



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
Sun Namkung

4th Quarter (October-December) 2006
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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.

An international Board of Governors guides the Pacific Forum's work. The Forum is funded by grants from foundations, corporations, individuals, and governments, the latter providing a small percentage of the forum's \$1.2 million annual budget. The Forum's studies are objective and nonpartisan and it does not engage in classified or proprietary work.

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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 Sun Namkung, 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 Shinjiro Koizumi, CSIS

Pyongyang added another provocation with the Oct. 9 nuclear test. The prospect of another nuclear weapons state in Japan’s neighborhood was bad news, but the test also created an opportunity for Japan and its neighbors to forge a consensus on an approach to this new regional security challenge. While the nuclear test posed a significant threat to Tokyo and prompted discussions of nuclearization as a means to strengthen Japan’s deterrence, it also led the U.S. to reaffirm its commitment to defend Japan under the nuclear umbrella. Prime Minister Abe faced a series of security and diplomatic challenges that allowed him to show that he has the “right stuff” to be prime minister, despite his relative youth and inexperience. But a sudden sag in popularity and questions about his commitment to economic reform will be areas to watch in the new year.

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by Bonnie S. Glaser, CSIS/Pacific Forum CSIS

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by Donald G. Gross, The Atlantic Council of the United States

North Korea made good on its threat to conduct a nuclear test on Oct. 9. The test generated political shock waves and led to sanctions imposed by the UN Security Council. Under tremendous pressure from the international community and China, in particular, North Korea announced Oct. 31 that it would return to the Six-Party Talks. When the talks reconvened in Beijing on Dec. 18, little progress was made other than reaffirming the Sept. 19, 2005 Joint Statement. The U.S. and South Korea agreed in late October to transfer wartime operational control of Korean troops to South Korea sometime between 2009 and 2012. In ongoing negotiations on an FTA, the U.S. and ROK ran into difficulty on issues including autos, pharmaceuticals, antidumping measures, and beef.

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by Aidan Foster-Carter, Leeds University, UK

DPRK’s Oct. 9 test of a small nuclear device sent the region, the world, and especially Pyongyang’s five interlocutors in the then-stalled Six-Party Talks – the U.S., China, South Korea, Japan, and Russia – scurrying first to condemn, unanimously, and then to try to devise appropriate countermeasures. Unanimity fast evaporated as familiar policy splits persisted. To the surprise of some, but in fact quite typically, Kim Jong-il deigned to return to the Six-Party Talks. President Roh Moo-hyun, a lame duck already in his final year of office, is under pressure to rethink the Sunshine Policy of engagement with the North that has guided Seoul’s *nordpolitik* since 1998. Yet all signs are that at least for this year Seoul will stick to Sunshine regardless.

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by Scott Snyder, The Asia Foundation/Pacific Forum CSIS

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

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by David C. Kang, Dartmouth College, and Ji-Young Lee, Georgetown University

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Regional Overview:

Bangs, Blinks, and Ballots

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DPRK still not bluffing!

Like the second quarter of 2006, last quarter also ended on a “will they or won’t they” note . . . and once again they did! Demonstrating that the UN Security Council resolution issued after their July missile test (UNSCR 1695) was not a sufficient deterrent to further provocative action, Pyongyang on Oct. 9 made good on its threat to conduct its first ever nuclear weapons test. Debate continues as to just how large or how successful the test was, but by most accounts (most decidedly including its own), North Korea seems to have joined the *de facto* nuclear weapons club. Ironically, but perhaps not by pure coincidence, the test took place on the very day the UNSC was to nominate South Korean Foreign Minister Ban Ki-Moon as the next UN secretary general.

The international community’s response to the nuclear test was swift and, at least rhetorically, quite harsh. China joined the international chorus condemning Pyongyang’s “brazen” action, agreeing that “some punitive measures” were in order after the North “defied the universal opposition of international society and flagrantly conducted the nuclear test.” Those punitive measures were soon to be spelled out in UNSCR 1718, approved after several drafts, on Oct. 14.

CVID returns!

Significantly, the final approved version of UNSCR 1718, in some respects, was even stronger than the first and second drafts put forth by the U.S., UK, France, and Japan. All versions branded the test “a clear threat to international peace and security,” with the final version also “recalling that the DPRK cannot have the status of a nuclear weapon state” in accordance with the Nuclear Non-Proliferation Treaty (NPT). While the first draft stated that Pyongyang “shall eliminate its nuclear weapons and nuclear programs, to be verified by the IAEA,” the final version “decides that the DPRK shall abandon all nuclear weapons and existing nuclear programmes in a complete, verifiable, and irreversible manner,” and further decides that it “shall abandon all other existing weapons of mass destruction and ballistic missile programmes in a complete, verifiable, and irreversible manner.” The return of CVID – the earlier U.S. demand for the complete, verifiable, irreversible dismantlement of all DPRK nuclear weapons programs – provides ample testimony to Beijing’s anger (and embarrassment) toward Pyongyang for defying its earlier stern public admonitions not to conduct the test.

The final draft also includes the establishment of a Committee of the Security Council tasked, among other duties, “to examine and take appropriate action on information regarding alleged violations,” and also “to promulgate guidelines as may be necessary to facilitate the implementation of the measures imposed by this resolution,” with the Committee reporting to the UNSC on its work, recommendations, and observations “at least every 90 days.”

Chapter 7 sanctions as necessary

Unlike UNSCR 1695, this time the U.S. was also able to invoke Chapter 7 of the UN Charter, which includes enforcement mechanisms. However, the final version included the caveat “and taking measures under its Article 41.” Article 41 notes that “the Security Council may decide what measures not involving the use of armed force are to be employed to give effect to its decisions” It is Article 42 which permits “such action by air, sea, or land forces as may be necessary to maintain or restore international peace and stability” in the event Article 41 measures prove inadequate. To underscore the difference, the final version of UNSCR 1718 states definitively that “further decisions will be required [by the UNSC], should additional measures be necessary.”

While such a caveat seemed inevitable in the post-Iraq world, it provides (presumably) unintended assurance to North Korea that harsh measures will not be taken, even though the resolution did call on all members “to take, in accordance with their national authorities and legislation, and consistent with international law, cooperative action including through inspection of cargo to and from the DPRK, as necessary.” Beijing and Seoul, among others, have made it clear that, at this point in time, intrusive inspections are not deemed “as necessary.”

While the word “sanctions” does not appear anywhere in the text (or even in earlier versions), the resolution provides a long and comprehensive list (further articulated by the Committee) of items that could not be supplied to or purchased from the DPRK – the first draft’s more all-encompassing suggested prohibition of “arms or any related material” was rejected, however, in favor of the specified list. “Luxury goods” were also prohibited, in an apparent attempt to make the North Korean elite feel the effects of the sanctions.

While the UNSC sanctions are mandatory, it remains to be seen how aggressively they will be pursued or how strictly or broadly they will be interpreted or enforced. Despite U.S. grumblings, Seoul appears intent on insulating its “Sunshine” policies from the sanctions effort, indicating that it will be essentially business as usual as far as its Kumgang tourist project and the Kaesong economic development zone projects are concerned: “We judged that the contents of the resolution of the U.N. Security Council do not directly affect the economic cooperation programs between the two Koreas, including Kaesong and Kumgang Mountain,” a Foreign Ministry spokesman said the morning after sanctions were approved, noting that South Korea “will go ahead with the economic cooperation programs in harmony with the resolution.”

The attempt by the original drafters to also include specific reference in UNSCR 1718 to blocking financial transactions “in relation to illicit activities such as those related to counterfeiting, money-laundering or narcotics, including by freezing any financial or other assets or resources on their territories that are associated with such programs or activities” also failed to make the final cut, further watering down the sanctions message and effectiveness, at least in Washington’s eyes. It did, however, suggest a direct linkage between such illicit activities and Pyongyang’s nuclear program, even while Washington continued to argue that there should be no linkage between six-party nuclear weapons discussions and the lifting of U.S. restrictions ordered against Macao’s Banco Delta Asia (BDA) specifically for such activities.

DPRK warns of war (again and again)!

In its first official statement after its self-declared “successful” nuclear test, Pyongyang warned that “if the U.S. keeps pestering us and increases pressure, we will regard it as a declaration of war and will take a series of physical corresponding measures.” While war has yet to be officially declared (perhaps because the Korean War, still under the 1953 Armistice, has yet to be officially declared over), DPRK Ambassador to the UN Pak Gil-yon, in walking out of a UNSC session called to announce the resolution’s unanimous passage, repeated the “declaration of war” accusation.

Pyongyang was quick to totally reject the “unjustifiable” resolution, calling the UNSC’s “coercive” resolution “gangster-like” and “a clear testament that the Council had completely lost its impartiality.” Pyongyang claimed that the test “was entirely attributable to United States threats, sanctions and pressure,” but that it was still “unchanged in its will to denuclearize the Korean Peninsula.” Despite its vivid demonstration that its long-declared nuclear weapons capability was more than

theoretical, Pyongyang argued that it remained committed to the Six-Party Talks September 2005 Joint Declaration, further stating that the test “constituted a positive measure for its implementation.” All that was required to get Pyongyang to give up its nuclear weapons was for Washington to drop its “hostile policies” toward the DPRK.

Everyone blinks and talks resume

Despite repeated calls for North Korea to return to the Six-Party Talks (including in UNSCR 1718), Pyongyang initially remained adamant that it would not return to denuclearization talks until Washington lifted the BDA sanctions. Meanwhile, Washington was being equally firm and unyielding. North Korea “can have a future or it can have these weapons. It cannot have both,” Assistant Secretary of State Christopher R. Hill remarked prior to the test: “We are not going to live with a nuclear North Korea, we are not going to accept it.” Nor was Washington prepared to negotiate the enforcement of its laws. It was prepared to explain the nature of the BDA sanctions and the steps Pyongyang could take to alleviate them – in short, by verifiably stopping its counterfeiting and money-laundering activities – but would not meet in separate bilateral negotiations, on this or any other matter, outside the six-party process.

Despite these seemingly unyielding stances, in late October both sides seemingly blinked, with Hill going to Beijing for Chinese-hosted direct discussions with his DPRK counterpart, Vice Foreign Minister Kim Gye-gwan. As a result of these “bilateral negotiations” (as termed by Pyongyang), North Korea agreed to another round of Six-Party Talks “on the premise that the issue of lifting sanctions should be discussed and resolved.” Despite this agreement in principle to resume the dialogue, a second Hill-Kim meeting was needed, again hosted by Beijing, before a date was finally set for what was officially to be the second session of the fifth round of Six-Party Talks.

New session, same results

This session, held in Beijing Dec. 18-22, ended much the same as the first session had some 13 months earlier, with a vague promise to implement the September 2005 denuclearization agreement “as soon as possible,” but with absolutely no forward progress toward that goal. Like November 2005, the participants could not even agree on a date for the next session, promising only to “reconvene at the earliest possibility.”

As anticipated/demanded by Pyongyang, the issue of lifting sanctions was indeed discussed, but it was not resolved. What Washington approached as a negotiating point, Pyongyang stuck to as a precondition for any movement toward denuclearization. At the onset of the talks, Assistant Secretary Hill, asserted that, from a U.S. perspective, the nuclear and sanctions issues were completely separate and should not be linked: “I would rather not obscure the [denuclearization] problem by talking about finances.” At the end of the day, however, Hill acknowledged that Vice Foreign Minister Kim apparently had “strict instructions” not to discuss nuclear developments until the sanctions issue was “resolved.”

The U.S. has argued, thus far unpersuasively, that the pot of gold at the end of the cooperation rainbow would far exceed the \$24 million in assets frozen as a result of the BDA action. This may be true, but totally misses the point. From Pyongyang's perspective, it is not just about the money (although the sanctions have reportedly hurt). To Pyongyang, the sanctions provide more "proof" of the Bush administration's "hostile policy" toward the DPRK. It is this policy, and not just the BDA sanctions, that must be demonstrably changed before Pyongyang would even consider giving up its nuclear weapons. In other words, even if the BDA issue is successfully resolved – through the lifting of U.S. restrictions or, more feasibly, a finding that only certain accounts were suspect and restrictions against the others were withdrawn – this would not guarantee progress toward the denuclearization goal.

Previously, Pyongyang also insisted that the delivery of two light-water nuclear reactors, promised under the now defunct 1994 Agreed Framework, was another prerequisite. Pyongyang has also branded the U.S.-led Proliferation Security Initiative (PSI) – aimed at preventing the illegal movement of weapons of mass destruction and especially their delivery to terrorists – as another clear example of Washington's hostile intent to "isolate and blockade" the DPRK. For that matter, UNSCR 1695 and 1718 have also been condemned as "a product of the U.S. hostile policy toward the DPRK."

It is not clear whether all these additional "proofs" of non-hostile attitude must be "resolved" before it will begin serious denuclearization discussions. However, North Korea has clearly signaled that it has no intention to actually give up its nuclear weapons until the U.S. has demonstrated (by the above-mentioned actions and more) that it has fully abandoned its hostile policy. This makes it extremely difficult to be positive about the next round of Six-Party Talks, when or if it ever occurs.

Democrats take control of Congress

Contrary to popular belief, the Republican Party setbacks in November – Democrats regained control of both the U.S. House of Representatives (expected) and the Senate (hoped for but not anticipated) – are not likely to have a major impact on the six-party deliberations or on Asia policy in general. An increasing number of Congressmen from both sides of the aisle had been calling on the Bush administration to have direct dialogue with the North (which it arguably is now doing, both in the context of the Six-Party Talks and directly via the Hill-Kim meetings and others being arranged to further discuss the BDA sanctions). But North Korea has no great fans in the Congress and Democrats have been as critical of Bush's failure to halt Pyongyang's nuclear programs as they have been about not talking, frequently demanding a tougher stance (including military action if necessary).

While Bush's foreign policy is likely to come under increased scrutiny now that the Democrats are in control, the focus will largely be on the Middle East in general and Iraq in particular. Continued engagement with China is not an issue and support for Japan and for U.S. alliances in Asia remains largely bipartisan. There is concern, perhaps not displaced, that House Speaker Nancy Pelosi will bring her long history of antagonism

toward China's human rights practices with her as she becomes the first woman to lead the House, but she will have many other issues to focus upon and the House has only limited sway in affecting foreign policy (another example of the wisdom of America's founding fathers).

China is likely to feel some heat if it continues to stonewall on the issue of RMB revaluation, although this was likely to be the case regardless of which side won in November. Likewise, there is concern about Congressional receptivity toward free trade area arrangements – negotiations continue with South Korea and Malaysia but are on hold with Thailand after the coup – but this may give U.S. negotiators more leverage. At any rate, the prospects of any new FTA being presented before the Congress by the fast track de facto March 2007 cut-off date appear slim.

ASEAN summits rained out

Senior officials had already traveled to Cebu in early December to prepare for their annual round of summitry when host Manila elected to postpone the meetings until early in the new year, ostensibly as a result of an impending typhoon (which did, in fact, strike the region, with some consequence). This being the Philippines, rumors were rampant that concerns about a terrorist plot against the assembled heads of state also prompted the postponement. A not-so-confidential government threat assessment had reportedly stated that, while no specific plot had been detected, the possibility of a terrorist attack during the summits “is not far fetched.” The report cited the Abu Sayyaf, the Moro Islamic Liberation Front, and the Indonesia-based Jemaah Islamiyah as groups that could pose a threat to the summit. Regardless of the veracity of the report, security is likely to be intense when the officials finally gather in Cebu in mid-January 2007.

In addition to the ASEAN and ASEAN Plus Three (China, Japan, South Korea) Summits and traditional rounds of ASEAN Plus One individual meetings between ASEAN leaders and heads of government from Australia, New Zealand, India, and the plus three states, all 16 were to meet for the second East Asia Summit, the most publicized and potentially least consequential of the various gatherings. The U.S. remains outside the EAS, although it was reportedly prepared to send a senior official from its Manila Embassy as an observer. Little information was available in advance about the agenda of this “leaders-led” meeting.

The ASEAN leaders were scheduled to sign an ASEAN Convention on Counter Terrorism (ACCT) that would make it an obligation for member countries to extend mutual legal assistance in criminal matters, “including extradition or prosecution of perpetrators of terrorist acts.” ASEAN leaders were also to discuss a Charter being developed by its Eminent Persons Group that would give the organization a stronger legal basis and better allow it to enforce its agreements and, for the first time, punish members that do not follow the rules. The ASEAN leaders were also expected to endorse a plan to speed up regional integration and create a common market by 2015, instead of 2020, as originally planned.

More of the same from APEC

The annual Asia Pacific Economic Cooperation (APEC) Leaders Meeting was held Nov. 18-19, 2006 in Hanoi, Vietnam. In their declaration, the assembled grandees reaffirmed their commitment to free trade, and said that reviving the stalled round of Doha global trade talks remains a priority. “We should ... spare no effort to break the current deadlocks and achieve an ambitious and overall balanced outcome.” To underscore their seriousness, the leaders issued a separate statement on the Doha Round. They also endorsed the Hanoi Action Plan designed to implement the Busan Road Map agreed at last year’s summit, calling it the foundation of APEC economic and trade cooperation for the next 15 years.

As in previous years, the leaders pledged to fight terrorism, the proliferation of weapons of mass destruction and other threats to regional security and stability, such as pandemic disease, natural disasters, and ensuring reliable supplies of energy. While Vietnamese President Nguyen Minh Triet said in his chairman’s statement that the North Korean missile and nuclear tests were “a clear threat to our shared interest in peace and security,” the leader’s declaration itself made no reference to the DPRK nuclear weapons program. It did declare support for the Six-Party Talks and the need for a peaceful solution to the crisis in Northeast Asia.

The leaders also took heed of criticism that APEC is a talk shop whose “lowest common denominator” approach to problems is far too low. They agreed that APEC needs reform to ensure that the forum is relevant and effective. Some complain that the group needs to restore its original focus, or return to trade promotion. According to Foreign Minister Alexander Downer, Australia, the host of the 2007 meeting, will “prepare a work plan that will include a very significant focus on energy cooperation, clean energy and climate change issues.”

A Free Trade Area of the Asia Pacific?

The U.S. wants APEC to consider an Asia Pacific Free Trade Area (APFTA), a proposal that has two apparent purposes. First, it is intended to restore some “oomph” to stalled global trade talks by hinting that a regional alternative might be in the works. Second, the initiative would blunt fears (hopes? designs?) that the East Asia Summit or ASEAN Plus Three might prove the nucleus of a regional bloc that could exclude the U.S. In their final declaration, the leaders agreed to follow-up on the U.S. proposal, but only to study whether it is a reasonable long-term objective for APEC. President Bush’s team called that a victory.

Getting approval will be an uphill battle. China prefers a smaller regional grouping, since that would give it more influence. Even a stalwart U.S. ally like Japan recognizes the need for more Asian integration before tackling the larger Asia-Pacific project. Kawai Masahiro, of the Asian Development Bank, explained at the U.S. Asia Pacific Council Conference that was held in Washington after APEC, that East Asia first wants to

consolidate itself before moving toward an Asia Pacific FTA. That prompted some angry rebuttals about Asian priorities by U.S. economists present.

On a related note, APEC leaders agreed on key elements for six model free trade agreement (FTA) chapters to ensure that FTAs promote trade rather than inhibit it.

Sideline sessions

As usual, Hanoi provided opportunities for President Bush to meet allies and other diplomatic partners. Bush held his first sit-down with Japanese Prime Minister Abe Shinzo (as prime minister; the two men met frequently while Abe was chief Cabinet secretary). They applauded the strength of the bilateral alliance and committed to continuing close cooperation to deal with North Korea and ballistic missile defense. North Korea and related issues dominated Bush's one-on-one meeting with ROK President Roh Moo-hyun, and the three-way conversation between Bush, Roh, and Abe, the first trilateral meeting of the three leaders since 2002. The three men agreed to work closely, and with China too, to resolve the North Korean problem.

Other notable sidebars included sessions with Vietnamese president and APEC host Nguyen Minh Triet, Russian President Vladimir Putin, and Chinese President Hu Jintao. In his meeting with Australian Prime Minister John Howard, the two men spent time discussing Iraq and climate change. While both professed concern about greenhouse gasses, they also agreed that the Kyoto protocol on climate change is not the answer.

President Bush also held his second summit with the so-called ASEAN Seven, those ASEAN members who also participate in APEC. Since this grouping does not include Myanmar (Burma), it is politically easier for Bush to participate. Bush reportedly found the first summit, along the sidelines of last year's Busan APEC gathering, useful and has apparently agreed to make it an annual event, despite concerns expressed by some in Washington that attending this year's event would "legitimize" Thailand's coup, given the presence of interim Prime Minister Surayud Chulanont at the meeting.

Elsewhere on the trip, Bush stopped before APEC in Singapore, where he caucused with President Lee Hsien Loong, and after the summit he met Indonesian President Susilo Bambang Yudhoyono in Jakarta.

Democracy in Asia continues to struggle

2006 was not a great year for democracy in Asia and this trend was very much in evidence during its final quarter, with a coup in Fiji the starkest example. Meanwhile, Thailand's military government seems to be losing its popularity as it struggles to govern and Taiwan's president Chen has been subjected, once again, to an impeachment attempt, even as Manila struggles with constitutional change.

In *Fiji*, paradise was lost for the fourth time in 19 years, when the legal government was once again overthrown. Head of the armed forces Commodore Voreqe Bainimarama deposed Prime Minister Laisenia Qarase and his Cabinet, charging that the government was corrupt. Bainimarama put down a 2000 coup by businessman George Speight and installed Qarase as interim prime minister. The two men fell out when the prime minister – who won two subsequent elections – invited some of the coup plotters into his government and prepared legislation to give them amnesty. The government also prepared legislation to grant indigenous Fijians ownership of coastal waters, a move Bainimarama said discriminated against the Indian population.

On Dec. 5, Bainimarama seized power, removed Qarase from office, suspended parts of Fiji's bill of rights, and fired security officials. Army doctor and Methodist lay preacher Jona Senilagakali was named interim prime minister. Senilagakali argued the coup was "an illegal takeover to clean up the mess of a much bigger illegal activity of the previous government." He added that "Democracy may be all right for certain places in the world but I don't think the type of democracy (in) Fiji" is that practiced in the West. After warning external powers to butt out – international condemnation of the coup was uniform and fierce – he said Fiji would seek aid from countries like China and Indonesia, and even friends such as Taiwan, if sanctions were imposed. That didn't halt criticism but apart from cutting aid and suspending Fiji's participation in the Commonwealth, reaction has been limited.

Thailand's military government continued its search for legitimacy. That effort was hampered by its failure to charge former Prime Minister Thaksin Shinawatra with any wrongdoing. Cognizant of the need to justify its actions, the ruling Council for National Security (CNS) released a 38-page *White Paper* with its justification for the Sept. 19 coup. The new government has said that it plans to hold elections in October 2007, but first it wants a new constitution. On Jan. 2, King Bhumibol Adulyadej signed a royal command appointing 100 prominent persons as members of the Constitution Drafting Assembly (CDA). The list includes academics, bureaucrats, senior judges, and former politicians. Also named is the wife of Somchai Neelapaijit, the Muslim human rights lawyer who disappeared in March 2004.

The new government's competence and credibility took a real hit Dec. 18, when the Central Bank announced foreign exchange restrictions on investors who did not keep their money in Thailand for a year. That prompted a 15 percent plunge in the market – the loss of \$23 billion in value – the next day, pushing the stock market to its lowest level in 17 years. The Central Bank rescinded the move a day after but not before doing great damage to the government's image and consumer confidence.

Finally, the new year rang in with a series of eight explosions in Bangkok that killed three people and wounded 38. The government blamed disgruntled politicians who lost power in the coup, rather than Muslim militants from the south or foreign forces.

Taiwan President Chen Shui-bian dodged another bullet this quarter (this time, the attack was metaphorical). In early November, a high court prosecutor said he had enough evidence to charge Chen's wife, son-in-law, and several senior aides with embezzlement. The prosecutor would have charged Chen if he didn't enjoy presidential immunity. That inspired the opposition to try the third impeachment vote in the Legislative Yuan since June when the scandal began to emerge. The vote failed once again.

Chen explained that the funds were for "diplomatic purposes," i.e., discretionary funds the president's office uses to buy foreign government support for Taiwan's effort to gain international recognition. Unfortunately for the president, it is hard to see how \$450,000 in expenses for luxury items and fake receipts by the president's wife qualify. Chen said that he would step down if his wife were convicted. At the end of the December, Chen's son-in-law was found guilty of insider trading and sentenced to six years in prison and fined NT\$30 million (\$917,000).

While the scandals didn't hurt the president's Democratic Progressive Party in mayoral elections – they retained control of their traditional stronghold of Kaohsiung – they are likely to further diminish any hope that Beijing will constructively deal with the elected government in Taipei as well as discredit democracy for many mainlanders.

Philippine President Gloria Magapagal Arroyo once again found herself behind the political curve. Her supporters in the House of Representatives attempted to push a new constitution – "cha cha" or charter change in the local political lexicon – with a parliamentary maneuver that would have made Senate opposition to the move irrelevant. Widespread outcry by them and other members of Philippine civil society forced the legislators (and the president, who is believed to be acting through them) to retreat. Arroyo conceded defeat but said that constitutional change would remain a priority for her administration.

The economic outlook: generally good

The regional economic outlook is good. While the IMF predicts global growth of 4.9 percent in 2007 (a slight drop from the 5.1 percent of 2006), the Asia Pacific region will continue to set the pace for the rest of the world. The World Bank's annual report on "Global Economic Prospects" projects 8.7 percent GDP growth in 2007 in East Asia and the Pacific, a slight decline from the 9.2 percent growth recorded in 2006, the highest rate since 2001.

The U.S., long the source of final demand for the region, will see its economy expand 2.5 percent in 2007 – at least that is the prediction of 50 top forecasters in a survey released in November by the National Association for Business Economics. The European Central Bank sees GDP growth in the 12-nation euro zone of 2 percent in 2007, a drop from the 2.7 percent expected in 2006, but near doubling the 1.4 percent that the euro zone has averaged since 2001.

Declining U.S. growth – and a concomitant diminishing appetite for imports from the region – will be offset by falling oil prices (which by year’s end had fallen more than 20 percent from their July peak of \$78 a barrel) and growing demand from consumers within the region itself as its middle class expands and picks up slack from the developed world.

The consensus view of Japan’s prospects is that the country will register 2 percent growth in fiscal 2007. Many economists are holding their breath, however; the Bank of Japan ended its zero interest rate policy after six years in July, raising rates to 0.25 percent and many anticipate another rise this year that could choke off recovery.

For South Korea, Standard and Poor’s reckons on 4.5 percent growth in 2007, down from 4.9 percent in 2006. That is in line with the Seoul government’s predictions but higher than other economic institutions.

Standard & Poor’s puts real Chinese GDP growth at 10 percent in the year ahead (following 10.5 percent growth in 2006), and India’s economy is expected to expand 7.5 to 8 percent, marking a similar slowdown from the 8.5 percent recorded last year. Strong growth in India is good news for its trading partners in South Asia; the World Bank forecasts regional gross domestic product in South Asia will grow 7.5 percent in 2007 after expanding 8.2 percent in 2006.

The UN Economic and Social Commission for Asia and the Pacific (ESCAP) predicts aggregate 6.9 percent growth among developing countries of East Asia region, a 0.2 percent decline from 2006. (For the sake of comparison, ESCAP forecasts 9.9 percent and 8.1 percent growth in China and India, respectively; the World Bank, the IMF’s sister institution, anticipates 9.6 percent growth in China in 2007.)

The big question mark is China. The country’s leaders are still worried about overheating and they are trying to rein in red-hot property and credit markets. As in the past, success is an iffy proposition. The government set a target of 8 percent growth for 2007, but it has a miserable record: growth has exceeded targets every year this decade. While the World Bank worries that “High investment rates and excess capacity in several sectors dominated by state-owned enterprises leave open the possibility of a sharp decline in investment,” it is confident that “continued robust investment demand and a pickup in private consumption” should keep the Chinese economy strong.

China is at the heart of the regional economy and any slowdown there will be felt among its trading partners. The ESCAP report notes “A reduction in Chinese domestic demand would lead to reduced exports and growth in the region. Countries would be affected according to the depth of their involvement in China. ... If China’s GDP growth drops below 7 percent, GDP growth in Taiwan and Singapore would decline by 0.4 percentage points, while GDP growth in Hong Kong and South Korea would fall by 0.3 percent. Net exports in developing Asia (excluding China) would decline by almost 2 percentage points, while the current account balance as a percentage of GDP would deteriorate by almost 0.1 percentage points.”

Experts have two other concerns. The first is Japan, which is only now seeing economic prospects improve after a decade of seeming stagnation. The Abe government has to make difficult decisions about whether to prime the pump as many of its predecessors did to revive economic prospects, or to follow the line of Koizumi governments that put priority on getting the country's economic house in order – the result of those years of deficit spending. It is unclear where Abe will come down, although he looks more like a traditionalist than his predecessor. The prospect of an Upper House election this summer could tilt him toward more spending. Japan is also dependent on China for its own strengthening performance – according to ESCAP, China has been Japan's second largest trading partner since 2005, representing 17 percent of Japan's total trade, and Chinese goods account for 21 percent of its total imports – which means a slowdown there would hit Japan hard.

A second potential problem is financial market volatility. This remains a worry of central bankers, who are increasingly concerned about hedge fund exposure and overextended credit markets. The Asia Pacific region should be better prepared for such risks after the 1997-98 financial crisis but the blunders of the Thai government in December, when it tried to impose currency controls on foreign investors and triggered a plunge in its own market, is a reminder that some wounds are self inflicted.

The political outlook: glass half full?

Glass “half full” proponents will look at recent and impending political developments in East Asia and see cause for cautious optimism. Regional insurgencies seem under control (or at least no worse than ever), there were no major confrontations over the past year (even the coups were conducted without hardly a shot being fired), and none is anticipated in 2007, North Korean declarations of war notwithstanding. Tensions between China and Japan have ameliorated and there has even been a lessening of rhetoric between Seoul and Tokyo. Southeast Asia seems stable and the region as a whole, as discussed above, is enjoying great prosperity.

Looking ahead, it is difficult to be too optimistic, however. North Korean nuclear and missile tests have already upped the ante and there is growing evidence that Pyongyang seems intent on pushing full speed ahead with its nuclear weapons programs while waiting for regime change in Washington two years hence. Presidential elections later in 2007 are sure to bring with them increased anti-American sentiments in South Korea, magnified by different opinions on how best to handle the North plus contentious negotiations over a free trade agreement and base relocation and the issue of operational control over the ROK's armed forces (not if, but when and how, and with what consequences). There are signs that Abe Shinzo's honeymoon with Japanese voters is over and his fate could be prematurely decided by this year's Upper House elections. Tensions with China and Korea remain just below the surface as all wait to see what he plans to do regarding Yasukuni Shrine visits. Young regional democracies will continue to be tested, especially in Southeast Asia, and the situation in Fiji is just one part of a growing crisis in good governance throughout Oceania, made worse by Chinese and Taiwanese attempts to buy influence and allegiance in this increasingly unstable region.

All this ensures that Washington, while still preoccupied with the Middle East, will continue to face a series of continuing challenges to its interests in East Asia and the Pacific, even as the region watches to see what the impact of a Democrat-controlled Congress will have on trade policy and human rights issues.

Regional Chronology October-December 2006

Oct. 1-31, 2006: Japan has presidency of the UN Security Council for October.

Oct. 2, 2006: At the North's request, the first inter-Korean military talks since July's missile tests are held at Panmunjom.

Oct. 3, 2006: North Korea announces plans to conduct a nuclear test to counter "hostile U.S. policy."

Oct. 4, 2006: U.S. sends a message to DPRK via its UN mission in New York not to conduct the test.

Oct. 6, 2006: UN Security Council issues statement that urges "the DPRK not to undertake such a test and to refrain from any action that might aggravate tension, to work on the resolution of non-proliferation concerns and to facilitate a peaceful and comprehensive solution through political and diplomatic efforts."

Oct. 8-9, 2006: PM Abe Shinzo makes official visit to China and meets President Hu Jintao, Premier Wen Jiabao, and Chairman Wu Bangguo. Both sides agree to promote exchange and cooperation in politics, economy, security, society, and culture.

Oct. 9, 2006: South Korea Foreign Minister Ban Ki-Moon is confirmed by the Security Council as next United Nations secretary general, to succeed Kofi Annan on Jan. 1, 2007.

Oct. 9, 2006: PM Abe travels to South Korea and meets President Roh Moo-hyun for the long awaited bilateral meeting.

Oct. 9, 2006: North Korea announces that it has successfully conducted a nuclear test. U.S. Geological Survey detects an earthquake with a estimated magnitude of 4.2 in Hwaderi near Punggye-Yok.

Oct. 9, 2006: Presidents Roh Moo-hyun and George W. Bush have a 20-minute phone conversation regarding the announcement of the nuclear test by North Korea.

Oct. 9, 2006: Presidents Vladimir Putin and Bush have a phone conversation about the North Korean nuclear test and agree the test dealt a blow to the global nonproliferation regime and that there was need to coordinate efforts to resolve the problem.

Oct. 11, 2006: DPRK *Korea Central News Agency* declares U.S.-initiated UN sanctions an “act of war.”

Oct. 11, 2006: Kim Yong-nam, president of the Presidium of the DPRK Supreme People’s Assembly, meets delegation from Japan’s *Kyodo News* headed by President Ishikawa Satoshi.

Oct. 11-14, 2006: State Councilor Tang Jiaxuan, Vice Foreign Minister Wu Dawei, and others visit Washington, D.C. and Moscow to discuss the situation on the Korean Peninsula.

Oct. 11, 2006: Japan announces new sanctions against North Korea for its nuclear test, include a ban on all North Korean ships from Japanese ports.

Oct. 13, 2006: Presidents Roh and Hu hold a Korea-China summit in Beijing.

Oct. 14, 2006: UNSC Resolution 1718 is unanimously passed: it imposes sanctions on North Korea and demands a halt the DPRK nuclear and missile programs.

Oct. 15, 2006: UN General Assembly elects ROK Foreign Minister Ban Ki-moon as next UN secretary general.

Oct. 16, 2006: Presidents Roh and Putin hold 20-minute phone conversation to discuss the North Korean nuclear test. Roh reiterates that Seoul would not tolerate a nuclear North and that it supports UNSC Resolution 1718.

Oct. 16-31, 2006: U.S. and Philippine forces engage in amphibious exercises.

Oct. 17, 2006: Russian PM Mikhail Fradkov meets President Roh during a visit to Seoul.

Oct. 17-22, 2006: Secretary of State Condoleezza Rice travels to Japan, South Korea, China, and Russia to discuss implementation of UNSCR 1718.

Oct. 18, 2006: U.S. Congress enacts National Defense Authorization Act for 2007, which requires appointment of a senior U.S. coordinator on Korea within 60 days.

Oct. 18, 2006: The 28th ROK-U.S. Military Committee Meeting held in Washington.

Oct. 18-19, 2006: SCO holds first education ministerial meeting in Beijing. Representatives agree to set up expert team to verify education certificates of SCO member states.

Oct. 19, 2006: State Councilor Tang Jiaxuan, special envoy of President Hu, meets Kim Jong-il in Pyongyang.

Oct. 19, 2006: ROK, U.S., and Japan foreign ministers hold a two-hour meeting at ROK FM Ban's residence. This is the first trilateral meeting among the ministers since October 2000.

Oct. 20, 2006: The 38th ROK-U.S. Security Consultative Meeting (SCM) held in Washington, D.C. Defense Ministers Donald Rumsfeld and Yoon Kwang Ung lead delegations.

Oct. 20, 2006: State Councilor Tang Jiaxuan briefs Rice on his meetings in Pyongyang with Kim Jong-il.

Oct. 22, 2006: Fourth round of U.S.-Korea talks on a free trade agreement open in Jeju.

Oct. 24, 2006: Australia-Japan-U.S. Counterterrorism Talks held in Tokyo.

Oct. 27-28, 2006: UN Secretary General-elect Ban Ki-moon at the invitation of Beijing visits China to meet President Hu, State Councilor Tang, and Foreign Minister Li Zhaoxing and to discuss the North Korea nuclear stand-off.

Oct. 30, 2006: China-ASEAN Commemorative Summit held in Nanning, China.

Oct. 30-31, 2006: Naval and law enforcement personnel from Australia, Bahrain, France, Italy, UK, U.S. amid other nations participate in Proliferation Security Initiative exercise *Leading Edge*, the maritime portion of a two-phase exercise in the Persian Gulf.

Oct. 30-31, 2006: Bush-Putin-initiated Global Initiative to Combat Nuclear Terrorism meeting held in Rabat, Morocco. Representatives from 12 nations attend.

Oct. 31, 2006: North Korea announces that it will return to the Six-Party Talks after a secret meeting between Kim Gye-gwan, Christopher Hill, and Wu Dawei. At the meeting, U.S. tells North Korea that it is prepared to discuss issues surrounding Banco Delta Asia and to form a bilateral mechanism or working group to deal with the problem.

Nov. 1, 2006: President Roh nominates Lee Jae-jeong, senior vice president of the Advisory Council on Democratic and Peaceful Unification, as unification minister; Song Min-soon, chief secretary to the president for unification, foreign, and security affairs as foreign minister; Gen. Kim Jang-soo, Army chief of staff, as minister of defense; and Kim Man-bok, first deputy director of the National Intelligence Service (NIS), as NIS director.

Nov. 5-12, 2006: Under Secretary for Political Affairs Nicholas Burns and Under Secretary for Arms Control and International Security Robert Joseph travel to Tokyo, Beijing, and Seoul to discuss the Six-Party Talks and implementation of UNSCR 1718.

Nov. 7, 2006: In U.S. mid-term elections, the Democratic Party regains a majority in the House of Representatives and the Senate.

Nov. 7, 2006: WTO General Council approves Vietnam's membership. Vietnam will formally join the WTO Jan. 11, 2007.

Nov. 7, 2006: First sub-ministerial meeting of the ROK-U.S. Strategic Consultation for Allied Partnership held in Seoul with Vice Minister of Foreign Affairs and Trade Yu Myung-hwan and Under Secretary Burns heading their delegations.

Nov. 7, 2006: U.S. Ambassador to the Philippines Kristie Kenney states that the U.S. is satisfied with the conduct of a trial for four U.S. marines charged with rape. Kenney said the trial showed that the Philippine-U.S. Visiting Forces Agreement worked and requires no revision.

Nov. 7-16, 2006: Some 25 senior SCO military officials meet in Beijing for the second "China's Peaceful Development and the SCO" forum and to discuss defense cooperation. Officers from observer nations Mongolia, Pakistan, Iran and India also attend.

Nov. 8, 2006: U.S. Defense Secretary Donald Rumsfeld resigns and former CIA Director Robert Gates is nominated as the new defense secretary.

Nov. 8, 2006: Under Secretary Burns and Chinese Vice Foreign Minister Yang Jiechi hold third round of the U.S.-China Senior Dialogue in Beijing.

Nov. 9-10, 2006: PM Fradkov visits China to hold 11th regular China-Russia Prime Ministers' meeting with Premier Wen Jiabao and attend the closing ceremony of the Year of Russia.

Nov. 9-15, 2006: Japan and U.S. forces hold annual joint exercise in waters around Japan.

Nov. 13, 2006: U.S. House of Representatives fail to approve Vietnam's PNTR status.

Nov. 13, 2006: South Korea announces it will not join Proliferation Security Initiative.

Nov. 14-21, 2006: President Bush and Secretary Rice travel to Vietnam, Singapore, and Indonesia. Bush holds bilateral meetings with leaders from Singapore, Japan, South Korea, Vietnam, Australia, China, and Russia.

Nov. 15, 2006: U.S. and South Korean defense officials begin two days of meetings on burden-sharing arrangements in Washington.

Nov. 15, 2006: Commander of U.S. Pacific Fleet Adm. Gary Roughead arrives in China on the *USS Juneau* for a weeklong visit that includes U.S.-Chinese joint naval exercises.

Nov. 15-16, 2006: The 18th Joint Asia Pacific Economic Cooperation (APEC) Ministerial Meeting is held in Hanoi. Sidelines meetings occur among the Six-Party Talks nations.

Nov. 18, 2006: Bush, Abe, and Roh exchange views on the situation in Northeast Asia on the sidelines of the APEC meeting.

Nov. 18, 2006: President Bush meets leaders of the seven ASEAN members of APEC on the sidelines of the conference.

Nov. 17, 2006: UN General Assembly approves resolution on the “Situation of human rights in the Democratic People’s Republic of Korea (DPRK),” which includes condemnation of abductions as an international concern and a violation of human rights.

Nov. 17-19, 2006: The 14th APEC Leaders Meeting is held in Hanoi, Vietnam.

Nov. 18, 2006: President Bush expresses “understanding” of Thailand’s political situation. In a separate meeting with President Arroyo, the Philippine leader calls for a “deeper and broader” U.S. role in Philippine counterterrorism.

Nov. 18-19, 2006: APEC Leaders Meeting is held in Hanoi. President Bush and PM Abe meet for the first time since Abe took office, reaffirm the U.S.-Japan alliance and close cooperation on the DPRK. U.S.-Japan-ROK meeting also held, and three leaders agree that close trilateral cooperation is important to deal with the North Korean nuclear issue.

Nov. 19, 2006: U.S. and Russia sign WTO market access agreement that moves Russia closer to full integration with the global, rules-based trading system.

Nov. 19, 2006: U.S. and PLA navies take part in a bilateral joint search and rescue exercise. Following a port visit to Zhanjiang, the *USS Juneau* participates in the exercise off the southern Chinese coast.

Nov. 19-22, 2006: President Roh makes a state visit to Cambodia, the first visit by a sitting Korean president since normalization in 1997.

Nov. 20-23, 2006: Russian Minister for Emergencies Sergei Shoigu visits Beijing to attend a SCO emergency ministers conference for coordinating and integrating measures in time of emergency. An action plan on cooperation in disaster relief is passed.

Nov. 24, 2006: Taiwan President Chen Shui-bian survives third impeachment vote.

Nov. 24, 2006: Korea rejects shipment of U.S. beef because of bone fragments.

Nov. 26-29, 2006: Indonesian President Susilo Bambang Yudhoyono visits Japan and meets PM Abe. The two leaders establish a Strategic Partnership for Peaceful and Prosperous Future.

Nov. 27-28, 2006: China hosts preparatory meetings for resumption of Six-Party Talks.

Nov. 28, 2006: Assistant Secretary of State Hill and Kim Gye-gwan begin two days of meetings in Beijing about resuming Six-Party Talks; South Korea extends its deployment of troops in Iraq for a year.

Nov. 28, 2006: NATO summit convenes in Riga, Latvia. It is the first NATO summit held on the territory of the former Soviet Union.

Nov. 30, 2006: Fourth annual U.S. Asia Pacific Council is held in Washington. The conference focuses on “Fundamental Change in Asia and the United States Response.”

Dec. 1, 2006: Korea rejects second batch of U.S. beef.

Dec. 3-10, 2006: President Roh makes state visits to Indonesia, New Zealand, and Australia. He meets President Yudhoyono to exchange views on collaboration on energy, resources and other issues. Visiting New Zealand and Australia, Roh calls for collaboration on natural resources and energy, shipbuilding, and information and technology.

Dec. 4, 2006: President Bush accepts resignation of John Bolton, U.S. envoy to the UN.

Dec. 4, 2006: In a notorious rape trial in the Philippines that dragged on for over a year and became a test for the U.S. Visiting Forces Agreement, one U.S. marine is convicted and three others acquitted. Sentenced to 40 years, he became the first U.S. soldier convicted of wrongdoing since the Philippines shut down U.S. bases in 1992.

Dec. 4, 2006: U.S. and South Korea open fifth round of bilateral meetings on an FTA in Big Sky, Montana.

Dec. 5, 2006: Commodore Voreqe Bainimarama, armed forces chief overthrows elected Fijian government of Laisenia Qarase in a bloodless coup.

Dec. 7, 2006: The U.S. and six other nations join Secure Freight Initiative to improve port security and prevent nuclear-related smuggling by using advanced detection devices to scan containers for nuclear and radiological materials. The initiative fulfills a congressional mandate established in the Safe Ports Act of 2006 to scan 100 percent of U.S.-bound cargo from three overseas ports.

Dec. 7, 2006: U.S. Special Envoy on Human Rights in North Korea Jay Lefkowitz participates in a UN panel discussion on North Korean human rights abuses. He calls on China and South Korea to play an active role in pressing North Korea to end abuses.

Dec. 8, 2006: Presidential memorandum is sent to Secretary Rice to impose sanctions on North Korea as described in Arms Export Control Act and the Atomic Energy Act.

Dec. 8, 2006: Philippine government announces postponement of East Asia Summit and other meetings planned for Dec. 11-13. It proposes to host the meetings in January 2007.

Dec. 9, 2006: U.S. Congress passes U.S.-India Peaceful Atomic Energy Cooperation Act.

Dec. 9, 2006: U.S. Congress passes bill on permanent normal trade relations status for Vietnam. This paves the way for implementation of WTO regulations in the bilateral trade relationship.

Dec. 9, 2006: Japan, Korea, and China agree on the sidelines of ASEAN-related meetings in Cebu, Philippines to start negotiations next year on a trilateral investment agreement.

Dec. 10, 2006: ASEAN Summit and ASEAN Plus Three Summit postponed until Jan. 10-15 due to Typhoon Seniang.

Dec. 11, 2006: U.S. Trade Representative releases *2006 Report to Congress on China's WTO Compliance*. It finds mixed record by China in implementing its WTO obligations.

Dec. 11, 2006: Former President George H.W. Bush leads U.S. delegation to Bangkok, for the 60th anniversary of King Bhumibol Adulyadej's accession to the throne.

Dec. 12, 2006: Secretary Rice and FM Alexander Downer meet in Washington, for 21st Australia-U.S. Ministerial Consultations to discuss global and regional security and the state of the 55-year old alliance between the two nations.

Dec. 13-16, 2006: Indian Prime Minister Manmohan Singh meets Japanese PM Abe in Tokyo. A Strategic and Global Partnership is established.

Dec. 14, 2006: Eighth UN Secretary General Ban Ki-moon is sworn in.

Dec. 14-15, 2006: First session of U.S.-China Strategic Economic Dialogue held in Beijing. Treasury Secretary Henry Paulson leads U.S. delegation, and Premier Wu Yi leads Chinese delegation. U.S. delegation meets President Hu and Premier Wen. Issues include trade reform, global current account imbalances, capital market reform, China's growth strategy and exchange-rate policy, and cooperation on energy and the environment.

Dec. 15, 2006: Japan Defense Agency upgraded to defense ministry, which will come into being Jan. 9, 2007. Education Reform Bill that aims to promote patriotism passes National Diet.

Dec. 18, 2006: Robert Gates sworn in as U.S. defense secretary.

Dec. 18, 2006: U.S.-based Verizon Business signs construction and maintenance agreement to build first generation undersea optical cable system – Trans-Pacific Express (TPE) – directly linking the U.S. and China.

Dec. 18, 2006: Thai Central Banks announces foreign exchange restrictions on investors who did not keep their money in Thailand for a year. The order is rescinded for only stocks, but bonds and some other investments still have restrictions.

Dec. 18, 2006: U.S.-India Peaceful Atomic Energy Cooperation Act signed by President Bush.

Dec. 18-22, 2006: Six-Party Talks resume in Beijing. North Korea insists on full-fledged nuclear power status.

Dec. 19, 2006: Philippine President Gloria Arroyo tells a gathering at the Asian Development Bank that “charter change” (constitutional revision) will remain a top priority during her administration.

Dec. 19, 2006: U.S. and DPRK meet on the sidelines of the SPT to discuss the financial issues.

Dec. 21, 2006: First meeting of Japan-China Exchange Year of Culture and Sports 2007 is held at the Keidanren Kaikan.

Dec. 21, 2006: Pacific Commander Adm. William J. Fallon declares that the U.S. armed forces could not accept a Philippine judge’s decision to keep a convicted marine in a Philippine jail in violation of the VFA.

Dec. 22, 2006: U.S. announces that it is canceling the February *Balikatan 2007* exercises that it holds with the Philippine armed forces due to the dispute over the custody of a U.S. Marine convicted of rape.

Dec. 22, 2006: U.S. and Japan sign agreement to exchange detailed global topographic data including images on terrain, waterways, geographic survey data, area names, aerial routes, earth magnetism, and water depths in areas including the East China Sea. The memorandum of understanding is believed to have the stipulation that the exchanged information be kept confidential.

Dec. 23, 2006: UN Security Council unanimously votes on Resolution 1737 to impose sanctions on Iran to curtail its nuclear program.

Dec. 26, 2006: A 7.1 magnitude earthquake off the coast of Taiwan disrupts internet and phone connectivity. A return to full service is expected to take about three weeks.

Dec. 27, 2006: ROK FM Song Min-soon meets PM Abe in Tokyo. FMs Song and Aso Taro sign treaty to aid law enforcement to tackle cross-border crimes.

Dec. 27, 2006: Vietnam’s East Asia Commercial Bank closes all correspondent accounts to transfer money in and out of North Korea. The decision was the result of Vietnam’s entry into the WTO and growing ties with the U.S.

Dec. 26-27, 2006: Japan-China joint history project convenes in Beijing.

Dec. 29, 2006: With the handover of the U.S. Marine to the U.S. embassy staff, the decision is made to hold *Balikatan* exercise in the near future.

Dec. 29, 2009: Thailand's Council for National Security (CNS) releases and distributes a *White Paper* outlining the justification for the Sept. 19, 2006 military coup.

Dec. 29, 2006: Beijing releases *China's National Defense in 2006* white paper.

Dec. 31, 2006: Philippine judge relents and returns the marine to U.S. custody.

Dec. 31-Jan. 1, 2006: Nine bombs explode in Bangkok, Thailand killing three and injuring 42 people.



**U.S.-Japan Relations:
Abe Shows the Right Stuff**

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The third quarter of 2006 began with North Korea's July 5 missile launches. This quarter, Pyongyang added another provocation with the Oct. 9 nuclear test. The prospect of another nuclear weapons state in Japan's neighborhood was bad news, but the test also created an opportunity for Japan and its neighbors to begin forging consensus on an approach to this new regional security challenge. While the nuclear test posed a significant threat to Tokyo and prompted discussions (normally considered taboo) of nuclearization as a means to strengthen Japan's deterrence, it also led the United States to reaffirm its commitment to defend Japan under the nuclear umbrella.

Prime Minister Abe Shinzo, in his first meeting with President George Bush as prime minister, demonstrated a strong commitment to the U.S.-Japan alliance and pledged to cooperate closely on North Korea and other regional security issues. He also pledged to move toward implementing an agreement on the realignment of U.S. forces in Japan, particularly on Okinawa where the new governor appears willing to work with the central government. It is unclear if implementation will go smoothly, but the dynamics of Japan's security environment, complicated by the North Korean nuclear test, could facilitate further progress in bilateral security cooperation. In the fourth quarter, Abe engaged in a series of security and diplomatic challenges that allowed him to show that he has the "right stuff" to be prime minister, despite his relative youth and inexperience. But a sudden sag in popularity at home in December and questions about his commitment to economic reform will be areas to watch in the new year.

First Bush-Abe summit

The most important event in U.S.-Japan relations this quarter was probably the Nov. 17 inaugural summit between Prime Minister Abe and President Bush on the sidelines of the Asia-Pacific Economic Cooperation (APEC) meeting in Hanoi, Vietnam. The two leaders reaffirmed the regional and global importance of the U.S.-Japan alliance and saw eye-to-eye on further strengthening the bilateral relationship. With regard to North Korea, they confirmed the need for "concrete results at an early stage" and an acceleration of missile defense cooperation. Bush also expressed his support for Japan's stance on the abduction issue.

