



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



# Comparative Connections



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

*edited by*

Brad Glosserman  
Carl Baker

4th Quarter (October-December) 2008  
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## Pacific Forum CSIS

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

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

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

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

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**Regional Overview:  
From Bad to Worse**

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

Things generally went from bad to worse in the Asia-Pacific this past quarter. The Six-Party Talks began on a low note and went steadily downhill from there as Pyongyang stonewalled against even a moderately intrusive verification regime. Crippling demonstrations in Bangkok not only dealt a severe blow to Thailand's economy (and image) but forced ASEAN to postpone both its annual round of summitry (including ASEAN Plus Three and the East Asia Summit) and its planned celebration of its Charter ratification. The Plus Three (China, Japan, and South Korea) did manage to hold their first non-ASEAN-affiliated summit and the Asia Pacific Economic Cooperation (APEC) Leaders Meeting did go off without a hitch, but neither had much impact on growing regional (and global) economic woes as economic forecasts kept being revised downward. Many in Asia saw a possible light at the end of one tunnel with the election of Barack Obama as the next U.S. president, although elite opinion, especially in Northeast Asia, remained mixed as they kept a watchful eye out for Asia policy pronouncements and the names of those who will be chosen to implement them.

**Six-Party Talks: one (U.S.) step forward, two (DPRK) steps back**

The quarter began with the primary U.S. Six-Party Talks negotiator, the seemingly indefatigable Assistant Secretary of State Christopher Hill, once again traveling to Pyongyang to try to jumpstart the stalled Korean Peninsula denuclearization talks. Readers will recall last quarter's description of the game of "chicken" being played between Washington and Pyongyang and our prediction that Washington would ultimately have to blink – i.e., remove North Korea from the State Sponsors of Terrorism List and Trading with the Enemy Act restrictions – to avoid a head-on collision. This message was no doubt delivered to Hill in person in Pyongyang. Hill's attempts to choreograph a face-saving next step were seemingly undermined by an announcement from Pyongyang a few days after his visit that it was preparing to restart its nuclear facilities at Yongbyon and that International Atomic Energy Agency (IAEA) monitoring "would no longer be appropriate."

Whether this was the catalyst for what came next or merely Pyongyang's own version of a face-saving device remains unclear. At any rate, on Oct. 11, the Bush administration announced that it had "rescinded the designation of the DPRK as a state sponsor of terrorism, effective immediately." It also laid out a list of the verification measures that Pyongyang had reportedly agreed upon in return. According to a State Department Fact Sheet, Pyongyang agreed that experts from all six parties would have access to all declared North Korean facilities and, "based on mutual consent," to undeclared sites. Agreement was reportedly reached on the use of

scientific procedures, including sampling and forensic activities, and on access to additional documentation. A U.S. spokesman asserted that the samples would be allowed to be taken out of the DPRK for further testing and added that all measures contained in the Verification Protocol would apply not only to the North's plutonium-based program but to any uranium enrichment and proliferation activities as well. According to a State Department spokesman, "every element of verification that we sought is included in this package."

The reported "U.S.-North Korea Joint Document on Verification" (which was not released and was later revealed to be only an oral agreement) was to be reviewed at the next Six-Party Talks meeting where it would be finalized and formally adopted. Once it was "Six-Partyized," it was presumably going to be released to the general public. (One says "presumably" since the June 2008 original North Korean "complete and correct" declaration of all its nuclear activities, which has been written down, has yet to be publicly released.)

While the verification protocol, as described, still contained some shortfalls – the requirement for "mutual consent" to examine undeclared suspect sites virtually guaranteed future stand-offs – and a lot of vagueness that would ensure further deliberation, it nonetheless provided a level of intrusiveness that few expected would ever be permitted by Pyongyang. This appeared, for the moment, to be the breakthrough the administration had hoped for, especially when, two days after the delisting, North Korea lifted its ban on IAEA inspections and announced that it would resume disablement of its Yongbyon nuclear facilities.

Even in October, all the news was not good however. Serious questions remained about the scope and accuracy of the 2008 North Korean declaration; it reportedly did not even list all plutonium-related facilities. Meanwhile, Pyongyang's earlier threat to reverse the Yongbyon disablement process also cast doubt on the extent of this effort. While disablement was supposed to have already been "more than 90 percent complete" and U.S. officials had been boasting that a resumption of activity at Yongbyon would take "at least a year," North Korean claims that it could reactive the reprocessing facility at Yongbyon in short order (expert assessments said a few weeks to a month or so) undercut Secretary Hill's credibility and led to demands for greater oversight and transparency regarding the disablement process.

The reported "progress" with North Korea also strained U.S. relations with its alliance partners. Japanese Prime Minister Aso Taro was dismayed by the move, considering it a betrayal of the U.S. promise to champion the abductee issue in the Six-Party Talks and not move forward on delisting without some satisfaction for Tokyo. In response, Aso publicly criticized the decision and announced that Japan would stand by its earlier refusal to provide any economic aid to the North absent progress on this touchy domestic issue. There were also growing sounds of concern from Seoul, where a conservative government feared that the Bush administration was desperate for progress – a legacy? – and was prepared to sacrifice complete dismantlement of North Korea's nuclear program for "managing" it. Bluntly put, Koreans fear that the U.S. was prepared to accept a nuclear North Korea if Pyongyang pledged not to proliferate. Even in China, there were rumblings of discontent as Beijing found itself increasingly peripheral to the negotiations process and forced to hear from U.S. negotiators what had been decided in bilateral discussions with Pyongyang.

What is especially remarkable is that the quarter was punctuated by bilateral and trilateral meetings among representatives from the U.S. and the other countries to the talks, yet these consultations did little to reduce tensions and frictions. Meanwhile those who had cheered the agreement as being better than could be expected discovered that, bad as others claimed it to have been, it was still too good to be true.

From the start, North Korea refused to validate Hill's claims about the nature and extent of the verification agreement. A U.S. version of the joint agreement was reportedly prepared in writing and delivered to the DPRK mission in New York. While it was not publicly refuted (and, depending on various unconfirmed reports, may have even been privately acknowledged to be accurate), all agreed that whatever agreement had been reached bilaterally was not really "official" until all six parties signed off on it.

When the six parties finally convened in Beijing in December (following yet another bilateral U.S.-DPRK session, this time in Singapore), Pyongyang further pulled the rug out from under Secretary Hill by proclaiming publicly and emphatically that it had never agreed upon the most contentious (and essential) aspect of the verification protocol, the taking of samples, which Pyongyang described as "an infringement upon sovereignty as it is little short of seeking a house search." The understatement of the day came from Hill, who lamented that "the North Koreans don't want to put in writing what they are willing to put into words." By now, this should come as a surprise to no one, but serves as a useful reminder to whoever picks up the North Korea negotiator portfolio for President Obama and Secretary of State Clinton. Who would eventually be stuck with this unenviable task was not yet clear, but it did seem that it would become the job of a special envoy, as opposed to the all-consuming job of the assistant secretary of state for East Asia and Pacific affairs, who all too often seemed (and was seen) to be assistant secretary for North Korea.

*What's next?* The Obama administration inherits a multilateral process that has stalled and a U.S. diplomatic approach that has alienated allies in Tokyo and Seoul. U.S.-Japan relations in particular have been soured by this entire episode; polls in Japan show a plunge in positive sentiment toward the alliance. The Seoul government is worried about an Obama administration attempt to break the logjam that is overly conciliatory. And there appears to be no agreement on the appropriate response to North Korean intransigence.

After the talks broke down, the U.S. said it would suspend energy aid to the North absent a verification protocol. Japan has not sent aid, arguing that Pyongyang's refusal to engage Tokyo bilaterally justifies its own refusal to send energy assistance. Meanwhile, Russia's chief negotiator said that it would supply its third batch of fuel oil, completing its obligations, and China said it would continue with aid and assistance as well. ROK officials say that such decisions should be made individually among the nations at the talks.

For its part, North Korea says it will adjust the speed of disablement to reflect the provision of aid and has repeated its demand that Tokyo must pay its share or be expelled from the Talks. Pyongyang may be expecting the new government in Washington to offer it a better deal than the one that is on the table. If so, the North will have most likely misread U.S. politics once again

and a face-off, if not a crisis, will soon test President Obama, who is on record supporting tougher sanctions against the North if it refuses to accept an intrusive verification regime.

### **Thai democracy: what goes around ...**

The situation in Thailand also went from bad to worse this quarter before seemingly being “resolved” with the installation of a new government at quarter’s end. The People’s Alliance for Democracy (PAD), which helped force the resignation of one prime minister (Samak Sundarvej) last quarter, made it two for two this quarter when it escalated its protests against the new ruling coalition. According to the PAD, the new prime minister, Somchai Wongsawat, was too closely associated with the previously deposed (via a military coup in September 2006) Prime Minister Thaksin Shinawatra to be acceptable. Somchai is, in fact, Thaksin’s brother-in-law, but had nonetheless been selected in accordance with constitutional procedures.

To demonstrate their discontent, PAD yellow-shirted demonstrators seized the country’s two airports and brought the economy to a virtual standstill, stranding several hundred thousand travelers. This clearly illegal action, toward which the sympathetic military and police forces largely turned a blind eye, caused billions in lost commerce and tourism dollars and significant damage to the Kingdom’s reputation as a stable and economically prosperous country that welcomes tourists, businessmen, and students.

At the end of the day, Somchai was removed not as a result of the demonstrations directly, but through a Constitutional Court decision to ban his People Power Party (PPP) and its senior leadership from politics due to voter fraud allegations. After the court decision, the PAD ended the airport occupations but warned that if “anti-democratic” forces continue in power it will return to the streets. The misnamed PAD, which has rejected the concept of one man, one vote as the basis of parliamentary government, thus threatened to continue mass demonstrations to advance its political aims.

Members of the PPP who were not banned from politics tried to regroup under the banner of the Puea Thai Party but were unable to form a new government. Instead, the opposition Democratic Party, with PPP and other defectors, named Oxford-educated Abhisit Vejjajiva prime minister on Dec. 17. Not surprisingly, Abhisit was greeted by protests from Thaksin’s red-shirted supporters, who tried to block the delivery of the prime minister’s initial policy speech. They failed – the venue was switched – but vowed to continue to encircle the Parliament until a new election is called. What goes around, comes around!

The new government has said that political reconciliation and economic recovery are its key tasks, but both are unlikely in the poisonous political air that befouls Bangkok. The government’s term is supposed to run until 2011, but there is little likelihood of that given the divisions in Thailand and the economy’s weakness. Since an election could easily once again return a pro-Thaksin government, there is little cause for optimism about Thailand’s political stability in the near future.

## **ASEAN summits postponed**

The seizure of the airport was also an embarrassment to ASEAN, since Thailand was supposed to host the annual series of ASEAN-related summits in December, including the ASEAN Plus Three summit with China, Japan, and South Korea and the broader East Asia Summit (EAS), which adds Australia, New Zealand, and India to this mix. The ASEAN leaders themselves were also going to use the occasion to celebrate the ratification of the first ASEAN Charter. Rather than embarrass Bangkok by rescheduling the meetings elsewhere, the gathering of ASEAN leaders was postponed until Feb. 27 - March 1 in Hua Hin, Thailand. The summits with the Plus Three and EAS leaders will now be held separately “around the end of April,” thus giving the red shirts two protest targets of opportunity.

## **ASEAN Charter enters into force**

Summit or not, the ASEAN charter finally came into force after the Philippines and Indonesia signed the document in early October. The reluctance of those governments – two of ASEAN’s original five members and among its most vibrant democracies – cast doubts about the viability or utility of the document. Nonetheless, on Dec. 15, ASEAN foreign ministers convened in Jakarta to mark the charter’s coming into force.

The Charter is heralded by some as a critical moment in ASEAN’s growth, transforming it from an association into a legal entity. ASEAN Secretary General Surin Pitsuwan led the cheerleading, opining that “Regional cooperation and economic integration to build the ASEAN Community will actually shift into higher gear after the ASEAN Charter enters into force today.” For them, the Charter helps push ASEAN toward a more formal entity, perhaps like the European Union. For others, the Charter is a second-, if not third-best compromise that does not address the real issues and problems that have dogged ASEAN. Consensus is still the norm for decision making and there are no ways to punish noncompliance with previous decisions. The planned human rights mechanism will be relatively toothless. And the organization still shies away from substantive issues. Look hard to find any real contribution to the human rights problems dogging Burma, the border conflict between Thailand and Cambodia, or the unrest in Bangkok. If discretion is the better part of valor, then ASEAN is reaching Herculean heights.

## **Progress for the ‘Plus Three,’ sans ASEAN**

In another piece of history, the leaders of China, Japan, and South Korea held their first trilateral summit in early December in Dazaifu, Japan, in Fukuoka Prefecture. The leaders had met before on the fringes of other multilateral get-togethers – there have been eight summits along the sidelines of ASEAN Plus Three meetings – but this was the first time they got together for their own meeting. The summit was originally scheduled for September but was delayed when Japan’s prime minister resigned.

The one-day meeting was originally designed to work on age-old historical animosities that dominate regional dynamics. The global financial crisis obliged them to shift their focus to a joint response to the mess. The three leaders – Chinese Prime Minister Wen Jiabao, Japanese Prime Minister Taro Aso, and ROK President Lee Myung-bak – promised to turn the region into

an engine of growth, pledging to stimulate their economies and Japan and China offered to open lines of currency credit – \$20 and \$26 billion, respectively – for South Korea, which has been battered by the economic turmoil. They also discussed political issues such as North Korea’s nuclear weapons program and made the usual promises to increase social and cultural ties. They also promised to hold trilateral summits on a regular basis; the next meeting will take place next year in China and South Korea will host the third.

It is tempting to dismiss this as another round of meaningless Asian summitry. But this meeting is different. Taking the initiative to meet without ASEAN providing a context (or a pretext) signals Northeast Asia’s desire to be more assertive in the management of regional problems. This is no longer the “plus three” but a stand-alone group that takes ASEAN out of its much-heralded “driver’s seat.” This process is new, but it could herald a significant development in regional multilateralism.

### **APEC Leaders Meeting**

The annual Asia Pacific Economic Cooperation (APEC) Leaders Meeting, which met in Lima, Peru Nov. 21-22, was most notable for the fact that it occurred in the midst of the global economic crisis. The final declaration called it “one of the most serious economic challenges we have ever faced” and the 21 assembled leaders pledged to work together and “take all necessary economic and financial measures to resolve this crisis.” Among them was a promise to revive the Doha Round of trade talks, deadlocked after seven years of negotiations, and a pledge to avoid protectionist measures for a year. In addition, the declaration called for better regulation of the financial industry and backed overhauls of the International Monetary Fund and World Bank.

Those promises echoed those of the summit of G20 nations that President Bush hosted days before in Washington. Equally important, the attempt to breathe new life into the global trade talks failed the very next month when representatives could not bridge their differences.

Other items on the APEC agenda included food security and the usual array of regional concerns, such as deepening regional integration, implementing previously endorsed action plans, fighting corruption, and building capacity. On security issues, the group again backed trade security measures, promoting human security, preparing for natural disasters and humanitarian relief, fighting terrorism, combating climate change, etc. In addition to the Leaders Meeting, APEC provided a chance for bilateral and trilateral sit-downs for the various attendees.

### **Regional economic outlook**

In a word: shaky. In December, the World Bank forecast 5.3 percent growth for the Asia Pacific in 2009; respectable, but a drop from the 7.0 percent recorded in 2008. This contrasts with a 0.9 percent growth forecast for global growth. The bank concluded that the region’s shakeout from the previous financial crisis, its recent strong performance, and strong foreign currency reserves provide a solid base for the next year. It conceded, however, that the recession in developed economies that are markets for regional goods, in particular the U.S., means that “in the near term, downside risks are substantial.” In its forecast, the Asian Development Bank (ADB) is a

little more optimistic, anticipating the aggregate GDP of East Asia will grow 6.2 percent in 2009, down from 7.4 percent expected in 2008.

Key to the region's prospects is China. Its double-digit growth has powered its neighbors. But the World Bank sees China slowing to 7.5 percent in 2009, down from 9.4 percent the year before and the lowest level in decades. The ADB again has slightly higher numbers; its experts predict 8.2 percent growth in 2009. Much depends on the Beijing government's two-year \$586 billion stimulus package. If that much money is in fact delivered, it may sustain China's momentum. But it is unclear where that money will come from, and how much of it is new spending. Given the widespread belief that China has to maintain at least 8 percent growth to maintain social stability, the government has every reason to see that the package is implemented. The problem is whether Beijing will succumb to the temptation to boost exports as a stimulus. That would generate frictions with trading partners, who would see it as an attempt to export its problems – and it is unlikely to be successful if demand in those markets collapses.

The outlook for Japan is grim. The country registered -0.1 GDP growth, the first negative performance since 2002. Just about every sector of the economy is in decline, with industrial production, exports, and retail sales all in the tank. And as those numbers swoon, the yen is reaching new heights against the dollar. Confidence is plummeting and economists fear deflation will occur again in 2009. Prime Minister Aso is pushing a new stimulus plan, but a divided Diet is holding up action and, as in China, there are questions about whether it will be big enough. The determination of fiscal hawks to cut the ballooning government deficit is another obstacle to quick action to stimulate the economy.

Koreans are equally dismayed by developments. The Bank of Korea estimates that 2009 will register 2 percent growth, down from 3.6 percent in 2008. The Ministry of Strategy and Finance is a little more optimistic, forecasting growth next year of "more or less 3 percent." Some private investment banks have suggested the economy could contract next year, the first such decline since the 1998 financial crisis. This follows the worst slump in industrial production – a 10.7 percent monthly drop – in more than two decades. Exports in December fell around 15 percent and the manufacturing business survey has hit record lows, understandable after seven straight months of decline. The stock market lost 41 percent of its value in 2008, and the won lost a quarter of its value. This contributed to the first current account deficit in Korea in over a decade.

The ADB expects Southeast Asia to record 3.5 percent growth next year, down from 4.8 percent in '08. In its updated projections, the IMF anticipates 5.4 percent growth from the ASEAN 5 (Indonesia, Malaysia, Philippines, Thailand, and Vietnam) in 2008 and 4.2 percent expansion in 2009; these numbers are drops of 0.1 percent and 0.7 percent, respectively, from its forecast of a month earlier. (The 2008 figure is almost a percentage point lower than that of 2007.)

The slowdown in Asia has ended talk about Asian economies decoupling from that of the West. Asia has not and cannot insulate itself from headwinds in the rest of the world. Their banks suffered from the toxic debt that originated in the U.S., but the impact was considerably milder than that experienced in the West. The 1997 financial crisis helped developing Asian economies better prepare for this shock, but they still do not have sufficient domestic demand to compensate

for slowdowns in their export markets of final demand. The current pessimistic economic forecasts could very well prove to have been too optimistic; the worst may yet be to come.

### **Obama's divided reception**

Reversing the “from bad to worse” trend in the eyes of many (but not all) in Asia was the election of Barack Obama as 44th president of the United States. His win was greeted with enthusiasm by publics worldwide. In informal “elections” by guests at U.S. Embassies and Consulates around the region, Obama won by huge margins. We've seen Obama t-shirts in markets and airport gift shops throughout Asia. Indonesians have hailed him as a “native son” – a distinction we in Hawaii (and Illinois) also proclaim. There is near universal anticipation of his administration among university students in the region as well. Indeed, one of President Obama's greatest challenges may be meeting unrealistically high expectations at home and abroad.

Elites seem less optimistic, however. Crudely put, they worry that the new U.S. administration is a stereotypical “Democratic” government: soft or naive on security issues and prone to protectionism. In Seoul and Tokyo, concern is magnified by the weakness of their own governments and the fear the U.S. will demand things they cannot deliver. Chinese too worry that an Obama presidency will have different priorities and change a relationship with which they have become comfortable.

We anticipate more continuity than change in U.S. foreign policy in Asia. Relations with allies are good and, in Northeast Asia at least, the parties recognize potential problems and are trying to avoid them. Alliance modernization and recalibration will move forward. A real spoiler is the Korea-U.S. Free Trade Agreement (KORUS FTA). Obama has voiced a desire to renegotiate the deal, but Koreans have warned that would be a mistake. Failure to pass the agreement would be a blow to the alliance. Relations with China are strong and top-level dialogues will continue, although names and players may change. A continued, if not enhanced contribution, to regional multilateralism is also anticipated.

In one important change, we are hopeful that this administration will develop and articulate a comprehensive Asia strategy. During the 1990s, four East Asia Strategy Reports were released; the last such report was issued in 1998. Much has changed since then and a strategy document that specifically outlines U.S. policy toward Asia is long overdue. The Pacific Forum CSIS joined with four other think tanks to offer such a strategy. The report, “The United States and the Asia-Pacific Region: A Security Strategy for the Obama Administration,” will be issued in late January under the co-chairmanship of James Kelly and Kurt Campbell. We end this quarter's overview with a sneak preview of some of the key recommendations contained in this Security Strategy report:

*Reassert Strategic Presence:* articulate a clear Asia-Pacific vision and security strategy; sustain military engagement and forward presence.

*Reaffirm/Reinvigorate Alliances:* reaffirm extended deterrence; follow through on transformation commitments; develop/implement joint visions through genuine consultation; broaden and deepen security relationships, including in nontraditional security areas.

*Articulate a Clear, Pragmatic China Policy:* reaffirm “responsible stakeholder” approach; promote cooperative, constructive Sino-U.S. and cross-Strait relations; avoid “zero-sum” approaches; support Taiwan democracy while maintaining “one-China” policy.

*Prevent Nuclear Proliferation:* sustain Six-Party Talks, employing a special envoy; promote nuclear stability and disarmament; pursue strategic dialogues; develop an effective regional export control regime; focus on the 2010 NPT review conference; provide security assurances to non-nuclear weapons states.

*Support Regional Multilateral Efforts:* show up (APEC, ARF); revalidate/expand U.S.-ASEAN Enhanced Partnership; expand cooperation on nontraditional security challenges; sign the ASEAN Treaty of Amity and Cooperation; support East Asia community building and the East Asia Summit; promote trilateral cooperation (reinvigorate U.S.-Japan-ROK talks; institute China, Japan, U.S. dialogue).

*Promote Open and Free Trade:* encourage free trade agreements and similar frameworks that ensure greater interdependency and economic growth; avoid protectionism; pass the Korea-U.S. Free Trade Agreement.

*Strengthen American Soft Power:* broaden and deepen diplomatic, economic, and cultural engagement; invest in professional competence/capacity building; provide leadership in addressing climate change and energy security; rebuild public diplomacy capabilities.

*Counter Radical Islam:* provide intelligence and law enforcement assistance; develop regional information sharing technologies and networks; strengthen legal systems; train counterterrorism forces.

## **Regional Chronology October-December 2008**

**Oct 1, 2008:** U.S. Senate approves agreement permitting civilian nuclear trade with India, allowing the U.S. to sell nuclear fuel, technology, and reactors to India for peaceful energy use; India opens 14 civilian nuclear facilities to international inspection, but continues to shield eight military reactors from outside scrutiny.

**Oct. 1-2, 2008:** Christopher Hill, chief U.S. negotiator for the Six-Party Talks, visits Pyongyang for talks on nuclear disarmament.

**Oct. 2, 2008:** Military officers from the two Koreas meet in Panmunjom, the first official contact between the nations since Lee Myung-bak became president in February.

**Oct. 3, 2008:** The Bush administration notifies Congress of a \$6.5 billion Taiwan arms package.

**Oct. 3, 2008:** Assistant Secretary of State Hill meets South Korean counterpart Kim Sook to discuss Hill's visit to Pyongyang for discussions concerning a verification protocol for North Korean denuclearization under the Six-Party Talks. Later, he meets his Japanese counterpart Saiki Akitaka for similar discussions.

**Oct. 4, 2008:** Secretary Hill meets Chinese Vice Minister of Foreign Affairs Wu Dawei in Beijing to discuss the outcome of his negotiations with North Korean officials.

**Oct. 6, 2008:** Pentagon reports that China has postponed various military-to-military activities to protest U.S. arms sales to Taiwan.

**Oct. 6, 2008:** Vietnam and the U.S. conduct their first ever strategic dialogue in Hanoi, addressing political, security, defense, and humanitarian cooperation.

**Oct. 7, 2008:** The Philippines signs the ASEAN Charter.

**Oct. 7, 2008:** North Korea tests two short-range missiles off its west coast.

**Oct. 7-9, 2008:** South Korea conducts an international fleet review in the waters off Busan involving over 50 warships from the South Korean Navy and 12 other nations.

**Oct. 8, 2008:** The Philippine Senate ratifies the Japan-Philippine Free Trade Agreement that was originally signed in 2006.

**Oct. 8, 2008:** President George W. Bush signs legislation to enact the U.S.-India civilian nuclear agreement.

**Oct. 9, 2008:** North Korea threatens to restart its nuclear facilities and bars IAEA inspectors from all facilities at the Yongbyon nuclear complex, although they reportedly are still in their guesthouses on the premises.

**Oct. 9, 2008:** China's Health Ministry issues new safety standards for dairy foods after melamine-contaminated milk products sickened thousands of babies.

**Oct. 10, 2008:** Secretary of State Condoleezza Rice and Foreign Minister Pranab Mukherjee sign the U.S.-Indian civilian nuclear cooperation agreement.

**Oct. 10, 2008:** Japan extends sanctions against North Korea for another six months.

**Oct. 11, 2008:** The U.S. announces that it has removed North Korea from State Sponsors of Terrorism List.

**Oct. 13, 2008:** North Korea announces that it welcomes its removal from the U.S. terrorism sponsor list and that it would allow U.S. and UN monitors back into the Yongbyon nuclear complex as it resumes disabling its nuclear facilities.

**Oct. 14, 2008:** Japanese Prime Minister Aso Taro criticizes the U.S. removal of North Korea from a terrorist blacklist and says Japan will not give aid to Pyongyang.

**Oct. 14, 2008:** Vice ministerial-level diplomats from the U.S., South Korea, and Japan hold talks in Washington to “discuss ways of bolstering cooperation on Northeast Asia and major international issues beyond the TCOG’s [Trilateral Coordination and Oversight Group] agenda.”

**Oct. 15, 2008:** China announces a nationwide recall of all dairy products more than a month old in its latest effort to end a scandal over contaminated milk.

**Oct. 15, 2008:** Thai and Cambodian soldiers exchange rocket and rifle fire in a confrontation at their border over the disputed Preah Vihear temple. At least two Cambodian soldiers are killed, and several soldiers from both sides are wounded.

**Oct. 15, 2008:** North Korean Foreign Minister Pak Ui-chon meets Russian counterpart Sergey Lavrov in Moscow.

**Oct. 15-24, 2008:** *Malabar 2008*, a bilateral U.S.-Indian naval exercise, is conducted off India’s west coast.

**Oct 15, 2008:** China’s State Council issues a directive for the Coast Guard and the fishery authorities to ban Chinese fishing vessels from entering “key sensitive maritime areas” along China’s eastern coast to prevent disputes with North and South Korea, Japan, Vietnam, and the Philippines over maritime boundaries from escalating further.

**Oct. 16, 2008:** Generals from Thailand and Cambodia hold talks in an attempt to resolve the border dispute near the ancient Preah Vihear temple.

**Oct. 17, 2008:** Japan is elected to a nonpermanent seat at the UN Security Council for 2009-2010.

**Oct. 17, 2008:** 48-member Diet delegation visits Yasukuni Shrine, but no members of Aso Cabinet participate.

**Oct. 17, 2008:** President Bush announces South Korea's entry into the Visa Waiver Program, which allows Korean citizens to stay in the U.S. for up to 90 days without visas.

**Oct. 19, 2008:** Zhang Mingqing, vice chairman of China’s Association for Relations Across the Taiwan Strait (ARATS), arrives for a visit to Taiwan.

**Oct. 20, 2008:** China announces a broad land reform plan that in theory will allow farmers to transfer or lease their land.

**Oct. 21, 2008:** North Korea newspaper says that Japan should be removed from the Six-Party Talks since it impedes the denuclearization process.

**Oct. 21, 2008:** Cambodia postpones scheduled talks with Thailand to address recent clashes near the Preah Vihear Temple.

**Oct. 21, 2008:** Adm. Mike Mullen, chairman of the U.S. Joint Chiefs of Staff, meets his Russian counterpart, Gen. Nikolai Makarov in Helsinki in an effort to move bilateral relations back on track.

**Oct. 21, 2008:** Thailand's Supreme Court finds former Prime Minister Thaksin Shinawatra guilty of a conflict of interest and dismisses the case against his wife involving a land deal she arranged. Thai prosecutors say they will ask for Thaksin's extradition from Britain.

**Oct. 21, 2008:** Protesters in Taiwan assault ARATS Vice Chairman Zhang Mingqing, drawing an apology from President Ma Ying-jeou and condemnation from Beijing.

**Oct. 21, 2008:** Indonesia becomes the final member of ASEAN to ratify the ASEAN Charter clearing the way for its formal adoption.

**Oct. 21-23, 2008:** Prime Minister Manmohan Singh visits Japan and meets Prime Minister Aso. They sign a Japan-India Joint Declaration on Security Cooperation.

**Oct. 23, 2008:** China and Singapore sign a free trade agreement (FTA).

**Oct. 24, 2008:** The foreign ministers of Thailand and Cambodia announce their countries' border dispute has been peacefully resolved following a meeting between Prime Ministers Hun Sen and Somchai Wongsawat at the ASEM summit.

**Oct. 24-25, 2008:** The Asia-Europe Meeting (ASEM) summit is held in Beijing with more than 30 heads of state in attendance.

**Oct. 25, 2008:** Vietnamese Prime Minister Nguyen Tan Dung and Chinese Premier Wen Jiabao sign an agreement to turn contentious border areas into economic growth zones and jointly explore oil-rich offshore areas in the future.

**Oct. 26-29, 2008:** Vietnamese President Nguyen Minh Triet visits Russia and meets President Dimitry Medvedev on Oct. 27.

**Oct. 28, 2008:** Japan agrees to a U.S. position that other countries can shoulder Japan's share of energy assistance to North Korea.

**Oct. 28, 2008:** Secretary of Defense Robert Gates says he would advise the next president to seek a new nuclear arms agreement with Russia that provides for further reductions in nuclear warheads.

**Oct. 30-31, 2008:** The seventh annual Council of the SCO Heads of Government (prime ministers) meets in Astana, Kazakhstan.

**Oct. 31, 2008:** Japan Air Self Defense Forces Chief of Staff Gen. Tamogami is dismissed following publication of his award winning essay “Was Japan an Aggressor Nation?”

**Nov. 3-7, 2008:** Chen Yunlin, chairman of China’s ARATS, visits Taiwan.

**Nov. 4, 2008:** Barack Obama is elected president of the United States.

**Nov. 7-9, 2008:** At a meeting in Sao Paulo, the Group of 20 finance ministers issue a statement that its members would continue to take “all necessary actions” to restore stability.”

**Nov. 8, 2008:** John Key is elected prime minister as the National Party gains control of Parliament in New Zealand.

**Nov. 9, 2008:** China announces an estimated \$586 billion economic stimulus plan over the next two years aimed at bolstering its weakening economy.

**Nov. 11-13, 2008:** Military commanders from 26 Asia Pacific countries meet in Bali for the 11th Chiefs of Defense Conference, which is co-hosted by the Indonesian Military (TNI) and the U.S. Pacific Command.

**Nov. 12, 2008:** U.S. ships 50,000 metric tons of heavy fuel oil to North Korea as part of the nuclear disarmament deal.

**Nov. 14-15:** The leaders of the Group of 20 (G20) nations – an international grouping of the world's 19 largest national economies and the European Union – meet in Washington to discuss the global financial crisis.

**Nov. 22, 2008:** China announces its interest in participating in the third ASEAN Defense Ministers’ Meeting (ADMM) in Thailand in March 2009. China, India, and Japan have all submitted formal requests to be new members of the ADMM.

**Nov. 22-23, 2008:** Asia Pacific Economic Cooperation (APEC) Leaders Meeting is held in Lima, Peru.

**Nov. 25, 2008:** Thai protesters, from the People’s Alliance for Democracy (PAD), occupy Bangkok’s Suvarnabhumi international airport saying they will not leave until Prime Minister Somchai Wongsawat resigns.

**Nov. 26, 2008:** Gunmen in Mumbai launch a series of attacks at two hotels and a Jewish outreach center.

**Nov. 26, 2008:** China postpones a summit with the European Union, which was planned for Dec. 1 in Lyon France, because of European contacts with the Dalai Lama.

**Nov. 28, 2008:** Train service connecting North and South Korea is suspended in a further sign of deteriorating relations.

**Nov. 28, 2008:** China executes a scientist accused of passing information to Taiwan, triggering condemnation from several countries including the United States.

**Dec. 1, 2008:** South Korea officially ends its four-year military mission to Iraq.

**Dec. 2, 2008:** Thailand's Constitutional Court orders the country's governing political parties to dissolve over elections fraud. In addition, their leaders are prohibited from involvement in politics for a period of five years.

**Dec. 2-3, 2008:** Chief negotiators from Japan, South Korea, and the U.S. meet in Tokyo to discuss the upcoming Six-Party Talks on denuclearizing North Korea.

**Dec. 4, 2008:** Assistant Secretary of State Hill and North Korean Vice Foreign Minister Kim Kye Gwan meet in Singapore in advance of the upcoming Six-Party Talks meeting.

**Dec. 4-5, 2008:** The 5th round of the U.S.-China Strategic Economic Dialogue led by Treasury Secretary Henry Paulson and Vice Premier Wang Qishan is held in Beijing.

**Dec. 5, 2008:** Prime Minister Manmohan Singh and visiting President Dmitry Medvedev sign a civilian nuclear deal that includes Russia building four nuclear reactors in India.

**Dec. 8-11, 2008:** Six-Party Talks are held in Beijing. The parties fail to agree on a protocol to verify North Korea's declaration regarding its nuclear activities.

**Dec. 9, 2008:** A Pentagon spokesman states that a DOD report that characterizes North Korea as a nuclear power "does not reflect official U.S. government policy regarding the status of North Korea."

**Dec. 12, 2008:** North Korea threatens to slow disablement of its Yongbyon nuclear facility after the U.S. announces it will suspend fuel aid due to North Korea's refusal to accept a nuclear disarmament verification plan.

**Dec. 12, 2008:** Japan's Diet approves a one-year extension of the Maritime Self-Defense Force refueling mission in the Indian Ocean.

**Dec. 12, 2008:** Japan's Air Self-Defense Force completes its last airlift mission to Iraq.

**Dec. 13 2008:** President Lee Myung-bak, Prime Minister Aso Taro, and Premier Wen Jiabao hold a summit in Dazaifu, Japan.

**Dec. 14-15, 2008:** Regularly scheduled direct air and sea routes and direct mail service begins between China and Taiwan for the first time since 1949.

**Dec. 15, 2008:** Abhisit Vejjajiva is elected prime minister of Thailand.

**Dec. 15, 2008:** ASEAN foreign ministers bring into force the ASEAN Charter at a ceremony at the ASEAN Secretariat in Jakarta.

