backs-karzai-claims_n_513113.html>
\textsuperscript{18} Christopher Bodeen, “China backs Karzai, claims total agreement on political
backs-karzai-claims_n_513113.html>
\textsuperscript{19} Raffaello Pantucci, “China passes the buck in Afghanistan,” \textit{Foreign Policy},
free from al-Qaeda. Beijing, though interested in stability, is less concerned with the type of government, concluding that whoever is in power will require external investment which China’s deep coffers are able to provide.”20 Thus faced with a deteriorating security environment in Afghanistan, China’s instincts will be to do all it can to secure its own borders while seeking to avoid taking sides.

CHINA ADJUSTING ITS AFGHAN POLICY

Recent years have found that as China’s interests (economic and strategic) in Afghanistan rapidly grow, there are signs suggesting that Chinese policymakers have changed their stance on Afghanistan from cultivated disinterest to growing engagement. This is mainly because Beijing has come to realize that the American counter-terrorism war is actually favorable to China. As the U.S. military force withdraws from this region, China will need to play a more active role in the future of Afghanistan.

Many in China once believed that the U.S. is not purely motivated by counterterrorism concerns, but has instead a geopolitical objective: to exert control over the region’s energy routes and strategic chokepoints and to “encircle” China.21 Now this perception has been changing as China has seen the American military withdraw not only from Iraq, but also from Afghanistan. Moreover, China is reliant on the U.S. and NATO to deal with Uighur separatists within Afghanistan. China has gained the most from its increasing economic expansion there as it has become the largest investor in Afghanistan.

The other factor that prompted China to adjust its Afghan policy is that the Obama administration has also gradually recognized

the importance of China’s economic role in Afghanistan. As General David Petraeus said at his confirmation hearing as commander in Afghanistan, “[a] military only solution in Afghanistan cannot succeed,”22 and “economic development, especially in the area of logistics and transit support, should be an essential component of U.S. counterinsurgency strategy.”23 The Obama administration is clearly aware that there is an urgent need to shift the focus from military assistance to sustainable economic development, fostering an environment which can create jobs and prosperity for the Afghans.

Thus, the Obama administration has made sustained efforts to engage China on regional policy and draw Beijing into an active role in the various multilateral groupings that deal with Afghanistan. Compared with the previous administration, officials in the Obama administration were less ambivalent about the virtues of greater Chinese involvement in Afghanistan, particularly on the security side where limited offers from Beijing had been rebuffed in the past.24 This was reinforced by Special Representative for Afghanistan and Pakistan Richard Holbrooke’s early initiatives. This included visiting Beijing in March 2009 and attending the U.S.–China Strategic and Economic Dialogue in Washington in July 2009. The latter featured discussions on Afghanistan and Pakistan under the strategic track.

Recent years also witnessed that China has been more willing and active to work with the U.S. in Central Asian and Afghan affairs. The first round of dialogue on Central Asia work with the U.S., held in Beijing in March 2011, demonstrated the inclination

of the two countries to consult over the issues of the region. In February 2012, Beijing hosted the first China–Afghanistan–Pakistan trilateral dialogue where some security issues and trilateral cooperation were discussed. Then in June 2012, as China was holding the Shanghai Cooperation Organization (SCO) Summit in Beijing, President Hu Jintao signed a bilateral "strategic partnership" agreement with President Karzai. This emphasized regional cooperation as a plank for Afghanistan’s development. Karzai welcomed China to become an official SCO observer. During the summit, Beijing focused heavily on persuading Russia and Central Asian member states to coordinate commitments toward Afghanistan, and provide aid to contribute to Afghanistan reconstruction and stabilization.

In September 2012, Zhou Yongkang, China’s then security chief and member of the Communist Party Politburo Standing Committee, became the first senior leader since 1966 to visit Afghanistan. There he signed an agreement on increased security and economic cooperation between China and Afghanistan. The agreement included a deal to “train, fund, and equip” the 149,000-strong Afghan police which was until then trained almost exclusively by NATO. The move signals a significant policy shift in China’s stance from one of extreme wariness and reserve to an active engagement to stabilize the turbulent neighbor. In May 2012, China and the U.S. jointly hosted a two-week training session for a group of some 15 young Afghan diplomats, indicating the growing importance of cooperation on security matters.

These actions are consistent with calls from the U.S. and NATO for China to do more in Afghanistan. Obviously, China is a key

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25 The dialogue was one round under the larger framework of the China–US Strategic and Economic Dialogue. The Chinese assistant foreign minister, Cheng Guoping, and the US assistant secretary for South and Central Asian affairs, R. Blake, attended the dialogue, Both sides exchanged opinions on the issues of Central Asia, the Shanghai Cooperation Organization, and Afghanistan.

understanding china's interests and role in afghanistan

among all the countries neighboring afghanistan, china traditionally has the fewest links with afghanistan’s domestic affairs and society. although china shares a border with afghanistan, the border is short, stretching less than 100 kilometers, and is difficult to cross due to its tough geography. china has no ethnic minority in afghanistan, as the other neighbors of afghanistan do. however, from a wider perspective, china’s interests and stakes in this country are growing as its economic and strategic influence expands.

china’s security concern

china’s concern about Islamist militancy on its western border have been rising over the past few years, and the security environment in afghanistan and the larger Central Asian region remains a huge worry. afghanistan is the critical outside factor to impact security in all the regions surrounding Xinjiang, from South to Central Asia. instability in afghanistan inevitably will spill over to those regions. afghanistan does influence the overall environment of Xinjiang – the restive northwestern province that is home to China’s largest Muslim minority group, the Uighur. the Uighur are ethnically, linguistically, culturally, and religiously distinct from the Han Chinese population, and have long harbored a sense of separation from the eastern provinces of China. this
sense found expression in 1933 and 1944, brief periods of self-proclaimed independence as the East Turkistan Republic, before the region was subsumed by “warlordism,” then Chinese nationalist and subsequently Communist control. As a result, although Xinjiang has been under Beijing’s aegis continuously since 1949, there remains a strong separatist sentiment both within the Uighur population in Xinjiang and among exiled Uighurs. Beijing fears that aside from the direct risk of cross-border flows of arms and militants, the ideological influence of pan-Islamic groups in the tribal areas of Pakistan and southeastern Afghanistan could enflame or exacerbate this separatism. With this realization, China views Afghanistan as an inseparable part of building Xinjiang’s security.

China has been the victim of attacks from militants trained in Afghanistan and Pakistan, and it is believed that the bulk of the remaining Uighur fighters are based between the Federally Administered Tribal Areas in Pakistan and the eastern and southern provinces in Afghanistan. While many of these fighters are affiliated with other transnational groups, such as the Islamic Movement of Uzbekistan, small numbers are still thought to be active in groups that target China specifically. The Turkestan Islamic Party or East Turkestan Islamic Movement (ETIM) seeks to establish an Islamic state of East Turkestan in Xinjiang.

July 5, 2009 saw the largest riot in the Xinjiang capital Urumqi. 200 people were killed. More recently, Islamist radicals trained in Pakistan knifed a dozen Han Chinese in Kashgar. Although it is unclear whether there was a correlation between the riots and the ETIM, these attacks and volatility in Xinjiang heightened Beijing’s concerns that instability in Afghanistan, Central Asia, Pakistan, and Kashmir would lead to a rise of extremist Islamic forces. This would encourage greater support to Uighur independence efforts.

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29 Ibid.
Moreover, the scourge of drug trafficking, cross-border crime and smuggling also affects China’s national interests. Afghanistan is the opium capital of the world, producing over 90 percent of the world’s opium for heroin production and supplying Europe with 95 percent of its heroin. Most of the opium is shipped to laboratories in Pakistan and consumed in South Asia or exported through Central Asia to Russia and Europe. Due to the geographic proximity of the two countries, it is not difficult to traffic drugs from Afghanistan to China through Central Asia and Pakistan. Afghanistan has become one of the largest sources of narcotics trafficking to China, after Southeast Asia. The first victim of Afghan narcotics is Xinjiang, where drug trafficking from Afghanistan has been worsening in recent years. According to Xinjiang police, they detected 15 cases related to drug trafficking from Afghanistan in 2010. Vigorous efforts to negotiate through the Shanghai Cooperation Organization (SCO) demonstrate that China understands its long-term security interests in Afghanistan.

**China’s growing economic influence**

China’s interests in Afghanistan extend far beyond matters of security. Beijing’s deepening involvement in Afghanistan is primarily motivated by economic factors. The rapid economic growth in the past decades has led to a demand for petroleum that has surpassed domestic supply. According to the China National Petroleum Corporation (CNPC), 60% of the oil used in China will come from

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32 “xinjiangquqianpohuodupinnanjian 1,664 qi” [1,664 drug related cases cracked last year in Xinjiang], <http://www.legaldaily.com.cn/index/content/2011-03/15/content_2517948.htm?node=20908>
abroad this year. China has already become the largest importer of energy from the Middle East, and this dependence will grow in the coming years as its economy develops. The Afghan oil reserves were estimated to be of 1,596 million barrels, while its natural gas reserves were estimated to be of 15,687 trillion cubic feet. Likewise, Afghanistan has substantial deposits of iron ore between Herat and the Panjsher Valley, gold reserves in the northern provinces of Badakshan, Takhar and Ghazni, and copper fields in Jawkhar, Darband, and Aynak, located around 30 km southeast of Kabul.

Traditionally, Afghanistan is not important in China’s external trade relations. But in spite of this, the bilateral trade volume between these two countries keeps growing dramatically. For example, from 2003 to 2012, the total trade value between China and Afghanistan increased from US$27.1 million to US$469.3 million, an increase of 16 times. China’s exports to Afghanistan grew from US$26.5 million to US$464.1 million, while imports grew from US$0.61 million to US$5.2 million. In order to stimulate Afghanistan’s exports to China, the Chinese government offered Afghanistan duty-free treatment of 278 commodities, starting in 2006. The major commodities China exports to Afghanistan are machinery, electronic equipment, building materials, light industrial goods, domestic appliances, and green tea. China imports from Afghanistan sheep leather, carpets, cotton, and other items.

While China’s bilateral trade with Afghanistan has been expanding, its economic interest is reflected in its growing investment there. Currently, China is the biggest investor in Afghanistan. According to China’s statistics, from 2006 to 2011, the volume of China’s FDI in Afghanistan increased from US$0.25 million to US$295.5 million (Table 1), most of which was in the mines, oil & gas, and infrastructure sectors.

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34 Ibid.
The expansion of China’s FDI in Afghanistan is mainly driven by its state-owned companies. For example, in 2007, the Metallurgical Corporation of China and Jiangxi Copper won a tender to develop the 28-square-kilometre Aynak copper field in Logar province, 35 kilometers southeast of Kabul. The Chinese side has already invested $400 million, and the total investment is expected to reach $1 billion. The Aynak copper field, the largest foreign investment project in Afghan history, is estimated to be the largest undeveloped field in the world with the potential for US$88 billion worth of ore. This project will directly or indirectly create 30,000 job opportunities for local people, and promote the development of other supporting infrastructure projects, including a large-scale power plant and a cross-border railway linking Central Asian countries.35

35 Zhang Li, “zhongguo dui afuhanjushi wending de zuoyongtiantao” (China’s role in the stability of Afghanistan), South Asian Studies Quarterly, No.4, 2010.
In 2011, the China National Petroleum Corporation (CNPC) and its Afghan partner, Watan Oil & Gas, secured the rights to three oil blocks in the provinces of Sari-i-Paul and Faryab in northwestern Afghanistan. The CNPC expects to make an initial investment of US$400 million for development. These investment projects will create job opportunities and embed Afghanistan firmly in the economic life of South and Central Asia through the related construction of railways, roads, bridges, pipelines, and electric power lines.

**China’s role in facilitating regional economic integration**

China’s expanding presence in Afghanistan is also largely driven by energy geopolitics and its “Grand Western Development” strategy. One of the strategic issues that China is facing is the possible threat that the Malacca Strait poses for its growing access to energy resources as nearly three-quarters of China’s crude oil imports come from the Middle East and Africa by sea. Recent years witnessed that the U.S. is very publicly repositioning the majority of its fleet to the Asia Pacific, and tensions are mounting between China and its neighbors over sovereignty over the waters of the East and South China Sea. It has always been Beijing’s fears that any armed confrontation in the maritime region could threaten supplies of imported energy.

Land routes initiating in Iran and Pakistan and terminating in western China via Afghanistan and Central Asia may be the key to bypassing this choke point. In light of this, Beijing hopes that those project contracts with Afghanistan may play into larger plans to extensively increase its presence and connections in Central Asia and the Middle East. This would ensure access to the region’s natural resources as well as diversifying energy transportation channels. For instance, in June 2012, the CNPC

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signed a framework agreement with the government of Afghanistan for a feasibility study on a pipeline from Turkmenistan to China via Afghanistan. The CNPC views this proposed project as a part of a larger pipeline that stretches from Iran, where the CNPC has a contract to develop Phase 11 of South Pars, the world’s largest natural gas field. In 2011, the Iranians froze the CNPC’s $4.7 billion contract due to its failure to start work. However, if the CNPC eventually exploits South Pars, a pipeline from the field to China via Turkmenistan and Afghanistan would be an important alternative for the CNPC to transfer its production back to China.

Moreover, this region has found China’s investment expansion highly visible and substantial. This includes: China’s investment into the Gwadar port, the upgrading of the now 1,300 kilometer Karakorum Highway that links Islamabad with Kashgar in Xinjiang, a multibillion dollar pipeline from Kazakhstan to Xinjiang, and a gas pipeline from Turkmenistan via Uzbekistan and Kazakhstan (opened in December 2009.) In particular, China becomes the builder, financer and operator of Gwadar port after its state-owned China Overseas Port Holdings Limited purchases all the shares in Gwadar Port from the Port of Singapore Authority and its local partners under a deal approved by the Pakistani government on January 30, 2013. Beijing plans to connect the Gwadar port with Xinjiang to secure more efficient transportation of energy and other commercial goods, thus boosting the economy of that troubled province.

Such projects and investments are in conjunction with China’s long-term goal of developing its volatile western region, an area of priority in China’s 12th Five-Year Plan (2011–2015). China’s

booming economic growth in the past decades has created lopsided economic development on the national level. Much of the western region has been left far behind and is vastly underserved by internal gas and oil distribution networks. These projects would accelerate Grand Western Development, a national strategy launched in 2000 to promote the growth of China’s western provinces. It would facilitate better economic integration between these two areas while strengthening the security of China’s western borders and provinces. Obviously, following the July 2009 ethnic violence, Beijing has increased its attention and resources to the development of its two restive provinces—Xinjiang and Tibet regions, attempting to link them with regional trade routes through Central Asia, South Asia, Iran and the Middle East. In the narrow strip of the Wakhan Corridor where China shares the shortest land border of 76 kilometers with Afghanistan, Beijing is funding the construction of a new road, supply depot, and mobile communications centre that will facilitate greater connectivity and trade across the border. In this respect, Chinese media reported that Xinjiang is expected to become China’s main logistics and information hub for rendering services to Afghanistan, Central Asia and beyond.

**CHINA TO PLAY A BIGGER ROLE IN AFGHANISTAN**

There are numerous indications suggesting that China is to continue its investments and presence in Afghanistan. The economic role will remain central to China’s involvement in Afghanistan. China wants to preserve its growing economic profile in Afghanistan, but for various reasons, it has been reluctant to make significant political investment at the moment.

However, with the rise of national strength and global interests proliferating, it is more than necessary for China to further strengthen its regional security strategy and assume a greater responsibility for the future of Afghanistan and the region. China has not been involved in Afghan wars. The Afghan people do not have bad memories about China, and no political or social group
in Afghanistan views China as an antagonist. In this sense, Afghanistan provides an opportunity for China to address those broader issues seriously and in a coordinated fashion. This includes a more active role in China–U.S.–Pakistan relations on Afghan issues, since “the U.S. is desperate for China’s assistance in stabilizing Afghanistan and Pakistan.”

Due to historical and geopolitical factors, Pakistan is an important country to influence the situation in Afghanistan. Pakistan has been the main ally of the U.S. since the start of the war on Al Qaeda and other terrorist actors in 2001. Its role has become more important with time because the threat in Afghanistan has expanded into Pakistan. The Afghan Taliban are supported by groups hiding in Pakistan’s tribal areas, particularly North and South Waziristan, with the threat of militancy having seeped well into Pakistan’s provinces of Punjab, Sindh, and Baluchistan.

Pakistan’s anti-terrorism initiatives, on the other hand, are subject to certain constraints. The confrontation between Pakistan and India, as well as the Kashmir dispute are complicated factors affecting Pakistan’s counter-terrorism efforts. Even though New Delhi has overcome its obsession with Pakistan as its natural rival and competitor, it still believes that “the Pakistan regimes have had a consistent long-term policy of undermining India’s political order, and has funded and masterminded terrorist operations in India.” India sees Afghanistan as vital for its efforts to blunt the alliance between Pakistan and terrorist groups that destabilizes Kashmir. India has long opposed any negotiation with the Taliban in Afghanistan (partly because Pakistan plays such an essential role). India supported the U.S.-led Northern Alliance and viewed the Taliban regime as an enemy. It hopes that the U.S. can more

firmly crack down on the Taliban.

But India’s presence in Afghanistan worries Pakistan as Pakistan’s military believes that India is fomenting instability in Pakistan’s southwestern province of Baluchistan. This can only be checked by a policy of counterforce. Pakistan believes that the U.S. interest in the region will wane when the U.S. withdraws its military from Afghanistan. Therefore, as diplomats stated, it actually benefits Pakistan to keep the threat of terrorism alive by using Taliban force, especially to counter India’s growing social and political influence in Afghanistan. Thus, at one level, Pakistan provided important support, particularly by providing air and land access to Afghanistan to supply U.S. and coalition forces. However, according to Zalmay Khalilzad, American former ambassador to Afghanistan, over time, Pakistan adopted a double game, simultaneously providing sanctuary and active support to insurgents operating against Afghanistan. Despite Pakistani denials, Washington believes this support enabled the Taliban, the Haqqani network, and Hezb-i-Islami to launch attacks from bases in western Pakistan, targeting Afghans, coalition forces, and civilian aid workers.

After May 2011 when the U.S. Navy Seals killed Osama Bin Laden in Abbottabad, the U.S.–Pakistan cooperation post–9/11 deteriorated sharply and went to the lowest point. With the civilian government of President Asif Ali Zardari under intense pressure from the Obama administration to do more to fight terrorism emanating from Pakistan soil, “there are calls in Pakistan to adopt a foreign policy that considers China and not the U.S. to be Pakistan’s strongest ally and most significant stakeholder.”