Bush and Abe had several issues to discuss, but public attention focused more on the chemistry between them than on the substance of the summit. After the close personal relationship between Bush and Koizumi Junichiro, some expressed concern about a setback once Abe took office. The concerns were proven unfounded as Bush spoke warmly about his new counterpart after the meeting, stating: “I admire the prime minister’s intellect, I’m very comfortable with his style, and I’m very confident we’ll be able to work together for the common good.” Abe surprised President Bush when he presented a picture of his grandfather, then-Prime Minister Kishi Nobusuke, Bush’s grandfather, then-Sen. Prescott Bush, and then-President Eisenhower playing golf together. National Security Advisor to the President Steve Hadley called it “a poignant moment.”

Showing the right stuff

Abe’s summit with President Bush was helped enormously by the new prime minister’s pragmatic diplomatic outreach to China and South Korea at the beginning of his term. For the Bush administration, a strong U.S.-Japan alliance cannot exist in isolation and Washington depends on Japan having its own proactive strategy to keep its fighting weight up in the region. The Bush administration was not about to intervene in controversial issues such as the Yasukuni Shrine visits or the Takeshima/Dokdo territorial issues between Seoul and Tokyo, but the Bush administration was growing quietly impatient with Japan’s seeming inability to recover momentum in Northeast Asia to keep up with Beijing’s growing clout and influence in the region. Aware of Washington’s concerns and keen to regain the strategic momentum in the region and broader political support at home, Abe visited Beijing on Oct. 8 and Seoul on Oct. 9. By doing so, he became the first prime minister since Hosokawa Morihiro in the early 1990s to select a country other than the U.S. for his first visit, but the visit was very much related to strengthening the U.S.-Japan alliance and brought positive statements from the State Department and even the White House, which rarely comments officially on the bilateral relations of other nations.

In the China-Japan summit Abe and Chinese President Hu Jintao agreed to work together to prevent North Korea from further developing its nuclear programs and build a “strategic relationship of mutual benefit.” It was notable that the two leaders reached several agreements even after an 18-month freeze on bilateral summits stemming from Koizumi’s annual visits to Yasukuni Shrine, which China considers the core problem in the China-Japan relationship because class-A war criminals are enshrined there. They agreed to accelerate talks on disputes over natural resource exploration in the East China Sea, launch a joint study on history by year’s end, and “enhance mutual trust in the area of security through Japan-China security dialogue and defense exchange.”

On Oct. 9, Abe flew to Seoul from Beijing to visit President Roh Moo-hyun. This summit meeting, held shortly after Pyongyang’s announcement of the nuclear test, shifted the tone of Japan-Korea relations away from history issues and the Takeshima/Dokdo dispute and refocused both nations’ publics on the common challenge posed by the North Korean nuclear threat. The reforging of some common purpose between Seoul and Tokyo was

also well received in Washington, and particularly the Abe-Roh joint statement that North Korea's effort to be accepted as a nuclear-weapons state "can never be tolerated and should be met with a decisive stance" and called the North Korean nuclear test "a grave threat" to regional stability and international peace. The two leaders also agreed to launch joint research on history and strive to build the bilateral relationship with an eye toward the future.

A special medal for Kim Jong-il?

Much of the momentum behind Abe's proactive diplomacy and firm stand with the U.S. was created by North Korean provocative and dangerous behavior. Abe propelled himself to the top ranks of Japanese politics by taking a hard but realist stand on Pyongyang and he came into office mentally and politically prepared to meet the North Korean challenge. It might be argued that North Korean provocations allowed Abe to brandish his nationalist credentials by being a more effective national security leader, obviating the need to demonstrate his nationalism on more sensitive issues such as Yasukuni.

Whatever the political logic, Abe was primed to deal with a North Korea crisis and Pyongyang was quick to present one for the new prime minister. On Oct. 9, Pyongyang announced it had successfully conducted a nuclear test and the Abe administration leapt into action. Shortly after the test, Japan's Minister of Foreign Affairs Aso Taro held a telephone conference with Secretary of State Condoleezza Rice and South Korean Minister of Foreign Affairs Ban Ki-moon, and the three shared the view that the North's nuclear test spreads "a new nuclear threat, not only to Northeast Asia but also to the entire international community." On Oct. 11, Tokyo announced it would impose unilateral sanctions that would ban port calls of all North Korean ships, imports of goods from North Korea, and entry of North Koreans into Japan except for special circumstances. U.S. State Department Spokesman Sean McCormack released a press statement supporting Japan's action as a clear message to North Korea that "its reckless behavior will only further increase its economic and political isolation." Japan also pushed hard for a tough UN Security Council resolution and on Oct. 14, the Security Council succeeded in unanimously adopting Resolution 1718 condemning and sanctioning North Korea for its nuclear test. The resolution includes bans on North Korean trade in materials linked to its weapons of mass destruction program, ballistic missiles, high-end conventional weapons, and luxury goods. Although the press reported that the U.S. and Japanese governments were disappointed at the exclusion of language obligating members to inspect North Korean-registered cargo, the two governments in fact achieved the target they aimed for by demonstrating solidarity against the threat posed by North Korea. So effective was Abe's demonstration of his national security prowess, that Japanese officials began quipping that Kim Jong-il should receive a special medal from Abe.

Debate over Japan's nuclear option

Of course, the North Korean nuclear test was not a laughing matter. The development forced U.S. officials and alliance managers in Japan to focus on the credibility of the U.S. extended nuclear deterrent. President Bush reaffirmed the U.S. nuclear umbrella in his televised speech two days after the test and stated the U.S. would “increase defense cooperation with” its “allies, including cooperation on ballistic missile defense to protect against North Korean aggression.” Secretary of State Rice then traveled to Japan on Oct. 18 for consultations with Prime Minister Abe, Chief Cabinet Secretary Shiozaki Yasuhisa and Foreign Minister Aso. In Tokyo, Rice became the first U.S. secretary of state in many decades to publicly threaten the full range of potential U.S. retaliatory options should Japan come under threat from North Korean weapons.

For Abe, this reaffirmation from the U.S. was welcome and led to Abe's own official reconfirmation on Oct. 15 of Japan's intention to maintain its Three Nonnuclear Principles. However, Liberal Democratic Party Policy Research Chairman Nakagawa Shoichi reignited the debate when he stated on Oct. 16 that possession of nuclear weapons was not unconstitutional and could serve as a deterrent. Nakagawa agreed that Japan's three principles of not possessing, not producing, and not allowing the introduction of nuclear weapons into Japan should be maintained, but his push for discussing consideration of nuclear weapons received worldwide attention. Later, Foreign Minister Aso also stated at a Diet committee meeting that “it is important to discuss the issue” of nuclear weapons.

In many respects these politicians' efforts to smash another political taboo and assert Japan's right to discuss and debate whatever it chooses was a matter of freedom of speech and not proliferation strategy. Nevertheless, the debate caught the attention of commentators and pundits in the U.S. On Oct. 10, David Frum, a speechwriter for President Bush from 2001 to 2002, published an editorial in *The New York Times* encouraging Japan to renounce the Nuclear Nonproliferation Treaty (NPT) and pursue its own nuclear deterrent as one of four suggested policy options for the U.S. in response to North Korea's nuclear test. *Washington Post* columnist Charles Krauthammer also addressed Japan's nuclear option in a piece published Oct. 20, suggesting that “the Japan card,” or a discussion of the nuclear option, could lead China to exert more pressure on North Korea to dismantle its nuclear programs.

The nuclear debate may cool off with resumption of the Six-Party Talks, but continued provocative behavior on the part of the North Koreans will nevertheless keep Japan's nuclear option in the news for some time. It will also compel both Tokyo and Washington to continue fine-tuning and reinforcing the nuclear umbrella, missile defense, and coordination on the North Korean challenge.

Elections in Okinawa

One of the most important challenges for the Abe administration is to smoothly implement the May 2006 agreement on the realignment of U.S. forces in Japan. This requires the central government to work closely with local governments, especially in Okinawa where 75 percent of U.S. bases in Japan are concentrated. Reducing Okinawa's security burden is fundamental to sustaining the U.S.-Japan alliance.

The Abe administration breathed a sigh of relief on Nov. 19 when the LDP-backed candidate, Nakaima Horikazu, won the Okinawa gubernatorial election. Nakaima appears willing to accept the base relocation plan reached by Washington and Tokyo in consideration of the stimulus U.S. bases provide for the local economy and the need for a strong alliance to deal with North Korea. However, Nakaima also signaled to Tokyo that he expected a downpayment from the central government in the form of transferring some portion of U.S. helicopters from Futenma to the new facility, even before construction is completed. The election result gives Tokyo a partner it can work with in Okinawa, but the politics of the base issue are proving no less complex.

Abe stresses democratic principles and partnerships

This quarter the Abe government also added rhetorical momentum to Japan's promotion of democracy, governance, and the rule of law and substance to Japan's partnerships with democratic nations in Asia. On Nov. 30, Foreign Minister Aso delivered a speech in Tokyo entitled "Arc of Freedom and Prosperity: Japan's Expanding Diplomatic Horizons." In the speech, he spoke of an arc of democracy "that line(s) the outer rim of the Eurasian continent," and cited the promotion of democratic values as a new axis of Japanese diplomacy in addition to strengthening the U.S.-Japan alliance and improving Japan's relations with its neighbors. This reflects an agreement by Abe and Bush in November to further strengthen the bilateral alliance based on shared universal values, and also builds on the joint statement issued after Bush's meeting with Koizumi in June 2006 and dates back to Koizumi's January 2002 proposal for a new regionalism in Asia based on the promotion of market economics and democratic values.

Central to this vision of partnership among democratic nations has been Abe's focus on India. Abe welcomed Indian Prime Minister Manmohan Singh to Tokyo Dec. 13 to 16 and the two leaders each welcomed the other playing a larger role in Asia. Abe did not publicly endorse the U.S.-India civil nuclear agreement, but sent strong signals that his government would support the plan in spite of Japan's traditional stance on the NPT. In his enthusiasm, Abe also pushed for an expansion of the U.S.-Japan-Australia Trilateral Security Dialogue to include India as a fourth partner. Delhi's enthusiasm for participation increased after Beijing demanded India not join, but the U.S. and Australian partners convinced the Abe government to stick to a threesome for the time being. Nevertheless, the Abe government can be expected to continue pushing for greater partnerships with India in Asia based on common values and strategic interests and as a useful complement to Japan's heavy strategic reliance on the U.S.-Japan alliance.

Economic cooperation

This quarter saw increased bilateral cooperation not only in the security area, but also in trade. In November, President Bush proposed a region-wide Free Trade Area of the Asia-Pacific (FTAAP) at the APEC summit meeting in Hanoi. The idea received a great deal of attention because of the uncertain future of the World Trade Organization (WTO) talks after the collapse of the Doha round negotiations in July. The FTAAP proposal forced the Japanese government to take a stand on trans-Pacific trade at a time when the Ministry of Economy and Trade (METI) had been peddling an ASEAN Plus Six (Japan, Korea, India, Australia, China, and New Zealand) trade liberalization scheme. METI has also been prioritizing an Economic Partnership Agreement (EPA)/FTA policy within the region rather than across the Pacific. Since Japan concluded its first EPA with Singapore in 2002, it has accelerated its EPA/FTA diplomacy especially in East Asia (Japan-Malaysia EPA took effect in July 2006, and Japan-Philippines EPA was signed in September 2006). Ultimately, Tokyo could not ignore the FTAAP and endorsed the Bush proposal at APEC and then again at the Japan-U.S. Subcabinet Economic Dialogue, which took place in early December in Tokyo. At the “Subcab” the two governments also agreed to work to revitalize global trade liberalization and to pursue closer working-level consultations on energy security, protection of intellectual property, and simultaneous pursuit of anti-terrorism measures and smooth trade. Privately, METI officials argued that they need a trans-Pacific anchor for trade liberalization, but see the FTAAP following from the narrower ASEAN Plus Six and bilateral EPA/FTA policies Tokyo is currently pursuing.

Six-Party Talks resumed

At the end of October, three weeks after North Korea announced its nuclear test, the U.S., China, and the DPRK held an unofficial meeting in Beijing and reached an agreement that the Six-Party Talks should be resumed. Tokyo welcomed the resumption, but many Foreign Ministry officials worried that distracted by Iraq, the U.S. might be too eager for a deal and might compromise on core issues of importance to Japan, such as the abductee issue or missiles. Ultimately, North Korea proved intransigent in the talks when they resumed on Dec. 18, demanding an *a priori* end to financial sanctions before discussing denuclearization. Even more troubling, Pyongyang appeared determined to use the talks not for negotiations, but to establish its own status as an equal negotiating partner as a nuclear weapons state.

The way forward

Security policy and diplomacy dominated this quarter and this trend may continue into 2007 depending on the outcome of the Six-Party Talks. At the bilateral level, U.S.-Japan coordination on security issues will continue with a “2+2” meeting expected in January 2007 involving the U.S. state and defense secretaries and the Japanese foreign minister and the Defense Agency chief (the Defense Agency will become a ministry Jan. 9, 2007 as a result of the passage of bills creating a Ministry of Defense). The meeting will serve as an important opportunity for two new actors – Secretary of Defense Gates and Defense Agency Chief (soon to be Minister of Defense) Kyuma Fumio – to reaffirm ongoing

bilateral cooperation on missile defense and the realignment of U.S. forces in Japan. President Bush's State of the Union speech will likely reiterate this theme as a key component of U.S. strategy, though observers will pay close attention to how the Democrat-led Congress will address developments in East Asia. Japan's new diplomatic initiative suggests increased strategic convergence with the U.S. on international as well as regional diplomacy. Look for this to be on display during Abe's visit to NATO in January, perhaps a fresh example of the U.S.-Japan alliance as a global alliance.

But the course of U.S.-Japan relations may not be set by security challenges alone in 2007. Abe faces a tough Upper House election in the summer and to prepare he has allowed LDP Secretary General Nakagawa Hidenao to bring back into the LDP a dozen defectors who had opposed Koizumi's postal privatization and reform agenda. The public immediately expressed its dismay with a 20 percentage point drop in support from Abe from the low 70s to the low 50s. Investors are also nervously watching the resignation in December of the chair of Abe's Tax Research Commission and a re-emergence of political rhetoric emphasizing "growth" (read pump-priming) reminiscent of the pre-Koizumi LDP. Abe draws his strength from popular support like Koizumi did, but where Koizumi ran against the old LDP, Abe has come to rely on its structures to prevail in a tough series of elections. Managing this tough political and economic balancing act will test Abe in the New Year and shape the contours of the U.S.-Japan alliance in ways that could be no less important than North Korean actions.

Chronology of U.S.-Japan Relations October-December 2006

Oct. 3, 2006: *Korean Central Broadcasting Station* (North Korea) warns that the DPRK would conduct a nuclear test.

Oct. 3, 2006: Special Advisor to the Prime Minister Koike Yuriko visits the U.S. to meet National Security Advisor Stephen Hadley on the North Korean nuclear test; they agree that it would be "unacceptable" and confirm close bilateral cooperation on this issue.

Oct. 9, 2006: The DPRK announces that it conducted a nuclear test.

Oct. 9, 2006: President George Bush and Prime Minister Abe Shinzo have a telephone conference about the North Korean nuclear test. They recognize it as a serious threat to international peace and stability and to the global nonproliferation regime.

Oct. 10, 2006: PM Abe holds telephone conferences with counterparts in the U.S., South Korea, China, and Russia, and confirms the strong position against the DPRK.

Oct. 10, 2006: Japan decides to impose unilateral additional sanctions against the DPRK as soon as it confirmed the nuclear test.

Oct. 11, 2006: State Department Spokesman Sean McCormack states the U.S. supported Japan's decision to impose additional sanctions on the DPRK.

Oct. 14, 2006: UN Security Council unanimously approves Resolution 1718, requesting all member countries to impose sanctions on the DPRK under Chapter 7 of the UN Charter.

Oct. 15, 2006: LDP Policy Research Council Chairman Nakagawa Shoichi calls for discussion on whether Japan should possess nuclear weapons on *Asahi TV*. PM Abe confirms Japan should maintain the Three NonNuclear Principles.

Oct. 18, 2006: U.S. Secretary of State Condoleezza Rice visits Japan, meets Chief Cabinet Secretary Shiozaki Yasuhisa, Foreign Minister Aso Taro, and PM Abe (Oct. 19) and confirms U.S. nuclear umbrella.

Oct. 19, 2006: Secretary Rice, FM Aso, and ROK FM Ban Ki-Moon meet in Seoul, and confirm trilateral cooperation on North Korean issues.

Oct. 22, 2006: LDP wins two seats in by-elections in Kanagawa and Osaka.

Oct. 27, 2006: Chief Cabinet Secretary Shiozaki states it was highly probable that the DPRK conducted a nuclear test.

Oct. 31, 2006: The U.S., China, and the DPRK hold unofficial meeting in Beijing and agree that the Six-Party Talks should resume. The DPRK announces its return to the Six-Party Talks.

Nov. 6, 2006: U.S. State Under Secretary for Political Affairs Nicholas Burns and Under Secretary for Arms Control and International Security Robert Joseph visit Japan and meet FM Aso, Chief Cabinet Secretary Shiozaki, and PM Assistant Koike to discuss North Korea, Iran, and APEC.

Nov. 7, 2006: In U.S. mid-term elections, the Democratic Party regains a majority in the House of Representatives and the Senate.

Nov. 8, 2006: U.S. Defense Secretary Donald Rumsfeld resigns and former CIA Director Robert Gates is nominated as the new defense secretary.

Nov. 9-15, 2006: U.S. Navy and Japanese Maritime Self-Defense Forces hold annual joint naval exercises, assuming case in which the JMSDF is attacked on the Sea of Japan.

Nov. 12-13, 2006: The 43rd Japan-U.S. Business Conference held in Tokyo. Presidents of Keidanren Mitarai Fujio and of Keizai-Douyukai Kitashiro Kakutaro make remarks supporting the establishment of the U.S.-Japan EPA.

Nov. 14, 2006: The U.S., Japan, the ROK, and EU report on implementation of sanctions requested by UNSCR 1718.

Nov. 15, 2006: Chief delegates for the Six-Party Talks from the U.S., Japan and South Korea meet in Hanoi to discuss North Korean nuclear issues.

Nov. 16, 2006: Secretary Rice and FM Aso meet in Hanoi and confirm ties between the U.S. and Japan on North Korean nuclear issues.

Nov. 17, 2006: Japanese National Police Agency confirms the 17th abductee by North Korea to be Ms. Matsumoto Kyoko.

Nov. 18-19, 2006: APEC Leaders Meeting is held in Hanoi. President Bush and PM Abe meet for the first time since Abe took office, reaffirm the U.S.-Japan Alliance and close cooperation on the DPRK. U.S.-Japan-ROK meeting also held, and three leaders agree that close trilateral cooperation is important to deal with the North Korean nuclear issue.

Nov. 19, 2006: Gubernatorial election in Okinawa held. Nakaima Hirokazu, a ruling coalition-backed former vice governor, defeats opposition-backed Itokazu Keiko who placed priority on the resolution of base issues.

Nov. 20, 2006: Secretary Shiozaki implies in a press conference a reexamination of Fukuda's Statement on missile defense, which prohibits the use of the MD system for the defense of another country.

Dec. 4, 2006: Japan-U.S. Foreign and Defense Deputy-Ministerial Talks held in Tokyo. Agreement is reached on construction plan for Futenma Air Base's replacement facility.

Dec. 6-7, 2006: Japan-U.S. Vice-Ministerial Talks on Economic Issues held in Tokyo, presided over by Deputy Foreign Minister Yabunaka Mitoji and Deputy National Security Advisor for International Security Affairs David McCormick. They agree on close cooperation in energy security and protection of intellectual property.

Dec. 7, 2006: Memorial of the 1941 Pearl Harbor attack held in Honolulu. Former Japanese military pilots who were involved in the attack also participate in the ceremony.

Dec. 8, 2006: Philippine government announces postponement of the East Asia Summit and other meetings planned for Dec. 11-13. It proposes to reschedule for January 2007.

Dec. 8, 2006: Japan's Foreign Ministry issues *2006 Image of Japan Study in the U.S.*, according to which, 91 percent of U.S. opinion leaders and 69 percent of the general public say Japan is a dependable ally. The percentage of those who mention China as the most important Asian partner of the U.S. has been increasing (43 percent among opinion leaders and 33 percent among general public in 2006) while those who cite Japan as the most important Asian partner of the U.S. has been leading the list since 1995 (47 percent among opinion leaders and 45 percent among general public in 2006).

Dec. 11, 2006: Chinese Foreign Ministry announces resumption of Six-Party Talks.

Dec. 15, 2006: Education Reform Bill passes Diet. The Diet passes a bill to upgrade the Defense Agency to a ministry; the Ministry of Defense will be established Jan. 9.

Dec. 18, 2006: Six-Party Talks begin in Beijing. North Korea demands an end to sanctions imposed on it before it dismantles its nuclear program, while the U.S. refuses to lift sanctions before North Korea takes a concrete action toward disarmament.

Dec. 20, 2006: The *Chosun Ilbo* reports the U.S. and North Korea agree to extend Six-Party Talks on Pyongyang's nuclear disarmament until Friday, Dec. 22.



U.S.-China Relations:

Dialogue Boosts Ties, Even Without Results

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A gaggle of Cabinet secretaries, led by U.S. Treasury Secretary Paulson, traveled to Beijing in mid-December to launch the Strategic Economic Dialogue. No breakthroughs were achieved, but both sides had low expectations for near-term results and seemed pleased with the outcome. On the North Korea nuclear front it was all bad news, with Pyongyang testing a nuclear device in early October and no tangible progress achieved at the resumption of the fifth round of Six-Party Talks after a 13-month hiatus. A positive byproduct was that intensive consultations between Washington and Beijing boosted bilateral ties. The U.S. mid-term elections that resulted in the seizure of control over both the House and Senate by the Democratic Party generated some concern in China about increased pressure on trade and human rights. On balance, however, Beijing remained confident that China-U.S. relations would remain on a positive track. Military-to-military ties continued to develop with a three-day U.S. ship visit to Zhanjiang, China, joint military exercises between the U.S. Navy and Marines and their Chinese counterparts, and a visit to China by U.S. Pacific Fleet Commander Adm. Gary Roughead.

The Strategic Economic Dialogue

Amid growing criticism in the U.S. of the growing U.S.-China trade imbalance, the undervaluation of China's currency, the lack of intellectual property protection in China, and restrictions on U.S. companies' access to China's market, Treasury Secretary Henry Paulson traveled to Beijing in mid-December to launch the Strategic Economic Dialogue (SED). Accompanying him were a half dozen Cabinet secretaries, including Commerce Secretary Carlos Gutierrez, Labor Secretary Elaine Chao, Health and Human Services Secretary Mike Leavitt, Energy Secretary Sam Bodman, U.S. Trade Representative Susan Schwab, EPA Administrator Stephen Johnson, and Federal Reserve Chairman Ben Bernanke. On the eve of the delegation's departure for Beijing, Paulson sought to tamp down expectations for quick results. In an op-ed, in *The Washington Post*, he emphasized the positive benefits that flow to both nations from their trade and economic ties. "By engaging Chinese leaders with an eye to producing long-term benefits for our two nations, we can build a productive and prosperous partnership for the 21st century," he wrote.

Time will tell if the one-and-a-half day initial meeting of the SED will serve as just another forum to promote better understanding of respective U.S. and Chinese positions or will facilitate resolution of the knotty issues in the China-U.S. economic relationship. The theme of the first round, chaired by Paulson and Chinese Vice Premier Wu Yi, was “China’s Development Road and China’s Economic Development Strategy.” In a press briefing following the discussions, Paulson announced that the two countries had agreed on basic principles covering a wide range of issues, including further economic reforms Beijing should implement to achieve balanced, sustainable growth, although he admitted that the two sides differed on the timing of the changes required. “While we cannot resolve every difference we have had,” Paulson said, “the candid conversations we have had will make progress much more achievable.” A fact sheet issued by the U.S. Treasury Department highlighted the shared commitment to pursuing macroeconomic policies, with explicit mention of the need to reform China’s exchange rate regime reform and increasing U.S. savings rate.

In a pedantic presentation to the SED participants at the Great Hall of the People, Wu Yi recounted 5,000 years of Chinese history and chastised “some American friends” who have “limited knowledge” and “much misunderstanding about the reality in China.” Her message – that Chinese reforms are proceeding at a pace faster than many U.S. observers appreciate – was undoubtedly aimed not only at the U.S. delegation, but also at the U.S. Congress, which is growing impatient with the slow rate of change in Chinese economic policies that are perceived to have harmful effects on U.S. interests. China’s ministers presented their own complaints to their U.S. counterparts, including a demand for the U.S. to lift its ban on sales of high-technology products to China and to end unfair charges against China for dumping low-cost exports into U.S. markets.

The toughest statement by the U.S. side was reportedly delivered by the U.S. Trade Representative Susan Schwab, who presented the findings of a report her office issued the week prior to the SED assessing China’s record in implementing its World Trade Organization (WTO) commitments five years after its accession. Schwab maintained that China’s record is “decidedly mixed” and claimed that Beijing is “backsliding” in its obligations to open its economy. She called for China to shift from an export-oriented growth strategy to one based on domestic consumption. China’s Ministry of Commerce spokesman condemned the USTR report on China’s fulfillment of its WTO commitments as lacking objectivity in its criticisms of China’s record on IPR, industrial policy, and service trade.

Over the next six months, in preparation for the next SED which is planned for May 2007 in Washington, D.C., working groups will be held on development of efficient innovative service sectors, ways to improve health care, bilateral investment, transparency issues, and energy and the environment. There was also agreement to invigorate ongoing work within the Joint Commission on Commerce and Trade (JCCT) on high-tech trade, IPR, and market economy status/structural issues. Relying on other dialogue mechanisms, both sides committed to increase cooperation on more efficient and environmentally sustainable energy use, facilitation of personal and business travel, development assistance, and Multilateral Development Bank (MDB) lending.

Additional deliverables of the SED included announcements that the NYSE and NASDAQ would open offices in China, the United States will support China's membership in the Inter-American Development Bank, and China will participate in the government steering committee of the FutureGen project, which plans to build a prototype of the fossil-fueled power plant of the future that will produce electricity and hydrogen with zero emissions. Agreements were also reached to facilitate financing to support U.S. exports to China and to re-launch bilateral air service negotiations.

Finally, several commercial deals were concluded on the margins of the SED: 1) Westinghouse Electric Co. won a contract worth about \$5.3 billion to build four nuclear reactors in China; 2) Home Depot, Inc. acquired a chain of 12 Chinese home improvement stores; 3) China's Shanghai Airlines signed a \$550 million deal to buy General Electric aircraft engines that includes a purchase of \$300 million worth of engines to power nine Boeing 787 *Dreamliner* aircraft, as well as a \$250 million service contract; 4) Oshkosh Truck Corporation signed a purchase contract for the sale of an aircraft rescue and fire fighting vehicle to Quzhou airport in China's Zhejiang Province; and 5) VeriSign, China Netcom Group, and the Ministry of Information and Industry agreed to set up a system to help create domain names.

Chinese media commentary on the SED was mostly upbeat, including coverage of meetings the U.S. delegation held with Chinese leaders. China's official news agency *Xinhua* quoted Chinese President Hu Jintao as telling Secretary Paulson that the bilateral economic and trade relationship is among the "most important" in the world, and that the SED has brought the two countries closer, has "deepened mutual understanding," and provided "new opportunities for cooperation." Chinese scholars generally lauded the new dialogue mechanism, but differed in their analysis and recommendations. For example, director of the China WTO Research Institute Zhang Hanlin cautioned that the U.S. hopes China will accelerate its reforms so that it "can enter China's market more rapidly," and urged the Chinese government to stick to its policy of "advancing gradually in appreciating the renminbi." However, Zhu Feng, professor of Beijing University's Department of International Relations, contended that not all U.S. demands are harmful to China's interests.

A few days after the close of the SED in Beijing, the Treasury Department issued its semi-annual report to Congress on international exchange rate policies. It concluded that no major trading partner of the U.S. is manipulating its currency exchange value to gain an unfair advantage in trade. The report praised China for a "significant" increase in the flexibility of its currency, the renminbi, but also maintained that "China's cautious approach to exchange rate reform continues to exacerbate distortions in the domestic economy and impede adjustment of international imbalances." The renminbi has appreciated almost 6 percent against the dollar since July 2005 when Beijing replaced a rigid peg to the dollar with a more flexible trading range.

Nuclear talks bring China and U.S. closer

Although no measurable progress was made toward the elimination of North Korea's nuclear weapons this quarter, U.S.-Chinese consultation aimed at achieving that shared objective was frequent and substantive, and reinforced the trend of closer cooperation. Beijing reportedly informed Washington of Pyongyang's decision to hold a nuclear test immediately after it was notified by the North Koreans – only 20 minutes prior to the test. Once the test took place, a flurry of phone calls took place between Secretary of State Condoleezza Rice and Chinese counterpart Foreign Minister Li Zhaoxing and between the U.S. and Chinese presidents.

Further consultations took place during a visit to Washington, D.C. by State Councilor Tang Jiaxuan the following week who was dispatched as President Hu Jintao's special envoy and was received by President Bush. Close coordination continued on U.N. Security Council Resolution 1718, which imposed mandatory sanctions on North Korea under Chapter 7 of the U.N. charter. On the eve of Assistant Secretary of State for East Asia Affairs Christopher Hill's departure for Asia in mid-October – the first of five trips to the region this quarter – he highlighted the unprecedented cooperation between Washington and Beijing with respect to China's neighbor. U.S.-China relations have “really come closer together as a result of this terrible provocation by the North Koreans,” Hill stated at a Washington forum.

Implementation of UNSC Resolution 1718 and reactivating diplomatic efforts to denuclearize the Korean Peninsula were the central topics of discussion during Secretary Rice's stopover in Beijing on the third leg of a four-nation tour that also included Japan, South Korea, and Russia. Rice's appreciation of China's diplomatic efforts to solve the North Korea nuclear issue was noted in the Chinese press, along with her message that the United States “is willing to enhance communication with China and seek an effective way to solve the issue.” In meetings with Tang Jiaxuan, Li Zhaoxing, Wen Jiabao, and Hu Jintao, Rice discussed U.S.-China economic ties, Taiwan, human rights in China, Darfur, and the Iranian nuclear issue in addition to the North Korea nuclear challenge.

When Beijing secured North Korea's agreement to return to the Six-Party Talks, President Bush publicly thanked the Chinese for their role in convincing the North Koreans to resume the multilateral discussions. Meeting on the sidelines of the APEC Leaders' Meeting in Hanoi in November, Bush praised Hu Jintao as a great leader and expressed his belief that “by working together we can help solve problems such as North Korea and Iran.”

During the weeklong second phase of the fifth round of Six-Party Talks in Beijing in December, Chris Hill told the press that the U.S. has “worked very well together with the Chinese” throughout the six-party process, adding that “the quality of that relationship as actually improved” since the nuclear test. In separate remarks to reporters, Hill stated “if the U.S. and China are able to be successful and work together on this, I think we're going to be successful for years to come on various other issues in the world.”

Assessing implications for China of the U.S. mid-term elections

The Democratic Party's landslide victory in the mid-term elections that enabled the Democrats to usurp control of both the House and Senate for the first time in 12 years attracted China's close attention for two reasons. First, political change in the U.S. of any kind creates unwelcome uncertainty in Beijing about future U.S. policy. Despite its gripes about some of the policies pursued by the Bush administration and the Republican-controlled Congress, China has become accustomed to the prevailing power balance in Washington and loathes changes that can bring unpredictable consequences. Second, there is wariness that a Democratic takeover of both houses of Congress will result in greater pressure on China on human rights and trade issues.

In the aftermath of the elections, much of Chinese concern centered on Nancy Pelosi, the new speaker of the House of Representatives. A profile of Pelosi in the CCP Central Party School newspaper *Xuexi Shibao* described her as "prejudiced" against China and predicted that she would challenge the Bush administration's China policy. In interviews with various Chinese media, Chinese scholars recalled that Pelosi was one of the leaders of Congress who had called Chen Shui-bian to congratulate him when he won the 2000 Taiwan presidential election and worried that she might support legislation that could embolden President Chen to promote his Taiwan independence agenda. Concerns were also voiced about incoming Senate Majority Leader Harry Reid, who favors a tougher response to China's intellectual property rights abuses and currency manipulation.

The majority of Chinese experts concluded, however, that the outcome of the congressional elections would not significantly change the overall direction of China-U.S. relations and probably would have only limited impact on specific policies. Congress's traditionally limited authority over foreign policy matters is one reason cited. But the more widely mentioned source of Chinese confidence that China-U.S. relations will remain on a positive track is that following the Sept. 11 terrorist attacks and North Korea's nuclear test, the U.S. – both Democrats and Republicans – understand the importance of cooperating with China. "Even the Democratic Party must face up to the reality in Sino-U.S. relations," asserted Fu Mengzi, director of the American Studies Institute of the China Institutes of Contemporary International Relations, in an interview with the PRC-owned Hong Kong news agency *Zhongguo Tongxun She*.

U.S.-Chinese military exercises

U.S.-Chinese military exchanges continued to expand this quarter with a three-day port visit by the *USS Juneau* to Zhanjiang, joint military exercises between the U.S. Navy and Marines and their Chinese counterparts, and a visit to China by Adm. Gary Roughead, his first as commander, U.S. Pacific Fleet. The joint navy exercise – the second phase of the first-ever bilateral military exercise that was held off the coast of California in September – involved China's guided missile destroyer *Zhanjiang*, China's fuel tanker *Dongting Lake*, the *USS Juneau*, an amphibious transport dock ship, the *USS Fitzgerald*, a missile destroyer, as well as helicopters, transport aircraft, and reconnaissance aircraft in a

simulated rescue of a Chinese ship in danger. The two navies conducted communications, fleet formation changes, and search-and-rescue exercises (*SAREX*).

Chinese media coverage of the exercise was detailed and effusive. *Zhongguo Guofang Bao* (*China Defense News*) maintained that the U.S. and Chinese ship formations “cooperated and coordinated so well under appropriate direction that it was like a powerful and majestic movement of a symphony being performed between the deep blue sea and the azure sky.” Prior to the exercise, Adm. Roughead suggested that the *SAREX* would enhance Chinese and U.S. capabilities for jointly combating tsunamis, earthquakes, volcanoes, and other natural disasters, as well as their capabilities to provide humanitarian assistance.

Forty U.S. marines from the U.S. and China also took part in an obstacle course competition and a shooting drill in Zhanjiang, marking the first such exchange between the two countries’ marines. Adm. Roughead observed the demonstration and told China’s news agency *Xinhua* that the Chinese naval marine unit’s “pride, fitness, precision, and drive for excellence” has much in common with U.S. marines. On his weeklong visit Nov. 12-18, Adm. Roughead also visited Beijing and Shanghai, and met with PLA Navy Commander Vice Adm. Wu Shengli and Vice Adm. Gu Wengen, commander of China’s South Sea Fleet.

In interviews with reporters prior to his discussions with Chinese military officials, Roughead hailed the joint exercises as a good opportunity to increase transparency. He also voiced concerns about the intention behind some of the developments in China’s Navy, including an expanding submarine fleet and procurement of ships that can operation far beyond China’s shores.

While U.S. Navy and Marine forces were in China, a report was leaked to *The Washington Times* that a Chinese *Song*-class diesel-powered attack submarine had surfaced within 5 miles of a U.S. aircraft carrier battle group the previous month before being detected. Chief of U.S. Forces in the Pacific, Adm. William J. Fallon, confirmed the incident and warned of the potential danger of miscalculation that is inherent when military units operate in close proximity. The *USS Kitty Hawk* and its escorting ships were engaged in exercises, but were not searching for submarines, Fallon said. “If they had been,” however, “and this Chinese submarine happened to come in the middle of this, then this could well have escalated into something that was very unforeseen,” he added. Chinese foreign ministry officials denied that the incident took place, but *Zhongguo Tongxun She* maintained that the episode demonstrated improvements in Chinese capabilities to “detect electronic signals of the U.S. fleet” and named Ding Yiping, the submarine commander, as “one of the most important commanders of important naval operations.”

Looking forward to 2007

At year's end, China-U.S. relations are relatively stable, although far from trouble free. The Democrats' takeover of Congress in January will undoubtedly raise the level of attention to China's shortcomings and objectionable policies, especially in the economic realm. The 2008 presidential campaign will soon begin in earnest and China is likely to be a more contentious issue than it was in 2004. Yet, as it seeks to grapple with how to either win the war in Iraq or contain damage done from a defeat there, stabilize Afghanistan, contain the further spread of nuclear weapons, and to fight the war on terror, the Bush administration will likely seek to keep relations with China on an even keel.

As the first quarter of 2007 opened, Vice Minister Yang Jiechi visited Washington, D.C. to discuss and plan the coming year's bilateral exchange program. The fourth round of the Senior Dialogue and the second round of the Strategic Economic Dialogue are slated for the first half of the year. Although there are no plans for a presidential summit, Presidents Bush and Hu will meet on the sidelines of several international and regional meetings. Visits to the U.S. by Chinese Foreign Minister Li Zhaoxing and National People's Congress Chairman Wu Bangguo are under discussion. With Admiral Fallon's departure from the Pacific Command, U.S.-China military ties will lose one its most ardent supporters. Nevertheless, military exchanges will continue to slowly expand based on the plan that was agreed upon at last June's Defense Consultative Talks, including a first-ever visit to the U.S. by the head of China's Second Artillery (missile) forces.

Chronology of U.S.-China Relations October-December 2006*

Oct. 9, 2006: North Korea conducts an underground nuclear test. Beijing, notified of the test 20 minutes in advance by Pyongyang, alerts the U.S. of the impending nuclear test.

Oct. 9, 2006: Chinese FM Li Zhaoxing and U.S. Secretary of State Condoleezza Rice hold phone conversation about the North Korean nuclear test and related issues. Presidents George Bush and Hu Jintao also discuss North Korea's nuclear test by telephone.

Oct. 12, 2006: Hu Jintao dispatches a special envoy, State Councilor Tang Jiaxuan, to Washington, D.C. in the aftermath of North Korea's nuclear test. Tang meets President Bush, Secretary Rice, and National Security Advisor Stephen Hadley.

Oct. 15-17, 2006: The U.S.-China Science and Technology Policy Forum takes place in Beijing. Forum participants include policy-level government officials, scientists, engineers, and policy scholars from both the U.S. and China.

* Chronology compiled by Kyle Jaros, CSIS intern

Oct. 18-19, 2006: The 12th China-U.S. Joint Commission Meeting on Scientific and Technological Cooperation is held in Washington, DC. State Councilor Chen Zhili, Chinese delegation head, meets John Marburger III, director of the White House Science and Technology Policy Office, to discuss cooperation in science and technology.

Oct. 20, 2006: Secretary Rice stops in China on the third leg of a four-nation tour that also includes visits to Japan, the ROK, and Russia. Rice meets with Hu Jintao, Premier Wen Jiabao, Chinese FM Li Zhaoxing, and Tang Jiaxuan.

Oct. 31, 2006: The heads of delegations to the Six-Party Talks from China, North Korea, and the U.S. hold an informal meeting in Beijing. Assistant Secretary Chris Hill notes a Chinese statement that North Korea has agreed to return to Six-Party Talks.

Nov. 7, 2006: U.S. holds mid-term elections, in which Democrats gain control of both houses of Congress.

Nov. 8, 2006: China and the U.S. hold the third round of the Senior Dialogue in Beijing, agreeing on stronger cooperation and closer consultation. Chinese Vice FM Yang Jiechi and the U.S. Undersecretary of State Nicholas Burns co-chair the Dialogue.

Nov. 13-16, 2006: In an effort to expand U.S. export opportunities, Secretary of Commerce Carlos M. Gutierrez leads a delegation of 25 U.S. business executives to China to discuss ways to resolve key bilateral trade issues with senior Chinese officials. Gutierrez meets Vice Premier Wu Yi and Premier Wen. He also meets Han Zheng, acting party chief and mayor of Shanghai, and expresses a U.S. interest in playing a large role in Shanghai's 2010 World Expo.

Nov. 13, 2006: Jon Dudas, U.S. under secretary of commerce for intellectual property, meets Liu Binjie, China's deputy director of the State Press and Publication Administration, to discuss intellectual property protection at a closed-door session in Beijing. Both parties express interest in furthering U.S.-China cooperation in anti-piracy.

Nov. 14, 2006: U.S. Ambassador to China Sandy Randt takes part in fifth annual Ambassador's IPR Roundtable in Beijing.

Nov. 15, 2006: Commander of the U.S. Pacific Fleet Adm. Gary Roughead arrives in China on the *USS Juneau* for a weeklong visit that includes U.S.-Chinese joint naval exercises.

Nov. 16-17, 2006: Secretary of Education Margaret Spellings visits Beijing at the invitation of China's Ministry of Education as part of U.S. Higher Education Delegation to Asia. She discusses educational exchange opportunities with Education Minister Zhou Yi and Premier Wen and visits top Chinese universities.

Nov. 16, 2006: Forty marines from the United States and China take part in an obstacle course competition in Zhanjiang, a port city in South China's Guangdong Province. The competition marks the first face-to-face exchanges between the two marine forces.

Nov. 16, 2006: The U.S. China Economic and Security Review Commission releases its *2006 Annual Report to Congress*. The report gives lawmakers 44 recommendations, which include boosting support for Taiwan's bid to join international organizations and placing more pressure on China to end genocide in Sudan's Darfur region.

Nov. 17-19, 2006: Presidents Bush and Hu hold a bilateral meeting in Hanoi, Vietnam on the sidelines of the 14th APEC Leaders Meeting. Secretary Rice, also in attendance, expresses concerns about China's outsized military expansion, unfair trading practices, and human rights record, but says U.S. concerns are manageable within the context of a strong bilateral relationship.

Nov. 19, 2006: The U.S. and PLA navies take part in a bilateral joint search and rescue exercise. Following a port visit to Zhanjiang, China, the *USS Juneau* participates in the exercise off the southern Chinese coast.

Nov. 20, 2006: Assistant Secretary of State Christopher Hill arrives in Beijing to discuss the Six-Party Talks with Chinese officials.

Nov. 21, 2006: In the first case in 15 years, the Department of Commerce accepts a petition requesting an anti-subsidy investigation of coated printing paper from China.

Nov. 27, 2006: Presidents Bush and Hu exchange views on Darfur and other issues of common concern in a telephone conversation.

Nov. 28, 2006: Chief negotiators of China, the DPRK, and the U.S. meet in Beijing to discuss resumption of the Six-Party Talks.

Dec. 5, 2006: U.S. Secretary of Commerce Carlos Gutierrez announces that the public comment period has closed for new U.S.-China export security regulations, and that he will be leading an effort to finalize the new rules.

Dec. 5, 2006: The second session of the Seminar on U.S.-China Legal Exchange takes place in Cleveland, Ohio. Vice Director of China's State Council Office of Legislative Affairs Zhang Qiong, Vice Minister of Commerce Ma Xiuhong, and General Law Consultant of the U.S. Department of Commerce John Sullivan attend.

Dec. 7, 2006: In a statement released a week before his trip to China as part of the U.S.-China Strategic Economic Dialogue delegation, Energy Secretary Sam Bodman says that the U.S. and China will strengthen cooperation on energy security.

Dec. 8, 2006: During a visit to Beijing, Massachusetts Gov. Mitt Romney meets Chinese State Councilor Tang Jiaxuan and delivers a speech at Qinghua University.

Dec. 11, 2006: U.S. Trade Representative issues a report, required by law, on the fifth anniversary of China's joining the World Trade Organization. The report notes China's incomplete transition from a command economy to a free market economy.

Dec. 11, 2006: Fifth anniversary of China's accession to the WTO.

Dec. 13, 2006: In a meeting with Hu Jintao, former President George H. W. Bush says the U.S.-China relationship is "the best ever in history."

Dec. 13, 2006: Secretary of Health and Human Services Michael Leavitt and Chinese Vice Minister of Health Huang Jiefu inaugurate the China-U.S. Collaboration Program Office for Emerging and Reemerging Infectious Diseases in Beijing.

Dec. 14-15, 2006: Treasury Secretary Henry Paulson and Chinese Vice Premier Wu Yi co-chair the first round of the Sino-U.S. Strategic Economic Dialogue in Beijing.

Dec. 16, 2006: Energy Secretary Bodman attends energy ministerial meeting of China, the U.S., Japan, the ROK, and India in Beijing. The meeting focuses on ways to increase energy utilization efficiency, keep international energy markets stable, and strengthen international energy security.

Dec. 16, 2006: China's Minister of the National Development and Reform Commission (NDRC) and Secretary Bodman sign a memorandum of understanding for Westinghouse Electric Co. to provide technology for four nuclear power plants to be built in China. Westinghouse is awarded the \$8 billion contract.

Dec. 18, 2006: The Six-Party Talks open in Beijing.

Dec. 19, 2006: The Treasury Department releases its semiannual currency report, which does not cite China as a currency manipulator.

Dec. 22, 2006: As the Six-Party Talks recess, Chinese FM Li Zhaoxing and Secretary Rice speak by phone.

Dec. 31, 2006: A delegation from the Armed Services Committee of the U.S. House of Representatives, headed by Congressman Roscoe Bartlett, visits China and meets Chinese Defense Minister Cao Gangchuan.

Jan. 5, 2006: Chinese Vice FM Yang Jiechi meets Secretaries Rice and Paulson as part of his trip to Washington.

Jan. 5, 2006: President Bush names Commander of U.S. Pacific Command Adm. Fallon as the next commander of Central Command, which covers the war efforts in Iraq.



U.S.-Korea Relations:

North Korea Tests a Nuke and Returns to the Six-Party Talks

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North Korea made good on its long-time threat to conduct a nuclear test when it exploded a small nuclear device of less than a kiloton on Oct. 9. The test generated political shock waves and led to comprehensive sanctions imposed by the UN Security Council Oct. 14. Under tremendous pressure from the international community and China, in particular, North Korea announced Oct. 31 it would return to the Six-Party Talks.

When the talks reconvened in Beijing on Dec. 18, they made little progress other than reaffirming the main accomplishment of these negotiations to date – the Sept. 19, 2005 joint statement in which North Korea agreed to abandon its nuclear program in exchange for security, political, and economic benefits. Given North Korea’s nuclear test, the real surprise this quarter was that a new round of nuclear negotiations occurred at all.

In their ongoing negotiations on a free trade agreement (FTA), the U.S. and South Korea ran into difficulty on issues including autos, pharmaceuticals, antidumping measures, and beef. At the end of the quarter, Korean negotiators were reportedly considering whether to propose a “big deal” that would resolve outstanding differences on major issues. Both the U.S. and Korean negotiating teams are aware that they must wrap up an agreement by March 31 and give Congress 90 days for review before President Bush’s “fast-track trade promotion authority” (TPA) expires June 30, 2007.

The U.S. and South Korea agreed in late October to transfer wartime operational control of Korean troops to South Korea between Oct. 15, 2009 and March 15, 2012. The precise time of transfer along with detailed implementing arrangements will be decided in joint consultations during the first six months of 2007. The U.S. will continue to provide significant air and naval “bridging capabilities” as well as intelligence, surveillance, and reconnaissance until South Korea acquires sufficient capabilities of its own in these areas.

South Korea notified the U.S. in early December that it would extend the deployment of its troops supporting U.S.-led coalition forces in Iraq for another year, although at a reduced level. South Korea’s “Zaytun Division” has contributed humanitarian and reconstruction assistance since 2004 in the northern Iraqi city of Irbil. Korean commandos have also provided security for the UN Assistance Mission for Iraq.

North Korea threatens and then conducts a nuclear test

On Oct. 3, North Korea electrified the international community by declaring it “is set to conduct a nuclear test in the future....” A statement carried by the North’s *Korean Central News Agency (KCNA)* said that “the U.S. extreme threat of a nuclear war and sanctions and pressure compel the DPRK to conduct a nuclear test, an essential process for bolstering [our] nuclear deterrent, as a corresponding measure for defense.” The North Korean announcement evidenced a major change in position from a week earlier when Pyongyang stressed it would continue to reprocess nuclear material (to obtain plutonium for building nuclear bombs) but discounted the need for a nuclear test.

North Korea’s brinkmanship called forth an equally tough response from U.S. Assistant Secretary of State Christopher Hill who announced the strongest rhetorical threat against North Korea in over a decade: “We are not going to live with a nuclear North Korea...[North Korea] can have a future or it can have these weapons. It cannot have both.”

On Oct. 6, the UN Security Council adopted a joint statement that expressed “deep concern” over a possible North Korean nuclear test and warned it would take punitive actions in the event Pyongyang carried through on its threat. The Council statement said that a nuclear test would “jeopardize peace, stability and security in the region and beyond.”

Undeterred by either Hill’s rhetoric or the UN Security Council statement, North Korea detonated a nuclear device of relatively small size on Oct. 9. According to a report of the *KCNA*: “The field of scientific research in the DPRK successfully conducted an underground nuclear test under secure conditions on Oct. 9, 2006 at a stirring time when all the people of the country are making a great leap forward in the building of a great, prosperous and powerful socialist nation.”

In his initial response, President George W. Bush focused on North Korea’s capability to proliferate nuclear weapons to other states or terrorist groups: “The transfer of nuclear weapons or material by North Korea to states or nonstate entities would be considered a grave threat to the United States. And we would hold North Korea fully accountable for the consequences of such action.”

South Korea also strongly condemned North Korea’s nuclear test and said it would fundamentally reassess its engagement policy toward Pyongyang. This position represented the first time since former President Kim Dae-jung inaugurated his “Sunshine Policy” of engagement in the late 1990s that Seoul threatened to end cooperation with Pyongyang. While opposing any military response, President Roh Moo-hyun indicated he would decide whether to end cross-border projects, including tourism to Mount Kumgang and development of the Kaesong industrial zone in North Korea.

At the UN, the U.S. circulated a 13-point proposal urging the Security Council to adopt tough new sanctions under Chapter 7 of the UN Charter. China's Ambassador to the UN Wang Guangya stressed that the UN Security Council should "react firmly, constructively and prudently" and that "the door to solve this issue from a diplomatic point of view is still open."

Secretary of State Rice, on Oct. 10, reaffirmed that the U.S. did not intend to attack or invade North Korea as a result of its nuclear test. But she said that North Korea would face "international condemnation and international sanctions unlike anything that they have faced before." Looking ahead to her upcoming tour of Asian capitals, Rice also emphasized that "the diplomatic path is open" for Pyongyang and that abandoning its nuclear program would "lead to all kinds of benefits for North Korea."

On the same day, U.S. Ambassador to South Korea Alexander Vershbow declared that North Korea's test had, in fact, reduced the chances for bilateral negotiations with the United States – negotiations that Pyongyang had long sought. Vershbow called for South Korea to join the U.S.-led Proliferation Security Initiative (PSI) and to "reconsider" its joint ventures with North Korea, specifically the Kaesong industrial zone and the tourism project at Mount Kumgang.

Evidently seeking to deter harsh UN sanctions, North Korea threatened "physical actions" on Oct. 10 if the U.S. "continues to apply pressure" but stressed that it is committed to "dialogue and negotiation" for realizing a nuclear-free Korean Peninsula. In a statement carried by *KCNA*, North Korea's foreign ministry said: "we had to conduct the nuclear test because of the U.S. government's [hostile policy], but our determination to realize the denuclearization of the Korean Peninsula through dialogue and negotiations remains unchanged."

UN imposes strong sanctions on North Korea

The UN Security Council unanimously adopted a resolution on Oct. 14 that condemned the North Korean test as a "clear threat" to international peace and imposed nonmilitary sanctions on Pyongyang. The resolution showed the strong international consensus against North Korea's actions while reflecting a compromise among the U.S., China, and Russia to weaken the harshest sanctions the U.S. initially proposed. The Security Council resolution banned sales or transfers to North Korea of selected items of military equipment, nuclear technology, and luxury goods. It imposed a freeze on all North Korean financial assets linked to developing weapons of mass destruction. It also ordered member states to ban the travel of any individuals involved in Pyongyang's WMD programs. On the controversial issue of interdicting North Korean cargo vessels, the Security Council authorized stops and searches "as necessary" to prevent import and export of weapons of mass destruction.

