

Articles

The Collapse of the Flying Geese
Development Model:
Advent of New Order in East Asia and
a Foreign Policy Alternative for the
Republic of Korea

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Potential Arms Race in Northeast Asia

On April 5, 2009, North Korea, despite strong opposition from the United States, Japan, and South Korea, fired a rocket into space. Although it is unclear whether North Korea in fact put a satellite into space, the new launcher is a significant advancement over the old Taepodong-2, suggesting that North Korea has already achieved long-range missile capability. Japan's reaction was the strongest: immediately after the launch, the government called for an emergency meeting of the U.N Security Council. The Japanese establishment and public have uniformly reacted with a sense of outrage and a desire for a vigorous Japanese and international response to the test. Furthermore, there is growing consensus in Japan that its constitution, specifically Article 9 which currently prohibits military action except for self-defense, should be revised so that Japan can meet international challenges as a "normal nation" (Observing Japan, 2009).

The status of "normal nation" for Japan means becoming a major military power. Japan, restricted by its constitution, may not own a military of its own in the proper sense. Japan's defense budget is also limited to 1% of its GDP. However, in 2006, Japan's GDP stood at approximately \$4.6 trillion, second only to that of the US, and Japan spent \$41.1 billion, slightly less than 1% of its GDP (CIA, 2008) on its national defense. That same year, China claimed that its national defense expenditure was 283.8 billion yuan (approximately \$37 billion). However, the International Institute for Strategic Studies (IISS) estimated the figure to be \$122 billion, an 18% increase from the previous year (IISS, 2007).

Considering China's GDP of \$2.5 trillion in 2006, China is spending approximately 1.5% according to the Chinese government, and approximately 5% according to IISS, of its GDP on defense. While there is a significant difference between the two figures, the IISS's estimation seems to be more realistic when we consider China's position. If the IISS figure is indeed closer to an accurate assessment, then China's defense expenditure is about 3 times that of Japan,¹ which is sufficient to put Japan on edge. Therefore, if Japan becomes a "normal nation," which can spend as much as it wants on national defense, it will try to match, or even exceed China's military expenditures. As a result, Japan's push to shed its military restrictions, will likely cause an arms race in Northeast Asia, which in turn will raise tensions between China and Japan. Such a turn of events will place the Republic of Korea (ROK hereafter) in a very difficult and precarious spot.

1. This incidentally coincides with CIA's estimation; please refer to internet version of CIA World Factbook.

The relations between the ROK and China have developed enough to be considered past the point of no return. As of late 2006, trade between the two countries amounts to \$145 billion: a twenty-fold increase from 1992 when trade between the two countries began (Ministry of Foreign Affairs and Trade, 2009). China has become Korea's largest export market, and the favorite destination for foreign investment, making China Korea's largest trade partner. In turn, Korea has become China's second largest investment market and third largest trade market. Socio-cultural exchanges are in full bloom as well, with Korean international students to China accounting for 38% of all international students (Li, 2006), and with more than 4 million people going back and forth between the two countries each year (a figure that is expected to grow). Such a level of exchange reflects that nations can easily overcome small political differences, and it may even be realistically impossible to turn the tide. Therefore, the problems that might arise from Japan's pursuit of normal nation status could not but present a series of serious diplomatic, economic, and security dilemmas for the ROK.

As can be seen by the fact that the ROK has concluded an FTA with the US and is waiting for approval from the US Congress, the US-Korea alliance is the pivot of its foreign policy. However, the strengthening of the alliance inevitably forces Korea to choose a side in the hegemonic competition between China and Japan in Northeast Asia, adding to the tensions and conflicts between the two countries, and is thus a highly dangerous policy. Nor is such a policy in line with the ROK's economic interests. The purpose of this paper is to analyze aspects related to the nature of the hegemonic competition between China and Japan, which is gaining visibility in Northeast Asia, in order to examine possible and appropriate diplomatic policies for the ROK.

The hegemonic competition between China and Japan is deeply related to the origin, climax, and collapse of the Flying Geese Development Model. Let us first turn to the analysis of the Flying Geese Development Model.

Flying Geese Development Model and the New Greater East Asia Co-Prosperity Sphere

Japan, East Asia, and the Flying- Geese Paradigm

It was not until 1965 that relations between the ROK and Japan normalized and

trade commenced. At that time, the Park Chung Hee regime, which had taken power in a military coup, desperately needed Japan's capital and technology in order to develop its economy and "industrialize" the ROK, while the Japanese economy needed to transfer its labor intensive industry elsewhere because it was undergoing a transition from a labor-intensive industry to a capital- and technology-intensive one. Japan therefore provided \$800 million (\$300 million in grants, \$200 million in a long-term, low-interest government soft loan, and \$300 million in commercial loans) to the ROK as economic aid and compensation for its colonial-era rule and transferred its labor-intensive industries to the ROK (Hart-Lansberg, 1998: 182).

The arrival of Japanese capital and technology in the ROK, made possible by the normalization of the relations between the two countries, has a significant meaning in Japan's strategy for its economic development. Japan transferred the industries that were exhausting its competitive advantages to emerging economies in East Asia such as the ROK, Taiwan, etc. and instead began to concentrate on more capital- and technology-intensive industries. The emerging economies in East Asia accomplished a certain degree of economic growth with the industries and then transferred them, after exhausting their comparative advantages in those industries, to other Southeast Asian countries. This is the gist of the Flying Geese Model; the model is a unique economic development model that most East Asian countries adopted and followed until the visible rise of the Chinese economy in the 1990s. Japan played the following important roles in the spread of this model.

