



P a c i f i c F o r u m C S I S



Comparative Connections



A Quarterly **E-Journal** on
East Asian Bilateral Relations

edited by

Brad Glosserman
Carl Baker

2nd Quarter (April-June) 2009
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Pacific Forum CSIS

Based in Honolulu, Hawaii, the Pacific Forum CSIS operates as the autonomous Asia-Pacific arm of the Center for Strategic and International Studies in Washington, D.C. Founded in 1975, the thrust of the Forum's work is to help develop cooperative policies in the Asia-Pacific region through debate and analyses undertaken with the region's leaders in the academic, government, and corporate arenas. The Forum's programs encompass current and emerging political, security, economic/business, and oceans policy issues. It collaborates with a network of more than 30 research institutes around the Pacific Rim, drawing on Asian perspectives and disseminating its projects' findings and recommendations to opinion leaders, governments, and publics throughout the region.

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A Quarterly Electronic Journal on East Asian Bilateral Relations

Bilateral relationships in East Asia have long been important to regional peace and stability, but in the post-Cold War environment, these relationships have taken on a new strategic rationale as countries pursue multiple ties, beyond those with the U.S., to realize complex political, economic, and security interests. How one set of bilateral interests affects a country's other key relations is becoming more fluid and complex, and at the same time is becoming more central to the region's overall strategic compass. *Comparative Connections*, Pacific Forum's quarterly electronic journal on East Asian bilateral relations edited by Brad Glosserman and Carl Baker, with Ralph A. Cossa serving as senior editor, was created in response to this unique environment. *Comparative Connections* provides timely and insightful analyses on key bilateral relationships in the region, including those involving the U.S.

We regularly cover 12 key bilateral relationships that are critical for the region. While we recognize the importance of other states in the region, our intention is to keep the core of the e-journal to a manageable and readable length. Because our project cannot give full attention to each of the relationships in Asia, coverage of U.S.-Southeast Asia and China-Southeast Asia countries consists of a summary of individual bilateral relationships, and may shift focus from country to country as events warrant. Other bilateral relationships may be tracked periodically (such as various bilateral relationships with India or Australia's significant relationships) as events dictate.

Our aim is to inform and interpret the significant issues driving political, economic, and security affairs of the U.S. and East Asian relations by an ongoing analysis of events in each key bilateral relationship. The reports, written by a variety of experts in Asian affairs, focus on political/security developments, but economic issues are also addressed. Each essay is accompanied by a chronology of significant events occurring between the states in question during the quarter. A regional overview section places bilateral relationships in a broader context of regional relations. By providing value-added interpretative analyses, as well as factual accounts of key events, the e-journal illuminates patterns in Asian bilateral relations that may appear as isolated events and better defines the impact bilateral relationships have upon one another and on regional security.

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by Michael J. Green, CSIS, and Nicholas Szechenyi, CSIS

Prime Minister Aso Taro put off the election with the hope that additional economic stimulus measures would increase support for his Liberal Democratic Party. But Aso received a real boost when Ozawa Ichiro resigned as opposition leader in May due to a funding scandal. That boost quickly evaporated when Ozawa was succeeded as head of the Democratic Party of Japan by Hatoyama Yukio. As a result, most analysts continued to predict a victory for the DPJ in a general election expected in August and uncertainty continued hanging over the U.S.-Japan relationship. Japan’s political mess did not get in the way of close U.S.-Japan coordination in response to a series of North Korean provocations. President Obama also made progress in nominating key personnel to guide the U.S.-Japan relationship. The quarter came to a close with the U.S. Congress gearing up for a budgetary battle over the future of the *F-22* stealth fighter, which the Aso administration has said it wants to buy, and Secretary of Defense Gates has said he does not intend to sell.

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by Bonnie S. Glaser, CSIS/Pacific Forum CSIS

After the completion of the first round of “get-acquainted” meetings aimed at laying the foundation for cooperation on a broad range of issues, the U.S. and China agree that the bilateral relationship is off to a good start. While there is acute awareness of the challenges, there is a shared sense that their futures are inextricably linked and that cooperation is essential to global economic prosperity and security. The quarter opened with the first meeting between Presidents Hu and Obama on the sidelines of the G20 financial summit. On separate visits to Beijing, Todd Stern, the U.S. special envoy for climate change, and House Speaker Nancy Pelosi underscored the importance of combating the effects of global warming. U.S. Treasury Secretary Timothy Geithner traveled to China to prepare for the first round of the Strategic and Economic Dialogue. Washington sought China’s cooperation on regional security issues, including North Korea and Afghanistan-Pakistan. The Defense Consultative Talks were held in Beijing, giving a desperately needed boost to the bilateral military relationship.

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by Victor Cha, CSIS Korea Chair/ Adjunct Senior Fellow Pacific Council

The quarter saw a plethora of provocations by North Korea, ranging from ballistic missiles tests to the country’s second (and more successful) nuclear test. The United Nations Security Council responded with Resolution 1874 that called for financial sanctions and the institutionalization of a counterproliferation regime that would have made John Bolton proud. The U.S. and ROK presidents held their first summit amidst all this noise and sent clear signals of alliance solidarity. Washington exhibited the closeness of the alliance, being the only country to send a presidential delegation to the funeral of former President Roh Moo-hyun. These rhetorical demonstrations of the alliance’s strength, however, cannot drown out the potential substantive setback to the alliance as the KORUS Free Trade Agreement continues to languish.

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by Joseph Ferguson, National Council for Eurasian and East European Research

President Barack Obama traveled to Moscow in early July to meet the Russian leadership, the political diarchy of President Dmitry Medvedev and Prime Minister Vladimir Putin. The meetings were conducted in a cordial atmosphere, but this particular summit stood out from summits of the past two decades between U.S. and Russian leaders: there was no backslapping camaraderie or using first names. Obama conducted the visit with a minimum of pomp and a maximum of professionalism. His job was to assess the state of U.S.-Russian relations, assess the leadership situation in Russia, and to decide on the best path to improve bilateral relations. Although most of the headlines stated that the results of the summit were “mixed,” Obama seems to have achieved what he wanted and laid the groundwork for achieving normalcy in relations for the next six months or so. The most pressing issues, however, remain unresolved, and it is not clear if progress can be sustained beyond the end of the year.

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by Sheldon Simon, Arizona State University

Southeast Asia media and elites praised President Barack Obama’s Cairo address for opening a new dialogue with Muslims and acknowledging U.S. transgressions after 9/11. Washington excoriated Burma’s ruling junta for transferring opposition leader Aung San Suu Kyi to prison for violating the regime’s detention law, characterizing the charges as “baseless” and an excuse to extend her incarceration beyond scheduled elections in 2010. Thai political turmoil disrupted ASEAN-related meetings in April. In the Philippines, this year’s *Balikatan* exercise involved 6,000 U.S. troops and focused on responses to natural disasters as the Philippine Congress is scheduling new hearings on the Visiting Forces Agreement. Human rights concerns in Southeast Asia were raised again in the annual U.S. watch list on human trafficking with most of the region cited for an unwillingness or inability to stop the notorious trade. Finally, the U.S. praised Southeast Asian maritime defense cooperation in suppressing regional piracy as well as contributing to counter-piracy patrols in the Gulf of Aden.

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by Robert Sutter, School of Foreign Service, Georgetown University, and Chin-hao Huang, SIPRI

The highlight of the quarter was continued maneuvering by China and Southeast Asian claimants over disputed territory and related economic claims in the South China Sea. Last quarter’s widely publicized face-off between the U.S. surveyor ship *USNS Impeccable* and harassing Chinese vessels was followed by incidents and commentary this quarter that underlined China’s view of an important U.S. role in challenging Chinese maritime claims in Southeast Asia. Chinese official statements and commentary and the actions by Chinese defense and security forces underlined a firm Chinese position in support of territorial and resource rights disputed by some Southeast neighbors and the U.S. Meanwhile, the pace of Chinese diplomacy picked up with economic support to Southeast Asian neighbors weathering the decline in trade and investment during the ongoing global economic recession along with visits and interaction with senior Southeast Asian leaders.

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by Aidan Foster-Carter, Leeds University, UK

The second quarter of 2009 saw North Korea make headlines around the world, as it likes to do. (On their leisurely train journey across Siberia toward Moscow in the summer of 2001, Kim Jong-il told his Russian host, Konstantin Pulikovsky: “I am the object of criticism around the world. But I think that since I am being discussed, then I am on the right track.”) The quarter was neatly, perhaps deliberately, bookended by missile launches. On April 5 after a two month build-up, while the world watched the preparations via spy satellites, the DPRK finally fired its long-awaited *Taepodong-2* long-range missile. Ostensibly this was to put a satellite in orbit – although neither the International Telecommunication Union (ITU) nor anyone else has managed to observe any new object soaring across the heavens. Meanwhile, relations between the South and North continued to deteriorate as interaction became more caustic and the stakes higher. By the end of the quarter, the rest of the world watched again as the North launched more missiles.

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Pyongyang Tests Beijing’s Patience

by Scott Snyder, Asia Foundation/Pacific Forum, and See-won Byun, Asia Foundation

North Korea’s missile launch on April 5 and nuclear test on May 25 posed a test to the international community. For China, the tests highlighted the tensions between its emerging role as a global actor and a commitment to North Korea as an ally. On June 12, China voted in favor of UN Security Council Resolution 1874 condemning North Korea’s nuclear test. China now must decide whether it will actively implement the resolution. As a result of North Korea’s declining trade with South Korea and the international community, China’s economic leverage with North Korea has grown. But it is unclear whether China will utilize such leverage given strategic concerns about regional stability and the impact on the political succession process now underway in Pyongyang. Meanwhile, economic policymakers in Seoul are aggressively seeking to expand South Korea’s share of the Chinese market in an effort to shore up the economy and benefit from Beijing’s massive stimulus plan. However, there is growing Sino-South Korean competition to secure overseas export markets and energy sources. This competition is influencing South Korean assessments of China’s role as a global economic power.

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High-level Meetings Intensify as Old Problems Simmer

by James J. Przystup, Institute for National Strategic Studies, NDU

Intensive high-level meetings marked the second quarter of the year for Japan and China. In April alone, Prime Minister Aso Taro met three times with China’s leaders, President Hu Jintao and Premier Wen Jiabao. Efforts to structure a response to North Korea’s April 5 missile test and May 25 nuclear test dominated bilateral diplomacy. Japan’s call for a strong response in the UN Security Council met with Chinese appeals for caution and restraint. Japanese efforts to begin implementation of the June 2008 agreement on the joint development of natural gas fields in the East China Sea and to resolve the January 2008 contaminated *gyoza* cases made little progress. Issues of history were rekindled by Prime Minister Aso’s offerings at the Yasukuni Shrine and the release of movies on the Nanjing Massacre in China. The quarter ended with senior diplomats again discussing implementation of UN Security Council Resolution 1874, which imposed sanctions on North Korea.

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Pyongyang’s Belligerence Dominates

by David C. Kang, University of Southern California, and Ji-Young Lee, Georgetown University

The second quarter of 2009 saw a rapid increase in tensions between North Korea and all its neighbors, and this tension dominated relations during the quarter. In rapid succession, North Korea tested a long-range intercontinental ballistic missile (which failed), a nuclear device (successfully), dared anyone to start a war with it, and then dispatched a ship suspected of carrying small arms on a route most believed destined for Myanmar. Japan led the way in responding to North Korea, introducing harsher sanctions and calling for wider international moves to punish Pyongyang. Seoul-Tokyo relations moved closer as leaders in both capitals agreed on how to react to North Korea and both leaders welcomed the Obama administration’s moves for UN sanctions.

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Summitry: Between Symbolism and Substance

by Yu Bin, Wittenberg University

Between June 14-18 Russian and Chinese heads of state interacted on a daily basis at three summits: the Ninth annual SCO summit and the first ever Brazil, Russia, India, and China (BRIC) summit (both in Yekaterinburg), and their own annual bilateral meeting in Moscow. The locus of Russian-China relations was, therefore, “relocated” to Russia. Economic issues dominated these meetings as the global financial crisis deepened. Mounting danger on the Korean Peninsula and instability in Iran were also recurring themes. President Hu Jintao’s five-day stay in Russia ended when he joined President Dmitry Medvedev to watch a spectacular performance by Chinese and Russian artists in Moscow’s Bolshoi Theatre for the 60th anniversary of Russian-China diplomatic relations.

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Regional Overview:
Old Challenges, New Approaches

Ralph A. Cossa, Pacific Forum CSIS
Brad Glosserman, Pacific Forum CSIS

Pyongyang reverted to form this quarter, reminding the new U.S. administration that old challenges would not be easily or quickly negotiated away. Its attention-getting devices included a failed “satellite launch” and an apparently successful nuclear test, along with a promise to never, ever return to the Six-Party Talks. China and Russia, in each case after much diplomatic gnashing of teeth, joined in strongly condemning these violations of prior United Nations Security Council (UNSC) resolutions.

At the annual Shangri-La Security Dialogue, Secretary of Defense Robert Gates showed the Obama administration’s softer, gentler side while the senior Chinese representative demonstrated that the “Cold War mentality” lives on. China did join with its BRIC counterparts – Brazil, Russia, and India – in another new approach to dealing with global challenges, even as the first positive indicators were being touted as signs of life in a moribund global economy.

Politics as unusual was the order of the day, as North Korea apparently grappled with the issue of succession, continued civil (or not so civil) disobedience in Thailand resulted in the embarrassing cancellation of a number of ASEAN-related summits, and the much-beleaguered prime minister in Malaysia stepped down. It was better news for India’s prime minister, who won a resounding victory this quarter, a feat which many expect Indonesia’s president to duplicate next quarter. And, trials and tribulations among its members notwithstanding, there are signs that the ASEAN Regional Forum (ARF) may actually be coming of age. Finally, President Obama’s Asia team is finally in place.

Pyongyang keeps its promises and the UNSC (eventually) responds

The latest North Korea-generated crisis began with its promised April 5 “satellite launch” using a long-range ballistic missile that overflowed Japan but apparently failed to put an object into orbit (if that was its real intent). Never one to let reality stand in the way of propaganda, Pyongyang not only claimed a successful launch but says the satellite is broadcasting revolutionary songs praising Kim Il-sung and Kim Jong-il and garnering worldwide acclaim for its accomplishment.

The North claimed that all nations have the right to conduct peaceful satellite launches and, technically speaking, it is correct. But North Korea lost that right as a result of UNSC Resolution 1718, passed after its 2006 missile launches and nuclear weapons test, which forbids “all ballistic missile activity,” and the UNSC finally (and reluctantly, after a week of intense diplomatic negotiations) agreed. That agreement took the form of an April 13 UNSC President’s Statement

rather than a more binding resolution. Score this as a small diplomatic victory for Washington and its allies, nonetheless. Moscow and especially Beijing had refused, beforehand, to brand the launch a clear-cut violation but both finally agreed that the launch was “in contravention” of UNSC Resolution 1718 a week after it occurred.

The UNSC President’s Statement was a disappointment to those who were hoping for something stronger; the Japanese press asserted (somewhat foolishly in our view) that Japan “had the ladder pulled out from under it by U.S.-China collaboration,” expressing anger at Washington’s failure to hold firm on the initial demand for a binding UNSC resolution (a stance that would have likely resulted in no UNSC action at all and an even bigger propaganda victory for Pyongyang).

But the statement was not without some potential teeth. It called on all members to comply fully with their obligations under UNSC Resolution 1718 and agreed to “adjust the measures imposed by paragraph 8,” which outlined what could not be sold to the North and what firms should be sanctioned. This provides an opportunity to tighten international restrictions against Pyongyang, something the initial sanctions efforts, aimed at keeping sufficient technology and hardware out of Pyongyang’s hands to prevent another launch, obviously failed to do.

Pyongyang seized upon the UN statement as an excuse to walk away from the moribund (although technically still alive) Korean Peninsula denuclearization talks, declaring that it “will never participate in the talks any longer nor will it be bound to any agreement of the Six-Party Talks” (involving North and South Korea, China, Japan, Russia, and the United States). It also threatened to “bolster its nuclear deterrent for self-defense in every way” and to restore its currently “disabled” nuclear facilities at Yongbyon “to their original state ... putting their operation on a normal track and fully reprocess the spent fuels churned out from the pilot atomic plant as part of it.”

“In every way” included threatening to conduct a second nuclear weapons test (the first took place in October 2006), a promise it fulfilled in late May. While the act itself came as no surprise, the timing did. While the North claimed that the test was forced upon it by Washington’s “hostile policies,” most technical specialists concluded that preparations had to have been under way for several months, if not longer, putting the lie to Pyongyang’s claim that the test was a direct response to the “U.S.-instigated” UNSC President’s Statement.

The UNSC response to the May 25 nuclear test was neither swift nor as strong as many critics were demanding, again as a result of Chinese and Russian foot-dragging. The debate this time was not over the illegality of the act itself – a UNSC statement was issued the same day unanimously condemning the test – but what to do about it. It took until June 12 for the UNSC to unanimously pass Resolution 1874, which called for additional security and economic sanctions and a trade and arms embargo against North Korea.

The alternate U.S. representative to the United Nations, Ambassador Rosemary DiCarlo, was quick to point out that the new resolution strengthens sanctions in five critical areas: it imposed a total embargo on arms exports from North Korea and expanded the ban on arms imports; it created a new framework for nations to cooperate in inspecting cargo ships and airplanes suspected of carrying banned goods; it called on nations and international financial institutions to

disrupt funds that could support North Korea's nuclear and missile development programs; it promised to create targeted sanctions on any additional goods, entities, and individuals involved in North Korea's illicit behavior; and it strengthened the mechanisms to monitor and tighten the implementation of this new sanctions regime.

Her Chinese counterpart, Ambassador Zhang Yesui, was even quicker to point out that no country should threaten the use of force when it came to enforcing the sanctions regime, however, since that was not specifically authorized by the resolution, adding the familiar if somewhat insulting (to the U.S.) reminder that "all parties should refrain from any words or deeds that may exacerbate the conflict," as if more than one particular party was at the source of the current problem. One wonders how many more missile or nuclear tests it will take before the UNSC sees the wisdom and utility of truly enforceable sanctions.

If UNSC Resolution 1874 was meant to send a "strong signal" to Pyongyang, the message got lost somewhere in transmission. Its response to this "vile product of the U.S.-led offensive of international pressure aimed at undermining the DPRK's ideology and its system chosen by its people by disarming the DPRK and suffocating its economy" was to promise three "countermeasures:" first, the "whole amount of the newly extracted plutonium will be weaponized;" second, "the [long denied] process of uranium enrichment will be commenced;" and third, any attempted blockade "will be regarded as an act of war and met with a decisive military response." In case this was too nuanced, the North's *KCNA* news agency further stated that "It has become an absolutely impossible option for the DPRK to even think about giving up its nuclear weapons."

Assessing/guessing North Korea's motives

What is North Korea up to? Most North Korean specialists seem to agree that Chairman Kim Jong-il's motivations are as much domestic as international. He wants to demonstrate his continued virility and defiance of the international community and underscore the sense of crisis that warrants the continued sacrifice of his people in the face of the external threat that only he (and his chosen successor?) can guard them against. The primary international objectives seemed to be killing the Six-Party Talks and the time-honored (and once again successful) tactic of driving wedges between and among the other five collaborators while distracting them from the denuclearization goal.

But is Kim trying to undermine the Six-Party Talks to force Washington to deal directly with Pyongyang, as some experts claim? Or, as others maintain with equal certainty, is he sending a signal that the North is not interested in talks at all, given current domestic political uncertainties surrounding the his poor health and succession plans? Or, is Pyongyang merely laying the groundwork for eventual talks, but only on its terms, which include acceptance of North Korea as a nuclear weapons state? The real answer is probably some combination, but we really don't know. When it comes to understanding North Korean motives, we're all guessing.

A series of North Korean actions since December 2008, when it denied having reached an agreement on a verification regime at the last (and perhaps *the* last) round of Six-Party Talks, suggests that Pyongyang was determined to pursue a confrontational path, regardless of any

desire for cooperation on the part of the Obama administration or its other interlocutors. While many DPRK apologists have made a seamless transition from the Bush to Obama administration – still claiming that it’s all Washington’s fault – many who have long supported a negotiated settlement now reluctantly believe that Pyongyang has made its long-awaited “strategic decision.” It has decided, as declared above, that it will NOT give up its nuclear arsenal.

The Six-Party Talks are dead; long live the Six-Party Talks

Pyongyang had apparently made up its mind to end the Six-Party Talks and restart its nuclear weapons test program even before President Obama announced his “outstretched hand.” The missile launch and nuclear test provided the vehicle and the UNSC declaration the excuse. There was, and perhaps still is, an operational need to test its various missile systems. The same may hold true for nuclear weapons, since the first test is generally believed to have fizzled and analysis of the second test appears incomplete or is being withheld. Therefore, we should not be surprised by additional missile or weapons test. In fact, we should silently hope for them, since each event will further solidify international support behind tightening the sanctions noose and each kilogram of plutonium used in an additional test is one less to ultimately account for.

Our guess is that Pyongyang will return to the negotiating table when it perceives it in its best interest to do so and fully expects, based on past performances, that whatever “tough” sanctions are imposed between now and then will be lifted or ignored once it returns to the negotiating table (even if not in good faith).

Alternative approaches

There are a number of ways to bring about renewed dialogue. The tried-and-true way is to dangle more carrots. This might get Kim back to the table, but only until he has again eaten his fill. He will then surely walk away. As one senior statesman quipped, “Clinton bought Yongbyon once and Bush bought it twice, why shouldn’t he think he can sell it a few more times to Obama?”

An alternative approach, which requires close cooperation among Washington, Seoul, and Tokyo at a minimum, with Beijing, Moscow, and others preferably on board, is to increase the costs involved in staying away through stricter enforcement and an incremental strengthening of UNSC Resolution 1874, until Pyongyang is “persuaded” to once again cooperate. One vehicle for doing so, being discussed by Washington, Seoul, and Tokyo – and no longer automatically ruled out by Moscow and Beijing – is Five-Party Talks (sans North Korea) to determine the best way to persuade Pyongyang to come back to the table and, in the interim, to not only keep Pyongyang from using its nuclear arsenal, but also to keep what’s currently in North Korea there, and to keep out anything that would help the regime develop its nuclear or missile capabilities.

Like UNSC Resolution 1695 and 1718 before it, Resolution 1874 is supposed to help achieve this objective. The key will not be just strengthening sanctions but enforcing them to demonstrate that bad behavior has serious, enforceable, and long-lasting consequences. The elimination of Pyongyang’s nuclear weapons capabilities will be a multi-stage process. Tightening the noose around Pyongyang to increase the political, military, and economic costs associated with going down the nuclear path is a long overdue vital first step in this process.

Secretary Gates sends a positive message to all (except Pyongyang)

In his first appearance at the annual Shangri-La Dialogue as a member of the Obama administration – he had twice represented the Bush administration at this unofficial gathering of the region’s senior-most defense officials in Singapore – Secretary of Defense Robert Gates set a positive tone in addressing “the strategic reality of Asia and America’s role in it.” He reminded the audience of Secretary of State Hillary Clinton’s earlier admonition that “America cannot solve the problems of the world alone and the world cannot solve them without America,” while assuring the audience that the U.S. commitment, as a “resident power” in Asia, “is just as strong as it ever has ever been – if not stronger, since our prosperity is increasingly linked with yours.”

In discussing security challenges in the region, he spent the bulk of his time on Afghanistan, arguing that “the threat from failed or failing states is international in scope.” He also assured the audience that U.S. policy toward the DPRK had not changed: “Our goal is complete and verifiable denuclearization of the Korean Peninsula, and we will never accept North Korea as a nuclear weapons state.” While not dwelling on the situation, he noted emphatically that the U.S. “will not stand idly by” in the face of North Korean provocations. “We unequivocally reaffirm our commitment to the defense of our allies in the region,” he declared, further asserting that Pyongyang would be held “fully accountable” for its actions.

Unlike previous Shangri-La speeches by himself and especially his predecessor, Gates hardly mentioned China at all. When he did – in one brief paragraph – it was cast in positive terms, noting how the U.S. and China were working together on common challenges and that it was “essential” for the two sides “to find opportunities to cooperate whenever possible.” In previous years, China had been criticized for a lack of military transparency. This year Gates merely observed that it was essential for both sides to be transparent “both to each other and the rest of the world, about our strategic goals, political intentions, and military developments.”

By contrast, the senior Chinese official at the meeting, Deputy Chief of the General Staff Lt. Gen. Ma Xiaotian, complained about the threat posed by U.S. alliances and Washington’s “Cold War mentality,” while barely acknowledging that North Korea’s nuclear test “further complicated the situation on the Korean Peninsula.” If the Obama administration is trying to set a new tone in its relationship with Beijing, the PLA thus far appears to remain tone deaf.

BRIC bats?

Cooperation was much more the order of the day when Beijing joined in yet another new formulation for addressing the world’s problems, as the leaders of Brazil, Russia, India and China held the first summit of the so-called BRIC nations in the Russian city of Yekaterinburg on June 16. The BRICs – a Goldman Sachs economist coined the term in 2001 – account for more than 40 percent of the world’s population, 15 percent of the global economy, and hold 40 percent of global currency reserves. When the BRICs were conceptualized, the four countries were projected to overtake the combined economies of the industrialized world by 2040. That deadline has been moved up to 2027.

Some see the BRICs as a powerful force for reordering the world economy and, by extension, the global order. Not exactly. They agree on the need for the dispersion of power and the creation of a multipolar world; they all want to take the U.S. down a peg. But Russia and China have permanent seats on the UNSC, and they aren't eager to share that status.

Consensus is easier to find when it comes to economic institutions: after all, the four are relatively weak in those bodies. Their declaration called for "a stable, predictable and more diversified international monetary system." They seek changes in the world's financial and economic architecture that will yield "democratic and transparent decision-making and an implementation process at the international financial organizations." They also want "reform of international financial institutions to reflect changes in the world economy." That means new voting weights in the International Monetary Fund (IMF) and the World Bank to give disenfranchised governments a louder voice.

A focus of attention this quarter, and played up by the BRICs, is the dollar's role as the world's reserve currency. That status is a pillar of U.S. economic power and standing in the world and forces other countries to bear the costs of U.S. economic mismanagement. While Chinese and Russian officials, including President Medvedev, had called for diversification of reserve currencies and less reliance on the dollar, the BRIC communiqué didn't address the subject. Such a move is unlikely: there is no real rival and moving from the dollar would probably trigger a run on the currency, a move that would badly hurt countries that have substantial dollar holdings and investments – like China. And as David Rothkopf observed, BRICs without China are just Bri.

Green shoots or a false spring?

The arrival of spring also brought the first green shoots – a welcome indicator for economists eager to find signs of life in a moribund global economy. Reports from the IMF, the OECD, and various economists have revised upward their forecasts for the world economy, suggesting that the resumption of growth may occur sooner than expected. The OECD, the U.S. Federal Reserve, and other policy makers have warned that governments need to start thinking about ways to start soaking up the liquidity that has been pumped into markets to stimulate economies in recent months. For the most part, however, governments are not worried about inflation yet. Instead, they remain focused on ensuring a return to stable and enduring growth. Thus, the Fed's Open Market Committee voted at its meeting in late June to maintain the rate for lending between banks in a record-low range of zero to 0.25 percent, and to keep the discount rate for commercial and investment banks at 0.5 percent. The Bank of Japan (BOJ) looks set to continue the special measures it has used to stimulate the economy, such as buying commercial paper and corporate bonds.

The BOJ measures complement the \$150 billion stimulus program that Prime Minister Aso Taro has pushed through, the third such package and one equal to about 3 percent of GDP. That puts Tokyo up with Washington and Beijing, which have passed \$780 billion and \$586 billion stimulus packages of their own, respectively.

At the World Economic Forum meeting in Seoul, the mood was upbeat. Most participants agreed that Asia had been less damaged by the downturn, would emerge from it quicker, and would use

that recovery to close the gap between itself and the West. There is a heady optimism that the crisis is accelerating the shift of economic power toward Asia. This is evident in the emergence of the G20 as the operative international economic decisionmaking unit and the decline of the G8. (We are reluctant to sing the praises of the G20 just yet, but the debate is revealing.)

This shift in fortunes has revived the debate about the “decoupling” of Asia and the rest of the world. Last year, the matter seemed closed as it became evident that there was as yet no replacement for the West, and the U.S. in particular, as the market of final demand for Asian products. The sharp downturn has reinforced Asian concerns about the need to stimulate domestic demand to compensate for what could be a structural shift in global demand. Unfortunately, this process goes against the grain of most Asian governments. They prefer to keep a firm hand on economic activity – steering it for economic and political purposes. In addition, boosting consumption is going to be tough, if not impossible, until social safety nets are in place. Then, consumers won’t feel compelled to save so much for their retirement. Governments and economists recognize the need to develop new policies and approaches, but they will take time – not least because they conflict with reflexive habits and thinking.

Politics as unusual

There was politics aplenty throughout Asia this quarter. There was even uncertainty in Pyongyang as North Korea faced the prospect of a leadership succession. Indian voters surprised analysts by giving the ruling Congress Party an impressive mandate, and Indonesia continues its march toward stability and political consolidation, while Malaysia’s ruling coalition grapples with a weakening grip on power and unrest continued in Thailand.

North Korea. It wasn’t quite politics as usual in Pyongyang this quarter. Oh sure, parliamentarians were re-elected in a March ballot with 99 percent of voters backing the sole candidate in each district. But the victors weren’t seated until early April, when Parliament reconvened, an event that marked the first public appearance by Kim Jong-il in nearly a year. Kim reportedly suffered a serious stroke last summer – said to be his third – triggering feverish speculation about who might rule North Korea if he passed from the scene.

There are reports that his third son, Kim Jong-un, has been selected as his successor and preparations are being made to consolidate support for the 26 (or 27) year old, but reliable information about the youngest Kim is hard to come by. He is said to be his father’s favorite son, is thought to have been educated in Switzerland, and is rumored to share many of his father’s bad habits, including a mercurial temperament. His political credentials are thin: he isn’t a Member of Parliament, but he was reportedly given a mid-level position in the National Defense Commission, although that also is unconfirmed. He is said to have secretly visited China in June, where he was presented to the Chinese leadership, which the Chinese Foreign Ministry denies.

Some analysts believe that Pyongyang’s belligerence during the last quarter was prompted by the need to shore up domestic support for the plan to pass the mantle to the younger, untested Kim. It is also believed that Kim Jong-il’s brother-in-law, Jang Seong-taek, who was recently appointed to the National Defense Commission, is playing a key role in the transition. As the many references to “reported,” “believed,” and “rumored” in the foregoing attest, certainty is in short

supply. That makes it fun to write about North Korea, but, as we warned earlier, it means that all readers should take those claims with more than a handful of salt.

India. In parliamentary elections held throughout the month of May, the Congress Party pulled off a coup, winning – against all expectations – a renewed mandate to govern. The results were the party’s best in over 25 years and marked the first time in nearly four decades that an incumbent prime minister won a ballot. Virtually all poll watchers were surprised. India had endured one of the worst terrorist attacks in its history last year and its neighborhood is increasingly unstable. Still, the opposition didn’t succeed in its efforts to make the government look weak and Congress and its coalition partners won an outright majority.

The results validate the government’s economic policies and its pursuit of better relations with the United States. Significantly, the Communist Party’s representation was cut, which should minimize a key obstacle to reform and closer ties with Washington. While few analysts expect a radical change in Indian policy, the center of gravity in Delhi has shifted to the right.

Indonesia. To the surprise of many, Indonesia has regained its footing and has become a source of political stability in Southeast Asia. Parliamentary elections held in early April looked set to give President Bambang Susilo Yudhoyono (SBY) a second five-year term in office as his Democratic Party picked up roughly one-quarter of the seats in that ballot, a nearly three-fold increase from the 2004 election. That works out to 150 of the 692 seats in the People’s Consultative Assembly. Golkar, the party of former leader Suharto, polled a little over 14 percent of the vote, a loss of one-third from its previous performance, and claimed 107 seats, a drop of 21. The third leading party was PDP Perjuangan, known as the Indonesian Democratic Party – Struggle, headed by former President Megawati Sukarnoputri, which also won 14 percent of the votes cast, and took 95 seats, a loss of 14 from the previous Parliament.

Presidential balloting begins July 8 and official results are expected to be tallied by July 25. SBY and his running mate, former Central Bank Governor Boediono, are running against former President Megawati Sukarnoputri and her running mate, former Gen. Prabowo Subianto, and against current Vice President Jusuf Kalla, who heads Golkar, and his running mate Wiranto, another general. If no candidate claims more than 50 percent of the July tally, the two leading candidates square off in a Sept. 8 runoff. Many polls predicted SBY would win the July ballot and clear the 50 percent threshold.

Supporters hope that a victory for SBY would give the president a real mandate for his second and final term in office. It would eliminate his concerns about being re-elected and reduce his reliance on parties that don’t share his commitment to reform. Critics allege that such decisiveness isn’t part of the president’s makeup. He hasn’t forced through bold reform and cleaned up corruption as promised because he isn’t prepared to take such actions. A victory should answer those questions once and for all.

Malaysia. In Kuala Lumpur, mounting dissatisfaction finally caught up with Prime Minister Abdullah Ahmad Badawi, who succeeded fireball Mahathir Mohamad as prime minister in 2003. His time in office was a rollercoaster: he started off with an impressive landslide victory in the 2004 parliamentary vote, crushing a steadily growing challenge from the Islamic opposition. But

he never delivered on promises to end corruption or break perceptions of a class of well-connected businesspeople. Disenchantment was evident in 2008 election results, when the opposition made unprecedented gains, and now controls five state governments.

Feeling the heat, Badawi announced in July 2008 that he would step down in June 2010. “To end the uncertainty,” he submitted his resignation April 2 and was succeeded by Deputy Prime Minister Datuk Seri Najib Abdul Razak on April 3. Najib is the son of Malaysia’s second prime minister, and has served as minister of defense, of education, and of finance. Key tasks for his administration include scrubbing the Malaysian economy of corruption, getting the economy back on track, and winning over non-Malay voters.

Thailand. The turmoil in Thailand continued, with protestors this quarter embarrassing Prime Minister Abhisit Vejjajiva and forcing cancellation of the ASEAN Plus 3 (APT, involving the 10 ASEAN states plus China, Japan, South Korea) and East Asia Summit (EAS, with the “Plus Three” plus India, Australia, and New Zealand) and assorted ASEAN Plus 1 meetings that go with it that were scheduled to be held in Pattaya in early April. Instead of presiding over a series of high-level, high-profile meetings, including the announcement of a multibillion-dollar ASEAN-China investment fund, Abhisit was humiliated by the helicopter evacuation of the assembled grandees.

Supporters of the previous Thai government overran the facility where the various summits were to be held, forcing the prime minister to declare a state of emergency and to cancel the meetings – for the second time (The ASEAN summit, APT summit, and EAS were all originally scheduled for last December but postponed due to earlier riots that had effectively closed down the country; the ASEAN Summit was successfully held Feb 28-March 1). Having achieved their goal, the protestors moved back to Bangkok, where they set up roadblocks and barricades. Violent clashes with the police followed, leaving several dead and dozens more in the hospital.

Call it karma. The current government is being subjected to the same tactics its supporters used to force three previous prime ministers from office, although those maneuvers were backed by some questionable legal rulings. The tumult has given both Bangkok and ASEAN a black eye: the organization’s willingness to ignore developments in Thailand undermines its authority and ability to deal with other challenges to the group’s democratic principles (but follows a time-honored tradition that continually manifests itself when dealing – or, more accurately, refusing to do so – with Burma/Myanmar.

ARF coming of age?

While ASEAN suffered a few blows this quarter, the ASEAN Regional Forum (ARF) showed some signs of progress that we feel compelled to note, since we have never hesitated to point out its various shortcomings. Of greatest significance was the first ARF Voluntary Demonstration of Response (VDR) exercise held in the Philippines on May 4-7. Co-sponsored by Manila and Washington, the ARF-VDR was touted as “a robust civilian-led, military- supported exercise designed to demonstrate ARF national capabilities in response to an affected country’s request for assistance and build regional assistance capacity for major, multinational relief operations.” It represented the ARF’s first-ever field exercise. It employed a simulated scenario where Manila

and Central Luzon are devastated by a super-typhoon and ARF participants offer assistance in response to Manila's request for international humanitarian relief. Areas of demonstration included land, air and maritime search and rescue, medical assistance/evacuation, and engineering reconstruction. Over 20 ARF members participated, with a dozen providing equipment and personnel.

The first ARF Inter-session Meeting on Non-Proliferation and Disarmament (ISM/NPD) was also held at quarter's end (June 30 - July 2) in Beijing, co-chaired by China, Singapore, and the United States. The agenda included comprehensive discussions on proliferation challenges and disarmament possibilities and included almost a full day's examination of member states' efforts to develop and enforce export control regimes. The track-two Council for Security Cooperation in the Asia Pacific (CSCAP) Memorandum No.14: Guidelines for Managing Trade of Strategic Goods [available at www.cscap.org] was tabled for discussion as a possible tool or model for developing an institutionalized approach toward strengthening regional export control efforts.

Obama's East Asia team now in place

With Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell's much-anticipated (and long overdue) Senate confirmation in late June, President Obama's East Asia team is now essentially in place. And a first-rate team it is.

Campbell, previously CEO and co-founder of the Center for a New American Security (CNAS), formerly served as deputy assistant secretary of defense (DASD) for Asia and the Pacific during the Clinton administration, as a director on the National Security Council Staff, and as deputy special counselor to the president for NAFTA in the White House. He heads a team of professional foreign service officers who have been in place since before the November 2008 elections. They include Principal Deputy Assistant Secretary [Public Diplomacy, Public Affairs, Australia, New Zealand and Pacific] Glyn T. Davies, who served as acting assistant secretary pending Campbell's assumption of duties (and will reportedly be replaced later this summer by long-time Asia hand Joe Donovan); Deputy Assistant Secretary [Southeast Asia] and Ambassador for ASEAN Affairs Scot Marciel; Deputy Assistant Secretary [PRC, Taiwan, and Mongolia] John J. Norris, Jr.; and Special Envoy for the Six-Party Talks, Ambassador Sung Kim. Working closely with Campbell and Kim on issues related to North Korea is Special Representative for North Korea Policy Ambassador Stephen Bosworth, who reports directly to Secretary of State Clinton and "oversees U.S. efforts in the Six-Party Talks to achieve the verifiable denuclearization of the Korean Peninsula in a peaceful manner."

The Pentagon's Asia team is headed by Assistant Secretary of Defense, Asian and Pacific Security Affairs Wallace "Chip" Gregson, a retired USMC lieutenant general and former commanding general of the Marine Corps Forces Pacific and, earlier, commanding general of all Marine Corps forces in Japan. Prior to his time in Japan, he was director of Asia-Pacific policy in the Office of the Secretary of Defense under then DASD Campbell. His senior policy team includes Principal Deputy Assistant Secretary of Defense Derek Mitchell, former director of the Asia Division of the International Security Program at the Center for Strategic and International Studies (and the principal author, under then-DASD Campbell of the 1998 DoD East Asia Strategy Report; Deputy Assistant Secretary of Defense for South and Southeast Asia Robert

Scher, an old ASD and State Department Asia hand; Deputy Assistant Secretary of Defense for East Asia Michael Schiffer, who headed President Obama's Japan advisory team during the campaign and at one time served as senior national security adviser and legislative director for Sen. Dianne Feinstein (D-CA); and Deputy Assistant Secretary for Afghanistan, Pakistan and Central Asia David Sedney, who has served in this capacity since 2007.

Asia watchers were also delighted with the selection of the Institute for Defense Analyses' top Asia nuclear specialist Brad Roberts as deputy assistant secretary of Defense (nuclear and missile defense policy), where he will focus on international cooperation or agreements (including arms control agreements) in the areas of missile defense, nuclear forces, and global strike. His office will play a lead role in developing this year's Nuclear Posture Review.

Finally, the Asia team at the National Security Council is headed by Senior Director for Asia Jeff Bader, who served as head of Obama's Asia policy team during the campaign. Ambassador Bader's team includes Director for Japan, South Korea and North Korea Danny Russell, and Director for Economic Affairs Jim Loi.

The Obama administration has also put forth the names of its desired candidates for two key East Asia ambassadorial posts – China and Japan – and both names came as a surprise. Once approved by the Congress, the new ambassador to China will be Utah Gov. Jon Huntsman, a rising star in the Republican Party and among those presumed to be in contention for the 2012 presidential sweepstakes. Huntsman, a former ambassador to Singapore (and a member of the Pacific Forum CSIS Board of Governors prior to entering government service) speaks fluent Mandarin and has solid business as well as diplomatic credentials.

President Obama also identified a California technology-focused lawyer (and major Democratic fundraiser), John Roos, as the next ambassador to Japan, much to the initial dismay and disappointment of many in Japan who had predicted that long-time Japan hand (and Pacific Forum CSIS Board of Governors Chairman) Joseph Nye of Harvard would get the job. It was nothing personal against Roos; it's just that no one had ever heard of him. Fortunately (for him but also for Tokyo), Barack Obama has heard of him and knows him well, meaning that he can pick up the phone and call the White House and the president will likely answer, something most ambassadors cannot easily say. Japanese were also disappointed in the way the nomination was handled. The scuttlebutt in Washington had been that the announcement for ambassador to Japan was being delayed until a China envoy could be identified so that both would be announced together. But, Huntsman's appointment was announced first, in a singular photo op with the president while Roos' announcement was released as part of a longer list of postings, once again raising Japanese anxieties about where on the totem pole Tokyo sat. Both are expected to win Senate confirmation and will likely (hopefully) be in place before next quarter rolls around.

Regional Chronology **April-June 2009**

April 1, 2009: Presidents Barack Obama and Dmitry Medvedev meet in London on the sidelines of the G20 economic summit. They vow a "fresh start" in relations and announce their intention to cooperate on a wide range of issues, beginning with negotiations on a new arms control treaty.

April 1, 2009: Presidents Obama and Hu Jintao meet in London on the sidelines of the G20 economic summit and agree to “intensify coordination and cooperation on global economic and financial issues.” They also agree to form a U.S.-China Strategic and Economic Dialogue.

April 1, 2009: North Korea threatens to shoot down U.S. aircraft it claims are spying on Musudan-ri launch site near its northeast coast, which is the site of its impending rocket launch.

April 1, 2009: Japan Maritime Self-Defense Force (MSDF) begins an antipiracy mission in the Gulf of Aden.

April 1, 2009: China and France agree to restore high-level contacts, which had been suspended after President Nicolas Sarkozy met the Dalai Lama in November 2008.

April 2, 2009: The G20 economic summit is held in London.

April 3, 2009: Najib Razak is sworn into office as the sixth prime minister of Malaysia.

April 5, 2009: North Korea launches a long-range ballistic missile.

April 6, 2009: China officially reopens Tibet to travelers after being closed to tourists for nearly two months due to security fears linked to a number of sensitive anniversaries.

April 6, 2009: Defense Secretary Robert Gates announces budget recommendations for fiscal year 2010, including a suggestion to end production of the *F-22* stealth fighter.

April 9, 2009: Parliamentary elections are held in Indonesia with President Susilo Bambang Yudhoyono’s Democratic Party winning about 20 percent of the votes.

April 9, 2009: North Korean Supreme People’s Assembly (SPA) meets and reelects Kim Jong-il to a five-year term as the Chairman of the National Defense Commission (NDC). The SPA also promotes Kim’s brother-in-law, Jang Song-taek, to serve on the NDC.

April 10, 2009: Thailand’s Prime Minister Abhisit Vejjajiva declares a state of emergency and a public holiday to deal with mass anti-government protests in Bangkok. Protestors briefly block access to the venue for the ASEAN Plus 3 summit.

April 10, 2009: Fiji President Ratu Josefa Iloilo repeals the country’s constitution, appoints himself head of state, and sets a 2014 election deadline after a court ruling on April 9 that declared the interim government of coup leader Frank Bainimarama to be invalid.

April 10, 2009: Japan renews unilateral sanctions against North Korea for one year.

April 11, 2009: President Iloilo restores Bainimarama to the post of interim prime minister after he dismisses the judges from the court who ruled Bainimarama’s government was invalid.

April 11, 2009: The 12th ASEAN Plus 3 summit, which was to be held in Pattaya, Thailand, is cancelled after protestors briefly occupy the summit venue.

April 12, 2009: South Korean President Lee Myung-bak, Premier Wen Jiabao, and Prime Minister Aso Taro meet in Pattaya despite the cancellation of the ASEAN-related meetings.