Aside from imposing specific sanctions, the UN resolution contained a series of declarations urging North Korea to: return to the Six-Party Talks without precondition; not conduct any further nuclear or ballistic missile tests; rejoin the Nuclear

Nonproliferation Treaty; abandon its nuclear weapons programs in a complete, verifiable and irreversible manner; and end all other existing WMD and ballistic missile programs. Although South Korea welcomed the UN resolution and promised it “will faithfully implement it,” opposition immediately developed in the governing Uri Party to any increased role for Seoul in PSI. Chairman of the Uri Party Kim Geun-tae called the plan to interdict suspicious arms shipments a “dangerous idea” because “even a trivial clash on the sea could develop into a full-scale military conflict.” Kim and his party also resisted U.S. administration views that Seoul should curtail its cooperative economic programs with North Korea.

When Secretary Rice visited South Korea on Oct. 19, she urged Seoul to use its leverage to “get North Korea to return to the Six-Party Talks.” By “leverage” she implied that Seoul should join PSI and at least reduce economic cooperation with North Korea. Yet the secretary played down the notion that Washington was exerting significant pressure on South Korea when she said that “I did not come to South Korea nor do I go anywhere else to try to dictate to governments what they ought to do.”

To the great surprise of many observers, North Korea decided Oct. 31 that it would return to the Six-Party Talks without conditions. China announced the North Korean decision, which was reportedly brokered by the chief Chinese delegate Wu Dawei at a secret meeting in Beijing attended by North Korean Ambassador Kim Gye-Gwan and Ambassador Hill. North Korea’s decision followed a visit by China’s special envoy, State Councilor Tang Jiaxuan, to Pyongyang in early October where he met North Korean leader Kim Jong-il.

In mid-November, Seoul officially announced it would not join PSI, although the South Korean Foreign Ministry said South Korea “supports its principle and purpose.” A Foreign Ministry statement indicated that “taking into account the unique circumstances on the Korean Peninsula, we will decide on activities to be taken in the waters surrounding it in accordance with our relevant domestic laws, including the South-North Agreement on Maritime Transportation and international laws.” Seoul’s decision reportedly followed the views laid out by Uri Party leader Kim a few weeks earlier, when he argued that South Korea’s participation in PSI could lead to an unintentional naval clash between the two Koreas.

Movement prior to resumption of Six-Party Talks

Leading up to the new round of Six-Party Talks – ultimately scheduled for mid-December – the parties maneuvered to enhance their negotiating positions. The bottom-line U.S. goal at the talks was to reaffirm North Korea’s Sept. 19, 2005 pledge to abandon all nuclear weapons programs while continuing to pressure North Korea through UN sanctions.

Meeting on the margins of the Asia-Pacific Economic Cooperation (APEC) summit in Hanoi on Nov. 18, President Bush told President Roh that the U.S. would be willing to enter into a peace treaty with North Korea that would replace the 1953 Armistice

Agreement. Presidential spokesman Tony Snow indicated that in return for the dismantling of North Korea's nuclear program, the U.S. would offer North Korea various incentives including "a declaration of the end of the Korean War and moving forward on economic cooperation, cultural, educational, and other ties."

ROK Foreign Minister Song Min-soon confirmed publicly that the Roh-Bush summit focused heavily on a new peace regime, together with security and economic incentives, in exchange for a verifiable end to North Korea's nuclear program.

Although the Bush administration refused to relax any sanctions against North Korea in advance of the six-party round, the U.S. seemed to give a green light to China's decision on Nov. 19 to "unfreeze" some North Korean accounts in a Macau bank that were previously linked to counterfeiting of U.S. dollars. In the fall of 2005, following U.S. warnings, Banco Delta Asia (BDA) froze approximately \$24 million in North Korean accounts due to alleged counterfeiting, a measure that caused Pyongyang to withdraw from the nuclear negotiations for more than 13 months.

In late November, Ambassador Hill met North Korea's Ambassador Kim in Beijing and presented him with a series of measures designed to produce what Kim called an "early harvest" through implementing the Sept. 19, 2005 denuclearization agreement. According to news accounts, Hill proposed a list of North Korean actions including shutting down its Yongbyun nuclear reactor, closing a nuclear test site in Punggye, permitting the return of inspectors from the International Atomic Energy Agency (IAEA), and making a full declaration of nuclear-related programs and facilities.

In return, Hill suggested, the U.S. could completely lift financial sanctions, supply fuel oil to meet North Korea's immediate energy needs, discuss ways to negotiate a peace regime for the Korean Peninsula, provide security guarantees, and move toward normalizing diplomatic relations with Pyongyang. Hill described the U.S. proposals as "ideas that are designed to make rapid progress [toward dismantling North Korea's nuclear program.]"

Though the Six-Party Talks convened Dec. 18 in Beijing and ran for five days before recessing, their only accomplishment was reaffirming the joint statement of principles signed in September 2005. Under the joint statement, North Korea previously "committed to abandoning all nuclear weapons and existing nuclear programs" in exchange for security assurances and promises to promote economic cooperation.

The core problem in the negotiation remains the question of "sequencing" actions by the U.S. and North Korea. As evidenced at the latest round, Washington and Pyongyang find it extremely difficult to follow the implementing principle they agreed to in September 2005 of "commitment for commitment, action for action."

North Korea will not agree to move forward on nuclear issues until the U.S. eliminates the financial sanctions it imposed on Pyongyang's overseas accounts for alleged counterfeiting. The U.S. offers numerous economic, security, and diplomatic benefits to

North Korea, but will provide virtually nothing until Pyongyang shuts down its nuclear program. This impasse demonstrates how the deep distrust between the two countries has impeded productive diplomacy.

Difficulties in negotiating a free trade agreement

The U.S. and South Korea clashed on several key aspects of a free trade agreement (FTA) this quarter, throwing into doubt whether negotiators will be able to finalize a text by the end of March, when it must be submitted to the U.S. Congress for approval.

Korea requested the U.S. to restrict applying tough antidumping regulations to Korean companies under an FTA, but chief U.S. negotiator Wendy Cutler indicated “we have very limited flexibility in this area.” Korea believes that a number of its leading corporations, particularly Samsung Electronics, have been unfairly penalized by the U.S. for dumping in the past.

Korea resisted U.S. demands to strengthen the patent rights of U.S. pharmaceutical corporations in Korea and Cutler expressed “disappointment” that Korea would not “seriously engage” in discussions on whether U.S. drugs would be eligible for reimbursement under the country’s national health plan.

On autos, the U.S. called for Korea to drop its 8 percent tariff on imported vehicles as well as a tax system that charges more for cars with bigger engine displacements. Korea put off responding to the demand until the U.S. addressed the question of 2.5 percent U.S. tariffs on imported autos and a 20 percent tariff on imported pickup trucks.

Lastly, the issue of Korean imports of U.S. beef resurfaced after Korean inspectors found fragments of bone on three occasions in imported beef products during October and November. After banning U.S. beef approximately three years ago because of fears of mad cow disease, Korea recently decided to permit imports of only boneless beef from cattle under 30 months of age. U.S. Agriculture Secretary Mike Johanns made clear the displeasure of the U.S. beef industry on Dec. 6, when he said, “the rejection of the third shipment clearly illustrates that South Korean officials are determined to find an excuse to reject all beef products from the United States.”

U.S. and Korean negotiators hope to wrap up their talks by March 31, which would give Congress 90 days to review the agreement before President Bush’s “fast-track trade promotion authority” expires on June 30, 2007. Under the TPA, the administration can seek a yes-or-no vote without amendments for a trade agreement, which greatly simplifies the approval process.

At the end of the quarter, both U.S. and Korean officials tried to weigh the impact on the FTA talks of the Democratic Party victories in the November U.S. congressional elections. With Democrats more ideologically opposed to the FTA than Republicans, officials feared the political shift could pose a significant obstacle to the pact’s approval.

In Korea, negotiators hinted publicly that they might seek a “big deal” to resolve major issues during the upcoming sixth round of talks in January 2007. Under this proposal, Korea would accept the U.S. demand to revise tariffs and taxes on imported autos in exchange for the U.S. restricting application of antidumping measures on Korean goods.

Transfer of wartime operational command

At their Security Consultative Meeting (SCM) in Washington during late October, Defense Secretary Donald Rumsfeld and Korean Defense Minister Yoon Kwang-ung agreed to transfer wartime operational control of Korean troops to South Korea sometime between Oct. 15, 2009 and March 15, 2012. Under current arrangements, the U.S. commander in South Korea would assume operational control of Korean forces in the event of war.

The uncertain date of the transfer represented a compromise between the U.S. position that the shift should occur in 2009 and the Korean position that it should take place in 2012. During the first six months of 2007, U.S. Forces Korea (USFK) and the Korean military will develop a detailed implementation plan for the command transfer – and fix a final date for the transfer to take place.

Secretary Rumsfeld made it clear at the SCM that the U.S. will continue to provide significant “bridging capabilities” – particularly air and naval support as well as sophisticated intelligence, surveillance and reconnaissance capabilities – until South Korea is able to acquire sufficient capabilities of its own in these areas.

Under the plan approved at the SCM, a new dual command structure will replace the Combined Forces Command (CFC), which is currently headed by the commander of U.S. forces in Korea. South Korea’s Joint Chiefs of Staff will assume responsibility for all Korean forces during both peacetime and wartime. The U.S. military will create a new headquarters whose main purpose will be to provide air and naval support for Korean troops. To replace the CFC, the U.S. and South Korea will form a Military Cooperation Center (MCC) that will guide joint combat operations.

The communiqué released at the SCM underscored the U.S. “firm commitment” to the defense of South Korea and reaffirmed “extended deterrence” to South Korea under the U.S. nuclear umbrella, consistent with the U.S.-ROK Mutual Defense Treaty of 1954.

In late December, Gen. Burwood Bell, commander of U.S. Forces in Korea, also called for restructuring and enhancing the role of the United Nations Command (UNC) which Bell heads, as part of the transfer of operational wartime command to South Korea. The UNC – which includes representatives from 16 countries – is in charge of overseeing the 1953 Armistice agreement that ended the Korean War. The UNC currently supervises two transportation corridors connecting South and North Korea with rail and highway links, at either end of the demilitarized zone.

According to some observers, the U.S. may seek to expand the role of the UNC, following the dissolution of the Combined Forces Command, to strengthen cooperation between U.S. and South Korean forces. Bell hinted at this transformation in his message posted on a USFK website: “We will revise the roles and missions of the UNC...to effectively support the nature of the ROK military which in the future will be under ROK independent command both during the armistice and during wartime.”

Defense cost sharing

In early December, at their sixth round of meetings, U.S. and South Korean defense officials concluded difficult negotiations over cost-sharing for U.S. forces in Korea. Among the sticky issues were salaries for Korean workers at U.S. defense facilities, stationing costs for U.S. forces, and construction of new installations for U.S. forces moving from bases close to the demilitarized zone to Pyongtaek, south of Seoul.

Under the final agreement, South Korea’s share of defense costs will rise by 6.6 percent over the next two years. Monies owed to the U.S. will total approximately \$790 million in 2007 and increase in 2008 based on any rise in the consumer price index.

In an unusual development, Gen. Bell expressed his displeasure at the final agreement. In a press release, he stated that the agreement “does not meet the expectations of the United States on equitable burden sharing, nor USFK requirements. The 2007 level will meet less than 41 percent of USFK non-stationing costs, and represents less than 15 percent of the total annual U.S. expenditures required to maintain U.S. forces in South Korea.”

South Korea extends troop deployment in Iraq

South Korea notified the U.S. in early December that it would extend for another year the deployment of its “Zaytun Division,” currently supporting U.S.-led coalition forces in Iraq, while reducing the number of troops from 2,300 to 1,200. South Korea’s troop contribution to coalition forces is currently the third largest, following the U.S. and Britain. Since its initial deployment of 3,300 troops to Iraq in 2004, the Zaytun Division has provided humanitarian and reconstruction assistance in the Kurdish-controlled northern Iraqi city of Irbil. Korean commandos also provide security for the UN Assistance Mission for Iraq (UNAMI).

Prospects

North Korea demonstrated this quarter why it is known – and reviled – for its brinkmanship tactics. Against the will of the international community, Pyongyang exploded a nuclear device and invited harsh United Nations sanctions it must have expected. No doubt the U.S. unwillingness to negotiate an end to financial sanctions for alleged counterfeiting – imposed in the fall of 2005 – contributed to North Korea’s desperation leading up to the nuclear test.

After three weeks of growing concern that Pyongyang would conduct a second nuclear test, North Korea showed its diplomatic adroitness in late October by announcing it would return to the Six-Party Talks. This decision relieved pressure on Seoul to end its engagement policy with Pyongyang and assuaged China's mounting anger at North Korea's defiance.

It was no surprise that the December round of Six-Party Talks made little progress other than reaffirming the only agreement the parties have reached to date – the Sept. 19, 2005 joint statement in which North Korea said it would abandon its nuclear program in exchange for security, political, and economic benefits. Given North Korea's nuclear test, the real surprise was that these negotiations occurred at all.

Looking to the future, the U.S. will have to show greater flexibility on financial sanctions if it expects North Korea to move forward on the nuclear issue. Because these sanctions have frozen legitimate business transactions (beyond alleged counterfeiting activities) and because North Korea is reportedly willing to deposit funds in U.S. banks, permitting U.S. scrutiny, Washington has room to compromise. Since the Bush administration initially complicated and, in the view of many observers, undercut the Six-Party Talks by introducing the counterfeiting issue in the first place, the ball is in Washington's court for making progress on the main matter at hand – ending North Korea's nuclear program – and then moving on to broader peace negotiations for the Korean Peninsula.

Chronology of U.S.-Korea Relations October-December 2006

Oct. 3, 2006: North Korea announces it “is set to conduct a nuclear test in the future.”

Oct. 4, 2006: U.S. sends a message to DPRK via their UN mission in New York not to conduct the test.

Oct. 6, 2006: UN Security Council (UNSC) expresses “deep concern” about a possible North Korean nuclear test.

Oct. 9, 2006: North Korea conducts an underground nuclear test.

Oct. 9, 2006: Ambassador Vershbow says the nuclear test makes bilateral talks with North Korea less likely.

Oct. 9, 2006: Presidents Roh Moo-hyun and George W. Bush have a 20-minute phone conversation regarding the announcement of the nuclear test by North Korea.

Oct. 11, 2006: DPRK *Korea Central News Agency* declares U.S.-initiated UN sanctions an “act of war.”

Oct. 14, 2006: UNSC imposes sanctions on North Korea for its nuclear test.

Oct. 15, 2006: UN General Assembly elects ROK Foreign Minister Ban Ki-moon as the next UN secretary general.

Oct. 17, 2006: Ambassador Vershbow urges South Korea to “thoroughly review” economic ties with North Korea.

Oct. 18, 2006: The 28th ROK-U.S. Military Committee Meeting (MCM) is held in Washington, D.C.

Oct. 18, 2006: U.S. Congress enacts National Defense Authorization Act for 2007, which requires appointment of a senior U.S. coordinator on Korea within 60 days.

Oct. 19, 2006: Secretary of State Condoleezza Rice in Seoul urges President Roh Moo-hyun to “take stock of the leverage we have” on North Korea.

Oct. 20, 2006: U.S. and Korea reach agreement on transfer of wartime operational control at the 38th Security Consultative Meeting in Washington.

Oct. 20, 2006: ROK, U.S., and Japan foreign ministers hold a two-hour trilateral meeting at ROK FM Ban’s residence. This is the first trilateral meeting among the three countries ministers since October 2000.

Oct. 22, 2006: Fourth round of U.S.-Korea talks on a Free Trade Agreement open in Jeju.

Oct. 27-28, 2006: Secretary General-elect and ROK Foreign Minister Ban makes a working visit to China to meet President Hu, State Councilor Tang, and Foreign Minister Li Zhaoxing and to discuss the North Korea nuclear standoff.

Oct. 31, 2006: North Korea announces that it will return to the Six-Party Talks after a secret meeting between Kim Gye-gwan, Christopher Hill, and Wu Dawei. U.S. tells North Korea that it is prepared to discuss issues surrounding Banco Delta Asia and to form a working group to address the issue.

Nov. 1, 2006: President Roh nominates Lee Jae-jeong, senior vice president of the Advisory Council on Democratic and Peaceful Unification as unification minister; Song Min-soon, chief secretary to the president for unification, foreign, and security affairs as foreign minister; Kim Jang-soo, Army chief of staff, as minister of defense; and Kim Man-bok, first deputy director of the National Intelligence Service (NIS), as NIS director.

Nov. 7, 2006: First sub-ministerial meeting of the ROK-U.S. Strategic Consultation for Allied Partnership is held in Seoul with Vice Minister of Foreign Affairs and Trade Yu Myung-hwan and Under Secretary Burns heading the respective delegations.

Nov. 13, 2006: South Korea announces it will not join Proliferation Security Initiative.

Nov. 15, 2006: U.S. and South Korean defense officials begin two days of meetings on burden-sharing arrangements in Washington.

Nov. 18, 2006: In Hanoi, Presidents Bush and Roh reaffirm their joint stance not to tolerate North Korea's nuclear program.

Nov. 24, 2006: Korea rejects shipment of U.S. beef because of bone fragments.

Nov. 28, 2006: Ambassadors Christopher Hill and Kim Gye-gwan begin two days of meetings in Beijing about resuming the Six-Party Talks; South Korea extends its deployment of troops in Iraq for a year.

Nov. 29, 2006: U.S. Commerce Department reveals that luxury goods such as ipods and jet skis are on the list of items banned for export to North Korea under UNSCR 1718.

Dec. 1, 2006: Korea rejects second batch of U.S. beef.

Dec. 4, 2006: The U.S. and South Korea open their fifth round of bilateral meetings on a Free Trade Agreement in Big Sky, Montana.

Dec. 5, 2006: South Korea announces it has informed the U.S. of its plan to reduce the number of Korean troops in Iraq while extending their deployment for one year.

Dec. 6, 2006: U.S. and South Korean defense officials finalize military burden-sharing arrangements for 2007.

Dec. 7, 2006: U.S. Special Envoy on Human Rights in North Korea Jay Lefkowitz attends a UN meeting on North Korean human rights abuses. He states that China and South Korea should play an active role pressing North Korea to end abuses.

Dec. 8, 2006: Presidential memorandum is sent to Secretary Rice to impose sanctions on North Korea as described in Arms Export Control Act and the Atomic Energy Act.

Dec. 12, 2006: In Senate confirmation hearings, Robert Gates, defense secretary-designate states "strong military-to-military relations in Asia, particularly with Japan and South Korea, complement regional diplomacy with deterrence."

Dec. 14, 2006: Eighth UN Secretary General Ban Ki-moon is sworn in.

Dec. 18, 2006: Robert Gates sworn in at the 22nd U.S. defense secretary.

Dec. 18-22, 2006: Six-Party Talks held in Beijing and recess with little progress. On the sidelines Dec. 19, the U.S. and the DPRK meet to discuss the BDA issues.

Dec. 27, 2006: Vietnam's East Asia Commercial Bank closes all correspondent accounts to transfer money in and out of North Korea. The decision was the result of Vietnam's entry into the WTO and growing ties with the U.S.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



U.S.-Russia Relations: Trade, Nukes, and Energy

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In a relatively quiet quarter for U.S.-Russia relations, the issues topping the bilateral agenda were trade, nuclear proliferation, and energy security. That nuclear proliferation and energy security were at the top of the list should come as no surprise. The big news was the announcement that the U.S. government had agreed in principle to Russia's long-awaited accession to the World Trade Organization (WTO). Presidents George Bush and Vladimir Putin met twice during the quarter, a few days apart in Moscow and Hanoi. At their meetings the discussions centered on WTO, Iran, and North Korea. A surprise announcement by the Japanese foreign minister concerning the dispute over the Northern Territories caused a few ruffles in both Moscow and Tokyo, but the Japanese-Russian relationship returned again to its stagnant state by the end of the quarter.

WTO membership for Russia

U.S.-Russia relations have become increasingly antagonistic over the past several years. Nevertheless, the top leadership maintains a cordial relationship, even if the term "strategic partnership" is no longer in the official lexicon. The Russian government has long aspired to WTO membership, and one of the primary hindrances has been the reluctance of Washington to extend permanent normal trade relations (PNTR) status to Moscow. The two nations have been in negotiations for 13 years. Congress has long opposed overturning the Jackson-Vanik Amendment, which was passed during the 1970s calls for an annual review of PNTR status for Russia as long as it forbids emigration of its citizens. Once the Soviet Union collapsed, this piece of legislation became obsolete because millions of Russians have emigrated and continue to do so. But Jackson-Vanik has many supporters on Capitol Hill and is unlikely to be repealed by a Democrat-controlled Congress. Additionally, any trade deal must be passed by the Senate, in which the Democrats also hold a razor-thin margin. Russian WTO membership may not necessarily be subject to the vote of Congress, but PNTR status is subject to Congressional approval and could affect the privileges U.S. and Russian firms can expect in each country.

So it came as somewhat of a surprise when it was announced in November that the Bush administration had worked out a deal wherein Russia could be admitted into the WTO. Among the issues of dispute have been restrictions imposed on U.S. meat and poultry imports, as well as concerns about the financial sector and the status of intellectual

property rights in Russia. The Russian side seems to have addressed these issues for now. There is no doubt that the voice of big business in the U.S. was instrumental in finally seeing a resolution to the negotiations. Companies such as Boeing, Ford, GM, and other multinational firms have strongly urged Washington to admit Russia into the WTO.

WTO membership for Russia is unlikely to dramatically increase U.S.-Russian trade in the short run. Two-way trade is not great. The U.S. is only the fifth largest importer of Russian goods, and ranks as the 11th largest exporter to Russia. But WTO membership can help Russia's image as a place for investment, something important when many are questioning the wisdom of investing in Russia.

Russian energy picture

What has many potential investors and foreign governments worried is the "soft nationalization" of energy resources and energy projects throughout the Russian Federation. Last quarter, pressure was being brought to bear on the Sakhalin-2 energy project, which has been under European and Japanese management since its inception in the mid-1990s. Unhappy with the terms of the original production sharing agreement (PSA), many in the Russian government and in the Russian energy industry have been calling for a revision of the agreement. Additionally, the continuing rise in costs of the project (from \$10 billion to over \$20 billion) angered the powers that be in the Kremlin; Vladimir Putin even made specific reference to this in a speech this past summer.

The Russian energy giant Gazprom had made it known that it desired a stake in at least one of the major Sakhalin projects. Sakhalin-2 has been the most attractive candidate for the inclusion of Gazprom because it was the only major project without a Russian partner. All year Gazprom made offers to Shell, Mitsui, and Mitsubishi, without success. In the summer and fall, meanwhile, the Russian Ministry for Natural Resources and the Environment began an extensive (and some argue intrusive) inspection process of the Sakhalin-2 project. A list of environmental transgressions was presented to the management of the project, and the partners were told that if the problems were not rectified the production license would be revoked in early 2007. Gazprom increased its lobbying, and in December the persistence paid off.

It was announced that the leaders of Gazprom and the Russian Ministry of Industry and Energy, along with Royal Dutch Shell Chief Executive Jeroen van der Veer, Mitsui President Shohei Utsuda, and Mitsubishi President Kojima Yorihiro had signed a protocol of agreement on the management of the Sakhalin-2 project. The agreement states that (1) a 50 percent stake plus one share will be transferred by the three firms to Gazprom (for \$7.45 billion); (2) the Russian government will approve a portion of the increased project costs and Gazprom will bear it; and (3) the framework for the PSA will be kept in place. Putin attended the signing ceremony – and amazingly – upon its completion, announced that the project's environmental problems had been "resolved" and pledged the Russian government's support for the project. By making this sweeping statement, Putin appeared to support the theory espoused by many in the West that the environmental inspections were but a ploy to get Russian management involved in the Sakhalin-2 project.

This development (although it had no direct U.S. involvement) explains why many pundits (including the editorial boards of *the New York Times*, the *Wall Street Journal*, and the *Washington Post*) are claiming that Vladimir Putin is behind a resurgent Russia that is authoritarian by nature, random in its actions, and an “enemy” of the U.S. The Russian government’s attempts to dominate all sectors of the energy industry in that country, however, are not exactly unprecedented, as any review of the nationalization of the oil industries across the Middle East will attest. But what has many in the West concerned (particularly Russian LNG-consuming nations in Western and Central Europe) is the potential for Moscow to utilize the energy spigot to attain foreign policy goals.

At the NATO summit in Riga in late November (the first NATO summit to be held on former Soviet territory) energy security was a major theme. In the keynote address, U.S. Sen. Richard Lugar suggested that NATO extend the guarantees outlined in Article 5 of the NATO Charter (treating an armed attack on an allied country as an attack against all) to include member states’ energy security. Referencing the shut-off of Russian gas to Ukraine in January 2006, Lugar suggested that Moscow has the leverage to cripple member nations’ economies with the mere turn of a valve, and that Russian leaders have demonstrated the will and the capacity to do so. Lugar appears to have more supporters of this idea, not only in the U.S., but in Europe as well, where Britain and Germany have let the Russian government know that they are less than happy about the direction of Russia’s energy strategy.

Prior to the NATO Summit, U.S. Undersecretary of State Nicholas Burns said that President Bush would propose a program to bring Japan, South Korea, and Australia closer to the military alliance. Burns stated that although the three countries “do not seek NATO membership...we seek a partnership with them so that we can train more intensively from a military point of view.” Some members were said to be in favor of this, as a reward to those nations that are contributing to operations in Afghanistan. In May 2006, Japanese Foreign Minister Aso Taro had suggested that Japan strengthen its coordination with the military bloc in a meeting with senior NATO leaders. But the proposal received little press due to the strong disagreements in Riga between Washington on the one hand, and Berlin and Paris on the other hand about troop commitments in Afghanistan. It can be safely assumed that both Beijing and Moscow would be poorly disposed to any idea of the enlargement or empowerment of NATO into the Asia-Pacific region.

The Litvinenko affair

The November death by radiation poisoning of the former Russian Federal Security Bureau (FSB) agent Alexander Litvinenko has been given widespread attention in the Western, as an example of the increasing control the Kremlin is asserting over both minions and enemies of the state. Litvinenko served in the FSB during the 1990s, and who had won the ire of the Kremlin by suggesting its complicity in a series of apartment bombings in Russia in the summer and fall of 1999. These bombings were pinned on Chechen terrorists, and gave Putin (as prime minister) the impetus to launch the second Chechen war that year. Litvineko fled the country afterward and ended up in London.

Litvinenko was only known within certain circles, but his affiliation with the Putin critic-in-exile cum oligarch Boris Berezovsky raised eyebrows in the Kremlin. Litvinenko's death has been blamed on the Kremlin, although no one has convincingly explained how the death could really benefit Putin and his entourage. Others (including the Kremlin) point to Berezovsky and other opponents of Putin, who might have carried out the assassination to discredit the Russian government. The fact that Litvinenko was purportedly gathering evidence on the shooting death in Moscow of Russian journalist Anna Politkovskaya – a prominent critic of the war in Chechnya – adds to the conspiratorial tone of the affair.

Nearly two months after Litvinenko's death articles still appear daily in the Western press about the case. The abiding impression readers in the West (and in Japan) get is that Putin was behind the death, and behind that of Politovskaya, as well. In late November, citing Litvinenko's death, a member of the *Wall Street Journal's* editorial board wrote, "It's time we start thinking of Vladimir Putin's Russia as an enemy of the United States." Putin graced a recent cover of the magazine *Economist* dressed like a gangster, holding a gasoline nozzle as a machine gun. There is no question that Western governments are feeling pressure from prominent critics of the Kremlin in their countries. To suggest that this does nothing to change foreign policy or influence the thinking of government leaders would be ignoring the increasingly frigid bilateral relationship between Moscow and Washington.

Iranian and DPRK nuclear problems

The U.S. and Russia agree that nuclear nonproliferation should sit alongside the antiterror campaign as a principal shared foreign policy goal. Both George Bush and Vladimir Putin also recognize that their governments' efforts to keep two particular nations (Iran and North Korea) nuclear free are worthy goals. Unfortunately, a shared vision has done very little to realize these goals. Both governments seem to have differing perceptions of the nature of the threats posed by the Iranian and the DPRK governments.

Moscow seems satisfied with the UN vote last fall on Iran's incipient nuclear program. For Moscow, the vote demonstrated the international community's rejection of Iran's nuclear ambitions, but which in the words of one Russian pundit, "secured our geostrategic and economic interests and closed lawful routes to the use of force against Iran."

The failure of the latest round of Six-Party Talks on the denuclearization of North Korea received scant coverage in Moscow. Russia has taken a wait-and-see attitude since almost the very beginning of the imbroglio. This is understandable given Russia's marginalized position in Northeast Asia. Moscow, hoping for a potential economic bonus should North Korea need light-water reactors (or a modernized rail system), does not want to be seen as leaning too heavily on Pyongyang. It prefers to play the good cop to America's bad cop (just like in Iran). Moscow also rightly recognizes that this is primarily the affair of Beijing, Seoul, and Washington. The Russian leadership wants to be involved in any

Korean Peninsula discussions, but would prefer to do so from the safety of the bench, rather than on the gridiron.

Where Washington sees a vital and immediate threat in Teheran, Moscow sees a potential economic partner under siege. The two governments cannot agree on the scope of the threat and the plan for action. Similarly with North Korea, no concerted plan for action has made its way to the negotiating table. Judging by Washington's seeming inattention to the issue, it could be surmised that the Bush administration sees no immediate threat to the security of the U.S. But in Iran it does. Moscow seems to think that both problems might just go away if they are ignored. Both governments should recognize the necessity of taking urgent action on these issues, but given the continued morass in Iraq and any number of pressing domestic issues in each country (with a Democrat-controlled U.S. Congress) it might take a minor miracle for either of these issues to be addressed effectively. This is not an indictment of either government, just a realistic assessment.

APEC Hanoi Summit

Presidents Bush and Putin met on the sidelines of the APEC Summit in Hanoi. Bush had also stopped in Moscow on his way to the Far East, to lay the groundwork for the talks in Vietnam. The talks focused primarily on Iran, North Korea, nonproliferation, and Russia's impending WTO accession. East Asia was not high on the bilateral agenda, apart from North Korea. But the two leaders let it be known that their governments agree on the importance of Asia not only as a dynamic region for their respective nations, but in the context of bilateral relations. Both understand the need for an active presence, and both understand the increasingly larger challenges China will pose in the years to come. Leaders in Moscow and Washington wish to work hand in hand in addressing China's emergence in a peaceful and nonconfrontational manner.

Japan and the Northern Territories

In December Japanese Foreign Minister Aso Taro suggested that Japan and Russia take a China-Russia approach to their long-standing territorial dispute: divide up the land 50-50. In the case of the Northern Territories, Aso stated that Japan should be given three of the disputed islands, and part of the largest, fourth island. The predictable Russian response was to dismiss Aso's proposal as unrealistic. The Japanese Foreign Ministry and the Japanese press took a similar line, calling the proposal everything from not realistic to traitorous. The fact that there was somewhat of a pause in the Japanese reaction suggests that this may have been a trial balloon. For the foreign minister to throw out such a statement about one of the most controversial foreign policy issues suggests a calculated measure, not a political gaffe (although given the Japanese government's track record on controversial public utterances, this cannot be ruled out).

Later, reports in the Japanese press in early January 2007 suggested that Russian First Deputy Foreign Minister Andrei Denisov had floated the idea originally in Moscow to a visiting delegation of leaders from the Japanese ruling coalition junior party, the Komeito in November. This may have been brought back to the Foreign Ministry in Tokyo, hence

Aso's statement. But it would not be the first time that the Japanese press sensationalized what may have been a mere throw-away remark into something that could be interpreted as policy. If anything does come of this, it would represent a watershed in Japanese-Russian relations, and perhaps at long last recognition in Tokyo that a resolution to this issue could have important geopolitical ramifications for the entire Asia-Pacific region.

Looking ahead

The growing acrimony in the relationship between Moscow and Washington appears to have taken a slight break this quarter. The coming months will undoubtedly bring some further development on the Iran and North Korean proliferation issues. For now these are the most pressing issues between the two governments. Energy security and Russia's growing assertiveness in Europe and Central Asia are big picture issues, which will come to define the relationship in the months and years ahead. But for now the two governments have tangible tasks they need to address: Iran and North Korea. A failure to do so effectively will make energy security seem like child's play should nuclear material pass into the hands of terrorist groups operating against both nations.

Chronology of U.S.-Russia Relations October-December 2006

Oct. 2, 2006: The Georgian government frees four Russian soldiers accused of spying. The Russian government maintains a blockade of Georgia, while Russian Foreign Minister Sergei Lavrov blames the U.S. and NATO for inspiring the crisis.

Oct. 3, 2006: Russia's Foreign Ministry warns the Polish government about hosting a NATO- or U.S.-administered missile defense system on its territory, saying that it would undermine security and stability in the region.

Oct. 12, 2006: Speaking at the U.S.-Russia Business Council in Washington, Secretary of Commerce Carlos Gutierrez expresses concern about Russia's investment climate in the wake of stories about "soft nationalization" in the Russian energy industry.

Oct. 25, 2006: NATO Secretary-General Jaap de Hoop Scheffer visits Moscow to discuss conventional forces levels in Europe.

Oct. 27, 2006: The leaders of 13 large U.S. firms address a letter to Presidents Bush and Vladimir Putin with the request that Russia's accession to the WTO be expedited. This is done under the initiative of the American Chamber of Commerce in Russia.

Nov. 7, 2006: U.S. midterm elections result in a drubbing of the Bush administration.

Nov. 10, 2006: U.S. and Russian negotiators in Moscow reportedly strike an early deal on Russia's WTO accession. The details of the agreement are to be announced later in the month in Hanoi at the APEC summit.

Nov. 15, 2006: Air Force One makes a stop in Moscow on the way to Vietnam for a brief luncheon tête-à-tête between Bush and Putin. Iran and WTO are the focus of the talks.

Nov. 18, 2006: Presidents Bush and Putin meet in Vietnam on the sidelines of the Asia-Pacific Economic Cooperation summit in Hanoi. A deal on Russia's WTO accession is signed, and the two leaders discuss the nuclear crises in Iran and North Korea. U.S. sanctions against the Russian aircraft maker Sukhoi are lifted.

Nov. 21, 2006: Under Secretary of State Nicholas Burns says President Bush will propose at the upcoming Riga NATO Summit a partnership program for Japan, South Korea, and Australia.

Nov. 23, 2006: Former Federal Security Service (FSB) Lieutenant Colonel Alexander Litvinenko dies in London from radiation poisoning. A relative unknown before his death, Litvinenko's death attracts enormous attention in the international press, as a so-called example of the growing authoritarianism in Putin's Russia.

Nov. 28, 2006: Citing Litvinenko's death, a member of *The Wall Street Journal's* editorial board writes, "It's time we start thinking of Vladimir Putin's Russia as an enemy of the United States."

Nov. 28, 2006: NATO summit convenes in Riga, Latvia. It is the first NATO summit held on the territory of the former Soviet Union. In Riga, U.S. Sen. Richard Lugar urges the organization to take up the issue of the energy security of the member states.

Dec. 14, 2006: Japanese Foreign Minister Aso Taro floats a proposal for dividing the disputed Northern Territories into two equal parts, giving Japan control of three islands and part of the fourth island. The Russian reaction is expectedly cool. The Japanese press and the government subsequently dismiss his proposal off-hand.

Dec. 18-22, 2006: Six-Party Talks held in Beijing.

Dec. 20, 2006: In a telephone interview with the Russian daily *Izvestia*, Congressman Tom Lantos claims that Russia was better off in the Yeltsin era.

Dec. 22, 2006: Royal Dutch Shell, Mitsui & Co., and Mitsubishi Corp. (Mitsubishi) – the managing partners of the Sakhalin-2 oil and gas project – agree to the transfer of a majority of their shares to Russia's state-run monopoly Gazprom, at a price of \$7.45 billion. The impending deal has attracted international attention for months due to the heavy-handed tactics of the Russian government.

Dec. 23, 2006: UN Security Council unanimously passes Resolution 1737 to impose sanctions on Iran to curtail its nuclear program.



U.S.-Southeast Asian Relations:
Bush Reaches Out at APEC

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In his November visit to Southeast Asia attendant to the Hanoi Asia Pacific Economic Cooperation (APEC) Leaders Meeting, President George W. Bush raised the prospect of an Asia-Pacific free trade area, discussed implementation of the ASEAN-U.S. Enhanced Partnership that emphasizes good governance, praised Indonesia for the success of the peace process in Aceh, and assured Vietnamese officials that permanent normal trade relations would be approved by the U.S. Congress by year's end. (It was.) The Visiting Forces Agreement in the Philippines survived a severe test when a U.S. Marine was convicted of rape and sentenced to 40 years in a Philippine prison. The conviction is being appealed. At the APEC summit, Philippine President Gloria Arroyo asked the U.S. president for a "deeper and broader" U.S. role in combating Philippine terrorists as well as in the ongoing peace process with the Moro Islamic Liberation Front. Although continuing to press the Thai coup leadership to restore democracy, Washington announced plans to hold the annual multinational *Cobra Gold* military exercise in May 2007 and continued to provide assistance for counterterrorism.

Bush emphasizes politics and economics in Southeast Asia

Briefly extending his attendance at the mid-November APEC Leaders Meeting in Hanoi to include separate bilateral talks in Vietnam, Singapore, and Indonesia, President Bush emphasized the importance of U.S. political and economic ties to Southeast Asia. These discussions constituted a belated recognition on the part of the U.S. administration that Iraq and counterterrorism were not at the top of Southeast Asia's agenda. Rather, economic growth, free trade, and closer political relations are. The latter required U.S. reassurance that despite its Middle East troubles, the U.S. was not about to abandon its commitments in Asia.

In consultations with ASEAN members on the sidelines of the APEC meeting, Bush and Secretary of State Condoleezza Rice proposed a sprawling free trade area that constituted an alternative to an Asian economic community that would exclude non-Asian countries. This was clearly a long-range vision rather than an action item for regional agendas. It comprised the administration's way of declaring that it understood Southeast Asian priorities. Moreover, ASEAN and the U.S. issued a joint press statement on the Action Plan for ASEAN-U.S. Enhanced Partnership 2006-2011. The plan emphasizes good governance, transparency, protection of intellectual property rights, aid to medium and

small scale enterprises, and U.S. assistance to ASEAN public health activities to combat HIV/AIDS and other contagious diseases.

In *Indonesia*, President Susilo Bambang Yudhoyono broached a list of six issues he wished to discuss with Bush: investment, renewable energy, education, health, natural disasters, and technology; counterterrorism was notably absent. Over the past six years, U.S. investors put over \$1 billion into Indonesia, the majority in the energy sector. Defense Minister Juwono Sudarsono stated that Indonesia was “a friend and equal partner not an ally” with the U.S. A Foreign Ministry spokesman went on to explain the U.S. president’s visit as a continuation of reciprocal exchanges that go back to former President Megawati Sukarnoputri’s 2001 trip to Washington. In an implicit rejoinder to those Islamist groups in Indonesia opposing President Bush’s arrival, the spokesman stated that it was only proper that Indonesia host the U.S. president and that Jakarta’s relationship with Washington is “part of a strategic partnership in the region where Indonesia is also cooperating with China, New Zealand, and Australia.”

President Bush spent only six hours in Indonesia in a carefully orchestrated meeting with President Yudhoyono at Bogor where several thousand demonstrators were kept away from the heads of state. Nevertheless, Bush praised Indonesia’s freedom of speech and said somewhat wryly, “It’s not the first time, by the way, where people have showed up and expressed their opinion about my policies.” In their joint statement, the U.S. president congratulated Indonesia on the peace process in Aceh and on Jakarta’s receipt of a \$55 million grant from the Millennium Challenge Corporation to aid its anticorruption efforts. The joint statement also praised the restoration of military ties, emphasizing the importance of training on the roles of militaries in democratic societies as well as regional and maritime security. The communiqué included a reference to “the possibility of a Status of Forces Agreement” in the future.

Curiously, despite strong Indonesian Muslim political opposition to the U.S., President Yudhoyono appeared to endorse President Bush’s conditions for a solution to the Iraq war by stating that national reconciliation and international cooperation in Iraq’s rehabilitation were necessary before a complete U.S. troop withdrawal. On a more sour note, the respected mainstream Muslim intellectual Asyumardi Azra – a former rector of Syarif Hidayatullah State Islamic University – noted that very little of the \$157 million promised by the U.S. over two years ago for Indonesia to aid education and health had been disbursed.

In other U.S.-Indonesian domains, Jakarta’s Ministry of Defense stated on Oct. 9 that obtaining *Hercules* transport aircraft and refits for its *F-5E* and *F-16* fighter aircraft are among its purchase priorities. The U.S. arms embargo was lifted in November 2005; however, Indonesia has been slow in buying arms. In November, Defense Minister Sudarsono stated he wanted to wean Indonesia off dependence on Western armaments. Turning particularly to Russia, which offered \$1 billion in credits to strengthen military cooperation between the two countries from 2007-2010, Sudarsono stated: “Politically, this will give us more space so that we will not depend on the U.S. when one day the superpower may impose an embargo again.” Indonesia is negotiating for *Sukhoi* combat

jets, submarines, amphibious tanks, and anti-aircraft missiles. Should the Russian purchases be made, logistics will become more complicated for the Indonesian armed forces because U.S. and European suppliers have accounted for 90 percent of the country's inventory since the mid-1980s. For similar political reasons, Jakarta is also considering buying weapons from China, Sudarsono said on Nov. 1. He also noted that Chinese and Russian weapons are offered at lower prices than those of the U.S.

Finally, perhaps as a way of asserting Indonesia's renewed importance in world affairs, President Yudhoyono during his November meeting with President Bush offered to serve as an honest broker between Washington and Iran and to assist in negotiations in the Israeli-Palestinian conflict. There is no indication that Bush accepted these proposals.

Hoping to visit *Vietnam* with the gift of permanent normal trade relations (PNTR), President Bush suffered a temporary setback when the House of Representatives on Nov. 13 defeated the bill – probably because the Republican leadership did not wait until many of its members had returned to Washington after the mid-term elections. Vietnam voiced regret but expressed confidence “the U.S. Congress will approve PNTR at an early date.”

Washington obtained some political concessions from Vietnam prior to the PNTR votes, including Hanoi's decision to abolish detention without trial that was used to jail political dissidents. Removal of that decree had been a top U.S. priority in the human rights dialogue with Vietnam. Hanoi also freed and deported a Vietnamese-U.S. activist who had been convicted on terrorism charges and incarcerated for over a year. In mid-November, the State Department removed Vietnam from its list of countries that severely violate religious freedom, noting that a number of religious prisoners had been freed and churches had been permitted to reopen. The Vietnamese government also put an end to the practice of forcing tens of thousands of Christians to renounce their faith.

Finally, at the 11th hour of an outgoing U.S. Congress, PNTR was approved Dec. 9. The deal requires Vietnam to reduce or repeal many import duties, eliminate a long list of textile subsidies, and allow foreign banks to open subsidiaries. In return, U.S. quotas on Vietnam's garment exports will be lifted. The U.S. runs a substantial balance of trade deficit with Vietnam, importing nearly \$9 in goods for every dollar it exports. What Vietnam really wants from the U.S. is high technology, including nuclear power plants, though restrictions on military-related technology hamper this type of commerce. U.S. AID signed a \$9 million grant for Vietnam in mid-November as part of a bilateral trade acceleration project that will provide economic and legal training to enhance economic management. Vietnam will formally join the WTO as its 150th member on Jan. 11.

Political frictions between the U.S. and Vietnam persist, however. In mid-December U.S. Ambassador Michael Marine urged the country to allow greater room for political dissent and called the members of Vietnam's small pro-democracy movement “true patriots.” The ambassador complained about limits placed on dissidents even after they are released from prison, including house arrest and harassment of those who visit the dissidents.

Visiting Forces Agreement tested in the Philippines

In a year-long rape case involving four U.S. marines and a young Filipina that roiled Philippine public opinion, the Visiting Forces Agreement (VFA) between the two countries came under fire from Philippine media and by nationalist political groups. When one of the marines was convicted and sentenced to 40 years in a Philippine prison, the U.S. embassy insisted that he remain in U.S. custody until all judicial appeals have been exhausted as provided for in the VFA. The Philippine government concurred, but the executive director of the VFA Commission insisted that the treaty should be renegotiated along the lines of the U.S. Status of Forces Agreement with Japan in which the Japanese government has greater control of U.S. military defendants in criminal cases. Both the Philippines and the U.S. affirmed that the rape conviction would not affect ongoing bilateral exercises; the U.S. embassy stressed that “continued U.S.-Philippine military cooperation relies upon adherence to the VFA, which provides a clear framework for the legal status of visiting U.S. service members.” Nevertheless, on Dec. 21, Pacific Commander Adm. William J. Fallon declared that the U.S. armed forces could not accept a Philippine judge’s decision to keep the convicted marine in a Philippine jail in violation of the VFA. Clearly playing hardball, Fallon stated that the U.S. military was halting aid and reconstruction programs in the Philippines until he was confident that his troops’ legal rights would be protected. Thus, a U.S. aid team assessing Philippine needs in the wake of a devastating typhoon has been withdrawn, and a number of future U.S. ship visits have been canceled. The Philippine embassy in Washington agrees that the U.S. is right to claim custody of its marine but that the judicial branch of the Philippine government is independent of the country’s executive and legislative bodies. Most severe, Fallon cancelled field training exercises that were to begin in a few weeks and would involve 4,700 U.S. military personnel and 3,000 Philippine forces. This will disrupt ongoing counterterrorism training. On Dec. 31, the Philippine judge finally relented and returned the marine to U.S. custody, undoubtedly under pressure from Malacanyang. Presumably this means that the exercises and ship visits that Adm. Fallon had cancelled will now proceed as originally scheduled.

U.S. forces have been training and exercising with the Philippine military since the beginning of the decade in both Luzon and Mindanao, focusing particularly on counterterrorism capabilities in the south. Both governments are concerned that the Philippine Abu Sayyaf Islamist terror group has given shelter and support to al-Qaeda-linked Jemaah Islamiyah (JI) fugitives who fled Indonesian Borneo for the southern Philippines. JI recruits may also train in Abu Sayyaf camps in the Sulu archipelago. To help interdict these terrorist movements through the porous southern Philippines, the U.S. Navy at the end of September offered to support and equip a coast watch system with radar capability for the Philippines by 2008. Philippine Coast Guard personnel are undergoing antiterrorist training in the U.S. A number have become sea marshals with bomb sniffing dogs who accompany the many ferries plying Philippine internal waters. Australian Special Forces are also cooperating with the Philippine-U.S. antiterrorist efforts in Mindanao, using high-speed inflatable boats.

U.S. intelligence has been working with the Philippine military to capture JI bomb makers Dulmatin and Umar Patek who were involved in the 2002 Bali bombing. With an \$11 million U.S. bounty on their heads, they slipped into the Philippines three years ago and are being protected by the JI in the dense jungles of Jolo. Dulmatin's Indonesian wife was captured in Mindanao in September, leading to a wave of what the Philippine military call JI-Abu Sayyaf revenge bombings that killed 12 and wounded 40. At the November APEC summit, President Arroyo in a private meeting with President Bush called for a "deeper and broader" U.S. role in both counterterrorism and the peace process in which Manila is engaged with the Moro Islamic Liberation Front (MILF). Arroyo made the appeal to the president after he stated his administration would not "retreat" from Southeast Asia. Arroyo particularly praised the U.S. AID programs in Mindanao that provide the economic assistance that could "transform rebels from fighters to farmers and fishermen."

A significant obstacle to Philippine-U.S. antiterrorist cooperation remains the absence of an antiterror law that the Philippine Congress has resisted approving over concern about civil liberties. The Philippines is the only Southeast Asian state that has declared an all-out war on terror and still has no antiterrorism law. Under the current system, the police can detain suspects without charges for only nine hours. This limit hampers the Philippines' ability to coordinate with foreign intelligence and investigative agencies and in at least one prominent case led to the release of a suspect before evidence against him from a foreign agency was provided.

While the U.S. is not involved in the ongoing MILF peace negotiations in the south, U.S. Ambassador Kristie Kenney in late November stated that U.S. medical missions, school construction, and internet facilities in the region all contribute to the benefits of peace. U.S. AID has provided \$260 million between 2001 and 2006 to reinforce Philippine government efforts in Mindanao; President Bush promised in mid-December to increase development aid once the government and the MILF signed a peace agreement. Talks are currently stalemated over the MILF's demand to include approximately 1,000 villages in the Moro autonomous Mindanao region, while the government offers only 600. Differences also exist over whether a plebiscite must be held to confirm the agreement. The government says it must according to the constitution, while the MILF disagrees. (A plebiscite would favor Manila because the majority of the people in the affected region are Roman Catholic.)

U.S. continues security ties to Thailand, while cutting aid

The Sept. 19 Thai military coup, though promising the restoration of democracy within a year, has proved an embarrassment for the Bush administration whose overall foreign policy has been based on the sanctity of democratic governance. The U.S. has to deal with the Thai military government because it is the designated liaison between ASEAN and Washington for the Enhanced Partnership Agreement. The U.S. will also continue the *Cobra Gold* joint military exercise – the largest U.S. ground exercise in Asia – that takes place annually in Thailand in the Spring and involves several Asian armed forces as participants and observers. *Cobra Gold* has become important as a counterterrorism

exercise and thus is independent of U.S. military aid to Thailand, \$24 million of which was suspended after the coup. (By contrast, China welcomed the new Thai leadership and characterized the coup as Thailand's internal affair.)

By mid-October, the U.S. Embassy called for an end to martial law and the holding of new elections as soon as possible instead of waiting until October 2007. Earlier, on Oct. 7, the White House warned that Thai-U.S. relations and Thailand's global image would suffer unless there was a quick return to democratic rule. White House spokeswoman Dana Perino stated: "We remain concerned by restrictions on civil liberties, provisions in the draft constitution that appear to give the military an ongoing and influential role in decision-making and the lengthy timetable for domestic elections."

While U.S. aid has been cut for military procurement, IMET training, and for support of Thai participation in peace missions abroad, \$9.77 million in counterterrorism assistance has not been affected because it is considered important to U.S. security. Moreover, on the sidelines of the November APEC meeting in Hanoi, President Bush told Thai Prime Minister Surayud Chulamont that he understood Thailand's situation – a statement interpreted by the Thai press to mean that the U.S. understood the complexity of the current Thai political transition and was willing to give the interim government time to sort things out.

On Dec. 15, former U.S. President George H.W. Bush dined with King Bhumibol in honor of his 60th anniversary on the throne. The elder Bush's visit followed those of former U.S. Presidents Carter and Clinton in November and December. These high-level appearances further reassured the Thai government that U.S. disappointment over the setback to Thai democracy would not rupture the overall bilateral relationship.

U.S. and ASEAN legislators press Myanmar (Burma) in the UN

ASEAN parliamentarians and the U.S. UN delegation are pressing for Security Council sanctions against Myanmar for its human rights violations, including the drafting of thousands of child soldiers to fight against ethnic minorities opposing the military junta. Ignoring these pressures, the military government continued to crack down on pro-democracy activists during this quarter. At the same time, the Myanmar regime forced the Red Cross in November to close its clinics after the regime denied visits to its prisons. Meanwhile, after visiting Myanmar, UN Under Secretary General Ibrahim Gambari told junta leader Gen. Than Shwe on Nov. 11 that the government should mend its ways on forced labor and political prisoners – accusations that Myanmar's leadership subsequently vigorously denied.

In late November, U.S. Ambassador to the United Nations John Bolton announced he would introduce a Security Council resolution condemning the ruling military junta as a "threat" to regional peace because of the "continuing flow of internally displaced persons and refugees across Burma's international borders" leading to "over a million Burmese citizens in neighboring countries." Moreover, the government had failed to curb trafficking in people, illicit drugs, and the transmission of diseases such as HIV/AIDS,

tuberculosis, and malaria across its borders. In hopes of obtaining Russia and China's approval, the U.S. resolution contained no sanctions provisions. However, the U.S. ambassador said that the resolution would lay out markers to improve Myanmar's performance. The junta's national police chief on Nov. 29 condemned any UN Security Council discussion as interference in the country's internal affairs and warned it would "destroy the peace." Despite the probability of a Chinese or Russian veto of any anti-Myanmar Security Council resolution, the U.S. stated it was prepared to introduce harsher resolutions if the military regime failed to comply. Moreover, in late November, the UN General Assembly in a decision that paralleled the Security Council passed a resolution condemning Myanmar's human rights record.

