



Geopolitical Change in Northeast Asia

——Implications for the Korean Peninsula of New Relationships Between World Powers

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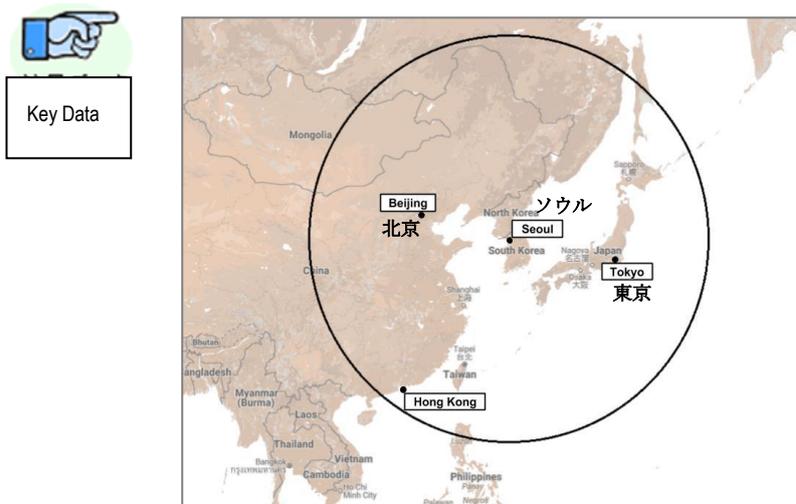
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[Key Points]

- No part of the globe has undergone starker political and economic change over the last 30 years than the Eurasian continent. Even as this dynamic territory influences the rest of the world, the Korean Peninsula remains a destabilizing factor at the heart of Northeast Asia, a region in which many of the world's economic and military superpowers are concentrated.
- International frameworks and organizations have contributed to peacekeeping and economic interdependence at the global level, but a serious “organization gap” means that Northeast Asia has a zone devoid of international organizations.
- Over the last few years, Northeast Asia has seen political power shifts that one could go so far as to call fateful, and these continue to exert a geopolitical impact today. With the emergence of the Trump administration in the USA added to the mix, the region has reached a crucial and unpredictable phase.

The Korean Peninsula: Positioned at the Heart of Northeast Asia



Source: Google Maps (accessed September 14, 2016). Radius 1,500 miles (approx. 2,414km)

To a degree that is virtually unique among major regions of the globe, Northeast Asia brings the major economic and military powers of the world together, around the unstable fulcrum of a divided nation--Korea. The three largest economic powers on earth—the US, China, and Japan—all have fundamental interests there. So do three of the five major nuclear powers—the US, Russia, and China—together with an unpredictable aspirant in Pyongyang, and two others (Japan and South Korea) that could easily develop nuclear capabilities.

The tense, continuing standoff in Northeast Asia contrasts starkly to the dramatic political-military relaxation and geopolitical transformation that has occurred in post-Cold War Europe. Nearly three decades after the Berlin Wall went down, once-divided Germany is now unified, and the once formidable Soviet Union, is now dissolved in its European dimensions. Yet a tense geopolitical stalemate still persists around the Korean peninsula, governed not by peace treaties, but only by an armistice along the DMZ. There well over 1.3 million troops, North and South, continue to confront one another.¹

In Europe, a robust security structure—not just NATO, but the OSCE, the EU, and other multilateral mechanisms—have helped to keep the peace, and to stabilize regional economic interdependence. In Northeast Asia, by contrast, a pronounced “organization gap” prevails, with no over-arching multilateral bodies like NATO or the EU of Europe available to keep the peace and assure stable economic interaction.² Allied forces in South Korea, to be sure, continue to serve

¹ Around 70 percent of North Korea’s regular army of nearly 1.2 million is deployed near the DMZ, together with the majority of South Korea’s 628,000 troops. In total, there are probably around 1.3 million troops, on both sides, deployed close to the DMZ, of the 1.8 million soldiers in the combined militaries of North and South Korea. See Victor Kotowitz, “The Demilitarized Zone (DMZ),” <https://www.mtholyoke.edu/~jeehan/dmz.html> and The International Institute for Strategic Studies, *The Military Balance: The Annual Assessment of Global Military Capabilities and Defence Economics*, 2016 edition (London: Routledge, 2016), 264 and 267.

² On Northeast Asia’s “organization gap” and its broader implications, see Kent E. Calder and Min Ye, *The Making of Northeast Asia* (Stanford: Stanford University Press, 2010), 13–14, 57–79.

under the authority of the United Nations, due to a fateful June, 1950 Security Council resolution that has never been rescinded. Yet the actual role of the UN itself in keeping peace is minimal today, despite the presence of a former Korean Foreign Minister, Ban Ki Moon, as Secretary General for the past decade (2007-2017).

The closest analogy in the broader world to Northeast Asia, as a region that poses both stark geopolitical dangers of global significance, and also a pronounced regional “organization gap”, is the Middle East. Both regions are stabilized primarily by a web of bilateral security ties—a “hub and spokes” between regional powers (Japan, Korea, and Israel, for example) on the one hand, and the United States on the other. Even the Middle East has a bit more regional organization than Northeast Asia—the Arab League and the Gulf Cooperation Council (GCC), for example. Northeast Asia thus stands alone, as it has since the end of the Cold War, when strategic dangers in Europe waned, as a dangerous region. And it has a uniquely under-developed regional multilateral security structure as well.