April 12, 2009: The fourth East Asia Summit meeting, which was to be held in Pattaya, is cancelled after protestors briefly occupy the summit venue.

April 13, 2009: The United Nations Security Council (UNSC) issues a President's Statement saying that the April 5 rocket launch by North Korea was a contravention of UNSC Resolution 1718 and calls for the enforcement of existing sanctions.

April 14, 2009: North Korea says it is withdrawing from the Six-Party Talks, expelling International Atomic Energy Agency (IAEA) inspectors from the country, reactivating its nuclear facilities, and going ahead with the reprocessing of spent fuel.

April 14, 2009: Anti-government protests in Thailand come to a peaceful end after four days of violence, when leaders surrender to security forces, saying they want to avoid more bloodshed.

April 15, 2009: The DPRK orders IAEA inspectors and a separate U.S. nuclear monitoring team out of the country.

April 16-29, 2009: Philippines and U.S. conduct *Balikatan* military exercises involving humanitarian missions, counterterrorism, and disaster response and rehabilitation.

April 17-19, 2009: The Boao Forum for Asia (BFA) annual conference is held in Hainan.

April 20, 2009: UNSC calls for immediate restoration of democracy and fair elections in Fiji.

April 21, 2009: China and Russia sign an oil cooperation agreement under which Russia will export oil to China for 20 years in exchange for loans to Russian state companies.

April 23, 2009: Chinese People's Liberation Army Navy (PLAN) celebrates its 60th anniversary with an international fleet parade in the port of Qingdao featuring 25 naval vessels and 31 aircraft of the PLAN and 21 foreign vessels from 14 countries.

April 23, 2009: The Philippine Court of Appeals overturns the rape conviction of a U.S. Marine sentenced in 2006 to life in prison in the alleged assault of a Filipino woman.

April 23-25, 2009: Russian Foreign Minister Sergei Lavrov visits North Korea April 23-24 and South Korea April 24-25 to discuss bilateral relations with both countries and "the situation on the Korean Peninsula and in northeast Asia."

April 24, 2009: Abhisit lifts the state of emergency in Bangkok and surrounding areas.

April 25, 2009: The World Health Organization (WHO) announces a swine flu virus originating in Mexico represents a “public health emergency of international concern” and calls on countries to intensify surveillance for unusual outbreaks of flu-like diseases and severe pneumonia.

April 26-May 3: Ships, aircraft, and submarines from the U.S., Japan, and India take part in Exercise *Malabar 09* off the coast of Okinawa, Japan.

April 27, 2009: WHO raises the pandemic alert for swine flu to level 4, meaning sustained human-to-human transmission is causing outbreaks in at least one country.

April 29, 2009: North Korean Foreign Ministry threatens to conduct additional nuclear and intercontinental missile tests and “build a light-water reactor power plant and start the technological development for ensuring self-production of nuclear fuel” if the UNSC does not apologize for condemning its recent rocket launch.

April 29, 2009: WHO raises its pandemic alert for swine flu to level 5, meaning that it believes a global outbreak of the disease is imminent.

April 29, 2009: Taiwan President Ma Ying-jeou announces that “Chinese Taipei” has been invited to the World Health Assembly (WHA) as an observer.

April 29-30, 2009: Japanese Prime Minister Aso Taro visits Beijing and meets Chinese counterpart Wen Jiabao and President Hu Jintao.

May 1, 2009: The U.S. surveillance ship *USNS Victorious* is involved in a confrontation with Chinese fishing boats in the Yellow Sea. The Pentagon claims the ship was engaged in routine operations in international waters but China insists that the activity was illegal.

May 3, 2009: Chinese, South Korean, and Japanese finance ministers agree to provide 80 percent of the \$120 billion Chiang Mai Initiative liquidity fund.

May 8, 2009: North Korea rejects bilateral talks with the U.S. and vows to strengthen its nuclear deterrent because the Obama administration is taking a hostile stance toward the country.

May 8-12, 2009: Special Representative on North Korean Policy Stephen Bosworth visits China, South Korea, and Japan to discuss a response to North Korea’s threat to quit the Six-Party Talks.

May 11, 2009: Democratic Party of Japan President Ichiro Ozawa resigns.

May 12, 2009: Japan and Russia sign a nuclear energy cooperation agreement that will enable the transfer of Japanese technology to Russia and the sale of more nuclear fuel to Japan.

May 13, 2009: The Diet approves an agreement requiring Japan pay up to \$2.8 billion of the total estimated cost of \$10.2 billion to transfer U.S. marines from Okinawa to Guam.

May 16, 2009: President Obama nominates Utah Gov. Jon Huntsman to be U.S. ambassador to China.

May 18, 2009: Taiwan Minister of Health Yen Chiang-chuan attends the WHA as an observer.

May 19, 2009: North Korea notifies South Korea that all business contracts regarding land use, wages, and taxes in the Kaesong Industrial Complex are void.

May 23, 2009: Former South Korean President Roh Moo-hyun commits suicide.

May 24, 2009: Tsakhiagiin Elbegdorj of Democratic Party is elected president of Mongolia.

May 25, 2009: North Korea tests a nuclear device.

May 25-26, 2009: The 9th Asia-Europe Foreign Minister Meeting is held in Hanoi.

May 26, 2009: South Korea announces it will participate in the Proliferation Security Initiative.

May 26, 2009: The UN Security Council unanimously condemns North Korea for violating UNSC Resolution 1718 by testing a nuclear device.

May 26, 2009: North Korea fires two short-range missiles into the East Sea/Sea of Japan.

May 27, 2009: North Korea announces that it no longer considers the Korean Armistice Agreement valid.

May 27, 2009: President Obama nominates John Roos as ambassador to Japan.

May 29, 2009: The UN Conference on Disarmament adopts a “program of work,” which opens the way for negotiations on a new nuclear arms control treaties.

May 29, 2009: Japanese Diet passes a \$150 billion economic stimulus package including spending and tax cuts totaling 3 percent of GDP.

May 30, 2009: Defense Secretary Gates, Japanese Defense Minister Hamada Yazukazu, and South Korean Defense Minister Lee Sang-Hee participate in a trilateral dialogue on the margins of the Shangri-La Security Dialogue in Singapore.

May 31-June 5, 2009: Delegation led by Deputy Secretary of State James Steinberg visits Tokyo, Seoul, and Beijing for talks on how to respond to North Korea’s latest nuclear test.

June 8, 2009: North Korea court sentences two U.S. reporters to 12 years in a labor camp for “the grave crime they committed against the Korean nation and their illegal border crossing.”

June 10, 2009: Chinese Foreign Minister Yang Jiechi and his Thai counterpart Kasit Piromya agree to enhance strategic cooperation between their countries.

June 11, 2009: A PLA Navy submarine collides with an underwater sonar apparatus towed by a U.S. destroyer in the South China Sea.

June 11, 2009: The WHO raises its alert on swine flu to level 6, the highest level, in its first designation of a global pandemic in 41 years.

June 11, 2009: Malaysian armed force chief General Abdul Aziz Zainal visits Indonesia for talks after the navies of both countries face off several times in recent weeks.

June 12, 2009: UNSC unanimously passes Resolution 1874, which calls on UN members to inspect cargo vessels suspected of carrying military materials in or out of North Korea.

June 12, 2009: DPRK Foreign Ministry denounces UNSC Resolution 1874 and says that North Korea will “weaponize” its existing plutonium stockpiles, begin a program to enrich uranium, and take “firm military action if the United States and its allies try to isolate us.”

June 14, 2009: China, Japan, and South Korea sign an agreement to cooperate on environmental issues including green growth, prevention of yellow dust, and pollution control at the 11th Tripartite Environment Ministers Meeting in Beijing.

June 15, 2009: Ninth Shanghai Cooperation Organization summit held in Yekaterinburg, Russia.

June 16, 2009: The first Brazil, Russia, India, and China (BRIC) summit is held in Yekaterinburg, Russia.

June 16-18, 2009: President Hu visits Moscow and meets President Medvedev.

June 15-16, 2009: South Korean President Lee Myung-bak visits Washington and meets President Obama.

June 18-26, 2009: China and Singapore conduct *Cooperation-2009*, a joint antiterrorism training exercise, in China’s Guangxi Zhuang Autonomous Region.

June 22, 2009: The U.S. and the European Union initiate World Trade Organization (WTO) dispute settlement procedures against China for alleged trade-distorting export restrictions on critical raw materials.

June 24, 2009: Chinese Deputy Chief of Staff Lt. Gen. Ma Xiaotian asks the U.S. to stop arms sales to Taiwan.

June 26, 2009: Kurt Campbell is confirmed as U.S. assistant secretary of State for East Asian and Pacific Affairs.



U.S.-Japan Relations:
Coordination amid Uncertainty

Michael J. Green, CSIS/Georgetown University
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Most analysts had thought this quarter would begin with the dissolution of the Lower House of the Diet and elections, but Prime Minister Aso Taro put off the election with the hope that additional economic stimulus measures would translate into increased support for his ruling Liberal Democratic Party. The stimulus package helped a bit, but Aso received a real boost when Ozawa Ichiro resigned as opposition leader in May due to a funding scandal. That boost in the polls quickly evaporated when Ozawa was succeeded as head of the Democratic Party of Japan by Hatoyama Yukio. Revelations that an aide had falsified his political funding reports for several years tarnished Hatoyama's image, but did not help Aso and the government raise their support rate beyond the low teens in many polls. As a result, most analysts continued to predict a victory for the DPJ in a general election expected in August and uncertainty continued hanging over the U.S.-Japan relationship because neither political party in Japan is likely to win a landslide – meaning another year or more of parliamentary gridlock.

Japan's political mess did not get in the way of close U.S.-Japan coordination in response to a series of North Korean provocations, including missile tests and the detonation of a nuclear device. President Obama also made progress in nominating key personnel to guide the U.S.-Japan relationship including the nomination of attorney John Roos for ambassador to Japan and the confirmation of Kurt Campbell as assistant secretary of state for East Asia and Pacific affairs. The quarter came to a close with the U.S. Congress gearing up for a budgetary battle with the Obama administration over the future of the *F-22* stealth fighter, which the Aso administration has said it wants to buy, and Secretary of Defense Gates has said he does not intend to sell.

Fluid politics

Neither a steady flow of discouraging economic statistics, an average approval rating close to 20 percent, nor mounting criticism from his own party led Prime Minister Aso Taro to dissolve the Lower House of the Diet and call a general election required by the end of September. Rather, Aso continued to promote his government's efforts to stimulate the economy and instructed his Cabinet to develop the third in a series of stimulus packages introduced since the onset of the financial crisis. This latest measure, passed by the Diet in May at a price tag of approximately \$150 billion or 3 percent of GDP, did little to improve his standing in the eyes of the public. Aso was then beset by a series of problems that hurt his approval rating. He was criticized for being indecisive after a drawn-out spat with his interior minister, who wanted to dismiss the head of the postal service for questionable real estate dealings and eventually resigned after Aso refused. Other developments also damaged public perceptions of the Aso administration, including

allegations of illegal campaign donations against Finance Minister Yosano Kaoru and the resignation of a deputy Cabinet secretary for purportedly visiting his mistress with a free train pass issued to lawmakers. Concerns about the image of the Liberal Democratic Party (LDP) even prompted party leaders to invite comedian-turned-governor Higashikokubaru Hideo, a telegenic figure of the Koizumi mold, to run in the general election, though many within the LDP denounced the offer as desperate.

Luckily for Aso, the Democratic Party of Japan (DPJ) had its own image problems. DPJ President Ozawa Ichiro resigned on May 11 due to mounting public frustration over the arrest of his chief aide for allegedly accepting illegal donations from a construction company. Though eager to realize his vision of destroying the LDP as head of the opposition, Ozawa stepped aside in the name of “solidarity” and opened the door for another leader to mobilize the party for the next election. He was succeeded by his preferred candidate – DPJ Secretary General Hatoyama Yukio, the grandson of a former prime minister – who defeated rival Okada Katsuya 124-95 in a vote among DPJ Diet members. Polls showed Okada as the more popular public figure but members of Parliament reportedly chose Hatoyama for his ability to manage internal divisions that have consistently precluded the DPJ from articulating a coherent policy blueprint. Hatoyama has endorsed offbeat ideas in the past, like the proposal to establish a “no bases alliance,” but he is now seen as a pragmatist who supports the U.S.-Japan alliance. Still, he could face pressure to implement at least some elements of a DPJ manifesto that includes calls to reduce host nation support for U.S. forces and renegotiate the status of forces agreement between the two governments. The extent to which Hatoyama acts on the party’s “equal alliance” rhetoric as prime minister could depend in large part on whether he has to form a governing coalition with socialist parties.

Aso and Hatoyama have previewed themes for the upcoming election campaign that have focused primarily on the economy. They debated each other twice in the Diet with Aso stressing the urgency of economic stimulus and Hatoyama accusing the LDP of wasteful spending. Hatoyama criticized government references to future tax increases but Aso countered by challenging him to explain how the DPJ would pay for its own \$218 billion stimulus plan built around social welfare spending. (The DPJ later backtracked and cut some spending proposals.) Hatoyama developed a comfortable lead in public opinion polls toward the end of the quarter (a June 15 survey by *Kyodo News* had Hatoyama favored over Aso by 50 percent to 21 percent) but will likely face intense scrutiny after admitting on June 30 that one of his aides had listed deceased individuals as donors on funding reports dating back to 2005. This revelation could neutralize Hatoyama’s efforts to move beyond the Ozawa scandal and reestablish momentum for the DPJ.

Aso is expected to dissolve the Lower House in mid-July and call an election for August. A convincing DPJ victory would solidify its strength in the Diet after having won control of the Upper House back in 2007. Another scenario involves the DPJ falling short of the two-thirds majority necessary to control the legislative agenda, thus requiring a coalition government. The LDP is likely to take a hit regardless and would have to form an even larger coalition to stay in power. The outcome is uncertain but political paralysis could persist until the next Upper House election in 2010.

For its part, the Obama administration demonstrated patience, demanding little in terms of military support for Afghanistan and continuing to send signals that Japan is the “cornerstone” of U.S. relations in Asia (in the words of Secretary of State Hillary Clinton). However, questions about the health of the relationship in this period of political flux in Tokyo did come to the surface in the U.S. Congress, where the House International Affairs Committee held hearings on “Japan’s Changing Role” on June 25. The witnesses, Joe Nye, Kent Calder, Arthur Alexander, and Mike Green (co-author of this report) all stressed the challenges caused by the fluidity in Japanese politics and the ongoing economic crisis, but reaffirmed that the Obama administration’s vote of strategic confidence in Japan was well placed.

North Korean provocations

On April 5, North Korea tested a long-range missile that flew over Japan, triggering a flurry of bilateral coordination and multilateral diplomacy over how best to condemn an action that was clearly in violation of United Nations Security Council (UNSC) Resolution 1718, passed in 2006 after North Korea tested a missile and a nuclear device. The U.S. and Japan worked closely in anticipation of the launch and the government of Japan mobilized its missile defense system for the first time, presenting an opportunity to advance cooperation and interoperability with U.S. forces. (Japan was on the UNSC, ensuring a central diplomatic role on the issue.) With the exception of a statement by U.S. Special Envoy Stephen Bosworth suggesting that the U.S. would resume efforts toward dialogue with Pyongyang “once the dust settles,” the Obama and Aso governments sent consistent messages regarding the consequences of any missile test: increased isolation. After the launch, Japan pushed for a new UNSC resolution with the support of the U.S. but could not prevail due to Chinese objections, yielding a short statement of condemnation from the president of the Security Council after a week of negotiations.

North Korea upped the ante by testing a nuclear device on May 25 but failed to create any daylight between Washington and Tokyo. On May 30, Defense Secretary Robert Gates and Defense Minister Hamada Yasukazu met their South Korean counterpart for a trilateral defense ministerial meeting, the first of its kind, on the sidelines of a security conference in Singapore. Deputy Secretary of State James Steinberg then led a delegation to Tokyo, Seoul, and Beijing for consultations. On June 7 in an interview with *ABC News*, Secretary of State Clinton suggested that the Obama administration might consider reinstating North Korea to the list of state sponsors of terrorism, music to Tokyo’s ears after a decision last autumn to rescind that designation caused tension in the alliance. The two governments worked assiduously to negotiate the parameters of UNSC Resolution 1874, passed on June 13, which called on member states to impose additional sanctions against North Korea and support maritime interdiction efforts to prevent proliferation. Though the measures listed were nonbinding, the U.S. and Japan could point to resolution 1874 as a unified response to North Korea’s actions focused on punishing the regime. President Obama’s public comments on this matter, amplifying a decision by his administration not to reward North Korea for its provocative behavior, proved reassuring for Japan, which in recent years stood alone in its steadfast opposition to any concessions absent concrete steps toward denuclearization (and a resolution of the abductee issue).

Developing a bilateral agenda

A broad agenda for bilateral cooperation also was taking shape including nuclear disarmament in general. President Obama's April 5 speech in Prague was well received in Japan, and Foreign Minister Nakasone Hirofumi outlined an 11-point plan for global nuclear disarmament on April 27, emphasizing nonproliferation and the peaceful use of nuclear energy. (Privately, senior security experts within the Japanese government also asked Washington to keep a focus on missile defenses and the credibility of extended U.S. nuclear deterrence.) Treasury Secretary Timothy Geithner and Finance Minister Yosano met on the sidelines of a G8 preparatory meeting in Italy to outline a common approach to implement financial sanctions against North Korea and discuss measures the two countries were taking to recover from the financial crisis. Japan and the U.S. led a commitment to development by each pledging \$1 billion in aid to Pakistan at a donors conference in Tokyo. Climate change also featured prominently as Japan announced a midterm emissions reduction target and the U.S. House of Representatives passed legislation including reduction targets and an outline for a cap-and-trade system.

After months of speculation and anticipation by the Japanese media, President Obama announced his nominee to manage bilateral coordination as ambassador to Japan: attorney John Roos of California. Roos endorsed Obama early in the presidential campaign and was a core fundraiser. Though not previously known as a figure in the U.S.-Japan relationship, Roos is expected to benefit from a close relationship with the president in the way that his predecessor, Tom Schieffer, did with President Bush. Other key personnel including Wallace Gregson, assistant secretary of defense for Asian and Pacific security affairs, and Kurt Campbell, assistant secretary of state for East Asian and Pacific affairs, were confirmed this quarter, rounding out a solid team of officials focused on U.S.-Japan relations.

Defense appropriations

On April 6, Defense Secretary Gates announced recommendations for 2010 defense appropriations including his conclusion that the Pentagon should shut down the production line for Lockheed Martin's *F-22* stealth fighter, which Japan covets but cannot acquire due to U.S. law prohibiting the sale of such technology to foreign countries. However, committees in the House and the Senate voted to add funding to the defense authorization bill for additional *F-22* fighters, setting up a potential showdown with the Obama administration. The House version of the bill included appropriations for materials to build 12 *F-22s* in 2011 but did not include procurement funds for the planes, while the Senate version did include such funds for seven planes in 2010. Both houses also called on the administration to produce a report on a possible export model of the *F-22*. The Office of Management and Budget recommended that President Obama veto any bill that includes funding for the *F-22* but a veto threat is not imminent as the House and Senate must first reconcile the differences between their bills in conference, a process that could extend into fall. The Japanese government watched these developments closely, as the Japan Air Self-Defense Forces and Prime Minister Aso have continued pushing the *F-22* as a strong candidate for Japan's next-generation fighter, despite Pentagon decisions that the jet would not be available for export anywhere.

Coming up: summits and elections

Prime Minister Aso will likely confer with President Obama during the G8 Summit in Italy. The Tokyo Prefectural Assembly election is scheduled for July 12 and widely considered a bellwether for the next Lower House election, which could follow in August. The United Nations General Assembly in September presents another opportunity for bilateral coordination.

Chronology of U.S.-Japan Relations April-June 2009

April 1, 2009: Japan Maritime Self-Defense Force (MSDF) begins an antipiracy mission in the Gulf of Aden.

April 1, 2009: The Japan Automobile Dealers Association announces that domestic new car sales fell 15.6 percent in 2008, a 38-year low.

April 1, 2009: The Bank of Japan's quarterly *tankan* survey index (the percentage of companies saying business conditions are good minus the percentage saying conditions are bad) plunges to minus-58, a record low and a 34-point drop from the December 2008 survey.

April 2, 2009: U.S. Defense Secretary Robert Gates and Defense Minister Hamada Yasukazu agree in a telephone conversation that a test launch of a satellite or missile by North Korea would violate United Nations Security Council (UNSC) sanctions.

April 3, 2009: A survey by *Yomiuri Shimbun* reveals that 51.6 percent of the population supports constitutional revision.

April 5, 2009: North Korea launches a long-range ballistic missile over Japan.

April 5, 2009: A *Yomiuri* poll indicates a 24.3 percent approval rating for the Aso Cabinet.

April 6, 2009: Defense Secretary Gates announces defense budget recommendations for fiscal year 2010, including a suggestion to end production of the *F-22* stealth fighter.

April 7, 2009: The Lower House of the Diet adopts a resolution condemning the North Korean missile launch and calling on the government to impose new sanctions against the regime and call for a new UNSC resolution.

April 8, 2009: Japan's Ministry of Finance announces that the February 2009 current account surplus fell 55.6 percent compared to a year earlier.

April 10, 2009: Japan renews unilateral sanctions against North Korea for one year.

April 10, 2009: PM Aso unveils a stimulus package worth approximately \$150 billion.

April 10, 2009: Democratic Party of Japan (DPJ) President Ozawa Ichiro meets a U.S. congressional delegation including Sen. John McCain (R-AZ).

April 13, 2009: PM Aso's approval rating stands at 30 percent according to a poll by public broadcaster *NHK*.

April 13, 2009: The United Nations releases a statement by the president of the Security Council condemning North Korea's April 5 missile launch.

April 14, 2009: A bilateral agreement on the relocation of U.S. Marines from Okinawa to Guam is passed by the Lower House of the Diet.

April 17, 2009: The U.S. and Japan each pledge \$1 billion in aid to Pakistan at an international donors conference held in Tokyo.

April 17, 2009: A poll by *Jiji Press* shows a 25-percent approval rating for the Aso Cabinet.

April 17, 2009: Defense Minister Hamada orders the dispatch of two *P-C3* aircraft in support of antipiracy operations in the Gulf of Aden.

April 19, 2009: Nakagawa Shoichi, a member of the ruling LDP, reportedly argues in a speech that Japan should possess nuclear weapons to counter the threat from North Korea.

April 20, 2009: Environment Minister Saito Tetsuo unveils an environmental policy dubbed the "Green New Deal" for its focus green technology and reductions in carbon emissions.

April 22, 2009: Japan's Ministry of Finance reports a trade deficit for 2008, the first in 28 years.

April 24, 2009: President Obama and PM Aso agree in a telephone conversation to strengthen bilateral cooperation on North Korea and nuclear nonproliferation.

April 27, 2009: Foreign Minister Nakasone Hirofumi announces an 11-point plan for global nuclear disarmament, including nonproliferation measures, initiatives for the peaceful use of nuclear energy, and an offer to host an international conference in 2010.

April 27, 2009: A *Nikkei Shimbun* survey reports PM Aso's approval rating at 32 percent.

April 28, 2009: Honda reports a 77-percent drop in profit for fiscal year 2008.

April 30, 2009: The Bank of Japan issues an economic outlook and revises its GDP projection for 2009 to minus-3.1 percent, down from a previous projection in January of minus-2 percent.

May 1, 2009: Sixty-four percent of the Japanese population opposes the revision of Article 9 of the constitution, according to an *Asahi Shimbun* poll.

May 1, 2009: Defense Minister Hamada and Defense Secretary Gates meet at the Pentagon in Washington and agree to strengthen bilateral alliance cooperation including missile defense.

May 10, 2009: PM Aso is more popular than opposition leader Ozawa Ichiro by a margin of 40 to 25 percent, according to a *Yomiuri* poll. Aso's approval rating stands at 28 percent.

May 11, 2009: DPJ President Ozawa announces his resignation after fallout from the indictment of his chief aide in a political fundraising scandal.

May 11, 2009: U.S. Special Representative for North Korea Policy Stephen Bosworth confers with Vice Foreign Minister Yabunaka Mitoji, Sasae Kenichiro, deputy minister for foreign affairs, and Saiki Akitaka, director-general, Asian and Oceanian Affairs Bureau, Ministry of Foreign Affairs, regarding North Korea.

May 12, 2009: Keidanren issues a statement calling for a midterm emissions reduction target of 4 percent below 1990 levels by 2020.

May 13, 2009: Deputy Chief Cabinet Secretary Yoshitada Konoike resigns after a magazine exposé accused him of visiting his mistress with a free train pass issued to lawmakers.

May 15, 2009: The Ministry of Defense issues a report on the North Korean missile threat, noting that North Korea had improved its long-range ballistic missile technology and could enhance the accuracy of the *Nodong* medium-range missile.

May 16, 2009: Hatoyama defeats Okada in the DPJ presidential race, capturing 124 out of 219 votes cast by DPJ Diet members.

May 17, 2009: Hatoyama names Okada Secretary General of the DPJ.

May 17, 2009: A joint public opinion poll by *Nikkei Shimbun* and *TV Tokyo* finds Hatoyama more favorable than PM Aso by a margin of 29 percent to 16 percent. Fifty-two percent favored neither. The DPJ was more popular than the LDP by a margin of 38 percent to 33 percent.

May 17, 2009: PM Aso has an approval rating of 27 percent and a disapproval rating of 56 percent, according to a poll by *Asahi Shimbun*.

May 18, 2009: The Ministry of Foreign Affairs releases a poll conducted in the United States, which found that 80 percent of the public trusts Japan as an ally.

May 20, 2009: The Cabinet Office announces that GDP in the first quarter of 2009 fell 4 percent, and at an annual rate of 15.2 percent.

May 22, 2009: PM Aso proposes a Pacific Environment Community at a conference among Asia-Pacific island nations held in Hokkaido and pledges \$680 million in aid for solar power generation and sea water desalination.

May 25, 2009: North Korea conducts a second nuclear test and fires three short-range missiles.

May 25, 2009: President Obama and PM Aso agree to push for a new UNSC resolution condemning North Korea's nuclear test. Obama reiterates the U.S. commitment to defend Japan.

May 26, 2009: North Korea fires two short-range missiles into the Sea of Japan.

May 26, 2009: The Lower House of the Diet passes a resolution condemning North Korea's nuclear test and calling for fresh unilateral sanctions against Pyongyang. The Upper House passes a similar measure the next day.

May 27, 2009: President Obama nominates John Roos for ambassador to Japan.

May 27, 2009: PM Aso and DPJ President Hatoyama square off in their first debate in the Diet with Hatoyama criticizing the government for wasteful spending and Aso highlighting the funding scandal that forced Ozawa Ichiro to resign.

May 29, 2009: North Korea launches a short-range missile from its east coast.

May 29, 2009: The Diet passes the Aso government's \$150 billion stimulus package including spending and tax cuts totaling three percent of GDP.

May 30, 2009: Defense Secretary Gates, Defense Minister Hamada, and South Korean Defense Minister Lee Sang-Hee participate in a trilateral dialogue on the margins of the Shangri-La Security Dialogue in Singapore.

June 1, 2009: Deputy Secretary of State James Steinberg leads a delegation to Tokyo for consultations on North Korea, including meetings with PM Aso, Vice Foreign Minister Yabunaka Mitoji, and DPJ President Hatoyama.

June 2, 2009: The government of Japan approves a space policy including research on the use of space for defense purposes (sensors for early warning satellites).

June 7, 2009: Secretary of State Hillary Clinton suggests that the Obama administration might consider reinstating North Korea to the list of state sponsors of terrorism.

June 9, 2009: Saiki Akitaka, director general, Asian and Oceanian Affairs Bureau, Ministry of Foreign Affairs, meets with Special Envoy Stephen Bosworth and other officials in Washington to discuss the situation with North Korea.

June 9, 2009: An LDP panel adopts proposed changes to Japan's National Defense Program Guidelines (to be issued at the end of 2009) including support for preemptive strike capability, a relaxation of Japan's limits on arms exports, and an increase in the defense budget.

June 9, 2009: A draft economic assessment by the Cabinet Office suggests a 12 percent consumption tax would be required for Japan to reach a primary balance surplus in 10 years.

June 10, 2009: PM Aso announces a midterm emissions reduction target of 15 percent below 2005 levels by the year 2020.

June 11, 2009: Finance Minister Yosano Kaoru expresses confidence in U.S. treasuries, easing concerns about diversification.

June 12, 2009: Minister of Internal Affairs and Communications Hatoyama Kunio resigns after PM Aso rejects his suggestion to fire the head of Japan Post for alleged noncompetitive bidding in the sale of real estate holdings.

June 12, 2009: Treasury Secretary Timothy Geithner and Finance Minister Yosano Kaoru meet on the sidelines of a G8 preparatory meeting in Italy, agreeing to pursue sanctions on North Korea and sharing updates on their respective economies.

June 12, 2009: The UNSC adopts Resolution 1874 condemning North Korea's nuclear and missile tests and outlining measures including financial sanctions and maritime interdiction.

June 16, 2009: The government of Japan bans all exports to North Korea and tightens other unilateral sanctions following the passage of UNSC Resolution 1874.

June 16, 2009: The Bank of Japan upgrades its economic outlook in a monthly report, citing improved export and investment numbers.

June 16, 2009: The House Armed Services Committee votes to add funding in the 2010 defense appropriations bill for the continued production of the *F-22* stealth fighter.

June 17, 2009: PM Aso and DPJ President Hatoyama conduct their second debate in the Diet, sparring over economic policy.

June 19, 2009: The Diet passes an antipiracy bill allowing Japanese Maritime Self-Defense Force (MSDF) vessels to protect Japanese and foreign vessels in the Gulf of Aden.

June 23, 2009: Japan adopts annual economic policy guidelines, abandoning previous proposals to cut social security spending and close the budget deficit by fiscal year 2011.

June 23, 2009: The LDP asks Miyazaki Gov. Higashikokubaru Hideo to run in the upcoming Lower House election.

June 23, 2009: An *Asahi Shimbun* survey finds that 71 percent of local business leaders throughout Japan believe their regional economies are contracting.

June 24, 2009: The Ministry of Finance reports that both exports and imports fell by more than 40 percent in May 2009.

June 24, 2009: The Organization for Economic Cooperation and Development (OECD) projects 0.7 percent growth for the Japanese economy in 2010.

June 24, 2009: The Office of Management and Budget (OMB) recommends President Obama veto the 2010 defense appropriations bill if it contains funding for the *F-22* stealth fighter and an alternative engine for the Joint Strike Fighter *F-35*.

June 25, 2009: Both the U.S. House of Representatives and the Senate move to continue funding the *F-22* stealth fighter and an alternative engine for the Joint Strike Fighter *F-35*. Both houses also include provisions calling for a report on a possible export version of the *F-22*.

June 25, 2009: Under Secretary of Defense for Policy Michele Flournoy meets Vice Defense Minister Masuda Kohei and Defense Minister Hamada in Tokyo to discuss North Korean issues and the realignment plan for U.S. forces in Japan.

June 26, 2009: Japan's Financial Services Agency orders Citibank Japan to suspend sales at its retail banking division for one month due to lax oversight.

June 29, 2009: The government of Japan reports that industrial output rose for the third straight month in May 2009, up 5.9 percent from April.

June 29, 2009: The Japan Automobile Manufacturers Association reports a 55.9 percent decline in car, truck, and bus exports in May 2009 compared to a year earlier, the eighth straight month of decline.

June 29, 2009: Murata Ryohei, a former bureaucrat in the Ministry of Foreign Affairs, states in interviews with Japanese media that Japan and the U.S. reached a secret agreement in 1960 allowing port calls by U.S. vessels carrying nuclear weapons.

June 30, 2009: DPJ President Hatoyama Yukio apologizes after reports that as many as 90 deceased individuals were listed as donors on Hatoyama's funding reports going back to 2005.

June 30, 2009: The government of Japan reports that the unemployment rate rose to 5.2 percent in May 2009, a five-and-a-half year high.



**U.S.-China Relations:
Laying the Groundwork for Greater Cooperation**

**Bonnie Glaser
CSIS/Pacific Forum CSIS**

After the completion of the first round of “get-acquainted” meetings aimed at laying the foundation for cooperation on a broad range of issues, both the U.S. and China agree that the bilateral relationship has gotten off to a good start. While there is acute awareness on both sides of the challenges, there is a shared sense that their futures are inextricably linked and that cooperation is essential to global economic prosperity and security. The quarter opened with the first face-to-face meeting between Presidents Hu and Obama on the sidelines of the G20 financial summit in London. On separate visits to Beijing, Todd Stern, the U.S. special envoy for climate change, and House Speaker Nancy Pelosi underscored the importance of combating the effects of global warming. U.S. Treasury Secretary Timothy Geithner traveled to China to prepare for the first round of the Strategic and Economic Dialogue. Washington sought China’s cooperation on pressing regional security issues, including North Korea and Afghanistan-Pakistan. After an 18 month hiatus, the Defense Consultative Talks were held in Beijing, giving a desperately needed boost to the bilateral military relationship.

First Hu-Obama tête-à-tête

The quarter opened with the first face-to-face meeting between U.S. President Barack Obama and Chinese President Hu Jintao in London on the sidelines of the G20 financial summit. The meeting produced three important outcomes: 1) Obama accepted Hu’s invitation to visit China later this year; 2) the two heads of state agreed to work together to build a positive, cooperative, and comprehensive U.S.-China relationship for the 21st century and to maintain and strengthen exchanges at all levels; and 3) the two sides established the U.S.-China Strategic and Economic Dialogue (S&ED), to be headed on the U.S. side by Secretary of State Hillary Clinton and Secretary of Treasury Timothy Geithner and on the Chinese side by Vice Premier Wang Qishan and State Councilor Dai Bingguo. Topics discussed included the global economy, climate change, North Korea, Iran, Sudan, Taiwan, Tibet, human rights, Pakistan, and Afghanistan.

The hoped for establishment of a close personal rapport or at least “good chemistry” between Hu and Obama – admittedly difficult to achieve in a single meeting – seems to have not been realized. In a background briefing on the leaders’ discussions, a senior administration official twice described the meeting as “business-like.” By contrast, President Obama’s meeting with South Korean President Lee Myong-bak was depicted as “warm,” probably by the same senior administration official. PRC media treatment of the meeting was generally upbeat, but betrayed Chinese concern that differences over Taiwan and Tibet could disrupt progress in bilateral ties. Xinhua cited Hu as warning that while the situation in the Taiwan Strait is “continuing to ease

and improve,” it “may change.” Hu also called on the U.S. to “fully understand and respect” China’s stand on Tibet and oppose Tibetan independence.

Consultations between the two heads of state subsequently took place in two telephone conversations. On May 6, Hu and Obama reportedly discussed bilateral relations, North Korea, South Asia, and the H1N1 flu epidemic. On June 3, they exchanged views on the situation on the Korean Peninsula in the aftermath of North Korea’s second nuclear test.

Climate change emerges as early priority for Obama administration

House of Representatives Speaker Nancy Pelosi led a delegation from the U.S. Congress to China in late May on a working visit devoted mostly to energy and climate change issues. Prior to her departure, she told a Capitol Hill press conference that she hoped to explore the possibilities for common ground so that “we’re able to seal the deal by the time we go to Copenhagen,” referring to the United Nations-sponsored climate conference planned for December in Denmark. Speaking at a clean energy forum in Beijing, Pelosi characterized the climate change crisis as a “game changer” in U.S.-China relations, noting that “it is an opportunity that we cannot miss.” The California Democrat also met President Hu Jintao, Premier Wen Jiabao, and her counterpart Wu Bangguo, head of the National People’s Congress.

The Congressional delegation left Beijing divided over whether their visit yielded progress. Pelosi told a news conference that she was “hopeful” after their meetings that common ground could be reached on climate change. Her optimistic assessment was echoed by Sen. John Kerry, who said he was encouraged by Chinese leaders’ commitment to tackling the consequences of global warming and impressed by China’s steps in recent years to enact tough vehicle fuel standards and expand its capacity for wind generation. But Rep. F. James Sensenbrenner, the ranking Republican on the House Select Committee for Energy Independence and Global Warming who joined the delegation, said that he was discouraged by China’s refusal to commit to greater cuts in greenhouse gases while insisting that developed nations do more to reduce their emissions, according to the *New York Times*. He criticized Beijing’s linkage of their proposed reductions to the size of China’s economy, which, he said, would result in “a significant increase in emissions in China.”

Widely known as an outspoken critic of China’s human rights record and specifically for unfurling a banner in Tiananmen Square in 1991 commemorating those who died there on June 4, 1989, Pelosi conspicuously refrained from mentioning human rights in public remarks while in China. In response to critics, Pelosi insisted, however, that she did not shy away from raising human rights concerns with Chinese leaders. After her return, Pelosi sought to reburnish her credentials as a staunch advocate of human rights at the Brookings Institution, where she stated that U.S. advocacy for protection of human rights in China has not achieved progress, adding that “somehow or other we have to find a way to do that.”

Two weeks after Pelosi’s visit, U.S. Special Envoy for Climate Change Todd Stern traveled to Beijing to press China to agree to hard numbers on emission reductions under the next treaty on global warming that will supplant the Kyoto Protocol Treaty that was negotiated in 1997, came into force in February 2005, and expires at the end of 2012. Stern reportedly met China’s

Climate Change Envoy Xie Zhenhua twice during his visit. Vice Premier Li Keqiang reiterated to Stern China's long-standing position that developing countries like China should be held to a different standard than developed countries. "China would like to maintain the principle of 'common but differentiated responsibilities,' actively participate in negotiations and play a constructive role to promote positive results from the Copenhagen conference," Li told his interlocutor.

So far, the gap between the U.S. and China remains wide. China says the U.S. should reduce its greenhouse gas emissions by 40 percent below 1990 levels by 2020. The bill that passed the House of Representatives at the end of June, which some view as too ambitious, would require U.S. emissions to decline 17 percent by 2020. Both countries say they are committed to finding common ground for cooperation, however. In a briefing on Stern's visit, China's Foreign Ministry spokesman said that China and the U.S. "had unanimously agreed, on the basis of the principle of common yet discriminative responsibility," to strengthen their "partnership cooperation" on clean energy and climate change. During Stern's visit, an article on the *China Daily* website reported that although a "major breakthrough" eluded the two sides during the talks, they reached agreement to strengthen scientific cooperation in the fight against global warming.

Geithner visits the Middle Kingdom

On his first visit to China, Treasury Secretary Geithner encouraged China to keep up massive stimulus spending and diversify its economy away from a heavy reliance on exports, while offering assurances that Washington intends to protect the value of China's investment in U.S. government debt. His approach to dealing with the Chinese marked a radical shift from his predecessor, Henry Paulson, President George W. Bush's Treasury secretary. Whereas Paulson constantly prodded Beijing to allow its currency, the *yuan*, to rise in value against the dollar so that U.S. exports to China would be more affordable to Chinese, Geithner sought to persuade his counterparts to continue to buy U.S. Treasury bonds and to ease China's concerns about the ballooning U.S. budget deficit.

In a speech to Beijing University, where Geithner was a student in the summer of 1981, he stressed that the steps taken now to address the immediate financial and economic crisis should lay the foundations for more balanced, sustained growth of the global economy. "How successful we are in Washington and Beijing will be critically important to the economic fortunes of the rest of the world," he stated. Geithner acknowledged the "special responsibility" that the U.S. has to play in creating a strong and stable international financial system and promised that after the U.S. recovers from the crisis it would cut the fiscal deficit, eliminate extraordinary governmental support that has been put in place to overcome the crisis, preserve the openness of the U.S. economy, and maintain the policy framework necessary for durable and lasting sustained non-inflationary growth. He called on China to implement measures to raise household incomes and reduce the need for households to save large amounts, which will enable a shift to basing future growth on domestic demand. In addition, Geithner pledged that the U.S. would fully support a greater role for China in the principal cooperative arrangements that help shape the international system.

In the Q&A following the speech, a Chinese student voiced concern about the security of China's dollar assets. Secretary Geithner began his response by stating that "China's assets in the United States are very secure." He then paused as if he had completed his answer, prompting laughter from his audience. Geithner also chuckled and then added: "Our financial system has begun its reconstruction, and the government will also maintain a strong dollar policy."

Chinese officials seized the opportunity presented by Geithner's visit to Beijing to signal their desire for a constructive working relationship with the Obama administration. According to Xinhua, President Hu highlighted the two countries' "extensive common interests" and "important responsibilities." Hu reportedly said that China is willing to "work alongside the United States" and "further strengthen dialogue and consultation." Hu and Geithner both noted the importance of the U.S.-China S&ED. Hu called the new dialogue mechanism an "important platform for deepening understanding, mutual trust, and cooperation between the two countries." Geithner said the U.S. is looking forward to seeing positive results from the first round of the S&ED in July.

U.S. seeks China's cooperation on regional security issues

Washington appealed to a reticent China to get more deeply involved in America's two-front war with Islamist militants in Afghanistan and Pakistan, dubbed Af-Pak. In mid-April, the Obama administration dispatched Richard Holbrooke, its special representative for Afghanistan and Pakistan, to China and Saudi Arabia as part of an effort to enlist the aid of key allies of Pakistan in the effort to stabilize the country. Although China has been traditionally reluctant to interfere in the internal affairs of other countries, growing Chinese concerns about the militant threat near its western border that could destabilize the region and threaten China's growing economic interests in Pakistan generated hope that the U.S. might be able to persuade Beijing to play a more active role.

The U.S. requested that China provide training and equipment to help Pakistan counter a growing militant threat. In addition, Washington urged Beijing to use its good offices with the Pakistanis to press them to crack down harder on the insurgency. The escalating war in Pakistan was high on the agenda when the U.S. and Chinese presidents spoke by phone on May 6 on the heels of President Obama's meeting with the Afghan and Pakistani presidents. A White House statement maintained that Obama conveyed his concerns about threats to Pakistan by militant extremists and terrorists.

U.S. appeals appear to have been heeded. In mid-June it was reported that the Chinese were sharing intelligence and equipment with the Pakistanis and that the two countries were teaming up to fight what government officials called a "syndicate" formed between the Taliban and Chinese Muslim separatists. To enhance Pakistan's ability to police the border region, China reportedly offered to sell Pakistan \$280 million in equipment, including vehicle and mobile scanners that can detect car bombs.

The U.S. also sought more help from Beijing in creating stability and promoting economic development in Afghanistan. Among other requests, the Obama administration asked China to open an alternative logistics route through western China into Afghanistan. In addition to being

raised by executive branch officials, the proposal was broached by Congressman Mark Kirk (R-IL), co-chair of the U.S.-China working group, on a visit to China in May. In a talk to the Center for Strategic and International Studies (CSIS) delivered with his co-chair Rick Larsen (D-WA) on June 8, Kirk noted that when he was in Beijing with Speaker Pelosi, he proposed to the Chinese that the U.S. and China seek to cooperatively provide assistance to the International Security Assistance Force (ISAF) in Afghanistan. Specifically, Kirk suggested that the Afghan government be permitted to purchase food and fuel in western China, which would benefit the economies of both Kashgar and Urumqi, while ensuring reliable deliveries of needed goods to ISAF. “The U.S. and China are up against the same enemy – a very well funded radical Islamic narco-insurgency” that is challenging the public security bureau and the PLA on the Chinese side of the border and challenging the ISAF and Afghan government on the Afghan side of the border, he told CSIS. Kirk revealed that he had received “pretty positive signals” from the Chinese government and upon his return had discussed what he learned with Ambassador Holbrooke.

Consultations also took place on Sudan when retired Air Force Maj. Gen. J. Scott Gration, President Obama’s newly appointed special envoy on Sudan, visited China on May 23, the first stop on a multination tour that included Qatar, Britain, and France to revive efforts to bring peace to Sudan’s western Darfur region. Gration met with China’s Special Representative for Darfur Liu Guijin and discussed “deepening U.S.-China cooperation over shared concerns in Sudan.”

The most urgent regional security concern for the U.S. and China this quarter was North Korea, which undertook a series of destabilizing actions. In early April, Pyongyang tested a long-range missile. Then, it conducted its second nuclear test in less than three years, declared its intention to withdraw from the 1953 Korean Armistice Agreement, and announced for the first time that it was prepared to use nuclear weapons in an offensive capacity. Beijing and Washington worked closely in the UN Security Council along with the other UNSC members, Japan, and South Korea to forge a consensus first on a presidential statement condemning the missile launch and subsequently on a new resolution that tightened sanctions against North Korea.