With its policy of isolation toward Burma, the Bush administration has allowed China as well as India to have a free hand in the country. Both have increased trade and investments in efforts to insure that the other does not dominate. Meanwhile, U.S. diplomatic threats appear to fall on deaf ears as Myanmar's generals believe they have little to lose from the country's continued political isolation. Trade in teak with neighbors and new-found gas reserves keep the regime afloat.

The way forward

The Philippines postponed hosting the ASEAN summit in Cebu until January because of concerns over an approaching typhoon and possible terrorist threats. The U.S. has an opportunity to support ASEAN's agenda in the January post-summit ministerial meetings with the association's dialogue partners. For the first time, ASEAN members seem prepared to pass a draft counterterrorism treaty that will be submitted to its several governments. The draft treaty may include extradition provisions as well as enhanced intelligence and law enforcement collaboration. These fit very closely with U.S. global counterterrorism concerns, and Washington should be ready to offer technical assistance to all ASEAN states that ratify the draft document. Additionally, ASEAN has developed a nontraditional security threat array, including contagious diseases, regional haze, and a tsunami warning arrangement. On these, too, the U.S. has and should continue to pledge assistance. U.S. aid for all these endeavors demonstrates to ASEAN that Southeast Asia remains an important region for the U.S. and that Washington understands that the region should determine its own security priorities for which the U.S. is able to provide support.

Chronology of U.S.-Southeast Asian Relations October-December 2006

Oct. 1, 2006: Newly appointed interim Thai prime minister, retired Gen. Surayud Chulamont, meets U.S. Ambassador Ralph Boyce to reassure him that there will be a democratically elected government in the future. The U.S. has suspended \$24 million in military aid in the wake of the Sept. 19 coup that ousted Prime Minister Thaksin.

Oct. 3, 2006: Indonesia's military denies any link to four Indonesians, including a retired general, charged in the U.S. with conspiring to export arms to Tamil rebels in Sri Lanka and to customers in Indonesia.

Oct. 16-31, 2006: U.S. and Philippine forces engage in amphibious exercises.

Oct. 20, 2006: In a speech at Southern Methodist University, Singapore's Minister Mentor Lee Kwan Yew urges the U.S. to stay the course in Iraq because successful liberalization in the Arab world will positively affect Southeast Asian Muslims.

Oct. 20, 2006: U.S. marines on a humanitarian mission in Mindanao rescue three Filipino fishermen whose boat had capsized.

Oct. 22, 2006: Secretary Rice using her discretionary authority allows Chin minority refugees from Burma into the U.S. even though they fought against the government of Burma – an apparent violation of the 2001 U.S. Patriot Act.

Oct. 29, 2006: During the Philippine-U.S. biannual *Talon Vision* and Amphibious Landing Exercise in Luzon in which 5,700 U.S. marines and sailors from Okinawa participated, Philippine forces receive training in explosive ordnance control using remote control robots Americans have developed in Iraq.

Oct. 30, 2006: State Department spokesman Sean McCormack welcomes PRC Premier Wen Jiabao's proposal for increased military cooperation with ASEAN as "part of a broader dialogue on common security issues." The State Department greeted the Chinese offer as a move to "increase transparency and promote stability."

Nov. 4, 2006: The *SS Wilson*, a U.S.-flagged chartered ship, leaves Indonesia with equipment for Indonesia's peacekeeping forces bound for Lebanon – an instance of cooperation between the Indonesian and U.S. militaries.

Nov. 4, 2006: 700 Indonesian Muslims rally outside the U.S. Embassy in Jakarta protesting the forthcoming visit of President Bush.

Nov. 7, 2006: The U.S. officially welcomes Vietnam into the World Trade Organization for which it initially applied nearly 12 years ago.

Nov. 7, 2006: U.S. Ambassador to the Philippines Kristie Kenney states that the U.S. is satisfied with the conduct of a trial for four U.S. marines charged with rape. Kenney said the trial showed that the Philippine-U.S. Visiting Forces Agreement worked and requires no revision.

Nov. 7, 2006: A member of deposed Philippine President Joseph Estrada's inner circle who fled to the U.S. after being charged with corruption six years ago is extradited to face criminal prosecution in Manila. Charlie Ang allegedly ran a protection racket for gamblers at the behest of Estrada.

Nov. 13, 2006: The State Department removes Vietnam from its list of nations that severely violate religious freedom.

Nov. 16, 2006: President Bush arrives in Singapore to begin a five-day Asian tour that includes the APEC summit in Hanoi and a six-hour stop in Indonesia.

Nov. 16, 2006: Secretary Rice broaches prospect of a Pacific free trade zone stretching from China to Chile if WTO talks fail. The proposal was made at the APEC summit.

Nov. 17, 2006: President Bush meets General Secretary of the Vietnam Communist Party, Nang Duc Manh as the 14th APEC summit gets underway.

Nov. 18, 2006: President Bush meets leaders of the seven ASEAN members of APEC on the sidelines of the conference.

Nov. 18, 2006: President Bush expresses “understanding” of Thailand’s political situation. In a separate meeting with President Arroyo, the Philippine leader calls for a “deeper and broader” U.S. role in Philippine counterterrorism.

Nov. 20, 2006: President Bush spends six hours in Indonesia and meets President Yudhoyono, speaking about education and health aid while thousands of protestors are kept away from the meeting site in Bogor.

Dec. 1, 2006: Malaysian Minister of International Trade and Industry Datuk Seri Rafidah Aziz urges U.S. business people in Chicago to invest in several new Malaysian growth areas for which the government has pledged \$100 million to build infrastructure.

Dec. 2, 2006: Former U.S. President Bill Clinton on a visit to Thailand urges its military rulers to restore democracy quickly after their September coup. President Clinton was touring Southeast Asia to examine post-tsunami recovery.

Dec. 4, 2006: In a notorious rape trial in the Philippines that became a test for the U.S. Visiting Forces Agreement, a U.S. Marine is convicted and three others acquitted. Sentenced to 40 years, he became the first U.S. soldier convicted of wrongdoing since the Philippines shut down U.S. bases in 1992.

Dec. 4, 2006: U.S. AID provides \$250,000 in cash assistance to Philippine families affected by Super Typhoon Reming. AID is providing additional funds to relief organizations assisting areas hit by the Super Typhoon.

Dec. 6, 2006: New Marine Police Training Facility built with U.S. funds opens in Jakarta. It focuses on training marine police to deal with maritime security and transnational crime.

Dec. 7, 2006: A day before the Philippines postpones the ASEAN Cebu summit because of a hurricane heading toward Cebu City, intelligence about possible terrorist attacks leads the U.S. and other embassies to warn their citizens to avoid travel to Cebu.

Dec. 9, 2006: U.S. Congress gives final approval to a bill providing Vietnam with normal trade relations with the U.S.

Dec. 11, 2006: The Aceh provincial and district heads election is being monitored by an official 40-member U.S. team that will visit all polling stations.

Dec. 11, 2006: Former U.S. President George H.W. Bush dines with King Bhumibol to honor his 60 years on the Thai throne.

Dec. 21, 2006: Pacific Commander Adm. William J. Fallon declares that the U.S. armed forces could not accept a Philippine judge's decision to keep the convicted marine in a Philippine jail in violation of the VFA.

Dec. 31, 2006: Philippine judge relents and returns the marine to U.S. custody.



**China-Southeast Asia Relations:
Summitry at Home and Abroad**

**Robert Sutter, Georgetown University
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Top Chinese leaders engaged Southeast Asian counterparts during a meeting in China celebrating 15 years of China-ASEAN ties, and during the APEC leaders gathering in Hanoi. The implications of China's rising prominence for the changing regional order were reviewed in detail during a meeting in the United States of Chinese and international specialists, and in assessments by prominent scholars that went beyond headline-driven media accounts.

China-ASEAN Summit

Chinese Premier Wen Jiabao hosted a gathering of ASEAN leaders in the southern Chinese city of Nanning Oct. 30 that celebrated 15 years of Chinese dialogue with the Southeast Asian organization. It was the first time that an ASEAN-China summit was held in China. The last time ASEAN held a summit with a dialogue partner outside the region was in 2003 when it marked 30 years of dialogue relations with Japan at a meeting in Tokyo.

The joint statement and other pronouncements stressed trade cooperation. The parties reaffirmed determination to establish a China-ASEAN Free Trade Area (CAFTA) by 2010 as scheduled, with trade in goods to be liberalized by 2010 for China and the six traditional ASEAN members, and by 2015 with four newer ASEAN members, Cambodia, Laos, Myanmar, and Vietnam. They also pledged to liberalize trade in services in various sectors and to promote mutual investment. Ten priority areas identified for further cooperation over the next five years included agriculture, information industry, Mekong River Basin development, transportation, energy, culture, tourism, and public health.

Premier Wen urged pressing ahead with plans for the construction of a Kunming-Singapore Railway and an Asia highway system linking China more closely with the region. China pledged to train 8,000 ASEAN professionals in the next five years and invited 1,000 young people from the region to visit China. It agreed to small donations: \$2 million to support ASEAN community building and \$1 million each to ASEAN projects concerned with development.

The summit occasioned Chinese bilateral meetings with Southeast Asian leaders and was followed by the Third China-ASEAN Expo and the Third China-ASEAN Business and Investment Summit, both in Nanning. Prior to attending the China-ASEAN meeting, Indonesia's President Susilo Bambang Yudhoyono attended the second Sino-Indonesia energy forum in Shanghai where a large deal to ship Indonesian liquefied natural gas (LNG) to China's Fujian Province was finalized. The agreement marks Indonesia's first long-term LNG supply project for China. Malaysia's Prime Minister Abdullah Badawi used his meeting with Premier Wen at the Nanning summit to announce an agreement involving Malaysia supplying 3 million tons of LNG annually to China for 25 years.

Official Chinese media commentary and various summit pronouncements by Southeast Asian officials highlighted the positive in Chinese economic and other relations with the region. Bilateral trade reached \$130 billion in 2005, and was \$116.3 billion during January-September 2006, a 23.1 percent increase on a year-to-year basis. The two sides estimate that trade will reach \$200 billion by 2008, making China ASEAN's largest overall trading partner.

Imbalances and shortcomings were dealt with in passing. Official Chinese media marking the Nanning summit reported ASEAN Secretary General Ong Keng Yong noted that ASEAN imports from China outweighed exports, leading to an overall trade deficit of \$9.6 billion in 2005. (This figure contrasted with other Southeast Asian and Chinese official sources that reported an ASEAN trade surplus with China of about \$20 billion in recent years.) He also noted that recent Chinese investment in Southeast Asia was "modest," averaging \$210 million annually between 2003 and 2004, in comparison to global FDI in ASEAN of \$31.5 billion, and ASEAN investment in China averaging \$300 million annually during the same period. Other Southeast Asian sources said the China-ASEAN investment gap was larger, with cumulative ASEAN investment in China over the last 15 years amounting to \$38.5 billion and Chinese investment in ASEAN amounting to \$1 billion, and with respective figures for 2005 being \$3.1 billion ASEAN investment in China and \$158 million Chinese investment in ASEAN. China may narrow the gap, especially with investment in infrastructure and resource extraction projects. Premier Wen pledged that by the end of the year China would provide \$5 billion in preferential loans to Chinese companies setting up businesses in Southeast Asia.

Premier Wen also called for China and ASEAN to expand military dialogue and exchanges and to conduct institutionalized defense cooperation. He suggested greater China-ASEAN cooperation in areas of counterterrorism, maritime security, humanitarian and disaster relief, transnational crime, and the spread of infectious diseases. At the Nanning summit, ASEAN and China agreed to coordinate customs and quarantine measures, establish data-sharing networks on epidemics, and share related technology and training. Premier Wen also reiterated China's support for ASEAN's 1995 Treaty on the Southeast Asian Nuclear Weapons Free Zone. On territorial disputes in the South China Sea, the Chinese and ASEAN leaders pledged to continue to implement the 2002 "Declaration on the Conduct of Parties in the South China Sea," and to promote joint economic development in the South China Sea.

Western and Southeast Asia media commentaries focused on the implications of China's growing Southeast Asian relationships for the United States and other powers in the region – topics that were not dealt with in official Chinese media coverage. *The New York Times* published in September a long assessment about Chinese aid and loan practices among poorer Southeast Asian countries and how they undermined U.S. and Western efforts to condition assistance in order to curb corruption and promote good governance.

At the time of the Nanning summit, Singapore's *Strait Times* highlighted what it saw as China's interest in building close relations with Southeast Asian neighbors in order "to play a growing role in the international arena," and to make it more "difficult for the United States to seek to contain China by drawing the region's countries to its side." The *Straits Times* also published an assessment by Institute for Southeast Asia Fellow Sheng Lijun arguing that China's gains in Southeast Asia "remain far from transforming the regional strategic balance." Among salient reasons, Sheng cited very low Chinese investment and aid to Southeast Asia when compared to U.S. and other foreign investors and donors; the fact that most Chinese trade with ASEAN is conducted not by Chinese-owned companies but by foreign companies in China and Southeast Asia, resulting in large processing trade that along with an active China-Singapore entrepot trade leads to serious double counting and exaggerations in Chinese-ASEAN trade figures; and the fact that China and ASEAN enterprises continue to compete head-to-head for the U.S. and other export markets.

Hu Jintao visits Vietnam, Laos, and Hanoi

Chinese President Hu Jintao began a four-nation trip to Southeast and South Asia with a stop in the Vietnamese city Danang on Nov. 15. Hu met with top Vietnamese party and state leaders in Hanoi Nov. 16 and signed a dozen agreements on issues ranging from economic development to joint exploration in the Beibu Bay that borders both countries. The visit supported a pattern of frequent top-level Sino-Vietnamese leaders meetings which included most recently a visit by the Vietnamese Party leader to China in August 2006 and a visit by Hu to Hanoi in October 2005.

The Chinese president urged efforts to elevate the Sino-Vietnamese economic relationship to a higher level as Vietnam joins the World Trade Organization. He proposed speeding up negotiations facilitating trade in goods and services and investment in the China-ASEAN Free Trade Agreement. Official Chinese media said trade between the two countries amounted to more than \$8 billion in January-September 2006, making China Vietnam's second largest trading partner after the European Union, and the largest exporter to the country. The media predicted that trade would reach \$10 billion in 2006, reaching a goal set by the two governments four years ahead of schedule.

President Hu and Vietnamese leaders also called for good planning and execution of the strategy known as "the two corridors and one circle." This refers to the economic belts stretching from China's Yunnan Province to Hanoi, and from China's Guangxi Province to Hanoi, while the circle refers to the economic area involved with the Beibu Bay. The

two countries signed a memorandum of understanding on cooperation over this strategy during Hu's visit.

On border issues, Hu urged speeding up the land demarcation process. The two sides recently agreed to accelerate the installation of border markers under an agreement signed last year on completing the demarcation of the land boundary by 2008. Regarding territorial disputes in the South China Sea, Hu urged adherence to the principle of "being fair and rational, and making mutual accommodation," while the Vietnamese Party leader said the two countries should resolve border and territorial disputes through friendly consultation.

President Hu visited Laos on Nov. 19-20 where he consulted top Laotian party and government leaders. In November 2000, President Jiang Zemin made a state visit to Laos, the first by a Chinese head of state. The Laotian president visited China in June 2006. A joint statement issued on Nov. 20 said that the two sides agreed to push their good neighborly relations to a new phase. Based on common views of regional and international developments and their mutual interests, the leaders of the two countries agreed to expand high-level visits and cooperation in many areas including national security, education, health, sports, and tourism. They agreed to advance economic and trade cooperation. Sino-Laotian trade was valued at \$129 million in 2005 and amounted to \$89 million in the period January-May 2006.

Asia Pacific Economic Cooperation

President Hu participated actively in the 14th Leaders Meeting of the Asia-Pacific Economic Cooperation (APEC) in Hanoi Nov. 18-19. The meeting focused on a broad agenda including the North Korean nuclear issue, support for the Doha round of global trade talks, Asia-Pacific regional economic integration, energy security, terrorism, and infectious diseases. Hu met for over an hour with President Bush and also met with many of the other senior leaders attending the gathering.

A highlight of official Chinese media coverage of Hu's activities related to the APEC gathering was an account of remarks the Chinese president made to the APEC CEO summit Nov. 17. Stressing China's overall emphasis on building a "harmonious world of enduring peace and common prosperity," Hu urged business leaders to give more attention to exploring business opportunities and expanding market share in developing countries left behind in global economic development. He highlighted a need for more official development assistance "with no strings attached" to developing countries, noting that some of these countries have not gained their "fair share of the benefits from economic globalization." He also stressed China's strong interest in closer economic integration with the Asia-Pacific countries and with international markets more broadly.

Hu went on to explain "pressing issues" in China's economic development, highlighting a variety of "structural imbalances and inefficient modes of production." Addressing these issues by pursuing a "scientific outlook on development that puts people first and

aims at comprehensive development,” Hu enumerated four goals of his administration for China’s development:

- Speeding up economic restructuring and transforming the pattern of economic growth.
- Building new socialist villages to break down barriers between urban and rural areas.
- Promoting balanced regional development, notably by giving more support to poorer regions.
- Building a harmonious society that Hu saw as consistent with a “defining value of Chinese civilization.”

China’s military developments

At the China-ASEAN summit, Premier Wen Jiabao’s call for China and ASEAN to expand military dialogue and exchanges and conduct institutionalized defense cooperation was widely publicized abroad. It prompted a cautionary reaction from the U.S. State Department spokesman Oct. 30 that Chinese engagement on security issues “can be a positive step, so long as it is done in an open and nonexclusionary manner.”

This quarter saw frequent meetings between middle to senior ranking officials from the Chinese People’s Liberation Army (PLA) with counterparts from the Philippines, Cambodia, Laos, Myanmar, Thailand, and Vietnam. Most of the discussions emphasized the need to enhance military relations between China and Southeast Asia in the following functional areas: training of military personnel, coordinating emergency response mechanisms to natural disasters and public health-related issues, and combating cross-border crime.

There was no official reaction to a report in the PRC-controlled newspaper in Hong Kong *Wen Wei Po* Oct. 28 that cited a responsible official affirming that China will gradually “possess capabilities” for manufacturing aircraft carriers. The report went on to recall an interview the paper had in March with Lt. Gen. Wang Zhiyuan (*Comparative Connections*, Vol. 8, No. 1, April 2006, p. 75) who disclosed China’s determination to build an aircraft carrier fleet, and that “China has already manufactured, or has been manufacturing, its-deck-landing aircraft and affiliated naval vessels,” according to *Wen Wei Po*. The October report seemed to add to the authoritativeness of Lt. Gen. Wang by disclosing that he is the son of Wang Daohan, a recently deceased prominent party leader from Shanghai who was known as a mentor to former President Jiang Zemin and served as China’s leading envoy on Taiwan affairs. Meanwhile, there was no evident reaction by the U.S. or other regional powers to Russian, Taiwan, and Japanese media reports in October and November that China was purchasing and was seeking rights to produce in China Russian *SU-33* carrier-launched aircraft.

Assessing the implications of China's rise

Specialists and commentators this quarter continued to go beyond the headlines and press releases of the numerous Chinese-Southeast Asian meetings and probe data on China's growing relationships with Southeast Asia and what they mean for regional dynamics and the positions of the U.S. and other powers concerned with Southeast Asian developments. A three-day international meeting of 60 regional specialists sponsored by the Stanley Foundation outside Washington, D.C. in October focused on "Shifting Dynamics of Power in Southeast Asia: Implications for U.S. Policy" and arrived at a number of findings relevant to China's role and its regional implications. Scholarly assessments by regional specialists John Ravenhill and Marvin Ott added important insights to ongoing assessments of China-Southeast Asia relations, while Donald Weatherbee's article in the annual *Strategic Asia* volume produced by the National Bureau of Asian Research provided what appears to be, up to this point, the most comprehensive assessment of the importance of China's rise for the U.S. position and broader regional dynamics in Southeast Asia.

Stanley Foundation findings

The four workshops and plenary meetings of the Stanley Foundation gathering were followed by a public briefing of the findings in Washington and publication of policy memos and reports. The specialists saw competition between and among China, the U.S., and other powers for advantage and influence in the region. They advised that the U.S. economic importance for the region appeared to be diminished somewhat as China's trade with Southeast Asia grew rapidly, but they saw little substantive fallout for the U.S. and its interests in the region from China's growing interaction with Southeast Asia.

U.S. core interests were seen to center on protection of sea lanes and economic access, promoting U.S. trade and investment, and combating terrorism; these were not seen as adversely affected by China's rise. While Southeast Asian states increasingly saw China as a constructive and responsible actor, they also were concerned about possible future Chinese assertive behavior. Thus, most of these governments were seen as hedging and as welcoming U.S. engagement in the region. Japan, Australia, and India provided additional hedging options. As in the recent past, no Southeast Asian state wanted to be drawn into an attempt to contain China; the Southeast Asian states were seen to avoid being put in a position where they have to choose between China and the U.S.

China's recent approach to ASEAN and the Southeast Asian governments seemed to fit well with ASEAN supported principles emphasizing dialogue, inclusiveness, and patience, with decisions resting on a gradual process that is comfortable for all concerned parties and that respected the primacy of noninterference in internal affairs and agreement by consensus. These priorities fit well with China's emphasis on the Five Principles of Peaceful Coexistence, support for greater democracy in international decision making, and respect for diversity of civilizations in world politics.

According to China experts at the gathering, there was debate in Beijing regarding how active China should be in promoting its values and priorities that seemed generally in line with the so-called ASEAN way. Part of the problem was said to be pressures the Chinese leadership was feeling from the U.S., Japan, Western powers, and international financial institutions to do more to abide by international norms they support regarding good governance, and sustainable and environmentally less damaging economic development. The Chinese leaders wanted to be seen as a responsible actor in world affairs while China pursued its growing economic and other interests in Southeast Asia.

Some of the China experts averred that Beijing sought closer cooperation and partnership with the U.S. in dealing with Southeast Asian development. Japan seemed to be placed in a different category, as the specialists at the Stanley Foundation gathering assessed that China's rise in Southeast Asia was undermining Japan's position in the region and that the two powers were showing signs of rivalry in trying to influence in the East Asia Summit and other forums. Some of the China specialists were frank in acknowledging that China was more interested in ASEAN Plus Three than the East Asia Summit as a main venue for Chinese regional policy. They averred that ASEAN "was not equipped to deal with North Korea" and they judged that the ASEAN Regional Forum was not appropriate for dealing with the North Korean nuclear issue, which should be handled by the major powers in the Six-Party Talks and a Northeast Asia security framework that China hopes will evolve from those talks.

Scholars' assessments

John Ravenhill's detailed analysis in *Asian Survey* (46:5) shows that conventional assessments of the negative implications of Chinese economic competition with ASEAN countries are overstated in two important ways. In the area of foreign direct investment (FDI), Ravenhill calculates a consistent overvaluation of FDI into China in available data, while ASEAN's performance on FDI is actually better than it appears on account of large stocks of investment already there. On trade, Ravenhill shows that ASEAN manufacturers have adjusted to competition with China for exports of finished goods to the U.S. and Japanese markets by increasing their exports of components to assembly plants in China for export to these markets.

Marvin Ott in the U.S. National Defense University's *Strategic Forum* (No. 222, October 2006) warns U.S. defense and foreign policy planners that history, realism, and Chinese practices show that despite declarations to the contrary, China will seek dominance in Southeast Asia that marginalizes the U.S. and neutralizes Japan. The challenge for U.S. policy is to come up with a comprehensive security strategy that deals with two main challenges in the region, the terrorist threat and China's challenge. Ott argues for a carefully nuanced U.S. approach on China that continues cooperation while broadening a variety of hedging initiatives to preserve and strengthen the U.S. position in Southeast Asia in the face of China's rise.

Donald Weatherbee's detailed analysis in *Strategic Asia 2006-2007* strongly contradicts prevailing assessments that China's rise in Southeast Asia reflects the emergence of a China-centric order and the decline of U.S. influence. While acknowledging the advances in Chinese economic and diplomatic relations with the region, Weatherbee makes clear that what he calls the China "dazzle" in no way undermines the fact that ASEAN's economic ties to the United States, Japan, and the European Union in sum "far outweigh" those of China. China's rapidly growing trade will soon surpass that of the U.S., ASEAN's leading trading partner, but Chinese investment and aid in the region are very small in comparison to that of developed countries, with the U.S. in the top position in both categories. The U.S., Japan, and other powers are seen as playing catch up in response to recent Chinese diplomatic and economic initiatives in Southeast Asia. Weatherbee shows these powers' efforts are encouraged by regional governments that seek to create a "hub and spoke" system of multiple ASEAN Plus One connections in which both Washington and Beijing are important in a regional distribution of power that can promote the interests of China, the U.S., and ASEAN.

The assessment goes on to show the variety of U.S. government and nongovernment connections and initiatives with ASEAN and its major members to conclude that the U.S. economic position in the region "is stronger than ever before," and that "even as China has risen, the U.S. has advanced as well." Weatherbee highlights a wide range of U.S. government economic and political initiatives under the rubric of the ASEAN-U.S. Enhanced Partnership that are strongly reinforced by even more active security ties between the U.S. and the major ASEAN states, concluding that China's rise "has had no perceptible negative impact" on the predominant U.S. security role in the region. Judging that U.S. economic and security relations with the region are strong and stable in the face of China's rise, the author recommends greater U.S. flexibility in dealing with human rights issues, Myanmar, and ASEAN's Treaty on Amity and Cooperation in order to improve the U.S. political profile in Southeast Asia.

Outlook

The winter quarter generally sees a decline in visits to Beijing on account of weather and Chinese New Year celebrations. The National People's Congress session in March may provide further clarification of what the Hu Jintao administration's emphasis on a "harmonious" world order actually means for Southeast Asia. Chinese trade and foreign investment figures issued in January should provide concrete markers of China's increasing economic role in the region.

Chronology of China-Southeast Asian Relations October-December 2006

Oct. 2, 2006: Representatives from the National Defense and the Health Ministry of China, Vietnam, and the Philippines attend a two-day workshop in Ho Chi Minh City to assess the region's emergency management information systems (EMIS). Organized by the World Health Organization, the workshop helps coordinate monitoring and sharing of public health-related data, steps that are critical for dealing with health emergencies.

Oct. 5, 2006: Chinese Ambassador to Thailand Zhang Jiuhan meets Acting Thai Foreign Minister Krit Garnjana-Goonchorn, extending Beijing's formal congratulatory message to the new, provisional government in Bangkok. Both sides reaffirm the 31-year long Sino-Thai relationship and seek to strengthen political and economic ties.

Oct. 7, 2006: Chinese Minister of Commerce Bo Xilai attends the eighth meeting of the Joint Commission on Economic, Trade, and Technical Cooperation in Bali, Indonesia. Bo and his Indonesian counterpart sign several economic and trade cooperation agreements. Bilateral trade surged to nearly \$17 billion in 2005 and could reach the target of \$30 billion by 2010 with more balanced two-way investment.

Oct. 10, 2006: Chinese Vice FM Wu Dawei meets counterparts from Vietnam and Laos to sign an agreement defining the intersection point of the three countries' borders. The border demarcation process began in 1991.

Oct. 10, 2006: Chinese Defense Minister Cao Gangchuan meets visiting Philippine Undersecretary of the Department of National Defense Antonio Santos. They agree to foster closer strategic relations, including closer exchanges between the two militaries.

Oct. 12, 2006: Chinese Minister of Public Security Zhou Yongkang holds talks with Vietnamese Minister of Public Security Le Hong Anh in Beijing. The two ministries will step up bilateral cooperation to combat illegal immigration and cross-border crimes.

Oct. 16, 2006: China and Cambodia pledge closer relations between the two militaries during a meeting between visiting Chief of the General Staff of the Chinese People's Liberation Army Gen. Liang Guanglie and Cambodian Deputy Prime Minister and Co-Minister of Defense Tea Banh. Banh acknowledges China's long-standing support for Cambodia's military forces and seeks continued assistance from the PLA in terms of staff training, military trade, and logistics donation.

Oct. 18, 2006: Continuing his Southeast Asian tour, Gen. Liang visits Vientiane and meets Laotian Prime Minister Bouason Boupphavan. Both sides agree to further enhance exchanges and cooperation between the PLA and the Lao People's Army.

Oct. 19, 2006: More than 1,000 guests representing over 300 businesses from Vietnam and China attend the sixth China-Vietnam Border Trade Conference in He Khou, China's Yunnan Province. The conference theme addresses the issue of closer border trade, investment, and joint economic development along the border.

Oct. 23, 2006: Gen. Liang visits Myanmar's new capital city Nay Pyi Taw as his final stop on his Southeast Asian tour, and meets Myanmar's top leader, Gen. Than Shwe and discusses military ties between the two countries. China is one of Myanmar's closest allies and has helped with the construction of naval bases in the Bay of Bengal and the Adaman Sea.

Oct. 24, 2006: China announces that it will provide nearly \$200 million in preferential loans to help develop and improve Cambodia's transportation infrastructures, including national roads and bridges across the Mekong River and the Tonle Sap River. The agreement will be carried out in two phases with construction oversight managed by the Cambodian Ministry of Public Works and Transportation.

Oct. 27, 2006: China and Singapore hold their first bilateral talks on the establishment of a free trade area (FTA). The two sides discuss the mechanism, range, and timetable of the FTA talks. Singapore is China's biggest trading partner in ASEAN, and the establishment of the FTA will further promote bilateral trade and economic ties.

Oct. 28, 2006: Visiting Indonesian President Susilo Bambang Yudhoyono meets Chinese Vice Premier Huang Ju for the second Sino-Indonesian Energy Forum in Shanghai. China and Indonesia sign a MOU on energy cooperation and the two countries agree that, beginning in 2009, Indonesia's Tangguh gas field will provide 2.6 million tons of liquefied natural gas (LNG) annually to China's Fujian Province for 25 years.

Oct. 30, 2006: Chinese Premier Wen Jiabao hosts the 15th China-ASEAN Commemorative Summit in Nanning. The discussions focus on the progress made on the China-ASEAN Free Trade Area, which will come into full effect by 2010 between China and six ASEAN member countries. The parties also pledge to work closely on an array of issues including agriculture, Mekong River Basin development, energy cooperation, tourism, and public health. The third China-ASEAN Expo and the China-ASEAN Business and Investment Summit are also being held on the sidelines.

Nov. 10, 2006: Singapore's Permanent Secretary of the Ministry of National Development Tan Tee How leads a Singaporean delegation to China and meets the head of the Organization Department of the Communist Party He Guoqiang. The visit is part of an effort to increase collaboration on personnel training and to better understand the development models in Chinese cities such as Beijing, Shanghai, and Tianjin.

Nov. 17-19, 2006: Chinese President Hu Jintao attends 14th Asian Pacific Economic Cooperation (APEC) Summit in Hanoi, Vietnam.

Nov. 20, 2006: President Hu visits Laos and meets Lao President Choummaly Sayasone. They agree to expand bilateral trade and deepen cooperation. According to Chinese sources, 2005 bilateral trade volume reached \$129 million, a 14 percent increase from 2004. From January to May 2006, trade volume stood at \$89 million, a year-on-year growth of 106.3 percent. China agrees to provide Laos with economic assistance, jointly develop Laos' infrastructure and communications system, and broaden commercial ties through China's southern Yunnan Province and northern Laos.

Nov. 22, 2006: China's Assistant Minister of Commerce Chen Jian visits Myanmar and signs several agreements on economic and technical cooperation. Both sides agree to step up cooperation in trade, timber, and mining. China also agrees to grant partial debt relief of \$30 million and provide an additional \$38 million of low-interest loans to Myanmar.

Nov. 24, 2006: China and Vietnam ink deals to jointly develop oil and natural gas in the Gulf of Tonkin. The Chinese National Offshore Oil Company agrees to conduct geological surveys in early 2007 in a designated area that covered both Chinese and Vietnamese waters. The China Southern Power Grid Corporation signs a memorandum of understanding earlier with Vietnam's Ministry of Industry to construct a thermal power project with two 600-megawatt generation units.

Nov. 29, 2006: China and the Philippines agree to strengthen bilateral press exchanges following a meeting between Liu Yunshan, head of the Publicity Department of the Communist Party of China Central Committee, and a press delegation from the Philippines led by Ignacio Bunye, the country's Secretary of Press.

Dec. 5, 2006: The Chinese Ministry of Foreign Affairs announces that it will provide \$200,000 in aid to typhoon-ravaged Philippines. Typhoon Durian has caused widespread damage, including 1,000 people dead or missing, in the north-central province of Albay.

Dec. 7, 2006: China agrees to provide Myanmar with satellite images to help monitor opium fields in the Kachin and Shan States, both bordering China's Yunnan Province. The cooperation comes under an agreement concluded in May 2006 between China's National Drug Abuse Control Commission and Myanmar's Home Affairs Ministry.

Dec. 9, 2006: Chinese Minister of Commerce Bo Xilai and economic and trade ministers from ASEAN sign two protocols to further economic cooperation between China and ASEAN. The protocols will help to smooth the implementation of the China-ASEAN agreement on trade in goods of the free trade area that will be launched in 2010.

Dec. 14, 2006: At the invitation of the Malaysian Parliament, Vice Chairman of the National Committee of the Chinese People's Political Consultative Conference Li Guixian meets Malaysian Senate President Abdul Hamid bin Pawanteh and Malaysian Deputy Senate President Wong Foon Meng.

Dec. 16, 2006: China participates in a regional conference held at the sidelines of the “Better Air Quality 2006 Workshop” in Yogyakarta province, Indonesia. The representatives of 20 Asian governments attending agree to support initiatives to improve air quality.

Dec. 19, 2006: A Myanmar-China annual border trade exhibition opens at Myanmar’s largest border trade zone of Muse. The joint committee meeting for Myanmar-China border trade, signing ceremony on bilateral trade, and a talk on rules and regulations of investment at the Muse trade zone will also be held over the trade exhibition. The Chinese Customs Department indicates that China-Myanmar bilateral trade in the first half of 2006 amounted to \$662 million, a 10.8 percent increase from 2005.

Dec. 22, 2006: The *Straits Times* reports that China cut foreign aid for Vietnam because Vietnam did not follow China’s advice to downgrade Taiwan’s presence at the Nov. 2006 APEC leaders meeting.

Dec. 24, 2006: UN General Assembly adopts a resolution denouncing human rights violations in Myanmar. It calls on Myanmar’s regime to “end the systematic violations of human rights and fundamental freedoms,” particularly against the Karen ethnic minority. China, Russia, and several other Southeast Asian countries vote against the non-binding resolution.

Dec. 26, 2006: Chinese and Philippine anti-drug cooperation achieve a major breakthrough with the crackdown of a large international drug producing and trafficking ring. Some 15 suspects in China and five in the Philippines have been captured smuggling one ton of ephedrine and 350 kilograms of crystallized methamphetamine. The two countries’ police forces established a joint detective unit in July 2006.

Dec. 27, 2006: Charge d’Affaires of the Chinese Embassy Duan Jinzhu signs agreement with Cambodian Minister of Economy and Finance Keat Chhun indicating that the Chinese government will provide an interest-free loan of \$12.5 million to Cambodia in the next five years to implement the projects agreed upon by both sides. Details of the projects have yet to be disclosed. Beijing maintains that it will continue to provide assistance to Cambodia without preconditions.



**China-Taiwan Relations:
Continuing to Inch Forward**

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As the year ends, cross-Strait tensions remain remarkably low. This is so despite President Chen Shui-bian's continuing efforts to promote his Taiwanese nationalist agenda in ways that could threaten cross-Strait stability. However, as Chen is a seriously wounded lame duck, his influence is declining and his initiatives are often just rhetorical flourishes. Despite President Chen's restrictive approach to cross-Strait economic ties, his administration finally approved some long-pending proposals for high-tech investments in China. Beijing continues to pursue President Hu Jintao's policy of positive outreach to Taiwan. Discreet talks between designated associations have reportedly neared agreement on arrangements for Chinese tourism to Taiwan. Progress was made toward breaking the deadlock over arms procurement, with hope that some initial appropriations may be approved by the Legislative Yuan early in the new year. If any progress is to be made on functional issues next year, it will have to occur early before the sides become engaged in preparations for the 17th Chinese Communist Party (CCP) Congress and Taiwan's elections.

DPP postpones releasing draft constitution

As the last quarter ended, President Chen was pressing the Democratic Progressive Party (DPP) to issue a draft of a new constitution that would include a redefinition of Taiwan's territory. Even though there was no consensus in society on such sovereignty-related issues, Chen argued that the party should use the draft to lay out its long-term vision for the future as a means of mobilizing support for a new constitution. DPP Secretary General Yu Shyi-kun told the press that three drafts reflecting different approaches on the sovereignty related issues were under discussion.

However, when the DPP Central Executive Committee met Oct. 4 to approve a draft for a new constitution, the committee decided to postpone issuing its draft and to refer the sovereignty issues for further study. Reportedly, Premier Su Tseng-chang and former Premier Hsieh Chang-ting were among those who supported this more cautious approach. After the meeting, Su told the press that it would be important to take into account the views of allies and the past commitments made by the president, presumably a reference to President Chen's statement in his second inaugural address that sovereignty issues would not be addressed in the process of constitutional re-engineering. Hsieh pointed out that as the threshold for constitutional amendments was high; a wide range of opinions

would have to be taken into account. After the October meeting, the party's attention shifted to the mayoral election campaign and no further action has been taken on constitutional reform.

Chen's inability to get his way on the draft constitution is a sign of his waning influence as a lame duck leader plagued by scandals among his family and close political associates. While his influence is reduced, Chen's desire to promote constitutional change and a stronger Taiwan identity remains. At a birthday celebration for long-time independence advocate Koo Kuan-min, Chen said that the idea of freezing the current constitution and writing a new constitution for a "second republic" was something that should be considered. Some observers believed this was only Chen being polite to Koo who had long advocated this idea. Then in a Nov. 2 *Financial Times* interview, Chen Shui-bian endorsed the idea again, arguing that freezing the current constitution would maintain the link to China so that redefining the territory of a second republic would not be so provocative to Beijing. In his campaign appearances in Kaohsiung, Chen repeated his earlier advocacy of applying for UN membership as "Taiwan," expressed support for the idea of moving the capital to southern Taiwan and promised to move his residence to Kaohsiung if the DPP won the election. While Chen has less ability to implement policies, his Taiwanese nationalistic rhetoric appeals to the DPP's base and continues to raise concerns in Beijing and Washington.

Functional issues

Despite President Chen's political difficulties, talks on arrangements for Chinese tourism to Taiwan took place during the fall between China's Cross-Strait Travel Exchange Association and Taipei's Taiwan Strait Travel and Tourism Association. In November, the vice director of the Tourism Administration of China led a delegation of 500 persons from China, including a dozen officials, to the Taiwan Tourism Fair in Taipei. Sources on both sides have indicated that by late November agreement had been reached on the technical aspects. In November, Beijing announced the list of Chinese travel agencies that would handle tours to Taiwan. After the Taiwan mayoral elections, the Mainland Affairs Council (MAC) again expressed the hope that arrangements could be finalized by the end of the year. While the year ended without any announcements being made, it still appears that Chinese tourism to Taiwan could begin early in the new year.

In December, both Taipei and Beijing made announcements concerning arrangements that had been worked out for Spring Festival/Chinese New Year's charter flights in 2007. This indicates that the New Year's charters have now become routine. Also in December, Perng Fai-nan, the governor of the Bank of China, told the Legislative Yuan (LY) that, in light of the expansion of cross-Strait contacts, the time had come to legalize the exchange of renminbi (RMB) throughout Taiwan. Subsequently, Premier Su instructed the MAC to coordinate arrangements for RMB exchange.

Beijing outreach to Taiwan continues

While working of these functional issues indirectly with Taipei, Beijing continued its outreach programs and its party-to-party cooperation with the opposition KMT. In mid-October, the KMT and Chinese Communist Party (CCP) co-sponsored an Agricultural Forum in Hainan to promote cross-Strait agricultural cooperation. To underline the importance Beijing placed on such cooperation, both Politburo Standing Committee Member Jia Qinglin and State Counselor Wu Yi attended. The forum produced a list of measures that would be taken to facilitate agricultural trade and investment. Shortly after the forum at a time when a glut of bananas had driven down market prices in Taiwan, Beijing announced that it would buy a significant quantity of bananas from Taiwan.

In November, Beijing unveiled a new program to provide scholarships to students from Taiwan, Hong Kong, and Macau beginning in 2007. In December, Beijing announced that entry procedures for people from Taiwan would be simplified in the new year and relaxed the rules on Taiwanese journalists reporting on the 2008 Olympics.

Taipei approves some China investments

Taiwan ministries dealing with economic affairs have been working quietly to ease restrictions on Taiwanese investments in China. In November, Vice Minister of Economic Affairs (MOEA) Shih Yen-hsiang indicated that the government was considering easing existing restrictions. The Nov. 24 announcement by the Carlyle Group of its intention to buy out Advanced Semiconductor Engineering (ASE) caught many by surprise and gave this review process a needed jolt. Many interpreted the buy-out offer as a way for ASE to turn itself into a U.S. company in order to avoid Taiwan government restrictions on investing in the PRC. The following Monday a group of legislators including at least one from the DPP introduced a bill to raise the ceiling on the percent of capital that Taiwan firms can invest in China. The next day, MOEA Minister Chen Ruey-long said the government supported some easing of the ceiling.

On Dec. 14, the government finally announced new policy approval procedures for major investments in China which were designed to implement President Chen's "active management, effective opening" policy announced in January. On Dec. 18, an inter-ministerial meeting chaired by Minister Chen gave approval to three long-pending high-tech investments in China. The meeting brought together officials from MOEA, the National Science Council, the Financial Supervisory Commission, the Council for Economic Planning and Development, and the MAC – all organizations that favor facilitating well-conceived investments in China. Two of the projects involved the transfer of eight-inch wafer fabrication plants using 0.25 micron technology to China by Powerchip Semiconductor Corporation and ProMOS Technology, both of which had filed their applications two years earlier. Not surprisingly, the third approval was for ASE to purchase GAPT Inc, a PRC chip packaging and testing firm. On May 27, Taipei had said investments by chip packaging and testing firms could be approved. However, none of the pending applications for such investments had been acted upon. The Carlyle Groups buyout plans jarred loose approval for an investment by ASE.

On Dec. 29, Taipei gave policy approval for Taiwan firms to transfer 0.18 micron chip making technology to their fab plants in China. In making the announcement, MOEA Minister Chen noted that transfer of 0.18 micron technology to China has been approved under the Wassenaar Arrangement in 2004 and that plants in Taiwan were now using 0.09 and 0.065 micron technology.

Taiwan's defense procurement

The more than two-year struggle over the special arms procurement budget appears to be coming to a partial conclusion. In October, a tacit agreement was worked out between Defense Minister Lee Jye and pan-Blue legislators. Under this agreement, the administration would withdraw the modified special procurement budget. In return, the legislators agreed that they would then approve a package of initial spending for procurement submitted in a supplemental 2006 defense budget and in the regular 2007 defense budget. This package would include funds for a study on the need for submarines, for purchase of *P-3* maritime patrol aircraft, for upgrading existing *PAC-II* anti-missile systems and for first steps toward procurement of *F-16C/D* aircraft. The administration did withdraw the special budget, but the Peoples First Party (PFP) legislators balked saying they would not act until the public prosecutor had issued indictments in the case involving the presidential office's special fund for state affairs. Once again, partisan politics had prevented action on a national security issue.

Nevertheless, KMT Chairman Ma Ying-jeou said the party was committed to passing the package by the end of this legislative session on Jan. 19. In November, the LY's Defense Committee did act on parts of the package contained in the 2007 defense budget. Despite this hopeful sign, pan-Blue legislators continued to block consideration of the 2006 supplemental defense budget. The withdrawal of PFP Chairman Soong Chu-yu from politics and the near collapse of the PFP have helped ease the way for action on arms procurement. On Dec. 29, the LY voted to refer the 2006 Defense Supplemental to the Defense Committee for consideration – an important step toward possible LY action on the package. KMT, DPP, and TSU legislators combined to support the referral over PFP opposition. However, under the LY's complex procedural rules, there is no certainty the package will be passed by the end of the LY session.

Implications of the mayoral elections

The KMT went into the December mayoral elections expecting to win in both Taipei and Kaohsiung. When the results were tabulated, the DPP won the Kaohsiung mayoral race by the narrowest of margins despite scandals that had damaged the party's image. As a wide variety of factors contributed to the DPP win, it would be wrong to read specific policy implications from the results. Nevertheless, the KMT's failure to live up to expectations has further complicated Chairman Ma Ying-jeou's efforts to consolidate control of the party. After the election, KMT members in the LY urged Ma to develop a more "nativist" profile in order to appeal to voters in southern and central Taiwan. KMT legislators, most of whom are native Taiwanese, have not been comfortable with Ma's views about eventual reunification. Some have advocated the party adopt a more neutral

position on Taiwan's future based on the idea that all options are open and that anything democratically accepted by Taiwan's people would be acceptable to the KMT.

The win in Kaohsiung has put new wind in DPP sails. Hsieh Chang-ting, the party's candidate in Taipei, made a very acceptable showing. This has boosted his opinion poll ratings. As such the DPP has two attractive potential candidates for the 2008 presidential election – Hsieh and Premier Su Tseng-chang. Although the presidential election is still 15 months away, the maneuvering for advantage is underway. With KMT Chairman Ma's poll numbers declining and new hope in the DPP camp, it would be a mistake for Beijing or others not to see that the outcome is wide open.

Looking ahead

Despite the absence of a basis for political talks between Beijing and Taipei, the small steps taken by both sides during 2006 have helped stabilize cross-Strait relations and contributed to the current environment of reduced tensions. The early part of 2007 presents a window of opportunity for some further progress on cross-Strait functional and investment-related issues. Thereafter, Beijing will be pre-occupied with preparations for the 17th CCP Congress and Taipei will be in the midst of primaries preceding the December LY elections and the March 2008 presidential election.

It seems likely that arrangements for Chinese tourism to Taiwan will be announced early in the new year. Further agreements on expanding cargo and passenger charter flights would benefit both sides. An agreement on bank regulatory cooperation is needed as a basis for approval of Taiwan bank operations in China and much further in the future for Chinese Banks in Taiwan. However, as bank regulation is a government function, an agreement on regulation presents additional procedural problems. Taiwan might approve adjustments in the ceiling on investments in China or the transfer of 0.18 micron technology. There are continuing hints that Beijing may soon approve the establishment of a Taiwan Businessman's Association in China – a step that would give the network of local Taiwan Invested Enterprise (TIE) Associations an organizational voice in Beijing. It is in such limited areas where some progress may be possible early in the new year

Chronology of China-Taiwan Relations October-December 2006

Oct. 4, 2006: DPP postpones issuing draft of new constitution.

Oct. 5, 2006: Premier Su Tseng-chang meets Taiwan investors in mainland.

Oct. 10, 2006: Taipei's Cross-Strait Tourism Association begins operation.

Oct. 13, 2006: President Chen survives second recall vote.

Oct. 15, 2006: President Chen says "second republic" deserves to be considered.

Oct. 16, 2006: *United Daily News* reports MND to establish “strategic force” with *Hsiungfeng 2E* cruise missiles on an off-shore island.

Oct. 16, 2006: KMT-CCP Agricultural Forum opens on Hainan.

Oct. 17, 2006: In LY, Premier Su discusses constitutional reform and “second republic.”

Oct. 17, 2006: At Agricultural Forum, TAO’s Chen Yunlin outlines 20 measures.

Oct. 19, 2006: Press reports preliminary LY agreement on small defense supplemental.

Oct. 21, 2006: China offers to buy Taiwan bananas to reduce glut on market.

Oct. 23, 2006: Premier Su expresses hope for progress on cross-Strait economic issues.

Oct. 23, 2006: PFP says it will block arms supplemental until prosecutor closes investigation into Fund for State Affairs; Ma regrets decision.

Oct. 23, 2006: DPP Secretary General Yu Shyi-kun leads delegation to Japan.

Oct. 26, 2006: EU Chamber “blue paper” predicts more EU firms will leave Taiwan if cross-Strait economic policies are not eased.

Oct. 27, 2006: MAC defends repatriation to Hong Kong of tourist who claimed asylum.

Oct. 30, 2006: Ma says KMT has policy of passing supplemental budget during this LY session.

Oct. 31, 2006: Pan-Blue legislators block arms supplemental for 62nd time.

Nov. 1, 2006: President Chen commissions last two *Kidd* destroyers.

Nov. 2, 2006: President Chen’s *Financial Times* interview.

Nov. 3, 2006: Vice Director Zhang Siqin of China National Tourism Administration and 500 others arrive for Taiwan Tourism Fair.

Nov. 3, 2006: Forum for China-Africa Cooperation opens in Beijing.

Nov. 3, 2006: Prosecutor indicts First lady Wu Shu-chen on corruption and forgery.

Nov. 5, 2006: In press conference, President Chen proclaims his innocence.

Nov. 7, 2006: China announces new scholarship program for Taiwan students in 2007.

Nov. 8, 2006: High-level Chinese airline delegation arrives in Taiwan.

Nov. 10, 2006: MND Minister Lee says naval group in U.S. to discuss submarines.

Nov. 13, 2006: Vice Economics Minister Shih Yen-hsiang tells LY government is considering easing rules on chip investment in PRC; stocks rise.

Nov. 14, 2006: Chinese tourism official says tourism contacts taking place in Hong Kong.

Nov. 15, 2006: At APEC, Beijing says only states can sign FTAs.

Nov. 15, 2006: MAC Chairman Wu hints at approval for 0.18 micron technology.

Nov. 15, 2006: TAO confirms arrest of two Taiwan businessmen; says Beijing considering approving a national Taiwan Invested Enterprise Association.

Nov. 18, 2006: Presidents Bush and Hu meet at APEC; discuss Taiwan. President Chen's representative Morris Chang attends APEC.

Nov. 21, 2006: AIT Director Young urges early agreement on direct flights.

Nov. 21, 2006: Morris Chang tells press of his conversations with President Bush.

Nov. 21, 2006: Former Japanese Prime Minister Mori arrives in Taipei.

Nov. 24, 2006: President Chen survives third recall motion.

Nov. 24, 2006: Carlyle Group announces bid for Advanced Semiconductor (ASE).

Nov. 26, 2006: National Taiwan University announces academic exchange program with six PRC universities.

Nov. 27, 2006: Bipartisan group of legislators proposes lifting investment cap to 60 percent.

Nov. 28, 2006: Economics Minister Steve Chen expresses support for lifting 40 percent cap on investments.

Nov. 30, 2006: *Beijing Evening News* says 15 tour agencies will handle tours to Taiwan.

Dec. 3, 2006: President Chen reiterates interest in applying to UN as Taiwan.

Dec. 5, 2006: LY committee fails to reach agreement on easing investment limits.

Dec. 6, 2006: CEPD estimates Chinese tourism will boost Taiwan GDP by 0.1 percent.

Dec. 7, 2006: AMCHAM's Topics magazine says Taiwan is becoming a "backwater."

Dec. 8, 2006: MAC Chairman Wu still hopeful tourism talks can finish this year.

Dec. 9, 2006: Taiwan mayoral elections held.

Dec. 10, 2006: Pacific Congressional Caucus inaugurated in Taipei.

Dec. 11, 2006: MAC's Tung Chen-yuan says window of opportunity in first half 2007.

Dec. 12, 2006: Taiwan Foundation for Democracy releases *2006 China Human Rights Report*.

Dec. 13, 2006: TAO releases its plan for charter flights during Spring Festival 2007.