**Dec. 15, 2008:** State Councilor Dai Bingguo and Deputy Secretary of State Negroponte co-chair the 6th Senior Dialogue between the U.S. and China, agreeing that high-level dialogue and cooperation must be maintained and that the U.S. will continue to adhere to its one China policy.

**Dec. 16, 2008:** The Asia-Pacific Space Cooperation Organization (APSCO), headquartered in Beijing, formally begins its operations. The organization, composed of Bangladesh, China, Iran, Mongolia, Pakistan, Peru, and Thailand, seeks to enhance multilateral cooperation on space science and technology.

**Dec. 18, 2008:** Adm. Timothy Keating of U.S. Pacific Command states that North Korea possesses intercontinental ballistic missiles capable of reaching the U.S., including Hawaii and territories of the U.S. in the Pacific.

**Dec. 19, 2008:** Indonesia launches a 3-day counterterrorism exercise in several cities and in the Malacca Strait.

**Dec. 23, 2008:** New Zealand and Fiji announce the expulsion of each other's ambassadors.

**Dec. 24, 2008:** Burma signs a 30-year contract with four firms from South Korea and India to pipe natural gas to China from fields off Burma's northwest coast.

**Dec. 25, 2008:** Japan and Vietnam sign a trade deal to cut tariffs on about 90 percent of the goods and services traded between them.

**Dec. 26, 2008:** Three Chinese naval ships set sail for waters off Somalia to protect Chinese vessels from pirate attacks.

**Dec. 26, 2008:** Russia announces the delivery of first two of six *Sukhoi SU30MK2* fighter jets to Indonesia as part of a deal agreed when then President Vladimir Putin visited Jakarta in 2007.

**Dec. 29, 2008:** Protesters in Bangkok block access to the Parliament building, forcing a one-day delay and a change of venue to the Foreign Ministry building for the legislature's opening session under Thailand's new government.

**Dec. 30, 2008:** *Asahi Shimbun* reports China will begin construction of two aircraft carriers in 2009 with completion date of 2015.





U.S.-Japan Relations:  
**Traversing a Rough Patch**

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The U.S. decision to rescind the designation of North Korea as a state sponsor of terrorism tested the bilateral relationship this quarter as the Bush administration was perceived in Japan as having softened its commitment to the abductee issue in favor of a breakthrough on denuclearization in the Six-Party Talks, which ultimately proved elusive. The Aso government managed to extend the Maritime Self-Defense Force (MSDF) refueling mission in the Indian Ocean for one year, though bilateral discussions on defense issues continued to center on whether Japan could move beyond a symbolic commitment to coalition operations in Afghanistan.

Japanese domestic politics remained tumultuous as the opposition led by the Democratic Party of Japan (DPJ) thwarted the Aso legislative agenda to increase pressure for a snap election. Prime Minister Aso's approval rating plummeted over the course of the quarter due mostly to frustration with the response to the financial crisis, prompting him to postpone the widely anticipated Lower House election in an attempt to shore up support for the ruling Liberal Democratic Party (LDP). Public opinion polls revealed increased interest in offering the DPJ a chance at the helm with most observers predicting an election sometime next spring. Other polls at the end of the quarter showed the Japanese public less sanguine about the U.S.-Japan alliance, a sobering development as President-elect Obama prepared to take office.

**Aso under pressure**

Prime Minister Aso Taro was denied a honeymoon period as the financial crisis quickly consumed his government. Pump-priming characterized the policy response, which included a \$275 billion stimulus package and several other measures to stabilize the stock market and support banks. Aso often struggled to articulate policy decisions, however, and gradually lost favor with the public. One widely publicized example was Aso's failure to decide whether the entire population or only low- to middle-income earners would benefit from \$20 billion in household payments included in the stimulus package. There were also signs of dissension within the Aso Cabinet. Economic Policy Minister Yosano Kaoru, a fiscal hawk, argued in a Nov. 30 interview with the *Financial Times* that Japan should not increase public spending given the lack of worthy targets for funding. Compounding Aso's challenges were separate government announcements in November and December respectively designating the economy in recession and projecting zero growth for fiscal year 2009.

Aso's approval rating, which had hovered close to 50 percent in late September, had fallen to as low as 16 percent in mid-December according to one poll. This dramatic downturn was mostly

attributable to frustration with the state of the economy, though he tarnished his public image with several gaffes including a complaint about the tax burden to support the elderly, traditionally a key LDP constituency. Revelations of an award issued to the chief of staff of the Air Self-Defense Forces (ASDF) for a revisionist essay regarding World War II also invited media criticism, though Aso denounced the essay as inappropriate and the culprit, then-Gen. Tamogami Toshio, was quickly dismissed from the force. Nor did it help Aso's public image when he stumbled over basic Chinese characters ("kanji") during public speeches, prompting frequent jabs that he is Mr. "KY" ("kanji yomenai"...or "can't read kanji").

DPJ president Ozawa Ichiro continued his quest to bring down the LDP, at one point instituting a boycott of deliberations in the Upper House to paralyze the legislative process and pressure Aso into calling a snap election, though Aso announced he would not consider a poll until 2009 (an election need not be held until September 2009). The heated rivalry between the two leaders was epitomized by a debate in the Diet on Nov. 28 where Aso argued against an election given the urgent need to minimize the adverse effects of the economic crisis, while Ozawa claimed the people should have a chance to decide which party is best positioned to revive the economy. Aso was forced to extend the Diet session into late December to pass a bill extending the MSDF refueling mission in the Indian Ocean. He succeeded only after passing it a second time in the Lower House with a two-thirds majority, an unpopular maneuver in the eyes of the public but indispensable to breaking parliamentary deadlock since the DPJ won control of the Upper House in summer 2007.

Compounding the pressure from Ozawa were signs that Aso could be losing support within his own party. On Dec. 24, in a public gesture of defiance, LDP lawmaker and former Administrative Reform Minister Watanabe Yoshimi voted in favor of a DPJ-sponsored resolution calling for an immediate dissolution of the Lower House followed by an election. The measure was defeated and Watanabe was reprimanded by the LDP, but his antics pointed to growing frustration with Aso. It is not clear how long Aso can survive, but many observers considered April an opportune time for an election once the Diet passes the budget for the next fiscal year. Through all of this, Aso has retained his cheery and upbeat disposition and continued emphasizing the importance of Japan's international contribution and the centrality of the U.S.-Japan alliance.

A Nov. 10 survey by *Kyodo* found that the public prefers the DPJ to the LDP by a margin of 43 percent to 36 percent. In a Dec. 8 poll released by *Yomiuri Shimbun*, Ozawa was deemed more preferable than Aso for the first time, 36 percent to 29 percent. Also published on Dec. 8 was a poll of prospective candidates in the next Lower House election, conducted by *Asahi Shimbun* and the University of Tokyo, suggesting greater ideological distinctions between the two parties. Compared to the last survey conducted in 2005, LDP support for traditional pump-priming measures increased from 17 percent to 77 percent, while those favoring the exercise of the right of collective self-defense increased from 50 percent to 73 percent. The proportion of DPJ candidates opposed to increased public works spending rose from 39 percent to 42 percent, and DPJ support for increased defense spending fell from 32 percent to 17 percent.

## **Japan rolled on delisting; U.S. snookered by DPRK**

Tensions between the U.S. and Japan over North Korea policy worsened this quarter with a U.S. decision to remove North Korea from the State Department's State Sponsors of Terrorism List. Assistant Secretary of State for East Asian and Pacific Affairs Christopher Hill visited Pyongyang on Oct. 1-2 to reach an agreement on a verification protocol for North Korean denuclearization under the Six-Party Talks and briefed his counterparts, including Saiki Akitaka, director general for Asian and Oceanian Affairs, Ministry of Foreign Affairs, in Seoul on Oct. 3. The U.S. explained that it was unable to secure a written commitment from Pyongyang on verification steps, but would proceed with delisting anyway based on verbal assurances that Hill had memorialized in a U.S. memorandum of conversation. After a day of tense telephone calls between Washington and Tokyo in which Foreign Minister Nakasone Hirofumi warned Secretary of State Condoleezza Rice that the North Korean assurances were inadequate, the Bush administration announced on Oct. 11 its decision to delist North Korea as a state sponsor of terrorism in order to advance the six-party process. The Japanese press was quick to note that in 2003 the Bush administration had promised it would not delist North Korea without progress on the fate of Japanese citizens abducted by North Korea in the 1970s and 80s, and that in June 2008 the administration had promised not to delist without effective verification protocols.

The Japanese government voiced its objections up to the highest levels, but in the end decided it would remain largely muted about the U.S. decision. President Bush called Prime Minister Aso to explain that the U.S. would be delisting and the Japanese response was simply to restate its position on abductees and to reiterate the importance of securing written North Korean agreement on the verification procedures when the full Six-Party Talks resumed. For a weakened Aso administration, an open fight with the U.S. government over North Korea would only have compounded the growing sense that the LDP-led coalition was losing the mandate of heaven, but Finance Minister Nakagawa Shoichi revealed his government's real thinking when he confessed to the press during the G7 meetings that following week that the U.S. decision was regrettable and not based on full consultation with Japan. On Oct. 14 Japan announced that it would continue to deny economic aid to North Korea under the Six-Party Talks framework until there was progress on the abductee issue.

The U.S. and Japanese governments tried to put the disagreement over delisting behind them and focused on realizing another round of the Six-Party Talks where the verification protocols could be confirmed in writing. The talks were convened in Beijing from Dec. 8-11 and, as Japanese officials had warned the Bush administration, North Korea refused in public statements and in the talks themselves to provide any verification protocol without further concessions from the other parties. Japanese press commentary on U.S. policy toward North Korea was predictably scathing and the public's vote of no-confidence was evident in a Dec. 18 *Yomiuri Shimbun* poll in which only 16 percent of the public thought that the U.S. and Japan were coordinating North Korea policy well. The corrosive effect on overall U.S.-Japan relations was apparent when only 34 percent of the Japanese public said in the same poll that U.S.-Japan relations are good – the lowest percentage since 2000 and a collapse of the record high views of the U.S. expressed in Japanese polls earlier in the Bush administration.

## **Expanding defense cooperation in a tough political climate**

Prime Minister Aso soldiered on with certain bilateral defense commitments, but his government's weak political standing caused a paring back of broader LDP ambitions for Japanese security policy. The Aso government delivered on its promise to extend the MSDF refueling mission in the Indian Ocean for a year. Expecting further pressure to dispatch forces to Afghanistan, Aso expressed caution, but the Foreign Ministry looked at other alternatives such as dispatching retired defense officers and providing increased economic assistance. The government-sponsored studies on supporting the exercise of the right of collective self-defense continued, but the Aso Cabinet signaled that it would not press hard for changes before the election and would steer well clear of actually revising Article 9 of the Constitution. Aso did give consideration to Japan's role in maintaining international security by instructing the Ministry of Defense to consider ways to dispatch MSDF forces for anti-piracy operations off the coast of Somalia, but the focus in Washington was, and would likely remain, on more substantive ways Japan could contribute to coalition efforts in Afghanistan.

The two governments continued to pursue missile defense cooperation, though the U.S. Missile Defense Agency and ASDF announced on Nov. 19 that a Japanese destroyer had failed to intercept a target during a test of the *Standard Missile-3 (SM-3) Aegis* missile defense system. This was disappointing after successful tests last year. Joint training also proceeded apace as the nuclear-powered aircraft carrier *USS George Washington* participated in drills with MSDF vessels off the coast of Okinawa in mid-November. In late December the government released a draft defense budget for fiscal year 2009, listing a decrease for the seventh straight year (0.1 percent from 2008). The budget for the realignment of U.S. forces in Japan increased more than three times to approximately 69 billion yen.

## **Some bright spots**

Though a global economic downturn, persistent turmoil in Japanese domestic politics, perceived drift in the U.S.-Japan alliance on North Korea policy, and concerns about Japan's global security role painted somewhat of a grim picture for the alliance, there were some positive developments, particularly in response to the global economic crisis. The U.S. and Japan assumed central roles in coordinating an international response, symbolized by the Group of 20 (G20) summit held in Washington in mid-November. The two governments also worked to produce a strong statement against protectionism at the Asia-Pacific Economic Cooperation (APEC) forum held in Peru in late November.

Japan offered support for the U.S.-India agreement on civilian nuclear cooperation in the international Nuclear Suppliers Group despite concerns about nuclear testing, paving the way for President Bush to sign it into law on Oct. 8. Prime Minister Aso and Indian Prime Minister Manmohan Singh also signed a joint declaration on security cooperation during a summit in Tokyo on Oct. 22, only the third such agreement Japan has signed after the U.S. and Australia, and a good sign for regional cooperation.

Regular consultations among the U.S., Japan, and the South Korea also proved encouraging, marked by vice-ministerial consultations in Washington in mid-October, meetings among the

respective envoys to the Six-Party Talks, and a trilateral meeting among President Bush, Prime Minister Aso, and President Lee Myung-Bak on the sidelines of APEC.

### **Anticipating the Obama administration**

Japanese interest in the U.S. election was high, with Pew polls at one point showing that more Japanese were paying attention to the Nov. 4 ballot than Americans. Popular reaction in Japan to Obama's election was positive, and the DPJ tried to capitalize on the theme of "change" to offer similar hope to the Japanese public (though Ozawa's approval ratings in Japan remain about a quarter of President-elect Obama's ratings in the U.S.). The press and elite commentary on Obama's win was more mixed, with a *Nikkei Shimbun* editorial among others warning that an Obama administration might become too protectionist, too close to China, and too soft on North Korea – traditional Japanese concerns about Democratic governments in the U.S.

However, these concerns appear to have ebbed somewhat with the nomination of well known centrists and internationalists to key Cabinet and sub-Cabinet posts. Treasury Secretary-designate Tim Geithner is highly respected by Japanese financial firms and well known to Ministry of Finance officials (and speaks some Japanese). Deputy Secretary of State-candidate Jim Steinberg has been a frequent traveler to Japan over the past few years and National Security Advisor Jim Jones and Secretary of Defense Robert Gates are both seen as reassuring national security realists. Hillary Clinton's nomination stirred some concern in Japan, since her 2007 *Foreign Affairs* article was portrayed in the Japanese media at the time as a pro-China piece. Ironically, the Chinese reaction was the exact opposite, with Chinese scholars remembering some of First Lady Hillary Clinton's tough opinions on human rights in China in the 1990s. Ultimately, a few well-timed moves by the new secretary of state on issues like North Korea could quickly erase any lingering doubts caused by the *Foreign Affairs* article. It was noticed, for example, that Obama agreed to receive a congratulatory call from Prime Minister Aso on Nov. 6 – two days before speaking with Chinese President Hu Jintao. These kinds of early signals by the Obama administration in 2009 will be highly scrutinized in Japan (and Asia overall) and an important theme in the next quarterly *Comparative Connections*.

### **Looking ahead**

Coordination on international economic policy, North Korea, and Japan's future role in Afghanistan will likely top the bilateral agenda as the Obama administration takes office. Climate change could also play a prominent role in bilateral dialogue. Japan will continue to advocate a sectoral approach to global emissions reductions when it hosts an international conference focused on the transportation industry in January, including representatives from the United States, Europe, members of the Association of Southeast Asian Nations (ASEAN), and international institutions such as the World Bank. Japan will also seek to highlight its global leadership role more broadly as it begins a two-year term as a nonpermanent member of the United Nations Security Council (UNSC).

## **Chronology of U.S.-Japan Relations October-December 2008**

**Oct. 1, 2008:** Japan International Cooperation Agency (JICA) becomes the world's largest bilateral development agency.

**Oct. 3, 2008:** The Bank of Japan injects 800 billion yen (\$7.6 billion) into the international financial system to prevent a global credit crunch from increasing interest rates.

**Oct. 3, 2008:** Assistant Secretary of State for East Asian and Pacific Affairs Christopher Hill meets Saiki Akitaka, director general for Asian and Oceanian Affairs, Ministry of Foreign Affairs, in Seoul to discuss Hill's visit to Pyongyang for discussions concerning a verification protocol for North Korean denuclearization under the Six-Party Talks.

**Oct. 3, 2008:** The Government of Japan announces a decision to dispatch two Self-Defense Force (SDF) officers to the United Nations Mission in Sudan (UNMIS) in Khartoum.

**Oct. 7, 2008:** A survey by *Asahi Shimbun* shows Prime Minister Aso's approval rating at 41 percent, a seven-point drop over the two-week period since he assumed the post.

**Oct. 8, 2008:** Japan's Nikkei 225 index falls 9.4 percent – the third biggest drop in percentage terms and the largest one-day decline since October 1987 – amid concerns about the extent of the global financial crisis.

**Oct. 8, 2008:** The Lower House of the Diet passes a 1.8 trillion yen (\$18 billion) supplementary budget as part of an economic stimulus package.

**Oct. 8, 2008:** Japan declines to participate in a coordinated reduction of interest rates among the world's major central banks.

**Oct. 10, 2008:** The Nikkei 225 index posts its third largest single-day decline and falls for the seventh day in a row.

**Oct. 10, 2008:** Secretary of State Condoleezza Rice and Foreign Minister Nakasone Hirofumi hold a teleconference to discuss the Six-Party Talks.

**Oct. 11, 2008:** The U.S. announces its decision to rescind the designation of North Korea as a state sponsor of terrorism. President Bush calls Prime Minister Aso to explain the decision.

**Oct. 13, 2008:** Speaking with reporters, PM Aso states that the U.S. decision to delist North Korea from the State Sponsors of Terrorism List does not mean a loss of leverage for Japan in resolving the dispute over abductees, and describes the decision as a diplomatic tactic to advance the Six-Party Talks.

**Oct. 14, 2008:** PM Aso announces that Japan will not provide economic aid to North Korea absent progress in a dispute over the fate of Japanese abductees.

**Oct. 14, 2008:** Japan announces measures to stabilize the stock market, including a decision to suspend the sale of almost 2 trillion yen (\$19.8 billion) in government-held shares.

**Oct. 14, 2008:** Deputy Minister of Foreign Affairs Sasae Kenichiro and Under Secretary of State for Political Affairs William Burns participate in the first-ever U.S.-Japan-ROK vice-ministerial consultations held in Washington.

**Oct. 16, 2008:** Prime Minister Aso states during a budget committee debate in the Upper House of the Diet that the U.S. plan to invest \$250 billion in banks is insufficient and that the U.S. government should do more to bail out ailing financial institutions.

**Oct. 16, 2008:** Japan's Nikkei 225 index falls 11.41 percent, the second-largest single-day drop on record.

**Oct. 16, 2008:** Ambassador to Japan Thomas Schieffer meets families of Japanese abductees to explain the U.S. decision to remove North Korea from the State Sponsors of Terrorism List.

**Oct. 17, 2008:** Japan is elected to a nonpermanent seat on the UN Security Council for a two-year term beginning in January 2009.

**Oct. 21, 2008:** The Lower House of the Diet extends for one year a bill authorizing Indian Ocean refueling missions in support of *Operation Enduring Freedom*.

**Oct. 21, 2008:** President Bush and Prime Minister Aso hold a teleconference regarding plans for an emergency summit on the global financial crisis.

**Oct. 22, 2008:** Prime Minister Aso hosts a summit with Indian Prime Minister Manmohan Singh covering regional security cooperation, steps toward an economic partnership agreement, and the peaceful use of nuclear power.

**Oct. 27, 2008:** The Nikkei average falls 6 percent to the lowest level since 1982.

**Oct. 27, 2008:** The G7 releases a statement expressing concern about the appreciation of the yen.

**Oct. 28, 2008:** Prime Minister Aso expresses caution regarding the dispatch of SDF forces to Afghanistan during a committee session in the Upper House of the Diet.

**Oct. 28, 2008:** Christopher Hill and Saiki Akitaka meet in Washington to discuss the Six-Party Talks, their first meeting since the U.S. announced its decision to delist North Korea from the State Sponsors of Terrorism List.

**Oct. 28, 2008:** The Yokohama District Court sentences a Maritime Self-Defense Force (MSDF) officer to two and a half years in prison for leaking data related to the *Aegis* defense system back in 2002, though the sentence was suspended for four years.

**Oct. 30, 2008:** Prime Minister Aso announces his decision to postpone a Lower House election until 2009, citing the urgent need to tackle the financial crisis.

**Oct. 30, 2008:** The government of Japan unveils a second economic stimulus package totaling \$275 billion, including \$20 billion in payments to households.

**Oct. 30, 2008:** *Nikkei Shimbun* reports that an internal survey conducted by the ruling Liberal Democratic Party (LDP) forecasts a loss if a general election were held in the near term.

**Oct. 31, 2008:** The Bank of Japan reduces the overnight call rate to 0.3 percent.

**Oct. 31, 2008:** Defense Minister Hamada Yasukazu announces that the chief of staff of the Air Self-Defense Force (ASDF), Gen. Tamogami Toshio, will be dismissed for penning an essay denying that Japan was an aggressor during World War II.

**Nov. 3, 2008:** Gen. Tamogami retires from the Self-Defense Forces.

**Nov. 3, 2008:** A *Yomiuri Shimbun* poll reveals a 40 percent approval rating for PM Aso and a disapproval rating of 41 percent.

**Nov. 4, 2008:** Prime Minister Aso states he has no plans to push for a reinterpretation of the Constitution to allow Japan to exercise the right of collective self-defense.

**Nov. 5, 2008:** Prime Minister Aso issues a statement congratulating Barack Obama on his election as president.

**Nov. 6, 2008:** Prime Minister Aso and President-elect Obama agree in a telephone conversation on the importance of strengthening bilateral ties.

**Nov. 10, 2008:** A poll by *Kyodo* reveals that the public prefers the DPJ over the LDP by a margin of 43 percent to 36 percent.

**Nov. 11, 2008:** Retired Gen. Tamogami refuses to apologize for publishing a revisionist essay on World War II and argues in favor of revising Japan's pacifist Constitution during an appearance at a hearing in the Upper House of the Diet.

**Nov. 11, 2008:** The U.S. expresses regret over an unannounced Nov. 10 visit by the nuclear-powered submarine *USS Providence* to a base in Okinawa.

**Nov. 13, 2008:** Prime Minister Aso describes the essay by retired Gen. Tamogami as "extremely inappropriate."

**Nov. 13, 2008:** The nuclear-powered aircraft carrier *USS George Washington* is featured in a week-long joint drill with MSDF off the coast of Okinawa.

**Nov. 14-15, 2008:** Prime Minister Aso pledges \$100 billion to the IMF for developing economies during the G20 summit in Washington.

**Nov. 17, 2008:** The Japanese economy officially slips into recession after two consecutive quarters of negative growth.

**Nov. 17, 2008:** PM Aso and opposition leader Ozawa Ichiro meet behind closed doors. Ozawa threatens to boycott Diet deliberations and demands that Aso either submit a second supplementary budget or call an election.

**Nov. 18, 2008:** The opposition parties begin a boycott of Upper House deliberations, preventing a vote on a bill to extend an SDF refueling mission in the Indian Ocean.

**Nov. 19, 2008:** The U.S. Missile Defense Agency announces the failure of the Japanese destroyer *Chokai* to shoot down a target during a Nov. 18 test of the sea-based *Aegis* Ballistic Missile Defense system near Hawaii.

**Nov. 22, 2008:** President Bush and Prime Minister Aso meet on the sidelines of the Asia-Pacific Economic Cooperation (APEC) forum to discuss various issues including the financial crisis, North Korea, Iraq, and Afghanistan. The two leaders also hold a joint meeting with President Lee Myung-Bak of South Korea to discuss the Six-Party Talks and the global economy.

**Nov. 27, 2008:** PM Aso orders an extension of the Diet session to Dec. 25 and announces that a second supplementary budget would not be submitted before the new Diet session in January.

**Nov. 28, 2008:** PM Aso and opposition leader Ozawa square off in a heated debate in the Diet. Aso argues against an election given the urgent need to minimize the adverse effects of the global economic slowdown, while Ozawa claims that the people should have a chance to decide which party is best positioned to revive the economy.

**Nov. 28, 2008:** A *Reuters* survey finds that 60 percent of individual investors want the DPJ to win the next election.

**Nov. 30, 2008:** In an interview with the *Financial Times*, Minister for Economic Policy Yosano Kaoru argues against increased government spending to stimulate the economy, citing a lack of worthy targets for funding.

**Dec. 2, 2008:** Christopher Hill and Saiki Akitaka meet in Tokyo to prepare for a new round of the Six-Party Talks.

**Dec. 3, 2008:** Hill and Saiki are joined by ROK Special Representative Kim Sook for trilateral consultations in Tokyo.

**Dec. 6, 2008:** A poll released by the Cabinet Office shows that a record-high 28 percent of the Japanese public thinks relations with the U.S. are not good, compared to a record-low 69 percent who said bilateral ties were good.

**Dec. 8, 2008:** A new round of the Six-Party Talks begins in Beijing.

**Dec. 8, 2008:** A *Yomiuri Shimbun* poll shows an approval rating of 21 percent for Prime Minister Aso, with a disapproval rating of 67 percent. Ozawa also proves more popular than Aso for the first time, with 36 percent saying Ozawa would be preferable as prime minister compared to 29 percent for Aso.

**Dec. 9, 2008:** An MSDF officer found guilty of leaking intelligence related to the *Aegis* ballistic missile defense system is dismissed from the force.

**Dec. 11, 2008:** The latest round of the Six-Party Talks ends without an agreement on a verification protocol for North Korean denuclearization.

**Dec. 12, 2008:** The Diet approves a one-year extension of the SDF refueling mission in the Indian Ocean.

**Dec. 12, 2008:** Japan's ASDF completes its last airlift mission to Iraq.

**Dec. 12, 2008:** Prime Minister Aso announces a second economic stimulus package totaling \$110 billion.

**Dec. 12, 2008:** The Diet approves a bill allowing the government to inject up to \$22 billion into the nation's banks.

**Dec. 16, 2008:** The U.S. Air Force announces plans to deploy two contingents of *F-22* stealth jet fighters for approximately three months to Japan beginning in January 2009.

**Dec. 18, 2008:** A *Yomiuri Shimbun* and *Gallup* poll on U.S.-Japan relations finds that 34 percent of Japanese consider U.S.-Japan relations good, the lowest percentage since 2000.

**Dec. 18, 2008:** Prime Minister Aso praises Japan's five-year noncombat mission in Iraq after the last *C-130* aircraft used in airlift operations departed Kuwait.

**Dec. 19, 2008:** Japan government forecasts zero growth for the fiscal year ending March 2010.

**Dec. 19, 2008:** The Bank of Japan reduces the overnight call rate to 0.1 percent.

**Dec. 19, 2008:** A survey by *Jiji Press* reveals a 16 percent approval rating for the Aso Cabinet and a disapproval rating of 65 percent.

**Dec. 19, 2008:** A survey by *Yomiuri Shimbun* and Waseda University finds that voters are more disappointed with the performance of the LDP than the DPJ by a margin of 69 percent to 48 percent. Fifty-five percent of respondents had expectations for the DPJ going forward, compared to only 42 percent for the LDP.

**Dec. 20, 2008:** Japan's Ministry of Finance releases a draft budget for fiscal year 2009 suggesting a spending increase of 6.6 percent and a total budget of \$990.9 billion, the biggest draft figure ever. Defense spending and official development assistance are cut 0.1 percent and 4 percent, respectively.

**Dec. 24, 2008:** LDP lawmaker Watanabe Yoshimi, a former minister for administrative reform, votes in favor of a resolution supported by the DPJ calling for an immediate dissolution of the Lower House followed by a general election. The resolution fails but Watanabe receives a reprimand from LDP leadership.

**Dec. 24, 2008:** The Aso Cabinet approves the draft budget proposal for fiscal 2009.

**Dec. 24, 2008:** The Aso Cabinet approves a mid-term tax reform plan including a call for an increase in the consumption tax in fiscal year 2011.

**Dec. 27, 2008:** Prime Minister Aso instructs the Ministry of Defense to explore ways to dispatch SDF forces for anti-piracy missions off the coast of Somalia, though Defense Minister Hamada questions the feasibility of the plan in a press conference the same day.

**Dec. 28, 2008:** A *Nikkei* poll lists Prime Minister Aso's approval rating at 21 percent with a disapproval rating of 73 percent.

**Dec. 31, 2008:** The Nikkei 225 index finishes the year down 42.1 percent, well above the last highest annual decline of 38.7 percent in 1990.





U.S.-China Relations:  
**Ties Solid for Transition, but Challenges Lurk**

Bonnie Glaser  
CSIS/Pacific Forum CSIS

The U.S. and China held the 5<sup>th</sup> Strategic Economic Dialogue and the 6<sup>th</sup> Senior Dialogue this quarter. The global financial crisis was a focal point of discussion in both dialogues, as well as in the meeting between Presidents Bush and Hu Jintao on the sidelines of APEC in Lima, Peru. Beijing responded to the announced U.S. sale of \$6.5 billion in arms to Taiwan by suspending bilateral military exchanges between the U.S. and China and talks on nonproliferation. China's internal debate about the international structure of power and the status of the U.S. was revived as the two prepared to celebrate the 30<sup>th</sup> anniversary of the establishment of diplomatic ties.

**Fifth SED focuses on financial crisis**

As the global financial crisis worsened, the U.S. and China held their 5<sup>th</sup> and final Strategic Economic Dialogue (SED) of the Bush administration at the Diaoyutai State Guest House in Beijing on Dec. 4-5. The U.S. delegation was led by Treasury Secretary Henry Paulson and included Environmental Protection Agency Administrator Stephen Johnson, Labor Secretary Elaine Chao, and Health and Human Services Secretary Michael Leavitt. The Chinese delegation was headed by Vice Premier Wang Qishan.

Much of the discussion understandably centered on the financial turmoil, with many on the Chinese side blaming the U.S. for the crisis. Zhou Xiaochuan, governor of China's central bank, said in a statement, "The important reasons for the U.S. financial crisis include excessive consumption and high leverage." Wang Qishan told his counterparts that the U.S. must stabilize its economy in order to "ensure the safety of China's assets and investments in the U.S.," which could signal that China may reconsider funding perennial U.S. government deficits. Both nations, however, agreed that protectionism was not a solution for the current crisis.

In the days and weeks leading up to the summit, many economists believed Paulson might use the final SED of his tenure to press China to strengthen the yuan, especially after the currency weakened significantly against the dollar earlier in the month. However, no progress was made on the issue. The two nations did make headway on other matters. They reached agreement to make available an additional \$20 billion through their respective export-import banks to help finance trade for credit-worthy developing countries, raising their contributions to \$38 billion; China agreed to allow foreign banks to trade bonds on the Chinese market; and the two nations reached consensus on the Ten Year Energy and Environmental Cooperation Framework, signing agreements to work together toward six major goals including clean energy, air, water, and transport. In the area of food and product safety, the health ministries of the two governments

will work together to eliminate harmful and defective products and improve consumer confidence. On the critical issue to Washington of opening China's financial sector to U.S. securities firms, the Chinese opted to wait for future dialogues with the Obama administration.

Much of the commentary in the Chinese media on the SED focused on China's achievement of "more equal status" during the meeting. *Renmin Ribao* carried an analysis by Niu Xinchun of the China Institute of Contemporary International Relations (CICIR) which argued, "The recent financial crisis has dealt a heavy blow to the self-confidence of the United States, and the development model of US-style financial capitalism has been subjected to grave queries." Because of this, Niu believes that the summit involved greater cooperation instead of antagonism. *Jiefang Ribao* quoted Pan Rui of Fudan University, who agreed with Niu's assessment, saying that both nations appeared more as equals than ever before. In the same article, Hou Ruoshi of the Institute of World Development under the State Council's Development Research Center similarly called the SED "a new starting point for equal cooperation between China and the United States." A Dec. 5 *Xinhua* editorial termed the fifth summit "the most plentiful and substantive" of all the SEDs, saying that the two nations focused on long-term agreements instead of short-term disagreements.

Initiated by Paulson and the Bush administration in 2006, the SED has been lauded more for its role in promoting dialogue and cooperation between the U.S. and China than for its substantive accomplishments. As Paulson said after the December meetings, the SED produced candid discussion, rather than bullet-point results. Critics of the SED mechanism, however, have argued that insufficient progress has been made on major issues, specifically currency reform. Paulson himself admitted in an interview with the *New York Times* that he had hoped to persuade the Chinese to move to a market-determined currency, but had not been successful.

The first SED in December 2006 laid the foundation for future discussions on many macroeconomic issues, including currency reform and intellectual property rights. The next summit in June 2007 produced agreements on increasing air and cargo routes between the U.S. and China, improving enforcement of intellectual property rights (IPR) laws, and increasing U.S. access to Chinese financial markets. The third SED in December 2007 focused largely on food and product safety, with China agreeing to strengthen its regulation of food products and other exports and the U.S. agreeing to step up its monitoring of Chinese imports. The dialogue also produced agreements on foreign investment and environmental protection. The fourth SED in June 2008 increased cooperation on energy, the environment, and bilateral investment.

The future success of the SED mechanism will depend on whether the incoming Obama administration decides to continue the dialogue and if so, what approach and objectives are set by the new team. The Chinese have already shown their eagerness to continue the dialogue. President Hu Jintao told Paulson at the close of the 5<sup>th</sup> SED, "China and the United States should continue to step up their high-level dialogue mechanism for substantive cooperation and stronger bilateral relations." Many believe that Obama will continue the SED, although it may take on a different form. In particular, it is unknown whether a U.S.-China economic dialogue under Obama will be led by the Treasury Department, as it has been under Bush. Some observers have suggested that the SED be led by Vice President Biden's office. A few scholars, such as Fred Bergsten of the Peterson Institute for International Economics, have argued that the Cabinet-

level dialogue between the two nations should be similar to a “G2,” with all topics on the table instead of simply economic and trade policy considerations. Until Obama enters office, however, the future of the SED remains in flux.

### **Military ties suspended**

On Oct. 3, the Bush administration notified Congress of a \$6.5 billion arms package for Taiwan that included *Patriot PAC-III* anti-ballistic missiles, a retrofit for *E-2T* anti-submarine aircraft, *Apache* helicopters, *Harpoon* anti-ship missiles, *Javelin* anti-vehicle missiles, and spare parts for *F-5* and *F-16* aircraft. Funds for design work for diesel submarines, *Blackhawk* helicopters, and additional *Patriot PAC-III* missiles were omitted from the package. Most of the items had been approved by President Bush for sale to Taiwan in April 2001, but were delayed due to various factors, including the refusal of Taiwan’s legislature to provide funding for most of Chen Shui-bian’s term in office.

Beijing responded swiftly by suspending military exchanges with the U.S., including the planned visit to the U.S. by Central Military Commission Vice Chairman Xu Caihou, a visit to China by U.S. Army Chief of Staff Gen. George Casey, and working-level talks on China’s Defense White Paper and the Pentagon’s report on Chinese military power. Scheduled dialogues on non-proliferation between the Foreign Ministry and the Department of State were also postponed.

Chinese officials harshly denounced the arms sale to Taiwan. Vice Foreign Minister He Yafei summoned the charge d’affaires of the U.S. Embassy to China to protest the sale. A Foreign Ministry spokesman said the sale would “gravely harm” China’s interests and Sino-U.S. relations, and a Defense Ministry spokesman charged that it had “endangered China’s national security,” “seriously obstructed” military exchanges and cooperation, and “poisoned” relations between the two militaries. A subsequent statement by the Defense Ministry spokesman called on the U.S. to abide by its commitments to China on the Taiwan issue, cancel relevant arms sale programs to Taiwan immediately, and cut off military ties with the island to prevent harming overall bilateral military ties.