Korea in Regional Geographic Context

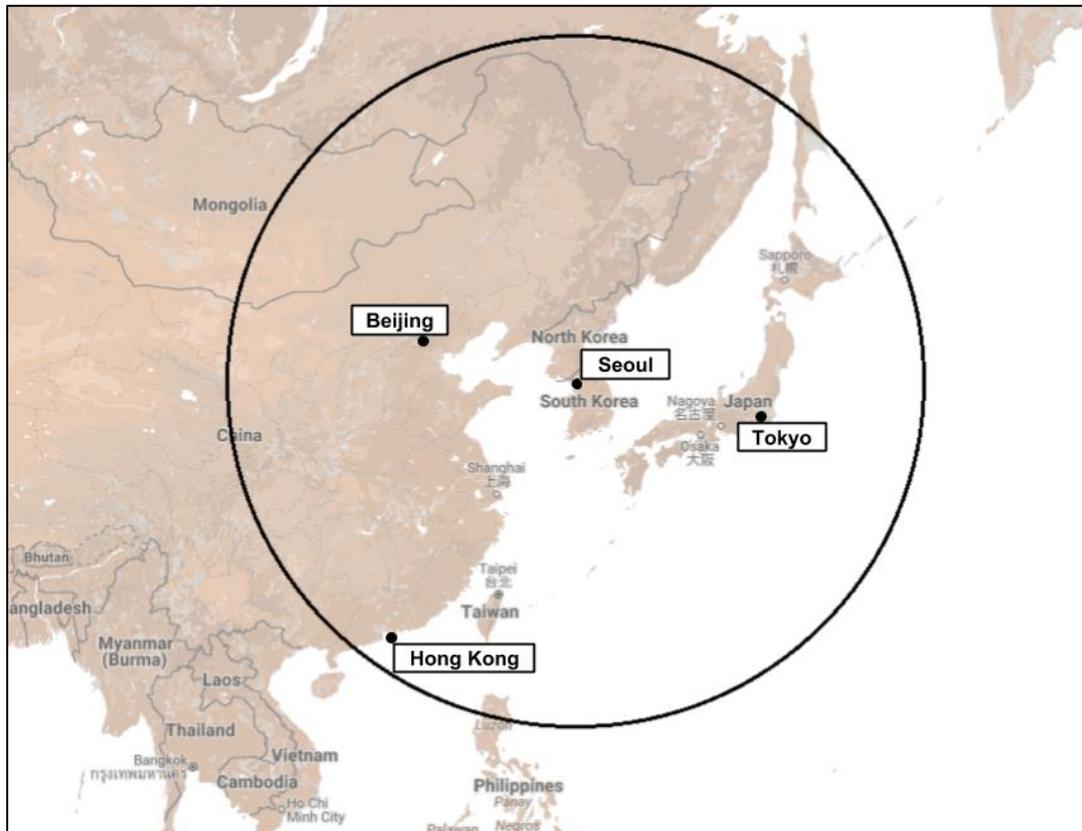
Koreans often speak of their nation as a “shrimp among whales”. While this characterization is to some extent true, especially in geographic terms, it is important to remember the North Pacific’s “whales”—China, Russia, Japan, and arguably the US—all have rather different

underlying characters, and rather different forms of engagement with the Northeast Asian region as a whole. This section of the paper reviews those varied national characteristics, while the following section assesses long-term trends in regional political, economic, and military development.

As noted in Figure I, Russia and China directly adjoin the Korean peninsula from the north, while Japan is in close proximity across the Tsushima Strait, from the south. The United States, while a geographical member of the North Pacific, with Alaska's outer Aleutian islands lying less than 2500 miles from the Korean peninsula,³ is largely relevant for its global geopolitical role, and the crucial presence of the US Eighth Army, based in Korea. The US infantry and armor presence serves as a tripwire along the DMZ, with substantial air force reinforcement for that delicate forward deployment further south.

³ The flight distance from Attu Island in the Aleutians to Pyongyang is around 2407 miles, and the distance to Seoul 2422 miles, according to *Distance Calculator*.

FIGURE I: KOREA AT THE HEART OF NORTHEAST ASIA



Source: Google Maps, maps.google.com, accessed September 14, 2016. Radius is 1,500 miles.

Contrasting Geo-Economic Profiles of the Contending Powers

The major powers surrounding Korea also vary in their economic and military capabilities, their demographic profiles, and their degree of transnational engagement within the Northeast Asian region. China, in particular, looms large, in its economic scale, military capabilities, and geographical proximity to Korea, as well as strategic interest therein, as suggested in Table 1. The

US is a preeminent world power, of course, with a critical forward-deployed presence in Korea and sophisticated air and missile-defense capabilities. Yet it is geographically removed.

TABLE I: KOREA’S MASSIVE NEIGHBORS IN COMPARATIVE CONTEXT

| South Korea Economy in Comparative Context, 2015 | | | | | | |
|--|---|-------------|-----------|----------|----------|---------------|
| | | South Korea | China | Japan | Russia | United States |
| Scale | Land area (million sq. km) | 0.10 | 9.39 | 0.36 | 16.38 | 9.15 |
| | Population, total (million) | 50.62 | 1,371.22 | 126.96 | 144.10 | 321.42 |
| | GDP (billion current US\$) | 1,377.87 | 11,007.72 | 4,123.26 | 1,331.21 | 18,036.65 |
| | Exports of goods and services (BoP, billion current US\$) | 646.71 | 2,429.29 | 784.50 | 393.21 | 2,261.17 |
| Vulnerability | Exports of goods and services (% of GDP) | 45.90 | 22.09 | 17.90 | 29.53 | 12.55 |
| | Energy imports, net (% of energy use)* | 83.47 | 13.51 | 93.85 | -83.37 | 14.04 |

Note: Data for 2013.

Source: World Bank, *World Development Indicators*.

