

The Korean Peninsula and Japan: Global Money Flows as Framing International Relations*

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Leadership Change

In 2011–2013 leadership change occurred in Japan, South Korea, and North Korea¹ That change in leadership in these three countries, around the same time, is not something that domestic factors alone can explain. The most notable event is the 2008 collapse of the economic bubble in the United States, which followed a militarily aggressive and financially extravagant unipolar and unilateral period led by George W. Bush, Jr. Also, one cannot forget that quasiausterity had continued in Japan since 1991 when its own bubble collapsed. The exchange rate of Japanese yen increased steadily as world investors/speculators searched for safe currencies—the Japanese yen and Swiss franc. Japan continued to register a low-growth rate for all these years. South Korea overcame what South Korea calls the IMF crisis in 1997–1998 and enjoyed a currency rate that facilitated Korean exports en masse. North Korea continues its austerity policy since well before 2008. The US government under President Barack Obama and Federal Reserve Chairman Ben Bernanke adopted a policy of quantitative easing of money, a large bulk of which investors/speculators diffused to what are now called emerging economies, BRICS (Brazil, Russia, India, China, and South Africa), MIST (Mexico, Indonesia, South Korea, and Turkey), and the rest. South Korea rode high on this wave under President Lee Myung-bak as Korean exports expanded globally and aggravating income gaps grew between chaebol business

and small business. North Korea suffered further because of tightening economic sanctions.

Bernanke in July 2013 hinted that quantitative easing of money might be gradually scaled down between 2013 and 2014 as the US economy started to register indicators of recovery like employment and manufacturing products. Bernanke's statement triggered investors/speculators to bring a lot of money back to the United States from abroad. The resulting shortage of money in countries such as Brazil, Turkey, and Egypt triggered political protests. A few months before Bernanke's statement, Prime Minister Abe Shinzo and Bank of Japan's president Yasuhiko Kuroda dramatically started a massive quantitative easing of money policy in March 2013. What is called Abenomics aims to halt a two-decade-long recession and initiate respectable economic growth. The exchange rate of the Japanese yen vis-à-vis the US dollar decreased, which in turn facilitated Japanese exports.

Kim Jong-un, Park Geun-hye, and Abe Shinzo became top leaders when their respective economies registered alarmingly negative symptoms. Kim Jong-il's *sunngun* (military-first-ism) politics did not bear much fruit beyond a minimum level of regime survival. Lee Myung-bak's globalization politics developed incredible income gaps among the population. Noda Yoshihiko's politics of rebalancing government deficits with Bank of Japan's deflationary policy and treasury ministry's consumption tax hike policy met an overwhelming refusal by the population. Hence, their successors might have wondered whether they would be able to redirect their politics: Kim Jong-un seeks economic reform and reconciliation with the United States while not compromising on nuclear weapons development; Park Geun-hye's politics seeks to heal low-income and senior citizens while postponing indefinitely the 2015 transfer date of operational control from US armed forces to that of South Korean armed forces; Abe Shinzo's politics seeks to reflate the economy with massive quantitative easing of money while enhancing Japan's role in its alliance with the United States and mending fences with China and South Korea. Against this information background, I examine first Japan's policy toward the Korean Peninsula.

Japan's Policy toward the Korean Peninsula

To examine Japan's policy toward the Korean Peninsula, it is important to provide a brief review of Prime Minister Abe's policy thrusts in three key areas.² Abe's priority is to restore self-confidence to

Japanese citizens. With national self-confidence restored, he believes many problems will more easily find pragmatic solutions. First, the economy will reinvigorate itself. Hence, the success of what is called Abenomics has to be achieved with utmost caution and alacrity. Second, the US-Japan alliance has to be enhanced. To achieve this goal, Japan has to be able to provide substantial assistance to the United States, thereby demanding that issues of history and constitution be overcome. This objective has to be handled with utmost caution and patience. Third, friends afar are no less precious than immediate neighbors in an era of globalization and interdependence. Geopolitics has to be carried out with the belief that geography is not a destiny.

