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Are US allies Japan and South Korea hedging China?

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Abstract

The rise of China has led to much debate about the strategies Asia-Pacific states are utilising in response to this rise. This has led to the development and application of theories about 'hedging'. The concept of hedging is strongly grounded in realism and balance of power theory, but it has been defined and applied in a wide range of ways and there have been limited attempts at applying models to determine if a state is in fact hedging. As a result, the literature has lacked consistency and replication in its application. This thesis has identified two broad camps of thought; those that view hedging as a security focused strategy, and those that view it as a combination of strategies. There has been no application of the latter view to the United States allies in the Asia-Pacific.

The aim of this research is to therefore determine if the US allies of Japan and China can be said to be hedging China and provide a robust analysis of hedging through application of the view that hedging is a combination of strategies. To do this the thesis has applied a model developed by Cheng-Chwee Kuik. This analysis focuses on the risk contingency options of indirect balancing and dominance denial, and the return maximising options of economic pragmatism, binding engagement and limited bandwagoning. The study applies several quantitative and qualitative indicators, developed by the researcher, to determine if these indicators have been adopted, placing the two countries along a spectrum between balancing and bandwagoning. It concludes that Japan and South Korea have both adopted hedging but to differing degrees, with Japan close to neutrality, and South Korea closer to power acceptance of China. However, the overall inconclusive nature of the conclusion to whether South Korea is pursuing dominance denial has led the researcher to recommend that the model be applied to a broader range of countries to determine if this indeterminacy is due to the indicators developed, or if this is more a case of South Korea's intentions being unclear.

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Introduction

As allies of the United States (US) South Korea and Japan currently face a difficult juggling act between building economic relations with China whilst maintaining strong security ties with the US. The 'rebalance' by the US to the Asia-Pacific from 2010 has further complicated this situation. The region as a whole is increasing its military spending and a number of countries have territorial disputes with China. Tensions in the region often flare and the recent announcement by China of an Air Defense Identification Zone (AIDZ) is another example of this dynamic. However, these tensions are occurring in an environment with a high degree of economic interdependence in the region, in large part due to the economic powerhouse that China has become. As US allies this makes the strategies adopted by South Korea and Japan even more intriguing.

The rise of China has prompted various responses from its Asia-Pacific neighbours. Indeed the literature has argued that an array of strategies have been adopted in response, and 'hedging' is one of those strategies. This is the focus of Chapter one which provides a review of the literature on hedging. However, to understand the development of the concept the first part of the chapter provides some background to hedging. Thus, the chapter begins by introducing realism and moving into a discussion on balance of power theory that looks closely at balancing and bandwagoning. The second part of the chapter addresses hedging itself, highlighting that there is little agreement on its definition. It examines the literature by splitting it into two groups; those that view hedging as a purely security focused strategy, and those that see it as a combination of strategies. The chapter concludes by highlighting how this research fits into the literature and provides a breakdown of the model applied.

The work then moves onto the case study chapters on Japan and South Korea. Each case study is addressed in two parts; the risk contingency options are considered first and the second half of the case studies address the return maximising options. The indicators developed by the author to determine if strategy has been adopted are applied. For each of the five strategies these indicators are analysed and a conclusion is drawn on if the strategy has been adopted or rejected. This then allows the countries to be placed along a continuum between balancing and bandwagoning based on these conclusions.

This study aims to achieve two objectives. The first is to apply hedging as a combination strategy to the US allies of Japan and South Korea to determine if they are hedging China. To do this it draws on a model developed by Kuik (2008; 2012) that allows a country to be placed

along a continuum between balancing and bandwagoning by assessing if five strategies have been adopted by the state. These five strategies are the risk contingency options of indirect balancing and dominance denial, and the return maximising options of economic pragmatism, binding engagement and limited bandwagoning. The application of this model aims to provide a comprehensive and robust analysis of 'hedging', applying Kuik's model's with some specific indicators of when each strategy is in play, thereby providing a comprehensive analysis, that can also potentially be replicated.

Ontology and Epistemology

The field of International Relations (IR) has two ontological approaches to methodology; foundationalism and anti-foundationalism (Furlong & Marsh, 2010; Moore, 2007; S. Smith & Owens, 2008). Anti-foundationalism sees the world as socially formed and that reality is actively constructed and therefore it cannot be 'discovered' (Furlong & Marsh, 2010). As a result, anti-foundationalists do not believe that value free observations can be made as foundationalists do (Furlong & Marsh, 2010; Moore, 2007; S. Smith & Owens, 2008). In contrast, foundationalism takes the view that there is a world 'out there' which exists independent of our knowledge of it and we can 'discover' by observing it (Furlong & Marsh, 2010; Moore, 2007). The study conducted here falls within the foundationalist approach.

Within foundationalist ontology there are two epistemological approaches; scientific realism and positivism, the approach adopted by this study is positivistic (Furlong & Marsh, 2010; Moore, 2007). Positivism is in essence the application of the principles of natural science to IR. This scientific approach is reflected in what Steve Smith (1996) has highlighted as four key principles that underpin the application of positivism in IR (Moore, 2007; S. Smith, 1996; S. Smith & Owens, 2008). The first principle is the unity of science. This is the belief that there is no difference between the social and natural fields and therefore the same methods can be applied across both. The second principle is that there is a distinction between facts and values because positivists view facts as neutral and believe object observation is possible. Thirdly, that like the natural world, there are 'regularities' and these are there to be discovered. This is reflected in IR in the debates around polarity and stability. The final principle is that of empirical validation through falsification (S. Smith, 1996).

The application of positivism is an attempt to find causes, and understand the laws at work in an issue (Hollis & Smith, 1990; Wendt, 1998). As a result, adherence to the principles of positivism allows verifiable generalisations to be drawn (Furlong & Marsh, 2010; Hollis & Smith, 1990; Nicholson, 1996). This Burnham et al (2004) argue, builds understanding by

determining causes which can be used to explain and predict (Furlong & Marsh, 2010; Hollis & Smith, 1990; Nicholson, 1996). A positivist can then be confident that any statements are neutral and objective, or 'amoral' as Michael Nicholson (1996) describes it (Burnham et al., 2004; Furlong & Marsh, 2010). Overall, Smith (1996) highlights that there can be differing degrees of adherence to the four principles, which he describes as strong or weak. However, the overarching significance for an IR researcher is that positivism is a commitment to what Smith describes as 'the relationship between theory and evidence' (1996, p. 17). This approach to methodology has been followed by this thesis. Although, the final principle of empirical validation through falsification that Smith (1996) highlighted has a limited ability to be applied in this research..

The application of these methodological principles will be guided by theory. According to Martin Hollis and Steve Smith (1990) IR theories can be divided into two broad camps; explaining and understanding. Theories that focus on understanding fall under the interpretive epistemology and anti-foundationalist ontology (S. Smith & Owens, 2008). This approach views theories as helping to construct the world, which is a clear anti-foundationalism viewpoint (S. Smith & Owens, 2008). On the other hand, positivistic approaches to methodology are linked heavily with explanatory theories (Hollis & Smith, 1990; S. Smith & Owens, 2008). These theories clearly reflect the foundationalist view of the world, because the world is viewed as external from theory allowing it to be used to explain and predict (S. Smith & Owens, 2008). The theoretical basis for this study therefore is an explanatory theory-in this case realism (Hollis & Smith, 1990).

The focus of theories that seek to explain is to find causes and explanations which can then in turn be used in an attempt to predict (Hollis & Smith, 1990). Commonly this is achieved by making objective generalisations from cases, which can then be used to inform or discount theories (Hollis & Smith, 1990). In realism, balance of power theory is a key example of an attempt to explain because the theory is a vehicle for explaining states behaviour and attempting to predict their future actions. This view is based around a very objective view of events, which is at the core of what makes realism an explanatory theory, and this is highlighted by Morgenthau;

It [realism] also believes then in the possibility of distinguishing in politics between truth and opinion-between what is true objectively and rationally, supported by evidence and illuminated by reason, and what is only a subjective judgement, divorced from the facts (1993, p. 4).

As a result of this, explanatory approaches in IR view events as occurring due to forces that are distinct from the personality of leaders (Hollis & Smith, 1990). For instance, Morgenthau viewed actor's decisions as ones that must be amoral because state decisions should only be focused on state survival (Hollis & Smith, 1990; Morgenthau, 1993). This is a view that also links in with the idea of there being different levels of analysis in IR.

Kenneth Waltz (1959) identified three levels of analysis within IR. These are, from bottom to top; individual, foreign policy and structural levels of analysis (Moore, 2007; Waltz, 1959). Hollis and Smith (1990) view IR theories as either taking a top down approach (holistic) to analysis or a bottom up approach (individualism). Holistic theories are described by Hollis and Smith as 'standing for the idea that the parts of a whole behave as the whole requires' (1990, p. 5). Individualism is the opposite of this and advocates a bottom up approach to analysis. Realism is a holistic and explanatory theory, therefore this research has taken a top down approach to analysis (Hollis & Smith, 1990). The overall approach in this thesis therefore reflects the view that individual actors make foreign policy decisions in responses to forces that are imposed on them by the international system.

Research Design and Method

This study will follow a mixed methods approach, utilising both qualitative and quantitative data in investigating case studies. Qualitative methodology is well suited to the IR field due to the complexities of the subject matter (Bennett & Elman, 2007). However, the inclusion of quantitative analysis adds robustness and depth to the analysis and increases triangulation (Saunders, Lewis, & Thornhill, 2007). Case studies are a good fit for IR because they are described as offering a thick description which provides an in-depth look at the subject (Berg, 2007; Burnham et al., 2004; Saunders, Lewis, & Thornhill, 2007). This study will be based on two cases, looking at each case individually but also comparing between them to improve understanding (Berg, 2007). Such collective case studies are viewed as robust because there is an increased ability to generalise from several cases rather than one (Berg, 2007). Case study research can take three forms. These are exploratory, explanatory and descriptive (Berg, 2007). The first is a type of preliminary study and the second is suited to pattern matching in causal studies. In this case a descriptive approach has been adopted; an approach which uses a theory to frame the research (Berg, 2007).

To select cases for this research theoretical sampling has been used. Using theoretical sampling means case selection is based on the theory that guides the research (Silverman,

2005). This suits this research because cases needed to be selected that were relevant to the theory in question. Therefore, cases have been chosen based on their relevance to the research, the research questions, and the theoretical position (Mason, 2002; Silverman, 2005). As the question is focused on the US allies in the Asia-Pacific the cases needed to be selected from those allies; Australia, the Philippines, South Korea, Thailand and Japan. Kuik (2008) has already applied his model to Thailand thus it was eliminated from selection. The selection from the remaining four focused on choosing what Flyvberg (2006) and Bennet and Elman (2007) refer to as 'most likely' and 'least likely' cases. The reasoning for choosing these types of cases is because it will offer two different applications of the model, which draw more out about hedging than applying two similar cases. To select the 'most likely' and 'least likely' cases, the researcher used Chung's (2009b) analysis as seen in Figure 2 page 21. Japan and South Korea were selected. Japan was selected as the most 'unlikely' case for hedging, whereas South Korea is viewed as the 'most likely' case. For instance, Chung's (2009b) analysis classes Japan as balancing China whereas South Korea was categorised by Chung (2009b) as an active hedger. Further, David Kang (2007) has described South Korea as 'enthusiastic' towards China. Thus, the selection offers two quite different cases.

There are several aspects of case studies that need to be taken into consideration when conducting this research. As mentioned previously a key advantage of a case study approach in IR is that the subject matter is quite complex and it therefore lends itself to thick description (Bennett & Elman, 2007). Further, when conducted correctly a case study approach can allow broader generalisation to be made about the wider group. Indeed it will not necessarily offer an explanation for every example but it will at the least offer a suggestion of the reasoning (Berg, 2007). However, there are two key concerns with case studies. Bent Flyvbjerg (2006) points out that a key criticism of case studies is that they can be biased towards the preconceived ideas the researcher held going into the study. Objectivity links in with this because decisions are made by the researcher which can influence the research. The best way to address this, according to Berg (2007), is through replication. Thus, the application of the model in this thesis has been selected with the ability to replicate it in mind.

Data Collection

Quantitative data was collected for military spending, arms transfers, trade statistics, and foreign direct investment (FDI). The researcher has used common sources so that there is consistency. As a result, the military related figures were sourced from the Stockholm International Peace Research Institute (SIPRI) database. Further, the export and import data was collected from Euromonitor's database, accessed through the Massey University Library.

The relevant figures were then selected from the raw data and provided the basis for graphs which enabled clearer analysis. FDI statistics were more difficult to obtain and different sources had to be utilised, this difficulty is covered in more depth in the discussion on triangulation below. For example, the same categories used in collecting data could be applied to other cases.

Data collection for the qualitative information was conducted via indirect data collection through document analysis (O'Leary, 2010). This is a particularly common approach in politics and IR due to the nature of the subject, and the difficulty of gaining access to the key decision makers (Vromen, 2010). Therefore documents such as government reports, press releases, reports and speeches are a key source of information. Document analysis offers some key advantages. It allows one to utilise the broad range of information that has already been produced and it limits the impact on the collection of data by variables such as gender, race or age that would be a concern in other methods such as interviewing (O'Leary, 2010).

Documents can be divided into three categories; primary, secondary and tertiary. Primary documents are the originals that have not been interpreted or changed in anyway and can have quite a specific purpose and narrow audience (Booth, Colomb, & Williams, 2008; Burnham et al., 2004; O'Leary, 2010). Secondary resources are reproductions of the primary works, but with interpretation or analysis (Burnham et al., 2004; O'Leary, 2010; Saunders, Lewis, Thornhill, Jenkins, & Bolton, 2007). These works are easier to access and appeal to a broader audience (Saunders, Lewis, Thornhill, et al., 2007). Tertiary documents are tools that help locate primary and secondary sources, for example indexes and bibliographies (Saunders, Lewis, Thornhill, et al., 2007). The majority of the documents used in this thesis are primary and secondary sources. A large number of journal articles, newspaper articles and books have been used in this study and were sourced through Massey University Library databases, catalogue, BONUS system, and the internet. Government reports, speeches and press releases have been obtained via government websites. Figures on bilateral trade, investment and military spending have been sourced from various places such as government and non-governmental reports, and websites.

However, there are four issues one has to consider when conducting document analysis. Firstly, bias needs to be considered when looking at documents because they are pre-existing and so subjectivity needs to be carefully considered on two levels (O'Leary, 2010). One must consider any bias of the author of the document and the researchers own bias because this will influence the view of the document and data collected (O'Leary, 2010). Secondly,

authenticity must be considered and is determined by how genuine the document is and the soundness of it. (Burnham et al., 2004; Vromen, 2010). Thirdly, representativeness focuses on if the document is typical of the genre it's from or if it's non-typical (Burnham et al., 2004; Vromen, 2010). The final consideration is the meaning and language of a document. This was an issue because some articles and webpages pertinent to the research were in Japanese, Korean or Chinese, so alternative sources had to be found.

However, some practical steps have been taken to limit the impact of these issues on this study. Each document was assessed in terms of who wrote it, their background, the strength of the sources, the type of publication, intended audience, tone, and any bias the author may have. In addition to this, a broad range of sources has been drawn on to help determine how representative of the subject each document is (Burnham et al., 2004). Further, this study has utilised triangulation. Triangulation is when a researcher uses at least two points to consider a subject of research (Flick, 2007). This research has used data triangulation which is described by Robert Yin as 'collect[ing] information from multiple sources but aimed at corroborating the same fact or phenomenon' (2003, p. 99). Statistics, statements and facts have been corroborated in this way in this thesis and the ability to do this was enhanced by the adoption of a mixed methods approach. However, the ability to triangulate information was particularly tested in the data collection for information on Taiwan and South Korea, as many relevant documents and sources were in Korean or Chinese. Alternative sources were utilised as a result. Further, trying to obtain consistent data for the FDI statistics proved difficult, as these figures were reported in different ways. As a result, different sources had to be used for these statistics. Therefore, Japan's FDI information was based on stock compared to the FDI flows which were used for South Korea. However, the data still provided the required information but comparison between the two was limited. This was in contrast to the trade and military statistics for which a common source was found resulting in data that was consistent and comparable. Despite this issue, the overall use of data triangulation in this study not only addresses the issues with document analysis identified above, but also brings construct validity to the research (Yin, 2003).

Chapter One: Literature Review

This thesis centres on the concept of hedging. This concept is borne out of balance of power theory which is a key aspect of realism. Therefore, this chapter will begin by examining the background to the concept by highlighting the key elements of realist thought and by outlining the development of balance of power theorising. In a situation where two or more states co-exist in an anarchic system, balance of power theory has traditionally offered a state two choices; balancing or bandwagoning. These two options will be defined along with a number of 'middling strategies', including hedging, that have developed as alternatives to this stark choice. From here the chapter will examine the links between containment and hedging and the key literature on hedging. This is achieved by dividing the works into two broad groups; those that view hedging as a security focused strategy and those that view it as a combination of strategies, including economics, diplomacy, and security.

Realism has several branches including classical, structural, neoclassical and rational choice and each of these have a different emphasis (Dunne & Schmidt, 2005; Elman, 2007). However, Tim Dunne and Brian Schmidt highlight the main assumption of the theory:

The unifying theme around which all realist thinking converges is that states find themselves in the shadow of anarchy with the result that their security cannot be taken for granted. In such circumstances, it is rational for states to compete for power and security (2005, p. 165)

Underlying this overarching view are three key principles that are common to all branches; statism, survival and self-help (Donnelly, 2000; Dunne & Schmidt, 2005; Haslam, 2002; Hobson, 2000; J. Mearsheimer, 2001; Sorenson, 2008). Statism is the principle that the state is the main actor and all other actors in the system are secondary to the state (Haslam, 2002; Keohane, 1986; J. Mearsheimer, 2001; Wendt, 1992). Further, each state has sovereignty and this means that it has judicial authority over its territory (Dunne & Schmidt, 2005; J. J. Mearsheimer, 1994). The second principal is survival which realists view as the key priority for statespeople and other considerations, such as economic prosperity, are secondary to this (Hollis & Smith, 1990; J. J. Mearsheimer, 1994; Waltz, 1979). To achieve this leader's must make outcome focused decisions which put aside morals (Hollis & Smith, 1990; Morgenthau, 1993; Schweller, 1997). Self-help is the third principle and is the simple belief that a state must not rely on others, and that in the global system there are no 'friends' (Dunne & Schmidt,

2005; J. J. Mearsheimer, 1994; Waltz, 1979; Wendt, 1992). This final principle is where balance of power is highlighted because it is critical to states coexisting in a self-help environment.

It has been suggested the origins of balance of power theory can be traced to the Ancient Greeks, however there is no consensus on this suggestion (Hume, 1994; Sheehan, 1996). Indeed, both Moorhead Wright (1975) and Michael Sheehan (1996) dismiss the Greeks as having any real grasp of balance of power theory and argue instead that the Italian Renaissance was the origin of the balance of power concept. The two crucial contributors to the origins of balance of power during this period were Niccolo Machiavelli and Francesco Gucciardini (Sheehan, 1996). Sheehan points out that Machiavelli's key contribution was his establishment of 'the idea that the state was defined not just by its internal workings, but by its relationships with other states, that there existed an international order which related states to each other' (1996, p. 30). However, Machiavelli's conceptualisation did not carry the sophistication of Gucciardini's (Wright, 1975).

Gucciardini, a Florentine based scholar, analysed the strategies of Lorenzo de Medici who governed Florence from 1469 until his death in 1492 (Wright, 1975). In Gucciardini's observations he referred to Italy as a system of forces, and that a state should assist a stronger state at war so it can share in the spoils of the victory (Sheehan, 1996). The development of the concept of balance of power continued from here through Giovanni Rucellai and Alberico Gentili. Further, Gucciardini's book *History of Italy*, which was first published in 1561, fostered the spread of his ideas including all the way to Britain, with its translation into English in 1579, (Sheehan, 1996; Vagts, 1948; Vagts & Vagts, 1979; Wright, 1975). Indeed Elizabeth I applied balance of power thinking to the English struggle with Spain (Sheehan, 1996; Vagts & Vagts, 1979). From here Thomas Overbury's *Observations* published in 1609, and Sir Francis Bacon's essay *Of Empire* published in 1612, further developed the concept (Sheehan, 1996; Vagts & Vagts, 1979; Wright, 1975). However, it wasn't until the signing of the Treaty of Westphalia in 1648 that balance of power theory came to be central to international relations (Sheehan, 1996). Indeed, it became the cornerstone of international politics throughout the 18th and 19th Centuries (Sheehan, 1996).

The balance of power concept has had various meanings and applications, and has lacked clear definition (Claude, 1962). Balance of power has been referred to in the literature as a situation, a system and a policy (Claude, 1962; T. V. Paul, 2004; Sheehan, 1996). However, despite these differing uses of the term there are some key elements to the concept. Balance of power is a concept that is potentially in play whenever two or more states co-exist in the

realist's anarchic system (Donnelly, 2000; Waltz, 1979). The general premise of the theory is that in an anarchic global system no one state should dominate. A state may become dominant through what Kenneth Waltz terms the distribution of capabilities such as population, wealth and military power (Donnelly, 2000; Waltz, 1979). The distribution of these capabilities impact directly on the power of a state, and therefore the balance of power. If one state becomes dominant this creates instability because it is assumed it will want to impose its will on others. Thus, equilibrium is the key to maintaining peace, and to do this states will check other states that become too powerful through balancing (Churchill, 1973; Dunne & Schmidt, 2005; Grey, 1911; Morgenthau, 1993; T. V. Paul, 2004; Tessman & Wolfe, 2011; Von Gentz, 1806; Waltz, 1979). In the sections below both balancing and bandwagoning are explained in more detail.

Balancing and Bandwagoning

Balance of power theory has traditionally focused on balancing. Balancing means that a state will align with other states against a rising or dominant power (Donnelly, 2000; Goh, 2005; Kuik, 2008; J. Mearsheimer, 2001; T. V. Paul, 2004; Schweller, 2004; Tessman & Wolfe, 2011; Walt, 1987; Waltz, 1979). There are two main reasons a state balances. The decision to choose balancing is based around two key reasons, as highlighted by Stephen Walt (1987); first, to avoid being dominated by the powerful state and second, to increase the states influence by aligning with the weaker sides. This influence would be lost if it aligned with the powerful state. Walt (1987) views England's traditional alliance policy as an example of balancing. Winston Churchill wrote in *The Second World War Volume One* that:

For four hundred years the foreign policy of England has been to oppose the strongest, most aggressive, most dominating Power on the Continent, and particularly to prevent the Low countries falling into the hands of such a Power (1973, p. 131).

Churchill (1973) indicates that he sees Britain as balancing any aggressive power that emerged in Europe to protect Europe's freedom and to maintain the independence of what he calls the 'low countries'. Britain's role as a balancer is something that was also inferred by Sir Edward Grey in 1911 (Claude, 1962; Grey, 1911). Grey views Britain as being the balancer in Europe and he argues any attempt by a state or states to take on Europe would result in Britain being asked to assist the state being targeted. Grey goes on to point out that balancing can be 'internal' as well as 'external'. 'Internal' consists of building up the states arms and military capabilities. 'External' is through forming alliances with other states against the threat (D. C. Kang, 2007; J. Mearsheimer, 2001; Tessman & Wolfe, 2011; Waltz, 1979).

However, balancing is not the only option. Waltz (1979) introduced the concept of bandwagoning to the balance of power theory. As a result, the theory is now more commonly viewed as a choice between balancing and bandwagoning (J. H. Chung, 2009b; Goh, 2005; D. C. Kang, 2007; Kuik, 2008, 2010; Kuik et al., 2012; Schweller, 1994; Walt, 1987; Waltz, 1979). Bandwagoning is alignment with a rising or dominant state, whereas balancing is a rejection of it. (Cladi & Locatelli, 2012; Goh, 2005; D. C. Kang, 2007; Kuik, 2008; J. Mearsheimer, 2001; Schweller, 2004; Tessman & Wolfe, 2011; Walt, 1987). There are two reasons why states will bandwagon. Firstly, states will bandwagon to 'appease' the larger power to avoid being attacked by it (Goh, 2005; Kuik, 2008; J. Mearsheimer, 2001; Schweller, 1994; Walt, 1987). An example of this is Stalin's bandwagoning with Hitler in 1939 which managed to deflect Hitler's attention westward for some time (Walt, 1987). The second reason is to share in the spoils of victory (Cladi & Locatelli, 2012; Goh, 2005; Kuik, 2008; J. Mearsheimer, 2001; Schweller, 1994; Waltz, 1979). Benito Mussolini entering World War II on the Axis side was a clear example of this strategy (Walt, 1987). However, more recently this stark choice between bandwagoning and balancing has been questioned and a number of strategies in the 'middle' ground have developed.

Some scholars have argued that balance of power theory was replaced after World War I with the introduction of ideas such as collective security (Claude, 1962; Sheehan, 1996). It has been argued that since the end of the Cold War balance of power theory has failed to account adequately for the actions of states, this has been highlighted by scholars such as John Ikenberry (1998), Keir Lieber (2005), Gerard Alexander (2005), Stephen Brooks (2005), William Wohlforth (2005). Indeed balance of power theory predicted that states would balance against the US following the end of the Cold War because it was the remaining dominant power in the global system (Cladi & Locatelli, 2012; K. He & Feng, 2008; J. J. Mearsheimer, 1990; Oswald, 2006; Pape, 2005; T. V. Paul, 2005). However, this did not occur. As a result, realists such as Christopher Layne (2006), Stephen Walt (2009), Randall Schweller (2004) and John Mearsheimer (2001) attempted to explain this occurrence through the development of more subtle forms of balance of power theory such as soft balancing, leash slipping, underbalancing and bloodletting. Also, there has been a large amount of discussion on soft balancing, which has developed as perhaps the most prominent response to the lack of balancing against the US post Cold War (K. He & Feng, 2008; Oswald, 2006; Pape, 2005; T. V. Paul, 2005; Saltzman, 2011).

Further, due to the rise of China, the Asia-Pacific has been a key focus for the application of balance of power theory. However, the consensus in the literature has been that the strategies adopted by Asia-Pacific states are more complex than a straight choice between balancing and bandwagoning (Chien-Peng Chung, 2004; Goh, 2005; B. He, 2012; Roy, 2005). This has led to the development of several 'middling strategies' which sit between balancing and bandwagoning. These strategies include soft balancing, accommodation, engagement, conengagement, hedgagement, and hedging (B. He, 2012). This thesis will focus on hedging.

Hedging

A common issue within IR is the lack of consensus on definitions and differing use of terms. 'Hedging' is no different. The terms use is wide-ranging and varied with no common definition (B. He, 2012; Sutter, 2006). Further, the origins of hedging are difficult to trace and the term has only been widely used since the growth of the debate on the responses to the rise of China. Indeed, Baogang He (2012) suggests its origins lie in containment, a term more commonly linked to the US foreign policy towards the Soviet Union in the Cold War. There were three elements to this strategy of containment:

(1) Restoration of the balance of power through the encouragement of self-confidence in nations threatened by Soviet expansionism; (2) reduction...of the Soviet Union's ability to project influence beyond its borders; (3) modification...of the Soviet concept of international relations (Gaddis, 1982, p. 37).

The US has been viewed as attempting to contain China in response to China's rise upsetting the balancing of power in the Asia-Pacific. He (2012) suggests that hedging terminology has been adopted as a toned down term to replace that of containment. However, it is not quite as simple as a change in terminology because containment is different from hedging. A key argument here is that the US cannot treat China the same as the way it dealt with the Soviet Union in the Cold War. This is because not only is the situation quite different to the Cold War scenario but there is strong economic engagement between China and the US which makes containment unworkable (Kissinger, 2005; Medcalf, 2008b; Shambaugh, 1996). Therefore, while the hedging literature does draw on the concept of containment, the majority of the literature has come to treat hedging as a standalone strategy (Art, 2004; Goh, 2006; B. He, 2012; Mukherjee, 2009).

It has been concluded in this thesis that there are two main views on how to define hedging. The first views hedging as a security focused strategy, often including military modernisation and the building of security alliances and partnerships to protect against any deterioration of

relations with a threatening state. This literature review will focus on seven of the works that take this view (Art, 2004; Manning & Przystup, 1999; J. J. Park, 2011; Roy, 2005; Sutter, 2006; Weitz, 2001; Yuen, 2009). The second group views hedging as a combination strategy, one that includes elements of engagement and integration but in conjunction with security measures (J. J. Park, 2011). Fifteen important works in this group will be highlighted (Atanassova-Cornelis, 2011; Chien-Peng Chung, 2004; J. H. Chung, 2009b; Foot, 2006; Goh, 2005, 2006, 2008; Heginbotham & Samuels, 2002; Kuik, 2008, 2010; Kuik et al., 2012; Medeiros, 2006; Mukherjee, 2009; Tessman, 2012; Tessman & Wolfe, 2011). These key works are highlighted and summarised in Figure 1.

Figure 1: Summary of the hedging literature

AUTHOR/YEAR	VIEW OF HEDGING	
Security Focused Works		
Weitz (2001)	<ul style="list-style-type: none"> • ‘Hard hedger’ emphasises military capability. • Hedging as a fallback position if shaping strategies don’t work. • Dismisses engagement or containment as valid options • Applies scenario based planning to the situation and makes recommendation based on this. • Focuses on what the US can manage alone rather than advocating for alliances. 	<ul style="list-style-type: none"> • US Case study
Art (2004)	<ul style="list-style-type: none"> • Hard hedger. • Europe hedging because it is building its defence capability and upgrading its military to prevent a US withdrawal, and in case it does withdraw. 	<ul style="list-style-type: none"> • Focuses on E
Manning & Przystup (1999)	<ul style="list-style-type: none"> • Hard hedger. • Build-up of military capability but is the first to introduce the strengthening of security partnerships as a key element of hedging. 	<ul style="list-style-type: none"> • Focuses on: • Japan hedging • China hedging • China is hedging • ASEAN hedging • conduct a reg
Sutter (2006)	<ul style="list-style-type: none"> • Hard elements such as military build-up, arms sales, nuclear forces, and security alliances. • Southeast Asia does not want a Chinese dominated order. 	<ul style="list-style-type: none"> • China hedging • Southeast As
Roy (2005)	<ul style="list-style-type: none"> • Moves away from hard hedging and focuses on hedging as an alliance building strategy that can include low-intensity balancing. 	<ul style="list-style-type: none"> • ASEAN/South

	<ul style="list-style-type: none"> • Similar to Sutter (2006) he concludes that South East Asia does not want a Chinese dominated order. 	
Park (2011)	<ul style="list-style-type: none"> • Like Roy (2005) views hedging as alliance based, particularly focuses on the use of multilateral institutions. • Like Sutter (2006) believes South East Asia does not want a Chinese dominated order. 	<ul style="list-style-type: none"> • Focuses on the relationship between the US and China towards China
Yuen (2009)	<ul style="list-style-type: none"> • 'hedgagement' combination of hedging and engagement. Hedging is viewed as a security strategy but it should be used in combination with engagement. 	<ul style="list-style-type: none"> • Focuses on the relationship between the US and China
Hedging as a Combination strategy		
Heignbotham & Samuels (2002)	<ul style="list-style-type: none"> • Hedging a combination of security and economic strategies. Views economics and security strategies as separate though, not one overall strategy. 	<ul style="list-style-type: none"> • Japan hedging
J.H Chung (2009)	<ul style="list-style-type: none"> • Draws on Heignbotham & Samuels view of hedging but takes these further by dividing states that hedge into two types; hesitant hedgers and active hedgers. • Is the only work to conduct in depth empirical analysis on hedging. • Uses regression analysis to place 15 East Asian countries on a spectrum from bandwagoning to balancing 	<ul style="list-style-type: none"> • 15 East Asian countries
Mukherjee (2009)	<ul style="list-style-type: none"> • Follows Heignbotham & Samuels view of hedging as a combination of economics and security but also sees containment as an important element as well. 	<ul style="list-style-type: none"> • Focuses on the relationship between the US and China from a different perspective.
C. P Chung (2004)	<ul style="list-style-type: none"> • Also follows the view of Heignbotham & Samuels that hedging is a combination of economics and security. However, links this more strongly back to distribution of power. • Differs from the previous works by introducing the concept of counter hedging by China. This is similar to 	<ul style="list-style-type: none"> • Focuses on the relationship between the US and China

	the idea of mutual hedging that is highlighted by Medeiros (2006) and Atanassova-Cornelis (2011).	
Goh (2005, 2006, 2008)	<ul style="list-style-type: none"> • Views hedging as a middle position adopted when a state cannot decide between balancing and bandwagoning. Goh sees it as a combination of avoidance and contingency strategies. • Goh (2006) refers to hedging as a mix of balancing/containment along with engagement, similar to Mukherjee (2009). • However, she refines her definition as engagement coupled with indirect balancing (2006). • She focuses on hedging as a strategy for smaller states not large states. • Views hedging as an avoidance strategy (2008). • Goh (2008) is the first to emphasize the strategic nature of hedging, which is later highlighted by Tessman and Wolfe (2011) and Tessman (2012) 	<ul style="list-style-type: none"> • Focuses on general, but Singapore, TH • Focuses on the works by crisis policy (2006). • Focuses on S (2008).
Foot (2006)	<ul style="list-style-type: none"> • Draws directly on Goh's 2005 definition. • Foot focuses largely on the utilisation of bilateral and multilateral relationships to do this. 	<ul style="list-style-type: none"> • China hedging with the US.
Kuik (2008, 2010, 2012)	<ul style="list-style-type: none"> • Views hedging as a combination of risk contingency and returns maximising options. • Unlike Goh, he views hedging as an active choice. • The model Kuik puts forward is split into 5 key strategies. • The risk contingency options are indirect balancing and dominance denial. • The returns maximising options are economic pragmatism, binding engagement and limited bandwagoning. 	<ul style="list-style-type: none"> • Applies this Singapore act • Applies the towards China ASEAN hedging

	<ul style="list-style-type: none"> • 2012 work Introduced the idea of cooperation and competitive aspects of hedging. 	
Medeiros (2006)	<ul style="list-style-type: none"> • Follows Goh's definition in terms of a combination of strategies but moves away from Goh's conclusion only small states adopt hedging. • Views hedging as cooperative and competitive sides, cooperative includes engagement and binding and competitive includes the building of security alliances. 	<ul style="list-style-type: none"> • US and China
Atanassova-Cornelis (2010)	<ul style="list-style-type: none"> • Views hedging as a mixture of engagement and contingency planning. Also draws on the idea of hedging incorporating competitive and cooperative sides. • Similar to Medeiros cooperation is viewed as economic engagement and diplomatic ties and competitive is seen as strengthening alliances. 	<ul style="list-style-type: none"> • Like Medeiros mutually hedged of cooperation • Point of difference regards to its
Tessman and Wolfe (2011), Tessman (2012)	<ul style="list-style-type: none"> • Builds on Goh's (2008) mention of hedging as strategic. Views hedging as a contingency against two scenarios: <ul style="list-style-type: none"> ○ Hedging A: military conflict between the state and system leader. ○ Hedging B: system leader stops goods or subsidies to the hedging state. • Presents an overall model to apply to a state to determine if it is hedging. • 2012 refines the model. • Very specific model, easily applied to a specific policy but not an overall strategy of a country. 	<ul style="list-style-type: none"> • China hedging security (2011) • Applies the model to South America in regards to

Security focused Works

Robert Weitz (2001) viewed hedging as a security based strategy to be used if shaping strategies did not work. Weitz is described by this thesis as a 'hard hedger' due to his emphasis on military capability. For instance, he viewed the key elements of hedging for the US as; enhancing military capabilities in East Asia, increasing the country's ability to project its power, and improving its weaponry (Weitz, 2001). This was applied specifically to a US case study, making it one of the first works to consider if the US was hedging China. Weitz's article had several points of difference. Firstly, he did not promote alliances and instead focused on what the US can achieve largely on its own. Secondly, it made recommendations for US foreign policy by applying scenario based planning, which is largely used in business. However, an issue with the work was that Weitz did not take into account the reaction of China to this type of hard hedging, because this type of military build-up could have led to a military confrontation that the strategies aim to avoid.

Art's (2004) analysis of Europe in his chapter *Europe Hedges its security bets* was also an example of hard hedging. Like Weitz, Art focused on hedging as the building of defence capabilities; however he offers a different perspective by applying this to Europe. Art viewed Europe as hedging in two ways, by upgrading the military it hoped to show the US it is not relying on it, and secondly that if the US did leave NATO Europe has the capability to defend itself (Art, 2004).