Reacting to the U.S. move of cutting aid, Islamabad’s Ambassador to Beijing, Masood Khan, also suggested that “China will stand

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by us in difficult times as it has been doing for the past years.”47 Though Beijing cannot replace Washington as an aid-provider to Pakistan (Pakistan is the tenth largest recipient of aid in U.S. history, having received more than 1 billion US dollars from 1950–2010), the tension in U.S.–Pakistan ties provides an opportunity for Beijing to deepen its relations with Islamabad.48

Ever since Chinese and Pakistani leaders underscored their nations’ commitments to each other’s core security interests at the Bandung Conference in 1955, maintaining close ties with China has been a priority for Islamabad. Beijing has provided extensive economic, military, and technical assistance to Pakistan over the years. Beijing’s policy toward Pakistan since the end of the Cold War, and much of the last decade, has been first and foremost one of supporting stability in Pakistan. After the terrorist attacks in the U.S. on 11 September 2001, China encouraged General Musharraf to cooperate with U.S. anti-terrorism efforts while at the same time pledging renewed support to Pakistan. This support had more to do with Beijing’s concern over the risks of Pakistan falling apart than with Pakistan’s value as a strategic counterweight to India, or U.S. attempts to encircle China.49

Politically, China was the only major power that openly voiced support for Pakistan after Bin Laden’s assassination, China defended Islamabad and emphasized that the Pakistani government may not have known about Bin Laden’s presence in its territory.50 Militarily, Beijing justified its arms sales to Pakistan on the grounds

that India was buying similar weapons systems from the U.S. China has consistently defended Pakistan’s desire for high capacity weapons systems as normal for an independent nation seeking to bolster its security.\textsuperscript{51} In recent years, the two countries co-developed training aircraft and China provided Pakistan with J–10 and JF–17 fighter aircraft, main battle tanks, Z–0 helicopters, F–22P frigates and missiles.\textsuperscript{52}

However, the need to sustain Pakistan in political, security and economic terms while refraining from criticizing Islamabad’s policies on fighting terrorism could have negative implications for China’s anti–terrorists and rise as a big responsible country. This could undermine Beijing’s efforts to improve its relations with the U.S. and India. Washington believes “Pakistan is actively working to oppose American goals in Afghanistan: that it supports a range of militants and terrorists, and that its policy toward India is increasingly of American concern given growing U.S.–Indian ties.”\textsuperscript{53} Chinese silence to Islamabad’s policies on Jammu and Kashmir and the latter’s widely suspected acquiescence behind some of most deplorable terrorist attacks against India – including the attack in Mumbai in 2008 – convinced New Delhi that Beijing’s silence is reflective of its desire to use Pakistan to contain India.\textsuperscript{54}

The close economic and strategic relations between China and Pakistan can help to enlarge the constructive role of China in Afghanistan, and has a positive meaning for the final settlement of the Afghan issue, China and Pakistan have a free trade


agreement, with China accounting for around 12 percent of Pakistan’s total imports. More broadly, China is in a position to help foster regional economic integration through infrastructure connectivity. This is vital to Pakistan as it helps open up trade linkages between Central Asia and South Asia. The past years have witnessed that the total amount of China’s FDI in Pakistan has increased from $9.3 million in 2003 to $333.3 million in 2011, with substantial Chinese investment focusing in Pakistani infrastructural expansion, including the above mentioned project in the port in Gwadar, and the railroad from Gwadar through the Karakoram Mountains leading into Xinjiang. In light of these features of China–Pakistan relations and the dynamic changes in Afghanistan and South Asia, a re-appraisal of how to use leverage over Pakistan to influence its Afghan policy is necessary.

CONCLUSION

Since President Barack Obama took office in 2008, the U.S. showed interest in Asia with renewed vigor by strengthening military ties with its Asian allies. This pivoting or rebalancing strategy toward Asia created new dynamics in the region and provided China with significant difficulties and challenges: from intensified territorial disputes in the South China Sea to increased military tensions with Japan in the East China Sea. Hence, Wang Jisi, China’s most prominent and influential international scholar and a professor at Peking University, suggested a grand strategic proposal. This would be that “China shift its attention from the heated competition in East Asia and rebalance its geographical focus westwards to the vast area from Central Asia to the Middle East, the area from which U.S. is pivoting.”

In Wang’s view, unlike in East Asia, the relations between China

and the U.S. would conceivably be more cooperative in the region, due to their common interests in economic investment, energy, anti-terrorism, non-proliferation and regional stability. Furthermore, this “march west” approach would offer Beijing additional strategic leverage against Washington since “a military only solution in Afghanistan cannot succeed,” and the “U.S. is desperate for China’s assistance in stabilizing Afghanistan and Pakistan.” In this sense, the “march west” strategy will help recalibrate and build a “more balanced” China–U.S. relationship – a more positive vision of great power relations.

Indeed, Afghanistan, with its pivotal strategic position, looming security vacuum, and a small border with China, is an ideal platform for Beijing to seek greater westward strategic depth and influence. Clearly, the relations between China and the U.S. would be more cooperative than competitive in this region. China is aware of the potential deterioration in Afghan security once the U.S. pulls out and its impact on the broader region and wants to preserve its growing economic profile in Afghanistan. China is benefiting from the copper, iron, gold and uranium deposits in Afghanistan, and obviously prefers stability in Afghanistan so that these investment projects can continue.

On the U.S. part, America and other western countries also regard China as a potential force for the stabilization of the situation in Afghanistan. Economically, Washington regards the achievement of a more prosperous and independent Afghan economy not only as an end in itself but also as a means to a responsible political solution in Afghanistan. Bolstering Afghanistan’s economic prosperity and independence involves the development of the country’s vast mineral wealth and the construction of transport infrastructure to more deeply integrate Afghanistan into the regional economy.

On the Afghanistan part, it desperately needs capital to build its infrastructures and develop its economy. The Afghans themselves

understand that their future prosperity is tied to Afghanistan’s central role in a reconstituted Eurasian trading network. Afghan Foreign Minister Zalmai Rassoul stated that regional economic cooperation “contributes to regional stability and prosperity, and enhances the conditions for Afghanistan to resume its central role as a land bridge between Central Asia and South Asia, the Middle East and the Far East, re-establishes the Silk Road, and increases trade and export opportunities within the region and beyond.”

It is imperative that the U.S. government is behind this Silk Road Initiative. The U.S. has spelled out an optimistic vision of the region’s future as the “New Silk Road,” linking Asia and Europe.

China is well positioned to be a force for this type of integration because of its: geographical proximity and demand for natural resources; also, the willingness of its government to support, diplomatically and financially, the construction of infrastructure designed to deliver energy and minerals to China’s economy. The proposed cross-border infrastructure projects associated with the Chinese copper and oil investments would help bind countries together in one of the least economically integrated parts of the world, including Pakistan, Afghanistan, and other Central Asian countries.

In sum, when communication lines in Central and South Asia were poor, China’s development strategy and economic interests tilted toward its east coast and the Pacific. Today, while East Asia is still of vital importance, China begins to pay more strategic attention to its west. This “march west” strategy is largely based on economic need and market forces, and is therefore peaceful and is of more common interests and consensus. In this sense, Afghanistan can be a theater where China and the U.S. can introduce a new framework for cooperation that recognizes the

57 Zalmai Rassoul, “Keynote Address: H.E Dr. Zalmai Rassul, Minister of Foreign Affairs of the Islamic Republic of Afghanistan” (speech, Regional Economic Cooperation Conference on Afghanistan, Bogazici University, Istanbul, November 10, 2010).

58 Banyan, “As NATO pulls out of Afghanistan it might leave Central Asia a mess, too,” The Economist, March 2, 2013.
reality of the two countries’ strategic considerations. This defines key areas of shared interests to work and act on, thereby narrows the trust gap between the two countries. It will eventually help build a more balanced and new type of China–U.S. relationship through cooperation in the west and on issues such as Afghanistan and Pakistan.
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GENDER DIFFERENCE IN EMPLOYMENT AND INCOME IN CHINA’S LABOR MARKET

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Abstract

The purpose of this article is to analyze the gender differences in employment and income in China’s labor market. Using data from the China Household Income Project (CHIP), this paper identifies the roles of human capital, political capital and other individual characteristics in explaining gender gaps in China’s labor market. The data shows that women are lagging behind men in measures of human capital, especially work experience and political capital. After controlling for a set of individual characteristics, this paper finds that the gender gap in employment and income still exists. Closing the gender gap in China’s labor market requires “enlightened government policies which take gender dimensions into account” (OECD 2008) on all fronts.

Keywords: Gender differences, Employment, Income, Chinese labor market

INTRODUCTION

The purpose of this article is to analyze the gender differences in employment and income in China’s labor market. Over the last several decades, gender issues have attained increased prominence in economic research. There is a growing body of evidence linking gender issues in policy to equitable and sustainable outcomes in economic development. The education of women, for example, is known as a key source of long-term economic growth as it
enhances productivity and returns to investment. The better utilization of female workers leads to many positive consequences such as the reduction in poverty, the increase in economic growth and social well-being, and the promotion of sustainable development (OECD 2008).

The economic growth resulting from the increase in the education of women creates a continuous investment in human capital leading to higher productivity. Accordingly, much policy effort was exerted to enhance the education of women (World Bank 2012). One of the policies to promote women’s education attainment is to offer fair compensation in employment opportunities and income commensurate with female workers’ qualifications and their human capital.

In the context of the importance of women’s status in the labor market, China’s case on gender inequality has attracted much research attention due to its massive labor force and large-scale economic reforms (Chen, Ge, Lai and Wan 2013). In this paper, I used a large data set from the third round of the China Household Income Project (CHIP) compiled in 2002 to investigate if gender differences in employment and income exist in China’s labor market.

This research contributes to the literature by analyzing a data set that contains a large number of observations with detailed individual human capital and other characteristics that are believed to affect the labor market outcomes. This research also looks into the impact of political capital and ethnicity on the gender gap in employment and wages in China’s labor market. The empirical findings will shed light on the roles of these characteristics by explaining the gender differences in labor market outcomes in China. Given the rapid market reform and ascendancy of China in the global economic landscape, the findings of this paper can be used to improve our understanding of the labor markets of other economies in transition.

Experiences from other major economies¹ suggest that gender

¹ For example, in the United States, the gender wage gap, some of it
issues in China’s labor market have important implications. Since China is the world’s most populous country, China’s gender inequality will inevitably become an important empirical research topic since it can highlight factors affecting the economic reform on the largest workforce in the world. Undoubtedly, China’s experience will have significant implications for other transitional economies (Shen and Deng 2008) as emerging markets have become increasingly integrated in the global economy.

Since its market opened to the world in 1978, China has undergone a series of rapid economic reform processes. Having surpassed Japan as the world’s second largest economy in the second quarter of 2010, China has attained the spotlight as a rising super power in the global economy. Along with economic reforms, the Constitution of the People’s Republic of China (PRC) also clearly provides legal protection for women. It grants equal rights among sexes in all aspects of life, including political, economic, cultural, social and familial. For example, article 44 stipulates that “women should enjoy equal rights in the economy, in politics in everything.” The PRC’s law on the Protection of the Rights and Interests of Women promulgated in 1992 also provides “an effective legal weapon for further enhancing the social status of women and guaranteeing their basic rights and interests.” Thus, the principle of equal pay for equal work for men and women is not just nominal but a law to be enforced.


More recently, the Chinese government’s commitment to promote gender equality and to implement a number of policies to protect women are well reflected in China’s 12th Five-Year Plan (2011–2016). The plan “strengthens the labor protection, social welfare, health care, poverty relief and poverty reduction, and legal assistance for women.” The National Human Rights Action Plan of China (2012–2015) further confirms the protection of women by stipulating that “efforts will be made to promote gender equality and eliminate gender discrimination.”

To put women’s status in China’s labor market in perspective, in 2012 business women Wu Yajun and Chen Lihua were listed as the 8th and 10th richest people in China with wealth of $6 billion and $5.4 billion, respectively. On the political front, Liu Yandong was recently appointed as China’s newly-elected Vice Premier, the highest ranking woman politician in China. However, gender gaps still exist in China’s labor market and Chinese women are not treated equally with men. For example, the pejorative term “sheng nu (剩女), literally translated as leftover women” is used to refer to unmarried women in their late twenties and beyond, usually engaging in professional occupations. In addition, despite China’s remarkable economic success and the promotion of gender equality, women’s income has grown much slower than that of men. A survey conducted in 2010 found that the gender income

9 In 2007, All-China Women’s Federation defined “sheng nu” as single women over the age of 27. Since then, the Women’s Federation, founded in 1949 to “protect the women’s rights and interests” began to publish articles stigmatizing unmarried educated women, (China’s ‘Leftover’ Women, New York Times, October 11, 2012).
gap is wider for rural women as their income is 56 percent of male income, while urban women’s income was 67.3 percent of that of their counterparts. In 1990, the ratios were 79 percent and 77.5 percent, respectively.10

This paper is organized as follows. Section II reviews the existing literature on gender inequality in China’s labor market. Section III, which describes the data used in the empirical analysis with descriptive statistics of the sample, shows the lay-out of the conceptual framework and explains the empirical specifications. Section IV presents empirical results and discusses their implications. Section V concludes the paper.

**LITERATURE SURVEY**

China has long been a male-dominated society and there are competing opinions about women’s role in it. Old adages such as “A woman who lacks talent is virtuous (女子无才便是德)” were deeply rooted in people’s minds in patriarchal China and reflect a traditional preference for males. On the other hand, the ideological slogan extolling women’s roles “Women can hold up half the sky (婦女能頂半邊天),” was made famous by Mao Zedong in the late 1960s. Since 1978 when Deng Xiaoping adopted a pragmatic economic policy “Get Rich First,” the Chinese economic reform has brought about profound and fundamental changes to the world’s most-populous country’s labor market.

Despite this type of forward thinking and economic progress, the notion of male preference still continues to prevail in modern China and women are still generally less educated than men in China. The salary income of women is also generally lower than that of men across all industries. The largest gap was in the mining and public service industries, and the salary of women was approximately 74 percent of men (National Bureau of Statistics

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The mean of years of education in 2000 (1990) was 8.3 (7.4) years and 7.0 (5.5) years for men and women respectively (National Bureau of Statistics 2004 Chart 5.1).

Although China’s female labor force participation rate is one of the highest in the world at 74 percent, “only 8 percent of corporate board members and 9 percent of executive committee members are women” (McKinsey & Company 2012). Also, there still is a “vacuum when it comes to women in decision-making and leadership roles”¹¹ and women “still must navigate a complex terrain of social and cultural restrictions as well as the personal push-pull of career ambition and a desire to respect tradition.”¹²

Research has linked market reforms in China to gender-based disparities in the labor market. After the market reform, however, previously fueled reform characteristics such as gender disparity, have been replaced by productivity characteristics such as human capital. This reflects the system based on the market economy as it gained more momentum and employment; thus, remuneration decisions began to value the characteristics reflecting productivity. However, since women have had fewer opportunities to access education and political opportunities, they have been placed in a disadvantageous position in a system where the rewards to human capital and political capital are rising. In the business sector, profit-oriented management practice and privatization may also have fostered discrimination against women. In a profit-driven market system, employers tend to be more attentive to gender-specific factors such as women’s domestic and familial responsibilities. Thus, such benefits as maternity leave may be deemed to make women less productive and more expensive to maintain as employees (Zhang, Hannum, and Wang 2008).

Economic theory dictates that market competition and labor market discrimination do not go together. Research on wage


discrimination in China’s post–reform economy revealed that women may endure more discrimination as the state retreats from its ideological stance on gender equality. This led to the resurgence of Confucian patriarchal values in Chinese society (Zhang and Dong 2008), which works against women.

Changing business climates in China have also affected women’s status in the labor market. As China’s labor market has become more competitive after the reform, market forces have prevented firms and employers from discriminating against women, and opened up new employment opportunities for women. Moreover, the rise of industries such as the textile industry, which has traditionally favored women for their delicate hand skills, demanded greater women’s labor force participation, creating more employment opportunities for women (Zhang, de Brauw and Rozelle 2004). This shortage of labor supply was met by the influx by women from rural to urban areas. Zhang et al. (2004) reported that while less than 1 percent of women left farms to become migrant wage workers throughout the 1980s, nearly 7 percent of the female labor force was working as migrant wage earners by 2000.

Educational attainment is an important human capital that is positively associated with employment opportunities and earnings. Education has been important in narrowing the gender income gap. Women who have received higher education suffer less gender discrimination at work. The report also shows that in 2005, the average income of women with junior high school diplomas was 68 percent compared to that of men graduates; 78 percent for senior high school graduates; 80 percent for junior college graduates; and 83 percent for four year college graduates. However, a report by the All China Women’s Federation (ACWF)13 found that gender discrimination in employment is increasingly obvious in China even for female college graduates seeking employment prospects.

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While the rising competitive market force from the economic reform policies may have reduced room for gender discrimination, Gustafsson and Li’s (2000) finding ran counter to this theoretical conjecture. They found that in urban China, gender wage discrimination increased during the reform period. This finding contravenes the belief that market reforms may have led to less gender wage discrimination. Becker’s (1971) theory of employer discrimination postulates that the rising competition in the goods and services market arising from the reform policies in China would make it more difficult for firms to discriminate against women. However, Rozelle, Dong, Zhang and Mason (2002) found that from 1988 to 1995, the rising competition from the reform policies failed to bring about any major changes in wage discrimination in China’s rural industry.

Zhang et al. (2008) further showed that women are lagging behind men in human capital, especially work experience. In addition, women are also disadvantaged in political capital such as membership in the Communist Party of China (CPC). However, it was found that these disadvantages do not sufficiently explain the gender differences in employment or income. Although the CPC membership matters for employment, the same is not true for income.

A gender wage gap that exceeds the productivity gap can be interpreted as evidence of gender discrimination (Becker 1971). A large amount of research has been conducted to estimate wage regressions using household—or individual-level data. In these studies, a negative gender wage gap against women that was found after controlling for individual characteristics such as education and experience and other relevant characteristics is interpreted as evidence of gender discrimination.

However, due to the lack of sufficient control variables in Chinese data, the typical wage regressions do not contain a complete set of controls for workers’ productivity. Therefore, it is not clear whether the residual wage gap is attributable to labor market discrimination towards women or unobservable gender differences in productivity. Zhang and Dong (2008) measured
gender wage discrimination by taking a more direct approach. Using firm–level data to analyze gender wage discrimination in China’s industry, they find that the marginal productivity of women is significantly lower than that of men. Their finding that the wage gap is smaller than the productivity gap in state–owned enterprises (SOEs) suggests that women in the state sector receive wage premiums.

Deng and Li (2009) looked into the link between the gender wage gap and China’s rising earnings inequality. They found that earnings inequality has increased in China and this in turn contributed significantly to the rising gender income gap. However, China’s integration into the global economy through voluminous trade and FDI also created more employment opportunities for unskilled women while the rising competition in the global market reduced the room for gender discrimination (Chen et al, 2013: 265).

Since 1986, China has expanded educational opportunities by promoting higher education and providing nine years of free compulsory education to all children. Given the importance of educational attainment in enhancing workers’ labor market status, to the extent that more school–age female students receive this benefit, the gender gaps in employment and income in China’s labor market are expected to narrow.

However, according to Granrose (2006), the unequal access to educational opportunities that many women in China encounter also explains their lower level of human capital accumulation. As was vividly described in a recent article in the New York Times, Chinese women confront “unofficial but widespread gender quotas that favor men” and need higher scores than men to enter college. To better understand the gender disparity in China’s labor

market, China’s distinct institutional change should also be considered in addition to workers’ individual characteristics. For example, the introduction of China’s market reform in 1978 has changed all aspects of institutions in China’s economy. The changes in employment structure, the rise of newly-introduced occupations, the demise of the Work-unit system (or Danwei system), and the mobility of the labor force all might have implications on the women workers’ labor market outcome in China (Cai, Park and Zhao 2008).

**DATA AND EMPIRICAL MODEL**

This paper uses the third round of the CHIP to examine the gender differences in employment and income in China’s labor market. The data was collected in 2003 for the reference year 2002 by a team from the Institute of Economics at the Chinese Academy of Social Sciences. The data contains both urban and rural sub-samples as well as a migrant sample. The data set for this paper comprises detailed information relating to 13,950 individuals between ages 16 and 70. Table 1 reports the extent of the gender gap in employment and income by listing descriptive statistics of sample by gender.

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16 I thank an anonymous reviewer for pointing this out.
17 The data set was obtained from Inter-University Consortium for Political and Social Research (ICPSR) and is available at http://www.icpsr.umich.edu/icpsrweb/ICPSR/studies/21741 (Accessed in September 21, 2013)
The sample is 50.8% male and the average age is 44.3 years. Male workers were found to be a little older than female workers. Schooling is the human capital, measured as the years of education that a respondent completed. Since the human capital accumulated after joining the labor market, it is also helpful in understanding

**Table 1**  
Sample Statistics

<table>
<thead>
<tr>
<th>Variables</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>SD</td>
<td>Mean</td>
</tr>
<tr>
<td>Age</td>
<td>44.94</td>
<td>11.51</td>
<td>43.68</td>
</tr>
<tr>
<td>Income</td>
<td>11917.61</td>
<td>7005.78</td>
<td>9320.32</td>
</tr>
<tr>
<td>Experience</td>
<td>27.85</td>
<td>12.72</td>
<td>27.18</td>
</tr>
<tr>
<td>Education(^{18})</td>
<td>11.08</td>
<td>3.23</td>
<td>10.507</td>
</tr>
<tr>
<td>Married</td>
<td>0.899</td>
<td>0.301</td>
<td>0.881</td>
</tr>
<tr>
<td>Han ethnicity</td>
<td>0.958</td>
<td>0.199</td>
<td>0.958</td>
</tr>
<tr>
<td>Party membership</td>
<td>0.366</td>
<td>0.482</td>
<td>0.208</td>
</tr>
<tr>
<td>Self Employed</td>
<td>0.052</td>
<td>0.223</td>
<td>0.044</td>
</tr>
<tr>
<td>Permanent</td>
<td>0.593</td>
<td>0.491</td>
<td>0.433</td>
</tr>
<tr>
<td>Coastal area</td>
<td>0.368</td>
<td>0.482</td>
<td>0.382</td>
</tr>
<tr>
<td>Market sector</td>
<td>0.767</td>
<td>0.424</td>
<td>0.637</td>
</tr>
<tr>
<td>Employed</td>
<td>0.785</td>
<td>0.654</td>
<td></td>
</tr>
<tr>
<td>Observation</td>
<td>7,081(50.8%)</td>
<td>6,869(49.2%)</td>
<td>13,950</td>
</tr>
</tbody>
</table>


The sample is 50.8% male and the average age is 44.3 years. Male workers were found to be a little older than female workers. Schooling is the human capital, measured as the years of education that a respondent completed. Since the human capital accumulated after joining the labor market, it is also helpful in understanding

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\(^{18}\) According to the current education system in China, primary education takes 6 years, junior middle school 9 years, senior middle school and specialized middle school 12 years, college and higher 16 years. The Compulsory Education Law of the People’s Republic of China was promulgated in 1986 and began to implement the nine-year compulsory education.
the current status of employment and income, a variable used to capture labor market experience. The potential labor market experience is approximated by using “age – years of educational attainment – 6” formula. While schooling and labor market experience are well-known factors that strongly contribute to increase the labor market outcomes, it is possible that returns to these human capitals differ by gender, and this difference may lead to “disparities in credentials or skills needed for improving employment status or increasing wages” (Zhang et al, 2008: 1539).