In early June, U.S. Deputy Secretary of State James Steinberg traveled to Beijing after attending the Shangri-La Dialogue in Singapore and holding consultations in Japan and South Korea. In addition to seeking Beijing’s support for harsher sanctions against North Korea, Steinberg attempted to engage the Chinese in a discussion about a more effective and longer term strategy toward the Korean Peninsula. A Hong Kong *Zhongguo Tongxun She* report quoted Steinberg as saying: “Our visit is to discuss from a long-term angle how to establish peace and stability in Northeast Asia and how to meet the challenge brought by the DPRK nuclear program over a long time to come.”

While U.S.-Chinese coordination on North Korea, Sudan, Pakistan and other regional issues remains promising due to increasing overlap in the two countries’ interests, the absence of mutual strategic trust will continue to hamper effective cooperation. Evidence of this lack of trust and suspicion of each other’s strategic intentions was apparent on several occasions this quarter. Just one day after Presidents Obama and Hu discussed Pakistan by phone, China’s Ambassador to Pakistan Luo Zhaohui voiced concern about U.S. policy in the region in a speech to Pakistani business leaders. Luo maintained that China was worried about the presence of a

large number of foreign troops in Afghanistan and about the growth of “outside influence” in the region. Luo declared that U.S. strategies needed some “corrective measures.”

U.S. suspicion toward Chinese intentions was evident in remarks made by Secretary of State Clinton at a town hall meeting at the State Department on May 1. Criticizing the Bush administration’s attempts to isolate anti-U.S. leaders in Latin America, Clinton said that the U.S. can no longer afford such an approach, especially when competing for influence with countries like Russia, China, and Iran. “If you look at gains, particularly in Latin America, that Iran is making and China is making, it is quite disturbing. They are building very strong economic and political connections with a lot of these leaders. I do not think that is in our interests.”

Military ties progress amid continuing confrontations in China’s EEZ

In a continuing pattern of confrontation between U.S. ocean surveillance ships and Chinese fishing and naval vessels, the *USNS Victorious* was harassed by Chinese ships 170 miles off the coast of China in the Yellow Sea on May 1. As in the case of the incidents that were made public by the Pentagon in early March, the U.S. side claimed that the *Victorious* was engaged in routine operations in international waters. China insisted that the presence of the U.S. ship in its Exclusive Economic Zone (EEZ) was illegal. Although the series of dangerous encounters did not result in any damage to U.S. or Chinese ships, in a subsequent incident on June 11 a Chinese submarine reportedly collided with a towed sonar array trailing from the destroyer *USS John S. McCain* off the Philippines. The official *China Daily* cited Chinese military experts as saying that the collision probably occurred due to a misjudgment of distance by the U.S. destroyer, which failed to detect the submarine, and the estimation by the Chinese sub that the *McCain* was not towing sonar arrays.

Recognizing the potential for accidents involving casualties and the detrimental effect that a major incident such as the April 1, 2001 collision by a Chinese fighter jet with a U.S. *E-P3* surveillance plane could have on the bilateral relationship, U.S. officials made concerted efforts throughout the quarter to engage the Chinese in discussions about maritime safety and operational communication to avoid unwanted clashes. President Obama discussed the naval confrontations with President Hu at the G20 summit meeting. Adm. Gary Roughead raised U.S. concerns about unsafe maritime maneuvers conducted by Chinese ships in his meeting with PLA Navy chief Adm. Wu Shengli. Commenting on the talks after his return, Roughead told *Defense News* that he and Adm. Wu agreed “that we are going to disagree on the interpretation” of the UN Convention on the Law of the Sea. He underscored his message to the Chinese was “that there should be nothing done to endanger our sailors or our ships that are operating there.”

In a May 15 online article, *China Daily* cited a senior Chinese military source as saying that the Chinese and U.S. navies were searching for ways to “alleviate disagreements” over international law on maritime rights. The article quoted Adm. Robert Willard, commander of the Pacific Fleet, stating on the sidelines of the Shangri-La Dialogue that “the UN Law of the Sea permits military activity inside exclusive economic zones, and we’ll continue to do that.” At the same time, Willard said the two nations are going to “have to work our way through” differences on maritime rights “so they don’t continue to escalate.”

A step was taken toward avoiding such dangerous maritime encounters at the 10th round of the Defense Consultative Talks (DCT), which was held in Beijing in late June. The Chinese and U.S. sides, led respectively by Deputy Chief of the PLA General Staff Lt. Gen. Ma Xiaotian and Undersecretary of Defense for Policy Michele Flournoy, “expressed willingness to avoid a recurrence of recent incidents of confrontation between Chinese vessels and U.S. naval ships off China’s southern coast” and agreed to resolve such incidents “as carefully as possible” should they happen to occur again,” according to the *China Daily*. Moreover, they agreed to discuss the dispute at a special meeting in August under the umbrella of the U.S.-China Military Maritime Consultation Agreement (MMCA), which was established in 1998 to improve maritime safety between the U.S. and China.

Other issues discussed at the DCT included North Korea, counter-piracy activities in the Gulf of Aden, the Obama administration’s Af-Pak strategy, U.S. arms sales to Taiwan, and U.S.-Chinese military exchanges. The two nations agreed to a series of senior military-to-military activities and visits in the latter half of this year, some of which had been scheduled to take place in 2008 but were postponed due to China’s protests over the approval of a \$6.5 billion weapons package for Taiwan last October.

A few weeks before the DCT, several Chinese complaints about the bilateral military relationship appeared on the *China Daily* website. Maj. Gen. Jin Yinan, director of the Institute of Strategic Studies at China’s National Defense University, objected to the U.S. pinning blame on China for obstructing military exchanges. He accused the U.S. of reversing its prior willingness to invite China to observe its “advanced weapons and key military training.” Maj. Gen. Luo Yuan, a senior researcher with the PLA’s Academy of Military Sciences, warned the U.S. against asking “for China’s help without taking into consideration its security concerns and the opinion of ordinary Chinese.”

However, after the defense talks closed, China’s appraisal of both the talks and the military relationship was upbeat. *China Daily* portrayed the talks as “more than an exercise in routine diplomatic courtesy as the two militaries reached substantial agreement on major issues of mutual concern.” The newspaper hailed the agreement to exercise the “utmost discretion” at sea as indicating a “maturing of military relations based on mutual respect, trust, and benefit.” At a press conference, Flournoy called the talks “constructive” and stressed the shared perspective that “engaging in continuous dialogue on strategic issues will lead to a much more sustained and cooperative relationship between the United States and China over time.” She added that the U.S. hopes to build on the common interests that were identified to move the defense relationship forward. Flournoy further stated that the U.S. does not view China as an adversary and that, despite differences, there are substantial issues on which the two countries can cooperate.

The only other notable U.S.-Chinese military-to-military interaction this quarter was a meeting between Secretary of Defense Robert Gates and Lt. Gen. Ma Xiaotian on the margins of the Shangri-La Dialogue in Singapore and talks between U.S. Chief of Naval Operations Adm. Roughead and Chinese Navy chief Adm. Wu in Qingdao during celebrations to mark the 60th anniversary of the founding of the People’s Liberation Army Navy. Among the 21 foreign naval

vessels from 14 countries that assembled in Qingdao to participate in an international fleet review was the U.S. missile destroyer *USS Fitzgerald*, a Japan-based ship from the 7th Fleet.

Looking ahead

The groundwork has been laid for strengthened bilateral cooperation but the issues are complex and the challenges are significant. It remains to be seen whether cooperation will yield concrete results. The first opportunity to achieve progress will be the inaugural meeting of the S&ED, which is scheduled to be held in July in Washington D.C. In November, President Obama will make his first visit to China. Wu Bangguo, head of the National People's Congress, and Lt. Gen. Xu Caihou, vice chairman of the Central Military Commission of the Communist Party, will visit Washington before the end of the year. The United Nations conference on climate change in Copenhagen, Denmark in December will provide a test of both countries' will and ability to find common cause in the interest of reversing the negative effects of global warming.

Chronology of U.S.-China Relations April-June 2009*

April 1, 2009: President Hu Jintao and President Barack Obama meet in London on the margins of the G20 financial summit.

April 2, 2009: Vice Premier Wang Qishan meets with Treasury Secretary Timothy Geithner in London after the closing of the G20 financial summit.

April 5, 2009: Foreign Minister Yang Jiechi talks by phone to Secretary of State Hillary Clinton to discuss North Korea's missile launch.

April 7, 2009: The U.S. Treasury bans the Chinese firm LIMMT Economic and Trade Company, Ltd. and six Iranian companies from doing business in the U.S. on the grounds they were suspected of collaborating on a scheme to transfer nuclear technology from China to Iran. The Treasury also ordered their assets to be frozen.

April 8, 2009: Top Chinese legislator Wu Bangguo meets Sen. John McCain in Beijing.

April 9, 2009: Chinese Foreign Ministry spokeswoman denies Chinese cyber-spies are hacking into America's electrical grid.

April 9, 2009: Chinese Foreign Ministry spokeswoman says that China opposes U.S. sanctions on a Chinese company that allegedly supported Iran's nuclear programs.

April 11, 2009: Chinese State Councilor and Politburo member Liu Yandong leaves Beijing for an official visit to the United States. She meets Education Secretary Anne Duncan and signs a

* Chronology by CSIS interns Gao Dexiang and Lyle Morris

Joint Statement on Exchange and Cooperation in Higher Education and a joint bilateral work plan. Liu also meets Secretary of State Hillary Clinton.

April 15-16, 2009: U.S. Special Envoy to Afghanistan and Pakistan Richard Holbrooke visits China.

April 15, 2009: In its semi-annual report to Congress on International Economic and Exchange Rate Policies, the U.S. Treasury Department says that China is not manipulating its currency to increase its exports.

April 18, 2009: Premier Wen Jiabao meets former President George W. Bush on the sidelines of the Boao Forum for Asia in Hainan Province.

April 19, 2009: U.S. missile destroyer *USS Fitzgerald* arrives in Qingdao to attend an international fleet review on April 23 to celebrate the 60th anniversary of the founding of the Chinese People's Liberation Army (PLA) Navy.

April 21, 2009: U.S. Chief of Naval Operations Adm. Gary Roughead meets his counterpart Adm. Wu Shengli and Chinese Defense Minister Liang Guanglie in Qingdao.

April 27, 2009: A White Paper on the State of American Business released by the American Chamber of Commerce in China calls for the U.S. government to carry out a review and revision of "antiquated export control regulations."

April 27, 2009: Chinese Vice Commerce Minister Zhong Shan summons Deputy Chief of Mission Dan Piccuta to protest the filing of two U.S. trade cases against China.

April 27, 2009: Chinese Commerce Minister Chen Deming meets U.S. Commerce Secretary Gary Locke in Washington DC for an in-depth exchange of views on the further development of Sino-U.S. economic and trade relations.

April 28, 2009: Chinese and U.S. firms, including China Mobile, Lenovo, Amway, Cisco, Dell, Emerson, EMC, Ford, Freescale and Hewlett-Packard, sign 32 trade and investment contracts worth some \$10.6 billion at the end of the China-U.S. Trade and Investment Cooperation Forum.

April 29, 2009: The U.S. Department of Commerce launches anti-dumping and countervailing duty investigations into specific types of Chinese steel pipes used in oil and gas drilling.

May 1, 2009: The U.S. surveillance ship *USNS Victorious* is involved in a confrontation with Chinese fishing boats in the Yellow Sea. The Pentagon claims the ship was engaged in routine operations in international waters but China insists that the activity was illegal.

May 1, 2009: Secretary Clinton voices concerns about gains made in Latin America by Iran and China, including strong economic and political connections with many of the region's leaders.

May 4, 2009: Adm. Michael Mullen, chairman of the U.S. Joint Chiefs of Staff, says that China's buildup of sea and air military power appears aimed at the United States.

May 6, 2009: President Hu and President Obama discuss bilateral relations, North Korea, South Asia, and the H1N1 flu epidemic during a telephone conversation.

May 14, 2009: Vice Foreign Minister He Yafei and Deputy Secretary of State James Steinberg hold political consultations in Washington DC on bilateral relations and international and regional issues of mutual concern.

May 15, 2009: U.S. lawmakers from the U.S.-China Working Group unveil four bills to "invest in America's economic future" that are aimed at fostering closer relations with China on matters like trade, climate change, energy, and to boost Chinese language teaching in the U.S.

May 16, 2009: President Obama nominates Utah Gov. Jon Huntsman to be the new U.S. ambassador to China.

May 19, 2009: Foreign Ministry spokesman protests the "Foreign Relations Authorization Act for Fiscal Year 2010 and 2011 (H.R.2410)" introduced by U.S. Congressman Howard Berman, chairman of the House Foreign Affairs Committee, saying that it meddles in China's domestic issues of Taiwan, Tibet, and Hong Kong.

May 23, 2009: U.S. House Speaker Nancy Pelosi departs for Beijing, leading a delegation composed of four Democrats and one Republican, all members of the House Select Committee on Energy Independence and Global Warming.

May 23, 2009: Scott Gration, the US president's newly appointed special envoy on Sudan, begins a visit to China and other countries.

May 27, 2009: President Hu meets House Speaker Pelosi in Beijing.

May 30, 2009: Lt Gen. Ma Xiaotian, deputy chief of the General Staff of the PLA, meets Secretary Gates on the margins of the Shangri-La Dialogue in Singapore.

May 31-June 2, 2009: Treasury Secretary Timothy Geithner visits China to prepare for the first round of the U.S.-China Strategic and Economic Dialogue in July. He meets President Hu.

June 2, 2009: General Motors agrees to sell its Hummer brand to Sichuan Tengzhong – a heavy industrial machinery company based in Chengdu, China – as part of its financial restructuring program. The deal is reportedly worth over \$500 million.

June 3, 2009: Anne-Marie Slaughter, director of the State Department's Policy Planning Department travels to Beijing for consultations with MFA counterpart Le Yucheng and also meets Deputy Minister of Commerce Fu Ziyang.

June 3, 2009: Presidents Hu and Obama hold a telephone conversation. They both commit to strengthening bilateral ties and discuss the situation on the Korean Peninsula.

June 4, 2009: On the 20th anniversary of the Tiananmen Square massacre, Secretary Clinton calls on China to “reflect upon the meaning of the events that preceded that day,” and “provide a public accounting of those killed, detained or missing, both to learn and to heal.”

June 5, 2009: Deputy Secretary Steinberg meets Foreign Minister Yang Jiechi, State Counselor Dai Binguo, and Vice Foreign Ministers Wu Dawei and He Yafei, on a trip to discuss policy toward North Korea in the aftermath of its nuclear test.

June 7, 2009: Todd Stern, U.S. special envoy for climate change, arrives in Beijing for talks with his Chinese counterpart Xie Zhenhua. Stern is joined by White House Science Adviser John Holdren and Assistant Energy Secretary David Sandalow.

June 9, 2009: PRC state media publicizes a Ministry of Industry and Information Technology regulation requiring “Green Dam-Youth Escort” Internet-filtering software to be “pre-installed” on all personal computers sold in China as of July 1.

June 9, 2009: China’s National People’s Congress and the U.S. House of Representatives wrap up their 10th meeting in Washington DC under a parliamentary exchange mechanism.

June 10, 2009: The U.S. releases four of the 17 Uighur prisoners being held in Guantanamo Bay to Bermuda and strikes a deal with Palau to resettle more of the Chinese Muslims. Chinese Foreign Ministry spokesman demands that the Uighurs be returned to China.

June 11, 2009: A Chinese submarine collides with an underwater sonar array being towed by the destroyer *USS John S. McCain* off the coast of the Philippines. A U.S. military official calls the collision an “inadvertent encounter.”

June 11, 2009: The U.S.-China Economic and Security Review Commission holds hearings on the implications of China’s naval modernization for the United States.

June 12, 2009: Special Envoy for Climate Change Stern says his recent trip to Beijing to discuss U.S.-China climate change issues was “productive” but did not achieve any “breakthroughs.”

June 19, 2009: The Chinese government disables some search engine functions on the Chinese-language website of Google, saying it was linking too often to pornographic and vulgar content.

June 22-23, 2009: Minister Wang Yi, head of China’s Taiwan Affairs Office, visits Washington DC for consultations with U.S. officials about Taiwan.

June 23-24, 2009: Undersecretary of Defense for Policy Michele Flournoy and Deputy Chief of the PLA General Staff Lt. Gen. Ma Xiaotian hold the Defense Consultative Talks in Beijing.

June 23, 2009: The U.S. and European Union file a petition with the WTO accusing China of unfair trade practices, saying it is restricting exports of raw materials to give Chinese manufacturers a competitive advantage.

June 25, 2009: The U.S. lodges a formal complaint with the Chinese government over its plan to require all computers sold in China to have web-filtering software, called "Green Dam-Youth Escort," preinstalled by July 1, 2009.

June 26, 2009: Kurt M. Campbell is confirmed as United States Assistant Secretary of State for East Asian and Pacific Affairs.

June 29, 2009: Sichuan Tengzhong says its plan to buy General Motors Corp.'s Hummer unit is "still being examined," saying regulatory and governmental approval have not been secured.

June 29, 2009: In its annual report on financial stability, the People's Bank of China reiterates its call for the creation of a new international currency that could replace currencies such as the dollar in countries' official reserves.

June 30, 2009: The Ministry of Industry and Information Technology announces China will delay mandatory installation of the controversial "Green Dam-Youth Escort" filtering software on all computers sold in China.

June 30, 2009: Ambassador Philip Goldberg heads an interagency delegation to Beijing and other countries for talks on implementing UN sanctions against North Korea.



U.S.-Korea Relations:
All North Korea, All the Time

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The quarter saw a plethora of provocations by North Korea, ranging from ballistic missiles tests to the country's second (and more successful) nuclear test. The United Nations Security Council responded with Resolution 1874 that called for financial sanctions and the institutionalization of a counterproliferation regime that would have made John Bolton proud. The U.S. and ROK presidents held their first summit amidst all this noise and sent clear signals of alliance solidarity. Washington exhibited the closeness of the alliance, being the only country to send a presidential delegation to the funeral of former President Roh Moo-hyun. These rhetorical demonstrations of the alliance's strength, however, cannot drown out the potential substantive setback to the alliance as the KORUS Free Trade Agreement continues to languish.

All North Korea, all the time

"All North Korea, all the time," is how one Obama administration official described the events in Asia over the first four months in office. North Korea ended the last quarter threatening to conduct a missile test and opened the second quarter making good on its promise. On April 5, Pyongyang launched what many believe was a *Taepodong-2* ballistic missile, but which the North justified as a satellite launch. Regardless of what it was, the booster technology for a rocket is essentially that of a ballistic missile, which this time traveled about 1,900 miles and demonstrated an improved capability over the failed launches in July 2006 and in 1998.

The Democratic People's Republic of Korea (DPRK) responded to calls from the international community to seek a new UN Security Council (UNSC) resolution to the ballistic missile test by telegraphing its next moves: it threatened more tests and warned that it would restart all nuclear facilities if the UNSC even discussed its rocket launch. True to form, once the UN Security Council (UNSC) adopted on April 13 a nonbinding President's Statement (not a UN resolution) condemning the action as a violation of UNSC Resolution 1718 and called for the UN sanctions committee to list additional goods and entities for designation, Pyongyang ordered the International Atomic Energy Agency (IAEA) inspectors and a separate U.S. nuclear monitoring team out of the country. On April 29, a Foreign Ministry spokesman declared that the North would conduct another nuclear test unless the United Nations "apologized" for condemning its recent rocket launch.

On May 25, Memorial Day in the U.S., the North made good on that threat, conducting its second underground nuclear test. Initial reports of the seismic activity associated with the event appear to indicate a higher yield than the October 2006 test. The DPRK claimed it to be a

successful test that “was safely conducted on a new higher level in terms of its explosive power and technology of its control.”

Why the anger?

Even for the DPRK, this was a fairly unprecedented string of angry provocations. The few remaining DPRK apologists attempted to justify this activity, employing arguments about DPRK insecurity and desire for U.S. “attention” as causal variables. They look for small signals of moderation even amidst the DPRK anger, for example, claiming that the DPRK notified the U.S., China, and Russia in advance of its plan to launch the long-range rocket and declared a no-navigation zone for ships. Moreover, it is within Pyongyang’s sovereign right, these analysts claim, to put satellites into orbit, just as South Korea and Japan do.

These arguments, however, have lost much currency. The Obama administration’s outreach through Special Envoy Stephen Bosworth during his two trips to the region for high-level bilateral dialogue with Pyongyang have undercut attempts to pin the blame for DPRK bad behavior on Washington’s refusal to negotiate. Whether intentional or not, these initial entreaties by Obama did away in one fell swoop with the Bush administration’s perennial problem of being blamed for DPRK shenanigans. Regarding compliance with international procedures, the *Yomiuri Shimbun* reported that the DPRK did not follow the necessary international procedures for launching a satellite, which require a state to give prior notice of a satellite’s operating frequency, its intended orbital location, and other information to the International Telecommunication Union two to seven years before a satellite goes into use. And with regard to the moral equivalence of DPRK satellites, the answer quite simply is that neither Japan nor the ROK are under three UNSC resolutions – 1695, 1718, and 1874 (discussed below) – condemning their missile activities; hence the sovereign right to launch rockets is a little less circumscribed than those of Pyongyang.

What is it, then, that the North wants with these actions? If Pyongyang rebuffs offers by the U.S. to negotiate and give Pyongyang all the attention it wants, then how does one explain the anger? The simplest explanation is that they are seeking to develop their missile and nuclear capabilities. Both the rocket launch and nuclear test appear to represent advancements in their capabilities. The April 2009 rocket, unlike the July 2006 test, did not fail in its initial ascent. Moreover, the second stage of the rocket overflowed the Japanese archipelago, landing in the Pacific Ocean. As noted above, the May 25 underground nuclear test registered seismic activity beyond the so-called “fizzle” of the October 2006 test, which registered less than a kiloton weapon. Even in their failure, scientists can gain valuable data that can be used to advance the programs. Deadlocked in the Six-Party Talks negotiations at the end of 2008 and aware that the new and young U.S. president will be focused on other crises, the North Korean leadership might have found the current situation as good as any to advance their programs.

A second potential cause relates to North Korean negotiating strategies. Pyongyang’s lack of interest in the Six-Party Talks at this moment may stem from a desire to shift the talks to a U.S.-DPRK bilateral negotiation between two established nuclear weapons states. The latter qualifier is a key consideration. As I noted in the *Washington Post* (June 14, 2009), the North constantly complained that the Six-Party Talks were about one-sided denuclearization of the DPRK, which

amounted to asking Pyongyang to “strip naked” while all others remained “garbed” (their parlance). Their preference was for “nuclear arms reduction” talks between two established nuclear weapons states. The ostensible purpose of these talks would be to get to zero, but neither would truly reach this point. In the interim, the North would enjoy both the economic/energy quid pro quos for partial denuclearization and the status of being the newest nuclear power. In this regard, the tests represent an attempt to demonstrate their capabilities in a way that positions them and the world into de facto acceptance of their nuclear status.

A third potential explanation for North Korean behavior relates to its internal political situation. The ailing Kim Jong-il’s apparent attempt to transfer power to his youngest son, Kim Jung-un is only the second power transition in the nation’s history. The youngest son, only in his 20s, possesses none of the experience or revolutionary credentials of his predecessors. This has resulted in two dynamics: the rise of so-called hardliners within the North to protect the younger Kim and act as regents to him as he learns the ropes of the regime; and second, the tendency for unstable dictatorships to demonstrate as much external belligerence as possible to ensure that no one messes with the regime in its vulnerable state.

The confluence of these factors may have created the “perfect storm” for the North’s nuclear belligerence.

Little daylight: policy response

Whatever the reason for the actions, there was little daylight among the international community in terms of responses. After the nuclear test, Deputy Secretary of State Jim Steinberg spent a week in Asia reaffirming the U.S. nuclear umbrella in Seoul and Tokyo while coordinating measures with the allies along with China and Russia. The South Korean government announced that it would fully participate in the U.S.-led Proliferation Security Initiative (PSI), which the previous ROK government had strongly resisted. These and other consultations led by U.S. Ambassador to the UN Susan Rice in New York paved the way for the unanimous adoption on June 12 of UNSC Resolution 1874, which was co-sponsored by the U.S., France, Britain, Japan, and the ROK – an enhanced package of sanctions against the DPRK. The Chapter 7 resolution condemned in the strongest terms the May 25 nuclear test. It called on member states to inspect, seize, and dispose of banned imported/exported weapons including combat vehicles, artillery, attack helicopters, and missile parts, and to deny fuel or supplies to vessels carrying such items. The resolution also called on member states and international financial and credit institutions to prohibit services that could contribute to DPRK missile and nuclear programs.

In the aftermath of UNSC Resolution 1874, some argued that the resolution lacked the “teeth” that Ambassador Rice promised. Some pointed to the fact that the resolution did not authorize the use of force and that aside from a mandatory ban on arms exports, the steps enumerated in Resolution 1874 constitute recommendations rather than requirements, so the potential impact ultimately depends on the determination of member states.

While it is certainly true that the resolution does not mandate the use of force (few resolutions do), it goes a long way to building an effective counterproliferation regime against the North’s weapons capabilities. The arms embargo, financial sanctions, and inspection regime all

represent advances in efforts undertaken by the Bush administration to curtail DPRK proliferation financing and weapons development. Most important, these measures, once considered “unilateral” efforts by the Bush administration to undercut the regime in North Korea, are now institutionalized in a multilateral context, thereby making them potentially more effective. What was once, for example, a request on the part of the Bush administration to a financial regulator in Europe to investigate suspect North Korean bank accounts has now become an obligation among UN member states as a result of UNSC Resolution 1874. Moreover, the inspection regime created by this resolution represents a UN-backed institutionalization of the PSI created by John Bolton and Bob Joseph. UN member states are now obligated to inspect suspect cargo, deny “bunkering” (food and fuel) to suspect vessels, and share information, all of which should dramatically hamper the North’s ability to operate. Moreover, the resolution provides for the creation of a monitoring body among UNSC members to report on member state compliance with the resolution’s provisions.

These arguments did not persuade many until a North Korea ship, the *Kang Nam*, en route to Burma/Myanmar, offered the first immediate test of the resolution in June. Many saw Rangoon as a weak link that could provide bunkering for DPRK vessels and thereby enable trade to the Middle East. However, contrary to most pundits’ expectations, the government in Rangoon announced that it would be obligated to inspect and if necessary seize and dispose of banned cargo in compliance with UNSC Resolution 1874. The result: the North Korea ship reversed course, apparently navigating back to its home port. The resolution is far from air tight, but it makes commendable progress in building a real counterproliferation regime. Other areas where cooperation particularly with the Chinese and Russians is needed are controlling airspace and overland routes to prevent potential proliferation. These activities do not represent an end to the Obama administration’s interest in diplomacy (although there is understandably less interest in bilateral talks now). On the contrary, as one official noted, these activities would need to be undertaken regardless of the state of the negotiations as long as the North was in possession of even one nuclear weapon. The latter is an important message to the Chinese that any North Korean return to negotiations should not be equated with relaxed counterproliferation efforts.

The plight of Lee and Ling

Amid the nuclear provocations, the North Korean high court sentenced the two detained U.S. journalists, Laura Ling and Euna Lee, to 12 years of “reform through labor.” The harsh sentence was seen by some as an attempt to link their release to the ongoing nuclear dispute in some sort of “high stakes” poker game. While this made a good soundbite, it is not clear how such a negotiation might be manipulated by the North. The more likely explanation is that through the harsh sentence, Pyongyang sought to send a message to the world, deterring other journalists or humanitarian workers from operating near the North Korean border. In the midst of an internal power transition, North Korean leadership probably does not want the international media drawing attention to their refugee problem (the two reporters were apparently doing a story on the trafficking of DPRK refugees into China).

The U.S. response has been to draw a clear line between this issue and the nuclear dispute, essentially saying to the North that they have made their point with the harsh sentencing and should now release the two women on humanitarian grounds. The administration continues to

work this issue behind the scenes, exploring a variety of channels including the possible dispatch of a high-level envoy to negotiate their return at the appropriate time. Meanwhile, the two journalists have been confined in the North for the past four months.

Allied solidarity

North Korea lowlights for the quarter were complemented by U.S.-ROK highlights when President Lee Myung-bak traveled to Washington for his first summit with President Barack Obama. According to inside accounts, the atmospherics of the meeting were very good with the two leaders spending triple the allotted time for their one-on-one meeting in the Oval Office. The press conference and statements coming out of the meeting presented two strong messages: 1) that the U.S. would never accept a nuclear North Korea; and 2) the written promise of the U.S. nuclear umbrella over Seoul. On other issues, Lee apparently came ready to discuss new forms of assistance for Afghanistan and pledged cooperation on climate change and other issues. As a symbol of the friendship between the two countries, Obama sent a presidential delegation to the funeral of former president Roh Moo-hyun who committed suicide in May. The presidential delegation (which included this writer) was the only one of its kind to pay respects to the former head of state. Japan sent former Prime Minister Fukuda, but the Chinese conspicuously sent no one from its capitol. This message was not lost on the Koreans who appreciated the U.S. response and groused at the Chinese. The candlelight vigils in the streets of Seoul in the aftermath of Roh's state funeral were notable for their absence of any anti-American agitators (unlike the beef demonstrations or the 2002 candlelight vigils).

Despite the positive indications, progress on passage of the all-important KORUS free trade agreement (FTA) still remained absent. The ROK Parliament's Foreign Affairs Committee approved the deal in April, paving the way for the entire Assembly to vote on the pact. Yet progress on the U.S. side remains stymied by parochial domestic interests. KORUS – the United States' largest FTA since the North America FTA – dwarfs most recent agreements and could help restore critical U.S. jobs and exports to a Korean economy expected to be among the first to recover from the global crisis. The nonpartisan International Trade Commission estimates that enacting KORUS could boost U.S. GDP by as much as \$11.9 billion and merchandise exports as much as \$10.9 billion – a free economic stimulus without driving up U.S. debt.

Moreover, the importance of KORUS to visions of larger free-trade areas in the Asia-Pacific and beyond should not be underestimated. As World Trade Organization (WTO) negotiations stall, one scenario for advancing trade is uniting scattered bilateral FTAs into multilateral arrangements. KORUS is both a strong model and – with provisions that allow other nations to join – a potentially powerful draw for building multilateral efforts in Asia and globally. When the U.S. launched KORUS negotiations, countries like Japan watched politely but dismissively. After it was negotiated, there was quiet but palpable interest by Tokyo in exploring FTA talks – a testament to KORUS's influence on one of the world's largest economies.

Perhaps even more important than its economics are KORUS's strategic ramifications. KORUS helps elevate the U.S.-ROK alliance to a higher plane beyond its traditional military focus to the broader exchanges of a mature partnership. Koreans seek to strengthen bilateral ties and “trust” in the relationship – and there could be no more important way of advancing this than KORUS.

Delaying KORUS would be a setback in the alliance's growth. Granted, it would not end an alliance based on shared values and interests, yet it could drive Seoul to look beyond the U.S. for strategic partners. Korea is moving forward with FTAs with the European Union and across Asia while U.S. trade with Korea has already fallen behind that of China, Japan, and Europe.

Chronology of U.S.-Korea Relations **April-June 2009***

April 1, 2009: The Democratic People's Republic of Korea (DPRK)'s state radio accuses U.S. *RC-135* surveillance aircraft of spying on the launch site on its northeast coast and threatens to shoot it down. The DPRK also vows to wage war against Japan if it tries to shoot down a missile that the DPRK says will carry a communications satellite.

April 2, 2009: *Reuters* reports that President Barack Obama told President Lee Myung-bak that he wants to make progress on a free trade deal between the two countries.

April 3, 2009: President Obama tells Chinese President Hu Jintao that the U.S. would consider a DPRK missile launch provocative and that the U.S. would seek punishment at the UN in response. Obama and President Lee agree on the need for "a unified response by the international community in the event that North Korea launches a long-range missile."

April 5, 2009: North Korea launches a rocket, which ends up in the waters about 1,984 miles from the launch site, about double the range compared to the 1998 launch. U.S. analysts say the failure to launch a satellite might reveal a significant quality control problem in the DPRK.

April 8, 2009: *Chosun Ilbo* reports that the DPRK notified the U.S., China, and Russia in advance of its plan to launch the long-range rocket. According to a ROK National Intelligence Service official, "it is unprecedented for the North to notify the U.S. in advance of the time."

April 9, 2009: DPRK warns that it would take "strong steps" if the UNSC took any action in response to the launch, threatening to boycott the Six-Party Talks and restart its nuclear facilities.

April 9, 2009: North Korean Supreme People's Assembly (SPA) meets and reelects Kim Jong-il to a five-year term as the Chairman of the National Defense Commission (NDC). The SPA also promotes Kim's brother-in-law, Jang Song-taek, to serve on the NDC.

April 13, 2009: The UNSC unanimously adopts a nonbinding President's Statement on the DPRK rocket launch, condemning the action as a violation of a resolution banning the country from all missile activity and demanding no further launches.

April 13, 2009: *Yonhap* reports that the U.S. Trade Representative (USTR) wants a free trade pact with the ROK to be ratified without renegotiation.

* Compiled by Shin W. David Park

April 14, 2009: The DPRK Foreign Ministry issues a statement saying the DPRK “resolutely rejects” the “unjust” action taken by the UN and that the DPRK “will bolster its nuclear deterrent for self-defense in every way.”

April 15, 2009: The DPRK orders International Atomic Energy Agency (IAEA) inspectors and a separate U.S. nuclear monitoring team out of the country.

April 15, 2009: Secretary of State Hillary Clinton criticizes the DPRK for its decision to restart its nuclear reactor and to boycott the Six-Party Talks.

April 15, 2009: The U.S. and Japan propose lists of DPRK companies, banks, and missile-related equipment to be targeted by the UN sanctions that are to be enforced for the first time since they were imposed in 2006.

April 22, 2009: Gen. Walter Sharp, the commander of the U.S. forces in Korea stresses that Washington will continue to offer the ROK protection under its nuclear umbrella after the 2012 transfer of wartime operational control.

April 22, 2009: The ROK Parliament’s Foreign Affairs Committee approves the KORUS FTA, paving the way for the entire Assembly to vote on the pact.

April 28, 2009: The ROK and the U.S. fail to agree on the completion date and cost-sharing for the relocation of U.S. troops on the peninsula.

April 29, 2009: The DPRK says it will conduct a second nuclear test and test-launch ballistic missiles unless the UN apologizes for condemning its recent rocket launch.

April 30, 2009: Secretary Clinton says it is “implausible, if not impossible” that the DPRK will return to international talks on ending its nuclear ambitions.

May 2, 2009: An unidentified DPRK spokesman says President Obama is no different from his predecessor in trying to “stifle” countries that are uncooperative with the U.S.

May 2, 2009: Secretary Clinton says the U.S. will not provide economic aid to the DPRK until it stops threatening to conduct further nuclear and missile tests and returns to the Six-Party Talks.

May 6, 2009: The DPRK criticizes the U.S. for seeking to increase its military spending, vowing to bolster its own defense capabilities to cope with what it calls “increasing American threats.”

May 8, 2009: North Korea rejects bilateral talks with the U.S. and vows to strengthen its nuclear deterrent because the Obama administration is taking a hostile stance towards the country.

May 12, 2009: U.S. Special Representative for DPRK Policy Stephen Bosworth says he would consider visiting Pyongyang to revive stalled talks on dismantling the DPRK’s nuclear program.

May 14, 2009: Russian Ambassador-at-large Grigory Logvinov, Moscow's representative to the Six-Party Talks, and U.S. Special Envoy Sung Kim meet in Moscow and agree to search for diplomatic solutions for settling the dispute surrounding the DPRK's nuclear program.

May 17, 2009: DPRK government newspaper *Minju Joson* says the DPRK will not come back to the negotiation table unless the U.S. and the ROK give up their "hostile policy."

May 18, 2009: U.S. Secretary of Defense Robert Gates says the 30 ground-based missile interceptor system of the U.S. "is only capable against North Korea, and that 30 interceptors in fact provide a strong defense against Pyongyang."

May 20, 2009: President Obama says the KORUS FTA would enhance and promote bilateral ties and prosperity between the two allies.

May 23, 2009: Former ROK President Roh Moo-hyun commits suicide.

May 25, 2009: DPRK conducts its second underground nuclear weapons test.

May 25, 2009: DPRK fires two short-range missiles from its east coast.

May 25, 2009: DPRK's *Korean Central News Agency* states that Chairman Kim Jong-il has expressed condolences to the family of former President Roh Moo-hyun.

May 26, 2009: President Obama criticizes the DPRK for its nuclear test, saying the world must "stand up to" Pyongyang and demand that it honor a promise to abandon its nuclear ambitions.

May 26, 2009: South Korean government announces that it will fully participate in the Proliferation Security Initiative (PSI).

May 26, 2009: President Obama tells President Lee in a telephone conversation that "U.S. military strength and nuclear umbrella were expansive enough to protect South Korea."

May 27, 2009: *Yonhap* reports the DPRK has restarted its nuclear reprocessing facility.

May 27, 2009: North Korean newspaper *Choson Sinbo* reports that the DPRK will continue to raise the stakes no matter how seriously it is punished by the international community unless the U.S. takes direct action to resolve the nuclear crisis.

May 27, 2009: North Korea announces that it no longer considers the Korean Armistice Agreement valid.

May 30, 2009: Secretary of Defense Gates says the U.S. would hold the DPRK accountable for selling or transferring nuclear material outside its borders.

May 31-June 5, 2009: U.S. delegation led by Deputy Secretary of State James Steinberg visits Tokyo, Seoul, and Beijing for talks on how to respond to North Korea's latest nuclear test.

Jun. 1, 2009: Former Defense Secretary William Perry says that if non-military options do not stem the DPRK's escalation of tension, the U.S. must consider others, namely military options.

Jun. 4, 2009: Assistant Secretary of State for Public Affairs Philip Crowley says the U.S. has no intention of relisting the DPRK as a state sponsor of terrorism despite nuclear and missile tests that escalated regional tensions.

Jun. 8, 2009: North Korea's official news agency announces two U.S. journalists who committed a "grave crime" would be sentenced to 12 years of "reform through labor."

Jun. 10, 2009: Special Envoy Stephen Bosworth says the U.S. will do what is necessary for the security of its allies, but has no plans to invade the DPRK or overthrow its government by force.

Jun. 12, 2009: UNSC unanimously passes Resolution 1874, which calls on UN members to inspect cargo vessels suspected of carrying military materials in or out of North Korea.

June 12, 2009: DPRK Foreign Ministry denounces UNSC Resolution 1874 and says that North Korea would "weaponize" its existing plutonium stockpiles, begin a program to enrich uranium and take "firm military action if the United States and its allies try to isolate us."

Jun. 15, 2009: DPRK newspaper *Rodong Sinmun* denounces the ROK for "begging" the U.S. for nuclear protection.

Jun. 15, 2009: President Lee and President Obama hold a summit in Washington. They adopt a statement for a "joint vision for the Korea-U.S. alliance."

Jun. 15, 2009: Meeting with President Lee, Secretary Gates says the U.S. will use all means necessary, including nuclear arms, to defend the ROK against military threats from the DPRK.

Jun. 18, 2009: U.S. officials say the U.S. military is tracking a DPRK ship believed to be carrying illicit weapons in the Pacific Ocean.

Jun. 18, 2009: Secretary Gates orders the U.S. military to take defensive measures should the DPRK attempt to fire a ballistic missile toward Hawaii.

Jun. 22, 2009: UN Development Program says that aid projects will continue as planned in North Korea regardless of the sanctions resolution. U.S. Agency for International Development (USAID) also says plans to continue its medical aid projects for the DPRK.

Jun. 24, 2009: President Obama extends sanctions on commerce with the DPRK for a year under the International Emergency Economic Powers Act and the Trading with the Enemy Act.

Jun. 26, 2009: The Obama administration names Philip Goldberg to lead a task force coordinating Washington's political, military, and financial measures against the DPRK.



**U.S.-Russia Relations:
Laying the Groundwork**

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President Barack Obama traveled to Moscow in early July to meet the Russian leadership, the political diarchy of President Dmitry Medvedev and Prime Minister Vladimir Putin. The meetings were conducted in a cordial atmosphere, but this particular summit stood out from summits of the past two decades between U.S. and Russian leaders: there was no backslapping camaraderie or use of first names. Obama conducted the visit with a minimum of pomp and a maximum of professionalism. His job was to assess the state of U.S.-Russian relations, assess the leadership situation in Russia, and to decide on the best path to improve bilateral relations. Although most of the headlines stated that the results of the summit were “mixed,” Obama seems to have achieved what he wanted and laid the groundwork for achieving normalcy in relations for the next six months or so. The most pressing issues, however, remain unresolved, and it is not clear if progress can be sustained beyond the end of the year.

Moscow meeting

The Obama trip to Moscow was also different in another way: the Russian leadership decided to not treat this as a formal summit. Neither Putin nor Medvedev met Obama at the airport. There were no state dinners or formal agreements or treaties to be signed. Instead the occasion called for a balanced sizing-up process by the leadership of both sides. For the U.S., it was an opportunity to assess just who is calling the shots in Russia. On the eve of his overseas trip (which included later stops in Italy and Africa), Obama fired a shot across the bow by stating that while Medvedev seems to be forward thinking, Putin still has “one foot in the old ways of doing business.” Putin brushed off the statement tersely and after a one-on-one meeting at Putin’s official residence, Obama said that he is “convinced the prime minister [Putin] is a man of today and he’s got his eyes firmly on the future.” During the breakfast meeting the two discussed the prickly issues of Georgia and Ukraine, two nations looking to the U.S. for support, but – in the Kremlin’s eyes – two nations still within Russia’s sphere of influence. Media attention seemed to be focused more on this meeting rather than the two Obama-Medvedev meetings. Most would agree that Putin is still the primary power broker in Russia.

Obama did have two official meetings with President Medvedev. Arms control and Eurasian security issues dominated the agenda. Over the past several months, teams from the two nations have been earnestly negotiating an extension of the START-1 treaty, which is due to expire in December this year. Barring an extension, they hope to negotiate a new framework for arms control. Arms control agreements have been the low-hanging fruit in bilateral discussions for decades. When all else fails, the two nations can agree that the spread of nuclear weapons and

the growth of each nation's nuclear forces are inimical to both sides. Presidents Obama and Medvedev agreed to a framework for an agreement, but nothing concrete. Both sides will reduce their strategic nuclear warheads to 1,500-1,675 within seven years of a new treaty coming into force. This new agreement would be negotiated before START expires and would run for 10 years. Under the 2002 Moscow Treaty (or SORT), both sides agreed to reduce arsenals to these levels, but there was no verification process, unlike START and any new treaty.

This gentlemen's agreement looked fine in front of television cameras in the Kremlin's gilded hall, but there is no certainty that the two sides will ink a treaty before the end of the year. Moscow wants to link nuclear force negotiations to the missile defense system the U.S. and NATO are planning to build in Eastern Europe. Washington, for its part, wants to link the missile defense system to Russian cooperation on Iran policy. The U.S. can more afford to do without an extension of START than can Russia: U.S. conventional forces are clearly superior to those of Russia, and Moscow relies more and more on its nuclear deterrent as its sword and shield. This is a reversal of roles from the Cold War. Also, the U.S. can outspend Russia on nuclear warheads and delivery systems. Additionally, while Washington is willing to give up warheads, it is less willing to give up delivery vehicles (Russia wants to limit these to 500 for each side; Washington wants 1,100). The U.S. routinely uses strategic delivery platforms for conventional munitions strikes in the war on terror and in regional conflicts. Moscow does have a significant advantage in tactical nuclear weapons (thousands versus hundreds for the U.S.), and voices in the West are calling for Russia to come to the table willing to dispense with many of these weapons.

As for an extension of START, President Medvedev said Moscow's conditions include: a ban on deploying nuclear arms in space; making it impossible to compensate for a cut in nuclear arms by building up conventional forces; and making sure nuclear weapons are destroyed and not just stockpiled (which the U.S. does). President Obama refused to link missile defense to nuclear cuts, although there was some speculation that he might do so. He held his ground on this issue and the two sides continued to agree to disagree. It is therefore not clear whether the two will be able to come up with a treaty or an extension by December.