Robert Manning and James Przystup's (1999) work expands the concept by introducing the strengthening of security partnerships as a key element of hedging. The article focuses on hedging at a country and regional level by focusing on the Japan, China and the Asia-Pacific region. It is the first to assert that China itself was hedging as well as being hedged against. They saw China's hedging strategy as largely consisting of bilateral partnerships and security arrangements as an effort to undermine the US hub and spoke alliances. The work was also the first to apply hedging to a study of the Association of Southeast Asian Nations (ASEAN) states. Manning and Przystup (1999) viewed ASEAN as hedging on two fronts, firstly by trying to draw the US further into the region through multilateral institutions and secondly, attempting to constrain China by modernising their military and seeking closer defence cooperation with the US.

Robert Sutter's (2006) article followed the same view as Manning and Przystup (1999). However, he strongly emphasised the fact that the Asian governments did not want the US role in the region diminished dismissing the idea of a new regional order emerging. He applied this

to China hedging towards the US and the South East Asian states hedging towards China, and identifies hedging as the most dominant strategy amongst the Asian governments. He viewed the states as allowing China to integrate in to the regional order while utilising hedging to prevent it from leading or dominating that order. Here he emphasised security alliances as a key element of hedging. For example, Sutter saw South Korea as an example of hedging because it cultivated deeper relations with North Korea, China, Russia, Japan and the EU to protect its security interests. However, the issue with this analysis is that the security relations countries have pursued are not necessarily as a direct result of China's rise. Certainly it may have contributed to this policy, but the re-emphasis of South Korea's relations with North Korea was largely a result of the 'sunshine policy' adopted by the South Korean government with the aim of progressing peace talks (Vaughan, 2007).

Denny Roy (2005) moved completely away from hard hedging to focus on security alliances. Thus Roy (2005) considered hedging a security focused strategy that centred around building relations, in particular with larger powers, to act as a counterbalance to the growing presence of China. Roy highlighted that ASEAN had pursued stronger ties with large powers which can counterweight China, such as the US, Russia, Japan and India. The issue with this broad analysis is that each state within ASEAN will have different internal and external factors that play into its strategy. For example, a larger power such as Japan will have quite different options available to it than a smaller power such as Singapore. Certainly, viewing hedging as being mainly security alliance focused seems too narrow, States may pursue security alliances for various reasons and as part of a bigger overall strategy, for example building security alliances is also an element of a soft balancing strategy. Without an assessment of other factors as such, military, economic and diplomatic ties one can't conclude with certainty that a country pursuing security alliances is hedging and not soft balancing.

Park (2011) took Roy's analysis further by examining hedging specifically in connection with the use of multilateral institutions. Similar to Sutter (2006), Park concluded that the US and its allies were hedging against an undesirable order emerging in the Asia-Pacific. Park viewed the US hub and spoke alliance system as having evolved into the basis of a hedge towards China for both the US and its allies. However, Park also concluded that the US and its allies were overlaying this hub and spoke alliance with new mini and multilateral alliances and that these will be used to manage a new regional order. However, the drawback with this is that the focus is limited to alliance formation, and thus only highlights one aspect of a state's strategy

towards another state. Further, the analysis did not account for the fact that the multilateral institutions can also be utilised by China in a counter hedge.

Cheong Yuen's (2009) thesis on American policy towards China, focused on what he termed hedgegament. This is a combination of both hedging and engagement. Thus, Yuen's work was significant because he defined hedging as a security strategy, but also argued that engagement and hedging strategies should be used in combination. However, Yuen's view of hedging was not differentiated clearly enough from soft balancing. Roy (2005) believed balancing could be part of a hedge but Yuen went further and concluded the US was using soft balancing to hedge, which makes it unclear as to why he did not conclude that the US was soft balancing rather than hedging China. However, Yuen's conceptualisation of 'hedgegament' as a combination of two strategies; hedging and engagement, links in with the second group of works in the literature which shift away from the security orientated view of hedging and consider the hedging concept as a combination of strategies.

Hedging as a combination strategy

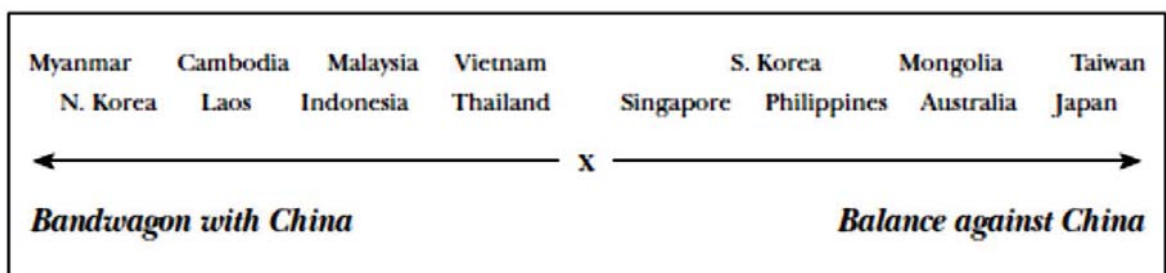
Eric Heginbotham and Richard Samuels (2002) was the first work to suggest that hedging could be a combination of strategies. Their article *Japans dual hedge. Not another Britain* moved beyond a pure security focus by suggesting hedging could also include economics. The article concluded that Japan is hedging both the US and China. However, the conceptualisation of hedging is limited because it viewed economic and security strategies as separate entities which could be used in combination, and in the case of Japan it was hedging in both. It also did not account enough for diplomatic relations and the role of multilateral institutions in hedging. However, this article provided the basis for the concept of hedging to develop into one overall strategy adopted by a state. Anit Mukherjee (2009), Jae-Ho Chung (2009b), Chien-Peng Chung (2004) drew on this idea of hedging as including economics and security and expanded it further.

Anit Mukherjee (2009) expands Heginbotham and Samuel's (2002) framing of hedging by advocating for containment to be part of the strategy in both economics and security. This, Mukherjee argues, allows a state to 'insulate' itself from instability, and to utilise other countries to support policies which force the threatening power into the status quo. Thus, Mukherjee (2009) suggests that hedging itself is a combination of both engagement and containment. This work also offered a fresh application of hedging as it focused on the India-Pakistan relationship concluding that India was hedging Pakistan. However, this results in a very limited application of hedging. Further, the inclusion of containment as part of hedging

went somewhat against the general view, as mentioned previously, that hedging is a strategy distinct from containment.

Chung (2009b) builds on Heignbotham and Samuel’s (2002) work by encapsulating both economics and security under one overall strategy of hedging. He defines hedging in terms of the degree to which a state pursues economic engagement with China and close security ties with the U.S. However, Chung took the analysis further by dividing states that hedge into two types; hesitant hedgers and active hedgers. Hesitant hedgers are viewed as engaging China but not necessarily deepening its ties with the US for security. Active hedgers actively pursue ties with both China and the US. Chung’s analysis was unique because it is the only work to apply regression analysis. Chung (2009b) used this to place 15 South East Asian countries along a spectrum between balancing and bandwagoning, as seen in Figure 2.

Figure 2: Chung’s Spectrum of East Asia’s Response to the Rise of China



(J. H. Chung, 2009b, p. 669)

The placement on the continuum was achieved by measuring the variables of trade dependence, Chinese nationals residing in the country, regime similarity, territorial disputes and alliances. However, there were three key issues with Chung’s approach. Firstly, the variables chosen for the regression analysis did not include military spending or arms transfers which are both quite pertinent to determining if a state is balancing or not. The only security measure included in the analysis is the US alliance, but this gives a very limited view of a country’s security strategy. Secondly, Chung concluded that the Philippines was hedging because it expanded security ties with the US and notes the 1999 Visiting Forces Agreement and the 2003 Mutual Logistics Support Agreement signed between them. However, this was largely due to counterterrorism not due to China, highlighting that the analysis did not consider the motivations a country had for certain actions. Finally, the analysis is useful, but

very limited, as factors such as diplomatic relations, interactions at multilateral levels, and pursuit of new relationships in response to China's rise, were not taken into consideration.

Chien-Peng Chung (2004) took the concept a step further than Heginbotham and Samuels (2002) and Chung (2009b) through the introduction of concept of 'counter hedging' by China, in response to hedging by Southeast Asian states. In effect this was a similar idea to the mutual hedging that Evan Medeiros (2006) and Elena Atanassova-Cornelis (2011) both highlighted. Chung's view of counter hedging was quite different to his view of hedging. Chung's view of hedging adhered to Heginbotham and Samuels (2002) view, though he did broaden this to highlight the role of multilateral institutions. However, he viewed China's counter hedging as incorporating diplomatic, security, socio-cultural elements. Chung (2004) also sets out five specific aspects to China's counter hedging; settling the Spratly islands in its favour, not letting Taiwan use its economic links with Southeast Asia against China, weaken the US alliances and resist Japan's growing status in the region, increase its links with South East Asia and finally, to be the key to the region's economic growth. This view of hedging certainly was the broadest of the literature thus far. However, the counter hedging concept is very specific to China so it does not offer any ability of replication to another country.

The concept of hedging as a combination strategy was expanded further through Evelyn Goh's significant contribution to the hedging literature. Goh's (2005, 2006, 2008) works expanded the concept in a more robust way than the previous literature as she viewed the concept quite broadly. Goh's (2005, 2006, 2008) definition of hedging was the same through all three works, she defined hedging as:

A set of strategies aimed at avoiding, (or planning for contingencies in) a situation in which states cannot decide upon more straightforward alternatives such as balancing, bandwagoning, or neutrality. Instead, they cultivate a middle position that forestalls or avoids having to choose one side at the obvious expense of another (Goh, 2005, p. viii).

As can be seen she strongly linked her view of hedging to balancing and bandwagoning, which is something only Chung (2004) has done thus far. Further, she clearly asserted that hedging is an avoidance strategy because it is used to avoid choosing between sides. Goh (2005) defined hedging as engagement coupled with indirect balancing and highlighted several key aspects of hedging in the Southeast Asia context. She concludes the region is hedging by using the US as a counterweight to China, engaging China, politically, economically and strategically to draw

it into international rules and norms, and trying to 'enmesh' China to give it a stake in status quo. Goh pointed out that in the region states did not have the ability to choose starkly between balancing and bandwagoning and thus hedging is the best option.

Goh's (2006) work, refines her view of hedging. Unlike Anit Mukherjee (2009), Goh (2006) argued that for hedging to be a useful concept it has to be clearly defined from balancing, containment, bandwagoning and buckpassing. This article also offered a point of difference as she concluded that applying the concept of hedging to US policy, such as in the case of US National Security Strategy 2006, was not a constructive way to view relations with China (Goh, 2006; U.S Government, 2006). Goh (2008) refined her view of hedging further again by emphasising hedging as a strategy for smaller states vs a strong one, and thus dismissing the idea that the US would hedge. In addition, Goh's (2008) article was the first to emphasise the strategic nature of hedging which is later highlighted and developed by Tessman and Wolfe (2011) and Tessman (2012).

Rosemary Foot's (2006) work *Chinese Strategies in a US-hegemonic global order: accommodating and hedging* relied on Goh's (2005) definition but was significant because it was the first of the works that view hedging as a combination strategy to emphasise strongly the role of bilateral relations and multilateral institutions. Foot (2006) was of the view that China was using economic and security multilateral and bilateral relationships to hedge against a decline in relations with the US, while accommodating the US order and modernising its military. However, the analysis covered quite a number of multilateral and bilateral relationships and as a result it lacked depth. The work would have benefited from Foot focusing on a limited number of economic and security institutions/relations that allowed for a more in-depth analysis.

Like Goh, Cheng-Chwee Kuik (2008, 2010; 2012) has been a key contributor to the field. He has produced several works on the concept of hedging which all viewed hedging as a combination of options. The definition Kuik offered was the same for all three works:

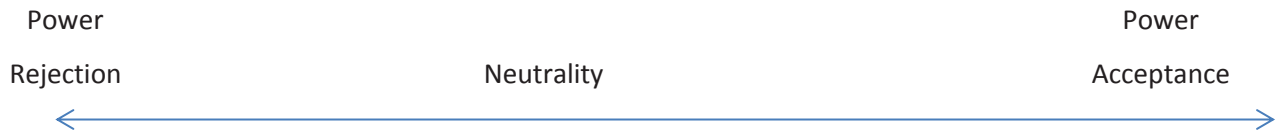
A behaviour in which a country seeks to offset risks by pursuing multiple policy options that are intended to produce mutually counteracting effects, under the situation of high-uncertainties and high-stakes (2008, p. 163).

Kuik's key contribution to hedging's development is the introduction of the idea of 'risk contingency' and 'return maximising' options, which allowed Kuik to draw out more specifically the actions that a hedging strategy entails as can be seen in Figure 3. Similar to

Chung's (2004) model, Kuik's model was based on a continuum between balancing and bandwagoning. However, Kuik took this further by placing the options along the continuum.

Figure 3: Kuik's Hedging Model

Balancing strategy	Hedging Strategy					Bandwagoning strategy
	Risk-contingency options		Return-Maximizing options			
	Indirect-balancing	Dominance denial	Economic pragmatism	Binding-engagement	Limited bandwagoning	



(Kuik, 2008, p. 166)

Kuik's model provides the most comprehensive conceptualisation of hedging thus far because it incorporates all the different elements of hedging that have been discussed by the literature. Thus, the model moves the concept beyond Chung's (2004) and provides an increased ability replicate its application. The weakness with the model is that Kuik does not provide a clear indication of what constitutes each option. A breakdown of each strategy would enhance the models replication and ability to compare across different countries. Further, unlike Goh (2005) who viewed hedging as a strategy a state can use to avoid choosing a side, Kuik (2012) believed his view was in fact an opposite position to this. Kuik's view of hedging is that it is an active decision rather than the more passive view that Goh has but it is not clear why Kuik believes this is an opposite position rather than simply a more proactive one.

Kuik (2008, 2010) applied this hedging model to both Malaysia and Singapore's actions towards China and in his later work Kuik (2012) applied it to the ASEAN states in general. He concluded in both works that all were hedging China but to different degrees. These differences, Kuik argued, was due to the internal and structural differences within those countries (Kuik et al., 2012). The later work also concluded that the US was hedging China therefore Kuik clearly disagreed with Goh's (2006, 2008) view that hedging is for smaller states. Though Kuik (2012) did not discuss it in great depth he also briefly introduced the idea that the US-China relationship is one of competition but also cooperation.

The idea that hedging reflects a mixture of cooperative and competitive sides is a concept that has also been evident in the works of Medeiros (2006) and Atanassova-Cornelis (2011). Yuen

(2009) also highlights these elements but in a security focused way whereas Medeiros (2006) and Atanassova-Cornelis (2011) consider it as a combination strategy. Evan Medeiros's (2006) article *Strategic Hedging and the Future of Asia-Pacific stability* was the first to really explore these elements as part of a hedging strategy in a significant way. Medeiros (2006), like Kuik (2012) and Yuen (2009), concluded that the US was using cooperation and competitive policies towards China. The cooperative side included engagement and binding whereas competitive included the US strengthening of its security alliances in the Asia-Pacific region. However, the article is important because he also concluded that China was using the same strategies towards the US in a mutual hedge. Further, Medeiros argued that containment or balancing for the US would not be viable options as Asian states would not accept such overt strategies towards China, which clearly disagrees with Mukherjee's (2009) view of containment as part of hedging.

In 2010 Elena Atanassova-Cornelis's article *Reshaping the East Asian Security Order: US-China Hedging and the EU's Strategic Choices* was published. She viewed hedging as a mixture of engagement and contingency planning and is another to have framed hedging in terms of having both cooperative and competitive sides (Kuik et al., 2012; Medeiros, 2006; Yuen, 2009). She added a point of difference because she considered the impact of this mutual hedging on the European Union (EU). Concluding that the EU was confined to supporting cooperation between the US and China, and promoting the multilateral institutions in the Asian region. However, she did not develop the concept beyond Medeiros's approach.

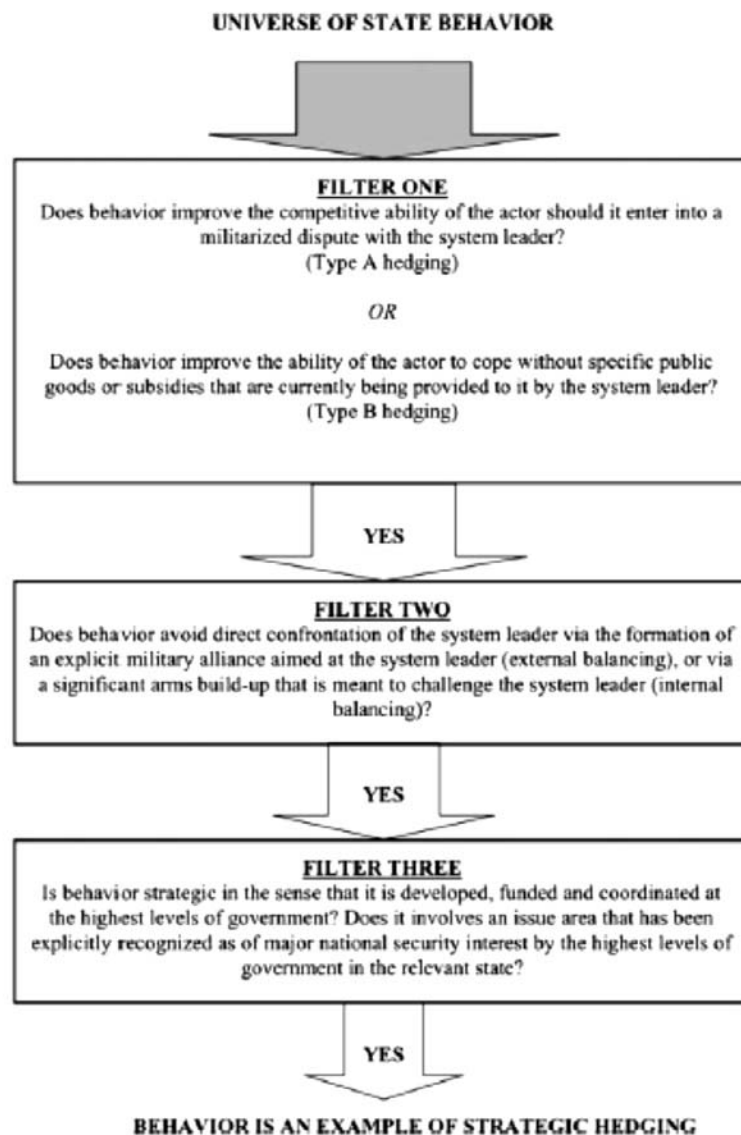
Similar to Heginbotham and Samuels (2002), Goh (2005, 2006, 2008), and Kuik (2008, 2010; 2012) Brock Tessman (2012; 2011) is another key author that made a significant contribution to the development of the field through two works. These works can be viewed as an attempt to incorporate many of the elements in the previous literature in to one overarching way of determining if hedging has been adopted. Both works contribute to the development of hedging because the focus is on the strategic nature of the concept, something only Goh (2008) had considered. Thus, Brock Tessman and Wojtek Wolfe's definition of hedging offered a more strategic and systematic viewpoint. Tessman and Wolfe (2011) follow a similar method to Chung (2009b) by dividing hedging into two groups: Type A and Type B hedgers. However, their concept of strategic hedging was quite distinct, and they defined it as:

Strategic hedging behaviour is meant to serve as a sort of insurance policy that guards against two possibilities: that relations between the hedging state and the system leader will deteriorate to the point of a militarized crisis [Hedging A], and/or that the

system leader will voluntarily or involuntarily cease providing certain public goods or direct subsidies that the hedging state currently enjoys [Hedging B] (p. 216).

They viewed strategic hedging as an extension of balance of power theory but argued that the theory did not account adequately for the non-military tools a state may employ when dealing with a threatening power. Thus, weaker states choose to strategically hedge to avoid a confrontation and to increase the chance of survival in any future conflict. A state's actions must meet four criteria, though this is refined to three in Tessman's (2012), as shown in Figure 4, before it can be deemed a strategic hedger.

Figure 4: Refined Model of Strategic Hedging



(Tessman, 2012, p. 210)

Tessman and Wolfe applied the flow chart to the Chinese energy strategy, which was much more specific than the previous literature. It was concluded that China was pursuing both Type A and Type B hedging against the US for its energy strategy. However, in contrast Tessman (2012) article is the one of the few works, along with Art (2004) and Mukherjee (2009), in the hedging literature that does not focus on the rise of China. For example, Tessman's (2012) application includes Sino-Russian security relations and Brazil's dealings with the South American regional leadership. The key drawback with this model is that it doesn't acknowledge the fact that there can be differing degrees of hedging. Further, it is too specific. The flowchart developed is built to be applied to a specific aspect of policy rather than to a state's overall strategy towards another country.

In summarising contributions to the hedging literature so far, there have only been three works which applied models to determine if states were hedging. This has left the literature lacking in any consistency or robust analysis. The model presented by Chung (2009b) conducted regression analysis to place countries along a continuum between balancing and bandwagoning. However, the variables chosen were limiting, and did not account for the motivations behind certain actions, further many important factors such as diplomatic relations were not taken into account. The model presented by Tessman and Wolfe (2011), and refined by Tessman (2012), was an attempt at providing an overarching approach to determining if a state is hedging. However, it is very a specific model, having been applied to specific policies. Thus, it is not well suited to determining a country's overall strategy towards another country. In addition, this model does not account for the fact that there can be differing degrees of hedging. As a result, this thesis has chosen to adopt Kuik's definition of hedging and to apply Kuik's (2008) model shown previously in Figure 3 page 25.

Kuik's (2008) model is the most concrete and comprehensive of the three presented, incorporating diplomacy, security, and economics, and is designed to be applied to determine a country's overall strategy towards another country. However, the weakness is the lack of breakdown for each of strategy. Thus, to add construct validity the researcher has developed key indicators for each strategy to increase the models robustness and allow for replication. These have been developed from Kuik's (2008) analysis which highlighted certain aspects of relations that he concentrated on when applying each option. The reasoning behind the choice of each indicator is outlined in Figure 5 and a discussion of each option and the chosen indicators follows this.

Developing indicators for applying Kuik's model

Figure 5: The indicators developed, with examples.

Risk Contingency Options	Examples
<p><u>Indirect balancing</u></p> <ul style="list-style-type: none"> • Military spending. • Arms transfers. • Security cooperation with states with similar goals. 	<ul style="list-style-type: none"> • Military modernisation • Increased procurement, importing of weapons. • Increased defence diplomacy, agreements and interactions such as joint exercises and personnel exchanges
<p><u>Dominance Denial</u></p> <ul style="list-style-type: none"> • Closeness of relations with the major powers in the region. 	<ul style="list-style-type: none"> • Increased economic and diplomatic relations with Russia, US, India, and Japan.
Returns Maximising Options	Examples
<p><u>Economic Pragmatism</u></p> <ul style="list-style-type: none"> • Is China a top trading partner? • Trade dependency. • FDI. 	<ul style="list-style-type: none"> • Is China in the top ten as a trading partner? • What is the volume of imports and exports between the countries? • What does this highlight about the economic relationship? • What are the investment flows?
<p><u>Binding Engagement</u></p> <ul style="list-style-type: none"> • Attempts to increase lines of communication with China. • Degree of interaction at bilateral and multilateral levels. 	<ul style="list-style-type: none"> • What has been the nature of diplomatic relations? • Tensions within economic and diplomatic relations. • Bilateral relations such as Official Development Assistance. • Multilateral interactions such as China-Japan-South Korea trilateral summits.
<p><u>Limited Bandwagoning</u></p> <ul style="list-style-type: none"> • Degree of indifference towards Chinas key foreign policy objectives of: <ul style="list-style-type: none"> ○ Territorial integrity ○ Sovereignty integrity 	<ul style="list-style-type: none"> • Degree of indifference over issues such as the Senkaku islands, and Exclusive Economic Zones. • Sovereignty integrity focuses on economic and diplomatic relations with Taiwan.

Risk contingency options

Indirect balancing

Kuik updated his definition of indirect balancing to include soft balancing (Kuik et al., 2012). The idea with this option is to minimise the threat of the rising power through military means. For instance, a state may upgrade its military capabilities and pursue security cooperation with other states that have the same goals. However, it is not directly targeted at the rising state

(Kuik, 2008; Kuik et al., 2012). The researcher has developed three indicators to measure indirect balancing. Two are statistical indicators; military spending and arms imports, which will provide an overall view of defence spending. These will then be used to consider what this reflects about the focus of the defence policy more broadly. For instance, if South Korea's defence spending is trending up does this reflect a policy of military modernisation or is this being driven by something else more benign such as education. The third indicator is non-statistical and will focus on if the state has been fostering security cooperation with other states with the similar goals. These relationships have largely been identified through South Korean and Japanese Diplomatic White Papers as well as the literature on the countries. This indicator will be analysed by considering if there have been increases in defence diplomacy and security cooperation.

Dominance denial

This strategy is political in nature rather than military. The aim is to prevent the rising power becoming a dominant power by utilising political influence. This once again is not aimed directly at a particular power, but as Kuik states it is 'cultivating a balance of political influence among the major players in the region' (2012, p. 319). This is more confrontational than binding engagement. This is because dominance denial means that a smaller state will take the attitude that it won't be dictated to and if a major or rising power does try to do this the smaller power will move towards other major powers instead (Kuik, 2008; Kuik et al., 2012). Kuik (2008) indicates in his analysis that maintaining relationships with all the key powers in the region is a key indication of dominance denial. Therefore, the analysis will focus on the degree of close relations that South Korea and Japan have with the major powers in the region; US, Russia, India and for South Korea this will include Japan. These relationships will be analysed by focusing on economic and diplomatic ties which will highlight if relations with these powers are increasing or not.

Returns maximising options

Economic pragmatism

This strategy is quite simply that the smaller state will try to maximise its economic gains from the threatening power. This is usually done through direct trade and investment between the two states. This strategy is irrespective of any political tensions between the states. However, economic relations can be the foundations for relations both politically and diplomatically to develop (Kuik, 2008; Kuik et al., 2012). To gauge if this policy is being utilised the researcher has chosen three key indicators. The first will be to ascertain if China is a top ten trading partner. Bilateral trade statistics focused on imports and exports will be used to measure this.

The second indicator is trade dependence, which is an indicator adopted from Chung's (2009b) analysis. The results of these will then be used to discuss more broadly trade between China and the country in question, and will include any areas of tension. Finally, the FDI flows will be used to measure investment. This will also be followed by a broader discussion of what the statistics highlight about investment relations. The combination of these indicators will give a clear indication of if economic pragmatism is at play.

Binding engagement

The aim with this strategy is to maximise the diplomatic returns to the smaller state by increasing the channels of communication with the threatening power. This is achieved firstly through engagement which involves developing and maintaining diplomatic links with the threatening power. Secondly, binding of the great power to the status quo is achieved by enmeshing it in to the established order. This is a very similar strategy to dominance denial, but as discussed above, that strategy is quite confrontational. Binding engagement is more subtle. The ultimate end goal is to be able to change the threatening powers actions through persuasion. This is achieved by reminding it that it has a vested interest in the status quo as a result of binding. Binding engagement is not as easily empirically measured as other strategies such as economic pragmatism. Thus this section of analysis will focus on attempts to increase lines of communication with China as well as the degree of interaction between the countries at bilateral and multilateral levels. This will be achieved by focusing on the current status of diplomatic relations between China and the country in question. To build up a picture of this the analysis will take into account; high level exchanges, dialogues, summits, agreements, any areas of tensions which have affected diplomatic ties, and the nature and degree of bilateral and multilateral interaction.

Limited Bandwagoning

This strategy focuses on maximising the foreign policy returns to the smaller power. The smaller state collaborates with the threatening power on areas of interest and vice versa, however the key is that the smaller power is not subordinate in this collaboration. This is different to pure bandwagoning where a smaller state is dominated by the larger power. Limited bandwagoning allows the state to retain its own identity by only collaborating on selected issues and thus also enables it to retain its relations with the hegemon (Kuik, 2008; Kuik et al., 2012).

The key indicators here will be based around two areas that are highlighted by Kuik (2008) as clear indicators of limited bandwagoning behaviour. The first will focus on the degree of indifference over China's key foreign policies objectives. China has identified it's foreign policy

as comprising of five principles of coexistence; mutual respect of sovereignty and territorial integrity, mutual nonaggression, non-interference, equality and mutual benefit and peaceful coexistence (Center for Strategic and International Studies, 2009; Jakobson, 2013; D. C. Kang, 2007; Ministry of Foreign Affairs of the People's Republic of China, 2013). Sovereignty and territorial integrity have been selected as the most relevant indicators to analyse limited bandwagoning because these two have been reflected in what China has termed its 'core interests' (Campbell, Meick, Hsu, & Murray, 2013; Center for Strategic and International Studies, 2009; Jakobson, 2013; Ministry of Foreign Affairs of the People's Republic of China, 2013). In particular the sovereignty analysis will focus on Japan and South Korea's relations with Taiwan. Taiwan has been chosen because it has been identified by this thesis as China's key sovereignty issue; other options included Xinjinag and Tibet. However, Taiwan is the most prominent of these three and the one that has had the most impact on China's relations with a wide variety of states. The territorial integrity analysis will focus on the territorial disputes these countries have with China. The interactions between the countries over these issues will highlight if China is dominating Japan and South Korea over these issues or if they are retaining some independence.

Conclusion

As one can see from this literature review there has been no consensus on the definition of hedging. Indeed, though this review has divided the literature in to two groups, these are very broad and within each group there is a large degree of variation in the definition and application of hedging. However, one can see that the majority of the literature on hedging has been applied in relation to the rise of China. Indeed, only three works have focused on cases outside of this, Art (2004), Mukherjee (2009) and Tessman (2012). Further, the overall consensus was that South East Asian states are hedging towards China; in particular they have used institutions such as ASEAN, in conjunction with a US presence in the region, to achieve this. However, the strategies and degree to which each state has pursued this strategy is debated. Further, Park (2011) and Manning and Przystup (1999) were the only work's to have specifically considered the US allies in the Asia-Pacific and their strategy towards China. However, both of these works apply the security focused view of hedging whereas this thesis will apply the view that hedging is a combination strategy. Therefore, this thesis will be the first to apply the latter view to the US allies in the Asia-Pacific and their strategy towards China. Further, the literature has shown only three models that have been developed to determine if hedging is being applied. This work will contribute to the literature by being the first to apply a model to the behaviour of the US allies to determine the strategies being used.

This thesis has taken Kuik's model and expanded it through the development of key indicators to measure the applicability of that model in different contexts. This enables the research to potentially offer up a robust and comprehensive analysis of the US allies and their strategy towards China, and to contribute to a stronger understanding of the concept of hedging itself.

Chapter Two: Japan Case Study

This case study focuses on applying Kuik's model to Japan to determine if Japan is hedging China, and, if so, which strategies it has adopted. This will then allow it to be placed along the continuum between balancing and bandwagoning which will indicate Japan's degree of power acceptance or rejection towards China. The first half of the case study covers the risk contingency options of indirect balancing and dominance denial. The second half of the chapter examines the returns maximising options of economic pragmatism, binding engagement and limited bandwagoning. These options are not mutually exclusive, for instance Japan could be pursuing all five strategies concurrently or only a few.

To investigate whether or not Japan could be said to be pursuing a policy of indirect balancing this case study will examine first two statistical indicators. The first is Japan's military spending which, despite contracting since 2005, still ranks in the top five globally for military spending. Secondly arms transfers will be examined. This will cover Japan's self-imposed ban on exports of arms and investigate which countries are significant suppliers of arms. Further, the analysis will consider the procurement of arms and Japan's increased emphasis on the domestic development of arms since 2011. The discussion on both military and spending then leads into an overall examination of Japan's defence strategy which has significantly shifted since 2004. The analysis will consider recent changes to Japan's defence strategy such as the modernisation of its military and the recent review of Article 9 of the Constitution. The final part of this analysis is the non-statistical indicator of security cooperation with countries with similar goals. The countries examined are Australia, South Korea, India and the US. The discussion on these countries will focus on how security relations have developed, if attempts have been made to increase cooperation and, if so, in what ways by looking at ministerial meetings, defence exchanges, joint exercises and key agreements.

To ascertain if Japan is pursuing dominance denial this section will examine one indicator. This is the closeness of Japan's relations with other major powers in the region which have been identified as the US, Russia, and India. This analysis will focus on the economic and diplomatic relations that Japan has with each of these countries. Economics will focus on the current state of bilateral trade and investment. The diplomatic section examines Japan's overall diplomatic relations with each country. This focuses on key aspects of diplomatic relations to ascertain the nature of those relations. For the US discussion includes the high importance of bilateral trade and investment to each country. The diplomatic section covers the US influence

over Japanese policy in regards to shipments of oil from Iran and US beef. It also considers multilateral interactions, focusing on the Trans-Pacific-Partnership (TPP). For Russia economic discussion highlights the growing importance of bilateral trade and investment, and the importance of oil in this relationship. Increasing diplomatic exchanges are highlighted in the examination of diplomatic relations but this section also considers tensions in regards to the territorial dispute over the Northern Territories/Kuril Islands (Japanese/Russian names). With regards to India, the economic section highlights the strengthening of relations and a clear intention to increase economic relations. These relations cover the Comprehensive Economic Partnership Agreement (CEPA), nuclear energy, Official Development Assistance (ODA) loans from Japan to India, and Japan's recent support for Indian inclusion in multilateral institutions.

There are three indicators covered in the analysis of economic pragmatism. The first two indicators are if China is in Japan's top ten trading partners and trade dependency. This will focus on statistical analysis. However, following this the discussion will focus on trade relations in general, covering the complementary nature of the economies, the impact of Diaoyu/Senkakau islands dispute on trade, Japan's concern over reliance on China, and the promotion of alternative countries to trade and invest with. The final indicator focuses on FDI between Japan and China, covering the current nature of investment and the direct conversion of Yen to Yuan, the impact of the Diaoyu/Senkakau islands dispute and the Japan-Korea-China trilateral investment agreement.

To determine if Japan has adopted binding engaging towards China two indicators will be used. These are attempts to increase the lines of communication with China and the degree of interaction at bilateral and multilateral levels. The analysis for the first will include consider attempts by Shinzo Abe and Yasuo Fukuda to improve diplomatic relations and address historical tensions. It will also cover Yukio Hatoyama's decision to shift away from the US alliance and the result of this on ties with China. The discussion then moves on to highlight tensions in diplomatic relations covering the severing of ties in 2010 and the flaring of tensions in 2012. The second indicator focuses on the degree of interaction at bilateral and multilateral levels between Japan and China. The first indicator flows into the discussion on bilateral relations. However, the discussion is broadened and focuses first on the strongest element of interaction between the two countries which is economic. It also covers interactions due to the Fukushima nuclear crisis and then concludes with a discussion on the decline in the way the Japanese public view China. The multilateral discussion examines the role Japan views multilateral institutions playing in relations with China and if it is using them to bind and

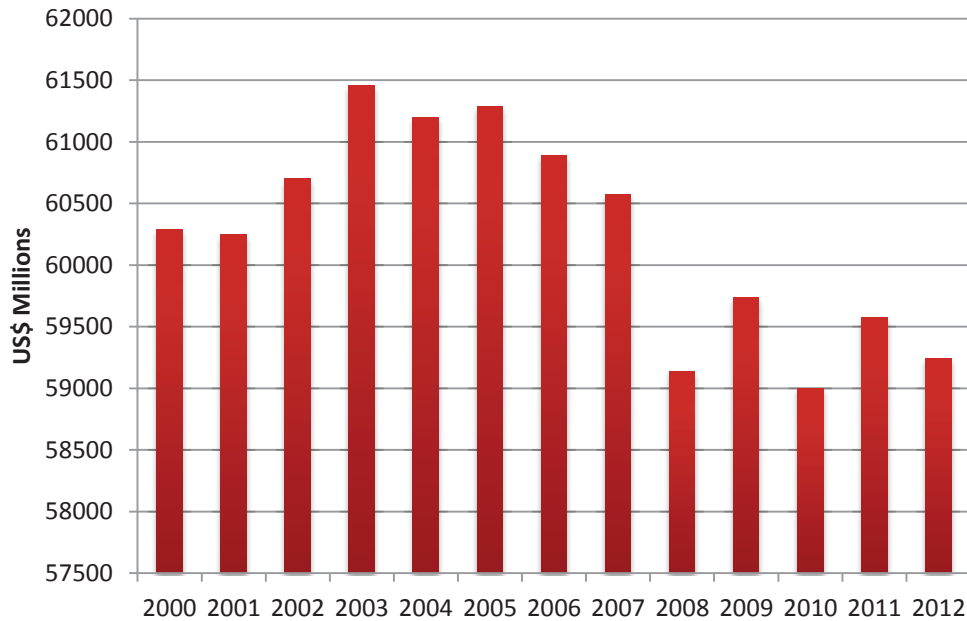
engage China. It gives a brief overview of how Japan has utilised regional forums and then moves on to cover Japan's concern and subsequent response to China's growing relations with ASEAN.