First, Japan played a guiding role in the establishment of the industrial policies of East Asian countries. After World War II, Japan fostered its primary strategic industries such as steel, automobiles, electronics, etc. through the intervention policy of the Ministry of International Trade and Industry (MITI), and spread this industrial policy to East Asia. The emerging industrial countries of East Asia, including the ROK, imitated and adopted the Japanese policy, designated strategic industries to foster and distributed resources accordingly in their economic development planning. Second, Japan's capital and technology contributed to the industrial development of East Asia. Japan's foreign direct investment (FDI) became the basis of the industrial development in East Asia, where there was a lack of development of original technology and capital (Donner, 1993: 173-174). The proportion of Japan's FDI in East Asia's total FDI was 10% in 1991 and 50% in 1997, making it indispensable. Third, Japan played the role of locomotive for the economic development of East Asia by loaning necessary funds. In the middle of the 1990s, before the financial crisis, loans from Japanese financial institutions to East

Asian countries amounted to 1/3 of all loans to them (Pak, Bum-seon, 2004: 7-11).

Political Economy of the Flying Geese Model

This Flying Geese Development Model gave birth to the regional economic structure of vertical integration, with Japan at the top. Though Japanese corporations advanced into other East Asian countries through FDI, they maintained core technologies and high value-added industries within Japan. Therefore, those East Asian countries which received FDI had to focus on assembling and processing industries. As a result, an economic dependent structure emerged, with Japan at the top, emerging industrial countries such as the ROK, Taiwan, etc. in the middle, and Southeast Asian countries at the bottom, with every country eventually having to rely on Japanese technology and capital (Doss, 1996: 238-239, and Katzenstein, 2005: 63).

The dependent structure is well reflected by the reality of Japan's unilateral surplus in East Asian trade. Japan's trade surplus against the East Asian emerging industrial countries including the ROK, Taiwan, Hong Kong, and Singapore in 1996 was \$60.1 billion, which almost equaled its total surplus of \$61.8 billion, a strong indication of how dependent the economies of the emerging countries are on Japan. The ROK trade deficit with Japan is the most serious in the entire region. As of 2005, which marked the 40th anniversary of the normalization of diplomatic relations between the two countries, the ROK's accumulated trade deficit against Japan has been over \$230 billion. Ironically, the deficit grew most in areas where Korean corporations have reached global prominence, such as IT, including semiconductors, electronic displays, mobile phones, etc. Although Korean firms manufacture world-class finished products, they import the key components/core technology from Japan. The ROK trade deficit against Japan in 2004 was over \$23 billion, more than twice that of 2001 (\$10.1 billion) in just 4 years, demonstrating that the more ROK exports, the more its trade deficit against Japan increases (Yi, 2006: 34-36).

The Flying -Geese Model as the Continuation of Greater East Asia Co-Prosperty Sphere

There are two competing theories regarding transformation of institution. One school of thought (path dependency) suggests the institutional legacies of the past limit the

range of current possibilities and/or options in institutional innovations. This idea is similar to the “branched” pattern of chreodic development; i.e., lock-in to a stable path of development involving incremental change, which tends to re-establish itself when diverted by strong positive feedback effects. At some earlier time, when different routes were possible, a specific developmental path was instituted; and it then tends to be re-established even if it is no longer (if it ever were) optimal despite material forces and/or strategic actions that tend to disrupt or divert it from that path. In short, the past matters. This position does not exclude various developmental leaps, lags, or reversals (Hausner, Jessop, and Neilson, 1995, 6).

The other school of thought (path shaping) implies that social forces can intervene in current conjunctures and actively re-articulate them so that new trajectories become possible. If the past matters more for path-dependency theorists, the present matters more for path-shaping theorists. It matters above all as a moment for the making of bounded choices that open up new futures, enabling the currently dominant social forces to pioneer new paths subject to the institutional and organizational resources at hand. At a given point in time, past developments constrain more or less tightly the set of feasible current choices on how to proceed, and the possible trajectories that would follow any choice. Some conjunctures (such as moments of revolutionary crisis) will, of course, contain more possibilities than others. Within these constraints, however, social forces can choose where to go; and, by developing a strategy over different time horizons to shape future possibilities, they can eliminate current constraints. Thus, in contrast to the path-dependency analysis, the path-shaping approach implies that, within specific, historically given, and potentially malleable limits, social forces can redesign the “board” on which they are moving and reformulate the rules of the game (Hausner, Jessop, and Neilson, 1995; 6-7).

When we consider the institutional building of Japan after the Pacific War, there are clear and tangible elements to support the path-shaping argument as the original plan of the US had included making Japan not only a stronghold of anti-communism but also an exemplary democratic state (Park, Hoo-kōn 2007: 160; Smith, 2008, 32). If the US original plan of making an exemplary democratic state were indeed advanced and realized, Japan would have become a completely different country, like West Germany after the World War II. Nevertheless, as the security situation in Northeast Asia and Japan at the time was turning against US interests² the US abandoned its plan to make Japan an exemplary democratic nation

2. China became a communist country, marked by the establishment of the People's Republic of China in October 1949. This came as a great shock to the US, which had been supporting Chang Kai-sek's

and turned to the pre-war structure; that is, it returned the Japanese economy and politics to the charge of the former member of *zaibatsu* (財閥) and the former bureaucrats of imperial Japan. This regression is referred to as “the reverse course.”