Dec. 14, 2006: Taipei announces new approval procedures for China investments.

Dec. 15, 2006: Jia Qinglin receives KMT Youth delegation; KMT and CCP Youth Leagues hold conference in Beijing.

Dec. 15, 2006: MAC announces dates for 2007 New Year's charter flights.

Dec. 15, 2006: Nicaragua approves FTA with Taiwan.

Dec. 18, 2006: Taipei gives approval for three long-delayed China investments.

Dec. 19, 2006: DPP's Yu Shyi-kun calls for passage of Sensitive Technology Control Law.

Dec. 20, 2006: FPG gets PRC approval to build 600-megawatt thermal power plant in Henan.

Dec. 20, 2006: Taipei restricts number of residence permits for Chinese.

Dec. 20, 2006: PRC says Taiwan residents will no longer need to fill out entry cards.

Dec. 26, 2006: Taipei's Bank of China Gov. Perng advocates legalizing RMB exchange.

Dec. 27, 2006: Beijing relaxes rules for Taiwan journalists reporting on 2008 Olympics.

Dec. 29, 2006: 2006 Defense Supplemental sent to the LY Defense Committee.

Dec. 29, 2006: MAC instructed to work out RMB exchange throughout Taiwan.

Dec. 29, 2006: China publishes *2006 Defense White Paper*.



North Korea-South Korea relations
A Nuclear Rubicon or No Change?

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Events on the Korean Peninsula in the latter half of 2006 exhibited, to quote the poet William Blake, a “fearful symmetry.” Just as the third quarter had been dominated by North Korea’s July 5 launch of seven missiles, including a long-range *Taepodong-2*, so the final three months of last year were overwhelmingly focused on the momentous and baleful test-firing by the DPRK Oct. 9 of a small nuclear device.

As with the *Taepodong*, so *a fortiori* this nuclear test sent the region, the world, and especially Pyongyang’s five interlocutors in the then-stalled Six-Party Talks – the U.S., China, South Korea, Japan, and Russia – scurrying first to condemn, unanimously, and then to try to devise appropriate countermeasures. Unanimity fast evaporated as familiar policy splits persisted. While Washington and especially a newly assertive Japan sought to punish, Seoul joined Beijing and Moscow in its reluctance to press Pyongyang too hard, for instance, in searching its vessels on the high seas.

To the surprise of some, but in fact quite typically, Kim Jong-il then deigned to return to the Six-Party Talks, which met briefly in mid-December after a hiatus of over a year. No progress was made, and at this writing no date to resume has been fixed. As a new year dawned, with Pyongyang boasting of its new nuclear status – and amid reports that it might be preparing a second nuclear test – it was hard to see a way forward on this crucial issue, despite hopes that the Six-Party Talks would reconvene ere long.

A lame duck’s dilemma

For South Korea this poses an especially acute dilemma. President Roh Moo-hyun, a lame duck already in his final year of office, is under pressure to rethink the Sunshine Policy of engagement with Pyongyang which has guided Seoul’s *nordpolitik* since his predecessor Kim Dae-jung launched it in 1998. The conservative opposition Grand National Party (GNP), currently far ahead in the polls to return to power in the presidential and parliamentary elections due respectively in December 2007 and April 2008, while not anti-engagement is demanding more conditionality and reciprocity. In similar vein, Washington now looks even more askance at two crossborder projects – tourism to Mt. Kumgang and the industrial park at Kaesong – which it sees as filling Kim Jong-il’s coffers. Yet all signs, including a new and even more doveish minister of unification, are that at least for this year Seoul will stick to Sunshine regardless.

A fateful Rubicon

October 2006 will go down as a fateful Rubicon in North Korean history, and more widely. Continuing what in retrospect was a clear theme, a change of course and a buildup ever since July's missile tests, Pyongyang in short order gave notice that it intended to conduct its first ever nuclear test – and promptly made good that threat within a week. It must now be regarded – if not remotely welcomed – as the eighth declared and (counting Israel) ninth known member state in the global nuclear club.

A cycle similar to that after the missile tests then repeated itself, with China and Russia both backing a UN Security Council resolution imposing sanctions. Yet familiar faultlines over the proper mix of stick and carrot to use continued to split Kim Jong-il's main interlocutors. The momentum for firm action soon eroded, partly because as ever it was hard to see, and impossible to agree, what measures would be effective.

North Korea threatens a nuclear test

On Oct. 3, the DPRK for the first time said explicitly that it would test a nuclear weapon. It set no date at that point; so clutching at straws still hoped that this might be a dramatic negotiating ploy, rather than a firm notice of immediate intent. The statement was issued by the Foreign Ministry rather than the armed forces ministry, and said that the “field of scientific research” would conduct the test, not the military. Despite the alarming content, the tone was mild by Pyongyang standards. In a three-part statement, while the first said there would be a test, the second and third pledged no first use, nonproliferation, and commitment to nuclear disarmament in Korea and worldwide.

The timing was mischievous, upstaging the announcement that South Korea's Foreign Minister Ban Ki-moon was to be the new UN secretary general. Ban said he will use his UN post to focus on and try to visit North Korea, as his predecessor Kofi Annan had not done for a decade. Ban, who was sworn in Dec. 14, will try to prioritize the peninsula – but he may be rebuffed. North Korea remains suspicious of the South despite eight years of the Sunshine Policy, and has mistrusted the UN ever since the 1950-53 Korean War when it fought a U.S.-led coalition assembled under the banner of the UN. UNSC condemnation and sanctioning of Pyongyang for both its missile and nuclear tests, although right and proper, will do nothing to heal this rift and mistrust.

All concerned warn Kim not to do it

North Korea's threat brought strong responses all round. Roh Moo-hyun told his Cabinet to react “hard-headedly and decisively.” In an unprecedentedly sharp public rebuke, China's UN envoy, Wang Guangya, warned that “no one is going to protect” North Korea from “serious consequences” were it to go ahead with “bad behavior.” Also sharp was Christopher Hill, assistant secretary of state and chief delegate to the Six-Party Talks (which had not met since November 2005), who said the U.S. was “not going to live with a nuclear North Korea.” Next day the White House glossed this as “not a lethal threat,” stressing that the U.S. and others are “offering carrots” if North Korea returns to talks.

Aside from persistent policy conflicts within the Bush administration over how to handle North Korea, the concern here was to backtrack and fine-tune lest the U.S. appear to be threatening military action.

Perversely, Pyongyang's timing gave added point to the new Japanese premier Abe Shinzo's already planned fence-mending visits to Beijing on Oct. 8 and Seoul the next day – when North Korea actually carried out its test. Quite why Kim Jong-il would wish to push Japan and South Korea into closer mutual cooperation is but one of the many mysteries about the Dear Leader's tactics and underlying game plan.

They did it anyway – or did they?

Ignoring all warnings, Pyongyang announced Oct. 9 that it had successfully carried out a nuclear test that day. Seismologists did indeed record a shock, but – as ever with North Korea – the menace was mixed with mystery. Air samples taken a day later reportedly contained no radioactive debris suggesting either a conventional explosion, or a lesser nuclear one than hoped – or that the site was so well sealed that no radioactive matter was released. A week later the office of the U.S. Director of National Intelligence said air samples confirmed that North Korea had conducted an underground nuclear explosion with a sub-kiloton yield: smaller even than those at Hiroshima or Nagasaki, suggesting that perhaps the test had not worked in full. South Korea and others later confirmed that the test was nuclear, but some analysts remain skeptical whether Pyongyang has proven that it possesses a working nuclear weapon.

The DPRK thus became the newest and the least welcome member of the global nuclear club. It is the eighth acknowledged nuclear weapons power, or ninth if Israel is included. This drives a coach and horses through the Nuclear Nonproliferation Treaty (NPT), which in 2003 the DPRK was the first signatory state ever to quit.

A blame game quickly began, but the plain fact is that everyone's diplomacy failed. Neither sticks nor carrots prevented this alarming outcome, with its twin risks: of sparking a regional arms race, or nuclear proliferation – which must surely be a red line, even for a U.S. administration hitherto strangely reluctant to draw one as well as incapable of hewing to a single clear and consistent policy toward North Korea.

The UNSC condemns again, this time with more teeth

Global reaction to the nuclear test largely echoed and repeated that to the DPRK's earlier missile launches, only more sharply. (The sole exception being Iran, which unsurprisingly defended Pyongyang's right to test.) Again a UNSC resolution was drafted, debated, and watered down to ensure Chinese and Russian support by removing any threat of military action, and passed unanimously Oct. 14. North Korea, predictably, repudiated this as a U.S.-led conspiracy.

Resolution 1718 contains tougher sanctions and other checks than its predecessor 1695 which followed the missile tests. As such, this bolsters the punitive approach Washington had already been pursuing since September 2005, when under U.S. pressure the Macau-based Banco Delta Asia (BDA), hitherto North Korea's main link to the global financial system, froze all its DPRK accounts. Stuart Levey, the U.S. Treasury under-secretary for terrorism and financial intelligence, had traveled widely in Asia and elsewhere during the summer, pressing countries and companies to sever financial ties with North Korea – as with Iran. This campaign paid off, with even China and Vietnam closing DPRK accounts in their banks.

UNSC sanctions include military items

Passed unanimously on Oct. 14, UNSCR 1718 included a detailed and wide-ranging list of sanctions. Naturally these began with a wide range of military items, by no means confined to WMD. The DPRK's arms sales are an important source of income for North Korea, so this may hurt if (a big if) it can be enforced. Not all of Pyongyang's customers are likely to be scrupulous about this.

Summary of key provisions of UNSCR 1718

- No sale or transfer to North Korea of military equipment and nuclear technology
- No sale or transfer of luxury goods to North Korea
- A freeze of North Korea's financial assets linked to developing weapons of mass destruction [WMD]
- Cooperative action for inspecting North Korean cargo if necessary
- No entry or transit for persons associated with WMD and their families
- Member states to report the implementation of the resolution within 30 days
- North Korea called upon to return to the six-party talks without precondition and to seek to ease nuclear tension through diplomacy
- North Korea was asked not to conduct any further nuclear tests or launch more ballistic missiles
- North Korea was asked to return to the Treaty on the NonProliferation of Nuclear Weapons
- North Korea was asked to abandon all nuclear weapons and existing nuclear programs in a complete, verifiable and irreversible manner
- North Korea was asked to abandon all other existing weapons of mass destruction and ballistic missile programs

Differences rapidly surface over cargo inspections

Interpreting and enforcing such provisions is another matter. An immediate but vital divergence arose over a clause calling for “cooperative action including ... inspection of cargo to and from the DPRK, as necessary.” The U.S. understands this as permitting challenges and inspections at sea, as already provided for under the Proliferation Security Initiative (PSI) – a 70-strong U.S.-led coalition of the willing. Others, such as Russia and China, regard such action as liable to raise tensions. China swiftly clarified (or qualified)

its position: pro-inspection, but anti-interception or interdiction. Much will hinge on such niceties, and also on how thorough China's inspections really are along its long border with North Korea. After the UNSC resolution inspectors were seen checking lorries in Dandong and other border cities, but rather perfunctorily.

Beijing and Seoul are key

To U.S. chagrin, its South Korean ally took a similar view. While the North's nuclear test provoked fresh debate in Seoul, South Korea still rejects full PSI participation. Since China is by some way North Korea's largest trade partner (at least for publicly recorded commerce), with South Korea in second place, it is these two countries' interpretation and implementation of the UNSC resolution that will be crucial. But given that both remain basically pro-engagement and wary of destabilizing Kim Jong-il's regime, it is easy to see how the brief unity achieved at the UN might start to fray into equivocation and possible recrimination.

In an early sign of difficulties ahead, U.S. Ambassador to Japan Thomas Schieffer said Oct. 16 that for North Korea to agree to return to Six-Party Talks would not suffice to get the new sanctions against it lifted. China for one is likely to take a less tough stance. Two days later, criticism in Seoul by Christopher Hill of South Korea's Mt. Kungang tourism project, which it has no plan to end, brought a testy response from Song Min-soon, the senior Blue House security adviser; Hill later partially retreated. Further such clashes are likely, the more so since shortly afterward Song was nominated as ROK foreign minister to replace Ban Ki-moon.

After a bilateral meeting between George W Bush and Roh Moo-hyun on Nov. 18, on the sidelines of the APEC (Asia-Pacific Economic Cooperation) Leaders Meeting in Hanoi, Roh confirmed that South Korea was "not taking part in the full scope" of the PSI, but insisted Seoul would "fully cooperate in preventing WMD [weapons of mass destruction] materiel transfer" in the region. Such hesitation disappoints the U.S., leaving open as it does the key question of whether South Korea would ever agree to challenge any suspect Northern vessel in or near its own waters.

Sunset for Sunshine?

South Korea, by contrast, faces a painful dilemma – and proceeded to flounder very publicly. Roh Moo-hyun – a lame duck president, whose term has barely a year to run – in July had harsher words for Japan's "fuss" over North Korea's missiles than for Pyongyang itself. In September, he reportedly assured George W Bush that any DPRK nuclear test would see the ROK shift from Sunshine to a more punitive stance.

Yet in fact Seoul was already punishing North Korea – but the people rather than the regime. Its perverse riposte to the missiles was to suspend the usual 500,000 tons of rice aid. Later it partly relented, offering 100,000 tons after the North was badly hit by floods in mid-July – only for the undelivered portion of this to be suspended after the nuclear test. But meanwhile, it continued two cross-border projects – tourism at the North's Mt.

Kumgang resort, and the nascent Kaesong industrial zone north of Seoul, where Southern firms employ Northern workers to make export goods – which earn cash for Kim Jong-il's regime. The argument is twofold: these are long-term projects for national reunification, and private sector ventures that the state cannot control. The latter is specious, as both are heavily subsidized and key tools of official policy.

Even now, after the nuclear test, both Kumgang and Kaesong look set to continue, although to conform to UNSC sanctions, Seoul will no longer subsidize the former. The conservative opposition Grand National Party (GNP) – already likely to end a decade of center-left rule in Seoul in presidential and parliamentary elections due in December 2007 and April 2008 – has called for both to be halted, and is appealing to citizens to boycott Kumgang tours. Whether that is heeded will be one barometer of South Korean opinion. Despite a poll showing that a plurality of South Koreans (40 percent) blame the U.S. for North Korea's test, there is no doubt that Sunshine has now dimmed.

Seoul cuts its aid budget to the North

On Nov. 14, a policy meeting of the ROK's unification ministry (MOU) and the ruling Uri Party tentatively agreed to cut 2007's budget for inter-Korean cooperation by 26 percent to 1.83 trillion won (\$1.95 billion). But there is less to this than meets the eye.

Rather than a reaction to the DPRK nuclear test, this mainly reflects a halving of the budget for the now defunct light-water reactor (LWR) project of the equally moribund Korean Peninsula Energy Development Organization (KEDO) consortium, from 1.25 trillion won in 2006 to 660 billion won next year; even killing off what was originally a \$4.6 billion project does not come cheap. Once this is extracted, MOU's planned spending on other projects is set to fall by a far more modest 3.5 percent, from 1.22 trillion won in 2006 to 1.18 trillion won in 2007.

While it is prudent to have funds available in case of any breakthrough, on the face of it this is hard to square with the continued suspension, reaffirmed just a day earlier as part of the ROK's response to UNSC sanctions, of joint economic and humanitarian projects until progress is made in international negotiations on dismantling North Korea's nuclear weapons program. In any case, as discussed, the two biggest such projects, Mt. Kumgang tourism and the Kaesong industrial park, will continue.

But will the punters come?

There are signs that Hyundai may struggle to maintain these two flagship projects. Tourist numbers to Mt Kumgang fell from over 300,000 in 2005 to less than 250,000 in 2006, far short of the target of 400,000. Hyundai Asan, the group's North Korea business arm, has already shed jobs and delayed payments to some employees recently. It expects to plunge into the red again after at last making a modest operating profit of 5.6 billion won (\$5 million) in 2005, following years of losses (29.04 billion won in 2001, 38.54 billion won in 2002, 57.34 billion won in 2003 and 10 billion won in 2004). Prospects for 2007 look deeply uncertain; the more so since, as part of its compliance with UNSC

sanctions (and a sop to U.S. and GNP pressure), the ROK government is withdrawing travel subsidies it has hitherto offered students and others to visit Mt. Kumgang.

Out of favor

It does not help that Hyundai is out of favor in both Korean capitals, for different reasons. A decade ago, Hyundai vied with Samsung to be Korea's largest *chaebol* (conglomerate), only to break up amid internecine strife between the several sons of its founding patriarch, northern-born Chung Ju-yung, after the latter's death in 2001.

The best bits, notably its auto and shipbuilding operations – respectively Korea's and the world's largest – are now wholly spun off, and the scions who control them are leery of North Korea, unlike their late father. Hence the remaining so-called Hyundai group is essentially a rump, and as such a possible takeover target for the thriving shipbuilder, Hyundai Heavy Industries (HHI). Continued Chung family strife on this and other fronts means that patience with Hyundai in Seoul is wearing thin.

Double-dealing by Pyongyang

In Pyongyang, meanwhile, despite receiving over a billion dollars (over and under the table) from Hyundai since 1998, Kim Jong-il has harried the group – now chaired by Hyun Jeong-eun, widow of former chairman Chung Mong-hun who killed himself in 2003 amid a probe into illicit payments to the North – since it sacked a key executive in 2004 for alleged financial malpractice. The North has partially relented, but still refuses to let Hyundai run tours to the ancient capital of Kaesong city, a major attraction close to the eponymous industrial park named after it. Instead it is offering these to a rival ROK operator, Lotte, even though in 2000 Hyundai Asan paid over \$500 million for supposedly exclusive rights in seven business projects, including the Kaesong industrial complex and tourism to Kaesong city. On this basis the unification ministry rejects the North's demands to repartner with Lotte. In reprisal, since July the DPRK has refused to let ROK visitors to the Kaesong industrial zone have a tour of the old city, which would be an easy and popular day trip from Seoul.

Such machinations, and Hyundai's fate, are a major reason (over and above nuclear shenanigans) why all other *chaebol* shun investing in North Korea, unless marginally. This crucial fact – a stark contrast to Taiwan and China – shows up the self-defeating nature of DPRK policy toward the South. Perhaps Kim Jong-il naively believed that other ROK tycoons would be as generous and gullible as the late Chung Ju-yung. But business exists to turn a profit, which entails stable ground rules and trust. So China, not North Korea, remains the major investment destination for South Korean firms.

Roh reshuffles his security team

Foreign Minister Ban Ki-moon's departure for the UN entailed a Cabinet reshuffle in Seoul, but North Korea's nuclear test made it a wider one. This was a major factor in the resignations of the ROK defense minister on Oct. 24, followed next day by Unification Minister Lee Jong-seok, seen as the cornerstone of the Sunshine Policy.

On Nov. 1, President Roh nominated a new security team, including the head of the National Intelligence Service (NIS). Defiantly in the circumstances, and ignoring the convention that the NIS head like the defense minister is someone seen as sound in security circles, Roh's new lineup was overwhelmingly doveish.

Thus the new ROK foreign minister is Song Min-soon, a career diplomat who as vice foreign minister last year negotiated the agreement on principles at the Six-Party Talks before they stalled. Roh later chose him as presidential security adviser. Not very diplomatically, Song recently told a conference that the U.S. had fought more wars than any other nation, prompting Washington to seek clarification. This choice will not make for an easy relationship between the allies.

At MOU, Lee Jong-seok is followed after just eight months in post by another Lee and another dove. Lee Jae-jeong (no relation; also rendered as Lee Jae-joung on some ROK government websites, but MOU's says -jeong) is an ordained Anglican priest, who headed a Seoul seminary before switching to politics. He was jailed but pardoned for raising illegal funds for Roh's election campaign in 2002, and latterly chaired a unification advisory body. He has no prior experience of office: he is an odd choice at such a time, especially when Roh had many experienced negotiators with Pyongyang to choose from.

Balancing these two, the new defense minister as usual came from the top brass. Kim Jang-soo, current army chief of staff, succeeds Yoon Gwang-ung, an ex-admiral who had held the post since 2004. Yoon was key to Roh's efforts to reform the military; he had just returned from annual joint security talks with the U.S. in Washington, where the atmosphere was reportedly strained.

A spook for Sunshine

Normally the NIS like the defense ministry is conservative, but its new chief is pro-Sunshine despite being the first internal appointee in the agency's history. Kim Man-bok, hitherto the agency's deputy head, was close to outgoing Unification Minister Lee Jong-seok. He replaces Kim Seung-kyu, who did not go quietly: he indirectly criticized his successor, and not denying claims by the opposition Grand National Party (GNP) that he was forced out – a charge vehemently denied by the Blue House.

Rightists suspect Kim Seung-kyu was ousted for pursuing Seoul's first espionage case in several years. Days earlier, prosecutors detained five people – including Choi Ki-yong, vice secretary general of the hard-left Democratic Labor Party (DLP), which holds 10

seats in the National Assembly – on charges of spying for North Korea. The others, all in their mid-40s, are Michael Chang, a U.S.-Korean-businessman said to be the group leader and a member of the North’s ruling Worker’s Party of Korea (WPK); Lee Jung-hoon, an ex-DLP member, 43; Sohn Chong-mok, a former student activist; and Lee Jin-gang, an employee of Chang’s firm. Eventually indicted on Dec. 8 for violating the National Security Law (but not charged with anti-state activities, a more serious crime), all five allegedly belonged to “Ilsim-hoe” or One Heart Club, which prosecutors claim is a spy organization that received orders from Pyongyang via email and passed on confidential information about South Korea. The case is ongoing.

The DLP angrily denounced this as a smear. On Oct. 31, a 13-strong party delegation went ahead with a planned visit to Pyongyang, where they met titular head of state Kim Yong-nam. They returned Nov. 4 to much criticism, mostly for not revealing (until outed by DPRK media) their visit to Mangyongdae: birthplace of and a shrine to North Korea’s founding leader Kim Il-sung. (Ironically, one of Ilsimhoe’s alleged services was to send Pyongyang a file of personal data on the DLP delegates.)

For Sunshinistas it is vital to keep such contacts open, despite (or even all the more so because of) the nuclear test. Thus Kim Yong-nam reportedly offered to resume family reunions, suspended since the North’s missile tests in July. No more has been heard of this since: as a humanitarian step it would not fall foul of UNSC sanctions, but the Roh government will perhaps weigh the signal a resumption at this time would send.

Playing politics?

The spy case is ongoing. While NIS press leaks – the notion of *sub judice* is hardly known in Seoul – suggest a strong circumstantial case, the whole affair risks being thoroughly politicized. For decades the NIS’ feared predecessor, the Korean Central Intelligence Agency (KCIA), not only caught real spies but falsely painted democrats like Kim Dae-jung as Northern agents. After nearly 20 years of democracy, cases of gross abuse are still coming to light. Many of those arraigned, jailed, and tortured under military regimes are now leading lights in Roh’s circle and the ruling Uri party from the radical so-called 386 generation (now overdue to be renamed as 486): aged in their 30s (increasingly now 40s), at college in the 1980s, and born in 1960s.

Since 1998 the Sunshine Policy has reversed the old polarities. Like the ROK armed forces, many in the NIS have chafed at having to smile at North Korea and curb their old activities and instincts. Pyongyang’s nuclear test at last made it politically feasible to swoop on the alleged DLP spies, but Kim Seung-kyu’s ouster is viewed by many as the Sunshinistas’ revenge. It remains to be seen how hard charges will now be pressed.

ROK defense white paper calls DPRK a “grave threat”

Another bone of contention in so-called “South-South conflict” has been over how to characterize the North’s military threat. Successive biennial Defense Ministry (MND) *White Papers* identified the DPRK as the ROK’s “main enemy” till 2004, when amid

protests from conservatives this phrase was replaced by “direct military threat.” MND’s 2006 *White Paper*, published Dec. 29 (an English translation is said to be due in March), amends this to “grave threat” – which an official told reporters was a heightening of the threat level, as the words alone might not have made clear.

As usual, MND spelled out its reasons. Not only North Korea’s nuclear test and its weapons of mass destruction (WMD), but its conventional forces – overwhelmingly forward deployed – are major threats to South Korea’s security. On the nuclear front, MND reckons the North made one or two atomic bombs from 10-14 kilograms of plutonium obtained before the 1994 U.S.-DPRK Agreed Framework, and presumes it extracted a further 30 kg during the current crisis between 2003-05 after reopening its Yongbyon site and expelling IAEA inspectors. However, for MND October’s test alone does not suffice to regard the DPRK as a fully fledged nuclear weapons state.

Nor are nukes all. The *White Paper* estimates that Pyongyang also possesses 2,500-5,000 tons of chemical weapons – nerve, blister, blood, and vomiting agents, plus tear gas – besides an unknown quantity of biological weapons like anthrax, smallpox, and cholera. (None of this CBW capacity has ever been on anyone’s negotiating agenda.)

As for conventional forces, 70 percent of the Korean People’s Army (KPA) ground forces are stationed near the ironically named Demilitarized Zone – the border with South Korea, still the world’s most heavily militarized frontier – thus allowing sudden raids without redeployment. These forces comprise 19 corps-level units, including four mechanized corps and a missile command. There are 3,700 tanks, 2,100 armored vehicles, 4,800 multiple rocket launchers (MLRs), 8,500 (170mm) self-propelled artillery pieces, and 3,100 pieces of river-crossing equipment such as *S-type* floating bridges. These last are said to have been augmented, and the number of MLRs has grown by 200.

On the other hand the KPA’s air and naval capabilities have decreased a little as aging weapons systems have been decommissioned, with 30 combat aircraft lost (5 through crashes), and 170 war vessels which have become patrol ships. The DPRK also has 420 warships, 60 submarines, and 260 amphibious landing ships. Around 60 percent of these naval forces are deployed near the inter-Korean border, while 40 percent of the air force’s 820 aircraft are stationed in frontline bases.

This of course is only one side of the story. For its part North Korea doubtless feels threatened by the South’s alliance with the U.S. and its now huge economic superiority, both of which give it access to high-tech weaponry for which the KPA’s quantitative lead in some areas (such as its aging fleet of *MiGs*, some half a century old) are no match. This, too, as analysts have noted, creates a grim logic where it makes sense for Kim Jong-il to pursue nuclear and other WMD simply as a force multiplier, to avoid being overwhelmed on all other fronts.

Seoul out of the loop?

Opposition obstruction meant that the new ROK foreign affairs and security team did not receive parliamentary confirmation until mid-December. Their lame duck predecessors carried on, but with Foreign Minister Ban Ki-moon in effect absent as he prepared for his weighty new role running the UN.

On top of the split with Washington over PSI, this has led many in Seoul (hawks and doves alike) to fear that South Korea is falling out of the policy loop on North Korea, as the U.S. talks more to China, a more predictable partner, and one with greater clout. With the nuclear test a rude slap in the face for the Sunshine Policy, South Koreans increasingly worry that Roh Moo-hyun's persistence with this, plus his pursuit of an "independent" security posture (whatever that might mean for a U.S. treaty ally), has in practice left South Korea adrift, mistrusted in Washington, and scorned by Pyongyang.

Striking a tougher note, on Nov. 17, South Korea for the first time backed a UN resolution condemning North Korea's human rights record. Sponsored by the EU, this passed the UN's Third Committee by 91 votes to 21, with 60 abstentions. As well as direct abuses, the resolution accused the DPRK government of responsibility through mismanagement for a dire humanitarian situation, especially infant malnutrition.

Seoul had abstained on four previous such votes. Its support this time was widely seen as linked to Ban's election as UN secretary general – and undermined by a Unification Ministry statement pleading for Pyongyang's understanding of a "painful decision." In similar vein, ex-president and Nobel peace prize laureate Kim Dae-jung, the Sunshine Policy's begetter who at 82 has re-entered public life after a period of illness, warned on Nov. 24 that pressure was not the way to change the North.

Battening down the hatches

Despite North Korea's missile and nuclear tests plus UN sanctions, South Korean NGOs continue to help their Northern brethren. One, South and North Korean Children Hand in Hand, in November sent a team for the opening of a hospital that it had sponsored in Pyongyang. The ceremony was marred by the inability to test new medical equipment, owing to one of the DPRK capital's regular electricity blackouts.

More generally and ominously, the regime seems to be readying its people for another downturn like the "march of hardship," the official term for the dire famine of the late 1980s that killed at least a million people. According to the *JoongAng Ilbo* which sent a reporter on this trip, there were "clear signs that Pyongyang viewed itself as in the midst of another ideological struggle with the outside world. Slogans boasting of the North's nuclear capability and calling on its citizens to resist the imperialist tidal wave dotted public areas, and conversations with ...officials and ordinary people took on a strident tone. Asked whether circumstances could lead to another "march of hardship," one official said: 'We are confident. Even if the pressure continues, that's not the end. There

is no other way but war then.” If such rhetoric is not unusual, the tenor of the new campaign hardly suggests a state suing for peace.

Hacks for peace

A case can be made for private humanitarian medical and other aid to the North like this, which in any case a democratic government has no business controlling. But it is harder, especially since the nuclear test, to justify junkets like what was billed as the first joint meeting of Northern and Southern journalists since just after the peninsula was divided in 1945, as part of Korea’s liberation from Japan by the U.S. and USSR.

Held at the North’s Mt. Kumgang resort on Nov. 29, this brought together 115 media persons from the South and 50 from the North. In the afternoon they went for a walk; one wonders who led whom up the garden path. Rhetoric is natural on such occasions: ROK delegation leader Chung Il-yong declared that “so far in inter-Korean history, journalists have been observers, but from now on we are also the subject of history.”

Less, perhaps, is to be expected of the literati. Just three weeks after the North’s nuclear test, 50 Southern literary figures joined 30 from the North at Mt. Kumgang to form the first ever pan-Korean writers’ association. Yom Moo-ung, an ROK literary critic who heads the new body jointly with North Korean novelist Kim Dok-chol, called this “an epoch-making turning point in the literary history of divided Korea,” adding: “Now, we’ll polish our linguistic beauty in the name of national literary spirit and sing a poem of peace which will touch the heartstrings of people around the world.” Maybe.

Blood and purity

As Bryan Myers put it in an excellent if acid op-ed in the *Wall Street Journal* on Dec. 24: “between soft-liners and hard-liners, sympathy can only go in one direction.” The highly provocative major thesis of this article also bears quoting, at some length:

“South Koreans generally agree with Pyongyang that Koreans are a pure-blooded race whose innate goodness has made them the perennial victims of rapacious foreign powers. They share the same tendency to regard Koreans as innocent children on the world stage – and to ascribe evil to foreigners alone. Though the North expresses itself more stridently on such matters, there is no clear ideological divide such as the one that separated West and East Germany. Bonn held its nose when conducting Ostpolitik. Seoul pursues its Sunshine Policy with respect for Pyongyang. The South Koreans have compromised their nationalist principles in a quest for wealth and modernity, and while they’re glad they did, they feel a nagging sense of moral inferiority to their more orthodox brethren. They often disapprove of the North’s actions, but never with indignation, and always with an effort to blame the outside world for having provoked them.”

An abducted fisherman as reality check

Lest anyone need reminding why this is (to put it mildly) an ostrich posture, Choi Wook-il could put them straight. From time to time an individual case highlights the realities of inter-Korean relations. Currently the media spotlight in Seoul is on Choi: a Southern fisherman, now 67, who was 36 when he and 32 other crew members of the squid trawler *Cheonwangho* were seized by North Korea while fishing in the East Sea (Sea of Japan) in August 1975. They have been held in the North ever since.

According to Seoul's unification ministry, the North abducted a total of 3,790 South Koreans since the 1953 Armistice. (A far larger number – some estimates run to over 80,000 – were taken North during the DPRK's brief occupation of most of the ROK during the 1950-53 Korean War.) Postwar abductees were mostly fishermen, and from the 1980s Pyongyang usually repatriated them after a brief detention. But as of June 2006 485 were still held, of whom 434 or 90 percent are fishermen. The North denies detaining anyone, claiming these were voluntary defections.

Abductees' families and their support groups have a far lower public profile in South Korea than their equivalents in Japan, where the numbers are tiny in comparison. But whereas in Tokyo this issue tops (and stymies) the bilateral diplomatic agenda with Pyongyang, in Seoul their complaint is that a government wedded to the Sunshine Policy has deliberately downplayed the issue. Only from 2005 did the South raise this actively in Red Cross talks: to little effect, as the North continues to stonewall. Some 17 families have been briefly reunited in regular reunions of separated families at Mt. Kumgang, but on strict condition that there is no mention of kidnapping. Last March Northern authorities tried to expel a Southern journalist for reporting that one of the families then meeting involved an abduction case. To its credit, the whole ROK press corps quit a day early in protest and solidarity with their colleague.

By contrast, in this latest case Choi's wife Yang Jeong-ja, who met him after he had escaped into China (where at this writing he remains), visited the Foreign Ministry (MOFAT) on Jan. 5 to complain at their unhelpfulness. Choi was passed from pillar to post; one ROK consular official in Shenyang indignantly asked how he had got his number. Some of this was caught on a tape released by an NGO, and posted on the Internet where it drew public anger; MOFAT issued an apology.

This is by no means the first time. Some years ago a Seoul TV station filmed an old escaped Southern prisoner of war, held for over 40 years in the North before escaping to China, as he sought help from the ROK embassy in Beijing. They put the phone down on him. In the end most – but not all – such cases do make it home at last. That said, official lukewarmness mirrors public attitudes in Seoul, which although briefly aroused by a case like Choi's, evince little sustained interest, much less outrage, at the long-running crime and scandal of their fellow-citizens being held for most of their lives by a DPRK that brazenly denies doing any such thing. In ways like this, even before October's nuclear test cast a long shadow, the ROK's Sunshine Policy signal failed to illuminate and warm several dark corners in inter-Korean relations.

MOU tallies the numbers for 2006

On Jan. 5, MOU issued its usual annual tally of North-South visits, trade and other dealings. In 2006 inter-Korean visits (not including tourists to Mt. Kumgang) passed 100,000 for the first time, reaching 101,708, up 15 percent from 2005. MOU credited most of this to economic cooperation, so commuting by ROK managers across the DMZ to the Kaesong industrial zone doubtless bumped up the figures. As MOU noted, this flow remains highly unbalanced: a mere 870 or less than 1 percent of these were North Koreans coming South. Over a million person-journeys were made using the two reconnected cross-border roads, the vast majority being tourists to Mt. Kumgang. (By contrast the parallel railway lines remain unused, with no sign of progress even before the North's missile and nuclear tests cast their pall in the latter half of 2006.)

Despite those tests, inter-Korean trade also had a record year, rising 28 percent to \$1.35 billion. While in the past much so-called trade has really been Southern aid, MOU noted that in 2006 the genuinely commercial proportion rose by over a third (34.6 percent) to \$928 million. (The MOU site actually said \$920,000 until this writer pointed out the slip: not rare, since Koreans, who count in units of 10,000 (*ok*), quite often misplace zeroes when translating into Western systems based on 1,000. Million for billion is a similar solecism: one U.S. dollar is worth close to 1,000 ROK won. *Caveat lector.*)

MOU also noted that the number of Northern workers in the Kaesong industrial zone continues to rise, despite the missile and nuclear tests. The total passed 10,000 in November, and reached 11,189 by the year's end.

Resumed Six-Party Talks get nowhere

In a move that surprised some, but was in fact quite typical of DPRK diplomacy, Pyongyang announced Oct. 31 that it would after all deign to return to the six-party nuclear talks, which by then had been in abeyance for almost a year. It took several further weeks before what was technically (if rather absurdly) the recessed fifth round of the talks convened in Beijing on Dec. 18. After less than a week the meeting recessed again, also *sine die* with nothing resolved and no firm date to meet again – although the White House still has hopes for a resumption in January.

While no one expected an instant breakthrough, especially in the new situation since the DPRK's nuclear test, the utter lack of progress disappointed – and also surprised, since much effort had gone into preparing so that these talks would be more than a mere formality. In particular, the ever energetic Chris Hill had hinted in advance that a way had been found, as it would have to be, to move forward on financial sanctions.

In the event the latter were indeed discussed in a separate channel, but there was no progress. Contrary to earlier speculation that Pyongyang would admit counterfeiting U.S. currency in the same way as it did to kidnapping Japanese, i.e., by blaming rogue elements, Vice Foreign Minister Kim Gye-gwan took a maximalist stance: not only denying counterfeiting, but demanding that all financial sanctions be lifted upfront before

anything nuclear could be discussed. As Kim Jong-il must know this is unacceptable to the U.S. (and indeed other parties), the conclusion has to be that, at least for now, he has no serious interest in negotiating away his nuclear deterrent.

On Nov. 22, DPRK Senior Vice Foreign Minister Kang Sok-ju (senior to Kim Gye-gwan) had told journalists in Beijing, en route home after a visit to Russia: “Why would we abandon nuclear weapons? ... Are you saying we conducted a nuclear test in order to abandon them?” Decoding North Korea is supposed to be difficult – but sometimes they just might mean exactly what they say, loud and clear.

Roh rues the wreckage

In comments blunt even by his standards, Roh Moo-hyun on Dec. 21 wondered aloud what games who was playing in Washington. He told the National Unification Advisory Council that Seoul “played a key role in efforts to achieve the Sept. 19 joint statement ... Then the BDA issue came up and this is incomprehensible to me. As the statement was being signed in China, the U.S. Treasury Department already froze the BDA accounts a few days earlier. Looking back, I don’t know whether the State Department knew about it or not ... With a conspiracy view, you may say [the two departments] were playing games.” Roh wondered if the two had clashed, “with the State Department in support of flexibility while the Treasury Department sticks to the principle. We will never know.” Either way, “the Sept. 19 declaration was buried the moment it was born...” Tactless this may be, but in his puzzlement as to the exact dynamics of the Korea policy process in Washington, Roh is far from alone.

Happy new year?

The new year brought the usual mix of pious hopes and more sober appraisals. Nukes notwithstanding, the Roh administration appears determined to cling to the Sunshine Policy. New Unification Minister Lee Jae-jeong, a noted dove, said on Dec. 28 that he hoped inter-Korean dialogue will resume as soon as possible, adding that to resolve the North Korean nuclear issue requires “deeply analyzing the North’s sense of extreme urgency.” In similar vein, on Jan. 2 he called for more aid to the DPRK once it abandons its nuclear ambitions, saying that “unless we fundamentally solve the problem of poverty in North Korea, security on the Korean Peninsula will always be in danger.” That brought a riposte from the opposition Grand National Party (GNP) that insisted that the problem is nuclear weapons rather than poverty, and accused the Roh administration of “begging for the inter-Korean summit.”

A second summit?

Former ROK President Kim Dae-jung, who won the 2000 Nobel Peace Prize for his first ever inter-Korean summit with Kim Jong-il in June of that year, said Jan. 2 that “the possibility of an inter-Korean summit is higher than ever, as President Roh Moo-hyun has vowed to meet North Korean leader Kim Jong-il anytime, anywhere.” More cautiously, Lee Su-hoon, chairman of the ROK’s Presidential Committee on Northeast Asian

Cooperation Initiative, suggested this would only be possible once Pyongyang begins to dismantle its nuclear weapons programs.

DJ added that any inter-Korean progress “should not be interpreted politically.” But in an election year, that is disingenuous. Roh’s successor as president will be elected next December, taking office in February 2008 for a five-year term; separate National Assembly elections follow in April 2008. As Roh becomes an ever lamer duck, there is a real risk that if the far more canny Kim Jong-il were to throw him a bone in the form of a second inter-Korean summit, he would jump at it – whether or not this is truly positive for North-South ties (or indeed ROK-U.S. relations), much less the nuclear issue and all the many other challenges posed by the DPRK.

Despite Roh’s current estrangement from his own ruling Uri Party, which looks set to split, a summit might also appeal to others on the center-left as a rabbit they could pull out of a hat in hopes of denting the GNP’s seemingly unassailable lead in the opinion polls. Roh would doubtless defend any such meeting as playing a mediating role, but the risk is that it would further muddy the waters and split the alliance.

North calls for unity – behind Kim Jong-il

For its part, North Korea in its usual new year joint editorial of three daily papers – those of the party, army, and youth – called on all Koreans, north and south, to unite for independent reunification. It added that they should “staunchly support *Songun* [military-first] politics” – i.e., Kim Jong-il’s policy line – which gives the game away: Pyongyang’s idea of unity is for South Koreans to march to a Northern drum. Again, sometimes North Korea is crystal clear – even if they seem to neither know nor care how this will go down in the South. With the GNP (which Pyongyang excoriates) way ahead in opinion polls, DPRK intelligence – as distinct from propaganda – surely does not delude itself that sycophants like Ilsimhoe are any more than a tiny minority.

Business realism

Meanwhile a top tycoon sounded a gloomy note. Samsung group chairman Lee Kun-hee, cautiously re-entering the limelight after a bad patch in which Korea’s biggest business and brand had been mired in scandal, in his new year message cited the North Korean nuclear issue as one of three reasons – the others being high oil prices and the appreciating won – why “this year, the future for us isn’t that bright.”

It is noteworthy that Samsung, like every other *chaebol* (conglomerate) bar one, has shown almost no interest in a North Korea that it deems not yet seriously open for business. The exception proves the rule. A decade ago, Hyundai vied with Samsung to be Korea’s top business. Since then, as noted above, the Hyundai founder Chung Ju-yung’s determination to help open the North at any price – at least \$1 billion so far, and counting – has been a major cause of his empire’s break-up since his death.

Ideals are noble, but in commerce even more than politics delusions are no basis for genuine progress. The day when *chaebol* flock North as Taiwanese firms have done to China, we shall know that Kim Jong-il is really ready to do business. Until then, his nuclear deterrent is just that: a deterrent to investment and prosperity as much as to peace on the peninsula.

Chronology of North Korea-South Korea Relations October-December 2006

Oct. 2, 2006: At the North's request, the first inter-Korean military talks since July's missile tests are held at Panmunjom in the Demilitarized Zone (DMZ). Pyongyang demands a halt to anti-communist activities by conservative ROK civic and religious groups, including sending messages across the border by balloon.

Oct. 2, 2006: Nine ROK lawmakers from several parties visit the DPRK's Kaesong industrial zone, just across the Demilitarized Zone (DMZ), where 15 Southern firms employ 8,700 Northern workers to make export goods worth \$6 million monthly.

Oct. 3, 2006: North Korea warns that it will carry out a nuclear test. South Korea and many others, including the U.S. and China, urge it not to.

Oct. 9, 2006: Pyongyang announces it has successfully carried out a nuclear test; the world denounces it. Seismic evidence confirms a test, but its exact size and degree of success are unclear.

Oct. 9, 2006: South Korea Foreign Minister Ban Ki-Moon is confirmed as the next United Nations secretary general, to succeed Kofi Annan on Jan. 1, 2007.

Oct. 10, 2006: ROK Unification Ministry (MOU) reports that 2,195 South Koreans visiting the North at the time of its nuclear test – 1,448 tourists at Mt Kumgang, and 625 workers at the Kaesong industrial zone – are “safe and keeping their composure.” 13 Southern ships and 805 vehicles in the North were likewise not at risk.

Oct. 10, 2006: A group of ROK firms planning to set up in Kaesong says that “private investment should not be influenced by political, national and international affairs” – but calls on the government to protect them so that investors are not scared off.

Oct. 11, 2006: The ROK Ministry of Construction and Transportation (MCT) puts off indefinitely a sale of factory sites in the Kaesong industrial complex planned for later that month, citing uncertainty caused by North Korea's nuclear test.

Oct. 12, 2006: Hyundai Asan reports that 31 percent of reservations for its tours to Mt. Kumgang were cancelled Oct. 10, the day after the North's nuclear test. On Oct. 11 this rose to 48 percent. October is usually the most popular season for these trips.

Oct. 11, 2006: A ship leaves ROK port of Incheon for the DPRK's Nampo carrying 14 containers of aid from Korea YMCA and other NGOs.

Oct. 12, 2006: Love Call, a Southern NGO, sends 50,000 coal briquettes as scheduled by truck to Kosong on North Korea's east coast. The group has sent 1.3 million briquettes to Kosong this year, and 60,000 to Kaesong.

Oct. 14, 2006: For the second time in three months the UN Security Council (UNSC) passes a unanimous resolution condemning North Korea, this time for its nuclear test. Resolution 1718 contains tougher sanctions than 1695, which followed the DPRK's missile tests in July.

Oct. 17, 2006: A 21-strong Southern group, including former foreign and unification ministers, flies to Pyongyang for a festival celebrating Yun I-sang on Oct. 18-19. (The late Yun [1917-95], Korea's leading modern composer in the Western classical idiom, hailed from the South but embraced the North after he was persecuted and tortured.) The ROK group was to have been larger, but some 40 musicians and scholars, including conductor Chung Myung-whun, pulled out after the DPRK's nuclear test.

Oct. 18, 2006: Criticism by U.S. Assistant Secretary of State Christopher Hill of South Korea's Mt. Kumgang tourism project as sustaining North Korea is rebutted by senior Blue House security adviser Song Min-soon (soon to become ROK foreign minister).

Oct. 19, 2006: MOU says it will stop subsidizing some tourists to Mt. Kumgang – war veterans, students, and the disabled – but that tours will continue. Subsidies had fallen markedly in any case, from \$22.5 million in 2002 to \$3 million in 2004.

Oct. 24, 2006: ROK Defense Minister Yoon Gwang-ung, a key promoter of President Roh Moo-hyun's military reform plans, tenders his resignation after two years in post.

Oct. 25, 2006: ROK Unification Minister Lee Jong-seok, a cornerstone of the Sunshine Policy, offers his resignation after just 10 months in office.

Oct. 25, 2006: After raids on homes and offices in Seoul, prosecutors request arrest warrants for three men (later rising to five) on charges of spying for North Korea. Two have links with the hard-left Democratic Labor Party (DLP), which has 10 of the ROK National Assembly's 299 seats. The DLP denounces this as a smear.

Oct. 27, 2006: Kim Seung-kyu, director of the National Intelligence Service (NIS), resigns abruptly. The Blue House vigorously denies that he was sacked for pursuing the aforementioned spy case.

Oct. 30, 2006: At a three-day meeting held at Mt. Kumgang, some 50 Southern and 30 Northern writers inaugurate the first joint writers' association since the 1945 partition.

Oct. 31, 2006: DLP delegation leaves for Pyongyang on the first such visit since North Korea's nuclear test.

Oct. 31, 2006: It is reported that North Korea is prepared to return to the six-party nuclear talks, in abeyance since November 2005.

Nov. 1, 2006: President Roh nominates a new security team. Presidential security adviser Song Min-soon is to be foreign minister. The new unification minister is Lee Jae-jeong. The new defense minister is Army Chief of Staff Kim Jang-soo, and Deputy NIS Director Kim Man-bok replaces Kim Seung-kyu as the ROK's intelligence supremo.

Nov. 1, 2006: Kim Geun-tae, chair of the ruling Uri Party, criticizes Kim Seung-kyu for a newspaper interview in which he did not deny reports that he had been sacked and implicitly criticized successor Kim Man-bok as being too close to the ruling camp.

Nov. 3, 2006: In Pyongyang the visiting DLP delegation meets Kim Yong-nam, who as president of the Supreme People's Assembly Presidium is North Korea's titular head of state. Kim reportedly offers to resume reunions of separated families.

Nov. 4, 2006: The DLP delegation returns from the North to much flak, not least for not revealing that they had visited Mangyongdae, the birthplace of, and now a shrine to, North Korea's founding leader Kim Il-sung.

Nov. 9, 2006: *Rodong Sinmun*, daily paper of the DPRK's ruling Workers Party of Korea (WPK), criticizes the ROK government for not allowing a radical pro-unification youth group to visit the North.

Nov. 13, 2006: South Korea says joint economic and humanitarian projects with the North will remain suspended until progress is made in talks on dismantling the DPRK's nuclear weapons program.

Nov. 14, 2006: Seoul says it will cut 2007's budget for inter-Korean cooperation by 26 percent to 1.95 billion won. However, most of this reflects the winding down of KEDO's LWR project. Stripping this out, the general budget cut will be 3.5 percent.

Nov. 17, 2006: After abstaining on such votes for the past four years, South Korea for the first time backs a UN resolution condemning North Korea's human rights record.

Nov. 18, 2006: After meeting George W. Bush at the APEC summit in Hanoi, Roh Moo-hyun confirms that South Korea is "not taking part in the full scope" of the U.S.-led Proliferation Security Initiative, but affirms that Seoul will "fully cooperate in preventing WMD (weapons of mass destruction) materiel transfer" in the region.

Nov. 24, 2006: Former president and Nobel peace prize laureate Kim Dae-jung warns that pressure is not the way to change the North.

Nov. 25, 2006: *JoongAng Ilbo* reports after visiting Pyongyang with a Southern NGO delivering aid that North Korean state propaganda is preparing its citizens for another “arduous march” like that in the 1990s.

Nov. 29, 2006: In the first such meeting for 61 years, 115 journalists from the South and 50 from the North meet at the DPRK’s Mt. Kumgang resort and pledge to promote inter-Korean exchanges and reconciliation.

Dec. 1, 2006: As has become the norm in recent years, athletes from the two Koreas march together at the opening ceremonies of the 15th Asian Games in Doha, Qatar, but go on to compete as separate teams. The ROK’s is 750-strong, the DPRK’s 160.

Dec. 7, 2006: At the Asiad North Korea’s women’s football team, ranked first in Asia and seventh in the world, defeats South Korea 4-1; they go on to win the event. South Korea’s men defeat the North 3-0 on Dec. 9, but go down to Iraq 1-0 in the semifinal. The DPRK also fields a 1,000-strong cheering squad of its builders working locally.

Dec. 8, 2006: The Ilsimhoe 5 (see Oct. 25) are indicted on charges of violating the ROK National Security Law (NSL) by allegedly spying for North Korea.

Dec. 11, 2006: Lee Jae-jeong (or Jae-joung), new unification minister, formally takes office, six weeks after Roh nominated him to replace Lee Jong-seok. The Grand National Party (GNP) had blocked his confirmation, claiming he is soft on Pyongyang.

Dec. 14, 2006: Former ROK FM Ban Ki-moon is sworn in as UN secretary general.

Dec. 15, 2006: DPRK’s Committee for Peaceful Reunification of the Fatherland (CPRF) denounces expansion of joint U.S.-ROK *RSOI* (*Reception, Staging, Onward Movement and Integration*) military exercises as a provocation and maneuver to invade the North.

Dec. 18, 2006: The fifth round of six-party nuclear talks resumes after a 13-month gap.

Dec. 18, 2006: In the first direct inter-Korean flight since the North’s nuclear test, a 97-strong delegation from the Korean Sharing Movement, an ROK NGO, flies from Seoul to Pyongyang for a ceremony opening a new neurosurgery and respiratory ward at the DPRK’s Red Cross Hospital, which KSM has been aiding for three years.

Dec. 20, 2006: ROK officials say their DPRK counterparts have recently resumed work at the joint Economic Cooperation Promotion Committee (ECPC) office in the Kaesong industrial zone. They had withdrawn in July when the South suspended aid after the North’s missile tests.

Dec. 20, 2006: *Chosun Sinbo* carries an evaluation of inter-Korean relations in 2006.

Dec. 21, 2006: South Korea holds a ceremony in the Demilitarized Zone (DMZ) to connect new power cables, costing \$55 million, which will increase supplies of electricity to the North's Kaesong industrial park from 15,000 to 100,000 kilowatts.

Dec. 21, 2006: President Roh wonders aloud why the U.S. State and Treasury Departments seemed not to be working in sync on North Korea policy in fall 2005.

Dec. 22, 2006: The Six-Party Talks break up with no apparent progress, nor any date agreed for a resumption, although there are hopes that this will be early in 2007.

Dec. 27, 2006: Two Korean People's Army (KPA) soldiers are returned to the North via the truce village of Panmunjom, almost three weeks after being rescued from a small boat adrift off Sokcho on South Korea's east coast on Dec. 9.

Dec. 28, 2006: Unification Minister Lee Jae-jeong says he hopes inter-Korean talks will resume as soon as possible, and that to resolve the North Korean nuclear issue requires "deeply analyzing the North's sense of extreme urgency."