Russia is both historically and prospectively the most marginal of the Northeast Asian “whales”. It is decidedly weaker along virtually all dimensions than the US and increasingly China, while also demographically declining, and heavily dependent on energy reserves and military capability. Despite its formidable geographic scale, Russia’s economy is actually comparable in nominal GDP terms to that of South Korea, as Table I indicates. With Russia’s geo-economic center of gravity being several thousand miles away across the Eurasian continent in European Russia, Moscow has also traditionally been less involved in Korean peninsula matters than the PRC, Japan,

or the US. This pattern may be changing, however, given Russian President Vladimir Putin's recent "Look East" policies. And Russian support could be decisive in any concerted international effort to reshape North Korea's priorities and intentions.

Long Term Regional Trends

The role of the major powers in Northeast Asia, of course, is dynamically changing, and it is important to be aware of those trends in assessing future prospects. Broadly speaking, China has been rising, both economically and militarily, although many see shadows on both its political and economic future over the coming decade, as demographic transition sets in. The "one-child" policies pursued in China from the late 1970s until around 2015, together with the impact of rising affluence on birth rates, will no doubt lead to a rapid aging trend in China during the 2020s and possibly beyond.

Meanwhile, Russia has already begun declining in relative terms—economically, demographically, and militarily—its assertive stance under Vladimir Putin notwithstanding. The United States has, under Barack Obama, receded from its dominant and unipolar position of the early post-Cold War years, but retains powerful underlying strengths in technology, energy, and food-supply potential, together with dominant military power, reinforced by well over one third of

the world's military spending, and a web of alliances.⁴ Japan's macro-economic performance has been modest for a quarter century, following the remarkable growth of the early post-World War II years. Yet Tokyo's technological advance has been more dynamic, especially in new materials, autos, and precision machinery. Japan has also come to play an increasingly important global diplomatic role in recent years.

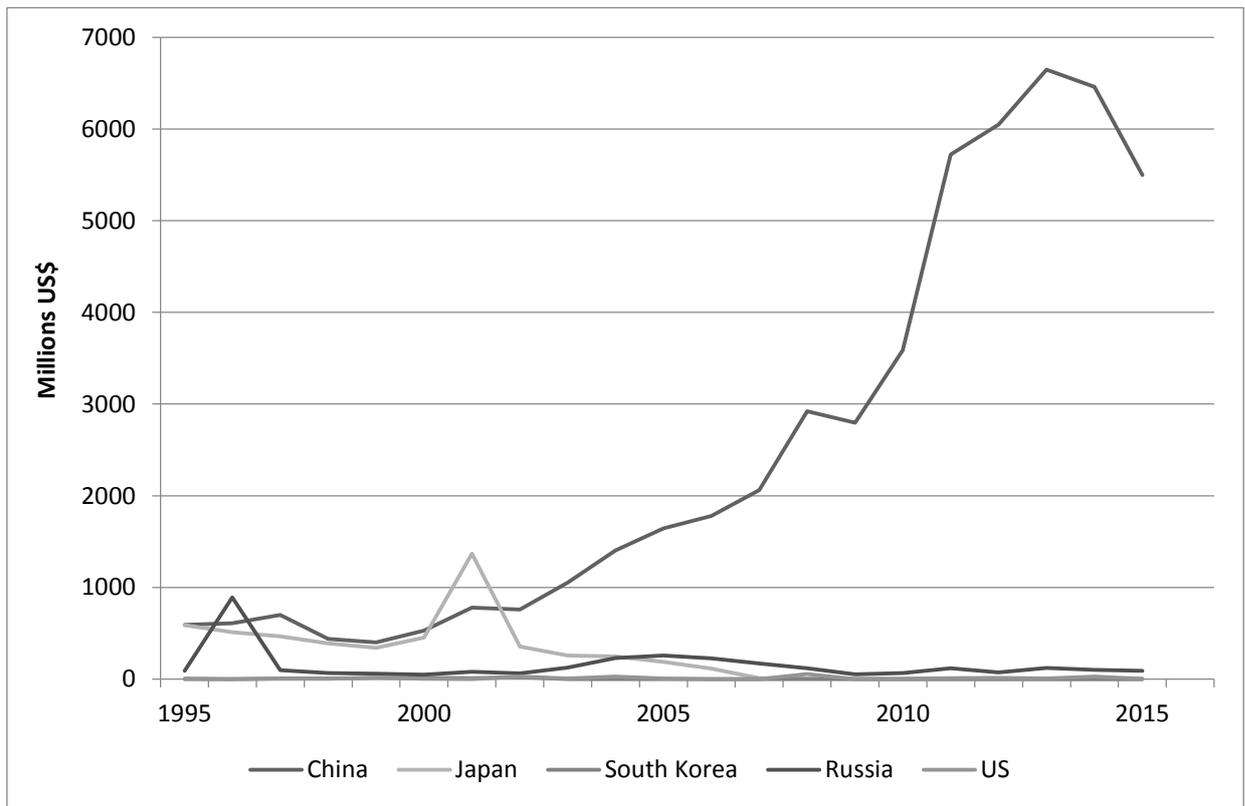
This paper does not focus on Korean peninsula developments per se, but a few words must be said about their important impact on the long-term incentives and behavior of Korea's neighbors. South Korea has been growing dynamically, first of all, for over half a century; North Korea, by contrast, has been economically stagnant—indeed, declining—for the past quarter century, especially since the Soviet Union's collapse at the end of 1991. In 1970 the DPRK's GDP per capita was roughly \$636, more than double the ROK's level.⁵ By 2015, it was only \$1,013 or just 3.7 percent of the ROK's \$27,195.⁶ The DPRK's recent trade with its neighbors—apart from China—has been virtually non-existent since the early 2000s, as indicated in Figure II.