During the reverse course (1947-1950), the people who were part of the former *zaibatsu* and the former government bureaucrats' status were restored and they were encouraged to take charge of the economy and politics (Cumings 1990: 17), and therefore ensuing Japanese political and economic structure was shaped in a classical path-dependent way, specifically one that these people pursued during the Japanese imperialism. Some 130,000 people in total were fired from work for their ideological inclinations or their activities related to labor unions. At the same time, the SCAP released A-class war criminals such as Kishi Nobuske, and reinstated them, so that they could fight the pro-communist forces and make Japan a pro-America and anti-communist state. Although the US succeeded in disarming Japan and placing Japanese national defense under its control through the reverse course, Japan's political and economic structure were restored and grew comparable to their state throughout the WWII era (Smith, 2008: 34-35). In addition, even before the reinstatement of the former core members *zaibatsu* and the bureaucrats of the Imperial period, so-called “old power” (power consisted of the former elite class during the Imperial period) won substantial votes in the 1946 April general election, and became a significant force in Japanese politics, despite the SCAP's expulsion of the Imperial bureaucrats in January of 1946 (Ishikawa, 2006: 60-61). As the former core members of the military, the *zaibatsu* and the bureaucrats were reinstated during the “reverse course,” and joined with the “old power,” the political and economic structure was as if the successors to the Meiji Restoration had returned to power.

This is why the institution building of Japan cannot be anything else, but “path-dependent”; in ways that are reminiscent of technological innovation, societal innovation depends heavily on recombining old elements, as much as, if not more

Kuomintang. Moreover, in many Asian countries such as Vietnam and Indonesia, political power was taken by people who were inspired by ideology of national liberation, similar to socialist lines. In addition to democratizing Japan, SCAP (the Supreme Commander of the Allied Powers) had as its goals the dismantling of *zaibatsu* (財閥- big industrial conglomerates), who had served as the moneybag for Japanese militarism, and Japan's bureaucratic system (Kolko and Kolko 1972: 318). However, ironically, the efforts of SCAP in this regard contributed to the growth of socialist and communist forces in Japan. The Socialist Party of Japan received 18% of the vote in the 1946 election, obtaining 92 seats, but the next year secured 143 seats, making it the most seats in the Diet. The Communist Party had been operating underground during the WWII, but after the war, it gained a legitimate status. Though it received only 4-5 seats with 3-4% of the vote in 1947, it started exerting a great influence on now legalized labor unions and the intelligentsia (Gordon 2003: 239-240).

than, it does on introducing wholly new social forms. In this perspective, the Post-War Japanese economic development strategy based on the Flying Geese Model can be viewed as a continuation of the Greater East Asia Co-prosperity Sphere³, a concept endorsed by Imperial Japan during WWII.

The Flying Geese Paradigm originated in the 1930s with what Kaname Akamatsu called the *ganko keitai* (a flock of flying geese) phenomenon of industrial development in catching-up economies. The paradigm became part of Japan's propaganda during World War II by lending the intellectual legitimacy that was needed to create the Great East Asia Co-Proprosperity Sphere. After the war, this connotation continued for some time to tarnish the image of the paradigm. Consequently, it remained buried from public sight (Kasahara, 2004). Nevertheless, some of the core objective of the Great East Asia Co-Proprosperity Sphere, such as the regional economic structure of vertical integration, with Japan at the top still continued in the post-war Japanese economic development strategy (which is captured in the Flying Geese Model) as the former members of the military, the bureaucrats and the *zaibatsu* (the practitioners and executioners of the Great East Asia Co-Proprosperity Sphere) were reinstated during the "reverse course."

In 1952, the US and Japan concluded the US-Japan Security Treaty in San Francisco. The goals of the US were to make Japan an anti-communist fortress in East Asia and to contain Japan through its disarmament at the same time (Gordon, 2003: 242). Although there was criticism in Japan that the treaty was unequal, it seemed to be Japan's new leadership supported Pax-Americana for a reason other than becoming a junior partner of the US. Then-Prime Minister, Yoshida Sigeru, who headed up efforts to conclude the US-Japan Security Treaty, while speaking with Miyazawa Kiichi, his adjutant who later become prime minister,, reportedly said the following:

The day [to re-arm ourselves] will come naturally when our livelihood recovers. It may sound devious (*zurui*), but let the Americans handle [our security] until then. It is indeed our heaven-bestowed good fortune that the Constitution bans arms. If the Americans complain, the Constitution gives

3. The Greater East Asia Co-prosperity Sphere was first officially announced by imperial Japan's foreign minister, Masoka Yoske in comments made on August 1st, 1940. The gist of his comment was that Asian peoples must form the Greater East Asia Co-prosperity under Japan's leadership and drive the Western power out of Asia in order to liberate themselves from Western colonial rule. His comment reflected not only his opinion but also the deeply rooted view commonly held by the ruling class of Japan at the time (Park Hoo-kön, 2007: 160).

us a perfect justification. The politicians who want to amend it are fools (Pyle, 1992: 26).

Because Japan is an island nation like Britain, it is impossible to accomplish economic development only with its limited natural resources. The most important reason that after the Meiji Restoration Japan attempted to colonize others, following Western examples, was also to develop its economy.

Japan was able to concentrate her efforts in economic development because the United States had guaranteed the defense of Japan. Such an arrangement, in which Japan relinquished her authority in defense matters to the United States and concentrated effort towards economic development, was possible because the United States perceived that rapid Japanese economic development would be the best way⁴ to make Japan a fortress of capitalism in East Asia (Burkett and Hart-Lansberg, 2003: 100; Smith, 2008: 34-35). The United States not only took care of Japan's defense, but also granted Japan Most Favored Nation (MFN) status to facilitate Japanese economic development. By taking advantage of this arrangement, and utilizing the opportunities, Japan made tremendous economic development: during the year 1950 to the year 1973 period, Japanese per capita GDP grew at 8% per year (Chang, 2004: 96), and by the mid-1970s Japan became the world's second largest economy.