The discussion on limited bandwagoning focuses on two indicators. These are Japan's degree of indifference to China's foreign policy of territorial and sovereignty integrity. The section on territorial integrity focuses on the dispute over the Diaoyu/Senkaku Islands. It begins by providing a brief overview of the context for the dispute and then moves on to address the closely linked maritime dispute between the two countries in the waters around the islands. This includes discussion of the oil and gas deposits in these waters and the on-going tensions over these. The sovereignty integrity analysis will look at Japan's relations with Taiwan. The discussion will cover historic association with Taiwan and the inclusion of Taiwan in the interpretation of the US-Japan security treaty. It then examines economic relations between Japan and Taiwan, including aviation and fishing agreements. It also considers the degree of diplomatic ties including the nature of the continuing unofficial government and ministerial visits between the countries. This will then be followed by a brief conclusion on where Japan sits on Kuik's model based on the findings for each section.

Risk Contingency Options

Indirect balancing

Figure 6: Japans Military spending 2000-2012



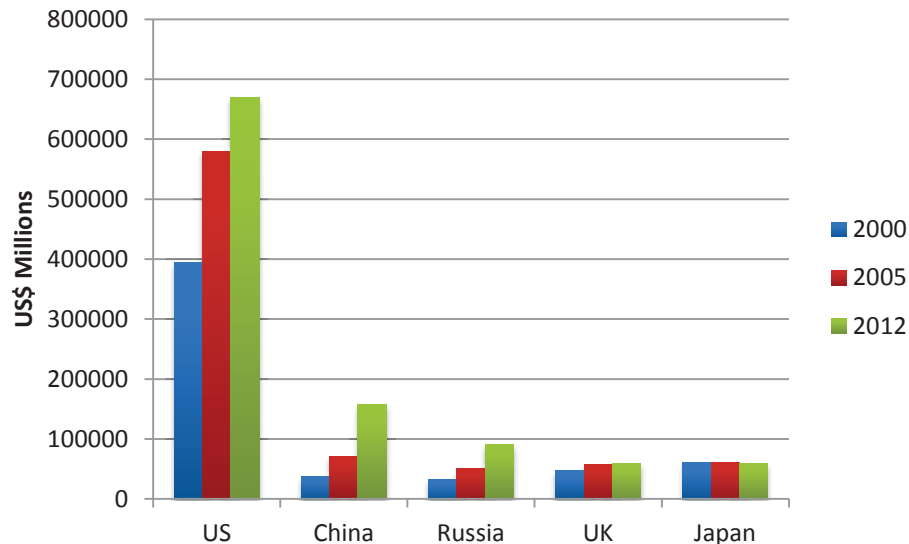
Source: (Stockholm International Peace Research Institute, 2013a).

Military Spending

Japans military expenditure is traditionally kept within one per cent of the Gross National Product, as set in 1976 (Hughes, 2009a). The introduction of this limit reflected anti-militarism norms that had developed as a result of events of World War II and the Hiroshima and Nagasaki atomic bombs (Hagström & Williamsson, 2009; Hook, Gilson, Hughes, & Dobson, 2012). Further, it was not until 2002 that Japan's military spending grew by more than one per cent (Hughes, 2009a). Japans military spending peaked in 2003, as can be seen in Figure 6. Even though spending has contracted since then, Japan was still fifth in the world for military spending in 2012 with US\$59.3 billion (Stockholm International Peace Research Institute, 2012). Japan surpassed France, on US\$58.9 billion in 2012 to move from sixth to fifth (Stockholm International Peace Research Institute, 2012). However, as seen in Figure 7, the other countries in the top five for 2012, have all increased military spending over the period between 2003-2012, but Japan's has contracted (Stockholm International Peace Research Institute, 2012). For example, China's spending over that period increased 175 per cent,

Russia's by 113 per cent, but Japan's decreased by -3.6 per cent (Stockholm International Peace Research Institute, 2012).

Figure 7: Top five countries for Military expenditure, 2012



(Stockholm International Peace Research Institute, 2013a)

However, in 2013 Japanese Prime Minister Abe announced the first increase in a defence budget for eleven years, and the biggest for 22 years, with an increase of 0.8 per cent to ¥4.68 trillion (Reynolds, 2013; Takenaka, 2013). The Coast Guard budget will also grow for the first time in six years with a boost of 1.9 per cent to ¥175 billion (Reynolds, 2013). It can be argued that Japan's economy has been impacted hard by the global financial crisis and the triple disaster in 2011 which has affected its ability to spend on the military. In contrast, the continued strength of China's economy has enabled it to spend more on defence. However, the recent incursions of Chinese vessels into the Japanese waters around the Senkaku islands have been cited by the Japanese Government as the key reason for these expanded budgets (Japan Ministry of Defense, 2013d; Reynolds, 2013).

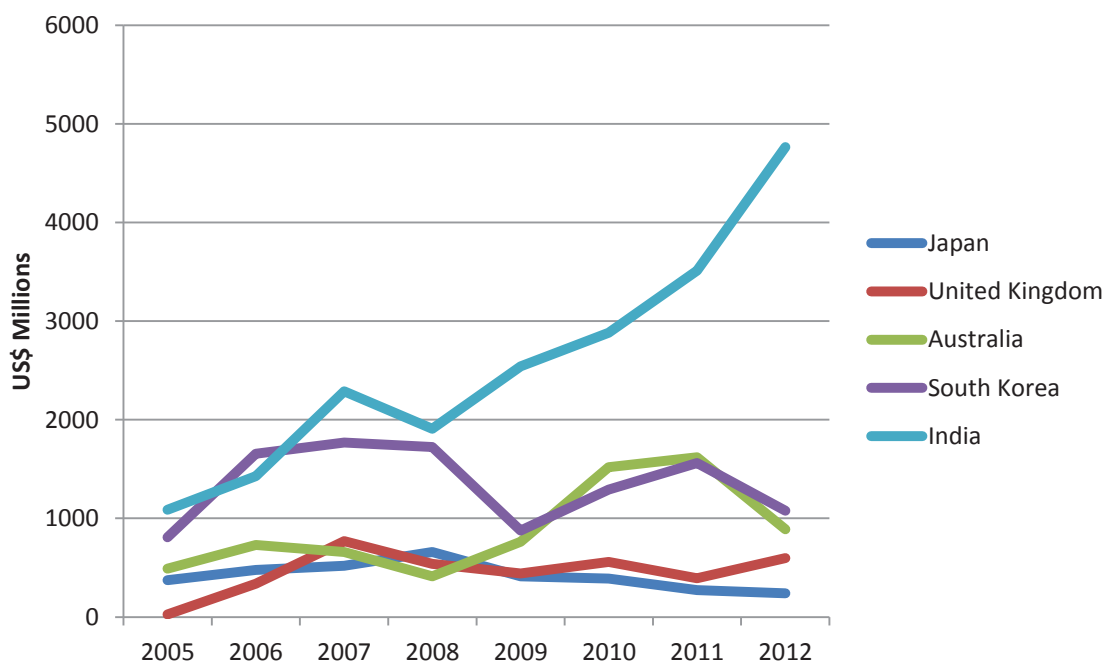
Tied in with this is what Japan sees as a lack of transparency from China about its military spending and its intentions along with anxiety about the potential decline of the US in the region (J. M. Paul, 2012) (Japan Ministry of Defense, 2010a, 2011, 2012a). These concerns are reflected region wide and have resulted in an increase in military spending in Asia in general (Fabey, 2013). For example, between 1999 and 2008 military spending in East Asia increased by 56 per cent compared to only a 14 per cent increase in Europe (J. M. Paul, 2012). Indeed, some of this regional growth is driven by an increase in Chinese spending, but it is also

reflective of an increase in the spending of the region in general. For instance, US partners and allies in Asia invested \$919.5 billion on military programs from 2008 to 2012 (Fabey, 2013). Further, these countries are projected to increase their military spending between 2013 and 2018 by 55 per cent overall, pushing expenditure up to \$1.4 trillion (Fabey, 2013).

Arms Transfers

The second statistical indicator is arms transfers, covering procurement and domestic development of arms. This indicator will also be used to highlight Japan's defence strategy. Japan is not a significant importer of arms and has a self-imposed ban on arms exports (Ministry of Foreign Affairs of Japan, 2013b). This is reflected by Figure 8 which shows arms transfers for selected countries in comparison with Japan. In 1967 Japan adopted the Three Principles on Arms Exports, this policy states that exports are banned to '(1) communist bloc countries, (2) countries subject to 'arms' exports embargo under the United Nations Security Council's resolutions, and (3) countries involved in or likely to be involved in international conflicts' (Ministry of Foreign Affairs of Japan, 2013b). This was broadened in 1976 to a self-imposed ban on any arms exports (Ministry of Foreign Affairs of Japan, 2013b).

Figure 8: Total arms transfers for selected countries, 2005-2012

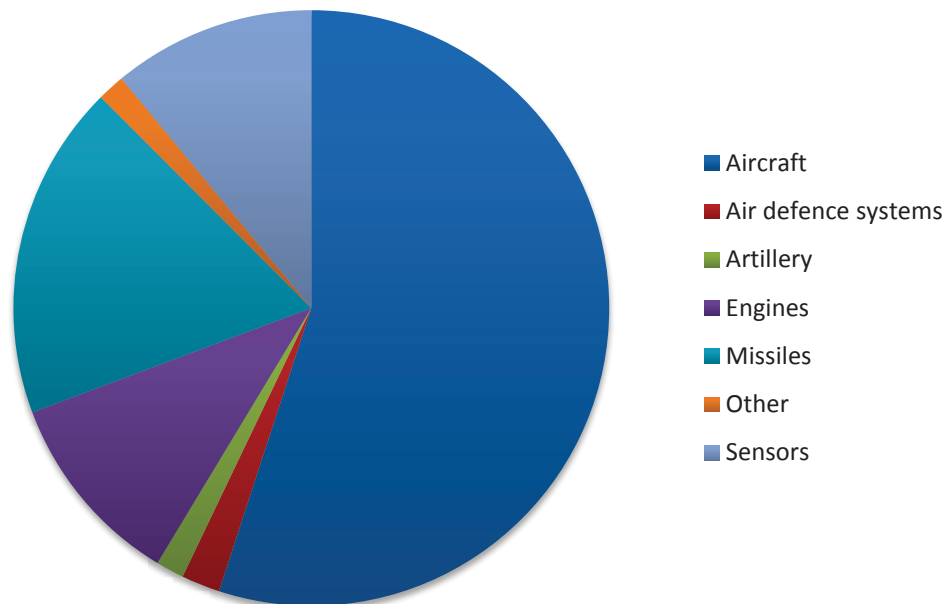


Source: (Stockholm International Peace Research Institute, 2013b).

Japan's arms transfers come overwhelmingly from the US, with transfers totalling US\$ 3000 million between 2005 and 2012 (Stockholm International Peace Research Institute, 2013b). The next closest was the United Kingdom with US\$249 million over that time (Stockholm

International Peace Research Institute, 2013b). These transfers are made up of a number of different types of arms, as shown in Figure 9, the vast majority of which are aircraft which totalled US\$1841 million between 2005-2012 (Stockholm International Peace Research Institute, 2013b). This is followed by missiles which total US\$609 million (Stockholm International Peace Research Institute, 2013b).

Figure 9: Types of Arms Transfers to Japan, 2005-2012



Source: (Stockholm International Peace Research Institute, 2013b)

The transfers reflect Japan’s response to the strategic issues mentioned previously through modernisation of the JSDF, including the Coast Guard. For example, Japan has acquired an F-2 fighter bomber and tanker aircraft, taking delivery in 2008 (Hughes, 2009a). It also procured the CH-47JA transport choppers and upgraded these by adding ballistic protection to them (Hughes, 2009a). Japan has also ordered the AH64D Apache Longbow, although that order has been reduced from the original 52 down to 10 due to increasing costs (Hughes, 2009a; Yukari Kubota, 2010). Further, it has purchased a Ballistic Missile Defence (BMD) system from the US and it will upgrade six of its destroyers with this capability (Hughes, 2009a). It has also procured three Osumi-class transport ships (Hughes, 2009a). In 2012 it ordered Lockheed Martin F-35s and has also put a request in to buy six second hand KC-130R’s aerial tankers from the US (Francis, 2012).

In addition to this, the Japanese defence paper released in early 2013 indicated a list of items it is looking to procure, including 11 new armoured personnel carriers, 44 light armoured

vehicles, amphibious vehicles, Type 12 Surface to ship missiles and 11 mid-range multipurpose missiles (Japan Ministry of Defense, 2013c). In addition to this, in August 2013 Japan unveiled its largest warship since the end of World War II, which has the ability to hold up to 14 helicopters and will be used for submarine warfare and surveillance missions (The Japan Times, 2013e). Furthermore, the most recent Defense Budget released highlighted the Ministry is looking to purchase drones and tilt-rotor aircraft within the next couple of years (Takenaka, 2013). Japan is determinedly upgrading and improving several areas of its forces, including improving its transport ability and rapid deployment, its warning and surveillance systems, and information gathering ability (Japan Ministry of Defense, 2013d).

However, arms transfers alone do not give the whole picture because Japan is also able to arm itself through domestic production. Indeed, Joshy Paul (2012) has described Japan as having emphasised a policy of domestic development since 2011. For example, the list of additional arms to be made available to its forces includes domestic development of a wheeled 155mm howitzer, two P-1s to replace the P-3C fixed wing patrol aircraft and the building of two new destroyer helicopter ships (Japan Ministry of Defense, 2013c; Technical Research and Development Institute, 2013a, 2013b). (Hughes, 2009a). Japan has the capability to build tanks, armoured vehicles, warships, submarines and missile systems, and so its forces are largely self-sufficient (Bitzinger, 2011). Mitsubishi Heavy Industries builds fighter jets and Kawasaki Heavy Industries build the large frames for maritime craft and transport planes (Bitzinger, 2011). The Technical Research and Development institute, which is attached to JMOD, plays a key role in this domestic development (Bitzinger, 2011; Hughes, 2009a). For instance, it is working with Mitsubishi Heavy Industries to look into a prototype stealth bomber (Hughes, 2009a). Along with this, the Ministry of Defense is planning in the near future to build a multipurpose destroyer, develop a range of missiles, a ninth Soryu-class submarine, and extend the life of a number of its submarines, destroyers and fixed wing patrol craft (Japan Ministry of Defense, 2013d; Technical Research and Development Institute, 2013b, 2013c).

Moreover, this procurement and domestic development of arms to modernise the military highlights a shift in Japan's broader defence strategy, which was signalled in the 2004 National Defence Program Guidelines (NPDG). As Christopher Hughes (2009a) states:

Japan has succeeded in significantly pushing forward its defensive and potentially even offensive power projections capabilities since the 2004 NPDG. Japan is

remodelling a more mobile GSDF, an ASDF with greater regional and global reach, and an MSDF with amphibious and carrier technologies' (p. 96).

Some, such as US Commander Timothy Barkdoll (2006) argue that the 2004 NDPG indicated that Japan was moving towards a more proactive military . Certainly, one of the key drivers in this shift in emphasis has been growing concern over China's military modernisation, for instance the NDPG stated:

[China] continued to modernize its nuclear forces and missile capabilities as well as its naval and air forces. China is also expanding its area of operation at sea. We will have to remain attentive to its future actions (Japan Ministry of Defense, 2004, p. 2).

Bonnie Glaser and David Szerlip (2011) view this last sentence as Japan 'laying down a marker' in regards to China's modernisation and defence activity. This is further highlighted by the fact that the paper indicated Japan would be looking to change its defence strategy from one of deterrence to one of response (Kendall, 2010; MacIntyre, 2012). To do this the document changed the Basic Defence Concept to focus on making the JSDF more mobile and ready (Kendall, 2010). This sent a clear signal of Japan's concern over China because this shift was a significant departure from the strategy of deterrence Japan had adhered to since the end of World War II (MacIntyre, 2012).

Concerns over China were reiterated in the 2010 defence paper. This paper offered a more substantial assessment of China and stronger wording than the 2004 NDPG, stating:

China has not clarified the current status of or future vision for the modernisation of its military capabilities...Furthermore, China has been rather intensifying its activities in waters near Japan. The lack of transparency of its national defense policies, and the military activities are a matter of concern for the region and the international community (Japan Ministry of Defense, 2010a, p. 5).

Also in 2010 the Council on Security and Defense Capabilities, chaired by the Prime Minister, released a report on Japan's future defence capabilities. This highlighted that due to the rate of China's development the balance was viewed as having shifted in China's favour (Council on Security and Defense Capabilities in the New Era, 2010).

The revised NDPG, released in late 2010, was viewed as largely a reaction to the incursion of China in to Japanese waters (Fouse, 2011; Glaser & Szerlip, 2011). The document was significant because the Basic Defense Force (BDF) strategy that had been in place since 1976

was abandoned in favour of a 'Dynamic Defense force' (Fouse, 2011). The BDF had focused on minimum capability for self-defense, however the new strategy focused on creating flexibility and mobility within the forces (Japan Ministry of Defense, 2010b). It also included a renewed focus on security cooperation with US, South Korea, India, Australia, and ASEAN (Japan Ministry of Defense, 2010c). These revised guidelines drew criticism for China who viewed Japan as trying to contain it (Fouse, 2011).

The 2011 Defence Paper further emphasised concerns over China's lack of transparency and the wording became stronger (Glaser & Szerlip, 2011; Japan Ministry of Defense, 2010b). For example, though sections of the 2010 and 2011 Defense Papers are similar the 2011 document was published with a strongly worded addition:

China is expected to recognise its responsibility as a big power and accept the international norms, as well as play an active and cooperative role in the regional and global issues (Japan Ministry of Defense, 2011, p. 72).

As a result, Japan has started to streamline its forces and address issues of outdated equipment through the modernisation mentioned previously. It has also increased its capability around its southern islands, for example in 2010 Japan announced it would be deploying 100 troops to Yonaguni for the first time (Glaser & Szerlip, 2011; The Age, 2010). In addition, Japan is increasing intelligence and surveillance assets in that area and placing another F-15 squadron on Okinawa (Goh, 2011).

Further to this the election of Prime Minister Abe has seen another bold shift in Japan's approach to defence. From August 2013 the government is reviewing the arms embargo with the changes in effect making it redundant (The Japan Times, 2013c). The embargo has been in place since the Cold War but it has been reported in Japanese media that the Abe Administration views the embargo as out of date (The Japan Times, 2013c). Further, Abe has indicated the government will look to review the Constitution which is seen as limiting Japan's national security options (Takahashi, 2013; The Economist, 2013). The Japanese constitution was put in place following the end of World War II, and it has not been changed since. As a result, Abe has stated it is now obsolete, and he is particularly focused on reviewing Article 9 of the constitution which prevents Japan using force in settling international disputes (Hayashi, 2013; Prime Minister of Japan and his Cabinet). The appointment by Abe's Cabinet of Ichiro Komatsu as the head of the Cabinet Legislation Bureau is seen as another step towards this as Komatsu is stated to favour Abe's wish to change Article 9 (The Japan Times, 2013g). It

has been reported that Abe wants the ability to make pre-emptive strikes, particularly due to the dispute with China over the Senkaku/Diaoyu Islands (Torres, 2013b). Therefore a revision would be a bold shift away from a constitution that only allows for the use of force in situations of self defense (The Economist, 2013).

Security Cooperation

The second part of the analysis will consider if Japan is pursuing security arrangements with countries with similar goals. As mentioned, the NDPG 2010 highlighted that Japan would focus on security cooperation in addition to the revised defence strategy and the 2013 Defence White Paper highlighted four key relationships that Japan is focused on to do this, these are Australia, South Korea, India, and the US (Japan Ministry of Defense, 2010b, 2013c).

The JMOD emphasises in the latest White Paper (2013c) that Japan and Australia share similar values and interests and are both allies of US. As a result, they are strengthening cooperation between them and this has been evident through a number of agreements (Wallace, 2013). In 2007 Japan and Australia issued a Joint Declaration on Security Cooperation; this is the first country outside of the US that Japan has issued one with. This was also the first 2+2 meeting between the two countries and the first of its kind for Japan with a country other than the US, which signified a renewed momentum in relations (Wallace, 2013). In 2010 the Acquisition and Cross-Servicing Agreement (ACSA) was reached, which came into force in January 2013, and allows 'reciprocal provision of supplies and services by the SDF and the Australian Defense Force' (Japan Ministry of Defense, 2013c, p. 265). The agreement enables increased cooperation on operations and allows the countries to supply each other on missions. This was a significant agreement because it is Japan's first such agreement outside of its alliance with the US and it has been signalled as step up in military relations between Japan and Australia (Agence France-Presse, 2010; Australian Associated Press, 2010). This was followed in 2012 by a Joint Statement after a 2+2 meeting on Common Vision and Objectives which aimed to expand relations further. However, it has not just been agreements and talks that have strengthened relations. Japan and Australia have participated in various exercises, which have been mainly Maritime focused. In 2009 Japan and Australia held a joint military drill which was the first for the Japanese Navy outside of exercises with the US (Fackler, 2012). In June 2012 they participated in bilateral exercises. Indeed, these increasingly close Australia-Japan relations are highlighted by William Tow as having become the key element that binds the US hub and spoke network in the Asia-Pacific together (Tow, 2012).

There have also been attempts to increase cooperation multilaterally. In early 2007 a quadrilateral initiative involving, India, Australia, and Japan was proposed by Prime Minister Abe (Katahara, 2012; Medcalf, 2008a). In August of that year the quad carried out large scale naval exercises. However, the concept failed due to the strong objection of China who protested the arrangement causing countries to back away (Anno, 2012; Brewster, 2010b). China responded strongly because it perceived the quad as an attempt to encircle and contain it (Katahara, 2012). As a result, Australia's new government elected in late 2007 opposed the idea, China had also pressured India to withdraw, and the US began to view it as causing too much controversy and so Japan let the idea drop (Tow, 2012). The incident clearly highlights the fine balancing act that the Asia-Pacific region faces to work in their best security interests for security but stay on good terms with China.

Despite the failure of the quadrilateral arrangement, trilateral arrangements have grown. This was highlighted by the first Joint Statement of the Japan-US-Australia Defence Leaders being released in June 2012, which focused on the three countries working to address regional issues through increased cooperation (Japan Ministry of Defense, 2012a). This was followed in September the same year with the sixth trilateral exercise between Japan, Australia and the US (Japan Ministry of Defense, 2013c). Further, in February and May additional trilateral exercises were held in Guam and Australia. In May 2013 another trilateral exercise was held in Australia (Japan Ministry of Defense, 2013c). This reflects what Japan sees as an increasing amount of trilateral cooperation between the three countries (Japan Ministry of Defense, 2012a).

India is strategically important for Japan due to its location in the middle of sea lanes that Japan uses for trade with Africa and the Middle East (Japan Ministry of Defense, 2013c). In particular Japan is reliant on the Persian Gulf shipping lane for its oil supply (Jain, 2010). In addition, it has been suggested that India is viewed by Japan as a counterweight to a rising China because the future ability of the US to protect its allies in the region is viewed as waning (Hook et al., 2012; Jain, 2010; Kendall, 2010; J. M. Paul, 2012). It is particularly unlikely that the US will be able to remain the dominant force in the Asia-Pacific with the rise of China and the budget cuts the US is applying to the military over the next ten years (J. M. Paul, 2012). Further, the US's growing relations with India have encouraged Japan to also pursue relations with India.

It was not until the Eight-Fold Initiative for Strengthening Japan-India Global Partnership was signed in 2005 that defence relations began to build significantly (J. M. Paul, 2012). This was

followed in 2007 with India's involvement with the quadrilateral initiative mentioned prior, which was eventually abandoned due to the strong negative response from China (Brewster, 2010a). However, in October 2008 Japan and India issued a Joint Declaration on Security Cooperation, which is only the third such declaration Japan has participated in after the US and Australia (Japan Ministry of Defense, 2013c; J. M. Paul, 2012). It had a particular focus on maritime issues and covered topics such as joint exercises, piracy control, and more frequent security and defence discussions (Hook et al., 2012; Jain, 2010). Further in 2009 both sides agreed to an Action Plan to Advance Security Cooperation. Both of these agreements were significant steps forward for relations as it established a 2+2 dialogue between the Foreign and Defence secretaries, an annual strategic dialogue between NSA, annual bilateral naval exercises, multilateral exercises, and inter-military exchanges (Japan Ministry of Defense, 2013c; J. M. Paul, 2012). Further, the 2+2 dialogue with India is the only one of its kind that Japan regularly participates in (Sundaram, 2013).

In December 2011 the Strategic Global Partnership was reinforced and the relationship strengthened with the sides agreeing to increase maritime cooperation. Further, security cooperation was expanded to include maritime security, and focus on safety and navigational freedom (Ministry of Foreign Affairs of Japan, 2012d). In October 2012 the second vice-ministerial level 2+2 dialogue was held with the focus on security, anti-piracy and exchanging views (Japan Ministry of Defense, 2013c). Further, May 2013 saw agreement to set up a working group about the US-2 Amphibian aircraft (Japan Ministry of Defense, 2013c). It was also at this time that India and Japan agreed to hold regular navy exercises following the success of the first joint exercise in June 2012 between the Indian Navy and the Japan Maritime Self-Defense Force (Government of India, 2013; Japan Ministry of Defense, 2013c; Sundaram, 2013). Both Japan and India are also part of the trilateral dialogue with the United States (Brewster, 2010a). Japanese trilateral involvement with Australia and the US, and now India and the US, is seen as reflective of attempts to strengthen the security relations between the US allies (Brewster, 2010a, 2010b; J. J. Park, 2011). In particular, these attempts have been viewed as an alternative to a more formal grouping due to the failure of the quadrilateral initiative, as mentioned prior (Brewster, 2010a, 2010b; J. J. Park, 2011).

South Korea and Japan have similar interests and values and a key strategic interest in terms of North Korea in addition South Korea is also a US ally (Japan Ministry of Defense, 2013c). Indeed, the Japan Defense White Paper for 2013 highlights South Korea as a key security relationship (Japan Ministry of Defense, 2013c). However, the development of relations has

been slower than relations with Australia. This is largely due to historical issues such as Japan's war crimes during World War II, the use of South Korean women as 'comfort women', and the territorial dispute over Dokdo, these are discussed in more detail in the section on limited bandwagoning. In a positive development in security cooperation it was agreed in 2011 that Japan and South Korea would look into a similar ACSA as Japan has with Australia. This was meant to be signed in June 2012 however that was postponed due to the strong political opposition to it in South Korea and it is yet to be signed (R. Cossa, 2012; Japan Ministry of Defense, 2013c; Sang-Hun, 2012). There has also been little progress in high-level defence exchanges (Japan Ministry of Defense, 2013c). However, in March 2013 a working level defence dialogue was agreed to.

The US, Japan and South Korea trilateral relationship is developing strongly and in January 2013 defence talks were held between the three which have aided ROK-Japan relations. This was evident with the a bilateral defence ministers conference in June 2013 which resulted in a joint statement stating that Japan and South Korea would be looking to cooperate on North Korea, anti-piracy, humanitarian assistance and disaster relief (Japan Ministry of Defense, 2013c). In addition, in June 2012 and May 2013 naval exercises were carried out (Japan Ministry of Defense, 2013c).

Finally, military relations between Japan and the US have a long history. This is based on the 1951 Treaty of Mutual Cooperation and Security which was revised in 1960 and is still in place today. Under the treaty Japan allows the US to station 53,000 troops in Japan and make available 89 military facilities. In return the US guarantees Japan's safety (Chanlett-Avery, 2011; Ministry of Foreign Affairs of Japan, 1960). The arrangement has had tensions at times, although the recent issues with North Korea and Japan's territorial dispute with China have strengthened bilateral relations (Chanlett-Avery, 2011). For example, Article 5 of the Treaty states that the US is to protect territories under Japan's administration, and the US has indicated it considers the Senkaku/Diaoyu Islands part of this-sending a clear signal that the US would defend the islands (Chanlett-Avery, 2011; Harner, 2012). This was reiterated in November 2013 in response to China's announcement of an AIDZ (Thompson, 2013; U.S Department of Defense, 2013).

Strengthening of relations has also been evident with the launching of the 2+2 meetings between the defence and state ministers in 2005. This was aimed at increasing the integration between the allies in areas such as air defense, ballistic missile defense, counter terrorism, maritime security and search and rescue (Chanlett-Avery, 2011). Further to this, in 2006 a

bilateral and joint operations centre was established at Yokota U.S Air Base which focuses on data sharing and coordinating air and missile defense systems (Chanlett-Avery, 2011). More recently the 2+2 joint statement in April 2012 announced that the countries would be looking at joint training, surveillance and reconnaissance going forward (Ministry of Foreign Affairs of Japan, 2012e). In addition, the strength of security ties is highlighted with the US Navy stating that the daily interactions with the MSDF make relations the strongest of all the bilateral relations, and this is also evident with 100 joint exercises held each year (Chanlett-Avery, 2011). Further, US support for Japan was made clear when US bombers defied China's Air Defense Identification Zone by flying two B-52's through the zone despite the fact China had stated 'defensive emergency measures' would be taken toward aircraft that don't submit a flight plan. However, China did not take any action against the flights (Barnes, 2013).

Relations have also benefited from the announcement in April 2013 that plans have been made to solve the long term tension over the US stationing of troops in Okinawa. 65 per cent of US personnel in Japan are stationed at Okinawa, which has caused unrest amongst its residents following poor behaviour by US troops and two air force crashes (Associated Press, 2013; British Broadcasting Corporation, 2004; Chanlett-Avery, 2011; Ministry of Foreign Affairs of Japan, 2012e). The US Defence Department announced the Consolidation Plan for Facilities and Areas in Okinawa to hand back these facilities (US Department of Defense, 2013). It was also announced that the US would be relocating some of these troops outside of Japan to Guam and Hawaii (Pellerin, 2013).

Outside of these key four partners. Japan is pursuing stronger relations with other countries in the Asia-Pacific as well. In 2010 Japan agreed to a subcabinet level 2+2 dialogue with Vietnam, and in 2011 they signed a bilateral agreement increasing defence cooperation and high level exchanges (Japan Ministry of Defense, 2013b; Wallace, 2013). Further, Japan has provided non-combat military equipment and supplies to Vietnam and in 2012 it was reported that Japan was considering selling submarines to Vietnam (Fackler, 2012; Wallace, 2013). More recently Japan and Vietnam have discussed Japan supplying patrol boats, and in May 2013 held the first talks on maritime security (Wallace, 2013).

The Philippines has been another country that Japan has pursued closer defence ties with. Both countries have very similar concerns as both have territorial disputes with China in the South China Sea (Wallace, 2013). In 2012 Japan announced it was considering supplying the Philippines with 12 ships for its Coast Guard as part of Japans assistance to the Philippines to modernise its Coast guard (Esplanada, 2012; Wallace, 2013; Westlake, 2012a). The Philippines

government has described the acquisition as aiding cooperation between Japan and the Philippines (Esplanada, 2012; Westlake, 2012a). However, the announcement was made during a flare up of tensions between the Philippines and China over a territorial dispute, though the Philippines government has denied the deal is linked to this (Esplanada, 2012; Wallace, 2013; Westlake, 2012a). Further in July 2012 both countries signed a Statement of Intent on Defense Cooperation and Exchanges (Japan Ministry of Defense, 2012b, 2013c). This was aimed at increasing dialogue between the two defence ministries as well as agreeing to joint training and exercises (Wallace, 2013).

Japan has also strengthened its ties with Indonesia by supplying six patrol boats and maritime surveillance systems to Indonesia since 2006. Also, in early 2012 the GSDF Chief of Staff visited Indonesia and agreed to expand cooperation, and later that year both sides agreed to a ministerial level dialogue for diplomatic, economics and defence cooperation (Japan Ministry of Defense, 2013a, 2013c). Indonesia has also invited Japan to join the multi-national anti-terrorism drill held in September 2013 (Saragih, 2012; Wallace, 2013).

Conclusion

So according to the model provided by Kuik, Japan is pursuing limited balancing. Japan's military spending is in the top five globally and even though that spending along with its arms transfers has slowed there has been a significant shift in its defence focus. The rise of China, Japan's concerns about its intentions, China's continuing incursion in to Japanese waters, and Abe's revision of the ban on exports and the Constitution, has seen Japan's focus move from deterrence to response. The focus is now on making its forces more mobile and action ready which has been reflected in the arms it has procured and internally developed. Along with this Japan is clearly pursuing stronger security ties with states with similar goals, the key ones have been Australia, India, ROK and the US, however this strategy has also involved several Asia-pacific states. These agreements, increased cooperation and dialogues, as well as bilateral exercises and arms exchanges are a clear indication that Japan is pursuing indirect balancing.

Dominance Denial

Relations with major powers in the region

Economic relations between the US and Japan have grown to the point that the economies are now interdependent (Bureau of East Asian and Pacific Affairs, 2012a; Cooper, 2013). Japan is the US's second largest export market with agricultural products, chemicals and pharmaceuticals, computers and components the key export items (Chanlett-Avery, Manyin, Cooper, & Rinehart, 2013) (Bureau of East Asian and Pacific Affairs, 2012a; Cooper, 2013).

These imports from the US totalled US\$78, 255 million in 2012 and exports to the US totalled US\$141,714 million (Euromonitor International, 2013a). Japan's key exports to the US are vehicles and parts, computers and components, and machinery (Bureau of East Asian and Pacific Affairs, 2012a; Cooper, 2013; Hook et al., 2012). Indeed, the US is only second to China in terms for Japan's source of imports and destination for exports (Chanlett-Avery et al., 2013; Euromonitor International, 2013a). However, China's rise has impacted on the relative economic significance of bilateral trade between the US and Japan. For example, the US has been surpassed by China as Japan's most dependent trading partner, although it still remains second (Euromonitor International, 2013a). This has also been caused by the impact of the recession and the 'triple disaster' in 2011 (Earthquake, Tsunami, Nuclear) which left Japan's economy weak (Euromonitor International, 2013b; Ferris & Solis, 2013). These factors have resulted in slow, and at times, stagnant growth in bilateral trade (Cooper, 2013).

Investment between the two countries is strong. The FDI from Japan to the US totalled US\$286,529 million in 2012, making it the key FDI destination for Japanese investment (Japan External Trade Organization, 2012a). The major focus of this investment is in the wholesale and manufacturing sector, particularly in regards to the automobile industry (Bureau of East Asian and Pacific Affairs, 2012a; Cooper, 2013). US FDI into Japan is not as high and has in fact dropped, though it is still the top source of investment for Japan. US FDI totalled US\$61,756 million in 2012, at its peak in 2009 it was US\$75,003 million (Japan External Trade Organization, 2012a). This investment from the US is focused on finance, insurance and manufacturing (Bureau of East Asian and Pacific Affairs, 2012a).

Diplomatic ties between the countries are strong, having developed as a result of the alliance. The strength of these ties was evident following the triple disaster in Japan in 2011 which also demonstrated the closeness of relations as the US launched Operation Tomodachi, sending 24,000 personnel, 189 aircraft and 24 ships to assist (Ministry of Foreign Affairs of Japan, 2012b, 2012e). This included armed forces, rescue teams and nuclear experts (Ministry of Foreign Affairs of Japan, 2012b). The US also holds considerable sway over Japan. For instance, the US has been successful in getting Japan to curtail its relations with Iran. The US is concerned over Iran's nuclear build up and Japan imports a significant amount of oil from it. However in 2012 Japan's imports from Iran for oil dropped 40 per cent (Chanlett-Avery et al., 2013). Further to this Japan has agreed to loosen its ban on the importing of US beef. Since 2003 Japan has prevented any importing of US beef due to a mad cow disease scare but in

February 2013 Japan announced it will allow beef to be imported that is from cattle 30 months old or younger (Chanlett-Avery et al., 2013; Stainburn, 2013).

In addition, both countries are involved in multilateral institutions such as the UN, G-8, G-20, Organisation for Economic Co-operation and Development (OECD), the World Bank and Asia-Pacific Economic Cooperation (APEC) which also foster ties (Bureau of East Asian and Pacific Affairs, 2012a). The addition of Japan to the TPP would be another avenue for cooperation. The US views Japan's participation in the TPP Free Trade Agreement (FTA) as potentially beneficial to both sides, arguing it could help grow bilateral trade between them, as well as with the other nine countries that have already signed on (Cooper, 2013; Solis, 2013a). Japan has seemed reluctant at times to join, however it has agreed to enter into negotiations with the US (Mulgan, 2013; The Japan Times, 2013d; The Trans-Pacific Partnership Digest, 2010). If these negotiations are successful it will only draw the countries closer together which could be important given Japan and Russia's increasing ties.