FIGURE II: THE DPRK'S STAGNANT TRADE WITH NON-CHINA NEIGHBORS

⁴ The United States in 2015 accounted for approximately 38 percent of world military spending. See IISS, "Planned Defense Expenditure by Country 2015," *The Military Balance*, 2016 edition, 19.

⁵ Kim Cheon Gu, "2015 North Korea Nominal GDP per capita GDP Estimates," *Current Issues and Tasks*, September 28, 2016, Appendix I, pp. 16–20.

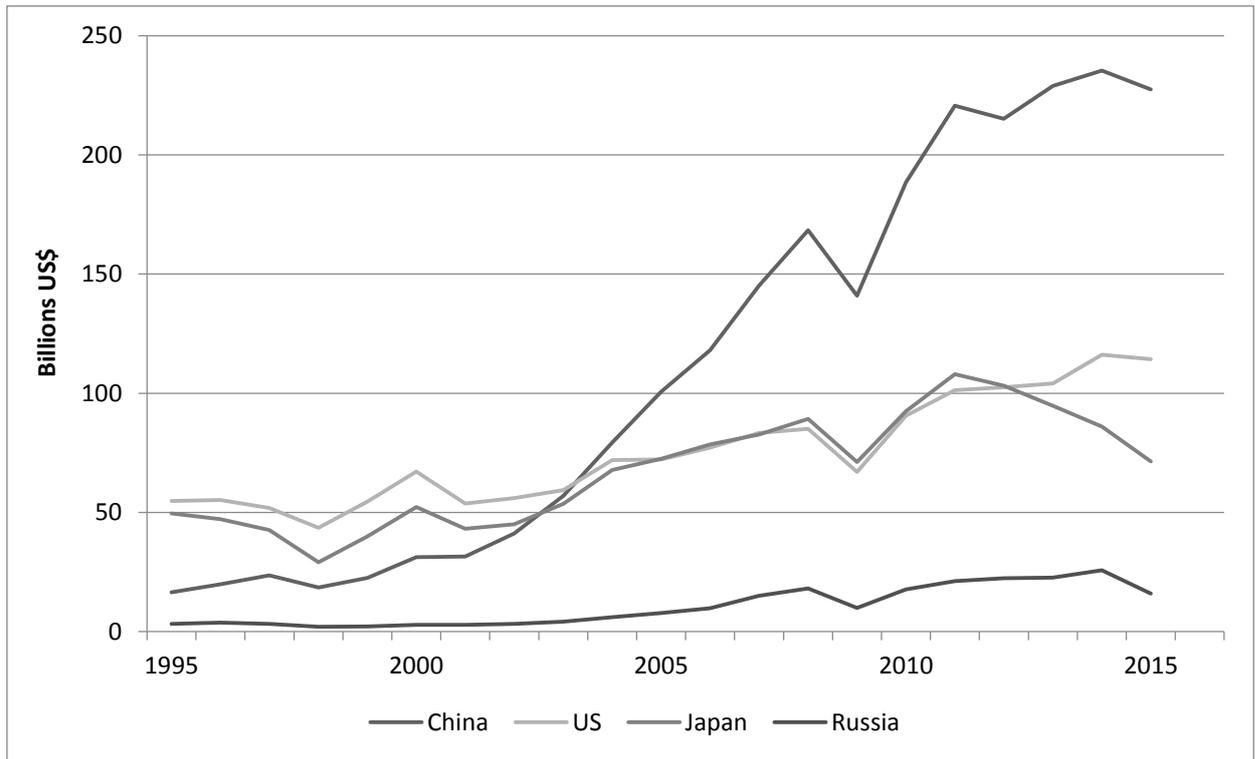
⁶ *Ibid.*



Source: International Monetary Fund, *Direction of Trade Statistics*.

Meanwhile, South Korea's trade with its own neighbors has grown vigorously over the past two decades, as indicated in Figure III. As in the case of North Korea, South Korea's trade with China has grown more rapidly than with any other neighbor, reflecting China's own explosive growth. That said, South Korea's trade with *all* of its major neighbors has been growing soundly for more than twenty years.