Prime Minister Abe's politics toward the Korean Peninsula begins with his belief in the need to encourage patriotism among citizens and to correct a wrong history education. His grandfather, Kishi Nobusuke, who was held as a suspected Class A war criminal, jailed for three and half years, and later served as prime minister (1958–1960), believed that history as taught in Japan since 1945 treated him badly, that in particular the Far Eastern Tribunal's verdict was wrong, and that Japan must restore its true spirit.³ In *Toward A Beautiful Country*,⁴ a book Abe published before becoming prime minister in 2006, he espoused his belief in patriotism and nationalism as an essential ingredient of good politics. To understand his beliefs in this area is to better understand his policy toward the Korean Peninsula. But no less important is his pragmatism when his dream is not realistic. Many pitfalls abound in Japan's modern history, so it is to Abe's credit if he remains realistic and pragmatic. In 2006–2007 when he was first prime minister, he was praised for his efforts to improve relations with China, with whom Japan had not had a top-level meeting for five years during the Koizumi Administration. He was praised for not visiting the Yasukuni Shrine during his tenure. In the first 12 months of his second tenure, he also refrained from visiting the Yasukuni Shrine, but on December 26, 2013, he visited the shrine. His right-wing beliefs are so widely known that he is not afraid of a right-wing attack for whatever compromise he might make, be it a history issue vis-à-vis South Korea or economic cooperation vis-à-vis North Korea.

Japan's Policy toward North Korea

Japan has not maintained normal diplomatic relations with the Democratic People's Republic of Korea. Yet colonial and wartime

legacies abound between Japan and North Korea. Symbolic of these legacies at the highest level is the story of Kim Jong-un's mother, Ko Young-hee, who was born in Osaka, Japan, and went to North Korea as part of returning Koreans to the North in the late 1950s and 1960s.⁵ Ko Young-hee died a decade ago and no official admission in North Korea was made about her birthplace. No less symbolic of these legacies is the story of Park Geun-hye's father, Park Chung-hee. The senior Park graduated from a Japanese military academy and served in the Imperial Army. Yet politically these legacies are best kept secret in both Koreas. In South Korea, Park Geun-hye is politically vulnerable. This may have led her to make the following comment about a possible summit meeting with Abe: "I am not interested in meeting someone unless someone is a future-oriented person."⁶

Five issues are normally tabled on Japanese-North Korean talks of quasi-intergovernmental nature: (1) abducted Japanese citizens, (2) denuclearization, (3) wartime compensation or official developmental assistance (ODA), (4) humanitarian assistance, and (5) Chongryong (Pro-North Korean Federation of Korea residency in Japan) properties. The third issue is the oldest. At a time, when the first and second issues were not an agenda item, the third issue was most important and was the most difficult on which to reach agreement. The fourth issue came up when famines occurred intermittently in North Korea. The fourth issue has been relatively easy to manage, in part because international organizations like World Food Program and International Red Cross and Red Crescent Society manage it. The fifth issue is the most recent addition, and it has a lot to do with Chongryong's financial capacity to exist as an organization in Japan, reflecting the decline in the number of Korean residents in Japan who are friendly to North Korea and the detrimental financial impact this has on members and donations.

On the third issue, North Korea argues that because the 1965 Basic Treaty with the Republic of Korea (ROK) bound Japan to provide ODA and associated help on nongovernmental basis, North Korea should get an equal amount of help from Japan when diplomatic normalization is achieved. In the 1970s and 1980s, the issue was discussed between Japan and North Korea a number of times but to no avail.

A number of Japanese citizens were abducted to North Korea, mostly in the 1970s and 1980s, but for many years this issue was unknown. Once the abductions became public knowledge, public opinion turned against North Korea, with negative views still prevailing today. When Koizumi met with Kim Jong-il on this issue in