Women, on average, have lower educational attainment than men, although the gap is less than one year (0.58 years). On the other hand, there is a significant gender gap in employment: 78.5 percent of men and 65.6 percent of women are “working or employed.” The work experience also favors men, who have on average 0.67 more years of work experience than women. Women earn 9,320.3 yuan per year on average, about 87 percent of what men earn on average.

Since this paper mainly focuses on the gender-based differences in labor market outcomes, a dummy variable for gender (1=female 0=male) is used to control for demographic structure. Membership in the CPC is used for the measure of political capital (1= member 0=otherwise). Although the notion of political capital is uncommon for labor market-related research outside of China, the CPC membership has been regarded as an important factor that affects workers’ labor market status (Li, Liu, Zhang and Ma 2007). CPC membership is an important form of political capital since it reflects the individual’s loyalty to the Party and is an important criterion by which the Party and government reward individuals.

Party members enjoy advantages for receiving further education/training and promotion to positions associated with financial remuneration and more generous in-kind compensation (Shu and Bian 2003). Men are almost twice as likely as women to be CPC members (36.6 percent for men and 20.8 percent for women). Women in China were less represented in the CPC membership than men. Of the total CPC members of 85.13 million at the end of 2012, 23.8 percent were women. Finally, the family structure measure
indicates that 89.9 percent of men and 88.1 percent of women are married.

This paper considers two measures of labor market outcomes: employment status and income. Employment is measured by a binary dummy variable indicating whether a respondent is working/employed or not (1=employed 0=otherwise). The non-working group includes those who are unemployed, officially off-duty (lixiu), retired, unable to work, laid-off (xiagang), left post (ligang), unemployed, full-time students and full-time homemakers. Twenty nine observations with employment status reported as “others” are also treated as unemployed. Labor market income is measured by personal 2002 total yearly income in yuan. Personal yearly income includes bonuses, allowances, subsidies and living expenses for the laid-off. The natural log of income is used in regression analyses.

To better understand how individual characteristics influence the employment disparity identified above, I estimate a standard log it model for employment. Next, I turn to an analysis of the gender gap in income, using Heckman selection models that account for selection into the work force. Logged annual income is the dependent variable in the regression that includes educational attainment, gender, coastal province residence and other covariates as explanatory variables. Due to the economic reform policies focusing on the coastal regions which have resulted a growing gap between the coastal and inland area (Ng 2007), it is necessary to control for the coastal region. In the selection equation, employment status is the dependent variable.

The following standard earnings equation is estimated:

\[ \ln(\text{income}) = D \delta + T \gamma + X \beta + \varepsilon \]

where income is an N x 1 vector of annual income, D is a matrix of binary variables accounting for gender, X is an N x K matrix of covariates describing the characteristics of individuals.

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(e. g. educational attainment, market experience, and marital status), $T$ is an $N \times M$ matrix of variables that control for other factors affecting individual income, $\gamma$, $\delta$ and $\beta$ are vectors of parameters, and is a vector of disturbances.

Ordinary Least Square (OLS) estimates of Equation (1) are biased due to a sample selection problem because wages of non−working individuals are not observable. Therefore, the sample in Equation (1) is selected according to the condition $\varepsilon > -(X\beta + T\varphi)$. Thus, the expected value of the error term is not zero, and inconsistent estimates are generated from the use of OLS. The use of the Heckman two−stage procedure can address this problem by transforming the sample selection problem into an omitted variable problem.

Specifically, we generate the Inverse Mill’s Ratio ($\lambda$) by estimating an ancillary Probit model\textsuperscript{20} and then add $\lambda$ to Equation (1) as an explanatory variable. This procedure controls for sample selectivity, but makes the error term heteroskedastic. We deal with heteroskedasticity by using the Heckman consistent and efficient covariance matrix. From the characteristics of the sample and the labor supply literature, it is hypothesized that human capital measures, including years of education and labor market experience will positively affect employment and income.

**EMPIRICAL RESULTS**

Table 2 lists the results of the logistic regression analysis of employment status. Robust standard errors are reported to correct for household clustering. Most of the coefficients of the basic variables in the models have the expected signs and are highly

\textsuperscript{20} A probit model was estimated in which the dependent variable assumes value 1 if an individual is employed and 0 otherwise. The set of explanatory variables includes education, work experience and its square, and marital status. The probit model estimates are not reported in the paper to save space.
significant. In almost all respects, the results of the regression analyses conform to theoretical expectations.

Model 1, which includes gender, experience and education, is the baseline model. It shows that, overall, women’s odds of employment are 73.7 percent \((1-\exp[-1.334])\) lower than men’s. Model 2 incorporates controls for marital status. Surprisingly, controlling for marital status does not substantially reduce the gender employment gap. Model 3 adds variables controlling for Han ethnicity (汉族), CPC membership and an interaction term between marital status and gender. The stock of human capital and household characteristics of the Han ethnic group, the majority in China, is known to differ from those of minority ethnic groups (Gustafsson and Li 2003). Thus, controlling for Han ethnic group is necessary.

Han ethnicity does not appear to affect employment status as the estimated coefficients of the variable are all statistically insignificant. The negative estimated coefficient of the interaction term between marital status and gender shows that married men are more likely to be employed than unmarried men. However, for women, being married reduces the odds of being employed by about 13.8 percent \((1-\exp[1.445-1.593])\).

The positive estimates of the marital status variable indicate that married people are more likely to be working than non-married people. Table 3 lists the results of the Heckman income regression analysis. Model 1, which includes experience, gender, years of schooling and marital status is the baseline model. Consistent with the descriptive results, overall there is a significant gender effect on labor market earnings.

Model 2 incorporates controls for Han ethnicity, CPC membership, self employment, and permanent position. The income of Han men is approximately 2 percent higher than that of non-Han men \((11,673 \text{ yuan vs. 11,449 yuan})\). On the other hand, non-Han women earn approximately 8 percent more than Han women \((9,958 \text{ yuan vs. 9,219 yuan})\). Overall, the average annual income of the non-Han minority is 2.3 percent higher than that of the Han group \((10,708 \text{ yuan vs. 10,467 yuan})\).
<Table 2> Logistic Regression of Employment Status  
(DepVar: Binary variable for employment)

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>-1.403</td>
<td>-1.401</td>
<td>-1.367</td>
<td>-0.656</td>
</tr>
<tr>
<td></td>
<td>[23.18]***</td>
<td>[23.06]***</td>
<td>[22.34]***</td>
<td>[2.32]***</td>
</tr>
<tr>
<td>Age</td>
<td>0.414</td>
<td>0.409</td>
<td>0.411</td>
<td>0.403</td>
</tr>
<tr>
<td></td>
<td>[19.99]***</td>
<td>[17.04]***</td>
<td>[16.88]***</td>
<td>[16.58]***</td>
</tr>
<tr>
<td>Age Squared</td>
<td>-0.63</td>
<td>-0.625</td>
<td>-0.634</td>
<td>-0.628</td>
</tr>
<tr>
<td></td>
<td>[26.20]***</td>
<td>[23.09]***</td>
<td>[22.99]***</td>
<td>[22.80]***</td>
</tr>
<tr>
<td>Education</td>
<td>0.152</td>
<td>0.152</td>
<td>0.137</td>
<td>0.102</td>
</tr>
<tr>
<td></td>
<td>[17.33]***</td>
<td>[17.32]***</td>
<td>[14.86]***</td>
<td>[7.42]***</td>
</tr>
<tr>
<td>Married</td>
<td>0.063</td>
<td>0.048</td>
<td>1.035</td>
<td></td>
</tr>
<tr>
<td></td>
<td>[0.49]</td>
<td>[0.37]</td>
<td>[5.44]***</td>
<td></td>
</tr>
<tr>
<td>Han ethnicity</td>
<td>-0.043</td>
<td>-0.025</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[0.32]</td>
<td>[0.18]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Party membership</td>
<td>0.456</td>
<td>0.447</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[7.12]***</td>
<td>[6.95]***</td>
<td></td>
<td></td>
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<tr>
<td>Coastal area</td>
<td>0.155</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[2.95]***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban area</td>
<td>-0.935</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[2.79]***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education * Female</td>
<td>0.059</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[3.28]***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Married * Female</td>
<td>-1.421</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[6.85]***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-4.783</td>
<td>-4.705</td>
<td>-3.654</td>
<td>-4.866</td>
</tr>
<tr>
<td></td>
<td>[10.22]***</td>
<td>[9.52]***</td>
<td>[6.00]***</td>
<td>[9.23]***</td>
</tr>
</tbody>
</table>
Despite the ongoing economic reforms and the expansion of a market economy in China that may have reduced the returns of political capital, CPC membership is still positively associated with higher earnings. CPC membership is found to increase annual income by approximately 10 percent.\(^{21}\) After controlling for a set of standard socioeconomic, demographic and political capital measures, the estimates of Han variable in Model 3 and 4 indicate that non–Han minority individuals earn approximately 7 percent more than comparable Han individuals.

\(^{21}\) Li et al. (2007)’s OLS estimate also shows that CPC membership raises earnings by 10 percent, but the within-twin-pair estimates become zero, implying that the OLS estimate may suffer from omitted ability bias and the failure to properly correct for family background.
The estimate of the female variable in Model 2 in Table 3 shows that after controlling for experience, education, and marital status, a set of comprehensive explanatory variables, women’s income is about 13 percent lower than men’s (exp[−0.138]) − 1). Model 3 and 4 test interactions between gender and marital status and gender and education, respectively. For comparison, OLS regressions were
run for two models including interaction terms (Models 3 and 4). The main trend of the effects is the same across OLS and Heckman selection models, with only a slight change in the magnitude of the estimated coefficients.

For the Heckman model, the estimates for \( \text{education} \times \text{female} \) and \( \text{married} \times \text{female} \) variable are 0.019 and -0.107 with 1 percent statistical significance. For the OLS model, the estimates of the same variables are 0.013 and -0.083 respectively. These empirical results can be interpreted as follows. First, returns to education are slightly higher for women and second, married women are facing disadvantages in the labor market, earning lower income.

The estimated coefficients of the sample selectivity variable (\( \lambda \)) are statistically significant in Models 3 and 4 but not in Models 1 and 2. This implies that the control for sample selection plays an important role in the reliability of the estimates in regressions where more complete set of variables are controlled for.

**SUMMARY AND CONCLUSIONS**

In this paper, using the 2002 Chinese Household Income Project (CHIP) data, I examined the factors that influence the gender gap in employment and income in China’s labor market. This research shows that the level of women’s human capital is lower than that of men in educational attainment and labor market experience. Women are also less likely to be equipped with political capital. Even after controlling for these variables, the gender wage gap in employment and income did not disappear.

The rapid economic growth and political change in China has introduced a series of social and cultural shifts. Some of these shifts have also changed the nature of jobs and the labor market. Norms about family relationships are also likely to have been shifting. Although the rapid economic growth of China has led to a fast growing labor market that created new employment opportunities for women, the gender gap in employment and income continues to exist. Without active government intervention,
the notion that “women hold up half the sky” would still be a wishful aspiration rather than a reality.

It is also recommended that more social services be provided to relieve women from domestic responsibilities since family burdens such as child rearing and domestic chores are known to exert a strong negative impact on women’s labor market outcomes. This research suggests that more policy attention should be paid to helping women enhance their education and attaining appropriate training, especially on-the-job training to raise the women workers’ competitiveness in the job market. This is especially true since female workers are found to be crowded into low-wage jobs such as assembly lines (Chen et al. 2013). To improve the labor market outcomes of women, unfair college admission policies should also be rectified.

To the extent that the CPC membership offers various advantages such as further education/training and promotion to positions with higher financial compensation, China needs a more active government policy to admit more women to the CPC. Also called for are pro-women policy interventions that relieve women workers from domestic responsibilities since these family-related burdens are known to work against women’s performance in the labor market.

Furthermore, women are still struggling more than men in the work environment. For example, establishing “guanxi” (关系, loosely defined as a mutually beneficial network of relationships established over the long term to provide support and cooperation) is known to be more difficult for women (Nolan 2011). Since traditions die hard, the narrowing of the gender gap in labor market outcomes in China continues to be an uphill battle. To counteract this, I endorse a policy recommendation by the OECD: “Closing the gender gap depends on enlightened government policies which take gender dimensions into account” (OCED 2008: 3).

In conclusion, this paper provides a preliminary step in understanding how the dynamics of China’s labor market influence the gender gap in employment and income, rather than trying to provide complete answers to these questions. Since this paper uses a cross section data set, it fails to investigate the longitudinal
natures of control variables in affecting women’s labor market outcome. The use of earlier rounds of CHIPs (1988 & 1995) along with much expected new round data that includes preferably more and richer sets of variables, which was not yet released, will produce more robust empirical results, helping us gain better insights of China’s labor market. In the process, the findings of this paper still provide guidelines in public policies; in particular, how to deal more effectively with the gender gap–related challenges associated with reforms and transitions in China’s labor market.
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Abstract

Since the turn of the new century, East Asian countries have taken a series of important steps to launch and strengthen institutional mechanisms of monetary and financial cooperation to enhance the region’s resilience to financial instability. Central to these efforts have been the Chiang Mai Initiative (CMI) and its recent multilateralization, a self-managed reserve pool designed to serve as a vehicle for providing regional liquidity support. Despite the significance of these developments, however, progress toward a common framework of monetary cooperation has been slow, its institutionalization shallow, and its prospects uncertain. Beyond a general consensus on the need for greater cooperation, regional actors remain deeply ambivalent toward the extent and depth of institutionalization. This article provides a critical assessment of the progress made so far, the obstacles that remain, and the prospects for the emergence of a more fully institutionalized framework of monetary cooperation in East Asia. I argue that while the CMI and its multilateralization represent a notable break from the past, fundamental political cleavages surrounding its direction are yet to be resolved, and as a result monetary regionalism in East Asia still remains more of a glass half-empty than half-full.

Key Words: East Asian regionalism; Chiang Mai Initiative; CMI multilateralization; financial regionalism
Earlier studies of regionalism in East Asia, especially those taking a comparative approach, almost always entailed some discussion of the common clichés associated with the region. Among them were the characterization of regionalism in East Asia as a primarily market-driven phenomenon, the consequent shallowness of its institutionalization and the stunted extent of its multilateralization, and the absence of clear political leadership and trust that make it a daunting task for the region to overcome these obstacles (see Stubbs 1995; Katzenstein 1997; Haggard 1997; Rozman 2005). In contrast to these earlier views that tended to put more emphasis on the limits of East Asian regionalism, recent scholarship sheds a more sanguine light on the progress East Asia has made toward regional cooperation, with some justification: there has been a flurry of institution-building activities since the turn of the new century that has led to an unprecedented level of regional cooperation in East Asia (see Stubbs 2002; Bisley 2007/2008; Frost 2008; Dent 2008; ADB 2008; Chey 2009; Green and Gill 2009).

For the optimistic proponents of East Asian regionalism, the fact that the region has made not-so-negligible progress toward more formal and institutionalized cooperation is perhaps not that surprising. What may surprise some, however, is where this progress has been made the most. Whereas 15 years ago, most discussion of East Asian regionalism revolved around the rapidly growing intraregional trade and investment that were giving rise to regional networks of production, these are not the areas where multilateral institutionalization has unfolded recently. Rather, it is in the monetary and financial affairs that East Asian countries have made the most tangible progress in terms of both the relative depth of institutionalization and extent of multilateralization. In matters of trade and cross-border investment, cooperation in the region has been pursued primarily through a patchwork of bilateral and sub-regional arrangements without any overarching multilateral framework. This is a rather unusual departure from regionalism elsewhere, in that the emergence of an institutionalized regional trading and investment arrangement typically precede institutionalization
in monetary and financial cooperation, East Asia has been sidestepping this, endorsing a “noodle bowl” of sub-regional and bilateral trade and investment arrangements while pushing harder to ground monetary and financial cooperation in a firmer, more encompassing institutional framework (Baldwin 2007; Solis and Katada 2007; ADB 2008, ch. 3).

The Chiang Mai Initiative (CMI), unveiled in May 2000 at the ASEAN Plus Three (APT) Finance Ministers’ Meeting in Thailand, has been the key vehicle through which East Asia has been building a more institutionalized framework of regional cooperation in monetary and financial affairs. Initially created as a series of bilateral swap agreements (BSAs) among the central banks of the APT, the CMI has subsequently expanded both in terms of the amount of resources disposable through it and the scope of its activities. In particular, with the much-vaunted multilateralization coming into effect in 2010, the CMI has been transformed from a simple network of BSAs into a “self–managed reserve pooling” arrangement governed with a single contractual agreement and accompanied by a number of new provisions designed to strengthen its capacity. Supporters have hailed CMI multilateralization (CMIM) as a milestone event, taking the region one step closer to resurrecting the still–born Asian Monetary Fund (AMF) proposed by Japan and shot down by the United States and China during the Asian financial crisis (AFC), and perhaps even opening up the possibility of eventually pushing forward to the final frontier: a regional monetary union.

Exploring the state of monetary cooperation in East Asia, this article examines whether such an optimistic assessment is merited.

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1 The other major initiative is the Asian Bond Markets Initiative (ABMI), launched in 2003 to foster the growth of regional bond markets to lessen the reliance of East Asian countries on external bank loans. Progress on the ABMI has been severely limited though, more so than the CMI. See Rethel (2010).

and finds East Asian monetary regionalism more of a glass half-empty than half-full. While the recent multilateralization of the CMI does take the region one step closer to the AMF, the distance between CMIM and the AMF—to say nothing about a common currency—remains far apart and narrowing the gap will require a giant leap forward, a leap of faith over a deep and wide political crevice that no regional actor is ready to make. As it stands, CMIM does not give its participants what they are craving for: a credible regional source of temporary liquidity relief in the event of destabilizing shocks in the capital account. This comes without the onerous and humiliating strings that were attached to the US-dominated IMF bailouts in 1997. Moving CMIM toward a bona fide regional self-help system requires delinking its disbursements from the IMF, and this in turn requires a robust surveillance and enforcement mechanism of its own. The latter’s political implications are sufficiently unpalatable to dampen the enthusiasm for more ambitious designs for CMIM and serve us as a cause to remain skeptical over its future potential.

This article is organized as follows. The first section outlines the origins and evolution of the CMI from its 2000 inception to its 2010 multilateralization, discussing the driving forces behind it, the gradual strengthening of its institutional architecture and capacity, and its persistent limits. I identify two primary impetus for this regional project for greater monetary cooperation, both born out of the traumatic experience of the AFC: the economic need to enhance the financial resilience of the region, and the political wish to achieve this without turning to the United States. The second section examines the multilateralization of the CMI and its implications. I argue that while CMIM improves upon the limitations of the CMI and carries some symbolic significance, its substantive importance in terms of its ability to deliver on its intended purposes remains cripplingly restricted due to its continued subordination to the IMF. In the third section, I identify and discuss the lack of a credible surveillance and enforcement mechanism as the key political obstacle to the evolution of CMIM into an AMF, one that East Asia is unlikely to surmount anytime
DREAMING BIG, ACHIEVING LITTLE: THE ORIGINS OF THE CMI AND ITS LIMITS

There are two fundamental rationales behind East Asia’s pursuit of the CMI and its multilateralization. One rationale, which is economic, is the regional actors’ need to better manage financial globalization by making themselves more resilient and less vulnerable to the volatility of the global financial system; the other rationale, which is political, is their desire to achieve this without having to turn to extra–regional institutions and actors, namely the IMF and the United States. Both rationales are derived from the collective experience of the region during the AFC that taught three interrelated, rather painful lessons.