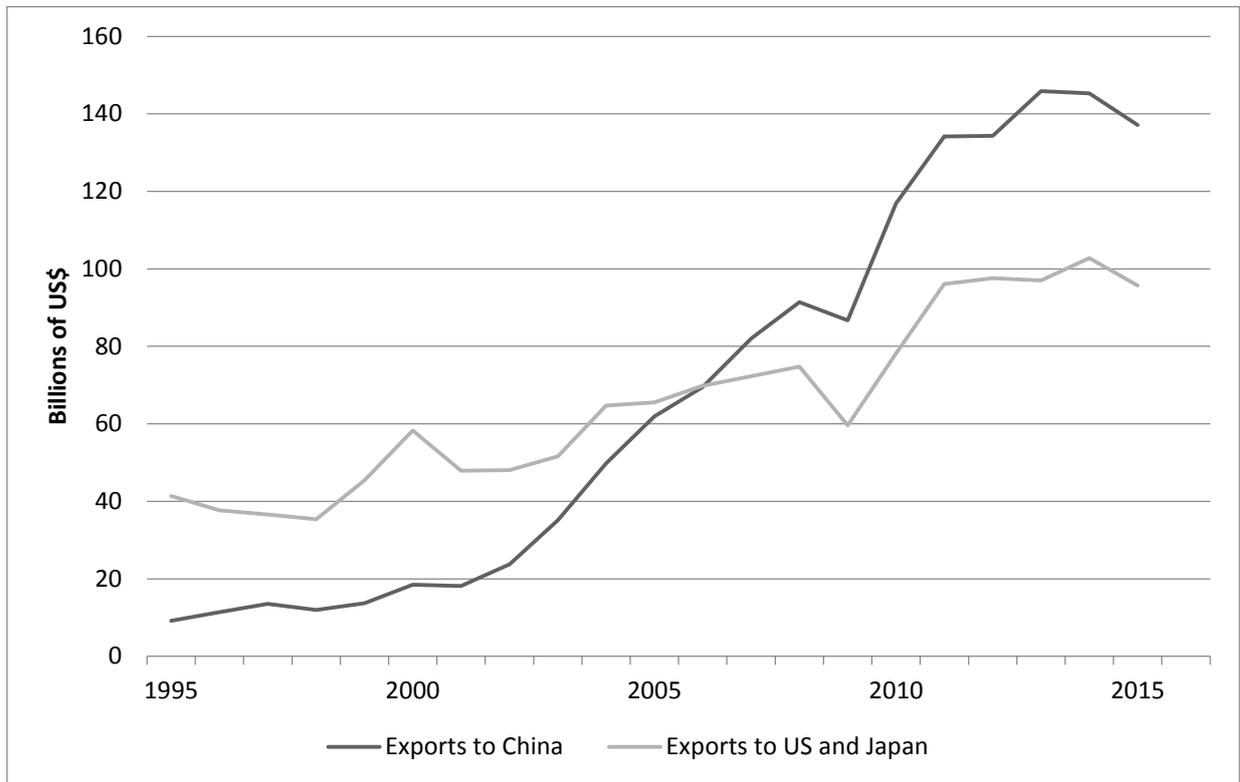
FIGURE III: SOUTH KOREA'S RISING TRADE WITH ALL OF ITS MAJOR NEIGHBORS



Source: IMF, *Direction of Trade Statistics*

The ROK’s rising economic strength, compared to the DPRK, leveraged by its “Northern diplomacy”, has made South Korea more attractive to its regional neighbors, even as North Korea has grown steadily less consequential. The even more rapid rise of China—and the ROK’s deepening economic dependence on it, however, has limited Seoul’s ability to shape bilateral ties with China, or to influence Beijing’s Korea policies. As indicated in Figure IV, South Korea’s exports to the PRC are now 30 percent greater than the total of the ROK’s exports to the US and Japan combined.

FIGURE IV: SOUTH KOREA’S TRADE WITH CHINA OUTSTRIPS TRADE WITH THE US AND JAPAN



Source: IMF, *Direction of Trade Statistics*.

In the political-military sphere, arguably the most important long-term trend in Northeast Asia, apart from the increasing sophistication of China’s PLA and PLAN, is North Korea’s rising power-projection capability, leveraged by its nuclear program. This transformation of North Korean capabilities is depicted in Figure V. In the mid-1980s, North Korea tested its first Scud-B missile—a reverse-engineered version of Russian originals, with a range of roughly 300 kilometers. That was soon followed by the Scud-ER, with a range of 1,000 kilometers.⁷ In 1993, Pyongyang launched a more advanced Nodong missile, with a range of 1,300 kilometers, into the Sea of

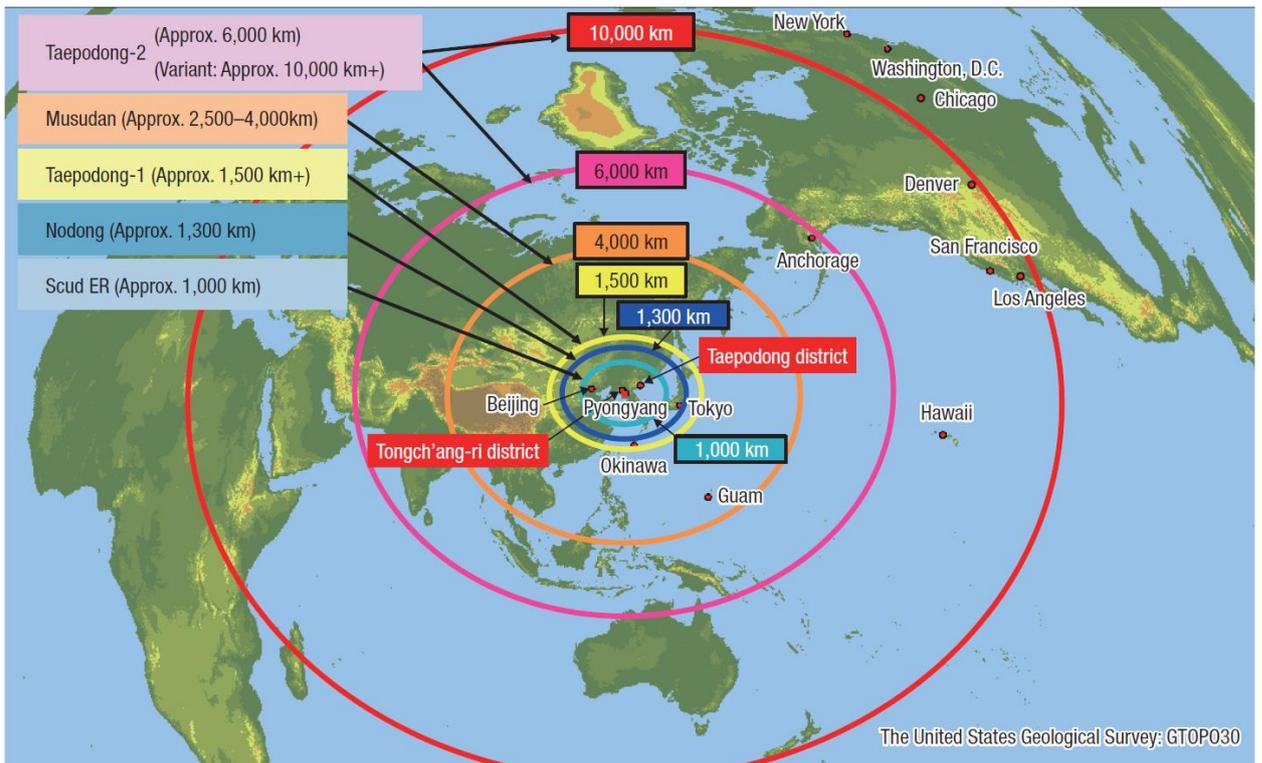
⁷ Ministry of Defense, *Defense of Japan 2016*, 22.