Economically trade between Japan and Russia is not at significant levels, but it is steadily growing. Japan is Russia's ninth trading partner with Russia exporting mainly oil, Liquefied Natural Gas (LNG) and products to Japan (The Embassy of the Russian Federation to Japan, 2012a). Russia is Japan's 15th largest trading partner, and its top exports to Russia are cars, auto parts and construction equipment (Australian Associated Press, 2013b; The Embassy of the Russian Federation to Japan, 2012a). However, the growth in trade is demonstrated by that fact that in 2010 trade totalled \$24 billion which was double 2009 figures (Kapur, 2012). The reasons behind the growth of this trade is highlighted by Kanwal Kapur (2012) who states:

The trade and investment relations between the two are steadily growing as the Japanese need Russian oil and natural gas and the Russians are keen for Japanese investment and technology (p. 385).

Japanese investment in Russia is increasing with \$10.7 billion invested in Russia in 2012, making it a top ten investor (The Embassy of the Russian Federation to Japan, 2012a). Currently there are 270 Japanese companies operating in Russia. The growth in investment is demonstrated by Nissan Motor Company, which announced in 2007 plans to build a manufacturing plant in St Petersburg (Snyder, 2007). Russia has become Nissan's largest European market and this was reflected in 2012 when Nissan announced plans to double capacity at the St Petersburg plant (Nissan Motor Company, 2012).

However, the key Russian market for Japan is oil. Russia is positioning itself as a key player in the Asian market for gas and is Japan's most significant supplier of oil and gas (Kapur, 2012). In 2009 the East Siberia pipeline and the LNG plant in Sakhalin were opened with Sakhalin supplying nine Japanese customers, which is 65 per cent of the plant's production (Kapur, 2012; Medetsky, 2009; Shell, 2009). Japan's demand has increased since the triple disaster in 2011 and the joint Russian and Japanese venture for a LNG plant in Vladivostok, the first stage of the project will begin in 2018, reflects this growing demand (Gazprom, 2013; Inajima & Fujioka, 2012; Kapur, 2012).

Diplomatic exchanges have also increased. There is frequent contact between the foreign ministers and Members of Parliament (The Embassy of the Russian Federation to Japan, 2012b). For instance, both sides have committed to at least one visit between the foreign ministers each year (The Japan Times, 2013i). The increasing importance of diplomatic relations between the two countries was highlighted in May 2009 when Russian Prime Minister Vladimir Putin visited Japan. As a result of that visit six intergovernmental agreements were signed covering topics ranging from nuclear energy to customs cooperation (The Embassy of the Russian Federation to Japan, 2012b). Japan has also been a supporter of Russia joining the World Trade Organisation (WTO), which it acceded to in August 2012 (Ministry of Foreign Affairs of Japan, 2011, 2012g). Further to this, Japanese Prime Minister Abe made the first visit to Russia by a Japanese Prime Minister in 10 years in April 2013 (Australian Associated Press, 2013b; Streltsov, 2013). Also, in November 2013 the first 2+2 meeting was held between the foreign and defence ministers from both countries (Hill, 2013). Indeed, Russia stressed that it did not believe that closer relations between the countries should encroach on Japan's relations with the US, but also stated it hoped the alliance would not cause issues for Russia-Japan relations either (The Ministry of Foreign Affairs of the Russian Federation, 2013; The Voice of Russia, 2013). However, at that meeting Russia raised the issue of its opposition to the US missile defence system and Japan's inclusion in that (Aoki, 2013; Yoko Kubota, 2013). This highlights the broader issue with Japan-Russia relations, which is that due to the US-Japan alliance, relations are limited. In addition, more issues will likely arise from the US-Japan alliance impacting on Japan-Russia relations.

However, although Japan's economic and diplomatic relations with Russia are growing they are hamstrung by an on-going territorial dispute. Both countries claim sovereignty over the Northern territories/Kuril islands. These are four islands in the East China Sea that were controlled by Japan from 1855 until 1945 (Kapur, 2012; Korepin, 2011; Ministry of Foreign

Affairs of Japan, 2013c). Russia captured the islands in 1945 just before the end of World War II and has controlled them since (Kapur, 2012; Ministry of Foreign Affairs of Japan, 2013c; Pronina & Ustinova, 2010). There has been little progress towards a settlement of the dispute, and both sides have added to existing tensions through high-level visits to the islands. Russia's stance has in particular hardened and this was emphasised by President Medvedev's visit to the islands in 2010 which was then followed by a deployment of cruise missile to the islands (Gorenburg, 2012; Hoirokawa & Sakamaki, 2011; Kapur, 2012; White, 2011). Japan has also changed its stance, moving from being open to the possibility of having two islands returned, to declaring it wants all the islands handed back (Gorenburg, 2012; Kapur, 2012). However, in June 2012 both sides declared they would re-start work towards a peace treaty over the islands (The Embassy of the Russian Federation to Japan, 2012b; The Japan Times, 2013i). This dispute and the US-Japan alliance are the key barriers to the potential of relations being fulfilled.

Relations between India and Japan have been slow to gain momentum. Japan showed little interest in India until the turn of the millennium (Jain, 2010). This was when the US began to strengthen its relations with India which caused Japan to rethink its approach to India. As a result, bilateral relations began to gain momentum following a visit by Prime Minister Mori to India in 2000 (Jain, 2010; Ministry of Foreign Affairs of Japan, 2012d). Certainly the agreement at that meeting to build a 'global partnership' has set the tone for relations since.

Economic relations have also strengthened with trade increasing steadily. Indian exports to Japan totalled US\$6.1 billion in the 2012-2013 fiscal year (FY) with exports from Japan to India totalling US\$12.51 billion (Ministry Of External Affairs, 2013a). Overall, trade has increased from US\$4 billion in 2002 to US\$18.6 billion in 2012-13 FY (Jain, 2010; Ministry Of External Affairs, 2013a). India's main exports to Japan are petroleum, iron ore, chemicals and marine products (Ministry Of External Affairs, 2013a). Japan's main exports to India are machinery, transport equipment, electronics, and iron and steel (Ministry Of External Affairs, 2013a). The importance of trade between the two was demonstrated in August 2007 when Prime Minister Abe took 200 business and trade leaders with him on his trip to India. Also, trade and economic relations received a substantial boost in 2011 with the signing of CEPA (Horimoto, 2011; Ministry Of External Affairs, 2013a; Ministry of Foreign Affairs of Japan, 2012d). The agreement eliminates 94 per cent of tariffs between the countries over a ten year period (Ministry of Foreign Affairs of Japan, 2012d). Also, negotiations began in June 2010 on the Agreement for Cooperation in the Peaceful Use of Nuclear Energy (Global Post, 2013b;

Horimoto, 2011). India needs nuclear power to cut its emissions and to grow and Japan is viewed as ideal partner to do this due to its nuclear expertise (Horimoto, 2011). Japanese owned companies General Electric and Areva have both been awarded contracts to set up nuclear plants in India, and Westinghouse Electric is currently negotiating a similar deal (Horimoto, 2011). Although Japan has stated cooperation will cease if India conducts nuclear testing (Parashar, 2013).

In addition to this, FDI is growing with 872 Japanese companies setting up branches in India (Ministry of Foreign Affairs of Japan, 2012d). This reflects the strong growth of FDI from Japan into India, in 2004 this stood at ¥15 billion but grew to ¥181.4 billion by 2011 (Ministry of Foreign Affairs of Japan, 2012d). In particular India's Information Technology (IT) and pharmaceutical industries are interested in the Japanese market and Japanese business can see the potential in India's economy (Jain, 2010; Keidanren, 2013). Further, Japan's commitment to India is clear through its ODA loans which have been the largest received by India since 2005, totalling US\$3.5 billion in 2012-13 FY (Tanaka, 2013). As of February 2013 66 projects were in progress as a result of the ODA from Japan (Ministry Of External Affairs, 2013a).

Growing bilateral economic relations have been further highlighted by the shift in Japan's position on India's inclusion in multilateral regional groupings (Jain, 2010). Japan had been quite reluctant for India to be involved in groupings such as APEC and ARF prior to the growth in relations because Japan didn't not view India as an attractive economy due to low growth and high regulation (Jain, 2010). However, since ties between the countries have increased, Japan has since changed that stance and by 2005 was advocating for India's inclusion in the East Asian Summit (Jain, 2010).

Diplomatic relations have continued to strengthen since 2000. Indeed the vision set out in 2000 was formalised in 2006 with the signing of the Strategic and Global Partnership (Ministry Of External Affairs, 2013a). This agreement focused on deepening the bilateral ties between the two countries, and specifically economic ties (Ministry Of External Affairs, 2013a). Since 2005 there have been annual summits between the two countries (Ministry Of External Affairs, 2013a; Ministry of Foreign Affairs of Japan, 2012d). Further to this, in 2007 an annual strategic dialogue was launched between the countries foreign ministers, and a ministerial level economic dialogue was launched in October 2010 to deepen ties (Ministry of Foreign Affairs of Japan, 2012d). In December 2011 both countries signed the 'Vision for the Enhancement of Japan-Strategic and Global Partnership upon entering the year of the 60th

Anniversary of the establishment of Diplomatic Relations’ (Ministry of Foreign Affairs of Japan, 2012d). High level exchanges have also strengthened and occurred regularly, the most recent being Indian Prime Minister Manmohan Singh visiting Japan in May 2013 (Ministry of External Affairs, 2013b; Sundaram, 2013).

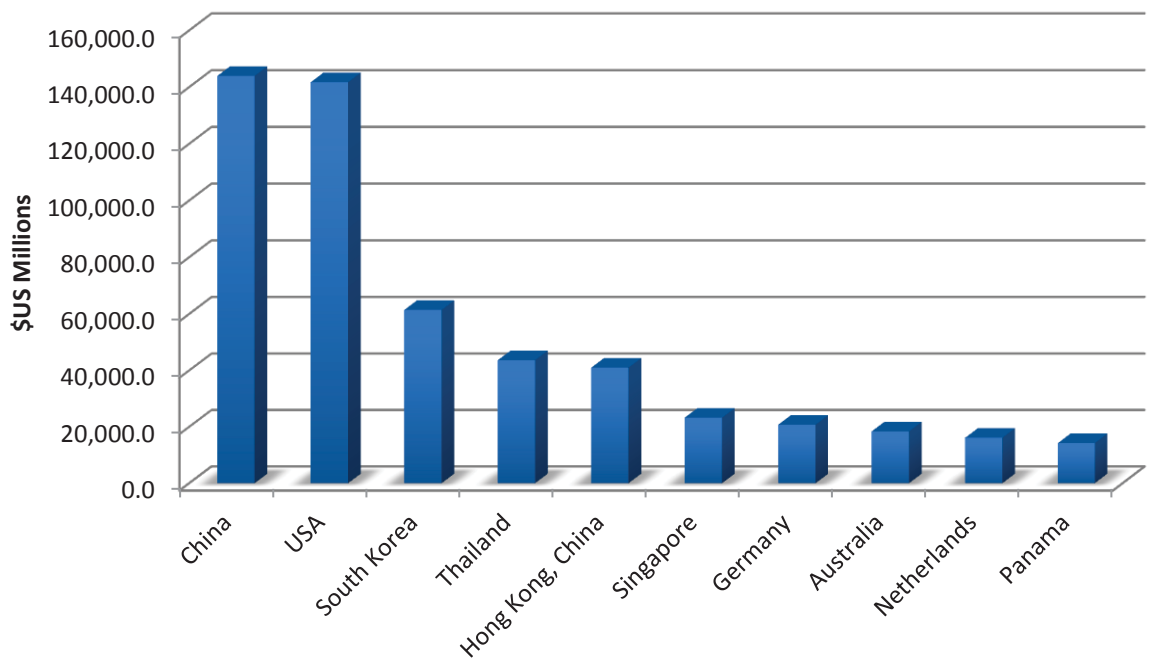
Conclusion

Dominance denial is another strategy that is being pursued by Japan. Japan’s relations with US have been strong for some time both economically and diplomatically. More recently, Japan has begun to nurture its relations with both Russia and India, both of which are yet to fulfil their potential yet. Trade and diplomatic ties with India and Russia are steadily growing with huge economic potential. This can certainly be seen as Japan attempting to cultivate a balance of political influence with the major powers in the region.

Returns Maximising Options

Economic Pragmatism

Figure 10: Japan’s top ten export destinations for 2012

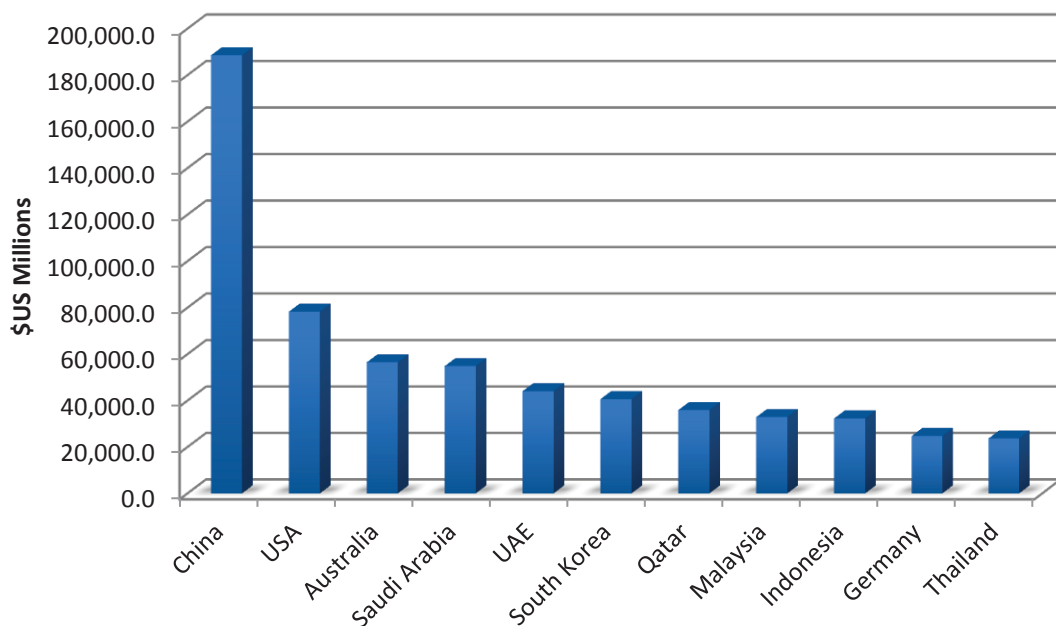


SOURCE: (Euromonitor International, 2013a).

Japans Top Trading Partners

The first indicator for this strategy is to ascertain if China is one of Japan's top ten trading partners by analysing exports and imports between the countries. China is a key trading partner for Japan, as shown in Figure 10Figure 11. Indeed, China was Japan's leading export destination in 2012, with exports totalling just under US\$145 million, closely followed by the US on US\$141.7 million, and South Korea on \$61.4 million. The fact that Japan's top two export destinations are so far ahead of the rest indicates a significant reliance on China and the US in this area. In addition, China also leads Japans sources of imports, and by a significant margin. China provided US\$188.5 million worth of imports to Japan in 2012, followed by the US on US\$78.3 million, which demonstrates Japan is reliant on China. Overall, it is clear that China is Japan's top trading partner.

Figure 11: Japans top ten countries of origin for imports in 2012

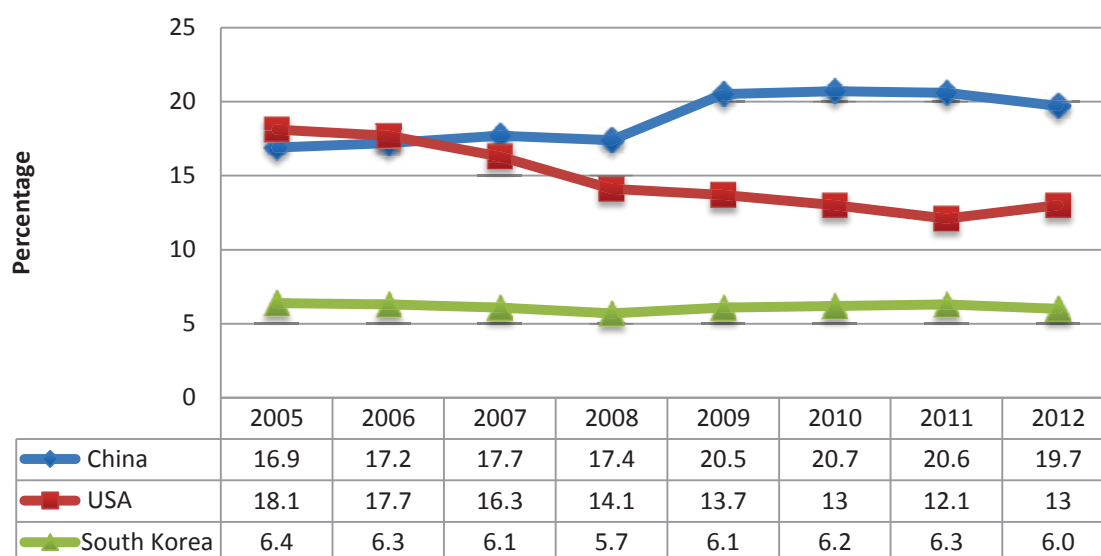


SOURCE: (Euromonitor International, 2013a).

Trade Dependency

The second indicator considered here is trade dependency. In 2012 Japans trade dependency on China was 19.7 per cent, followed by the US on 13 per cent and the next closest was South Korea on six per cent. This dependency, as can be seen in **Figure 12**, has grown from 17 per cent in 2006 up to a peak of 21 per cent in 2010 and 2011. In comparison the dependence on the US has declined over the same period from 17 per cent in 2006 to a low of 12 per cent in 2011. Thus, it can be concluded that Japan is heavily dependent on China as a trading partner.

Figure 12: Japan's Trade Dependency 2005-2012



SOURCE: (Euromonitor International, 2013a)

These two indicators highlight what has been a fast growing economic relationship. Japan's trade with China increased by 239 per cent between 1996 and 2006, compared to Japan's growth in trade with the world of 61 per cent (Medeiros, 2008). Over the same period trade with the US only grew 12 per cent (Medeiros, 2008, p. 33). By 2008 trade with China already equated to 20 per cent of Japan's trade with the world, this is 15 per cent larger than Japan's trade with the US (Medeiros, 2008). Indeed, a FTA agreement with China going forward would only increase that significantly. This is clearly highlighted by the fact that between 1995 and 2011 with exports to China increased Japan's overall exports growth 45 per cent, all without an FTA in place (Katz, 2013a). This highlights the fast increasing dependence on China that Japan has.

Trade Relations

The economies are viewed as complementary to each other (Medeiros, 2008; Sharp & Hamlin, 2013). This is highlighted by Andy Sharp and Kevin Hamlin who quote JP Morgan's head of equity Jesper Koll, he explains that 'Japan has intellectual property, brand and capital, while China has people, markets and purchasing power' (Sharp & Hamlin, para. 12). The keystone of this trade is the fact that China is a base for many of its products which are then exported on to countries such as the US (Katz, 2013b; Medeiros, 2008). For example 60-70 per cent of Japanese exports to China are machinery and parts providing many of the high tech parts required for the assembling of items in China (Euromonitor International, 2013b; Katz, 2013b). For instance, Japanese companies Toshiba and Sharp provide the flash drives and Liquid

Crystal Display (LCD) screens for the Apple iPad, which is then assembled in China (Katz, 2013b). It is these exports that predominately drive the economy but this does make the economy susceptible to the fluctuations in global demand and prices. (Euromonitor International, 2013b).

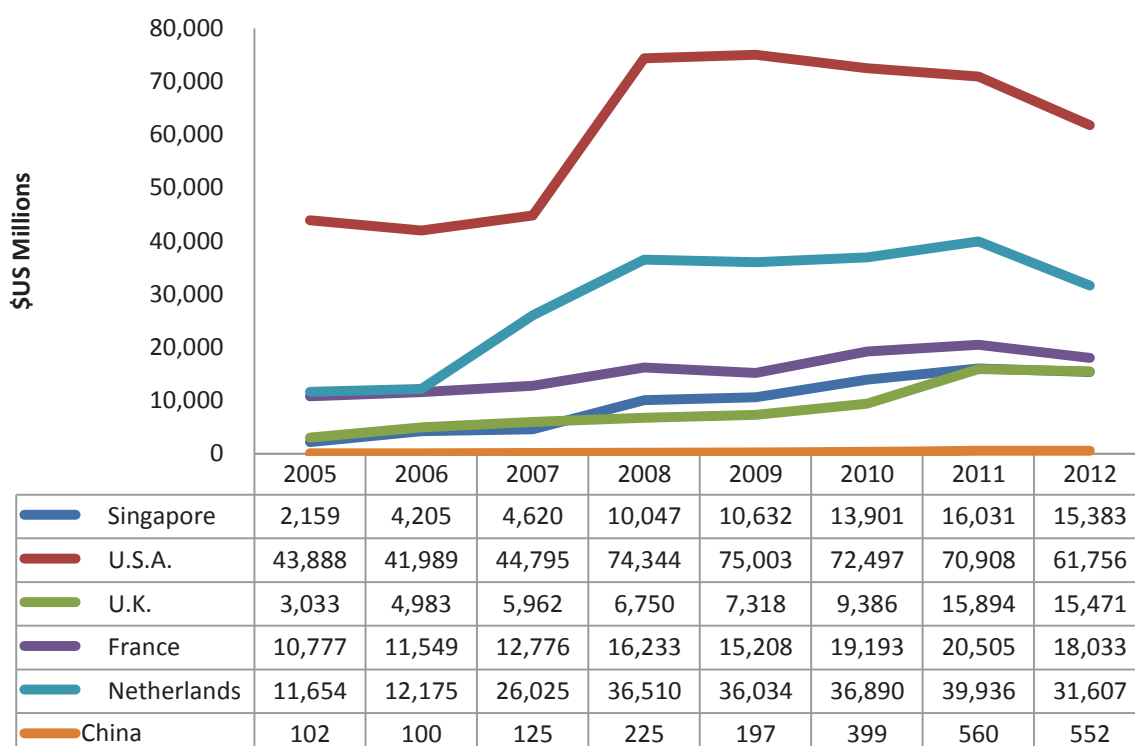
This weakness, along with Japan's reliance on trade with China, has been highlighted by the impact that the Diaoyu/Senkaku Islands dispute with China has had on trade. China laid claims to these islands in 1971 but in 1972 Japan and China agreed to put this dispute aside in the interests of developing a political and economic relationship (Katz, 2013b). The dispute erupted again in mid-2012 impacting both countries, but more significantly Japan. The dispute, which is on-going, led to a boycott in both countries of the others products. Indeed, China's state media encouraged this by producing a list of Japanese brands Chinese consumers should boycott and China Central Television's two channels stopped advertising Japanese products for two days (Katz, 2013b; The Associated Press, 2012). Further, in China, Japanese cars were damaged and set alight causing damage of \$120 million and the Japanese company Panasonic had one of its factories set alight (Katz, 2013b). During this time Japan's Nippon Airways had 46,000 seats cancelled on flights between September and November 2012, it estimated the potential cost of the dispute on its sales was ¥10billion (Sharp & Hamlin, 2013). Further, the sales of Japanese cars in China took a significant hit falling 40-50 per cent in the latter stages of 2012 (Katz, 2013b). These still have not recovered. For example, prior to the boycott Japanese auto companies had a 23 per cent share in China's auto market, but this stood at 14 per cent in November 2012 (Sharp & Hamlin, 2013). This impact can be seen more broadly in the drop in Japan's trade dependency on China of almost one per cent in 2012 due to exports to China declining from US\$161 million in 2011 to US\$144 million in 2012 (Chanlett-Avery et al., 2013). Although the appreciation of the Yen and the 2011 triple disaster has also impacted on this drop in exports, the impact of the dispute has also contributed significantly (Economist Intelligence Unit, 2012; Ministry of Economy Trade and Industry, 2012). Indeed, it is projected that the dispute may reduce Japan's economic growth by one per cent, keeping it in recession, and reduce its gross domestic product by 0.5 per cent (Sharp & Hamlin, 2013). This highlights the reliance Japan has on China as a trading partner.

This reliance has led to Japanese companies looking increasingly towards South East Asian states as an alternative to China (Chang, 2013; Einhorn & Folkmanis, 2013; Sharp & Hamlin, 2013). A China Plus One policy continues to be promoted by Japan External Trade Organization (JETRO), due to concerns that Japanese companies are over exposing themselves in China

(Katz, 2013b; Medeiros, 2008; Nakata, 2012; Watanabe, 2006). The dispute has aided this because it has led to an increase in exports to ASEAN countries by five per cent (Einhorn & Folkmanis, 2013). Countries such as Thailand, Vietnam, Myanmar and the Philippines are now being viewed as a safer option when such strong anti-Japanese feeling is clear in China (Chang, 2013; Einhorn & Folkmanis, 2013).

Despite these difficulties economic relations between the two countries are still close. China needs the imports from Japan just as much as Japan needs China to take them and though Japanese and Chinese countries may start to diversify there is still a significant reliance on each other. This has been highlighted by the announcement in November 2012 that China-Japan-South Korea Free Trade Negotiations would begin (Ministry of Foreign Affairs of Japan, 2012a). The first round of FTA negotiations was held in March 2013 (Ministry of Foreign Affairs of Japan, 2013a).

Figure 13: Japan's top five sources of inward FDI stock, plus China, for 2012



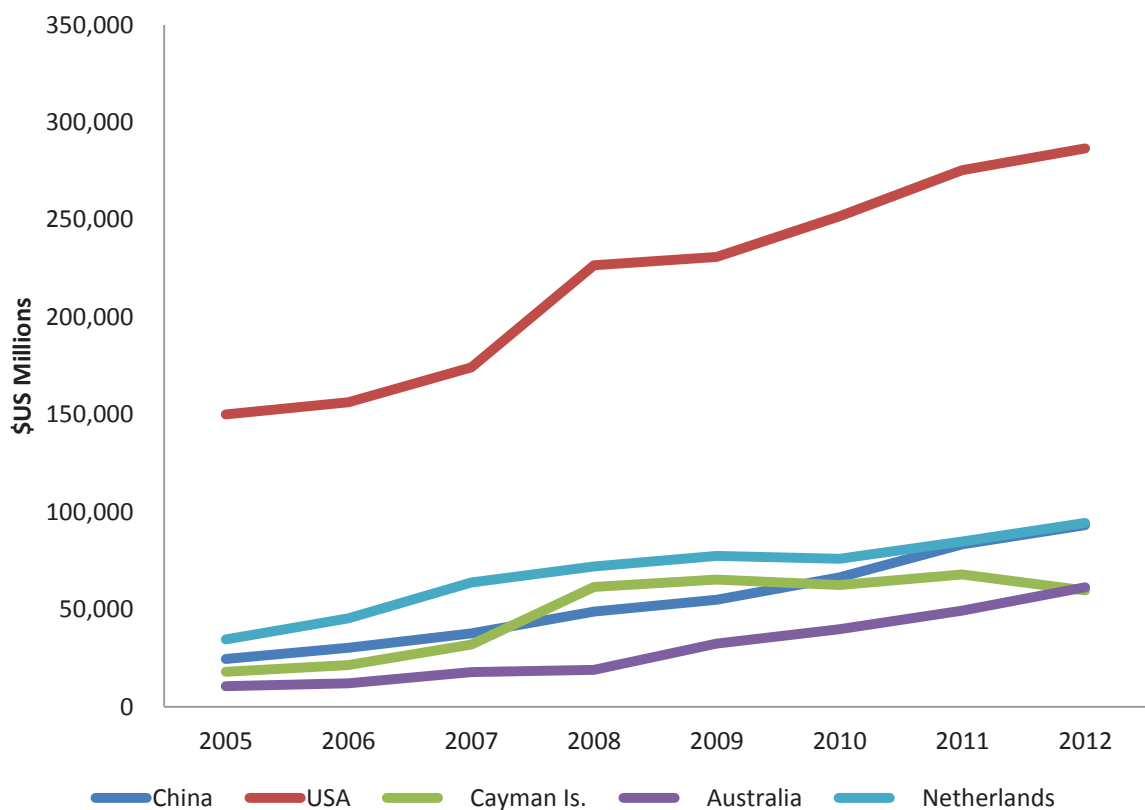
SOURCE: (Japan External Trade Organization, 2012a)

FDI

The third indicator is FDI. Japanese FDI is still considered quite small in comparison to the size of its economy (Medeiros, 2008). As can be seen in Figure 13, China's investment in Japan is minimal, but it is increasing over 500 per cent between 2005 and 2012. China is the third largest recipient of Japanese FDI, as shown in Figure 14. However, the US is the major

benefactor of Japanese FDI by a significant margin for example investment in the US was \$286 million in 2012, with the Netherlands second on US\$94 million, and China a close third on US\$93 million. Investment in China has three drivers; proximity, culture and the complementary nature of the economies (Medeiros, 2008). Japanese companies employ many Chinese, indeed Japan is China's largest source of FDI, this is highlighted by Amy King who explains 'over the past decade Japanese foreign direct investment in China has grown tenfold as Japanese firms have shifted their manufacturing operations to China' (Jakobson, 2013; Katz, 2013b; King, 2012, p. 31). The closeness of these relations was further highlighted by the decision by China in May 2012 to allow the direct conversion of Yen to Yuan, which is only the second currency after the US that China has agreed to do this with (King, 2012; People's Bank of China, 2012; Xinhua, 2012a).

Figure 14: Japan's top five destinations for outward FDI stock, 2012



SOURCE: (Japan External Trade Organization, 2012a)

However, FDI has also been affected by the Diaoyu/Senkaku Islands dispute causing a drop in FDI of 32 per cent for October 2012 from 2010 figures (Jakobson, 2013). Japanese companies are now looking towards investment in Southeast Asia instead of China (Chang, 2013; Einhorn

& Folkmanis, 2013; Nakata, 2012; Sharp & Hamlin, 2013). This has been highlighted by the announcements by Suzuki in the last six months that it is restarting production in Myanmar, opening a new factory in the Philippines, and is increasing investment in an assembly plant in Myanmar (Billones, 2013; Einhorn & Folkmanis, 2013; Seth, 2012; Suzuki Motor Corporation, 2012, 2013; Westlake, 2012b).

However, the investment relations remain strong and both sides are looking to grow this. For instance, the signing of the Japan-China-Korea Trilateral Investment Agreement in May 2012 is viewed as a stepping stone to a broader FTA between the countries (Ministry of Foreign Affairs of Japan, 2012f). Indeed, this agreement has been in negotiation since 2007, with 13 rounds of talks (Dickie & Oliver, 2012; Jiabao & Xiaokun, 2012). The agreement focuses on investment and dispute resolution between the three (Jiabao & Xiaokun, 2012) Further, a survey done by the JETRO in December 2012 revealed business confidence is still high. 52.3 per cent of Japanese businesses in China were intending to expand there with only four per cent downsizing and just 1.8 per cent withdrawing from China or relocating to a third country (Japan External Trade Organization, 2012b; Katz, 2013b). So, despite the impact of the Diaoyu/Senkaku Island's dispute, and Japanese companies looking to diversify their investments, China remains the key investment destination.

Conclusion

One can see that economic pragmatism is a strategy that Japan is pursuing towards China. The first indicator showed that China is Japan's key trading partner. This is further emphasised by the second indicator of trade dependency, which showed that Japan's trade dependency on China is significantly above the US and South Korea. Further, the third indicator of FDI shows that though FDI investment from China to Japan is small, China is the top recipient of Japanese investment. In addition, despite the Diaoyu/Senkaku Island's dispute which has impacted on trade and investment, economic relations remain close. This is highlighted by the launching of FTA talks, the signing of the Japan-China-Korea Trilateral Investment Agreement, and the agreement to a currency exchange. It can be concluded that Japan is maximising its economic gains from China and thus economic pragmatism is at play.

Binding Engagement

Lines of communication

Japan normalised relations with China in 1972 and signed a Treaty of Friendship in 1978 but relations have not been straightforward (D. C. Kang, 2007). From 2002-2006 diplomatic relations between the two were weak because the Japanese Prime Minister Koizumi Junichiro,

annually visited the Yasukuni shrine (Brinsley, 2005; British Broadcasting Corporation, 2006; M. Wan, 2011). This shrine commemorates the Japanese who have died in wars since 1869. China found this offensive because the shrine is viewed as glorifying Japanese militarism and brutality in conflicts because convicted war criminals are honoured there (Brinsley, 2005; British Broadcasting Corporation, 2006; Drifte, 2009; Ministry of Foreign Affairs, 2006; Terada, 2010; M. Wan, 2011).

When Shinzo Abe came to power in September 2006 the lines of communication increased considerably. The importance he placed on improving ties with China were clear with the decision to not visit the shrine and he made China his first overseas visit with the intention of increasing bilateral dialogue between them (Hughes, 2009b; Panda, 2012; Terada, 2010; Yoshimatsu, 2012). This was reiterated when Abe stated at a joint press conference following his visit that that he viewed relations with China as a 'mutually beneficial relationship founded on common strategic interest' (Hughes, 2009b, p. 843; Panda, 2012; Yoshimatsu, 2012). The visit was followed by several high level visits between the countries and the intention to address historical issues between the countries was clear with the establishment of the Japan-China Joint History Research Committee, which first met in December 2006 (Hughes, 2009b; Ministry of Foreign Affairs of Japan, 2006). In addition, the High Level Economic Dialogue was launched in 2007 which aimed to improve communication between them, and though focused on economics, could serve as a basis for cooperation on a wider range of issues (Hughes, 2009b; Ministry of Commerce, 2010). (Ministry of Commerce, 2010). The improvement in dialogue continued under Prime Minister by Yasuo Fukuda. For example, in 2008 the first Japan-China policy dialogue was held over the Mekong region (Chien-Peng Chung, 2011). The focus being on how Japan and China could work together to assist the development and conservation of the area (Chien-Peng Chung, 2011; Ministry of Foreign Affairs of Japan, 2010c). In addition, agreement was reached that both countries should cooperate on the development of oil resources in the East China Sea (Hughes, 2009b).

Throughout the period of Koizumi and Abe's premierships the US alliance was still viewed as a critical relationship. However, with the election of Hatoyama in 2009 the US alliance received less emphasis with the focus shifting to Asia (McCurry, 2009; Yoshimatsu, 2012). Hatoyama advocated for cooperation in the region and felt that Japan was too reliant on the US alliance (Hook et al., 2012; McCurry, 2009; Yoshimatsu, 2012). As a result of this shift, Hatoyama pushed the lines of communication with China. For instance, senior leaders of both countries met six times between September 2009 and 2010, with the foreign ministers meeting seven

times in the same period (Yoshimatsu, 2012). Further, in July 2010 the first meeting was held to discuss a cooperative treaty in follow up to the political agreement reached in 2008 over oil resources in the East China Sea (Hughes, 2009b; Yoshimatsu, 2012).

However, in September 2010 the lines of communication between them became strained and ceased for a time due to a maritime incident (King, 2012; W. Wan, 2010). The diplomatic dispute occurred due to the collision between a Chinese fishing trawler and two Japanese Coast Guard patrol boats near the Senkaku/Diaoyu Islands (Chien-Peng Chung, 2012; Drifte, 2013; McCurry, 2010; Togo, 2012; Yoshimatsu, 2012). As a result of the incident the Chinese captain was detained and charged with illegal operation in Japanese waters (Chien-Peng Chung, 2012; King, 2012; McCurry, 2010; Yoshimatsu, 2012). Following this China postponed talks about the development of a treaty on joint gas fields in the East China Sea which was due to be signed in September (Chien-Peng Chung, 2012; Drifte, 2013; Hook et al., 2012; Yoshimatsu, 2012). The Chinese called for the Captain's release but the Japanese refused because it felt China was trying to impose its will over Japanese waters (Drifte, 2013; Yoshimatsu, 2012). The incident escalated as both sides became more entrenched as Rajaram Panda (2012) explains

China responded by cancelling a summit meeting with Kan Naoto and Chinese Prime Minister Wen Jiabao at the sidelines of the UN General Assembly meeting in New York. China, too, retaliated by arresting four Japanese citizens working on the mainland and cutting dramatically the supply of crucial earth minerals to Japanese corporation (p. 147).