First, the crisis revealed the sheer lopsidedness of the battle between governments and markets, demonstrating clearly to East Asian countries—much as had been demonstrated to the French in 1983, the British in the 1992, and the Mexicans in 1994—that the financial resources disposable to individual countries were far too insufficient to withstand the forces of global financial markets. With the removal of capital controls had come a flood of foreign capital flows into the region, which could and did turn around rather abruptly to leave the erstwhile recipient countries high and dry. From Thailand to Indonesia and South Korea, the diminutive reserve holdings of the crisis–stricken countries were depleted in a matter of months and weeks, succumbing to a massive capital exodus and intense speculative attacks.

Second, the AFC revealed that while financial markets were prone to panic with a pronounced tendency for herding, governments in the region were incapable of coming up with a collective response. Even as what started as a relatively small, country–specific crisis in Thailand spread like a bushfire to engulf nearly the whole region, there was no institutional mechanism that would have made it possible for East Asian countries to at least attempt
to find a regional solution to address the problem of contagion.\(^3\) Bereft of such an option, East Asia remained helpless before the spectre of contagion and the crisis-stricken countries had to turn to the IMF.

Third, the crisis also revealed what nearly every other developing country had known all along: the IMF was not just the sort of benevolent provider of emergency loans that its Articles of Agreement made it out to be. This revelation goes beyond the many problems and critiques that the Fund faced regarding its misdiagnosis of the crisis and its draconian policy prescriptions.\(^4\) Apart from the now widely held agreement that the IMF’s cure was less than ideal if not worse than the disease, its handling of the crisis also showed the dominant influence of the United States on the Fund and Washington’s willingness to throw its weight around to safeguard and seek its own parochial interests at the expense of the recipient countries (Blustein 2001, 141–8; Stiglitz 2002, ch. 4).\(^5\)

The CMI was born out of these lessons of the AFC, which exposed the extent of the region’s vulnerability to the ebb and flow of global finance, laid bare its powerlessness to offer any regional solutions, and generated a deep feeling of discontent and antipathy toward the IMF and the United States, in what Higgott (1998) called “the politics of resentment.”\(^6\) The CMI, however, was the AFC’s “adopted” scion—adopted because there was another

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3 On herding behavior and contagion, see Calvo and Mendoza (2000) and Dornbusch, Park, and Claessens (2000).
5 Even the IMF eventually came to admit its needlessly harsh policy prescriptions. In fact, it had become a routine for former-Managing Director Dominique Strauss-Kahn to admit the Fund’s mismanagement of the crisis on his visits to Asian countries (Jakarta Post 2011; Hankyoreh 2010).
6 See also Ravenhill (2002), Hall (2004), and Sohn (2005).
initiative that came out of the crisis, one that succumbed to premature death. I am, of course, referring to the Japanese proposal for the AMF. Proposed in the thick of the AFC by the Japanese Ministry of Finance at the annual meetings of the World Bank and the IMF in September 1997, the AMF was envisioned as a regional mechanism of liquidity support that, had it come into being, would have provided large-scale short-term emergency loans to crisis-afflicted countries apart from the IMF. The AMF quickly fell victim to geopolitics and institutional resistance. However, as it faced insurmountable opposition from three key actors, two of which could make or break the whole deal: the United States, which saw the AMF as a Trojan horse to undermine its position of dominance; the Chinese, who were suspicious of the Japanese intent behind the proposal; and the IMF, which for institutional and bureaucratic reasons also opposed the AMF as a serious threat to its influence and relevance in the region.\footnote{On the politics of the AMF proposal, see Blustein (2001, 162–70) and Lee (2006).} The early demise of the AMF proposal was inevitable given how the constellation of political forces was lined up so unfavourably against it from the very beginning, especially in light of the intense opposition from Washington.

The CMI was thus launched as a second-best arrangement to the AMF, without the latter’s more ambitious designs. Although it was “of the same philosophy as the AMP” as described by then Japanese Finance Minister Kiichi Miyazawa (quoted in Chey 2009, 460), its scope was necessarily limited and its ambition checked at the door, in a pragmatic compromise to assuage the hostility from the United States and the IMF and mitigate the Chinese resistance to what they had earlier perceived to have been a Japanese bid at regional economic hegemony. As a result, while the initiative allowed the region to resurrect the philosophical basis of the AMF, it fell far short of the much more ambitious designs of the ill-fated AMF in every aspect.

First of all, rather than being formally institutionalized as a
multilateral mechanism, what emerged was a stripped-down arrangement comprised of little more than a simple network of BSAs. Second, the overall funding capacity of the CMI, at only $36.5 billion initially, was much smaller than the $100 billion proposed under the AMF—given its nature as a collection of BSAs, the actual financing available to individual countries was far less than the aggregate sum, amounting to no more than a few billion dollars at most. Third, even this extremely limited funding could not be tapped fully without the vetting of the IMF, as the arrangement required the requesting country to first conclude an agreement with the Fund before it could access any financing beyond 10% of the eligible BSAs. Fourth, the CMI was also accompanied by an opt-out clause that further undermined its credibility. The contractual weakness inherent to such an opt-out arrangement cast a long shadow of doubt over the BSAs, rendering them highly uncertain and ultimately unenforceable. Last but not the least, the unveiling of the CMI was not followed by a viable surveillance and enforcement mechanism, an indispensable feature for any liquidity assistance arrangement if it is not to succumb to the problem of moral hazards lurking around such lending facilities. Despite the participating members’ repeated expressions of interest in building the APT’s surveillance capacity, the only tangible outcome was Economic Review and Policy Dialogue (ERPD), a rather vague process involving informal exchange of information and ill-defined, non-binding peer reviews.

One thing the CMI did accomplish, however, was limiting its membership to a purely regional basis by excluding the United States. At first glance this may seem to vindicate the blunt advocacy made by Euiseke Sakakibara, former Japanese deputy finance minister who spearheaded the AMF proposal, calling for “some types of regional cooperation of our own” for East Asia to avoid being “divided and ruled as in the colonial days and in the more recent past” (quoted in Lee 2009, 12). However, a closer

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8 On the exclusion of the United States from the CMI, see Bowles (2002) and Sohn (2007).
look at the CMI reveals that what appeared to have been the most tangible achievement of the CMI was in fact an empty victory, as the United States still retained its influence indirectly through the “IMF link” that subjected 90% of CMI funding to the Fund, an institution dominated by the United States. For this reason, in a marked departure from its sabotaging of the earlier AMF proposal, the United States did not oppose the CMI this time around. This absence of American resistance was not so much a reflection of its more receptive attitude toward an exclusively “Asian” solution, but rather it was more indicative of the weakness of the CMI as a secondary arrangement to the IMF, merely supplementary to the existing international monetary architecture—this also explains the lack of opposition from the IMF.

In response to these shortcomings, the APT took a series of additional steps to patch up the holes. First, to address the problem of the diminutive size, the BSAs were expanded several times to eventually reach a total of around $90 billion by 2008. Second, to make the CMI less dependent on the IMF link, the amount of disposable financing without the vetting of the Fund was increased from 10 to 20% in May 2005. Third, to increase its surveillance capacity, the APT formally incorporated ERPD into the CMI framework in the same year, mandating participation in the ERPD process as an eligibility criterion for CMI financing. And finally, these measures were followed by the implementation of a collective decision-making procedure for CMI activation, taken as an early step toward its eventual multilateralization (APT 2005).

None of these steps, however, made the CMI any more credible or even that useful for potential borrowers. Despite repeated increases, the size of the BSAs was still inadequate to provide much of a cushion, a problem that was exacerbated by the continuing subordination of the vast majority of CMI funding to the IMF. With 80% of its financing still left to the tender mercy of the Fund, “freely” available financing from the CMI was reduced to a nearly insignificant amount, undermining its role as a truly “regional” mechanism of liquidity support. The attempt to strengthen the surveillance capacity of the APT produced no tangible result
either, as the ERPD continued to lack any clear direction, while discussions on multilateralization were bogged down over the allocation of contribution quotas and voting rights.

As a result of these continuing weaknesses, the CMI came nowhere close to satisfying either of its rationales. Its economic objective of providing regional liquidity support to its members was vitiated by the miniscule size of the available financing and the uncertainty over its disbursement, both of which seriously undercut its credibility as a reliable source of funding. Politically, the IMF link continued to subject the CMI under a subordinate position to the extra–regional institution and, by extension, the United States, thus defeating its political objective of carving out a more independent space for the region. Together, these failures rendered the CMI ineffective if not irrelevant.

To see the limits of the CMI, it is instructive to look at the policy responses taken by East Asian governments to deal with the global financial crisis of 2008. While the near collapse of the US banking system inflicted collateral damage around the world, the panic gripping the global financial system had a particularly swift and detrimental effect on emerging market economies. A number of potential borrower countries in East Asia, especially South Korea, saw capital inflows drying up, their currencies coming under intense pressure, and their foreign exchange (FX) reserves being depleted at an alarming rate. East Asia in the fall of 2008 was staring at what could potentially turn into a recurrence of the crisis of 1997. If there ever was a time when the CMI would be useful, this was it. Yet, no country drew from the CMI, even though its explicitly intended economic purpose was to provide liquidity relief precisely under such circumstances. Rather than turning to the CMI, regional actors chose to either rely on their own measures by running down their reserves or, in the case of South Korea, turn to the United States for assistance by opening and drawing from a $30 billion swap facility with the US Federal

9 The fallout from the US banking crisis was felt most acutely in South Korea, which came very close to suffering another major financial crisis.
Reserve Board. Thus, the CMI not only remained completely dormant at the very moment it was meant to shine, but it was also bypassed in favor of the United States; both acts of omission and commission speak volumes about the actual relevance of the CMI for the region.

**CMI MULTINATIONALIZATION: ONE STEP CLOSER TO THE AMF?**

The irrelevance of the CMI during the global financial crisis forced the APT to face its glaring limits and provided further impetus for a more concerted effort at bringing about its much-discussed multilateralization in 2010. Although multilateralization had been agreed upon in principle as early as 2005, disagreements over its implementation had been dragging it along for several years. At the center of the dispute were the contending positions of the three Northeast Asian countries over contribution quotas and voting rights, each wanting to make such a large contribution that the sum of the three countries’ quotas exceeded the total?the member states of ASEAN, in contrast, were quick to reach an agreement on their individual shares among themselves. The Japanese position called for the largest contribution quota and voting rights, arguing that both their economy and their CMI

Although not as severe as the crisis of 1997, all the symptoms were there: onslaught of a severe credit crunch; drastic swings in capital flows that saw $74.9 billion flee the country; intense speculative attacks; and extreme exchange-rate instability (45% depreciation) that forced the Bank of Korea to intervene in the FX market, run down its reserves at an alarming rate, and eventually seek external assistance from the US Federal Reserve Board. It was the swap facility with the Feds that ultimately restored stability to Korea’s FX market and prevented it from reliving the nightmare of 1997. For an overview of Asian countries’ policy response to the 2008 global economic crisis, see Kawai, Lamberte, and Park (2012). On the crisis’ implications for the region’s financial cooperation, see Kawai (2009), Grimes (2009b, 2011b), Katada (2011), and Emmers and Ravenhill (2011).
contribution were then the largest in the region. This was unsurprisingly rejected by the Chinese, who insisted on a share that was at least equal to that of the Japanese, on the premise that China was the largest holder of international reserves in the world and its economy was about to take over the Japanese economy. For its part, South Korea desired to have a share equal to that of China, basing its argument on the advanced level of its economic development, the depth of its financial markets, and its large contributions under the CMI (Kawai 2010, 9; Grimes 2011a, 95–6).

The real bone of contention was between China and Japan. South Korea’s attempt to project a degree of influence and prestige in CMIM equal to China was akin to trying to lift a boulder well beyond its weight. Aside from the fact that the size of the South Korean economy and its reserve holdings paled in comparison to its neighbors, unlike China and Japan, South Korea was not only a potential lender but also a potential borrower—the largest prospective borrower, in fact. Thus, the most difficult hurdle to multilateralization was for the Chinese and the Japanese to overcome, and narrowing this Sino–Japanese gap did not come about until they were compelled to do so by the urgency of the global financial crisis.

In a pragmatic and rather inventive compromise, both China and Japan got what they desired, at least on paper, by including Hong Kong as a new participant and taking advantage of its special status. On the surface the largest contribution quota did go to Japan, at 32% of the total pool, while China was given the second largest share at 28.5%. However, the introduction of Hong Kong with a 3.5% share of the pool increased the overall Chinese share to 32%, taking it to parity with the Japanese quota. In contrast, Korea’s share of contribution fell quite a bit short of its desired level, receiving only half the share assigned to China and Japan at 16%. Nonetheless, its share was still much larger than what its relative economic weight called for in comparison to ASEAN countries, which together received 20% of the shares despite the fact that their combined output was much larger than
With the biggest obstacle to multilateralization removed, the APT unveiled the basic contours of CMIM at its 2009 Finance Ministers’ Meeting in Bali, Indonesia, and the arrangement came into effect in March of the following year with some minor modifications made at the 2010 APT Finance Ministers’ Meeting in Tashkent, Uzbekistan. Aside from creating a self–managed reserve pool, multilateralization increased the size of the fund from $90 to $120 billion, and then doubled it to $240 billion in 2012. It also expanded the number of participants to include all members of ASEAN, bringing the five previously excluded countries into the fold: Brunei, Cambodia, Lao, Myanmar and Vietnam. Multilateralization also saw the unveiling of the institutional governance of CMIM, outlining contribution shares, borrowing quotas, voting weights, decision–making procedures, and a new surveillance mechanism (APT 2011, 2012).

The modus operandi of CMIM is somewhat similar to the governance structure of the IMF, where subscription quotas vary among members and voting rights and borrowing quotas are proportional to the contribution quotas (see table 1). Reflecting the economic disparity between the Plus Three countries and the ASEAN countries, the overall ratio of contributions between the two are set at 8:2, with the three Northeast Asian countries kicking in $192 billion and the remaining $48 billion coming from ASEAN states. The voting system is a weighted one with a small number of equal basic votes, much as is the case at the IMF. Every participating member except Hong Kong has equal basic votes (14.8% of the total), and the remainder of the votes are proportional to contribution quotas. Unlike at the IMF, however, borrowing quotas are set in a way that accommodates the participating members’ different degrees of vulnerability to a liquidity crisis, as multiples of contribution quotas in an inverse relationship to their size. Thus, the ASEAN members making

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10 By its economic weight, South Korea’s share should have been around 11–12% (Kawai, 2010, 9).
smaller contributions, who are also the most likely candidates for the facility, have higher purchasing multiples, while Korea’s quota, reflecting its status as both a lender and a borrower, is set at parity with its contribution. China and Japan, on the other hand, have access to only half their contributions, as the arrangement was never meant to be a source of emergency financing for them.

<Table 1> CMIM Contributions, Borrowing Quotas, and Voting Weights

<table>
<thead>
<tr>
<th>Country</th>
<th>Contribution (US$ billions)</th>
<th>Share (%)</th>
<th>Purchasing multiple</th>
<th>Voting weight (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>76.8</td>
<td>32.0</td>
<td>28.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>68.4</td>
<td>3.5</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>South Korea</td>
<td>38.4</td>
<td>16.0</td>
<td>1</td>
<td>14.77</td>
</tr>
<tr>
<td>Plus 3 subtotal</td>
<td>192.0</td>
<td>80.0</td>
<td>−</td>
<td>71.59</td>
</tr>
<tr>
<td>Indonesia</td>
<td>9.104</td>
<td>3.793</td>
<td>2.5</td>
<td>4.369</td>
</tr>
<tr>
<td>Thailand</td>
<td>9.104</td>
<td>3.793</td>
<td>2.5</td>
<td>4.369</td>
</tr>
<tr>
<td>Malaysia</td>
<td>9.104</td>
<td>3.793</td>
<td>2.5</td>
<td>4.369</td>
</tr>
<tr>
<td>Singapore</td>
<td>9.104</td>
<td>3.793</td>
<td>2.5</td>
<td>4.369</td>
</tr>
<tr>
<td>Philippines</td>
<td>9.104</td>
<td>3.793</td>
<td>2.5</td>
<td>4.369</td>
</tr>
<tr>
<td>Vietnam</td>
<td>2.0</td>
<td>0.833</td>
<td>5</td>
<td>1.847</td>
</tr>
<tr>
<td>Cambodia</td>
<td>0.24</td>
<td>0.100</td>
<td>5</td>
<td>1.222</td>
</tr>
<tr>
<td>Myanmar</td>
<td>0.12</td>
<td>0.050</td>
<td>5</td>
<td>1.179</td>
</tr>
</tbody>
</table>
Decision-making at CMIM follows a two-tier system, with the more important decisions preserved to the ministerial level and lesser decisions to the deputy level. At the unveiling of CMIM, the ministerial level was initially comprised of APT finance ministers, but in 2013 this was expanded to include central bankers as well. “Fundamental issues” such as the review of the total size of CMIM, contribution quotas, and borrowing multiples, as well as readmission, membership, and terms of lending, are decided on consensus at the ministerial level. On the other hand, “executive level issues” such as initial execution of drawing, renewal, and default are determined by 2/3 majority at the deputy-level, comprised of deputy-representatives from finance ministries and central banks (APT 2010, 2012).

Aside from these features, multilateralization was also accompanied by a renewed effort at addressing the perennial problem of the APT’s lack of credible surveillance capacity. In addition to further enhancing the ERPD process, the APT launched a more focused initiative by creating an independent, dedicated regional macroeconomic surveillance unit. Called the ASEAN+3 Macroeconomic Research Office (AMRO), this new surveillance office has been operational in Singapore since 2011. The task of this research office is “to monitor and analyze regional economies; contributing to the early detection of risks, swift implementation of remedial actions, and effective decision–making of the CMIM” (APT 2010).

As seen, the changes ushered in with multilateralization are extensive and significant. They certainly improve upon the previous CMI considerably, and multilateralization has clearly strengthened
its erstwhile meager capacity. But do these changes fundamentally transform the CMI into something approximating the AMF, able to satisfy its twin objectives of providing effective, regionally exclusive and politically independent liquidity support to its members? To answer this question affirmatively, multilateralization must have achieved two things: create a large enough lending facility to be a credible source of emergency financing, and elevate the CMI from its subordinate position by removing the IMF link. Neither has been accomplished.

Although the latest increase in the size of the reserve pool doubled it to $240 billion, this number is not actually that impressive for a couple of reasons: this figure is the aggregate amount and the available financing for individual countries is much smaller; and despite increasing the delinked portion of the funding to 30% recently, the remaining 70% is still tied to the IMF.11 The continued placement of the IMF link reduces the overall size of the “real” pool to only $72 billion and drastically draws back the actual size of financing. Any assessment of CMIM should therefore focus on its lending capacity for individual potential borrowers generated by this delinked number, not the aggregate pool.

Stripped of the linked funding, the individual borrowing quotas of CMIM are still ruefully inadequate by nearly every conceivable measure. Three representative metrics are presented in the following discussion, measuring CMIM’s funding capacity relative to: 1) FX reserve holdings; 2) the 1997 rescue packages put together by the IMF; and 3) the level of exposure to flight-prone foreign capital.

In a widely known phenomenon, East Asian countries, along with nearly every other emerging market economy and developing country, have been hoarding massive amounts of international reserves since the crisis of 1997, as a “self-help” strategy to hedge against future disruptions in capital flows.12 The APT members

11 The APT (2012) also indicated that the share of the delinked funding may be further increased to 40% in 2015, subject to review, as a compromise between the ASEAN countries pushing for a more substantial reduction in the IMF link and the lenders reluctant to endorse it.