Pyongyang in 2002, Kim apologized to Koizumi. But of those listed as disappeared by Japanese authorities, only a few were identified and given permission to return to Japan, provided that shortly after arriving they would return to North Korea to bring their children and loved ones to Japan. Abe Shinzo, then cabinet undersecretary of the Koizumi Cabinet, vehemently opposed Kim Jong-il's conditions of a two-stage return to Japan. North Korea complied with the Japanese argument that once the abductees landed in Japan, their children and loved ones should leave North Korea for Japan. Since the details became public knowledge, Abe's popularity rose. Abe became a hero among Japanese who argue for a tough stance toward North Korea and it looked as if the sentiments prevailed nationwide.⁷ Abe Shinzo sent his special envoy to North Korea in spring 2013. Details are not known about the meeting. However, rumors spread that for the commemoration of the sixtieth anniversary of the victory of North Korea (i.e., the 1953 armistice agreement between North and South Korea), North Korea might conclude diplomatic normalization with Japan. Neither the United States nor China appears willing to provide money to resuscitate the North Korean economy. Instead both the United States and China are urging North Korea to denuclearize itself. North Korea's argument is that without nuclear weapons, it would be exposed to the whims and wishes of the United States. Why does China push for North Korea's denuclearization? It would be ludicrous to speculate that North Korean nuclear missiles might be used against Beijing. If Beijing enters into nuclear nonproliferation talks with the United States, Pyongyang's card will be to forge ties with China's adjacent province, Liaoning, which does not want to see the United States and South Korean soldiers standing shoulder-to-shoulder on the other side of Yalujiang or Amnokkan River after a buffer state called North Korea is gone. If Liaoning cooperates with Pyongyang in targeting Beijing for a coup d'état with the help of North Korean nuclear weapons, China's demand for denuclearization will be averted by a new Chinese government that prefers having a buffer state. If one recalls Bo Xilai, dismissed from office, had solid political bases both in Liaoning and Sichuan, which also has nuclear weapons facilities. Such a scenario creates uneasy feelings.⁸ There are rumors about North Korea leaning to Japan to warn against such a scenario with possible Chinese-US cooperation.

Denuclearization has been a key issue of the six-party talks (United States, China, South Korea, North Korea, Japan, Russia) for years. From North Korean perspectives, the six-party talks represent a

convenient vehicle for North Korea to prolong talks while gaining time to accelerate nuclearization. Japan is an outlier participant by prioritizing the abduction issue in the six-party talks. Such a position is not well regarded by the United States and South Korea. For North Korea, regime survival is the first priority. The North Koreans calculate that the cost-benefit ratio of developing nuclear weapons and power plants is favorable. Hence, *sunngun* politics and weapons development are placed first. Chinese leaders, keen on developing a more cooperative relationship with the United States, have started to advise North Korea to stop nuclearization. They seem to prefer a North Korea as a buffer state located against a fully armed South Korea and United States. Japan's position on North Korea's nuclearization is simple. Japan is steadfastly against it. Along with the United States and South Korea, Japan has often taken tough action against North Korea. Japan has pursued both economic sanctions and economic appeasement to influence North Korea. The salience of the abductions in Japanese government thinking has led the Japanese government to stress economic sanctions over economic appeasement. The result of the pressure brought by the six-party talks vis-à-vis North Korea is clear: pressure has not been effective in terms of North Korea's nuclear development. But it has been effective in weakening the North Korean economy and people's livelihood. This does not mean that North Korea would be more conciliatory when the six-party talks is more conciliatory. Abe's most frequently used word is pressure. On May 30, 2014, Japan and North Korea announced that they agreed on two points: (1) North Korea starts to investigate its abduction of Japanese citizens, and (2) Japan starts to lift sanctions that Japan separately and additionally imposed apart from those imposed by the US-led countries vis-à-vis North Korea.

Japan's Policy toward South Korea

President Lee Myung-bak's parliamentary remarks symbolize his politics of globalization and economic interdependence: Although the ROK is territorially small, it has access to the world's greatest square footage. By this he means that if one includes the countries with whom the ROK has concluded bilateral free trade agreements (FTA), the ROK may have the largest economic space for free trade. The 2008 economic crisis, triggered by the Lehman Brothers, interrupted his policy of globalization and economic interdependence. The huge US market shrank for South Korean exports. Yet the exchange rate for