Other signals emanating from China suggested, however, that the suspension of U.S.-China military and nonproliferation exchanges would only last a few months and would not result in major setbacks to the bilateral relationship. A signed article in the Beijing-controlled Hong Kong newspaper *Wen Wei Po* stated that despite the arms sale to Taiwan, “the basic face of the Sino-American military exchange and cooperation has not been seriously damaged” and maintained that soldiers from both armies “passionately desire to understand their counterparts.” Privately, PLA officers hinted that the suspension of exchanges would be short lived and would not have long-term impact on the relationship.

In early December, China’s Defense Minister Liang Guanglie told Richard Myers, former chairman of the U.S. Joint Chiefs of Staff, that the U.S. arms sale to Taiwan had poisoned the sound atmosphere of bilateral military relations and endangered China’s national security, but also observed that the Sino-U.S. relationship is one of the most important bilateral ties in the world and indicated that China is ready to work with the U.S. on a stable and healthy relationship.

Visits by U.S. ships to Hong Kong, technically not included in the bilateral U.S.-China military exchange plan, remained unaffected by the suspension. The guided-missile destroyer *USS Benfold* arrived in Hong Kong on Oct. 9 for a scheduled port visit. On Nov. 22, 2008 the forward-deployed amphibious assault ship *USS Essex* also made a port visit.

China undoubtedly learned lessons from the debacle in November 2007 when Beijing, irked over an arms sale to Taiwan and the awarding of the U.S. Congressional Gold Medal to the Tibetan spiritual leader the Dalai Lama, refused the aircraft carrier *USS Kitty Hawk* permission to enter Hong Kong where its crewmembers had planned to spend the Thanksgiving holiday. The Foreign Ministry had quickly reversed its decision within a day “out of humanitarian considerations,” but not in time for the carrier and its flotilla of five support ships, which were steaming toward their home port in Yokosuka, to turn around. The U.S. military was also angered by China’s refusal at about the same time to consent to a request by two U.S. minesweepers seeking refuge in a storm.

After more than a two-month freeze on U.S.-China military exchanges, the People’s Liberation Army (PLA) held talks with David Sedney, deputy assistant secretary of defense for East Asia, in mid-December. The visit took place in lieu of the annual Deputy Ministerial Defense Consultative Talks, which the Pentagon proposed be put off until the Obama administration and a new deputy secretary of defense is in place. Sedney met with Maj. Gen. Qian Lihua, director of the PLA’s Foreign Affairs Office, and with Chen Xiaogong, assistant chief of the PLA General Staff. A *PLA Daily* article quoted Chen telling Sedney that Sino-U.S. military relations serve not only the common interests of the two countries, but are also “conducive to peace and stability in the region and the world as a whole.” Chen pinned blame on the U.S. side for the current difficulties and called on the U.S. to “remove the obstacles” and “create favorable conditions and atmosphere for the restoration and development of ties between the two militaries.”

### **Dai Bingguo visits for the 6<sup>th</sup> Senior Dialogue**

Chinese State Councilor Dai Bingguo arrived in New York on Dec. 10 for a weeklong visit in the United States. The main purpose of Dai’s trip was to co-chair the 6<sup>th</sup> “Senior Dialogue” with Deputy Secretary of State John Negroponte, which was held on Dec. 15. Dai maximized the benefits of his visit by holding numerous meetings with foreign policy elites, some of whom are shaping Obama administration policy, as well as with senior Bush administration officials.

Former Secretary of State Madeline Albright met with Dai as a representative of President-elect Obama. Meetings were also held with Henry Kissinger, Zbigniew Brzezinski, John Hamre, Brent Scowcroft, and Sandy Berger. In addition, Dai met with Secretary of State Condoleezza Rice and National Security Adviser Stephen Hadley. He also delivered a speech at The Brookings Institution, his first ever speech outside of China. Dai’s speech reviewed China-U.S. relations over the 30 years since diplomatic normalization between the two countries. He emphasized that the U.S. and China should see each other as partners rather than rivals.

In his private meetings, Dai delivered several messages. First, he conveyed Beijing’s desire to have a smooth transition from the Bush administration to the Obama administration. China hopes to have a good beginning and further develop Sino-U.S. relations in the coming years, he

maintained. Second, Dai warned against selling more arms to Taiwan, which he claimed is harmful to both U.S.-China ties and to improving cross-Strait relations. Third, Dai urged his interlocutors to not host the Dalai Lama and especially to avoid a meeting between President Obama and the Dalai Lama prior to the 50<sup>th</sup> anniversary of the Dalai's flight from Tibet this coming March.

Deputy Secretary of State John Negroponte and State Councilor Dai Bingguo co-chaired a full day of consultations on a range of bilateral and international topics. Among the topics discussed were the tensions in South Asia in the wake of the bombings in Mumbai, Iran's continued defiance of United Nations Security Council resolutions aimed at dissuading its pursuit of nuclear weapons, and the humanitarian crisis in Zimbabwe. The two officials also exchanged views on bilateral military and nonproliferation issues, human rights, and stability in Asia, including recent developments in the Six-Party Talks to denuclearize the Korean Peninsula.

China's *Xinhua* reported that Dai and Negroponte "sincerely exchanged views in depth on issues with regard to how long-term healthy and steady development of China-U.S. relations could be maintained and on how bilateral coordination and cooperation in dealing with international and regional issues could be strengthened." It also stated that the two reached a "broad consensus." Dai reportedly proposed that the following actions be taken: 1) strengthen high-level contacts and dialogue to continuously promote strategic mutual trust; 2) properly handle the Taiwan issue to maintain peace and stability in the Taiwan Strait; 3) broaden the scope of mutually beneficial bilateral cooperation with a vision for development and an open mentality; 4) increase communication and coordination on major international and regional issues; 5) properly handle differences and sensitive issues; and 6) carry out nongovernmental exchanges in depth.

The Senior Dialogue round concluded with a dinner celebrating the achievements in U.S.-China relations since diplomatic relations were established nearly 30 years ago. Previous rounds of the Senior Dialogue were held in Beijing in August 2005, Washington in December 2005, Beijing in October 2006, Washington in June 2007, and Guiyang in January 2008. Since the Dialogue has been considered useful by both sides and has not been subject to much criticism, it is likely that it will be continue under the Obama administration.

### **Presidential contacts**

Presidents Hu Jintao and George W. Bush maintained close contact this quarter, with a special focus on economic issues as the impact of the financial crisis reverberated throughout the globe. On Oct. 21, the two presidents held talks by phone on how to respond to the financial turmoil. On Nov. 15, Hu attended the Group of 20 (G20) summit, hosted by Bush in Washington, to address the global economic downturn. Since Bush eschewed bilateral meetings, the two leaders did not meet separately until a week later in Lima, Peru, where they attended the Asia-Pacific Economic Cooperation (APEC) forum.

In their meeting on the sidelines of APEC, Hu reviewed developments in Sino-U.S. relations in recent years and emphasized the importance of proceeding from a strategic and long-term perspective, adhering closely to the two countries' constructive, cooperative relations, increasing mutual trust, strengthening cooperation, and appropriately handling differences and sensitive

issues, particularly Taiwan. Hu expressed appreciation to Bush for the positive efforts he made for the development of Sino-U.S. relations during his presidency. The two leaders also discussed the international financial crisis, the Doha Round, Sino-U.S. trade and economic relations, the Korean Peninsula issue, and the Iran nuclear issues.

Almost a week after the U.S. presidential elections, President-elect Barack Obama phoned Hu Jintao – one in a series of calls placed to foreign leaders – to thank them for their expressions of congratulations on his election. China’s Hu was included in the third group of calls, along with Russian President Dmitry Medvedev, perhaps signaling that U.S.-China relations are important, but are not the most important bilateral relationship for Washington. The first group of calls included nine state leaders from Australia, Canada, France, Germany, Israel, Japan, Mexico, South Korea, and the United Kingdom. The second batch included six state leaders from Spain, Saudi Arabia, Egypt, Italy, Poland, and Pakistan.

### **Debate on international order, U.S. status revives**

The global financial crisis, U.S. challenges in Iraq and Afghanistan, the rapid rise of newly emerging powers including China, and other developments have rekindled debate in China about the international structure of power and the status of the United States. This debate has remained mostly dormant since the mid-1990s, when the Chinese concluded that the global pattern of power in the aftermath of the Cold War was best described as “one superpower and several major powers.” The sole superpower – the U.S. – was expected to remain overwhelmingly dominant for decades to come.

Some Chinese experts contend that the time has come to reevaluate that assessment. Fu Mengzi, assistant president of the China Institute of Contemporary International Relations, argues in his institute’s journal *Xiandai Guoji Guanxi* (third quarter, Sep. 20, 2008) that the world may be entering a “post U.S. hegemony” multipolar era. Faced with the financial crisis, and the war in Iraq, U.S. national power is likely to wane, Fu predicts. “US guidance and leading force in world and regional economy is on the decline, and globalization will display more original features of non-Americanization” according to Fu. “Non-Western powers will become increasingly lively forces in rebuilding the world order.”

People’s University Professor Jin Canrong, writing in the same issue of the CICIR journal, agrees that notable changes have taken place in the international power pattern and relations among powers. However, he maintains that no fundamental change has taken place in the post-Cold War era pattern of power relations of “one superpower and several major powers” “In the foreseeable future, the United States will still hold an incontrovertible controlling status in force and power, and no country has the capability to replace the United States and remold the international order,” Jin wrote. He added, however, that U.S. soft power has diminished and the U.S. is in relative decline compared to other nations.

In an interview with *Nanfeng Chuang* published on Oct. 8, Dean of Beijing University’s School of International Studies Wang Jisi cautions against a premature judgment that the U.S. is on the decline. He states that “there really is no reliable basis for saying that at this point the United States has had a setback from which it cannot recover. To date no country has been able to

constitute a comprehensive challenge to the United States, and there is no question that its position as the only superpower will continue for 20-30 years.” Wang observes that “Pax Americana” to a certain degree benefits international stability and maintains that a multipolar world will be more just, but less stable. He advises China to avoid “becoming embroiled in the central maelstrom of world politics and concentrate on managing our own affairs well.”

For the time being, it seems that the Chinese leadership believes that it is premature to conclude that the U.S. is on the decline or to revise its assessment of the international pattern of power. Nevertheless, future discussion of these subjects is worth watching closely since China’s foreign policy is formulated on the basis of its evaluation of the global structure of power along with other factors such as Chinese interests. For example, the judgment that U.S. supremacy will endure, even as the world gradually becomes more multipolar, has been a critical factor in Beijing’s decision to avoid challenging U.S. interests around the globe.

### **Summing up**

Both Americans and Chinese are upbeat about Sino-U.S. relations as the Bush administration nears a close. China policy is viewed by many observers as one of the few successful foreign policies of Bush’s presidency. Dialogue has deepened on strategic and economic issues; cooperation on regional security issues has increased, most notably on North Korea; a difficult and potentially dangerous period in cross-Strait relations was managed effectively; and cooperation between the U.S. and Chinese militaries has expanded, although it has lagged behind the cooperation between civilian agencies and little progress has been made toward achieving mutual strategic trust.

During Bush’s term in office, mechanisms have been established that can be further developed and utilized in the coming years. It goes without saying that many problems persist in Sino-U.S. relations and new problems will undoubtedly arise. The trade deficit is huge, China’s cooperation to resolve issues such as the Iranian nuclear issue and the humanitarian crises in Darfur and Zimbabwe remain insufficient, China’s crackdown on Tibet continues, and more improvement in human rights is needed. Nevertheless, the U.S.-China relationship is being turned over to the incoming Obama administration in fairly good shape.

On Jan. 1, 2009, the U.S. and China mark the 30<sup>th</sup> anniversary of the establishment of diplomatic relations. Both countries will celebrate this watershed in numerous conferences and celebratory events. As they do, they should appreciate what has been accomplished, while giving due consideration to ways that relations can be further strengthened to promote the interests of both sides, as well as regional and global peace and prosperity.

## **Chronology of U.S.-China Relations October-December 2008\***

**Oct. 4, 2008:** Chinese Ministry of Defense spokesman Hu Changming expresses China's firm objection to a U.S. decision to sell \$6.5 billion in arms to Taiwan.

**Oct. 4, 2008:** U.S. nuclear envoy Christopher Hill briefs Chinese counterpart Wu Dawei in Beijing on the outcome of U.S.-North Korea talks in Pyongyang.

**Oct. 4, 2008:** China's Central Bank expresses support on its website for Washington's \$700 billion bailout package and calls for greater cooperation on financial stabilization.

**Oct. 6, 2008:** U.S. Defense Department spokesman says China has canceled a series of military and diplomatic exchanges with the U.S. to protest the planned U.S. arms sales to Taiwan.

**Oct. 7, 2008:** Chinese Foreign Ministry spokesman Qin Gang condemns the proposed U.S. arms sales package to Taiwan.

**Oct. 7, 2008:** Foreign Ministry spokesman Qin Gang says China hopes the U.S. will soon repatriate the 17 suspected Chinese terrorists held at Guantanamo Bay.

**Oct. 8, 2008:** Alan Hegburg, a deputy assistant secretary with the U.S. Energy Department, tells the press that the U.S. would welcome Chinese investments in its oil and gas sector.

**Oct. 8, 2008:** U.S. District Judge Ricardo Urbina orders the Bush Administration to free 17 Chinese from Guantanamo Bay by Oct. 10.

**Oct. 9, 2008:** A U.S. trade official says the U.S. has won a landmark WTO case against China's copyright and trademark protection regime, contradicting other trade sources' claims that China won the bulk of the ruling.

**Oct. 9, 2008:** U.S. Rep. Charles Rangel formally requests the U.S. International Trade Commission to collect trade data on Chinese clothing imports.

**Oct. 9, 2008:** The guided-missile destroyer *USS Benfold* (DDG 65) arrives in Hong Kong for a scheduled four-day port visit.

**Oct. 10, 2008:** China Merchants Bank's New York branch opens for business, becoming the first Chinese bank branch to open in the U.S. in 17 years.

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\* Chronology by CSIS interns See-won Byun and David Szerlip

**Oct. 11, 2008:** At the 18<sup>th</sup> meeting of the International Monetary and Financial Committee in Washington, Deputy Governor of the People's Bank of China Yi Gang calls for international cooperation to restore global financial stability.

**Oct. 13, 2008:** Defense Minister Liang Guanglie tells visiting U.S. Sen. Chuck Hagel that Washington must drop its proposed arms sales to Taiwan, saying the plan “has undoubtedly damaged relations between the two countries and two armed forces seriously.”

**Oct. 15, 2008:** Assistant Secretary of State for African Affairs Jendayi Frazer visits China to discuss African issues as part of the U.S.-China Senior Dialogue and delivers a speech at Peking University on bilateral cooperation on Africa.

**Oct. 21, 2008:** President Hu holds telephone talks with President Bush on international cooperation in dealing with the global financial turmoil.

**Oct. 21, 2008:** Foreign Ministry spokesman Qin Gang urges the U.S. to repatriate suspected Chinese terrorists being held at Guantanamo Bay, stressing that “no double standards should be adopted” on terrorism.

**Oct. 21, 2008:** Lu Yongxiang, vice chairman of the Standing Committee of the National People’s Congress, meets a U.S. Congress delegation in Beijing.

**Oct. 22, 2008:** Treasury Secretary Henry Paulson at the annual gala of the National Committee on U.S.-China Relations in New York urges the next U.S. president to strengthen bilateral ties given China’s leading role in the world economy.

**Oct. 23, 2008:** Julie Gerberding, director of the U.S. Center for Disease Control tells reporters in Beijing that the U.S. is expanding a training program for Chinese health officials to promote transparency during disease outbreaks.

**Oct. 23, 2008:** State Department spokesman Robert Wood condemns the “brutal beating” of the two sons of detained Beijing priest Zhang Mingxuan.

**Oct. 25, 2008:** Foreign Ministry spokesperson Jiang Yu calls U.S. remarks on the intimidation of a Beijing pastor “groundless” and “irresponsible,” telling the U.S. “to pay more attention to its own human rights problems.”

**Oct. 27, 2008:** China and the U.S. sign a “Strategic Cooperation Memorandum on Copyrights,” setting a framework for bilateral cooperation on intellectual property rights.

**Oct. 28, 2008:** Assistant U.S. Trade Representative Tim Stratford visits Beijing and cautions China against adopting protectionist policies that run counter to WTO rules.

**Oct. 28, 2008:** U.S. Justice Department reports that a multiagency initiative to combat illegal exports of restricted military and dual-use technology from the U.S. has resulted in criminal

charges against more than 145 defendants in the past fiscal year, with roughly 43 percent of these cases involving munitions or other restricted technology bound for Iran or China.

**Oct. 29, 2008:** Sen. Obama in a letter vows to use “all diplomatic means” to stop China from gaining a trade advantage, if elected president.

**Nov. 5, 2008:** President Hu and Premier Wen Jiabao congratulate Barack Obama on his election as U.S. president.

**Nov. 7, 2008:** Chinese and U.S. representatives express differences of opinion over copyright protection at the 7<sup>th</sup> Annual Ambassador’s IPR Roundtable in Beijing.

**Nov. 8, 2008:** President Hu and President-elect Obama have a telephone conversation on bilateral and international issues.

**Nov. 13, 2008:** The Chinese mission to the WTO says China has reached “mutually satisfactory solutions” with the EU, the U.S., and Canada on the regulation of financial information services.

**Nov. 13, 2008:** The U.S. Food and Drug Administration says all Chinese products containing milk will be held at the U.S. border pending the results of safety tests under a new FDA order.

**Nov. 15, 2008:** President Hu attends the G20 summit in Washington.

**Nov. 16-17, 2008:** Director of the PLA’s foreign affairs office, Maj. Gen. Qian Lihua, tells the *Financial Times* that normal U.S.-China military exchanges can resume only if “the US change its ways, cancel its plans to sell weapons to Taiwan and stop its exchanges with the Taiwanese military.” He also states that the world should not be surprised if China builds an aircraft carrier but insists that Beijing would use such a vessel only for offshore defense.

**Nov. 17, 2008:** The Institute of Electrical Engineering under the Chinese Academy of Sciences and the National Renewable Energy Laboratory affiliated with the U.S. Department of Energy agree to cooperate on solar energy technology.

**Nov. 17, 2008:** Chinese, U.S., and EU leaders meet in Brussels for their first trilateral summit on product safety.

**Nov. 17-18, 2008:** The U.S.-China Green Energy Council holds its first U.S.-China Green Energy Conference in Beijing.

**Nov. 18, 2008:** The Congressional-Executive Commission on China releases its 2008 Annual Report on human rights and the rule of law in China.

**Nov. 18, 2008:** Chinese Health Minister Chen Zhu and U.S. Secretary of Health and Human Services Michael Leavitt attend the U.S.-China workshop on food safety in Beijing.

**Nov. 18, 2008:** Approximately 160 representatives from the Chinese armed forces including retired generals and U.S. veterans attend the China-U.S. Veterans Peace Forum in Beijing.

**Nov. 19, 2008:** The U.S. FDA opens its first overseas office in Beijing while China also prepares to open food and drug inspection offices in the U.S.

**Nov. 20, 2008:** The U.S.-China Economic and Security Review Commission releases its 2008 Annual Report to Congress, highlighting Chinese cyber attacks, authoritarian rule, and trade violations.

**Nov. 20, 2008:** The U.S. opens its sixth Consulate in Wuhan, Hubei in central China.

**Nov. 21, 2008:** Presidents Hu and Bush meet on the sidelines of the Asia-Pacific Economic Cooperation forum in Lima, Peru to discuss bilateral issues and the global financial crisis.

**Nov. 22, 2008:** The forward-deployed amphibious assault ship *USS Essex* arrives in Hong Kong for a scheduled port visit.

**Nov. 24, 2008:** A U.S. federal appeals court hears legal arguments in the case of 17 ethnic Chinese detained at Guantanamo Bay.

**Dec. 2, 2008:** Secretary of the Treasury Henry Paulson tells reporters in Washington that he hopes China will allow its currency to rise against the U.S. dollar and will build on its recent stimulus package in the wake of slumping global demand for Chinese exports.

**Dec. 2, 2008:** At the invitation of former President Bill Clinton, Foreign Minister Yang Jiechi attends and addresses the 2008 Clinton Global Initiative Asia Meeting held in Hong Kong.

**Dec. 4-5, 2008:** Vice Premier Wang Qishan and Secretary of the Treasury Henry Paulson co-chair the 5<sup>th</sup> SED in Beijing.

**Dec. 5, 2008:** President Hu Jintao meets the U.S. delegation to the SED, saying he hopes the U.S. and China can develop a stronger system for high-level bilateral dialogue.

**Dec. 5, 2008:** Minister of Commerce Chen Deming tells the American Chamber of Commerce in China that the U.S and China should strengthen mutual cooperation in all fields to meet the challenges brought about by the global financial crisis.

**Dec. 8, 2008:** Assistant Secretary of State for International Organizational Affairs Brian Hook meets Assistant Foreign Minister Liu Jieyi and Director-General Wu Hailong of the Department of International Organizations and Conferences to discuss U.S.-China cooperation in the UN on UN reforms, Darfur, the Iranian nuclear issue, Iraq, and Afghanistan.

**Dec. 8, 2008:** The Federal Reserve approves an application by China Construction Bank, China's second-largest bank, to open its first branch in New York City.

**Dec. 8-11, 2008:** The Heads of Delegation Meeting of the Six-Party Talks is held in Beijing and is chaired by Chinese Vice Foreign Minister Wu Dawei.

**Dec. 8, 2008:** Defense Minister Liang Guanglie urges the U.S. to cancel arms sales to Taiwan in a meeting with former U.S. Chairman of the Joint Chiefs of Staff Gen. Richard Myers in Beijing.

**Dec. 11, 2008:** Foreign Minister Yang Jiechi meets chief negotiators of the Six-Party Talks, emphasizing the importance of the talks in resolving the Korean Peninsula nuclear problem.

**Dec. 11, 2008:** State Councilor Dai Bingguo speaks at the Brookings Institute, and says the U.S. and China should be partners rather than rivals while strengthening dialogue and cooperation.

**Dec. 12, 2008:** Vice Foreign Minister Li Hui and Assistant Foreign Minister Hu Zhengyue hold consultations with Assistant Secretary of State for South Asian Affairs Richard Boucher in Beijing to discuss South and Central Asian affairs.

**Dec. 15, 2008:** State Councilor Dai Bingguo and Deputy Secretary of State Negroponte co-chair the 6<sup>th</sup> Senior Dialogue between the U.S. and China, agreeing that high-level dialogue and cooperation must be maintained and that the U.S. will continue to adhere to its one China policy.

**Dec. 15, 2008:** State Department deputy spokesman welcomes the establishment of direct transportation links across the Taiwan Strait, calling it a “very positive” step for the improvement of cross-Strait relations.

**Dec. 18, 2008:** Adm. Timothy Keating, commander of U.S. Pacific Command, says that the U.S. would welcome Beijing’s assistance in fighting piracy in the Gulf of Aden, adding that the move could help rekindle stalled military-to-military relations between the U.S. and China.

**Dec. 19, 2008:** The U.S. and Mexico jointly file a complaint against China before the WTO for unfairly using subsidies to boost exports.

**Dec. 19, 2008:** Chen Xiaogong, assistant chief of the PLA General Staff, meets Deputy Assistant Secretary of Defense David Sedney for talks on suspended U.S.-China military ties.

**Dec. 22, 2008:** U.S. blocks the creation of a WTO panel after China demands an investigation of U.S. taxes on certain goods imported from China, including steel pipes and tires. It is the first time Beijing has ever sought a WTO panel in a trade dispute.



U.S.-Korea Relations:  
**Obama's Korea Inheritance**

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The last four months of U.S.-ROK relations under the Bush administration saw the completion of a mission that helped to define the broadening global scope of the alliance as well as the final resolution of the troublesome “beef issue.” Tough negotiations were completed on a new defense cost-sharing agreement and the ruling party in the ROK began the process of passing the implementing legislation for the free trade agreement. All of this amounts to President Obama’s inheritance of an alliance relationship that is in fairly strong shape, but a North Korean nuclear negotiation that remains unfinished. Despite the best efforts of the U.S., Pyongyang remained unwilling to accept standard verification procedures as part of the six-party denuclearization agreement. This was despite the fact that on Oct. 11, the U.S. removed the country from the terrorism blacklist. Obama’s team will need to adhere to seven key principles as it continues to navigate the labyrinth of these difficult negotiations and bolster the strength of the alliance.

**The alliance: packaged for the transition**

The last quarter of 2008 saw the completion of several issues that will allow for a well-packaged transition of the alliance to the next administration. In December, the Republic of Korea (ROK) completed successfully its four-year deployment to Iraq in a welcome home ceremony with music and military honors. This mission, perhaps more than anything else, truly defined the broadening scope of the alliance relationship. The ROK had at its peak some 3,600 troops in Iraq (Irbil), constituting the third largest ground contingent behind that of the U.S. and the British. The ROK also had a supporting air force unit in Kuwait. While their mission was primarily humanitarian, in later stages ROK forces played an important role providing protection to high-value assets including U.S. Agency for International Development and United Nations officials. They also engaged in training and equipping Iraqi forces and other coalition partners. Critics might argue that Seoul’s motives for participating in Iraq were hardly global and entirely parochial (Roh Moo-hyun only agreed to the deployment despite protests at home because he perceived it as a quid pro quo for U.S. flexibility on North Korea); nevertheless, the troops were dispatched, they performed well, and thereby set a new standard for ROK participation alongside the U.S. in areas around the world where interests converge based on common values. This is a critical component of the alliance’s future resiliency.

On trade issues, the quarter saw an announcement by major Korean food retailers about the reintroduction of American beef on their shelves for sale to consumers. While the decision to reopen the ROK market to U.S. beef imports took place last spring, many of the major

supermarket chains did not stock the cheaper and higher quality commodity largely for fear of violent protests by activist groups. Predictably, the beef began selling immediately once it hit the shelves and this appears to put an end to an ugly ordeal that became politicized beyond reason – at least until the next shipment of beef with bone chips is found. On the Korea-U.S. (KORUS) free trade agreement (FTA), the ruling Grand National Party sought to begin the process of passing the implementing legislation for the agreement, which was met with violent opposition from Democratic Party legislators. Seoul's moving forward with the FTA might look like an attempt to pressure the incoming U.S. administration or an attempt to pre-empt any future renegotiation of its terms, but ruling party legislators have assured U.S. interlocutors that this is not their intention. Indeed, numerous interactions among alliance watchers on both sides of the Pacific and several blue-ribbon commissions appear to have reached a conventional policy wisdom that the FTA will not see the light of day in 2009 (i.e., at least for the first year of the Obama administration). Whether this is correct or not, the key point is that the Lee Myung-bak government understands that even as it moves forward with the FTA at home, patience is necessary with regard to the U.S. and that a full court press on Obama in his first months in the Oval Office will not set the alliance off on a good start.

The most painful and difficult negotiations in the alliance are over defense cost-sharing. Each time these talks take place both sides get angry, walk away from the table, threaten that the alliance's fate hangs in the balance, and appeal to their higher-ups to use political intervention to force the other side's hand. Negotiators will tell you that the negotiations are this way precisely because they are about "real things" – i.e., money. Yet invariably, after several nail-biting rounds these talks always reach a hard-fought conclusion that works well for the alliance – again, because the negotiations are about real things – money and the strength of the alliance (unlike the Six-Party Talks, some might quip). In late December, the U.S. and ROK concluded a new Special Measures Agreement (SMA) effective January 2009. The agreement covers five years beginning with Seoul providing \$585.4 million to cover the cost of keeping U.S. forces in Korea next year, with future contributions in both cash and goods tied to the consumer price index. In November, another longer term accomplishment in the alliance came to fruition with the first visa-free travel to the U.S. as South Korea qualified for the U.S. visa waiver program.

In all, these developments offer a fitting end to the Bush administration's shepherding of the alliance over eight years: an unprecedented expansion of the alliance's global scope, the conclusion of the largest bilateral free trade agreement, the implementation of visa waiver, and the conclusion of a new SMA and major base relocation agreement. These accomplishments package up the alliance nicely and leave Obama with a strong foundation upon which to begin.

### **“You'd have to be an idiot to trust the North Koreans”**

Secretary of State Condoleezza Rice's above comment at the Sons and Daughters event at the Council on Foreign Relations in New York in December pretty well summed up the reasoning behind the inconclusive ending to the last round of Six-Party Talks in 2008. The U.S. held a series of consultations with the allies, Japan and South Korea, and then with the North in preparation for the December round of talks to nail down a verification protocol for the North's nuclear declaration. The troublesome issue appeared to be the North's unwillingness to agree in writing to all of the elements of a standard verification agreement – site visits, interviews with

scientists, documentation, and especially sampling of materials. The absence of an agreement on verification made it difficult to declare the conclusion of the “second phase” of the Six-Party Talks, which would have then allowed the Obama administration to begin the third or dismantlement phase of the negotiations with the verification protocol in place.

North Korea’s unwillingness to agree to a written document crafted by the Chinese became apparent almost immediately at the recent round of talks in Beijing. North Korean negotiators apparently were interested only in getting commitments from other parties about the continued supply of fuel shipments even as Pyongyang was unwilling to accept a verification protocol. This intransigence was despite a highly controversial decision by the Bush administration in October to remove North Korea from the terrorism blacklist. U.S. negotiator Christopher Hill’s last-ditch attempt to break the logjam reflects a fundamental dilemma of “relative reasonableness” the U.S. continually faces in implementing Six-Party Talks agreements with the North. What this means is that every agreement in the Six-Party Talks process is negotiated with painstaking care as parties hammer out specific quid pro quos and synchronize steps and timelines with concomitant rewards and penalties. Yet, sooner or later, Pyongyang plays brinkmanship and demands more than it was promised or does less than it should. In this instance, a “verifiable nuclear declaration” – emphasis on verifiable – by the North was the clear understanding of all parties to the talks dating back to the September 2005 Joint Statement. Nevertheless, Pyongyang eventually chose not to agree to standard verification schemes. While everyone accepts that the DPRK is being completely unreasonable, they also realize that a failure of the agreement could mean the failure of the Six-Party Talks and the precipitation of another crisis. To avoid this, the parties end up pressing the U.S., knowing full-well that the DPRK is at fault and traversing the bounds of fairness and good faith, but certain that the only chance of progress can be had from U.S. reasonableness rather than DPRK unreasonableness. The result is that any additional U.S. flexibility is widely perceived in the region as evidence of U.S. leadership (except perhaps in Tokyo), but is viewed in Washington as some combination of desperation and weakness.

Holding out for a written verification protocol was the right move by the Bush administration even as he leaves the Obama administration with an unfinished second phase negotiation. Nevertheless, Bush will leave the remnants of a workable nuclear disablement process rather than a full-blown crisis. This process is hardly any consolation to those who believe we should end this charade of trying to negotiate away Kim’s weapons and instead resort to financially strangling the regime, especially as its leader is in poor health. But collapsing the regime is costly, and holding out for a Libya-type wholesale disarmament is not possible. Meanwhile, Obama will inherit a situation in which U.S. and international inspectors are on the ground in North Korea learning more about their nuclear secrets, while slowly disabling and degrading Kim’s nuclear capabilities. In this regard, the last round of Six-Party Talks constituted another yard gained in a slow ground game, with the ball soon to be handed over to the next team.

### **Looking forward: seven principles for Korea**

Korea will be only one of many hot button issues the new administration must contend with. It is not likely to be priority issue even with the fluid situation regarding the negotiations over the

North Korean nuclear program. Some basic principles should guide the new team's focus amid the dizzying array of international and domestic issues it must address:

- **Results, not tone:** The new team must remember that the process of the U.S.-ROK alliance can at times be ugly, with demonstrations and occasional expressions of anti-Americanism. But historically, the results in terms of cooperation in Asia and around the world have almost always been positive.
- **Intrinsic, not strategic:** The alliance with South Korea should be viewed as more than a defense against North Korea. It should be seen as a vibrant democratic partnership in Asia and a worldwide contributor to the counterterrorism, clean energy, and development agendas.
- **Run, don't coast:** The new team must continue to push the alliance's scope to the regional and global, rather than just peninsular. The alliance has both the capabilities and the political will, based on common democratic values, to operate everywhere from Central Asia to the Middle East.
- **Tend the garden at home:** Even as crafters push the alliance, they must also ensure that the redesign of the military elements of the alliance are completed and remain sensitive to runaway populism in Korea.
- **Finish the KORUS FTA:** This may be difficult for President Obama in his first year in office, but the new team must remember that expectations are high that this represents a new phase in the alliance's history. Its failure may damage the alliance as well as views of U.S. leadership in Asia.
- **Test North Korea:** Obama must pick up the Six-Party Talks process with a negotiation strategy that pushes the North to denuclearization while demonstrating U.S. political commitment to the process. That is the best way to build a multilateral coalition for punishment if the negotiation fails.
- **Keep an eye on the prize:** Remember that the ultimate prize is not denuclearization but managing an eventual "inheritance" process where a united Korea, free and democratic, is an engine of peace and economic growth in Asia and a global partner of the U.S. in world affairs.

### **Chronology of U.S.-Korea Relations October-December 2008\***

**Oct. 1-2, 2008:** Christopher Hill, chief U.S. negotiator for the Six-Party Talks, visits Pyongyang for talks on nuclear disarmament.

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\* Compiled by Peggy Hu

**Oct. 3, 2008:** U.S. State Department spokesman Sean McCormack reiterates that a verification protocol is an “irreducible component of the six-party process moving forward.”

**Oct. 3, 2008:** ROK Defense Ministry states that the U.S. has asked for a delay in the schedule to relocate U.S. military bases in South Korea by up to four years due to budgetary constraints.

**Oct. 3, 2008:** Assistant Secretary of State Hill meets South Korean counterpart Kim Sook to discuss Hill’s visit to Pyongyang. Later, he meets his Japanese counterpart Saiki Akitaka for similar discussions.

**Oct. 4, 2008:** U.S. Assistant Secretary of State Christopher Hill meets Chinese Vice Minister of Foreign Affairs Wu Dawei in Beijing to discuss the outcome of his negotiations with North Korean officials.

**Oct. 8, 2008:** U.S. Secretary of State Condoleezza Rice insists that North Korea must meet proper standards for verifying its nuclear disarmament, while declining to comment on the outcome of talks that Secretary Christopher Hill held with North Korean officials.

**Oct. 8, 2008:** *Yonhap* reports that North Korea fired two short-range missiles into international waters in the Yellow Sea as part of a routine military drill. State Department spokesman McCormack states that the U.S. advises against the firing of short-range missiles because “It’s not helpful in any way managing tensions within the region.”

**Oct. 9, 2008:** North Korea bars international nuclear inspectors from all parts of its Yongbyon nuclear complex and threatens to restart its reactor.

**Oct. 11, 2008:** U.S. removes North Korea from its list of state sponsors of terrorism. State Department spokesman McCormack states that “Every single element of verification that we sought going in is part of this package.”