12 On reserve accumulation in the emerging and developing world, see Bird
together hold over $6.1 trillion in reserves, dwarfing the total size of CMIM funding, which accounts for only 3.9% of the total FX reserves held by the participating economies. Individual contribution quotas relative to each member’s reserve holdings are also miniscule, ranging from the low of 2% of for China and the high of 11.8% for South Korea. Borrowing quotas are somewhat higher than this, but only for ASEAN countries as a reflection of their higher borrowing multiples; and taking the IMF–linked portion away reduces them drastically to a single–digit level, ranging from the high of 8.1% for the Philippines and the low of 3.5% for South Korea, for a total of a paltry 1.1% (see table 2).

Table 2  CMIM Contribution and Delinked Borrowing Quotas Relative to Reserve Holdings of Participating Countries, as of 2012 (Billions of US$ Unless Otherwise Noted)

<table>
<thead>
<tr>
<th></th>
<th>Reserve holdings</th>
<th>Contribution Quotas</th>
<th>Delinked Borrowing Quotas</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>% of reserves</td>
<td>Amount</td>
</tr>
<tr>
<td>China, including HK</td>
<td>3,819.30</td>
<td>76.8</td>
<td>2.0</td>
</tr>
<tr>
<td>Japan</td>
<td>1,238.70</td>
<td>76.8</td>
<td>6.2</td>
</tr>
<tr>
<td>Korea</td>
<td>326.4</td>
<td>38.4</td>
<td>11.8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>98.1</td>
<td>9,104</td>
<td>9.3</td>
</tr>
<tr>
<td>Thailand</td>
<td>170.8</td>
<td>9,104</td>
<td>5.3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>136.1</td>
<td>9,104</td>
<td>6.7</td>
</tr>
<tr>
<td>Singapore</td>
<td>259.8</td>
<td>9,104</td>
<td>3.5</td>
</tr>
<tr>
<td>Philippines</td>
<td>84</td>
<td>9,104</td>
<td>10.8</td>
</tr>
<tr>
<td>Total</td>
<td>6,133.20</td>
<td>237.52</td>
<td>3.9</td>
</tr>
</tbody>
</table>

Source: IMF (n.d.). Excludes the contribution and borrowing quotas of $2.48 billion and $12.4 billion for new participants.

The delinked lending capacity of CMIM is also small relative to the financing provided by the IMF during the 1997 Asian crisis. Under the new arrangement, the three countries in the region that received IMF financing in 1997—Indonesia, South Korea, and Thailand—can respectively draw up to around $6.8 billion, $11.5 billion, and $6.8 billion, for a combined amount of about $24.2 billion. This is much smaller than the sizes of the rescue packages put together for the three countries during the AFC, which together amounted to $117.9 billion. Adjusted for inflation, the combined financing freely available to the three countries is less than 16% of their IMF-led financing, with individual financing ranging from 12% to 29.5% (see table 3 for details).

<Table 3>  CMIM Borrowing Quotas in Comparison to the IMF-led Financing in 1997 (Billions of US$ Unless Otherwise Noted)

<table>
<thead>
<tr>
<th></th>
<th>Total borrowing quotas</th>
<th>Delinked borrowing quotas</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1997 financing (A)</td>
<td>Amount</td>
</tr>
<tr>
<td>Indonesia</td>
<td>42.3</td>
<td>22.76</td>
</tr>
<tr>
<td>South Korea</td>
<td>58.4</td>
<td>38.4</td>
</tr>
<tr>
<td>Thailand</td>
<td>17.2</td>
<td>22.76</td>
</tr>
<tr>
<td>Total</td>
<td>117.9</td>
<td>83.9</td>
</tr>
</tbody>
</table>

Source: APT (2010, 2012); IMF (n.d.).

Because foreign capital inflow to East Asia has expanded greatly since the 1997 crisis, the scale of potential capital exodus from the region is also that much greater now. As such, the most appropriate metric to measure the adequacy of CMIM funding capacity is the current stock of flight-prone, short-term foreign
capital. Two types of foreign capital are relevant here: short-term external liabilities and foreign portfolio investment (FPI). Borrowing from the standard practice used to estimate the appropriate level of FX reserves, the full amount of short-term external debts is included in measuring the potential sources and sizes of capital drain, and then a conservative ratio of 30% is applied to the stock of FPI to measure prospective capital drain from equity and debt securities markets. As shown in table 4, the independent funding capacity of CMIM once again falls far short of the scale of potential capital drain: 10.3% for Thailand, 9.4% for Indonesia, and a meager 4.5% for South Korea.

<table>
<thead>
<tr>
<th></th>
<th>Potential capital drain</th>
<th>Coverage ratio of borrowing quota (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Short-term debts</td>
<td>Short-term debts</td>
</tr>
<tr>
<td>Indonesia</td>
<td>38.2</td>
<td>34.2</td>
</tr>
<tr>
<td>South Korea</td>
<td>137.4</td>
<td>137.4</td>
</tr>
<tr>
<td>Thailand</td>
<td>45.0</td>
<td>21.2</td>
</tr>
<tr>
<td>Total</td>
<td>176.8</td>
<td>397.3</td>
</tr>
</tbody>
</table>

Source: APT (2010, 2012); IMF (n.d.).

Clearly, without removing the IMF link, CMIM cannot meet its

13 This borrows from the so-called "Guidotti-Greenspan" principle, which recommends sufficient reserve holdings to cover all short-term liabilities at minimum. For a discussion of estimation methods for measuring the appropriate level of FX reserves, see IMF (2011).
economic objective of providing its participants with regionally based liquidity support in times of financial instability. It is also equally clear that the continued maintenance of the IMF link straps CMIM in a straightjacket and incapacitates it from delivering on its political objective. This frustrates East Asia’s wish to channel the “politics of resentment” into finding an effective counterweight to Washington. Logically and necessarily, then, delinking is the next step to take, but is East Asia ready to make this leap? The following section shows why skepticism is in order.

**BEYOND MULTILATERALIZATION: DELINKING FROM THE IMF?**

The preceding discussion shows clearly that removing the IMF link is *sine qua non* for CMIM to no longer merely *supplement* the existing international financial arrangements and genuinely keep the United States out. It is also the most difficult problem faced by CMIM, due to the uninviting political implications that must be confronted, By comparison, increasing the size of the reserve pool is a much easier task, as demonstrated by the doubling of the reserve pool in 2012. Given the huge size of reserves held by the APT members, especially by the two largest lenders (over $5 trillion together), there is more than enough room for additional expansion in the pool. China and Japan alone can double it again by making an additional commitment of just 4.7% of their current combined reserve holdings, which will raise their commitment to only 7.8%, well below South Korea’s current commitment. Removing the IMF–link, in contrast, is a far bigger problem.

One seemingly technical reason why CMIM plays second fiddle to the IMF is its lack of a credible surveillance mechanism. Without a robust surveillance mechanism of its own, CMIM cannot mitigate the potential problem of moral hazard inherent to any liquidity–support system. To address this problem, the APT must find some way to enforce, either *ex ante* or *ex post*, a concrete set of common standards and conditions, including but not limited to
acceptable standards of economic management, lending criteria, disbursement conditions, repayment schedules, and serious peer review. All of these require a much broader and clearer agreement than that which the APT has managed to reach with its ERPD process (Grimes 2011a, 96–8). While the APT has created AMRO in tandem with multilateralization to improve its surveillance capacity, the jury is still out on how effective and robust this new surveillance unit will be. AMRO’s tasks are defined very broadly at least on paper, hitting all the major elements one would expect from a robust surveillance mechanism. These include monitoring of macroeconomic conditions and financial soundness; assessment of macroeconomic and financial vulnerabilities; formulation of policy recommendations; and ensuring of compliance with the terms of financing. AMRO has already undertaken policy reviews with the member states, which appear to have been well-received, indicating some success with the ex ante side of surveillance. The real test, however, lies with the ex post side—that is, with conditionality and its enforcement. After all, the IMF routinely engages in Article IV consultations with its members on a regular basis, and these policy reviews are considered neither difficult nor, given its poor track record, that useful when it comes to preventing financial crisis. The most difficult and substantive element of surveillance, one that requires a lot of grit and much pain, is formulating and enforcing conditionality. Exactly how much competence the APT will invest in AMRO to undertake this role remains highly uncertain.

At its core, the lack of an effective surveillance mechanism and the resulting reliance on the IMF does not represent a technical barrier but a political problem. While some observers emphasize the lack of implementation capacity in some APT countries and of transparency in most countries as an important hurdle to the development of effective regional surveillance, this is not a problem that is specific or inherent to East Asia, but rather it is a problem faced by nearly all emerging market economies and developing

14 See also Kawai and Houser (2007) and Jung (2008).
countries—indeed, the sorry saga of Greece illustrates that lack of transparency is not a problem unique to the periphery. Yet, weak implementation capacity and policy opacity have not prevented the IMF from engaging in Article IV consultations, formulating adjustment programs, and enforcing conditionality on some of the least transparent countries with the weakest implementation capacity in the world, not to mention its surveillance of the APT countries. Implementation–related issues therefore do not pose a sui generis obstacle to the emergence of a regional surveillance mechanism in East Asia per se, but to surveillance in general. To make such technical barriers the source of the APT’s inability to come up with its own surveillance mechanism is to open a debate on the effectiveness of surveillance as a whole, including that of the IMF, and this is a very different story from the challenges faced by the region.

The difficulty is political. One can think of this problem in at least three dimensions. First, there is the question of how the United States would react if the AMRO were to evolve into a robust enough surveillance mechanism to make the removal of the IMF–link finally feasible. More than anything else, the very weakness of the CMI and its continued subordination to the IMF even after multilateralization are what explains the American position of benign neglect and indifference. The regionally exclusive membership of CMIM frees the United States from having to make any financial commitment to the reserve pool. Therefore, the APT’s lack of surveillance capacity allows it to retain indirect veto power over 70% of CMIM funding. This is all around a very attractive arrangement for the United States, but it hinges entirely on the IMF link. Any attempt to remove this link is therefore very likely to generate the kind of ferocious opposition from the United States provoked by the AMF proposal.

Second, CMIM lacks a firm political foundation for leadership or cooperation. With neither a clear regional hegemon nor a trust–

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15 For a discussion of governance capacity as a variable to Asian regional integration, see Hamilton–Hart (2003).
based partnership of equals emerging, East Asia’s monetary regionalism has been dependent on an awkward and often rocky partnership between two rival powers, China and Japan. Both of these countries are contending for regional leadership in an atmosphere of deep mutual distrust. This rules out the hegemonic path toward institution-building, as occurred under American hegemony with postwar international institutions. It also rules out the Franco–German path to regional cooperation as occurred in Europe (see Cohen 2006, 157–8; Cohen 2010, 15–22; Samuels 2007, 164–6; Grimes 2009a, ch. 1). Since neither China nor Japan is in a position of dominance to graft a robust surveillance mechanism into CMIM either by coercing or making side-payments, the second-best route is for the two countries to hammer out their differences. They can do this by reaching a mutually acceptable agreement on how surveillance is to be undertaken and making a firm commitment to stick to the agreement. This, however, requires the kind of confidence that is not found in Sino–Japanese relations, as surveillance, especially the enforcement of conditionality, entails politically difficult and unpleasant costs for the lenders. China and Japan are very likely to face the “politics of resentment” from the borrowers just as the IMF and the United States did. This may tempt one or both of them to defect in a bid to increase their influence by accommodating the borrowers. In this context, the IMF link provides a convenient way out of the dilemma for China and Japan, as it enables them to let the Fund be the lightening rod of discontent while denying any political responsibility for conditionality (Grimes 2011a, 97). For this reason, neither China nor Japan has been particularly proactive or aggressive in dealing with CMIM’s lack of surveillance capacity, despite the fact that the problem of moral hazard is fundamentally their problem. This is especially true for China, which has indicated clearly that a robust surveillance mechanism is not in its priority. One Chinese Finance Ministry official observed, “We should prevent [AMRO] from intervening in other countries’ internal affairs, because the monitoring function is only a supervision or performance tracing
mechanism necessary in order to provide consultation to relevant countries.”16

Finally, while surveillance and enforcement entail not-so-negligible political costs to the lenders, their costs are far greater to the borrowers. If conditionality and enforcement pose difficult decisions for China and Japan, these are even more difficult decisions for the borrowers that intrude into their internal affairs and seriously erode their economic sovereignty. For obvious reasons the latter are deeply ambivalent about this, especially given ASEAN’s long-running tradition of jealously guarding the principle of non-interference—the so-called “ASEAN Way.” In this light, enhancing the surveillance capacity of CMIM is not just appealing to the borrowers but also quite disconcerting. It is appealing in that it would put in the conditions necessary for the removal of the IMF link. This would finally turn CMIM into a genuinely regional “self-help” mechanism able “to address short-term liquidity difficulties in the region,” as repeatedly emphasized by the APT. It would do so without having to secure the countenance of the United States. It would be disconcerting, also, because the emergence of such a robust surveillance mechanism would necessarily raise the political costs of tapping into CMIM financing. There is no guarantee that these costs would be any lower than those accompanying financing from the IMF. The borrowers’ enthusiasm for delinking from the IMF is therefore dampened by the fact that a regional surveillance and enforcement mechanism cannot be assumed to be any less burdensome or costly than that of the IMF. This assumption is needed if the mechanism is to have any real teeth satisfying enough to the lenders. There is, in other words, no basis to expect that a delinked CMIM with its own surveillance mechanism would somehow be more benevolent and generous to the borrowers than the IMF just because of its regional scope. Nor are there grounds to believe that China and Japan would somehow be more enlightened and less self-interested than

16 Quoted in Yuan and Murphy (2010, 7). For a discussion of China’s approach to regional integration, see Sun (2010).
the United States just by the virtue of their geographic proximity.\textsuperscript{17} The borrowing countries also have every incentive to resist efforts to strengthen CMIM’s surveillance capacity to the degree that would make delinking possible.

The fundamental problem facing AMRO is that no one truly wants a robust surveillance mechanism for its political implications—not the United States, not the lenders, not the borrowers. For the United States, the strengthening of the APT’s independent surveillance unit means the lynchpin of its influence over CMIM, the IMF link, will be finally removed for good. For China and Japan, vesting AMRO with sufficient competency to address the problem of moral hazard means having to play the role of the bad cop against the borrowers while entertaining the distinct possibility that the other side might suddenly step into the good cop’s shoes. And for the borrowers, it means substituting one source of discontent with another, the latter of which, despite closer proximity, cannot be assumed to be any more “neighborly” than the former. This is at the heart of the political obstacles facing the region, a daunting wall of distrust and resistance casting a long shadow of pessimism over CMIM’s prospects and making the glass of East Asian monetary regionalism decidedly half-empty.

\textbf{CONCLUSION}

Optimistic proponents of East Asian regionalism may ask, along the lines of familiar institutionalist retort, why states in the region have put over a decade of effort into the CMI and its multilateralization

\textsuperscript{17} In a move that surprised some observers, the Japanese recently decided to let its $57 billion BSA with South Korea lapse amid escalating diplomatic rows over Dokdo Island. This is widely seen as a deliberate, politically motivated decision, calibrated to put pressure on South Korea. It also illustrates the potential use of CMIM funding as a source of leverage by the lenders.

\textsuperscript{18} For functionalist explanations of monetary and financial cooperation in East Asia, see Girardin (2004), (Olarn 2004), Kawai (2005), and Spiegel (2009).
if it is such a feeble arrangement as argued in this article. Alternatively, those of constructivist persuasion may point out that the findings of this paper ignore the emergence of an East Asian identity that is generating a new grammar to reconstitute the social meaning of the region and its interests. Both strands of optimism are not entirely groundless, but their reading of East Asian monetary regionalism as a glass half-full is ahead of its time.

Although the region’s attempt at institutionalized cooperation in financial and monetary affairs is a novel departure from the past dynamics of East Asian regionalism, the effort has been meager at best and, to be less charitable, quite marginal. This was clearly demonstrated by the fact that even after nearly a decade of institution-building, the CMI was completely irrelevant to the participating countries’ responses to the global financial crisis of 2008. Furthermore, states invest in cooperative ventures for any number of reasons, not all of which are to meet functional needs. The demand for cooperative arrangement alone cannot explain why international institutions emerge, far less guarantee their success. A cursory look at innumerable international organizations shows that states are quite willing to invest in dysfunctional and ineffective institutions: they are just not willing to invest much. And thus far, East Asian countries’ investment in CMIM has been rather limited.

As for the constructivist claim of a budding East Asian identity reshaping its interest formation and articulation to serve as the engine of greater monetary cooperation in the region, this view is based more on normative preferences than an empirical reality. While the possibility of such a pan-regional identity emerging in the future is not ruled out, it is in the realm of a very distant future. For now and into the near future, East Asia remains a fundamentally geographic concept first and foremost. The sheer heterogeneity of the region (wide-ranging disparity in economic

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19 On the emergence of an East Asian collective identity and its role in regionalism, see Yu (2003), Evans (2005), and Lee (2006, 2009).
conditions, diverse historical experiences, divergent domestic political organization, external security needs, and vibrant multiplicity of cultural norms) militate against the near emergence of a coherent collective identity defined by anything more substantive than simple geographic proximity.

Economy-wise, despite the emergence of extensive regional networks of production and growing intraregional trade, there still are wide disparities in the economic conditions of the region, ranging from the industrial powerhouses in Northeast Asia to the largely agrarian, pre-industrial economies in Southeast Asia. While there is plenty of shared history in the region, there is no shared understanding of this history. This is shown by the ongoing controversy over Japanese history textbooks and the more recent Chinese attempt to rewrite the ancient history of the region. Politically, East Asia is a cauldron of nearly every type of political regime conceivable between the two polar ends of the spectrum. It ranges from full-fledged democracies to one-party dictatorships. The regional security complex is extremely fragile. This is complicated by the rising power of China, the relative decline of Japan, and uncertainty over the future of the traditionally dominant role of the United States in the region. There are many unsettled territorial disputes in East Asia that periodically incite intense nationalist sentiments and inevitably reopen the old wounds of the region’s unpleasant past. Finally, East Asia remains an essentially multicultural region with neither a clear articulation of a coherent collective identity nor a set of widely shared values that would justify speaking of East Asia as a distinct cultural entity. The desire to exclude one state, even a big and important one like the United States, does not a collective identity make.

In short, the old clichés associated with East Asian regionalism remain largely intact. Despite its decade-long effort to find a politically independent regional solution to the problem of financial instability, the APT has not been able to move the CMI anywhere close to the AMF. It took half a decade and another very scary crisis before multilateralization (agreed in principle in 2005) could be implemented. Contrary to all the fanfare, turning already
existing BSAs into a reserve pool of a relatively modest size is not something that difficult to achieve, especially if it is self–managed. The real test lies with the ability of the APT to come up with a credible surveillance mechanism that makes delinking from the IMF feasible. However, the prospects of achieving this remain highly uncertain. If multilateralization is a step toward the AMF, it is merely a small step before making a giant leap, and thus far East Asia has shown us no reason to believe that it is capable of taking this leap of faith anytime soon.
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STRUCTURAL RESTRICTIONS OF TERRITORIAL DISPUTES IN NORTHEAST ASIA

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Abstract

The main purpose of the article is to deal with the structurally restrictive factors of the conflict regarding the dominion over islands in Northeast Asia in the post–Cold War era. The maritime boundary delimitation problem, the unique-territory theory vs. the effective-governance dispute, and the nationalistic modern vs. postmodern conflict will be analyzed. The resolution of the territorial disputes of this region is becoming more difficult as the national benefits and nationalism of the concerned nations affect the delimitation of territories and the setting of boundaries. The territorial disputes of this region are generally expressed as potential factors of conflict. Disputes over island regions instead of the mainland make it difficult to promote territorial sovereignty. The countries directly concerned in the territorial disputes display postmodern nationalistic tendencies that are becoming realistic political and diplomatic problems. These are focused on the national benefit of the homeland as well as the economic, military, and political power and public opinion of the right-wing conservatives. In this context, the territorial disputes in Northeast Asia are becoming more heated. Politicians use the disputed areas and the historically established nationalistic emotions for political purposes. The leaders of each country are displaying strong nationalistic tendencies related to the territorial disputes, thereby increasing the tendency to use this as a type of plan to gather political support.
INTRODUCTION

After the rise of modern nations, when independent nations appeared as the main transactors of the international society, territorial issues became the main factor in international disputes. As territories became connected the territorial disputes of modern nations appeared as international disputes between nations. This concerned the rights of certain territories as the concept of “sovereignty” of individual nations was established due to the 1648 Peace of Westphalia. A territorial dispute generally occurs during the process of maintaining or changing the existing dominium or of obtaining new dominiums. A dispute also happens during the collision of opinions related to the dominium over specific regions between two or more countries due to the inaccuracy of the borderlines. The global territorial dispute during the late 19th and early 20th centuries had almost ended by the early 1950s. After these disputes led to the First and Second World Wars, due to Western imperialism and other regional issues, it was gradually resolved or went into a lull.