Japan's economic success provided a convincing rationale for other East Asian countries to emulate the Japanese development model, on one hand; Japan had economic interest to integrate East Asia by its capital and technology on the other. The result was the vertical and hierarchal economic integration in which Japan placed itself at the top, Northeast Asian countries were next, and Southeast Asian countries brought up the rear. This vertical and hierarchal economic integration was the essence of the Flying Geese Model. In this scheme, although Japan did not colonize other East Asian countries by force as it had done during its imperialist period of the early 20th century, the fundamental nature of the model, building an economic bloc centered on Japan, was not so different from the essence of the East Asian Co-prosperity Sphere during Japan's imperialist period (Halliday and McCormack, 1973: 21; Schlesinger, 1989).

This is also manifested by Japan's war reparations to its former colonial countries. Japan's reparations to these countries can hardly be considered full

4. This was specifically spelled out in the NSC (National Security Council) document 13-2, authored by George Kennan.

compensation that reflected Japan's genuine repentance, but rather Japan's conscious effort to extend its economic influence to the region as Japan made only partial compensation to the former colonial countries and the rest was given as either economic aid, commercial loans, or both (Utsui, 1998: 138-143). As such, Japanese economic aid to these countries contributed to making them dependent on Japan's capital and technology, *de facto* economic colonization. Nonetheless, the Flying Geese Model of economic integration could not continue following the rise of the Chinese economy. Let us look closely at how China's economic ascension brought about the collapse of the Flying Geese Model" of economic development and integration in East Asia.

The Surge of China's Economy and the Collapse of the Flying Geese Model in East Asia

The Japan-led Flying Geese Model inevitably nudged participating countries to adopt export-led growth strategies; it created special economic relationships among the East Asian countries and the United States, and consequently formed a unique economic structure in East Asia. The economic relations and ensuing structure emerged with Japan first providing capital and technology to other East Asian countries such as South Korea and Taiwan, and subsequently, the recipients of Japanese capital and technology utilized their cheap labor to produce consumer goods that they exported to the United States (Terry, 1996: 189-190; Katzenstein, 2005: 107-114). From this process, the countries that received Japanese capital and technology incurred trade deficits with Japan, but they compensated these by exporting consumer goods to the United States; the inevitable trade deficits ran by the United States were then covered by Japan's purchase of US government securities and bonds.

The important thing in such a trade structure was that the following "geese" countries, particularly Southeast Asian countries, must export their products to the United States in order to compensate for their trade deficits with Japan. However, as China's economy surged through its exports to the United States and other advanced countries, and thus as China became a huge competitor for these "geese" countries, these special economic relations and the ensuing structure among the East Asian countries, Japan, and the United States could no longer be sustained. Although it had some shaky moments, China's economic growth, which was

unleashed by economic reform measures begun in the late 1970s, seemed to be unstoppable, hovering at 10% per year for nearly two decades. China not only became a dominant competitor for the export market of the United States and other advanced countries, but also became a powerful magnet for attracting foreign direct investment. China alone received approximately 70% of all foreign direct investment in the region.⁵

Export is the engine of China's economic surge, and China is positioning itself as a giant in the world export market. In the early 1980s when China's economic reforms had just begun, the proportion of China's exports to the total of world export was less than 1%. However, as of 2004, China's share grew to 6.8%, which was larger than the 6.2% of Japan and approximately twice as large as the proportion of four Southeast Asian countries' (Malaysia, Thailand, Indonesia, and Philippines) combined rate of 3.9% (Bank of Korea, 2006).

When we compare the proportion of China's export to the total export of the world's going into the US market, the picture becomes even clearer. Until 1990, China was responsible for less than 10% of total exports to the US market; but this figure jumped drastically to 22% by 2002 (Pak, Bun-sön, 2005: 12-13). Since China and the "geese" countries of East Asia were competing for the same export market in the United States, China's increased proportion meant a subsequent decrease in the other East Asian countries' combined proportion. Moreover, such a phenomenon occurred not only in the US market, but also in other markets across the world. In fact, China's share of the world exports increased from 3% in 1995 to nearly 7% in 2005,⁶ more than doubling, but the total exports from East Asia including China to the world did not change. This indicates that the "geese" countries were losing ground in export competition, especially to China. As such, it undermined the structure of the Flying Geese Model and it ceased to function (Katzenstein, 2005: 63).

5. Foreign direct investment in China steadily increased: during the period between 1991 to 1996, China received the total of 22.5 billion US dollars or 60% of all FDI in East Asia: in 1997, China received 44.5 billion US dollars or 56% of all FDI in the region: in 1998, FDI in China was 43.8 billion US dollars or 75% of all FDI in the region: in 1999, the figures were 40.3 billion or 51%: 40.8 billion or 54% in 2000, 46.8 billion or 65% in 2001, 52.7 billion or 76% in 2002, and 53.5 billion or 73% in 2003. (Pak, Bun-sön, "*Chungguk ūi busang kwa dong asia paljŏn model ūi byŏnhwa*" (The surge of China and changes of development model in East Asia) (Seoul: Samsung Economic Research Institute, November 25, 2005), iv.

6. According to China's National Statistics Bureau, China's share in world's exports reached 8.8 percent by 2007, making it the world's 2nd largest exporter, only after Germany. (China Daily, "China ranks 2nd with 8.8% of world's exports in 2007" (October 28th, 2008).

The rise of China's economy is changing the equation of the economy in East Asia. Currently, China is the third largest trading country in the world and becoming a dominant economic influence in the region: China already has become the largest export market for newly industrialized economies (NIEs) of East Asia, such as South Korea and Taiwan, and since 2002, China's imports from East Asian countries are twice that of Japan from the same countries.