The two sides did agree on cooperation in Afghanistan. The Russian government announced that it would allow U.S. military goods to transit overland from Russia to Afghanistan (they have allowed the transit of nonmilitary goods since March). Medvedev also agreed to grant overflight rights to U.S. military and contractor aircraft (up to 4,500 flights per year), saving the U.S. up to \$133 million per year in transportation and logistical costs. The two leaders agreed to resurrect a joint body that was established in the 1990s, the U.S.-Russia Bilateral Presidential Commission – better known as the Gore-Chernomyrdin commission. This commission will help to advance bilateral cooperation in the energy (conventional and nuclear) field, in arms control, in combating terrorism, in anti-narcotic efforts, and in efforts to boost business and scientific links. The commission will be chaired by Obama and Medvedev and be coordinated by Secretary of State Hillary Clinton and Foreign Minister Sergei Lavrov.

Although progress in Moscow was palpable in atmospherics, the most divisive issues remain – for the most part – unresolved. Perhaps the issue most vexing to Russia has been the status of Georgia and Ukraine as potential members of NATO. NATO exercises conducted in Georgia in

May caused indignant protests in Moscow. Russia reacted with its own military exercises in the shadow of the Caucasus in June and July. After his meeting with Putin, Obama said that he found the Russian prime minister to be “tough, smart, shrewd, very unsentimental, very pragmatic. And on areas where we disagree, like Georgia, I don’t anticipate a meeting of the minds anytime soon.” This probably best sums up the position of both governments with regard to Ukraine, as well.

The rancorous debate on a European-based missile defense system continues to hover over the relationship. In testimony before the Senate in June, Secretary of Defense Robert Gates hinted that portions of the system, including an advanced radar facility, could be sited on Russian territory. This was met with denial by the Russian Foreign Ministry the next day. In the weeks leading up to his Moscow trip, speculation mounted that President Obama might be willing to give up the Eastern European facilities in return for Russian cooperation in Iran. In February, Obama reportedly penned a letter to Medvedev suggesting such a compromise. But at the summit it was clear that even if Moscow wanted to cooperate, it has little leverage in Tehran, other than the ability to agree to UN sanctions, and the Kremlin has made it clear that sanctions are not an option. Obama and his team agreed to push forward with the missile defense system as planned, and he told Medvedev that the U.S. and its partners planned on having the system deployed by 2013. Obama and Medvedev said that the two governments would continue to discuss this issue, but it seems that negotiations have gone as far as they can for the time being.

On the whole, the Moscow meeting can be seen as a success for the United States. President Obama was able to meet with the Russian leadership, and more importantly, he was able to reach out to all groups, including opposition politicians (almost an oxymoron in Russia), citizens, and students at an elite economics school. He made pains to stress that U.S.-Russian relations are more about the two societies than just government-to-government relations. Under his predecessors George Bush and Bill Clinton, relations seemed top-heavy at times. Obama also made pointed references to the development of a civil society based on legal rights, as well as rejecting the premise of spheres of influence and Cold War thinking. In a speech in Moscow he said, “This must be more than a fresh start between the Kremlin and the White House...It must be a sustained effort among the American and Russian people to identify mutual interests and expand dialogue and cooperation.” Most Russian pundits were unimpressed with Obama’s performance, but at least one expert praised the president, saying that “[Obama] made all the right sounds in a very respectful way,” and that, “It’s not only a change in tone. It was a change in substance ... the new agenda is much broader than ever.”

Economics and energy

This broader agenda includes much more than was discussed at the Moscow meeting. Economic cooperation, trade, and investment are all growing – in spite of the political atmosphere – but the levels are still relatively small. Bilateral trade last year was \$36 billion, which is an all-time high, but it pales in comparison to U.S. trade figures with North American and Asian partners. Russia accounts for roughly 1 percent of U.S. imports and exports. The U.S. accounts for about 3 percent of Russia’s exports and 4 percent of its imports. China, meanwhile, overtook Germany and the Netherlands in the first quarter of 2009 to become Russia’s largest trade partner. U.S. foreign direct investment in Russia (\$6 billion between 2000 and 2008) continues to focus on

mining and energy, not manufacturing, which is more conducive to domestic growth. Whatever economic compatibility there may be cannot always overcome geography. Simply put, Russia trades mostly with its neighbors, as does the United States.

In Moscow, many continue to blame the U.S. for the onset of the economic crisis and the stagnant growth in Russia. The Russian government surprised the world when it announced this spring that it would henceforth seek World Trade Organization (WTO) membership (which it has sought for 16 years) only through a customs union with Belarus and Kazakhstan. Some claim that this could put off Russian membership even further down the road. But others point out that Russia has little to gain from WTO membership at this stage since the large majority of its exports are natural resources, which remain primarily outside the WTO framework. Additionally, Russia's economy is annually ranked among the least open, and it has leeway to impose duties and taxes on imports, which add to the national treasury and protect domestic industries (an example being the excise tax on imports of used Japanese vehicles imposed earlier this year in the Far East). Meanwhile, Washington – or more precisely the U.S. Congress – refuses to nix the Jackson-Vanick amendment or ratify the bilateral investment treaty that the two heads of state signed in 1992. Washington probably stands to lose more than Moscow from Russia's WTO exclusion. In what seems to be a recurring pattern, U.S.-Russian relations come back to zero-sum mathematics. One side wins and the other side gives concessions.

One issue that is a win-win is the joint effort to combat nuclear proliferation. The facility at Shchuchye in Siberia near the border with Kazakhstan was officially opened in May after more than a decade of joint U.S.-Russian planning. It was built with \$1 billion of U.S. aid and is destined to destroy huge stockpiles of artillery shells filled with deadly nerve agents. As mentioned, Washington is also concerned about Russia's tactical nuclear weapons dispersed throughout the country (estimated to number over 3,000) due to the risks of proliferation of nuclear material. The facility at Shchuchye would help dismantle such weapons. In May, the Russian firm Techsnabexport (Tenex), a unit of the state-owned nuclear power company Atomenergoprom, signed a \$1 billion deal to supply U.S. electric utilities in California and Texas with nuclear fuel for electricity generation in nuclear power plants.

Eurasia

Iran was a focus of discussion at the Moscow meeting between Presidents Obama and Medvedev, but as with missile defense, the issue was basically kicked down the road. As Obama promised to be open about missile defense, Medvedev – though acknowledging that Tehran was a growing concern for Russia – gave the same lip service to substantive discussions about Iran. Meanwhile, Adm. Michael Mullen, chairman of the U.S. Joint Chiefs of Staff recently warned that Tehran was only a few years away from the development of nuclear weapons and that time was of the essence. But Russia appears to be in no hurry to resolve the issue. And the more that Iran remains an irritant to Washington, the less time U.S. leaders have to spend on issues like Georgia and Ukraine. Russia can expect economic dividends from exclusive economic arrangements with Iran. The problem for Moscow is that if and when there is a U.S.-Iranian *rapprochement*, Russia will likely be left in the cold.

The transit agreement that the two leaders signed in Moscow will go a long way toward the alleviation of logistical problems in Afghanistan. The Kremlin continues to support U.S. and International Security Assistance Force (ISAF) coalition operations in Afghanistan, but with a wary eye toward Central Asia. Well-publicized was the decision in February by the Kyrgyz government (with Russian support) to close the U.S. airbase at Manas, which has been a vital supply and transport link for ISAF operations in Afghanistan and across the region. The initial announcement was accompanied by an announcement of increased Russian aid for Kyrgyzstan and Russian access to another military base in that country. The same dynamics were in play back in 2005 when the Uzbek government forced the closure of a U.S. base there. But in what is becoming a common refrain in the region, the Kyrgyz government reversed its decision in June. It announced that a new cargo transit center would be opened at Manas International Airport (effectively keeping the base open). Thus, the U.S. military will be able to continue operating in Kyrgyzstan, but will pay an increased rent (\$60 million annually vs. \$17.4 million previously). Additionally an aid package worth roughly \$117 million was granted by the U.S. to Kyrgyzstan to help with facility improvements and antiterror efforts. The Russian government voiced its displeasure at the news of the deal and one unidentified Russian diplomat was quoted as saying that Russian had been “tricked” and that Russia would make an “adequate response” to the deal in the near future. But Medvedev publicly supported the deal saying that it was “good for the common cause [in Afghanistan].” The leaders of the Central Asian nations have become adept at playing Russia and the U.S. (and China) off of one another.

Northeast Asia

The DPRK nuclear test in May initially galvanized the five other members of the Six-Party Talks. Both Beijing and Moscow spoke about possible UN sanctions and even support for Proliferation Security Initiative (PSI) operations meant to interdict North Korean shipping. But this initial enthusiasm waned in ensuing weeks, as events like the Iranian presidential election, the surge in Afghanistan, and violence in Xinjiang took away attention from this pressing issue. If an Iranian link to the DPRK program (Iranian observers were said to be at the test) can be identified, then Moscow will be forced to make a decision to stand by the U.S. and its partners, or to be seen supporting the two pariah states. The decision by Moscow could ultimately hinge on China’s decision.

Prime Minister Putin visited Tokyo in May, his third visit to Japan since 2000. In Tokyo, he was accompanied by a delegation of Russian business leaders. The focus was ostensibly economic cooperation, but the territorial dispute dominated discussions between Putin and Prime Minister Aso Taro. Aso hoped to have hammered out some sort of territorial agreement in time for the G8 summit in Italy, but he was stonewalled both by the Russians and by conservative MPs in the Diet. Putin asked for Japanese cooperation in the economic development of the Russian Far East, and came with a list of projects in hand. Japanese businesses have a growing interest in the Russian market as evidenced by the opening of the Nissan assembly plant in St. Petersburg in June. Political relations, however, remain stagnant.

Upcoming agenda

U.S.-Russian relations have stabilized after having reached their nadir in the fall of 2008. President Obama is looking for a constructive relationship – but not a close partnership – with the Kremlin. His visit was a good first step. But the same issues that vexed relations in the fall of 2008 remain major sources of irritation, and no serious effort has been undertaken to alleviate them. Georgia remains a prime source of tension, and there is even talk of a renewal of war there this summer. Decisions will need to be made soon concerning the nuclear programs of Iran and the DPRK. Russia has been content to let these issues play themselves out, but with the latest DPRK test, the time may have come for action. If a definitive link between the two (Iran and the DPRK) can be made, a decision on action could be reached as soon as the fall. The missile defense system destined for Eastern Europe appears to be moving forward and there is little Russia can do. Moscow can, however, stall on START extension talks. However, as pointed out above, this may not be in its best interest. Nevertheless, START-1 expires on Dec. 5, and whether an extension or successor is inked will tell us much about the state of U.S.-Russian relations at the end of the year.

Chronology of U.S.-Russia Relations April-June 2009

April 1, 2009: In London President Barack Obama meets President Dmitry Medvedev for the first time ahead of a G20 summit to address the global economic crisis.

April 3, 2009: NATO holds its 60th anniversary celebration at a summit in Strasbourg, France. At the Strasbourg summit, President Obama criticizes the Russian “invasion” of Georgia, and states that “we can’t go back to the old ways of doing business.”

April 5, 2009: In a speech in Prague, President Obama promises to move forward with plans for a missile defense system based in the Czech Republic and Poland.

April 6, 2009: A Russian tanker delivers the first shipment of LNG from Russia’s Sakhalin-2 project to Japan.

April 15, 2009: Sen. Carl Levin, the chairman of the Senate Armed Services Committee, holds talks in Moscow with Russian Foreign Minister Sergei Lavrov to discuss arms control issues.

April 24, 2009: Introductory consultations on the renewal of the START-I treaty take place in Rome. Representing the U.S. is Assistant Secretary of State for Verification and Compliance Rose Gottemoeller. Representing Russia is Anatoly Antonov, director of the Foreign Ministry’s department for security and disarmament.

April 25-26, 2009: Russian Deputy Prime Minister and Finance Minister Alexei Kudrin travels to Washington, DC to attend a meeting of the G7/G20 finance ministers.

April 28, 2009: The Ford Foundation announces that because of the severe decline in its assets, it is closing its office in Moscow.

April 30, 2009: Two Russian diplomats are expelled from the NATO mission in Brussels over allegations of spying.

May 1, 2009: The Japanese government announces that it will give \$40 million toward an international project to dismantle decommissioned Russian nuclear submarines in the Far East.

May 6, 2009: The NATO Partnership for Peace *Cooperative Longbow-Cooperative Lancer 2009* peacekeeping exercises begin in Georgia. These involve 1,300 soldiers from 19 member-countries of the alliance. President Medvedev calls them an “open provocation.”

May 7, 2009: Foreign Minister Sergei Lavrov travels to Washington and meets counterpart Hillary Clinton, as well as President Obama, to discuss a wide range of security issues.

May 11-12, 2009: Prime Minister Putin visits Tokyo.

May 19-20, 2009: The first round of U.S.-Russian consultations on the renewal of the START-I treaty takes place in Moscow.

May 25, 2009: The DPRK conducts a nuclear test.

May 26, 2009: Russia’s Techsnabexport (Tenex), a unit of Russian state-owned nuclear power company Atomenergoprom, signs a \$1 billion deal to supply U.S. electric utilities in California and Texas with nuclear fuel for electricity generation in nuclear power plants.

May 29, 2009: Russia and the U.S. formally open a plant in Shchuchye, Siberia to destroy a huge stockpile of artillery shells filled with deadly nerve agents.

June 2-3, 2009: Second round of U.S.-Russian consultations on renewal of START-I takes place in Geneva.

June 10, 2009: In response to a statement issued the previous day by Secretary of Defense Robert Gates, Russian Foreign Ministry spokesman rejects reports that the U.S. is going to deploy elements of a missile defense system on Russian territory.

June 13, 2009: At a meeting of finance ministers from the G8 in Lecce, Italy, Russian Finance Minister Alexei Kudrin says that Russia has full confidence in the dollar and there are no immediate plans to switch to a new reserve currency.

June 16, 2009: Leaders of Brazil, Russia, India and China, the so-called BRIC countries, meet in Yekaterinburg, Russia to discuss their respective strategies to the world economic crisis. At the meeting President Medvedev criticizes the role of the dollar as international reserve currency.

June 22-23, 2009: Third round of U.S.-Russian consultations on renewal of START-I in Geneva.

June 23, 2009: Kyrgyz President Kurmanbek Bakiyev announces that his government reached a new agreement with the U.S. on the status of Manas Air Base in Bishkek. U.S. and ISAF forces will be able to continue using the airbase for non-military supplies for Afghanistan.

June 26, 2009: In Moscow, Adm. Michael Mullen, chairman of the U.S. Joint Chiefs of Staff, meets the chief of the Russian general staff, Gen. Nikolai Makarov, to discuss bilateral military cooperation and arms control.

July 6-8, 2009: President Obama and his family visit Moscow. He attends meetings with President Medvedev, Prime Minister Putin, opposition leaders, business students, and journalists.



U.S.-Southeast Asia Relations:

President's Cairo Speech Resonates in Southeast Asia

Sheldon Simon
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Southeast Asia media and elites praised President Barack Obama's Cairo address for opening a new dialogue with Muslims and acknowledging U.S. transgressions after 9/11. Washington excoriated Burma's ruling junta for transferring opposition leader Aung San Suu Kyi to prison for violating the regime's detention law, characterizing the charges as "baseless" and an excuse to extend her incarceration beyond scheduled elections in 2010. Thai political turmoil disrupted ASEAN and East Asia Summit meetings in April. In the Philippines, this year's *Balikatan* exercise involved 6,000 U.S. troops and focused on responses to natural disasters. Meanwhile, the Philippine Congress is scheduling new hearings on the Visiting Forces Agreement for its alleged unduly favorable treatment of U.S. military personnel. Human rights concerns in Southeast Asia were raised again in the annual U.S. watch list on human trafficking with most of the region cited for an unwillingness or inability to stop the notorious trade. Finally, the U.S. praised Southeast Asian maritime defense cooperation in suppressing regional piracy as well as contributing to counter-piracy patrols in the Gulf of Aden.

Southeast Asians welcome Obama's discussion of Islam

Southeast Asian media and elites praised President Obama's remarkable June 4 Cairo address for opening a new dialogue with the Muslim world and acknowledging U.S. transgressions after 9/11, particularly the use of torture. Obama emphasized Islam's contribution to world civilization and presented a constructive, if well known, assessment of the Israeli-Palestinian dispute. The head of Indonesia's Council of Ulemas, Admidhan, stated his respect for Obama's "sincerity" in seeking a solution to conflict in the Middle East. Muhammadiyah's leader, Din Syamsuddin, expressed appreciation for the commitment made by Obama to build bridges between the West and Islam. (Muhammadiyah is Indonesia's second largest Muslim organization.) Other Indonesian commentary noted his favorable reference to Indonesia as the nation with the world's largest Muslim population promoting religious tolerance and gender equality. Jakarta's *Kompas* newspaper, Indonesia's largest, editorialized on June 5 that Obama was constructing a U.S. image that will erase his predecessor's unilateral and bellicose orientation to the world and replace it with "a multilateral and cooperative approach." Some Muslim clerics in Indonesia, while welcoming Obama's opening to Islam, said that the rhetoric needed to be followed by implementing policies.

Prior to the Cairo speech, Malaysia's Prime Minister Najib Razak praised Obama's decision to close the prison at Guantanamo Bay but stated that he should speed the process of relocating the remaining inmates. Malaysia has asked for the return of two of its citizens, though they are

considered “high value” detainees by the U.S. and central to Jemmah Islamiyah’s operations in Southeast Asia.

Aung San Suu Kyi trial may derail U.S. plans for a new Burma policy

In early April, at a National Bureau of Asian Research meeting in Washington, Deputy Secretary of State Jim Steinberg outlined hopes for a “collaborative and constructive” approach to Burma that would involve U.S. discussions with ASEAN, China, India, and Japan “to find a policy that will improve the lives of the people of Burma and promote stability in this key region.” Steinberg specifically proposed something akin to the Six-Party Talks on North Korea’s nuclear program. On April 13, a group of U.S. women senators urged in a letter to UN Secretary General Ban Ki-Moon to pressure Burma’s ruling junta to scrap its 2010 election plans and free Aung San Suu Kyi from house arrest. The senators denounced Burma’s new constitution for entrenching gender discrimination by excluding women from high office – undoubtedly with Suu Kyi in mind – and also for denying access to justice for victims of the junta’s violence.

However, the junta’s plans for Aung San Suu Kyi’s future took a bizarre turn in the second week of May when a U.S. citizen, William Yettaw, reportedly swam across the adjacent lake and into the democracy leader’s home where she has been under house arrest for 13 of the past 19 years. Burma’s law prohibits anyone from visiting Suu Kyi without the regime’s permission. Therefore, just as the junta was going to have to decide whether to release her from house arrest on the anniversary of her detention, along came a new opportunity to arrest her.

Suu Kyi has been jailed since mid-May in the notorious Insein Prison where a special court is in session to determine her future. By claiming that she had violated the terms of her house arrest, the regime can rebut a UN finding that Suu Kyi is being held illegally in breach of both Burmese and international law. Her lawyer has insisted that Yettaw’s stay in her home was uninvited and that she permitted it for humanitarian reasons when he complained of exhaustion and cramping. Her continued imprisonment appears to send a signal to the international community that the Burmese military is not ready to be engaged – a situation that may disrupt the Obama administration’s hopes for a new beginning in its Burma policy.

The U.S. has led Western calls for Suu Kyi’s release with Secretary of State Hillary Clinton saying she was “deeply troubled” by the “baseless” case just days before her six-year detention was to expire. Clinton has also raised the imprisonment of Suu Kyi with the UN, ASEAN members, and China. Malaysian Foreign Minister Y.B. Datuk Anifah bin Haji Aman, after meeting with Clinton, promised to raise the matter with the ASEAN Secretariat and ASEAN Plus 3, which includes China. On May 15, President Obama renewed U.S. sanctions against the Burmese regime, claiming its actions and policies “are hostile to U.S. interests and pose a continuing unusual and extraordinary threat to the national security and foreign policy of the United States” – a statement hardly designed as a prelude for new overtures to the junta.

On May 19, ASEAN, as a group, expressed “grave concern”, saying that “the honor and the credibility of the [Burmese government] are at stake.” The current ASEAN Chair, Thai Prime Minister Abhisit Vejjajiva, issued a joint ASEAN statement calling for Suu Kyi’s release. It called upon Burma to abide by the terms of the new ASEAN Charter that obliges members to

protect and respect human rights. This was the first time that the ASEAN Chair has directed criticism at Burma's leadership. Secretary Clinton congratulated the Thai government for its leadership on the issue, though the statement was actually drafted by Indonesia.

Burmese authorities have responded angrily to the ASEAN statement and U.S. condemnation from both the executive branch and Congress. Nyan Wan, the junta's foreign minister, labeled the Yettaw visit to Aung San Suu Kyi's home a Burmese opposition plot "to intensify pressure on Myanmar [Burma] by internal and external anti-government elements." Burmese media accused Thailand as ASEAN's spokesman of "interfering in the internal affairs of Myanmar" – an action "not in conformity with ASEAN practice...."

At the annual Asia-Pacific Defense Ministers Shangri-La Dialogue in Singapore on June 1, Secretary of Defense Robert Gates singled out Burma as an anomaly in a region pushing toward democratic reform, "an isolated desolate exception...." Nevertheless, at the time of this article's writing, Suu Kyi's trial continues, and it appears improbable that the junta will bow to international pressure. Its military leaders believe only the armed forces can protect the country from internal and external threats. Moreover, Burma's critical geographic position and rich natural resources mean that it is unlikely to be abandoned by its most important backers, China and India.

Thai political turmoil disrupts ASEAN meeting

Thai politics in 2009 have witnessed pitched battles between an army-backed, monarchy-supported, urban elite called the People's Alliance for Democracy (PAD) government currently led by Prime Minister Abhisit vs. red-shirted opponents coming primarily from the urban and rural poor who defend exiled billionaire populist former Prime Minister Thaksin Shinawatra. Violent confrontations in Bangkok spread to Pattaya in April, forcing an embarrassing last-minute cancellation of leaders' meetings by ASEAN Plus 3 and the East Asia Summit. The U.S. termed these developments "unacceptable" and said Thailand's international reputation as a viable democracy has been tarnished. On April 12, the *New York Times* assessed the Thai situation saying: "The subtext of the country's political crisis is an ailing king and disagreements about the future of the monarchy, friction between opposition politicians and a powerful influential military and, not least, an ailing economy." The last has been particularly harmed by the turmoil as tourism precipitously declined.

The Thaksin-backed opposition has pressed its case to U.S. diplomats, insisting that the will of the electorate has been repeatedly thwarted. Three prime ministers since 2006 have been forced from office – the first in a military coup and the last two removed in highly politicized trials. While Washington has not chosen sides, the U.S. seems more comfortable dealing with the current government that represents urban, educated, managerial, and professional classes as well as the army and monarchy. Nevertheless, the ongoing political unrest suggests that the urban poor and rural populations can no longer be denied a place at the Thai political table.

U.S. military continues to be featured in Philippine politics

U.S. military activities in the Philippines were prominently featured this past quarter, both positively and negatively. On the plus side, this year's *Balikatan* joint exercise continues the series' civic action, emphasizing infrastructure along with medical and dental services in poor rural areas. Moreover, this year's exercise specifically focused on joint training in response to natural disasters in several locations, including Bicol in southern Luzon, and Zamboanga. When reports appeared in some local new outlets – subsequently proven false – that U.S. soldiers were consorting with prostitutes, Ambassador Kristie Kenney vigorously defended the U.S. forces' professionalism and the importance of the annual joint exercises, which this year involved 6,000 U.S. troops. Those who oppose the U.S. military presence claim that it violates Philippine sovereignty and the constitution's prohibitions on the stationing of foreign forces in the country. Opponents also scoff at U.S. civic action as “disguised humanitarian measures that are really aimed to gather intelligence on progressive groups in the country.”

In mid-May, the Philippines announced that President Obama had allocated \$667 million in foreign assistance to the Philippines in the budget he submitted to Congress. Most of that aid will be directed to Mindanao where the Philippine government faces two insurgencies: one led by elements of the Moro Islamic Liberation Front and the other by the New People's Army of the Philippine Communist Party. The military component of the aid consists of training support through the International Military and Education and Training (IMET) program as well as Foreign Military Financing (FMF) program for armed forces modernization. The U.S. is also involved in assisting the Philippine Navy through the provision of surveillance, communications, and interdiction capabilities for Coast Watch South – an effort to interdict contraband and terrorist movements from Borneo into the southern Philippines.

In mid-April, the U.S. offered to assist Philippine military efforts to end a hostage crisis in the south involving two European Red Cross volunteers who had been kidnapped by the Al Qaeda-affiliated Abu Sayyaf. The assistance would consist of technical intelligence but no U.S. military forces. Abu Sayyaf heavily relies on kidnapping to raise funds. On a June 1 visit, Defense Secretary Gates pledged more assistance to help Philippine forces cope with terrorism and promised to enhance U.S. support for training in Sulu province, a stronghold of Abu Sayyaf.

A State Department report on global terrorism in late April listed Sulu as a safe haven for Abu Sayyaf. While the report noted that Philippine forces using U.S. reconnaissance and surveillance have significantly reduced “the remaining numbers” of Islamist terrorists, discontent and distrust of the central government pervade the southern Muslim population. On May 5, a Philippine military spokesman disputed the U.S. assessment, saying government forces have captured several foreign extremists and has many others on the run, thus rendering them unable to launch new terrorist attacks.

Nevertheless, on May 24, the State Department announced new rewards for the capture of three Abu Sayyaf leaders – \$1 million each for Radullan Sokiran and Abdul Basit Usman while a \$550,000 bounty was put up for the arrest of Kahi Mundos. The three are considered a “threat to U.S. and Filipino citizens” and have long been involved in kidnapping, murder, and bombings. While previous rewards for the capture of Islamist radicals have borne fruit, there are complaints

that the Filipinos who provided the crucial information received only a small fraction of the rewards promised, while high-ranking military officers pocketed most of the money.

Finally, the Visiting Forces Agreement (VFA) was in the news again. In late April, the Philippine Court of Appeals overturned a lower court's sentence of a U.S. marine who had been convicted of rape and sentenced to life in prison. Pending appeal, the marine had been housed in the U.S. embassy compound to the dismay of many Filipinos, who saw this arrangement as another example of the preferential treatment accorded to U.S. military personnel through the VFA. In an odd twist, the marine was freed by the Court of Appeals when his accuser recanted her testimony upon immigrating to the United States. He was immediately flown out of the country. In response to the subsequent public outcry, the Philippine President's Office stated it would engage in new talks with the U.S. about the custody provisions under the VFA. In reply, Ambassador Kenney essentially stonewalled, saying on April 28 that the VFA "works well" and that its stipulations had been strictly followed in the rape case. Regardless, the Philippine Senate has begun a new review of the visiting forces arrangement.

Malaysia and Singapore

At a mid-May meeting with Secretary Clinton in Putrajaya, Malaysian Foreign Minister Datuk Anifah Aman offered to share his country's newly acquired antipiracy expertise coming from Malaysian naval deployments in the Gulf of Aden. Clinton described Malaysia's efforts in the Gulf since last fall as "very effective," going on to cite its long experience in antipiracy activities in Southeast Asia. At the same time, USPACOM Commander Adm. Timothy Keating praised the joint efforts of Malaysia, Singapore, Indonesia, Thailand, and the Philippines for bringing Southeast Asian piracy to a virtual end – from 50 attacks per year a few years ago down to five in 2008. Clinton also urged Malaysia "to broaden and deepen our strategic cooperation" to include reaching out to the Islamic world through Kuala Lumpur's membership in the Organization of the Islamic Conference.

Singapore's Foreign Minister George Yeo, in a late April visit to Washington, lamented the postponement of ASEAN meetings in Thailand "in a manner which caused us in ASEAN great humiliation." He expressed concern that the ASEAN project not be "derailed," noting its centrality "to the construction of a larger architecture of peace in Asia." Yeo also underlined the continued importance of U.S. leadership in global affairs and its participation in Southeast Asia. He emphasized that the region looked forward to Secretary Clinton's presence at the ASEAN Regional Forum and President Obama's at the November APEC summit in Singapore.

Human rights in Southeast Asia

Human rights concerns and political freedom remain high on the U.S. agenda in relations with Southeast Asia. Clint Williamson, the U.S. ambassador-at-large for war crimes issues, on May 22, while praising Cambodia's lengthy trial of Khmer Rouge war crimes also insisted that the Cambodian government must tackle corruption in the UN-backed court. Political interference with the tribunal and claims that members of the Cambodian staff were required to pay kickbacks has led the UN to withhold some funds from the tribunal. In early June, the U.S. embassy in Phnom Penh claimed the country was losing up to \$500 million per year through

corruption. Cambodia's response was to urge diplomats to "refrain from interfering." In 2008, Transparency International designated Cambodia one of the most corrupt countries in the world – 14th among 180 nations studied.

In late April, the Obama administration published its first annual U.S. watch list on human trafficking, identifying countries that have not done enough to prevent the practice. In Southeast Asia, Burma, Vietnam, Laos, Cambodia, the Philippines, Indonesia, Brunei, Thailand, and Malaysia were all cited. (If a country appears on the watch list for two consecutive years, it may be subject to U.S. sanctions.) While most of the Southeast Asian states listed were described as attempting to stop the sale of people for sex, forced labor, and extortion – though often with little success – Malaysia and Burma were singled out as among the worst offenders. Referred to as Tier 3 nations, they were characterized as having no standards and no efforts to establish any.

Malaysia was accused of handing thousands of Burmese refugees to Thai traffickers for work in brothels, fishing boats, and restaurants on the Thai side of the Malaysian border. Although Malaysia claimed the Tier 3 designation was unfair and did not take into account the country's 2007 anti-trafficking law, Prime Minister Najib admitted his country had a problem and promised to take "appropriate action....We do not want Malaysia to be used as a point for human trafficking." Cambodia and Brunei were put back on the watch list – the former for not punishing traffickers or protecting victims who are "trafficked to Thailand and Malaysia...as domestic workers and forced prostitution." Brunei is listed as a destination country for men and women from Indonesia, Malaysia, the Philippines, Pakistan, India, Bangladesh, China, and Thailand used for low-skill labor. Working long hours with little time off, those workers were described in the U.S. report as involved in "involuntary servitude."

In a separate human rights matter, on June 16, the State Department said it was "deeply concerned" by the arrest of activist lawyer Le Cong Dinh in Vietnam and called for his release. Dinh is one of Vietnam's most respected attorneys and was arrested for his defense of pro-democracy advocates and his use of the internet to disseminate his views. Reporters without Borders in Paris also speculated that Dinh's arrest could be linked to a complaint filed by several Vietnamese lawyers against the government over its granting of a bauxite mine concession to a Chinese company. State Department spokesman Ian Kelly said: "Vietnam's arrest of Mr. Dinh contradicts the government's own commitment to internationally accepted standards of human rights and to the rule of law."

Multilateral security cooperation

Indicative of Washington's praise for Southeast Asian maritime security collaboration was Adm. Keating's May 15 statement about the partnership among Malaysia, Singapore, Indonesia, Thailand, and the Philippines that has led to increased patrols, enhanced maritime domain awareness, and law enforcement. Keating enthused that these states "are sharing a common operational picture" and "passing information back and forth." Under the National Defense Authorization Act, the U.S. has funded capacity building in the region through the provision of coastal radars, radio transmission devices, and training opportunities. Keating also stressed the advantage of partnership: "We in the United States don't have to be everywhere, doing everything. By increased cooperation and collaboration, we can rely on and depend on our

friends, allies, [and] partners throughout the region.” Secretary Gates at the Shangri-La Security Dialogue on May 30 echoed these sentiments, stating that U.S. forces in Asia place “ever greater emphasis on building the capacity of partners to defend themselves.” At the same time, the U.S. will rebalance the mix of *hard* and *soft* elements of national power, “where military, diplomatic, economic, cultural, and humanitarian elements are integrated seamlessly.”

Both Secretary Gates and Secretary Clinton emphasize that the U.S. will maintain a robust military presence in Asia that will be strengthened and deepened through partnerships. In an implicit reference to the concern expressed in the Australian Defense White Paper published in May about the prospect of America’s declining predominance, Clinton stated in a May 21 briefing for foreign journalists: “We want Australia as well as other nations to know the United States is not ceding the Pacific to anyone.”

Looking ahead

In the coming months, the U.S. will have two opportunities to demonstrate its commitment to Southeast Asia’s future – the ARF meeting in Thailand and the APEC gathering in Singapore. Secretary Clinton has promised to attend the former, and President Obama is expected at the latter. These two organizations comprise two components of Asia’s future orientations, the ARF for security and APEC for economic relations, particularly trade. Because a number of economic analysts see Asia recovering from the global recession more rapidly than the G8 countries, the U.S. should assure its Asian partners that Washington will continue to support the World Trade Organization (WTO) free trade regime, thus linking the U.S. to Asia’s economic recovery. In recent years, with U.S. prodding, the ARF has focused on counter-terrorism with some success. However, other security concerns should also be addressed, including public health measures to control pandemics such as swine flu and better cooperation in suppressing human trafficking. The U.S. can provide financial and technical assistance for all of these needs. These actions will underscore U.S. commitment to remain an active participant in Asian affairs.

Chronology of U.S.-Southeast Asian Relations April-June 2009

April 1, 2009: Twelve members of the U.S. Congress urge internet giants Google, Microsoft, and Yahoo to resist Vietnam’s efforts to restrict online political speech.

April 1, 2009: U.S. Deputy Secretary of State Jim Steinberg says the U.S. is open to a new framework to discuss relations with Burma.

April 2, 2009: U.S. charge d’affaires in Burma Larry Dinyer says Washington has so far provided a total of \$74 million in humanitarian assistance to Cyclone *Nargis* survivors.

April 7, 2009: Visiting Vietnam, Sen. John McCain calls for closer economic relations and also greater political freedom.

April 10-12, 2009: The annual ASEAN summit convenes in Pattaya, Thailand, including meetings with the association's major dialogue partners. On April 12, the meeting is disrupted by pro-Thaksin opposition demonstrators and foreign leaders flee by helicopters and ships.

April 11, 2009: Secretary of State Hillary Clinton in a Cambodian New Year's message cites progress in Khmer-U.S. relations over the past year including U.S. Navy humanitarian ship visits, economic assistance, and the presence of U.S. Peace Corps volunteers in 11 provinces.

April 13, 2009: A group of 10 U.S. women senators urge UN Secretary General Ban Ki-moon to put pressure on Burma's ruling junta to scrap election plans and release Aung San Suu Kyi from house arrest.

April 14, 2009: State Department spokesman Robert Wood characterizes the anti-government violence in Thailand that led to the cancellation of an ASEAN plus 3 and the East Asia Summit as "unacceptable" and urges political opponents to return to peaceful demonstrations.

April 16, 2009: The U.S. offers to assist the Philippines with technical support, though not direct combat assistance, in freeing two Red Cross hostages being held by the Abu Sayyaf in the southern Philippines.

April 16-29, 2009: The annual Philippine-U.S. *Balikatan* joint exercise takes place in the Bicol region. For the first time in 16 years, U.S. aircraft for the exercise operate from Philippine bases.

April 17, 2009: U.S. Justice Department documents on harsh interrogation techniques practiced against top Al Qaeda detainees in 2002 are released indicating that these actions occurred in Thailand, a revelation previously denied by the Thai government.

April 25, 2009: Malaysian Prime Minister Najib promises to investigate after a U.S. Senate Foreign Relations Committee report claims that thousands of Burmese refugees were handed over to human traffickers in Thailand and forced to work in brothels, fishing boats, and restaurants to earn enough money to buy their freedom.

April 27-28, 2009: Singapore Foreign Minister George Yeo meets Secretary Clinton who refers to the city-state as a critical part of the global economy and praises its efforts to combat piracy in the Gulf of Aden.

April 28, 2009: U.S. Ambassador to the Philippines Kristie Kenney says the Visiting Forces Agreement works well and needs no modification. The Philippine Senate is considering a review of the arrangement.

April 29, 2009: The State Department pays tribute to ASEAN for its work in helping bring relief to the victims of Cyclone *Nargis* in Burma as well as ASEAN's continued work with humanitarian aid groups.

April 30, 2009: The State Department states that the U.S. is not considering lifting sanctions against Burma as Washington reviews its Burma policy.

May 5, 2009: Indonesian Air Force Chief of Staff General Subandrio states that future suppliers for the Indonesian armed forces must guarantee that there will be no embargo of their sales. This is a reaction to U.S. embargos imposed by Washington during the latter Suharto years.

May 6, 2009: Burma's military junta arrests John W. Yettaw, a U.S. citizen, for swimming across a lake to the residence of detained opposition leader, Aung San Suu Kyi.

May 12, 2009: State Department spokesman Ian Kelly urges Burma's junta to provide medical care for Aung San Suu Kyi who is ill and whose physician has been arrested.

May 13, 2009: U.S. embassy officials are given access to John W. Yettaw, who is being detained in Insein Prison along with Aung San Suu Kyi.

May 14, 2009: Secretary Clinton meets visiting Malaysian Foreign Minister Datuk Anifah Aman to discuss maritime piracy among other issues, including the stalled Malaysian-U.S. trade agreement.

May 15, 2009: President Obama extends sanctions on Burma for another year saying the junta's actions "are hostile to U.S. interests" and pose an "extraordinary threat" to U.S. national security.

May 19-22, 2009: On a four-day visit to Phnom Penh, U.S. Ambassador-at-large for War Crimes Clint Williamson says the Cambodian Khmer Rouge tribunal is "making real progress" but needs to implement anti-graft mechanisms.

May 20, 2009: Secretary Clinton excoriates Burma's leaders for trying opposition leader Aung San Suu Kyi, saying the trial is "outrageous" and that her detention is based solely on the desire to stifle her "political popularity."

May 29-31 2009: The 8th Shangri-La Defense Dialogue among Asia-Pacific defense ministers meets in Singapore.

May 31-June 1, 2009: Defense Secretary Robert Gates visits the Philippines and promises additional aid for building Philippine military counterinsurgency capacity.

June 2, 2009: The Cambodian government complains that Ambassador Williamson's criticism of corruption in Cambodia is "incomplete, irresponsible, and unfounded."

June 8-19, 2009: The U.S. and Singapore navies in their 15th annual *CARAT* exercise deploy submarines for the first time alongside surface combatants.

June 9, 2009: The second security dialogue between the U.S. and Vietnam is held in Washington and discusses peacekeeping training as well as disaster relief, counterdrug, and counterterrorism cooperation.

June 16, 2009: The annual U.S. watch list of countries suspected of not doing enough to combat human trafficking is released and includes most Southeast Asian countries.

June 17, 2009: A two-week peacekeeping training exercise involving 20 Asia-Pacific countries and fully funded by the U.S. Pacific Command begins in Indonesia.

June 17, 2009: Thirty-one members of Congress petition Secretary Clinton to convince Thailand not to repatriate Hmong refugees to Laos and to allow outside access to a Hmong refugee camp along the border.



**China-Southeast Asia Relations:
Ferment over the South China Sea**

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The highlight of China's relations with Southeast Asia this quarter was continued maneuvering by China and Southeast Asian claimants over disputed territory and related economic claims in the South China Sea. Last quarter's widely publicized face-off between the U.S. surveyor ship *USNS Impeccable* and harassing Chinese vessels was followed by incidents and commentary this quarter that underlined China's view of an important U.S. role in challenging Chinese maritime claims in Southeast Asia. Chinese official statements and commentary and the actions by Chinese defense and security forces underlined a firm Chinese position in support of territorial and resource rights disputed by some Southeast neighbors and the U.S. Meanwhile, the pace of Chinese diplomacy picked up with economic support to Southeast Asian neighbors weathering the decline in trade and investment during the ongoing global economic recession along with visits and interaction with senior Southeast Asian leaders.

South China Sea issues

Building on expressions of concern last quarter over perceived foreign intrusions into Chinese claimed territory and resources in the South China Sea, Chinese officials and commentary were forthright this quarter in warning against further intrusions. The visit of Southeast Asian military delegates to China to engage in workshops focused on boosting cooperation in peacekeeping and humanitarian relief featured commentary by a senior Chinese military officer to the visiting delegates on March 30 warning that the economic crisis and other pressures have increased the chance that territorial disputes could lead to confrontation. He urged stepped-up dialogue among the claimants to keep the disputes from spinning out of control.

Chinese official media commentary in May detailed a long list of complaints about foreign intrusions that month. They included a Malaysian official landing on two reefs in the China-claimed Spratly Islands and claiming them as Malaysia's, the continued activity of the U.S. "spy vessel" *USNS Impeccable* that "intruded into China's exclusive economic zone without permission," the signing by the Philippine president of a bill laying claim to parts of the Chinese-claimed Spratly Islands, and Vietnam's submission of an individual proposal and a joint proposal with Malaysia to the UN Convention on the Law of the Sea (UNCLOS) that challenged Chinese territorial claims and rights.

While continuing to emphasize the need to manage and resolve the disputes through dialogue, official Chinese commentary also underlined other steps taken by China in response to the challenges posed by foreign actions. The provincial authorities of Guangdong Province and the

Guangxi Zhuang Autonomous Region in March began sending ships to disputed South China Sea regions to curb illegal fishing. On April 15, the Maritime Safety Administration of China announced that a fleet made up of vessels from Guangdong, Shanghai, and Hainan Provinces would conduct joint patrols in the South China Sea with China's largest maritime vessel *Haixun 31*. Chinese maritime experts were cited in official media calling for "intensive, routine patrol missions" in order to protect Chinese interests in the South China Sea. The needed additional ships could be retired navy vessels or new ships that would form the core fleet of a Chinese "coast guard" similar to that of the United States, according to the experts.

Meanwhile, China's mission at the United Nations, China's Foreign Ministry spokesperson, and other officials publicly opposed proposals by Vietnam and Malaysia to the UNCLOS. On May 5, the Chinese Foreign Ministry announced the establishment of the Department of Boundary and Ocean Affairs, strengthening the ability of the Chinese government to manage complicated land and maritime border disputes through diplomatic channels.

U.S. role

Apart from Chinese media complaining about the continued activity of the U.S. surveyor ship *Impeccable* in the South China Sea, Chinese fishing vessels harassed a U.S. surveyor ship *USNS Victorious* on May 1 in the Yellow Sea. The Chinese vessels stopped the harassment after a Chinese military ship responded to the U.S. ship's calls for assistance. The Chinese Foreign Ministry spokesperson said in a statement that the U.S. ship had contravened international and Chinese laws by entering China's Exclusive Economic Zone in the Yellow Sea without prior permission from China.

China Daily reported on May 15 that the U.S. Chief of Naval Operations Adm. Gary Roughead held talks on the U.S.-China naval incidents and disputed access to territorial seas with his Chinese counterpart during celebrations marking the 60th anniversary of the PLA Navy in Qingdao, a port city in China's Shandong Province. Showing that Chinese officials remain suspicious of the U.S. role in China's disputes with Southeast Asian countries, the article featured the observations of an American affairs specialist in a Chinese government-sponsored foreign policy research organization. He advised that "The U.S. has always wanted to maintain its influence in Asia through military means. It has conducted military activities around the Taiwan Straits and the East China Sea, and now wants to expand to the South China Sea." According to *China Daily*, the specialist added that "the U.S. is keen to see Southeast Asian countries in territorial disputes with China so it can retain its influence in those countries and contain China's rise."

A new U.S.-China naval incident was reported in official Chinese media on June 15. The incident involved the collision of a Chinese submarine with an underwater sonar array towed by the destroyer *USS John McCain* during a U.S.-sponsored military exercise with the navies of six Southeast Asian nations off the coast of the Philippines. The incident was reported by Western media to have occurred on June 11. The Chinese media cited Chinese officials agreeing with the U.S. in treating the incident as an accident, though *China Daily* on June 15 cited a major general from China's Academy of Military Science as expressing the view that "the existence of U.S.

ships in the South China Sea is cause for potential incidents” and that the “best way to avoid such collisions is for the Pentagon to stop its unfriendly moves toward China in this region.”

Taiwan’s role

In contrast to their sometimes sharply critical commentary on U.S. and Southeast Asian policies and practices in disputed areas of the South China Sea, Chinese officials and commentary have not focused on moves by Taiwan’s government to protect its interests in the South China Sea. On June 7, Taiwan media reported President Ma Ying-jeou vowed to gradually set up a maritime affairs ministry in order to formulate and enforce Taiwan’s maritime policies. Taiwan’s Coast Guard on June 14 said it was increasing patrols from its base in the Spratly Islands on account of increased foreign fishing in regions claimed by Taiwan. Taiwan’s Foreign Ministry reaffirmed its claims to the islands in the South China Sea which mirror the claims of China.