Further to this, China cut all ministerial and high level exchanges between the two countries and all student exchanges were ceased (Drifte, 2013; King, 2012; Page, 2010; Panda, 2012; Togo, 2012; W. Wan, 2010). By the time Japan released the captain in late September the incident had severely damaged relations.

The dispute flared again in September 2012. Japan and China both lay claim to the islands which was much of the basis for the 2010 incident. Japan controls the islands and had been renting them from businessman Kunioki Kurihara who then sold them to Japan in September 2012 (Drifte, 2013; Ryall, 2012). China responded strongly by cancelling the celebration marking 40 years of ties between the two countries and patrolling the islands with its submarines which Japan views as violating its waters (British Broadcasting Corporation, 2012a; Hofilena, 2013). As a result, communication between the two has been limited and it was not

until June 2013 that a Japanese foreign policy aide visited China and met with officials to restart talks (Hofilena, 2013). This has been followed by current Japanese Prime Minister Abe stating he is willing to address the bilateral issues and offering to restart communication with China (Hofilena, 2013).

Degree of interaction at bilateral and multilateral levels

Bilateral

At a bilateral level the strongest interaction has been driven by economic interdependence. For instance, the Japan-China Economic Association was established in 1972 and is still a significant point of exchange of information through annual delegations and publications that aid economic and business ties (Japan-China Economic Association, 2009). Although the 2011 meeting was cancelled due to the Diaoyu/Senkaku Islands dispute, the High Level Economic Dialogue has provided another important forum for economic policy exchanges, communication and cooperation (Ministry of Commerce, 2010; Ministry of Foreign Affairs of Japan, 2010b; Przystup, 2012; Xinhua, 2012b). Further, to these exchanges Japan has provided ODA to China in the way of Yen loans since 1979 to aid its economic development (Drifte, 2006; Hughes, 2009b; Sekiyama, 2012; Takamine, 2006). China is the second largest of this aid and by 2007 had received ¥3.3165 trillion worth of loans (Sekiyama, 2012; Takamine, 2006). However, assistance halved between 2000 and 2004, and ceased in 2008 (Hook et al., 2012; Hughes, 2009b). This was due to concerns that it was being used for non-development purposes and that China had developed beyond the need for the loans (Drifte, 2006; Hook et al., 2012; Hughes, 2009b; Sekiyama, 2012).

There has been bilateral interaction outside of economics as well with China sending emergency assistance to Japan following the Fukushima nuclear plant crisis. This assistance included rescue and medical teams, humanitarian aid, and supplies of gas and diesel (Panda, 2012). On the one hand this was viewed as a chance for Japan and China to improve their bilateral relations (Panda, 2012). However, it has also been argued that China was using this as a way to project an image of it being a responsible rising power. For example, the size of the team it sent totalled 15 members, compared to countries such as France and Britain who sent 134 and 70 people respectively, when China has an international rescue training centre (Panda, 2012).

However, bilateral interactions outside of economics have not generally been stable due to tensions such the fishing trawler incident in 2010 and the Diaoyu/Senkaku Island's dispute in 2012. These disputes have been influenced by deteriorating attitudes of both populations

towards each other. In China, anti-Japanese sentiment is strong with 90 per cent of Chinese having an unfavourable view of Japan; this has worsened over time with the result falling 17 per cent since 2006 (Pew Research Center, 2013). A key issue is history; 78 per cent of Chinese do not feel Japan has apologised enough about its military action in 1930s and 40s (Pew Research Center, 2013). This is not just one way; Japanese feeling towards China has considerably dropped. In 1980 77 per cent of Japanese felt an affinity towards China, this fell to 52 per cent in 1990 and remained around 50 per cent until the anti-Japanese riots in 2004 when it dropped to 38 per cent (Sekiyama, 2012). Since then the decline has continued down to 30 per cent in 2011 (Sekiyama, 2012). The public opinion is significant, because it adds an important layer of explanation to the posturing by both sides in the fishing trawler dispute in 2010 and the 2012 Diaoyu/Senkaku Island's dispute. Further, it has been suggested that the Japanese poor public opinion of China contributed to the decision to cease the ODA loans in 2008 (Sekiyama, 2012).

Multilateral

Japan has viewed China as a rival and this has translated into multilateral interactions (Medeiros, 2008). Even though it can be argued Japan is the only Asia-Pacific country that can challenge it, China's rise has concerned Japan considerably (D. C. Kang, 2007). As a result, Japan has viewed multilateral arrangements as a way to bind China, but not necessarily as a way to engage it. Instead, Japan has wanted to bind China to regional frameworks so as to dilute its power, and this has been quite successful (Hughes, 2009b). As a result, Japan has pursued the use of regional forums and multilateral arrangements as a way to bind and observe China for some time (Chien-Peng Chung, 2011). For instance, 1999 was the first joint declaration of ASEAN+3, which had come about as a result of Japan's proposal for an ASEAN-Japan summit in 1997 (Hughes, 2009b). Japan saw this new forum as a chance to enmesh China in the regional order (Terada, 2010). Further, in the same year Japan proposed an Asian Monetary Fund (AMF), though this was rejected by China and the US it eventually led to the establishment of the Chiang Mai Initiative (CMI) in 2000 which was multilateralised in 2009 becoming CMIM (Hughes, 2009b; Sussangkarn, 2010). CMIM provides a currency swap arrangement for the ASEAN+3 countries when they require it (Sussangkarn, 2012). This has encouraged China and Japan to work more closely and China has allowed Japan to share in the leadership of CMIM (Hughes, 2009b).

However, Japan's concern over China's rise was heightened by China's announcement in November 2001 that within 10 years it wanted to establish an FTA with ASEAN. Japan saw this as an attempt to displace it as the leader in the region and felt this could impact negatively on

its relations with ASEAN (Chien-Peng Chung, 2011; Hughes, 2009b; Terada, 2010). Thus, in 2001 it proposed a Comprehensive Economic Partnership with ASEAN. Further, the idea for an East Asian Summit (EAS), which held its first summit in 2005, was also driven by Japan (Terada, 2010). In addition, Japan signed the Treaty of Amity and Cooperation in 2004, a peace treaty for the ASEAN member states (Association of Southeast Asian Nations, 2004). Japan had up to that point refused to sign due to concerns over its impact on Japan's security alliance with the US (Chien-Peng Chung, 2011). Thus, the decision to sign the treaty signified Japan's intentions to strengthen its relations in the region and the concern it had over China impacting on its relations with ASEAN.

Japan continued to put forward concepts that it felt would aid its ability to bind China but also to counterweight its growing power. For example, in 2006 the concept of ASEAN+6 was first proposed, the reasoning behind this concept is explained by Takashi Terada (2010):

ASEAN+6 regional concept originated mainly from the concerns of Japan and the US that China's rapid economic growth and its huge market was exerting an overwhelming influence on the political and economic trends in the region (p. 73)

EAS and ASEAN +6 are key examples of how Japan has continually tried to include countries such as Australia, New Zealand and India to act as a counterweight to China in these regional frameworks (Chien-Peng Chung, 2011; Hughes, 2009b; Terada, 2010).

Building on the suggestion of ASEAN+6 in 2007 Prime Minister Abe suggested the idea of a Comprehensive Economic Partnership Agreement in East Asia (CEPEA). This is still in negotiation but added to it is the idea of a FTA between the 16 countries that would be involved in CEPEA if it was established. However, China has objected to this preferring that integration in the region's economies stays within the ASEAN+3 framework already in place, though ASEAN itself has not objected to the idea (Terada, 2010). Further to this in 2008 China, Japan, and Korea held an annual summit that is independent of ASEAN+3 (Chien-Peng Chung, 2011; Yoshimatsu, 2012). The aim of these summits is to address issues of mistrust, increase economic and financial cooperation, and discuss disaster relief (Ministry of Foreign Affairs of Japan, 2008, 2012c). As mentioned above this has already resulted in the 2012 Trilateral Investment Agreement as well as starting work towards a FTA (Chien-Peng Chung, 2011; Ministry of Foreign Affairs of Japan, 2012f).

Conclusion

So to conclude, the strategy of binding engagement appears to be only partially implemented by Japan. Lines of communication with China are fragile; the majority of communication is based on economic interdependence and is limited beyond this. In terms of the degree of interaction bilaterally and multilaterally, Japan is binding of China. However, Japan has not looked to engage China directly, but instead worked to bring it within various frameworks with the aim of diluting its power. Therefore, the two indicators in this section clearly indicate that only binding is being pursued by Japan.

Limited bandwagoning

Territorial Integrity

The key issue in regards to territorial integrity for Japan is the long lasting dispute with China over the Diaoyu/Senkaku Islands. Indeed, it has been clear that neither side is willing to concede anything, this is highlighted by Min Koo (2009) who states:

The competitive elements in the Senkaku/Diaoyu dispute, which has symbolic, political, economic, and historical significance, make it difficult for both China and Japan to give way to the other side on the territorial and maritime issues (p. 205).

This has been further highlighted by the fact that in 2012 it was reported that China had designated the Senkaku/Diaoyu Islands a 'core interest' (Aquino, 2013b; Campbell et al., 2013). A Chinese Foreign Ministry spokesman gave a statement to this effect over the Senkaku/Diaoyu islands (Campbell et al., 2013; The Japan Times, 2013b). However, China was quick to soften this by changing the transcript of what was said (Aquino, 2013b; Campbell et al., 2013). Thus, it is unconfirmed if China has designated the islands a core interest or not (Campbell et al., 2013)

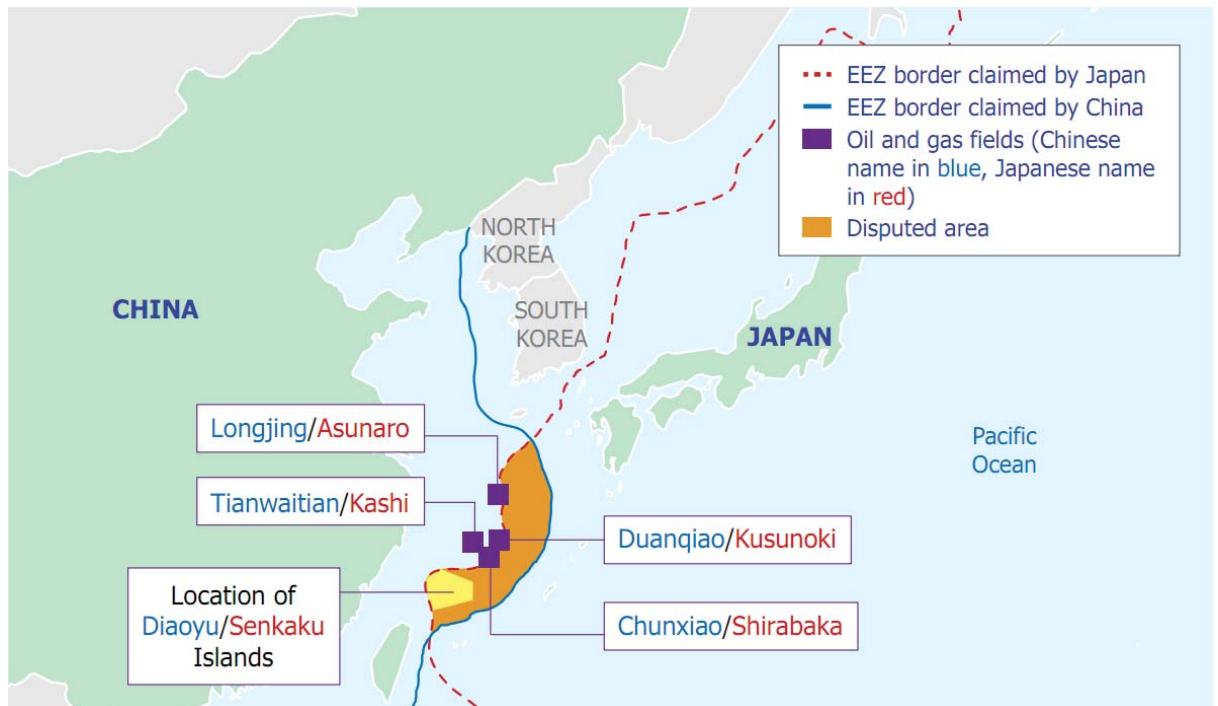
Currently, Japan controls the islands but tensions have flared on and off for several decades (U.S Energy Information Administration, 2012). In 1990 tensions were raised due to Japan accepting an application from the Japan Youth Federation for the lighthouse on the islands to have official status (Koo, 2009). Then in 1996 seven members of the Japanese Youth Organisation erected a lighthouse on the island of Kita-Kojima, within the Diaoyu/Senkaku Island group, causing the issue to flare again (Koo, 2009). When China asked Japan to clarify its position the Japanese government advised it was Japanese territory and as such there was no dispute (Koo, 2009). As a result, the situation escalated into a diplomatic crisis with both sides contributing to the intensification of the issue (Koo, 2009). This was followed in March 2004 by Chinese activists landing on the islands and being subsequently arrested by the Japanese Coast

Guard and deported back to China (Zhongqi, 2007). Then in February 2005 the owner of the lighthouse on Uotsuri Island, within the Diaoyu/Senkaku Islands grouping, gave up their ownership claim. As a result, the Japanese Coast Guard seized control of the lighthouse and was largely dismissive of China's objection to this, further straining relations. This led to large anti-Japanese rallies in China in April 2005 with damage done to the Japanese embassy (Koo, 2009; Watts, 2005). This was seen as the low point in relations since normalisation of relations in 1972. However, the disputes in 2010, 2012 and now 2013 have been just as damaging.

Indeed the announcement by China that from the 23 November 2013 of an AIDZ over the East China Sea has raised tensions considerably (Barnes, 2013; Thompson, 2013). China has stated that it will take 'defensive emergency measures' towards any aircraft that enter the zone from the 23 November unless China is informed of the flight plans (Thompson, 2013). This resulted in both countries deploying aircraft to the region. Indeed Japan's defiance was clear with the government ordering the national airline not to submit its flight plans to China (Barnes, 2013). It is yet to be seen how much further the situation will escalate.

The sequence of events over the ownership of the islands is closely entwined with the maritime dispute between Japan and China over the waters around the islands. The ownership of the islands is set within the broader context of competition for resources between China and Japan. Friction began in 1968 when oil and gas deposits were discovered (Koo, 2009). It is estimated there are seven trillion cubic feet of natural gas and 100 billion barrels of oil in the area around the islands (P. J. Smith, 2009) Tension has flared off and on since these discoveries. This is because ownership of these islands is crucial to the ownership of these energy resources and both countries have a growing need to secure energy resources (Aizhu, 2013; Hong, 2013; S. A. Smith, 2012).

Figure 15: Map of the disputed EEZ between China and Japan in the East China Sea



(U.S Energy Information Administration, 2012)

The maritime area in dispute has several oil and gas fields; the main four can be seen in Figure 15. However, there are also two smaller ones; Pinghu and Canxue (Guo, 2010; P. J. Smith, 2009) The crucial element of the dispute is explained by Paul Smith (2009) who states:

Tokyo asserts that an equidistant line should separate the two countries exclusive economic zone. China, however, claims an Extended Continental Shelf that excess the equidistant line and extends to the Okinawan Trench, which is essentially Japan's shore (p. 234)

China controls, and is producing oil or gas, through state owned companies at Tianwaitian, Chunxiao and Pinghu (Guo, 2010). Further to this, it is developing oil/gas platforms at Longjing and Canxue (Guo, 2010). In 1992 China passed a law affirming sovereignty over several areas including the East China Sea (Hook et al., 2012; P. J. Smith, 2009). In response to this both countries put surveillance boats and aircraft into the area; this was the start of what has been an ongoing source of friction (P. J. Smith, 2009).

The disputes onset was caused by Japan discovering that China had a research ship in what Japan considers its Exclusive Economic Zone (EEZ) (Koo, 2009). Japan asked for this ship to leave the area but instead China began building a natural gas drilling facility. As a result, Japan

started to research in other waters also disputed (Koo, 2009). Following this in April 2005 Japan carried out exploratory drilling near the median line (Manicom, 2008). In September of the same year China deployed five warships, and in October, a plane to the area (P. J. Smith, 2009). It was not just China deploying military assets to the area though. Japan reported that during 2006 it had deployed aircraft to the area a total of 1207 times which was eight times the figure for the previous year (P. J. Smith, 2009).

In 2007, during Wen's visit to Japan, the issues around the maritime dispute were raised and both sides indicated their willingness to push forward with negotiations on the joint development of the area. This was a significant step as it was the first time that the joint development of the area had been agreed to in a China-Japan Joint Statement (Chien-Peng Chung, 2012; Ministry of Foreign Affairs of Japan, 2007). However, the agreement focused on development of the resources in the area and did not address the maritime dispute and though several rounds of negotiations took place little progress was initially made (Chien-Peng Chung, 2012; Drifte, 2008; Manicom, 2008; P. J. Smith, 2009). However, in June 2008 after eleven rounds of talks, it was announced that an agreement had been reached (Drifte, 2008; Manicom, 2008; P. J. Smith, 2009; U.S Energy Information Administration, 2012; Xinhua, 2008). The Agreement on Cooperation for the Development of East China Sea Resources is a breakthrough because both sides have agreed to two important points, which are highlighted by Guo Rongxing (2010):

'(i) the joint development of a zone straddling both sides of the median line proposed by Japan, including the oil/gas field called 'Longjing' by China and 'Asunaro' by Japan, and (ii) Japan's participation in China's Chunxiao gas field' (p. 8)

However, China has stated it does not see this agreement as impacting on its legal claims over the area so the value of the agreement has been questioned (P. J. Smith, 2009).

Indeed, the agreement has not alleviated tensions. In 2009 China began development of the Tinianwaitian gas field (Chien-Peng Chung, 2012; Jiao, 2009; P. J. Smith, 2009; U.S Energy Information Administration, 2012). Then in 2010 Japan threatened China with legal action if it began production at the Chunxiao gas field. This was a result of Japan's concern that the gas on the Japanese side of the border would be accessed by China (Chien-Peng Chung, 2012; P. J. Smith, 2009; U.S Energy Information Administration, 2012). In response to this China moved equipment on to the drilling platform (Chien-Peng Chung, 2012). Further, Japan has been concerned that China has violated the agreement by the construction of a drilling rig, and the

potential for extraction of resources from the Japanese side of median line (Aquino, 2013a; Torres, 2013a). In addition, it has been reported that China is looking to develop seven new gas fields in the area which has not been well received by Japan (Aizhu, 2013). This highlights not only the weakness of the agreement but also the countries' differing attitudes. For instance, Japan wants the maritime dispute addressed before any further exploration of the area takes place (Aizhu, 2013). However, China does not view the area its drilling in as disputed and so does not see any issue (The Economic Times, 2013). As a result, although the 2008 agreement was a good start it is clear that little progress has been made since (Guo, 2010; Manicom, 2008).

Sovereignty Integrity

The second part of measuring if limited bandwagoning has been adopted by Japan is to consider Japan's indifference over China's foreign policy objective of sovereignty integrity. The key focus for this element is Taiwan which was classed a core interest by China in 2003 (Campbell et al., 2013; R. A. Cossa, 2010; Yoshihara & Holmes, 2011). Japan and Taiwan have a long history because Japan colonised Taiwan between 1895 and 1945 but the normalising of relations between Japan and China in 1972 meant that it had to break official ties with Taiwan (Chien-Peng Chung, 2012; Drifte, 2009; Hook et al., 2012; Sun, 2007). However, Japan did not go as far as to explicitly state that Taiwan is part of China and instead stated it understood and respected China's position (Drifte, 2009).

The key concern for China is that it is unsure whose side Japan would take if China ended up in a confrontation with the US over Taiwan (Noble, 2005; P. J. Smith, 2009). Indeed, the US-Japan security treaty is not limited to the defence of Japan but has also includes a reference to peace and security in the Far East. Prime Minister Kishi confirmed that the Far East was interpreted to include Taiwan, which would result in Japan being drawn in on the US side of a conflict (Hook et al., 2012). More recently, the interpretation has shifted from a geographical interpretation to a situational one, so how the treaty would be interpreted now is a little ambiguous. However, Japan and US have made joint statements regarding Taiwan which would seem to indicate the original interpretation still stands. For example, in 2005 Japan and the US referred to Taiwan as a common strategic objective (Drifte, 2009; Hook et al., 2012; P. J. Smith, 2009). Then in 2006, following Prime Ministers Jintao's visit to the US, President Bush stated the US was in favour of the status quo situation (Drifte, 2009). Further to this in the same year Prime Minister Aso referred to Taiwan as a country (P. J. Smith, 2009). All of these actions concerned China (Noble, 2005; P. J. Smith, 2009). As a result, China asked Japan to

clarify its position on Taiwan but Japan merely agreed to a reiterating the 1972 statement (Drifte, 2009; P. J. Smith, 2009).

As a result, China has been concerned because relations between Japan and Taiwan are still close through economic and unofficial diplomatic ties (Drifte, 2009; Noble, 2005; Sun, 2007). Indeed, Japan and Taiwan have been drawn closer together due to the rise of China and their concerns about the impact of this on their security (Wilkins, 2012). Certainly, economic ties have remained close (Sun, 2007; Wilkins, 2012). For example, in 2010 bilateral ties between the two were worth \$70 billion (Aerospace and Defense News, 2011; Wilkins, 2012). Taiwan is a significant market for Japanese companies, in particular as a base of production for higher end technologies which was highlighted following the signing of an investment accord between the countries in 2011 (Sung, 2011; Wilkins, 2012). Further, Taiwan has also signalled its eagerness for a FTA with Japan (Sung, 2011; Wilkins, 2012).

In addition, Taiwan made donations to Japan following the earthquake and subsequent Tsunami in 2011 and later that year the countries revised the bilateral aviation agreement which had restricted the aviation services between the two countries. The revised agreement means that Taiwan is now able to fly unlimited services anywhere in Japan except to Tokyo (Aerospace and Defense News, 2011). Also, the countries have reached a fishery agreement which was signed in April 2013 (Taipei Economic and Cultural Office in New Zealand, 2013). This allows Taiwan to fish up to 19 kilometres from the Senkaku/Diaoyu islands (British Broadcasting Corporation, 2013a). This has greatly annoyed the Chinese government who argues that as it claims sovereignty over Taiwan Japan should not be signing deals with Taiwan (British Broadcasting Corporation, 2013a).

Further, despite the severing of official ties since the early 2000's there have still been diplomatic visits between the two countries Minister's and government representative's (Noble, 2005). This is highlighted by Thomas Wilkins (2012) who states:

The stationing of retired Japan Self Defense Force (JSDF) officials at Tokyo's' unofficial embassy in Taiwan-the Interchange Association- and the constant exchange of government or ministerial personnel between the two countries on tourist visas are the preferred methods of circumventing the abnormalities of Taiwan's diplomatic predicament...Taiwan's informal embassy, the Taipei Economic and Cultural Organization (TECO), allows ROC personnel to engage with their Japanese counterparts in a similar unofficial fashion. In addition, in 2004 a group of Japanese

legislators formed a committee on Taiwan's security to advocate and facilitate such contacts (Wilkins, 2012, p. 117).

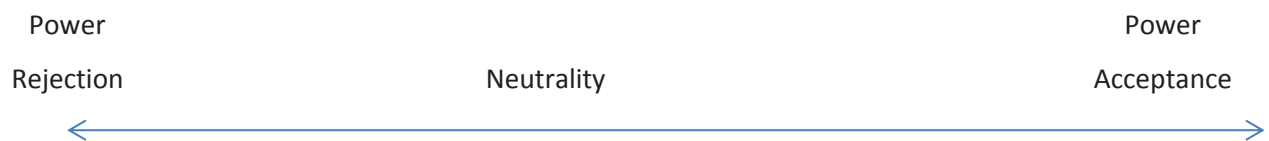
In addition, former Japanese Prime Ministers have visited Taiwan consistently, for example Fukuda in 1992, Mori in 2003 and 2006, and Aso and Abe in 2010 (Wilkins, 2012). This is significant due to the weight that these leaders still carry (Wilkins, 2012). In addition, Taiwan's National Security Advisor has visited Japan under the guise of tourism (Wilkins, 2012). Currently, these ties are stronger than ever, for instance in the six months between October 2011 and March 2012 Taiwan received 142 delegation of Japanese delegations, totalling 2151 people (Ministry of Foreign Affairs Republic of China (Taiwan), 2012).

Conclusion

Overall, relations between the Taiwan and Japan are currently regarded as the best they have been. The common concerns over the rise of China and its growing power has bound the two together along with their shared history. Though Japan has not gone as far as to support Taiwanese independence it is clear it is happy with the status quo. Further, it has been willing to circumvent the severing of official ties to the point that ties are viewed as unofficial in name only (Sun, 2007; The China Post, 2011). This, coupled with its firm stance on its territorial dispute with China indicates that Japan is not pursuing a strategy of limited bandwagoning towards China.

Summary

Balancing strategy	Hedging Strategy					Bandwagoning strategy
	Risk-contingency options		Return-Maximizing options			
	Indirect- balancing	Dominance denial	Economic pragmatism	Binding- engagement	Limited bandwagoning	



(Kuik, 2008)



This case study for Japan's relations with China clearly indicates that under Kuik's model, Japan is hedging China. As shown in model above, Japan has fully adopted the two risk contingency options of indirect balancing and dominance denial. Of the three return maximising options Japan has fully adopted economic pragmatism. However, it has only partially adopted binding engagement and has rejected limited bandwagoning altogether. This outcome will be further analysed after the second case study of South Korea has been investigated.

Chapter Three: South Korea Case Study

This case study focuses on applying Kuiks model to South Korea to ascertain which strategies have been adopted towards China and to place it along the continuum between balancing and bandwagoning. This will enable a conclusion to be drawn on if South Korea is hedging towards China or not, and, if so, how it is doing this. South Korea could potentially have adopted or rejected any combination of these strategies.

The chapter begins by again addressing the risk contingency options of Kuik's model. The discussion on indirect balancing starts by covering the statistical analysis of South Korea's military spending and arms transfers. The section on military spending discusses South Korea's rank globally for military expenditure and its increasing spending in this area, driven by modernisation of the defence forces. This links in directly with arms transfers, which focuses on the key arms suppliers, types of weapons imported, and increasing domestic production. The discussion then examines the defence strategy more broadly including; the impact of provocations from North Korea in 2010, a change in focus in the military strategy, how this has driven acquisitions, and the focus of the most recent budget. The section then addresses the non-statistical indicator of security cooperation. This focuses on South Korea's ties with Japan, US, India, and Australia. The US section covers the establishment of the alliance, tensions within relations, the re-organising of the United States Forces Korea (USFK) presence in South Korea, and the impact that the elections of President Lee and Obama have had on relations. Security cooperation with India examines the shared interests the countries have and the development of defence relations since 2004 and considers the importance of the Indian defence industry to relations. The assessment of South Korea's security relations with Australia includes a brief historical context, and considers the momentum gained since 2009.

The analysis of dominance denial focuses on the increasing economic and diplomatic ties between South Korea and; the US, Japan, Russia and India as the major powers in the region. The discussion on the US looks at recent efforts to expand ties beyond security relations. The analysis highlights the interdependence in trade and the likely impact of the signing of the US-Korea (KORUS) FTA. It goes on to discuss the significant levels of investment between the countries. The momentum given to the expansion of relations due to the elections of President Lee and Obama are highlighted in the analysis on diplomatic relations, along with the high degree of contact between the governments at various levels. The section then moves on to address South Korea's relations with Japan this includes discussion on trade, the

status of bilateral and trilateral FTA negotiations and the TPP. It goes on to address investment and highlights the impact of recent tensions on this. These tensions are drawn out more in the examination of diplomatic relations which also highlights attempts made to improve ties. The economic discussion on Russia examines the growth in trade and the drivers behind this, as well as the low levels of investment. The diplomatic discussion focuses on relations since 2008, as significant momentum has been gained, it covers various agreements and high level exchanges and the deepening of ties in 2011. The section concludes with South Korea's relations with India. This covers the increase in ties, the key trade statistics and the impact of CEPA on economic relations. Investment is also highlighted as the key driver of economic relations which has been fuelled by the signing of various investment agreements. The section then moves on to discuss increasing diplomatic ties emphasised by the upgrading of ties in 2010 and the increasing number of high level visits and exchanges.

The second part of this chapter examines the returns maximising options, the first to be considered is economic pragmatism. This analysis begins by considering if China is one of South Korea's top trading partners and its degree of trade dependency on China. This is then followed by a broader discussion of trade relations between the countries highlighting the complementary nature of the economies and the resulting growth in trade. It then moves on to discuss areas which have caused economic tensions including; tariff disputes and China's erosion of South Korea's competitive advantage. It concludes by looking at two FTA's that are currently in negotiation. The final part of this section considers the FDI flows between the countries, including China's impact on the inflow of FDI to South Korea. It also examines the large investment by South Korean firms into China, the reasons for this, and South Korea's concerns. The section concludes with a discussion of several investment agreements the countries have signed.

The section on binding engagement considers first if South Korea has attempted to increase the lines of communications with China. It provides a brief background to relations and then highlights the significance of 2008 for relations. The section then focuses on the degree of interaction at bilateral and multilateral levels. The discussion on bilateral relations highlights the fact that relations have mainly focused on economics and North Korea. It then moves on to discuss elements of tension in relations over the Koguryo Dynasty, China's close relations with North Korea, the impact of the US-South Korea alliance on relations with China, and the dispute between China and South Korea over Socotra rock. It concludes by looking at

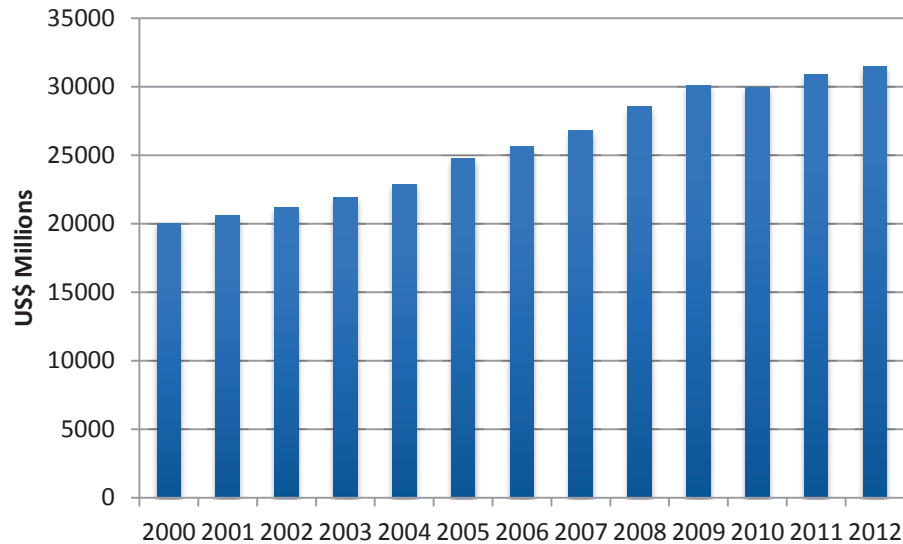
multilateral interactions focusing on South Korea's pursuit of FTA's and its approach to the trilateral summits and FTA negotiations.

The examination of limited bandwagoning commences by considering the degree of indifference South Korea has towards China's foreign policy objective of territorial integrity. This focuses on the dispute over the EEZ which leads into a discussion on tensions over Socotra Rock and illegal fishing. The second part of this section considers South Korea's degree of indifference towards China's foreign policy objective of sovereignty integrity. This focuses on the degree of South Korea's economic relations with Taiwan, including discussion on cultural and education ties. It then addresses the degree of diplomatic ties by identifying the historical context to relations, if South Korea has ceased diplomatic ties with Taiwan, and situations that have caused tensions. This is then followed by a brief conclusion, placing South Korea on Kuik's model based on the findings from each section.

Risk Contingency Options

Indirect balancing

Figure 16: South Korea's Military Spending 2000-2012

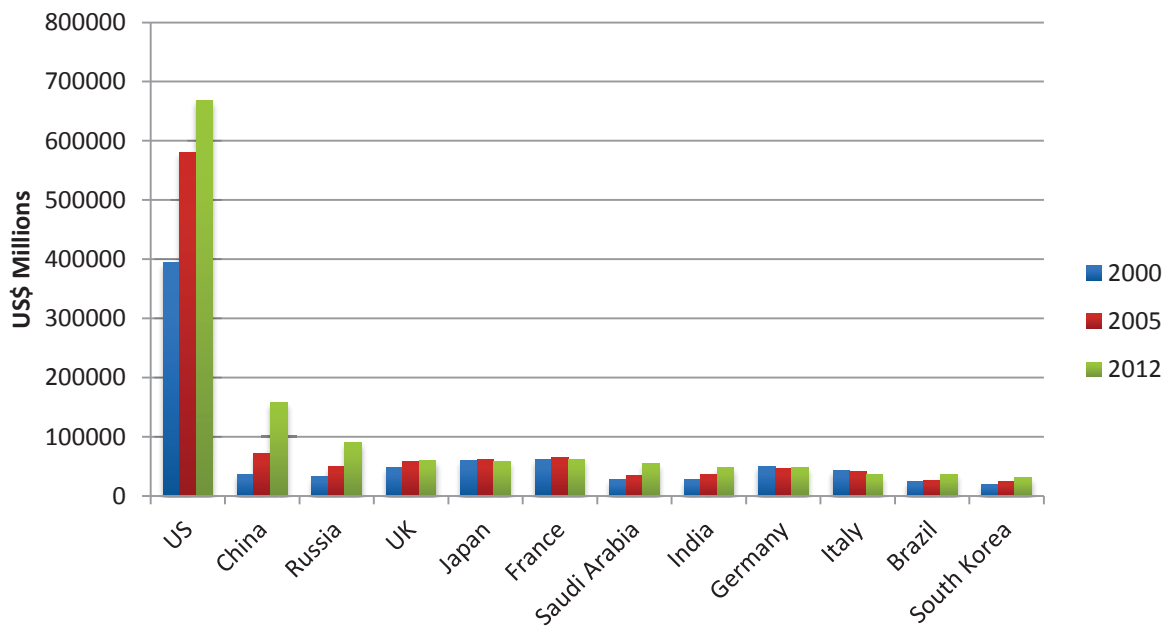


Source: (Stockholm International Peace Research Institute, 2013a).

Military Spending

South Korea's military expenditure has been trending up, as shown in Figure 16. The increase in spending from 2003 to 2012 is a change of 44 per cent and is the sixth highest change over that period, behind China, Russia, Saudi Arabia, India, and Brazil (Stockholm International Peace Research Institute, 2012). This spending has led to South Korea being ranked 12th in the world for military expenditure for the last two years, spending US\$31.7 billion in 2012 (Stockholm International Peace Research Institute, 2012). As shown in Figure 17, South Korea sits very closely behind Brazil, who is ranked ninth and spent US\$33.1 Billion in 2012 (Stockholm International Peace Research Institute, 2012).

Figure 17: Top 12 countries for military expenditure, 2012



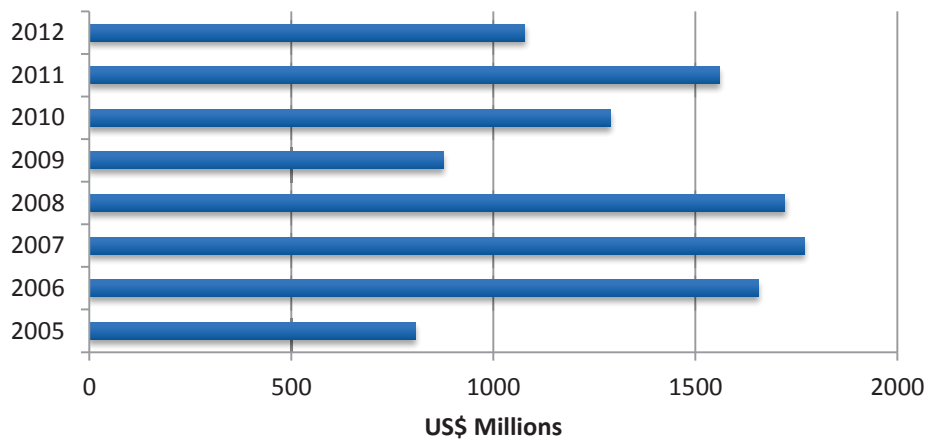
Source: (Stockholm International Peace Research Institute, 2013a)

The increase in spending is set to continue. The Defense Reform Master Plan (DRP) 2020 released in 2005 required the government to increase military spending by 9.9 per cent per annum (Klingner, 2013; Weitz, 2013b). However, due to budget restrictions this figure has not always been reached. For example, in 2010 President Lee increased spending by only 3.6 per cent (Weitz, 2013b). Despite this, spending is still steadily increasing and will continue to for at least the next decade while the DRP is implemented. Further, the South Korean Defense Ministry has requested a US\$192.6 billion increase for its budget from 2014-2018, which is the equivalent to US\$38.52 billion a year (Keck, 2013).