There is a big difference between Japan's trading relations with the countries of East Asian and China's trading relations with these countries. In the Flying Geese Model of development, as the "leading goose," Japan's trading relations with other East Asian geese are essentially based on mercantilism. Japan exports capital and technology to these countries and by utilizing Japanese capital, technology and their own cheap labor, the East Asian geese countries export their products to the US market, and thus incur a trading surplus. However, as the East Asian countries' volume of exports increases, these countries trading deficits with Japan also increase since they have to import intermediate goods, which are necessary for their exports, from Japan, pay technology royalties, and interest payment of their loans to Japan (Lincoln 1993: 124). On the other hand, unlike Japan that essentially has mercantilist trading relations with these countries, China's trading relations with these countries are more reciprocal; China's imports from East Asian countries are larger than China's exports to these countries. As this trend is expected to continue as China's economy grows, it is likely that China's economic and political influence to these East Asian countries would also grow.

China is also actively extending its influence in the region, especially Southeast Asia, through tightening and strengthening economic relationships. For instance, when numbers of important Southeast Asian countries were hit hard by economic crisis in the late 1990s, instead of engaging competitive devaluation in order to profit from the crisis, Beijing chose to maintain a fixed value for its currency in order to contain the crisis. Furthermore, China played a significant role in stabilizing the crisis by contributing stabilization funds for afflicted countries (Lampton, 2005: 307).

After nearly ten years of actively pursuing an FTA (Free Trade Agreement) with ASEAN (Association of South East Asian Nations), an agreement was finally signed between the ten-nation bloc and China on August 15, 2009 in Bangkok. The main motivation for the FTA with ASEAN is economic – enlarging market through trade – but there are other strategic motivations. China views the FTA as an important tool for both economic diplomacy and political diplomacy. China's motivation is strategic in relations with Japan when it comes to the FTA with

ASEAN. According to one Chinese scholar, it has imperative for China to break up the encirclement of Japan's FTA strategy as Japan has moved ahead of China in negotiating FTAs or EPA (Economic Partnership Agreements) with China's neighbors, and that this has ominous political implications. With closer economic relations, these countries are improving their political relations with Japan, which may damage China's regional leadership potential. In this perspective, China's decision to enter into FTA talks with ASEAN was, to a great extent, a politically driven move. More specifically, China is trying to contain Japan's influence while enlarging and strengthening China's influence in the region (Hoadley and Yang, 2007). Hence, from the perspective of Japan, the rise of the Chinese economy definitely poses a threat to Japanese interests in the region.

After the defeat in the Pacific War, Japan could not continue its national objective of "building a wealthy country, and a strong military," (富國強兵). Japan had to surrender its military (defense) to the United States, but they could continue the other part of the national objective of the Meiji Restoration, "building a wealthy country" (富國). In fact, the post-war arrangements of "the reverse course" allowed Japan to focus its efforts on economic development while the United States takes care of its defense. As the Post-War arrangement of "reverse course" put Japan in the path-dependency track, the Japanese version of foreign direct investment, the Flying Geese Model of development is the continuation of the Greater East Asian Co-prosperity Sphere. Nonetheless, due to the rise of the Chinese economy and its influence in the region, the Flying Geese Model of development is no longer valid. Since the start of Chinese reform in the early 1980s, the economic hegemony of East Asia is gradually moving from Japan to China. As such, the rise of China's economy and its political influence in the East Asian region became a threat and a challenge to Japan's interest in the region.

Japan is an island and lacks natural resources to be self-sufficient and because of these geographical and resource constraints, the only way for Japan to be economically prosperous is through trade. However, after the Cold War, the world economy is increasingly reorganized into economic blocs. Since 1999, the Economic Community of Europe became the European Union (EU), the economic union that currently consists of 27 countries and uses one currency. Since 1992, the United States, Canada, and Mexico set a free trade agreement and formed a North America Free Trade Area (NAFTA). The post-Cold War economic reorganization of Europe and North America startled Japan whose economy depends on trade, and pressured Japan to come up with its own version of an economic bloc in East

Asia. For Japan, forming an East Asian economic bloc was perceived to be a not too difficult task because East Asian countries following the Flying Geese Model of development pattern already organized their economies centered on Japan's leadership. Nonetheless, this would be difficult due to rise of the China's economy.

Reinforcement of military alliance between Japan and the United States which was started in the mid 1990s is not irrelevant to economic reorganization in the East Asian region due to rise of the China's economy. Although Japan was disarmed by the United States after defeat in the Pacific War, it never gave up its wish to be a "normal nation" with complete national sovereignty including the right to arm itself. Such an aim is already well manifested in the Yoshida Doctrine.⁷

The Yoshida Doctrine was the basic tenet of Japan's foreign policy throughout the Cold War. It contains three important principles: first, put priority in having good diplomatic relations with Western countries, especially with the United States; second, focus all available means on an economic recovery after World War II while leaving Japan's military defense to the United States; third, place great emphasis on economic diplomacy (Kosaka, 1989: 293-323). Thanks to this policy of focusing on trade and technological advances, Yoshida envisioned a speedy economic recovery by which Japan would again become a major world power (at which point it would be in a position to rearm). His policy was thus not rooted in pacifism but was in line with the realist foreign policy that has been a dominating force in Japan's approach to international relations since the Meiji Restoration. Its traditional goal has been to capitalize on the trends of international politics in order to increase Japanese influence and standing throughout the world (Pyle, 1992: 24). More importantly, Japan envisioned being a regional hegemon once again if the United States fades as the world's sole superpower or decides to leave the region.