Japan.⁸ In 1998 the North launched, without warning, the still more advanced two-stage Taepodong-1 missile into heavily traveled North Pacific sea lanes, with the missile flying over Japan in the process.⁹

FIGURE V: RANGE OF NORTH KOREA'S BALLISTIC MISSILES

⁸ Ibid., 25.

⁹ Ibid.



* The figure above shows a rough image of the distance each missile can reach from Pyongyang for the sake of convenience.

Source: Ministry of Defense, *Defense of Japan 2016*, 22.

During the early 21st Century, North Korea’s nuclear and payload-delivery system capabilities have progressed together, in an ominously synergistic combination. In October 2006, North Korea exploded its first nuclear device; it has detonated four more since then—most recently in September, 2016.¹⁰ Meanwhile, Pyongyang has tested progressively longer-range delivery systems—most recently, the Musudan intermediate-range ballistic missile (IRBM), with a range of

¹⁰ The four other nuclear tests occurred in October 2006, May 2009, February 2013, and January 2016. See Ben Westcott and Joyce Tseng, “Timeline: North Korea nuclear tests versus United Nations sanctions”, *CNN*, January 20, 2017, <http://www.cnn.com/2017/01/20/asia/north-korea-nuclear-sanctions-timeline/>

2500-4000 kilometers, first launched successfully, according to Pyongyang, in June, 2016.¹¹ The Musudan, while it still lacks accuracy, has the range to hit the American strong point of Guam. North Korea also has tested submarine-launched ballistic missiles, which could represent, with significant additional development, an emerging strategic threat to the continental United States. So could the three-stage variant of Taepodong-2 missiles, with a range of as much as 10,000 kilometers, which are now under development.¹²

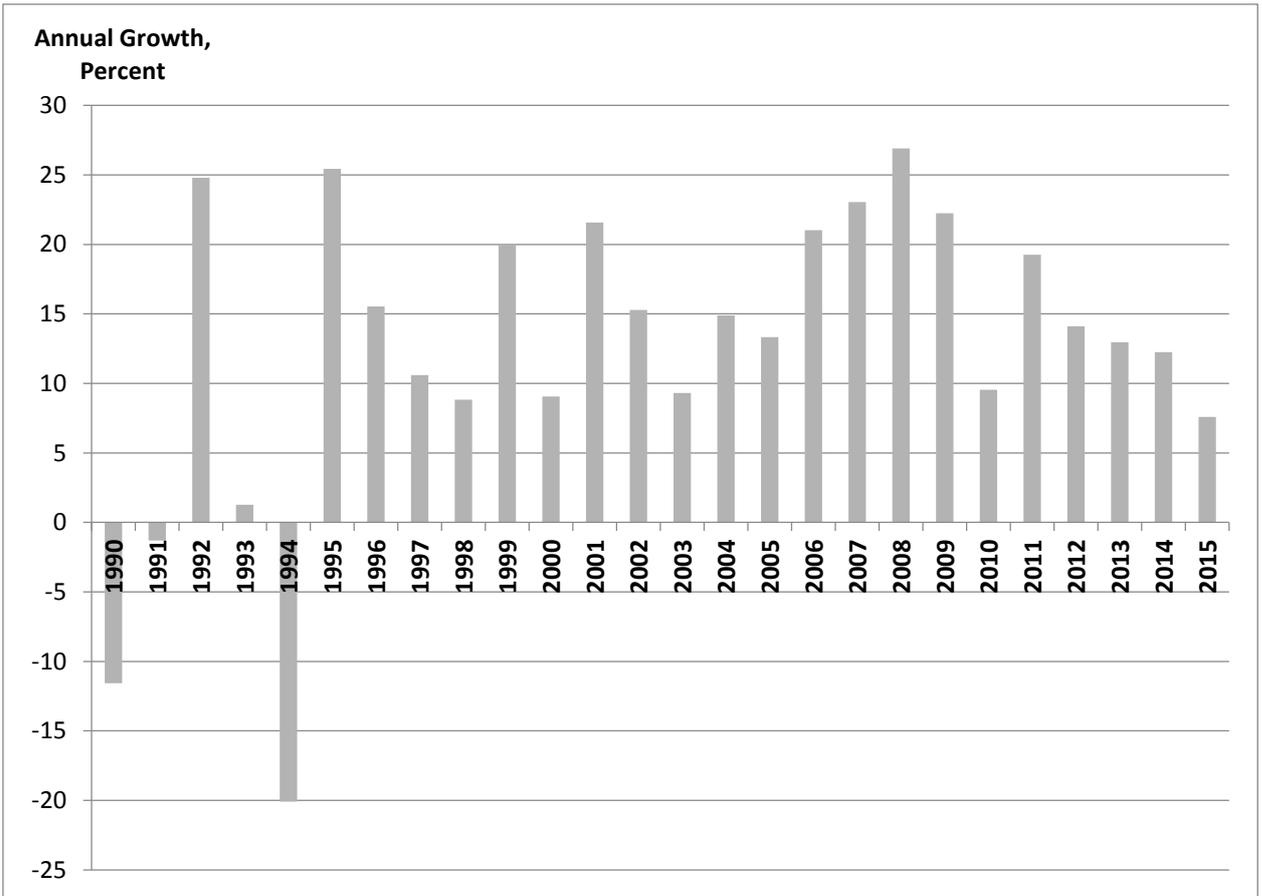
China's rising political-military capabilities, and the US response, naturally present the greatest long-term challenge to the status quo in Northeast Asia. Those capabilities are rising especially in the air and on the sea, fueled by a steadily increasing defense budget, the trajectory of which is indicated in Figure VI. China now has cruise missiles, sophisticated anti-ship weapons, state of the art SAM-400 anti-aircraft systems, and advanced stealth-fighter aircraft. In 2012 it also launched its first aircraft carrier, the *Liaoning*, which circumnavigated Taiwan in late 2016, although China continues to lack the fully configured battle groups that characterize the US Navy.¹³