Economic relations

Official Chinese media showed that Chinese trade with Southeast Asia continued to suffer as a result of the global economic recession. *China Daily* on June 12 reviewed trade data for May to show that Chinese trade with ASEAN had fallen by 25.9 percent from the level in May 2008. This figure was consistent with the overall decline in China’s trade, though somewhat more than the declines registered in Chinese trade with its other major trading partners, the European Union, the U.S., and Japan. China continued to run an overall surplus in foreign trade.

China Daily on June 9 highlighted China’s positive record in continuing to attract foreign direct investment (FDI) despite the sharp drop in FDI into Southeast Asian and other developing countries. It noted that FDI into China amounted to \$111.17 billion in 2008, an increase of 27.65 percent over the previous year, despite the global drop of FDI at the rate of 21 percent for the year. Looking at declines in FDI into China in the first four months of 2009, the report noted that they were much less than projected global declines in FDI. The *China Daily* went on to highlight a UN report that said “China will still be the best choice for overseas investment in the long run.”

Based on China’s comparatively advantageous economic position and many years of Chinese economic interaction with ASEAN countries, Foreign Minister Yang Jiechi announced a series of Chinese economic initiatives toward ASEAN in April. The package, which apparently was to have been unveiled at the aborted ASEAN meetings in Thailand, was announced on April 12 during a meeting between Yang and ASEAN ambassadors in Beijing. According to official Chinese media, the foreign minister said that China planned to establish a China-ASEAN investment cooperation fund with a value totaling \$10 billion. China also planned over the next three to five years to offer credits valued at \$15 billion to ASEAN countries, which would include \$1.7 billion in loans with preferential terms. Other planned Chinese assistance included \$39.7 million of special aid to Cambodia, Laos, and Myanmar; \$5 million for the China-ASEAN Cooperation Fund; and \$900,000 for an ASEAN Plus 3 cooperation fund. Also promised were 300,000 tons of rice for the emergency East Asia rice reserve and 2,000 scholarships for students from developing countries over the next five years.

Yang also called on the ASEAN states to work with China to sign an ASEAN-China investment agreement that was to have been signed on the sidelines of the aborted meetings in Thailand. He duly reaffirmed China's support for ASEAN playing a leading role in promoting East Asian regional cooperation.

Chiang Mai Initiative (CMI)

A flurry of positive Chinese commentary greeted the agreement on May 3 of the ASEAN Plus 3 finance ministers on the main components of a proposed \$120 billion regional reserve, which Chinese official media called "a de-facto Asian monetary fund." Some other expert commentary was more subdued and conditional in assessing how well the various swap arrangements under CMI will work in shoring up regional currencies under stress.

The Chinese media accounts duly noted that China and Japan had equal commitments of \$38.4 billion to the fund. *Asahi Shimbun* reported on May 5 that the agreement on equal contributions represented a compromise proposed by ASEAN nations in order to end a behind-the-scene "tug of war" between China and Japan as to which country would offer more funding for the fund. Chinese media noted that all parties in the fund pledged to implement it by the end of 2009. The goals of the fund are to "address short-term liquidity difficulties in the region and to supplement existing international financial arrangements." The Chinese commentary advised that the fund will particularly help smaller Asian economies and will lay a foundation for steps toward greater Asian financial cooperation, including a future unified Asian currency.

Bilateral relations

Malaysia. President Hu Jintao and Premier Wen Jiabao hosted Malaysian Prime Minister Najib Tun Razak who visited China in early June. The visit was Najib's first to a non-ASEAN state since he assumed office in April and marked the anniversary of the establishment of Malaysia-China diplomatic relations by Najib's father 35 years earlier. Chinese officials and media commentary duly noted disputes regarding Malaysian claims in the South China Sea and admonished all parties to handle these differences "properly" and "protect peace and stability in the South China Sea." Chinese media noted approvingly Najib's avowal that Malaysia "never viewed China as a threat but as an important partner." The agreements reached during the visit built on the active Chinese relations with Malaysia which saw trade in 2008 reach a value of \$39 billion and placed Malaysia among the top 20 nations investing in China.

Myanmar/Burma. The highlight this quarter was the visit of Myanmar State Peace and Development Council Vice-Chairman Maung Aye to Beijing in June. The delegation of Myanmar's reported No. 2 leader included representatives of Myanmar economic, commercial, and energy ministries as well as defense and foreign affairs leaders. Meeting the delegation on June 16, Premier Wen Jiabao promised to expand friendship and cooperation. He went on to advise that "China hopes that Myanmar will steadily advance its domestic democratic process, achieve national reconciliation, safeguard state stability, and promote economic growth."

Foreign media speculated that the senior leader's visit was related to several issues including the trial of opposition leader Aung San Suu Kyi and the likely critical foreign reaction to further

punishing the opposition leader, the rise of tensions among ethnic groups along Myanmar's border with China, and closer Myanmar relations with North Korea. The Beijing visit also coincided with reports that the construction of planned oil and gas pipelines linking Myanmar and China and bypassing the Strait of Malacca and the South China Sea will begin in September.

Vietnam. Hanoi has not been as accommodating of China as was the visiting Malaysian prime minister or some other disputants in the South China Sea. Ostensibly cordial high-level Sino-Vietnamese contacts continue; the Chinese defense minister met a visiting Vietnamese vice defense minister in Beijing on April 8 amid pledges of improving relations. Nevertheless, the war of words and sometimes public protests in Sino-Vietnamese relations continue as well.

Vietnamese media reported in April the appointment of an administrative chief to the Parcel Islands, which are claimed by Vietnam but occupied militarily by China since 1974. Vietnam's submission to UNCLOS on the continental shelf was rejected by the Chinese Foreign Ministry on May 10. China also rejected a joint Vietnam-Malaysia submission to UNCLOS while Vietnam disputed China's justification for the rejections. In early June, Vietnam called on China to stop preventing Vietnamese fishermen from using waters claimed by Vietnam and China in the South China Sea. China imposed a fishing ban on May 16 in order to prevent overfishing and it sent eight patrol ships to monitor the large affected area. The Chinese Foreign Ministry rejected Vietnam's request to overturn the ban and affirmed strongly China's claim to a large economic zone surrounding the disputed Parcel and Spratly Islands in the South China Sea.

Writing in the *Straits Times* on May 26, Ian Storey noted salient economic problems in Sino-Vietnamese relations. Vietnam has been running a large trade deficit with China. The article also highlighted widespread criticism in Vietnam of a controversial Chinese mining project that notably prompted public rebuke from 97 year-old Gen. Vo Nguyen Giap. It went on to review the build-up of Vietnamese air and naval forces with the assistance of Russia, noting a report that Vietnam has purchased Russian *Kilo*-class submarines to complement advanced Russian jet fighters and naval surface combatants already supplied by Russia.

East Timor. China was the first country to establish diplomatic relations with the Democratic Republic of Timor-Leste, commonly known as East Timor, in 2002. Reviews of China's relations with East Timor were published in the latter part of March in the Jamestown Foundation's *China Brief* and in *Irasec's Discussion Papers* No. 4 May 2009. The former review showed that China's aid, trade, and other involvement in the country was modest in comparison with that of Australia, Japan, Portugal, and Indonesia. It focused on the recent public backlash to Chinese ways of doing business in a non-transparent way regarding the sale of two patrol craft to the East Timor military and the sale of two 20-year-old, highly polluting power plants to the country. The longer discussion paper was written by Loro Horta, the Chinese-educated son of East Timor's current President Ramos Horta. It supported the view that China's role in the country was more modest than that of other powers, but it judged that on the whole China had been successful in advancing influence with a relatively modest commitment of resources.

Thailand. Chinese Premier Wen Jiabao met Thai Prime Minister Abhisit Vejjajiva in Beijing on June 24. The Thai leader was on a four-day visit to China, his first visit to the country since he assumed office in December 2008. The two leaders sought to promote closer relations,

particularly trade, tourism, and investment, which have declined markedly during the ongoing global economic recession.

Shangri-La Dialogue

Lt. Gen. Ma Xiaotian, deputy chief of the general staff of the PLA, represented the Chinese delegation at the 8th Asia Security Summit held in Singapore at the end of May. Participation in the summit included defense ministers and senior officials from 27 countries discussing emerging security challenges in the Asia-Pacific region.

Ma's remarks focused on promoting multilateral dialogue and security cooperation that is open, inclusive, and conducted on the basis of equal consultation. He emphasized that China, as a major regional power, is committed to maintaining peace and stability in the Asia-Pacific region. Citing the increasing number of military exchanges, border settlements, and cooperation on nontraditional security challenges between China and other countries in the region, Ma indicated that China is willing to make its "due contribution in the process" of enhancing regional peace and work toward pragmatic security collaboration. Ma also announced that China will host the Non-Traditional Cooperation Forum on Disaster Relief of the Armed Forces of ASEAN, China, Japan, and South Korea later in June and organize the China-Singapore Joint Security Exercise as well.

Australia's Defense White Paper

Official Chinese media responded in a low-keyed fashion to the 140-page defense report released on May 2. According to a *China Daily* dispatch on May 6, the Australian report called for a \$72 billion expansion of the Australian military over the next 20 years partly in response to the military build-ups of China and India. *China Daily* cited Chinese experts and Australian dissidents critical of the Australian government for joining leaders in the U.S. and Japan in warning against the threat from China. Speaking to Australian media, some Chinese experts were outspoken in warning against the dangerous "China threat theory." Other Chinese specialists worried that the result of the Australian prime minister, heretofore friendly toward China, "turning his face against China" in this report might prompt more in Japan, some in Southeast Asia, and even some in South Korea to shift against the rise of Chinese military power.

Outlook

Looking ahead, the next quarter will feature a series of high-level foreign and security policy-related meetings between Chinese and regional counterparts at the 42nd ASEAN Ministerial Meeting (AMM), Post-Ministerial Conferences (PMC), ASEAN Plus 3 Foreign Ministers Meeting, and the 16th ASEAN Regional Forum (ARF) in Phuket, Thailand in July. There will be strong expectations from the region for China to support a joint statement on North Korea. Whether China will continue its assertive position on the disputed territory and related economic claims in the South China Sea will warrant a fuller reporting in the next quarter.

Chronology of China-Southeast Asia Relations April-June 2009

April 2, 2009: Guo Boxiong, vice chairperson of the Central Military Commission, meets Teo Chee Han, Singaporean deputy prime minister and minister of defense, in Beijing. They agree to raise the level of military-related exchanges and visits, personnel and military training, and increased cooperation in defense consultation.

April 2, 2009: Lt. Gen. Ma Xiaotian, deputy chief of general staff of the People's Liberation Army (PLA), meets senior defense scholars and representatives from ASEAN member countries attending the China-ASEAN Dialogue 2009 to discuss deepening regional defense cooperation.

April 8, 2009: Chinese Defense Minister Liang Guanglie receives Nguyen Van Duoc, vice defense minister from Vietnam, to discuss bilateral military ties and future prospects for strengthening military exchanges.

April 8, 2009: Hu Zhengyue, assistant foreign minister, expresses concern over the demonstrations and protests in Thailand and expresses confidence that the Thai government will ensure safety for visiting leaders during the ASEAN Plus 3 meetings.

April 10, 2009: Gao Hucheng, China's vice commerce minister, announces that ASEAN is likely to replace Japan as China's third largest trading partner in the near future.

April 12, 2009: Chinese Foreign Minister Yang Jiechi announces a multi-billion dollar aid and credit extension package to ASEAN countries during a meeting with the 10 foreign envoys from ASEAN member countries posted in Beijing.

April 16, 2009: According to Chinese press statements, the Maritime Safety Bureau announces that it has sent at least six patrol vessels to the South China Sea in recent weeks and that such patrols are legal and within China's exclusive economic zone.

April 20, 2009: Chen Bingde, chief of the general staff of the PLA, meets Tin Aye, member of Myanmar's State Peace and Development Council. Both sides agree to forge close communication and cooperation to help maintain regional stability.

April 24, 2009: China and Singapore sign a memorandum of understanding on education cooperation. The MOU spells out new collaborative programs and educational exchanges between Chinese and Singaporean scholars and academics in the university sector.

April 27-30, 2009: Lt. Gen. Yang Zhiqi, assistant chief of general staff of the PLA, leaves Beijing for an official visit to Thailand, Laos, and Cambodia. The delegation includes senior officials from the Beijing Military Command and the Jinan Military Command.

April 28, 2009: The Chinese Foreign Ministry issues a statement of protest of Vietnam's recent decision to appoint an official to represent the disputed Paracel Island.

April 30, 2009: Jia Qinglin, chairperson of the National Committee of the Chinese People's Political Consultative Conference, meets Nguyen Thien Nhan, deputy prime minister of Vietnam. Jia assesses that bilateral relations have improved significantly since 2008 and hopes that the two countries will further cooperation in education, culture, science, and technology.

May 3, 2009: Finance ministers of ASEAN, China, Japan, and South Korea meet in Bali, Indonesia and reach an agreement on the substantive contents of the regional reserve pool that will be implemented before the end of 2009. The agreement provides agreements on individual country's contribution, borrowing accessibility, and a region-wide surveillance mechanism.

May 6, 2009: Chinese Vice Premier Hui Liangyu meets Somsavat Lengsavad, Laotian deputy prime minister, in Beijing. They discuss expanding trade, business, and economic activities.

May 11, 2009: Chinese Vice President Xi Jinping receives Ha Thi Khiet, member of the Secretariat and chief of the Commission for Mass Organization of the Communist Party of Vietnam Central Committee. They review the current relations and hope to strengthen their cooperative partnership next year, the 60th anniversary of China-Vietnam diplomatic ties.

May 13, 2009: China's State Oceanic Administration and the Indonesian Ministry of Marine Affairs and Fisheries establish a bilateral marine science cooperative program that allows for the two countries to conduct joint research focusing on the impact of climate change to oceans.

May 16, 2009: According to the *People's Daily Online*, Beijing has recently established the Department of Boundary and Ocean Affairs, a new department under the Foreign Ministry, to manage maritime and territorial disputes. It will manage land and sea boundary demarcation and administration, form policies, and conduct negotiations for joint development in disputed areas.

May 18, 2009: Chinese Defense Minister Liang Guanglie meets Songkitti Chakkabat, supreme commander of the Thai military, in Beijing. They discuss consolidating bilateral relations and ways to promote military ties between the two armed forces.

May 26, 2009: Foreign Minister Yang Jiechi arrives in Hanoi to attend the 9th Foreign Ministers' Meeting of the Asia-Europe Meeting (ASEM).

May 31, 2009: Lt. Gen. Ma Xiaotian, deputy chief of the general staff of the PLA, attends and takes part in the 8th annual Shangri-La Dialogue.

June 1, 2009: Vice President Xi Jinping meets Keo Puth Rasmey, chair of the Cambodian Funcinpec Party, and says that China is ready to build party-to-party relations.

June 4, 2009: President Hu Jintao meets Malaysian Prime Minister Najib Tun Razak. They agree to strengthen bilateral relations and call for more cooperation on political, economic, cultural, and education issues.

June 10, 2009: Foreign Minister Yang Jiechi meets his Thai counterpart Kasit Piromya.

June 11, 2009: China hosts the first “ASEAN Plus 3 Non-Traditional Security Forum” in Shijiazhuang.

June 12, 2009: According to Indonesian news reports, Beijing and Jakarta reaffirm their commitment to intensify bilateral military cooperation, especially through transfer of technology.

June 18-26, 2009: China and Singapore hold *Cooperation 2009*, a joint anti-terrorism seminar and training exercise, in Guilin, Guangxi Zhuang Autonomous Region. The exercise includes simulations of terrorist attacks using radioactive contaminants, biological and chemical weapons.

June 19, 2009: China Petroleum and Natural Gas Group Company confirms the company recently signed the “Memorandum of Understanding on the Development, Operation, and Management of the Sino-Burmese Crude Oil Pipeline Project.”

June 24, 2009: Chinese Premier Wen Jiabao meets Thai Prime Minister Abhisit Vejjajiva in Beijing. They seek to promote closer relations between China and Thailand and call for closer trade and tourism ties.

June 24-26, 2009: China hosts the 15th China-ASEAN Senior Officials Consultation. The consultation will focus on China-ASEAN relations and regional security and economic issues.



China-Taiwan Relations:
Moving Relations toward a New Level

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Beijing and Taipei made significant progress in improving cross-Strait relations this quarter. In May, “Chinese Taipei” participated for the first time as an observer in the World Health Assembly. In April, the third round of ARATS-SEF talks produced three new agreements and an understanding to open Taiwan to investors from the mainland. These developments have been well received in Taiwan. The progress over the past year has produced increasing de facto dealings between government officials from the two sides. The recent precipitous decline in cross-Strait trade appears to be bottoming out, and Beijing has taken steps to help Taiwan economically. Although there is still no indication that Beijing has reduced the military forces targeted at Taiwan, Hu Jintao has called for preparations concerning a peace agreement and confidence building measures.

Taipei’s international space

In line with recent signals, a mutually acceptable arrangement was worked out for Taipei to participate for the first time in the annual World Health Assembly (WHA) meeting as an observer using the name “Chinese Taipei.” This was a major accomplishment. President Ma Ying-jeou announced this breakthrough, noting that the invitation had come from World Health Organization Director General Margaret Chan and was addressed to “Minister of Chinese Taipei’s Department of Health.” Beijing’s Taiwan Affairs Office (TAO) did not comment about the basis for the invitation but did say that Taiwan’s participation followed consultations held in accordance with the 2005 Hu-Lien Joint Statement and that Taiwan’s participation was in accord with Hu Jintao’s six points of Dec. 31, 2008. Health Minister Yen Ching-chuan led Taipei’s delegation, addressed the Assembly, and met other delegation heads. Delegates from the U.S., European Union, Japan, and other countries welcomed Taipei’s participation.

The invitation to Taiwan came, not on the basis of a vote or resolution in the WHA, but from consultations between Taipei and Beijing. Just what channel was used for these consultations remains unclear. In a meeting with Kuomintang (KMT) Chairman Wu Poh-hsiung a few days after the WHA meeting, General Secretary Hu Jintao cited this outcome as an example of Beijing’s sincerity and of the two sides’ ability to solve issues related to Taiwan’s international participation. The opposition Democratic Progressive Party (DPP) criticized the arrangement saying that the WHO invitation must have been issued on the basis of an authorization from Beijing and was only applicable for one year. Consequently, the DPP charged that these terms denigrated Taiwan’s sovereignty and should have been rejected by the government. Overall, opinion polls in Taipei showed substantial public support for Taiwan’s participation.

With the annual UN General Assembly just three months away, Taipei has indicated that its focus will remain on seeking participation in UN specialized agencies rather than on UN membership. Taipei is now particularly interested in the International Civil Aviation Organization (ICAO) and the International Maritime Organization (IMO).

Third ARATS-SEF meeting

The third meeting between Straits Exchange Foundation (SEF) Chairman Chiang Pin-kung and Association for Relations across the Taiwan Strait (ARATS) Chairman Chen Yunlin was held in Nanjing on April 25-27. The meeting reached three agreements. A Supplementary Air Transport Agreement provides for launching scheduled air service, establishing additional direct flight routes and expanding passenger and freight service. The Financial Cooperation Agreement creates a framework under which the two sides' will negotiate memorandums of understanding (MOUs) on regulatory cooperation concerning banking, securities, foreign exchange, and insurance. The MOUs are needed to reciprocally open markets to each other's firms and provide for regulation of their operations. Third, there was an Agreement on Fighting Crime and Mutual Legal Assistance. Limited anti-crime cooperation had been occurring on an ad hoc basis in the past, partially under a 1991 agreement between the two sides' Red Cross societies. The new agreement provides a basis for actively expanding law enforcement cooperation. A delegation of judicial and prosecutorial officials from the mainland visited Taiwan in June. The three agreements came into force on June 25. However, the two sides have yet to reach agreement on an initial package of scheduled flight service and Taipei has indicated concluding the financial MOUs will take additional time.

Finally, the third meeting reached a "consensus" to open Taiwan to investment from the mainland. Although this was the least formal agreement, both sides have proceeded expeditiously to implement it. Beijing almost immediately published regulations that People's Republic of China (PRC) firms must follow in investing in Taiwan. Taipei published in early June a list of sectors in which investment by the PRC firms will be permitted, including manufacturing, services, and infrastructure. On June 30, Taipei formally published the regulations governing mainland investments, the list of authorized investment sectors, and related regulations. The regulations were crafted in a way that significantly opens opportunities for mainland firms but gives Taipei tight control over the approval process. Although Taipei began accepting investment applications from mainland firms on July 1, it will probably be many months before significant mainland investments are realized. Yet, both sides recognize the potential role such investment will play economically and politically.

Whether and to what extent the proposed Economic Cooperation Framework Agreement (ECFA) would be discussed at the meeting created what controversy there was at the third meeting. In recent months, President Ma has become increasingly active in calling for conclusion of ECFA this year even though the proposal continues to generate considerable controversy and opposition within Taiwan. In June, the DPP launched a signature drive as the first step toward a possible referendum on ECFA and the Taiwan Solidarity Union (TSU) published a pamphlet attacking ECFA on economic and political grounds. The Ma administration has been conducting internal policy coordination and some public consultations on the content of its proposal for an ECFA but

has not yet released its conclusions. Given the controversy, ECFA was not on the agenda for the third meeting. Nevertheless, President Ma instructed Chiang Pin-kung to raise the issue, and the meeting did reach a tacit agreement to begin negotiation this year. Nevertheless, ECFA was not among the tentative agenda items announced for the fourth ARATS-SEF meeting planned for later this year even though Ma has continued to call for reaching agreement this year. When Chinese Communist Party (CCP) General Secretary Hu Jintao met KMT Chairman Wu in late May, Hu said that the crux of the matter was defining provisions that would benefit both sides and that the two sides should endeavor to start talks about an agreement in the second half of the year. In June, Mainland Affairs Council (MAC) Chairperson Lai Shin-yuan indicated that preparation delays meant it was unlikely that an ECFA could be concluded this year.

Relations moving toward a new level

The nine SEF-ARATS agreements concluded thus far are creating a framework within which officials of the two governments are now dealing with each other directly and openly. The earlier agreements brought about de facto direct dealings between food safety officials, postal officials, and air traffic controllers under the two sides' aviation authorities. The new Financial Cooperation Agreement has led to negotiation between financial regulatory officials on both sides, and the financial MOUs will establish procedures for future regulatory cooperation between these officials. The Agreement on Fighting Crime and Mutual Legal Assistance moves these dealings beyond technical and economic areas into the more sensitive realm of judicial and law enforcement cooperation. After 60 years of no direct dealings, the past year has seen the rapid evolution of de facto direct dealings between officials of the two sides, conducted under the rubric of quasi-official agreements between ARATS and SEF.

Some scholars on the mainland are now saying that relations between the two sides are being conducted at three levels: at the ARATS-SEF level, at the party level between the KMT and CCP, and pragmatically at the governmental level. The development of these ties has not sparked noticeable controversy in China, in part because President Hu has repeatedly emphasized his adherence to the one China principle. If these de facto direct contacts had developed while Chen Shui-bian was in office, the DPP would likely have claimed they represented Beijing's acknowledgement of the existence and even legitimacy of the government in Taipei. Out of office, the DPP has criticized President Ma for sacrificing Taiwan's sovereignty and criticized the PRC for continuing to adhere to the one China principle. The KMT too has done little to draw public attention to these direct de facto governmental dealings, recognizing that doing so could undermine its effort to build trust with Beijing.

Ferment in DPP

The DPP has continued to relentlessly attack President Ma, primarily over his mainland policies. On May 17, the party organized major anti-Ma demonstrations in Taipei. Party activists in the south chose to organize a separate demonstration in Kaohsiung rather than join the Taipei rally. The DPP is aware of the considerable public support for policies that have stabilized cross-Strait relations and benefited Taiwan, but the DPP does not have agreement on how to respond. One sign of ferment was the decision of Kaohsiung Mayor Chen Chu to visit Beijing and Shanghai to promote attendance at the 2009 World Games in Kaohsiung. Chen, who has long-standing pro-

independence credentials, went ahead with her trip despite criticism from DPP fundamentalists. Likewise, Tainan Mayor Hsu Tian-tsair plans to visit Xiamen in connection with a cross-Strait yachting competition, despite efforts to persuade him to drop the trip.

Although President Hu included quite hardline language on the DPP in his six points, the TAO has in fact been reaching out to DPP members in a pragmatic manner. Beijing allowed Chen Chu to visit even though she refused to obtain the usual Taiwan compatriot entry permit. The TAO announced in June that it had established a new Department for Political Party Affairs, which the TAO spokesman explained in the context of the expanding KMT-CCP relationship while reiterating that China would not deal with the DPP as a party until it had renounced the goal of independence. Nevertheless, the press in Taiwan has interpreted the new department as further evidence of Beijing reaching out to individuals in the DPP.

Culture and identity

Beijing and Taipei will be placing greater emphasis on cultural and educational ties. One of President Hu's six points calls for the promotion of Chinese culture as a common bond. One goal is to counteract the rise of a separate Taiwanese consciousness over the last two decades. In June, President Ma made several suggestions concerning the use of simplified and traditional Chinese characters, including a proposal that the two sides collaborate in producing a dictionary of simplified and traditional characters.

Taipei's Ministry of Education has developed plans to gradually open Taiwan universities to mainland students and to recognize some degrees and credits earned by Taiwan students at mainland universities. These proposals have been attacked by the DPP and TSU, and the relevant legislation has not yet been adopted by the Legislative Yuan (LY).

The KMT and CCP have announced that their fifth forum to be held July 11-12 in Changsha will be devoted to cultural and educational exchange issues. Taipei's Council on Cultural Affairs has said that officials from the two sides would meet for a "cultural summit" in Beijing in September to discuss exchanges, intellectual property protection, and promotion of Taiwan's art and culture.

Cross-Strait trade

The precipitous decline in cross-Strait trade experienced at the end of 2008 is slowing and, from the partial data now available, cross-Strait trade appears to be resuming growth from a much lower base. A rapid decline in Taiwan's exports to China began last September and accelerated until January. In January, exports were down 58.6 percent from a year earlier. According to statistics from Taipei, in April exports to China were down over 30 percent from a year earlier but up slightly from March 2009. In May, it appears that this trend continued with exports to China down less from a year earlier and up by a larger amount from April 2009. While exports to China were declining late last year faster than Taiwan's global exports, in April and May exports to China were declining less than exports to the rest of the world. Officials in Taipei attribute the month-on-month growth in exports to China primarily to China's allowing firms in Taiwan to participate in PRC government stimulus programs subsidizing "home appliances for rural areas" and similar programs for Chinese urban residents.

Beijing was concerned about the precipitous decline in cross-Strait trade and began developing responses. At the Boao Forum in April, Premier Wen Jiabao stressed the need to cooperate in responding to the global financial crisis and laid out five broad steps the mainland would take: invest in Taiwan, extend loans to Taiwan-invested enterprises (TIEs), encourage tourism to Taiwan, expand Taiwan's access to the mainland market, and sign an economic cooperation agreement. Beijing is implementing these plans. As noted, the understanding reached on mainland investment in Taiwan is being implemented, loans have been extended to TIEs and both Beijing and Taipei have taken steps to encourage mainland tourists. In April, the number of PRC tourists finally reached the level planned when the program was launched last July, though a seasonal dip has occurred in June. Beijing has also taken steps to include firms in Taiwan and TIEs in aspects of its stimulus plan designed to expand home appliance and other sales. Finally, Beijing has for the first time sent purchasing missions to Taiwan. A large delegation in May reportedly signed contracts for \$2.2 billion in purchases.

Security issues

Although there has been no change in the deployment of People's Liberation Army (PLA) forces targeting Taiwan, public discussion of confidence-building measures (CBMs) and a peace agreement continue. In his meeting with Wu Poh-hsiung, Hu Jintao acknowledged that these were difficult issues. While reiterating that the easy should be done before the difficult, Hu said "the two sides should be prepared and create conditions for solving these problems." This was a more positive statement than had been included in his six points. What steps Beijing will take remains to be seen. *Xinhua* reported that a golf tournament among retired mainland and Taiwan military officers had been held in Xiamen in May.

When U.S.-China defense talks resumed in June, Lt. Gen. Ma Xiaotian the PLA deputy chief of staff predictably urged the U.S. to halt arms sales to Taiwan. At the same time, TAO Minister Wang Yi was in Washington for consultations. Press reports indicate that arms sales were a central focus of Wang's presentations and that he left "disappointed" with Washington's response. A few weeks earlier, Taipei National Security Council Secretary General Su Chi had made a discrete visit to Washington for consultations, which undoubtedly included arms sales issues. Whether this flurry of activity portends anything positive remains to be seen.

In May, President Ma told the *Straits Times* that he did not rule out holding political talks (meaning talks on a peace agreement) with Beijing if he won a second term. In June, Ma reiterated that the withdrawal of PRC missiles was a precondition for such talks. With Ma's announcement that he intends to seek election as KMT chairman, the press is speculating about when Ma might visit the mainland with the focus on the period between the spring 2012 Taiwan election and General Secretary Hu's retirement at the 19th CCP Congress in the fall of 2012. This is seen as a narrow window of opportunity for signing a peace agreement while both are still in office.

Looking ahead

ECFA and arms sales are likely to be the most significant areas of activity in the months ahead. While both sides are on record as expecting ECFA negotiations to begin later this year, many things remain uncertain. Just when and in what detail Taipei will reveal to the public in Taiwan its specific goals for the ECFA agreement remains to be determined. What Beijing will seek in reciprocal benefits has not been clarified publicly. How successful the DPP will be in arousing opposition to an agreement and promoting its proposal for a referendum on ECFA are also uncertainties. It is certain that an agreement will not be ready for signature when the next SEF-ARATS meeting occurs in Taipei probably around October. How quickly an agreement can be concluded and signed remains open.

With the appointment of Kurt Campbell as assistant secretary for East Asia and the Pacific at the State Department, the Obama administration's East Asia team is now in place. Therefore, it is probable that Washington will move ahead with routine arms sales, including the sale of *Blackhawk* helicopters which was deferred by the Bush administration. How more sensitive sales will be handled is the challenge. Arms sales involve a complex set of interrelated positions and actions by Beijing, Taipei, and Washington. To vastly oversimplify, if Beijing were to make significant adjustments in its missile and air forces targeted at Taiwan, that could lead Taipei to adjust its arms procurements requests and those developments could influence Washington's decisions on what arms sales are needed for Taiwan's defense. A multitude of political barriers complicate working out any such scenario. Although their content has not been revealed, TAO Minister Wang Yi's consultations in Washington are an intriguing development. He has the intellect to understand the issue and his consultations may prove to be significant if they are linked in some way to Hu Jintao's instruction that the two sides prepare to deal with the difficult political and military aspects of cross-Strait relations.

Chronology of China-Taiwan Relations April-June 2009

April 1, 2009: Presidents Barack Obama and Hu Jintao meet at the G20 summit in London.

April 6, 2009: Association for Relations across the Taiwan Straits (ARATS) Deputy Chairman An Min leads 7-member delegation to Taiwan.

April 7, 2009: Mainland Affairs Council (MAC) releases "policy explanation" of Economic Cooperation Framework Agreement (ECFA).

April 8, 2009: Straits Exchange Foundation (SEF) Secretary General Kao Koong-lian visits Shanghai for consultations.

April 12, 2009: President Ma makes a public address commemorating the Taiwan Relations Act.

April 13, 2009: Taichung mayor Jason Hu visits Hong Kong for the Hong Kong-Taiwan Forum.

April 13, 2009: Incident near Pratas Reef between U.S. Navy vessel carrying Taiwan scientists and PLA Navy ship.

April 17, 2009: ARATS Deputy Zheng Lizhong arrives in Taipei for preparatory meeting.

April 18, 2009: Premier Wen meets former Control Yuan President Fred Chien at Boao Forum.

April 24, 2009: Deputy Minister of National Defense Minister Chang Liang-jen tells the Legislative Yuan that Taipei will seek consensus with US before requesting *F-16s*.

April 26, 2009: Third ARATS-SEF Meeting is held; three agreements are signed and consensus is reached on Mainland investment in Taiwan

April 28, 2009: President Ma says the 1952 Japan Peace Treaty implies transfer of sovereignty to the Republic of China.

April 28, 2009: Beijing publishes regulations for PRC firms investing in Taiwan.

April 29, 2009: President Ma announces that “Chinese Taipei” has been invited to the World Health Assembly (WHA) as an observer.

April 29, 2009: China Mobile signs an agreement to invest in Taiwan’s EasTone Telcom.

April 30, 2009: Taiwan Affairs Office (TAO) issues a statement on Chinese Taipei at the WHA.

April 30, 2009: Taipei issues regulations on PRC Qualified Domestic Institutional Investors (QDII) investment in the Taiwan stock market.

May 1, 2009: Japan Interchange Association Representative Saito says Taiwan’s status is still unresolved; Taipei Ministry of Foreign Affairs (MOFA) summons Saito to lodge a protest.

May 5, 2009: PRC MOFA expresses discontent over Saito’s remarks.

May 5, 2009: DPP Chairperson Tsai Yng-wen visits Washington DC for consultations.

May 8, 2009: President Ma’s holds an interview with Singapore’s *Straits Times*.

May 13, 2009: Beijing’s Supreme People’s Court publishes regulations on enforcing Taiwan civil judgments.

May 13, 2009: *Liberty Times* criticizes President Ma for sacrificing sovereignty.

May 14, 2009: President Ma signs two UN Human Rights Covenants.

May 15, 2009: Strait Forum is held in Fujian May 15-22.

May 17, 2009: DPP holds rallies in Taipei and Kaohsiung to protest Ma policies.

May 18, 2009: Minister of Health Yen Chiang-chuan attends WHA as observer.

May 20, 2009: President Ma says the future of Taiwan should be decided by the next generation.

May 21, 2009: Kaohsiung Mayor Chen Chu visits China and meets Beijing Mayor Gao.

May 22, 2009: Taiwan External Trade Development Council (TAITRA) announces its participation in Shanghai World Expo.

May 24, 2009: President Ma expresses hope ECFA will be signed by the end of the year.

May 26, 2009: Hu Jintao receives KMT Chair Wu Poh-hsiung in Beijing; *Xinhua* reports extensively on Hu's remarks

May 27, 2009: President Ma transits Los Angeles.

May 31, 2009: President Ma attends President Francisco Flores's inauguration in El Salvador.

May 31, 2009: *Xinhua* reports retired military officers from Taipei and Beijing had a golf tournament in Xiamen May 26-29.

June 1, 2009: Taipei press reports National Security Council Secretary General Su Chi visited Washington DC during the week of May 25.

June 1, 2009: A large mainland procurement mission arrives in Taiwan.

June 2, 2009: President Ma transits Seattle.

June 4, 2009: Taipei announces sectors to be open to mainland investment.

June 5, 2009: Hong Kong Secretary Lam Sui-lung visits Taiwan.

June 6, 2009: Taiwan Foreign Minister Francisco Ou says focus will remain on specialized agencies not on general UN membership.

June 8, 2009: Delegation of mainland legal officials visits Taiwan for consultations on judicial agreement.

June 9, 2009: The Legislative Yuan adopts amendments easing work, residency, and citizenship for mainland spouses.

June 10, 2009: Ma Ying-jeou announces his candidacy for Kuomintang (KMT) chairmanship.

June 10, 2009: TAO Deputy Zheng Lizhong visits Taipei; KMT and CCP announce the Fifth Forum to be held in Changsha July 11-12.

June 14, 2009: DPP launches signature campaign for referendum on ECFA.

June 18, 2009: MAC-sponsored ECFA symposium is held in Chiayi: Chairperson Lai says negotiation may start this year with agreement next year.

June 19, 2009: President Ma proposes Taiwan and mainland co-edit dictionary of traditional and simplified characters.

June 24, 2009: Deputy Chief of Staff Lt. Gen. Ma Xiaotian asks U.S. to stop arms sales.

June 24, 2009: TAO minister Wang Yi meets Deputy Secretary of State James Steinberg.

June 25, 2009: Three SEF-ARATS agreements signed in April formally come into effect.

June 25, 2009: Financial Supervisory Commission Chair Sean Chen acknowledges delays in financial MOUs.

June 27, 2009: Taichung Mayor Jason Hu opens central Taiwan trade fair in Beijing.

June 30, 2009: Taipei formally publishes regulations related to mainland investment.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



North Korea-South Korea Relations: So Long, Kaesong?

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The second quarter of 2009 saw North Korea make headlines around the world, as it likes to do. (On their leisurely train journey across Siberia toward Moscow in the summer of 2001, Kim Jong-il told his Russian host, Konstantin Pulikovskiy: “I am the object of criticism around the world. But I think that since I am being discussed, then I am on the right track.”) The quarter was neatly, perhaps deliberately, bookended by missile launches. On April 5 after a two month build-up, while the world watched the preparations via spy satellites, the DPRK finally fired its long-awaited *Taepodong-2* long-range missile. Ostensibly this was to put a satellite in orbit – although neither the International Telecommunication Union (ITU) nor anyone else has managed to observe any new object soaring across the heavens. Meanwhile, relations between the South and North continued to deteriorate as interaction became more caustic and the stakes higher. By the end of the quarter, the rest of the world watched again as the North launched more missiles.

A Fourth of July fusillade

Pyongyang marked the Fourth of July – surely no coincidence – with a volley of seven ballistic missiles, having fired four others two days earlier. The first four were small anti-ship weapons. The later seven comprised two mid-range *Nodongs*, which can hit all of South Korea and much of Japan, and five shorter-range *Scuds*, whose reach covers most of South Korea. Seoul’s Defense Ministry (MND) said that some flew up to 420 km, and that their accuracy – uncertain in the past – had “greatly improved.”

Being ballistic missiles, this Fourth of July salute was illegal under UN Security Council (UNSC) Resolution 1874, passed unanimously on June 12 in response to North Korea’s far graver provocation than any missile: its second nuclear test, carried out on May 25. April’s rocket launch had also prompted UNSC censure, as Pyongyang must have known it would. But at Russian and Chinese prompting, this rap was quite mild: a President’s Statement rather than a full-fledged resolution. Even so, it prompted paroxysms of feigned indignation. The DPRK declared it will “never” return to the nuclear Six-Party Talks, but rather would resume its nuclear activities. For once, Kim Jong-il was as good as his word, as we saw on May 25.

The situation on the peninsula has thus entered a new and worrying phase. We may hope that this fresh belligerence somehow reflects the delicate process of choosing a successor to Kim Jong-il, reportedly his little-known third son Kim Jong-un. Once that is in place, the DPRK might return to negotiations in some form. But perhaps it will not, defying expectations and creating fresh challenges for the region. At present we can do little more than wait and see.

Totting up the slurs

At a time when the world grows ever more puzzled and alarmed at Pyongyang's behavior, inter-Korean relations are something of a sideshow. Predictably, a North Korea angry with pretty much everyone reserved its worst venom for South Korean President Lee Myung-bak. Lee Chan-ho, chief analyst of cross-border ties at the ROK Unification Ministry (MOU), has been keeping score. As of June 22, DPRK media had denigrated President Lee 1,705 times so far this year: on average 9.9 times daily, up from 7.6 last year. Lee added that "some of the epithets ... used to refer to President Lee are so blatant that I can't even quote them here ... What's worse is that North Korea is using indescribably abusive language to slam the prime minister, foreign, defense and unification ministers as well." Moreover, "the figure would be much higher if we combined the fire-breathing editorials in various North Korean media, including the *Rodong Sinmun*" (daily paper of the ruling Workers' Party of Korea, WPK).

There is no excuse for such vicious rudeness, but it reflects real disappointment. As we have argued before, Lee was wrong to repudiate the economic projects agreed by his predecessor, Roh Moo-hyun, at the second inter-Korean summit in Pyongyang in October 2007, two months before Lee's election. At the very least, if the North was minded to end all cooperation in any case, it would have had much more to unwind and the fault would have been wholly on one side. As it is, Lee's vapid and passive, but implicitly hostile, stance from the outset toward the North – no more "Sunshine," but no better idea except an unfeasible linkage to nuclear disarmament and a patronizing 'Vision 3000' plan to develop the DPRK – can only have undermined those in Pyongyang who dared to favor North-South dialogue, while strengthening the hardliners now manifestly ascendant there.

A spook's false move

If a small trumpet may be blown, here lies the strength of *Comparative Connections'* careful survey of the minutiae every quarter. Memories are short, in and on Korea as elsewhere. But read back in this journal and recall, barely 18 months ago, the secret visit – revealed a month later – by the South's then intelligence chief, Kim Man-bok, to Pyongyang on Dec. 18, 2007. On the very eve of the ROK presidential election, Kim – who had earlier played a key role in arranging the October 2007 summit – took it upon himself to go North and reassure his DPRK equivalent, Kim Yang-gon, not to worry if Lee Myung-bak won (his victory was by then a racing certainty, according to all the polls) since he would continue to engage the North.

Rarely was worse advice ever given. In a further odd move, Kim admitted leaking the news and transcript of this visit to the Seoul press himself. He resigned on February 11, two weeks before Lee's inauguration. His motives were probably self-serving, hoping to curry favor with the new administration. Yet his expectation of policy continuity toward North Korea was then widely shared. While critical of "Sunshine" as too one-sided, Lee campaigned as a pragmatic centrist. And as we also chronicled at the time, the North kept its counsel for three months after his election before deciding it had been conned and switching to vitriol mode.

All decisions have consequences, as well as causes. Kim Man-bok merely lost his job. His DPRK interlocutor Kim Yang-gon kept his, nominally as a department director in the WPK. He

remains a regular companion of Kim Jong-il, especially at the theatre; most recently a rendition of the Chinese opera *Dream of the Red Chamber* by the Pibada opera troupe in the east coast city of Hamhung on June 14. Perhaps as relaxation from menacing the world, the dear leader goes to the opera a lot these days. A week earlier he saw *Eugene Onegin*, its first mention for many a year – with his also long-unmentioned sister Kim Kyong-hui, wife of his ever more powerful brother-in-law and right-hand man Jang Song-taek. Maybe Kim really is dying; so, externally he is going for broke while at home this is his last chance to get about, see the family, and do what he truly enjoys. But that is beyond the scope of this article.

They shoot people, don't they?

Kim Yang-gon is luckier than Choe Sung-chol. As vice chairman of the Asia-Pacific Peace Committee (APPC), Choe was North Korea's pointman on the South until a year ago. In that role he welcomed and escorted Roh Moo-hyun in the North at the October 2007 summit. After "Sunshine's" eclipse in both halves of Korea, Choe was rumored in January to be undergoing "revolutionary training" at a chicken farm. But reports in May claimed he had been executed, being blamed for poor judgment after relations deteriorated under Lee Myung-bak. Other versions say he was accused of making the North too dependent economically on the South and nurturing fantasies about South Korea.

If true, this highlights both North Korea's unchanging nastiness and the grim consequences of making the wrong call. Similarly, the current ferment and uncertainty over succession may well be a major cause of the DPRK's new belligerency. You are less likely to be shot in Pyongyang for taking too hard a line. Standing up for peace is much riskier.

So long, Kaesong?

With almost all channels of North-South cooperation from the "Sunshine" years now in limbo, if not dead, the main substance of inter-Korean relations in the past quarter concerned the sole project still surviving, albeit ever more shakily. At the Kaesong Industrial Complex (KIC) just an hour's drive north of Seoul, just over 100 Southern SMEs employ some 40,000 Northern workers to make a range of mostly fairly basic household products. The KIC had grown quite fast since it opened in 2004 amid grand talk of its becoming Korea's Shenzhen.

Now, sadly, it looks ever more likely that the KIC will go the way of an earlier venture on the other side of the Peninsula. Hyundai's Mount Kumgang resort, opened in 1998, brought 1.8 million Southern tourists in the past decade across the once impenetrable Demilitarized Zone (DMZ). Yet none have gone since the Korean People's Army (KPA) fatally shot Park Wang-ja, a 53 year-old Seoul housewife who strayed into a forbidden area in a pre-dawn walk on July 11 last year. The South at once suspended the tours because the North refused to let it send in a team to investigate, and a year later they remain suspended. Hyundai Asan, the operator, insists they will resume, but it is bleeding red ink, and amid the present worsening overall political climate, the prospect of resumption appears remote.

Hyundai Asan is also involved, with the ROK parastatal Korea Land, in running the KIC. Since late last year the North has harried South Koreans in the KIC by cutting the numbers allowed to

stay there and arbitrarily closing or restricting cross-border traffic. Now the harassment has moved to a whole new level.

Held hostage

On March 30, the North arrested a Hyundai engineer at the KIC, only recently named as Yu Song-jin. He is apparently accused of insulting the DPRK system and trying to incite a female Northern worker to defect. (The gender angle has barely been commented on. But since nearly all Southern managers at the KIC are male while almost the whole Northern workforce is female, it would be strange if the old Korean saying *nam nam puk yo* – Southern man, Northern woman – were not in the air, though romance is strictly off-limits.)