However, due to the rise of the Chinese economy, the structure of a Japan-centered East Asian economy was no longer functional or valid. For this reason, Japan has attempted to balance China's influence and power in the region by strengthening and reinforcing its military alliance with the United States. Japan's intension of reinforcing its military alliance with the United States was well in line with the United States' new national security strategy of not allowing regional hegemony or for a regional competitor to challenge the its military hegemony. Hence, since the mid 1990's the US-Japan military alliance was escalated to the level of a coalescence force. Let us closely look at the details surrounding the fortification of the US-Japan military alliance.

7. The Yoshida Doctrine named after Japan's post-World War II Prime Minister Shigeru Yoshida.

The US-Japan Military Alliance since the mid-1990s and Increasing Military Tensions in East Asia

In 1996, the United States and Japan recognized the need for new security initiative in the Asia-Pacific region, and in the following year came up with new defense guidelines. The freshly minted “US-Japan Defense Guideline,” expressly stated that US forces in Japan would involve and engage in the peripheries of Japan when military actions are called for. In 1999, Japan’s parliament passed the implementing legislation for the US-Japan Defense Guideline. In 2001, after the 9/11 terror attacks, Japanese parliament legislated a special anti-terrorist law. With this new legislation and set of military guidelines, Japan was now free to not only offer rear support for US military actions, but also could deploy its Self-Defense Forces overseas with the approval of the Japanese parliament, and would not need ratification from the United Nations to do so (Speed and May, 2005: 38).

As soon as the law passed parliament, Japan has seemed eager to utilize every opportunity to send its Self-Defense Forces overseas. For instance, in 2001, the year the law passed, Japan sent its Self-Defense vessels to Afghanistan; in 2003, when the war in Iraq broke out, Japan sent its newest high-tech satellite guided nuclear capable vessels (Aegis) to the Middle East for cooperative operations with the United States; as of 2009, Japan is continuing its military operations with the United States in the Indian Sea, and in Iraq. Japan’s Self-Defense Forces now uses the same military bases that only the American forces in Japan had access to before the new guideline scheme out and the law was passed.

The Self-Defense Forces’ command line used to be separated into an army, navy and air force, but as of March 27, 2006, these three separate command lines were combined into one unified line in order to reinforce the cooperative system with the United States. In this respect, the US forces in Japan and Japan’s Self-Defense Forces *de facto* united into one combined force. Moreover, it was reported that the United States is planning to move a part of the First Army Corps from the state of Washington to the Japanese city of Zama; this city happens to be in the same Kanakawa prefecture where the American military base is also located. When the US First Army Corps moves to Zama, the city will become the army headquarters of the US forces in Japan. The headquarters of a core troop of Japan’s Self-Defense Army is also planning to move to the same location (Park, Hu-geon, 2007: 166).

These planned simultaneous synchronized movements indicate that the US and Japan are planning to operate a joint military headquarters, and subsequently

Japan will become the most important military hub in the US East Asian military strategy. There are other examples that show that the above is not just a plan but also a current reality. Okinawa becomes the main supply base for the core of the US marines, the US Third Marine Corps. Yokosuka is the home port for the US Seventh Fleet whose combat capability is supposedly the best in the world. Furthermore, there is a plan to move the headquarters of the US aircraft carriers to another Japanese port, Yokota, where usage of the base would not be restricted to the US Marine Corps, but also extend to Japan's Self-Defense Air Force. It has been also reported that the Yokota base will be the central location for coordinating the US Missile Defense operation. As the former US assistant secretary of Defense Richard Amitage once said, the US-Japan military alliance has already surpassed the US-UK military alliance (Takahashi, 2005). The military forces of the two nations are, in actuality, becoming one combined power.

Japan's active participation and cooperation in strengthening the US-Japan military alliance has a clear objective: balancing China's rise. The Japanese government disclosed 2005 defense white paper one day after publically announcing the draft of its new constitution. In the paper, Japan's Defense Agency⁸ assumed coming of competition between China and Japan for the hegemony of Northeast Asia as one of the most important agenda items. Furthermore, the paper clearly stated that Japan ought to prepare itself to cope with China's recent "Revolution in Military Affairs" (modernization in military equipment by increasing military spending) (Nam, 2005). This shows that Japan is neither reluctant nor passive about taking an active role in balancing China's hegemonic rise in Northeast Asia.

As Japan is reinforcing and strengthening its military alliance with the United States in order to balance China's power and influence in East Asia, tensions between Japan and China are likely to increase. China, in turn, is upping its defense budget and trying to modernize its military in order to cope with the brewing challenge of Japan. Moreover, China is also strengthening its defensive and offensive capabilities through military cooperation with Russia. Traditionally, China had an unfriendly (or even hostile) relationship with Russia/the former Soviet Union. However, this relationship is changing rapidly and approaching the level of alliance. For instance, in July 2000, then-president of Russia, Vladimir Putin, visited China, and the following year, then-chairman of the Chinese Communist

8. As recognizing the importance of military, the Japanese government upgraded Defense Agency to Ministry of Defense on January 9, 2007, 53 years after the establishment of the Defense Agency in 1954.

Party, Jiang Zemin visited Russia and concluded China and Russia's Treaty of Good Neighborliness and Mutual Friendly Cooperation with Putin (Yu, 2005: 228).

This joint treaty was the first of its kind since China and the former Soviet Union concluded the China-USSR Alliance Treaty on February 14, 1950. This treaty of 1950 was terminated when the relationship between the former Soviet Union and China soured and went into a *de facto* cold war in the early 1960s. The latest treaty is good for 20 years and consists of 25 articles that encompass comprehensive China-Russia cooperation on trade, diplomatic relations, and military technology. The treaty is not a treaty of military alliance between two countries, but both countries agreed not to seek hostile military action against each other.