FIGURE VI: CHINA'S RISING DEFENSE EXPENDITURES

¹¹ International observers have been skeptical of the DPRK claims. See "Musudan (BM-25)," *Missile Threat: CSIS Missile Defense Project*, <https://missilethreat.csis.org/missile/musudan/>. The BM-25 Musudan is a single-stage intermediate range ballistic missile.

¹² Ministry of Defense, *Defense of Japan 2016*, 26.

¹³ Jon Sharman, "China sends aircraft carrier 'Liaoning' through Taiwan Strait as tensions remain high", *Independent*, January 11, 2017.



Source: Author’s calculation based on Stockholm International Peace Research Institute, “Military expenditure data: 1949-2015,” *SIPRI Military Expenditure Database*, accessed on January 24, 2017.

America’s response to a rising China has focused on enhancing stand-off military capabilities, particularly on the island of Guam. Included in its long-term buildup have been deployment to Guam of nuclear attack subs, guided missile subs, F-22 stealth fighters, and Global Hawk reconnaissance drones, as well as enhanced THAAD missile-defense capabilities.¹⁴ The Pentagon is also increasing missile-defense capabilities in both Japan and Korea, while increasing

¹⁴ Shirley A. Kan, “Guam: U. S. Defense Deployments”, *Congressional Research Service*, November 26, 2014, <https://fas.org/sgp/crs/row/RS22570.pdf>.

its deployment of littoral combat ships and pre-positioned equipment in several nations of the western Pacific.

Fateful Leadership Transitions and Northeast Asian Geopolitics

China, Russia, Japan, and the United States have all experienced major leadership transitions since the spring of 2012 that have fateful impact on regional geopolitics, both today and in the near-term future. In China, the key development was Xi Jinping's elevation to the chairmanship of the Central Military Commission in November 2012, and his ascent to the Presidency in March 2013. In Russia, the important change was Vladimir Putin's re-election to the Presidency, in March 2012, and inauguration in May 2012. In Japan, Shinzo Abe's assumption of the Prime Ministership, also for the second time, was a major regional development. In the US, finally, change did not come until later—although momentarily, when it finally did arrive—in the Presidency of Donald Trump, beginning on January 20, 2017.

This sort of simultaneous fluidity in Northeast Asian regional leadership is extremely unusual, and presages major changes in regional relationships. In China, the ascent of Xi Jinping has already led to a noticeably more assertive set of policies in the South and East China Seas, including the building of artificial islands, as well as the ambitious Belt and Road Initiative. In that connection China inaugurated the Asian Infrastructure Investment Bank (AIIB), with a

capitalization of \$100 billion, as well as the Silk Road Fund, with a capitalization of \$40 billion, and the China-Eurasia Economic Cooperation Fund, founded in December 2015, with a capitalization of \$5 billion. All were established to provide infrastructure across the Eurasian continent and beyond.¹⁵ Among the AIIB's first projects was the \$8.6 billion Trans-Anatolian Natural Gas Pipeline in Azerbaijan;¹⁶ the Silk Road Fund's first was a \$1.65 billion hydro-power project, as part of the China-Pakistan Economic Corridor.¹⁷

In Russia, Vladimir Putin's election to a third term as Russian president (the first term having been during 2000-2004, and the second 2004-2008), has also meant a burst of policy activism. With great fanfare, Putin launched a new "Look East" policy at the 20th Vladivostok APEC Economic Leaders' Meeting in September 2012, encouraging Japanese, Korean, and Chinese investment in the Russian Far East, as well as in Siberian energy reserves. In May 2014 and thereafter, following the Russian annexation of Crimea and ensuing Western sanctions, Putin also forged ever deeper links with China, and met eight times between May, 2014 and the end of

¹⁵ China has also proposed a Shanghai Cooperative Organization Development Bank to finance SCO regional infrastructure. See Donald J. Lewis, "China-CEE ties on new economic path," *China Daily*, November 7, 2016,

http://www.chinadaily.com.cn/opinion/2016-11/07/content_27298818.htm

¹⁶ TANAP will be jointly financed by AIIB and the World Bank, with AIIB contributing \$600 million. See AIIB, "Azerbaijan: Trans Anatolian Natural Gas Pipeline Project (TANAP) To be co-financed with the World Bank,"

¹⁷ See "Commentary: Silk Road Fund's 1st investment makes China's words to practice," Xinhua, April 21, 2015,

http://news.xinhuanet.com/english/2015-04/21/c_134170737.htm

2016 with Shinzo Abe of Japan.