The main political transactors of the region of Northeast Asia in the post–Cold War era (USA, Russia, China, Korea, and Japan) are experiencing a change in mutual dynamics. However, an ideological–conflict structure still exists between similar powers of the post–Cold War era. The establishment of a “right–function cooperative structure” that substitutes for the structural restrictions is insufficient. Although economic cooperation focused on the economic profit of countries has been relatively activated, economic cooperation does not translate much into political cooperation. Furthermore, the tendency of “nationalism focused on the homeland” serves as a factor that interrupts the multilateral cooperation.

within the regions. Being linked to dominium disputes over islands, the arms race and conflict between countries and strategic aspects such as traditional and non-traditional security methods, including the expansion of weapons of mass destruction (WMDs) (e.g., North Korea’s development of missiles and nuclear bombs), carry factors that threaten the peace and security of the region. When the geopolitical aspect is considered in relation to the regions that simultaneously carry such acute “uncertainty and instability,” three countries – Korea, China, and Japan – come to mind. Connected by seas, they achieved commerce and trade that connected them through sea routes for a long time. It would be difficult to resolve the conflict that surrounds the “semi-enclosed or enclosed” maritime security environment with strong Mediterranean properties of the Northeast Asian seas without the continued and intimate cooperation of the coastal states.

The resolution of the territorial disputes of Northeast Asia in the post–Cold War era is becoming more difficult as the national benefits and nationalism of the concerned nations affect the delimitation of territories and the setting of boundaries. The territorial disputes of this region are generally expressed as potential factors of conflict, as disputes of island regions instead of the mainland that can promote territorial sovereignty. The countries directly concerned in the territorial disputes display postmodern nationalistic tendencies that are becoming realistic political and diplomatic problems focused on the national benefit of the homeland as well as the economic, military, and political power and public opinion of the right–wing conservatives. This geopolitically

restrictive structural aspect is not limited to certain countries but also becomes the factor of conflict and the pending issue that also affects the surrounding nations. Under this context, the main factors of conflict of the territorial disputes of Northeast Asia in the post–Cold War era – the structurally restrictive factors of the conflict regarding the dominium over islands, the maritime boundary delimitation problem, the unique-territory theory vs. the effective-governance dispute, and the nationalistic modern vs. postmodern conflict – will be analyzed.⁶

**DISPUTE REGARDING DOMINIUM OVER ISLANDS AND THE MARITIME**

 Territory refers to a region where the sovereignty and jurisdiction of a certain country is exerted, and borderline refers only to the bordering region of the outskirts of a territory as a part of the territory concept.⁷ As a complex and difficult conflict, a territorial dispute carries the risk of collision and a low possibility of peaceful resolution as the opinions and positions of the concerned countries are very uncompromising. A territorial dispute has the possibility of developing into military counteractions such as armed protests or collision, and can thus lead to war rather than negotiations or submission. The possibility of recurrence after the resolution of the dispute is also high.⁸ Even if the dispute is concluded by forceful methods like war, it is only a temporary conclusion. There is always a possibility of recurrence. Thus, it can be said that a long time passes before a dispute completely ends.

A territorial dispute, the main factor in international conflicts, generally targets land. This is true of international disputes occurring between countries in relation to sovereignty over a

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⁷ Kim, H. R., *Case Analysis and Current Discussions of Territorial Issues by the UN*, p. 23.
certain territory. However, rivers and seas can also become the subject of a dispute. Territorial disputes are categorized into dominion territorial disputes and boundary or border disputes as well as “continent territorial disputes” and “sea territorial disputes.” Here, *dominium dispute* refers to a dispute regarding a political decision related to the jurisdiction over and allocation of a territory.\(^9\) The dispute may be concluded peacefully by allocating a certain proportion of the territory or by unilaterally relinquishing the claim of dominium. The dispute may sometimes be resolved through arbitration by an international jurisdiction law court. The borderline and territorial dispute of China and Russia over the Amur River region is a good example of a dispute that was resolved through continued peaceful negotiations and summits (when Gorbachev seized power in the mid–1980s).\(^10\)

Sea territorial disputes are categorized into “disputes regarding dominium over islands” and “maritime boundary delimitation disputes.”\(^11\) The sea is divided into several zones based on the distance from the coast and its functions: as internal waters, territorial waters, contiguous zone, continental shelf, economic zone, open or high seas, and deep seabed.\(^12\) The use of these sea

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11 The maritime boundary delimitation includes the borderline of the setting of the exclusive economic zone, the territorial waters, and the continental shelf, but strictly speaking, the setting of the exclusive economic zone and the continental shelf, which excludes the borderline of the territorial waters, is related to jurisdiction rather than being a matter of territorial dispute. Bae, J. S. (1998), pp. 16–17.

12 Before the Second World War, marine zones were categorized into four water zones:inland sea, territorial waters, contiguous zones, and international waters. In 1945, new concepts of water zones appeared, England’s international legal expert, E. D. Brown, includes the exclusive fishing zone and the archipelagic waters as independent marine zones, in addition to the current seven universal
zones—the basis of the jurisdiction of coastal states and the division of boundaries—are seen as important diplomatic issues of the international society.

As mentioned above, sea territorial disputes are categorized into “disputes regarding dominium over islands” and “maritime boundary delimitation disputes.” The maritime boundary delimitation disputes include disputes over territorial waters, marine energy resources, and exclusive economic zones (EEZs). Excluding the boundary delimitation of the territorial waters, the setting of the continental shelf and EEZ are regarded more as “issues of jurisdiction” rather than “issues of dominium.” The territorial disputes of Northeast Asia acutely arose in sea territories rather than in inland territories after 1994, when the UN Convention of the Law of the Sea took effect. In other words, the territorial disputes between countries within the regions of this zone generally display the characteristics of disputes regarding dominium over islands, which affect the “maritime boundaries” in the surrounding regions and the dispute related to “dominium” itself as well as the disputes of other countries in other regions of the world. The disputes regarding dominium over islands have recently shown conflicting aspects that are difficult to resolve through international mediation or judicial procedures, due to the effect of nationalism. The representative marine dominium dispute cases include the Kuril Islands (Japan’s northern territory) dispute, the China–Japan Diaoyu Island (Japan’s Shenkako Island) dispute, the Eastern China Sea dispute, and the South China Sea dispute between China and some Southeast Asian

countries (refer to Figure 1). As with the Korea–China Ieodo dispute, the maritime boundary delimitation issue (e.g., the EEZ delimitation, continental shelf, and ocean floor division issues) has also become the main factor in the region’s unstable security. Due to the expansion of the marine jurisdiction of coastal states based on the adoption of the UN Convention on the Law of the Sea, claims of jurisdiction over lands surrounding the territorial waters, EEZ, and continental shelf are repeatedly occurring (refer to Table 1).

<Figure 1> Territorial Disputes in North East Asia


17 The International Maritime Law Agreement was enacted as a result of the compromise between the party that demanded exclusive rights to the coastal states’ marine resources and the party that claimed the freedom of international waters. The scope of maritime jurisdiction over coastal states as recognized by the UN Convention on the Law of the Sea includes 12–nautical–mile territorial waters, 12–nautical–mile contiguous waters (from
Internationally speaking, the UN Convention on the Law of the Sea is significant for the following reasons. First, it meticulously regulates the rights and responsibilities of the countries that use the applicable waters and coastal states by distinguishing the sea into ranges of vertical and horizontal spaces. Second, it is known as the sea’s ‘Magna Carta’, inclusively regulating the use of the sea, marine environmental protection, scientific research, and dispute resolution. Third, it constructs the regime of the sea through relatively detailed and inclusive regulations, thereby significantly contributing to the stability of marine order. There is a need, however, to push for the universality of the proposed restrictions for the construction of a wide regime. There may be agreements concerning rules, but as disputes can easily occur during their detailed application, there are areas of potential dispute between countries concerning the national benefits surrounding the sea.18

<Table 1> Territorial Conflicts and Disputes in Northeast Asia

<table>
<thead>
<tr>
<th>Dispute regarding Dominium over Islands</th>
<th>Main Conflict Dokdo conflicts</th>
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<tbody>
<tr>
<td>Dokdo conflicts</td>
<td>• Around the 6th century, after Shilla’s conquest of the kingdom of Woosan, Dokdo was effectively governed by Korea as its territory. In 1905, after the Russia–Japan War, Japan forcibly merged Dokdo with the Shimane Prefecture, and installed observatories to monitor the movement of Russian submarines. At the time, Japan claimed that Dokdo was a deserted island.</td>
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<td></td>
<td>• In 1945, after the defeat of Japan, the American military office managed the island, and in 1948, it became a Korean</td>
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the borderline of the territorial waters), a 200–nautical–mile continental shelf (extended to 350 nautical miles if the continental border is well developed), and a 200–nautical–mile exclusive economic zone (from the borderline of the territorial waters).

<table>
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<tr>
<th>Territory</th>
<th>Detailed Information</th>
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<tr>
<td><strong>Dokdo conflicts</strong></td>
<td>In 1952, after President Lee Seungman’s delimitation of the Peace Line, Japan began to raise the issue of its dominion over Dokdo. Japan is proposing the inclusion of its claim of dominion in its elementary, middle, and high school textbooks, and in its defense manuals and diplomatic booklets. Japan is also making continued attempts at regionalization, such as during the Liberal Democratic Party members’ visit to Ulleungdo in 2011.</td>
</tr>
</tbody>
</table>
| **Kuril Island dispute** | • In 1855, the island became a Japanese territory again with the Russia–Japan Shimoda Peace Treaty. In 1945, the Soviet Union forcibly occupied the four South Kuril islands as it participated in the Second World War. Afterwards, Japan claimed dominion over the islands, questioning Russia’s claim. In 1956, two of the four islands, Habomai and Shikodan, were proposed to be ceded to Japan as a condition for concluding the peace treaty, but due to Japan’s rejection of the said proposal, the islands are still the subject of an unresolved dispute.  
• In 1985, after Gorbachev seized power, several peaceful territorial negotiations were carried out, but Japan is still demanding the bulk return of the four islands in advance. In early November 2010, President Medvedev of Russia suddenly visited Gunashiri Island, one of the disputed islands. Russia is continually reinforcing its economic and military governance over the islands. |
| **Diaoyu Island (Shenkako Island) dispute** | • The dispute over Diaoyu Island (Shenkako Island) in the East China Sea concerns a dominion problem involving China, Japan, and Taiwan. After the 1895 Sino–Japanese War, the area was merged into Japanese territory. In 1951, after the island’s transfer to the U.S., based on the U.S.–Japan Peace Treaty, and after the 1968 UN marine exploration and the report of the potential presence therein of fuel resources, China and Taiwan began claiming dominion over the island.  
• In 1971, the island came under the jurisdiction of Japan through the U.S.–Japan Okinawa Agreement. In 1992, China enforced its claim that the island was part of its territory by enacting the Territorial Waters Law, which gave rise to a diplomatic and civil conflict between China and Japan. In 2010, the two countries’ dominion dispute was intensified. |
The recent maritime boundary delimitation issue in relation to South Korea has Ieodo as the representative case, where China claims sea rights and interests, stating that Ieodo is under the

| Korea-Japan EEZ Issu | • South Korea and Japan concluded the South Korea–Japan Continental Shelf Agreement in 1974, and South Korea, China, and Japan ratified the UN Convention on the Law of the Sea. Based on the declaration of the EEZ, boundary delimitation conflicts with the nearby countries emerged. The countries thus concluded a fisheries agreement. At the time, the middle or temporary waters policy was implemented concerning certain waters that displayed difficult boundary delimitation. Only the fisheries problem was resolved, however: the final maritime boundary delimitation has been delayed.  
• South Korea and Japan concluded the New Korea Japan Fisheries Agreement in 1998 and temporarily set the middle waters in parts of the eastern and southern seas. Temporary-step waters were set with China only to resolve the fisheries problem. When the boundary delimitation of the final exclusive economic waters will be achieved, however, remains unknown, South Korea, China, and Japan have come up with vague boundary delimitation rules concerning maritime jurisdiction, such as over internationally legal exclusive economic waters and continental shelf, and have shown these to the nearby countries.  
• The maritime boundary delimitation problem of the Northeast Asian region is generally indivisible from the dispute regarding dominium over islands. The maritime boundary delimitation problem may display a more acute friction between proximate countries if the disputed waters are associated with resource development, and if the coastal states claim excessive jurisdiction.19 |

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jurisdiction of China. China is making an attempt to create an issue by calling Ieodo Suyenzhao, and is stating that it is under the jurisdiction of China (refer to Figure 2). The two countries pursued EEZ boundary delimitation negotiations beginning in 1996 but failed to reach a conclusion. In fact, notwithstanding the EEZ boundary delimitation negotiations with China, the jurisdiction over the Ieodo waters belongs to the South Korean government. The EEZ is a water region over which a country’s exclusive economic right is recognized based on the UN Convention on the Law of the Sea concerning all resources within 200 nautical miles of the coast of each country, but the sea between Korea and China is less than 400 nautical miles. There are thus overlapping parts, where the situations of the two countries vary. South Korea claims that delimitation must be achieved by considering the middle line as the boundary waters, and China claims that delimitation must be achieved by considering the length of the coastal line and the continental shelf extension line. In early March 2012, China announced that it included the Ieodo region in the range of regular patrol of its surveillance ships and airplanes as it is under the jurisdiction of China, being an EEZ overlapping region of China and South Korea.

21 As an underwater rock, the top of Ieodo is immersed 4.6 m beneath the water; thus, it can be seen only when the waves are strong. This rock is located 149 km from Marado in the southern extremity of Seogwipo-si.
It is estimated that 7.2 billion tons of natural gas and up to 10 million barrels of crude oil are buried under the entire area of the East China Sea, including Ieodo. In addition, 90% of the goods imported to South Korea via the sea pass through the southern waters of Ieodo. China’s first aircraft carrier, Liaoning, will display its strength by passing through the Korean Peninsula’s adjacent seas, and China’s territorial waters disputes with Japan and a number of Southeast Asian countries are also intensifying. If problems occur in relation to Ieodo, it will take South Korea 21 hours and 30 minutes to dispatch its naval force thereto from Busan while it will take China only 18 hours to do the same from its territory. The construction of a Jeju naval base to address this restriction will enable South Korea’s naval force to arrive at the site in just seven hours to carry out the needed military action.22

As such, the marine conflict over this region will inevitably be repeated if the coastal states will declare a 200-nautical-mile EEZ or continental shelf due to the state of the semi-closed bays if the northeastern Pacific part will be excluded. Thus, if maritime boundary delimitation is not smoothly accomplished, armed conflict may arise, which will serve as a regionally unstable factor. In the early 1980s, the concept of EEZ was introduced, which made the problem of maritime boundary delimitation the main factor leading to the disputes regarding dominium over islands combined with resource disputes, which is the greatest factor contributing to the security threat and marine cooperation of the surrounding countries.23

INDIGENOUS TERRITORY THEORY VS. EFFECTIVE-GOVERNANCE THEORY

As can be seen in Figure 3, the region of South Kuril (Southern Kurils, the Japanese term referring to the four islands of the north or the Northern Territory) belongs to the Kuril Islands, south of Sakhalin, currently belonging to Russia. Habomai Islands, composed of several small islands, and the Etorohu, Gunashiri, and Shikotan islands, are included therein.  

<Figure 3> Russia–Japan Territorial Dispute Area

Historically, in the 17th to 18th centuries, neither the Japanese nor the Russians but the Ainus (a minority race that exists in Japan to this day) resided in the area. The territorial dispute between Japan and Russia began as a collision with Japan, which moved northward, past Hokkaido, at the time that Czarist Russia, which had initiated an eastward policy past Siberia in the early 19th century, went southbound to reach the Sakhalin and Kuril

24 The total surface area is 4,996 km², which is approximately four times the size of Okinawa, and 19,000 people reside in the area, with its jurisdiction belonging to the state of Sakhalin. Gaidar, V., “The South Kurils: A Problem Awaiting a Solution,” Far Eastern Affairs (Moscow), No. 6, 1994, pp. 43–52; Mack, A, and O’Hare, M., “Moscow–Tokyo and the Northern Territories Dispute,” Asian Survey, Vol. 30, No. 4, April 1990, pp. 380–394.
islands. The two countries concluded the Shimoda Peace Treaty in Shimoda, Japan on February 7, 1855, with no relation to the Ainus. This treaty defined the four islands of South Kuril as Japanese territory, and the remaining 18 islands of Kuril Islands as Russian territory, with Sakhalin to be jointly managed by Russia and Japan. Afterwards, Russia’s expansionist policy concerning the Sakhalin region led to military seizure. Thus, the Territory Exchange Treaty of the Kuril Islands and Sakhalin was established through the Saint Petersburg Treaty between the two countries in 1875. Sakhalin, which was under the joint management of the two countries, came to be under the jurisdiction of Russia, and in return, all of the Kuril Islands, including the four South Kurils, were recognized as being under the governance of Japan. After the Russo-Japanese War (1904–1905), Japan regained governance over the southern part of Sakhalin. In 1945, at the end of the Second World War, the Kuril Islands, including Sakhalin and the four South Kurils, were seized by the Soviet Union.

The core of the Russia-Japan territorial dispute is the two countries’ differing opinions on whether the four South Kurils are part of the Kuril Islands. Japan bases its claim on the “Indigenous-Territory Theory,” which supports the continued claim of the


26 Stephen, J. J., Kuril Islands (Oxford: Clarendon Press, 1974), p. 245. At the Yalta Meeting in February 1945, England and the U.S. promised Stalin that “the Soviet Union’s dominium over Kuril Islands and South Sakhalin 50 degrees north that had been given to Japan as a result of the 1905 Portsmouth Treaty would be recognized if the Soviet Union participates in the Great Japanese War within three months of Germany’s surrender.” This promise was confirmed at the Potsdam Meeting in July, and the Soviet Union took part in the Great Japanese War in August. В.К.Зиланов, Русские курилы: история и современность (М.: Сampo, 1995), p. 17; Hong, W. S., “Consideration of the Perpetuated Dispute over the 4 Kurils,” The Korean Political Science Review, Vol. 36, No. 2 (Summer 2002), p. 329.
return of the entire disputed area belonging to Russia, and which regulates that armed capture is a violation of the international laws. Historically and legally, Japan’s claim of dominium over the disputed area is based on the Shimoda Treaty concluded in 1855. Japan maintains its claim that “Habomai Islands and Shikotan” of the four South Kurils are parts of Hokkaido, and that Gunashiri and Etorohu are indigenous territories of Japan, based on the Shimoda Treaty (1855). Japan claims that this is an indigenous territory governed by Japan as the borderline of the two countries at the time was determined to be the four islands of South Etorohu, and Russia recognized these islands as Japanese territory, according to Article 2 of the treaty.27

Japan ceded Sakhalin to Russia in 1875 and the 18 remaining Kurils were ceded to it; thus, Japan claims that the four South Kurils and the Kuril Islands are separate matters. After the Second World War, the Yalta Agreement (February 1945) proposed by the Soviet Union based on its dominium over the Kuril Islands was claimed to be invalid, with no legal binding power, as it is a “confidential agreement” concluded with Japan excluded from the picture.28 Based on this fact, Japan has been continually requesting for the “complete return” of the islands as a region that was seized with military force after Japan’s loss, and also states that the Soviet Union’s seizure of the four South Kurils in 1945 is a violation of international law.

Japan clarified its renouncement of its right to and claims over the Kuril Islands in the San Francisco Peace Treaty (Article 2, clause c) in 1951, but Japan claims that the geological scope of the four Kurils and its right of jurisdiction over them was not included in the treaty.29 Japan claims that the Soviet Union did not sign the treaty. The territorial details must be independently negotiated.

February 7, 1981, the date of the conclusion of the Shimoda Treaty and of the naming of the islands as “northern territory” (to exert the sovereignty of the islands), has been set as Northern Territory Day. Every year, Northern Territory Protection Day events are hosted.