In the treaty, both countries recognize the importance of trust-building measures, such as the need for arms reduction, and military cooperation between two countries; both measures reinforce the so-called "strategic cooperative partnership between two countries." From this perspective, this treaty can be viewed as a concrete movement towards comprehensive cooperation and partnership between China and Russia. Furthermore, in August 2005, China and Russia conducted a two-week cooperative military exercise which mobilized elite forces numbering more than 10,000 from both countries. This joint exercise was the first of its kind ever brought to fruition between China and Russia (Magnier and Murphy, 2005).

Concluding Remarks: the ROK's Wrongheaded Foreign Policy and the Need for an Alternative

As the aforementioned trends continue, tensions in Northeast Asia are likely to escalate and the Korean peninsula, which is located geographically between the Northeast Asian continental powers (China and Russia) and maritime powers (Japan, and the United States), is in danger of becoming the proverbial "shrimp caught between two whales." Nevertheless, the ROK's recent diplomatic strategy and the ensuing policy are out of touch with reality. There are growing concerns that the ROK is in an economic, diplomatic, and security dilemma. For instance, Kun-hee Lee, the former chairman of Samsung group, the largest conglomerate in South Korea, expressed his concern for the ROK's economic quandary when he was asked to make a comment on the future of his company:

I really worry about the next 20 years. As China is catching up and Japan

moves ahead, Korea is sandwiched in between.

If we do not overcome this challenge, we are heading off to face a bleak future (Joong-ang daily newspaper 2007).

The ROK's diplomatic, security, and economic troubles are some of the most important reasons late president Roh Moo-hyun sought to hasten conclusion of a free trade agreement (FTA) with the United States.⁹ Ironically, the ROK's rationale for such an agreement is well captured by then-opposition party strategist, Park Sae-il:

Most of all, the FTA is for the security of the ROK. Recently, as the ROK irritated the United States by demanding transfer of war-time command, the US-ROK alliance was damaged a great deal. On the top of that, the ROK's continuation of "Sunshine Policy," even after North Korea conducted a nuclear test, isolated the ROK from the international cooperation and put the US-ROK alliance in danger of demise. In this time of crisis, it is indeed fortunate that our government is pursuing the FTA with the United States.

If the US-Korea FTA is successfully implemented, the ROK should take it as an opportunity to expand the US-ROK military alliance to a comprehensive alliance that encompasses not only security but also the economy and other sectors as well. The USA-ROK alliance is the only strategic measure available for the ROK to balance the power of China and Japan in Northeast Asia. We must remember that allying with America in order to balance the power of China and Japan (連美制中日) is the only way to avoid repetition of the tragic history of Korea such as its vassal-state status to that of China or its status as a colony of Japan (Pak, Sae-il, 2006).

Park Sae-il clearly explains the rationale and motivation for the ROK government's commitment to conclude the US-ROK FTA; the ROK government considers it to be a medium to solve the ROK's diplomatic, security and economic dilemmas. Nonetheless, Korea's relative importance to the United States is far less than that of Japan or China. Moreover, as we have analyzed, the United States and Japan are strengthening their alliance to the level of a coalescent force in order to

9. Incidentally, although there was some opposition, especially from the Democratic Labor Party, the FTA between the US and the ROK was a bipartisan agreement, a rare occasion, in the ROK's national assembly.

balance China's influence in East Asia. Therefore, if the US-ROK FTA successfully concluded and it indeed does strengthen the US-ROK alliance as Park Sae-il surmises, Korea may be able to balance the influence of China, but the ROK lacks any measures to balance the power of Japan.

More importantly, the ROK must consider whether it is in its best interest to become a foe of China by siding with the United States and consequently with Japan. As we have seen previously, China is not only the largest trading partner of the ROK, but also rapidly becoming the most important country for the ROK. Traditionally, in Korean politics, the past administration's policy is not executed with much continuity following a power shift. However, when it comes to foreign policy, alliance with the United States always gets priority regardless of who or which party takes the reins; the only question is how intensely they propel the policy.

As president of the ROK, Lee Myung Bak proclaims that the most important agenda for the ROK's foreign policy is a restoration of the US-ROK alliance. From the more conservative perspective of Lee Myung Bak's ruling party, the Grand National Party, the former President Roh Moo-hyun and, his Tonghap Minju Party's pro-American policy was not strong enough. As the ROK's new President publicly announced his affinity for the US-ROK alliance, China, in turn, expressed its concern and distaste by stating that the US-ROK alliance is a product of bygone era of the Cold War while Lee Myung Bak was paying a state visit to China (Thaindian News, 2008). The serious concern for China is that the ROK becomes a part of the US-Japan alliance and pressures China together with the United States and Japan. Likewise, Japan worries about a situation in which China and Korea jointly pressure and isolate Japan in Northeast Asia. For the above reasons, allying with any big country would exacerbate the ROK's diplomatic dilemma.

Generally speaking, there are three diplomatic options available for Korea. Strategically strengthening the alliance with the United States to balance China's power and influence in the region is one. The other option is to "bandwagon" with China's rise by siding with China, while "hedging" between the United States and China is the third option. The first two options stand in diametric opposition and are not sound options for the Republic of Korea as both the United States and China are important countries for the ROK and it would not be in Korea's national interest to ally itself with one side and take an antagonizing position to either of the two countries.