The reason for this increase in spending is that the DRP has focused on changing the nature of the South Korean military. The aim was to reduce the overall numbers of personnel while strengthening its intelligence, surveillance and strike capabilities (Korea (South) (ROK), 2013). The numbers of personnel were to be reduced by 25 per cent from 681,000 to 500,000 by 2020, though in 2009 that was revised to 517,000 (Y.-S. Han, 2007; Klingner, 2013). Further, the reserve forces were to be cut by 50 per cent from 3 million to 1.5 million (Y.-S. Han, 2007; Korea (South) (ROK), 2013). The decision to reduce personnel has been somewhat driven by a reducing birth rate which has meant that South Korea has a declining number of men available to conscript (Klingner, 2013; Ministry of National Defense, 2010). Furthermore, it is aimed at

cost saving because by reducing personnel the money can be invested into modernising the military. The DRP focuses on modernising and improving the Defence Force's capability to make it smaller, but more effective.

Figure 18: South Korea's total volume of arms imports 2005-2012

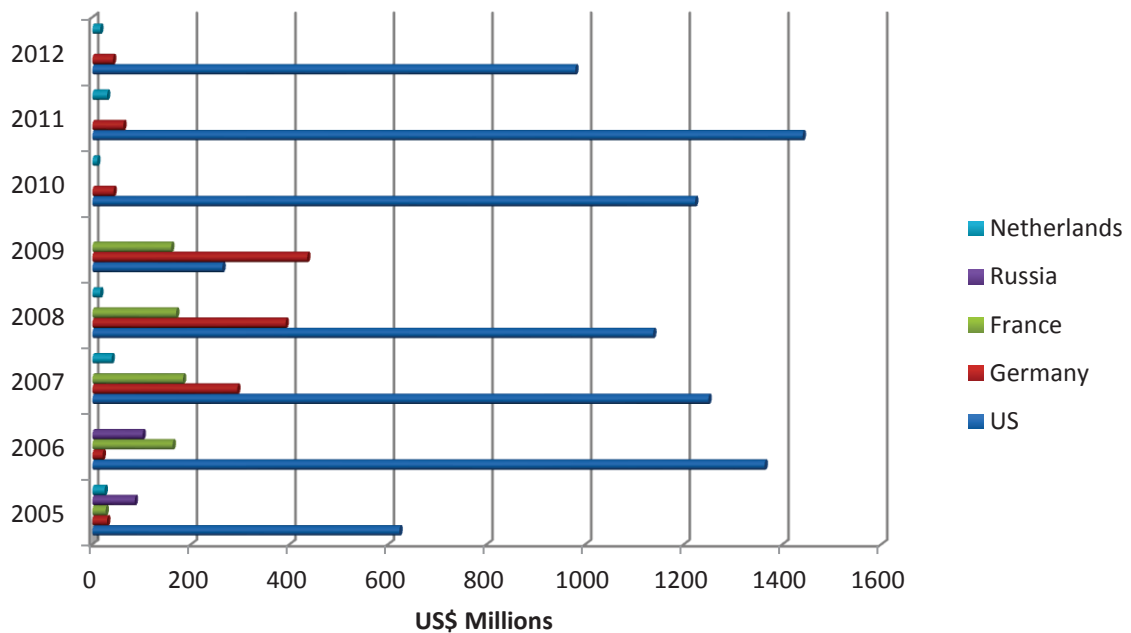


Source: (Stockholm International Peace Research Institute, 2013b)

Arms Transfers

The modernisation of the defence forces links in directly with the second statistical indicator of arms transfers. As show in Figure 18, the impact of the DRP can be seen immediately in 2006 with the number of imported arms more than doubling from US\$808 million to US\$1656 million (Stockholm International Peace Research Institute, 2013b). A sharp drop in 2009 can be seen though, and this is also evident in South Korea's total arms transfers shown in Figure 8 page 40. This was due to a revision of the DRP as a result of budget issues and a new government. The revision suggested that personnel numbers needed to be reduced by 180,000 before any further acquisitions of equipment could be made (Klingner, 2013). Following this there has been a degree of fluctuation each year in the volume of imported arms. However, South Korea is a significant importer of arms. It is ranked fourth globally for arms imports between 2008 and 2012, importing five per cent of the global share (Stockholm International Peace Research Institute, 2013b).

Figure 19: Top five exporters of arms to South Korea, 2012

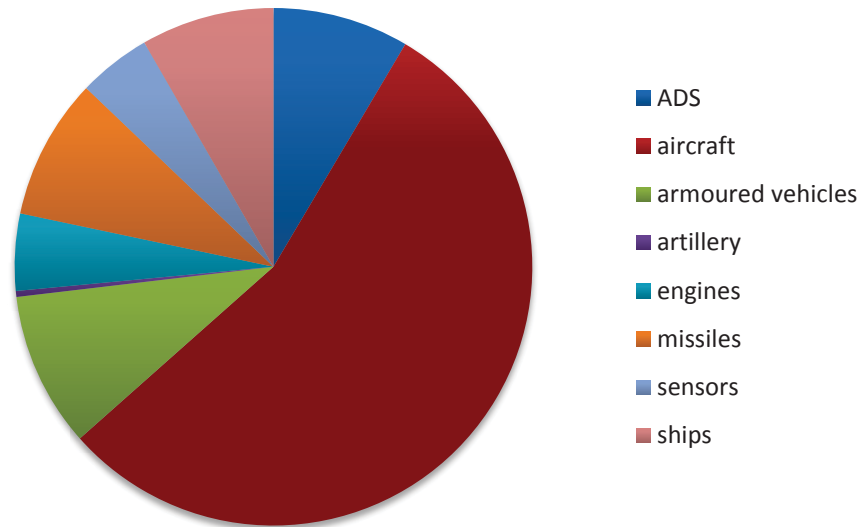


(Stockholm International Peace Research Institute, 2013b)

The vast majority of South Korea’s imports of arms come from the US, as show in Figure 19. South Korea is an important US ally in the Asia-Pacific and therefore it is in the US’ interest to aid the modernisation of the South Korean forces. For the period of 2005-2012 the US has exported a total of US\$8282 million worth of major arms to South Korea, the next closest is Germany with US\$1323 million (Stockholm International Peace Research Institute, 2013b). The composition of the arms imports has been dominated by aircraft, as shown in Figure 20, importing US\$5912 million worth of between 2005 and 2012. However, there has been a recent drop in imports from the US, due to South Korea trying to reduce its reliance on the US. This has been for various reasons, including the focus on domestic production, the expense of US weapons, limitations on the transfer of technology from the US, and the need to diversify its suppliers (Weitz, 2013b). For example, South Korea is increasingly importing weapons from Israel which in 2012 totalled US\$35 million (Gonn, 2011; Stockholm International Peace Research Institute, 2013a). It has been reported by the Jerusalem Post that South Korea is

looking to make Israel a key supplier of arms due to Israel's advanced technology and Israel's pursuit of increased relations in Asia (Ningthoujam, 2012).

Figure 20: Type of arms imports by South Korea 2005-2012



(Stockholm International Peace Research Institute, 2013b)

The 2010 Defense White Paper identified several procurements that would improve the defence forces capabilities. For the army, the need for unmanned aerial vehicles, multi launch rocket system, tanks and armoured personnel vehicles was highlighted. To enable the navy to carry out missions on land, in the air, and at sea it emphasised the need to purchase detection radars, helicopters, frigates, submarines and patrol craft. The Ministry also indicated it envisioned the South Korean air force having the ability to conduct long range missions. To achieve this it has earmarked the purchase of new fighter jets, airborne warning and control systems, air refuelers, and surveillance reconnaissance systems.

The White Paper (2010) also highlighted the number of new modernisation projects that the Ministry created, as well as those established as part of the DRP. For example, the Force Improvement Programme had 184 on-going projects and in 2010, 25 new projects were established. In addition, for the Mid-Term Improvement Program for 2011-2015 183 projects were on-going and 110 new projects were established in 2010. The projects ranged in size from substantial ones such as improvement of K-2 tanks, F-15 fighter jets, and landing ships, to smaller ones such as the improvement of night vision and day/night scopes. For ground forces the mid-term projects focused on self-propelled artillery, grenade launchers, anti-artillery detection radar and fighting vehicles for the infantry. For aerial combat the on-going projects are focused on air-to-ground missiles, transport aircraft, and light attack aircraft. The navy

improvements concentrate on sub warfare ability as well as procuring a new destroyer, submarine and ship to ship guided missiles (Ministry of National Defense, 2010).

The North Korean sinking of a South Korean ship and the shelling of South Korea's Yeonpyeong Island in 2010 were significant. These were seen as deliberate provocations by leader Kim Jong-il in an attempt to cement his son as the heir to the North Korean leadership (Beck, 2011; British Broadcasting Corporation, 2010; McDonald, 2010). The serious nature of the incidents forced South Korea to bring forward some projects. For example, it was announced that the purchasing of spy drones and 60 stealth fighters would be fast tracked and be ready for use earlier than the original 2015 deadline (Laurence, 2011). The Ministry of Defense also announced it was looking to buy precision guided weapons and advanced artillery detecting radar system which would allow it to directly neutralise the threat of attack from North Korea's weapons in the mountains (Laurence, 2011).

These modernisation projects have not only led to the procurement of arms but also tied in directly with South Korea's shift towards domestic development and production of arms in an attempt to reduce its dependence, particularly on the US (Weitz, 2013b). For instance, South Korea has domestically produced for the army the K-2 tank, the Chun-Ma (Pegasus) self-propelled surface to air missile, and the KP-SAM shoulder launched surface-to-air missile (Global Security, 2013; Korea (South) (ROK), 2013) (Korea (South) (ROK), 2013). For the air force 250 Surion Helicopters are being domestically produced, along with T-50B fighter jets. For the Navy, two new Dokdo Class Landing Platform Helicopter ships six KDX-2A DDG destroyers are being built, which will include modifications such as the AEGIS naval weapons system, and in 2014 delivery is expected of the first of six new Son Won IL class submarines (Korea (South) (ROK), 2013; Naval Technology, 2012)

As a result of the North Korea attacks in 2010 the DRP 2020 was revised. This resulted in the release of a new document the Defense Reform 307 (DR 307) in March 2011. This is viewed as a modification to the DRP 2020. The 72 objectives released in the DR 307 focus on 2011-2030. Along with changing the command structure in the military the report shifted the focus of the South Korean military, this is highlighted by Bruce Klingner (2013) who states:

Rather than preparing for large-scale invasion and total war, Seoul focused on flexible, customised responses to localised military attacks. For example, defense planners placed greater emphasis on the role of the navy and air force in retaliating against North Korean infiltrations and tactical provocations, particularly in the west sea (p. 55)

The report focuses on short term threats not just the long term threats from North Korea which were the focus of the DRP 2020. For example, currently it would take the South Korean military a week to destroy North Korea's long range artillery, the report focuses on reducing that to one to two days. In addition, whereas DRP 2020 recommended reducing the marines by 4000, the DR 307 suggests the need for 4000 additional Marines (Klingner, 2013).

In addition, the DR 307 has led to South Korea making some significant acquisitions. 400 tanks have been procured and 450 army vehicles are being replacing over the next ten years (Korea (South) (ROK), 2013). DR 307 also indicates the need to purchase 36 AH-64D Apache Longbow II and/or the AH-IZ Cobra Attack helicopters along with six new Incheon frigates, and nine 3000 tonne submarines are being procured (Korea (South) (ROK), 2013). For the air force, South Korea is looking to buy two Falcon 2000, 20 F-5E's fighter jets and four RQ-4 Global Hawk high altitude reconnaissance unmanned aerial vehicle, and have four C-130J transports on order with expected delivery in 2014 (Korea (South) (ROK), 2013; Northrop Grumman Corporation, 2013).

Further, the South Korean 2014-2018 budget released in 2013 had a high degree of emphasis on missile capability with this comprising 13.7 per cent of the budget. This is due to two factors; firstly, it is a response to the provocations from North Korea in 2010, and the conducting of missile and nuclear tests in late 2012 and early 2013. Secondly, the US endorsed the South Korea Korean Air and Missile Defense (KAMD) system in June 2012. South Korea has continually refused to join the US led missile defense system, and instead has preferred to work on its own (Global Post, 2013c; Weitz, 2013a; Yoo, 2012). In particular South Korea is concerned that to join the US Missile Defense System would upset relations with China because China believes the system is aimed at encircling it. As a result of the endorsement, the KAMD system is likely to be completed sooner than the original 2015 deadline. In addition, following the endorsement the US and South Korea signed a treaty allowing South Korea to increase the range and payload on its missiles (Keck, 2013). In addition, the Defense Ministry indicated in June that it was upgrading its KDX-III navy vessels with extended range surface to air missiles (Keck, 2013). The budget also requested that missiles be upgraded from PAC-2 to PAC-3 as the latter can reach higher altitudes and 40 per cent of PAC-2's are intercepted (Keck, 2013). In addition, it was reported in October 2013 that South Korea has put in a request to the US to buy 112 anti-tactical ballistic missiles (Global Post, 2013c; Keck, 2013; Klingner, 2013).

Security Cooperation

The second indicator will consider South Korea's security cooperation with countries with similar goals. Defence relations with Japan are important to South Korea and these ties continue to strengthen, as already detailed in the Japan case study (see page 47 for the analysis of this relationship). Similarly, like Japan, South Korea's defence relationships are dominated by the US. The US alliance is South Korea's key and primary focus in defence. However, more recently ties with the US allies in the region; Japan, India and Australia have grown in importance as well.

The US is South Korea's key defence alliance. The relationship dates back to 1945 when US forces took control of a Japanese base in Korea and established a military government (W. G. Park, 2013). In 1950 North Korea invaded the South and a United Nations (UN) coalition was deployed to South Korea (Bureau of East Asian and Pacific Affairs, 2012b). The South Korean military was newly established at this stage because Korea had only been divided after the end of World War II. As a result, South Korean forces were put under US command and the US assumed Wartime Operational Control (OPCON), which it still retains (Finnegan, 2009). Shortly after an armistice was signed between the two Koreas in 1953 the US and South Korea signed a Mutual Security Agreement. As Bruce Vaughan notes by signing this agreement 'the two states pledged to defend each other in case of outside aggression' (2007, p. 21). Since that time USFK has been stationed at various bases in South Korea and currently 28,500 personnel are stationed there. Further to having a physical presence, the country also falls under the US 'Nuclear Umbrella' (Manyin, Nikitin, Chanlett-Avery, Rinehart, & Cooper, 2013). Both sides share similar concerns and goals over North Korea, the rise of China, the growth of South Korea as a democracy, and its increasing international standing (Manyin et al., 2013).

However, the relationship has been strained at times with South Korea keen to increase its independence from the US. In particular, relations became tense over policy due to South Korea's adoption of a 'Sunshine Policy' through most of the 2000s (Vaughan, 2007). This policy focused on South Korea engaging with North Korea to progress talks with them but this clashed considerably with the US' approach to North Korea. This approach was demonstrated by President George W. Bush categorising North Korea as one of the 'Axis of Evil' in his State of the Union address in 2002 (CNN, 2002).

Another point of tension is the re-organising of USFK's presence in South Korea. USFK personnel are to be relocated, though this may not be completed until 2020, and the number of USFK bases will be reduced from 104 to 48 (Manyin et al., 2013). This shift has been

protested by the South Korean public due to the financial contribution South Korea has to make to this. Indeed this highlights a further point of on-going tension between the allies. Every five years both sides renegotiate the Special Measures Agreement (SMA), which is an agreement over the costs of stationing USFK in South Korea (Manyin et al., 2013; W. G. Park, 2013). As it stands South Korea pays between 40 to 45 per cent of non-personnel costs (Manyin et al., 2013). However, the Pentagon has called for this to be increased to 50 per cent. It is also argued that the South Korean contributions are not in line with increasing costs. For example, between 2008 and 2012 South Korea increased its contribution by US\$42 million, but the non-personnel costs increased by US\$500 million (Manyin et al., 2013). A new SMA is currently in negotiation and it is likely that both sides domestic budget issues will impact on the SMA negotiations (Yoon, 2013).

The election of President Lee and President Obama resulted in a shift with South Korea dropping the 'Sunshine Policy' and the US pivoting towards the Asia-Pacific, as a result the relationship has strengthened. Indeed the rise of China and the US rebalance to the Asia-Pacific is an important factor in the reinvigorated relations. The recent Congressional Research report on US relations with South Korea goes as far as to say that relations are the strongest they have been for several decades (Manyin et al., 2013). This renewed strength in relations was highlighted by the fact that in 2008, US Defence Secretary Gates reversed the previous administrations decision to reduce the number of USFK forces stationed in South Korea. Further, in 2010 the first 2+2 meeting was held between the defence and foreign policy ministers, and in a show of support for South Korea following the sinking of a South Korean naval ship and the artillery attack on Yeonpyeong by North Korea, large scale joint exercises were held (Richburg, 2010). In 2011 Leon Panetta went to South Korea to reiterate the US commitment to the Asia-Pacific and in June 2012, the second 2+2 meeting was held resulting in a joint declaration on cyber security and missile defense (Manyin et al., 2013). Following this in October 2012 the US agreed to increase Korea's Ballistic Missile Defence (BMD) range from 300km to 800 km as well as increase the payload of missiles from 500kg to 1000kg. However, the load has to reduce proportionally based on the range. In addition, both sides have been able to come to an agreement over the transfer of OPCON from the US to South Korea which had been a source of friction and delays due to the complexities involved (Yoon, 2013). Since the end of the Korean War the US has continued to retain OPCON though South Korea's defence capabilities have increased and peacetime control was handed back to South Korea in 1994 (Gen. Sharp, 2013; Manyin et al., 2013; Su, 2011). However, both sides have agreed to the transfer of command in 2015 (Manyin et al., 2013; Yoon, 2013). The election of President

Park in early 2013 has left the US slightly uncertain of how relations will move forward. Park is viewed as supportive of the alliance but she has indicated that she wants to adopt a flexible but tough approach to North Korea (Manyin et al., 2013). As a result, it is unclear if relations will continue to be as strong or if the relationship will face some policy challenges.

The development of defence relations between India and South Korea are based on several similar interests. Maritime security is of key importance to both countries because the safety of key shipment lanes in the Indian Ocean is vital to both sides (Panda, 2011). Further, both India and South Korea are concerned by China's rise and in particular its strategic relations with North Korea and Pakistan (Panda, 2011). In addition to this the deepening of relations between the US and India has led to pressure from the US on both countries to increase ties (Brewster, 2010b; Panda, 2011) This has been aided by India's adoption of a 'Look East' policy since the 1990s (Panda, 2011).

India and South Korea had limited security relations up until the mid-2000s (Brewster, 2010b). It was not until 2004 that security cooperation between the two countries started to develop significantly when South Korean President Roh visited New Delhi and a Joint Declaration was issued. Both sides agreed to annual foreign policy and security dialogues with a particular focus on counterterrorism, defence exchanges, and international security issues (Brewster, 2010b; Panda, 2011). Since then relations have deepened; for example in 2005 both sides signed a Memorandum of Understanding (MoU) on defence logistics and supplies as well as an MoU on the Coast Guard leading to joint exercises in 2006. Following the success of this, joint exercises were expanded to include navy and military consultations (Brewster, 2010b). In 2007 the first defence ministers dialogue was held and both sides agreed to strengthen defence relations in the areas of training, exchanges in the forces, and cooperation between Coast Guards (Vaddi, 2011).

An important step in the momentum of the relationship was the agreement to elevate the relationship to a 'Strategic Partnership' in January 2010. As a result of this, two MoU's were signed in September 2010 which increased defence relations significantly. The first was focused on defence cooperation, with both sides agreeing to exchanges between personnel and civilian members of the defence force (Press Information Bureau, 2010). In addition, increased cooperation in education and training, as well military exercises, was agreed to (Panda, 2011). The second MoU focused on cooperation over defence technology, and in particular co-production and development of defence equipment (Panda, 2011; Press Information Bureau, 2010). Also, since the elevation in the relationship there have been

several high level defence exchanges, including a second foreign policy and security dialogue in June 2012 (Miller, 2012). Further, India has recently appointed a permanent defence attaché to Seoul (J.-G. Lee, 2013).

Diplomatic exchanges have not been the only source of momentum for the relationship. South Korea has been keen to tap into the Indian defence industry market, while India has viewed South Korea as a growing option for development and purchasing of weapons and equipment (Vaddi, 2011). The Indian defence market is currently dominated by France, Britain, US and Russia. However, 2007 signalled the start of much closer cooperation between India and South Korea on defence research, development, and procurement. For example, in 2007 the governments held talks over India purchasing 5000 tonne frigates, armoured vehicles and military trucks (Panda, 2011). India was also considering purchasing South Korea's KT-1 jet trainers, though South Korea eventually lost the bid to Swiss company Pilatus (Defense Industry Daily, 2011; Panda, 2011). Further, India and South Korean companies have co-developed self-propelled artillery, mine-countermeasure vessels, and a howitzer gun (Panda, 2011; Raghuvanshi, 2013). Also, India's intent to upgrade and expand its military, as demonstrated by a 34 per cent increase in the 2009 defence budget, provides a good opportunity for South Korea to gain a foothold in a market worth US\$100 billion (Raghuvanshi, 2013). South Korea has become an important supplier to India which was demonstrated in October 2013 when South Korean company Kangnam Corp was awarded a US\$1.2 billion deal to build eight mine-countermeasure vessels, with the potential to increase to 24 (Raghuvanshi, 2013). As a result, it seems likely that this security cooperation will continue to grow.

Though Australia-South Korea defence ties date back to the Korean War, defence ties were not close, and did not develop strongly until the last five years (Cronin et al., 2013). However, there were some important steps forward in relations. For example, in 2001 the two sides signed a MoU on defence industry cooperation and agreed to hold regular meetings around this. This led to Australia purchasing 155 mm high explosive artillery ammunition from South Korea and a AUS\$50 million oil tanker (The Parliament of the Commonwealth of Australia, 2006). Further to this, in 2005 Korea's Minister for National Defence visited Australia and both governments agreed to increase cooperation on peacekeeping and the defence industry (The Parliament of the Commonwealth of Australia, 2006). Further, both have participated in the Rim of Pacific multinational exercises and South Korea has been an observer at Australian exercises in 2004, 2005 and 2007 (The Parliament of the Commonwealth of Australia, 2006).

At this stage annual senior staff defence policy discussions were also taking place but ties remained limited.

The rise of China and the uncertainty around the US future role in the region has prompted the Asia-Pacific countries to pursue bilateral ties more strongly. Those that are US allies have found that this alliance has provided a strong foundation from which to do this and this has been the case for Australia and South Korea (Cronin et al., 2013). The two share some key common goals such as stability in the region, the continuing presence of the US in the region, and a nuclear free Korean Peninsula (Australian Government Department of Foreign Affairs and Trade, 2013; The Parliament of the Commonwealth of Australia, 2006). As a result momentum developed in the relationship following the March 2009 Joint Statement on Enhanced Global and Security Cooperation. This focused on deepening cooperation in several areas including defence and disaster response, counter-terrorism and border security. The same year the governments signed an intelligence sharing agreement (Cronin et al., 2013). Further, in 2010 Australia helped South Korean forces prepare for re-deployment to Afghanistan and assisted with the investigation into the sinking of the Cheonan (Australian Government Department of Foreign Affairs and Trade, 2013). In addition, Australia attended the Eastern Endeavour joint exercise hosted by South Korea followed in April 2011 by an agreement that an annual dialogue should be held. In addition, the Australian and South Korean air force and navy have developed a closer relationship through regular talks, cooperation and visits. For example, in 2010 the HMAS Warranmunga visited South Korea and two South Korean navy vessels visited Australia later the same year (Australian Government Department of Foreign Affairs and Trade, 2013). Further, in December 2011 the first defence minister's dialogue was held resulting in an agreement that joint exercises should be increased to aid the balance of power in the region (Pineda, 2011). In addition, the joint statement following the meeting highlighted that both sides wanted closer relations over intelligence sharing and gathering and increased cooperation on the trading of military goods (Pineda, 2011). Further, in July 2012 Australia and South Korea attended the Pacific Shield 12 joint exercises held in Japan with the US and Singapore, and Australia and South Korea held their first bilateral joint exercise in 2012 (Cronin et al., 2013).

The election of President Park in early 2013 has not hindered this momentum. Park met with the Australian Minister of Foreign Affairs and Minister of Defence in early July in the lead up to the 2+2 meeting being held on the 4th July. This is the first time that South Korea has held a 2+2 with any country other than the US. This type of meeting is usually reserved for

longstanding partnerships, which highlights the increased strength in relations (Robertson, 2013). The 2+2 was aimed at upgrading the relationship as well as looking to increase cooperation in the areas of maritime and cyber security (Sojung, 2013). In addition, in 2013 Australia joined the US-South Korea military exercises. This was the first time troops from a UN Command Member state had joined the exercises since the end of the Korean War (Australian Associated Press, 2013a).

Conclusion

South Korea has been increasing defence spending and upgrading its military. In addition, it continues to rank in the top ten globally for importing of weapons, though recently there has been an increased focus on domestic production. It has a strong alliance with the US including the stationing of US forces in South Korea. Further, its ties with other US allies in the region Japan, India and Australia, are increasing and have gained considerable momentum recently. The threat that South Korea faces from North Korea is a key driver of its spending and modernisation. Despite this, the strength of the alliance with US and the development of ties with other US allies in the region are strongly attached to the rise of China. However, South Korea has not overtly aimed these defence relations at China, and has no wish to destabilise relations with it. Taking all this into account it can be concluded that South Korea's approach can be classed as limited balancing.

Dominance denial

Relations with major powers in the region

In recent years the US and South Korea have worked to expand their ties beyond military relations. The election of US President Obama and South Korean President Lee in 2008 aided this as the two leaders formed strong relations. Indeed a recent Congressional Research (2013) report stated that 'South Korea is one of the United States' most important strategic and economic partners in Asia' (p. 1). This was demonstrated in 2012 with bilateral trade between them worth US\$100 billion (Cooper, Manyin, Juernas, & Platzer, 2013; Manyin et al., 2013). South Korea is the US's seventh largest trading partner and the US is South Korea's third largest trading partner (Bureau of East Asian and Pacific Affairs, 2012b; Manyin et al., 2013). A key indicator of the growth of economic ties is the increase in exports and imports between the countries. For example, in 1970 South Korea exports to the US totalled US\$400 million by 2010 this had increased to US\$50 billion (Hyun-Jung, 2013). South Korea's key exports are electrical machinery, automobiles, mineral fuel, and iron/steel products (Office of the United States Trade Representative, 2012; United States Department of Commerce, 2013a). In addition, South Korean imports from the US grew from US\$600 million to US\$40

billion over the same period (Hyun-Jung, 2013). These imports largely comprise of semiconductors, aircraft, and agricultural products (Korean Institute of America, 2013; Office of the United States Trade Representative, 2012; United States Department of Commerce, 2013a). The KORUS FTA that came into effect in March 2012 is expected to boost trade further, and the push to get it ratified by Lee and Obama is another indication of their intent to increase economic ties (Manyin et al., 2013). The FTA is expected to have a significant impact because it reduces the majority of tariffs over a ten year period with US exports to South Korea projected to grow by US\$10-12 billion as a result (Manyin et al., 2013; United States Department of Commerce, 2013a). The impact has already been noticeable, with aircraft exports to South Korea increasing 34 per cent since it came into effect (Office of the United States Trade Representative, 2013).

Investment between the two countries is significant with South Korea investing US\$62 billion into the US in 2012, and US investing US\$49 billion into South Korea (United States Department of Commerce, 2013a). For South Korea, the US is its second largest destination and source of FDI as seen in Figure 24 and Figure 25 on pages 104 and 105. Indeed, since the FTA came into effect investment from US companies into South Korea has increased 113.6 per cent (Hyun-Jung, 2013). Prior to this US investment in South Korea had faced barriers such as lack of transparency, concerns about protection of Intellectual Property, and South Korea's protection of agriculture and automobiles industries (Cooper et al., 2013; United States Department of Commerce, 2013a). The significance of South Korea's investment into the US is demonstrated by the fact that between January 2003 and May 2013 273 projects had been invested in totalling US\$27.8 billion (United States Department of Commerce, 2013b). The major areas of investment are the automobile industry, transportation equipment, finance and retail (United States Department of Commerce, 2012).

Diplomatic relations between the US and South Korea are close and in particular respective Presidents Lee and Obama have given momentum to stronger diplomatic relations. This was evident in a 2008 joint statement which stated that both sides wished to expand relations beyond the security dimension of the relationship to include economic and political ties (Ministry of Foreign Affairs, 2009). This was followed in 2009 with four high level summits and meetings on the side line of G8 and APEC. Further, two summits were held 2010 along with discussion between the foreign ministers over regional and global issues. The closeness of ties was evident with the new South Korean Foreign Minister meeting with Secretary of State Hilary Clinton twice, and holding two telephone calls between October and December 2010

(Ministry of Foreign Affairs, 2011). Significantly the 2011 South Korea Diplomatic White Paper (2012a) stated that it was looking to move the relationship to a more 'mature level' and this was underscored by President Lee making the first state visit by a South Korea President to the US in 13 years. This resulted in a commitment to expand cooperation on the economic crisis, poverty and climate change. The intent to broaden diplomatic ties was demonstrated further with the signing of a MoU between the Ministry Of Foreign Affairs (MOFA) and the Department of State for staff exchanges (Ministry of Foreign Affairs, 2012a). In addition, high level visits were held over issues such as the Middle East, and Africa and the US Assistant Secretary for East Asian and Pacific Affairs visited South Korea five times in 2011. This was followed by the trip by President Park to the US in May 2013 resulting in an agreement to further cooperate on climate change and North Korea (Obama & Park, 2013).

The economic relationship between Japan and South Korea is strong with bilateral trade reaching a new record of \$108 billion in 2011 (Ministry of Foreign Affairs, 2012a). Japan being South Korea's second largest trading partner, and South Korea is Japan's third largest trading partner (Euromonitor International, 2013a; European Commission, 2013; Ministry of Foreign Affairs, 2012a). South Korea is a significant export destination for Japan, as seen in Figure 21 on page 100. This is demonstrated by Japan's reliance on South Korea as an export market increasing from 6.4 per cent in 2000 to 8.1 per cent in 2010 (Mukoyama, 2012). The key exports to South Korea are production and consumer goods, raw materials, parts, chemicals and production equipment (Mukoyama, 2012). However, South Korea's reliance on exports to Japan have declined from 11.9 per cent in 2000 to six per cent in 2010, due to the impact of China's growth as a key market for both countries (Mukoyama, 2012). However, the overall trend for imports and exports for both countries is an upward one and trade remains significant (Euromonitor International, 2013a). This is underscored by the fact that South Korea's exports to Japan have increased 2.2 times since 1990 and imports from Japan have increased 3.5 times over the same period (Mukoyama, 2012).

To further strengthen economic ties negotiations for a bilateral FTA were started in 2003. Although, this was suspended in 2004 due to political tension and South Korea's concern over the effect an FTA would have on its manufacturing and agricultural sectors (Chiang, 2013). However, progress is being made on the trilateral FTA negotiations with Japan and China. Further, South Korea and Japan are both considering joining the TPP negotiations which would increase economic ties. Interestingly, it has been reported that the benefits to Japan of joining the TPP would in fact make a bilateral FTA with South Korea irrelevant to it (Yoon-Kyung,

2013). However, Japan's decision to enter the TPP prompted South Korea to reconsider its reluctance to join due to the potential for increased access to the Japanese market, as well as the potential impact on South Korea's trade and investment if it was not in the agreement (Solis, 2013b).

Investment between the two countries has been mixed. The overall FDI investment Japan made in Korea has trended upwards. South Korean investment in Japan totalled US\$2.5 billion in 2012 (Japan External Trade Organization, 2012a). Further, in 2012 investment by Japan totalled US\$4.54 billion, the largest amount so far, and twice the amount invested in 2011 (Invest Korea, 2013c; Mukoyama, 2012). This reflects the fact that South Korea has been targeting Japanese companies to try to lure them to South Korea which will reduce the amount that needs to be imported, thereby reducing the trade deficit South Korea has with Japan (Mukoyama, 2012) (Invest Korea, 2013b). In particular there has been a focus on the parts and raw materials industries as well as the automobile, semiconductors and electronics sectors (Invest Korea, 2013b). Further, the trilateral investment agreement between Japan, South Korea, and China signed in 2012 should increase investment opportunities.

However, souring diplomatic relations have impacted negatively on investment; reducing currency swaps it to its lowest amount since 2006 (I. Han, 2013). Three were in place totalling US\$70 billion but two contracts were allowed to lapse in 2012 and 2013, with the remaining contract leaving the currency swap at a value of US\$10 billion (I. Han, 2013). Further, the first nine months of 2013 saw a sharp decline in investment, from a monthly average investment of US\$378.5 million in 2012 to US\$218.1 million in 2013, though the weakening yen has impacted on these figures (Invest Korea, 2013a; Yoon-Kyung, 2013). The current decline has raised the question of whether South Korea will shift closer to China, however it is unclear if this will be the case long term (I. Han, 2013).

Diplomatic relations between Japan and South Korea have often been tense. However following President Lee's election in 2008 the countries agreed to work towards a shared vision. Lee's approach was more forward-looking than his predecessor allowing ties to improve (Hook et al., 2012). However, it was shortly after this that Japan released a draft for its middle school textbooks that claimed sovereignty over Dokdo Island. This caused a strain in relations as South Korea also lays claim to that island. However, the intent to improve relations remained clear with three bilateral summits and foreign minister meetings held, as well as five high level exchanges (Ministry of Foreign Affairs, 2009). Relations seemed to be improving with an agreement at a bilateral in June 2009 to focus on a more mature

relationship and closer ties on economics and North Korea (Ministry of Foreign Affairs, 2010). However, the textbook issue raised its head again with Japan approving the first draft resulting in MOFA issuing a statement in protest (Ministry of Foreign Affairs, 2010). Despite this, the election of Prime Minister Hatoyama in September was significant as he made South Korea his first overseas visit. To mark the 100th year since Japan annexed South Korea Japanese Prime Minister Naoto Kan apologised to South Korea over the conduct of Japan during its colonial rule. This new Japanese administration had a positive impact on ties with South Korea, with the governments agreeing to work closely on trade, security, economic and political issues. However, issues remained over Dokdo with South Korea objecting to the Japanese claims of sovereignty over the island in both the Japanese Diplomatic Bluebook and Defense White Paper 2010 (Ministry of Foreign Affairs, 2011).

Attempts to move the relationship forward continued in 2011 with increased ties over culture, trade, economics and people to people exchanges. The new Japanese Prime Minister visited South Korea in October 2011 and the visit resulted in both sides committing to focusing on the future of relations as well as increasing the trust between the countries (Ministry of Foreign Affairs, 2012a). However, the textbook issue came to the fore yet again and Japan's 2011 Diplomatic Bluebook and Defense Paper reiterated claims over the Dokdo, something that South Korea continues to object to (Ministry of Foreign Affairs, 2012a). This was further compounded by President Lee's visit to Dokdo in August 2012, which was the first by a South Korean President and broke what Japan views as a diplomatic taboo (Chiang, 2013; The Economist, 2012). Lee also called on the Emperor Akihito to apologise to South Korea for Japan's behaviour during the World War II. The issue also resulted in the withdrawal of South Korea from an intelligence deal with Japan in June 2012, and quite significantly, military exchanges ceased in September 2012.

The election of President Park has not improved relations. For example, in April 2013 South Korea's Foreign Minister Yun cancelled a trip to Japan due to Japanese cabinet ministers visiting the Yasukuni shrine (J.-M. Park, 2013). In June the first foreign ministers meeting in nine months was held and both sides agreed to try and improve relations (The Japan Times, 2013f). Despite this, interactions between the two leaders at the October APEC summit were reported as 'frosty' (S. N. Kang, 2013). Further, on her recent trip to Europe, Park rejected any talk of a summit with Japan, indicating that she felt it could not take place until Japan apologised over historical issues, including the use by the Japanese Army of South Korean

women during World War II as comfort women (Williamson, 2013). As a result, it seems unlikely that ties will improve in the near future.