Meanwhile, Russia sticks to the position that its territorial dispute with Japan concerning the latter’s claim over the “indigenous territory” no longer exists – it has already been resolved. Russia does not acknowledge Japan’s Indigenous-Territory Theory as it holds that the Kuril Islands, which include the four South Kurils and South Sakhalin, are Russian territory legally obtained through a series of international treaties, including the Yalta Summit, the Potsdam Declaration, and the San Francisco Treaty. Russia emphasizes that the status of the lost homeland and territory merged with Japan during the Russo-Japanese War (1904–1905) has been recovered. A peace treaty draft agreement with Japan was prepared at the 1951 San Francisco Peace Conference, but Japan requested for the return of the four disputed islands, thus cancelling the treaty.\(^{30}\)

As an additional explanation, Russia resolved its territories based on international law and thus found that it actually had no territory to return to Japan. Japan’s demand for the return of what it considered its territory was regarded as illegal and was founded on the argument that the borderline, which was delineated after the war, cannot be changed, instead of being founded in treaties or agreements between the two countries, Russia has been sticking to the principle of returning the two islands (Shikotan and Habomai) to Japan as a condition for the conclusion of its peace treaty with the country based on the Japan–Soviet Union Joint Declaration. This was concluded with Japan, as proposed by Khrushchev in October 1956. During Khrushchev’s visit to Japan in 1972, the Minister of Foreign Affairs, Andrey Gromyko,  

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re-proposed the conclusion of a peace treaty to Japan, but Japan did not accept the proposal.\footnote{Based on Article 9 of the Joint Declaration between the Soviet Union and Japan in October 1956. Zilanov, V. K., Koshkin, A. A., Latyshev, I. A., Plotnikov, A. Y., and Senchenko, I. A., \textit{Russkie Kurily: Istoriya i sovremennost} (Moskva: SAMPO, 1995), p. 13.}

The territorial negotiations that continued several times between the two countries in the post-Cold War era have not yet yielded a clear result. From 1985 to 1991, during the administration of Gorbachev, an attempt was made to establish a new relationship in relation to the territorial dispute. Gorbachev insisted on a two-step plan. He first demanded the specification of the return of the two islands as a condition for the conclusion of a peace treaty, and also the specification of the return of Etorohu and Gunashiri as a condition for the agreement. The effectiveness of the 1956 Japan–Soviet Union Joint Declaration was mentioned again in 1993, at President Yeltsin’s “Tokyo Declaration.” During the Yeltsin administration, Russia devised a resolution plan based on “laws and principles,” and Japan even expressed that it would flexibly abide by the method and time of returning the islands if Russia would acknowledge “Japan’s dominium” over the region instead of the “full return of the four islands.”\footnote{Kommersant–Daily, October 20, 1998, 10. 20.}

The unilateral opinions and positions of the two countries were adamantly insisted on during Putin’s administration, under a continued state of standstill, and only the effectiveness of the Japan–Soviet Union Joint Declaration was officially re-examined. No practical achievements resulted. At the Irkutsk Summit in March 2001, Putin officially acknowledged the effectiveness of the 1956 declaration again, to emphasize that the issue of returning the two islands was the core of the two countries’ territorial discussion. In November 2004, Putin revealed that the return of the two islands, as agreed upon at the 1956 Japan–Soviet Union Joint Declaration, could be implemented if Japan would agree to conclude the peace treaty and to the return of the two islands.
Dimitri Medvedev also emphasized the effectiveness of the Japan–Soviet Union Joint Declaration, which clarifies the return of the two islands after the conclusion of a peace treaty at the first Russia–Japan Summit in early July 2008, as a legal document that offers the hope of resolving the territorial dispute. As Medvedev, however, reinforces the effective governance of Russia more than any past Russian leader did, no practical territorial negotiations have been completed to this day.

NATIONALIST MODERNISM VS. POSTMODERNISM CONFLICT

Generally, dispute can be defined as the “state of mutual conflict between a specific group (race, nationality, religion, political view, and socioeconomic stance) and another group or groups concerning interests that cannot coexist.”\(^{33}\) Lewis A. Coser referred to incompatible goals that cannot coexist, such as “opinions or conflicts regarding insufficient resources, power, and value,” as things that cause the loss of the other party’s vested rights.\(^ {34}\) As such, a dispute is a conflict concerning the problem of allocating a limited value, where two or more groups exist. For two or more groups, “nation–states” become the subjects in the postmodern international society. The main subjects of the problem of allocating limited values are “territory” and its surrounding resources. Concerning standard concepts, the concepts of nationalism and territorial dispute are inseparable from the concept of international dispute.\(^ {35}\)

Meanwhile, Smith defined the concept of nationalism as the “ideological movement for obtaining and maintaining the self–

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governance and independence of groups composed of people who believe that a ‘race’ identical to other groups is practically or potentially created.” Nationalism is the ideology and movement that arises during the process of modernization and the emergence of nations. Modernization is accompanied by the destruction of the traditional society. This is a phenomenon that occurs as a result of the structural division of the society: the dissolution of social solidarity, which causes industrialization, creates a mechanism of recombination through the process of modernization.36

The expansion of nation–states’ territories, which began in the late 19th century, began to bring about inconsistent races and nations. The reinforced nationalism displayed intensified inconsistencies due to the imperialism expansion policy. Ethnocentricism, which pursues the expansion of national power and national prosperity, began justifying the governance of other races and other nations based on the logic of the expanded reproduction of capitalism. As a result, this tendency continued all the way to the time of the First World War. The criticism that territorial expansion based on nationalism was the main cause of the First World War became stronger. This led to the expanded respectful recognition of the self–determination of people with little power in the concerned regions. Thus, the principle of national self–determination of people also expanded. The nationalistic resistance against imperialism grew stronger, and the economic difficulty after the First World War led to a global crisis. The imperialistic tendency of nationalism in several advanced imperialistic countries was transformed into fascism. The changed nationalism expanded and produced side effects, and the continued expansion of imperialism led to the Second World War. With this, the concept of dominium dispute, which emphasizes the aspects of indigenous territory and a claim’s historical ground instead of the concept of national borderline, was again reduced. The concept of national borderline began to weaken, and the concept of indigenous territory was re–emphasized, which began universalizing the effect of “separating the territory

and the nation.” Many of these disputes broke out in the 20th century, and they became the main factor of the dispute concerning separation and independence.\textsuperscript{37}

The relativity of nationalism and territorial dispute are examined as follows. The desire for territorial recovery or national independence serves as an important basis of nationalism. This concept includes ideologies like national sentiment, doctrines, and movements. These two core nationalistic factors can be separated for the purpose of analysis, but in reality, they are very closely related to each other. They usually help establish internal identity, but they also act as the basis for securing the exclusive approval of other countries. When the problem of territory is linked with nationalism, nationalism becomes the main factor that pushes the members or groups distinguished from the nation in question to embrace separatism. This is the reason that almost all countries displayed the pursuit of nationalism in the early stages of the establishment of the modern-nation system.\textsuperscript{38}

In the early 1990s, international politicists stated that “the future of Northeast Asia will be the past Europe.” This may be because the territorial disputes between the countries in Northeast Asia display high intensity due to resource assets, as in the wars in the late 19th and early 20th centuries in Europe. These wars were quantum rather than multilateral disputes based on historical or geographic closeness. During the post–Cold War era, the territorial disputes in this region did not become international disputes based on the unresolved issues between countries, but conflicts are becoming frequent with the recent tendency of nationalism.\textsuperscript{39}


The territorial disputes in Northeast Asia began in the late 19th century. At that time, international order came about in the process of transferring to a new modern international system and of expanding from the existing “neutral order” to Western imperialist power. Historically, the dispute originated from the China–Japan War (1894–1895) and the Russia–Japan War (1904–1905), (the outcomes of Japan’s imperialist pursuits.) Furthermore, the peace treaties between the countries within the region were not completed during the postwar treatment of the Second World War. The concerned countries failed to completely resolve their territorial problems through the intervention of the leading parties, the world powers. In actuality, the problems of the areas surrounding Japan and of those surrounding China and Russia were distinguished from each other in the big picture. In the late 19th century, borderline and territorial changes began to occur as a result of: the war; imperialism emerging; Japan becoming a new world power; and European powers advancing into Asia.40

Following the 19th century, territorial disputes between the Northeast Asian countries were brought about by wars or physical military occupation. No cases have been resolved by international judgment or international legal decision. As was pointed out earlier, territorial disputes serve as obstacles to international cooperation with the countries in the nearby regions, regardless of the active development of the political and economic system. Disputes mainly concern islands. The China–Taiwan conflict over the Taiwan Strait, the Russia–Japan dominium dispute over the four South Kurils, Japan’s claim of dominium over Dokdo and distortion of history, the China–Japan maritime dominium dispute over “Diaoyu Islands” (in Chinese) or “Shenkako Islands” (in Japanese), and the South Korea–China Koguryo history and Ieodo maritime boundary delimitation disputes are some potential conflicts between countries.

The territorial disputes in the Northeast Asian region display a fundamental difficulty of resolution due to the tendency of these unresolved issues and because these conflicts date back to the

premodern and Cold War era. The relationships between the nations in the region during the Cold War era were characterized by ideological conflict and armed confrontation. The territorial problems were issues of readjustment based on armed confrontation as the "final measure." A greater postmodern and universal problem accompanies these relationships. They display a tendency towards neo-nationalism linked to military strategic values, economic use, national benefit, political conservation, public opinion, energy resources, and economic use of each country. Accordingly, the problem of nationalism and territorial disputes within the region has given rise to other problems – the emergence of a significant conflict concerning the diplomatic relationships between the countries, and of increased historical inaccuracy – rather than to positive effects with regard to the method of resolution.41

Thus, as the territorial problems of Northeast Asia are closely related to nationalism and territorial disputes, negotiations for and discussions on the resolution of such disputes have become almost impossible. As nationalism and territorial problems become linked, the people concerned have no choice but to discuss the principles concerning national benefit, which makes the resolution based on negotiations appear difficult. Ultimately, the territorial disputes in Northeast Asia, which are linked with nationalism and military competition, give rise to unexpected conflicts between the countries. This causes difficulties on the part of the numerous people in these countries that have no direct relation to politics, and can thus be considered the main obstacles to peace and cooperation in the region.

CONCLUSION

The Northeast Asian region is called a “community of maritime nations with almost no landlocked states and surrounded only by

waters.” Accordingly, the sea accounts for a large proportion of
the strategic environment and geopolitics of the sea region. The
countries in the region are mostly connected by sea and display
significantly higher maritime interests and desires for national
benefit based on the sea compared to the countries in other
regions.42 At present, the sea is an important transportation route
for crude oil and raw materials. It is the blocking of or delay
in the supply of products or exports to overseas countries that
may become a serious threat to all sectors.43 The countries in the
region maintain economic structures with a very high dependence
on overseas exports through sea transportation routes. Also, the
dependence on energy resource imports via the sea, which is the
driving force of the development of the national economies in the
Middle East or other overseas areas, is significantly high. No less
than 99% of the goods transported to South Korea depend on
marine transportation methods, and the need for the defense of
the marine transportation routes based on the dependence on
marine transportation is rapidly increasing. Thus, the security or
safety of South Korea’s marine routes is directly related to the
economic survival of the country.44

The premodern disputes known as territorial disputes, and the
conflicting historical recognition and historical distortion led by
Prime Minister Abe of Japan, continue in the Northeast Asian
region, along with marine cooperation and competition. This is
causing a surge in anti–national emotions and in conflicts between

42 Tow, W., Thakur, R., and Hyum, I.–T. (et al.), Asia’s Emerging Regional
43 Kang, S. S., “Northeast Asia’s Change in the Marine Security Environment
44 Historically, the international society has been developing based on a
three–step standard system concerning the use of the sea. Step 1 is categorized
as the common–law era, step 2 as the Four Geneva Agreement era, and step
3 as the International Alliance Agreement era related to today’s marine law.
Today, the introduction of the Marine Law Agreement era contributes to the
result of the negotiations between countries surrounding the use of the sea.
countries. Such conflicting realities of the countries in Northeast Asia have put these countries in a state of expanding premodern conflict based on their strong nationalistic tendencies, as opposed to the regional combination and global trends. This region is faced with the obstacles of territorial disputes and with the challenge of resolving these rather than with the prospect of discussing the 21st century issues of globalization and regional combination, cooperation, and coexistence. The neo-nationalistic policy, based on the strong national construction and desire for national benefit of the countries in the region, prioritizes realistic values that cause conflict and dispute. These values do not bring about cooperation and coexistence between the countries with regard to their unresolved territorial disputes, thereby becoming the main factor in the intensified conflicts between the countries.

The territorial disputes in Northeast Asia are becoming more heated upon the instigation of politicians who use the disputed areas and the historically established nationalistic emotions for national political purposes. The political leaders of each country are displaying strong nationalistic tendencies related to territorial disputes, thereby increasing the tendency to use this as a plan to gather political support. As revealed in relation to the Russia–Japan territorial dispute, President Yeltsin had already retreated from the position of the past government concerning the opposing voices of nationalists. Presidents Putin and Medvedev are also faced with the same context. Ultimately, negotiations are becoming more difficult to implement for political and nationalistic reasons, compared to proposing negotiational factors such as joint developments and the grant of economic rewards for the resolution of the dominium disputes between the countries in the region.45

The number and role of anti-nationalists or international organizations, and the acceleration of globalization, are increasing. These do not always correspond to the cooperation between countries. Of course, the use of force to resolve conflicts between

countries has stopped. There is already awareness that these conflicts are not zero-sum games.\footnote{Kim, Y. J. et al. (2005), p. 2.} It will be difficult, however, to obtain tangible achievements if the approach to resolving the Northeast Asian territorial disputes will be based on nationalistic and national perspectives.\footnote{http://blog.daum.net/007nis/15859943 (searching day: July 10, 2013).} These territorial disputes may have historical or legal origins, but their core issues lie in the mixed interests of the conflicting countries based on their structural restrictions – in other words, political, economic, and military factors – and on public opinion. If the territorial disputes between the countries in Northeast Asia are linked to nationalism, it may affect the countries’ multilateral relationships and may thus lead to the emergence of a “new Cold War structure” in the region.
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China with two Koreas constitutes a Regional Security Complex located in the Northeastern part of the Asian continent. Rebalance toward the Asia-Pacific region is the U.S. military arm penetrating the RSC on the East Asian continent.

As CCP carries modern Chinese nationalism and does away with class struggle, it seems ideologically to have come close to pre-1986 KMT. We have never seen in North Korea changes like the one in China from the road of Mao to that of reform and opening. The Chinese are compromising with the U.S. liberal intervention on the North Korean denuclearization issue. President Park’s Trust Building Process could make its way based on the compatibility of U.S. liberalism and Chinese nationalism.

The South Korean policies for the Trust Building Process on the Korean Peninsula need to focus on the ROK–PRC dialogue until the North Korean problem of a nuclear threat is resolved. Compliance of the North Korean regime to denuclearization is expected to accompany amelioration of rigidity in the North Korean system and open the window of the Trust Building Process on the Korean Peninsula.

Key Words: Rebalance, Trust-Building, Nationalism, Liberal International Order
INTRODUCTION

The North Korean regime heightened tensions on the Korean Peninsula through military mobilizations and provocative statements in March and April, when South Korean and U.S. forces were in the joint drill of Key Resolve and Foal Eagle. This security crisis was newly precipitated by North Korea through the launching of a satellite into planetary orbit last December. A third test of an atomic bomb was completed the following February.

This was the first challenge to President Park who took office in February with the vision of a Trust Building Process on the Korean Peninsula. U.S. forces provoked North Korea with F-22 stealth fighter jets, B-2 stealth bombers and B-52 bombers, nuclear-powered submarines and aircraft carriers at joint forces drill.

At a summit between the U.S. and South Korea in May, President Park emphasized the strengthening of the alliance while cautiously persevering with the seemingly unrealistic vision of Trust Building Process on the Korean Peninsula at that time. President Obama’s policy of rebalance seemed to have legitimacy at the heightened threat from North Korea.

President Xi of China kept in line with the United Nations Security Council resolutions to penalize North Korean development of atomic bombs and missiles, Chinese leaders at the May–June U.S.–China summit meeting “made clear that they understood and appreciated America’s historic role in Asia in providing stability.” Xi also gave President Park strong support for her vision of building trust and peace on the Peninsula.

Based on the assurance of deterrence by the alliance forces and the international support for the peace vision, President Park was able to lead the North–South dialogue in reopening the Kaesong Industrial Complex. President Park’s initiative for inter-Korean rapprochement is moving forward under the support provided by the United States and China.

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Why did South Korean diplomacy for the Trust Building Process on the Korean Peninsula begin with the US and China, not with North Korea? The interconnectedness of the two Koreas, China and Japan makes each country’s security problem irresolvable without others in consideration according to the Regional Security Complex Theory. This theory defines the U.S.A. as a global power penetrating into the Regional Security Complex of countries on and around the Korean Peninsula. The Trust Building Process on the Korean Peninsula will be put in the context of the RSC in the following section.

In the feature of the RSC around the Korean Peninsula, one may not miss the towering position of the U.S. and China over other actors. Discussions will be made on the U.S. rebalance and its implication on the PRC as well as the Korean Peninsula in section three. There also will be analyses on what the Chinese response to the U.S. rebalance is.

China is a rising power recovering international authority from her humiliating history since the 19th century. The U.S. is a global power penetrating the Northeast Asian RSC with the hegemony of the Liberal International Order. The vision of the Trust Building Process on the Korean Peninsula cannot be realized unless the conflicts between the U.S. rebalance and the rising Chinese nationalism is resolved peacefully. How can South Korea find her way through the US–China conflict of interests? To answer this question, it will be examined if Chinese nationalism could be compromised with Liberal International Order in section four. Section five will conclude with some policy recommendations for successful peace–building on the Peninsula.

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INTER-KOREAN TRUST BUILDING AND THE RSCT

President Park explained her approach to the North Korean problem to President Obama and Chairman Xi before she actually appealed to the North Korean government for reconciliation talks. Her internationalist approach to the nationalist project of inter-Korean rapprochement could be explained by the interconnectedness of peninsular security affairs among states on and around the peninsula. The Regional Security Complex Theory captures the security situation of states within the interconnections.

Barry Buzan, Ole Waever and Jaap de Wilde defined security complex “as a set of states whose major security perceptions and concerns are so interlinked that their national security problems cannot reasonably be analyzed or resolved apart from one another.” China played a major role in the peninsular security through the enforcement of UNSC Resolution 2094 and the agreement with President Park on the denuclearization of the Korean Peninsula during the June summit in Beijing. One may safely say that China is becoming a part of the RSC on and around the Peninsula without which security problems on the Korean Peninsula can be analyzed or resolved. The Chinese also cannot think of their security without factors coming from the peninsular conflicts.

China is a regional power exerting substantial influence on the security relations between the two Koreas. “Adjacency is potent for security because many threats travel more easily over short distances than over long ones,” Buzan and Waever point out in their 2003 book. China with two Koreas constitutes a subsystem of the Regional Security Complex located in the Northeastern part of the Asian continent.

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5 Barry Buzan and Ole Waever, 2003, p. 45.
6 Barry Buzan and Ole Waever identified, in Asia, RSCs of Northeast Asia, Southeast Asia and South Asia. This study postulates a subsystem of Northeast Asian RSC, consisting of China and two Koreas in order to focus on the construct, “Trust Building Process on the Korean Peninsula,” Barry Buzan and Ole Waever, 2003.
The RSC is a strategic concept analyzing the security structure in three levels. Regional level analyses could relate both to global and domestic level analyses. Domestic politics affect security relations on the regional level and vice versa. Global powers could penetrate the RSC. Some regional changes also affect global politics.7

The RSC in Northeast Asia is penetrated by the global power of the U.S.A. The U.S. government is rebalancing its forces toward the western Pacific, assuring their treaty commitment to the ROK and to other allies. The U.S. forces have a forward deployment on Guam, Okinawa and other bases in Japan.

China takes on a great power standing within the RSC on continental Northeast Asia. The RSC on continental Northeast Asia is centered by China on the one hand and penetrated by the U.S.A. on the other.