**Oct. 13, 2008:** North Korea lifts its ban on International Atomic Energy Agency (IAEA) inspections and announces that it will continue to disable Yongbyon nuclear facilities.

**Oct. 14, 2008:** IAEA inspectors reseal equipment and reactivate cameras at the Yongbyon nuclear complex.

**Oct. 14, 2008:** U.S. Undersecretary of State for Political Affairs William Burns, South Korean Deputy Foreign Minister Lee Yong-joon, and Japanese Deputy Foreign Minister for Political Affairs Kenichiro Sasae meet in Washington to discuss trilateral security cooperation issues, including Iraq, Afghanistan, the Northeast Asian political situation, regional cooperation, and major international security issues.

**Oct. 16, 2008:** The ROK Justice Ministry announces that U.S. Forces, Korea (USFK) has refused to share the expenses the Korean government was forced to pay for lawsuits involving U.S. military activities. USFK’s says the Status of Forces Agreement allows it to differ from the Korean court’s decision if it was out of sync with its own judgment.

**Oct. 17, 2008:** President George W. Bush announces South Korea's entry into the Visa Waiver Program, which allows Korean citizens to stay in the U.S. for up to 90 days without visas.

**Oct. 17, 2008:** Following the annual U.S. – ROK Security Consultative Meeting (SCM) held in Washington, Secretary of Defense Robert Gates affirms that the U.S. remains committed to defending South Korea, that its armed forces would respond “quickly with appropriate military power in case of a military emergency, and that South Korea will continue to receive the protection of the “U.S. nuclear umbrella”.

**Oct. 17, 2008:** A ship carrying a delivery of food aid comprised of 20,000 tons of corn and 5,000 tons of beans departs from the U.S. and is scheduled to arrive in North Korea on Nov. 18.

**Oct. 19, 2008:** The ROK Defense Ministry announces that South Korea and the U.S. will, for the first time, conduct a joint search of the demilitarized zone (DMZ) for soldiers buried during the Korean War.

**Oct. 23, 2008:** Secretary Hill states that on-site inspections of North Korean nuclear facilities should start as early as the end of the year after Six-Party Talks delegates approve a recent U.S.-DPRK agreement on how to check information Pyongyang provides about its nuclear activities.

**Oct. 30, 2008:** Negotiations between the U.S. and South Korea regarding how to share the cost of maintaining 28,000 U.S. troops on the Korean Peninsula conclude without substantial results.

**Nov. 3, 2008:** *Rodong Simmun* reports that the DPRK will further strengthen its defense capabilities against a nuclear threat from the U.S. in response to the U.S. Air Force's Oct. 24 announcement that it would create a nuclear command.

**Nov. 5, 2008:** Lee Hye-min, South Korea's chief free-trade regulator, warns President-elect Obama that renegotiating the U.S.-ROK FTA would contradict international custom and potentially damage “the balance that was achieved when the deal was reached.”

**Nov. 6, 2008:** Sung Kim, U.S. State Department's special envoy for North Korea, and Ri Gun, North Korean Foreign Ministry's director for North American affairs, meet in New York to discuss the next steps in implementing Pyongyang's pledge to dismantle its nuclear program.

**Nov. 7, 2008:** During a telephone conversation, President Lee and President-elect Obama agree to further reinforce the bilateral alliance and to closely cooperate in addressing the global financial crisis and the North Korean nuclear issue.

**Nov. 7, 2008:** *AP* reports that a North Korean diplomat states that North Korea is ready to deal with any new U.S. administration following Obama's election victory, and that the DPRK will be open to dialogue if the U.S. seeks it.

**Nov. 10, 2008:** State Department spokesman Robert Wood expresses U.S. thanks to South Korea for the *Zaytun* Division's contribution to Iraqi stabilization.

**Nov. 11, 2008:** President Lee states that he would not oppose a summit between President Obama and North Korean leader Kim Jong-il if it helps bring an end to North Korea's nuclear program, supporting a statement made by Obama during his campaign that he would be willing to hold direct talks with the DPRK.

**Nov. 12, 2008:** U.S. ships 50,000 metric tons of heavy fuel oil to North Korea as part of the nuclear disarmament deal.

**Nov. 13, 2008:** North Korean Foreign Ministry states that it will not allow outside inspectors to take soil and nuclear waste samples from the Yongbyon nuclear facility.

**Nov. 13, 2008:** U.S. and ROK celebrate the 30<sup>th</sup> anniversary of the Combined Forces Command. CFC Commander Gen. Walter Sharp states that despite the pending deactivation of the command in 2012, the defense capabilities of the U.S.-ROK alliance would continue to improve.

**Nov. 14, 2008:** President Lee meets former Secretary of State Madeleine Albright and former Representative Jim Leach, two top aides to President-elect Obama, "to exchange views on various issues of mutual interest, including ways to overcome the global economic crisis."

**Nov. 18, 2008:** The *Donga Ilbo* reports that the U.S. plans to complete the relocation of U.S. troops from Yongsan Garrison and Gyeonggi Province to Pyeontaek by 2016, citing the impossibility of advancing the schedule due to budget and technical problems.

**Nov. 19, 2008:** The *Kyunghyang Shinmun* reports that a verbal deal reached between the DPRK and the U.S. last month would allow inspectors to take samples from the Yongbyon nuclear complex, but only after it enters the next phase of the denuclearization process.

**Nov. 22, 2008:** The U.S. and ROK reach an agreement on how cost sharing for operating U.S. military bases in South Korea over the next five years, with the ROK expected to increase its financial contribution by the same proportion as the local inflation rate for each year until 2013.

**Nov. 24, 2008:** Special Envoy Sung Kim states that "There is no confusion between Washington and Pyongyang on what was agreed" regarding disarmament verification.

**Nov. 26, 2008:** Secretary of State Rice states that the purpose of the Six-Party Talks scheduled for Dec. 8 is to codify the "number of assurances and a number of understandings" regarding the disarmament verification protocol.

**Dec. 4, 2008:** Secretary Hill meets with his DPRK counterpart Kim Kye-gwan in Singapore to discuss the protocol of verification, fuel delivery, and schedule of disablements prior to the start of the Six-Party Talks.

**Dec. 8-11, 2008:** Six-Party Talks are held in Beijing, focusing on drafting an agreement on verification protocol. China circulates a draft protocol for verifying Yongbyon's nuclear information. However, talks conclude with no written agreement regarding the denuclearization verification protocol.

**Dec. 9, 2008:** U.S. Department of Defense spokesman Stewart Upton states that a DOD report that characterizes North Korea as one of five Asian nuclear powers “does not reflect official U.S. government policy regarding the status of North Korea.”

**Dec. 12, 2008:** The DPRK threatens to slow disablement of its Yongbyon nuclear facility after the U.S. announces it will suspend fuel aid due to the DPRK’s refusal to accept a nuclear disarmament verification plan.

**Dec. 16, 2008:** Secretary of State Rice states that the Bush administration is committed to continuing to work toward written commitments on inspections of the DPRK’s disarmament program until President Bush’s last day in office.

**Dec. 18, 2008:** Adm. Timothy Keating of U.S. Pacific Command states that North Korea possesses intercontinental ballistic missiles capable of reaching the U.S., including Hawaii and territories of the U.S. in the Pacific.

**Dec. 19, 2008:** The last 520 South Korean soldiers depart Iraq, ending South Korea’s four-year mission to the country.



**U.S.-Russia Relations:**  
**Economic Crisis brings Relative Calm to Relations**

Joseph Ferguson  
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As documented in this chapter during the last quarter (and over the last several years), U.S.-Russian relations have deteriorated to post-Cold War lows. Given the number of distractions over the last few months, relations stabilized somewhat in that the usual number of caustic barbs hurled across the oceans was limited. The leaders of the two nations are increasingly preoccupied with finding solutions to the economic ills affecting their respective nations and the entire world. As the Obama administration comes to office there seems to be a determination to reestablish a working relationship with the Kremlin, something that was obviously lacking during the August crisis when Russian troops invaded Georgia. President-elect Obama and future Cabinet members – as well as members of Congress – have publicly stated the need to recalibrate relations with Russia, starting with arms control.

**The economic crisis**

At the beginning of the fall, as the equity and real-estate bubbles were rapidly deflating in the U.S., Russian leaders, fresh from their battlefield triumphs in the Caucasus, took turns announcing that the economic crisis was a bitter fruit that had been sown in the U.S. and that it was primarily there that the hard times would be felt. As recently as October, there were public assurances given by both President Dmitry Medvedev and Prime Minister Vladimir Putin that the crisis would not affect Russian citizens too badly. Initially it appeared that those most affected in Russia would be the richest; those billionaire oligarchs whose holdings in mineral and energy firms declined with the decrease in world demand for resources, and then whose stock fortunes took a plunge beginning in May, when the main Russian stock index lost more than 75 percent of its value.

But the collapse of oil prices happened in such dramatic fashion that the entire economy and the confidence of the Russian leadership were badly shaken. The price of oil dropped from a high of \$140 per barrel in July to \$35 per barrel in December (it now hovers around \$40 a barrel). The ruble fell more than 25 percent against the dollar (many Russians convert their rubles into dollars upon being paid), and even more against the euro. The inflation rate continues to rise and threatens to eclipse the 15-20 percent rate should oil fall below \$30 per barrel. Perhaps most importantly to the Kremlin, official currency reserves, which topped \$600 billion at the end of the summer, have fallen by more than \$160 billion as the Central Bank tries to prop up the ruble. Add in the costs of the war in Georgia and the government's budget surplus is rapidly diminishing. In December, Russia's economy officially entered into recession, as output in some

key sectors dropped 20-30 percent. Even state-run behemoth Gazprom – seen as the symbol of Russia’s newfound wealth and its status as an energy superpower – is negotiating a government bailout. Ordinary Russians, even those without a stock portfolio, are feeling the crunch as prices rise, banks run short of cash, and their savings diminish, or even disappear.

Even the seemingly unassailable position of Vladimir Putin is under some scrutiny as Russian citizens are starting to ask difficult questions. Demonstrations in the Russian Far East aimed at an unpopular tax on car imports (many people there rely on cheap, used Japanese imports), led to riots and left many seasoned observers wondering whether they were exceptions or a precursor to further unrest across the country. What exactly does this mean for the United States? It means that the new administration may be dealing with a less confident Russia, unlike the emboldened nation that has shown its face over the past few years. Although this could be a good thing, it could also mean dealing with a government unable to deliver arms control treaties or strategic agreements concerning Iran, missile defense, North Korea, and other pressing issues.

### **Strategic issues**

The autumn started out much as the summer ended, with both sides engaged in name-calling. President Medvedev took the occasion during a speech delivered at an economic forum in France to criticize the U.S., using familiar terms such as “unilateral,” “irresponsible,” and “egotism.” Medvedev blamed not only the global economic crisis on the U.S. (perhaps fairly), but also the war in Georgia, the impasse in the Middle East, and Kosovar independence. Medvedev’s half-hour speech reminded observers of Putin’s infamous Munich speech of February 2007, in which the former president lambasted the U.S. in front of an American delegation led by Secretary of Defense Robert Gates. Medvedev’s speech was the last of the harsh rhetoric, however, to be heard at the highest levels. On a subsequent trip to Washington in November, he was much more diplomatic and extolled the Bush administration for bringing together the world’s leaders to discuss the economic crisis. On a subsequent trip to Venezuela (more below), Medvedev declined to join President Hugo Chavez in criticizing the United States.

The Russian leadership also praised Washington three weeks later when NATO announced at a summit of foreign ministers that it would not yet grant MAP (Membership Action Plan) status to Georgia and Ukraine. This does not mean that the two nations will not be granted membership, but for now some NATO countries (namely France and Germany) are opposed. The NATO foreign ministers did, however, give unanimous support to the planned deployment in Eastern Europe of a missile defense system. Still a focal point of disagreement between Moscow and Washington, the development of this missile defense system continues to cause tension. Hours after Barack Obama had won the presidential election in the U.S., President Medvedev announced that Russia might place short-range *Iskander* missiles in the Russian city of Kaliningrad in order to “neutralize” a planned U.S. missile-defense system in Eastern Europe. The timing was such that many considered the announcement a shot across the bow of the incoming Obama administration. Although Medvedev later apologized for the bad timing, he continued to stick by this plan. Meanwhile, in a speech in Estonia, Secretary of Defense Gates, a Russian expert himself, characterized the Russian announcement as “unnecessary and misguided.” A retired Russian general said in an interview that the *Iskander* plans were mere bargaining chips for the Kremlin. “This decision is political. From a military point of view, it

would be difficult to imagine a scenario, in which such missile systems could be used,” Maj. Gen. Vladimir Dvorkin (ret.) was quoted as saying.

NATO ministers were disturbed by Russia’s continued refusal to comply with the Conventional Forces Europe (CFE) Treaty, a status that has existed since the end of 2007. The conflict in Georgia has exacerbated the situation as Russian forces in the Caucasus are supposed to be covered by the treaty. Convenient for the Kremlin that Russia was not in compliance as their forces poured into Georgia. Conversely, the Russian leadership continues to point to NATO expansion as the primary reason for the breakdown of the CFE. How can Russia look away, they ask, while a big, powerful alliance continues to expand around Russia’s borders?

### **Arms control**

The CFE Treaty is but one aspect of the complicated state of arms control between the Kremlin and Washington. The two issues of greatest concern for the leaders of both nations are NATO’s plans for a missile defense system in Eastern Europe and the lapsing START-1 Treaty.

In response to continued plans to deploy parts of a missile defense system in Poland and the Czech Republic, the Russian government has unveiled a series of counter-measures in the wake of numerous diplomatic failures over the past few years to try and convince the U.S. to halt the development and eventual deployment of such a system. As mentioned, the announcement of the *Iskander* deployment to Kaliningrad seems nothing more than a political power play to try and bring the Obama administration to the bargaining table. It might just work as early indications are that Obama and some of his advisors are lukewarm to the missile defense system, unless it is proven to be workable and reliable. It is said that President-elect Obama would consider only deploying such a system once it has been successfully tested. Meanwhile, Russia’s Strategic Missile Force chief, Col. Gen. Nikolai Solovtsov, announced that Russia will commission over the next year a new type of intercontinental ballistic missile, the *RS-24* missile equipped with multiple nuclear warheads.

While the Kremlin may have the missile defense system at the top of its discussion agenda with Washington, the U.S. is clearly focused on the renewal (or at least revision, if not replacement) of the START-1 Treaty, which is due to expire at the end of 2009. The original treaty was signed in 1991, and although it has been modified since, it essentially places a limit on the number of delivery vehicles to 1,600 for each side. START-2 negotiations were halted by Russia in 2002 in response to the U.S. decision to withdraw from the 1972 ABM Treaty. The 2003 Treaty of Moscow calls for warheads to be decreased to between 1,700 and 2,200 for each side. The problem for Washington appears to be the actual delivery vehicles. The Pentagon wants to be able to deploy an unlimited amount of delivery vehicles (which include heavy bombers and submarines, as well as ICBMs), which could then be armed with conventional munitions in order to act as quick strike systems against unconventional forces/enemies (i.e., terrorists or rogue states) across the globe. The desire to have a new treaty has been clearly expressed at all levels and in all corridors of government in Washington. Before he had been tapped to stay on as secretary of defense for the Obama administration, Robert Gates stated in October that he would advise the incoming administration to enter into negotiations for a new nuclear arms agreement with Russia, one focused on warheads (i.e. not delivery vehicles) but

with enough flexibility to be revised in the event of new threats. The State Department sent two delegations to Moscow in November and December to try and reach a compromise on both the ABM system and the START-1 Treaty. Distinguished Sen. Richard Lugar also took his try at convincing the Russians about the need for a replacement for START during a trip to Moscow in December. Other luminaries such as Henry Kissinger (who visited with both Medvedev and Putin in Moscow in early December) and Sam Nunn have voiced strong support for moving ahead with Moscow to reach an agreement sooner, rather than later.

For now it appears that Russian leaders are awaiting the Obama administration before entering into serious discussions about arms control. The two recent U.S. negotiating teams (mentioned above) led by Under Secretary of State for Political Affairs William Burns and Under Secretary of State for Arms Control and International Security John Rood were essentially turned away in Moscow. Reports have suggested that the Kremlin could be amenable to compromises, which would undoubtedly include the missile defense issue (for example, signing a new START treaty in return for U.S. assurances about the ABM system in Eastern Europe). There is even talk of Russian specialists potentially being allowed to work alongside U.S. counterparts at the sites in Poland and the Czech Republic.

A recent development that could complicate these matters was the pre-Christmas announcement that Russia was selling sophisticated surface-to-air missiles (reportedly to include the long-range S-300 missiles) to Iran. S-300s would represent a significant leap in qualitative defense capability for Iran as they can defend against ballistic missiles. Both the U.S. and Israel immediately demanded explanations from the Russian government, but the Kremlin would neither deny nor confirm the story.

### **Eurasia, East Asia, and Latin America**

There is another, important issue that has remained somewhat under the radar: the increasingly difficult problem of supplying NATO forces in Afghanistan overland through Pakistan. Pakistani authorities were to close the Khyber Pass in mid-December after militants carried out a massive attack on a convoy, destroying 260 vehicles on two consecutive nights outside Peshawar. More than 80 percent of the supplies necessary to support 50,000 NATO troops in Afghanistan are sent by truck convoy from the port of Karachi through the Khyber Pass to Afghanistan. With the expected addition of 20,000 U.S. troops in 2009, the logistical situation could become even more difficult to sustain, given increasing violence in Pakistan and in the tribal areas across the border in Afghanistan. This is where Russia and any number of Central Asian states come into the equation.

The violence in Afghanistan and the inability of the Pakistani government to guarantee the safety of supply convoys means that new convoy routes have to be considered. Given the potential for further political chaos in Pakistan, war between India and Pakistan, and other unforeseen difficulties, NATO and the U.S. are now looking to open supply routes through Central Asia into northern Afghanistan. There are numerous options beginning with a route through Russia, Kazakhstan, and Uzbekistan into Afghanistan. Though this is potentially the most politically stable route, it would be a long journey – as much as three times the distance as the Pakistan route and subject to bad roads and winter terrain. Two additional routes include Black Sea

transit to Georgia, through the Azeri port of Baku, across the Caspian to the Kazakh port of Aqtau, and then through either Kazakhstan or Uzbekistan. A fourth, more intriguing route would include the Caspian journey, but to the Turkmen port of Turkmenbashi and thence overland to Afghanistan. This last route, it should be noted, would be the shortest, though perhaps the most politically difficult, given the troublesome nature of U.S.-Turkmen relations. Whichever route NATO chooses, Russian support will be vital and it will be worth observing how far Russian cooperation with the U.S. and NATO will go on this issue.

Russian concern about U.S. intentions in Central and South Asia as well as the U.S. naval presence in the Black Sea during the Georgian conflict was no doubt part of the reason for the high-profile visit by President Medvedev to Latin America in November. Medvedev visited Peru (to attend the APEC forum), Brazil, Venezuela, and Cuba. The Russian leadership wished to send signals to Washington that it too could enhance its diplomatic profile in the backyard of a former adversary. Medvedev's visit to Venezuela coincided with joint Russian-Venezuelan naval exercises in the Caribbean. Between 2005 and 2007, Venezuela spent roughly \$4.4 billion on Russian-manufactured arms. The Russian delegation also negotiated key energy deals with firms in both Brazil and Venezuela. Brazil expressed interest in acquiring 120-150 Russian fighters worth a total of \$3-3.5 billion. The Brazilian government, however, made it clear that it would not purchase Russian armaments without an accompanying transfer of technology to bolster its indigenous defense production base, which is not unsubstantial. The reaction of the U.S. to Medvedev's visit to Latin America was muted, especially as details – including friction between the Russian and Venezuelan delegations and the less than stellar nature of the naval exercises – began to emerge.

Russian arms manufacturers have been eagerly developing markets in another traditional U.S. clientele base in Southeast Asia. Earlier in the fall, Thailand announced that it would be purchasing *Mi-17 Hip* helicopters for civilian and military dual-usage. In December, Indonesia took delivery of the first two of its *Su-30MK2* fighter jets purchased from Russia. When completed, the contract will be worth \$300 million for Sukhoi. Upset about some of the activities by Russian arms dealers, in October, the State Department announced sanctions against Rosoboronexport (the Russian state arms trader) along with a dozen other firms from China, Sudan, Venezuela, and other countries for their alleged roles in supplying sensitive technology to Iran, North Korea, and Syria.

The recent economic difficulties have not lessened the scope of the massive development plans by the Russian government for the Russian Far East, including the ambitious plans for the East Siberian-Pacific Ocean (ESPO) oil pipeline. “We are not going to put off our *strategic plans* [emphasis added],” Prime Minister Putin announced in November. In 2007, the Kremlin pledged to allocate up to \$21.7 billion to fund development projects in Eastern Siberia and the Far East by 2013 and \$326 billion by 2025. This is part of a clear strategy to re-engage Russia diplomatically and economically (and to bolster its military capabilities) in Northeast Asia. Meanwhile, Russia's relations with her Northeast Asian neighbors remain cordial, but hardly warm and constructive.

## Looking Ahead

In Russia, the leadership appears to be awaiting Barack Obama, not wishing to make any type of binding agreements with the outgoing administration of George Bush. President-elect Obama has indicated that improving relations with Moscow will be high on his agenda. Therefore, it will be interesting to see how things develop between the two nations over the first few weeks and months of 2009. Arms control issues can be expected to be at the top of the diplomatic agenda. Over the next few weeks it will be made known whether Russia did in fact sell *S-300* missiles to Iran. Should this be the case, there will be tension between Russia and both the U.S. and Israel. Lastly, as NATO considers new supply routes for International Security Assistance Forces in Afghanistan, it will be worth watching how much the Kremlin will decide to cooperate.

U.S.-Russia relations seemed to have reached their nadir in August 2008. The year 2009 looks to be a bit more promising, but perhaps only in that relations seem to have nowhere to go but up.

## Chronology of U.S.-Russia Relations October-December 2008

**Oct. 5, 2008:** On a visit to Kazakhstan, U.S. Secretary of State Condoleezza Rice states that the United States has no intention of undermining Russian interests in Central Asia or drawing Kazakhstan into the U.S. sphere of influence.

**Oct. 8, 2008:** Russian “peacekeeping” troops are withdrawn from buffer zones near South Ossetia and Abkhazia. These troops had been patrolling the areas since the end of Russian-Georgian hostilities in August and are replaced by European Union observers.

**Oct. 8, 2008:** Addressing the first annual World Policy Conference in Evian, France, Russian President Dmitry Medvedev blames “paranoia” in the U.S. for undermining global security.

**Oct. 8, 2008:** Russian First Deputy Foreign Minister Andrei Denisov states that Russia has no objection to U.S. military bases in Central Asia.

**Oct. 8, 2008:** Japanese *F-15* fighter jets intercept two Russian *Tu-22M3* strategic bombers who come close to Japanese airspace over the Sea of Japan.

**Oct. 14, 2008:** U.S. Congressman Howard L. Berman, chairman of the House Foreign Affairs Committee, travels to Moscow and meets his Russian counterpart Konstantin Kosachev, chairman of the State Duma International Affairs Committee. The two discuss relations in general, but focus on Georgia and Iran.

**Oct. 17, 2008:** During a visit to Bishkek, Kyrgyzstan, Assistant Secretary of State Richard Boucher reiterates Washington’s commitment to preserving Ganci Air Base at Manas.

**Oct. 21, 2008:** In Helsinki, U.S. Adm. Mike Mullen, chairman of the Joint Chiefs of Staff, meets his Russian counterpart General Nikolai Makarov, chief of the Russian General Staff.

**Oct. 22, 2008:** In response to U.S. plans to deploy a missile defense system in Eastern Europe, Russian Strategic Missile Force Commander Col.-Gen. Nikolai Solovtsov announces that the Russian military will commission a new type of intercontinental ballistic missile.

**Oct. 23, 2008:** State Department imposes sanctions on Russian arms monopoly Rosoboronexport along with a dozen other firms from China, Sudan, Venezuela, and other countries for their alleged roles in supplying sensitive technology to Iran, North Korean, and Syria.

**Oct. 28, 2008:** Secretary of Defense Robert Gates says he would advise the next president to seek a new nuclear arms agreement with Russia that provides for further reductions in nuclear warheads.

**Nov. 4, 2008:** Barack Obama is elected 44<sup>th</sup> President of the United States.

**Nov. 5, 2008:** In a state-of-the-union speech delivered hours after the election of Obama, President Medvedev says Russia might place a short-range *Iskander* missile system in the Russian city of Kaliningrad, wedged between Poland and Lithuania, in order to “neutralize” a planned U.S. missile-defense system in Eastern Europe.

**Nov. 5, 2008:** On a visit to Tokyo, Foreign Minister Sergey Lavrov says that Russia is closely monitoring the development and deployment of missiles in Asia, an apparent reference to joint U.S.-Japan efforts to develop ABM systems.

**Nov. 7, 2008:** The State Department admits that the Georgian attack in South Ossetia in August was a grave error, but that it did not justify Russia’s large-scale intervention.

**Nov. 7, 2008:** GM has a ribbon-cutting ceremony at the opening of an auto plant in St. Petersburg. President Medvedev attends.

**Nov. 8, 2008:** President Medvedev telephones Barack Obama to congratulate him on his victory.

**Nov. 12, 2008:** Under Secretary of State William Burns visits Moscow. He is the first high-ranking U.S. official to visit Moscow since the August war with Georgia.

**Nov. 13, 2008:** During a visit to Estonia, Secretary of Defense Gates says that Russia’s announcement of its intention to place additional missiles in Kaliningrad one day after Obama’s election was “unnecessary and misguided.”

**Nov. 15, 2008:** President Medvedev arrives in Washington, DC at the invitation of President George Bush to attend global economic discussions with other world leaders at the G20 meeting.

**Nov. 19, 2008:** On a visit to Washington, Polish Foreign Minister Radek Sikorski announces that his government will extend new confidence-building proposals to Russia on the U.S. anti-missile system planned for Eastern Europe.

**Nov. 20, 2008:** Prime Minister Putin announces that he is postponing a planned visit to Japan.

**Nov. 21-27, 2008:** President Medvedev tours Latin America, first stopping in Lima, Peru for an APEC Leaders Meeting, and then visiting Brazil, Venezuela, and Cuba. Several Russian warships also make port calls to the latter two countries.

**Nov. 28, 2008:** After the U.S. government yields to pressure from NATO allies and decides to put a hold on NATO membership for Georgia and Ukraine, President Medvedev praises the Bush administration.

**Dec. 7, 2008:** In a talk on the weekly television show *Meet the Press*, President-elect Obama stresses that the U.S. needs to “reset” relations with Russia.

**Dec. 15, 2008:** In talks meant to refocus efforts on getting the START-1 Treaty renegotiated before its 2009 expiry, Deputy Foreign Minister Sergey Ryabkov meets Under Secretary of State for Arms Control and International Security John Rood in Moscow.

**Dec. 16, 2008:** Deputy Assistant Secretary of State for European and Eurasian Affairs Matthew Bryza accuses Russia of failing to abide by an agreement on removing its troops from Georgia.

**Dec. 16, 2008:** Sen. Richard Lugar arrives in Moscow to begin talks with Russian officials on the expiring START-1 arms control treaty.

**Dec. 22, 2008:** The Russian state-controlled arms firm Rosoboronexport announces that it will be selling *S-300* long-range surface-to-air missiles to Iran.

**Dec. 26, 2008:** Russian aircraft manufacturer Sukhoi delivers two multi-role fighter jets to the Indonesian armed forces as part of a \$300 million contract.

**Dec. 29, 2008:** First Deputy Foreign Minister Andrei Denisov says that the Russian offer for the U.S. military to jointly use the Gabala radar station in Azerbaijan is still valid.



U.S.-Southeast Asia Relations:  
**Thai Political Turmoil Impacts ASEAN**

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Political conflict in Thailand between the ruling, rural-based pro-Thaksin People Power Party (PPP) and an urban elite coalition calling itself the People's Alliance for Democracy (PAD) – though actually opposing democratic elections – turned violent in November and shut down Bangkok and the capital's airports for several days. The PPP government was forced to postpone the ASEAN summit scheduled for early December because of the violence and rescheduled the meeting for February 2009 to the dismay of other ASEAN leaders. Nevertheless, the new ASEAN Charter, which provides the Association with a legal personality for the first time, was activated at a special meeting of ASEAN foreign ministers in Jakarta on Dec. 15. Southeast Asian leaders welcomed Illinois Sen. Barack Obama's election as the next U.S. president although some commentators noted that the Democratic Party has sometimes followed a trade protectionist policy when the U.S. economy is in difficulty. The Democrats have also taken a tougher position on human rights. In general, though, no significant change is foreseen in U.S. policy for Southeast Asia under President-elect Obama.

**Political confrontation roils Thai politics**

A long-simmering political conflict between former Prime Minister Thaksin Shinawatra's ruling PPP and the PAD coalition of his opponents representing Bangkok's traditional elites (academics, professionals, some military officers, royalists, and corporate managers) turned violent in November and virtually shut down the country's capital and economy. Though Thaksin was ousted in a 2006 military coup, later convicted of fraud, and has fled abroad, the pro-Thaksin PPP won a landslide electoral victory in December 2007. Subsequently, the PPP tried to alter the constitution to void Thaksin's conviction and restore him to political life. The PAD staged numerous protests to bog down the political process, highlight Thaksin's persistent influence from afar, and hopefully precipitate yet another military intervention that would drive Thaksin's supporters out of Bangkok.

The violence peaked in November as both sides exchanged gunfire and used grenades. PPP supporters came to the capital from the countryside to defend the ruling party and the PAD raised the stakes by occupying Bangkok's international and domestic airports, stranding over 300,000 visitors at the height of the tourist season and closing down a major Southeast Asian hub for air cargo. On Dec. 2, the U.S. government (and many others) called on the protestors to allow the airports to reopen and insure against any "similar seizure in the future."

The PAD said it is frustrated with years of vote-buying in rural Thailand as well as Thaksin's corruption benefiting his billionaire business interests. Moreover, PAD supporters lamented the country's democratic voting system that insures the reelection of the ex-prime minister's party however it is reconstituted in the wake of the Constitutional Court decisions invalidating the party's most recent PPP incarnation. In effect, Bangkok's traditional elite has come out against one person-one vote democracy and prefers to restore a partially appointed Parliament that would guarantee the dominance of the urban elite.

Despite the fact that the Democratic Party prevailed and Abhisit Vejjajiva was elected prime minister on Dec. 15, political turmoil could well return in the near term. The Thai economy is taking multiple blows: the global economic downturn, a tanking tourism market as a result of the airport shutdowns, and order cancellations for the electronics industry, car industry components, and flower, fruit, and produce companies all of which rely on air transportation. On Dec. 1, the Standard & Poor's rating agency lowered Thailand's economic outlook because of the political unrest. Some U.S. Congress members warned that Thailand may become a failed state whose central government lacks control over much of its territory. While this assessment is probably too dire, political stalemate at the center, economic stagnation, and the persistent Muslim insurgency in the south, do not auger well for Thailand's immediate future. And, the government's stasis also prevents any resolution to the standoff with Cambodia in a disputed border zone near the landmark 11<sup>th</sup>-century Preah Vihear temple. On Oct. 15, State Department spokesman Sean McCormack stated that the U.S. "would urge restraint on both sides to refrain from any use of violence."

As ASEAN's incoming Chair, Thailand was to host the December summit that would formalize the new ASEAN Charter. Because of the political confusion, the government postponed the meeting until February 2009 much to the dismay of several members. Vietnam, Laos, and Cambodia rubbed salt into these wounds by suggesting that Thailand give up the chairmanship this year due to the country's political violence, implicitly putting Thailand on a par with Burma which was forced to relinquish its chairmanship turn in 2005.

### **ASEAN Charter ratified**

In October, the Philippines and Indonesia were the final two ASEAN members to ratify the Association's first formal Charter, making the Association a legal entity for the time since its 1967 inception. The Charter provides for a joint commitment to human rights and the creation of a 2015 free trade area in addition to socio-cultural and security communities. How these might operate in practice is yet to be determined. The Charter became operative at a Dec. 15 meeting at the ASEAN Secretariat in Jakarta attended by the Association's foreign ministers.

A prominent Indonesian scholar and advisor on the Charter's creation, Rizal Sukma, is skeptical about the Charter's impact and warned: "Don't expect too much from the charter. The government [Indonesia] must fight to create a credible human rights body." Democracy and human rights provisions are also more nominal than real since the Charter has no provisions to sanction members, such as Burma, for violations where protestors are jailed and democracy leader Aung San Suu Kyi has been held under house arrest for most of the past 18 years.

A senior Asia advisor to President-elect Obama, Frank Jannuzi, in late October, said that he would advise the Obama administration to sign ASEAN's Treaty of Amity and Cooperation and participate in the East Asia Summit, the region's most recent security dialogue. Jannuzi also predicted: "An Obama administration would give greater focus to ASEAN because ASEAN is 500 million people, it is such a vital part of the world which is often neglected, and we usually view it through a narrow prism of counterterrorism."

### **Southeast Asia welcomes Obama's election**

Southeast Asian leaders welcomed Obama's election as president, expressing confidence in continued warm relations. Insofar as any concerns were expressed about a president from the Democratic Party, they revolved around prospects for trade protectionism and tougher policies in intellectual property rights. Immediately after the Nov. 4 U.S. election, Eric John, the U.S. ambassador to Thailand assured Thai Commerce Minister Chaiya Sasomsab that there would be no discrimination against Thai trade or labor practices.

On another dimension, Thailand has been involved, primarily under Prime Minister Thaksin's government, in U.S. counterterrorism activities as a location for a covert CIA prison site where "aggressive interrogation techniques" were practiced by U.S. agents. Possibly in exchange for this cooperation, Washington has not pressed the Thai government on its human rights record in the south where it has been battling a protracted Muslim insurgency. Nor has the U.S. become involved in the efforts over the past several months by Bangkok's elite and some elements of the military to overthrow a democratically elected government, the election of which in December 2007 had restored full-scale U.S. economic and military assistance to Thailand. Noteworthy, too, is that two democratically elected leaders, Prime Minister Somchai and Bangkok Gov. Apirak Kosayothin, were invited to a post-election U.S. Embassy gala, while ranking members of the Thai military were not in attendance even though some had angled for an invitation.

An Indonesian commentator and international affairs expert, Dewi Fortuna Anwar, warned "that the Democrats tend to be a bit more intrusive in the domestic affairs of other countries ... especially the less than democratic..." But, Indonesian human rights groups welcomed that prospect, hoping that an Obama administration would put more pressure on Indonesia to resolve its major human rights cases.

In the Philippines, Speaker of the House Prospero Nograles praised the U.S. electoral process for "very orderly, swift, and accurate" accounting and the graciousness with which the defeated candidate conceded. He went on to say "I just hope that we can have this kind of statesmanship during our own elections." As for Singapore, Foreign Minister George Yeo foresees good U.S.-Asian ties under the new president and expects a "stable and constructive" U.S.-China relationship, saying "This is the single most important relationship in the world."