Dec. 29, 2006: The ROK Defense Ministry (MND)'s biennial *White Paper* describes the DPRK as a "grave threat," more severe than last time's "direct military threat." Until 2004 MND characterized the North as the South's "main enemy," but this was deleted (over conservative protests) as un conducive to Sunshine.

Dec. 30, 2006: Seoul press reports suggest that Hyundai Asan will fall back into the red this year, as tourist numbers to Mt. Kumgang have fallen since the nuclear test.

Jan. 1, 2007: Lee Kun-hee, chairman of Samsung, Korea's largest conglomerate, in his new year address cites the DPRK nuclear issue as one of three reasons (the others being high oil prices and the appreciating won) why "this year, the future for us isn't that bright."

Jan. 2, 2007: Unification Minister Lee Jae-jeong calls for more aid to the DPRK once it abandons its nuclear ambitions, saying that "unless we fundamentally solve the problem of poverty in North Korea, security on the Korean Peninsula will always be in danger." The opposition Grand National Party (GNP) criticizes Lee, saying the problem is nuclear weapons rather than poverty and accusing the Roh administration of "begging for the inter-Korean summit."

Jan. 2, 2007: Former ROK President Kim Dae-jung says the "possibility of an inter-Korean summit is higher than ever, as President Roh has vowed to meet North Korean leader Kim Jong-il anytime, anywhere."



China-Korea Relations:
Political Fallout from North Korea's Nuclear Test

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The North Korea's Oct. 3 announcement and Oct. 9 test of a nuclear device provided the catalyst for regional diplomacy this quarter, including enhanced scrutiny and a possible reevaluation of China's strategic relationship with North Korea. Near-term Chinese responses to North Korea's test included public rhetorical condemnation of North Korea's "brazen" act, a Chinese decision to back a stronger-than-expected UN Security Council resolution that imposes limited sanctions on North Korea, stepped-up speculation among Chinese and international analysts about how China might effectively utilize its economic leverage to rein in North Korea, and enhanced efforts to manage diplomatic fallout from the test by re-establishing direct dialogue with Kim Jong-il and through efforts to re-establish multilateral dialogue through Six-Party Talks.

North Korea's nuclear test also stimulated intensive high-level Chinese meetings with South Korea (although South Korea's diplomatic influence was further constrained by regional responses to North Korea's test). President Roh Moo-hyun met Hu Jintao during a Beijing summit one week after North Korea's test. Incoming UN Secretary General and former South Korean Foreign Minister Ban Ki-moon, who could not have been selected for the post without China's support, made a special visit to Beijing in November to discuss the response to North Korea's test prior to departing for New York to take up his new post. Despite a steady increase in Chinese-South Korean trade, investment, and tourism, the tone of China's relations with South Korea has become more sober due to persistent sensitivities in Seoul regarding China's Northeast Asian history project and rising anxieties about slowing growth of South Korean exports to China and rising imports of cheap Chinese industrial goods, among other issues.

Kim Jong-il tests China's patience

North Korea's Oct. 3 announcement and subsequent conduct of a nuclear test Oct. 9 was foreshadowed over a year and a half earlier by North Korea's Feb. 10, 2005, claim that it was a nuclear weapons state. Kim Jong-il determined that the moment had come to prove that claim. Intelligence surveillance had picked up preparations for a nuclear test in August following North Korea's July 5 missile tests, and the Chinese government secretly solicited analyst opinion regarding the impact of a North Korean test on China's regional security environment. Although the test has been widely interpreted in the

context of a DPRK standoff with the U.S., the test also contained an explicit message to China regarding the limits of Beijing's capacity to restrain North Korea.

While North Korea's Oct. 3 announcement showed flagrant disregard for international efforts to prevent North Korea from testing a nuclear device, it also revealed a desire to mitigate the seriousness of the provocation. First, the announcement itself was different from the circumstances surrounding the July 5 missile tests, which had been unannounced despite the danger that a missile test might have for those in the vicinity of the launches. Second, the announcement of the test underscored that North Korea "will never use nuclear weapons first, but strictly prohibit the threat of nuclear weapons and nuclear transfer" in an attempt to provide rhetorical reassurance to North Korea's neighbors. Third, the statement emphasized North Korea's intent to conduct the test "under conditions where safety is firmly guaranteed" to assuage Chinese and other neighbors' concerns that environmental damage could result.

While some Chinese analysts perceived the test as inevitable and driven by North Korea's longstanding desires and assessed a U.S. military response as unlikely, others argued North Korea had been driven to test by U.S. intransigence and unwillingness to engage in bilateral negotiations. Following North Korea's announcement that it would test, the Chinese government publicly called upon the DPRK to "remain calm and exercise restraint" and joined a unanimous vote backing a UN Security Council presidential statement Oct. 6 expressing "deep concern" about North Korea's intention to test. These statements made China vulnerable once again to the possibility that the North's escalations would cause China's leaders to lose face, revealing the limits of China's capacity to restrain North Korea. Following the worsening of China-DPRK relations in the wake of the North Korean missile tests and China's decision to support UN Security Council Resolution (UNSCR) 1695 condemning them, Chinese diplomats appeared helpless to prevent North Korea's near-term pursuit of further crisis escalation measures by the time of the Oct. 3 announcement.

The Chinese government's frustration over North Korea's ignoring China's private and public admonitions spilled over in the official reaction to North Korea's test. Beijing expressed its "resolute opposition" to North Korea's "brazen" or "flagrant" act, a description previously reserved only for U.S. provocations. China's Ambassador to the UN Wang Guangya signaled the need for "punitive actions" through the UN Security Council as evidenced by China's support for a resolution that included limited sanctions on sales to North Korea of nuclear and missile components, some types of conventional weapons, and luxury goods, while insisting that implementation of the resolution would remain in the hands of each state and adopting partial application of the UN Charter's Chapter 7 provisions in such a way as to exclude any application of military force in implementing its provisions. The Oct. 14 adoption of UNSCR 1718 condemning North Korea's nuclear tests was unprecedented in the speed of its reaction and in the lengths to which China was willing to go to punish North Korea while excluding the most onerous international sanctions. While not "protecting" North Korea from sanctions, China's support for a resolution that fell short of advocating a military response successfully protected Chinese interests in maintaining regional stability.

While China supported the UNSCR, the PRC was also quick out of the blocks to restore both bilateral and multilateral diplomatic mechanisms for dealing with North Korea. State Councilor Tang Jiaxuan went to Washington, D.C. to meet with President Bush and other senior administration officials, and then visited Pyongyang for a face-to-face meeting with Kim Jong-il on Oct. 19. That visit served to restore communication channels with Kim Jong-il despite China's strong criticism, while also jump-starting indirect communication between the U.S. and DPRK with the objective of revitalizing the Six-Party Talks. Tang returned to Beijing to meet Secretary of State Condoleezza Rice during her consultations in Tokyo, Seoul, and Beijing during the week of Oct. 18-21, following the passage of UNSCR 1718.

Although Tang was quoted in his Oct. 21 meeting with Rice that his visit to Pyongyang was "not in vain," his report did not appear to contain any new pledges from Kim not to pursue further escalation. However, by the end of October, China had succeeded in shoring up U.S. and North Korean commitments to pursue multilateral negotiations by bringing together Assistant Secretary of State Christopher Hill and his counterpart DPRK Vice Minister Kim Gye-gwan for bilateral talks. At those talks, the two negotiators announced that both parties would return to Six-Party Talks and that U.S. "financial measures" against the DPRK would be addressed as part of the agenda for those meetings.

China again hosted Vice Minister Kim and Assistant Secretary Hill at the end of November in Beijing, where the U.S. put forward its most explicit pledges to date that the U.S. would address North Korean concerns about international sanctions, provide North Korea with economic and security guarantees, and lay the groundwork for a permanent peace on the Korean Peninsula in return for North Korea's denuclearization. These new proposals were no doubt aimed in part at demonstrating to China that the U.S. had done everything possible to induce North Korea back to diplomacy in anticipation that China's support for a harder line approach would be critical if North Korea once again rejected the denuclearization path foreshadowed in the Sept. 19, 2005 Joint Statement by the six parties. Two weeks after this exchange the Chinese announced that the "second phase" of round five of Six-Party Talks would convene during the week of Dec. 18, but the meeting broke after four days of discussions with no apparent progress. Presumably, the PRC had also signaled to North Korea the need for a return to the framework outlined by the Joint Statement and the need for simultaneous actions by the U.S. and North Korea to defuse the situation and give hope and momentum to the diplomatic negotiation process. But there was no evidence that North Korean negotiators were empowered to act on the more detailed offer that the U.S. put forward at the end of November. The lack of progress has led to greater frustrations over dialogue efforts involving North Korea.

China's North Korea diplomacy: which tools are being used and to what end?

Following the DPRK nuclear test, Chinese leaders have assessed that a nuclear North Korea is not in China's interest and may raise tensions that could jeopardize the stability necessary for economic development. Part of the Chinese calculation is related to the impact of a nuclear North Korea on security concerns in Japan and speeding Japan's

remilitarization. A nuclear North Korea also heightens the risk that a nuclear accident or even the threat to use a nuclear weapon could be directed at China. In the event that a nuclear device might be detonated by nonstate actors, North Korea would be a potential object of military retaliation, further threatening China's core national security interests. North Korea's nuclear weapons pursuits have to this extent challenged China's core national security interests, heightening the stakes in an internal debate among Chinese scholars over whether Chinese and North Korean interests have diverged sufficiently that China should withdraw its support for the North. This debate has stimulated considerable attention on the types of leverage China might be willing to use to rein in the DPRK and bring Pyongyang forward along the path of denuclearization.

The core variable in the debate over how to deal with North Korea is the extent that pressure can be utilized to bring the DPRK to heel without creating bigger problems that would accompany North Korea's destabilization. State Councilor Tang Jiaxuan has observed that "taking a tough stance against a unique country like [North Korea] will only make it more obstinate." Nonetheless, China did take steps to "punish" North Korea by supporting UNSCR 1718 and imposing its own bilateral pressure on North Korea. However, the specific measures China has used are subject to speculation since Chinese diplomats feel that the best way to deal with North Korea is through actions, not through diplomatic warnings or use of public rhetoric.

At an earlier stage in the crisis, China used economic incentives to induce North Korea to enhance cooperation with China while also attempting to promote economic reforms, including an enhanced role for markets and private sector actors. But economic assistance at the central and local levels also proved useful in gaining the attention of the top leadership and guaranteeing North Korea's participation in bilateral and multilateral diplomacy. However, the failure to restrain North Korea from conducting missile and nuclear tests has revealed clearly that Pyongyang's leadership regards Chinese assistance to North Korea as in Beijing's own interests and has not offered the necessary quid pro quos.

Another complicating factor in the Sino-DPRK economic relationship is that the energy and food that China offers to North Korea in fact are dual-purpose incentives, serving the mutual interests of both parties. China's provision of food supports the central leadership while forestalling the possibility of refugee flows to China that might occur in the midst of a severe food shortage. China's growing energy needs have also changed the nature of its assistance to North Korea, as recently established Chinese joint venture investments in North Korea's coal mining and hydro-electric sectors primarily serve to meet Chinese energy needs rather than meeting North Korea's suppressed demand, and a production shut-off might have less direct effect on North Korea than on China. To Chinese analysts, the utilization of such sanctions looks more complicated than the overall logic of North Korea's high dependence on China for energy and food needs might suggest.

In line with UN sanctions, it has been reported that the PRC ordered Chinese banks in Dandong to block North Korean financial transactions shortly after adoption of UNSCR 1718. Those restrictions were apparently dropped shortly after the North Koreans

announced that they were ready to return to the Six-Party Talks. There have also been unconfirmed reports that China temporarily minimized deliveries of crude oil to North Korea through an oil pipeline and that Chinese supplies of diesel fuel to North Korea were suspended in October. However, it is highly likely that whatever temporary sanctions might have accompanied China's implementation of the UN resolution were used as incentives to induce North Korea's to return to the Six-Party Talks. Although the PRC has indicated its strong preference to continue the six-party process, progress through coordinated joint actions by the DPRK and the U.S. has become essential to the continuation of talks. Whether China is able to use these tools to leverage not only North Korea's participation in Six-Party Talks but to compel a North Korean strategic decision to pursue denuclearization (and to coordinate commensurate U.S. actions) is the fundamental question of the six-party diplomacy.

China-South Korea consultation: Roh missing-in-action

As China mobilized for action on multiple fronts, South Korean diplomacy in response to North Korea's nuclear test appeared to be immobilized by indecision and domestic political conflict. The timing of North Korea's nuclear test appeared to be made to order for enhanced China-ROK coordination, coming only four days before Roh Moo-hyun traveled to Beijing for a summit with Hu Jintao. But that meeting appeared to offer only the usual blandishments and affirmations of the need for "a peaceful resolution of the standoff based on the firm principle of a nuclear-free Korean Peninsula." Other subjects addressed during Roh's one-day visit to Beijing included trade issues and South Korean concerns about China's treatment of historical issues related to the Goguryeo kingdom, which is treated in Korean textbooks as an ancient precursor to Korea.

The summit barely rated coverage amid diplomatic activity on other fronts, including the passage of UNSCR 1718 the day after the Roh-Hu summit. While Roh and Hu agreed on the need to reinvigorate the six-party process and that the UN resolution should not aggravate tensions with North Korea, China's position toward the North appeared to have shifted more than the Roh administration anticipated. Prior to the test, China often appeared to use South Korea's position to determine the limit beyond which China would not make demands of North Korea. But following the test, China's position became tougher than that of South Korea, leaving the South out of sync with other participants in the Six-Party Talks. This situation put Chinese diplomats in an awkward position of coaxing South Korean counterparts to stiffen their response to North Korea's provocative actions.

UN Secretary General-designate Ban Ki-moon also visited Beijing at the end of October, days before he was to step down as foreign minister, for consultations on the North Korean nuclear issue. Since China's support for Ban's candidacy was essential to his selection as the new UN Secretary General, South Korean leaders and the newly selected Ban will no doubt be expected to return the favor in one form or another. To the extent that the UN Security Council is required to take further actions related to North Korea, Ban's selection will make Seoul feel slightly less isolated but is unlikely to enhance the capacity of the UN to play a political role in resolving the dispute.

Rising North Korean nuclear tensions have had little effect on what is likely to be a banner year for China and South Korea on the economic front. South Korean exports topped \$300 billion for the first time in 2006 on the strength of steady 11.7 percent growth in exports to China over the first 10 months of the year. Slightly over one-fifth of South Korea's overall exports go to China. China was South Korea's top destination for foreign direct investment at slightly over \$10 billion, or 26.2 percent of South Korea's overall foreign investment. South Korea has consistently been among the top five foreign investors in China in recent years.

Festering South Korean anxieties and China's rise

North Korea's nuclear test has contributed to a widespread mood of hopelessness in South Korea, exacerbated in part by South Korea's own political calendar and widespread dissatisfaction with the Roh administration. Although China's rapid economic growth has been a major contributor to South Korea's rosy export performance, China has grown rapidly as a major South Korean tourist destination, and the "Korean wave" of exports in the pop culture sphere has enjoyed remarkable successes in China in recent years, foreboding regarding China's rising influence has begun to temper the optimism that characterized South Korean views of China through 2004. In the political sphere, chronic irritants include China's perceived manipulation of history related to the Goguryeo kingdom, the recalcitrant role of China as the main transit country for North Korean refugees, many of whom are trafficked, beaten, mistreated, or returned to North Korea by Chinese officials, and as a source of tainted food imports or other political irritations that strike the South Korean public as arrogant or dismissive of South Korean national pride. In the economic sphere, China's growing strength in manufacturing sectors previously dominated by Korea such as steel, electronics, shipbuilding, and transportation constitute a perceived threat as China climbs the development ladder. The following are among the specific issues that drew media attention this quarter:

- A Chinese diplomat refused to show his ID card or take a drunk-driving breathalyzer test at a Seoul Metropolitan Police checkpoint in mid-December, causing an eight-and-one-half hour standoff. News of the incident enraged South Korean internet users and the public, which perceived invocation of diplomatic privilege as an expression of arrogance.
- China continues to be a primary source of narcotics for drug traffickers operating in South Korea. The Seoul Metropolitan Police Agency arrested over 224 people for drug trafficking and sales in mid-December.
- The Korea Food and Drug Administration announced in November that it was testing flatfish imported from China for excessive levels of nitrofurans, a cancer-causing chemical.

- Hyundai Research Institute released a December report analyzing a shift in China's economic policy toward "qualitative growth," posing new challenges for Korean exports and investment strategies that have focused on using China as a production base for international markets. More restrictive Chinese investment policies designed to heighten Chinese competitiveness will require revamped strategies or relocation to places such as Vietnam and India.
- Korea International Trade Association Chairman Lee Hee-beom expressed concern that the decline in growth of South Korean exports to China from 30 percent during 2003-2005 to 11.7 percent through the first 10 months of 2006 may result from China's increased production capability and competitiveness. Lee cited semiconductors, computers, liquid crystal displays, mobile phones, steel, and synthetic fiber as sectors in which enhanced Chinese production is challenging South Korea's competitive advantage.
- Increased Chinese steel production is reversing the previous trend in which South Korea mainly exported steel to China to a new trend in which Chinese production priced 15 to 20 percent cheaper than South Korean steel products is being imported to major Korean consumers. South Korean exports of steel products to China have dropped by 14.4 percent to 3.4 million tons, while Chinese imports to Korea have increased by 46 percent to 8.4 million tons through the first 10 months of 2006. South Korean steel makers may retaliate by requesting anti-dumping investigations against Chinese producers.

China's strategic choices and a nuclear Korean Peninsula

Absent North Korean and U.S. commitments to take simultaneous concrete actions to implement the Sept, 19, 2005 Joint Statement, the prospects for continuation of six-party dialogue will be increasingly in doubt. Following the North Korean nuclear test, China temporarily pursued a new course with North Korea that raised the stakes of non-cooperation and nonparticipation in the six-party dialogue. But as the dialogue process resumed, China reverted to its previous mediating role, placing the onus for progress – and the blame for failure – back on the U.S. and North Korea. State Councilor Tang Jiaxuan, in a meeting with a Japanese parliamentarian in late December, is reported to have argued that "an expected crucial achievement was not made due to mutual distrust between the U.S. and North Korea." The Bush administration will expect China to utilize its remaining leverage with North Korea to deliver a constructive North Korean response, but in turn will be expected to meet the Chinese expectation for simultaneous, corresponding actions on the U.S. side.

Otherwise, China will risk the possibility that additional North Korean crisis escalation tactics, including worries about the possible transfer of fissile materials to the highest bidder, will further catalyze Japan's remilitarization and threaten regional stability. Further North Korean escalation of tensions may alternatively serve to heighten a sense of common strategic purpose among great powers if they can overcome mutual strategic distrust in response to the shared costs of North Korea's tactics. North Korea's strongest

card remains the unknown cost of managing regime transition and the short-term risks that such a transition may entail for all parties. Unlike the end of the 19th century, when the Korean Peninsula was the object of rivalry among imperial powers, a nuclear North Korea is a “hot potato” that no single neighbor of Pyongyang will want to “own” without sharing both the risks of intervention and the costs that would accompany destabilization. The greatest leverage the leadership of a nuclear North Korea can exert remains the uncertainty that would likely accompany Kim Jong-il’s demise.

Chronology of China-Korea Relations October-December 2006

Oct. 3, 2006: North Korea says it will conduct a nuclear test to prop up its self-defense against “growing U.S. hostility against the communist regime.”

Oct. 6, 2006: The UN Security Council adopts a statement warning North Korea to refrain from conducting a nuclear test.

Oct. 9, 2006: The Korea Shipowners’ Association expresses concern that Busan port is losing its competitive edge against rapidly rising competition from Shanghai and Shenzhen, which are attracting container ships from Busan, the fifth busiest port in 2005 with over 11.8 million TEU in volume.

Oct. 9, 2006: North Korea announces that it has safely and successfully conducted its first test of a nuclear bomb. A 3.58-3.7 magnitude tremor was detected in the North’s northeastern Hamkyong Province. Subsequent analysis yields estimates that the yield from such an explosion would be less than one kiloton, raising questions whether the device worked properly or was intentionally designed to minimize yield and avoid environmental contamination.

Oct. 13, 2006: ROK President Roh Moo-hyun travels to Beijing for a one-day summit with PRC President Hu Jintao, Premier Wen Jiabao, and National People’s Congress Standing Committee Chairman Wu Bangguo. The two presidents agree to support “appropriate and necessary measures” by the UN Security Council in response to North Korea’s nuclear test.

Oct. 14, 2006: UNSCR 1718 unanimously imposed limited sanctions on North Korean nuclear and missile parts procurement, conventional weapons, and luxury goods following North Korea’s nuclear test.

Oct. 11-19, 2006: State Councilor Tang Jiaxuan travels as Hu Jintao’s special envoy to Washington, Moscow, and Pyongyang for consultations following North Korea’s nuclear test. In Pyongyang, he is the first high-level official to meet with Kim Jong-il following North Korea’s test.

Oct. 20, 2006: State Councilor Tang briefs Secretary of State Rice on his meetings in Pyongyang with Kim Jong-il.

Oct. 26, 2006: A ceremony is held as part of Korean Air's strategy to make China its "second home market" following agreements between China and South Korea to gradually open their skies.

Oct. 27, 2006: South Korean Foreign Minister/UN Secretary General-designate Ban Ki-moon discusses the North Korean nuclear standoff with President Hu and PRC Foreign Minister Li Zhaoxing during a visit to Beijing.

Oct. 31, 2006: At the invitation of PRC Vice Minister Wu Dawei, Assistant Secretary of State Chris Hill and DPRK Vice Minister Kim Gye-gwan meet in Beijing and agree to return to six-party dialogue and to include discussions of U.S. Treasury "financial measures" related to the DPRK as part of the talks.

Nov. 4, 2006: South Korean Ministry of Culture and Tourism sponsors "Feel the K-pop in Shanghai" with leading K-pop stars including Fly to the Sky, SG Wannabe, and V.O.S., and Typhoon.

Nov. 11, 2006: Korea Trade-Investment Promotion Agency announces that China will enforce tougher trade restrictions on processed and manufactured products from Nov. 22 to restrict South Korea's use of China as a production base for third-country manufactured goods exports and to create more value-added products for the Chinese market.

Nov. 13, 2006: Hyundai Steel, Korea's second largest steel producer, is reported to be considering requesting an anti-dumping investigation of Chinese mills that have undercut Hyundai's market share in steel H-beams.

Nov. 17, 2006: Chinese Minister of Commerce Bo Xilai and ROK Trade Minister Kim Hyun-chong agree to a feasibility study on a China-South Korea free trade area (FTA) at the official level in early 2007.

Nov. 17, 2006: PRC Ambassador to South Korea Ning Fukui says his country will consult with a concerned country, apparently referring to North Korea, before seeking UNESCO World Heritage status for Mount Paekdu on its border with the North.

Nov. 18-19, 2006: Presidents Roh and Hu discuss the North Korean nuclear issue at the APEC meeting in Hanoi, Vietnam.

Nov. 20, 2006: The Korea Food and Drug Administration (KFDA) announces it will inspect cultivated flatfish imported from China for nitrofurans, a carcinogen.

Nov. 30, 2006: The Bank of Korea announces that China was the largest destination for South Korean foreign direct investment in 2005, amounting to \$10.1 billion, or 26.2 percent of South Korea's overall investment.

Dec. 6, 2006: Korea Iron and Steel Association reports that ROK exports of steel products to China dropped by 14.4 percent to 3.4 million tons, while Chinese imports to the Korean market have increased by 46 percent to 8.4 million tons through October as a result of improved Chinese steel production quality and price competitiveness.

Dec. 9, 2006: Hyundai Research Institute warns of risks to South Korean investors in China arising from Chinese efforts to focus on "qualitative growth" by promoting technology transfers as conditions for entry of foreign direct investment, enhancing international competitiveness of domestic companies and encouraging them to move up the technology ladder.

Dec. 12-13, 2006: Chinese diplomats remain overnight in their cars as a result of the driver's refusal to take a breathalyzer test in an eight-hour standoff with Seoul Metropolitan Police authorities. News of the incident infuriates South Korean netizens.

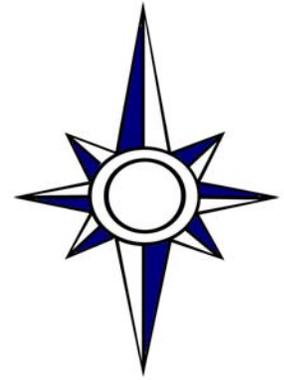
Dec. 14, 2006: Seoul Metropolitan Police Agency announces the arrest of 224 people on charges of trafficking narcotics from China following a 40-day crackdown on drug trafficking.

Dec. 18-21, 2006: Ssangyong Motors Labor Union representatives travel to Shanghai in hopes of meeting with controlling shareholders at Shanghai Automotive Industry Corp. (SAIC) regarding restructuring and investment plans for Ssangyong's plant in Korea.

Dec. 21, 2006: Samsung Electronics, the world's third-largest cell phone producer, announces that it has struck a deal with Beijing Airway Communications to launch a Korean mobile Internet platform, called WiBro, in China.

Dec. 18-22, 2006: The "second phase" of the fifth round of Six-Party Talks is held in Beijing, but no apparent progress is made during these negotiations.

Dec. 26, 2006: In a meeting with Japanese Diet Speaker Kono Yohei, PRC State Councilor Tang Jiaxuan argues that "an expected crucial achievement was not made [in six party talks] due to mutual distrust between the U.S. and North Korea."



Japan-China Relations:
Ice Breaks at the Summit

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The long search for a Japan-China Summit was realized Oct. 8, when Japan's new Prime Minister Abe Shinzo arrived in Beijing and met China's President Hu Jintao and Premier Wen Jiabao. Abe and Hu agreed to build a "strategic, reciprocal relationship" aimed at enhancing cooperation and advancing a wide range of mutual interests. Both leaders agreed to address the difficult issues of history and the East China Sea, setting up expert panels to explore ways to resolve them. On the topic of visiting Yasukuni Shrine, Abe relied on strategic ambiguity, which the Chinese leadership appeared to tolerate, if not accept, in the interest of moving relations ahead. The joint history panel met in Beijing at the end of December and the East China Sea experts meeting was scheduled for early in the new year. After several years of tough going, the road ahead appears smoother and more promising.

To the Summit

On Sept. 19, Abe Shinzo was elected president of the Liberal Democratic Party (LDP); a week later, on Sept. 26, he became prime minister of Japan. In the interim, Japanese and Chinese diplomats, led by Vice Minister Yachi Shotaro and Assistant Minister Cui Tiankai, met in Tokyo Sept. 23-24 to conduct the sixth Comprehensive Policy Dialogue and to explore paths to a summit meeting. Referring to Yasukuni, the Chinese called for "the removal of political obstacles" standing in the way of improved relations. In reply, Yachi explained that Abe was determined to leave his stance toward Yasukuni "ambiguous" and suggested a working date of Oct. 8 for the summit. Cui retreated to his talking points and urged Abe not to visit the shrine but promised to take Abe's Yasukuni "ambiguity" strategy back home for discussion. The Oct. 5 *Nihon Keizai Shimbun* reported that on the evening of Oct. 23, Nakagawa Hidenao, who became LDP secretary general the next day, had dinner with Cui and China's Ambassador to Japan Wang Yi and assured the Chinese officials that Abe would not visit Yasukuni during the 2007 spring festival. On Oct. 25, Yachi and Cui met again and Cui promised to consult with the Chinese leadership with regard to Yasukuni. The *Nikkei* report went on to note that Sept. 28 at the celebration of China's national day, Ambassador Wang was telling guests that "Prime Minister Abe is willing to improve relations with China. The Chinese government welcomes this attitude."

In a Sept. 27 interview with the *Yomiuri Shimbun*, marking the first day of the Abe government, Foreign Minister Aso Taro observed that the two leaders had not met in close to 18 months. That same day, Chief Cabinet Secretary Shiozaki Yasuhisa made clear that improving relations with China and South Korea were top priorities for the new prime minister, calling on all parties to “make efforts and use our wisdom to hold ... summit talks as soon as possible.” Referring to the new government, Shiozaki saw “momentum gathering to take advantage of this opportunity.” In his policy speech to the Diet Sept. 29, Abe committed his government to “strengthening bonds of trust” with China and South Korea, saying that it was “essential to make mutual efforts so that we can have future-oriented, frank discussions with each other.” On Abe’s assumption of office, Premier Wen Jiabao sent the prime minister a note of congratulations with the message that “Japan-China relations are at a crucial historic moment.” Abe’s policy speech to the Diet was regarded as a public response to Wen’s note.

On Oct. 2-3, Vice Foreign Minister Yachi and Ambassador Wang Yi met in Tokyo to advance coordination for a summit meeting. That evening, as reports of a pending summit spread throughout the media, Abe told reporters at his official residence that it was “important to create conditions that would allow the two leaders, without preconditions, to have a frank exchange of views.”

On Oct. 3, the *Sankei Shimbun* reported that earlier discussions had floundered on the Yasukuni issue, with the Chinese seeking assurances that Abe not visit the shrine during his term in office. Japanese officials countered that visits to the shrine should not become a “precondition” for a summit, requested Beijing to reconsider its position, and suggested the visit be put off from Oct. 8 to later in the month. Citing a source “familiar with Japan-China relations,” the *Sankei* reported that, on Sept. 30, Beijing, “following Hu’s firm order,” accepted the Oct. 8 date without the specific assurances it had sought on Yasukuni. The *Mainichi Shimbun* reported that China had accepted the Japanese Oct. 8 proposal on Sept. 28. With regard to Yasukuni, the *Mainichi* also reported that it would be a mistake for Japan to assume that China “had dropped its call for the Japanese leader to refrain from visiting the shrine.” The report went on to quote a “senior” LDP member saying “China expects Japan to come up with a convincing stance on the Yasukuni issue. The ball is in our court.” Later in the month, *Kyodo News Service* reported on a dinner meeting between Wang Jiarui, head of the CCP’s International Liaison Department, and opposition leader Ozawa Ichiro. Wang was quoted as saying “We don’t think it [Yasukuni] was left ambiguous. It will be a big problem if a visit is made.” Following the Cabinet meeting of Oct. 3, Abe and Aso met to confirm the schedule for the visits to China and South Korea. The next day, Deputy Chief Cabinet Secretary Shimomura Hakubun announced the visit at the opening of his press conference. China’s willingness to receive Abe on the eve of the Communist Party’s sixth plenary session of the Communist Party’s 16th Central Committee was considered sign of the importance Beijing attached to improving relations with Japan.

Abe in Beijing

Premier Wen Jiabao welcomed Abe to China in a ceremony held in front of the Great Hall of the People. At the start of their meeting, Wen told Abe that “as a result of recent mutual efforts, we have overcome political obstacles that influence bilateral relations and agreed that we will develop our friendly relations soundly and steadily.” Abe and Wen agreed to work toward a trilateral investment treaty that would include the ROK.

Abe then met President Hu. Observing that Abe’s choice of China for his first overseas travel signaled his intention of “improving and developing China-Japan relations,” Hu expressed appreciation for Abe’s “highly forward-looking manner.” Abe replied that he was Japan’s first prime minister born after the end of the war and noted that since the end of the war Japan had engaged in “deep self-reflection that it caused massive damage and pain to Asian nations.” In turn, he sought “deep appreciation and understanding of the path Japan has followed ... as a pacifist nation.” Hu expressed hope that Japan would continue “to follow the path of peaceful development.” Looking to the future, the leaders agreed to build a “strategic, reciprocal relationship.”

Turning to Yasukuni, Abe explained that he visited the shrine to pray for “lasting peace” not to “glorify militarism.” Because Yasukuni had become “a political and diplomatic issue,” Abe determined that he would “not comment on whether I visited it or not or whether I will visit it or not.” A *Yomiuri Shimbun* poll, conducted Oct. 14-15 and published Oct. 17, asked whether Abe’s statement on Yasukuni was appropriate: 32.5 percent said “yes” 25.2 percent said “yes to a certain degree” 20.1 percent said “no” and 16.6 percent said “no to a certain degree.” In early December, when questioned on whether he would visit Yasukuni, Abe replied that he had “yet to make a decision.” He wanted to deal with the issue from “the perspective of overcoming political difficulties and promoting the sound development of both countries.” The two leaders agreed to initiate, by the end of the year, a joint study of history by Japanese and Chinese scholars. At the same time, they agreed to “enhance mutual trust in the area of security cooperation through [sic] Japan-China security dialogue and defense exchange.”

Abe and Hu also found common ground for cooperation with respect to the challenge posed by North Korea, agreeing on the importance of the six-party framework and calling on North Korea to return “immediately” to the talks. Similarly, the two leaders reaffirmed their countries’ commitment to a peaceful resolution of issues involved in the East China Sea and “to accelerate the process of consultation” toward the objective of “joint development” and “a resolution acceptable to both sides.” They also agreed to strengthen coordination and cooperation on international and regional issues and to expand cultural, economic and political and security exchanges.

Abe asked China’s support for Japan’s efforts to gain a permanent seat on the United Nations Security Council, which Hu deflected by calling for expanded dialogue on UN reform. Hu called attention to the importance of the Taiwan issue, and Abe replied that Japan’s position has been consistent and that there would be no change under his administration. Finally, Abe invited China’s leaders to visit Japan “at an early date” and

proposed that the leaders continue their meetings during the November APEC meeting in Hanoi and the December East Asia Summit in Manila. Hu agreed to Abe's proposal and added a proposal for a trilateral summit with South Korea.

At the conclusion of his meetings, Abe told a press conference that he had decided on China as the first country to visit as prime minister "with the aim of building relations with the leaders of China ... that will enable us to frankly discuss the future of our countries." It was also his aim "to strengthen the bonds of trust to open up the future of Japan-China relations." Two days later, a Chinese Foreign Ministry spokesman affirmed that the two leaders had a "serious and frank exchange of views" and that a "window of hope has been opened for the improvement and development of China-Japan relations." It was China's hope that "the window will remain open for a long time to come..."

Summitry in Hanoi

The high-level meetings continued during the November APEC meeting in Hanoi. Foreign Minister Aso and Chinese counterpart Li Zhaoxing got together Nov. 16. The two ministers agreed to undertake a joint study of the two countries' history focusing on three areas: medieval, early modern, and contemporary history. Teams of 10 scholars from each country will conduct the study, with a 2008 completion date. The two also agreed to work to find the best approach to the joint development of the East China Sea. Li proposed that legal, technical, and defense experts be involved in the process. Both called for North Korea to return to the six-party process, underscoring the need for "concrete results." Aso emphasized the objective was not simply negotiations for negotiation's sake but the dismantling of North Korea's nuclear and missile programs.

Abe and Hu met Nov. 18. The agenda – the strategic reciprocal partnership, history, the East China Sea, and North Korea – represented a continuation of their Beijing discussions. Evidencing the warming post-Beijing atmosphere, Hu noted that the Hanoi meeting "embodies the improvement and development of bilateral relations," while Abe reiterated his determination to advance the strategic, reciprocal partnership.

Hu refrained from directly raising the Yasukuni issue, but observed that "China-Japan relations are coming to a significant stage" and that it was "important for the leaders of both nations to move forward in the right direction." Abe avoided a direct reply, saying that he wanted "to make even more efforts to elevate bilateral relations to strategic, reciprocal ones." Both agreed to expedite discussions of issues related to joint development in the East China Sea. (**See: East China Sea/Senkakus, below.**) Both also agreed on the need for North Korea's early return to the Six-Party Talks.

Abe reiterated Aso's call for "concrete results" in the Six-Party Talks, emphasizing that both dialogue and pressure were necessary elements in the diplomatic process. Abe also made clear that without resolution of the abductee issue, Japan would not be able to suspend its sanctions. Hu expressed concern with the debate over that nuclear option that developed in Japan following North Korea's Oct. 9 nuclear test, but, at the same time, expressed appreciation of Abe's insistence that Japan would uphold its three non-nuclear

principles. (See: **Nuclear Debate, below.**) Finally, Abe invited Hu to visit Japan at an early date; Hu replied that he would leave coordination to his diplomats.

The third Abe-Hu meeting of the quarter, scheduled for the EAS meeting in the Philippines, failed to materialize. In early December, the Philippine government postponed the EAS summit out of concern over a typhoon then moving toward the Philippines. However, the foreign ministers did meet Dec. 9; their talks focused on invitations to Chinese leaders to visit Japan in 2007, North Korea, the East China Sea, acid rain in China, Taiwan, and the joint history study.

East China Sea/Senkakus

China's ongoing exploration activities in the East China Sea continued to attract Japanese attention. On Nov. 8, Chief Cabinet Secretary Shiozaki told reporters that the government had confirmed a Nov. 1 sighting of flames on a Chinese platform in the Pinghu gas field, located 60 km west of Japan's claimed median-line boundary. Consequently, Japan lodged a diplomatic protest expressing concern with "China's illegal moves to create a fiat accompli in waters within Japan's 200 nautical mile zone." On Nov. 2, Vice Minister Yachi met Ambassador Wang to protest the development. Wang replied that he could not accept the protest.

Meanwhile, sovereignty issues involving the disputed Senkaku/Diaoyutai islands again flared. On Oct. 22, Hong Kong activists, representing the Action Committee for Defending the Diaoyu Islands, departed Hong Kong aboard a fishing vessel for the Senkaku islands with the intention of landing on the islands to claim Chinese sovereignty. The *Sankei Shimbun* reported that Beijing had tried to persuade the activists to give up the protest and to place a higher priority on the improvement of Sino-Japanese relations. Reportedly, Beijing denied mainland members of the activist group permits to enter Hong Kong, thus reducing the size of the party from 40 to 26.

The day after the ship's departure, Chief Cabinet Secretary Shiozaki told a press conference that, from the perspective of history and international law, the Senkakus were Japanese territory and the government would take all appropriate steps to expel the intruders." On Oct. 27, the Japanese Coast Guard found that the Hong Kong vessel had entered Japanese waters and was within 13 km of the islands. When efforts to warn the ship off using bull horns failed, the Coast Guard resorted to water cannons to expel it. Beijing protested in response, reiterating its claim to the islands and accusing the Coast Guard of injuring the activists and damaging the ship.

History

In early October, during plenary meetings of the House of Representatives, Abe faced his first interpolation. In responding to questions, he called for improved relations with Japan's Asian neighbors, but on the issue of Yasukuni, made clear that he would "not make public" whether he would go to the shrine. At the same time, he took his

predecessor's position that it was "strange" for countries to refuse meetings over a "single issue."

On the issue of history, Abe acknowledged Japan's "colonial rule and aggression" but stopped short of reiterating former Prime Minister Murayama's expression of "apology and remorse." While he had not thought to reissue the Murayama statement, Abe said that his government would "keep alive" the document. As for the Class-A war criminals, Abe expressed the view that they, including his grandfather, were "greatly responsible" for the war and the suffering inflicted on the people of Asia. He added that "since politics is responsible for the results, it is only natural that decisions made at the time were wrong." At the same time, he said that it was "not appropriate" for the government to make "a specific judgment."

With regard to the International Military Tribunal for the Far East, the prime minister said that Japan, in signing the San Francisco Peace Treaty, "had accepted the judgments handed down at the trials." He went on to say that "in view of state-to-state relations, Japan is not in a position to express objection to the judgements." He noted, however, that Class-A war criminals enshrined at Yasukuni were not criminals under Japanese law.

Abe also reaffirmed the 1993 statement by then Chief Cabinet Secretary Kono Yohei that the "former Imperial Japanese Army was directly or indirectly involved in establishing and managing facilities for the transport of comfort women."

The Abe government's commitment to the Kono statement, however, was soon called into question. Deputy Chief Cabinet Secretary Shimomura, in a speech delivered to the Foreign Correspondents Club in Tokyo Oct. 25 and in which he said he was expressing his personal views, suggested that the time may have come to reconsider the Kono statement. He called for "facts" to be examined "more carefully" and that time be taken to "collect objective and scientific knowledge when we think of the issue." Asked if the prime minister had changed his views on the issue, Shimomura replied that he thought it "only natural for the prime minister to change his views from those he held as a lawmaker." He went to add that "rather than accepting 100 percent the Kono statement and the so-called Murayama statement, the prime minister has given replies based on the position he holds."

A day later, Abe, observing that the deputy chief Cabinet secretary was speaking personally as a lawmaker, said that there was "no problem at all" with Shimomura's remarks. Abe noted that when he held Shimomura's position, he too expressed various opinions as a lawmaker. Meanwhile Chief Cabinet Secretary Shiozaki told reporters that Shimomura spoke in a "private capacity" and that the government's position "in honoring the 1993 Kono statement remains unchanged." On Oct. 27, Shimomura issued a clarification: he was speaking as a political figure, not as deputy chief Cabinet secretary

Yasukuni

On Sept. 28, *Kyodo News Service* published the results of a poll taken Sept. 26-27 on popular expectations of the new Abe government. On the question of whether the new prime minister should visit Yasukuni Shrine, 51.3 percent said that he should not go, while 33.0 percent said that he should.

On Oct. 2, senior members of the War Bereaved Families Association met to consider the disenshrinement of the Class-A war criminals, as advocated by its chairman Koga Makoto. At issue was the question of setting up a study group at the executive meeting of the association scheduled for Nov. 15. The *Nihon Keizai Shimbun* regarded the study group as a way of putting off a resolution of the issue, noting that a decision on disenshrinement could split the association and affect the July Upper House election. At the same time, a study group would serve as a face-saving gesture for Koga.

Meanwhile, on Oct. 18, on the occasion of the autumn festival, 84 members of the Lower House visited the shrine, while 90 secretaries visited the shrine as representatives of 70 Lower House members and 20 Upper House members. Neither the prime minister nor members of his Cabinet visited. At the shrine, Chief Priest Nanbu Toshiaki reiterated the shrine's position that "separate enshrinement [of the Class-A war criminals] is impossible in view of religious creed."

In an Oct. 30 speech to the convention of the War Bereaved Families Association in Fukuoka, Koga turned to a discussion of alternatives to Yasukuni, either construction of a new secular war memorial, as advocated by former LDP Secretary General Yamasaki Taku, or the use of the existing Chidorigafuchi site. Koga's bottom line was that "we need to consider what to do to have a shrine to which all Japanese can visit without discomfort." Koga, however, refrained from taking up the issue of separation.

On Nov. 15, directors of the association agreed to establish a study group to review the history of the association and debates previously conducted on Yasukuni. In doing so, Vice Chairman Otsuji Hidehisa announced that "the idea of separately enshrining Class-A war criminals is not to be taken as a premise of the study," thus leaving open whether the issue will be considered at all. On Dec. 12, Koga told a meeting of the Diet's Asia Strategy Study Group that it is imperative for the shrine to study the question of whether the enshrinement of the Class-A war criminals was appropriate. As early as possible, he wanted to communicate to the shrine the thoughts of the association on the issue.

Nuclear debate

North Korea's Oct. 9 nuclear test detonated a debate in Japan over nuclear weapons. On Oct. 15, Nakagawa Shoichi, chairman of the LDP Policy Research Council, told a *Sunday Asahi Television* audience that "possession of nuclear weapons is not prohibited by law." While acknowledging the possibility of Japan being attacked by a country possessing nuclear weapons as "low," he argued that a debate on the question of nuclear weapons is "appropriate." At the same time, he made clear that he was not advocating doing away

with Japan's three nonnuclear principles, that the debate should not be premised on the proposition that Japan should possess nuclear weapons, only that there were both "merits and demerits" in the possession of such weapons.

Nakagawa's statement drew fire from his LDP colleagues. Director General of the Defense Agency Kyuma Fumio told a meeting of the Lower House Committee on Antiterrorism that a discussion of the issue itself was "essentially no problem, but the discussion itself could send a wrong message to other countries." Chief Cabinet Secretary Shiozaki told the same meeting that Japan "is determined not to possess nuclear weapons under the three nonnuclear principles." Former LDP Vice President Yamasaki Taku, in a Tokyo speech, said that government officials needed to be "more prudent about making this kind of remark," while former LDP Secretary General Kato Koichi told an Osaka audience that Japan "must acquire an international way of thinking that is premised on being absolutely unacceptable to say something like Japan going nuclear."

By midday, Nakagawa was telling reporters that he personally was opposed to nuclear weapons, that he upheld the three nonnuclear principles, and that he was only calling for an intense debate on steps Japan could take to protect itself while upholding the three principles. He did not see the call for such a debate as contradicting the three principles. Meanwhile, Prime Minister Abe was making clear that his government would "observe the three nonnuclear principles as our country's national policy. He added "such a discussion will not be held in the government."

Later in the day, Abe met with Wang Jiarui, head of the CCP's International Liaison Department, on the grounds of the Diet. Wang expressed his appreciation for Abe's statement that Japan would strictly adhere to its three nonnuclear principles

On the Oct. 17, Foreign Minister Aso told the Lower House Committee on Security that it would be better to study the issue than not and that after studying the issue "not possessing nuclear weapons is one option." Meanwhile the prime minister was attempting to put an end to the discussion, announcing "we are through with this topic." However, on the Oct. 18, after reaffirming that the government's policy on the three principles had not changed, Aso told the Lower House Committee on Foreign Affairs that, at a time when neighboring countries possess nuclear weapons, to argue against debate was "one way of thinking." He thought it important to debate the issue from various perspectives; in short, "not debating any option is foolish." On Oct. 18, China's Foreign Ministry's Spokesperson Liu Jianchao told a regularly scheduled press conference that China hoped Japan "would abide by its three nuclear free-principles" and take "a responsible attitude in the maintenance of regional peace and stability."

Asked about Aso's statement, Abe replied that the foreign minister had said that the three principles "would be kept as is"; accordingly, his remarks "were in line with the Cabinet view." Abe did not think the matter was "worth talking about." On Nov. 20, at the conclusion of the APEC meeting in Hanoi, Abe reiterated that "formal panels in the LDP will never discuss the idea of Japan considering a nuclear option." He added that in light of the fact that Japan was the only country to suffer nuclear attack, it had a "sense of

mission to eliminate nuclear weapons from the world.” Japan, he stated, “has abandoned the policy option of nuclear armaments.” He did, however, allow that “individual lawmakers have the right of freedom of speech” – which they continued to exercise.

The debate ran heavily against debating nuclear options. LDP Diet Policy Committee Chairman Nikai Toshihiro urged restraint on the foreign minister given that his statements could cause “misunderstanding.” Hatoyama Yukio, secretary general of the opposition Democratic Party of Japan, called for Aso’s dismissal. On Nov. 1, Yamasaki Taku told a meeting of his faction that “at a time when the country is taking sanctions against North Korea following its nuclear test, discussing a nuclear option is utterly inappropriate. Debate must be blocked.” On Nov. 2, former Foreign Minister Komura Masahiko told an LDP factional meeting that “it is important for Japan to send the international community a message that Japan has no plan to have nuclear weapons.”

Nakagawa also came under similar attack. An unidentified LDP member was quoted as saying that Nakagawa “should not call for a nuclear debate from the position of Policy Research Council chairman.” On Nov. 23, Nakagawa took on his critics, telling a Gifu audience that in addition to the three nonnuclear principles, a fourth, “non-discussion” had recently been added. This was something he could not recognize. He went on to argue that those saying that the issue must not be debated, were in effect creating a fifth principal “non-thinking.”

Security

In a Sept. 27 media interview, Director General of the Defense Agency Kyuma Fumio observed that China’s military power was “extremely great” and that it would be “impossible for Japan to deal with it single-handedly, no matter how much money we spent for our defense buildup.” Asked if Japan could fight China, Kyuma replied “I can say squarely that we can’t.” Kyuma underscored Japan’s concern with China’s 100 nuclear missiles as a source of “anxiety.” Kyuma saw the security treaty with the U.S. as a reason for China avoiding all-out war with the U.S. Japan’s continuing concern with China’s military build-up was reflected in Abe’s Nov. 21 meeting with the visiting Danish prime minister during which Abe made clear Japan’s opposition to the lifting of the EU’s arms embargo to China

On Nov. 29, as agreed during the Beijing summit, Japan and China resumed working-level defense talks in Tokyo. China was represented by Maj. Gen. Zhang Qinsheng, assistant to the chief of staff of the PLA, and Japan by Administrative Vice Minister of the JDA Moriya Takemasa. The meeting marked the first working-level defense dialogue since March 2005; ministerial level-meetings have not been held since September 2003. The two sides reached agreement on resuming Cabinet-level talks in the new year as well as an exchange of port calls by navy ships

Business and economics

In early November, the *Nihon Keizai Shimbun* reported that, according to statistics released by China's Ministry of Commerce, the value of Japanese direct investment during the first nine months of the year had fallen 30 percent to \$3.27 billion over the same period in 2005. Reasons cited for the fall include completion of large-scale investment projects; rising labor and management costs; concerns over a proposed increase in corporate taxation; and rising interest in other countries, such as India. JETRO reported that Konica-Minolta would likely reduce investment in China by 38 percent and major air conditioner manufacturer Daikin in 2007 would cut investment 42 percent over 2006. The Chinese statistics revealed a worldwide decline of FDI in China, a negative 0.5 percent, in 2005, the first drop in six years and a continuation, negative 1.5 percent January-September 2006.

However, the Ministry of Finance's balance of payment numbers revealed that China is the second largest destination for Japanese FDI, commanding 14 percent of the total. (As a destination for Japan's FDI, the U.S. leads with 27 percent.) Looking at the January-August period, the Finance Ministry's statistics showed an increase of 18 percent over 2005. According to the *Nikkei* report, the disparity in the Chinese and Japanese reports lies in the fact that Japanese statistics include financial and insurance-related services and are yen-denominated, while the Chinese numbers exclude finance and insurance, focus on manufacturing and services, and are dollar denominated.

Notwithstanding the numbers debate, Japanese business continued to expand in China's booming market:

- In September, Honda (China), a wholly owned subsidiary of Honda Motor, began sales of the luxury Acura brand;
- Apparel retailer Fast Retailing, with six Uniqlo shops already doing business in Shanghai, opened its largest Uniqlo Shanghai outlet in December. The new Shanghai shop is second only to the New York outlet in terms of floor space;
- In December the *Asahi Shimbun* reported on the skyrocketing growth of commerce, a three-fold increase over the past five years, between the six northern prefectures on Honshu and China's northeast.

At the same time, the two governments moved to strengthen economic ties. During the APEC meeting in Hanoi, Abe and Hu agreed to an annual conference of economic ministers, and in December economic ministers, meeting in advance of the EAS, agreed to begin negotiations on a trilateral investment treaty, to include South Korea. China also proposed to initiate discussions on a trilateral Free Trade Agreement.

Looking ahead

On Dec. 9, the Cabinet Office released the results of a public opinion survey on foreign relations. Confirming the upswing in Japanese sentiments toward China, the survey showed that 34.3 percent of Japanese feel positive toward China, an increase of 1.9 percent over the previous year. Those not feeling friendly to China fell 1.8 percent to 61.6 percent. At the same time, 21.7 percent regarded bilateral relations to be in good shape, an increase of 2.0 percent over 2005, while 70.7 percent disagreed. Where the relationship goes in the new year is anyone's guess. Developments over the last quarter are encouraging, but much of the future remains tied up in the past – and in Abe's decision on Yasukuni.

Chronology of Japan-China Relations October-December 2006

Sept. 19, 2006: Abe elected president of the LDP.

Sept. 23, 2006: LDP Secretary General Nakagawa meets Chinese ambassador; assures that Abe will not visit Yasukuni Shrine during spring festival.

Sept. 23-25, 2006: Japanese and Chinese diplomats conduct Comprehensive Policy Dialogue in Tokyo; explore summit options.

Sept. 26, 2006: Abe becomes prime minister.

Sept. 27, 2006: New JDA Director General Kyuma acknowledges that Japan cannot compete with China militarily.

Sept. 29, 2006: Abe in policy speech to Diet calls for strengthening relations with China/South Korea.

Oct. 2, 2006: Senior members of War Bereaved Families Association consider study group to consider disenshrinement of Class-A war criminals from Yasukuni Shrine.