The complexity of the RSC is reinforced by domestic level diversities in China and the two Koreas. China and North Korea maintain a communist regime, while South Korea is a democracy. But the lifestyles in China and North Korea differ so much that one may question the utility of a communist regime as a classifying tool. The Chinese economy is integrated to the world economy, while the North Korean regime keeps its economy and people insulated from foreign influences. China maintains security cooperation with North Korea on the one hand and expands economic cooperation with South Korea on the other. A complex combination of various regime types among three countries influence the RSC on the Northeast Asian continent.

The Korean Peninsula in the context of the RSC on the Northeast Asian continent because the security affairs on the Korean Peninsula are inextricably interconnected to Chinese security. It is good for South Korean leaders that they take a regional and internationalist approach to the national reconciliation and peace—building on the Peninsula.

U.S. REBALANCE AND CHINESE RESPONSE

President Obama announced that the U.S. government gave military presence in the Asia Pacific a top priority in his speech in the Australian Parliament on November 17, 2011.8 This speech was perceived to be the announcement of “Pivot-to-Asia” policy. Early in 2012, the U.S. department of defense published a report to name the new policy as “rebalance toward the Asia-Pacific region.” In August of that year, Secretary of Defense Leon Panetta disclosed a plan to reinforce the military presence in the Pacific to turn “the current 50/50 split between the Atlantic and Pacific Oceans into a 60/40 split favoring the Pacific” by 2020.9

The U.S. government reinforced forces in the western Pacific to support relationships with allies and partnership countries in the region. The U.S. government justified the rebalance with a view that: the U.S. “relationships with Asian allies and key partners are critical to the future stability and growth of the region.”10

The rebalance was a response to the complex situations that condition the U.S. strategic position: financial restraints, end of the war in the Middle East, China’s military build-up and the growing economic and financial influence of Asia (Ungaro 2012, 3).11 Despite the rhetorical emphasis on the importance of the U.S. interests in the Asia-Pacific and the reiterated commitment by U.S. government leaders, skepticism is rising in the U.S. due to financial insufficiency and domestic weariness of overseas war

8 The White House, “Remarks By President Obama to the Australian Parliament,” Office of the Press Secretary USA, November 17, 2011.
It is Japan who fills in the deficiency of U.S. finance and national will to support U.S. commitment with an expanded role as a U.S. ally. The Japanese government is shows a stern position against Chinese expansion into the East China Sea during the conflict with China on the sovereignty over the Senkaku/Diaoyu islets. The U.S. government supports the Japanese in the defense of the islets, while the Japanese are willingly to invest their tax money in the defense of islands on which the US military bases are located.

The U.S. action of rebalance revealed a concrete feature when the strategic weapons of the U.S. forces showed up in front of the North Korean military machines that enhanced the threat level tremendously in March and April. The U.S. and South Korean military leaders perceived the North Korean threat was powered by atomic bombs. The mobilization of U.S. strategic weapons was an action of strategic deterrence against the nuclear threat from the North.

The North Korean threat of war in March and April made the Chinese leaders share the same perspective as the U.S. and the South Koreans. China cooperated with the U.S. drafting the UNSC resolution 2094 and enforcing it. The new Chinese Chairman Xi offered annual strategic talks to President Park at the Beijing Summit Meeting in June.

Rebalance toward the Asia–Pacific region is the U.S. military arm penetrating the RSC on the East Asian continent. The U.S power is being projected to the East Asian continent from the western Pacific. It is basically a maritime power conceptualizing an air–sea battle.

The confrontation between North Korean and the U.S.–South Korean forces in March and April led to the deepening of Chinese intervention into the security dilemma on the Korean Peninsula.

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China balances between the two Koreas for the peace and stability on the Peninsula. China is becoming a constituent part of the RSC on and around the Korean Peninsula. We cannot think of a solution to the security problems on and around the Korean Peninsula without considering the role of the Chinese government.

The United States is a superpower maintaining predominance over both the Atlantic and the Pacific. The U.S. as a superpower is interested in the building and reinforcing of the global order. The global order of the U.S. is a liberal one based on the rule of law and multilateral institutions that support the freedom of navigation, commerce, protection of human rights and nuclear non-proliferation. The North Koreans invited the enhanced penetration of U.S. power into the East Asian region through their violent challenge to the principle of nuclear non-proliferation. They have developed atomic bombs with delivery systems and were actually applying those WMDs to threaten South Korea.

Realist theorists interpret the U.S. rebalance as an act of the U.S. to balance against the rise of China. According to the theory of Mearsheimer, the U.S. had grown into a superpower by achieving predominance over the American continent. He explains that a super power does not want to see another great power growing into a competitive superpower. Thus the U.S. strategic interest lies in the prevention of China from gaining predominance over the East Asian continent. The U.S. needs to help countries on the Asian continent balance against China rather than bandwagon with it.\(^\text{13}\)

The U.S. penetration into the East Asian RSC is more than welcome to South Koreans. South Korea depends on the U.S.’ extended deterrence against the North Korean nuclear threat. It was China whose strategic interest was hurt by the enhanced intervention of the U.S. forces into the East Asian region, induced by the North Korean nuclear threat.

Chinese leaders responded to this unwanted situation by recognizing the U.S.’ role in East Asian stability and joining in the same job at the same time. Chairman Xi invited South Korean President Park to Beijing in June to make an agreement on the denuclearization of the Korean Peninsula. China strengthened control of trade with North Korea related to the nuclear build-up. The enhanced penetration of the U.S. forces in March and April ended in the deepening of Chinese intervention into the peninsular security. It could now be said that a subsystem of the East Asian RSC is in the making among China and the two Koreas.

While agreeing with the US concern on North Korean nuclear threat, Chairman Xi kept his own position on the territorial claims and disputes in cyber space. He also demanded a “new type of great-power relationship” between China and the US. A new type of great-power relationship refers to something other than a liberal international order that has been built under the post-war U.S. hegemony. One of the implied messages to the U.S. is “to expect that China will define its own interests rather than support a Western-led international agenda (Leonard 2013).”

China wants to lead security relations on the Northeast Asian continent in their own way, rather than as an agent of a U.S.-led Liberal International Order.

China’s first move to lead security issues on the Korean Peninsula after the summit with the U.S. was a very impressive coordination of conflicts on the Korean Peninsula through the agreement with South Korea on the denuclearization of the Korean Peninsula. But the next move of China’s had a sense of deja vu. China called participants to the Six-Party talk to resume talks on denuclearization of the Korean Peninsula, but without effect. The U.S., with Japan and South Korea, required proactive actions from North Korea before the meeting could resume.

It was again North Korea that instigated the Chinese government to call for a Six Party Talks meeting. Chinese leaders who worried

about a North Korean collapse might have led the decision on China’s the next ineffective move. Chinese security policy has long been based on the assumption that North Korea provides a buffer against the threat from the West. But now it becomes clear that the North Korean nuclear development justifies the U.S. rebalance toward the Asia-Pacific and its direct military intervention into the Korean Peninsula. China needs a new approach to lead the security issues on the Northeast Asian continent independent of the overarching U.S. power.

**COMPROMISE OF CHINESE NATIONALISM AND US LIBERALISM**

The U.S. economy is still twice as large as the Chinese economy. The U.S. military capability is far ahead of China’s in terms of conventional as well as strategic weapons systems. A prominent realist Mearsheimer argues that the U.S. strategic interest at the present time can be met by suppressing the rise of China in an economic and military sense so that China cannot gain dominance on the East Asian continent. Mearsheimer is critical of the U.S. policy because the U.S. government does not stop engaging the Chinese economy despite the military rebalance.\(^{15}\)

Rebalance is not like containment of China. The U.S. government does not officially antagonize China but maintains engagement especially in trade and finance. The main message carried by the rebalance is focused on the U.S. assurance to the treaty and partnership commitment in East Asia. The U.S. government needs this message due to the financial restraint on military spending.

However, the financial restraint on the U.S. military budget seems to be not just a problem of temporary shortage of tax revenue. The tax payers’ will to support foreign involvement itself looks attenuated.

U.S. forces are not present in the western pacific to protect

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\(^{15}\) Mearsheimer, 2010.
the national survival of the U.S., but to keep the U.S. economy connected to the fastest growing economies in the contemporary world. The U.S. enjoys a geographic advantage that the Pacific allows to the preeminent U.S. navy. The U.S. does not belong to the Regional Security Complex of East Asia but penetrates into East Asia.

The U.S. interests in East Asia are enumerated as “the maintenance of peace, stability, the free flow of commerce, and the U.S. influence in this dynamic region.” The U.S. government points at North Korea as a conspicuous threat to the stability and peace in the region as well as to the international regime of nuclear nonproliferation. The U.S. government also has criticized the violation of human rights by the Chinese and North Korean governments.

John Ikenberry suggests an American grand strategy to prepare for the downfall of American dominance of the global system like this: “we should be planting the roots of a reformed liberal international order as deeply as possible. The idea is to make the liberal order so expansive and institutionalized that China will have no choice but to join and operate within it.”

The Chinese Communist Party concurs with the U.S. government on the importance of peace, stability, and free trade in the region. But The Chinese regime is antagonistic to the western intervention into the domestic affairs on the basis of liberal moral standards: “The new interventionism advocates imposing, with military force, one country’s ideas on others.” They attribute the new interventionism to the power politics “which prevailed globally during the period of colonialism (ibid, 38).”

The Chinese do not still fully adapt themselves to the existing international order despite decades of economic opening to the world. Chinese nationalism had been fed by the popular desire to

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17 John Ikenberry, 2011, pp. 348-349.
end the humiliation and make China prosperous, strong, and honored. It grew out of popular struggles against colonialism rather than the democratic revolution.

Chinese perceive the history of humiliation began from the defeat in the Opium War of 1839–42, Chinese Dream, a slogan of the new Chairman Xi’, is also about the end of the humiliation and restoring of international status. Chairman Xi’s Chinese dream carries the slogan of national rejuvenation on from modern Chinese leaders of Sun Yat-sen, Mao Zedong and Deng Xiaoping.19

The Chinese Communist Party had taken on the Leninist theory of imperialism that related imperialism to the class struggle. Nationalism, anti–imperialism and class struggle constituted Maoism. Later, class struggle was relegated to a peripheral element of CCP ideology by Deng Xiaoping. CCP renounced class struggle from its central focus in the Third Plenum in 1978. Deng Xiaoping encouraged Chinese families to become rich, We may expect the CCP would not deny the legitimacy of the world capitalist order itself now.

As CCP carries modern Chinese nationalism and does away with class struggle, it seems ideologically to have come close to pre–1986 KMT.20 But one must not miss the point that the KMT nationalism also had a strong wariness against western individualist democracy and imperialism.21

It was the KMT that lead Chinese resistance against the Japanese army who massacred the Chinese in Nanjing and elsewhere. The

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CCP conforms to the KMT in the territorial claim at the South China Sea as well as Tibet and Xinjiang. Chiang Kai-shek revised the treaty with imperialist countries to return foreign concessions as soon as the KMT government established a unified rule over China in 1928. At the 1943 Cairo Conference, he submitted a proposal to give Koreans independence. This proposal strained ROC’s relationship with Great Britain who was interested in keeping Indian colonies.

We can refer to those instances of anti-imperial diplomacies implemented by Chiang Kai-shek in order to understand how the CCP can challenge the existing liberal international order even without the notion of class struggle. As India and other Asian colonies gained independence, the Liberal International Order got out of the shadow of imperialism under the post-War U.S. leadership. However the pre-War imperialist and militarist elements had survived the U.S. Occupation within Japanese pluralism. The surviving militarist elements prevent imperial documents from public examination. So many suspicions to the Japanese wrongdoings during the imperial era have not been cleared up due to the lack of public examination of the imperial documents.22

PRC succeeds Qing’s territory under multiculturalism. But it is well known that the PRC has substantial trouble with residents in Tibet and Xinjiang. Neither does it protect the rights of refugees from North Korea. Harsh criticism of the Chinese suppression on the minority and refugee rights is widespread in the western liberal societies.

The North Korean ruling Workers’ Party has consistently maintained militarist leadership since it invaded South Korea in 1950. Kim Il-sung consolidated his power through the postwar intra-party struggle and succeeded it to his son and grandson. The Workers’ Party defines itself as “the Party of Kim Il-sung and Kim Jong-il, Kim Il-sung is the eternal President of the

DPRK: His son Jong-il the eternal General Secretary of the Workers’ Party; His grandson Jong-un the First Secretary of the Workers’ Party. The prerogative descends on the Kim family line and the Workers’ Party is only a captive of the Kim family. The militarist instinct of Kim Il-sung is engraved into the Workers’ Party through the Kim blood.

The Workers’ Party is exhausted of institutional capacity to discuss or compete on the strategy or policy of the state. The rigidity of the Workers’ Party can be contrasted to the CCP, which could change development strategy at the death of Mao Zedong through intra-party competition of power and ideology at the Third Plenary Session of the 11th CPC Central Committee in 1978. The CCP now takes on a collective leadership that permits intra-party competition of ideas and power groups. The current leadership of the CCP is known to be pragmatic: Decisions are supposed to be made on the empirical bases rather than ideological.

The North Korean system is so rigidly militarist that human rights and democracy have no place there. The exclusiveness of the regime is so complete that no window of pluralism or flexibility in the political decision-making process has yet been found. We have never seen in North Korea changes like the one in China from the road of Mao to that of reform and opening. One cannot make an empirically based expectation that North Korea will give up their nuclear weapons development program and will permit economic freedom to their people at this moment.

South Korea officially succeeds the Provisional Republic of Korea, inaugurated as a government in exile in 1919 in Shanghai. PROK was ideologically similar to and supported by the KMT of China. The first constitution of ROK followed along the nationalist programs in the PROK plan. The basic idea in the PROK plan was to avoid class struggle within the national community through equalization of people’s rights in political, economic and social terms.

PROK leaders frustrated the US plan to impose trusteeship on the Korean Peninsula through mobilizing mass protest. The U.S. army left the Korean Peninsula after the inauguration of the new
ROK government in 1948. But the nationalist political community in the southern part of the Korean Peninsula could make its way for less than two years before it was assaulted by the DPRK forces in June 1950. The U.S. dispatched her military forces under the U.N. flag to punish communist expansionism.

The U.S. government could not withdraw troops after they punished North Korea before President Eisenhower promised to make an alliance treaty to President Rhee in 1953. U.S. forces have stayed on the Korean Peninsula since then.

The presence of the U.S. military functions as leverage of liberal influence to both Koreas at the same time. The North Korean regime has complained about the U.S. military threat very much. South Korean governments have to endure the US interventions into domestic politics, South Korean governments have often fallen into severe conflict with the U.S. government: on the issue of constitutionalism, democracy, human rights, or that of trade interests, military build-up, economic policy in other times.

The U.S. pressures have been unilaterally based on liberalism. The U.S. government urged the South Korean government to protect minority rights and open the market. American cultures including Christianity have penetrated South Korean society to consolidate pluralism. The South Korean middle class grew into a force for democratization while the nationalist government of the ROK struggled against U.S. liberal intervention.

The ROK had started on strongly nationalist programs but, after the Korean War, transformed itself into a state compromised of its sovereignty to the US liberal intervention. The ROK and the U.S. governments have passed through constant conflicts to arrive at the current pluralistic, industrialized and democratic Korea. The fact that South Koreans take on liberal democracy does not necessarily mean that the U.S. type liberalism has taken root in

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South Korean soil. Kim Il-sungism has penetrated into Korean pluralism quite deeply agitating against U.S. imperialism. Kim Il-sungism fills the gap left by the retreat of the original ROK nationalism. South Korean pluralism looks post-modern in that U.S. liberalism and North Korean Kim Il-sungism have penetrated into the society to render South Korean nationalism compromised.

The rebalance is a clear sign that the U.S. will continue being involved in East Asian affairs despite the financial restraints. The U.S. involvement carries her own liberal value system. The liberalist intervention of the U.S. forces is explicitly targeted at the North Korean nuclear threat and the violation of human rights.

However it could hardly be denied that the U.S. government keeps forward deployment of forces in the region to balance against the rise of China. The U.S. government recently agreed with the Japanese “to place a new X-band radar system in Kyogamisaki, near the city of Kyoto” and to the expanded military role of Japan.24 The Obama administration is also going for a Trans-Pacific Partnership Agreement to build an alternative market to that of China. The U.S. government persuades South Koreans to join in the Missile Defense and TPP, too.

Despite those conflicts of interest, the U.S. and Chinese find common grounds with long term interest in the stability and peace of the region. The Chinese government leaders want to focus on domestic reformation and continued economic development. The Chinese are compromising with the U.S. liberal intervention on the North Korean denuclearization issue.

Chinese nationalism proved its compromising ability in Taiwan. The KMT government adapted to the liberalization and democratization of 1980’s Taiwan, after a long and agonizing experience of conflicts with U.S. liberal interventions. The CCP nationalism could also possibly compromise with the penetration of U.S. liberalism as long as it does not carry the notion of class struggle. President Park’s Trust Building Process could make its way based on the compatibility of U.S. liberalism and Chinese nationalism.

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CONCLUSION

The RSC of the Northeast Asian continent is a subsystem of the Northeast Asian RSC. China and the two Koreas constitute the subsystem of the Northeast Asian RSC. The rebalancing U.S. is a superpower penetrating the RSC of the Northeast Asian continent, and Japan is supporting the penetration of the U.S. power into the region.

The U.S. government rebalances her forces toward the western Pacific to keep penetrating into the Northeast Asian RSC. The U.S. intervention into the region tends to be based upon liberal values, as the U.S. is a superpower who leads the post–World War II international liberal order.

The rebalance of the U.S. forces assures deterrence against the North Korean nuclear threat. The nuclear proliferation and the widespread violation of human rights by the North Koreans justify the U.S. government in the domestic politics that is strongly oriented toward liberalism.

The prospect of Trust Building depends on the South Korean ability to find a solution to the problem: how can the U.S. rebalance be made compatible with ROK–PRC strategic cooperation? It seems quite feasible to build trust between ROK and PRC as both countries have already shown system flexibility in changing courses of development. South Korean society has become a very inclusive pluralism and the CCP has an institutional capacity to run a collective leadership.

South Koreans also have experienced enduring conflicts between the indigenous nationalism and the penetrating liberalism of the U.S. This endurance lasted until they found a compromise. South Koreans could provide a model of compromise both to the U.S. and the PRC. The U.S. has invited South Koreans to join the MD system and TPP. The expansion of MD into the Korean Peninsula could embolden U.S. leaders to urge CCP to take on political reform for liberal democracy.

The Chinese strongly oppose the expansion of MD to the Korean Peninsula, while offering a ROK–PRC FTA and annual strategic
talks. They perceive the MD threatens the security of mainland China. The expansion of MD to the Korean Peninsula could incur nationalistic repercussions in the Chinese population. Once the recurrent anti-Japanese mass demonstration in China moves to South Korea, the bilateral cooperative relationship as a whole could be in jeopardy.

President Park and Chairman Xi already achieved a substantial progress in strategic communications in the June summit in Beijing. They agreed on the denuclearization of the Korean Peninsula, which is the objective of the U.S. nonproliferation policy too. The South Korean promise of denuclearization has profound strategic importance, when it comes to the situation after the reunification of Korea. A denuclearized Korea cannot implement anti-access/area-denial against the Chinese nuclear-armed navy at the Yellow sea. The agreement of denuclearization implies a message that South Korea will not compete strategically with China at the Yellow Sea. South Korean participants in the annual strategic talks may expect a quid pro quo from the Chinese side, that could commensurate to a provision of deterrence against a North Korean nuclear attack or imposing an effective denuclearization pressure on North Korea.

The South Korean policies for the Trust Building Process on the Korean Peninsula need to focus on the ROK–PRC dialogue until the North Korean problem of a nuclear threat is resolved. Compliance of the North Korean regime to denuclearization is expected to accompany amelioration of rigidity in the North Korean system and open the window of the Trust Building Process on the Korean Peninsula.

The North Korean problem of nuclear threat could also be solved by the provision of Chinese deterrence against a North Korean attack. In this case, the South Korean government has to limit its policies for building trust with North Korea only to prevent an accidental outbreak of war on the Peninsula, lest South Korea confront a nuclear–armed North Korea with a prosperous economy. In this case, the North Korean economy needs to be left under UNSC sanctions.

One other issue to be discussed in the ROK–PRC strategic talks
would be the protection of North Korean refugees in China. But South Koreans first need to decide whether and how they will take care of every peninsular refugee as Korean.
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