### **Bali bombers executed, Indonesia remains calm**

Of all Southeast Asian states, Indonesia has made the greatest progress toward stable democratic governance since President Suharto left office in 1998. A vibrant civil society and outspoken press as well as human rights organizations investigate and publicize cases of government

corruption and abuse of power, though the country remains one of the world's most corrupt, according to Transparency International. Indonesia is also the home of the region's most notorious terrorist organization, Jemmah Islamiya (JI), which is responsible for the 2002 Bali bombings and those of the Jakarta Marriott and Australian Embassy as well as attacks in the Philippines. Nevertheless, the Indonesian National Police, with assistance from Australia and the U.S., has built an antiterrorism component that has arrested and prosecuted several hundred JI terrorists and other militants, while also adopting a rehabilitation approach to those the country has incarcerated.

On Nov. 9, the three Bali bombers were executed, five years after their capture. Though the U.S. and Australian Embassies received bomb threats, the executions were carried out without incident. Indonesia's two mainstream Muslim movements and a clerics' body, the Indonesian Ulemas Council, all condemned the bombers as terrorists and insisted that they should not be glorified as martyrs. Top JI leaders have been caught and jailed and the organization seems to have split, with a branch devoted to nonviolent proselytization and another smaller group that continues to advocate violence. Nevertheless, dozens of JI-linked *peasantren* (Muslim boarding schools attended primarily by children from poor families) continue to preach fiery jihadist rhetoric.

Two prominent JI militants, Dulmatin – an explosives expert – and Umar Patek, remain at large, apparently hiding in Mindanao. The U.S. has offered a \$10 million reward for the capture of Dulmatin and \$1 million for Patek.

At a Nov. 13 meeting of The Atlantic Council in New York, CIA Director Michael Hayden favorably assessed the decline of terrorism in Indonesia, which he portrayed as “one of the most effective counterterrorism partners.” Hayden noted that JI's “once robust relationship with Al-Qaeda is gone. Its plots are increasingly detected and disrupted. Hundreds of its leaders and operatives have been captured or killed by the Indonesia National Police.”

Nevertheless, Jakarta continues to seek access to Hambali, an alleged JI/Al-Qaeda leader held at Guantanamo Bay. Indonesia has requested access to Hambali several times since his 2003 arrest, saying he has valuable information about JI, but Washington has refused, insisting it plans to try Hambali, though he has not yet been charged with a crime. Now, Indonesia has requested consular access since the Obama administration has pledged to close down Guantanamo.

In his mid-November visit to Washington, Indonesian President Yudhoyono at a U.S.-Indonesia Council luncheon favorably reviewed the two countries' relations citing both President-elect Obama's Indonesian childhood and progress made during the Bush administration. He specifically cited the lifting of the U.S. arms embargo, a \$157 million five-year development grant for public education, U.S. tsunami emergency relief and reconstruction aid, as well as law enforcement cooperation as part of the U.S.-Indonesia Strategic Dialogue.

### **Mindanao unrest concerns U.S. and Philippine officials**

Philippine military operations against “rogue” Moro Islamic Liberation Front (MILF) units as well as Abu Sayyaf (ASG) fighters continue in the southern Philippines displacing some 300,000

civilians because of the earlier collapse of Manila's peace negotiations with the MILF. (See the October 2008 U.S.-Southeast Asia Chapter in *Comparative Connections* for background.) The situation in the south has become so unstable that some U.S. diplomats privately refer to the region as the "new Afghanistan." U.S. military aid to Philippine armed forces in the region is designed to improve their capabilities against the ASG, and most of America's economic assistance is also funneled to the south. Projected U.S. development aid for 2009 is estimated at \$77 million.

At the late November APEC meeting in Lima, Peru, Philippine President Gloria Macapagal-Arroyo boasted: "We broke the back of terrorism in southern Philippines because of our partnership." Though at best a premature claim, Secretary of State Condoleezza Rice replied that relations between the two states constituted a "very good partnership, and we would like to continue to be your strong partner." Rice went on to ask about the stalled peace talks with the MILF, and Arroyo hinted at the complexities involved in dealing not only with the Moros but other "affected communities in Mindanao," meaning the Christian population. Prospects for a new agreement to which all these stakeholders could agree seem slim.

U.S. forces in Mindanao continue to be involved in development projects with their Philippine counterparts. Medical missions, road building, school repair, and construction are all designed to demonstrate the Philippine government's commitment to economic growth as an alternative to Moro rebel movements that hope to drive the central government from the region. A Philippine human rights leader, Herbert Docena of Focus on the Global South, in late November urged President-elect Obama to withdraw U.S. troops from the Philippines, however, U.S. Ambassador Kristie Kenney noted that Obama has reiterated America's commitment to partnership with the Philippines, part of which is military support for the Philippine armed forces.

### **U.S. continues sanctions against Burmese junta**

Continuing to ratchet up economic sanctions against Burma's military leaders and ethnic criminal gangs in mid-November, Washington announced it had frozen the assets of 26 individuals and 17 firms tied to drug trafficking. Targeted were those linked to the United Wa State Army (UWSA), the most powerful drug trafficking organization in Southeast Asia. Its senior commander, Wei Hseuh Kang, was at the top of the U.S. Treasury Department's list of targeted individuals under the Foreign Narcotics Kingpin Designation Act. The State Department followed the Treasury announcement by offering a reward of up to \$2 million for tips leading to Wei's capture. Other UWSA members were also named by the Treasury Department, although any capture of these individuals or seizure of their firms' assets seems unlikely as long as they remain outside the United States.

On a somewhat different tack, the Bush administration announced on Nov. 10 that it is nominating well-known Asia specialist and former National Security Council Asia Director Michael Green to a new post created by Congress: policy chief for Burma. According to the legislation, the policy chief is to consult with all other governments with a strong interest in moving Burma's leaders toward a more democratic future to see if a common strategy can be devised. However, with more weighty problems on its plate – particularly the economic crisis –

it seems unlikely that Congress will address Green's nomination before Bush leaves office. Therefore, any new coordinator for Burma policy awaits the new president.

### **The U.S. armed forces in Southeast Asia: a brief assessment**

The U.S. profile in Southeast Asia is dominated by the U.S. Pacific Command (PACOM), which performs as great a diplomatic role as it maintains a security presence. The flag officers of each of the services regularly call not only on their military counterparts in the region but also on local political leaders who sometimes reciprocate by visiting PACOM headquarters in Honolulu. In November, PACOM Commander Adm. Timothy Keating approved a new strategy "based on partnership, presence, and military readiness" that may seem to be a rhetorical retreat from earlier versions that stated the strategy was "rooted in partnership and military preeminence." Keating emphasized "the fundamental importance of sustained and persistent cooperation and collaboration in times of relative peace to mitigate situations that could lead to conflict and crisis." In effect, this explanation for the most recent PACOM strategy suggests preventive diplomacy, that is, collaboration with friendly states to insure that differences among them do not escalate to violence. An additional interpretation of Keating's statement is Washington's desire to dispel the complaint that the U.S. has failed to consult with friends and allies over the past eight years and has chosen instead to act unilaterally. Regardless of the veracity of this belief, Keating is emphasizing that PACOM's current strategy will focus on collective action. At a meeting of regional military commanders on Bali, he told the Voice of America that "We in the United States Pacific Command want to emphasize partnership in everything we do." The top U.S. security priority, according to Keating, will be "fighting terrorism" and he did not expect that priority to change under the Obama administration.

Indonesia's National Defense Forces (TNI) Commander Gen. Djoko Santoso echoed Adm. Keating and stated that effective counterterrorism required better collaboration across Asia-Pacific armed forces. Gen. Santoso pointed to the fact that currently countries' counterterrorism policies are frequently incompatible. Therefore, conference participants need to work toward a common set of procedures to deal with terrorist actions. However, what these procedures should be has not yet been revealed.

Meanwhile, U.S. joint training and arms sales in Southeast Asia continue. In early October, for the first time, Washington discussed possible arms sales to Hanoi as the Vietnamese military requested that the U.S. supply spare parts for Hanoi's Vietnam War-era U.S.-made helicopters. In November, Singapore ordered 24 of the latest model *F-15SGs* to be delivered in 2009. These combat aircraft, according to Singapore's Air Force Chief Maj. Gen. Ng Chee Khern, will become "the mainstay of our next generation multi-role fighter aircraft...." U.S. Ambassador to Singapore Patricia Herbold praised the acquisition, noting that it underscores the close relationship between the two countries.

On the other hand, some Southeast Asian armed forces are diversifying their suppliers. In October, Malaysia took delivery of six *Sukhoi SU-30MKMs*, which the Malaysia air force will fly alongside its *F-18s*. The Air Force is reportedly planning to buy the latest *F-18E/F* as the mainstay fighter for its third generation, while the *SU-30s* will be tasked with precision attack missions because of their considerable weapon capacity. Meanwhile Thailand announced it

canceled a project to repair 15 U.S.-purchased *Bell-212* helicopters and will purchase three Russian *MI-17* multi-role helicopters instead. This would be the first time the Thai Army will use Russian helicopters. While the Thai Army has more than 200 of the *Bell 212s*, only half of them are functional because they have been in use for more than 20 years.

U.S. war games with the Philippines ran for two weeks in October – *Talon Vision* and *Philbex* – integrating ground and air training in Luzon. The training exercises were supplemented by medical missions in the same region. And, in early November, Brunei and U.S. naval forces engaged in a simulated boarding exercise against a ship suspected of carrying contraband.

### **Looking ahead**

Like the rest of the world, Southeast Asia awaits the new U.S. administration. While Adm. Keating has said U.S. security priorities in the Asia-Pacific will remain the same with counterterrorism at the top of the agenda, there is an expectation that there will be more collaboration with Asian partners and a greater sensitivity to their needs, including assistance for those activities involved in “human security” – to counter drug and human trafficking, smuggling, and to assist development. These pursuits will require a more integrated approach from U.S. agencies, bringing together PACOM and a reinvigorated State Department and Agency for International Development – the latter two having been starved for funds during the Bush administration. Hopefully, it will no longer be necessary for PACOM to bear not only its major military responsibilities but also more than its share of diplomatic and developmental tasks.

## **Chronology of U.S.-Southeast Asian Relations October - December 2008**

**Oct. 1, 2008:** Indiana University Law School’s Center for Constitutional Democracy initiates an investigation to determine if Burma’s military junta has committed war crimes against minority ethnic groups.

**Oct. 6, 2008:** Vietnam and the U.S. conduct their first ever strategic dialogue in Hanoi, addressing political, security, defense, and humanitarian cooperation. The Vietnamese delegation was led by Deputy Foreign Minister Phan Binh Minh, the U.S. by Assistant Secretary of State for Political-Military Affairs Mark Kimmitt.

**Oct. 7, 2008:** The Philippines signs the ASEAN Charter.

**Oct. 8, 2008:** Secretary of State Condoleezza Rice in a speech at the State Department urges ASEAN to do more in promoting democracy in Burma.

**Oct. 15, 2008:** State Department spokesman Sean McCormack tells reporters that the U.S. urges restraint on both Cambodia and Thailand after a gunfight broke out in a disputed zone near a landmark 11th century temple.

**Oct. 15, 2008:** 4000 Filipino and U.S. soldiers inaugurate the two-week annual joint *Talon Vision* and Amphibious Landing Exercise (*Philbex*) involving integrated air, ground, and naval training along with civic action in selected communities.

**Oct. 15, 2008:** Thai and Cambodian soldiers exchange rocket and rifle fire for about an hour in a confrontation at their border over the disputed Preah Vihear temple. At least two Cambodian soldiers are killed, and several soldiers from both sides are wounded.

**Oct. 18-21, 2008:** The *USS Mustin* visits Danang's Tian Sa port, headquarters of Vietnam's Navy Zone 3, which is responsible for patrolling the area of disputed Paracel and Spratly Islands.

**Oct. 21, 2008:** President George W. Bush invites Indonesian President Yudhoyono to attend a mid-November meeting of the G20 on the global financial crisis in Washington, DC.

**Oct. 21, 2008:** Indonesia ratifies the ASEAN Charter clearing the way for its formal adoption.

**Oct. 27, 2008:** The U.S. Customs and Border Protection Service begins enforcing The Tom Lantos Block Burmese Jade Act aimed at keeping Burma's jade and jewelry from third-party countries out of U.S. markets.

**Oct. 28-29, 2008.** U.S. and Philippine navies engage in the *Philbex-2008* bilateral exercises in Subic Bay, part of which is civic action repair and repainting of schools in Olongapo City.

**Nov. 4, 2008:** U.S. Ambassador to Singapore Patricia Herbold at the rollout of Singapore's latest combat aircraft, the *F-15SG*, states the acquisition underscores the close relationship between the two countries. The SG is the most advanced in the *F-15* series.

**Nov. 5, 2008:** U.S. and Brunei naval forces engage in a maritime security exercise with commandos from Brunei boarding a U.S. ship carrying "illicit cargo."

**Nov. 9, 2008:** U.S. Ambassador to Thailand Eric John assures the Thai commerce minister that good U.S.-Thai relations will continue when President-elect Obama takes office and that there will be no discrimination against Thai trade and labor.

**Nov. 12, 2008:** President Gloria Macapagal-Arroyo claims that the U.S. and the Philippines will remain "steadfast friends and allies" under President Obama.

**Nov. 13, 2008:** The U.S. Treasury Department freezes the assets of 26 individuals and 17 firms tied to drug trafficking in Burma and prohibits U.S. citizens from dealing with them.

**Nov. 13, 2008:** CIA Director Michael Hayden says that Indonesia-based Al-Qaeda affiliate, Jemmah Islamiya, has been significantly disrupted by the Indonesian National Police.

**Nov. 14, 2008:** Indonesian President Yudhoyono arrives in Washington to attend the G20 summit on the global economic crisis.

**Nov. 18, 2008:** California, Illinois, and Wisconsin sign a pact with Indonesia's Aceh Province that allows Aceh forest carbon credits to be sold to U.S. states to reduce global carbon dioxide.

**Nov. 21, 2008:** The U.S. Embassy in Manila announces \$25 million in assistance for individuals and families displaced by the fighting in Mindanao between government forces and Moro Islamic Liberation Front rebels. The assistance will be primarily rice from the World Food Program and services from NGO partners.

**Nov. 24, 2008:** Secretary Rice and President Arroyo exchange compliments on the sidelines of the Peru APEC meeting, emphasizing efforts to suppress terrorists in the southern Philippines.

**Nov. 24, 2008:** The Sultan of Brunei visits the U.S. Pacific Command (PACOM) in Honolulu.

**Nov. 24, 2008:** PACOM Commander Adm. Timothy Keating visits Singapore and underscores the excellent bilateral defense relationship.

**Nov. 27, 2008:** The U.S. Embassy in Bangkok warns U.S. citizens to stay away from the capital's airports, which thousands of anti-government demonstrators have seized in the extended confrontation with the Thai government.

**Dec. 1, 2008:** The State Department calls anti-government protestors' seizure of the two Bangkok airports "not an appropriate means of protest" and urges them "to walk away from the airports peacefully."

**Dec. 2, 2008:** A State Department spokesman, citing a Thai court ruling calling for the Thai prime minister to step down, said the U.S. hopes it will lead to a resolution of the political crisis that has brought political life to a standstill.

**Dec. 4, 2008:** Lt. Gen. Douglas Fraser, deputy commander of PACOM, visits Philippine Armed Forces Chief of Staff General Alexander Yano. Along with U.S. Ambassador Kenney, they discuss the security situation in Mindanao.

**Dec. 10, 2008:** First Lady Laura Bush announces the U.S. will add \$5 million to the \$75 million in disaster relief provided to Burma in the aftermath of last May's Cyclone *Nargis*.

**Dec. 15, 2008:** Abhisit Vejjajiva is elected prime minister of Thailand.

**Dec. 15, 2008:** ASEAN Foreign Ministers meeting in Jakarta announce the activation of the Association's new Charter, which formalizes members' democracy and human rights commitments as well as the principle of noninterference in member's domestic affairs.

**Dec. 24, 2008:** Burma signs a 30-year contract with four firms from South Korea and India to pipe natural gas to China from fields off Burma's northwest coast.

**Dec. 29, 2008:** Protesters in Bangkok block access to the Parliament building, forcing a one-day delay in the legislature's opening session under Thailand's new government.





**China-Southeast Asia Relations:  
Economic Concerns Begin to Hit Home**

**Robert Sutter, Georgetown University  
Chin-Hao Huang, SIPRI**

Asian commentators who asserted that China and its neighbors could ride out the economic crisis in U.S. and Western financial markets appeared in retreat during the quarter as the impact of the financial turmoil and recession in America and Europe began to have a major effect on China and the region's trade, manufacturing, currency values, and broader economic stability. The hope that China could sustain stable growth independent of the U.S. and Europe and thereby provide an engine of growth for export-oriented Southeast Asian countries was dented by Chinese trade figures that nosedived in November, especially Chinese imports, which fell by 18 percent. The financial crisis also dominated the discussion at the ASEM summit in October. Meanwhile, China continued to pursue infrastructure development projects with its neighbors to the south, resolved the land boundary dispute with Vietnam, and signed a free trade agreement with Singapore. Talk of a planned Chinese aircraft carrier caused some controversy, but on the whole assessments of China's rise were notably more balanced than in the past.

**International financial crisis**

Like its Asian neighbors, China was cautious in taking the lead in international financial arrangements and commitments that could involve significant risks for the Chinese economy in what increasingly appeared to be a period of prolonged adverse international economic conditions. It eschewed calls from Southeast Asian leaders at the biennial summit of the Asia-Europe Meeting (ASEM) in Beijing in October for China to undertake currency reforms and ease conversion restrictions aimed at pooling Asian reserves in order to create a common fund to protect the region's currencies and buy stocks and bonds. A possible exception to caution over economic commitments came at a China-Japan-South Korea summit in Japan in December. China promised, along with Japan, significant currency support for the beleaguered South Korean Won in a Chinese swap arrangement offer valued at \$26 billion.

On the whole, China stuck to the position that its top priority was to sustain growth at home. On the one hand, this presumably will have some continued benefit for Southeast Asian exporters, who welcomed the Chinese administration's large stimulus package announced in November. On the other hand, trade figures and other data suggest it will not forestall the major negative impact of declining demand from U.S. and other Western consumers for the final products of the export-driven processing trade that makes up over half of Chinese-Southeast Asian trade. Meanwhile, despite its \$40 billion trade surplus in November and large cumulative trade and current account surpluses for the year, China took steps to devalue its currency relative to the U.S. dollar and

other currencies and to stimulate export growth through tax changes and other measures. These steps presumably will help Chinese export manufacturers, but they seem to work to the disadvantage of China's trade competitors in Southeast Asia and elsewhere.

### **China and the ASEM summit**

China hosted the seventh Asia and Europe Meeting (ASEM) summit, a gathering of 45 heads of state and government from the two continents, on Oct. 24-25. Chinese scholars and commentators see this as another important gathering of foreign dignitaries in Beijing since the summer Olympics in August and an opportunity to build and expand China's international profile. Under China's chairmanship, the summit agenda addressed several important areas promoting exchanges and collaboration between Asian and European member states, including counterterrorism, reducing tensions and supporting the Six-Party Talks on the Korean Peninsula, and supporting the United Nations as well as ASEAN's efforts to facilitate the post-*Nargis* humanitarian relief and reconstruction efforts in Myanmar/Burma. Participants also agreed to follow up on the Bali conference on climate change held last December and pledged to work collaboratively in preparation for the next major climate change conference in Copenhagen.

With the financial crisis unraveling, the focus of the summit discussions was placed on ways to address and minimize the negative impacts of the global economic downturn on national economies. An editorial in Hong Kong's *Wen Wei Po* indicated that while the Chinese leadership understood the importance of the financial crisis, it was cautious in its approach and avoided making any bold, unilateral steps and commitments. The leaders of China, Japan, and South Korea, along with their counterparts from the 10 ASEAN member states, held an informal breakfast meeting during the summit. Collectively, they agreed to look into the prospects for establishing a foreign exchange reserve fund capitalized up to \$80 billion by the first half of 2009. This, in the Asian leaders' view, would help calm the markets and maintain monetary stability in the region. The article further indicated that China would continue to play its part to minimize regional and global inflation by maintaining its export market and foreign imports.

### **Singapore-China free trade agreement**

The Chinese and Singapore prime ministers took time from the ASEM summit to sign a free trade agreement on Oct. 23. It was China's first such arrangement with an Asian country. Effective in January 2009, the agreement eliminates tariffs on 85 percent of Singapore's exports to China, rising to 95 percent by 2010. All tariffs on Chinese exports to Singapore will be eliminated in 2009.

Official Chinese media used the occasion to inventory the achievements in China-Singapore relations. Bilateral trade was valued at \$47 billion in 2007 and cumulative Singapore investment in China was worth \$33 billion. Singapore donations channeled through Chinese ministries to the Chinese earthquake relief in 2008 were the third largest in the world, following the United Arab Emirates and Saudi Arabia. Big increases in mutual tourism saw 828,000 Singaporean visits to China and more than a million Chinese visits to Singapore in 2006. China has 32,000 students studying in Singapore and 1,500 Singaporeans study in China. There are 200 cultural exchange

programs between the countries each year and 2008 marked the Inaugural China-Singapore Defense Policy Dialogue and an agreement for defense exchanges and security cooperation.

### **Vietnam-China Summit**

China and Vietnam outlined new steps to resolve their long-running territorial disputes in the South China Sea during Vietnam Prime Minister Nguyen Tan Dung's Oct. 20-25 visit to China and participation in the ASEM. It was Nguyen's first official visit to China as prime minister. He held talks with his counterpart, Prime Minister Wen Jiabao, and with President Hu Jintao. A joint statement at the end of the talks pledged to strengthen the "comprehensive strategic partnership of cooperation" between the two countries. It went on to promise to find a "basic and lasting" solution to conflicting claims in the South China Sea, which have been the subject of overt disputes and differences over the past year, notably over competing oil exploration and fishing activities (see *Comparative Connections*, Vol. 10, No. 3). Although no detail was offered on how such a resolution might be reached, the two reaffirmed a joint commitment to observe the spirit of the UN Convention on the Law of the Sea and the 2002 Declaration on the Code of Conduct on the South China Sea, under which China and Southeast Asian countries promised to promote local peace and stability after a long series of shootings and other incidents.

Writing in Jamestown Foundation's *China Brief* on Nov. 7, veteran Southeast Asia commentator Michael Richardson saw signs of progress as a result of the meetings in Beijing. Recent Chinese efforts to stop its fishing fleets from fishing near contested territorial waters and big declines in oil and gas prices have reduced the incentive for China and Vietnam to compete for resources in the disputed regions of the South China Sea. Richardson noted that the joint statement pledged consultation to promote joint petroleum exploration and reported that a cooperation pact between Chinese and Vietnamese oil companies was signed during Prime Minister Nguyen's visit.

Richardson also was upbeat about other developments noted during the visit. Chinese and Vietnamese companies will be encouraged to form joint ventures and engage in large-scale projects on infrastructure construction, chemicals, transportation, electricity supply, and home building. The aim of these collaborations along with new road, rail, and shipping connections is to bind the neighboring areas of China and Vietnam closer together. The two pledged to complete demarcation of their land borders by the end of 2008, which was confirmed by both sides on Dec. 31 just hours before the deadline. They also agreed to start joint surveys in disputed waters beyond the mouth of the Beibu Bay (Gulf of Tonkin).

### **China-Myanmar pipelines, China-Laos rail connections**

Official Chinese media and other sources reported in November that construction of long-awaited oil and gas pipelines linking Myanmar and China's Yunnan Province is expected to start in 2009. According to Japan's *Nikkei* newspaper, the project will include a \$1.5 billion oil pipeline and a \$1.04 billion gas pipeline. *China Daily* said that the project will provide "an alternative route for China's crude imports from the Middle East and Africa and ease the country's worries of its overdependence on energy transportation through the Strait of Malacca."

China's Ministry of Railways announced in October a plan with Yunnan Province to invest \$2.98 billion to build the Yuxi-Mohan portion of the proposed China-Laos-Thailand international railway. This portion extends from Yuxi, China, just outside the major southern Chinese city of Kunming, to Mohan, on the China-Laos border. Negotiations between Thailand and Laos over the southern portion of this railway hinge on plans to build a rail bridge over the Mekong River at the Thai town of Nong Khai. Meanwhile, *Xinhua* reported on Nov. 21 that Laos is planning a 2,500 km national railway project through Laos, connecting the China-Laos border with Thailand, Cambodia, and Vietnam. The new rail lines reportedly will cost \$13 billion and are needed to accommodate industrial mining projects in Laos.

### **Controversy over proposed Chinese aircraft carrier**

Official Chinese media came to the defense of Ministry of Defense Foreign Affairs Office Director Maj. Gen. Qian Lihua, who told the *Financial Times* in November that the world should not be surprised if China builds an aircraft carrier. *China Daily* on Nov. 19 cited Chinese military experts to support Qian's "forthright statement," by recounting China's growing international security tasks that require an aircraft carrier. Western and Asian media reaction to Qian's remarks was generally low keyed and mixed. Singapore's *Straits Times* on Nov. 21 presented a balanced view of criticism and understanding of China's overall naval buildup, including the construction of an aircraft carrier, which it called "the capstone of naval development." The article notably cited senior U.S. Navy commanders who were portrayed as differing regarding the danger posed by China's buildup and the aircraft carrier. On December 23, *Xinhua* reported a comment by the Chinese Defense Ministry spokesman, who said in response to a question that China would seriously consider "relevant issues" in deciding on and building an aircraft carrier. Meanwhile, *Jane's Defense Weekly* reported in October that China is planning to purchase 14 Russian *Su-33* aircraft to train navy pilots for its aircraft carrier program. It said up to 50 of the planes will be purchased later for operational duty.

### **Taiwan's regional relations**

Against the background of Taiwan's moderation and progress in advancing cross-Strait relations, Vice President Vincent Siew on Oct. 11 told an international seminar in Taipei that Taiwan wishes to become a dialogue partner with ASEAN. Reaffirming the recent positions of the Taiwan administration, Siew said that "We are willing to hold talks with China on how the two sides can jointly participate in economic cooperation in Southeast Asia." He noted that Taiwan has close trade and investment ties with Southeast Asian countries and that Taiwan will continue efforts to establish bilateral and multilateral ties with ASEAN and its members. Meanwhile, Taiwan media publicized recent public statements of officials from Singapore, New Zealand, and Australia commending Taiwan for its efforts to alleviate cross-Strait tension and for avoiding competition with China for recognition among the small Pacific Island nations by using the controversial favor-buying measures described as "checkbook diplomacy."

### **Assessing China's rise**

The string of published assessments of China's rising influence in Southeast Asia continued this quarter, along with a recent trend to eschew the previously common one-sided and overly

positive assessments of Chinese influence and power and overly pessimistic and negative assessments of U.S. influence. What has emerged is an effort at deeper and broader analysis that more carefully assesses China's strengths and weaknesses along with those of the U.S. and other powers in the region.

The Stanley Foundation's latest report *New Power Dynamics in Southeast Asia* goes beyond past warnings of U.S. losing influence in Southeast Asia as China rises to prominence to provide important nuance and balance. As in the past, the latest report notes that power relationships in the region are increasingly defined in terms of economics and that "this contributes to the impression" often voiced by the foundation in the past "that China, with its spectacular growth, is eclipsing the United States." However, the report immediately adds an important caveat that "The reality suggests a more complicated definition of economic influence." In this regard, it shows the U.S. and Japan playing essential roles in the Southeast Asian economic development and China conflicting with Southeast Asian economic interests in important ways.

A major CSIS study on China's influence in developing countries, *China's Use of Soft Power in Developing Regions*, found that China's substantial advances in Southeast Asia since the 1990s have been among continental countries, which are considered to be of less concern to the U.S. Meanwhile, in maritime Southeast Asia, the focus of U.S. interest, there is little prospect of a Chinese sphere of influence at the expense of the U.S. or other powers. Underlining the strength of the U.S. position in ASEAN, the Singapore ambassador to the U.S. told the study group that trade, investment, and overall interdependence make clear that ASEAN's and Asia's economic success is tied to the United States. Investments by the U.S. in ASEAN and the importance of the U.S. market mean that "no other country, not even China, India, Japan, and South Korea combined, has the capacity to replace the United States."

Writing in *Strategic Asia 2008-2009*, Evelyn Goh bluntly disagreed with assessments that "power in Southeast Asia is shifting away from the United States and toward China." She pointed out that Southeast Asian states prefer a strong U.S. presence and see it as particularly stabilizing as they deal with uncertainties posed by China's rise. She warned that even though Southeast Asia has achieved "encouraging results" by enmeshing China in multilateral arrangements since the 1990s, tougher challenges lie ahead in implementing trade and other agreements. She pointed to negative socio-environmental impacts of Chinese development of the Mekong River region as a broad source of regional concern and an important reason why Southeast Asian governments place importance on the U.S. strategic role in the region. Writing elsewhere in the volume, Elizabeth Economy advised that China's reluctance to limit development schemes concerning the Mekong River that are adverse to downstream countries is prompting rising international concerns about this set of implications from China's rise.

*Pacific Currents*, a major study of the RAND Corporation examining the reaction to the rise of China on the part of U.S. allies and security partners in East Asia and the Pacific found that China's growing involvement and influence has not changed the U.S. position as the "strategic partner of choice" for these nations. The countries concerned are Japan, South Korea, Australia, Thailand, the Philippines, and Singapore. Indeed, these nations' interest in an engaged U.S. has grown in important ways as they have dealt with the implications of rising Chinese prominence.

## Outlook

Year-end trade and investment figures will provide a clearer picture of the impact of the global economic crisis on China and its partners in Southeast Asia. Relations with Southeast Asia probably will remain secondary as China focuses on economic developments at home and abroad and their implications for continuing stability in Chinese Communist Party rule. China-Southeast Asia leaders' contacts may be few. Chinese leaders are likely to stay close to home to monitor domestic events and head off sources of instability. Southeast Asian leaders generally steer clear of Beijing during the cold winter months, which also include China's spring festival holidays when senior Chinese leaders usually are unavailable to meet foreign guests.

### **Chronology of China-Southeast Asia Relations September-December 2008**

**Oct. 1, 2008:** Chen Bingde, chief of the general staff of the PLA, meets senior military representatives from the Brunei Armed Forces, the Laotian People's Army, and the Royal Thai Armed Forces to exchange views on future prospects for military cooperation.

**Oct. 9, 2008:** Minister of Public Security Meng Jianzhu agrees with his Vietnamese counterpart Le Hong Anh that China and Vietnam should strengthen cooperation on public security, law enforcement, and personnel exchanges to tackle such cross-border crimes as abduction, trafficking in women and children, and smuggling of illicit drugs.

**Oct. 13, 2008:** Defense Minister Liang Guanglie and his Singaporean counterpart Teo Chee Hean meet to discuss the role of both militaries in maintaining regional stability and security.

**Oct. 16, 2008:** China and the Association of Southeast Asian Nations (ASEAN) sign a memorandum of understanding to establish more media cooperation.

**Oct. 21, 2008:** Wang Qishan, vice premier of the State Council, meets senior representatives from Cambodia, Myanmar, Vietnam, and Laos at the fifth China-ASEAN Expo and China-ASEAN Business and Investment Summit.

**Oct. 23, 2008:** China and Singapore sign a free trade agreement (FTA) that would reduce tariffs and increase economic, business, and trade activities between the two countries. Both sides will also pursue joint collaboration in custom procedures, quality inspection and quarantine.

**Oct. 24, 2008:** Mao Xiaotian, deputy chief of general staff of the PLA, meets his Vietnamese counterpart Nguyen Van Duoc in Beijing. They agree that the exchange of high-level visits and pragmatic cooperation between the two militaries are improving overall bilateral ties.

**Oct. 25, 2008:** Chinese and Vietnamese leaders sign a joint statement reaffirming that the two countries will complete the demarcation of their land border before the end of this year. They also agree on a joint survey in Beibu Bay and that they "gradually advance the negotiations on demarcation of these maritime zones and will jointly exploit the zones."

**Oct. 24-25, 2008:** China hosts the 7th Asia-Europe Meeting (ASEM) Summit in Beijing.

**Oct. 27, 2008:** Gen. Zhang Li, vice chief of staff of the PLA, visits Myanmar and meets Gen. Than Shwe, chairman of the Myanmar State Peace and Development Council. They hold discussions on increasing the level of cooperation between the two armed forces.

**Oct. 29, 2008:** Zhou Yongkang, member of the Standing Committee of the CPC Central Committee Political Bureau and secretary of the Central Commission on Politics and Law, visits Vietnam and meets Prime Minister Nguyen Tan Dung in Hanoi. They agree to deepen and broaden bilateral political, economic, and military cooperation.

**Nov. 4, 2008:** Minister of Public Security Meng Jianzhu meets Cambodian Deputy Prime Minister and Minister of Interior Sar Kheng to discuss the prospects for curbing transnational crimes and illegal immigration and strengthening bilateral cooperation in combating illicit drug smuggling, repatriating criminal suspects, and law enforcement training.

**Nov. 4-9, 2008:** Zhou Yongkang visits Indonesia and meets Vice President Yusuf Kalla. They agree to improve bilateral cooperation and to increase the number of high-level exchanges. Following his visit to Indonesia, Zhou visits Brunei to meet the Foreign and Trade Minister Prince Mohamed Bolkiah.

**Nov. 5, 2008:** The Chinese ship *Zhenghe* arrives at Sihanoukville Port to begin its official nine-day visit. This marks the first time a Chinese military ship has docked in Cambodia.

**Nov. 15, 2008:** At the 5<sup>th</sup> meeting of the China-ASEAN Prosecutors General Conference, the Chinese delegation agrees to create a legal mechanism to combat regional trans-border crimes. The multilateral and bilateral legal agreements will facilitate investigation, apprehension, prosecution, and extradition of criminals, exchange of witnesses, sharing of evidence, seizure and forfeiture of the proceeds of crime.

**Nov. 19, 2008:** According to a report by *AFP*, China has revived plans to build an oil and gas line across Myanmar to reduce its dependence on the Strait of Malacca for energy transportation. Construction of the pipeline is expected to begin in the first half of 2009. Investment in the pipeline project is reported at \$2.5 billion, with China National Petroleum Corp (CNPC) holding a 50.9-percent stake and managing the project. The remaining shares will be held by Myanmar Oil and Gas Enterprise.

**Nov. 19, 2008:** Central Bank Gov. Zhou Xiaochuan meets his Vietnamese counterpart Nguyen Van Giau in Beijing to discuss the current global financial crisis and how developing countries could take joint action to mitigate its impacts.

**Nov. 22, 2008:** China announces its interest in participating in the third ASEAN Defense Ministers' Meeting (ADMM) in Thailand in March 2009. China, India, and Japan have all submitted formal requests to be new members of the ADMM.

**Nov. 27, 2008:** The Chinese Foreign Ministry expresses concern over the anti-government protest in Bangkok. Qin Gang, the ministry spokesperson, says it would like to see national stability, social harmony, and economic growth restored in Thailand as soon as possible.