Oct. 2-3, 2006: Vice Minister Yachi and Ambassador Wang wrap-up summit coordination.

Oct. 3, 2006: Abe deals with issues of history during first Diet interpolation.

Oct. 4, 2006: Deputy Chief Cabinet Secretary Shimomura announces summit for Oct. 8.

Oct. 8, 2006: Abe arrives in Beijing; meets Premier Wen and President Hu.

Oct. 8-10, 2006: Diet members of Japan-Republic of China Parliamentary Discussion Council visit Taiwan for 10-10 National Day celebration.

Oct. 10, 2006: Fukuoka High Court upholds lower court decision rejecting claims for damages resulting from former Prime Minister Koizumi's 2001 and 2002 visits to Yasukuni Shrine; avoids discussion of constitutional issue.

Oct. 15, 2006: Chairman of LDP Policy Research Council Nakagawa Shoichi, in wake of North Korea's nuclear test, calls for debate on Japan's possession of nuclear weapons.

Oct. 16, 2006: Diet delegation, led by Upper House President Ogi Chikage, meets in Beijing with Wu Bangguo, chairman of National People's Congress Standing Committee; Oct. 18, Ogi meets President Hu; discussions focus on North Korea.

Oct. 16, 2006: Abe meets visiting Chinese Communist Party official Wang Jiarui; affirms Japan's commitment to its nonnuclear principles.

Oct. 16-17, 2006: Japan-China Ruling Parties Exchange Conference meets in Tokyo.

Oct. 17-18, 2006: Aso in remarks to Diet calls for study of nuclear issue; Abe restates his government's commitment to Japan's nonnuclear principles.

Oct. 18, 2006: 84 members of Lower House visit Yasukuni for autumn festival.

Oct. 21-23, 2006: Former Prime Minister Mori visits Taiwan.

Oct. 21-23, 2006: Association for Japan-China Friendship in the 21st Century meets in Beijing; on Oct. 18, Kobayashi, Japan chairman, meets Foreign Minister Li; on Oct. 23 Kobayashi, meets Premier Wen; discussion focuses on history and North Korea.

Oct. 22, 2006: Chinese activists depart Hong Kong for Senkaku islands.

Oct. 23, 2006: LDP's Aisawa Ichiro, Lower House Steering Committee chairman, meets in Beijing with Vice FM Wu Dawei; discussion focuses on Wu's trip to North Korea and six-party process.

Oct. 25, 2006: Deputy Chief Cabinet Secretary Shimomura raises "reconsideration" of comfort women issue in remarks to Foreign Correspondents Club.

Oct. 26, 2006: Abe sees no problems with Shimomura's remarks; notes he was speaking in personal, not official, capacity.

Oct. 26, 2006: Chief Cabinet Secretary Shiozaki reiterates Japan's claim to Senkaku islands.

Oct. 27, 2006: Ambassador Wang tells Yokohama audience that Abe's trip has overcome previous political obstacles.

Oct. 27, 2006: Shimomura affirms remarks on comfort women were made in personal capacity.

Oct. 27, 2006: Japanese Coast Guard drives off Hong Kong activists from Senkaku islands.

Oct. 27, 2006: Abe government begins consideration of legislation to upgrade Defense Agency to ministry.

Oct. 27-28, 2006: Democratic Party of Japan President Ozawa Ichiro meets Wu Bangguo, chairman of National People's Congress Standing Committee.

Oct. 30, 2006: LDP's Nakagawa Shoichi conducts video conference with Taiwan's President Chen; says peace and stability in Taiwan Strait is important to Japan; calls on China to account for increases in its military spending.

Oct. 31, 2006: Abe calls for reconsideration of Article 9 in *Financial Times* interview.

Nov. 1, 2006: JDA Director General Kyuma in remarks to Diet calls for reconsideration of Article 9.

Nov. 1, 2006: Flames spotted emanating from Chinese platform in East China Sea.

Nov. 1-2, 2006: LDP factions meet; general opposition to debate on nuclear issues.

Nov. 2, 2006: Vice Minister Yachi protests to Ambassador Wang Chinese activities in East China Sea.

Nov. 7, 2006: LDP Asia Policy Study Group holds inaugural meeting.

Nov. 8, 2006: Chief Cabinet Secretary Shiozaki announces confirmation of flames emanating from Chinese platform in East China Sea.

Nov. 8, 2006: *Kyodo News* reports opening of war resource center in Saitama Prefecture.

Nov. 8, 2006: Japan calls for China to assume larger share of UN dues.

Nov. 11, 2006: Dalai Lama in Tokyo; calls for democracy in China.

Nov. 15, 2006: Directors of War Bereaved Families Association approve study group on Yasukuni issues.

Nov. 16, 2006: FMs Aso and Li meet in Hanoi during APEC meeting.

Nov. 18, 2006: Abe and Hu meet in Hanoi.

Nov. 20, 2006: Abe, at APEC, reaffirms Japan's commitment to non-nuclear principles.

Nov. 21, 2006: Abe lobbies visiting Danish prime minister against EU lifting of China arms embargo.

Nov. 23, 2006: Nakagawa responds to critics.

Nov. 23, 2006: China's Foreign Ministry blasts former Prime Minister Mori's October visit to Taiwan and meeting President Chen.

Nov. 27, 2006: Director General for Asia and Oceanic Affairs Sasae meets in Beijing with Vice FM Wu Dawei and Assistant Minister Cui to discuss North Korea.

Nov. 29, 2006: Japan-China working-level defense talks held in Tokyo.

Nov. 30, 2006: Upper House passes legislation to raise JDA to ministry.

Dec. 1, 2006: Kobe court orders government to pay ¥468.6 million compensation to 61 plaintiffs in suit by war-displaced Japanese.

Dec. 1, 2006: Japanese and Chinese diplomats begin planning for Premier Wen's spring visit to Japan.

Dec. 1, 2006: Abe government appoints Tokyo University professor Kitaoka Shinichi to chair Japan team of joint history study.

Dec. 3, 2006: Environment Minister Wakabayashi calls for post-2008 extension of Japan's ODA program for China to protect environment.

Dec. 6, 2006: Song Jian, chairman of China-Japan Friendship Associations, meets FM Aso in Tokyo; praises Abe's visit to China.

Dec. 6, 2006: China arrests Chinese suspect in 2000 slaying of Japanese businessman in Yokosuka.

Dec. 8, 2006: Abe meets visiting members of China-Japan Friendship Association; calls for expanded grassroots exchanges.

Dec. 9, 2006: FM Aso and Li meet in Cebu; confirm experts history panel to meet Dec. 26-27; agree to set up experts panel on East China Sea.

Dec. 9, 2006: Cabinet Office public opinion survey confirms up-tick in Japan-China relations.

Dec. 9, 2006: Japan, China, and South Korea hold economic ministerial on Cebu in the Philippines.

Dec. 15, 2006: Upper House passes legislation to raise JDA to ministry.

Dec. 21, 2006: Japan and China agree to set up organization to recover and treat chemical weapons abandoned in China by Imperial Army.

Dec. 22, 2006: Japanese Foreign Ministry announces opening of new embassies in Malawi, Botswana, Mali, Lithuania, Bosnia, and Micronesia; decision interpreted by media as indication of intention to compete with China.

Dec. 23, 2006: Japanese emperor on 73rd birthday reaffirms importance of mourning war dead; but avoids mention of Yasukuni.

Dec. 25, 2006: FMs Aso and Li confer by telephone on North Korea.

Dec. 25, 2006: State Councilor Tang meets visiting Lower House Speaker Kono.

Dec. 26-27, 2006: Joint history panel meets in Beijing.



Japan-Korea Relations:
Abe's Ascension

David Kang, Dartmouth College
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With Abe Shinzo becoming prime minister of Japan in late September, Japan-Korea relations entered a new period. Political relations with both North and South Korea deteriorated badly under Prime Minister Koizumi Junichiro, and both Koreas waited to see whether Abe would take a new course toward the peninsula. His initial act of visiting South Korea and China won cautious praise from the South Koreans, although the real test of his leadership and where he plans to take Japanese foreign policy remain to be revealed. With North Korea's nuclear test, Japan became one of the most eager participants in implementing UN Security Council Resolution 1718, although this was widely expected and thus did not unduly affect relations with South Korea. North Korea's nuclear test marks a new phase in Northeast Asian politics, and how Japan and the two Koreas manage their relations in the coming year could have a major impact on stability in the region.

Japan-North Korea: nuclear test, more sanctions

Although there was not much interaction *between* Japan and North Korea, the actions that they did take this quarter are expected to have broader, lasting implications for the security of the entire region and the world. North Korea, after opening last quarter with missile launches in early July, opened this quarter with a nuclear test Oct. 9. Japan, with limited economic sanctions already in place, immediately increased those measures against North Korea, and looked to the international community for more effective, coordinated pressure. The possibility of bilateral dialogue between Japan and North Korea is thus more remote than ever. North Korea's nuclear test – coming in the first month of Abe's tenure as Japan's new prime minister – appears to ease the way for Japan to move forward with a more assertive foreign policy.

Not surprisingly, the inauguration of the Abe Cabinet marked little change or breakthrough in Japan-North Korea relations, and three developments on the part of Japan stood out during this quarter. First, against the backdrop of its reaffirmed and strong alliance with the U.S., Tokyo continued its “diplomacy for pressure,” actively reaching out to the international community to address what Tokyo considers its most pressing foreign policy agendas: the abduction issue and the North's nuclear weapons program. As skepticism has grown about whether it is possible to resolve these two issues through dialogue with Pyongyang (the last bilateral negotiations between Japan and

North Korea were held earlier this year in February), the combined close cooperation with the U.S., UN Security Council and other UN agencies, and what Prime Minister Abe called “dynamic diplomacy” in Asia is beginning to emerge as a pattern in Japanese diplomacy.

Promptly after the nuclear test, the UN Security Council passed Resolution 1718, a product of tight coordination between the U.S. and Japan, which followed last quarter’s UNSCR 1695 in calling for tougher punitive sanctions against Pyongyang. Under Chapter 7, UNSCR 1718 imposed a ban on trade with North Korea not only in nuclear weapons and other WMD items, but also banned trade in high-end military equipment. According to the Oct. 22 *Japan Times*, the Japanese government was also considering seeking another, tougher UN Security Council resolution, one that would not limit the range of sanctions under Chapter 7 and would send “a more powerful message to North Korea,” should Pyongyang conduct any more missile launches or nuclear tests.

The trend to internationalize North Korea’s abductions by framing them as a human rights issue continued; the coalition that is most actively keeping this issue alive is the combined forces of family members of Japanese abductees, the Japanese government, and concerned NGOs. During their visit to the UN to seek help to bring their loved ones back to Japan, relatives of the Japanese abductees noted that North Korea has abducted people from 12 countries, including South Korea, China, Lebanon, Thailand, Romania, France, Italy, and the Netherlands, and they called on envoys and senior diplomats from 13 countries, including U.S. Ambassador to the UN John Bolton, “not to ease sanctions against North Korea as long as not only nuclear and missiles questions but also the abduction issue remains unresolved.” On Nov. 2, the Japanese government, together with the European Union and other countries, submitted a draft resolution to the General Assembly’s Third Committee, which deals with human rights, to denounce North Korea’s abduction of foreign nationals, and which resulted in the “Convention of the Protection of All Persons from Enforced Disappearance,” passed in December. The Convention, however, would not directly help resolve Japan’s abduction issue, since it is binding only on the parties to the Convention, and its jurisdiction is limited to abductions that occurred before its ratification.

The Japanese government also engaged in an unprecedented action regarding the abductees, with Internal Affairs and Communications Minister Suga Yoshihide issuing an order for *NHK* to air more on North Korea’s abduction in its shortwave radio service. While criticism and concerns were expressed in the media over the government’s interference with freedom of the press, the Radio Regulatory Council, an advisory panel to the minister, endorsed the order “specifically mindful of the problem of North Korea’s abduction of Japanese,” based on Article 33 of the Broadcast Law. *NHK*, mainly operating on subscription fees paid by the public, will receive ¥2.25 billion in fiscal year 2006 from the government. In a similar move, the Japanese government will also provide funding to the private “Investigation Commission on Missing Japanese Probably Related to North Korea,” in order to broadcast messages to abductees who may still be alive in North Korea.

In July 2006, Japan imposed a ban on the North Korean ferry *Mangyongbong-92*, and in September banned financial institutions from processing overseas remittances to 15 organizations and one individual with suspected links to the North's weapons development program. Pyongyang's nuclear test, coupled with Tokyo's frustration over its "insincere responses" on the abduction issue, caused Japan to implement its harshest sanctions yet. Two days after the nuclear test, Japan imposed a total ban on North Korean ships entering Japanese ports, a ban on all imports from North Korea, and a ban on North Korean nationals from entering Japan, with the exception of those already living in Japan. Then, in early November, following UNSCR 1718 and relying on a book written by Fujimoto Kenji (who was Kim Jong-il's personal chef for 13 years), Tokyo banned the export to North Korea of 24 luxury items, including beef, tuna meat, caviar, liquor, cars, motorcycles, yachts, watches, cameras, movie and music devices, jewelry, and tobacco. According to Chief Cabinet Secretary Shiozaki Yasuhisa, the 24 items accounted for 16 percent of the ¥6.88 billion worth of goods exported to North Korea from Japan in 2005. In December, as the Six-Party Talks recessed without much progress and with Tokyo's attempt to include the abduction issue at the talks having failed, the Liberal Democratic Party (LDP) drafted a set of additional punitive steps that includes calls for tougher financial screening, broader financial sanctions, and further bans on trade and port calls. However, Foreign Minister Aso Taro said Dec. 24 that those additional measures at this stage were not likely "because Japan's sanctions are working."

For its part, Pyongyang attempted to isolate Japan before and throughout the Six-Party Talks. Song Il-ho, North Korea's ambassador in charge of diplomatic normalization talks with Japan, said in an interview Oct. 11 that "we are currently studying to see where his [Abe's] true intentions lie" and criticized Japan's punitive sanctions against North Korea by saying that the North "will take strong countermeasures." Once Pyongyang agreed to return to the Six-Party Talks on Oct. 31, the North Korean Foreign Ministry said in a statement that it wanted to leave Japan out of the Six-Party Talks since "a new administration was just launched in Japan, so Tokyo has many things to take care of" and told Japan to "mind its own business instead of poking its nose into the work of the talks to its inconvenience."

When Japan dismissed the North's statement as "Pyongyang's usual tactic," and attempted to bring up the abduction issue at the Six-Party Talks, North Korea responded by saying that "the Six-Party Talks are meant to deal with the nuclear issue in name and reality, not for discussing the abduction issue which has nothing to do with the former," noted the *Korean Central News Agency* on Dec. 11. During the Six-Party Talks, in an apparent attempt to isolate Japan, North Korea held numerous bilateral meetings with all the participants except Japan, before ending the five days of negotiations in Beijing without progress. Throughout the quarter, Pyongyang stuck to the position that the abduction has been resolved and claimed that Japan was raising the issue to intensify Japan's sanctions against it. Criticizing events such as the visit of 84 Japanese politicians to Yasukuni Shrine, and Abe's "ambiguous attitude" toward history issues, North Korea argued that Abe's real intention has been revealed and that the Abe Cabinet has succeeded in seizing power "by dramatizing the abduction issue and stoking bitterness toward the DPRK among Japanese."

Japan-South Korea: talking, but avoiding big issues

Within the context of North Korea's nuclear test and Abe's assumption of the prime ministership were clear signs that Japan has begun moving away from its postwar pacifist security policy. Although Prime Minister Abe repeatedly pledged that his Cabinet would not debate the issue of nuclear weapons and would adhere to the three nonnuclear principles of "not possessing, not producing and not allowing the entry into Japan of nuclear weapons," two prominent members of his Cabinet tried to rekindle the nuclear debate after the nuclear test. LDP Policy Chief Nakagawa Shoichi called for discussions on whether Japan should go nuclear on a popular TV show, while Foreign Minister Aso made similar remarks before the Lower House Foreign Affairs Committee. Although a *Yomiuri-Gallup* poll conducted in mid-November showed that about 80 percent of Japanese respondents viewed North Korea as a military threat to Japan, the *Mainichi Shimbun* reported Nov. 27 that 78 percent of respondents opposed Japan's possession of nuclear weapons.

In the meantime, Prime Minister Abe named 14 defense and diplomacy experts to a committee to consider steps to reorganize and create a national security body similar to that of the U.S. National Security Council, which would function as a central information-gathering body and issue directives on security matters. The Defense Agency was upgraded to ministerial status effective in January 2007, and this decision will give defense officials more influence in national policymaking and budget decisions, which has caused some anxiety among some experts and politicians in and outside Japan.

Perhaps the most notable move by Abe, however, was his unexpectedly quick initiation of long-delayed summit meetings with China and South Korea, both of which were held within two weeks of his inauguration. Japan-South Korea relations were on the mend when South Korean President Roh Moo-hyun and Prime Minister Abe held a summit on Oct. 9. Although the sources of conflict between the two countries remain unresolved, at the very least Abe's visit to Seoul opened the door for high-level diplomatic dialogues between Seoul and Tokyo. The overture for the summit began before Abe took office, based on the urgent need by both sides to mend bilateral ties. On Seoul's part, the *Choson Ilbo* reported on Sept. 29 that the South Korean government was waiting to see what position Japan's new prime minister would take with regard to Japan's history and territorial claims over the Dokdo/Takeshima islets. However, even knowing Abe's hardline orientation, Seoul expressed cautious hope that a new era in Japan-South Korea relations might be possible. Seoul also accepted the ambiguity over whether Abe would visit Yasukuni Shrine as prime minister, choosing not to make an issue of the shrine during the summit. On Tokyo's part, in the leadup to his summits with Seoul and Beijing, Abe clarified his views on Japan's past before the House of Representatives Budget Committee on Oct. 5, acknowledging the war responsibility of his grandfather and the late former Prime Minister Kishi, and accepting earlier government statements apologizing for Japanese colonial rule and aggression.

The first summit of Japanese and South Korean leaders in 11 months was a modest success, and repaired bilateral relations enough so that dialogue over more contentious issues is expected to continue. Both Abe and Roh condemned North Korea's nuclear test – which took place on the day of their summit – and agreed to foster “future-oriented” relations, although Roh did not forget to mention Japan's need to face up to its past, referring to the Yasukuni issue. Abe replied that Yasukuni would be handled “appropriately,” an ambiguous reply that kept the issue from overshadowing the summit while still leaving room for his own decision about how to handle it. Although it is more likely than not that Seoul would cancel a summit meeting again if Abe decides to visit Yasukuni Shrine, Abe's ambiguity seemed to work and paved the way for high-level diplomatic exchanges between Seoul and Tokyo. The decision to launch a second round of joint historical research was reached during the summit as well. One added factor in softening Abe's hawkish image during his visit might have been news about Japanese First Lady Abe Akie's love for “things Korean.” South Korean newspapers noted that she is a fan of Korean dramas and is learning Korean.

Following the Roh-Abe summit came a number of high-level contacts between Seoul and Tokyo. South Korean Foreign Minister Ban Ki-Moon visited Japan and reaffirmed cooperation between the two countries in early November, and his visit was followed by talks at the level of director general, the 14th set of such talks since 1994. Issues discussed included an exchange of views on the security situation in Northeast Asia, and it was decided to resume the defense ministers' meeting early next year between South Korean Defense Minister Kim Jang-Soo and Japanese Defense Minister Fumio Kyuma. On Dec. 27, newly appointed South Korean Foreign Minister Song Min-Soon met Prime Minister Abe and decided to press for a visit by President Roh to Japan next year. During the visit, Foreign Ministers Song and Aso also exchanged documents ratifying a treaty that will enable law-enforcement authorities of the two countries to better cooperate in dealing with cross-border crimes.

While history issues were put on hold, the quarter revealed signs of bilateral cooperation and the seeds for further conflict. Reflecting the thaw in the bilateral relations, Foreign Minister Aso congratulated Foreign Minister Ban upon his appointment as UN secretary general, saying that he was happy that the secretary general was chosen from South Korea, “a country that embodies the remarkable development and growth that have marked Asia in the past 35 years.” It remains to be seen how deep or enduring this détente is. South Korean politicians and media, paying close attention of Japan's moves toward revising its pacifist Constitution, have shown anxiety over the recent nuclear debate within Japan. However, given the rancorous tone of relations during the early part of 2006, the subdued tone, cautious optimism of the Roh-Abe summit, and the lack of any other emotional issues were all to be welcomed.

Economic relations

The political initiatives undertaken by Prime Minister Abe to mend relations with China and South Korea had a positive impact on economic relations. Although cooperation and competition in Japan-South Korea economic relations continued, the good news of the

quarter was the revived discussion about trilateral cooperation between China, South Korea, and Japan to further integrate the three major economies of Northeast Asia. On the sidelines of the ASEAN-related meetings in the Philippines, Japan, China, and South Korea agreed to begin negotiations next year aiming to conclude a trilateral investment agreement. The working-level discussions had been put on hold due to former Prime Minister Koizumi's visits to Yasukuni. The South Korean daily *Choson Ilbo* reported Dec. 8 that many South Korean and Japanese firms were hoping that the deal would ease regulations and promote investment in China.

Another notable development that drew much media coverage this quarter was the "yen bubble," which referred to the weakness of Japan's currency despite its healthy economy. The *Choson Ilbo* reported that the Japanese yen dipped below 800 won for the first time in nine years on Oct. 16, and the South Korean government verbally intervened in foreign currency markets, calling the fall "abnormal," although that failed to stop the decline. The "yen bubble" affected Korean exporters competing with Japanese firms overseas or hoping to penetrate the Japanese market. As one example of the problem facing South Korean exporters, export prices of South Korean automobiles rose 2 percent this year due to the yen's valuation, while the prices of Japanese automobiles declined 5 percent. According to Shin Seung-Kwan, a research fellow at South Korea's Trade Research Institute, 45 percent of Korean exporters who gave up on the export business during the first half of 2006 cited the strong won as a reason for their decision.

Competition continued in the electronic markets. South Korean electronic makers such as Samsung Electronics and LG Electronics are expanding their presence in Hong Kong, moving ahead of their Japanese counterparts. Samsung Electronics boosted its market share in sales of liquid crystal displays in Hong Kong to 20.3 percent as of late August, which marked a milestone for Samsung, which have traditionally trailed Japanese rivals such as Sharp or Sony. In addition, LG Electronics was lauded by the Dutch Business Association in Hong Kong for its clever marketing, and the company also enjoyed high sales of Chocolate mobile phones, managing to outpace competing models by Panasonic. According to *Choson Ilbo*, these trends can be attributed in part to the regional emergence of Korean pop culture combined with savvy marketing strategy.

Interdependence between Japan and South Korea also deepened. The *Joongang Ilbo* featured an article Oct. 30 titled, "Who says Korea and Japan can't get along?" and reported on the case of Hirose Korea Co., an electronic components producer that is a 50-50 joint venture between South Korea's Dae Duck Electronics and Japan's Hirose Electronics. Last year Hirose Korea racked up \$158 billion in sales revenue. Japanese investor Hirose gave South Korean Dae Duck full control over management of the company, and Dae Duck made efforts to improve corporate transparency. Japanese investor Hirose also transferred technologies to Dae Duck, inviting South Korean engineers to learn various skills. These efforts led to Hirose chairman Hiroki Sasaki's receiving the grand prize at the Korea-Japan Economics and Management Association held in Pusan in September for contributions to Korea-Japanese business relations.

Korea-Japan economic relations are also increasingly international. The *Japan Times* reported Oct. 11 that Toshiba Corp. will pay ¥5.5 billion for a 20 percent stake in the LG Phillips LCD plant in Poland. This partnership among rivals targets the European market, where the demand for LCD TVs is rapidly increasing. According to a statement by Toshiba, its investment in LG Phillips Poland will allow it to secure a stable supply of LCD panels at competitive prices. Competition among manufacturers is intense, but so is the cooperation – Sony makes LCD panels for Samsung TVs in another joint venture.

At the ninth bilateral talks in Tokyo on Dec. 24, maritime officials of Japan and South Korea agreed to cut fishing quotas in each other's waters to 60,500 tons next year, down from the current quota of 63,500 tons per year. This was the second consecutive annual drop in the two countries' fishing quotas. The number was trimmed by 3,500 tons in 2006 from 67,000 tons.

Society and culture

One group that has suffered from North Korea's nuclear test and the continuing fear within Japan about the potential threat from North Korea is North Korean residents living in Japan. There are about 598,000 Korean residents of Japan, and approximately 10 percent of them identify themselves with North Korea. According to Chongryun (the General Association of Korean Residents in Japan), there have been 171 physical or verbal attacks on Korean students and schools since North Korea's missile launches. The harassment included violence against students, such as an incident in which a Yamaguchi Prefecture school for North Korean children had its musical instruments thrown out onto its athletic field, and another in which the message, "Sanctions to nuke, eye for an eye" was posted on a Tokyo school's online message board. On another occasion, *Kyodo News* reported that an ultranationalist was arrested on suspicion of trying to intimidate members of Chongryun by mailing them a package that contained a severed finger and a threatening letter.

Chongryun has been put on the defensive, as well. The conservative Japanese newspaper *Yomiuri Shimbun* featured an article Nov. 29 titled "Government too slow to rein pro-Pyongyang groups," and reported one incident in which the Tokyo Metropolitan Police Department searched the pro-Pyongyang Chongryun headquarters office in Tokyo and other locations upon suspicion that Chongryun was violating the Pharmaceutical Affairs Law. It was reported that the wife of an executive of the Korean Association of Science and Technology in Japan (KAST), an organization affiliated with Chongryun, tried to smuggle medical supplies to North Korea, including intravenous solution bags obtained from a Tokyo doctor without authorization. The *Yomiuri*, criticizing Chongryun's protest of Japan's sanctions measure against Pyongyang as extremely unreasonable, opined that, "even considering the fact that Chongryun is an organization dedicated to Kim Jong-il, the statement must be seen as preposterous in that it disregards the profound nuclear threat felt by the Japanese."

On Nov. 8, about 100 Chongryun members staged a sit-in outside the Diet to protest sanctions against North Korea and voice concerns about recent incidents targeted North Korean residents in Japan. North Korea, in the official *Korean Central News Agency*, criticized Japan Nov. 20 by writing that, “their hostile acts and frenzied suppression of the bare-handed Chongryun and Koreans in Japan clearly show that they are barbarians ignorant of elementary international law, diplomatic usage and morality.” In an interview with *The Japan Times* Oct. 13, Chongryun international affairs bureau chief Kim Jong-ui said economic sanctions are not likely to impact most Korean residents in Japan who are loyal to Japan except for those who do business with North Korea in the areas of seafood and other consumer products. But he also expressed concerns about Japan’s recent measures against North Korea, saying that, “the greater fear is that the heated rhetoric from both Japanese political leaders and Japan’s media, especially the anti-North Korea, rightwing media, will escalate to the point where it will be extremely difficult for diplomacy to calm the situation.” He may have been referring to LDP Policy Chief Nakagawa Shoichi who publicly warned against Pyongyang’s idiosyncratic behavior, claiming that Kim Jong-il might launch a nuclear attack on Japan “because the country’s leader has overeaten rich food and suffers from diabetes.”

Other aspects of Korea-Japan relations have been improving, however. Young South Korean tourists, boosted by the “yen bubble,” increasingly traveled to Japan for vacations. The *Choson Ilbo* reported Nov. 21 that the number of South Koreans traveling to Japan this year was poised to exceed 2 million by the beginning of December. In the first six months, 515,000 men and 489,000 women from South Korea went to Japan, and those in their 20s and 30s make up 60 percent of tourists to Japan, with 60 percent also being women. In the past, Japan was a popular destination for South Korean businessmen going golfing, but now the trend is that a woman in her 20s and 30s visits Japan since “things are less expensive in Japan than in Seoul’s Gangnam district.” To target those younger tourists, travel agencies offer airline tickets and accommodation packages leaving for Japan on late Friday night and coming back early Monday morning.

The coming quarter

At this point, the upcoming quarter looks to be fairly quiet. It is hoped that the Six-Party Talks will reconvene in Beijing, although that remains to be seen. Barring a major crisis, South Korea and Japan have no planned summit meetings, although working-level contacts will continue. There are also no plans for any major change in Japan’s stance toward North Korea.

Chronology of Japan-Korea Relations October-December 2006

Oct. 1-31, 2006: Japan has presidency of the UN Security Council for October.

Oct. 4, 2006: Japan’s Vice FM Yachi Shotaro announces that Japan and the U.S. agree to seek a UN Security Council Chapter 7 resolution if Pyongyang conducts a nuclear test.

Oct. 5, 2006: PM Abe Shinzo acknowledges war responsibility of former Prime Minister Kishi, and accepts earlier government statements apologizing for Japanese colonial rule and aggression before the House of Representative Budget Committee.

Oct. 7, 2006: South Korea and Japan begin joint radiation study near Dokdo/Takeshima islets.

Oct. 9, 2006: Pyongyang conducts its first underground nuclear test.

Oct. 9, 2006: PM Abe visits Seoul for summit with President Roh for the first time in 11 months.

Oct. 10, 2006: Toshiba Corp. announces partnership with the LG Phillips LCD Poland to target the European market. The company will pay ¥5.5 billion for 20 percent stake in the LG Phillips LCD Poland.

Oct. 11, 2006: Tokyo announces additional economic sanctions against Pyongyang for the regime's nuclear test, which include a total ban on North Korean ships, a ban on all imports from North Korea, and a ban on North Korean nationals from entering the country. North Korea warned against "countermeasures" over Japan's punitive sanctions.

Oct. 11, 2006: Kim Yong-nam, president of the Presidium of the DPRK Supreme People's Assembly, meets delegation from Japan's *Kyodo News* headed by President Ishikawa Satoshi.

Oct. 14, 2006: The UN Security Council unanimously adopts Resolution 1718 to impose sanctions against North Korea under Chapter 7 taking measures under its Article 41, which limit sanctions to nonmilitary areas.

Oct. 15, 2006: Nakagawa Shoichi, chairman of the LDP's Policy Affairs Research Council, remarks on a TV talk-show that Japan needs to discuss the nuclear option from every angle for the sake of its peace and security.

Oct. 16, 2006: South Korean daily *Choson Ilbo* reports that the Japanese yen dipped below 800 won for the first time in nine years.

Oct. 18, 2006: Abe declares that Japan will not pursue nuclear weapons.

Oct. 19, 2006: The U.S., Japanese, and South Korean Foreign Ministers Condoleezza Rice, Aso Taro, and Ban Ki-moon meet for a trilateral meeting in Seoul and agree to cooperate on the North Korean nuclear threat.

Oct. 25, 2006: FM Aso tells a Lower House Foreign Affairs Committee session that although he abides by the nonnuclear principle, it is natural that Japan should freely debate what had led Japan originally to adopt the nonnuclear principle.

Oct. 29, 2006: Group of relatives of Japanese abductees releases an emergency appeal reporting that North Korea has abducted people from 12 nationalities.

Oct. 30, 2006: Japanese Ambassador to the UN Oshima Kenzo urges North Korea to return all the people it has abducted to their homelands.

Oct. 31, 2006: Relatives of Japanese abductees meet with U.S. Ambassador to the UN John Bolton to lobby for UN help.

Nov. 2, 2006: Japan, EU, and other countries submit a draft resolution to a committee of the UN General Assembly to denounce the North's abduction of foreign nationals.

Nov. 2, 2006: FM Aso states that Japan and North Korea are not likely to hold direct talks and Japan will not immediately change or ease sanctions with the news of the resumption of the Six-Party Talks.

Nov. 5, 2006: FMs Ban and Aso meet in Tokyo and decide to work closely together with the U.S. over the resumption of the Six-Party Talks.

Nov. 8, 2006: Some 100 pro-Pyongyang Chongryun members stage a sit-in outside the Japanese Diet protesting Tokyo's sanctions against Pyongyang and harassment over pro-Pyongyang North Koreans living in Japan.

Nov. 10, 2006: Japan's Internal Affairs and Communications Minister Suga Yoshihide orders *NHK* to air more on North Korea's abductions in its shortwave radio service.

Nov. 14, 2006: Japan presents a list of 24 luxury items that will be banned from export to North Korea based on UNSCR 1718.

Nov. 14, 2006: PM Abe names 14 defense and diplomacy experts to a committee to consider how to create a body to take charge of diplomatic and national security policy.

Nov. 18, 2006: Bush, Abe, and Roh exchange views on the situation in Northeast Asia on the sidelines of the APEC meeting.

Nov. 20, 2006: PM Abe pledges that his Cabinet will not debate the issue of possessing nuclear weapons.

Nov. 27, 2006: *Mainichi Shimbun* poll shows that 78 percent of respondents opposed Japan's possession of nuclear weapons while 61 percent said the debate on the question is acceptable. 22 percent of respondents opposed the debate.

Nov. 27, 2006: Metropolitan Police Department searches pro-Pyongyang Chongryun headquarters office in Tokyo and other locations on suspicion of violating the Pharmaceutical Affairs Law.

Dec. 1, 2006: South Korean Defense Ministry and Japanese Defense Agency decide to hold talks between South Korean Minister Kim Jang-Soo and Japanese Defense Minister Kyuma Fumio next year.

Dec. 9, 2006: On the sidelines of ASEAN meetings in the Philippines, Japan, China, and South Korea agree to resume negotiations on a trilateral investment agreement.

Dec. 12, 2006: Japan releases the National Police Agency's 2006 report on security that says North Korea may press ahead with harmful acts in retaliation to Japan's sanctions.

Dec. 14, 2006: *The Japan Times* reports that former President George H. W. Bush said in China that Japan's Yasukuni Shrine continues to distort the history of WWII.

Dec. 15, 2006: Japan Defense Agency upgraded to defense ministry, which will come into being Jan. 9, 2007.

Dec. 16, 2006: *Yomiuri Shimbun* reports that a *Yomiuri-Gallup* poll in mid-November conducted in Japan and the U.S. shows that about 80 percent of Japanese respondents and about 75 percent of American respondents say that North Korea is a military threat to their countries.

Dec. 20, 2006: UN General Assembly unanimously passes international convention aimed at preventing the abduction of foreigners by states in the form of "enforced disappearances."

Dec. 23, 2006: LDP drafts a set of additional punitive steps against North Korea as the Six-Party Talks recesses without progress.

Dec. 24, 2006: FM Aso says that additional sanctions are not an option at this time and that Japan always keeps its window open for dialogue with Pyongyang.

Dec. 24, 2006: At ninth bilateral talks in Tokyo, maritime officials of Japan and South Korea agreed to cut fishing quotas in each other's waters to 60,500 tons.

Dec. 27, 2006: Newly appointed South Korean FM Song Min-Soon meets PM Abe and discusses President Roh's visit to Japan early next year.



**China-Russia Relations:
What Follows China's "Russia Year"?**

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By any standard, the last quarter of 2006 was extraordinary for Moscow and Beijing, the first "Russia Year" in China was winding down, trade rose nearly 20 percent to \$36 billion, the Shanghai Cooperation Organization (SCO) strengthened, and their strategic interaction deepened.

The rest of the world was in a state of chaos and crisis, if not catastrophe: North Korea tested nukes; the Six-Party Talks went nowhere; the United Nations Security Council imposed sanctions on Pyongyang and Tehran; Saddam's execution at yearend has yet to bring stability, let alone peace, to the Middle East. Meanwhile, the world's sole superpower is seen as weakened by challenges from both outside (Iraq) and inside (midterm elections). Ironically, other major powers, including Russia and China, found themselves both unable and unwilling to manage the mess.

Year of Russia in China

In the evening of Nov. 9, the "Year of Russia" in China officially ended in a grand closing ceremony in the Great Hall of the People in Beijing. Chinese Premier Wen Jiabao and visiting Russian counterpart Mikhail Fradkov joined the occasion. Their closing speeches to 5,000 guests were preceded by the Russian and Chinese national anthems played by a Chinese military band and were followed by performances by Russia's Tchaikovsky Philharmonic Orchestra.

Calling the Russia Year to be of great significance in the history of China-Russia relations, Wen believed that Russia's "brilliant achievements" in various fields displayed throughout the "Russia Year" enabled the Chinese people to obtain a better understanding of Russia and ensured "friendship from generation to generation." Fradkov echoed those remarks, saying the "Russia Year" was "a qualified success" and injected new vitality into Russia-China relations.

China's Russia Year was officially launched March 21 when President Vladimir Putin paid his fourth official visit to China as Russian president. This time, Putin brought more than 1,000 Russian officials, businessmen, and artists to Beijing. A similar event never occurred even during the Sino-Soviet "honeymoon" (1949-59). In the next eight months, more than 200 activities of various kinds were conducted, mostly in China, including

cultural, performing arts, business, academic, science and technology, air shows, etc. About half a million Chinese people attended these events while millions more followed the Russian theme in the media.

Beneath the splendor of these largely government-sponsored activities, however, lies an awkward political fact of life: ordinary Russians and Chinese simply do not pay adequate attention to each other. Neither do they feel the urge to complement this “warm” strategic partnership relationship between their leaders. Decades of hostility drove them apart; more recent reforms have lured them to the West. It is precisely this lack of intimacy between Russians and Chinese that drove political elites to use the so-called “country year” (2006-07) to promote “all-round development” of the China-Russia strategic partnership. It remains to be seen how this deficiency will be affected by Russia’s Year of China in 2007.

Business as usual?

The real business for the visiting Russian prime minister was business: to co-chair the 11th prime ministerial meeting with counterpart Wen. On Nov. 9, Fradkov and Wen inked 17 documents covering economic agreements with a contract value of some \$800 million, a five-year plan for the development of bilateral trade, a pact pledging peaceful use of nuclear energy, documents for cooperation in the areas of education, and accords on insurance, banking, and natural gas. The two also agreed to establish subcommittees on environmental protection and aviation, apparently reflecting urgency in these matters. In their joint statement to the press, the two heads of government vowed to upgrade strategic cooperation in all fields. In more specific terms, the two premiers expressed consensus on the following nine issues:

1. Continue to maintain close high-level exchanges on bilateral relations and international issues in good time, and put forward ideas for giving guidance;
2. Include local development strategy into the framework of developing overall relations, and set up efforts for signing an official agreement for coordinating local development strategies;
3. Actively promote cooperation in oil, natural gas, and nuclear energy; make great efforts to improve the trade structure, and increase the percentage of mechanical and electrical products and high-tech products in bilateral trade;
4. Expand mutual investment, particularly in large projects and in production and processing;
5. Strengthen the mechanism for early warning and consultation on sensitive commodities in bilateral trade, standardize trade order, and properly handle problems, in order to ensure healthy and orderly trade and economic relations;
6. Promote medium- and long-term high-tech cooperation using big projects as support;
7. Promote exchanges in education, culture, healthcare, sports and other fields, and promote the work to set up cultural centers on the other side;

8. Cooperate in environmental protection and resolve issues on the utilization and protection of cross-boundary water resources in a friendly and responsible attitude; and
9. Protect the legitimate rights and interests of enterprises of the other side, and provide convenience for the entry, exit, and residence of personnel of the other side.

After the business meetings, Chinese President Hu Jintao and the National People's Congress Standing Committee Chairman Wu Bangguo met Fradkov. It is difficult to say whether Fradkov's meetings with Hu were part of the protocol or signs of China's satisfaction with the results of the trade deals and other bilateral agreements with Russia, or both. Most of the issues were negotiated previously, and were in conjunction with a huge Russian trade fair in Beijing where over 700 Russian enterprises from 46 regions displayed their products. The festive atmosphere of the final days of China's Russia Year nonetheless seemed to have had little effects on the hard bargaining between working-level officials (Vice Premier Wu Yi and Deputy Prime Minister Alexander Zhukov and other ministers).

Indeed, official agreements are usually part of an endless bargaining process. After all the high-level promises, leaders' personal interventions, and numerous "feasibility studies" (the most recent one started in late October by Russia's Federal Ecological, Technological and Atomic Oversight Service, or Rostekhnadzor), the long-awaited Russian oil pipeline to China is still in a state of obscurity. Either by desire or by design, the Russians kept sending out contradictory signals during the prime ministers' meeting.

For example, on Nov. 8 when the prime ministers were meeting, Russian Economic Development and Trade Minister German Gref revealed in Beijing that Russia had not ruled out the possibility of oil being supplied to China by rail from Skovorodino to China. "Everything will depend on the calculations. If it is more profitable than a pipe, then it will be possible, but for the moment a pipe is being planned," he told journalists in Beijing. This was ordered by the Russian fuel and energy complex commission whose decision was made in early October.

The Russian Industry and Energy Ministry and Economic Development and Trade Ministry evaluated building a tributary from the Eastern Siberia-Pacific Ocean pipeline to China, taking existing rail infrastructure into consideration. The decision was reached at a meeting of the government fuel and energy complex commission at the start of October. Other Russian officials, including Rosneft's regional representative Sergei Goncharov and Deputy Economic Development Minister Kirill Androsov, immediately dismissed the idea. Transneft CEO Semyon Vainshtok may have been closer to reality when he remarked that the decision to build a branch of the East Siberia-Pacific Ocean (ESPO) oil pipeline leading to China had been made. "I have the impression that the decision about building an elbow pipe is positive, but it's unclear when it will be unveiled."

Russian Deputy Prime Minister Zhukov offered the most affirmative assurance in the most recent round of pipeline talks. In his interview with the *China Daily* in Beijing Nov. 9, Zhukov stated that “[A] strategic decision on building this (oil) pipeline, including a branch to China, has been made.” His statement, for all its sincerity, was nonetheless not backed by the exhibition of Russia’s Transneft oil and pipeline company at the Russian Expo in Beijing. Transneft’s main showpiece was a route map of the East Siberia-Pacific Ocean oil pipeline, in which the pipeline’s Chinese branch was designated only by a dotted line. This was “representing either an intention or a subject of negotiation,” according to the Russian daily *Rossiyskaya Gazeta*. Transneft’s map display in Russia’s first national exhibition in Beijing in 25 years reportedly prompted the most questions. For their part, Russian officials in Beijing were “trying not to over-emphasize the question of the pipeline branch’s construction” in order “to avoid hitting a raw nerve.” “We are fulfilling our commitments, even the verbal ones,” Fradkov was quoted as saying to Russian media.

Russia’s delaying tactics are no longer disguised. It is not clear if a similar approach would be applied to the much talked-about gas deals between Russian gas giant Gazprom and the China National Petroleum Corporation. The main proposed gas lines from western Siberia to China’s northwest seem to be taking shape. The two sides, however, failed to narrow the price gap by yearend. Meanwhile in the Far East, the proposal by Exxon Neftegas Ltd. – the Sakhalin-1 project operator – to transport gas to China’s northeast via an extension from the newly constructed Sakhalin-Komsomolsk-Khabarovsk pipeline was blocked by President Putin, who was quoted by Russian *Interfax* news agency as saying at a meeting with Khabarovsk region Gov. Viktor Ishayev that *gas from the pipeline should only be used for internal consumption* [emphasis added].

The Chinese side did not hide its displeasure, but understood Russia’s indecision on the pipeline. Aside from Russia’s use of energy as a strategic instrument, the issue of the rapidly declining mechanical and manufactured components in Russian exports to China underscores Russia’s “contradictory attitude” toward China in the energy area, reasons Russian observer Mikhail Vorobyev. Currently, the share of electronic and engineering products in bilateral trade is only 12 percent. While the export of Chinese electronic goods to Russia has been growing, Russian deliveries of similar products to China have been steadily declining, from 28.8 percent in 2001, to 12.9 percent in 2003, 4.8 percent in 2004, and 2.1 percent in 2005. For the first nine months of 2006, the dollar volume of Russia’s machinery and equipment deliveries to China was merely \$135 million, against \$328 million for 2005, or about 1.3 percent of total Russian exports to China.

What else is Russia capable of delivering to China besides raw materials? “If you do not count military equipment . . . and apart from civil aircraft . . . and power industry equipment,” wrote Vorobyev in *Vremya Novostey* in early November, “it seems that . . . Russia has nothing to boast of. And the volume of these deliveries certainly cannot change the overall picture of trade turnover. That is to say, in terms of the structure of trade; Russia is becoming a raw materials tributary not only of the most developed western countries, but also . . . China.” For decades, Russia, and the Soviet Union,

accepted, if not liked, the role of raw-materials supplier to West Europe. It remains to be seen if the Russians would accept a similar geo-economic fact of life with China.

Russia's nuke rush in China

Of all the “trade structure” talks, Russia’s continuous presence at and inroads into China’s vast civilian nuclear power construction business is perhaps the only hope for gaining access to China’s high-tech market. According to a Chinese government decision in March, the nation will increase its nuclear energy capacity from its current level of about 9,600 megawatts to 40,000 megawatts by 2020, which is about 4 percent of overall energy production. This means that China has to build, in the next 15 years, at least 32 nuclear power units, each capable of generating at least one gigawatt (1,000 megawatts).

Russia’s current foothold in China’s nuclear market is the two 1,000-megawatt units (the first unit is now operating at 75 percent capacity and will reach full capacity in spring 2007; the second unit will be test-run in the second half of 2007) in Tianwan, Jiangsu Province, which operate alongside four French reactors and two Canadian ones. In the past few years, the Russian government has lobbied heavily for additional Russian deals with China. While commenting on the “trade structure” issue in Beijing, Prime Minister Fradkov was quoted saying that “[S]ome special, if not preferential, conditions must be created to encourage the activities of our businesses prospect” in China. Fradkov’s effort was part of Russia’s effort to win in the next round of China’s nuclear reactor bidding. Upon his return from the 11th prime ministers meeting in Beijing, Putin instructed in a Cabinet meeting on Nov. 13 that the Russian government “broaden civilian economic projects with China.” “The efforts must be continuous and targeted with due account of our goal of diversified relations and broader civilian projects,” said Putin.

While these efforts to increase Russia’s presence in China’s nuclear market are not unimportant, China announced on Dec. 16 its decision to buy (for \$5.3 billion) four AP 1000 reactors from U.S.-based and Japanese-owned Westinghouse. Part of the reason for China’s decision was safety-related technology. China prefers more efficient low-speed turbines to the high-speed ones offered by Russia’s Atomstroyeksport. Russia does not manufacture low-speed units. Meanwhile, buying them or setting up joint ventures with Western firms would reduce Atomstroyeksport’s profitability noticeably. Another factor in China’s decision was that the deal with Westinghouse would transfer more technology to China than other’ tenders would (France’s Areva and Russia’s Atomstroyexport). “All international tenders would be judged on their commercial and technical merits,” remarked a Chinese nuclear energy official recently.

The Westinghouse deal does not preclude future installation of Russian units in China, as the four Westinghouse reactors will be constructed in Guangdong and Zhejiang provinces. Indeed, ongoing construction at the Tianwan site – which is capable of accommodating eight power units – appears to prepare for the third and fourth Russian units. And in late September, a protocol was signed during the 10th Russian-Chinese commission on nuclear cooperation in Beijing, with the clause that further cooperation at the Tianwan construction site and other nuclear sites in China would depend on the

successful launch of the first two reactors at Tianwan. Indeed, installing nuclear reactors from other manufacturers (French-German or U.S.-Japanese) is not as economic as putting similar Russian reactors there.

What is worrying Russia, however, is the medium- and long-term. “The total transfer of the know-how of AP1000 nuclear plant construction from Westinghouse to China will undermine the company’s positions on the Chinese market,” said Andrei Cherkasenko, board director of the industrial investment company Atomprpomresursy on Dec. 27. “The Americans’ victory on such terms [full technology transfers to China] will undermine their positions on the Chinese nuclear power plant construction market, because the Chinese, following a routine practice, will master the know-how during the construction of the four reactors and will then build nuclear power plants with this type of reactor on their own,” Cherkasenko predicted. “These four power units will be Westinghouse’s last project in China.”

SCO and beyond

For all the poorly disguised displeasure regarding Russia’s perceived role as China’s raw material “tributary,” the Moscow-Beijing strategic partnership will continue, if not thrive, in the foreseeable future. Part of the reason is that their bilateral relationship have gone way beyond a single pillar but is a growing web of interactions across strategic, political, diplomatic, economic, and social interactions. It is simply impossible – if both sides remain rational and pragmatic – to halt the thick, complicated, and still largely mutually beneficial ties because of problems in one pillar.

This is particularly true in the case of the SCO, a joint security venture between Russia and China. Indeed, the last quarter of 2006 witnessed significant widening and deepening of their investment in the SCO. This was perhaps a natural extension of the sixth SCO summit held in June 2006, in which four of 10 signed documents related to cooperation in the defense and security sectors. In the last quarter, major SCO institutional-building activities included:

- The SCO educational ministers’ meeting in Beijing in mid-October.
- In late October, Lt. Gen. Zhang Qinsheng of the Chinese General Staff traveled to Russia to attend the first round of meetings with representatives from the national defense ministries of Russia and other SCO member states on issues concerning the time, venue, name, training programs, troops, and organizational forms of the joint military exercise to be held in 2007.
- In early November, there were indications that joint SCO exercises in Russia were being redefined as a “joint” antiterrorist drill with the Collective Security Treaty Organization (CSTO). Despite considerable overlap in membership between the SCO and CSTO (The CSTO includes Armenia and Belarus, and the SCO has four observer members: India, Iran, Mongolia, and Pakistan), it will be the first time these two Russian-dominated groups work together.

- A 10-day forum was held in China's University of National Defense in Beijing Nov. 7-16 with the theme, "China's peaceful development and the SCO," with 25 senior officers from SCO members and observers.
- A special meeting by SCO "emergency ministers" (law enforcement and police agencies) was held Nov. 22 in Beijing to discuss creation of an SCO disaster relief center to coordinate member efforts to cope with civil emergencies.
- The SCO Business Council met in Moscow Dec. 6-7 to set up an SCO energy club and a unified health-care system.

While the SCO redoubled efforts to enhance organizational cohesion, officials and scholars denied that it was in opposition to NATO. Indeed, this was the theme of a two-day conference in Almaty, Kazakhstan in late November. This, however, does not prevent the regional security mechanism from becoming a "model" for "future world order structure," according to various participants of the conference.

More practical needs, however, may also push Moscow and Beijing to further cooperation and coordination through the SCO. In the last quarter, both Russia and China were faced with new challenges as a medium between the U.S. and its allies on the one hand and the so-called "axis of evil" nations of North Korea and Iran on the other regarding the latter's moves toward nuclear weapons status, declared or disguised. In both cases, Russia and China had to board the U.S. "boat" – going along with UNSC sanctions against Pyongyang and Tehran, though with considerable efforts to soften the wording – while distancing themselves from Iran and North Korea. The problems and crises, however, are far from over and not without dire consequences for Moscow and Beijing as well as the rest of the world. Faced with a diminishing ability to cope with smaller nuclear countries on their peripheries, it is logical to consolidate existing multilateral security mechanisms such as the SCO and CSTO.

Into a new world of disorder?

For these reasons, and others, including a Russia-bashing trend in the U.S., President Putin seems ready to elevate the strategic relationship with China. In his congratulatory message on the 57th anniversary of the PRC's founding, Putin noted that "[I]t is important that relations between our countries are confidently developing in the spirit of strategic partnership and *allied relations* [emphasis added] in the new 21st century." It is unclear if the Russian presidential press service, which handles Putin's PR, made a mistake either in the original or the translated version of the presidential message. There has been so far no effort to correct it.

Putin's geopolitical sense was not far from reality. A week after his message to Hu Jintao, North Korea tested a nuclear weapon. Although a flurry of diplomatic efforts including UNSC sanctions (Resolution 1718) brought Pyongyang back to the Six-Party Talks in Beijing on Dec. 18, the six sides failed to make progress toward denuclearization. A day after the fifth round Six-Party Talks in Beijing went into "recess" on Dec. 22, the UNSC passed Resolution No. 1737, which imposes sanctions against

Iran, whose angry rhetoric was directed as much at Russia and China for failing to veto the U.S.-sponsored resolution. It looks like both sanctions would be too little and too late to reverse the wave of nuclear proliferation, as various neighbors of Iran and North Korea had indicated their interest in developing their own “peaceful” nuclear capabilities.