US dollars was more or less favorable to South Korean exports and investments in the United States and in emerging economies. In the latter half of his five-year tenure, Lee's globalization politics resulted in huge income gaps at home. To add salt to the wound, the Bank of Japan dramatically changed its policy from recessionary policy to reflationary policy in March 2013. That resulted in an unfavorable decrease in the exchange rate of Korean won for South Korean exports to the US market and those markets of emerging economies vis-à-vis US dollars in comparison to Japanese yen. South Korean competitiveness vis-à-vis Japan decreased drastically in March 2013. To add further injury, President Lee was dismayed by the Constitutional Court's verdict that the government/he had not acted effectively to defend the ROK position on the Dokdo Islands.⁹ He hastily acted, landing on the islands and putting his hands on the stone epitaph, noting that the islands is under ROK sovereignty. Lee's sudden trip triggered extremely negative reactions from Japan, in and outside the government. Along with China, which took strong actions toward its claims over the Senkaku/Diaoyu Islands in 2012 and garnered very negative reactions from Japanese citizens, South Korea followed China in terms of negative images among Japanese citizens. China, South Korea, and North Korea are among the worst three ranked countries among respondents in Japanese polls.¹⁰ As one's image tends to be reciprocated by others, these things are interactive. It is not a matter of who started what and who is to blame.

South Korea-Japan relations are reciprocal in an unusual sense. After Lee's rushed to visit the Dokdo Islands, his successor Park Geun-hye was prompted to act because of history and her father's association with it. Park Geun-hye went further to say that she does not want to meet anyone who is not future-oriented (perhaps Abe was still in her mind). It is in strong contrast to the 1998 joint communique between the two countries, when South Korea put more emphasis on reflecting on the past and Japan put more emphasis on designing the future. The communique represents a compromise between the two countries.¹¹

Abe Shinzo is haunted by his own history. His maternal grandfather was prime minister in postwar Japan, but during the war as a lower house member opposed Prime Minister Tojo and thus went through a difficult period during the wartime. His own father was Shintaro Abe, who on the precipice of becoming prime minister fell ill to cancer and prematurely passed away. Abe Shinzo greatly respects his maternal grandfather Kishi.¹² Kishi's rise from a bureaucrat to a

cabinet minister who opposed a prime minister to a suspected war criminal to ultimately the PMO in 1958 and his resignation in 1960 is a remarkable story. Kishi resigned from office when he dared to ratify a revised Japan-US security treaty that enhanced Japan's alliance obligation in the National Diet through normal procedure when the extraparliamentary collective protests gathered en masse outside the Diet. Abe fondly and repeatedly recalls his time with his grandfather in 1958–1960. His memory is that of a grandfather who fought his opponents for the country and sacrificed a cabinet minister's position in 1944 and a prime ministership in 1960.

Park Geun-hye is also haunted by history. During the presidential contest opponents harassed her about her father who served in the Japanese Imperial Army as a junior officer with his Japanese name in the Kwangtung Army in Manchukuo. Park decided not to talk about the past at all. Instead, she wanted to identify and elevate the memory of heroic Koreans who fought against the Japanese in wartime China as exiles. That led to her China visit, after a US visit, and her proposal to Xi Jinping to erect a stone epitaph commemorating the heroics of the Korean army fighting together with Chinese against the Japanese. Although initially open to the suggestion, Xi had second thoughts about the relatively small size of the Korean army in China and about the protection it then received from the Kuomintang, the archenemy of the Chinese communist. As a state guest, Park engaged both China and the United States in her host's language. Any hint of Japanese in her life she expunged, including memory of her father in wartime, immediate postwar, and periods of military dictatorship.