On the other hand, Russia and South Korea's relationship is growing closer. Economically there has been significant growth in trade over the last decade for three reasons; firstly, South Korea has looked to reduce its reliance on China, and Russia provides an alternative source of minerals and natural resources (Russian International Affairs Council, 2013). Secondly, Russia has looked increasingly towards Asia for trade (Russian International Affairs Council, 2013). Thirdly, Russia needs to increase its exports of its key products such as oil, due to the reduction of demand from Europe due the global financial crisis (Bouso, 2013; Mundy, 2013a). Indeed, Russia's key exports to South Korea are mineral fuel, oil and oil products whereas South Korea mainly exports machinery, equipment and cars to Russia (Russian International Affairs Council, 2013). The growth in trade is highlighted by the fact that in 1992 trade between the two countries equated to US\$190million, but by 2012 it had grown to US\$22.5 billion (Russian International Affairs Council, 2013). Further, exports increased 10.5 times between 2001 and 2011 and imports increased by 12.5 times over the same period (Russian International Affairs Council, 2013). However, as Russia is South Korea's 12th largest trading partner there is significant room for growth (Russian International Affairs Council, 2013).

The current level of investment between the countries is relatively small. The Russian International Affairs Council (RIAC) (2013) report highlighted the fact that South Korean financial institutions do not have any real presence in Russia and Russian presence in South Korea is negligible. Further, investment figures are low and rather one sided. For instance, South Korea received US\$148.8 million in investment from Russia in 2012, but total global investment in South Korea was US\$210 billion (Russian International Affairs Council, 2013). Further, South Korean investment in Russia equated to US\$1.9 billion in 2012; less than 1 per cent of the investment that flowed into Russia for 2012 (Russian International Affairs Council, 2013). However, there has been a recent push to increase investment. For example, investment projects in 2011/2012 included the Trans-Korean and Trans-Siberian railway, cooperation on high technologies, disposal of nuclear waste, and energy supply (Russian International Affairs Council, 2013). There is also increasing cooperation on improving the infrastructure and technological knowledge to aid development of the Russia Far East and Siberia region (Russian International Affairs Council, 2013). Further, the visit by Putin to South Korea in November 2013 resulted in a US\$500 million fund to promote investment and trade

between the countries, with the aim to triple investment between the countries over the next two years (Mundy, 2013b). Diplomatic relations between South Korea and Russia gained considerable momentum after the election of President Lee in 2008 with bilateral relations upgraded to a Strategic Cooperative Partnership (Ministry of Foreign Affairs, 2009). 26 agreements were signed that year on issues ranging from visas to a port development in Far East Russia (Ministry of Foreign Affairs, 2009). As a result of this upgrade in relations, the number of high level exchanges increase to 11 in 2009 up from four in 2008, and the foreign ministers met several times (Ministry of Foreign Affairs, 2010). These links continued in 2010 which marked the 20th anniversary of diplomatic relations between the countries. President's Lee and Medvedev exchanged visits and released a joint statement on their intention to deepen ties further and signed an agreement on maritime transport along with 19 MoUs on areas such as energy, fisheries and customs (Ministry of Foreign Affairs, 2011). (Ministry of Foreign Affairs, 2010). South Korea also became the first Asian country to sign a Partnership for Economic Modernization with Russia, which focuses on closer cooperation on IT, medicine, space technologies and nuclear power (Ministry of Foreign Affairs, 2011).

Deepening ties were evident in 2011 with the holding of the second Korea-Russia Dialogue. In addition, on Lee's visit to Russia both sides agreed to increase cooperation on the Far East and Siberia region, as well as in the energy and IT sectors (Ministry of Foreign Affairs, 2012a). Further in 2012, the countries signed a Memorandum of Cooperation on Agriculture allowing data sharing between the two to help improve agricultural development, and agreed to work together on joint projects in the Far East Federal District (Russian International Affairs Council, 2013). The growing closeness of ties between the countries has also been highlighted by the RIAC (2013) report which suggested that Russia is looking towards a tri, quad or six party arrangement involving South Korea.

Economic relations between India and South Korea began to significantly deepen after the Cold War. In particular ties began to develop once South Korea became a democracy, and India started to liberalise its economy and pursue a 'Look East' policy in the 1990s (Institute for Peace and Conflict Studies, 2014; Jaishankar, 2012). The growth has been significant; in 1993 bilateral trade totalled \$600 million but by 2008 it was worth \$15.6 billion (Brewster, 2010b). Major exports from South Korea to India are machinery, equipment, transportation and infrastructure (Brewster, 2010b; Jaishankar, 2012). South Korea imports mainly raw materials and low end commodities from India (Brewster, 2010b; Jaishankar, 2012). More recently, trade has gained considerable momentum due to the signing of the Comprehensive Economic

Partnership Agreement, which came into effect in January 2010 (Brewster, 2010b; Embassy of India, 2013c; Jaishankar, 2012; J.-G. Lee, 2013). Following this trade increased 70 per cent between the countries in the first two years (Embassy of India, 2013c; J.-G. Lee, 2013). However, the potential in the economic relations is largely unfulfilled, for example South Korea's share of India's trade is only three per cent. This has been recognised by the governments and they have now set a target of US\$40 billion in trade by 2015 (Embassy of India, 2013c). South Korean companies are also using India as a 'hub' for exporting product globally.

Investment has been a large driver in closer economic relations. South Korean investment in India totals US\$2.6 billion with 500 Korean companies having a stake or presence in the India market (Embassy of India, 2013c; Jaishankar, 2012). Indian investment in South Korea is worth about US\$1 billion (Embassy of India, 2013c). South Korean companies are particularly prominent in the market for goods such as televisions, washing machines and air conditioners (Asia Society, 2013; Jaishankar, 2012). Automobiles are also a large area for investment for both countries which is reflected in Hyundai being the second largest car manufacturer in India, and Mahindra & Mahindra buying the majority share of SsangYong Motors in 2011 (Embassy of India, 2013c). Indeed, investment is being actively promoted between the countries with South Korean companies awarded a number of contracts on the Indian National Highway Development Project. Further, in 2005 India signed its largest FDI project, awarding South Korea's Pohang Iron and Steel Company (POSCO) a lease on 600 million tons of resources over 30 years (Brewster, 2010b; Dikshit, 2013; J. Park, 2011; POSCO-India, 2010a). The development includes the building of a steel plant and private port, at an investment of US\$12 billion (J. Park, 2011; POSCO-India, 2010a, 2010b). Further, the Civil Nuclear Energy Cooperation investment deal was signed in 2011 allowing South Korea to export its nuclear technology to India (Embassy of India, 2013c). More recently, in March 2013 the Korea Trade-Investment Promotion Agency (KOTRA) signed a deal with India which allows KOTRA to develop 250 acres in Rajasthan as a special economic zone for Korean companies (Asia Society, 2013). This reflects the fact that South Korean companies increasingly view India as 'hub' for exporting products globally (Brewster, 2010b).

The increasing economic relations have positively influenced the diplomatic ties. The Long Term Cooperative Partnership for Peace and Prosperity signed in 2004 was a catalyst for diplomatic ties gaining momentum (J.-G. Lee, 2013). In 2010 the increasing importance of ties was underscored when the relationship was upgraded to a Strategic Partnership (Embassy of

India, 2013c; J.-G. Lee, 2013). There have also been several mutual visits. For example, President Lee travelled to India in 2010 and the President of India visited South Korea in 2011, which this was followed by Prime Minister Singh visiting Seoul in 2012 (Embassy of India, 2013c; J.-G. Lee, 2013). In addition, a delegation of India's Members of Parliament visited South Korea in July in 2013 and the India-ROK Joint Commission held its sixth meeting in 2013, agreeing to increase cooperation on a range of areas including security, trade and investment (Embassy of India, 2013a). The growing relationship is highlighted by a significant increase in high level exchanges between the two countries (Embassy of India, 2013b, 2013c). For example, in 2007 there were three high level exchanges, in 2008 and 2009 this increased to four (Embassy of India, 2013b). However, once the relationship was elevated to a strategic partnership the high level exchanges have increased to fourteen in 2010 and 21 in 2011 (Embassy of India, 2013b).

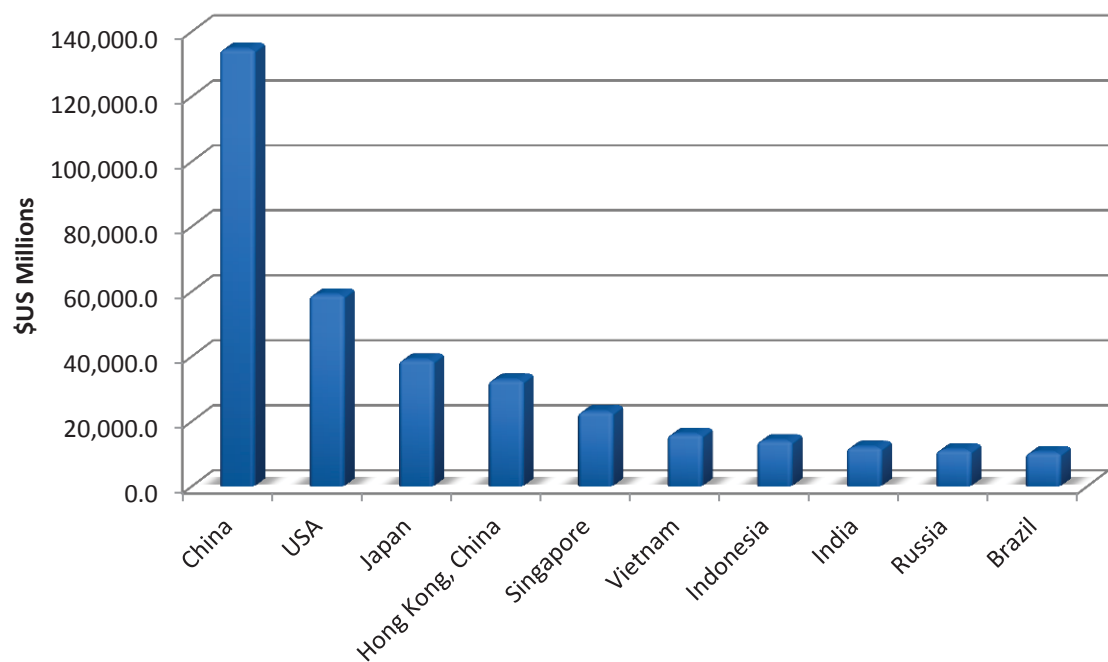
Conclusion

Overall, South Korea has been courting closer ties with the key powers in region. Japan has been an exception to this due to the rising tension over historical and territorial issues, and though in the past attempts to improve relations have been made the current situation is one of strain. Relations with the US have been borne out of a strong military alliance, and the US pivot to the Asia-Pacific has aided the broadening of relations. The US has also encouraged South Korea to pursue closer ties with India, and like Japan, South Korea has also developed stronger relations with Russia. The impact of China on the region both economically and diplomatically has encouraged South Korea to broaden its ties with the major players in the region. However, it would be incorrect to conclude this development has been in response only to the rise of China. Further, South Korea has not moved to resolve the current tensions with Japan. These two factors lead to an inconclusive conclusion as to whether South Korea is pursuing dominance denial or not.

Returns Maximising Options

Economic Pragmatism

Figure 21: Top ten export destinations for South Korea in 2012



SOURCE: (Euromonitor International, 2013a).

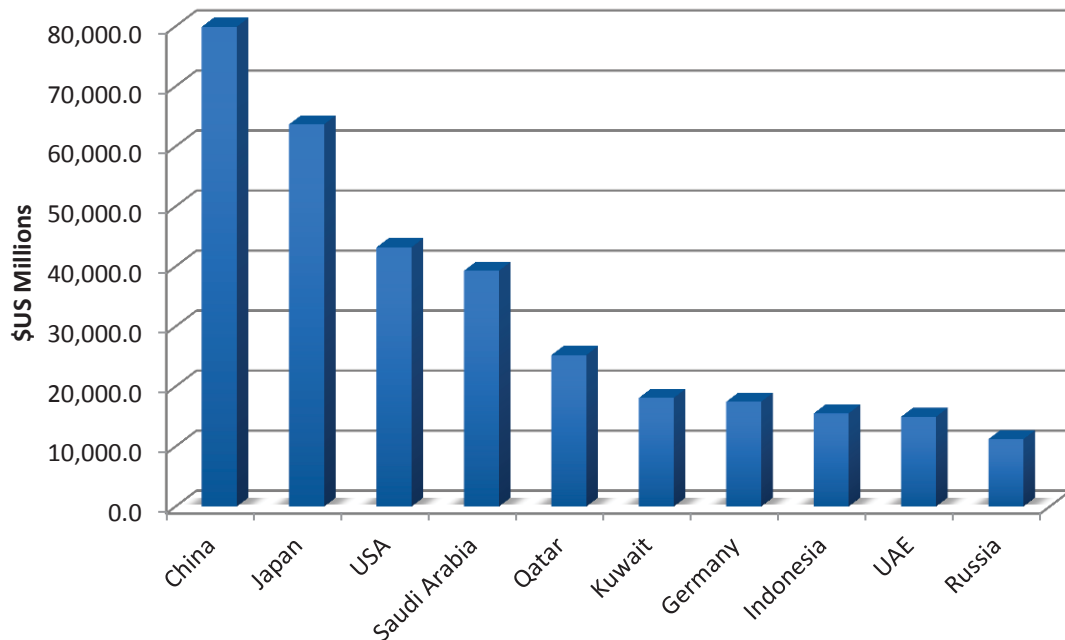
South Korea's Top Trading Partners

China has been South Korea's key trading partner since 2003 and this is reflected in both exports and imports, as seen in .

Figure 22 (Heo & Cho, 2012; Zhou, 2010). The South Korean economy is export driven and China is overwhelmingly the key destination. For example, exports to China totalled US\$134.5 million in 2012 with the US second on US\$58.9 million (Euromonitor International, 2013a). South Korea's key markets in China are in the transport and electronics sectors, with components produced in South Korea then assembled in China (Department of State Development, 2011; Euromonitor International, 2013c; Lifei & Seo, 2012; Liu, 2011; Medeiros,

2008). These exports to China have grown significantly at an average of 35 per cent between 2002 and 2007 (Euromonitor International, 2013d).

Figure 22: Top ten sources of imports for South Korea in 2012



SOURCE: (Euromonitor International, 2013a).

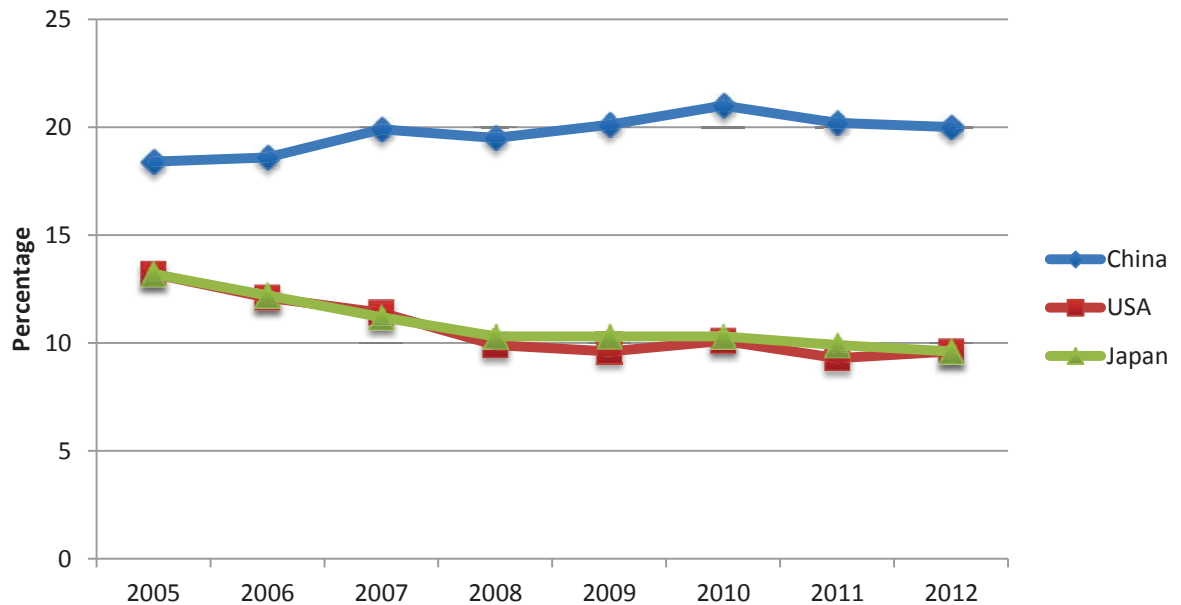
Imports are on a smaller scale however, China is the leading source of imports for South Korea with mineral products and electronic equipment the key markets (Department of State Development, 2011; Lifei & Seo, 2012). South Korea's importing of products from China has grown substantially since the normalising of relations in 1992. This is highlighted by the fact that imports from China increased 40 times between 1992-2008 (Zhou, 2010). For instance, in 2012 imports from China equated to US\$79.9 million in 2012, which was significantly ahead of Japan on US\$63.7 million and the US on US\$43.1 million (Euromonitor International, 2013a).

Trade Dependency

The second indicator of economic pragmatism is the degree of trade dependency on China, as shown in Figure 23. South Korea, much like Japan, is heavily dependent on trade with China. For example, in 2012 trade dependency was 20 per cent followed by Japan and the US both on 9.6 per cent (Euromonitor International, 2013a). More significant though is that as South Korea's trade dependency on China is increasing, up from 18.4 per cent in 2005, the dependency on the US and Japan is trending down. This is only increasing South Korea's reliance on China as its key trading partner. Indeed, Ernst & Young (2012) are projecting that South Korea will become heavily dependent on China by 2020. Further, exports to China are

projected to increase 14.5 per cent a year from 2010 until 2020, thus increasing South Korea's reliance (Ernst & Young, 2012).

Figure 23: South Korea's Trade Dependency 2005-2012



SOURCE: (Euromonitor International, 2013a).

Trade relations

As can be seen, economic relations between South Korea and China are strong. Indeed the success of trade between the two countries since normalising relations has been driven by the complementary nature of their economies. Indeed, South Korea's strengths lie in electronics, shipping, chemicals and manufacturing, whereas China's strengths are in agriculture, minerals and textiles (Liu, 2011). This has resulted in bilateral trade between the two growing from US\$5 billion in 1992 to US\$200 billion by 2011 (Liu, 2011). South Korea is a key trading partner for China as well as vice versa with South Korea China's third largest trading partner (Liu, 2011; Suk-hee, 2012). The significance of China to the South Korean economy is highlighted by Uk Heo and Wondeuk Cho who state 'more than half of South Korea's economic growth since 2008 is attributable to increased exports to China' (2012, p. 220).

Trade between the two has not suffered the significant issues that Japan and China have faced. However, economic relations have not been without their tensions. For instance, tariff disputes have been an issue, particularly in 2000 when China flooded the South Korea garlic market (Suk-hee, 2012; Zhou, 2010). Diplomatic tensions too have played a part (Suk-hee, 2012). For example, an anti-dumping dispute effected trade in 2005 (Zhou, 2010). However, these issues have not caused long term effects. Instead, South Korea's key concern is China's

growing competitiveness with it because this will have long term implications (Euromonitor International, 2013d).

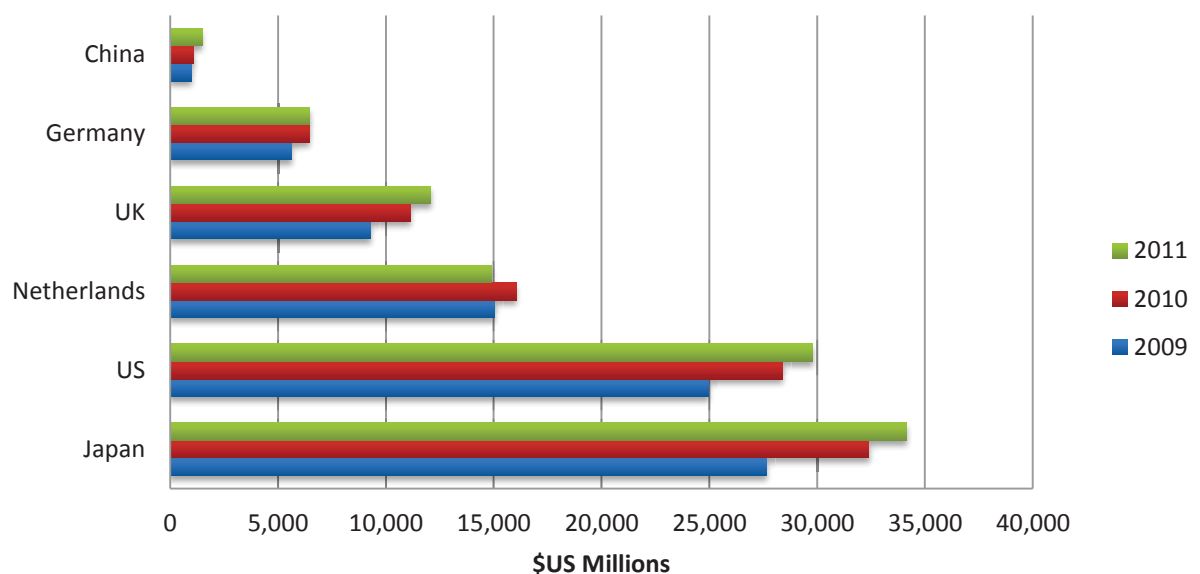
China is eroding the competitive advantage that South Korea has enjoyed in certain sectors and long term competition from China is only likely to increase (Korean International Trade Association, 2013). The key areas of competition are IT, electronics, shipbuilding and automobiles (Euromonitor International, 2013d; Zhou, 2010). These are all key export markets for South Korea. For instance, South Korea currently enjoys a 50 per cent share of the global shipping market, which is now being impacted on by China (Business Monitor International, 2011; Euromonitor International, 2013d; Watt-Pringle, 2011; Zhou, 2010). In 2010, China overtook South Korea as the world's leading shipbuilder with China receiving 44.4 per cent of all new ship orders compared to South Korea's 40.1 per cent (Mickeviciene, 2011). Further, China has surpassed South Korea as the leading exporter of standard bulk ships and oil tankers, although South Korea retains a technology advantage in specialised areas such as LNG ships (Jung-a, 2012; Yi, 2012).

China's ability to compete with South Korea has been aided by the signing of the Economic Cooperation Framework Agreement (ECFA) with Taiwan in June 2010. This gave China access to Taiwanese technology and preferential tariffs for Taiwanese companies and has increased China's competitiveness globally, but it was also expected to impact significantly on South Korea's trade with China (Heo & Cho, 2012). This was because 14 of the top 20 items South Korea exports to China are in direct competition with Taiwanese suppliers (Heo & Cho, 2012). Therefore, the agreement was expected to impact heavily on South Korean companies exports to China as Taiwanese companies would now be a more cost effective option. However, after two years the impact has not been quite as significant as anticipated (Chen-yuan, 2011). South Korea still has a bigger market share in China of 9.6 per cent compared to Taiwan's 7.3 per cent (Heo & Cho, 2012). However, South Korea is under increasing pressure from China in its trade with its key export markets. For instance, China's exports to the US, Japan and the EU are all growing faster than South Korea's exports to these markets and thus, its trade with countries is being threatened (Medeiros, 2008; Zhou, 2010). The impact of this increasing competitiveness from China is that it has hindered South Korea's growth reducing South Korea's annual growth from six to four per cent (IHS Global Insight, 2013).

Despite the issues of competition economic relations between China and South Korea will become even closer with two FTA's in negotiation. At the November 2004 APEC meeting China and South Korea agreed to begin a non-government feasibility study into a bilateral FTA which

started in March 2005 (Ministry of Foreign Affairs, 2013b; Zhou, 2010). China has pressed for negotiations to formalise these negotiations but South Korea has been somewhat reluctant due to growing competition from China, and South Korea's reliance on China (Suk-hee, 2012; Tae-jong & Whan-yoo, 2013; Zhou, 2010). However, in May 2012 it was finally announced that negotiations would begin (Byun & Snyder, 2013; Lifei & Seo, 2012; Ministry of Foreign Affairs, 2012b, 2013b). This agreement is seen as an important part of the aim to increase trade between the two from the current levels of US\$214 billion up to US\$300 billion by 2016 (Euromonitor International, 2013a; Lifei & Seo, 2012). Further, a trilateral FTA between South Korea, China and Japan is underway, with the first round of negotiations held in March 2013 (Miller, 2013b; Ministry of Commerce, 2013). The bilateral agreement is further along in negotiation than the trilateral one, and is viewed as a potential framework for the trilateral agreement (Lifei & Seo, 2012).

Figure 24: Top five origins of FDI for South Korea 2009-2011, plus China.



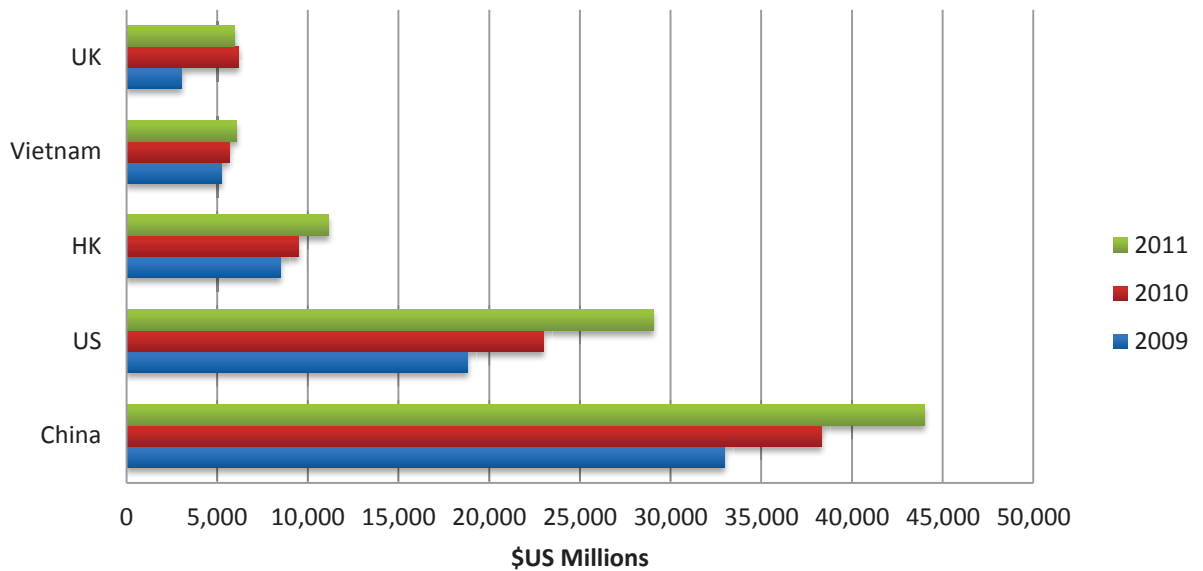
SOURCE: (International Monetary Fund, 2013).

FDI

The third indicator for economic pragmatism is the FDI flows between South Korea and China. China does not make a significant investment in South Korea instead Japan and the US are the most significant investors in South Korea, as shown in Figure 24 (Medeiros, 2008). For instance, Japan and the US invested US\$34 billion in 2011 and US\$29 billion respectively, compared to just US\$1.4 billion by China (International Monetary Fund, 2013). The investment China does make is primarily in the areas of transport equipment, chemicals and manufacturing industries (Medeiros, 2008). However, China is also negatively impacting on the

amount of overall FDI inflow that South Korea is receiving. FDI inflows into South Korea have slowed down because investment that was going to South Korea is increasingly being attracted by China, Japan and Taiwan (Euromonitor International, 2013d).

Figure 25: Top five destinations for South Korean outward FDI in 2012



SOURCE:(International Monetary Fund, 2013).

Outward FDI is a key element of the South Korean economy with China the largest recipient as shown in Figure 25 (Njau, 2012). China received US\$44 billion from South Korea in 2011 which is a significant increase from US\$32 billion in 2009, and is also substantially higher than the US who is second receiving US\$29 billion (International Monetary Fund, 2013). The large investment in China is driven by two causes. Firstly, the Chinese market has few barriers to South Korean businesses (Medeiros, 2008). Secondly, it offers a much freer environment than the heavily regulated South Korean economy (Medeiros, 2008). However, similar to the trade relationship, South Korea is concerned about competition and over reliance on investment in China. For example, the impact of relocating manufacturing businesses to China has resulted in job losses in South Korea (Medeiros, 2008). Further, in 2007 half of South Korean firms believed their competitive advantage had been lost to China (Zhou, 2010). The signing of the ECFA has impacted in this area too because 38 per cent of the Chinese companies trading with South Korea were considering shifting their focus to Taiwan instead (Heo & Cho, 2012). As a result of these issues, the South Korean government has promoted diversification into markets such as India, Thailand and Vietnam (Department of State Development, 2011; Medeiros, 2008).

These issues have not weakened ties between the countries. Indeed, the South Korea-Japan-China Trilateral Investment agreement was signed in May 2012 as a precursor to FTA negotiations with the potential impact of these agreements positive for investment relations (Dickie & Oliver, 2012). Further to this, business ties have been boosted by the currency swap agreement between the two countries. In December 2008 it was announced a currency swap would be put in place for three years, and this was signed in April 2009 (The Bank of Korea, 2008, 2011). This was then extended and increased in October 2011 from ₩38 trillion to ₩64 trillion (The Bank of Korea, 2011). Following Park's visit to China in June 2013 the agreement has been extended again until 2014, with room for expansion if required (Tae-jong & Whan-yoo, 2013; The Japan Times, 2013a). The fact that Park views China as the key to growing South Korea's trade and investment was further emphasised on her 2013 visit to China taking 71 South Korean business executives with her (Sanderson & Yoon, 2013).

Conclusion

So, it is clear that China plays a crucial role in South Korea's economy. China is its largest trading partner, and South Korea's trade dependency on China is significantly higher than any other country. Further, to this though inward FDI is small from China, it is the largest recipient of investment from South Korea. Though there have been issues for South Korea such as China's increasing competition and concerns about over reliance the overall economic relationship is close. This is only set to increase with the negotiation of the bilateral and trilateral FTA's. Therefore, one can conclude that South Korea is pursuing economic pragmatism with regards to relations with China.

Binding engagement

Lines of Communication

South Korea has been attempting to improve relations with China since the 1970s, and while other countries pronounced China a threat in the 1980s and 90s, South Korea did not (J. H. Chung, 2009a). Once relations were formalised in 1992 regular visits and high level exchanges helped develop the lines of communication particularly in regards to economics and North Korea. This led to an agreement in 1998 to establish a cooperative partnership and in 2000 this was expanded by focusing on eight areas for cooperation, four of which focused on trade and investment (Medeiros, 2008). It was also agreed to continue high level exchanges to help strengthen relations (Medeiros, 2008). The expansion of economic trade increased the lines of communication further with South Korean President Roh visiting China in 2003. This resulted in the signing of an economic agreement strengthening relations in 17 key economic sectors and included discussion around developing a Comprehensive Cooperative Partnership

(Medeiros, 2008). The lines of communication also increased between parliaments with South Korea's parliament signing a cooperation agreement with China in 2006, the first it has signed. The increasing ties were evident in 2007 with four meetings between Roh and Prime Minister Jiabao. (Ministry of Foreign Affairs, 2008a). The foreign ministers also met several times, including a bilateral visit by South Korea's Foreign Minister Song to China in January (Ministry of Foreign Affairs, 2008a). There was also an increase in the number of parliamentary exchanges including the Speaker of China's National Assembly visiting South Korea to discuss solutions to the North Korea issue (Ministry of Foreign Affairs, 2008a).

2008 was a significant year for China-South Korea relations. The lines of communication were further increased with the elevation of the relationship, in May, from a Comprehensive and Cooperative Partnership to a Strategic Cooperative Partnership (Ministry of Foreign Affairs, 2009). This increased ties in diplomacy, security, society and culture and also increased communication through the establishment of a strategic dialogue for diplomatic departments, and an agreement that the diplomatic and security dialogues should be held regularly. In August the countries met again to develop an Action Plan for the Strategic Cooperative Partnership, this further increased the communication links, as the Ministry of Foreign Affairs (2009) for South Korea states:

To materize the strategic partnership, the two Presidents agreed to frequently exchange visits, hold bilateral summit meetings on the occasion of multilateral meetings and proceed the 'Korea-China Joint Research' (p. 70).

Further, to this the agreement also promoted the expansion of exchanges and dialogues between the countries parliament and political parties (Ministry of Foreign Affairs of the Peoples Republic of China, 2008). The effects of the efforts to increase communication were apparent in 2010 with 13 high level summit meetings held and 15 foreign ministers meetings (Ministry of Foreign Affairs, 2013a). The Presidents met several times, and agreed to expand communication on G20, North Korea and youth exchanges (Ministry of Foreign Affairs, 2011). These same sentiments were reiterated in a number of meetings in 2011 as well (Ministry of Foreign Affairs, 2012a). High level visits continued in 2012, with the fifth high level strategic dialogue held between the foreign ministers (Byun & Snyder, 2013). Further, talks between President Jiabao and President Myung-bak were held on the side-lines of the ASEAN+3 summit (Byun & Snyder, 2013). In addition to this, the countries held their first conference on internet cooperation and the 7th China-ROK Parliamentary Exchange was held in Seoul (Byun & Snyder, 2013). Park's election is seen as a further positive for relations between them (J. C. Kim, 2013).

Indeed the summit in May 2013 had led to agreement to expand strategic consultation and communication and the need to increase regular dialogue (J. C. Kim, 2013). In addition this, the summit resulted in a Joint Communique stating the countries would work together to denuclearize the Korean peninsula (Jae-Soon, 2013; Sang-Hun, 2013).

Degree of interaction at bilateral and multilateral levels

Bilateral

These lines of communication form a key basis of bilateral relations, which is part of the second indicator for binding engagement. Indeed one can see that there have been many agreements to increase the lines of communication between China and South Korea. Further, South Korea's relations with China have been highlighted by academics such as David Kang (2007) and Jae Ho Chung (2009a) as an example of strong engagement with China. This engagement has been due to the fact that South Korea has not necessarily viewed China's rise as a threat and so has engaged with it and welcomed its rise (D. C. Kang, 2007, 2009). Thus, South Korea has been viewed as having an optimistic view of China (J. H. Chung, 2009a).

However, bilateral relations have been somewhat limited to economics and North Korea. Indeed, though good relations with China are highly valued there is not necessarily a clear policy towards China (Medeiros, 2008). Evan Medeiros (2008) states that 'South Korean leaders have no clear guidelines, doctrines, or policy statement directing the development of South Korean-Chinese diplomatic relations' (p. 84). As a result, ties have not significantly developed beyond these two areas of common interest (Medeiros, 2008). This has been reflective of the fact that in the past China has not been so much of an issue domestically, unlike the situation Japan faces, so despite a drop in favourable views of China amongst the South Korean public the South Korean government has been able to retain a positive, albeit limited, approach in its actions with China (Jiyoon & Friedhoff, 2012; Medeiros, 2008; Strangarone, 2013). However, it is largely through the trilateral summits with Japan and China, not bilateral relations, that the countries are collaborating in broader areas such as scientific research, environmental issues and sustainable development (Ministry of Foreign Affairs, 2009; Ministry of Foreign Affairs of Japan, 2009, 2010a). The election of Park seemed promising with various agreements signed on education and cultural exchanges and a real emphasis placed on expanding relations (Mishra, 2013). However, China's announcement of the AIDZ is likely to hinder this and could cause mistrust in the relationship (Miller, 2013a). That said, historically bilateral relations have not been without their tensions, but South Korea has tended to try to limit any impact when disputes with China have arisen (Medeiros, 2008).

Indeed the historical debate over the Koguryo Dynasty is an example of this. This issue came to the fore in 2003 when China applied to the United Nations Educational, Scientific and Cultural Organization (UNESCO) for World Heritage status for its Northeast Asia History Project. This application included Koguryo tombs which was significant because South Korea has viewed the Koguryo Dynasty as an integral part of its own history. As a result, South Korea was alarmed because it viewed China as attempting to incorporate the Koguryo Dynasty into Chinese history (J. H. Chung, 2009a; Gries, 2005). Following this in 2004 the MOFA for China deleted from its website the section of South Korea's history that referenced the Koguryo Dynasty (J. H. Chung, 2009a; Gries, 2005). However, while this created tension between the countries, both sides moved to contain the fallout by referring to it as an academic debate, and as a result the issue has been largely played down since (J. H. Chung, 2009a). However, there have been four areas in relations, which have at times caused diplomatic tension, even in areas of common interest such as North Korea (Strangarone, 2013).