**Nov. 29, 2008:** Chen Bingde, chief of the general staff of the PLA, meets Shwe Mann, member of Myanmar's State Peace and Development Council in Beijing. They discuss ways the two armed forces can work together more closely. Liang Guanglie, state councilor and minister of national defense, meets Mann on Dec. 1.

**Nov. 30, 2008:** The first Chinese flight chartered by the government to bring back Chinese tourists stranded at Bangkok's international airport arrives in Shanghai. The government estimates that nearly 3,000 Chinese tourists are affected by the closure of the airport owing to the anti-government protests in Bangkok.

**Dec. 1, 2008:** Jia Qinglin, chairman of the National Committee of the Chinese People's Consultative Conference, arrives in Vientiane for an official visit to Laos. He later visits Jordan, Turkey, and Cambodia.

**Dec. 2-5, 2008:** Foreign Minister Yang Jiechi makes an official visit to Nepal and Myanmar at the invitation of his counterparts in both countries. Yang reiterates that China will continue to support the reconciliation process in Myanmar as well as the continued dialogue involving ASEAN, the UN, and the leadership in Myanmar.

**Dec. 3, 2008:** A delegation of the National People's Congress (NPC) led by Standing Committee member Chen Zhili leaves for South Korea, Vietnam, Laos, and Cambodia to meet with the national congresses of each of these countries.

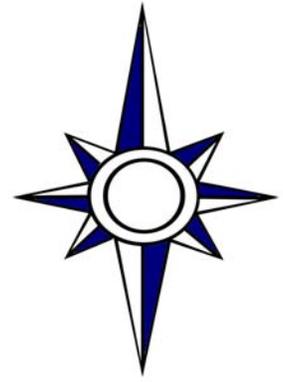
**Dec. 3, 2008:** *AFP* reports that China will provide Cambodia with more than \$200 million in loans and grants to rebuild Cambodia's infrastructure. The deal was reportedly signed during Jia Qinglin's visit to Cambodia. Jia also reportedly announced a grant of \$7.26 million offered as a no-interest loan.

**Dec. 16, 2008:** The Chinese Foreign Ministry sends an official message of congratulations to Thailand's newly elected Prime Minister Abhisit Vejjajiva.

**Dec. 16, 2008:** The Asia-Pacific Space Cooperation Organization (APSCO), which is headquartered in Beijing, formally begins its operations. The organization is composed of seven member states including Bangladesh, China, Iran, Mongolia, Pakistan, Peru, and Thailand. The organization seeks to enhance multilateral cooperation on space science and technology.

**Dec. 20-30, 2008:** Chinese Vice Premier Li Keqiang pays official visits to Indonesia, Egypt, and Kuwait. While in Indonesia, Li meets his counterpart Vice President Yusuf Kalla to discuss prospects for strengthening the strategic partnership.

**Dec. 31, 2008:** China and Vietnam announce the completion of their land border demarcation project just hours before the midnight deadline.



**China-Taiwan Relations:  
More Progress, Stronger Headwinds**

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Beijing and Taipei continued to work cooperatively through various dialogue channels to improve cross-Strait relations. The focus this quarter was on the first ever visit by a “designated representative” of the Chinese government to Taiwan – the visit of ARATS Chairman Chen Yunlin in November, when four agreements were signed. This process is gradually establishing a degree of trust in this long-troubled relationship. However, a vocal opposition minority in Taiwan disrupted the Chen visit and forced President Ma Ying-jeou to make adjustments. Despite the progress, there is still no evidence that Beijing has taken any steps to reduce its military threat directed at Taiwan. President Hu’s new six-point statement and Taipei’s initial reaction to it highlight the continuing gap between their positions. The global economic crisis is confronting the relationship with new challenges, the scope of which is not yet clear. Internationally, Taiwan’s desire for participation in the WHO will be a test of this evolving relationship next spring.

**Dialogues and preparations**

After a decade without dialogue between the governments in Beijing and Taipei, the channels of communication are now working quite well. The formal channel is between the two sides “designated representatives” – Beijing’s Association for Relations across the Taiwan Strait (ARATS) and Taipei’s Straits Exchange Foundation (SEF). Communication between the Nationalist Party (KMT) and the Chinese Communist Party (CCP) serves as a parallel channel. While these channels work in tandem, there is some competition between the two on the Taiwan side. The new ARATS-SEF agreements have now established frameworks for direct contacts between officials of the two sides on food safety, postal, and air traffic control matters.

In October, the focus was on preparations for the symbolic first visit of an ARATS chairman to Taiwan planned for late October or early November. SEF-ARATS contacts developed the agenda of agreements to be signed. The melamine-tainted milk scandal in China added a food safety agreement to the air and sea transportation agreements that were expected. A postal agreement was also in the works.

In late October an incident occurred that threatened these preparations. ARATS Vice Chairman Zhang Mingqing accepted an invitation to join the Chinese delegation to a minor cultural conference in Tainan. Although another ARATS vice chairman, Wang Zaixi, had made a 10-day visit to Taiwan in July without incident, Zhang’s visit sparked demonstrations. Out of government and with only a weak minority in the Legislative Yuan, Democratic Progressive

Party (DPP) activists were looking for ways to have their voice heard on cross-Strait relations. A DPP councilman in Tainan, Wang Ding-yu, called on the public to protest Zhang's visit. An unruly crowd mobbed Zhang's car, and Zhang was personally roughed up. Taipei was embarrassed, ARATS protested, and Zhang's visit was cut short. However, both sides moved quickly to contain the damage and announced that ARATS Chairman Chen Yunlin's visit would not be postponed.

Seeing that they could have an impact by taking to the streets, the DPP moved ahead with plans for a major demonstration in Taipei on Oct. 25. The demonstration, which attracted a couple of hundred thousand people, reflected criticism of President Ma, anger over the Chinese tainted milk scandal's impact on Taiwan, and opposition to the visit of Chen Yunlin. Although Taiwan's voters had given Ma a large majority in the March election, many Taiwanese, beyond just hard-core DPP supporters, were suspicious of Hong Kong-born Ma's handling of relations with the mainland and uncertain what was planned for the Chen visit. Reflecting these suspicions, former President Chen Shui-bian and the Southern Taiwan Society accused Ma of treason for planning to cede Taiwan to the People's Republic of China (PRC).

The Ma administration took a number of steps, both tough and conciliatory, to respond. In Tainan, prosecutors moved rapidly to detain Wang Ding-yu for fomenting violence. The police, caught off guard in Tainan, planned a massive presence to control demonstrations during Chen's visit. President Ma reassured the public more than once that Taiwan's "dignity," a code word for sovereignty, would be maintained during Chen's visit. At Taipei's request, ARATS sent SEF a letter apologizing for the tainted milk scandal. (Chinese have noted that Beijing had not made a similar apology to the Chinese people.)

Most importantly, President Ma announced that he would receive Chen Yunlin in his capacity as president of the Republic of China (ROC). When SEF Chairman Chiang Pin-kung had met Hu Jintao in June, Hu received him in his capacity as CCP general secretary to avoid any appearance that meeting Taipei's designated representative implied official recognition. Each had addressed the other by those organizational titles. As Ma holds no KMT party position, this pattern could not be followed in Taipei. Ma had earlier said that he would not object to Chen addressing him as "Mr. Ma." After the attack on Zhang in Tainan and on the eve of the Oct. 25 demonstration, Ma announced that he would receive Chen in his capacity as ROC president.

### **Chen Yunlin's visit**

Chen Yunlin's Nov. 3-7 visit was highly symbolic because it was the first visit to Taipei by Beijing's designated representative. Former ARATS Chairman Wang Daohan was to have made such a visit in 1999, but Beijing cancelled it after then President Lee Teng-hui characterized Taipei-Beijing relations as a "state to state" relationship. On his arrival, Chen tried to address opposition concerns by apologizing personally for the tainted milk exports and by reassuring critics that the visit would stick to economics and avoid political issues.

On Nov. 4, SEF and ARATS signed four agreements:

- a shipping agreement that authorized direct shipping between designated ports;

- an air agreement that authorized daily charter flights between an expanded list of cities, authorized limited cargo charter flights, and approved direct flight routes that no longer had to pass through Hong Kong airspace;
- a postal agreement authorizing mail to be shipped directly between postal authorities; and
- a food safety agreement providing for direct contacts between food safety and sanitary offices of the two governments.

As noted, three of these agreements authorized for the first time direct dealings between officials of the respective governments under the ARATS-SEF umbrella – food safety officials, postal officials and air traffic controllers. Both sides trumpeted these concrete agreements, which were welcomed publicly by the major business associations in Taiwan.

Meanwhile, problems were occurring in the streets between police and demonstrators. DPP Chairperson Tsai Ying-wen had tried to channel protest into a three-day peaceful sit-in. Rising tensions between the heavy police presence and demonstrators frustrated by restrictions on their activities forced Tsai to take a tougher approach. She called for a siege of the guest house where the meeting between Ma and Chen was to take place. On the night of Nov. 5, a large demonstration forced Chen Yunlin and his dinner host KMT Chairman Wu Poh-hsiung to remain holed up in the Regent Hotel until 2:00AM, when police finally cleared the streets for Chen to return to his hotel.

The capstone of Chen’s visit was to have been a private meeting with President Ma in the late afternoon of Nov. 6. Fearing that the DPP siege would block the streets to prevent the meeting from occurring, Ma was forced to modify those plans. That morning, he held an impromptu press conference at which he reiterated that Taiwan’s dignity would be maintained and that he would receive Chen as ROC president. The Ma-Chen meeting occurred immediately afterward, before the demonstrators assembled and was limited to an eight-minute entirely public exchange of gifts and remarks. No private meeting occurred to avoid feeding opposition suspicions that some secret deal was being concocted. The question of how the two would address each other was finessed at the last minute by having an official announce “President Ma” as he walked into the room. Chen did not address him as President Ma. The Chinese official media reported that “Ma Ying-jeou the leader of the Taiwan authorities” had met Chen. Ma’s Presidential Office reported that “President Ma” had received Chairman Chen.

DPP activists were not satisfied that their actions had forced this change of plans. Rather, they were furious that the change had once again prevented them from venting their opposition to the visit the way they wished. Tsai Ying-wen was unable to control the fallout and violent clashes occurred that evening between demonstrators and police outside Chen’s hotel. When Chen left the next day, Beijing officials emphasized the positive accomplishments of the visit and said nothing about the demonstrations.

In the weeks since the visit, both sides have cooperated in smoothly implementing the agreements. ARATS and SEF attention has shifted to planning for their next meetings in the spring, which will focus on financial sector issues including an agreement on cross-Strait

cooperation on financial sector regulation. Nevertheless, President Ma remains under pressure to justify his handling of cross-Strait relations from continuing DPP attacks asserting that he has sacrificed Taiwan's dignity, most recently with respect to the transfer of China's gift pandas to Taiwan. In late December, Ma had the Cabinet convene a conference on mainland policy at which he urged greater efforts to keep the public informed – an admission both of the seriousness of the opposition criticism and the weakness of his administration's public relations work.

### **President Hu's six-point statement**

On Dec. 31, the 30<sup>th</sup> Anniversary of the 1979 "Letter to Taiwan Compatriots." President Hu Jintao issued a significant statement on the peaceful development of cross-Strait relations. The statement emphasizes the one China principle and the historical necessity of unification, though this should be accomplished with wisdom and patience. While ARATS-SEF talks are taking place on the basis of the 1992 consensus (which allows each side to have its interpretation of the term), Hu's statement says that on the basis of a "common understanding about one China" all matters can be discussed. Taiwan's desire for greater international space can be addressed so long as they do not create a scenario of "two Chinas" or "one China, one Taiwan." Hu called for discussion of a comprehensive economic cooperation agreement with "cross-Strait characteristics," and the cross-Strait promotion of Chinese culture to strengthen a "national consciousness," in Taiwan and the mainland.

The Presidential Office in Taipei issued a brief response that struck a positive tone but emphasized the government's protection of Taiwan's sovereignty and dignity and reiterated that talks between the two sides should be conducted on the basis of the 1992 consensus and mutual non-denial by Beijing and Taipei. The DPP issued a statement reiterating that Taiwan's future must be decided by the people of Taiwan and urging the Ma administration to be careful in responding to the six points. Both President Hu's statement and the Presidential Office's response were crafted taking into account the differing domestic politics on each side.

### **Trade plunges in global recession**

In September, Taiwan's exports to China dropped 14.7 percent marking the first time in a decade they decreased compared to a year earlier, according to Taipei statistics. The slump only accelerated thereafter. In November, exports to China plummeting 38.5 percent and the Ministry of Economic Affairs announced in late December that future export orders to China had fallen 45.4 percent in November. This precipitous drop was part of the general collapse of international trade that also saw China's global exports decline in November by 2.2 percent. Uncertainty will continue to unsettle markets.

The fourth CCP-KMT Economic Forum, held in Shanghai Dec. 20-21, occasioned calls for cross-Strait economic cooperation to cope with the global economic slowdown. Taiwan Affairs Office (TAO) Minister Wang Yi announced a package of 10 measures the PRC would take to aid Taiwanese business. The main items were a promise of 130 billion yuan in loans for Taiwan invested enterprises (TIEs) and a PRC pledge to purchase of \$2 billion of flat panel displays from Taiwan manufacturers. These measures reflected Beijing's belief that the crisis represented

an opportunity to gain good will. Leaders in Taiwan responded positively but cautiously to the PRC offers, noting that past offers of loans to TIEs had resulted in less than first promised.

Late in December, China's National Off-shore Oil Company (CNOOC) and Taiwan's Chinese Petroleum Company (CPC) signed four agreements for cooperation on oil and natural gas exploration in the Taiwan Strait and Kenya.

### **International space**

This quarter has seen some positive developments with respect to Beijing's handling of Taiwan's demand for increased access to international organizations. After discreet consultations with Beijing, President Ma announced that Lien Chan would represent him at the annual APEC Leaders Meeting in Lima. This was interpreted in Taipei as a breakthrough because Lien Chan had previously served as vice president. In 2001, China had rejected Chen Shui-bian's designation of another former vice president, Li Yuan-zu, as Chen's APEC representative viewing the selection as inconsistent with Taiwan's restricted status in APEC. In Lima, Lien was granted a meeting with Hu Jintao – another first in the APEC context. An understanding on terminology was again important. Ma made clear his perspective that Lien was sent to Lima as the representative of the ROC president. Beijing reported that Lien, in his capacity as Honorary Chairman of the KMT, met with CCP General Secretary Hu, putting the meeting into the cross-Strait inter-party context.

Taipei and Beijing have also pointed to two other developments. In November, Taipei joined the Agency for International Trade Information and Cooperation (AITIC) an inter-governmental organization. Taipei joined as a “special customs territory” and again accepted the shorthand name “Chinese Taipei.” In December, Taipei adhered to the WTO's Government Procurement Agreement (GPA). The delay in Taipei's adherence was primarily because of domestic constraints, but when Taipei was ready Beijing did not object to its joining.

Despite these positive developments, Taipei and Beijing continued to see the World Health Assembly (WHA) meeting next May as the real test of Beijing's goodwill with respect to international space for Taiwan. The issue has two aspects. Whether and how Taiwan would become an observer at the WHA? And, to what extent Beijing would ease the restrictions imposed on Taiwan's participation in World Health Organization (WHO) activities by the Memorandum of Understanding (MOU) that Beijing negotiated with the WHO Secretariat in 2005? The answers to these questions remain unclear.

For the first time, Taipei will seek to address these issues through discreet consultations with Beijing. It is encouraging that State Councilor Dai Bingguo has publicly expressed confidence that the two sides have the wisdom to resolve these issues. However, it appears that Beijing is concerned about the future return of a DPP government and therefore wants Taiwan to become a WHA observer in a way that could be revoked in the future. Keeping such tight control of Taiwan's participation would likely be seen by the Taiwan public as evidence of Beijing's continuing hostility.

## **Security issues**

There continues to be no indication that Beijing has reduced its military deployments threatening Taiwan. In December, U.S. Pacific Command (PACOM) Commander Adm. Keating told the U.S. Congress that there had been no significant changes in Chinese deployments. President Ma and many others in his administration have repeatedly made clear that they are looking for a reduction in the missile threat to Taiwan. PRC officials continue to defend People's Liberation Army deployments as necessary to deter separatism in Taiwan.

Scholars in Beijing state that considerable research is being done about possible approaches to a future cross-Strait peace accord. What conclusions the government may be reaching about a peace accord is unclear and comments from scholars indicate that any agreement is likely to be long in coming. Taipei too appears to be only in the early stages of considering the issue. Both sides are also considering possible military confidence-building measures (CBMs). However, officials from Beijing have not been positive about the prospects for early action on CBMs saying that cross-Strait talks will focus on economics before turning to difficult political issues.

## **Looking ahead**

SEF and ARATS are working together productively following their shared approach of focusing on the easier economic issues first. In the process a degree of trust is being established between the two administrations. However, President Hu's new six point statement and Taipei's initial reaction to it highlight the continuing gap between their positions. In the coming months two issues will test the relationship.

The first is the precipitous decline in global trade. Since Taiwan's exports to China are falling more rapidly than Taiwan's worldwide exports, opponents of closer economic ties with China will likely argue that Taiwan will suffer from its heavy dependence on the China market. Recognizing the challenge, China has announced measures to benefit Taiwan, but how these will be implemented remains to be seen. With economic conditions changing with unprecedented speed, it is difficult to foresee how cross-Strait relations will be affected.

The second and more clearly understood issue is Taiwan's participation in the WHO. It seems possible that Beijing and the Ma administration may be able to strike a deal. However, if Beijing seeks to make it clear publicly that Taiwan is only able to participate because Beijing allows it to do so, the Taiwan public would resent this. Such an outcome would also feed opposition criticism of Ma's policies.

Barack Obama will become the U.S. president on Jan. 20. Both Beijing and Taipei expect continuity in the U.S. approach to cross-Strait issues. Nevertheless, in his first telephone call with President-elect Obama, President Hu urged careful handling of the Taiwan issue.

## **Chronology of China-Taiwan Relations October-December 2008**

- Oct. 3, 2008:** The Bush administration notifies Congress of a \$6.5 billion Taiwan arms package.
- Oct. 6, 2008:** U.S. Department of Defense reports that China has postponed various military-to-military activities to protest U.S. arms sales to Taiwan.
- Oct. 7, 2008:** Premier Liu Chao-shiuan states that if the Association for Relations across the Taiwan Strait (ARATS) chairman is to meet him, he must address him as “premier.”
- Oct. 10, 2008:** President Ma Ying-jeou reiterates that he will put Taiwan’s interests first in pursuing cross-Strait relations.
- Oct. 10, 2008:** Democratic Progressive Party (DPP) Chairperson Tsai Ing-wen says Taiwan’s dignity must be maintained during ARATS Chairman Chen Yunlin’s visit.
- Oct. 13, 2008:** Taiwan Tourism Bureau Director Lai Seh-jen visits mainland to promote tourism.
- Oct. 13, 2008:** National Security Council Secretary General Su Chi tells Legislative Yuan that President Ma will meet ARATS Chairman Chen with “equality and dignity.”
- Oct. 14, 2008:** Chinese Defense Minister Liang Guanglie urges U.S. to cancel arms sales to Taiwan.
- Oct. 17, 2008:** Premier Liu repeats call for a PRC apology over tainted milk.
- Oct. 19, 2008:** DPP Chairperson Tsai says people don’t trust President Ma.
- Oct. 19, 2008:** Mainland Affairs Council (MAC) Chairperson Lai Shin-yuan says there are no political issues on ARATS Chairman Chen’s Taiwan visit agenda.
- Oct. 20, 2008:** ARATS Vice Chairman Zhang Mingqing visits Tainan for conference.
- Oct. 21, 2008:** President Ma outlines “effective deterrence” strategy
- Oct. 21, 2008:** DPP-led mob harasses ARATS Vice Chairman Zhang in Tainan.
- Oct. 22, 2008:** China returns 13 criminals to Taiwan via Matsu Island.
- Oct. 23, 2008:** Kinmen and Xiamen authorities hold joint search and recovery exercise.
- Oct. 23, 2008:** Ma Ying-jeou says he will receive ARATS Chairman Chen in his capacity as president of the Republic of China.

**Oct. 27, 2008:** ARATS and Straits Exchange Foundation (SEF) hold preparatory talks in Shenzhen and announce dates for the visit to Taiwan by ARATS Chairman Chen.

**Oct. 27, 2008:** SEF reports ARATS letter apologizing for tainted milk.

**Oct. 27, 2008:** *Defense News* reports the U.S. is blocking the sale of items to Taiwan's Chung Shan Institute of Science & Technology (CSIST) to stop development of the *Hsiung Feng 2E* land attack cruise missile program.

**Oct. 28, 2008:** Seven Taiwan business groups issue statement welcoming Chen Yunlin visit.

**Oct. 29, 2008:** Taipei announces Lien Chan to be President Ma's APEC representative.

**Oct. 30, 2008:** DPP member Wang Ding-yu indicted for violence against Zhang.

**Oct. 30, 2008:** ARATS Chairman Chen Yunlin expresses apology over tainted milk products.

**Oct. 30, 2008:** Taiwan Affairs Office (TAO) Minister Wang Yi mentions the importance of World Health Organization issue in cross-Straits relations.

**Nov. 1, 2008:** *Taipei Times* editorial says President Ma's policies could provoke civil unrest.

**Nov. 1, 2008:** TAO issues simplified rules for Taiwan correspondents.

**Nov. 3, 2008:** ARATS Chairman Chen Yunlin arrives in Taiwan and states his visit will not touch on political issues.

**Nov. 3, 2008:** Chairperson Tsai calls on people to besiege guest house where Chen is staying.

**Nov. 4, 2008:** SEF uses official titles to introduce Taiwan participants to Chen Yunlin; Chen meets MAC Chair Lai, but does not use her title.

**Nov. 4, 2008:** Former President Chen Shui-bian accuses President Ma of treason.

**Nov. 4, 2008:** Southern Taiwan Society accuses Ma of ceding Taiwan to PRC.

**Nov. 5, 2008:** Demonstrators barricade Chen Yunlin in Regent Hotel.

**Nov. 6, 2008:** Brief public meeting between President Ma and ARATS Chairman Chen.

**Nov. 10, 2008:** Taiwan Education Minister Cheng Jei-cheng explains plans to accept Chinese students and academic degrees beginning in 2009.

**Nov. 10, 2008:** MAC says Chen visits shows China does not deny Taiwan's sovereignty.

**Nov. 10, 2008:** President Ma meets APEC delegation stressing that Lien Chan will represent both ROC and himself.

**Nov. 15, 2008:** Taiwan becomes “sponsoring member” of Agency for International Trade Information and Cooperation (AITIC).

**Nov. 16, 2008:** TAO Minister Wang Yi announces measures to help Taiwan in financial crisis.

**Nov. 17, 2008:** *United Democratic Nations (UDN)* reports PRC deployment of *YJ-62A* anti-ship missile on coast.

**Nov. 20, 2008:** SEF Secretary General Kao Koong-lian leads delegation to Guangdong and Beijing.

**Nov. 20, 2008:** Chinese Ministry of Foreign Affairs says APEC issues handled under one China principle and corrects reporter for saying “President Ma.”

**Nov. 21, 2008:** General Secretary Hu and Lien Chan meet in Lima.

**Dec. 3, 2008:** President Ma in an interview says time is not ripe for a visit by the Dalai Lama.

**Dec. 5, 2008:** Hong Kong Trade Development Council opens Taipei office.

**Dec. 7, 2008:** KMT Chairman Wu Poh-Hsiung begins first visit to Japan.

**Dec. 8, 2008:** Chinese Defense Minister Liang Quangle urges U.S. to end arms sales to Taiwan.

**Dec. 10, 2008:** Taiwan joins World Trade Organization Government Procurement Agreement.

**Dec. 14, 2008:** Direct cross-Strait postal service begins.

**Dec. 15, 2008:** Direct shipping service is implemented from Kaohsiung.

**Dec. 17, 2008:** TAO spokesman says WHO solution will be found through talks.

**Dec. 20-21, 2008:** Fourth KMT-CCP Forum is held in Shanghai where Beijing announces economic measures to benefit Taiwan.

**Dec. 22, 2008:** MAC Chairwoman Lai reiterates only SEF authorized to speak for government.

**Dec. 23, 2008:** China’s gift Pandas arrive in Taipei.

**Dec. 26, 2008:** China’s National Off-shore Oil Company (CNOOC) and Taiwan’s Chinese Petroleum Company (CPC) sign cooperation agreements.

**Dec. 28, 2008:** Taiwan Cabinet holds mainland affair conference.





**North Korea-South Korea Relations:  
Things Can Only Get Better?**

**Aidan Foster-Carter**  
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The final three months of 2008 saw relations between the two Koreas continue to worsen, as they had since South Korean voters in December 2007 elected the conservative Lee Myung-bak as their next president, ending a decade of rule by liberals. Official ties remained frozen as Pyongyang media continued to heap childish insults on Lee. Upping the ante from words to deeds, but also shooting itself in the foot, from December the North placed restrictions on cross-border traffic and expelled most Southerners from the joint Kaesong Industrial Complex (KIC), just north of the Demilitarized Zone (DMZ). But the end of the year brought a possible way forward, with hints from both sides that they are considering a deal where the South would pay for the release of abductees and prisoners of war held by the North. It remains to be seen whether this will fly or how soon the two Koreas can tone down the enmity stoked over the past year. Meanwhile, nongovernmental interaction continues, albeit on a far smaller scale than during the former “Sunshine” policy.

**Military talks get nowhere**

Amid the general freeze, the sole official contact between the two Koreas was in military talks held at Panmunjom. The first such talks in eight months – also the first official bilateral North-South dialogue of Lee Myung-bak’s presidency – took place on Oct. 2, but were brief and made little headway. The DPRK called the meeting to protest ROK NGOs spreading propaganda leaflets across the DMZ, as discussed below. It called a second meeting three weeks later on Oct. 27, warning that the joint Kaesong Industrial Complex (KIC) could be suspended if the leafleting continued. The Korean Peoples Army (KPA) also demanded that the South repair military hotlines, which have been out of action since May, and provide modern military communications equipment. The ROK had agreed to do this last year, but the project has not been implemented because of rising tension.

**The North threatens Kaesong**

Some in Seoul discounted the threat to the KIC, reckoning Pyongyang would not act against its own interests. The zone has continued to expand – as of late December, over 90 ROK firms employed about 38,000 DPRK workers there. On Nov. 6, the KIC received an unprecedented and unannounced KPA inspection, led by Gen. Kim Yong-chol, chief DPRK delegate to inter-Korean military talks and policy chief of the National Defense Commission (NDC) – the North’s highest executive body, which outranks the Cabinet. The uniformed KPA team brusquely asked several Southern firms how long it would take them to pack up and leave.

Less than a week later on Nov. 12, the KPA warned that, effective Dec. 1, it would “strictly restrict and cut off” traffic crossing the DMZ. Separately, the DPRK Red Cross said it would close a liaison office in the truce village of Panmunjom and withdraw its representatives there, while also severing cross-border telephone channels with its ROK counterparts. The Unification Ministry (MOU) responded the next day that the South will deal calmly with these threats, and urged the North to resume dialogue. It added that inter-Korean hot lines for maritime affairs and aviation liaison at Panmunjom were still working, and once more pleaded with the leafleteers to desist. That plea was ignored and the North kept its word. On Nov. 24, Gen. Kim Yong-chol announced border restrictions to take effect on Dec. 1. There were four main measures:

- trans-DMZ trains will be “disallowed”;
- tourism to Kaesong city will be “totally suspended”;
- Southern staff will be “selectively expelled” from both Kaesong and Kumgang; and
- border opening will be subject to “more strict order and discipline.”

The following week saw each side further specify and implement these steps. Hyundai Asan was told on Nov. 26 to halve the 192 caretaker staff it has kept at Mt. Kumgang. On Nov. 30 the North confirmed that next day cross-border rail services and day tourist trips by road to Kaesong city must both cease, while the opening of border gates to the Kaesong zone would be cut from 19 times daily to three. Worse than expected was news that the number of South Koreans allowed to remain in the KIC would be slashed from 4,200 to 880. The South had hoped 1,600 could stay, regarding this as the minimum needed to maintain operations. Those who remained would also no longer have access to Southern newspapers. Next day the squeeze was implemented on cue, with 56 South Koreans denied entry. Seoul protested and urged Pyongyang to retract the new measures.

### **Carefully calibrated**

Contra some loose foreign press headlines about sealing the border, the North’s actions were – as quite often – more calculated and calibrated than its rhetoric. Thus the rail ban makes no real difference: hardly any trains ran anyway, as they only go under a mile across the border – not even as far as the KIC, whose firms shunned them preferring to use road transport. Restrictions on numbers and entry are a nuisance, but not such as to jeopardize the KIC’s operation. So far Pyongyang does not want to kill the goose that lays the golden eggs, though some fear it may yet do just that, reckoning that the political risk of over 100,000 Kaesong residents (workers and their families) becoming a poster for the South’s superiority outweighs financial gain.

### **No more tours**

The suspension of day trips from Seoul to Kaesong city is regrettable, as it means that for the first time in 10 years there is no regular South-North tourism. The Mt. Kumgang zone, which 1.9 million South Koreans had visited in the past decade, remains in limbo, with tours still suspended by the South half a year after the July 11 shooting incident (discussed in our last issue). The 10<sup>th</sup> anniversary of Kumgang tourism on Nov. 18 was thus less than festive. Hyundai Asan, which runs the resort, has lost about \$100 million since the closure.

With Kumgang shuttered, the far newer Kaesong day trips – also a Hyundai Asan monopoly – which only began in December 2007 but by October 2008 notched up their 100,000<sup>th</sup> visitor, were the sole inter-Korean tourist link still operating. Less artificial than either the Kumgang enclave or the eponymous Kaesong industrial zone, each day these brought prosperous South and impoverished North into direct contact, if only through tour-bus windows. In Pyongyang there must be relief at no longer having their noses rubbed in this galling daily reminder for both Koreas as to which side has flourished, and which has withered and shrivelled.

### **Leaflet row balloons**

Besides the border restrictions, and related to them, the past quarter's other big inter-Korean story was the regular launching of propaganda leaflets by balloon into the North. In the past, both governments routinely did this, but after the June 2000 summit they agreed to desist from hostile propaganda against one another. Into the breach have stepped an assortment of Southern NGOs – variously conservatives, Christians, defectors, or all three – who despite official disapproval in Seoul have mounted a continuing campaign using helium balloons.

Pyongyang is furious and small wonder. The leaflets pull no punches: revealing Kim Jong-il's recent illness, marital history and luxurious lifestyle; saying who really invaded whom in 1950 (the North still claims the South attacked first); and critiquing the DPRK's economic failures. All this, of course, is totally taboo in what passes for a press in Pyongyang. North Koreans have not been told that Kim was ill, while his family complexities are unknown to most. Not even private discussion of the succession is permitted.

Unschooling as it is in the ways of a free society, the DPRK may conceivably believe its own angry claims that the leafleteers have Lee Myung-bak's blessing. Not so – they are freelancers, and Seoul too is vexed at the spanner they are putting in the works. (So are Southern fellow-travelers of the North, who in December physically attacked a leaflet launch. Even among those less *parti pris*, the balloons are controversial; critics claim they are counter-productive.)

At the start of the quarter, after the North's Oct. 2 complaint (see above), Ministry of Unification (MOU) asked the leafleteers to stop. Two groups promptly refused, and on Oct. 10 Fighters for a Free North Korea (FFNK) marked the founding anniversary of the DPRK's ruling Workers Party of Korea (WPK) with a leaflet launch. A fortnight later, on Oct. 26, Southern firms with plants in the Kaesong special zone (KIC) for the second time issued their own appeal for the leaflet launches to cease, saying they are worsening inter-Korean ties and scaring away investors.

Undeterred, an association of abductees' families said it would press on with a scheduled launch the next day of leaflets naming persons abducted to the North. Thus the pattern continued into November. On Nov. 24 FFNK, the chief leafleteers, declared a three-month moratorium, only to rescind it the next day in riposte to the North's new border restrictions. The latter were duly imposed, but the balloons continued. In the latest twist, FFNK said on Jan. 8 that it will henceforth send DPRK rather than U.S. currency with its leaflets, as North Koreans found with dollar bills risk arrest.

## **Money for new rope: first major Southern joint venture opens in Pyongyang**

Despite bad inter-governmental relations, late October saw the opening of a joint business venture – not in the Kaesong zone, but in Pyongyang. On Oct. 29 a chartered plane flew a 254-strong delegation to the Northern capital, where next day they witnessed the inauguration of Pyongyang Hemp Textiles. PHT is a 50-50 joint venture of the South's Andong Hemp Textiles (AHT) and the North's Saebiyol General Trading Co. Each has invested \$15 million.

Their new venture employs 1,000 North Koreans on a 47,000 square meter site. It took three years from concept to opening: wheels grind slowly in Pyongyang, with a further two month delay owing to the official inter-Korean chill. In that spirit, the DPRK refused entry to two lawmakers of the ROK's ruling Grand National Party (GNP). But it let in a third, Kim Gwang-lim, who had handled North-South economic talks as vice minister of finance and economy under the previous liberal government led by President Roh Moo-hyun (2003-08).

### **A Catholic connection**

As so often, business is not the sole business. Just as Pyonghwa, the pioneer ROK company in the North (*inter alia* assembling Fiats from kits in Nampo, marketing them as Huiparam), is a venture by the Unification Church, so PHT has a distinct Roman Catholic tinge. Lazzaro You Heung-sik, the Catholic bishop of Taejeon, presided at the opening ceremony and also celebrated Mass at Pyongyang's Changchung Church, the only Catholic place of worship in the DPRK. With him were some 50 South Korean Catholics, including eight priests and four friars, but none from the North, which claims to have 3,000 believers even though this and all other churches were savagely persecuted in the DPRK's early years in the late 1940s. A message of support also came from South Korea's only Roman Catholic former president so far, cited by one church source in Korean Catholic style as "Thomas More Kim Dae-jung."

### **Foot in the door: a Southern priest as social worker**

Remarkably, a Franciscan father said in Seoul soon after that beginning in late November, he will run a workers' welfare center within PHT, offering free meals, medical checkups, haircuts, and other services. Paul Kim Kwon-soon is thus the first Catholic priest to live in North Korea for over half a century, albeit not working as such. Getting this foot in the door took three years of "great efforts" by his Order of Friars Minor. It may be relevant that Caritas, the Catholic relief agency, has been active in the North for over a decade. In 2007 the South Korean church took over this program of assistance, previously run from Hong Kong.

### **Making music together**

While official North-South ties stayed frozen, some forms of cooperation continued. In mid-October musicians from both Koreas joined forces for the first time to play the music of Yun Isang (1917-1995), Korea's greatest modern composer, in a series of concerts in Pyongyang.

Yun epitomizes the Korean tragedy. Born near Busan, in 1967 he was abducted from Berlin by the Korean Central Intelligence Agency (KCIA) and tortured for contacting North Koreans in

East Germany. Spared execution (unlike several colleagues) by an international campaign, he returned to West Germany to be feted by the North, which set up an academy named for him. A regular visitor to Pyongyang, he never returned to South Korea, refusing to recant anything, and died before the “Sunshine” policy rehabilitated him. His Southern supporters now regularly attend the annual concerts in Pyongyang (this was the 27<sup>th</sup>), but this was their first co-performance. (These occasions are the only chance a few North Koreans ever get to hear modern Western-style classical music.)