The difference in US response to Abe Shinzo and Park Geun-hye is curious. Abe has not been granted a chance of meeting *tete-à-tete* with Obama in a full sense, whereas Park was treated as a state guest and given the opportunity to speak in Congress and was treated accordingly by Obama. But looking two to three years into the future from 2013, a slightly different picture might emerge. As I started this chapter with a quick summary of the macro global trend of money flying around the globe, it is necessary to forecast the likely economic trends, centering on China, Japan, and the United States. The Japan Economic Research Center (JERC) just published "The World Economic Forecast in 2050."¹³ The forecast has a two-fold message: (1) the United States will continue to enjoy economic hegemony in 2050 and (2) China will fall into what is called the middle-income country trap.¹⁴ The United States will increase its population significantly through immigration, with reservations placed on recent

tightening of immigration. The United States will achieve energy self-sufficiency through shale gas and shale oil as well as conventional oil. The US economy will remain free and will open economic and other institutions to push its GNP ahead of others. In contrast, China will retain state enterprises, more or less intact, to keep down total productivity. Institutions will continue to be exceedingly extractive to the extent that income gaps will increase almost indefinitely.¹⁵ “As China completes its catch-up phase, it will be increasingly difficult to achieve growth relying on capital investments. Instead, productivity enhancements through reforms of political and economic institutions will be required.”¹⁶ The forecast resembles the path many prosperous empires and republics have trodden to ultimate decline.

Most immediate are the formidable economic issues that both Park and Abe have to tackle. South Korea has manifested all the malaise of riding high on globalization during Lee’s presidency. In 2013, “the great deceleration”¹⁷ started as Bernanke hinted of a possible scaling down of the massive quantitative easing of money that started with the 2008 Lehman shock. This was a great disappointment to South Korea. Three months earlier in 2013, the Bank of Japan started to implement its own massive quantitative easing of money. The result is that the exchange rate of the Japanese yen has become very competitive to the Korean won for exports abroad. The deceleration is occurring when income gaps among citizens are at a high. Park appealed to small- and medium-business enterprises for support, blaming chaebol-based large business that supported former president Lee Myung-bak. President Park received strong supports from low-income citizens, those living in Kangwondo province (her mother’s home base), Chungchongdo province and Kyungsang bukdo province (her father’s home base), and most visibly seniors. For the first half of her five-year presidential term, she must tailor her policies to those supporters.

Abe Shinzo faces no less a daunting task. He must navigate between the path of reflating the economy and not allowing interest rates to rise dangerously to where they would jeopardize the operation of paying back the interest on government bonds. Abe must steer against the vested interests of those who were not necessarily unhappy about the extended 20-year recession: almost no inflation, high Japanese yen exchange rate, and slow demographic decline. The first step of Abenomics has been provisionally successful, based on the latest indicators of the unemployment rate and annualized quarterly economic growth rate (very high of 4.6 percent). Now Abe must carry out a

large number of important legislative work on deregulation and innovation, especially in such areas as finance, medicine and agriculture, gender equality, social security and pension, and consumption tax. With a comfortable majority secured in the July 2013 upper house election and a large majority secured in the lower house December 2012 election, it is conceivable that Abe would will not face insurmountable difficulties in domestic politics. More unpredictable are global movements of money. Assessing situations is important particularly when the United States continues scaling down the quantitative easing of money in 2014 and when the deflationary spiral of the Japanese economy has been turned into a reflational spiral that targets a two-percent rate of inflation. Just as critical is the timing and size of a consumption tax hike. On October 1, 2013, Abe decided to raise consumption tax to eight percent in April 2014. His decision is based on the Bank of Japan Short-term Assessment issued in September 2013.

No less predictable, at least as viewed in Japan, is the negotiations of the Trans-Pacific Partnership (TPP) that Japan joined in July 2013. To many Asian watchers, the Asia-pivot strategy of President Obama has not made any spectacular difference therefore, it is more important to play up the US-led TPP free trade movement, especially since joining these negotiations. The outcome of the TPP negotiations is significant in relation to the other schemes, the Regional Cooperation of Economic Partnership (RCEP) and the Trans-Atlantic Trade and Investment Partnership (TITP). The RCEP is Japan-led and aims to create standardized bilateral FTAs on the basis of many varied bilateral FTAs in the Asia Pacific. The TITP is another US-led initiative and it aims to enhance transatlantic economic ties. Less frequently mentioned is the proposed trilateral FTA among Japan, China, and South Korea. As these three countries have been intermittently, and even arguably continuously, at odds, the final agreement has a long way to go. In comparison, the RCEP has made notable progress. China was initially reluctant to approve Taiwan and Hong Kong to freely conclude bilateral FTAs with other countries. Eventually, China found it benefited from allowing Hong Kong to pursue such agreements. In the case of Taiwan it was more difficult. China insists on a One-China policy, especially with regard to Taiwan. In 2010, China and Taiwan concluded a comprehensive agreement with each other on trade, investment, and in many other areas. Again, China eventually found it benefited from allowing Taiwan to seek FTAs. The one condition is that the One-China principle is not jeopardized.