Tensions

Firstly, North Korea has been a key area of cooperation but also one of disagreement. Though both countries have reiterated at several high level exchanges over the years the need to cooperate on this issue, the approach to the problem of stabilising the Korean Peninsula and denuclearising North Korea have at times clashed (Byun & Snyder, 2013; Strangarone, 2013). For example, under President Lee South Korea took a hard-line approach to the North Korean issue, which was a shift away from a previously more engaged policy (Byun & Snyder, 2013; Strangarone, 2013). China did not agree with this and so has welcomed Park's shift back towards engagement (Byun & Snyder, 2013; Strangarone, 2013). Refugees from North Korea is one of the areas of disagreement because South Korea opposes China's policy of returning North Korean refugees instead of helping them transition to South Korea and without confirming their safety upon return, where many of these refugees are punished or executed (J. H. Chung, 2009a; Medeiros, 2008; Strangarone, 2013; Suk-hee, 2012).

Secondly, China maintains a close relationship with North Korea causing South Korea to be sceptical that China wants North Korea to denuclearise (J. H. Chung, 2009a). For example, although President Park has reported that China stated at the summit in July 2012 that it supports North Korea denuclearisation, the official statement issued following the summit did not state this (Jae-Soon, 2013). Further, in 2010 North Korea sunk the South Korean Naval ship the Cheonan and also carried out an artillery attack on the South Korea's Yeonpyeong Island (KatzKatrin & Cha, 2012; Strangarone, 2013; Suk-hee, 2012). An international investigation into the sinking concluded it was due to a North Korean torpedo strike (KatzKatrin & Cha,

2012). However, China did not condemn the attack which South Korea viewed as China supporting North Korea's action and this damaged relations (J. C. Kim, 2013).

Thirdly, the US-South Korea alliance is also a point of tension in relations with China viewing it as anti-China (Byun & Snyder, 2013). South Korea finds itself in a similar position to Japan in that it is trying to manage a security alliance with the US but strong economic dependence on China (J. H. Chung, 2007, 2009a; Suk-hee, 2012). Indeed the difficulty for South Korea of balancing these relations was clear during President Roh's administration. For example, President Roh had a strong relationship with China during his term which was evident by his concern about the stationing of US troops in South Korea, as there was unease that these troops could be deployed in a US dispute with China (Byun & Snyder, 2013; J. H. Chung, 2009a). President Lee attempted to repair the damage to US relations but this resulted in damaging relations with China. However, President Park has made it clear she intends to improve relations with China, but how this will be managed alongside the US alliance remains unclear.

Finally, the territorial dispute with China over Socotra Rock, named by the British in 1900, has caused tension (Borowiec, 2012). South Korea formally named it leodo in 2001, China refers to it as Suyan Rock (Borowiec, 2012; Guo, 2006). The dispute has been on-going for some time and is discussed in more detail in the section on Limited Bandwagoning, However, the key element is that both countries EEZ lines overlap, with Socotra Rock in the middle. As of yet not a lot of progress has been made in resolving the issue. The decision by South Korea in 2011 to lift a sunken ship near the rock resulted in China asking South Korea to stop the hoist with sea patrol boats being sent out (Hae-In, 2011). However, in another example of South Korea trying to dampen any disputes with China a foreign ministry official announced that there was no dispute with China over the rock and that both sides acknowledged that it is not claimable (Hae-In, 2011). Despite this, the dispute flared again in March 2012 when the State Oceanic Administration Chief referred to the rock as being within Chinese waters and South Korea responded by summoning Chinese diplomats to explain (Borowiec, 2012; Page, 2012). Further, the announcement by China in November 2013 of an ADIZ in the East China Sea has increased tensions as the zone includes Socotra Rock (Thompson, 2013). However, the diplomatic response has been limited to South Korea again summoning the Chinese Ambassador and making their concerns known (Ministry of National Defense, 2013). Thus, the issue is on-going but it has had a more limited impact on diplomatic relations than the Sino-Japanese territorial dispute has.

Multilateral

The second aspect of binding is multilateralism. Whereas Japan has a clear strategy of binding China to dilute its power in Asia South Korea's motivations are quite different. South Korea has not viewed China as a threat to its security or power in the region and thus it has not bound China multilaterally to dilute its power but rather because of the benefits to South Korea economically. This will be evident through discussion on South Korea's approach to the FTA's and trilateral summits with Japan and China.

South Korea has actively sought FTA's globally since 2003 (Chiang, 2013). Since that time it has pursued FTA's with 50 countries and welcomed the negotiations for a trilateral FTA in addition to a bilateral FTA. This is motivated by that fact that South Korea wants to increase investment and become a hub for the Northeast Asian economy (Chiang, 2013). Therefore, as Japan and China are its largest trading partners South Korea views them as a key element to achieve this. In particular an FTA with China is viewed by South Korea as the more important of the two. Certainly, the territorial disputes between China and Japan have slowed trilateral FTA talks, but in the meantime China and South Korea have stepped up negotiations for a bilateral FTA (Mishra, 2013; WantChinaTimes, 2013; Wu, 2014). Further, it has been reported by the South Korean media that China's about face on its initial reluctance to join the TPP has directly influenced South Korea's interest in joining the agreement (Business Korea, 2013). However, the trilateral FTA negotiations offer a unique opportunity to South Korea to achieve its aim of becoming an economic hub, particularly due to the potential it sees in the Chinese domestic market (Chiang, 2013). In addition, a trilateral FTA with Japan and China is viewed as an important way to negate any impact on trade and investment flows into South Korea from a Japan-China bilateral FTA (Chiang, 2013).

The trilateral summit between China-Japan-South Korea is the key multilateral interaction between South Korea and China. South Korea's eagerness to bind China to this type of grouping has been evident because it had been pushing for this type of trilateral meeting outside of ASEAN +3, since 2004, although it wasn't achieved until 2008 (Ministry of Foreign Affairs, 2009). The annual trilateral summits have aimed to increase transparency, trust, respect, and cooperation on areas of common interests (Prime Minister of Japan and his Cabinet, 2008). For example, the 2009 meeting resulted in an agreement on sustainable development. This included promoting the China-Japan-ROK Joint Research Collaboration Program and endorsing the findings of the 11th Tripartite Environment Ministers Meeting which highlighted 10 key areas of cooperation on sustainable development (Ministry of Foreign Affairs of Japan, 2009).

The 2010 summit was notable for its joint statement in regards to science and innovation. This included collaboration on research between the three on natural disasters included monsoons, droughts and earthquakes (Ministry of Foreign Affairs of Japan, 2010a). It also reiterated the funding it provides to the Joint Research Collaboration Program and the A3 Foresight Program, the latter of which conducts collaborative research in areas ranging from nanotechnology to renewable energy (Japan Society for the Promotion of Science, 2013; Ministry of Foreign Affairs of Japan, 2010a). However, the most significant outcome of the 2010 meeting was the release of 'Vision 2020'. This included goals such as looking at a Trilateral Defense Dialogue, expanding people to people exchanges through university exchanges, increasing the volume of trade by 2020 and implementing an Action Plan on Tripartite Customs cooperation (Ministry of Foreign Affairs of Japan, 2010d). The fourth meeting in 2011 was held despite the triple disaster in Japan with agreement for cooperation on disaster management; nuclear safety and sustainable growth (Ministry of Foreign Affairs, 2012a). Unfortunately for South Korea, China's dispute with Japan over the Senkaku/Diaoyu Islands caused the May summit to be postponed (Nam, 2013; The Japan Times, 2013h).

The South Korean attitude towards these summits has been one of enthusiasm. Indeed, South Korea views these forums as a way to bind China in a way that benefits South Korea. The reasons behind South Korea's keen interest in these summits are highlighted by Andrew Yeo who states:

[By] Actively participating in trilateral cooperation, South Korea continues to raise its regional and international profile. Moreover, the framework enables South Korea to interact with its more powerful neighbours, China and Japan, on an equal footing (2012, p. 4).

Further, the South Korean commitment to the trilateral summits was highlighted at the summit in 2010 when President Lee suggested the establishment of the Trilateral Cooperation Secretariat (TCS) to manage the trilateral cooperation between the three countries (Ministry of Foreign Affairs, 2010). This was included in Vision 2020 and established in 2011 (Ministry of Commerce People's Republic of China, 2010; Trilateral Cooperation Secretariat, 2013). TCS aims to promote understanding and build trust between the three countries. Further, the fact it is based in Seoul allows South Korea to have considerable influence over the agenda (Yeo, 2012).

Conclusion

So, South Korea is a clear example of a country pursuing engagement with China. It has increased its lines of communication with China and has strengthened bilateral ties. Relations are not without their tensions though as the issues of Socotra Rock, North Korea and Koguryo show. However, these issues have not strained relations to the degree that Japan and China have experienced. South Korea has bound China, but only over the issues of economics and North Korea, in areas outside of this South Korea's policy toward China is unclear. Multilaterally, South Korea has welcomed the trilateral FTA negotiations and the trilateral summit which has resulted in several areas of cooperation. Indeed South Korea's multilateral dealings with China are focused on the benefits to South Korea economically and diplomatically of binding China. As a result, South Korea is pursuing binding engagement but for quite different reasons to Japan.

Limited Bandwagoning

Territorial Integrity

China and South Korea's key territorial issue is the dispute over their EEZ lines. Under the UN Convention on the Law of the Sea (UNCLOS) a country's EEZ extends to 200 nautical miles from the shore and so it is entitled to the fishing and resources in that area (Page, 2012; Roehrig, 2012). However, South Korea and China's EEZ overlaps. In such instances it is expected that the two come to an agreement and if no agreement can be reached then an equidistant line is drawn (United Nations, 1982). However, there have been 16 meetings between the countries over the issue and no agreement can be reached on the EEZ or on an equidistant line (Page, 2012; Roehrig, 2012). South Korea disagrees with at least three of China's baseline claims and as a result South Korea favours an equidistant line (Schofield, 2009). However, China believes that a natural prolongation approach should be used, but the issue with this is highlighted by Clive Schofield when he states:

it would cover about half of the maritime zone the Republic of Korea would be entitled to if an equidistance line were drawn between its coast and that of China (2009, p. 56)

As a result, the dispute is on-going with no clear resolution insight. Further, because Socotra Rock is situated in the middle of the overlap of the EEZ lines until the EEZ dispute is settled Socotra Rock is unlikely to be resolved either.

The dispute over the EZZ lines is a key element of the dispute over Socotra Rock. The rock was discovered by a British ship *Soctora* in 1900 (Korea Hydrographic and Oceanographic

Administration, 2004c). However, in 1951 the Korean Navy and Korean Alpine Club reached the rock and the following year South Korea encompassed it within its waters and in 1970 included it in its Underwater Resource Development Law. China objected to these actions and has refused to recognise South Korea's claim to the rock since 1951. The dispute has been a point of aggravation in the relationship. For example, South Korea's Maritime and Port authority placed a light buoy on the island in 1987 which China objected to. Tension flared further in early 2000's when South Korea began construction of a Scientific Research Station on the island (Korea Hydrographic and Oceanographic Administration, 2004b). More recently, in 2012 China's State Oceanic Administration Chief stated Socotra rock was in China's waters, again increasing tensions, particularly as the official indicated that China would be looking to increasingly assert Chinese law and increase patrols (Page, 2012; Roehrig, 2012). Indeed China's activity in the area has increased with South Korea's military stating that China flew over the rock in 2010 twice, in 2011 seven times and in 2012 14 times (KBS World, 2012). China has also increased its maritime activity with vessels sighted in the area 16 times in 2010 and 39 times in 2011, by October 2012 there had already been 48 sightings (KBS World, 2012). Further, following China's announcement of an AIDZ South Korea flew military planes through the zone, and has expanded its own air defence zone to overlap with China (British Broadcasting Corporation, 2013b; Ministry of National Defense, 2013; The Guardian, 2013). However, in general South Korea's response has been viewed as more measured than the strong reactions from Japan and the US due to China's importance to the South Korean economy (The Guardian, 2013).

Figure 26: Location of Socotra/leodo/Suyan rock



(Wills, 2011)

The key issue is that Socotra Rock lies in the overlapping area of China and South Korea's EEZ, as shown in Figure 26. However, the UNCLOS states that no country can claim a rock or reef that is submerged at high tide, even if it has a structure on it (Schofield, 2009; United Nations, 1982). The Korean Hydrographic and Oceanographic Administration (2004a), which answers to the Ministry of Oceans and Fisheries, clearly lays out South Korea's claim to the rock, when it states:

leodo is under our maritime jurisdiction because it is within proclamation waters of peace line declaring sovereignty on the adjacent sea in 1952. In addition; it is a part of a continental shelf fourth Block of our submarine KONOCs in Maritime Mineral Resource Development Act enacted in 1970. When establishing an Exclusive Economic Zone (EEZ) based on the principle of median line, waters of leodo will be within the EEZ of Korea (para 4).

There is a general consensus between the two sides that neither can claim the rock itself and that the issue is more about jurisdiction (Roehrig, 2012). Indeed, China strongly opposed the South Korean building of a structure on the rock and felt that South Korea should not be building on it until the dispute is settled (Genova, 2011; Roehrig, 2012). However, South Korea does not share this view even though it acknowledges it cannot claim the rock itself (Korea Hydrographic and Oceanographic Administration, 2004a). Underlying this is that the territory

has strategic importance to both sides as it is located near mineral and oil deposits (Guo, 2006; S. Kim, 2009). This is emphasised by South Korea constructing a naval base on Jeju Island not far from Socotra Rock with ability to hold 20 warships and submarines (Roehrig, 2012; Yeo, 2013). The base is strategically important to South Korea due to the importance of Yellow and East China Sea's shipping lanes (Roehrig, 2012). However, there is no doubt that its closeness to Socotra Rock will enable South Korea to exert its territorial claim more effectively (Roehrig, 2012; Yeo, 2013).

The territorial integrity issue in regards to the EEZ also extends to illegal fishing in the Yellow Sea which is an increasing issue. The growth of China has fuelled demand for fish produce resulting in the overfishing of China's seas resulting in illegal fishing of South Korean waters (Roehrig, 2012). However, the sides have collaborated on this issue to address it. In 2001 a five year agreement came into force as a temporary measure to address this while the EEZ issue was resolved, but as no resolution has been found the agreement has renewed each year (S. P. Kim, 2003; Ministry of Foreign Affairs, 2001; Roehrig, 2012). The agreement detailed specific fishing areas for each side and due to the lack of agreement over the EEZ two different types of zones were established, as explained by Dr. Sun Pyo Kim when he states:

As there is no EEZ boundary drawn between Korea and China, joint fishing zones were established under two different nomenclatures: one is the so-called "Provisional Measure Zone" which is in the middle of the Yellow Sea and the other is the so-called "Transitional Zones", one of which is situated near Korea's coast and the other is situated near the Chinese coast (2003, p. 102).

In addition, the agreement allowed 2796 Chinese fishing boats to fish in Korean waters and 1402 South Korean boats allowed to fish in Chinese waters (Ministry of Foreign Affairs, 2001; Shengnan & Zhu, 2012). Further, both sides agreed to a Korea-China Joint Fisheries Committee and joint surveillance to reduce any illegal fishing taking place (S. P. Kim, 2003; Ministry of Foreign Affairs, 2001; Schofield, 2009). The majority of illegal fishing is by Chinese fisherman and since the deal was signed in 2001 the South Korean Coast Guard have seized 4628 boats and doubled fines (Roehrig, 2012). Further collaboration took place to address this with an agreement in 2011 that reduced the number of fishing boats allowed into each country's waters, and reduced China's fishing quota by 2500 tonnes and South Korea's quota down to 1650 tonnes (Shengnan & Zhu, 2012).

Despite these efforts the number of seized boats has increased each year and violence has been a common factor. For example, the 2011 incident where a South Korean Coast Guard was killed and another injured was not the first of its kind. In December 2010 two Chinese fishermen were killed and in April 2012 four South Korean fishing inspectors were injured (Roehrig, 2012). Since the agreement was put in place 69 South Korean officials have been wounded or killed (Global Post, 2013a). The incident in 2011 caused particular outcry from the South Korean media, public and politicians who were angered when China did not apologise for the confrontation but instead stated it regretted the incident (British Broadcasting Corporation, 2011a, 2011b, 2012b). South Korea lodged a protest with China over the incident and summoned the Chinese Ambassador. However, though the incident had the potential to escalate further, it did not (Fletcher, 2011). Instead, following these incidents, China and South Korea have worked to increase cooperation including discussion on the use of monitoring systems, Global Positioning System technology, and discretionary punishments for fisherman that do not cooperate (Shengnan & Zhu, 2012).

Sovereignty Integrity

The second indicator for limited bandwagoning is the degree of deference by South Korea towards China's foreign policy objective of sovereignty integrity. This analysis will focus on South Korea's relations with Taiwan. Currently South Korea and Taiwan has strong economic, cultural and educational ties. For example, bilateral trade has grown from US\$ 3.5 billion in 1992 to US\$26.7 billion in 2010 making them significant partners (G. Kuo, 2011). Indeed, South Korea is Taiwan's fifth largest trading partner and Taiwan is South Korea's ninth largest (G. Kuo, 2011). Indeed, South Korea also views Taiwan as a stepping stone to progressing into the Chinese market which was evident in late 2012 when the Korea Small Business Institute and the Taiwanese Industrial Technology Research Institute launched a joint study into a cooperative model for small and medium enterprise's (Industrial Technology Research Institute, 2012) (Huang, 2012). Further, in September 2013 the Taiwan External Trade Development Council and Korea International Trade Association signed a cooperation pact on e-commerce, with the intention to increase trade relations (J. Lee, 2013). Culturally, the countries reached an agreement on increasing the visa-waiver from 30 to 90 days resulting in a significant increase in visits between the countries. For example, in 2011 visits between South Korea and Taiwan totalled 660,000 but in 2012 that had increased to 800,000 (A. Kuo, 2013). Three South Korean universities have set up Institutes of Taiwan Studies and there are over 400 academic cooperation projects between the countries. Though the ties in these three

areas are close the normalising of relations with China has impacted heavily on diplomatic contact.

Formal diplomatic relations between the South Korea and Taiwan ceased in 1992 when South Korea formalised ties with China (G. Kuo, 2011). Prior to this the countries had been quite close and the decision angered Taiwan which viewed it as a 'betrayal' (J. H. Chung, 2007; Holley, 1992; S. Lee, 2013). Despite this, in 1993 South Korea set up the Korean Mission in Taipei and Taiwan set up the Taipei Mission in Korea (Chen, 2002). These were established in an effort to build unofficial ties based on mutual cooperation and friendship (Ministry of Foreign Affairs, 2008b). Since then diplomatic contact has occurred but in a very limited way. In particular, there have been two areas of contact between the countries.

Firstly, former South Korean President Kim has made several unofficial trips to Taiwan since leaving office. These were in 2001, 2004 and 2005. The main aim of these visits was to foster ties, mainly in the areas of economics. For example, in 2001 discussions largely focused on working to resume direct flights between the countries; however no agreement could be reached (Taipei Times, 2001). However, the 2004 trip in particular drew criticism from China, largely due to Chen's advocating for Taiwanese independence (Chen, 2004; Lee, 2004). The Chinese Embassy in Seoul tried to dissuade Kim from going and asked him to cancel the trip stating that it would hurt the Chinese and give Taiwan the wrong message (Chen, 2004). However, as this trip was not a state related one the South Korean government was able to distance itself from the trip and downplay it by stating they had no control over what the former President chose to do (Chen, 2004).

Secondly, there have been a limited number of high-level contacts. For example, in 2004 when Taiwanese President Chen was re-elected South Korea wanted to send a delegation, which included several members of the Grand National Party and business leaders, to the inauguration (Petty, 2004). China applied pressure to South Korea to not attend but despite its objections the delegation did go. In protest to this China refused to issue visa's to any members of the delegation that wished to travel on to mainland China (Petty, 2004). However, for the 2008 inauguration of South Korean President Lee South Korea reportedly submitted to pressure from China and banned several of the Taiwanese delegation from attending (Yeh, 2013). Yet more recently a delegation from Taiwan, including several high level politicians and the Legislative Speaker, attended the 2013 inauguration of President Park (Yeh, 2013). However this has been the extent of contact and thus, South Korea has generally adhered to its commitment to cease diplomatic ties. The result of this is that there remains lingering

resentment from Taiwan over South Korea’s decision to normalise ties with China at its expense. This was evident in remarks made by former Taiwanese Security Advisor Chen Te-Sheng who commented in a speech in 2013 that South Korea largely ignores Taiwan (S. Lee, 2013).

Conclusion

Overall, the EEZ dispute is the key issue in regards to territorial integrity. This dispute feeds directly into the issues over Socotra Rock and illegal fishing. These issues have at times caused real tension between the sides which is likely to continue indefinitely until both sides are able to solve the underlying EEZ issue. However, despite these disagreements having had the potential to escalate into serious diplomatic rows they have not. Further, South Korea has sought cooperation on illegal fishing, but has stood its ground on the EEZ and Socotra Rock. As a result, it is certainly not deferring to China on these issues, but it is being careful to avoid these issues effecting diplomatic relations. However, in the area of sovereignty integrity South Korea shows a high degree of deference in the limited nature of diplomatic contact, and when China has objected it has moved to dampen or appease its views. Certainly, South Korea is not actively pursuing regular diplomatic ties with Taiwan. As a result, it can be concluded that South Korea has partially adopted limited bandwagoning.

Summary

Balancing strategy	Hedging Strategy					Bandwagoning strategy
	Risk-contingency options		Return-Maximizing options			
	Indirect-balancing	Dominance denial	Economic pragmatism	Binding-engagement	Limited bandwagoning	

Power Rejection

Neutrality

Power Acceptance



(Kuik, 2008)



This case study has applied the two risk-contingency options, and the three return maximising options to South Korea’s relations with China. The result of those applications can be seen in

the above table, which clearly indicates that South Korea is hedging China. South Korea has fully adopted the risk-contingency option of indirect balancing however dominance denial proved inconclusive. For the return-maximizing options South Korea has adopted economic pragmatism and binding-engagement. However, it has also partially adopted limited bandwagoning. As a result, according to Kuik's model and the indicators developed in this thesis, South Korea is situated further along the hedging spectrum towards bandwagoning than Japan which is more towards the middle of the spectrum.

Chapter Four: Conclusion

This study has had two aims, one to determine if Japan and South Korea are hedging and two to provide a rigorous analysis of hedging through the application of Kuik's model, new indicators and case study application. These are borne out of gaps in the literature. Hedging is a concept grounded in realism and balance of power and has become a common term in the debate around the Asia-Pacific states response to the rise of China. Two broad views of hedging have been identified in this thesis, hedging as a security focused strategy and hedging as a combination of strategies. However, the definition and application of the concept has been varied and inconsistent. This study selected Kuik's (2008) model to be applied to the Japan and South Korea case studies. This was the most comprehensive and concrete of the models presented in the literature, comprising of the risk contingency options of indirect balancing and dominance denial and the returns maximising options of economic pragmatism, binding engagement and limited bandwagoning. However, the researcher developed specific indicators for each of these strategies to add construct validity and to attempt to provide indicators to allow for the ability to replicate the application.

To apply this model the research has followed a foundationalist ontology and postivist epistemology. The study is theoretically grounded in realism, an explanatory theory which took a top down view to analysis. To add robustness and depth a mixed methods approach was adopted and a collective case study was chosen due to the complex nature of the subject. The case selection was done via theoretical sampling, allowing cases to be chosen that were relevant to the research. The cases had to be selected from the US allies in the Asia-Pacific and to do this a least likely case of Japan and the most likely case of South Korea were selected. Quantitative and qualitative data was collected on these cases, with the qualitative focused on document analysis. This study adopted data triangulation to address any weaknesses in the data collection methods.

The case study analysis showed that both Japan and South Korea are hedging China however they differ in the degree to which they are doing this. Both countries have readily adopted the risk contingency option of indirect balancing, which is a strategy used to minimise the threat of a rising power through military means. The indicators developed by the research to determine if this strategy is in use were; military spending, arms transfers, and security cooperation with state with similar goals. Japan is in the top five for military spending, its recent procurement and development of arms reflect a modernisation of its military and its overall defence

strategy has shifted. This shift in policy began in 2004 and has continued resulting in a change in the basic defence concept from deterrence to response. Concerns about China's rise have directly fed into these changes and Abe's recent revision of the constitution has further underlined this concern. South Korea has acted similarly, it is in the top ten globally for importing of weapons, it is modernising its military through both procurement and domestic development and has shifted its defence strategy. Military spending increased due to the 2005 DRP, and though this has been revised the aim was to create a force that is more effective and capable. Further in 2011 the DR 307 shifted the focus from responses for invasion and all-out war, to responses for more localised incidents. The provocations from North Korea in 2010 have been an important factor in this. In regards to security cooperation with the US, India, Australia and Japan, this has clearly increased. This has been reflected in increased contact at ministerial levels, personnel exchanges, agreements, arms exchanges and participation in joint exercises with these countries.

It can also be concluded that Japan has adopted the strategy of dominance denial. For this strategy the weaker state utilises political influence to prevent the rising power becoming dominant. Thus, the indicator developed for this was the closeness of relations Japan and South Korea have with the major powers in the region. Japan has pursued this strategy by actively strengthening relations with US, Russia, and India both economically and diplomatically. The US alliance has provided strong basis for diplomatic and economic relations between Japan and the US. Further, Japan and Russia have growing trade and investment relations; in particular oil is a key area of cooperation. Diplomatic relations are also increasing, although the US-Japan alliance and the dispute over the Northern Territories/Kuril Islands have hindered the closeness of relations. Economic relations with India have also steadily grown in both trade and investment and the signing of CEPA has boosted these ties further. Diplomatic ties with India have gained momentum since 2000 and in particular the signing of the Strategic and Global Partnership in 2006 has resulted in the deepening of ties and numerous high level exchanges.

However, South Korea's adoption of dominance denial is inconclusive. Like Japan, South Korea's alliance with the US has provided a strong foundation for the broadening of ties, there are significant levels of trade and investment between the countries and the signing of the KORUS FTA has only increased this. Diplomatic ties have been boosted by the election of President's Lee and Obama who have looked to expand diplomatic relations. Economic ties with Japan are strong and bilateral trade is trending up, though investment is mixed but also

growing. However, both trade and investment between South Korea and Japan have been negatively impacted by the souring of diplomatic relations and though efforts have been made in the past to address these tensions the current situation between the countries is at an all-time low. South Korea, like Japan, is also pursuing closer ties with Russia and India and trade and investment are growing steadily with both. Diplomatic relations with Russia gained momentum since the upgrading of relations to a Strategic Cooperative Partnership in 2008. Diplomatic ties with India have followed a similar pattern with the relationship upgraded to a Strategic Partnership in 2010 which has strengthened relations and increased the high level exchanges between them. However, it is inconclusive as to whether or not South Korea is pursuing dominance denial for two reasons. Firstly, if it had adopted dominance denial fully, it would be expected that South Korea would be attempting to limit any tensions with Japan but this is not the case. Secondly, South Korea's pursuit of closer ties with the US, Russia and India is not wholly a response to the rise of China.

In terms of return's maximising options both countries have adopted economic pragmatism as part of their hedging strategies. Economic pragmatism is a strategy where the weaker state aims to maximise its economic returns from the rising power. To determine if this had been adopted three indicators were considered for the case study countries; if China is a top trading partner, trade dependency on China, and FDI between China and the case study countries. China is both Japan and South Korea's top trading partner. In addition, both countries have a trade dependency on China of 20 per cent, which is significantly ahead of the other countries Japan and South Korea trade with. Both have complementary economies with China. This has aided trade and investment growth and the signing of the Trilateral Investment Agreement boosted investment further. However, both countries have had tensions with China which have affected trade and investment. This has been quite significant for Japan whose reliance on China has been highlighted by the diplomatic spat over the Diaoyu/Senkaku Islands. Overreliance is also a concern for South Korea, whose competitive advantage in several markets is being eroded by China.

Japan and South Korea's hedging strategies differ in the degree to which binding engagement has been adopted. Binding engagement is a strategy where smaller states focus on increasing the channels of communication with the rising power to maximise diplomatic returns. This thesis applied two indicators for this strategy; attempts to increase the lines of communication with China, and the degree of interaction at bilateral and multilateral levels. For Japan, the lines of communication with China have been volatile due to historical tensions and territorial

disputes, and in fact ceased for a time following a maritime incident in 2010. However, to add to the tensions the South Korean public have a deteriorating view of China. Bilateral ties have been largely focused on economic ties due to the interdependence between the economies; however they have also liaised over the Fukushima Nuclear plant crisis. Multilaterally Japan has treated China as a rival and thus it has wanted to bind China to dilute its power. Overall Japan has not looked to engage China directly. As a result it has only adopted binding and not engagement. This is quite different to South Korea who is actively attempting to engage and bind China. South Korea has actively looked to increase the lines of communication with China through several administrations. It too has tensions with China over Socotra Rock, North Korea and the Koguryo Dynasty. However, these have not impacted on relations to the extent of Japan and China's disputes. South Korea has focused largely on binding bilaterally through economics and North Korea. though beyond this its strategy has been unclear. South Korea has also attempted to bind China through multilateral frameworks motivated by the economic and diplomatic benefits to South Korea of doing so.

Japan and South Korea's hedging strategies diverge the most in regards to limited bandwagoning, which Japan completely rejects and South Korea partially adopts. Limited bandwagoning aims to maximise foreign policy returns to the smaller state, without being subordinate. To indicate this the research considered the degree of indifference the case study countries have towards China's foreign policy objectives of territorial integrity and sovereignty integrity. The latter focused on Japan and South Korea's relations with Taiwan and the former focused on the Diaoyu/Senkaku islands dispute between China and Japan, and the EEZ dispute between China and South Korea. Japan has clashed regularly with China over the Diaoyu/Senkaku Islands and has stood its ground on its claim to ownership of the islands. This dispute has added significance due to the oil and gas deposits in the area. Certainly, Japan has shown in its response to the on-going flare ups that it has no intention of giving way to China. Further, despite agreement by Japan to sever ties with Taiwan when it normalised relations with China, Japan has circumvented this on numerous occasions and ties are deemed unofficial in name only. As a result, Japan has shown a high degree of indifference towards China's foreign policy objectives of territorial and sovereignty integrity. South Korea has also stood its ground in regards to territorial integrity. China and South Korea have an on-going dispute over the EEZ lines which is strongly linked with the dispute over Socotra Rock and illegal fishing. South Korea has a high degree of indifference towards China on these issues, though tensions have not escalated to the extent that China and Japan have experienced. However, in regards to sovereignty integrity it has deferred much more readily to China's

wishes. Though South Korea maintains close economic, cultural and educational ties with Taiwan, it has largely kept to the agreement that it would sever ties with Taiwan once it normalised relations with China. As a result, it has partially adopted limited bandwagoning.

Japan's adoption of indirect balancing, dominance denial, economic pragmatism and partial adoption of binding engagement places it much close to neutrality on Kuik's (2008) continuum. Indeed Japan's hedging strategy is more reliant on risk contingency options than return maximising ones. South Korea has adopted all of the same strategies, though dominance denial was inconclusive, but it has fully adopted binding engagement and partially adopted limited baandwagoning, placing it on the bandwagoning end of the continuum. Indeed South Korea's hedging strategy is more evenly balanced between risk-contingency and return maximising options. As a result, this study has highlighted that though both Japan and South Korea they apply the strategy of hedging differently with South Korea having a higher degree of acceptance towards China than Japan.

Overall, the application of Kuik's model and the specific indicators to determine if each strategy has been adopted has worked well. However, the fact that the evaluation of South Korea's adoption of dominance denial was inconclusive raises the question of the validity of the indicator developed. There are various potential reasons for this; firstly one could argue that an inconclusive conclusion doesn't necessarily raise any issues with the model, it may just highlight that South Korea's motivations are unclear here. Secondly, it may be that the indicator used for dominance denial does not account enough for the fact that a state closer to power acceptance will not necessarily be driven as much to develop relations with the major powers in the region because this will depend largely on if the rising power is viewed as a threat or not. Certainly in South Korea's case the rise of China is a consideration but undoubtedly not the only one. Whereas, in the case of Japan, China is viewed as a direct threat and therefore its adoption of dominance denial is much clearer. Thirdly, it could suggest the model works best when applying it to major or smaller powers rather than middling powers where a mixture of motivations maybe present in the country's foreign policy. For example, Japan would be considered a major power globally and has a much clearer strategy, and Kuik applied this model to smaller countries such as Singapore and Malaysia with no such inconclusive results. Thus, it is recommended that to clearly understand the cause of this inconclusive result the model needs to be applied to a broader range of countries.

This study has applied Kuik's model to the foreign policy actions of the two US allies in the Asia-Pacific; Japan and South Korea. By applying this model one has been able to conclude that both countries have adopted hedging but to differing degrees. An area of future research would be to apply this model to all of the US allies in the region to be able to determine if hedging is a common strategy to them all or not. Relations between China and its Asia-Pacific neighbours continue to evolve and be a focal point for the IR field, those that shape foreign policy, and those that analyse it. This will remain the case in the foreseeable future until China's rise has played out fully.

The five strategies that comprise Kuik's model have each provided an important insight into Japan and South Korea's overall strategy towards China. However, some of the strategies added more weight than others. Indirect balancing and economic pragmatism were the two key options that provided context for the rest of the analysis. Certainly indirect balancing set up the analysis of the other risk contingency option of dominance denial, and economic pragmatism did the same for returns maximising options of binding engagement and limited bandwagoning.

Further, indirect balancing and economic pragmatism offered the clearest outcomes, this was largely due to the fact these options lent themselves to more robust qualitative analysis allowing clearer findings. This was possibly a result of the more specific nature of the indicators. Limited bandwagoning was also quite specific and led to quite clear findings. It highlighted key issues in relations between the case study countries and China. The territorial integrity indicator was more useful than the sovereignty integrity analysis. However, the advantage of having both indicators was highlighted by the fact that South Korea's actions were different for each indicator and so only having territorial integrity would have led to a misleading finding. However, it would be beneficial for the indicators to be applied to a broader range of issues, such as Tibet and Xinjiang to give a broader assessment of this option.

The options of binding engagement and dominance denial were the hardest to get a clear read on. This was because various motivations can fuel a state's decision making and subsequent actions in political and diplomatic dealings between countries. As a result, it was more difficult to filter through these various motivations and how it related to relations with China, this was particularly the case with binding engagement. Binding engagement was, on balance, the option that added the least to the analysis as a result of this. Certainly the overlapping nature of the indicators also made the analysis challenging at times, and the analysis also overlapped with that included in other sections such as territorial disputes covered in limited

bandwagoning or economic agreements already covered in economic pragmatism. Once again more specificity in the indicators would aid this. However, it still added an important layer of understanding to the overall strategy adopted by Japan and South Korea. If the information had been included in other sections there would not have been the same degree of depth in the analysis, for instance the multilateral interactions would not have been covered at all, or only in limited way.

Dominance denial would have been aided through more specificity as well. Ideally this option could incorporate a more robust and more clearly defined qualitative analysis of the economic relations with the major power regions which would add more depth than was possible here due to limitations in space. This would provide a stronger springboard for the discussion on diplomatic relations and potentially provide the ability for comparison between the relationships the case study country has with major powers in the region.

Overall, all parts of Kuik's model provided an important layer to the understanding of the overall strategy adopted by Japan and South Korea. Certainly there is no one element that was superfluous to the analysis, though some could be more specific to allow further depth. On the other hand though, one must be careful to not become too specific as this could lead to a model that is too limited and that misses more subtle elements, this would be a particular danger with binding engagement and dominance denial. For instance, being too specific was an issue with both Chung's (2009b) and Tessman and Wolfe's (2011) models which limited what could be learnt from the application of them.

Much can be learnt from the application of Kuik's model in this research, which has attempted to provide a robust and comprehensive analysis. The combination of qualitative and quantitative methods has aided this, resulting in a clear model with specific and replicable indicators, allowing the strategies Japan and South Korea have adopted to be determined, and to place those countries on a continuum between balancing and bandwagoning. Thus, the research has attempted to take the application of hedging further than previous works. The adherence to positivism and the utilisation of realism, an explanatory theory, to the analysis has allowed external factors to be highlighted that influence a leader's decision making. It has also enabled generalisations to be drawn which aid the understanding of the strategies Japan and South Korea are utilising. The analysis has highlighted that the relationship between China and the case study countries has many elements, and that the strategies adopted affect broader relations in the region such as the growing role of India and Russia in the Asia-Pacific. By building understanding of the strategies in play through research such as this enables not

only academics, but policy makers and decision makers, to understand the motivations behind a countries decision making, avoid misunderstanding, and potentially anticipate a state's response to events. Application of this model to a broader range of US allies in the Asia-Pacific would allow for further generalisations, comparisons and contrasts to be made to deepen this understanding further.

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