As the calendar turns to 2007, the world according to Moscow and Beijing is moving toward chaos and crises. Despite their newly acquired national power, both Russia and China face a harsh geostrategic, and perhaps historical, fact of life: the declining ability and authority of the U.S. in the eyes of both its friends and foes is not only undesirable but also dangerous.

In a provocative forecast of the world’s future, Aleksandr Khramchikhin, head of analysis at Moscow’s Political and Military Analysis Institute, argued that there would not be a “multipolar world” in the wake of the U.S. unipolar moment, but “there will be chaos” as a result of the death of the world’s nuclear nonproliferation regime. China’s analysts were a full year ahead of their Russian counterparts in debating the implications and pitfalls of the “American decline.” Contrary to an increasingly fashionable view, both inside and outside China (Roger Cohen, “Welcome to the new bipolar world – China vs. America,” *International Herald Tribune*, Nov. 23, 2006), prominent America scholars such as Shen Dingli and Wang Yiwei in Shanghai argued that a fast decline of the ability of the world’s sole superpower may not be a desirable thing for China and the rest of the world.

The ability of Russia and China to soft-land the 800-pound “guerrilla” (the U.S.) is limited. The middle position between the sole and unpopular superpower and the vast but increasingly volatile world has served the interests of both Russia and China in the past decade, but may not be maintainable. The alternatives – join the U.S. camp or side with U.S. foes – are either undesirable or unthinkable. Welcome to the year of confusion, chaos, and crises.

Chronology of China-Russia Relations October-December 2006

Oct. 1, 2006: President Putin sends Chinese counterpart Hu Jintao a message of congratulations on the 57th anniversary of the PRC.

Oct. 3, 2006: Russian border guard department chief Igor Kurilov and director of the central border guard division of China’s Inner Mongolia autonomous district Ji Yafei sign in Novosibirsk a cooperation plan to hold joint exercises in 2007 at one border crossing point with a scenario to fight terrorism and illegal trade in arms and ammunition.

Oct. 13, 2006: Russian and Chinese finance ministers hold first inter-ministerial financial dialogue in Beijing.

Oct. 13-14, 2006: China's special envoy Tang Jiaxuan visits Moscow to discuss North Korea's nuclear test. He meets Foreign Minister Sergei Lavrov, Defense Minister Sergei Ivanov, and President Putin. The talks were requested by the Chinese side.

Oct. 18-19, 2006: SCO holds its first education ministerial meeting in Beijing to discuss cooperation in the education sphere. An expert team will be set up to verify education certificates of SCO member states.

Nov. 6, 2006: The seventh session of the China-Russia Cooperation Committee on Education, Culture, Health and Sports is held in Beijing. It is co-chaired by Chinese State Councilor Chen Zhili and Russian Deputy Prime Minister Alexander Zhukov.

Nov. 7-16, 2006: Some 25 senior SCO military officials meet in Beijing to participate in the second "China's Peaceful Development and the SCO" forum and to discuss how to step up defense cooperation. Officers from observer nations of Mongolia, Pakistan, Iran and India also attend.

Nov. 9-10, 2006: Russian Prime Minister Mikhail Fradkov visits China to take part in the 11th regular meeting of Sino-Russian prime ministers and to attend a ceremony wrapping up the Year of Russia in China. This is preceded by the 10th meeting of the committee for regular meeting of prime ministers chaired by Vice Premier Wu Yi and the Deputy Prime Minister Alexander Zhukov on Nov. 7.

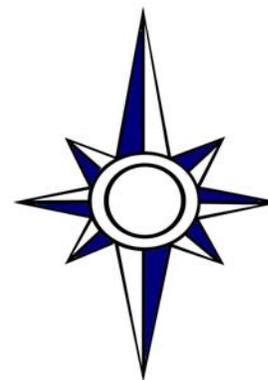
Nov. 18, 2006: Chinese and Russian presidents meet on the sidelines of the 14th APEC summit in Hanoi. This was preceded by the Russian-Chinese foreign ministerial meeting between Li Zhaoxing and Sergei Lavrov Nov. 18.

Nov. 20-23, 2006: Russian Minister for Emergencies Sergei Shoigu visits Beijing to attend a SCO emergency ministers conference for coordinating and integrating measures in time of emergency. An action plan on cooperation in disaster relief is passed.

Dec. 12-17, 2006: Russian Communist Party Chairman Gennady Zyuganov visits China as part of the regular exchange agreement. Zyuganov travels to Beijing and Shanghai.

Dec. 24, 2006: Russian PM Mikhail Fradkov discusses further Russian-Chinese cooperation with Chinese special envoy Tan Jiaxuan in Ashgabat, Turkmenistan while attending the funeral of President Saparmurat Niyazov.

Dec. 28, 2006: President Putin sends New Year's greetings to Chinese President Hu Jintao, saying that Russia and China have achieved impressive results in promoting mutually advantageous cooperation and the upcoming Year of China in Russia "will serve as a powerful incentive to open the potential of strategic partnership between the two countries more fully."



**India-East Asia and U.S.-India Relations:
Movin' On Up?**

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Two years have passed since India's relations with East Asia have been considered in this journal (see "India-East Asia Relations 2004: A Year of Living Actively," January 2005). In the interim, a steady if un-dramatic consolidation of ties has occurred between India and its neighbors to the east. On a parallel track, India has also gained membership or observer status in regional organizations such as the East Asia Summit (EAS) and the Shanghai Cooperation Organization (SCO). India's immediate South Asian environment continues to demand considerable Indian attention and energies given the multiplicity of challenges there, and India's relations with Pakistan, Bangladesh, and Nepal remain complex, but this situation has not impeded India's relations with East Asia. India's economic growth during the past two years has also been healthy. And though not directly related, India's improved relations with the U.S., capped by the approval by the U.S. Congress of the U.S.-Indian nuclear cooperation agreement, also provided a positive basis to engage key Asian countries and organizations.

India-China relations: "10-pronged" but two foci

The past two years provided the basis for improved India-China relations with 2005 being the 55th anniversary of the establishment of India-China bilateral ties and 2006 designated as the "China-India Friendship Year." Important exchanges occurred during the two years including the visits of Chinese Premier Wen Jiabao to India in April 2005 and of Chinese President Hu Jintao to India in November 2006. India and China also interacted in the context of the Shanghai Cooperation Organization, in which India became an observer, the East Asia Summit, the Russia-China-India trilateral discussions and even the Group of Eight (G8) leaders' meetings (where India, China, South Africa, Brazil, and Mexico held talks). As a reflection of both bilateral and wider interactions, the two countries agreed, during President Hu's November 2006 visit, to a "10-pronged strategy" for substantiating and reinforcing their so-called "Strategic and Cooperative Partnership." Despite these aspirations and wide-ranging interactions, the basic contours of the relationship remain largely focused on two issues – one vexed and the other mostly positive: continuing border disputes and growing economic ties.

* The views expressed in this chapter are those of the author and do not necessarily reflect the views of any organizations with which the author is affiliated.

Border and territorial disputes: Sikkim settled

Despite four rounds of special representative-level talks on bilateral border and territorial disputes during 2005 and 2006 and continued acceptance of past framework agreements for managing the disputes (the September 1993 Agreement on the Maintenance of Peace and Tranquility along the Line of Actual Control in the India-China Border Areas and the November 1996 Agreement on Confidence Building Measures in the Military Field along the Line of Actual Control in the India-China Border Areas), India and China achieved no major resolutions of border and territorial disputes were achieved (the matter of Sikkim is discussed below).

During Chinese Premier Wen Jiabao's April 2005 official visit to India, the two countries agreed on 11 "political parameters and guiding principles for a boundary settlement." These do not differ substantively from those that have been articulated, albeit in a less formal and comprehensive manner, by officials from the two countries on previous occasions. The agreement states, for example, that "differences on the boundary question should not be allowed to affect the overall development of bilateral relations" and that "a fair, reasonable and mutually acceptable solution to the boundary question through consultations on an equal footing, proceeding from the political perspective of overall bilateral relations" should be sought.

The underlying differences on the pace of settlement (India wanting to move faster than China) and the approach to settlement (India focusing on "ground realities" vs. China's emphasis on "guiding principles") were not overcome in these two years. In addition to the agreement on the parameters and principles, India and China signed a "Protocol between the Government of the Republic of India and the Government of the People's Republic of China on Modalities for the Implementation of Confidence Building Measures in the Military Field Along the Line of Actual Control in the India-China Border Areas." This protocol, in the words of India's external affairs ministry, "lays down modalities for the implementation of several measures contained in the Agreement of 1996 on Military CBMs along the LAC [line of actual control] in the India-China Border Areas." The slow pace of overall progress on border and territorial issues is reflected in the fact that nearly 10 years have elapsed to reach agreement on how to implement an earlier agreement. It is also worth noting that in the Joint Statement by India and China at the conclusion of Premier Wen's visit, the border issue was taken up in Article 11 (of 21 total articles) – again suggesting the relatively low priority accorded the issue. But it should also be noted that the border issue was the sixth "prong" of the "10-pronged strategy" for the India-China "Strategic and Cooperative Partnership" announced during President Hu's November 2006 state visit to India. In other words, the symbolic salience of the border issue remained at approximately the mid-range of the relationship in both major India-China encounters of recent years.

The persistence of the unsettled status of the dispute was clear from the brief spat prior to President Hu's arrival in New Delhi, when China's Ambassador to India Sun Yuxi told an Indian television program that a large part of the northeast (which India considers to

be the state of Arunachal Pradesh) was “Chinese territory.” Indian officials predictably reacted by reiterating that Arunachal Pradesh was an “integral part” of India.

At least on one very concrete aspect of the complex border dispute there seems to have been a final settlement. It will be recalled that the status of Sikkim appeared to be closer to a final resolution with China hinting at the end of 2004 that it was moving toward implementing its decision regarding the status of the area. In the event, in the Joint Statement (Article XII) between President Hu and Prime Minister Manmohan Singh refers, for the first time, to the “Sikkim State of the Republic of India.”

The core component

Trade and other commercial ties are a fast-growing but not entirely trouble-free aspect of India-China relations. Trade has grown nearly 30 percent a year since the early 1990s and two-way trade now stands at about \$20 billion. Investments, though small, are rising. For India, China is its second largest trading partner and India is China’s largest trade partner in South Asia. The Joint Declaration issued by the two countries during President Hu’s November 2006 state visit to India identified “comprehensive economic and commercial engagement between India and China [a]s a core component of their Strategic and Cooperative Partnership.”

In this context, the two sides have embarked on a number of efforts to further boost their commercial interactions. One important development during the period under review was the issuance of the final report of the Joint Study Group on Comprehensive Trade and Economic Cooperation just prior to the April 2005 visit of Premier Wen to India. With the report in hand the two countries asked the ministerial-level India-China Joint Economic Group (JEG) to consider the JSG’s recommendations and move toward implementation of those that were mutually agreed. A particularly noteworthy recommendation of the JSG is the establishment of an India-China Regional Trading Arrangement that would encompass trade in both goods and services, investments, and other mechanisms to build commercial ties between the two countries. A Joint Task Force was agreed to by the premier and prime minister to explore the proposed Regional Trading Arrangement.

During the Chinese premier’s visit in April 2005, the two countries also signed a Memorandum of Understanding to establish a financial dialogue mechanism and move toward concluding an investment promotion and protection agreement. The financial dialogue is intended to allow the two countries not only to understand and coordinate on financial issues that affect bilateral commerce, but also to facilitate cooperation in international financial institutions such as the International Monetary Fund (IMF), the World Bank, and the Asian Development Bank (ADB). A related agreement reached during the April visit was a Memorandum of Understanding on Civil Aviation that would allow for more flights from more places to each other’s countries for both passengers and cargo. The enhancement of air links is also expected to facilitate economic ties, including tourism.

During President Hu's state visit to India in November 2006, the two countries announced additional measures that would enhance commercial relations. They established a target of \$40 billion for bilateral trade by 2010 and agreed to seek ways to diversify trade. This has been a special concern for India where some commentators have expressed concern that India is exporting raw materials and importing more value-added products. It was also announced that India agreed to the opening of a new consulate by China in Kolkata and China agreed to the establishment of a new Indian consulate in Guangzhou. The two countries also announced the completion of an Agreement for the Promotion and Protection of Investments. But the most important announcement was that the Joint Task Force established the previous year to study the feasibility and benefits of a regional trading arrangement between the two countries would report on its deliberations by October 2007.

These government-initiated efforts can facilitate mutual economic relations, but businessmen on both sides have expressed complaints about operating in each other's countries. The complaints range from accusations of dumping to difficulties getting long-term visas. Another issue that has the potential to weigh on economic relations is resistance within parts of the Indian government system to trade and investment with China in "sensitive" areas, including trade through the northeast part of the country. Still, the boom in trade, nongovernment interactions promoted by business, and the positive gains for both sides help blunt a range of other political and security differences between the two countries.

India-Japan relations: strategic orientation supplements a global partnership

India-Japan relations were quite active during 2005 and 2006, with then Prime Minister Koizumi Junichiro visiting India in late April 2005 and Prime Minister Singh making an official visit to Japan in mid-December 2006. There were also several ministerial-level visits from the finance, defense, energy, and, of course foreign ministries, among others.

As previous issues of this journal have reported, India-Japan relations took some time to emerge from the shadow of India's 1998 nuclear tests. The process of normalization began in 2000 with the visit of then Prime Minister Mori to India. Since then, there has been a steady effort by both countries to maintain momentum in bilateral ties.

Prime Minister Koizumi's visit in April 2005 was significant in that the two countries added a "strategic orientation" to what from 2000 had been termed a "Global Partnership." India in particular has been pressing for a more political and strategically oriented relationship with Japan. During Koizumi's visit, a Joint Statement entitled "India-Japan Partnership in a New Asian Era: Strategic Orientation of the India-Japan Global Partnership" was supplemented by an "Eight-fold Initiative for Strengthening India-Japan Global Partnership." The eight specific initiatives included: enhanced and upgraded dialogue architecture, including strengthening of the momentum of high-level exchanges, launching of a High Level Strategic Dialogue and full utilization of the existing dialogue mechanisms; comprehensive economic engagement, through expansion of trade in goods and services, investment flows and other areas of economic

cooperation, and exploration of a Japan-India economic partnership agreement; enhanced security dialogue and cooperation; Science and Technology Initiative; cultural and academic initiatives and strengthening of people-to-people contacts to raise the visibility and profile of one country in the other; cooperation in ushering a new Asian era; cooperation in the UN and other international organizations, including cooperation for the early realization of UN reforms, particularly Security Council reform; and cooperation in responding to global challenges and opportunities. This is heady stuff.

In 2006 both countries emphasized their commonalities, both pragmatic and ideological. For example, in a banquet speech during his December visit, Singh told guests that “Our two nations have converging long-term political, economic and strategic interests. We have a common commitment to democracy, human rights, the rule of law and a free market economy. India and Japan are thus natural partners with a mutual stake in each other’s progress and prosperity.” The previous month, Japanese Foreign Minister Aso Taro, speaking to an audience at the Japan Institute of International Affairs (JIIA), noted that “Japan is second to none in holding dear the values of freedom, democracy, and respect for human rights and the rule of law.” He then went on to name other countries that share the same beliefs which “would of course include the United States, as well as Australia, *and most likely India to an increasing extent* [emphasis added], as well as the member states of the EU, NATO, among others.” Aso, earlier in the same speech, included India, immediately after mentioning the U.S. and Australia, as “friendly nations that share the common views and interests.” As an outgrowth of such shared sentiments, during the 2006 India-Japan summit a Strategic and Global Partnership between India and Japan was announced.

The nuclear issue

An important agenda item for India during the 2006 visit to Japan was Tokyo’s support in the Nuclear Suppliers Group (NSG) to permit civilian nuclear cooperation with India. In a speech to the Diet Dec. 14, Prime Minister Singh said that “Like Japan, India sees nuclear power as a viable and clean energy source to meet its growing energy requirements. We seek Japan’s support in helping put in place innovative and forward-looking approaches of the international community to make this possible. At the same time, I would like to affirm that India’s commitment to universal nuclear disarmament remains unshaken.” However, while Japan may ultimately support, most likely passively rather than actively, such cooperation (possibly with U.S. encouragement), the Joint Statement at the conclusion of the 2006 summit was noncommittal. It stated only that “The two leaders share the view that nuclear energy can play an important role as a safe, sustainable and non-polluting source of energy in meeting the rising global demands for energy, and that international civil nuclear energy cooperation should be enhanced through constructive approaches under appropriate IAEA safeguards. *The two sides will continue to discuss the international civil nuclear cooperation framework with respect to India* [emphasis added].”

Despite the lack of open Japanese commitment to support the U.S.-India nuclear cooperation agreement, however, it seems unlikely, barring dramatic developments such as another round of Indian nuclear tests, that bilateral relations will focus on India's military nuclear program as has been the case.

Economic relations

Another dimension of India-Japan relations that has received a lot of attention but comparatively little concrete achievement is the economic realm. Prime Minister Singh made economic relations the centerpiece of his December 2006 visit, telling the Diet "Economic ties must be the bedrock of our relationship and a strong push is required in this area. Our trade and investment ties are well below potential."

In remarks to a business audience the prime minister admitted that India had work to do to attract the Japanese business community. Specifically, he said that "I am of course aware of the concerns Japanese investors have about doing business in India. Our government will address all legitimate concerns of investors. We are committed to improving our infrastructure, simplifying our taxation regime, reducing further our tariffs and eliminating bureaucratic delays. We have made substantial progress in each of these areas, but I am aware that there is more to be done. We will do our very best." Nevertheless, he also made a point in telling Japanese audiences that other countries facing the same challenges of doing business in India had outpaced Japan's economic engagement with the country. He said:

"I have been surprised to see Japan lose ground in India during the 1990s to other East Asian and Southeast Asian economies, both in terms of foreign investment flows and trade flows. It is a fact that South Korean consumer brands have moved aggressively into India and their brands have very high recognition value among our consumers. On the trade front, India's trade with both China and South Korea is booming and grew last year at around 40 percent with both countries. China's trade with India is nearly three times India's trade with Japan and Korea's trade with India is almost equal to Japan's trade with India. The time has come for Japanese companies to reverse this situation. Japan must regain its historic status as our most important business partner in Asia."

One important announcement at the conclusion of the summit was to launch negotiations towards a Comprehensive Economic Partnership Agreement between the two countries.

Strategic orientation

There has been a noticeable expansion of security-related dialogues and exchanges between India and Japan – not least because such contacts were essentially nonexistent for obvious reasons during the past 50 years. A security dialogue has been ongoing since 2001 and Foreign Minister Aso, during a January 2006 visit to India, agreed that future foreign minister-level talks would include a "strategic perspective." A regular policy dialogue between the country's national security advisors has also been announced. It

remains to be seen how this mechanism will be different from the security dialogue and how, or whether, such overlapping efforts will be consolidated or focused. India and Japan began military to military talks in 2004, and in the last two years since the number and level of mutual visits have increased. An important marker of the change was Indian Defense Minister Pranab Mukherjee's May 2006 visit to Japan leading to a joint statement (with Japan's Defense Agency chief) outlining fairly detailed plans for future exchanges and interactions. Subsequently, Japan's chief of staff, chief of Maritime SDF, chief of Ground SDF, and chief of Air SDF all made visits to India. India sent its Chief of Naval Staff to Japan in 2006 as well.

In the Singh-Abe Joint Statement of December 2006, the two countries "urge[d] their concerned agencies to develop an annual calendar of cooperation and exchanges relating to defense and security and to progressively enhance cooperative activities, including high-level exchanges and consultation between services. The two leaders appreciate[d] the recent developments in service-to-service cooperation, including cooperation in UNDOF. The two sides will also undertake a goodwill exercise between the Japan Maritime Self Defense Force and the Indian Navy in 2007." India and Japan also continue to conduct combined exercises with their coast guards and the two recently signed a memorandum of cooperation to further enhance cooperation.

The last two years have seen ambitious announcements for institutionalizing and expanding India-Japan political, economic, and security relations. Whether the promise and pronouncements will be realized remains to be seen. It is worth noting that Japan appears to be more interested in developing ties with India than may have been the case earlier. Indeed the very paucity of India-Japan ties may be motivating Tokyo to expend additional efforts. As Foreign Minister Aso told the JIIA audience, "...Japan's relations with India certainly pale in comparison to, for example, her relations with China. [He then went on to cite a number of comparative statistics to highlight the asymmetry]. In light of this, I believe that we must take steps to improve the situation dramatically over the next few years."

India-South Korea relations

As reported in previous coverage of India-East Asia relations (see "India-East Asia Relations 2004: A Year of Living Actively," January 2005), India and the Republic of Korea essentially "launched" a new era of relations in October 2004 when President Roh Moo-hyun made the first-ever visit to India by a South Korean leader. That momentum has been maintained with the February 2006 visit of India's President A.P.J. Abdul Kalam to Seoul. This was the first visit of an Indian president to South Korea and Kalam was invited to address the National Assembly. India's Prime Minister Singh also had a bilateral meeting with President Roh on the sidelines of the December 2005 East Asia Summit in Kuala Lumpur, Malaysia during which he "flagged to him the importance of Korean support for the removal of NSG restrictions that affect India." Singh did not indicate a response from his Korean counterpart and the issue was not addressed in public documents during Kalam's February visit to Seoul.

As an outgrowth of their joint study group on the feasibility of a comprehensive economic partnership agreement (CEPA) to promote economic and trade relations, President Kalam informed the ROK National Assembly that a Joint Task Force to start negotiations on a CEPA had been agreed to between the two countries. India and ROK also announced plans to increase bilateral trade from the current \$6 billion to \$15 billion before 2010. As noted in the section on India-Japan relations, Korea is a surprisingly strong (comparatively) economic player in India – especially when one considers the near-absence of other ties.

India-Southeast Asia relations: still fully kicking in

In 2005 and 2006, India and Southeast Asian countries continued to augment their relations both on the multilateral track (India Plus ASEAN and the East Asia Summit) and on a bilateral basis. A one-off event that allowed additional opportunities for India-Southeast Asian interactions was the golden jubilee celebrations of the Asian-African Conference held in Indonesia in April 2005 and attended by Prime Minister Singh.

In a pre-departure media brief en route to the fourth India-ASEAN Summit (the first was held in 2002) and the first East Asia Summit held in Kuala Lumpur, Malaysia in December 2005, Singh emphasized the economic dimensions of India's objectives in its overall "Look East" efforts and those specifically with Southeast Asia. For example, he noted that India's "trade with ASEAN countries is increasing at a handsome rate" and that India is "forging new linkages in trade and services..." But India's need and aim to attract greater foreign investment was something he believed would figure "very prominently" only "[i]n the years to come..." Specifically listing Indonesia, Myanmar, Malaysia, and Thailand the prime minister noted that "[t]hese are all countries with which we have no disputes of any kind. Therefore, on this benign background we can build a healthy economic relationship covering trade, investment flows....In our quest for more foreign investment in our country, this is the region [East Asia and South-East Asia] of greatest importance."

Singh also stated that he would "reaffirm the commitment of our Government to work out a Free Trade Arrangement with the ASEAN countries [and] at the East Asia Summit I will spell out the vision of India to work with other like-minded countries to bring about an Asian Economic Community, which will constitute a new magnet, a new fold [sic], for growth and stability in the world economy." That the prime minister specifically mentioned the potential FTA with ASEAN has significance due to the slow pace and troubled nature thus far of the negotiations. Indeed, the April 1, 2005 deadline for the implementation of an Early Harvest program was not implemented due the lack of agreement on the rules of origin. However, the senior Indian official in charge of relations with the region, Rajiv Sikri, told the media prior to the India-ASEAN Summit that the "issue of rules of origin has been resolved. [And] We are now very hopeful that FTA negotiations would be completed shortly and that the FTA would come into effect within a year or so." But despite the optimism there is likely to be a tough road ahead in reaching agreement on the "negative list" of items to be excluded from India-ASEAN trade liberalization – primarily because, as the Indian prime minister conceded, of the

“size of the negative list proposed by India.” As Sikri noted, the India-ASEAN FTA would not be “fully kicked in” until 2011 for the original six ASEAN countries and 2016 for the CLMV countries.

Prime Minister Singh, at the India-ASEAN Summit itself, offered six proposals for consideration, including: Centres for English Language Training (CELT) as well as tele-medicine and tele-education networks in Cambodia, Laos, Myanmar, and Vietnam; Special Course for Diplomats from ASEAN countries; an India-ASEAN Technology Summit; Education Fairs and a Road Show in ASEAN countries; and an India-ASEAN IT Ministerial and Industry Forum. He concluded his visit by admitting that while both sides wished to move forward and a “healthy impatience” exists, “[i]t is a fact that the impatience is a little more pronounced on the ASEAN side...” The prime minister explained that the “pace at which we move has to take account of our democratic processes and the wide variety of views have to reflect in our economic policy-making.” For its part, “ASEAN Leaders,” through the “Chairman’s Statement” issued at the ASEAN-India Summit Dec. 13, “requested India to positively consider ASEAN’s position to move the negotiations on the AIFTA forward and take into account the broader strategic consideration of enhanced ASEAN-India relations.”

Though economic issues such as the FTA and a possible ASEAN-India Open Skies arrangement were the main elements of India-ASEAN discussions during 2005 and 2006, there was some mention of increased security cooperation. Prime Minister Singh, briefing reporters after the meetings, stated that a “significant suggestion made to me was increased interaction on regional security issues. Specific mention was made of increased co-operation in counterterrorism and maritime security. Both of these are of great interest to us; we are cooperating on these issues on a bilateral basis with some ASEAN members already and arrangements to broaden these should be devised.” The nature of bilateral security cooperation with some ASEAN countries is discussed below.

The fifth India-ASEAN summit scheduled for December 2006 in Cebu, Philippines, along with the entire 12th ASEAN Summit and the second East Asia Summit, was postponed until January 2007 and will be considered in future issues of this journal.

India-Singapore relations: “connected”

As discussed in previous articles, Singapore is the key country for India in ASEAN as a bilateral partner (e.g., the single largest trading partner in ASEAN and third largest investor in 2005) and in terms of facilitating relations with wider East Asia. In fact, during Senior Minister Goh Chok Tong’s January 2006 visit to India, in a speech to the Confederation of Indian Industry (CII), and indicating Singapore’s role as a facilitator of India’s wider regional links, he stated that “I call this cooperative relationship the ASEAN-India Connect.” He also noted that Singapore and “ASEAN can provide useful links for India’s economic dealings with other Asian countries like China, Japan, and Korea.”

In 2005 and 2006, there was significant activity on the bilateral front. Singapore Prime Minister Lee visited India in June 2005 followed by Minister Mentor Lee's visit to India in November 2005 and Senior Minister Goh's visit to India in January 2006. India's President A.P. J. Abdul Kalam visited in Singapore in February 2006 (the first by an Indian president since November 2000). A host of minister-level and other visits were also exchanged. The Singapore foreign ministry noted that some of the activity between the two countries was conducted at a level below national governments given that "Indian State Governments are now playing a bigger role in attracting investments into their own states." Hence, a number of Singapore agencies and organizations "made study visits to India to pursue new opportunities in the various [Indian] states."

The June 2005 visit of Singapore Prime Minister Lee was significant in that the Comprehensive Economic Cooperation Agreement (CECA) and Mutual Legal Assistance Treaty were signed after over two years of negotiations. The India-Singapore Parliamentary Forum was also launched.

Defense relations between India and Singapore continued with Minister for Defense Teo Chee Hean's March 2005 visit to India which included bilateral consultations with India's Minister of Defense Pranab Mukherjee and the inaugural bilateral exercise between the Singapore Army and the Indian Army.

President Kalam's February 2006 visit was the first by an Indian president in over half a decade and was filled with ceremony. He reiterated the point made by Senior Minister Goh a month earlier by saying "We look upon our cooperation with Singapore as the gateway to larger cooperation with South East Asia, East Asia and the Asia-Pacific. I would like to thank the Government of Singapore for the consistent support they have given to us for our association as a full dialogue partner of ASEAN and a member of ARF and their efforts to include India in the recently concluded Kuala Lumpur East Asia Summit." Kalam also called for doubling trade to \$20 billion by 2010.

India-Philippines relations: taking first steps

As the Philippines prepared to host the 12th ASEAN Summit, including the fourth ASEAN-India Summit and the second East Asia Summit, in December 2006, bilateral ties between India and the Philippines were given a boost. The hallmark of the period under review was the state visit of President Kalam to Manila in February 2006, the first visit by an Indian president in 15 years and nearly 10 years since President Fidel Ramos visited India in 1997. Ties during 2005 and 2006 also included a visit to the Philippines by the Indian Speaker of the Lok Sabha in April 2005. The Indian official in charge of Southeast Asian relations alluded to the paucity of relations saying these visits would "lead to many steps that would enable us to utilize the considerable unrealized potential in our ties." In addition to addressing the National Assembly of the Philippines, Kalam focused on agricultural cooperation, including a visit to the International Rice Research Institute and meetings with Asian Development Bank (ADB) officials headquartered in Manila.

India-Malaysia relations

India-Malaysia ties remained constructive. In October 2005, “the First Malaysia-India bilateral consultation led by the secretary generals of both foreign ministries was held from Oct. 20-21 in Putrajaya.” Previously, Malaysia held such dialogues in Asia only with China, Japan, ROK, and Pakistan. According to India’s Ministry of External Affairs (MEA), “[i]n his talks with Prime Minister Badawi, on the sidelines of the ASEAN-India Summit in December 2005, Prime Minister Manmohan Singh suggested an expanded defense cooperation...and that the bilateral Joint Commission...should meet more regularly.” In May 2006, Malaysia’s Finance Minister Il Yackop visited India to discuss a Special Purpose Vehicle (SPV) to fund infrastructure investments in India on a government-to-government basis. This issue had been broached during the meeting between the two prime ministers. Defense relations included a visit of India’s Chief of Naval Staff Adm. Arun Prakash in July 2005 along with five ships including the aircraft carrier *INS Virat* for a goodwill visit to Malaysia.

India-Myanmar relations

India and Myanmar have maintained active ties since relations were “normalized” in 2000. Much of the activity has focused on the potential for energy cooperation. In January, India’s minister for petroleum and natural gas signed a bilateral MOU on Cooperation in the Hydrocarbon sector while on a visit to the country. An agreement in principle among the relevant ministers of India, Myanmar, and Bangladesh on the construction of a gas pipeline from Myanmar to India via Bangladesh was also reached. Subsequently, Myanmar’s Energy Minister Brig. Gen. Lun Thi visited India twice, first in July 2005 for bilateral talks and again in October for the BIMSTEC Ministerial Meeting on Energy Matters.

Apart from energy, general foreign policy discussions were also held with India’s external affairs minister visiting Myanmar in March 2005 and Deputy Foreign Minister of Myanmar U. Kyaw Thu visiting Delhi in October.

Defense ties were also held at a high level with Chief of Army Staff J.J. Singh going to Myanmar in October-November 2005, a visit that India’s external affairs ministry described as “very well received.” Subsequently, Chief of Naval Staff Adm. Arun Prakash visited Myanmar in January 2006.

Perhaps most important was the December 2005 meeting, on the sidelines of the ASEAN-India summit, between Prime Minister Singh and Myanmar’s Prime Minister Gen. Soe Win. According to Singh’s account of the meeting, the two “reviewed the status of progress on various cross border projects” and India’s “interest in co-operation in the hydrocarbon sector was also reiterated.” In response to a press question, Singh also stated that he “discussed with [Gen. Soe Win] the use of Myanmar territories by the insurgent groups operating in the North-Eastern parts of our country” and was “was assured that Myanmar Government will fully cooperate with India and not allow its territory to be used by insurgents.”

Myanmar's and specifically Aung San Suu Kyi's status also was dealt with in the bilateral meeting. Again, according to Singh, there were talks on "political reforms." Though the Myanmar prime minister highlighted the difficulties facing his society, including tribal insurgencies, some of which are allegedly backed by outside countries, the Indian prime minister said India "favored a national reconciliation and also the movements toward democracy, respect for fundamental human rights and allowing all political activities to flourish." However Singh told the press that "I also said that it is for the people of Myanmar to resolve problems and I did not know the answer, the answer has to be found by the people of Myanmar themselves." In reply to question about Aung San Suu Kyi, the prime minister stated that "Aung San Suu Kyi should be set free."

India-Indonesia relations: a new strategic partnership

India-Indonesia relations have also seen some important exchanges in the period under review. India's External Affairs Minister K. Natwar Singh traveled to Jakarta in January 2005 for the Special ASEAN Summit on Tsunami Disaster and in March of the same year, Hassan Wirayuda, Indonesia's foreign minister, traveled to New Delhi for the second Joint Commission Meeting (JCM) between the two countries – after a two-year gap. The JCM is tasked with enhancing commercial relations between the two countries.

Another important visit was that by India's Prime Minister Singh to attend the Asian-African Summit in Jakarta and Bandung in April 2005. Singh met Indonesian President Susilo Bambang Yudhoyono on the sidelines of that summit.

Perhaps the highpoint of the India-Indonesia relationship was the November 2005 state visit of President Yudhoyono to India. In a Joint Declaration between the two countries, several agreements were reached. First, the "the two leaders decided to establish a New Strategic Partnership between their countries in keeping with contemporary realities." Specific elements of the New Strategic Partnership are to include "closer diplomatic coordination, stronger defense relations, enhanced economic relations especially in trade and investment, greater technological cooperation, as well as intensified cultural ties, educational linkages and people-to-people contacts."

On the defense and security front, the Joint Declaration noted their geographic proximity and shared maritime boundary, and hence "the two leaders welcomed the recent growth of bilateral defense and security ties between their countries. They cited the significance of the conclusion of the Bilateral Agreement on Cooperative Activities in the Field of Defense concluded in 2001 and emphasized the need to further institutionalize and expand this cooperation." Specific agreements in this realm included "President Yudhoyono welcome[ing] India's offer of cooperation with the Department of Defense of the Republic of Indonesia in the procurement of defense supplies, defense technologies, joint production and joint projects." It was also agreed that there should be "increase[d] contacts and exchanges of visits between their respective defense officials and intensify joint education and training of these officials." Finally, the two decided to "hold an annual India-Indonesia Strategic Dialogue at the senior officials level which would commence its first meeting at the first half of 2006."

On the economic front a Joint Experts Working Group constituted by the Joint Commission was established “to submit recommendations for broadening and strengthening bilateral trade, economic and investment cooperation.” India and Indonesia also “agreed to constitute a Joint Study Group to examine the feasibility of a Comprehensive Economic Cooperation Agreement...” with a view to the “tripling of bilateral trade from current levels to at least \$10 billion by 2010 in a balanced and mutually advantageous way.” Subsequent to the Indonesian president’s visit, in September 2006, the Indian government approved a memorandum of understanding signed between India and Indonesia for cooperation in the field of marine and fisheries that had been signed during the visit.

India-Vietnam and India-Thailand relations

Prime Minister Singh met with the prime minister of Vietnam on the sidelines of the December 2005 ASEAN-India Summit. He later told the press that the two “reviewed the potential for carrying forward our co-operation in areas such as hydrocarbons and defense.” India also indicated it would “try to respond to Vietnam’s interests in bilateral co-operation in high technology areas such as biotechnology.”

India and Thailand also exchanged several visits in 2005 and 2006. Many of their meetings focused on bilateral civil aviation talks and developments, including the inauguration of a new Nagpur to Bangkok direct flight in April 2005. There were also several visits related to BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) activities in the fields of energy and tourism. HRH Princess Maha Chikri Sirindhorn made an official visit to India in February-March 2006 and Prime Minister Thaksin Shinawatra, along with his foreign and science and technology minister, held a working visit June 3, 2006.

U.S.-India relations follow-up: symbolic center

Efforts to implement agreements for civilian nuclear cooperation between the U.S. and India as outlined in the July 2005 and March 2006 Joint Statements between President George Bush and Prime Minister Singh, specifically including passage by Congress of domestic U.S. legislation to enable such cooperation, constituted the overwhelming story of bilateral relations during the year. President Bush’s visit to India in March was also an important element of the nuclear developments. Under Secretary Nicholas Burns referred to the deal as the “symbolic center” of the new relationship, while eminent former Indian defense official India K. Subrahmanyam called it a “litmus test.”

Throughout the year there were congressional hearings in the U.S., heated debates in India, and negotiations between Washington and New Delhi on how to move forward with agreements undertaken in July 2005. In December 2006, a reconciled version of House and Senate bills to enable implementation of the agreements passed Congress. President Bush signed the legislation Dec. 18, 2006.

Passage of the legislation in the U.S. Congress and signature by the president constitute only initial steps in the process leading to international civilian nuclear cooperation with India – albeit hugely important steps. Now Washington and Delhi negotiators must work out a bilateral cooperation agreement, referred to as a “123 Agreement.” The NSG must also modify their restrictions to enable nuclear cooperation with India. And, finally, India and the International Atomic Energy Agency (IAEA) must come to terms on an India-specific safeguards agreement and Additional Protocol. How long it will take to complete these steps and before international cooperation leading to actual nuclear energy developments in India is difficult to predict.

Both India and the U.S. emphasized their versions of success – largely for domestic audiences. President Bush, during the signing ceremony, focused on the nonproliferation benefits of the agreement, saying “The bill will help keep America safe by paving the way for India to join the global effort to stop the spread of nuclear weapons.” India’s External Affairs Minister Pranab Mukherjee told the Lok Sabha after hailing congressional approval of the legislation that “We have always maintained that the conduct of foreign policy determined solely by our national interests is our sovereign right” – thereby addressing fears in India that amendments to the legislation would require New Delhi to “toe the line” on issues such as Iran’s nuclear developments. He also went on to say that “We will not allow external scrutiny of or interference with the strategic program.” It will be recalled that Prime Minister Singh, in his August 2006 discussions before the Rajya Sabha (India’s Upper House of Parliament), had honed in on these two concerns (India’s foreign policy and strategic nuclear autonomy). Of course, neither critics in India or the U.S. were entirely mollified by the statements of their own (or the other country’s) officials.

While the nuclear saga was the main storyline in increasingly friendly and constructive U.S.-India ties, there were other minor themes. Defense cooperation proceeded apace with joint exercises between the armies and navies of the two countries. In 2006 India also bought a used naval vessel and six military helicopters worth \$90 million.

Dialogue and cooperation on matters ranging from space and nonnuclear energy to commercial relations were also pursued. On the whole, 2006 saw further strengthening of the U.S.-India relationship and possibly the end of a long and troubled narrative on nuclear issues.

Conclusion

2005 and 2006 were active years in India’s relations with both East Asia and the U.S. If there was a steady, un-dramatic accretion of cooperation with East Asian countries, in the case of U.S.-India relations the passage and presidential signature of legislation on U.S.-India civilian nuclear cooperation was a landmark event. How much consolidation and further progress occurs will be important to observe in the coming year. One important overlap between these two broad relationships is that what India does in relations with the other has a salience that it has not had before. For example, India’s ties with East Asia on matters ranging from Myanmar to China to multilateralism will affect the U.S. even if at

the margins. And developments in U.S.-India relations will bear in concrete ways on India-East Asia relations. A specific case in point is the nuclear issue. India has now approached the East Asian members of the NSG (China, Japan, ROK, and Australia) to support or at least not oppose NSG modification of its guidelines to permit civilian nuclear cooperation with India. Such overlaps are likely to grow as and if India's ties with East Asia and the United States continue to thicken.

Chronology of India-East Asia Relations January 2005-December 2006

Jan. 6, 2005: Japanese Foreign Minister Nobutaka Machimura meets Indian External Affairs Minister (EAM) Natwar Singh in Jakarta, Indonesia to discuss the tsunami disaster, Japan-India economic relations, and UN and Security Council reform.

Jan. 24-25: India and China holds first round of strategic dialogue.

Feb. 1, 2005: South Korea's deputy minister for trade visits India and suggests that the two countries may conclude a FTA as early as 2007.

March 1, 2005: Hassan Wirayuda, Indonesia's foreign minister, travels to New Delhi for second Joint Commission Meeting between the two countries – after a two-year gap.

March 12-15, 2005: Defense Minister Teo Chee Hean visits India for consultations with Defense Minister Pranab Mukherjee and to attend the inaugural bilateral exercise between the Singaporean and the Indian Army.

March 19-21, 2005: Secretary General of LDP Abe calls on PM Manmohan Singh during an unpublicized three-day private visit to India.

March 24-27, 2005: India's external affairs minister visits Myanmar at the invitation of Myanmar foreign minister U Nyan Win.

March 30-31, 2005: The 15th Meeting of the India-China Working Group on the Boundary Question (JWG) is held in Beijing.

April 9-12, 2005: Chinese Premier of the State Council Wen Jiabao visits India.

April 15, 2005: India and China renew aviation agreement.

April 15, 2005: India and China launch financial dialogue mechanism

April 22-24, 2005: India's PM Singh attends the Asia-Africa Summit in Jakarta and Bandung, Indonesia. On the sidelines, Singh meets Indonesian President Susilo Bambang Yudhoyono, Singapore PM Lee Hsien Loong, Chinese President Hu Jintao, and Vietnamese President Tran Duc Luong.

April 28-30, 2005: Japan's PM Koizumi Junichiro visits India.

April 3-8, 2005: The 112th Inter Parliamentary Union Assembly is held in Manila. Lok Sabha Speaker Somnath Chatterjee is awarded a medal by the Philippine Congress for his distinguished service to the cause of representative democracy.

June 3, 2005: Indian and Thai PMs Singh and Thaksin Shinawatra hold talks on a wide range of bilateral issues in New Delhi.

June 7-10, 2005: Australian FM Alexander Downer attends fourth round of India-Australia Ministerial Framework Dialogues and also meets EAM Shri Natwar Singh.

June 28-30, 2005: Singapore PM Lee Hsien Loong visits India. The Singapore-India Comprehensive Economic Cooperation Agreement (CECA) and Mutual Legal Assistance Treaty are signed. The India-Singapore Parliamentary Forum is launched.

July 18-19, 2005: First meeting of the Japan-India Joint Study Group held in New Delhi.

July 19-Aug. 1, 2005: *INS Viraat* and four other ships are deployed to Singapore (July 19-22), Malaysia (July 23-27), and Indonesia (July 28-Aug. 1) to enhance bilateral ties and goodwill. The visits to Malaysia and Indonesia coincide with Chief of Naval Staff Adm. Arun Prakash travel.

July 6, 2005: Myanmar's Energy Minister Brig. Gen. Lun Thi visits India for talks.

Sept. 21, 2005: EAM Singh meets Chinese FM Li Zhaoxing and Russian FM Sergei Lavrov on the sidelines of the UN General Assembly.

Sept. 26-28, 2005: Sixth round of talks on the India-China Boundary Question is held in Beijing. The next round of talks is to take place in New Dehli.

Sept.18-22 2005: Japan Chief of Staff Gen. Massaki Hajime visits India to exchange views on the security environment, strengthen mutual understandings, and promote defense exchanges.

Oct. 3-4, 2005: Myanmar's Energy Minister Brig. Gen. Lun Thi visits India for the BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) Ministerial Meeting on Energy Matters.

Oct. 20-21, 2005: The First Malaysia-India bilateral consultation led by the secretary generals of both Foreign Ministries is held in Putrajaya.

Oct. 4-6, 2005: India Chief of Naval Staff Adm. Prakash visits Japan.

Oct. 18-22, 2005: Deputy FM of Myanmar U Kyaw Thu visits India to attend the Myanmar-India Foreign Office Consultations.

Oct. 25-28, 2005: EAM Natwar Singh attends the Shanghai Cooperation Organization meetings in Russia as an observer.

Oct. 29-Nov. 1, 2005: India's Chief of Army Staff J.J. Singh visits Myanmar.

Nov. 18-23, 2005: Minister Mentor Lee Kuan Yew visits India.

Nov. 21-23, 2005: Indonesian President Yudhoyono visits India.

Dec. 4-7, 2005: PM Singh visits Russia.

Dec. 11-14, 2005: PM Singh attends fourth India-ASEAN and first East Asia Summits in Kuala Lumpur, Malaysia. Singh has sideline meetings with ROK President Roh, Myanmar PM Gen Soe Win, and Vietnam's prime minister. Singh also has a meeting with Malaysian PM Abdullah Badawi to expand relations. Badawi indicates that Malaysian Second Finance Minister Nor Mohamed Yakcop would visit India (which occurs May 2006) to discuss a Special Purpose Vehicle (SPV) to fund infrastructure investments in India on a government-to-government basis.

Dec. 22, 2005: Two Indian warships make port call in Yangon Port and stay for five-days.

Jan. 1, 2006: Indian and Chinese leaders exchange New Year's greetings to mark the beginning of the "India-China Friendship Year."

Jan. 3-4, 2006: Japanese FM Aso Taro visits India and agrees to launch Foreign Minister-level Talks with a Strategic Perspective.

Jan. 8-10, 2006: Second round of India-China Strategic Dialogue is held in Beijing.

Jan. 9-10, 2006: Foreign Secretary Shyam Saran visits Beijing for the second round of India-China strategic dialogue.

Jan. 9-14, 2006: India holds naval exercise *Milan 2006* with Bangladesh, Myanmar, Indonesia, Malaysia, Singapore, Sri Lanka, and Thailand.

Jan. 12-13, 2006: India's Petroleum Minister Mani Shankar Aiyar visits China to discuss cooperation in oil exploration, production, storage, conservation and research and development.

Jan. 14-20, 2006: Singapore Senior Minister Goh Chok Tong visits India.

Jan. 19-22, 2006: India's Chief of Naval Staff Adm. Arun Prakash visits Myanmar.

Jan. 31-Feb. 9, 2006: India's President A.P.J. Abdul Kalam visits Seoul, Singapore, and the Philippines.

Feb. 17, 2006: Japan Chief of Maritime SDF Adm. Saito Takashi begins visit to India.

March 5, 2006: Japan Chief of Ground SDF Gen. Mori Tsutomu begins visit to India.

April 4-8, 2006: Japan Chief of Air SDF Gen. Yoshida Tadashi visits India.

April 15, 2006: New Nagpur to Bangkok biweekly direct flight is inaugurated.

May 25-28, 2006: Indian Defense Minister Pranab Mukherjee visits Japan, yielding joint statement (with Japan's Defense Agency chief) outlining detailed plans for future exchanges and interactions.

May 28-June 2, 2006: China and India pledge to deepen military exchanges during a visit by Indian Defense Minister Pranab Mukherjee.

June 1, 2006: First meeting of Japanese Executive Committee for the Japan-India Friendship and Exchange Year is held.

June 2, 2006: Thai PM Thaksin, along with his foreign and science and technology minister, visits India to focus on trade and education issues.

June 6-7, 2006: The fourth meeting of the Japan-India Joint Study Group takes place.

July 6, 2006: The Nathu La Pass, linking the northeastern India state of Sikkim with Tibet in China, is reopened for trade after being closed for 44 years.

July 17, 2006: Japan and India agree to start FTA talks.

Sept. 21, 2006: The Indian government approves memorandum of understanding on cooperation in the field of marine and fisheries that had been signed during SBY's visit in November 2005.

Oct. 3, 2006: Indian president addresses the Union of Myanmar Federation of Chambers of Commerce and Industry.

Nov. 20-23, 2006: President Hu visits India and attends China-India Economic, Trade and Investment Cooperation Summit.

Dec. 13-16, 2006: PM Singh and Mrs. Kaur pay an official visit to Japan and a Japan-India Joint Statement on strategic and global partnership is announced. Singh speaks in front of the Diet on civilian nuclear cooperation and nuclear disarmament.

Chronology of U.S.-India Relations January-December 2006

Jan. 9-12, 2006: U.S. and India meet for the inaugural Civil Nuclear Working Group as part of the U.S.-India Energy Dialogue. India and China also agree to cooperate on overseas acquisition of energy.

Jan. 18-20, 2006: Under Secretary of State Nicholas Burns comments while in India that the U.S.-India relationship stands on its own and is not directed at a third nation.

Jan. 30, 2006: U.S.-based Dell, Inc. announces plans for 5,000 new jobs to be added to India operations.

Feb. 1, 2006: Under Secretary of State for Global Affairs Paula Dobriansky leading the U.S. delegation for a fourth meeting of the U.S.-India Global Issues Forum held in New Delhi.

Feb. 8, 2006: Second meeting of the India-U.S. Energy Dialogue Steering Committee.

Feb. 10, 2006: U.S. State Department's Bureau of South Asian Affairs is reorganized to include Afghanistan and five Central Asian states and is renamed the Bureau of South and Central Asian Affairs.

Feb. 22, 2006: Under secretary Burns arrives in India to negotiate civilian nuclear energy deal.

March 1, 2006: U.S.-India Economic Dialogue is held in New Delhi. The group will report out to President Bush and PM Singh March 2.

March 1-3, 2006: President George Bush travels to India and meets Prime Minister Singh to discuss growing partnership. March 4 President Bush travels to Pakistan.

March 20, 2006: U.S. Chamber of Commerce sends a letter to Congress to support the U.S.-India civil nuclear deal. The letter states that the cooperation would "foster deeper strategic ties that will yield significant commercial opportunities for U.S. companies."

March 23, 2006: U.S. officials in Vienna fail to obtain Nuclear Suppliers Group agreement to consider proposals for nuclear cooperation with India for May 2006 session.

April 5, 2006: House and Senate committees hold hearings on U.S.-India civil nuclear cooperation.

April 12, 2006: The South Asian Association for Regional Cooperation grants U.S. and South Korea observer status.

May 9, 2006: NASA and Indian Space Research Organization agree to include two U.S. scientific instruments on India's Chandrayaan lunar mission planned for 2007.

May 17, 2006: House International Relations Committee holds hearing on U.S.-India "global partnership."

May 23, 2006: Senate bill 1950 is passed that promotes global energy security through increased cooperation between the U.S. and India on nonnuclear-related energy issues.

July 17, 2006: President Bush meets PM Singh on the sidelines of the G-8 Summit in St. Petersburg to discuss the Mumbai bombings and the nuclear cooperation deal.

July 18, 2006: U.S. Senate Energy Committee holds hearings on U.S.-India Energy Cooperation agreement.

July 19, 2006: U.S. H.R. 911 condemns the July 11 bombing in Mumbai.

Aug. 23, 2006: U.S.-India Financial and Economic Forum is held in Washington, D.C. to discuss Indian efforts to liberalize the financial sector and other issues.

Aug. 24, 2006: New Dehli approves a \$44 million plan to purchase the *USS Trenton*, a decommissioned U.S. amphibious transport dock.

Aug. 31, 2006: Shyam Saran is named Indian special envoy for negotiations on U.S.-India civil nuclear cooperation agreement.

Sept. 12, 2006: Sixteen U.S. nonproliferation experts and former government officials send an open letter to the U.S. Congress to redress "serious flaws that still plague the U.S.-India nuclear trade legislation."

Sept. 18, 2006: Joint U.S.-India army exercise is held in Hawaii.

Oct. 16, 2006: President Bush and PM Singh in a phone call exchange views on Doha trade negotiations, the civilian nuclear agreement, and regional developments in Pakistan and North Korea.

Oct. 24, 2006: Pranab Mukherjee is named India's foreign minister. A.K. Antony is named defense minister.

Oct. 25, 2006: Sixth annual joint U.S.-India naval exercise, *Malabar* held in the Arabian Sea. U.S. and Indian infantry also hold joint counterterrorism drills in Karnataka State.

Nov. 15, 2006: India and the U.S. signed a \$39 million military sales agreement on Indian navy's purchase of six former U.S. Navy H-3 Sea King helicopters.

Nov. 16, 2006: President Bush and PM Singh in a phone call exchange views on current matters and express satisfaction at the current state of U.S.-India relations.

Dec. 9, 2006: U.S. Congress approves U.S.-India nuclear agreement.

Dec. 18, 2006: U.S.-India Peaceful Atomic Energy Cooperation Act signed by President Bush.

Dec. 27, 2006: U.S. imposes sanctions on two Indian chemical firms for selling WMD-related materials to Iran.

About The Contributors

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