The DPRK had no right to arrest Yu. KIC regulations stipulate that any ROK citizen there suspected of wrongdoing must be expelled to the South. Yet over three months later he remains detained, wholly incommunicado. No charges have been brought, yet the North has refused to let anyone see him, to accept letters from his family, or even to discuss the matter. By contrast, the two U.S. female journalists arrested in March and sentenced in June to 12 years hard labor have at least been permitted a few consular visits and telephone calls home.

This is outrageous and surely deliberate. Pyongyang must know Seoul cannot accept this, and that Southern SMEs will not stay in the KIC if their people risk arbitrary imprisonment. Besides his being a useful hostage, Yu's detention thus looks like a ploy to force the KIC's closure – while placing the onus of responsibility and blame on the South for doing so.

Seoul wrong-footed on PSI

The North's other behavior at a series of meetings on the KIC reinforces this interpretation of cynicism. It still has the ability to wrong-foot the South. Thus, when it said in mid-April that it wanted to discuss the KIC's future, the ROK government rather clumsily postponed announcing a long-expected decision on joining the U.S.-led Proliferation Security Initiative (PSI), for fear of jeopardizing the new and now rare North-South dialogue. This cut no ice. On April 18, the KPA warned that it would regard South Korea's full participation in the PSI as a declaration of war. In a more than usually menacing note, the KPA statement added that the South "should never forget that Seoul is just 50 km away from the Military Demarcation Line (MDL)."

The eventual first meeting on (and at) the KIC, three days later, was farcical. It lasted just 22 minutes, late in the evening, after procedural disputes had delayed the start for over 12 hours. Clearly playing hardball, the North at first unprecedentedly refused even to reveal the names or rank of its own delegates so the South did not know whom they would be meeting.

Arranging a second meeting was complicated *inter alia* by Yu Song-jin's detention, with the North refusing to allow this on the agenda. Meanwhile, Pyongyang dropped a bombshell. On May 15 it unilaterally "declare[d] null and void the rules and contracts on land rent, wages and all sorts of taxes" at the KIC. Telling the South to accept the changes "unconditionally," the North added that "we do not care about them leaving ... if they have no will to carry [this] out." Seoul denounced this blackmail as "simply unacceptable." Other new restrictions planned for the

KIC – such as tighter traffic regulations, including a \$1,000 fine for illegally blocking streets – can only be called petty harassment.

On May 20, a representative of the 106 mostly small Southern firms operating in the zone warned that they face the risk of bankruptcy as their orders plunge while tension rises. Yoo Chang-geun said the companies would lodge a strong protest with both Korean governments. Much good may it do him, with both in their stubbornly short-sighted states of mind. On June 16, a fur and leather apparel maker, Skinnet, became the first ROK firm to quit the zone since it opened in 2004, citing safety and profitability concerns. It is unlikely to be the last.

Thirty times more rent, please

Not until June 11 did the two Koreas manage to meet again, and the North unveiled its new terms. Brazenly, it demanded a four-fold rise in wages for its 40,000 workers in the KIC to \$300 monthly, plus a 30-fold increase in the 50-year land lease fee from \$16 million to \$500 million. It must know that the South cannot afford – either financially or politically – to accept such exorbitant demands, hence the suspicion has to be that such maximalism is intended to force the KIC's closure. Yet MOU and others deny this, professing to believe that this is just the North's usual ultra-tough style and bargaining is still possible.

At a subsequent three-hour meeting on June 19, the North unexpectedly offered to lift curbs it has imposed since December on cross-border traffic and on the number of South Koreans permitted to stay at the KIC. It was not clear if this was sincere, and no other progress was made – including (crucially) regarding the still detained Yu Song-jin. A further one-hour meeting on July 2 was again stalemated, and broke up with no date set to meet again.

Despite MOU's optimism, the fear must be that in its present mood the DPRK does not care: either about loss of income in the short term – last year firms in the KIC remitted some \$26 million in wages, straight to Pyongyang before an unknown portion of it reaches the actual workers – let alone the long-run win-win vision that the KIC embodied. Hardliners in the KPA are thought to fear the zone's ideological impact, seeing it as a Trojan horse for capitalism.

Why stop them going?

Of course, North Korea is primarily to blame for its worsening relations with the South, and indeed, the world. Yet one must question the Lee administration's response. For example, why ban South Koreans from going North, as the ROK has done in reaction to the DPRK's nuclear test? (The sole exceptions being travel to the Kaesong and Kumgang zones.)

While much about the "Sunshine" policy was arguable, one of its unambiguous gains was to allow a wide range of South Koreans – business, NGOs, professional groups, religious believers, and more – to go North, more or less freely. Although this traffic was one way, it broke the decades-old monopoly of the two governments in controlling unification issues. Even if no counterparts on the Northern side were ever truly nongovernmental, this allowed many valuable relationships to be forged, personally and locally, especially by aid groups, whose motivation is often overtly religious (Christian or Buddhist). It will be tragic both now and for the long term if

these incipient links are broken, and the Peninsula reverts – as seems to be happening – to old-style confrontation. That was the problem; it is no solution.

More immediately, the South's ban directly hits its own companies who are doing what Lee Myung-bak once professed to believe in: forging pragmatic business ties with the North. There are more of these than one might suppose. Besides the 106 SMEs in Kaesong, no fewer than 611 other ROK firms deal with the DPRK. Most (399) are general trading companies. A further 164 engage in processing-on-commission, the leading edge before the advent of the KIC: sending raw materials and sometimes equipment North, and receiving finished goods in return. There are also 48 investment companies; 120 of these met in Seoul in angry mood on June 15 to demand that the current crisis be resolved. While not all actually need to go North, for those who do Seoul's ban is a major headache.

All goes down

Worsening North-South political ties can already be measured by economic numbers. On May 31 Seoul's MOU reported that in the first four months it spent only 26.91 billion *won* (\$21.48 million), or a mere 1.8 percent of this year's budget of 1.5 trillion *won* earmarked for inter-Korean cooperation. Such spending already plunged by two-thirds from 715.73 billion *won* in 2007, Roh Moo-hyun's last year in office, to 231.2 billion *won* in 2008, the start of Lee Myung-bak's presidency. In theory large funds (800 billion *won*) are still set aside for rice and fertilizer aid, but no one expects this to be asked for or given in the present situation. The same applies to other notional budgets, e.g., for crossborder rail links. In a later report on June 24, MOU said that total Southern aid (state and private) to the North during Jan.-May was \$15.18 million, down 60 percent from \$26.33 million last year.

While governments can switch aid on or off like a tap, commercial trade is less subject to direct official control and slower to react. Inter-Korean trade, having surged fivefold in less than a decade of "Sunshine" from \$329 million in 1999 to \$1.7 billion in 2007, inched further upward even in the chill of the Lee Myung-bak era to reach \$1.82 billion in 2008. The rise will not continue this year, at the present rate. South Korean customs data show that in the first four months trade fell by a 24.8 percent (year-on-year), from \$566.92 million to \$426.35 million. May's figure fell 38 percent from \$171.9 million to \$106.5 million: the ninth successive month of year-on-year declines. Matters are unlikely to improve in the second half.

Roh's suicide: the North stokes the flames

On the political front, in an eventful three days in late May ex-President Roh Moo-hyun's sad suicide on May 23 was upstaged globally, if not locally, by North Korea's nuclear test two days later. A corruption probe was drawing ever closer to Roh, whose tragic death – his last political act, and one of his most effective – was much mourned in the South. Yet it also emphasized the deep faultlines there between left and right. Opinion polls found that most South Koreans believe the corruption investigation against Roh was politically motivated.

The North must have planned its nuclear test far in advance, but its timing two days after Roh's death riled many in the South, as if Kim Jong-il was determined to upstage him to the last. The

Dear Leader swiftly expressed condolences, but Pyongyang did not leave it at that. On June 5, *Rodong Sinmun* declared that: “The South Korean public unanimously contends that the unexpected and tragic death of the former ‘president’ is murder by Lee Myung-bak’s political retaliation.” (Note those weasel quote marks around ‘president’; North Korea still does not accept South Korea’s legitimacy.)

Four days later the North’s Committee for the Peaceful Reunification of Korea (CPRK) issued what *KCNA* called “a detailed report on the truth about the death of Roh Moo-hyun.” CPRK called this “a politically motivated, premeditated and deliberate terror and murder orchestrated by the United States and the pro-American conservative forces of south Korea” – and much more in a similar vein. Yet to say that “the Lee Myung-bak group ... had gone mad with the operation to ‘kill Roh Moo-hyun’” is absurd as well as offensive. In fact Roh’s death has harmed Lee politically, not helped him, putting the government on the defensive, and giving progressives and conservatives in South Korea yet one more issue to fight about.

Cyberwar?

The quarter ended – or strictly, the new quarter – began with what may be a taste of things to come. Fears of cyberterrorism had been mounting, and on April 30 South Korea and the U.S. signed an accord on jointly combating this. On May 5, intelligence sources in Seoul claimed that the KPA has created a 100-strong cyberwarfare unit – later described as Research Center No. 110, under the KPA General staff – tasked to disrupt ROK and U.S. military networks. DPRK hackers reportedly break into U.S. military websites more often than anyone else. In June, ROK defense officials said they were detecting 95,000 attempted cyber attacks a day on average, 11 percent of which tried to obtain military information.

Similar claims have been made before, but in early July South Koreans sat up and took note. On July 8, the Communications Commission (KCC) reported that major ROK websites had been inundated by heavy traffic generated by malicious software, starting the night before. As the attacks continued, some 33 sites in total were affected. They included the Blue House, Defense Ministry, and National Assembly; Kookmin, Shinhan and Korea Exchange banks; top Internet portals Daum and Naver; and a leading online shopping mall, Auction.

The Seoul press swiftly pointed the finger at North Korea. The National Intelligence Service (NIS) echoed this, blaming the North or (ominously) “its southern supporters.” Others were less sure. It emerged that major U.S. government sites were also attacked, starting during the Fourth of July holiday. On July 10, the NIS said the cyber attacks on the ROK came from 86 internet protocol addresses in 16 countries, including the U.S., Japan, China, and South Korea – but not North Korea. Blocking five specific sites in the U.S., ROK, Germany, Austria, and Georgia slowed down the attacks. As many as 200,000 computers may have been involved, most hacked into and hijacked into a “botnet” to flood the targets with fake queries.

North Korea was not mentioned, but the NIS reserved its suspicions – though chided by the liberal opposition Democratic Party (DP) for not publishing its evidence. The fact that many of the computers used were in South Korea could merely reflect the fact that few countries possess such a concentration of high speed computing power. In a further twist on July 10, the malicious

codes that had broken into thousands of South Korean personal computers (PCs) started wiping their hard drives. KCC reported 350 PCs affected, but warned the number could rise sharply as up to 50,000 have been infected.

Whoever did it, this attack has jolted the ROK to move faster in setting up a cyber defense system at public institutions by the end of the year. The MND will bring forward plans to create an agency to protect military information from cyber attacks. The new Information Security Command will be launched next Jan. 1, two years earlier than planned, and become fully operational in July 2010.

Was it the North? Before this episode, the DPRK poured scorn on any such suggestions. *KCNA*'s typically robust headline read: "S. Korean Puppets' Move to Participate in U.S.-led Cyber Storm Exercises Blasted." Decrying claims that the KPA has a cyberwarfare unit as "misinformation," the article did assert "the DPRK is fully ready for any form of high-tech war." Better believe it.

Chronology of North Korea-South Korea Relations April-June 2009

April 1, 2009: South Korea defeats the North 1-0 in Seoul in a final-round Asian qualifier for soccer's World Cup. The North does not allow any supporters to travel South.

April 1, 2009: The Institute for National Security Strategy (INSS), an arm of the ROK National Intelligence Service (NIS), says the DPRK's impending rocket launch may cost \$500 million.

April 2, 2009: An ROK Air Force officer says the Korean People's Army (KPA) has deployed a fleet of *MiG-23* fighters to protect its impending rocket launch.

April 2, 2009: ROK President Lee Myung-bak says at the G20 summit in London that he is considering the possibility of sending a special envoy to the North to help ease strained ties.

April 5, 2009: The DPRK launches its long-expected three-stage rocket from the Musudan-ri site in the northeast. The ROK, with many other states, criticizes the launch.

April 6, 2009: An opinion poll for the ROK government finds that 51.8 percent of South Koreans want Seoul to address the DPRK rocket issue through international cooperation, while 33.6 percent favor direct inter-Korean talks. Asked with whom the ROK should cooperate for its national security, 60 percent say the U.S., 15.7 percent North Korea, and 10.4 percent China.

April 6, 2009: South Korea rebuffs Northern charges that its soccer players lost their recent match in Seoul through deliberate poisoning after being given out-of-date food.

April 7, 2009: Unification Minister Hyun In-taek says that an additional resettlement center for DPRK defectors is planned. The existing Hanawon facility, whose capacity was doubled from 300 to 700 last year, is "not insufficient ... at present, but we have to prepare for the future."

April 7, 2009: President Lee calls for a South Korean held in the KIC since March 30 to be released. Unnamed at this stage, the detainee is later identified as Yu Song-jin.

April 9, 2009: North Korea's Supreme People's Assembly (SPA) meets for a single day. Kim Jong-il is present, but looks ill. Decisions made include the removal from the DPRK Cabinet of an inter-Korean cooperation committee created in 2004. Kim's brother-in-law, Jang Song-taek, is appointed to an expanded National Defense Commission (NDC).

April 9, 2009: An ROK military source says a DPRK *MiG-23* jet fighter crashed into the sea near Musudan-ri on April 4, a day before the rocket launch.

April 13, 2009: ROK Unification Ministry (MOU) describes the detention of Yu Song-jin at the KIC as a "serious situation," "very unjust," and "inhumane."

April 13, 2009: UNSC issues a President's Statement unanimously condemning North Korea's rocket launch of April 5.

April 14, 2009: In reaction to what it calls the "brigandish" UNSC statement, the Foreign Ministry says the DPRK will "never" again attend the Six-Party Talks, and will restore its nuclear facilities to strengthen its deterrent. South Korea expresses "deep regret" at this.

April 14, 2009: An ROK Foreign Ministry (MOFAT) official says South Korea, the U.S. and Japan have agreed a draft list of some 10 DPRK companies which could face UN sanctions.

April 14, 2009: An ROK source says nine DPRK merchant vessels could be searched in international waters under the U.S.-led Proliferation Security Initiative (PSI).

April 15, 2009: The International Atomic Energy Agency (IAEA) says the DPRK has asked its inspectors to leave the country "at the earliest possible time."

April 17, 2009: The secretariat of the North's Committee for the Peaceful Reunification of Fatherland (CPRF) says that a nuclear war on the peninsula is only a matter of time, "due to the war chariot of the 'South Korea-U.S. military alliance'."

April 17, 2009: *Rodong Sinmun*, daily paper of the North's ruling Workers' Party of Korea (WPK), accuses Seoul of banning Southern civilian aid groups from visiting Pyongyang on alleged safety grounds since the April 5 rocket launch.

April 17, 2009: Thirty Southern NGOs demand the release of the ROK worker held in Kaesong, saying this "clearly violates ... inter-Korean accords" and is "tantamount to kidnapping."

April 18, 2009: ROK says it will postpone announcing a decision on joining the PSI until after inter-Korean talks. *KCNA* carries a statement by the KPA General Staff, warning the DPRK would regard South Korea's full participation in the PSI as a declaration of war.

April 19, 2009: Seoul says it “regrets” the latest Northern threats, and insists that PSI is not specifically targeting Pyongyang.

April 19, 2009: On the 49th anniversary of the student uprising that toppled the ROK’s first president, Syngman Rhee, in 1960, *Rodong Sinmun* claims the South “is going back to the dark era of fascist dictatorship” and calls on South Koreans to “wage unflinching struggle.”

April 20, 2009: ROK Defense Minister Lee Sang-hee warns of possible DPRK provocations, adding that “our military is ready to immediately retaliate under the combined readiness with the United States.”

April 21, 2009: The two Koreas hold their first official civilian meeting in over a year at the KIC. This lasts just 22 minutes, after procedural disputes delay the start for over 12 hours.

April 21, 2009: MOFAT says the ROK embassy in Vienna is seeking clarification whether comments the previous day by IAEA Director General Mohamed ElBaradei, that the DPRK is a nuclear weapon state as “a matter of fact,” represent the UN agency’s official position.

April 22, 2009: KCNA accuses the ROK military of arbitrarily moving a marker (number 0768) in the eastern sector of the MDL, calling this a “serious military provocation” in violation of the 1953 Armistice. The South denies having moved the marker.

April 25, 2009: Pyongyang says it has resumed extracting plutonium from spent fuel rods at its reopened Yongbyon nuclear site.

April 29, 2009: Pyongyang’s Foreign Ministry says that unless the UNSC apologizes for its criticisms of the DPRK, it will conduct further nuclear and missile tests, start building a light-water reactor, and produce nuclear fuel. South Korea comments that this “directly challenges a unified and concerted decision by the international community.”

April 29, 2009: At a consolation event for separated families held at Paju north of Seoul near the border, Unification Minister Hyun urges the North to resume family reunions.”

May 1, 2009: North Korea’s Central Special Zone Development Guidance General Bureau says it is deepening its probe of the Kaesong worker, Yu Song-jin.

May 2, 2009: *KCNA* reports that on Buddha’s birthday temples across the DPRK hold services to pray for unification. Speakers warn that inter-Korean relations are at “the brink of a war owing to the persistent sycophancy toward the U.S. and the moves for confrontation ... [by] the present conservative ruling forces of south Korea.” They call on all Buddhists “to unite in Dharma-minded concord and foil the Lee Myung-bak group’s moves for a war.”

May. 4, 2009: *Rodong Sinmun* says that “traitor Lee Myung-bak’s talk about full participation in the PSI brought to light once again his true colors as a war maniac bereft of reason as he does not rule out even a war against the DPRK, standing in confrontation with it to the last.”

May 4, 2009: The ROK reports that the destroyer *Munmu the Great*, operating in the Gulf of Aden, escorted a DPRK vessel to safety after it was attacked by Somali pirates. The vessel thanked its rescuers while Pyongyang was silent.

May 4, 2009: MOU announces a restructuring that will close its Humanitarian Cooperation Bureau, established in 1996. Its three functions – sending aid, arranging family reunions, and resettling defectors – will be absorbed into other departments, while a new bureau will be created to analyze politics in Pyongyang. The Cabinet approves the changes on May 12.

May 5, 2009: Intelligence sources in Seoul say the KPA has a 100-strong cyber-warfare unit that seeks to disrupt ROK and U.S. military networks.

May 10, 2009: ROK military sources say two major DPRK covert agencies have recently been transferred from party to military control. Room 35 collects intelligence, while the Operations Unit trains and dispatches secret agents as well as exporting arms and engaging in drug trafficking and counterfeiting.

May 14, 2009: *Yonhap* says North Korea is stepping up military training at its western sea border. It quotes an ROK Marines source as saying the KPA has held 19 live-fire exercises, twice as many as last year. Aircraft sorties are up six-fold from the same period in 2008.

May 15, 2009: North Korea unilaterally “declare[s] null and void the rules and contracts on land rent, wages and all sorts of taxes” at the KIC.

May 17, 2009: *Minju Joson*, daily paper of the DPRK Cabinet, says North Korea will never again attend the Six-Party Talks unless the U.S. and South Korea give up their “hostile policy.”

May 18, 2009: ROK Unification Minister Hyun says that despite the “crisis” over the KIC, Seoul is not contemplating closing it.

May 18, 2009: CPRF denounces the ROK MOFAT as “frantic about its anti-DPRK confrontational scheme” and “one of the most anti-national groups among the south Korean government ministries and agencies.”

May 18, 2009: Sources in Seoul claim that Choe Sung-chol, who as vice chairman of the North's Asia-Pacific Peace Committee (APPC) had pushed for reconciliation with the South, was executed last year.

May 20, 2009: Yoo Chang-geun, a representative of ROK firms operating in the KIC, warns that they risk bankruptcy as orders plunge while tension rises.

May 23, 2009: Former ROK President Roh Moo-hyun jumps to his death from a cliff near his rural home. He had been questioned by prosecutors on allegations of corruption.

May 25, 2009: Kim Jong-il expresses his condolences to the late Roh Moo-hyun's family. MOU comments that at least this will not impact negatively on North-South relations.

May 25, 2009: North Korea conducts an underground nuclear test near Kilju in the northeast. ROK President Lee calls this “truly disappointing.” South Korea bans its citizens from visiting the North, other than to the Kaesong and Mount Kumgang zones.

May 26, 2009: *Choson Sinbo*, the daily paper of pro-North Koreans in Japan, insists that the DPRK remains committed to the KIC project despite growing political tensions.

May 26, 2009: ROK formally communicates its decision to become a full member of the PSI.

May 27, 2009: Reacting to Seoul's decision to fully join the PSI, the Panmunjom office of the KPA declares the 1953 Armistice “nullified” by this “declaration of war against us.” It threatens a military strike if South Korea tries to interdict any of its ships, and warns it can no longer guarantee the safety of U.S. and ROK military or private vessels in waters west of the Peninsula.

May 27, 2009: MOU says traffic across the DMZ is normal despite the North's nuclear test. Some 400 South Koreans cross into the Kaesong IC in the morning; a similar number return in the evening. Five DPRK merchant ships pass through ROK waters, while “dozens” of South Korean vessels are in Northern waters despite Pyongyang's threat.

May 28, 2009: North Korea's *Minju Joson* claims that “any minor accidental clash [on the Peninsula] may spread into a nuclear war.” *Rodong Sinmun* declares: “It is the fixed will of the army and the people of the DPRK to wipe out the warmongers with a barrage of fire of the Songun (military-first) army.”

May 30, 2009: DPRK website Uriminzokkiri brushes off criticism that its nuclear test was ill-timed in the wake of Roh Moo-hyun's suicide. It accuses those who say this of “picking a fight with wicked intentions” instead of expressing gratitude for the North's condolences.

June 1, 2009: Sources in Seoul claim that on May 25, just after North Korea's nuclear test, key DPRK institutions – WPK, KPA, the Presidium of the SPA and the Cabinet – were formally notified that Kim Jong-il has designated his third son, Kim Jong-un, as his successor.

June 1, 2009: Intelligence sources in Seoul say the DPRK has banned shipping from more northerly parts of its West (Yellow) Sea waters for two months, until the end of July.

June 2, 2009: An ROK official says the detained Hyundai Asan worker Yu Song-jin appears to have been moved from Kaesong to Pyongyang.

June 2, 2009: At the first ASEAN-ROK summit, President Lee and the heads of all 10 ASEAN member states condemn North Korea's recent nuclear test and missile launches. They also call for resumption of the Six-Party Talks.

June 4, 2009: ROK Unification Minister Hyun cites Kim Jong-il's “worsening health condition” as the reason why Kim “may have felt the necessity of accelerating the process of father-to-son

succession of power.” Hyun reiterates MOU’s view that there is no solid evidence to confirm that Kim Jong-un is the chosen heir.

June 5, 2009: North Korea unexpectedly proposes talks on the Kaesong Industrial Complex (KIC). The South accepts, and they agree to meet on June 11 in the KIC.

June 5, 2009: *Rodong Sinmun* says “the South Korean public unanimously contends that the unexpected and tragic death of the former ‘president’ [Roh Moo-hyun] is murder by Lee Myung-bak’s political retaliation.”

June 5, 2009: ROK Foreign Minister Yu Myung-hwan says the U.S. has agreed to guarantee in writing its nuclear umbrella for South Korea against any Northern attack, when President Lee meets U.S. President Barack Obama in Washington on June 16.

June 6, 2009: Kang Hui-nam, an activist priest and honorary chairman of the ROK branch of the pro-North Pan-Korean Alliance for Reunification (Pomminryon), takes his life at age 89. His suicide note denounces Seoul’s current policies towards Pyongyang. On June 10 the DPRK offers its condolences, but blames “Lee Myung-bak ... who drove him to death.”

June 8, 2009: *Rodong Sinmun* says that “a written pledge by the U.S. to include South Korea under its nuclear umbrella [means] ... the danger of nuclear war will increase.”

June 9, 2009: The North’s Committee for the Peaceful Reunification of Korea (CPRK) calls Roh’s death “a politically motivated, premeditated and deliberate terror and murder orchestrated by the United States and the pro-American conservative forces of south Korea.”

June 9, 2009: *Minju Joson* describes the DPRK’s nuclear deterrent, hitherto claimed to be defensive, as “a vehicle for merciless attacks on those who even slightly infringe upon our sovereignty.” Similarly blurring offense and defense, *Rodong Sinmun* declares that “our self-protective measure is to relentlessly crush invaders by striking them preemptively.”

June 9, 2009: Skinnet, a leather apparel maker, becomes the first ROK firm to quit the KIC.

June 9, 2009: The ROK Ministry of Strategy and Finance (MSF) names three DPRK firms as subject to UNSC-mandated sanctions. It bans South Korean companies from dealings with Korea Mining Development Trading Corp., Tanchon Commercial Bank or Ryongbong General Corp., all suspected of involvement in Pyongyang’s missile or nuclear programs.

June 9, 2009: The (South) Korea Customs Service (KCS) reports that inter-Korean trade in the first four months fell by 24.8 percent (year-on-year), from \$566.92 million \$426.35 million.

June 9, 2009: The (South) Korea Institute of Nuclear Safety (KINS) admits it has yet to find radioactive traces of xenon or krypton gases in air particles blowing from the North, which would confirm scientifically that North Korea did indeed conduct a nuclear test.

June 9, 2009: In one of its clearest hints yet from Pyongyang that a successor to Kim Jong-il has been chosen, *Rodong Sinmun* says that “One of the important issues concerning the fate of the nation’s revolution was shiningly resolved, which makes this year more meaningful than ever ... A true war of will is one that succeeds generation after generation.”

June 11, 2009: At talks in Kaesong on the future of the KIC, the North demands a fourfold wage hike for its workers and a 30-fold increase in rent. They agree to meet again on June 19. MOU denies that the North is in effect telling the South to get out.

June 11, 2009: *KCNA* says that at the latest inter-Korean meeting on the KIC, the North demanded early construction of a dormitory and childcare facilities as well as a new road for North Koreans working at the joint industrial complex.

June 11, 2009: Hyundai Economic Research Institute predicts that North Korea will lose \$1.5-3.7 billion if the U.N. enforces the sanctions.

June 12, 2009: ROK firms in the KIC say they “cannot accept North Korea's unilateral demands” to quadruple its workers’ wages. Complaining of “unbearable losses for a long time” due to heightened inter-Korean tensions, they call on Seoul to compensate them.

June 12, 2009: The UNSC unanimously passes Resolution 1874, condemning the DPRK’s nuclear test and imposing a range of sanctions, including a ban on all arms exports.

June 12, 2009: A spokesman for North Korea’s CPRF tells *KCNA* that South Korean news reports, claiming that fake U.S. dollars circulating in the South were proved to be from the North, are an anti-DPRK trick.

June 14, 2009: ROK Unification Minister Hyun tells a parliamentary hearing that he believes North Korea has been pursuing uranium enrichment, which it had long denied until very recently, “for at least seven to eight years.”

June 15, 2009: North Korea marks the ninth anniversary of the first inter-Korean summit by calling on South Koreans to rise against their current regime. South Korea holds no official ceremony, and the government does not participate in events organized by liberal NGOs.

June 15, 2009: *Rodong Sinmun* denounces the ROK for “begging” the U.S. for nuclear protection, calling this “an unforgivable criminal act to make South Korea a nuclear powder keg that can explode at any moment.”

June 15, 2009: 120 of the 611 ROK firms doing business with the DPRK outside Kaesong meet in Seoul to demand that the current crisis be resolved. Since the nuclear test the South has forbidden them to visit the North.

June 17, 2009: In Washington, President Lee vows to break with the old pattern of compensating the North following provocations by it. Barack Obama concurs.

June 19, 2009: Working-level meeting is held in Kaesong to discuss revised contracts at the KIC but again make no progress. The North unexpectedly offers to lift cross-border restrictions.

June 21, 2009: In reaction to the Lee-Obama summit, the weekly *Tongil Sinbo* accuses President Lee of trying “to stifle the people of the DPRK through an alliance” with the U.S. and launch a nuclear war. *KCNA* reports that anti-government organizations in South Korea have issued statements denouncing Lee for his “servile” tour of the U.S.

June 21, 2009: The (South) Korea Customs Service says that May’s inter-Korean trade total was \$106.5 million, down 38 percent from \$171.9 million in the same month last year.

June 23, 2009: ROK President Lee tells a congress of ethnic Koreans from 65 countries that South Korea is interested in helping North Korea: “We keep telling North Korea to become a (responsible) member of the international community ... Living by threatening when it is not getting any assistance is not truly living ... North Korea can catch up with China [very fast] if we put in the necessary infrastructure, build factories there and train their workers ... I believe North Korea will change once it learns South Korea’s sincere intentions.”

June 24, 2009: MOU reports that Southern aid (state and private) to the North during Jan.-May totaled \$15.18 million, down 60 per cent from \$26.33 million in Jan.-May 2008.

June 24, 2009: *Rodong Sinmun* accuses Seoul of trying to incite a third inter-Korean naval clash in the Yellow Sea. It criticizes the ROK’s naming a new guided missile patrol boat after an officer killed in battle in 2002, Yun Yeong-ha, as anti-Pyongyang propaganda.

June 25, 2009: A poll by Hyundai Economic Research Institute (HERI) finds that 22.2 percent of South Koreans think North Korea is trustworthy: the lowest figure in a decade. The peak figure was 52.3 percent in 2000, after the first inter-Korean summit: it has fallen ever since. However, three-quarters (75.3 percent) say the KIC should continue.

June 25, 2009: *Rodong Sinmun* calls June 16’s U.S.-ROK summit “a disgusting kiss between the master and his servant.” Claiming that U.S. nuclear protection for South Korea justifies the North’s nuclear program, it warns that any aggression “will only incur a ruthless situation in which the fiery showers of our nuclear protection will fall upon South Korea.”

June 25, 2009: Both Koreas mark the anniversary of the outbreak of the Korean War in 1950. The North holds rallies and exhibitions to condemn U.S. aggression and vow revenge, while accusing Seoul of instigating anti-Pyongyang sentiment. The South thanks those who came to assist, as President Lee puts it, “a small, poor nation that they did not even know.”

June 26, 2009: Amnesty International (AI) urges its members worldwide to send appeals to Kim Jong-il to release the South Korean worker detained incommunicado in Kaesong.

June 27, 2009: Kim Hak-kwon, chief of plastics maker Jaeyoung Solutec and chairman of the Kaesong Industrial Council of ROK firms operating in the Kaesong zone, receives a letter from

the Northern authorities which, unusually, mentions the detained engineer Yu Song-jin. It says his crimes are “grave” – but as ever gives no detail.

June 28, 2009: Meeting in Tokyo, President Lee and Japan’s Prime Minister Aso Taro call for strict implementation of UN sanctions against the DPRK, saying it must realize that its possession of nuclear weapons will never be tolerated.

June 28, 2009: *Tongil Sinbo* claims that Lee Myung-bak’s saying that his government will pursue reunification on the basis of a market economy is aimed at “breaking down the North’s ideology and system to achieve ‘reunification through absorption,’ and it is appalling.”

June 29, 2009: *Rodong Sinmun* blasts South Korea’s readiness to carry out UN sanctions as – in *KCNA*’s words – “the worst grave anti-North provocation that has never (sic) existed in the history of inter-Korean relations.” It adds: “We’re ready for both sanctions and a war.”

July 2, 2009: The DPRK test-fires four short-range *KN-01* surface-to-ship missiles, with a range of 120-160 km, from a base at Sinsang-ri north of the port of Wonsan.

July 4, 2009: North Korea fires seven ballistic missiles into the East Sea from its Kitdaeryong base near Wonsan. Putting its military on high alert, the ROK calls this a “provocative act” that violates UN Security Council resolutions banning all DPRK ballistic missile activity. The ROK joint chiefs of staff declare that “Our military is fully prepared to deal with any threats and provocations by the North, based on a strong joint defence alliance with the US.”

July 6, 2009: Lee Chan-ho, chief analyst of cross-border ties at MOU, says that as of June 22 DPRK media have denigrated President Lee 1,705 times so far this year: an average of 9.9 times each day, up from 7.6 last year. Other ROK ministers are being similarly insulted.

July 7-9, 2009: Several major public and private ROK websites, including the Blue House, Defense Ministry and National Assembly, are swamped by cyber-attacks; as are a number of official sites in the U.S. The NIS blames North Korea; others are not so sure.



China-Korea Relations:
Pyongyang Tests Beijing's Patience

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North Korea's missile launch on April 5 and nuclear test on May 25 posed a test to the international community following two UN Security Council resolutions in 2006 condemning North Korea's actions. For China, the tests again highlighted the tensions between its emerging role as a global actor with increasing international responsibilities and prestige and a commitment to North Korea as an ally with whom China shares longstanding historical and ideological ties. On June 12, China voted in favor of UN Security Council Resolution 1874 condemning North Korea's nuclear test, banning sales of nuclear and missile-related technology and heavy weapons to North Korea, authorizing financial sanctions against companies involved with North Korea's missile and nuclear programs, and authorizing the implementation of an inspections regime for suspect shipments into and out of North Korea. China now must decide whether it will actively implement the resolution. As a result of North Korea's declining trade with South Korea and the international community, China's economic leverage with North Korea has grown. But it is unclear whether China will utilize such leverage given strategic concerns about regional stability and the impact on the political succession process now underway in Pyongyang.

Meanwhile, economic policymakers in Seoul are aggressively seeking to expand South Korea's share of the Chinese market in an effort to shore up the economy and benefit from Beijing's massive stimulus plan. However, there is growing Sino-South Korean competition to secure overseas export markets and energy sources. This competition is influencing South Korean assessments of China's role as a global economic power.

China responds to DPRK tests

Prior to North Korea's April 5 multi-stage rocket launch, *Xinhua* reports referred to North Korea's planned activity as a satellite launch despite persistent international characterizations of it as a missile test. As a result, there were doubts about how China would deal with the issue in the UN Security Council (UNSC), even though Presidents Lee Myung-bak and Hu Jintao expressed mutual concern in a meeting on the sidelines of the London G20 summit only two days prior to the launch. Following the test, U.S. President Barack Obama vowed that "violations must be punished," placing the onus on the UNSC to come up with a tough response.

The Chinese blocked consideration of a UNSC resolution condemning the test in favor of a UNSC President's Statement condemning the missile tests, maintaining that "China disagrees with a Security Council resolution on the launch, let alone new sanctions against the DPRK."

China cited the distinction between a satellite and missile test and the right of peaceful use of outer space, urging the UNSC to “act prudently.” However, the passage of the UNSC President’s Statement indicated that China supported the view that North Korea’s actions constituted a violation of UNSC Resolution 1718, which called upon North Korea to cease tests of ballistic-missile related technology.

Moreover, the statement included provisions for the imposition of sanctions on three North Korean companies alleged to have been involved in the missile trade. North Korea responded with outrage, threatening “never” to return to the Beijing-hosted Six-Party Talks and vowing to conduct further nuclear and missile tests. Despite Beijing’s attempts at measured condemnation of North Korea’s test, the situation continued to escalate.

North Korea’s May 25 nuclear test prompted a stronger reaction from China, which announced its “resolute” opposition to the test. China’s support for UNSC Resolution 1874 demonstrated its commitment to play a “constructive” role and resulted in a considerably harsher resolution (i.e., “with teeth”) than many had expected China would support, although Beijing made sure that implementation of the key provisions of the resolution would be optional rather than obligatory.

Although China joined international condemnation of North Korea’s nuclear test, the People’s Republic of China (PRC) Foreign Ministry also noted that Resolution 1874 “is not all about sanctions” and that diplomatic means is “the only way” to resolve Korean Peninsula issues, arguing that the DPRK should be recognized as a “sovereign country and UN member.” At an International Atomic Energy Agency (IAEA) board meeting on June 17, Tang Guoqiang, head of the Chinese delegation, affirmed that the DPRK as a sovereign state “should have the right to peaceful use of nuclear energy after it returns to the treaty on Non-Proliferation of Nuclear Weapons (NPT),” and that diplomatic means is the “only right way” to address the North Korean nuclear issue.

Following the test, a number of high-level consultations occurred between South Korea and China. A previously planned defense ministerial exchange went forward shortly following the nuclear test as Lee Sang Hee made his first trip to China as ROK defense minister to meet his counterpart Liang Guanglie and Vice President Xi Jinping, who pointed to “increasing political trust” between the two countries. Following meetings with Chinese counterpart Wu Dawei and Foreign Minister Yang Jiechi in Beijing on June 10, South Korean Nuclear Envoy Wi Sung-lac confirmed China’s support for the new UNSC resolution that was passed two days later.

North Korea’s nuclear test has sparked open debate on whether China should support harsher UN sanctions. China’s *Global Times* survey conducted shortly after the test in late May showed a 50-50 percent divide in views among Chinese foreign policy experts on tough sanctions against North Korea. This suggests a gradual shift toward support for sanctions, given that most Chinese experts have doubted the effectiveness of sanctions and warned against their impact on stability and refugee flows into China.

Some Chinese analysts publically denounced North Korea’s actions and called for a change in China’s approach. According to Zhang Liangui of the Central Party School, who sees recent developments as “the most serious crisis” since China-DPRK normalization, the nuclear test

“offended the core interests of China.” Zhang questions the likelihood that China will maintain its friendly relationship with the North. But former Vice Foreign Minister Yang Wenchang has indicated that “China’s influence over North Korea is inevitably limited” given changes in the bilateral relationship. Such views suggest that Beijing may be reassessing its strategy of relying primarily on incentives to influence North Korea.

Other Chinese analysts do not foresee a major change in China’s approach. Liu Jianguo of Tsinghua University suggests that a stable China-DPRK relationship is in the international interest since China’s role would otherwise change “from a contact man to the enemy of North Korea.” Based on this perspective China’s new toughness is a familiar tactic to pressure the DPRK back to the negotiating table, but it is unlikely that China will go so far as to fully implement UN sanctions.

2006 vs. 2009 and China’s new dilemma

The Chinese response to the 2009 test does not appear significantly different from 2006, when China also “firmly opposed” the test. Beijing has consistently put forward the three principles it followed for dealing with the North Korean nuclear crisis in 2006: denuclearization of the Korean Peninsula; peace and stability of the Korean Peninsula and Northeast Asia; and early resumption of Six-Party Talks. As in 2006, China sent a message to the DPRK “strongly” seeking its return to negotiations, asked the international community to “exercise calmness and restraint,” and called for peaceful resolution of the DPRK nuclear issue through “consultation and dialogue.”

But in response to the UNSC President’s Statement, Pyongyang vowed it would “never participate in such Six-Party Talks nor will it be bound any longer to any agreement of the talks.” With the passing of Resolution 1874, North Korea asserted that giving up nuclear weapons “has become an absolutely impossible option.” These statements directly challenge Beijing’s long-term bilateral and multilateral efforts toward the North.

Despite North Korea’s clear dismissal of China’s position, China remains silent on how North Korean behavior will influence China-DPRK relations and whether it will take action through sanctions. One difference in Chinese reactions is that in 2006 the Foreign Ministry explicitly stated that “the DPRK’s nuclear test exerted a negative impact on China-DPRK relations” while maintaining that it will continue to pursue its friendly policy toward the DPRK of promoting stability and serving Chinese and North Korean “shared interests.” Since North Korea’s current provocations, China has not yet provided any direct comment on the impact of the tests on its North Korea policy.

A second difference between China’s approach this time around is that in 2006 Hu Jintao sent a high-level special envoy, State Councillor Tang Jiaxuan, to Washington, Moscow, and Pyongyang. This time, despite speculation, no high-level Chinese envoy has yet been publicly reported to have visited Pyongyang. However, Beijing reportedly continues to have an active dialogue with Pyongyang via party channels led by the Chinese Communist Party’s International Liaison Department head, Wang Jiarui.

In denouncing North Korean actions in 2009, China has repeatedly emphasized its support for “safeguarding the international nonproliferation regime.” Its ratification of UNSC Resolution 1874 reflected an effort to meet international expectations rather than a desire to punish the North at a time when China is also responsibly addressing the global financial crisis. In June, China responded to the Iranian nuclear threat in similar terms to those used in response to North Korea’s nuclear test, calling for peaceful resolution through dialogue, early resumption of talks, and strengthened Iranian cooperation with the IAEA.

North Korean provocations in the past have induced China to support limited sanctions in light of its exposure to international concerns. In 2005, China responded to a U.S. Treasury advisory about possible money laundering activities of the Macao-based Banco Delta Asia (BDA) involving North Korea. China took these actions out of concern that its access to the U.S. market and global financial reputation were at stake. In response to the U.S. advisory, Chinese banks in Dandong reportedly began restricting banking transactions with North Korea as early as March 2006 out of their own concerns rather than as directed by the Chinese government. China is alleged to have cut off oil to North Korea for short periods in 2003 and 2006 to pressure the North. The 2006 nuclear test appears to have marked a shift in Chinese views regarding economic sanctions as an effective tool for dealing with North Korea. However, recent studies show that UN sanctions have had little impact on deterring North Korean actions given gaps in enforcement and limited implementation by China and Russia.

China’s response to North Korea will depend on how it reconciles its international obligations and national interests as tougher UN sanctions and the withdrawal of Chinese aid could seriously undermine North Korean and regional stability. Implementation of UNSC Resolution 1874 in many respects carries with it the same need for China to weigh its international responsibilities against its traditional emphasis on noninterference and regional stability that existed in the context of the BDA sanctions in 2006. Japanese media began reporting in mid-June that China has taken steps to cut back oil supplies and tighten monitoring of cross-border trade since the May 25 nuclear test. The closure of Sino-DPRK trade centers like Dandong would mean an immediate shortage of food and fuel for the North while implementation of a UN ban on luxury imports, which largely pass through Dandong, would also mean a shortage of luxury goods to Kim’s circle of supporters. But Chinese officials have reportedly indicated to Seoul that it will not go as far as cutting off aid, suggesting that China will continue to rely on diplomatic tools of influence rather than economic pressure.

Wider sanctions confront growing Sino-DPRK economic ties

As Pyongyang’s closest ally and trading partner, China appears to have greater economic leverage than any other country with North Korea. A Korea Trade-Investment Promotion Agency (KOTRA) report in May indicated that in 2008 China accounted for 73 percent of North Korea’s record-high foreign trade of \$3.8 billion, compared to a third in 2003. (KOTRA’s report does not include inter-Korean economic assistance as part of North Korea’s overall profile.) The 41 percent annual increase in bilateral trade to \$2.79 billion was driven mostly by Chinese exports to North Korea. North Korea’s economic dependence on China is rapidly increasing as indicated by a significant trade imbalance: Chinese imports, consisting mainly of crude oil, petroleum, and synthetic textiles, amounted to \$2.03 billion, while exports to China including

coal and iron ore totaled \$750 million. Some experts see the \$1.25 billion trade deficit as an indirect Chinese subsidy given that North Korea cannot finance its trade deficit through borrowing. According to Samsung Economic Research Institute (SERI), China supplies 90 percent of North Korea's oil, 80 percent of consumer goods, and 45 percent of its food. KOTRA projects that in 2009 North Korea's overall external trade will decline but Chinese economic influence will expand further.

On the other hand, South Korean government data in June revealed that over the 10 years of the Kim Dae-jung and Roh Moo-hyun administrations, total cash and material aid from the South to the North reached \$6.96 billion, 3.7 times greater than Chinese aid of \$1.9 billion during the same period and accounting for 90 percent of North Korea's exports during the period. But the \$2.92 billion in cash aid included fees and wages for the now suspended Mt. Keumgang and Kaesong projects. The current deadlock in inter-Korean relations suggests that Chinese aid will likely become more important.

Chinese and DPRK trade officials pledged to further deepen trade cooperation in a range of sectors including processing trade, compensation trade, and resources development at the 12th annual Pyongyang International Trade Fair in May, where 140 out of the 220 participating companies were Chinese. China-DPRK Friendship Year activities during the weeks preceding North Korea's nuclear test focused primarily on economic exchanges. Top DPRK legislator Kim Yong Nam expressed expectations for expanded Sino-DPRK ties during a week-long visit by China's National Committee of the Chinese People's Political Consultative Conference (CPPCC) delegation in April in the context of the 60th anniversary year of diplomatic ties and the first Friendship Year. In May, members of the China-DPRK Friendship Association and local officials in China made a week-long visit to the North focused on promoting local-local cooperation, during which the first China-DPRK "sister cities" meeting was launched in Pyongyang between six Chinese provinces and cities and their North Korean counterparts. Jilin's Tumen City government and the DPRK Hamgyong Provincial Tourism Bureau have reportedly agreed to open a China-DPRK railway tourism line linking Tumen to Namyang, Chongjin, and Chilbosan cities in the North.