In this respect, the third option, "hedging," seems to be the appropriate diplomatic strategy for Korea. The option implies simultaneously applying deep engagement and soft balancing to the concerned country. Those people who advocate

the third option argue that hedging in the case of ROK specifically entails deepening economic relations with China while balancing China's rise by modestly or loosely maintaining (but not strengthening) the US-ROK alliance (Chung, 2000; Han, 2008). The key to success with this kind of diplomatic strategy, they argue, lies with ROK's diplomatic skills, such as persuading and convincing China that the US-ROK's alliance is not aimed at China in particular. Such an argument assumes that the US-ROK alliance does not have any relation to, or is independent from the US-Japan alliance. Nevertheless, as we have analyzed above, the US-Japan alliance and US-Korea alliance are organically interrelated, and as the leader of these two alliances, the United States has pursued a common goal in the region through the US-Japan and the US-ROK alliances in the first place. After the Cold War, the United States' goal of containing the spread of communism has evolved as a visible communist threat no longer existed, but it has changed to maintain US dominance in the region (i.e., balancing China's rise), which coincides with Japan's objective of balancing China's rise in response to the collapse of the Flying Geese Model. From this perspective, the ROK neither has sufficient rationale nor convincing rhetoric to persuade Chinese leaders that the US-ROK alliance is not targeting China. In other words, it is highly unlikely such a diplomatic strategy will indeed "hedge" Korea's national interest.

It seems that there are no diplomatic options available to serve Korea's interest. However, there is one more option. Korean neutrality has been a forgotten topic in Korean academia and the political arena for quite some time: vanishing at the moment the first President of ROK, Syngman Rhee, relinquished the ROK's military command to the UN forces during the Korean War. Ironically, Rhee's doctoral dissertation at Princeton University was "Neutrality as Influenced by the United States"¹⁰. In it, he convincingly and strongly argues for neutrality of the Korean peninsula amid competition among the Western powers and Japan is essential for Korea's survival and for keeping peace in East Asia.

That was about 100 years ago, and the world has changed since then. A hundred years ago, Korea was weak and passive, and one of its options for survival as a nation was neutrality. Today, Korea may not have sufficient—but does have the necessary—resources of force to become an active state that could not only buffer two potentially hostile powers in Northeast Asia but also neutralize them and catalyze economic cooperation between continental powers and maritime powers to

10. It was completed in 1910 and published by Princeton University Press in 1912 (Rhee, Syngman *Neutrality as influenced by the United States ...* Princeton, Princeton university press, 1912, Princeton university, 1910, Ph. D. 12-6674)

bring about economic development and prosperity in the region. A careful balance of power will be one of the essential prerequisites for economic development in the region. In this respect, the ROK can play an important role of creating and sustaining the balance of power and be a keeper of peace. This cannot be achieved if the ROK maintains the policy of alliance, which inevitably tilts the balance to one side, or changes to the hedging strategy because it is ultimately targeting China as a power to be balanced or contained.¹¹

In order for Korea not to be trapped in an alliance strategy that goes against its interests and the interests of the region as a whole, it must pursue a diplomatic policy of “complete neutrality,” in which Korea makes no alliances with major powers in the region, but becomes and remains as a “neutral state.” A fine example of this would be Switzerland, which became a neutral state in 1815 in order to avoid involvement in power struggles and conflicts among the vastly larger powers of Europe. Switzerland, as a neutral state, was able to maximize its national interests by facilitating intermediation and cooperation between the West and East in Europe during the Cold War period by becoming a favored destination and venue for hosting international assemblies and a financial hub. This legacy continues even after the Cold War as establishing and maintaining of institutions and the role of locations (cities) are also “path-dependent.”¹² The path to becoming a neutral state is beyond the scope of this paper, but if the argument of imminence of hegemonic competition in Northeast Asia between Japan and China bears any viability, it is high time for Korea to consider an option of neutrality as a serious and viable alternative to the alliance policy.

11. In this respect, hedging strategy can be called a “looser form of alliance” and included in the category of alliance strategy, instead of the other separate category.

12. Although recently important organizations related to EU are establishing in Brussels and Berlin, Geneva and Zürich have not lost their importance and reputation of being worldwide centers for diplomacy and international cooperation, and are widely regarded and recognized as a global city, as numerous international organizations, including the headquarters of many of the agencies of the United Nations and the Red Cross have not relocated other places. Moreover, Geneva has been described as the world’s sixth most important financial centre by the Global Financial Centres Index, ahead of Tokyo, Chicago, Frankfurt and Sydney, and a 2009 survey by Mercer found Geneva to have the third-highest quality of life in the world. The city has been referred to as the world’s most compact metropolis and the “Peace Capital”. Zürich also remains as a leading financial center, and is also considered a global city. UBS, Credit Suisse, Swiss Re, Zurich Financial Services, and many other financial institutions have their headquarters in Zürich, the commercial center of Switzerland. Zürich still remains as one of the world’s largest centers for offshore banking. The Greater Zürich Area is Switzerland’s economic center and still remains as a home to a vast number of international companies.

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Abstract

As of 2009, the economic, security and diplomatic circumstances on and around the Korean Peninsula are highly complex and dynamic. While the US, whose economy was cast into tumult by the recent financial crisis, tries to maintain its military hegemony in Northeast Asia, Japan, whose status as the economic leader of East Asia is threatened by China's recent economic rise, aims to become a "normal nation." This push by Japan will likely trigger an arms race in Northeast Asia, which in turn will raise tensions between China and Japan. The US-Korea alliance is the pivot of South Korea's foreign policy. However, strengthening the alliance inevitably forces South Korea to choose a side in the power play between China and Japan in Northeast Asia, adding to the tensions between the two countries. Furthermore, such a policy would not serve Korea's best interests. Rather than an alliance, neutrality is an appropriate foreign policy for Korea and it is high time we consider neutrality as a viable alternative.

Keywords: Greater East Asia co-Prosperity Sphere, Flying Geese Model, alliance, neutrality