### **North sacks its point man on the South**

News travels slowly in secretive North Korea, and even more slowly out of it. Only at the turn of the year did sources in Seoul confirm unofficially that Choe Sung-chol, who as vice-chairman of the Asia-Pacific Peace Committee had handled relations with the South – and as such played a lead role in arranging October 2007’s summit meeting in Pyongyang between Kim Jong-il and the South’s then leader, Roh Moo-hyun – was dismissed as long ago as last March. His successor is said to be Yu Yong-son, head of the North’s Buddhist Federation, who himself participated in several rounds of inter-Korean ministerial talks since 2000.

The timing is plausible, since from April Pyongyang began to denounce ROK President Lee Myung-bak, having thitherto kept its counsel. Choe’s downfall was to have misjudged Lee, expecting him to continue the “Sunshine” policy rather than shift to the harder line that he in fact took. Choe’s fate is unknown, but the price of failure can be high in Pyongyang. One Southern press report added that Kwon Ho-ung, a former Northern chief negotiator for the inter-Korean ministerial talks, is now under house arrest, although no reason was given.

### **No food aid**

Like almost everything else between the Koreans, badly needed food aid remained on hold. The year ended without either the usual annual rice or fertilizer “loans.” The North was too proud to ask, and the South would not give without an official request. Seoul did offer an emergency gift of 50,000 tons of corn, far less than the norm, but the North did not deign to reply. Nonetheless, interestingly, the MOU budget for 2009 includes allocations for 500,000 tons of rice and 300,000 of fertilizer, the usual amounts in the past.

### **Each says the other spies**

The last decade has seen a dearth of spying cases in Seoul. It was never clear whether the North had truly changed its ways – remember those two beached submarines in the 1990s – or if a softer South did not want to jeopardize sunshine by catching anyone. The National Intelligence Service (NIS) was on the defensive anyway, amidst revelations of how its predecessor, the feared KCIA, had for years routinely framed innocent democrats and others whom it falsely accused of being Northern agents.

Now the old ways are back. On Oct. 15 the defector-spy Won Jeong-hwa (discussed in our last issue: “A Northern Mata Hari reveals all”) received a five-year jail sentence – lenient, in consideration of her guilty pleas and cooperation with the prosecution.

Not to be outdone, two months later on Dec. 18, North Korea's Ministry of State Security (MSS) announced the arrest of a spy, named only as Ri, who it said had been on a "terrorist mission ordered by a South Korean puppet intelligence-gathering organization to do harm to the safety of the top leader of the DPRK." He had also sought to gather various military and other data. MSS warned of severe consequences, but Seoul denied any such involvement.

### **Spies privatized**

Next day, however, the leader of a Southern association of families of abductees said that the arrested man was one of his agents and that MSS's charges are "mostly true" – except that there was no plot to kill Kim Jong-il. It remains to be seen if this comes to what passes for a trial in Pyongyang, or if that gets publicized. This intriguing twist is a reminder that today's inter-Korean relationship is no longer the monopoly of governments, on either side. Nonstate actors, with or without official sanction, are for good or ill playing an increasing role.

Earlier, in mid-November, a 20-strong delegation from the ROK's hard-left Democratic Labor Party (DLP) visited Pyongyang. Such trips in the past have landed the party in hot water at home for dancing too keenly to their host's tune; some DLP members have even been charged with spying. This time, though, they bore a message from Vice Unification Minister Hong Yang-ho assuring the North that Seoul has not "completely turned away" from agreements forged by previous liberal governments. On their return, they reported that the DPRK "remains very tough toward the Lee Myung-bak administration." It hardly needed a visit to work that out.

### **Seoul's history wars continue**

South Korea's dispute over how to teach modern Korean history in schools, discussed in our last issue ("Rewriting history"), intensified in the past quarter. At one level an internal ROK matter, this also bears directly on attitudes and policy toward the North, as well as reflecting contentious rival interpretations of the causes and effects of the peninsula's division in 1945.

In mid-December, *Kumsung*, the last of six textbook publishers ordered by the Education Ministry to make a total of 206 amendments, reluctantly complied. The book's authors filed suit to prevent this, but failed. The whole episode has sparked fierce debate regarding both the substance of the changes and the government's action, which critics see as censorship.

Their opponents, conversely, are appalled by what one has called "intellectual parricide." *Kumsung*, the best-seller molding the minds of today's Southern teenagers, is accused of double standards: critical of the South, while excusing the North. This one-sided approach to the fraught years after 1945 finds fault with the ROK's origins, which are seen as a divisive U.S. ploy using pro-Japan collaborators. The DPRK, by contrast, is portrayed as if *juche* were true. Its Soviet origins, like its human right abuses, are downplayed or even omitted. The implicit subtext is that the North is authentic, whereas the South is tainted by a kind of original sin.

Correcting such distortions is urgent. Alas, the conservatives pressing for this also seek to whitewash the ROK's past military regimes – whose victims, many now active in the liberal

Democratic Party (DP) and other opposition groups, are rightly up in arms on that score. To make it worse, each side denies the other's view as not merely wrong but illegitimate. Hence, neither will compromise in the struggle to define history. This one will run and run.

### **Chinese controls curb defector flows**

A record total of 2,809 Northern defectors reached the South in 2008, 10 percent more than in 2007. This rate of increase was far smaller than the 26 and 46 percent in 2007 and 2006 respectively, reflecting a slowdown attributed to tighter Chinese border controls recently. (Very few defectors cross the heavily armed DMZ directly; almost all have to make a long and hazardous journey across China to seek asylum at ROK embassies in Southeast Asia.)

Whereas some 1,700 arrived in the first half of 2008, second half arrivals fell to 1,100. The cumulative total now exceeds 15,000, with the great majority arriving in the past decade. Integrating them into the South's vastly different society remains very difficult, a warning of the huge challenge that reunification will pose one day. Hanawon, the main reception center south of Seoul, recently doubled in size and is expanding its educational program.

### **Delisting dilemmas**

Turning to the broader regional context, the vicissitudes of the Six-Party Talks (6PT) as ever continued to strain key alliances. Publicly, the ROK (unlike Japan) welcomed the U.S. delisting of the DPRK as a state sponsoring terrorism, saying it hoped this will improve inter-Korean ties. The Seoul press was more critical, probably reflecting unstated official skepticism. There was little surprise when December's 6PT plenary stalled over verification issues.

Going forward, the immediate challenge for both Koreas is of course how to handle the new Obama administration. Worries that President Barack Obama might emulate Bill Clinton in engaging the North regardless of the South (as in 1995-97 during Kim Young-sam's presidency) may prompt Lee Myung-bak to try harder to mend North-South ties – if only for fear that Seoul may once again be, or feel, left out of the loop.

### **Prospects for 2009**

Will inter-Korean ties improve in 2009? They could hardly get worse. An unpromising and uncompromising *non sequitur* came in the ROK NIS chief's New Year message. Chief spook Kim Sung-ho, correctly citing the economic crisis as South Korea's main current problem, then made two dubious leaps of logic: "watertight security" is the precondition of economic recovery and the "backbone" of this is constant vigilance toward the North. Kim Jong-il can be accused of many things, but the ROK's financial plight is not one of them. On this, at least, some South Koreans' habit of blaming the U.S. for everything is for once partly true. Although as ever this distracts attention from defects closer to home, such as high debt ratios (banks, small and medium enterprises, and households) and Lee Myung-bak's erratic economic policies.

## Cash for POWs and abductees?

Just as one learns not to take DPRK rhetoric at face value – or else the peninsula would be permanently on the brink of war – the same applies to inter-Korean relations. The language remains frosty, but as the year closed something fresh seemed to be stirring under the ice. If and when the two Koreas agree to bury the hatchet later in 2009, the breakthrough may come in a deal of a kind new to Korea, but familiar from the precedent of divided Germany.

One criticism of the past “Sunshine” policy was that it failed to help, or even played down, over 1,000 South Koreans still detained in the North. These include at least 545 prisoners of war (POWs) confirmed to be still alive who should have been returned in 1953, plus 480 civilians (almost all fishermen) abducted since. In fact, this is but a fraction of the true total, for it excludes those taken North when the DPRK briefly occupied most of the ROK in 1950 during the Korean War, who on some estimates number as many as 80,000.

The Lee Myung-bak government has for some time hinted that it is contemplating a deal like that between the former two Germanys. From 1963 to 1989, the West German government paid a total of 3.44 billion Deutschmarks (about \$1.3 billion) to bring 34,000 East German political prisoners to the West. Payment was in cash at first, later shifting to commodities such as crude oil, copper, and coffee. The DPRK party line has long been to stonewall, insisting that there are no such people – all ex-South Koreans in the North are there voluntarily. In late December, however, came hints that Pyongyang might consider a deal. Unification Minister Kim Ha-joong’s trip to Beijing, where he served as ROK ambassador for six years, may have been connected to this.

We shall see if anything comes of this, but both sides have an incentive to strike a bargain. In general, the current stand off is negative for each: the North is losing aid, while the South is losing influence. A deal on abductees and POWs would give Pyongyang much-needed cash or goods – hopefully the latter, since the former is liable to misuse – while enabling Lee Myung-bak to earn both public and partisan kudos by bringing “our boys” home as his liberal predecessors failed to do. A cynical exercise, some may say. Yet if it comes to pass, this will mean a long overdue freedom and homecoming for a few – and it will get the two Koreas talking again. All engagement with Pyongyang entails unpalatable compromises; this one would be no worse than many before. Currently it looks the best way to break the impasse.

## Chronology of North Korea-South Korea Relations October-December 2008

**Oct. 1, 2008:** Prosecutors demand a 5-year jail term for Won Jeong-hwa, 35, who came to Seoul as a defector but has pleaded guilty to being a DPRK spy, obtaining secrets via sexual liaisons with several ROK military personnel.

**Oct. 1, 2008:** The DPRK website Uriminzokkiri calls Suh Jae-jean, new head of the Korean Institute for National Unification (KINU) – the official ROK think tank on the North, under the Unification Ministry (MOU) – an “extremely vicious ... anti-DPRK hysteric”. Suh told a

university forum recently that dialogue with an “abnormal and wrong regime” like North Korea is worthless, adding that reports of Kim Jong-il’s illness brought reunification closer.

**Oct. 1, 2008:** In his first public appearance since leaving office in February, ex-President Roh Moo-hyun tells an unofficial meeting in Seoul, ahead of the first anniversary of his summit with Kim Jong-il, that the agreement he signed has been “abandoned ... I hoped it would be thick with leaves and bear fruit one year later, but now the tree is shriveling.”

**Oct. 2, 2008:** The first inter-Korean military talks in eight months – also the first official bilateral North-South dialogue of Lee Myung-bak’s presidency – are held at Panmunjom, but are brief and make little headway. The start is delayed almost an hour when the North demands that media be present throughout; the South protests that this is not the norm.

**Oct. 2, 2008:** Some 40 lawmakers of South Korea’s center-left main opposition Democratic Party (DP) visit the Kaesong industrial complex (KIC).

**Oct. 7, 2008:** A multi-faith group of South Korean Christians and Buddhists, led by Ven. Bomnyun of the Buddhist relief group Good Friends, hands unification minister Kim Ha-joong a petition with over a million signatures calling for urgent food aid to the North.

**Oct. 7, 2008:** Unification Minister Kim Ha-joong tells the ROK National Assembly that he hopes tourism to Mt. Kumgang can resume “as soon as possible” and at all events in time for the tenth anniversary of such tours on Nov. 8. (In the event it does not.)

**Oct. 7, 2008:** The DPRK test-fires two short-range missiles in the Yellow Sea.

**Oct. 8, 2008:** Following North Korea’s Oct. 2 complaint, MOU asks Southern civic groups to refrain from sending leaflets across the DMZ by balloon. Two such groups immediately say they will ignore this and go ahead with planned launches.

**Oct. 9, 2008:** North Korea’s Naval Command warns that repeated violations of its waters by ROK warships risk a clash in the Yellow Sea, as in 1999 and 2002. For its part, Seoul says DPRK vessels have crossed south of the NLL 21 times so far this year.

**Oct. 9, 2008:** MOU says that it has earmarked Won 643 billion (\$460) million for rice and fertilizer aid to the North in 2009, despite such assistance being currently suspended. The budget for inter-Korean economic projects, however, will be halved to Won 300 billion.

**Oct. 10, 2008:** Celebrations of the 63<sup>rd</sup> anniversary of the North’s ruling Workers’ Party of Korea (WPK), normally a major occasion, are low-key. There is no sign of Kim Jong-il.

**Oct. 10, 2008:** The Seoul-based Fighters for Free North Korea (FFNK) and two other North Korean defectors’ groups mark the WPK anniversary by launching large balloons carrying tens of thousands of propaganda leaflets across the DMZ.

**Oct. 11, 2008:** Uriminzokkiri, North Korea's official website, reports a new DPRK site, ryugyongclip.com, devoted to Pyongyang city. In Korean language only, this is presumably aimed at the South and overseas Koreans. Pictures and videos are offered for sale (in euros).

**Oct. 12, 2008:** Seoul officially welcomes the U.S. delisting of the DPRK as a state regarded as sponsoring terrorism, saying it hopes this will improve inter-Korean ties.

**Oct. 15, 2008:** A court in Suwon sentences 'Mata Hari' Won Jeong-hwa (see Oct. 1, above) to five years in jail for spying for Pyongyang. This lenient sentence – the maximum penalty could have been death – takes into account her guilty plea and confession.

**Oct. 15-17, 2008:** In a series of concerts in Pyongyang, musicians from both Koreas for the first time jointly perform works by Yun Isang (1917-95), Korea's leading modern composer.

**Oct. 16, 2008:** Further escalating criticism of President Lee Myung-bak as a "traitor, U.S. puppet and sycophant", *Rodong Sinmun*, daily paper of the DPRK's ruling Workers Party of Korea (WPK), threatens a "total freezing of North-South relations" unless Lee changes his stance.

**Oct. 20, 2008:** ROK Foreign Minister Yu Myung-hwan says the South is ready to provide "comprehensive assistance" to the North, but two factors prevent this: slow progress in denuclearization and Pyongyang's boycott of dialogue with Seoul.

**Oct. 21, 2008:** *Minju Josen*, daily paper of the DPRK government, accuses the Lee Myung-bak administration of "conspiring with and patronizing" Southern NGOs that send hostile leaflets into the North. It warns that this "psychological campaign" so annoys the Northern army and people that any accident along the DMZ might trigger an armed conflict.

**Oct. 22, 2008:** Unification Minister Kim Ha-joong says Seoul will "stay calm and firm while continuing to push for dialogue and cooperation," despite Pyongyang's shrill threats.

**Oct. 24, 2008:** The Committee for Peaceful Reunification of the Fatherland (CPRF), a body under the WPK handling the South, condemns "the U.S. and South Korean puppets' open war confab" in reference to the annual U.S.-ROK military consultation meeting, held in Washington on Oct. 17, which discussed how to respond in case of regime change or instability in the North.

**Oct. 26, 2008:** The DPRK's *Korean Central Broadcasting Station (KCBS) television* attacks a recent comment by the ROK Air Force Commander Lee Kae-hoon, emphasizing high-tech military coordination to maintain effective strike capability, as "a declaration of war."

**Oct. 26, 2008:** For a second time, ROK firms in the KIC plead with the leafleteers to desist, saying they are worsening inter-Korean ties and scaring away investors. Undeterred, Choi Song-ryong, who leads an association of families of abductees, said his group will press on with a scheduled leaflet launch next day of leaflets naming persons abducted to the North.

**Oct. 27, 2008:** Inter-Korean military talks are held by the roadside at Panmunjom. The North again protests at the sending of leaflets across the DMZ, warning that if this does not stop it may suspend the Kaesong industrial complex (KIC).

**Oct. 27, 2008:** MOU says that since Oct. 20 the North has been excising articles from ROK newspapers delivered to the Kaesong complex, apparently in case Northern workers read about Kim Jong-il's ill-health. 30 copies of 9 different papers cross the DMZ each day.

**Oct. 28, 2008:** *KCNA* quotes a military source as warning that Pyongyang will counter any ROK attack: "The advanced pre-emptive strike of our own style is based on a pre-emptive strike beyond imagination relying on striking means more powerful than a nuclear weapon."

**Oct. 28, 2008:** A GNP lawmaker quotes Kim Sung-ho, director of the National Intelligence Service (NIS), as telling a closed session of the ROK National Assembly that Kim Jong-il, "although not completely fit ... appears well enough to perform his daily duties."

**Oct. 28, 2008:** A KPA soldier defects across the DMZ to an ROK guard post. Such direct border crossings remain rare.

**Oct. 29, 2008:** A 254-strong Southern delegation, the largest to go North since Lee Myung-bak took office, flies by chartered plane to Pyongyang for the opening of the first ROK joint venture (JV) sited in the DPRK capital. (See also next entry.)

**Oct. 30, 2008:** Pyongyang Hemp Textiles (PHT), a 50-50 JV of the South's Andong Hemp Textiles (AHT) and the North's Saebiyol General Trading Co., starts operations in the DPRK capital, three years after the project was agreed. Each side has invested \$15 million.

**Oct. 30, 2008:** At a meeting in Seoul on national competitiveness, President Lee quotes a foreign report citing Kim Jong-il as one of three major factors undermining South Korea's national brand. The other two are industrial conflict and illegal demonstrations.

**Oct. 31, 2008:** Official sources in Seoul say that shipment of 3,000 tons of steel pipe, due to be sent North as energy-related aid under the Six-Party Talks (6PT) by end-October, is likely to be postponed until a verification protocol is agreed at the upcoming 6PT plenary meeting.

**Nov. 1, 2008:** The AHT party flies back to Seoul. During their trip they also attended an investment briefing, toured factories, and went hiking at Mt. Paektu on the Chinese border.

**Nov. 4, 2008:** Paul Kim Kwon-soon, a Franciscan father, reveals in Seoul that he will run a workers' welfare center within PHT from later this month, as the first Roman Catholic priest to live in North Korea for over half a century.

**Nov. 6, 2008:** Gen. Kim Yong-chol, chief DPRK delegate to inter-Korean military talks and policy chief of the National Defense Commission (NDC), leads an unprecedented and unannounced KPA inspection of the Kaesong industrial complex.

**Nov. 7, 2008:** *Choson Sinbo*, the daily paper of pro-North Koreans in Japan, suggests that if the Obama administration actively pursues dialogue with the DPRK, the latter will sideline South Korea even more unless the Lee administration changes its hardline stance.

**Nov. 11, 2008:** In a newspaper interview, ROK President Lee says he would not oppose Barack Obama meeting Kim Jong-il “as long as it helps to lead North Korea to abandon its nuclear program.” He reiterates this on Nov. 14 while in Washington for the G20 meeting.

**Nov. 11, 2008:** The ROK’s National Human Rights Commission (NHRC) says it has set up a special committee to monitor human rights in North Korea. Since its inception in 2001 the NHRC under previous liberal governments had largely ignored abuses in the DPRK, for fear of jeopardizing the former “Sunshine” policy of engagement.

**Nov. 12, 2008:** The KPA warns that, effective Dec. 1, it will “strictly restrict and cut off” traffic crossing the DMZ. Separately, the DPRK Red Cross says it will close a liaison office in the truce village of Panmunjom and withdraw its representatives there, while also severing all cross-border telephone channels with its ROK counterparts.

**Nov. 13, 2008:** MOU says the South will deal calmly with the North’s threats, and urges the latter to resume dialogue. It adds that inter-Korean hot lines for maritime affairs and aviation liaison at Panmunjom are in fact still working.

**Nov. 13, 2008:** The ROK defense ministry (MND) faxes the North, proposing talks on providing materials and equipment to improve military communications (see Oct. 27).

**Nov. 13, 2008:** The ROK’s main opposition Democratic Party urges President Lee to change tack and “start setting up a new North Korea policy from ground zero.”

**Nov. 13, 2008:** One thing all Koreans can agree on: A joint seminar denouncing Japan’s moves to distort history and seize the Dokdo (Takeshima) islets is held in Pyongyang.

**Nov. 15, 2008:** *Rodong Sinmun* criticizes routine U.S.-ROK annual war games as “criminal.”

**Nov. 15-19, 2008:** A 20-strong delegation from the ROK’s hard-left Democratic Labor Party (DLP) visits Pyongyang. It carries a message from vice unification minister Hong Yang-ho, assuring the DPRK that Seoul has not “completely turned away” from agreements forged by previous liberal governments. On its return the DLP says that the North “remains very tough toward the Lee Myung-bak administration.”

**Nov. 17, 2008:** Pyongyang rejects Seoul’s recent calls for dialogue as hypocritical: “It is the steadfast stand of the whole nation that nothing can be expected from this traitorous regime.”

**Nov. 18, 2008:** *Rodong Sinmun* and *Minju Joson* both attack Seoul for co-sponsoring a UN resolution critical of Pyongyang’s human rights abuses, calling this “an intolerable mockery of the DPRK’s dignified system.” (See also Dec. 19, below.)

**Nov. 18, 2008:** Seoul lets four ROK civilians visit Mt. Kumgang; not as tourists, but to deliver 50,000 coal briquettes as aid to a nearby DPRK village.

**Nov. 19, 2008:** MOU says it will “make aggressive efforts” to dissuade leafleteering NGOs. The latter respond by announcing further imminent balloon launches into the North.

**Nov. 20, 2008:** *Yonhap*, the semi-official ROK news agency, notes that over 1.9 million South Koreans have visited Mt. Kumgang as of June this year; 22 have died in various accidents at the resort over the past decade, as has one KPA soldier.

**Nov. 21, 2008:** Seoul repatriates six North Koreans whose boat drifted into Southern waters off the east coast owing to engine failure a day earlier.

**Nov. 23, 2008:** MOU reports that North-South trade in October fell 23 percent year-on-year, down to \$160 million from \$210 million in the same month last year as ties have soured.

**Nov. 24, 2008:** Gen. Kim Yong-chol (see Nov. 9), policy chief of the DPRK National Defense Commission (NDC), announces border restrictions effective Dec. 1.

**Nov. 24, 2008:** Fighters for a Free North Korea, the chief leafleteers, declare a three month moratorium – only to cancel this next day in riposte to the North’s new border restrictions.

**Nov. 25-28, 2008:** Most South Koreans required to leave the Kaesong and Kumgang zones do so, ahead of the North’s new restrictions due to be imposed from Dec. 1.

**Nov. 27, 2008:** Seoul press reports claim that Kim Hyun-hee, the DPRK terrorist who bombed Korean Air flight 858 off Burma in 1987 but later converted, has complained that under the previous government both the ROK National Intelligence Service (NIS) and the Truth and Reconciliation Commission pressured her to recant her claim that Kim Jong-il ordered the bombing. When she refused, the NIS leaked her secret address, forcing her to move.

**Nov. 30, 2008:** Pyongyang confirms to Seoul that from Dec. 1 cross-border rail services and day tourist trips by road to Kaesong city will both cease.

**Nov. 30, 2008:** Seoul says Pyongyang has banned any ROK publications from being brought across the DMZ, even by Southern managers in the Kaesong zone who hitherto could do so.

**Dec. 1, 2008:** The North implements its border restrictions on cue, denying entry to 56 South Koreans. Seoul protests that this “very regrettable” step breaches inter-Korean accords, and urges Pyongyang to retract the new measures.

**Dec. 2, 2008:** Left- and right-wing South Korean activists scuffle at Imjingak near the DMZ, as the former try to stop the latter launching balloon-borne leaflets into North Korea.

**Dec. 2, 2008:** South Korean prosecutors indict five leading members of a left-wing civic group, Solidarity for Implementing the South-North Joint Declaration, for spreading North Korean

propaganda. Four other members are already on trial on similar charges. These are the first such prosecutions for a decade under the controversial National Security Law.

**Dec. 3, 2008:** The ROK Defense Ministry (MND) tells the National Assembly Committee on inter-Korean Relations that “North Korea has breached or failed to honor most of the agreements reached between the South and the North in military affairs,” and that military relations are now all but defunct.

**Dec. 4, 2008:** MOU reports that the last group of about 50 evicted personnel, including 23 Chinese, leave the Kaesong and Kumgang zones pursuant to Pyongyang’s new restrictions.

**Dec. 5, 2008:** An anonymous MND official tells reporters that Seoul is mulling offering “incentives” to Pyongyang to free Southern POWs and abductees. 76 POWs have escaped from the North, including six this year.

**Dec. 6, 2008:** Pyongyang rejects as “provocative” Seoul’s (in truth rather mild) reaction to the border restrictions imposed by the North from Dec. 1.

**Dec. 9, 2008:** Seoul reiterates that it has no immediate plan to send food aid to Pyongyang, despite a new UN estimate that the North will have an 800,000 ton grain shortfall in 2009.

**Dec. 14, 2008:** ROK lawmakers earmark Won 1.59 trillion (\$1.18 billion) for North-South cooperation in 2009, up 8.6 percent from 2008. The new budget includes Won 643.7 billion to provide 400,000 tons of rice and 300,000 tons of fertilizer aid, despite current poor ties and the fact that such aid, which used to be regular, has been suspended since 2006.

**Dec. 15, 2008:** *Kumsung*, producer of the most-read and most left-leaning South Korean high school textbook on modern Korean history, is the last of six publishers to accept up to 206 changes ordered by the Education Ministry. The general thrust is a more critical view of North Korea and a more positive account of the origins of the ROK after 1945.

**Dec. 16, 2008:** Kim Hak-song, a GNP lawmaker who chairs the ROK National Assembly’s Defense Committee on Defense, says that the DPRK may have over 20 nuclear weapons if it has chosen to make small warheads each using 2-3 kg of plutonium.

**Dec. 18, 2008:** The South’s Rural Development Administration says that North Korea’s total grain harvest rose by 300,000 tons or 7 percent in 2008, thanks to better weather. Though an early drought cut the corn crop by 3 percent to 1.5 million tons, rice rose by 330,000 tons to 1.9 million tons. Other crops included potatoes (500,000 tons), soy beans (160,000 tons) and barley and other grains (240,000 tons).

**Dec. 17-18, 2008:** Lt. Gen. Kim Yong-chol, head of the of the DPRK National Defense Commission (NDC)’s policy planning office, warns on a rare two-day inspection trip to the Kaesong Industrial Complex (KIC) that the current freeze in North-South ties is “serious,” and that the North’s sanctions are “not temporary, emotional or symbolic.”

**Dec. 18, 2008:** North Korea's Ministry of State Security (MSS) announces the arrest of a spy, named only as Ri, who was on a "terrorist mission ordered by a South Korean puppet intelligence-gathering organization to do harm to the safety of the top leader of the DPRK," and warns of severe consequences. The ROK denies any such involvement.

**Dec. 19, 2008:** Choi Sung-yong, president of the Family Assembly Abducted to North Korea, a Seoul-based NGO, says the spy arrested by the North was one of his agents, and that MSS's charges are "mostly true." But he denies any plot to kill Kim Jong-il.

**Dec. 19, 2008:** The ROK co-sponsors the UN General Assembly's annual resolution condemning DPRK human rights abuses, which is adopted by 94 votes to 22 with 63 abstentions.

**Dec. 20, 2008:** *Radio Free Asia* reports that 19 DPRK defectors, including an elderly man and a child, will stand trial in Burma for illegal entry. They were arrested after crossing the border from China, hoping to get to South Korea.

**Dec. 20, 2008:** MOU reports that inter-Korean trade fell year-on-year for the second month running. November's total of \$142.72 million was down 27.7 percent from 2007. The weak Southern won was blamed; most payments to the North are made in dollars or euros. But for the year overall to end-November, the total of 1.69 billion dollars is up 3.7 percent on 2007.

**Dec. 22, 2008:** MOU announces that resettlement training for North Korean defectors will increase from 8 to 12 weeks, effective March. Hanawon, the main training center some 45 miles south of Seoul, recently doubled its capacity to 600 persons as arrival numbers grow.

**Dec. 22, 2008:** *Rodong Sinmun*, daily paper of North Korea's ruling Workers Party of Korea (WPK), attacks Seoul's recent overtures: "Hypocritical is the "dialogue" much publicized by those who seek confrontation with daggers hidden behind their belts."

**Dec. 22, 2008:** Despite official denials, sources in Seoul signal that Pyongyang has indicated willingness to return some Southern POWs and abductees in exchange for aid.

**Dec. 22, 2008:** Ignoring the ROK government's appeal to stop, the North Korea Christian Association in South Korea sends 1.5 million propaganda leaflets on 26 large balloons into the North from an island off the west coast.

**Dec. 23, 2008:** DPRK Defense Minister Kim Il-chol warns "the South Korean warmongers" not to unleash a war. If they do, the North's "preemptive strike, built upon stronger means than nuclear weapons, will not only make the South a sea of fire but turn all things that are against the Korean people and unification into a pile of ashes."

**Dec. 26, 2008:** An official in Jeju says MOU has both withdrawn funding (around \$1.5 million) and forbidden it to send 10,000 tons of locally grown tangerines to North Korea. Jeju has sent such aid every winter since 1998.

**Dec. 28, 2008:** The DPRK website Uriminjokkiri warns that “If the Lee Myung-bak government continues to push for its confrontational policy next year, North-South relations will further deteriorate.”

**Dec. 29, 2008:** ROK Unification Minister Kim Ha-joong says “everything is normal” in the North, and its “leadership is stable.” Citing Kim Jong-il’s 13 reported public appearances in December alone, Kim admits that this “year-end concentration seems a bit unique.”

**Dec. 30, 2008:** MOU spokesman confirms that the ROK is mulling paying the North to return Southern detainees, saying that “The return of the abductees and war prisoners is our priority”

**Dec. 30, 2008:** An ROK navy patrol boat picks up a family of four North Koreans, who defected from Haeju that day in a small wooden boat. Such direct defections remain rare.

**Dec. 30, 2008:** Jungto Society (JTS), also known as Good Friends, a South Korean Buddhist NGO active in the North, says it has sent baby formula and maternal foods worth \$300,000 to Hoeryong in the DPRK’s impoverished northeastern province of North Hamgyong. It also delivered life support machines, oxygen generators and other medical equipment worth over \$100,000 to a hospital in the same province earlier in December.

**Dec. 30, 2008:** The ROK-based Northeast Asia Foundation for Education and Culture (NAFEC) says that the much-delayed Pyongyang University of Science and Technology (PUST), which it is building and funding, will not open until April 2009. It is ready to start now, but both Korean governments have warned that the timing is unpropitious.

**Jan. 1, 2009:** The DPRK’s customary New Year joint editorial, carried in the Party, army and youth daily papers, accuses Lee Myung-bak of being “steeped in pro-U.S. sycophancy and hostility towards fellow countrymen.” Washington, by contrast, is spared such invective.

**Jan. 2, 2009:** *Choson Sinbo*, the daily paper of pro-North Koreans in Japan, says that the North will continue a hard line toward the South unless Seoul changes its stance, “no matter how (the Lee government) rehearses kind but hollow words.”

**Jan. 2, 2009:** The diirector of South Korea’s National Intelligence Service (NIS) vows in his New Year message to monitor the North closely. Kim Sung-ho avers that national security is a precondition for the ROK’s economic revival; he does not explain why.

**Jan. 3, 2009:** In a telephone call to UN Secretary-General Ban Ki-moon, himself a former ROK foreign minister, Lee Myung-bak asks the UN to help improve inter-Korean relations.

**Jan. 5, 2009:** The Seoul press reports the ROK government as unofficially confirming that the DPRK’s point man on the South, Choe Song-chul, deputy director of the KWP’s United Front department, was sacked last March. Some name his replacement as Yu Yong-sun (68), hitherto leader of North Korea’s Buddhist federation.



**China-Korea Relations:  
Sweet and Sour Aftertaste**

Scott Snyder, Asia Foundation/Pacific Forum CSIS  
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High-level interaction between Presidents Hu Jintao and Lee Myung-bak continues to intensify following the upgrading of the Sino-South Korean relationship to a “strategic cooperative partnership” in August of 2008. The increase in the number of meetings between top leaders is in part a by-product of the proliferation of regional forums in which China and South Korea both have membership and in part an affirmation of the rising importance of the relationship to both sides. This quarter Hu and Lee participated in the Asia-Europe Meeting (ASEM) in Beijing in October as well as the G20 meeting in Washington and the Asia Pacific Economic Cooperation (APEC) forum in Peru in November. Lee and Premier Wen Jiabao also met as part of the first trilateral meeting among Chinese, South Korean, and Japanese leaders held in Fukuoka in mid-December. In contrast, Chinese and North Korean leaders rarely meet these days, and Chinese officials confess ignorance regarding the health of Kim Jong-il despite being North Korea’s closest of neighbors.

The global financial crisis and the widespread effects of China’s tainted food exports are the latest wild cards in the Sino-South Korean relationship. Likewise, North Korea’s intransigence brings China and South Korea closer together, while its vulnerability may pose insurmountable contradictions between Seoul and Beijing. Chinese analysts suggest that their government has reconciled itself to maintaining relations with North Korea at some level in order to preserve stability and secure its own strategic interests, although some suggest that things will never be the same as before as long as North Korea retains its nuclear weapons capability. Chinese analysts voice heightened concern about the deterioration of inter-Korean relations, South Korean expressions of “extreme nationalism,” and South Korea’s apparent tilt toward the U.S. under President Lee. In order to meet emerging challenges as a by-product of intensified relations, China and South Korea continue to develop new mechanisms for bilateral and multilateral engagement, both to address “strategic issues” and emerging nontraditional security issues like public health.

**Intensified Sino-South Korean and regional summitry**

Presidents Lee Myung-bak and Hu Jintao continued to engage in intensified high-level summitry in the last quarter of 2008. They held bilateral summit meetings four times this year, in addition to monthly interactions at a series of multilateral meetings and international events since early July. Hu and Lee saw each other at three different multilateral meetings in the last quarter (ASEM in Beijing in October, G20 summit in Washington, and the APEC in Peru in November). In addition, President Lee, Premier Wen Jiabao, and Japan’s Prime Minister Taro Aso held the

first Sino-Japan-ROK trilateral summit in Dazaifu, Fukuoka on Dec. 12-13. Despite ambitious pledges to promote Asian growth and “regional stability, prosperity, and peace,” the summit produced no substantive results or specific action plans, with the joint statement largely reaffirming existing commitments.

In addition to currency swap deals and restrictions on new trade barriers over the next 12 months, Wen, Lee, and Aso reinforced cooperation on their multilateral commitments including the creation of an \$80 billion fund with ASEAN by June 2009, an early injection of cash into the Asian Development Bank, and common follow-up measures to the November G20 summit in Washington. The three leaders also agreed to strengthen policy coordination on North Korean nuclear issues, noting Pyongyang’s “uncooperative attitude” at the recent Six-Party Talks negotiations in Beijing.

The agenda for the inaugural PRC-Japan-ROK trilateral primarily addressed the global financial crisis, but future summits aim to broaden cooperation to other areas. Meeting in Fukuoka ahead of the trilateral, Lee and Wen discussed cooperation on North Korean denuclearization in light of the breakdown of the latest round of Six-Party Talks in Beijing, reinforced the China-South Korea currency swap deal, and agreed to deepen cooperation on the financial crisis both bilaterally and multilaterally through the next G20 summit in April 2009.