China's economic stimulus and South Korea's export promotion

South Korean exports to China suffered a 24 percent year-on-year drop and imports a 36 percent drop in January-May 2009. Nevertheless, China remains the South's biggest trading partner, accounting for 23 percent of exports in this period, more than twice that of the United States. South Korean exports overall have been rapidly declining since late 2008, posting the first double-digit decline since 2001 and the sharpest ever drop in exports, according to a recent Korea Development Institute report. In contrast, surveys showed a moderate expansion of China's manufacturing sector in May with an improvement in new export orders. Foreign businesses have noted the favorable impact of Beijing's 4 trillion RMB (\$585 billion) stimulus package, which has made the Chinese economy more stable than other Asian economies and helped generate China's first quarter growth of 6.1 percent (year-on-year). Meeting Chinese Communist Party Propaganda Chief Li Changchun in Seoul, Federation of Korean Industries Chairman Cho Suck-rai recognized China's recovery as a key to global recovery.

Seoul is actively engaged in efforts to expand South Korea's share of the Chinese market. KOTRA in April hosted a trade fair in Seoul aimed at helping Korean companies boost sales in China, facilitating exchanges between 300 local firms and major Chinese distributors and multinationals. In June, the South Korean government held a three-day "Korean Products Show" in Beijing with hopes of securing as much as \$200 million worth of export deals as over 100 Korean firms in IT, automobiles, energy, and consumer goods exhibited their products to thousands of potential buyers. The Ministry of Knowledge and Economy has announced a new export support plan for Korean companies targeting China's high-end market, consisting of export project financing and expanded insurance coverage in addition to "premium product fairs" in major Chinese cities to promote consumer goods, which have represented a relatively small share of South Korean exports. At a time when the global crisis is hurting overall trade, the ministry has stressed the importance of Beijing's stimulus programs for bringing more opportunities for partnerships in building industrial plants and other construction projects.

Recent reports by major international business papers that Beijing's stimulus package includes a "Buy China" have renewed South Korean concerns about Chinese trade protectionism. Requiring government procurement to only use local products or services unless they are unavailable in China, this plan addresses serious domestic problems of unemployment but threatens the economic interests of South Korea, which remains far from recovery and relies on China for both exports and foreign investment. Furthermore, South Koreans see the move as especially threatening given that Seoul lacks any bilateral government procurement pact with Beijing like the one that protected Korea from a similar U.S. policy in the steel industry.

South Korean perceptions of China's rise: export competition and energy security

South Korea's export promotion strategy toward China has been accompanied by changing perceptions of China's rise as a global economic power. The Ministry of Strategy and Finance warned against the impact of China's rise on South Korea's own economic growth in an eight-page "reference material" issued in April, marking a sharp departure from references to China's growth as an opportunity for South Korea's export-led growth. In particular, the ministry pointed to a likely intensification of Sino-South Korean competition in export sectors and energy diplomacy, calling for a "pre-emptive external economic policy" to counter "the spreading Beijing Consensus." South Korean analysts have also called for better targeting of South Korea's diplomatic and economic strengths given Chinese competition in global markets. China's recent currency swap arrangements that will allow RMB to be used in trade settlements have led to expectations of intensified competition with China in key export markets in Latin America and Asia, as reflected in a SERI report in May speculating that the Chinese RMB may emerge as a global reserve currency.

Both China and South Korea rely heavily on exports for growth, competing in such sectors as shipbuilding, home electronic appliances, steel, and construction. They also both depend heavily on foreign oil reserves for energy. For example, South Korea is China's biggest export market for steel but is seeking to expand its own production capacity as China, the world's biggest steel producer and consumer, restructures its steel sector to create global rivals to South Korean counterparts like POSCO and Hyundai Steel. South Korean and Chinese leaders have actively engaged in state visits to resource-rich countries, while state-run Korean and Chinese firms have

competed to acquire energy companies abroad. Energy sector representatives in South Korea express growing concerns about China's undermining of South Korean efforts to secure overseas deals. The Korea National Oil Corp (KNOC) and Sinopec Group are currently competing to take over the Swiss-based oil and gas exporter Addax Petroleum which has resource development projects in Africa and the Middle East.

How seriously does China view its North Korea dilemma?

China continues to openly reiterate its opposition to the North Korean nuclear test while remaining unclear on what specific actions it will take next. Any meaningful action on North Korea from China appears unlikely given current Chinese preoccupations with the global crisis and problems at home. At the Shangri-La Security Dialogue in Singapore on May 30, the financial crisis and China's domestic development were the two main points of Lt. Gen. Ma Xiaotian's speech on Asian security cooperation.

If effective U.S.-China strategic cooperation to shape the future of North Korea is to be realized, a prerequisite will be the realization by that Chinese leaders that there is no viable trade-off between stability and denuclearization and that a nuclear North Korea is inherently destabilizing to its neighbors and to China's own national interests. The U.S. should continue to highlight the fundamental contradiction in China's policies, framing the issues in ways that require China to make choices between support for North Korea and efforts to safeguard China's broader regional and global interests. Through this process, Chinese leaders should realize that North Korean instability is as big a problem for China as for the U.S., especially to the extent that North Korea's actions precipitate regional responses that are unfavorable to China's longer-term regional interests.

Chronology of China-Korea Relations April-June 2009

April 3, 2009: Presidents Lee Myung-bak and Hu Jintao meet on the sidelines of the G20 Summit in London and express concern over North Korea's planned missile/satellite launch.

April 5, 2009: North Korea launches a long-range ballistic missile.

April 6, 2009: President Lee meets a Chinese Communist Party (CCP) delegation led by Li Changchun, chief of the CCP Propaganda and Cultural Affairs Bureau, in Seoul and calls for Chinese support in dealing with North Korea's April 5 missile launch.

April 7, 2009: ROK quarantine authorities discover a banned substance in Chinese beef stock.

April 8, 2009: ROK Foreign Minister Yu Myung-hwan discusses North Korea's launch with Chinese and Japanese counterparts in Seoul.

April 8, 2009: South Korean officials say China-based hackers attacked the ROK Finance Ministry intranet in February.

April 11, 2009: President Hu sends a message to Chairman Kim Jong-il congratulating him on his re-election as chairman of the DPRK National Defense Commission.

April 11, 2009: President Lee meets Premier Wen and Japanese Prime Minister Aso on the sidelines of the canceled ASEAN summit in Thailand to discuss North Korea's missile launch.

April 12, 2009: Seoul Mayor Oh Se-hoon and Tianjin Mayor Huang Xingguo meet in Tianjin and agree to expand Seoul-Tianjin cultural, tourism, and economic exchanges.

April 13, 2009: Chinese UN envoy Zhang Yesui calls for a "cautious and proportionate" UN Security Council (UNSC) response to North Korea's April 5 launch.

April 13-17, 2009: Vice Chairman of the National Committee of the Chinese People's Political Consultative Conference Li Jinhua leads a delegation to Pyongyang and meets DPRK top legislator Kim Yong Nam.

April 14, 2009: The UNSC issues a President's Statement condemning North Korea's April 5 missile test. Chinese Foreign Ministry spokesperson says China opposes the UN adopting any new resolution and sanction against the DPRK.

April 14, 2009: Chinese affiliates of South Korea's STX Group secure 2.85 billion RMB (\$417 million) in loans to fund construction of its shipbuilding complex in Dalian.

April 17, 2009: The ROK Ministry for Food, Agriculture, Forestry and Fisheries says it will destroy 161 tons of contaminated Chinese beef stock.

April 20, 2009: Head of China's Atomic Energy Authority Wang Yiren denies any cooperation with North Korea on nuclear energy development.

April 20-23, 2009: South Korean Navy participates in the multilateral fleet review and 60th anniversary celebrations of the founding of the Chinese PLA Navy in Qingdao.

April 27, 2009: A Chinese criminal ring that swindled 360 million *won* (\$270,000) out of 15 South Koreans through phone-based financial scams is arrested in Gangneung.

May 3, 2009: Jilin's Tumen City government and the DPRK Hamgyong Provincial Tourism Bureau in Chongjin City agree to open a railway tourism line.

May 3, 2009: Chinese, South Korean, and Japanese finance ministers agree to provide 80 percent of the \$120 billion Chiang Mai Initiative liquidity fund.

May 4-9, 2009: Former ROK President Kim Dae-jung makes a 5-day trip to China to discuss Korean Peninsula and regional issues.

May 4, 2009: The DPRK Education Ministry and Chinese embassy in Pyongyang hold China Youth Day celebrations at Kim Il Sung University.

May 7, 2009: The 43rd Joint Committee Meeting for China-DPRK Scientific and Technological Cooperation is held in Pyongyang.

May 8-13, 2009: A Chinese delegation led by Wu Donghe, chairman of China-DPRK Friendship Association meets senior officials in Pyongyang.

May 11-14, 2009: Chinese and DPRK trade officials pledge to strengthen trade cooperation at the 12th Pyongyang International Trade Fair.

May 12, 2009: The first China-DPRK sister cities' meeting is held in Pyongyang.

May 13, 2009: An annual ROK Air Force publication reports that the Chinese military attempted to hack into the South Korean embassy computer system in the U.S. in 2008.

May 21, 2009: The ROK Ministry of Knowledge and Economy announces a government support plan to help Korea firms expand Chinese market share in high-end goods.

May 25, 2009: ROK Foreign Minister Yu Myung-hwan and Chinese counterpart Yang Jiechi meet on the sidelines of the ASEM foreign ministers meeting in Hanoi.

May 26-27, 2009: ROK Defense Minister Lee Sang Hee meets counterpart Liang Guanglie and Vice President Xi Jinping in Beijing to discuss North Korea's May 25 nuclear test.

June 8, 2009: The five subsidiaries of Korea Electric Power Corp. (KEPCO) agree to jointly buy coal from China in a bid to cut costs.

June 9-10, 2009: ROK nuclear envoy Wi Sung-lac meets Chinese counterpart Wu Dawei and Foreign Minister Yang Jiechi in Beijing.

June 9-11, 2009: Korea attends the first non-traditional security forum of the armed forces of ASEAN Plus 3 at the Shijiazhuang PLA Army Command College hosted by the PRC Ministry of National Defense.

June 10, 2009: Chinese Ambassador Cheng Yonghua at a business forum in Seoul calls for an early conclusion of the China-ROK free trade agreement.

June 12, 2009: The UN Security Council unanimously passes Resolution 1874 which calls on UN members to inspect cargo vessels and airplanes suspected of carrying military materials in or out of North Korea.

June 14, 2009: The China-South Korea-Japan 11th Tripartite Environment Ministers Meeting is held in Beijing.

June 18, 2009: The Chinese Foreign Ministry denies unconfirmed Japanese media reports that Kim Jong-il's son Kim Jong-un met President Hu and other leaders in Beijing on June 10.

June 19, 2009: The 14th DPRK-China talks on oceanic science and technology cooperation is held in Pyongyang and produces a two-year plan for monitoring Yellow Sea weather.

June 23-25, 2009: Over 100 Korean firms in IT, automobiles, energy, and consumer goods showcase their products at "Korean Products Show 2009, Beijing."

June 25, 2009: The Korea Trade Commission penalizes NSC Korea Co. for mislabeling China-made ball bearing exports to Turkey as made in South Korea.

June 25, 2009: The Ministry for Food, Agriculture, Forestry and Fisheries announce plans to launch an annual inspection of fish farms and seafood factories in China.

June 26, 2009: ROK Knowledge Economy Minister Lee Youn-ho holds talks with Chinese Commerce Minister Chen Deming in Seoul.



Japan-China Relations:

High-level Meetings Intensify as Old Problems Simmer

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Intensive high-level meetings marked the second quarter of the year for Japan and China. In April alone, Prime Minister Aso Taro met three times with China's leaders, President Hu Jintao and Premier Wen Jiabao. Efforts to structure a response to North Korea's April 5 missile test and May 25 nuclear test dominated bilateral diplomacy. Japan's call for a strong response in the UN Security Council met with Chinese appeals for caution and restraint. Japanese efforts to begin implementation of the June 2008 agreement on the joint development of natural gas fields in the East China Sea and to resolve the January 2008 contaminated *gyoza* cases made little progress. Issues of history were rekindled by Prime Minister Aso's offerings at the Yasukuni Shrine and the release of movies on the Nanjing Massacre in China. The quarter ended with senior diplomats again discussing implementation of UN Security Council Resolution 1874, which imposed sanctions on North Korea.

High-level meetings

On April 2, Prime Minister Aso Taro met President Hu Jintao on the sidelines of the G20 Summit in London. Aso focused the discussion on the need for a strong response by the United Nations Security Council (UNSC) in the event North Korea followed through on its stated intention to launch a satellite. While recognizing the political impact of a launch in Japan, Hu cautioned against escalatory steps, called for a cool-headed response, and made clear that he wanted to develop a coordinated response within the framework of the Six-Party Talks.

Aso also noted the lack of progress in resolving issues related to the implementation of the June 2008 agreement on the joint development of natural gas fields in the East China Sea, making clear the he expected Hu to demonstrate leadership on the issue. Hu replied that he preferred an exchange of views at the working level. As for the long-standing contaminated *gyoza* issue, Hu said that he wanted to cooperate with Japan in resolving the matter. It was also announced that Aso would visit China at the end of the month.

Just over a week later, in the wake of North Korea's April 5 missile test, Aso met Premier Wen Jiabao on April 11 at the ASEAN-related meetings in Pattaya, Thailand. Aso asked Wen to "think of the sentiments of the Japanese people, including those in Akita and Iwate Prefectures, over which the missile flew." During the meeting, which ran 50 minutes over schedule, Aso pressed Wen to support a UNSC resolution, to which Wen replied "Let's leave the matter to the

experts.” Aso made it clear that if a presidential statement was adopted, it would have to cite North Korea’s action as a violation of UN Security Council Resolution 1718.

After the bilateral meeting, Aso and Wen met South Korean President Lee Myung-bak. The meeting produced an agreement to support a nonbinding President’s Statement condemning North Korea for the missile test. While conceding on the form of a presidential statement, Aso, with the support of Lee, insisted on the adoption of the strongest possible language.

With a view to moving North Korea back to the negotiating table, Chief Cabinet Secretary Kawamura Takeo told reporters that “China must make full use of its authority as the nation hosting the Six-Party Talks.” In an April 17 interview with the *Nihon Keizai Shimbun*, China’s Foreign Minister Yang Jiechi said that he would “like to make a positive effort to maintain the negotiation process,” promising that China “will keep in touch with North Korea.”

On April 29, Prime Minister Aso arrived in Beijing and conferred with Premier Wen in the Great Hall of the People. Wen opened the meeting by noting that China-Japan relations have “improved through mutual efforts and accomplishments” and called on the two countries to “value and maintain their relationship.” Aso replied by noting that his visit to Beijing marked his third meeting with Chinese leaders within the month. The wide-ranging discussion touched on cooperation in dealing with the global economic crisis, the environment, swine flu, North Korea, nuclear disarmament, and Aso’s recent offering to the Yasukuni Shrine. On North Korea, Aso said that he expected China, as chair of the Six-Party Talks, to take the lead role in bringing Pyongyang back to the table. Wen, in turn, expressed the need for “persistence in overcoming difficulties” and the desire to “deepen coordination with Japan.”

Wen emphasized the importance of dealing with the past and Yasukuni in particular, expressing the hope that “Japan will deal appropriately with the matter.” Aso replied that Japan’s position remained “unchanged,” referring to the 1995 statement of Prime Minister Murayama Tomiichi which apologized and expressed remorse for Japan’s colonial rule and aggression.

As for nuclear disarmament, Aso asked China to support the efforts of the Obama administration to reduce nuclear weapons. Wen replied that China has “consistently advocated a total ban on nuclear weapons” and adheres to a no first-use policy.

The two leaders agreed to cooperate and exchange information on health risks posed by swine flu. To advance bilateral relations, they agreed to the opening of regular flights between Tokyo’s Haneda airport and Beijing beginning in October. Aso also proposed a joint Japan-China comprehensive cooperation plan to deal with environmental protection and energy conservation.

However, no progress was made on the issues of the East China Sea and contaminated *gyoza*. Likewise, Aso raised the pending issue of China’s compulsory certification system, which will require disclosure of source codes for information technology products sold in China. He expressed concern that the requirements will become an obstacle to trade and asked Wen to reconsider the decision. Wen replied by noting that introduction of the system has been put off for over a year. (China announced the new system in January 2008 with a May 2010 start date.)

On April 30, Aso met President Hu in the Great Hall of the People. The discussion covered much the same ground as the previous day's meeting between Aso and Wen – the global economic crisis, the health dangers posed by swine flu, Yasukuni and history, North Korea, and nuclear disarmament; both sides repeated well-worn talking points. The *Yomiuri Shimbun's* editorial on the summit was headlined “Superficial Strategic Mutually Beneficial Relationship.”

Security

On April 23, the People's Liberation Army (PLA) Navy marked its 60th anniversary with a fleet review off Qingdao. President Hu reviewed the fleet of naval vessels from 14 countries participating in the ceremonies. Although the Maritime Self-Defense Force was not invited to participate, it did send observers. The next day the *Nikkei Shimbun's* editorial “China Must Increase Naval Transparency” called on Beijing to explain the strategic purpose behind its decision to build aircraft carriers. The editorial noted that “China's failure to fulfill its accountability will cause its neighbors to become even more concerned. The communist government itself should hurry to increase military transparency.”

On April 27 in Tokyo, Foreign Minister Nakasone Hirofumi delivered an address calling for global nuclear disarmament. He raised the issue of China's modernization of its nuclear arsenal, observing that “China's strategic direction is unclear.” China had “yet to undertake any nuclear arms reduction” and failed “to disclose any information about its nuclear arsenal.” The *Asahi Shimbun* quoted a Foreign Ministry official as saying that a reduction in the nuclear arsenals of the U.S. and Russia would be “pointless if China were to increase its nuclear weapons.” The diplomat went on to assert that “a cap must be placed on China's military expansion.”

Beijing's response came the following day. The Foreign Ministry's deputy spokesperson told reporters that China had consistently supported the abolition of nuclear weapons and that its “nuclear strategy and nuclear policy are clear and completely transparent.”

During Japan's Golden Week, Prime Minister Aso traveled to Europe. While at the Japan-European Union summit in Prague, Aso addressed the security environment in Northeast Asia, which he viewed as increasingly hostile as a result of North Korea's missile test and China's continuing modernization of its nuclear arsenal. The Chinese Foreign Ministry's spokesperson responded that “China's nuclear policy and nuclear strategy are very transparent” and that “China's position on denuclearization is clear for all to see.” He did not understand “what Japan's leader was trying to achieve in using China's nuclear issue as a talking point....”

Spy scandal?

In mid-May, Japanese media, drawing on reports in *The Australian*, reported that the former head of *Xinhua's* Foreign Affairs Bureau, Yu Jiafu, has been sentenced to 18 years in prison for passing state secrets to Japan's Ambassador to China Miyamoto Yuji. The story in *The Australian* was based on an interview with Yu's daughter who had moved to Australia and become an Australian citizen.

The Chinese court found that the information passed by Yu to the Japanese ambassador, reports on China's policy toward North Korea, had harmed China's national security interests. Yu had admitted to passing the information to Miyamoto and a South Korean diplomat and to receiving money in return but insisted that information was not classified and based on open source material. It was reported that Yu had received a total of close to 3 million yen. The *Sankei Shimbun*, citing "related sources" reported that the Yu-Miyamoto relationship had developed during Miyamoto's posting as minister at the Japanese embassy in Beijing in 1998 and resumed upon his appointment as ambassador in 2006.

On the evening of May 13, the Japanese embassy issued a "no comment" on the report and Chief Cabinet Secretary Kawamura told reporters that Japan's diplomats respect and obey the laws of the countries to which they are accredited; thus, there was "no problem." On May 15, Miyamoto told reporters that to comment on the contents of diplomacy would only have negative consequences; he too issued a "no comment."

Taiwan and the Senkaku Islands

On May 1, at a symposium held at Taiwan's National Chung Cheng University, Saito Masaki, head of the Taipei Office of Japan's Interchange Association, remarked that, in his personal view Taiwan's international status remained undetermined. Saito explained that under the San Francisco Peace Treaty, Japan only renounced sovereignty over Taiwan and that its ultimate status remains undetermined.

Saito's remark elicited protests from both Taipei and Beijing. Mainland media portrayed Saito's statement as that of a high Japanese official supporting Taiwan independence. China's *Environmental Times* cast Saito's words as those of a man expressing the dissatisfaction present within the Japanese government over the recent warming in cross-Strait relations.

Meanwhile activists in both Hong Kong and Taiwan announced plans to land on the Senkaku Islands to reinforce sovereignty claims. However, in both Hong Kong and Taipei, government authorities worked to pressure the activists to abandon their plans. Hong Kong authorities denied the activists' ship permission to depart Hong Kong harbor, citing the unsatisfactory condition of the ship and its documentation, while Taiwan's National Security Council prevailed on the boat owner to cancel the trip.

The *Sankei Shimbun* viewed the actions taken by the Hong Kong authorities as evidence of China's intent to avoid damaging the China-Japan relationship, while Japan's *Kyodo News* saw Taipei's actions as reflecting the efforts of Taiwan's President Ma Ying-jeou to improve Taiwan-Japan relations. Another sign of Ma's intent came May 5 with the announcement of a government decision to dedicate the restoration of the living quarters of the former Japanese engineer, Yada Yoichi, as a national park site; Yada worked to build a dam in the south of Taiwan during Japan's colonial occupation.

Yasukuni and history

On April 21, a week before his scheduled visit to China, Prime Minister Aso, on the occasion of the Spring Festival, made an offering of *masakaki*, potted evergreen branches valued at 50,000 *yen*, to the Yasukuni Shrine. Shrine sources revealed that the offering was made in the name of Prime Minister Aso Taro. Responding to reporters' questions, Aso noted that he had made a similar offering the past October and that he did so again to "express my gratitude and respects to those who died for their country." Asked whether he would pay homage at the Shrine, Aso replied that he would make "an appropriate decision."

Aso later observed that "if the prime minister pays homage there, it would not be taken as a private visit." On the morning of April 22, 61 members of the Lower House and 26 members of the Upper House paid homage at the shrine; none were members of the Aso Cabinet.

In Beijing, the Foreign Ministry was quick to respond. At a regularly scheduled press conference, spokesperson Jiang Yu reminded Tokyo that "Yasukuni is an important and sensitive political issue" and asked Japan to "earnestly and scrupulously follow efforts on both side to overcome political barriers between the two countries." Two days later, Jiang announced that China had expressed its "great concern and displeasure through diplomatic channels." Jiang observed that "mistaken actions taken by Japan will have grave negative consequences for bilateral relations," asked that Japan "exercise caution in its words and actions," and called on Tokyo to "deal appropriately with the issue."

Looking ahead to the Aso visit, Jiang emphasized that "dealing appropriately with the problems of history is the political foundation for the healthy and stable development of the China-Japan relationship." Japanese media speculated that the announcement of the protest and the stronger language of the April 23 statement was in response to public and net-based criticism.

Former Prime Minister Abe Shinzo took up the Yasukuni issue on May 11, telling a media audience that it "is natural for Japan's leaders to express reverence for those who fought, suffered, and died for their country." Although Abe did not visit Yasukuni while he was prime minister, he now thought that "fundamentally the prime minister should pay homage at the Shrine." Abe explained his shift as an expression of the "Assertive Diplomacy" he is advocating for Japan. He went on to say that he "wanted to create an environment in which the prime minister would be able to pay homage at the shrine in a dignified manner."

History also returned in the cinema. On April 22, the movie *Nanjing! Nanjing!* opened in Shanghai and on 1,400 screens across China. A Chinese production, filmed in black and white, and four years in the making, the movie dealt with the atrocities committed by the Imperial Japanese Army. A week later, a second film dealing with the Nanjing Massacre, *John Rabe*, a Chinese, French and German production, also opened in China.

North Korea's nuclear test

North Korea's May 25 nuclear test touched off a political storm in Japan that included calls for the development of an offensive strike capability aimed at reaching North Korean launch sites as

well as the development of a nuclear capability. The test also resulted in an intensive round of diplomatic consultations between Japan and China. Tokyo aimed at moving China to support a strong sanctions resolution at the UN, while Beijing urged composure and restraint on Japan.

On the evening of May 25, during the Asia Europe Meeting (ASEM) meeting in Hanoi, Foreign Minister Nakasone met his Chinese counterpart Yang Jiechi to enlist China's cooperation in drafting a new Security Council resolution. Yang replied that he would earnestly hear out Japan's position and that he wanted to continue consult with Japan.

On June 2, Nakasone held a 30 minute telephone conversation with Yang, again urging China's support for a sanctions resolution at the UN. Yang told Nakasone that the problem "cannot be solved by a UNSC resolution and sanctions." China was in favor of "an appropriate response" and a "balanced resolution."

The following day, China's Ambassador to Japan Cui Tiankai met reporters at the Chinese embassy. Addressing the political debate in Japan, Cui told reporters that development of strike and nuclear capabilities would not advance resolution of the issue and that "conversely it would play against Japanese interests." He hoped that politics would not affect Japan's official standpoint and policy. Cui also met Democratic Party of Japan (DPJ) leader Hatoyama Yukio at party headquarters and conveyed a similar message. The ambassador told Hatoyama that "we must negotiate through dialogue." The issue was not one "where taking a tough stance will suffice."

Nakasone met Yang again in Tokyo on June 7 during the Japan-China High Level Economic Dialogue. He reiterated the need for a "strong resolution that will make North Korea understand that we cannot tolerate its nuclear test." In reply, Yang reiterated China's position on the need for "an appropriate and balanced resolution." Yang emphasized China's opposition to North Korea's nuclear test and its possession of nuclear weapons but also made clear that "it is also important to maintain peace and stability in Northeast Asia." The next day, Prime Minister Aso met with China's Vice Premier Wang Qishan at the prime minister's official residence. Aso asked for China's support in the passage of a strong resolution, telling Wang that Japan pinned its hopes on "the role of China." Wang replied that China opposed the nuclear test and would like to continue cooperation.

On June 12, the UNSC adopted Resolution 1874, imposing sanctions on North Korea. China's Ambassador to the UN Zhang Yesui, while expressing China's firm opposition to North Korea's nuclear test, also insisted that "under no circumstances should there be the use of force or threats of the use of force" in implementing the sanctions resolution

On June 24, Vice Foreign Minister Yabunaka Mitoji and his Chinese counterpart Wang Guangya resumed the Japan-China strategic dialogue in Beijing, marking the 10th dialogue in the series. Wang opened the meeting by calling for "an in-depth exchange of views on China-Japan relations as well as international and regional issues." Yabunaka, in reply, called attention to North Korea as an issue "approaching a very critical stage" and asked China to implement UNSC Resolution 1874. He also raised the possibility of "new approaches" based on the Six-Party Talks to which Wang replied that "we need to work on this carefully."

In the end, both sides agreed that North Korea's possession of nuclear weapons was "absolutely unacceptable," confirmed that the two countries would implement the sanctions resolution, and work to effect denuclearization through the Six-Party Talks. Afterward, Yabunaka told reporters that "the Japanese side said that both sides have great responsibility at this juncture and also broached the possibility of a new approach to North Korea." From Chinese statements, the Japanese delegation felt that China shared a similar sense of responsibility.

Business and economics

The second Japan-China High-Level Economic Dialogue took place in Toyko on June 7. Attending on the Japanese side were Foreign Minister Nakasone, Finance Minister Yosano Kaoru, and Trade and Industry Minister Nikai Toshihiro. On the Chinese side, attendees included Vice Premier Wang, Foreign Minister Yang, and National Development and Reform Commission Chairman Ping Zhang.

The meeting produced 11 agreements on cooperation, including several to support both sides' domestic economies with proactive fiscal measures, to cooperate in dealing with the global economic crisis, to protect intellectual property, and to provide financial assistance through the Development Bank of Japan and Export-Import Bank of China to Japanese and Chinese companies develop their presence in Asian countries. The two sides also agreed to set up a dialogue forum for next generation leaders, to promote earthquake research, and to initiate talks on energy conservation and water quality.

Progress was not made in postponing China's introduction of its compulsory licensing system for IT products set for May 2010, on East China Sea development, contaminated *gyoza*, and on greenhouse gas emissions, with China insisting that industrialized countries take the lead.

Outlook

Structuring a response to North Korea will keep Japanese and Chinese diplomats engaged. At the political level, with a Lower House election looming during the third quarter, Japan's focus will be inward. Expect little progress on issues related to food safety and the East China Sea.

Chronology of Japan-China Relations April-June 2009

April 2, 2009: Prime Minister Aso Taro announces up to 2 trillion yen for an Overseas Development Assistance plan to assist recovery of Asian economies.

April 3, 2009: *Yomiuri Shimbun* poll reveals 51.6 percent of respondents favor constitutional revision, up from 42.5 percent in March 2008 survey. Opponents of revision accounted for 36.1 percent, down from 43.1 percent in 2008. Thirty-eight percent favored amending Article 9 of the Constitution, up from 31 percent in 2008.

April 3, 2009: Japan and Taiwan announce reciprocal one-year working visas to begin June 1.

April 8, 2009: Chief Cabinet Secretary Kawamura Takeo acknowledges that Mayor Ohama Nagateru of Ishigaki Island in the Okinawa chain has asked government approval to visit Senkaku Island for property tax purposes.

April 9, 2009: A history textbook, authored by the nationalist Japanese Society for History Textbook Reform, clears government screening.

April 11, 2009: PM Aso meets Premier Wen Jiabao in Pattaya, Thailand in conjunction with ASEAN-related meetings.

April 13, 2009: Japan-China Friendship Society announces plan to preserve Silk Road relics in Kansu Province and to cooperate in green environment projects.

April 21, 2009: Supra-party delegation, led by Yamasaki Taku, visits Chinese embassy in Tokyo to asks for Chinese assistance in bringing North Korea back to the Six-Party Talks

April 21, 2009: PM Aso makes an offering at Yasukuni Shrine during Spring Festival.

April 21, 2009: Chief Cabinet Secretary Kawamura announces that the government has no plans to accept a proposal for creating a National Cemetery.

April 22, 2009: Sixty-one members of the Lower House and 26 members of the Upper House visit Yasukuni Shrine; no members of the Aso Cabinet participate

April 22, 2009: Chinese movie *Nanjing! Nanjing!* opens on 1,400 screens in China.

April 23, 2009: A fleet review commemorating 60th anniversary of PLA Navy takes place off Qingdao. Maritime Self-Defense Forces is not invited to participate but sends observers.

April 23, 2009: China announces protest of PM Aso's Yasukuni offering.

April 23, 2009: Self-Defense Force Chief of Staff Oriki Hirano announces that Air Self-Defense Force aircraft were scrambled 237 times in 2008 down 70 from the previous year. Scrambles against Chinese aircraft declined to 31 from 43.

April 27, 2009: FM Nakasone raises the issue of Chinese military build-up and modernization during speech in Tokyo on nuclear disarmament.

April 29, 2009: Joint Chinese, French, German movie on the Nanjing massacre opens in China.

April 29-30, 2009: PM Aso visits China and meets President Hu and Premier Wen; delivers a speech to meeting of Japan-China Future Business Leaders.

May 1, 2009: Japanese Foreign Ministry announces issuing of individual tourist visas for Chinese citizens will begin July 1. Previously tourist visas were restricted to tourist groups of four or more.

May 1, 2009: Saito Masaki, head of Taipei Office of the Japan Interchange Foundation offers his personal view that the international standing of Taiwan remains undetermined.

May 8, 2009: Taiwan's President Ma Ying-jeou announces plan to dedicate a national park to the memory of Japanese hydrological engineer Yada Yoichi.

May 9, 2009: Japanese media reports sentencing of former *Xinhua* Foreign Affairs Bureau for passing classified information to a former Japanese ambassador to China.

May 11, 2009: Former PM Abe opines that Japan's prime minister should be able to visit Yasukuni Shrine.

May 13, 2009: Japanese embassy in Beijing issues "no comment" on reports of ambassador's relationship with former *Xinhua* bureau chief. The ambassador follows with his "no comment."

May 14, 2009: Former PM Abe calls on Aso government to revise its interpretation of Japan's right to exercise the right of collective self-defense.

May 25, 2009: FM Nakasone meets Chinese counterpart Yang Jiechi in Hanoi and urges adoption of UNSC resolution in response to North Korea's nuclear test.

May 26, 2009: Japan's Supreme Court rejects a suit brought by 22 Chinese plaintiffs seeking compensation for exposure to chemical weapons abandoned in China by Japan's Imperial Army.

June 2, 2009: FM Nakasone holds 30 minute telephone conversation with FM Yang on sanctions resolution.

June 3, 2009: Ambassador Cui meets Democratic Party of Japan President Hatoyama and urges dialogue to resolve North Korean crisis. Hatoyama tells Cui that he will not visit Yasukuni Shrine if he becomes prime minister.

June 3, 2009: Ambassador Cui meets with Japanese reporters and urges restraint in Japan's response to North Korea's nuclear test.

June 7, 2009: Second Japan-China High Level Economic Dialogue is held in Tokyo.

June 7, 2009: FMs Nakasone and Yang meet in Tokyo and discuss sanctions resolution.

June 8, 2009: Swedish International Peace Research Institute announces that China has become the world's second leading country in military expenditures.

June 8, 2009: PM Aso meets visiting Vice Premier Wang and urges adoption of a strong resolution on North Korea by the UNSC.

June 8, 2009: China's Defense Minister Liang Guanglie tells a visiting Japanese delegation that China's plans for building an aircraft carrier is "under study."

June 12, 2009: UNSC adopts resolution sanctioning North Korea for its May 25 nuclear test.

June 13-14, 2009: China, Japan, and South Korean Environment Ministers meet in Beijing for 11th tripartite environment talks. They agree to continue joint research on region's major environment issues, including sandstorms and air pollution.

June 24, 2009: Tenth Japan-China Strategic Dialogue takes place in Beijing.

June 26, 2009: U.S., Japan, and China announce plans to hold trilateral policy planning talks.

June 27, 2009: Former Taiwan President Lee Teng-hui warns against China's political and economic strategies toward Taiwan.

June 29, 2009: Japan and China hold their first policy dialogue on resources and the environment in Beijing.



Japan-Korea Relations:
Pyongyang's Belligerence Dominates

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The second quarter of 2009 saw a rapid increase in tensions between North Korea and all its neighbors, and this tension dominated relations during the quarter. In rapid succession, North Korea tested a long-range intercontinental ballistic missile (which failed), a nuclear device (successfully), dared anyone to start a war with it, and then dispatched a ship suspected of carrying small arms on a route most believed destined for Myanmar. Japan led the way in responding to North Korea, introducing harsher sanctions and calling for wider international moves to punish Pyongyang. Seoul-Tokyo relations moved closer as leaders in both capitals agreed on how to react to North Korea and both leaders welcomed the Obama administration's moves for UN sanctions.

Japan-North Korea relations: face-off

Despite strong warnings from Japan and other countries involved in the Six-Party Talks, Pyongyang went ahead with a missile launch on April 5 and went even further on May 25 to conduct its second nuclear test. Not surprisingly, this quarter's Japan-North Korea relations were basically hostile with little movement within the broader situation of a "bellicose North Korea vs. the international community." Together with the U.S. and South Korea, the Japanese government played a leading role in pushing for the UN Security Council (UNSC) Resolution 1874, as well as imposing tougher unilateral sanctions against Pyongyang. Under these measures, North Korea is placed under even harsher financial restrictions than had been imposed by both the UN and Japan, most notably the monitoring and potential inspections of its ships and aircraft suspected of carrying illicit weapons related to the country's missile and nuclear weapons development programs.

Given that it was Pyongyang's 1998 *Taepodong* missile launch and its first nuclear test in July 2006 that have played an important role in fueling Japan's moves toward remilitarization, a key question becomes: how will Tokyo and the Japanese public respond this time to the North's bellicose behavior in terms of Japan's evolving military posture? Developments over this past quarter indicate that Tokyo is likely to step up efforts to counter nuclear threats from Pyongyang, which will involve not only diplomacy but also improvements in its military capabilities.

The quarter highlighted Japan's nascent missile defense system and presented the perfect opportunity for some to make their case that Japanese missile defense is "like a child reaching middle school age" and thus in need of major improvement and a much bigger budget. Thus far,

Japan has invested over 1 trillion *yen* in the missile system. According to the April 4 *Asahi Shimbun*, the Japanese government deployed nine *Aegis* destroyers to track the North's rocket, with seven of the destroyers equipped with interceptor missiles. This was a much higher level of preparedness than had been the case for the North's missile launches in 1998 and 2006. In 1998, when North Korea fired a *Taepodong-1* missile, Japan's Maritime Self-Defense Force (MSDF) had one *Aegis* destroyer to track it. At Pyongyang's 2006 launch of a *Taepodong-2*, the MSDF deployed one destroyer and the U.S. sent two.

Despite the Aso administration's repeated emphasis on a rapid, effective response, probably in the hope of improving its approval rating, two false alarms over the timing of the North's missile launch highlighted the poor performance of its crisis management and left it "egg-faced." The second false alarm was televised nationwide through *NHK* and other media outlets. The Self-Defense Force's difficulty dealing with the April launch caused many people to question how prepared it really is and how ready it might be to manage a military crisis.

Some hawkish Japanese politicians attempted to take advantage of this quarter's North Korean provocations to break the taboo against nuclear weapons and to stir up discussion about constitutional revision. On April 19, former Finance Minister Nakagawa Shoichi suggested that Japan consider possessing nuclear weapons to deal with the threat from North Korea, saying that in pure military terms "nuclear counters nuclear." Earlier in February, he *did* stir a sensation with his drunk, slurring remarks at a news conference in Rome and was forced to resign afterward (http://www.youtube.com/watch?v=o8GGT_IqMWE). Similarly, another hawkish politician, head of Liberal Democratic Party (LDP) Organization Headquarters Sakamoto Goji made remarks that indicated support for Japan's nuclearization, only to backtrack later. A day after Sakamoto's comments, Chief Secretary Kawamura Takeo told reporters that nuclear weapons are not an option for Japan, reconfirming Japan's non-nuclear principles. Of major media, Japan's conservative daily *Yomiuri Shimbun* argued in an April 3 editorial that the ruling and opposition parties should renew debate on constitutional revision, citing the latest *Yomiuri* survey that 51.6 percent of respondents supported revising the constitution, while 31.6 percent opposed it.

Although the above incidents do not represent the general political atmosphere within Japan regarding its nuclear policy, it is likely that intensified national security concerns stemming from North Korean behavior will give credence to those who argue that Japan needs to spend more on defense. Defense Minister Hamada Yasukazu said that Japan should consider deploying an early warning satellite into space independent of the U.S. to detect the launch of a ballistic missile and the government is said to be considering the suggestion. *Kyodo News* reported on June 9 that the LDP defense policy panel proposed that Japan be equipped with the capacity to strike an adversary's missile sites under the new National Defense Program Guidelines.

Two factors may determine the pace of such developments in the short run: Japanese public opinion and the struggling LDP leadership as it faces an election this year.

Public opinion surveys suggest the evidence remains mixed at this point. According to a *Yomiuri* survey conducted April 3-5, 88 percent of respondents (in a nationwide telephone survey of 1,770 households with eligible voters) replied that they felt anxious about Pyongyang's development of missiles. Seventy-eight percent said they want the Japanese government to

strengthen sanctions against the North. On the other hand, a poll by a high school teachers union revealed that more than 60.9 percent of Japanese high school students are opposed to changing Article 9 of the Constitution. Of those opposed to revision, 73.2 percent said it was because a revision “could open the way to war.” The same survey showed that 84.1 percent of high school students believed that Japan should uphold its three non-nuclear principles. (The survey was conducted among 12,286 students at 148 high schools across 28 prefectures in November 2008.) In a related development, over 2,200 pro-constitution supporters gathered June 2 in Tokyo to rally for the protection of Article 9 in commemoration of the late Kato Shuichi, one of the nine co-founders of the Article 9 Association.

The unpopularity and uncertain future of the ruling LDP is another factor in determining Japanese foreign policy as the Democratic Party of Japan (DPJ) is increasingly challenging the LDP in the run-up to the general election. In this past quarter, the LDP received a record-low approval rating of 19.8 percent in June, down 8.7 percent points from the May poll, while 38.5 percent showed support for the DPJ, according to a *Kyodo News* poll published on June 15. The DPJ is becoming more confident, as it recently won a number of key local elections, including a landslide victory in the June mayoral election for the city of Chiba, a third big win after winning the mayoralties of Nagoya and Saitama. The DPJ backed 31-year old Kumagai Toshihito against the incumbent, 63-year old Hayashi Kojiro. In other bad news for unpopular Prime Minister Aso Taro, more than 80 members of his LDP said they want a leadership vote before national elections are held later this year.

For now, however, the immediate Japanese responses to the North’s missile and nuclear tests followed both international and unilateral paths: supporting the UNSC resolution and applying more unilateral sanctions. Japan’s diplomatic efforts were concentrated on adopting a new resolution containing tougher sanctions than Resolution 1718 within the UNSC framework. When the North went ahead with its second underground nuclear test, Tokyo was the first to request an urgent meeting and submitted a draft resolution with the U.S., which ultimately yielded UNSC Resolution 1874. Prime Minister Aso also said that Japan was requesting that the U.S. put Pyongyang back on the list of state sponsors of terrorism.

By quarter’s end, Japan strengthened its sanctions and placed a ban on all trade with North Korea from June 18 until April 2010. Additional measures also cut the amount of cash allowed into North Korea without the Japanese government’s approval to 300,000 *yen* (\$2,990), down from 1 million *yen*. These sanctions are mostly political and partly symbolic, aimed at punishing Pyongyang’s behavior rather than having much practical impact on North Korea. Many analysts point out that those measures would have little affect on Pyongyang anyway, given that the low level of Japan-North Korea economic relations. Already stringent Japanese sanctions do not provide Japan much leverage in the first place.

North Korea has not been kind to Japan, either. On top of proclaiming that it would never come back to the Six-Party Talks, it responded to Japan’s imposition of sanctions by employing its usual threatening rhetoric. Pyongyang accused Japan of exaggerating threats as a pretext to build up its air defense system and to “invade the North by force.” A commentary in the official *Rodong Shinmun* it claimed that Japan’s claim of a missile threat from North Korea is “entirely groundless and wild guesses.”

Japan-South Korea relations: under the same umbrella

Two key issues for the past quarter in Japan-South Korea relations were the history textbook controversy and the Aso-Lee Myung-bak summit in late June, reflecting the continued warming trend in the bilateral ties between the two administrations – an emphasis on practical partnership against the backdrop of recurrent historical disputes. Although the quarter began with the Japanese government’s approval of a controversial textbook, that did not ruin relations between Aso and Lee, especially in the face of Pyongyang’s nuclear and missile provocations. The two met three times during this quarter – first on the sidelines of the Group of 20 Economic Summit on April 1, then at the ASEAN Plus 3 setting on April 11, and finally at their bilateral Tokyo summit on June 28. Considering that Aso and Lee have met eight times in the last eight months, bilateral ties are apparently entering a period of stability. Notably during this quarter, Japan and South Korea signed the first formal defense pact that covers military cooperation measures in a wide range of areas.

Dispute over a history textbook

On April 9, the Japanese government’s approval of yet another controversial textbook by Jiyusha Publishing, after approving the 2005 textbook by Fusosha Publishing, resulted in a strong protest from the South Korean government. The new textbook was published by the same right-wing group (Japanese Society for History Textbook Reform) as the previous textbook, and thus had little difference in content from the Fusosha textbook. According to the South Korean Foreign Ministry, the new textbook describes Japan’s colonization of Korea as a means of helping Korea to modernize while justifying Japan’s invasion of Korea. South Korea’s Foreign Ministry spokesman Moon Tae-young said that the textbook is based on an “erroneous historical perception that justifies its past wrongdoings.”

In fact, President Lee intervened for the first time on historical issues and commented to Prime Minister Aso during their April 11 meeting that Japan should understand that bilateral relations must not be negatively affected by historical issues. Lee and opposition DPJ leader Hatoyama Yukio exchanged views on historical issues during their meeting on May 29. Lee remarked that South Korea was ready to make big steps forward toward the future with Japan if Japan has the courage to address historical issues. In response, after acknowledging “a tendency in Japan to glorify its colonial era,” Hatoyama said there are no people like that in DPJ and one must not be tied to nationalism.