Thus, recently, Taiwan concluded two FTAs with New Zealand and Singapore. However, representing Taiwan is not the Republic of China government but an organization that does not collide with the One-China principle. To Japan most interested in deepening and expanding free trade, it is good news. It is also good news in another sense. It appears as if China has relaxed the One-China principle without compromising its spirit.¹⁸

Global Money Flows as Framing International Relations

In examining the changing nature of international relations of the Korean Peninsula and Japan since the end of the Cold War, a number of benchmark years are easily identifiable: 1991, 1997, 2008, 2013. In these years, the ebb and flow of global money is most pronounced. In 1991 after the Cold War ended, global money flows into Japan abated. Up to 1997, global money flowed into South Korea, Thailand, Indonesia, and the rest of Asia, but in 1997 all such money flowed back to the United States. In 2008, global money flows to the United States suddenly stopped and were diffused to emerging economies (BRICS, MIST, and the rest). In 2013, global money flows to emerging economies suddenly stopped and flowed back to the United States, leaving emerging economies to sink. Needless to say, domestic economic factors are probably the most important. Yet the nature of swift, massive movements of global money has become very pronounced since the 1985 Plaza Accord, when currency trade volume surpassed goods and services trade by 50 to 100 times for the first time in human history. Three factors are pertinent: (1) institution has changed from the predominance of goods and service trade to the prevalence of currency trade; (2) information technology has advanced to enable money to be transferred swiftly and massively in a revolutionary fashion; (3) global economic activities have become interconnected and interpenetrated irrespective of borders. As far as money flows are concerned, we live in a global borderless economy. Investors and speculators are assessors and actors of the global market. Most significant is that their assessment and action tend to converge on the point of making short-term and long-term gains. Once their assessment and action converge, either a bubble quickly forms or swiftly collapses. Astute in assessment, agile in action, and aggressive in instincts, all world investors and speculators do not want to miss opportunities.

In discussing relations between the Korean Peninsula and Japan, the focus tends to be on a number of domestic factors. Be it history, geography, economic interconnectedness, alliance, territory, sovereignty, norms, rules, language, religion, or national character, global capitalism is driven by how investors and speculators of the world unite. How those domestic factors adapt to global capitalism matters. What looks like the relentless and merciless nature of global capitalism is moderated by how we adapt our norms, rules, and institutions at home and abroad.

In a similar vein, an examination of the Korean Peninsula and Japan tends to focus on intergovernmental relations of the concerned major countries. Be it war or peace, conflict or reconciliation, the states governing the population in a certain territory with sovereign power are the major actors. Their relations attract the attention of most international relations specialists. Take two contrasting examples. Timo Kivimaki¹⁹ presents chronological data on peace and conflict in East Asia since 1945. He says that since 1979, there have been only two incidents when international war-related deaths occurred. One is a Chinese Air Force pilot, killed in his pursuit of US reconnaissance aircraft above the Hainan Islands in 2001. The other is an incident in which North Korea torpedoed and sunk South Korea's Navy warship in 2010, killing 46 seamen. Also, North Korea's bombardment of Yeonpyeong Islands killed two civilians. The first death may be viewed as civil-war related. The last incident may be viewed as war-related as those killed were not soldiers but civilians. It is East Asia's long peace, according to Kivimaki. In contrast, Aaron Friedberg²⁰ argues that East Asia is ripe for war and that the current competition and cooperation between the United States and China is likely to become a major competition over world hegemony. According to him, the United States must make every effort to keep its world leadership not only through international norms and rules that the United States and others have shaped and reshaped since 1945 but more directly by overwhelming military might and strategic preparedness.

Notes

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