Japan's Northeast Asian diplomacy, under Shinzo Abe, who assumed office in December 2012, has also grown more dynamic, although clouded by the shadow of history. Abe has measurably deepened Japan's dialogue with Russia, initiating a "2 plus 2" series of periodic meetings among foreign and defense ministers, and meeting frequently with Vladimir Putin.¹⁸

In addition to pushing recognition of collective self-defense through the Diet, and decisively winning general and Upper House elections, Abe concluded in December, 2015 an agreement on historical issues with Korea, although political instability in Korea impeded implementation of its provisions. Even relations with China have begun to marginally improve in many respects, despite serious and continuing maritime tensions.¹⁹

Amidst all this intra-regional flux, the inauguration of Donald Trump as US President on January 20, 2017 has introduced new uncertainties. Shortly after entering office, Trump repudiated the multi-lateral Trans-Pacific Partnership (TPP) agreement, that had been a cornerstone of his predecessor Barack Obama's Northeast Asia policies. Rather than building broad regional and

¹⁸ Putin and Abe met a total of four times in 2016: on May 6 in Sochi, as the last stop of Abe's European visit; on September 2 in Vladivostok, at the Second Far Eastern Economic Forum; on November 19, on the sidelines of the Peru APEC summit; and on December 15, during Putin's official visit to Japan. See Prime Minister of Japan and His Cabinet, *The Prime Minister in Action*, accessed January 28, 2017.

¹⁹ Abe and Xi have met at least five times since late 2013, mainly on the sidelines of various G-20 and APEC multilateral summit conferences.

global institutions transcending national interest, he was clearly intent on using the leverage of America's market and global standing to forge narrower bilateral deals reflecting concrete US interests, with such key national players as Japan, Russia, and China. Trump's early appointments of Exxon CEO Rex Tillerson as Secretary of State, with his extensive Russian ties, as well as appointments of Iowa governor Terry Branstad to China and business consultant William Hagerty to Japan, all reflected this strategy of seeking concrete advantage through bilateral negotiations, personal contacts, and local expertise.

To give these representatives with local expertise further leverage, the Trump administration has also established a distinctive network of trade-policy specialists and institutions. The new National Trade Council, headed by University of California Irvine Professor Peter Navarro, is focusing on changes in trade and investment with China, based on Navarro's own stark view of China's emerging challenge.²⁰ US Trade Representative Robert Lighthizer, a steel industry lobbyist, is likewise targeting China's massive billion trade surplus of over \$330 billion with the US, and ways of repatriating US job-creating investment in China.²¹ Hawkish figures such

²⁰ Peter Navarro and Greg Autry, *Death by China: Confronting the Dragon – A Global Call to Action* (Upper Saddle River, NJ: Pearson Prentice Hall, 2011).

²¹ According to USTR, the US goods and services trade deficit with China in 2015 was \$336.2 billion. See Office of the United States Trade Representative, "The People's Republic of China," accessed January 24, 2017, <https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china>

as Navarro and Lighthizer could well indirectly encourage Northeast Asian governments to promote cooperative projects orchestrated by more “dovish” figures, such as Branstad and Hagerty, in an effort to deflect demands by the hawks for protectionist steps.

IN CONCLUSION

The political economy of Northeast Asia has evolved remarkably since the end of the Cold War, even though the region’s “organization gap” has largely persisted. China, in particular, has grown rapidly, even as Russia has receded sharply in relative terms. Today China’s economy is over eight times the scale of Russia’s, growing faster, and much more deeply entwined with both North and South Korea. China has much more leverage with the two Koreas, relative to Russia, than was true in Cold War days. The PRC also has powerful leverage with Russia itself, enhanced by low energy prices worldwide, and Crimea-related Western sanctions. Accordingly, it is harder for North Korea to play the two continental giants against one another today, to gain advantage, than it was two or three decades ago. China holds much more decisive leverage, although not absolute, leverage with the DPRK than was true during the Cold War of the 1980s.

Given Russia’s difficult—and in many ways worsening—economic circumstances, and vulnerability to Chinese suasion, Moscow’s ability to shape events on the Korean peninsula is largely limited to the political-military realm- especially its willingness or refusal to provide North

Korea with the technical, diplomatic, or modest economic assistance to resist Chinese or Western pressure. Together with China, Russia does border North Korea, and thus could serve as an important secondary partner in efforts to influence North Korean decision-making, although the key is clearly China.

American direct ability to shape events on the Korean peninsula has always stemmed more from its political-military presence in the ROK than from its economic relationships in the region, or its geographical proximity. Financial flows from the US after the Korean War, and from Japan after 1965, did play a crucial early role in South Korea's economic development. And the rapid pace of South Korean growth since the late 1960s, funded from both the US and Japan, has decisively helped to quietly reshape the North-South balance of geo-economic power, as well as China's incentives in its relations with the two Koreas. This transformed geo-economic equation, however, has not produced much meaningful political-economic change in North Korea. Nor has it prevented a steady improvement in North Korean nuclear and delivery systems that is gradually coming to present a significant threat to both US military deployments in Northeast Asia, and also to US allies in the Pacific, most notably Japan.

As the Trump administration begins to seriously review the changing Northeast Asian geo-political environment, it must inevitably recognize three emerging realities: (1) North Korean

weapons of mass destruction are beginning to present an increasingly serious challenge not only to US allies in Northeast Asia, but also to the United States itself, making the issue increasingly urgent; (2) The key to dissuading North Korea through non-military means remains more in the hands of China than of any other nation; and (3) A cooperative approach, pooling the respective capabilities of China, the US, and to a limited degree Russia and Japan, is most likely to yield constructive results. The early inclination of the Trump administration to enter a more serious dialogue with Russia, building on the overtures that Japan is also making to Moscow, could thus potentially enhance prospects for peace on the Korean peninsula. Both the United States and Japan, however, will also need to find a way to engage China more actively in moderating North Korean behavior, which could well reduce their ability to pressure China on trade and security issues outside the Korean peninsula as well.