Prime Minister Aso’s offering to the Yasukuni Shrine in May provoked criticism from the South Korean government. Aso’s offering of a \$500 plant to the shrine (where 14 Class A war criminals are buried) prompted South Korea’s Foreign Minister to comment that the event was “regrettable.” This quarter did not witness any of the hysterical drama that occurred during the Roh-Koizumi era over history textbooks or the Yasukuni Shrine visits, yet these historical issues remain a factor determining how far or how deeply Seoul and Tokyo can develop cooperative relations in the long run.

Reaction of Seoul-Tokyo to Pyongyang

North Korea kept both Aso and Lee quite busy this quarter. In coordination with the U.S., Japan and South Korea agreed on the need to take tough measures against North Korea's missile/nuclear tests through the UNSC. On several occasions, Seoul and Tokyo reconfirmed their united efforts to deal with the North Korean threat. In contrast to his two predecessors, President Lee took an increasingly tougher policy stance vis-à-vis the North, which involved joining the Proliferation Security Initiative (PSI), imposing unilateral sanctions against Pyongyang, and talking about a need to enhance ROK missile capabilities.

In light of Japan-South Korea relations, an important question was how Seoul responded to Tokyo's moves against Pyongyang. Some people in South Korea are concerned more about the impact of Pyongyang's belligerent behavior on Japan's remilitarization than about Pyongyang's nuclear/missile tests themselves. A 2008 survey of public opinion on the unification of two Koreas by Seoul National University's Institute for Peace and Unification Studies shows that more South Koreans believed that Japan (34.1 percent) was a bigger threat to the peace and security of the Korean Peninsula than North Korea (33.6 percent). There clearly is a concern on the part of South Korea that Pyongyang's missile launch would provide a good justification for Japan to increase military spending. Responding to Japan's handling of Pyongyang's missile launch and in particular the MSDF's two false alarms, South Korea's conservative daily *Choson Ilbo* commented in an editorial on April 6 that while Japan did not deliberately exaggerate a sense of crisis to take advantage of Pyongyang's missile launch to increase its military power in Asia, its responses were dangerously reckless.

The June Aso-Lee summit

The quarter's highlight was the summit between Prime Minister Aso and President Lee in Tokyo on June 28. During their eighth meeting as heads of state, the primary agenda item was to make sure that the two countries stand united against North Korea's belligerent behavior. Despite an inclination to support the Six-Party Talks framework, Aso is said to have promised that the Japanese government would consider Lee's suggestion of five party talks – the Six-Party Talks minus Pyongyang. The two leaders also spent a good amount of time discussing ways to bring China on board to take more effective measures against Pyongyang.

One of the most productive outcomes of the summit may turn out to be the resumption of working-level meetings to move forward with a bilateral free trade agreement (FTA). Both Aso and Lee reconfirmed that there is political will to see the signing of an FTA. After the summit, Aso and Lee held a meeting with 36 business leaders from the two countries to discuss expansion of bilateral economic cooperation, including a bilateral FTA deal. While avoiding thorny historical issues, the summit was deemed to move smoothly, reaching an agreement on several issues. These include Seoul's promise of support for Tokyo's bid for the 2016 Olympics, the abduction issue, and Japanese firms' investment in Korea, among others.

President Lee pushed the issue of Korean residents' voting rights in Japan's local elections and asked Prime Minister Aso to take some concrete action. While Aso replied cautiously, saying that he would pay attention to the issue, coalition partner New Komeito leader Ota Akihiro said

his party would actively support it. Overall, the summit was successful, prompting Prime Minister Aso to remark that it would have been inconceivable 10 years ago that the leaders of Japan and South Korea could have such a smooth summit.

The quarter also witnessed progress in bilateral military cooperation. According to Korea's Ministry of National Defense, Seoul and Tokyo signed their first formal military pact, which includes cooperation in the areas of goodwill exchanges of top defense officials, exchanges between defense institutes, institutionalization of joint search-and-rescue operations, reciprocal visits by aircraft and naval ships, and joint international peacekeeping operations. In a trilateral setting, Defense Ministers Lee Sang-hee of South Korea, Hamada Yasukazu of Japan, and Robert Gates of the U.S. met on the sidelines of an international security dialogue on May 30 in Singapore, and held their first trilateral defense ministerial talks.

Economic relations and society

An ever-increasing pattern of trilateral cooperation among Beijing, Tokyo, and Seoul continued this quarter. According to *Kyodo News* on May 20, the Chinese government proposed to Tokyo during vice minister-level talks that the three countries should consider upgrading research on a trilateral FTA that would involve industrialists and academics as well as government officials. Research on the feasibility of such an FTA has been conducted by private sector experts and they are expected to produce a report by the year's end. Meanwhile, the *Choson Ilbo* on June 12 called for discussion on a Korea-China free trade agreement, commenting that Beijing has shown more willingness to sign a free trade agreement with Korea than with either the EU or Japan in light of their wider technological gap.

On the monetary front, the three countries reached agreement regarding the Chiang Mai Initiative currency pool. On May 3 at their finance ministers' meeting in Bali, both Japan and China agree to provide \$38.4 billion (32 percent), while South Korea would provide \$19.2 billion (16 percent) of the overall funds. There is a perception, at least as reported on May 14 in the South Korean daily *Joongang Ilbo*, that the agreement should be a more satisfying deal for Beijing, as it gained equal status with Tokyo for the first time in an international institution.

An annual Korea-China-Japan Forum called "the Thirty-Member Forum" was held April 12-13 in Pusan, South Korea. It is composed of regional experts and leaders of media, business, and academia from the three countries. They proposed establishment of an Asian Monetary Fund, the creation of a regional trading bloc, and a trilateral FTA. The forum was sponsored by South Korea's *Joongang Ilbo*, China's *Xinhua News*, and Japan's *Nihon Keizai Shimbun*.

Agence France-Presse on June 17 reported that Pyongyang is withdrawing its overseas bank accounts after the UN imposed financial sanctions for its nuclear test. According to *Reuters*, lower commodity prices will prove to be more painful to Pyongyang than will the sanctions. For example, while the value of trade between China and North Korea has dropped 3 percent in the first two months of 2009, reduced metal prices for minerals and ores negatively affected the North Korean economy, triggered by the global economic crisis.

In Japan-South Korean trading relations, Japan decided to lift punitive tariffs on D-RAM chips made by South Korea's Hynix Semiconductor after a three-year trade dispute at the World Trade Organization (WTO). Japan claimed that the company has received subsidies from the South Korean government and imposed a countervailing tariff of about 30 percent and then later lowered it to about 9 percent in September 2008, based on the WTO ruling. A strong *yen* is driving a number of Japanese companies to South Korea for parts and components. South Korea's Ministry of Knowledge Economy, the Korea Trade Investment Promotion Agency, and the Japan External Trade Organization held a Korea-Japan parts and components fair on April 16, and 59 Japanese firms participated.

Overall, while both the Japanese and Korean economies are undergoing hard times, the South Korean economy has a bright side, with some indicators pointing to recovery amid the global financial crisis. According to Organization for Economic Cooperation and Development (OECD) data released on May 27, South Korea recorded 0.1 percent growth in GDP in the first quarter of 2009 compared to the last quarter of 2008, and became the only OECD country to experience growth. Norway was second with a contraction of -2.1 percent. In more encouraging news, South Korea's exports in the information and communication technology sector ranked first among other major industrialized economies, with its trade surplus reaching \$43.3 billion in 2007. Japan came in second with a surplus of \$36.4 billion, while Mexico was third with \$11.4 billion.

The upcoming quarter

The upcoming quarter promises to be interesting. With an election in Japan this year and North Korea showing no signs of either resolving its suspected succession crisis or of moderating its provocative actions, it is likely that relations with neighboring countries will dominate. South Korea and Japan have moved closer to each other and to the U.S. in their approach to the North, and doubtless continued coordination among all three traditional alliance partners will continue this summer.

Chronology of Japan-Korea Relations April-June 2009

April 1, 2009: Prime Minister Aso Taro and President Lee Myung-bak meet prior to the G20 summit in London and agree that North Korea's launch of a "satellite" will be a violation of UN Security Council Resolution 1718.

April 5, 2009: North Korea launches a long-range ballistic missile.

April 6, 2009: According to a *Yomouri Shimbun* survey, 78 percent of respondents want Japan to strengthen sanctions against North Korea. Eighty-eight percent of the respondents said that they feel anxious about North Korea's missile development program.

April 6, 2009: Japanese dailies *Asahi* and *Yomouri* report that the scope for response of the PAC-3 missile defense system falls short of effectively defending Japan.

April 9, 2009: South Korean government protests over the Japanese government's approval of a controversial textbook from Jiyusha.

April 11, 2009: South Korean President Lee, Chinese Premier Wen Jiabao, and Japanese PM Aso meet in Thailand and agree that the three countries should voice strong concern over North Korea's missile launch.

April 13, 2009: The UN Security Council adopts a nonbinding President's Statement condemning North Korea's missile launch.

April 15, 2009: PM Aso says that the Six-Party Talks should be the principal venue for the North's denuclearization efforts.

April 16, 2009: Foreign ministers of Japan and South Korea, Nakasone Hirofumi and Yu Myung-hwan, agree that the two countries should work closely to resume the Six-Party Talks to make progress on the North's nuclear development program.

April 19, 2009: Former Finance Minister Nakagawa Shoichi suggests that Japan should consider possessing nuclear weapons as a deterrent to a threat from North Korea.

April 21, 2009: South Korea's Foreign Ministry expresses deep regret over PM Aso's offering to the Yasukuni Shrine.

April 23, 2009: Japan and South Korea sign a letter of intent on bilateral defense cooperation, the first formal military pact between the two countries.

April 28, 2009: Korea's Shinhan Bank announces that it has won a preliminary license from Japan's Financial Services Agency to operate a separate unit in Japan.

May 3, 2009: As part of the Chiang Mai Initiative, China and Japan agree to provide \$38.4 billion (32 percent) of the Initiative's pool, while Korea agrees to provide \$19.2 billion (16 percent) during their finance ministers meeting in Bali.

May 8-12, 2009: U.S. Special Representative on North Korean Policy Stephen Bosworth visits China, South Korea, and Japan to discuss a response to North Korea's threat to quit the Six-Party Talks.

May 23, 2009: Former South Korean President Roh Moo-hyun commits suicide.

May 25, 2009: North Korea conducts its second underground nuclear test and fires three short-range missiles toward the East Sea/Sea of Japan.

May 25, 2009: Japan proposes that the UN Security Council be convened for an urgent meeting to discuss North Korea's nuclear test.

May 26, 2009: Japan's Defense Minister Hamada Yasukazu says that Pyongyang may develop nuclear warheads.

May 27, 2009: Japan's House of Councilors unanimously approves a resolution condemning North Korea's nuclear test. The House of Representatives adopted a similar resolution the day of the North's test.

May 29, 2009: President Lee and Japanese opposition leader Hatoyama Yukio meet and agree that Japan, South Korea, and the U.S. should closely work together to encourage China to come up with a strong UNSC resolution to deal with Pyongyang's nuclear test.

May 30, 2009: Defense Ministers of the U.S., Korea and Japan meet at the 8th Shangri-La Security Dialogue and agree that they will respond firmly to North Korea's provocations with a nuclear test and missile launches.

June 2, 2009: Over 2,200 people rally in Tokyo for the protection of Article 9 of the Japanese Constitution in commemoration of the late Kato Shuichi, one of the founders of the Article 9 Association.

June 8, 2009: *Korea Times* reports a poll conducted by *Hankook Ilbo* revealed that 63.1 percent of respondents did not approve President Lee's management of state affairs. The same poll shows that 57 percent believed that former President Roh Moo-hyun's death had to do with the Lee administration's "political retaliation."

June 8, 2009: Japan's Chief Cabinet Secretary Kawamura Takeo says the Japanese government wants Washington to put North Korea back on its list of state sponsors of terrorism.

June 9, 2008: LDP defense policy panel proposes that Japan should acquire a capability to strike its adversary's missile sites under the new National Defense Program Guidelines.

June 12, 2009: The UNSC unanimously adopts Resolution 1874 condemning North Korea's nuclear test on May 25.

June 14, 2009: Seoul, Beijing, and Tokyo sign an agreement on environmental issues during the 11th Tripartite Environment Ministers Meeting in Beijing. The agreement covers a range of issues including green growth, prevention of yellow dust, and pollution control.

June 16, 2009: President Obama and President Lee hold a summit in Washington DC and agree to strengthen cooperation with neighboring states to send a clear message to North Korea.

June 16, 2009: The Japanese House of Representatives unanimously adopts a resolution that calls for further efforts for nuclear disarmament and nonproliferation.

June 18, 2009: Japan's economic sanctions banning all exports to North Korea take effect until April next year.

June 19, 2009: An OCED report says Korea's exports in the information and communication technology sector were recorded the first among member countries.

June 22, 2009: Japan's Coast Guard says that North Korea issued the ban on navigation on waters off its eastern coast for a military exercise from June 25 and July 10.

June 23, 2009: *Central News Agency of DPRK* criticizes Japan's move to enact a law enabling its Coast Guard to inspect North Korean cargo as "aiming at justifying war actions."

June 23, 2009: A labor union of high school teachers in Japan says that a poll shows that 60 percent of high school students in 148 schools oppose constitutional revision.

June 27, 2009: Finance ministers of South Korea and Japan, Yoon Jeung-hyun and Yasano Kaoru, agree during their meeting in Tokyo that financial markets are stabilizing and agree to further cooperate in accordance with international agreements such as the leaders' summit in London in April.

June 28, 2009: President Lee and PM Aso hold a summit in Tokyo and agree to stand united to deal with North Korea's nuclear and missile development program.



**China-Russia Relations:
Summitry: Between Symbolism and Substance**

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Between June 14-18 Russian and Chinese heads of state interacted on a daily basis at three summits: the Ninth annual SCO summit and the first ever Brazil, Russia, India, and China (BRIC) summit (both in Yekaterinburg), and their own annual bilateral meeting in Moscow. The locus of Russian-China relations was, therefore, “relocated” to Russia. Economic issues dominated these meetings as the global financial crisis deepened. Mounting danger on the Korean Peninsula and instability in Iran were also recurring themes. President Hu Jintao’s five-day stay in Russia ended when he joined President Dmitry Medvedev to watch a spectacular performance by Chinese and Russian artists in Moscow’s Bolshoi Theatre for the 60th anniversary of Russian-China diplomatic relations.

All roads lead to Yekaterinburg ...

Situated on the east side of Russia’s Urals Mountain, the city of Yekaterinburg, the third largest in economic status and fifth in population in Russia, played host to two international summits: the ninth Shanghai Cooperation Organization (SCO) Heads of State Council meeting and the first summit for BRIC, the acronym coined in 2001 by Goldman Sachs chief economist Jim O’Neill for the four “emerging economies” of Brazil, Russia, India, and China.

Yekaterinburg certainly represents Russia’s past. Founded in 1723 and named after Empress Catherine I (Yekaterina), the wife of Tsar Peter the Great, the city was also where the last tsar, Nicholas II, his wife Alexandra, and five children were executed by the Bolsheviks. In World War II, Yekaterinburg, which was renamed Sverdlovsk after the Bolshevik party leader Yakov Sverdlov from 1924 to 1991, became the center of Soviet heavy machinery and arms industries and was instrumental in sustaining Soviet resistance against the Germans. The same industrial base formed the core of Soviet military power during the Cold War.

Medvedev’s choice to host two international conferences in Yekaterinburg, however, went beyond the city’s past glory and ghosts. Perhaps more than any other Russian city, Yekaterinburg represents an enduring geopolitical fact of life: it cuts Russia’s vast landmass into European and Asian halves with the Euro-Asian demarcation line running through the city. This time, Medvedev seems to hope that Russia’s future, particularly its external relations, would be launched from Russia’s geostrategic and cultural center.

Whether such a choice by Medvedev – who is widely seen as being more “pro-West” than his predecessor – was strategic or tactical is anybody’s guess. One may recall, however, Vladimir

Putin chose St. Petersburg, the most Westernized Russian city, to host the SCO's annual summit in June 2002. After seven years and with a much stronger power base (though somewhat softened by financial crisis) Russia appeared to be moving away from the West. Coincidentally, Medvedev picked Russia's Far Eastern city of Khabarovsk to hold the Russia-EU summit on May 22. For this, European participants had to fly across nine time zones (from Brussels). In addition to making "the European leaders feel the greatness of Russia," as Medvedev stated to *Vesti TV*, Khabarovsk was probably used to remind Russia's European partners that Russia has the vast Chinese market as an alternative to exporting energy to Europe. Moscow and Beijing finalized in April, after more than a decade of hard bargaining, oil deals worth a total of \$100 billion, including China's \$25-billion loan to finance Russia's construction of an oil pipeline to China and an annual supply of 15 million tons of oil for 20 years.

Moscow's game of geopolitics, however, was not only applied to Europe. Less than a month before the EU-Russian summit in Khabarovsk, Chinese Defense Minister Liang Guanglie and his military delegation, while attending the SCO defense ministers' meeting in Moscow, were invited to travel to Russia's North Caucasus Military District to discuss regional security with Medvedev. Two days later (April 30), Russia signed five-year defense agreements with Abkhazia and South Ossetia, Georgia's two breakaway regions, allowing Russian forces to guard their borders.

The Yekaterinburg summits, therefore, represented both symbolism and the substance of Russian foreign policy under Medvedev and Putin. This time, Chinese President Hu Jintao was in town and ready to reciprocate.

SCO comes of age: Medvedev style

For 10 months as SCO's rotating chair, Russia had been working hard for the annual summit at Yekaterinburg. This was partially to regain trust from as well as influence among the Central Asian states within the "post-Soviet space" after Russia's brief war with Georgia in August 2008. Since the last gathering of SCO leaders in Dushanbe, Tajikistan, two powerful external trends were descending on the SCO member states. One was the global financial crisis, which left no SCO nation behind. The other was the redirection of U.S. military operations from Iraq to Afghanistan and Pakistan under the Obama administration. Both were considered destabilizing for the region and a challenge to the regional security group.

Russia started the ball rolling at the end of the first quarter. On March 27, Moscow hosted a special conference on Afghanistan for the SCO member states. Participants included UN Secretary General Ban Ki-moon, U.S. Deputy Assistant Secretary for South and Central Asian Affairs Patrick Moon, NATO Deputy Secretary General Martin Howard, and Secretary General of the Organization for Security and Cooperation in Europe Mark Perrin de Brichambaut. Their presence signaled a new outreach by the SCO to the West, whose powerful military alliance was deeply entangled in the war in Afghanistan. President Medvedev joined and spoke at the conference, which ended with a joint statement and an action plan to deal with terrorism and drug trafficking in Afghanistan. On the same day, SCO's Regional Anti-terrorist Structure (RATS) held its 14th session in Tashkent and approved a draft program of cooperation in the fight against terrorism, separatism, and extremism in 2010-2012. The session also accepted a

Russian proposal to hold a joint session of special and law enforcement service chiefs of the SCO member-states at the headquarters of the Russian Federal Security Service's (FSB's) special operations center in May.

With this "Afghan kickoff," Russia played host for the seventh session of the SCO prosecutor generals in Moscow on April 13. This was followed by a three-day antiterror drill involving 1,000 SCO military personnel in Tajikistan on April 17-19. Russia was believed to have provided the bulk of the force. By the end of April, preparations for the Yekaterinburg summit quickened with the seventh SCO defense ministers meeting in Moscow on April 29 where the defense chiefs discussed the possibility of expanding exercises with SCO observer states (Iran, India, Pakistan, and Mongolia). May was the most hectic month for Russia's SCO operation as it held the annual foreign ministerial meeting in Moscow (May 15), the first SCO interior ministers meeting in Yekaterinburg (May 18), a meeting of SCO officials in charge of anti-drug operations in Moscow (May 19), the fourth session of SCO Security Council secretaries in Moscow (May 20), and an economic forum jointly hosted by the SCO Business Council, the SCO Interbank Consortium, and the city of Saint Petersburg (June 5). Although the fourth session of the SCO emergencies ministers was held in Aktau, Kazakhstan on June 5, this was preceded by a SCO disaster relief drill in Noginsk in the Moscow Region on May 19-22 with search-and-rescue teams from Kazakhstan, China, Russia, and Tajikistan. The SCO member and observer states and other states including Belarus, Bulgaria, and Lithuania sent observer delegations. While most SCO activities were routine and prescheduled, and should occur in Russia since it is the rotating chair, President Medvedev's presence at the special Afghan session and annual foreign and defense ministers meetings, however, was quite unusual.

By the time the SCO heads of state convened in Yekaterinburg, the key documents – the Joint Communiqué and the Yekaterinburg Declaration – were ready to be inked. While the former is devoted to SCO internal affairs, the latter focuses on broader and more global issues. Several other documents were also signed:

- SCO Counter-Terrorism Convention, which cements the legal base for counter-terrorism interaction in the SCO framework and could take cooperation in this field to a new level.
- SCO Regulations on Political Diplomatic Measures and Mechanisms of Response to Events Jeopardizing Regional Peace, Security and Stability, which offer a mechanism for consultations, consolidate positions, and improve interaction in international affairs.
- Agreement among the Governments of the SCO Member States on Cooperation in the Field of Ensuring International Information Security.
- Agreement on Training Officers for Counter-terrorism Agencies of SCO Member States.
- Decision to offer Belarus and Sri Lanka partner status in SCO dialogue.

Judging from the items and activities before and during the Yekaterinburg summit, the regional organization was broadening and deepening its institution building (for disaster relief, personnel training, etc.) and operational outreach (adding dialogue partners, American and NATO connections, etc.).

Several new elements were noticeable at the SCO's Yekaterinburg summit. One was new faces among the heads of state. For the first time, India was represented at the annual summit by the prime minister. As one of the two newly defined "dialogue partners" for the SCO, Sri Lanka President Mahinda Rajapaksa joined the regional group for the first time. The other new partner, Belarus, was not represented at Yekaterinburg due to a trade dispute with Russia. With these two "fringe" members, the SCO reaches to the Indian Ocean region and Eastern Europe. Already, the SCO has working ties with the 10-member Association of Southeast Asian Nations (ASEAN).

Beyond its expanded scope, the SCO's Yekaterinburg summit put more emphasis on combating drug and cross-border criminal activities, as much as antiterrorism. This was part of the March 27 Afghan conference in Moscow when the SCO signed a "Plan of Action" with Afghan government for combating terrorism, drug, and cross-border crimes. It was obvious that the situation in Afghanistan is deteriorating and starting to destabilize its neighbors, most of which are either SCO member or observer states. It was against this backdrop that the SCO became increasingly concerned about the situation in Afghanistan, directly or indirectly expanding its influence in Afghanistan through the establishment of its "Afghan Contact Group," offering economic assistance, and reaching out to NATO. In his meeting with Afghan President Hamid Karzai in Yekaterinburg, President Medvedev even offered to help Afghanistan set up an "effective political system." Meanwhile, Moscow has signaled to both Washington and Brussels its willingness to allow arms shipments through Russia to Afghanistan, which may not be a mere bargaining chip regarding Manas Air Base or U.S. missile defense in Eastern Europe. In a way, Russian and Chinese concern over Afghanistan may not be U.S. power but potential mismanagement of the Afghan and Pakistani wars.

Power of China's purse

Russia's highly active and effective SCO chairmanship reflected its strength in the military-security areas as well as its limitations in other issues such as trade and economic development. It was quite a surprise that Moscow's relationship with Belarus, once the closet ally among the CIS states, would be allowed to decline to the point that its president (Alexander Lukashenko) boycotted the SCO summit. In contrast, China's interests and influence within the SCO were precisely what Moscow lacks. In his speech at the SCO summit, President Hu focused on economics. After addressing the need for more "political mutual trust," Hu called on the SCO members to deepen economic cooperation. "The SCO members need to hold hands to jointly cope with the impact of the international financial crisis, and to push for the recovery of the world economy," said the Chinese president. To realize this goal, Hu suggested SCO member states enhance coordination in macroeconomic and financial policies, expedite the implementation of energy, transportation, and telecommunication network programs, actively promote cooperation in new industries, push for more convenient trade, and protect an open and free environment for trade and investment. Hu also urged establishment of a financial dialogue mechanism, and called for the strengthening of multilateral cooperation in science and

technology to improve productivity through technological innovation. To operationalize these policies, Hu offered a \$10-billion credit loan to the SCO member states to shore up their economies amid the global financial crisis.

For years, China had hoped that the SCO would move with the “two legs” of security and economics. While its security mechanism was taken for granted, the economic mechanism had been a “bottleneck.” For China, the two are actually interrelated and complementary in that economic development would boost stability and development along its volatile borders with Central Asia. Moreover, additional investment would allow China to convert its massive foreign currency reserves into concrete assets as the U.S. dollar is increasingly deemed unreliable. The global financial crisis, therefore, was both a challenge and opportunity for the SCO to enhance and expand economic cooperation among member states and with the outside world. China’s \$10 billion credit loan offer came at a time when many projects in SCO member states were deeply affected by a lack of funding and when there was an increasing need for a SCO fund as a cushion for an economic crisis.

China’s credit for SCO members is only the tip of the iceberg. China is rapidly moving to work out deals with individual SCO states. As China was finalizing its \$25 billion loan to Russia for delivering 300 million tons of oil over 20 years, Beijing also offered \$15 billion in loans to oil and gas-rich Kazakhstan. Part of the loan would be used to acquire a 50 percent stake in MangistauMunaiGaz, increasing China’s share of oil production in Kazakhstan to 22 percent. On June 5, China announced that its companies will invest more than \$1 billion in Tajikistan to build power stations, roads, and factories over the next two years. The next day (June 6), China offered Turkmenistan \$3 billion to develop its vast South Yolotan natural gas field.

“The cooperation of China with partners in the Central Asian region is of great interest to the Russian side,” said Russian Deputy Foreign Minister Sergey Ryabkov at a press briefing in Yekaterinburg on June 16. Russian reporters noted that “Moscow calmly accepts the possible strengthening of China’s positions in the financial sphere in Central Asian countries.” Ryabkov’s remarks reflected a complex mood as Russia itself hugely benefited from China’s \$25 billion loan, the largest among all SCO states so far, which some Russians described as the “deal of the century.” Still, it may be difficult for Moscow to see that the SCO is increasingly driven by Beijing’s monetary power and economic vitality. However, with 40 percent of its GDP generated by raw material exports, Moscow was not in a position to match Beijing’s offer, particularly when Russia is deeply affected by the low price of energy products.

At a more philosophical level, Moscow and Beijing seemed to have quite different ways to use their economic power. While China is more motivated by and for geoeconomic outcomes, Russia seems more concerned with the geostrategic gains. A recent case was Manas Air Base near Bishkek, Kyrgyzstan. Three and half years after the SCO called for the U.S. to close its military operation at Manas, the Kyrgyz Parliament finally voted in February 2009 to close the base by August 18. For this, Russia offered a \$2 billion loan, a \$180 million grant, canceled \$180 million in debt, and promised to build a \$1.7 billion hydropower station. On June 23, however, the Kyrgyz and U.S. governments reached a tentative agreement to allow the continued use of the base as a “cargo hub” with a \$60 million annual fee (from \$17.4 million), plus \$1.18 million for

various purposes. Russia's reaction to this about-face? "An extremely unpleasant surprise," remarked a Russian official.

BRIC's debut

From its conception by Goldman Sachs chief economist Jim O'Neill in 2001, BRIC remained an academic concept outside the four "implicated" nations. They held informal meetings at ministerial levels mostly on the sidelines of other multilateral forums such as the UN. The financial crisis provided new impetus for the summit at this time.

For some, particularly the Russians, the first BRIC summit was seen as a way to facilitate the creation of a multi-polar world. President Medvedev remarked that BRIC nations "should take part in shaping the new global financial architecture." There were plenty of reasons for such optimistic thinking. In 2008, the BRICs represented 25.9 percent of the globe's dry land, 42 percent of the world's population (2.7 billion people), 14.6 percent of global GDP (25 percent by the purchasing power parity), 12.8 percent of global trade volume, 42 percent of the world's gold and foreign reserves, and contributed 50 percent of global economic growth. Despite the financial crisis, most of their economies are still showing significant growth albeit at a lower rate and are expected to get out of the recession ahead of most developed economies.

BRIC's Yekaterinburg declaration, however, indicates a moderate and balanced posture toward the world's various economic problems. The first two articles "stress that the G20 summit has played the central role in dealing with the financial crisis," and that BRIC nations are willing and ready to cooperate with G20 participants and relevant international organizations to implement various consensus and decisions from the past and future G20 meetings. This "within-the-system" approach does call for some "reforms "of the existing financial infrastructure (articles 3 and 4)," but also for its stability, transparency, predictability, more regulatory and crisis-management mechanism, and more decision making power for emerging economies.

Beyond the immediate concerns regarding the global finance fiasco, the BRIC declaration also called for improving global trade climate and opposing protectionism (Article 5), more attention to the world's poor nations (Article 6), sustained development (Article 7), energy cooperation (Article 8), cooperation regarding climate change (Article 9), and disaster relief and food security (Article 10). In the end, the declaration promises that BRIC dialogue and cooperation will be conducted "in a gradual, orderly, active, pragmatic, open, and transparent manner" (Article 15). It is worth noting that most of these ideas overlap with the G20 communiqué released in London a month and half before.

The non-confrontational BRIC declaration was not surprising, given the fact that all the BRIC states are part of the G20 and Russia has been part of the G8 since 1997. Despite their collective clout in physical, economic, and human resources, their economic wellbeing in the foreseeable future depends more upon their interactions with the developed West than with one another. Chinese observers even cautioned that the BRIC's "sudden ascendance" has more to do with the abrupt economic slowdown in the developed world. The reality is that BRIC economies have a long way to go before they will rival those of the West. A realistic assessment of itself and low-profile posture, therefore, should be the BRIC's strategy.

Most Russian analysts would agree with this assessment. Some, however, tended to see the bottle as half full. A few days after the summit, Vyacheslav Nikonov, president of the Politika Foundation, argued that the BRIC's current limitations should not be treated as permanent barriers to cooperation and consolidation. He went so far as to declare the "Birth of a Multipolar World" in his article in the influential *Izvestiya*, a daily owned by Russia's largest energy firm Gazprom that usually supports the Kremlin.

The BRIC summit in Yekaterinburg provided a unique opportunity for more substantial dialogue for the heads of state. Both China and Pakistan leaders seized the chance to meet Indian Prime Minister Manmohan Singh, who came to Yekaterinburg only because of the BRIC summit. These meetings led to tangible outcomes at a time of renewed tension in the Sino-Indian border as a result of India's military buildup. Hu Jintao and Singh agreed to establish a hotline for the two prime ministers.

Russia-China summit: economics in command

While Yekaterinburg grabbed the attention and imagination of the outside world, Russian-Chinese summit politics started on April 1 when Presidents Medvedev and Hu met on the sideline of the London G20 meeting. Their brief talks covered broad areas of bilateral relations against the backdrop of global financial crisis, thus paving the way for the rather hectic quarter of bilateral and multilateral interactions.

Perhaps the most significant achievement in bilateral relations in the quarter was the finalization of the Russian-Chinese energy deal on April 21 during the fourth Sino-Russian energy dialogue in Beijing co-chaired by Russian Deputy Prime Minister Igor Sechi and Chinese Vice Premier Wang Qishan. A \$25 billion intergovernmental "treaty" on oil cooperation was signed for an annual delivery of 15 million tons of Russian crude to China for 20 years. This appears to be the "final" document after signing seven agreements in February. The two sides also discussed pricing for Russia's building of the second phase of the Tianwan nuclear power plant. The Chinese described this as a "major breakthrough" while the Russians phrased it as the "deal of the century." On May 17, Medvedev remarked while meeting Hu in Moscow that "This deal with a value of roughly \$100 billion is the largest of any agreement ever signed by our countries."

It was against this background that the Sino-Russian summit in Moscow took place. It was the first since Russia's changing of the guard in March 2008 and was on the eve of the 60th anniversary of Sino-Russian diplomatic ties. The Chinese had four expectations for the summit: to enhance political mutual trust on vital issues, to strengthen cooperation in international affairs, to deepen pragmatic cooperation in economic affairs, and to expand humanitarian cooperation.

President Hu began his summit day with a working breakfast with Prime Minister Putin. At noon President Medvedev held a grand welcoming ceremony for Hu at the Kremlin before their two-hour talk in the early afternoon. The two heads of state covered a range of topics although the bulk of their discussion concerned economics and world affairs. The economic focus was particularly pertinent as bilateral trade took a major hit from the global economic crisis, falling 42 percent to \$7.3 billion for the first quarter of 2009 compared to the same period last year.

Russia's GDP for 2009 is expected to drop by 6 percent. President Hu talked about "broadening" energy cooperation (gas, coal, renewable energy, etc.) after the oil breakthrough. Russia seemed more willing to reciprocate with the global gas market saturated. Moscow continued to push for more manufactured components in its exports to China because the "trade structure" continued to worsen from Russia's perspective. In the first quarter of 2009, China supplied 60 percent more machine building products to Russia than in the first quarter of 2008, despite the fact that the overall volume of bilateral trade had declined by 40 percent. For these reasons, among others, Hu and Medvedev discussed how to improve trade and investment and agreed to expand border trade and cooperation for regional development and apply the oil negotiation mechanism to negotiations in natural gas, nuclear power, and electricity.

Five economic documents were signed during the Moscow summit covering the areas of gas, coal, and gold as well as a \$700 million loan between Export-Import Bank of China and Russian Bank of Foreign Trade. The Ministry of Commerce and Russian Federation Economic Development Ministry also signed a memorandum on trade and cooperation in mechanical and electrical products.

The Moscow summit did not produce a separate document for "major international issues," as in the case in their previous summit in Beijing. However, the international section (Part IV) was the longest in the joint communiqué (2,200 Chinese characters of a total of 5,300). In addition to reiterating their commitment to various international and regional organizations (UN, G8, SCO, BRIC, etc.), the two leaders repeated their opposition to missile defense and commitment to non-proliferation, peaceful use of outer space, inter-civilization dialogue, environment, multipolarity, and development. Regional stability issues, particularly those of Central Asia, the Korean Peninsula, and Iran, were also discussed.

In a remark after the talks, Hu said that the talks were "open, sincere, friendly and rather substantial," a rather moderate assessment for the summit. Medvedev described the talks as being "held in a friendly, constructive and confidential atmosphere that confirmed the strategic relationship and the mutual intention to develop it on the basis of good-neighborliness, trust and mutual benefit." In Hu's meetings with Prime Minister Putin and Russian State Duma Chairman Boris Gryzlov, these words were repeated many times.

Moscow night and nightmare

The night of June 17 was the culmination of Hu's five-day Russian visit. After a hectic day meeting Russian dignitaries and attending various activities, Hu and Medvedev joined more than 900 Chinese and Russians in the resplendent Bolshoi Theater for a gala concert by ballet and opera performers from Russia and China for the 60th anniversary of diplomatic ties between Moscow and Beijing. The Russian Symphony Orchestra, under the Russia-educated Chinese conductor Zhang Guoyong, kicked off the performances with the Chinese "Red Flag" and "Polonaise" from the opera "Eugene Onegin" by Tchaikovsky.

Prior to the concert, both Hu and Medvedev spoke highly of bilateral relations. For Medvedev, "autonomy and equality" were "essential components" of such a relationship, which were "exemplary" for others as well as for "the formation of a new world order." Neither of them

mentioned the difficult years between 1960 and 1989 when the two communist giants engaged in fierce competition across ideological, economic, and ultimately military-strategic areas. Referring to bilateral ties as “mature, stable, and healthy state-to-state relations,” the Chinese president also framed the previous 60 years as the time of an “extraordinary course of development,” which provided “many important and profound enlightenments,” as follows:

Only when we trust each other and treat each other in sincerity will we be able to constantly deepen political relations between the two countries; only when we respect each other on the basis of equality and mutual benefit are we able to make the maximum gains in cooperation and bring about common development and prosperity; only when we understand and support each other and provide backings for each other on issues that involve each other's core interests are we able to effectively maintain each other's fundamental interest; and only when we seek common ground while reserving minor differences and conduct friendly consultations are we able to guarantee a long-term, healthy, and stable development for bilateral relations.

Hu's remarks can be considered both an assessment of and warning against the problems in bilateral interactions. The broadening and deepening of bilateral relations has led to more frictions and frustrations, ironically in this major anniversary year. The sinking on February 13-14 of a Chinese cargo ship by Russian Coast Guard ships near Vladivostok caused considerable resentment in China. Clearly, it is much easier to break and destroy things; repairing and recovery take a much longer time.

As Medvedev and Hu were enjoying the gala concert, the Russian authorities were speeding up efforts to confiscate billions of dollars of allegedly “illegal” and “contraband” goods, mostly from China, as part of the effort to close Moscow's Cherkizovo Market, the largest of its kind in Europe. Prime Minister Putin was reportedly “furious” with Cherkizovo's owner, Russian oligarch Telman Ismailov, for investing so much abroad and flaunting his riches (building his \$1.5 billion Mardan Palace Hotel on Turkey's Mediterranean coast) when Russia has been hard hit by the credit crunch.

Chinese media reported that by the end of June, some 7,000 containers from China were searched and challenged, \$5 billion worth of Chinese commodities were in danger of being destroyed, and up to 400 Chinese enterprises were affected. On June 18, when President Hu was ended his visit, Russian authorities announced the decision to destroy \$2 billion worth of these “illegal” cargos. As a result, about 30,000 Chinese business people in Moscow were immediately affected by the action, and many lost everything. Some even committed suicide. The Chinese government had since late 2008 discussed the issue several times with Russia, urging Moscow to handle the issue according to the rule of law, to respect the legal rights of the Chinese business people in Russia, and to safeguard the broad interests of Sino-Russian relations. It seemed that things would only become worse in the near future for those Chinese merchants.

The Chinese pointed out that a large part of these allegedly “illegal” cargos were “processed” through the so-called “gray custom clearance,” which had been in existence for more than 20 years. Official Russian custom procedures are time consuming and equally corrupt. Accordingly, some government-connected “clearance” companies in Russia “facilitate” imported Chinese

goods into the Russian market at a tax rate far lower than the official level. These companies often undertake the whole process for the freight after they depart Chinese ports and deal with all procedures within Russian territory. During the process, many, if not all, Russian custom officials “benefit” by changing and distorting standard custom declaration documents.

The issue received the attention of Chinese and Russian leaders at their Moscow summit, as the last “economic” item in the joint communiqué was about the pending creation of an inter-governmental customs sub-commission within the framework of the joint prime minister commission. This joint inter-governmental group, however, won’t be operational until later this year. For many Chinese doing business in and with Russia, this will too late.

Chronology of China-Russia Relations

April-June 2009

April 1, 2009: Presidents Hu Jintao and Dmitry Medvedev meet during the G20 meeting on the financial crisis in London.

April 5, 2009: Chinese Foreign Minister Yang Jiechi telephones his Russian counterpart Sergei Lavrov about North Korea’s satellite launch.

April 13, 2009: The 7th session of the SCO prosecutor general talks is held in Moscow. Russian Prosecutor General Yuriy Chayka and Chinese Prosecutor General Cao Jianming attend.

April 17-19, 2009: More than 1,000 SCO military personnel conduct a 3-day antiterrorism drill in Tajikistan. Special Forces with heavy armored vehicles, helicopters, and attack aircraft from five SCO member states (Kazakhstan, Kyrgyzstan, China, Russia, and Tajikistan) participate.

April 21, 2009: The fourth Sino-Russian energy dialogue is held in Beijing. A \$25 billion intergovernmental oil deal is signed for an annual delivery of 15 million tons of Russian crude to China for 20 years.

April 25-29, 2009: Chinese Defense Minister Liang Guanglie travels to Russia and visits the North Caucasian military district, meets Defense Minister Anatoly Serdyukov and President Medvedev, and attends the SCO annual defense ministers meeting in Moscow.

April 27, 2009: Foreign Minister Yang Jiechi visits Moscow and meets Foreign Minister Sergei Lavrov, President Medvedev, and Russian Federation Council Speaker Sergei Mironov.

April 29, 2009: The seventh SCO defense ministers meeting is held in Moscow. Medvedev joins the meeting.

May 13-15, 2009: Wu Bangguo, chairman of the Standing Committee of the National People’s Congress visits Russian for the third meeting of the Russian-Chinese Parliamentary Commission.

May 15, 2009: The SCO holds its annual foreign ministerial meeting in Moscow in preparation for SCO summit in June. President Medvedev joins the discussion of the draft declaration and joint communiqué to be adopted at the SCO summit.

May 18, 2009: The first SCO public security and interior ministers meeting is held in Yekaterinburg, Russia. Russian Interior Minister Nurgaliev and Chinese State Councilor and Public Security Minister Meng Jianzhu participate.

May 18-19, 2009: The SCO holds its fourth session of the SCO Forum in Cholpon Ata, Kyrgyzstan on the issues of global financial and economic crisis, water and energy resources, culture and education cooperation, Afghanistan, and the role of observer states.

May 19, 2009: SCO officials in charge of anti-narcotics operations meet in Moscow and agree to establish a mechanism for coordinating the anti-narcotics activities.

May 19-20, 2009: Chinese State Councilor and Public Security Minister Meng Jianzhu meets Russian Internal Affairs Minister Rashid Nurgaliyev in Moscow. The two sign the 2009-2010 Cooperation Agreement of the Chinese Ministry of Public Security and the Russian Ministry of Internal Affairs. Meng meets President Medvedev on May 20.

May 19-22, 2009: The SCO conducts a disaster relief drill in Noginsk (Moscow Region). Kazakhstan, China, Russia and Tajikistan send their search and rescue teams. The SCO member and observer states (India, Iran, Mongolia and Pakistan) and other states including Belarus, Bulgaria and Lithuania also send their observation delegations.

May 20, 2009: The fourth session of the SCO Security Council secretaries is held in Moscow under the chairmanship of Russian Interior Minister Rashid Nurgaliyev. Chinese Minister of Public Security Meng Jianzhu joins.

May 21-25, 2009: A delegation of the General Armaments Department of the PLA, led by Director General Chang Wanquan, conducts a four-day visit to Russia at the invitation of the Russian Defense Ministry. Members of the PLA group include Zhang Zhannan, deputy commander of the PLA Navy, Jing Wenchun, deputy commander of the PLA Air Force, Wang Jiurong, deputy commander of the Second Artillery Force. Vladimir Popovkin, deputy minister of defense and chief of armament of Russia, meets the group on May 21.

May 30-June 2, 2009: A United Russia Party delegation, led by Secretary of the Presidium of the Party's General Council Vyacheslav Volodin and head of the State Duma International Committee Constantine Kosachev, visits China. They meet Wang Jiarui, head of the International Department of the CPC Central Committee and Vice President Xi Jinping.

June 1, 2009: Foreign Minister Yang Jiechi initiates a telephone call to his Russian counterpart Sergei Lavrov on the situation on the Korean Peninsula in connection with the DPRK's underground nuclear test on May 25.

June 3-5, 2009: Russian and Chinese militaries hold their second round of consultations in Khabarovsk on the joint antiterrorist exercise, *Peace Mission 2009*, due to be held in July. The Chinese delegation, consisting of 39 generals and officers, is led by Lt. Gen. Ma Xiaotian, deputy chief of the General Staff. The Russian delegation is led by Deputy Chief of Staff of the Ground Forces Lt. Gen. Sergei Antonov.

June 5, 2009: SCO Business Council and Interbank Consortium stages a conference entitled “The SCO – a Space for Economic Interaction and Counteraction against the Global Crisis” in the framework of the 13th Petersburg International Economic Forum in Saint Petersburg.

June 5, 2009: The fourth SCO emergencies ministers meeting is held in Aktau, Kazakhstan. They agree on an Action Plan for 2009-2010 and to establish a SCO emergency relief center.

June 14-16, 2009: President Hu Jintao attends the annual SCO summit and the first meeting of BRIC leaders in Yekaterinburg of Russia.

June 16-18, 2009: President Hu visits Moscow and meets President Medvedev.

June 29-July 1, 2009: Russian and Chinese military experts hold their 3rd round of consultations in Baichen China on preparations for *Peace Mission-2009* joint antiterrorist exercises to be held on July 22-26. Lt. Gen. Antonov and Lt. Gen. Ma co-chair the meeting.

About The Contributors

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