A major achievement for South Korea at this meeting was the expansion of its currency swap agreement with China to \$30 billion on the eve of the summit in an effort to shore up the won, which dropped by a third against the U.S. dollar since the beginning of the crisis. In its deal with the Bank of China, the Bank of Korea secured a \$26 billion won-yuan swap effective for three years with the possibility of an extension. Beijing and Seoul previously signed a \$4 billion currency swap deal under the Chiang Mai Initiative. South Korea has been eager to expand its currency swap with China amid a weakening won and declining foreign exchange reserves, first discussing the proposal in October at a meeting between Chinese and South Korean finance ministers in Beijing on how to cope with the financial crisis. However, the Sino-ROK currency swap arrangements came after the critical turning point in South Korean efforts to stabilize its economy as part of the global financial crisis, which occurred as a result of a \$30 billion line of credit from the U.S. Federal Reserve Bank as part of a deal with critical regional economies concluded in late October.

### **Modestly expanded “strategic” Sino-South Korean cooperation**

A new development in the bilateral relationship this quarter was the establishment of a new, high-level institutional mechanism for policy dialogue. Chinese Vice Foreign Minister Wang Guangya and South Korean counterpart Kwon Jong-rak held the first high-level “strategic dialogue” between Chinese and South Korean Foreign Ministries on Dec. 11 in Beijing, an initiative that emerged from the Hu-Lee summit in May of 2008 as part of an effort to upgrade relations. Meeting topics included the incoming U.S. administration and North Korean nuclear issues and coincided with the disappointing conclusion of the latest round of Six-Party Talks, which failed to settle important technical issue of whether North Korea will allow samples to be taken from the country in its verification protocol. The annual dialogue provides a channel for coordination of Chinese and South Korean foreign policies on a range of bilateral, regional, and

global security issues. Given that both sides have similar talks with the United States and Japan, the Sino-South Korean strategic dialogue is not distinctive, but is increasingly necessary given the importance of effective coordination in managing newly emerging global challenges.

In late November, China and South Korea finally established long-awaited naval and air force hotlines after having discussed the prospect of such hotlines for over a year. Intended to prevent accidental clashes and facilitate disaster cooperation, the hotlines began operating immediately after working-level defense talks in Beijing. Repeated disagreements had previously hampered the establishment of military hotlines, initially planned as part of confidence-building measures to open last year on Aug. 24, the day marking the 15<sup>th</sup> anniversary of diplomatic relations. During a meeting in Beijing, Chinese Defense Minister Liang Guanglie and Korea National Defense University President Bang Hyo-bok pledged to advance bilateral military ties “to a new height.” While the air force hotline aims to enhance information exchange on unidentified aircraft over the Korean Peninsula, the naval hotline is expected to reduce tension on the Yellow Sea where bilateral disputes continue to emerge over illegal Chinese fishing activities. Seoul officials have long complained of Chinese intrusion into Korean waters in violation of a bilateral fisheries treaty signed in 2001, reporting that South Korea has captured more than 1,750 Chinese fishing vessels in the last four years. These issues have become even more sensitive since late September, when violent clashes between Chinese and South and North Korean boats left a South Korean Coast Guard officer dead. Confrontations have continued despite recent efforts by South Korean authorities to crack down on incursions by Chinese fishermen in South Korean territorial waters.

South Korea has new plans to expand its diplomatic presence in China while strengthening cultural exchange. The planned opening of a South Korean Consulate by the end of this year in Wuhan, the capital city of Hubei province and one of China’s key trade and transport centers, is expected to further boost economic cooperation between South Korea and central Chinese regions, where Korean investment is already significant. As part of a campaign to expand tourism, Seoul also plans to open additional direct air services to Chinese cities and simplify visa requirements for Chinese citizens.

### **Maintaining the veneer of Sino-DPRK “traditional friendship”**

Despite a severe downturn in relations following the North Korean nuclear test in October 2006, Sino-DPRK relations appear to have stabilized in 2008. North Korea continues to rely heavily on China for energy and food assistance, so there are limits to the level of estrangement in the relationship that are fostered by the realities of interdependence. However, a nuclear North Korea has a direct, negative impact on regional threat perceptions, including in Japan and South Korea, which affect Chinese interests. Although the Chinese government is committed to promoting regional stability, senior officials reiterate their commitment to denuclearization of the Korean Peninsula because a nuclear North Korea is a threat to regional stability. Chinese expectations that North Korea will remain stable extend to Chinese reactions to rumors about Kim Jong-il’s health and the prospect of a leadership transition in North Korea.

Chinese and North Korean officials are marking “China-DPRK Friendship Years” in Beijing in 2009 and Pyongyang in 2010 as an opportunity to advance bilateral relations, including the

promotion of political ties between the Workers' Party of Korea (WPK) and the Communist Party of China (CPC). Chinese Defense Minister Liang Guanglie received Yon Kyong Chol of the DPRK Ministry of People's Armed Forces in Beijing in mid-December to promote military and state-to-state relations.

North Korea's Foreign Trade and Culture Ministries jointly hosted the 55<sup>th</sup> anniversary of the DPRK-China Cooperation Accord on Economy and Culture on Nov. 20 in Pyongyang, where Vice Premier Ro Du-chol pledged further cooperation with China under the pact, recognized for building a legal foundation for bilateral economic and cultural ties. In a bilateral media meeting held by China's State Administration of Radio Film and Television in Beijing in December, senior political advisor Li Jinhua emphasized "common development" of Chinese and North Korean journalism to promote the "China-DPRK traditional friendship." At the anniversary celebrations of economic and cultural ties in Pyongyang, Chinese Ambassador Liu Xiaoming highlighted various bilateral "friendship-building" events in recent years as drivers of "China-DPRK relations in the new century." In the fourth annual bilateral talks between Chinese and North Korean commerce and trade officials in Pyongyang in October, Assistant Minister of Commerce Wang Chao also expressed China's commitment to further bilateral cooperation based on businesses and market operations as well as government guidance.

### **The financial crisis and its impact on Sino-South Korean economic relations**

One tangible measure of the effects of the global financial crisis on the real economy has been its impact on global trade. Sino-South Korean trade had been projected to reach \$200 billion by 2010 prior to the crisis, but South Korea's slowing domestic growth and the impact of the global crisis on China's exports are likely to slow the growth of bilateral trade and investment. The ROK Central Bank has forecast 2 percent growth in 2009, South Korea's slowest in over a decade. Exports, which account for 60 percent of the South Korean economy, suffered an 18.3 percent drop in November to \$29.26 billion, the biggest annual drop in seven years as exports to China dropped 32.9 percent to \$5.33 billion, the biggest decline in 16 years.

The crisis has had a harsh impact on South Korean carmakers, including Ssangyong Motor Co., the South Korean unit of Shanghai Automotive Industry Corp., which temporarily halted all plant operations in mid-December to cope with a sharp sales slump. Ssangyong suffered a 63 percent drop in annual sales in November and lost 28.2 billion won (\$21.2 million) in the third quarter of 2008, its fourth consecutive loss. Faced with labor union resistance to a restructuring plan, Ssangyong's chief executive now warns that its Chinese partner will pull out. The global automotive crisis has reverberated as Ssangyong has sought cash infusions from the Korean government and has stirred up ongoing fears in Ssangyong's labor union that Chinese management will use the global crisis to cut jobs and repatriate technology from South Korea.

### **Deteriorating nuclear talks and inter-Korean relations**

A fresh round of Six-Party Talks began in Beijing on Dec. 8 only to break down several days later. Focused mainly on producing a verification protocol, the session came a week after a meeting between Christopher Hill and North Korean counterpart Kim Kye Gwan in Singapore failed to reach agreement on the sampling of atomic materials. Chinese and North Korean

diplomats, including Chinese envoy Wu Dawei and Ri Gun, director general of the DPRK Foreign Ministry's American Affairs Bureau, had also met in Beijing in mid-November to discuss how to move forward on the Six-Party Talks. Nevertheless, Pyongyang refused to accept China's draft verification plan that would allow inspectors to remove samples from North Korean nuclear sites for outside analysis. Beijing's two-page statement on Dec. 11 summarizing the outcome of the talks lacked any substantive content on the top agenda item of verification.

The latest round of negotiations also revealed gaps in understanding on the issue of aid. China has recently suggested that it will continue supplying economic and energy aid to the North despite the recent failure of talks, contradicting U.S. statements linking verification with fuel aid. As chair of the Working Group on Economic and Energy Cooperation, South Korea faces the task of clarifying the specifics of aid in the denuclearization process. A recent U.S. study also showed that international sanctions on North Korea since 2006 have proven ineffective due to loopholes in the definition of banned luxury goods, of which China's continued shipments to the North reached a total value of \$120 million in 2007, a 140 percent increase from 2006.

The nuclear stalemate has been exacerbated by a breakdown in inter-Korean relations. South Korean Unification Minister Kim Ha-joong made a four-day trip to Beijing in late December to discuss both North Korean nuclear issues and frozen inter-Korean relations over a series of meetings with Chinese Cabinet ministers including State Councilor Dai Bingguo, CPC International Liaison department head Wang Jiarui, Foreign Minister Yang Jiechi, and Vice Minister Wu Dawei. The latest bilateral meetings took place as Pyongyang issued a fresh warning that it would continue sanctions on South Korean companies in Kaesong should Seoul maintain its hard line policy toward the North. Despite intensified dialogue, however, Chinese analysts remain uncomfortable with the direction of South Korean policy under the Lee administration (especially when compared to the Roh administration, which had a particularly benign view of China), expressing concerns with the downturn in inter-Korean relations and South Korean public expressions of "extreme nationalism" over historical and territorial issues. The popularity of Korean cultural offerings in China known as the "Korean wave" appears to be receding, carrying with it a strong undertow of grassroots resentment among Chinese.

Kim Jong-il's health and North Korean regime stability continue to be matters of imminent concern for both China and South Korea at a time when the U.S.-North Korea relationship remains unclear. While South Koreans see regime collapse as unlikely, they also expect Chinese influence to be stronger than South Korea's, with opinion polls now showing that an increasing number of Koreans see China's intervention in such a scenario as a definite possibility.

While media reports about China's increasing military buildup along its border with North Korea highlight Chinese concerns about a potential massive inflow of North Korean refugees, Pyongyang has also reportedly taken various steps to restrict cross-border activity. There have been reports that the North has closed its border with China from the beginning of October, has imposed travel restrictions on Chinese tourists, and has threatened to cut all transport links with China in December. At the same time, the Hong Kong newspaper *Ta Kung Pao* published a series of articles in November showing a seriously deteriorating economic situation in the North, reporting that Pyongyang has shut down key mineral exports to China, cross-border business has stalled all year-round, and cross-border smuggling has become accepted by local residents as

“nongovernmental trade.” Uncertainties about North Korea’s future may require greater Sino-South Korean cooperation to promote stability on the peninsula and intensified monitoring of North Korean internal politics. Contingency planning remains a sensitive issue in Sino-South Korean relations. As questions about the internal political situation in North Korea multiply, China and South Korea are not only considering what happens in North Korea but also increasingly scrutinize and speculate about how the other will react to North Korean instability.

### **Food safety fallout from China’s melamine scandal**

South Korean concerns over Chinese product safety have escalated since China’s melamine scandal in September, while also fueling public criticism about the government’s domestic handling of the issue. The Korea Food and Drug Administration (KFDA) has established standards limiting the amount of melamine in all food products, in effect from March 2009.

Following up on international media reports regarding tainted Chinese imports, the KFDA conducted a nationwide inspection of imported foods, announcing in October the detection of melamine in 10 Chinese dairy products. These findings prompted the immediate banning, recalling, or destroying of Chinese-made products suspected of containing melamine, the tightening of regulatory measures, and the introduction of standards by 2010 for other substances such as heavy metals. By mid-October, a parliamentary report revealed that from 2003 to August 2008 over 60 percent of illegal food imports amounting to 644.5 billion won came from China, making China the largest source of illegal food imports to South Korea. Some Chinese food companies were found to have repeatedly sent contaminated shipments to South Korea, suggesting that loose regulations on both sides have allowed such problems to grow. In November, South Korea’s quarantine service discovered for the second time a banned antibiotic that can cause serious bone marrow defects in Chinese cooked duck meat.

The China-made food safety issue drove heated political debate in South Korea ahead of the parliamentary inspection of the KFDA in November. Lawmakers from both ruling and opposition parties attacked officials for their delayed response to the serious health threat posed by Chinese imports. The main opposition Democratic Party (DP) urged the government to dismiss its food agency chief, indicating that local investigations and import bans were implemented almost two weeks after the melamine issue first emerged in September. In September, Health and Welfare Minister Jeon Jae-hee had apologized for not ordering an immediate sales ban on all suspected goods, while also noting the delayed confirmation from Chinese authorities. Public opinion polls also reflect the rising importance of food safety as a top societal concern. South Korea’s National Statistical Office in October released survey findings showing that 69 percent of respondents were more worried about tainted food than North Korea’s nuclear weapons.

In November, China and South Korea agreed to strengthen bilateral cooperation on food safety amid escalating concerns about tainted Chinese imports. Health Minister Jeon called for expanded information-sharing between Chinese and South Korean health-related agencies, an exchange that remains critical given the increasing share of Chinese food products in South Korea. In their second annual Tripartite Health Ministers Meeting that was launched in Seoul last year, South Korean, Chinese, and Japanese health ministers also adopted a joint action plan

aimed mainly at strengthening information-sharing on the outbreak of pandemic influenza in the region. Food safety is expected to be included in the official agenda in the next three-way consultations scheduled to be held in Tokyo in 2009.

### **Familiarity breeds cooperation and new challenges**

China's rise has increased its interdependence with the international community, and the contradictory effects of that interdependence are perhaps felt most keenly on the Korean Peninsula. The effects of China's melamine scandal have been both domestic and global, with direct local impact on Korea coming in the form of the need for more intensified cooperation on food safety standards. Such functional cooperation is driving the institutionalization of regional dialogue in Northeast Asia, first through the establishment of a trilateral meeting of environmental ministers and now with the institutionalization of trilateral coordination among health ministers. Such functional cooperation is having political effects as well, with the trilateral meeting among Northeast Asian political leaders in December.

This interdependence has also driven high-level bilateral political dialogue between China and South Korea through the intensification of summit-level dialogue and the establishment of a ministerial strategic dialogue. The military-to-military relationship remains the least developed aspect of the Sino-South Korean relationship. But, direct coordination is also growing in those areas, if not to build mutual trust and confidence, then at least to manage bilateral maritime disputes that are also a product of growing interdependence.

The global financial crisis poses a major test for the Sino-South Korean economic relationship, driving cooperation on currency swaps while raising the risk of heightened conflict in trade and investment relations that inevitably comes with a pie that contracts rather than expands. The challenge of managing food safety illustrates the permeability of national borders and is driving unprecedented functional cooperation between national authorities responsible for enforcing food safety standards.

Interdependence provides a floor that has limited the deterioration of the Sino-North Korean relationship even as it has underscored the extent of North Korea's isolation – and reinforces the likelihood that instability in the North will have spillover effects on both China and South Korea. In the near-term, developments in U.S. policy toward North Korea under the Obama administration will take center stage as the primary influence on the further unfolding of China's bilateral relations with the Korean Peninsula. How a new U.S. policy toward the North is coordinated with South Korea and China will have an influence on both inter-Korean relations and the Sino-North Korea relationship. It will also have secondary effects on China's relations with South Korea. Regardless of the extent to which either continuity or change characterizes policy toward the peninsula, there is an air of expectation and ambivalence about how this policy will unfold and what the follow-on effects are likely to be.

## **Chronology of China-Korea Relations October-January 2008**

**Oct. 6, 2008:** The Korea Food and Drug Administration says it has found harmful chemicals including melamine in 10 Chinese dairy products.

**Oct. 7, 2008:** Chinese Foreign Ministry spokesman Qin Gang says China supports continued U.S.-DPRK contact for pushing forward the Six-Party Talks.

**Oct. 7, 2008:** A Chinese captain and crewmen illegally fishing in South Korean waters off the west coast assault South Korean Coast Guard officers.

**Oct. 13, 2008:** South Korean lawmaker Choi Kyung-hwan says in a parliamentary report that 63.6 percent of the 644.5 billion won worth of illegal food imports over the past five years has come from China.

**Oct. 14, 2008:** The 4<sup>th</sup> annual meeting of the China-DPRK Economic, Trade and Scientific and Technological Cooperation Committee is held in Pyongyang.

**Oct. 14, 2008:** China denies South Korean claims that Chinese and North Korean hackers stole more than 130,000 pieces of ROK government information in the past four years.

**Oct. 15, 2008:** South Korea's Ministry for Food, Agriculture, Forestry and Fisheries finds two cases of melamine-contaminated Chinese feed additives while health authorities announce plans to check all kidney beans from China for excess pesticides.

**Oct. 22, 2008:** South Korea's Agriculture Ministry says it found melamine in five egg-based imports from China.

**Oct. 23-25, 2008:** President Lee Myung-bak visits Beijing for the 7<sup>th</sup> Asia-Europe Meeting.

**Oct. 24, 2008:** Chinese Minister of Finance Xie Xuren and ROK Minister of Strategy and Finance Kang Man-Soo meet in Beijing.

**Oct. 25, 2008:** In commemoration of the entry of the Chinese volunteers into the Korean War, Chinese People's Liberation Army art troupe performs a modern dance drama on China's civil revolutionary war at the East Pyongyang Grand Theater and meets legislator Kim Yong Nam.

**Oct. 26-30, 2008:** Former ROK President Kim Dae-jung visits northeast China and delivers a speech at a conference hosted by the Chinese People's Institute of Foreign Affairs and the Liaoning provincial government.

**Oct. 29, 2008:** China's Ministry of Water Resources and DPRK counterpart in a meeting in Pyongyang agree to enhance cooperation on water resources management.

**Oct. 29, 2008:** The Korea Food and Drug Administration finds melamine in a Chinese jelly product used to make locally sold sweets.

**Nov. 2, 2008:** The second Tripartite Health Ministers Meeting is held in Beijing where China, South Korea, and Japan sign an action plan to fight pandemic influenza. China and Korea agree to strengthen bilateral cooperation on food safety.

**Nov. 4, 2008:** ROK Vice Minister of Strategy and Finance Kim Dong-soo says South Korea and China have agreed in principle to expand their currency swap deal.

**Nov. 7, 2008:** U.S. officials say the Chinese government has largely rebuffed U.S. attempts to discuss North Korea contingency planning.

**Nov. 7, 2008:** South Korea's second largest tire maker Kumho Tire Co. begins production at its new \$100 million plant in Nanjing.

**Nov. 7, 2008:** South Korean quarantine authorities detect a banned antibiotic in cooked duck meat from China.

**Nov. 14, 2008:** Chinese Vice Foreign Minister Wu Dawei meets Ri Gun, director general of the DPRK Foreign Ministry's American Affairs Bureau, in Beijing ahead of the Six-Party Talks.

**Nov. 20, 2008:** The 55<sup>th</sup> anniversary of the DPRK-China Cooperation Accord on Economy and Culture is held in Pyongyang.

**Nov. 24, 2008:** China and South Korea open naval and air military hotlines after a bilateral defense policy meeting in Beijing.

**Nov. 25, 2008:** North Korean media reports Kim Jong-il's visit to factories in Sinuiju city bordering China.

**Dec. 8, 2008:** Wuhan, the capital of central China's Hubei province, announces that South Korea will open a Consulate in the city.

**Dec. 8-11, 2008:** A new round of Six-Party Talks is held in Beijing.

**Dec. 10, 2008:** Korean, Chinese, and Japanese Central Banks launch the Tripartite Governors' Meeting to be regularized next year to promote regional financial stability.

**Dec. 10, 2008:** The ROK Ministry for Food, Agriculture, Forestry and Fisheries strengthens quarantine inspections at airports and harbors in response to bird flu outbreaks in Hong Kong and Southeast Asia.

**Dec. 11-12, 2008:** Chinese Vice Foreign Minister Wang Guangya and South Korean counterpart Kwon Jong-rak hold the first China-ROK strategic dialogue in Beijing.

**Dec. 12, 2008:** The Bank of Korea finalizes a \$26 billion won-yuan swap agreement with the People's Bank of China.

**Dec. 12, 2008:** Chinese Defense Minister Liang Guanglie meets Yon Kyong Chol, DPRK deputy director general of the Military Foreign Affairs Division of the Ministry of People's Armed Forces, in Beijing.

**Dec. 12, 2008:** Incheon District Court sentences to jail the captain and crewmen of a Chinese fishing boat for assaulting Korean Coast Guard officers on Oct. 7.

**Dec. 13, 2008:** President Lee, Premier Wen, and Prime Minister Aso Taro hold the inaugural Korea-China-Japan summit in Dazaifu, Fukuoka, Japan.

**Dec. 16, 2008:** Chinese Foreign Ministry spokesman Liu Jianchao suggests that China will continue energy aid to North Korea despite the stalled Six-Party Talks.

**Dec. 16, 2008:** Ssangyong Motor Co., the South Korean unit of Shanghai Automotive Industry Corp., says it has halted operations at all its plants for 10 working days.

**Dec. 18, 2008:** Defense Minister Liang Guanglie meets Korea National Defense University President Bang Hyo Bok in Beijing.

**Dec. 19, 2008:** South Korea establishes melamine content standards for food in response to the Chinese food safety scare.

**Dec. 21-25, 2008:** South Korean Unification Minister Kim Ha-joong meets Chinese top leaders in Beijing to discuss North Korea's nuclear program and inter-Korean relations.

**Dec. 23, 2008:** Ssangyong chief executive warns that its Chinese partner will pull out if its labor union resists a restructuring plan.

**Dec. 24-26, 2008:** The second China-Korea-Japan Cultural Ministerial Meeting is held on Jeju Island, Korea. Chinese Culture Minister Cai Wu and Korean counterpart Yu In-chon agree to strengthen Sino-Korean cooperation in the online gaming industry.

**Dec. 24, 2008:** Myanmar signs a deal with South Korea's Daewoo and Korea Gas Corporation and Indian energy firms to supply gas to China National United Oil Corporation.

**Dec. 26, 2008:** The Korea Food and Drug Administration reveals that South Korea sold 1,356 tons of melamine-tainted Chinese snacks in 2008.

**Dec. 29, 2008:** Ssangyong Motor Company and SAIC Motor Corporation announce that they are seeking financial assistance from the ROK government and banks.

**Dec. 30, 2008:** Ssangyong's labor union warns it will sue SAIC for illegal technology transfer and carry out a full-fledged strike if SAIC fails to further investment.

# Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



## Japan-China Relations: Gyoza, Beans, and Aircraft Carriers

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In early December, the Japanese Foreign Ministry released its annual survey of public opinion on Japan's international relations, which revealed that over 70 percent of the public considered relations with China to be in poor shape. The survey likewise revealed a record high, 66.6 percent of the Japanese public, as feeling no affinity toward China. Meanwhile, the Ministry of Defense reported increasing PLA naval activities in the waters around Japan, including the incursion of research ships into Japanese territorial waters in the Senkaku Islands chain. There were also reports that China would begin the construction of two aircraft carriers in 2009. Japanese and Chinese leaders met in Beijing in October and in Japan in December, but beyond commitments to best efforts, failed to make any demonstrable progress on food safety and sovereignty issues.

### Public opinion

On Dec. 6, the Japanese Foreign Ministry released the results of its annual public poll on Japan's international relations. The survey, conducted in October, yielded 1,826 valid replies out of the 3,000 individuals polled. Of the valid respondents, 71.9 percent did not believe that relations with China were "good" – an all time high, up from 68.0 percent in 2007. Only 23.7 percent thought relations "good," down from 26.4 percent in 2007. The percentage of those feeling friendship toward China stood at 31.8 percent – an all-time low, down from 34.0 percent in 2007. The percentage of those feeling no affinity for China increased to 66.6 percent, another record high, up from 63.5 percent in 2007.

Foreign Ministry sources attributed the downturn to recent food poisoning cases involving contaminated frozen *gyoza* and beans imported from China. Indicative of Japan's continuing concern with food safety, Prime Minister Aso Taro raised the issue with Prime Minister Wen Jiabao at the trilateral summit in Dazaifu, Japan.

### Security: food safety

The long-running controversy over contaminated Chinese *gyoza* imported into Japan continued into the last quarter of the year. On Oct. 1, Chief Cabinet Secretary Kawamura Takeo met China's Ambassador to Japan Cui Tiankai to discuss the issue. Kawamura asked for cooperation to resolve the issue and Cui, making clear his concerns with food safety, reiterated previous commitments to cooperate. Amid reports from China on the presence of melamine in milk and

other food products, Japan's Ministry of Agriculture on Oct. 6 announced that it had ordered farm cooperatives and other commercial organizations to tighten inspection of animal feed and pet food imported from China.

Less than a week later, on Oct. 12, a Japanese housewife in the Tokyo suburb of Hachioji fell ill after eating frozen green beans imported from China. A similar incident followed in the city of Kashiwa, where two people experienced numbness of the tongue when eating frozen beans from the same lot number. And on Oct. 18, *Kyodo* reported a two-year old Japanese boy living in Shandong Province had developed kidney stones as a result of being fed melamine-contaminated milk since birth.

The Hachioji Health Department reported that tests had revealed the presence of 6,900 parts per million of the insecticide dichlorvos in the beans, 34,500 times the government standard for imported beans. The beans were processed by the Yanhai Beihai Foodstuff Company in Shandong Province and imported by Tokyo-based Nichrei Foods. *Kyodo* reported that Yanhai had previously been the source of tainted bean imports in 2002.

On the evening of Oct. 14, the Foreign Ministry contacted the Chinese Embassy in Tokyo to ask for China's cooperation in resolving the issue and made a similar request through the Japanese Embassy in Beijing. The Foreign Ministry asked for information on plant management and food production processes. Addressing the Hachioji incident at an evening press conference on Oct. 15, Prime Minister Aso indicated his intention to call on China to prevent future problems and, at the same time, to strengthen Japan's food import inspection procedures.

In the wake of the incidents, the Japanese government put out a consumer warning and asked distributors to suspend sales of the beans until it could ascertain the cause of the reported distress. Meanwhile, the Tokyo Metropolitan Police opened an investigation into possible food tampering and, on Oct. 17, reported the discovery of a 1 millimeter hole in the bean packaging involved in the Hachioji incident.

Officials from the Japanese Embassy in Beijing visited the Yanhai plant on Oct. 17, inspected the processing facilities, and were provided with a copy of operating records. Plant officials said that the records suggested the possibility of deliberate criminal activity as the source of the contamination. As in the *gyoza* incident, Beijing ascribed the cause to criminal activity rather than the lack of safety procedures involved in food processing.

In Tokyo, during an early December symposium on the safety of food products imported from China, a representative of China's Import-Export Food Safety Bureau told reporters that China had strengthened its food inspection system and will continue to do so and suggested that contamination was the result of criminal activity. China's former Foreign Minister Li Zhaoxing, also in attendance at the conference, said that in the event of criminal activity the two countries should cooperate to arrest the perpetrators so that both Chinese and Japanese people not suffer physical harm.

## **Aso, Hu, and Wen at the ASEM Meeting**

On Oct. 24, on the occasion of the Asia-Europe Meeting (ASEM) in Beijing, Prime Minister Aso met separately with President Hu Jintao and Premier Wen at the Great Hall of the People.

In the meeting with Hu, the two leaders agreed to cooperate in addressing the global financial crisis and to maintain the dollar-centered international financial system. They also agreed to reopen the hotline between the two governments, which was initially set up in October 2000 during the visit of Premier Zhu Rongji to Japan and fell into disuse during the Koizumi government, and to work to build the mutually beneficial strategic partnership. Raising the issue of the still unresolved *gyoza* incident, Aso asked for China's cooperation in preventing future incidents. Aso also asked for China's cooperation in the Six-Party Talks and in resolving Japan's abductee issue with North Korea.

In the meeting with Wen, the leaders signed a Japan-China Consular agreement aimed at improving protection for the citizens of both countries and exchanged documents ratifying the Japan-China Treaty on Cooperation on Criminal Matters, which allows police officials to exchange information on criminal cases directly without going through diplomatic channels. Aso also raised the food safety issues, noting that the Japanese people are "distrustful of the safety of Chinese food products."

Following the morning meetings, Aso delivered a speech at a ceremony marking the 30<sup>th</sup> anniversary of the Japan-China Treaty of Peace and Amity. Aso told his audience that "the essence of Japan-China bilateral relations is that our two countries are mutually indispensable to each other." Aso agreed with the position previously articulated by President Hu that acting in harmony benefits both countries, while rivalry undermines common interests. Nevertheless, Aso argued that the two countries "should not constrain ourselves in the name of friendship," but that "sound competition and active cooperation will constitute a true mutually beneficial relationship based on common strategic interests." Two days later, during an interview with *China Central Television*, Aso reaffirmed his government's support of the 1995 Murayama Statement and his commitment to reflect on the past, while building a future orientated relationship.

## **Security: PLA naval activities**

On Oct. 21, Japan's Ministry of Defense reported that, on Oct. 19, an Air Self-Defense Force (ASDF) aircraft had identified four Chinese warships in international waters in the Sea of Japan off Aomori Prefecture. The Ministry of Defense noted that this was the first time Chinese warships had been identified in the Tsugaru Strait. A member of the Joint Staff Office told the *Nikkei Shimbun* that the PLA Navy, including submarines, had recently increased its activities "in waters around the continent to the Pacific Ocean."

On the morning of Dec. 8, a patrol boat belonging to the Japanese 11<sup>th</sup> Regional Coast Guard headquarters identified two Chinese maritime survey ships operating 6 kilometers southeast of Uotsuri Island in Japan's Senkaku Islands chain. Despite warnings from the Coast Guard vessel, the Chinese ships, the *Haijin 46* and the *Haijin 51* remained in Japanese territorial waters for approximately nine hours before departing.

Reacting to Coast Guard reports, Vice Minister for Foreign Affairs Yabunaka Mitoji protested the incursion to Ambassador Cui and demanded that the ships leave Japanese territorial waters, while Director General for Asian and Oceanian Affairs Saiki Akitaka, who was in Beijing, called on Vice Minister Wu Dawei to lodge a protest. That evening, Prime Minister Aso, pointing out the incident “was clearly an intrusion into Japanese territorial waters,” told reporters that he found it “extremely regrettable.”

In Beijing, Foreign Ministry spokesperson Liu Jianchao told a press conference that the actions “could not be considered provocative because China had carried out normal patrol activities in sovereign Chinese territorial waters.”

With the trilateral Japan-China-South Korea summit less than a week off, a high-ranking Japanese government official told the *Nikkei Shimbun* that he found the incident “incomprehensible.” Another source close to Japan-China relations told the *Nikkei* that “discontent was simmering in China” over the agreement on the East China Sea reached in June. Foreign Minister Nakasone Hirofumi told reporters that Prime Minister Aso would “raise the issue in a proper manner” during his bilateral meeting with Prime Minister Wen at the trilateral summit in Dazaifu, Fukuoka.

In Dazaifu, on Dec. 13, Aso told Wen that the incident was “extremely regrettable” – one that did not have a positive effect on the bilateral relationship. After reasserting historic Chinese claims of sovereignty over the area, Wen said that he “wanted to resolve the issue appropriately through dialogue in a manner that would not affect the good relations between the two countries.” Aso countered that historically and in terms of international law no doubt could be entertained about Japanese sovereignty over the Senkakus. He went on to say that he wanted to handle the matter in a way that would not give rise to another such incident. Aso also made clear his interest in taking up and implementing at an early date the June agreement on joint development in the East China Sea. Wen however, thought outstanding differences should continue to be addressed at the working level.

Early in December, Hong Kong sources reported China’s Defense Ministry spokesperson Huang Xueping as saying that China was giving serious consideration to the construction of aircraft carriers. On December 30, the *Asahi Shimbun* reported that China would begin the construction of two 50,000-60,000-ton aircraft carriers in 2009 with a completion date of 2015. Kayahara Ikuo, a former analyst at Japan’s National Institute for Defense Studies and currently a professor at Takushoku University, told the *Asahi* that “this is the first step of a strategy for China to become a seafaring power swinging into the Western Pacific.” In its story, the *Asahi* observed that “China’s flattop deployment will enhance its naval power projection” and “will likely affect the military balance in East Asia.”

### **History: Yasukuni**

On Oct. 7, during an appearance before the Lower House Budget Committee, Prime Minister Aso, when asked if he would visit the Yasukuni Shrine during the autumn festival, replied that he “would not answer whether he would or would not go.” Aso went on to observe that “the current

situation is such that the state is prohibited from respecting with highest honors those who sacrificed themselves for the country.” This resulted from “the decision to leave honoring the war dead to one religious corporation,” a condition that he felt was “wrong. As for the possibility of the Shrine voluntarily dissolving itself as a religious corporation and being transformed into a special state corporation, an issue he had previously raised, Aso replied that he had no intention of pushing his private views, that he wanted to reach a conclusion only after a wide-ranging debate, and that any decision to do so would require the ultimate approval of the War Bereaved Families Association.

On Oct. 17, the occasion of the autumn festival, a supra-party delegation of 48 Diet members paid homage at the shrine. The number represented a fall from the 62 who visited the shrine in 2007 and no members of the Aso Cabinet joined the group.

### **History: Tamogami**

On Oct. 31, Minister of Defense, Hamada Yasukazu announced the dismissal of ASDF Chief of Staff Tamogami Toshio following the publication of his contest award-winning essay, “Was Japan an Aggressor Nation?” Later, he told a press conference that Tamogami’s views were “significantly different from the government’s current position on Japan’s wartime history.”

In the essay, Tamogami denied that Japan was an “aggressor nation,” asserted that the advance into China was based on treaties and agreements with local warlords, and argued that Japan was a “victim” drawn into the war with China by acts of terrorism and provocations committed by China’s Nationalist (KMT) government, which was being manipulated by the Comintern to draw Japan into China’s civil war and thus advance a victory by the Chinese Communist forces. Likewise, Tamogami alleged that Japan’s entry into the Pacific War was the result of being “ensnared in a trap very carefully laid by the United States.” Looking at the state of Japan’s Self-Defense Forces, Tamogami found them “hedged around with restrictions,” which prevented Japan from being able “to establish a system to protect itself on its own.”

Prime Minister Aso, reacting to the publication of the essay, labeled Tamogami’s action “not appropriate, given his position.” Tamogami replied that “it is necessary to revise the view that Japan did wrong during the war, if it wishes to prosper as a nation in the 21st century.”

On Nov. 1, the Chinese Foreign Ministry issued a comment noting the action taken by the Aso government. A fuller response followed on Nov. 3, when the Foreign Ministry spokesperson Yu Jiang said that Japan’s war of aggression was “an undeniable fact” and that China was “shocked and indignant over the Japanese senior military officer’s overt denial of history and attempt to glorify aggression.” Yu noted the actions taken by Tokyo and urged both countries to “work together to safeguard our bilateral relations.” Tamogami was retired on Nov. 3.

Summoned by the Upper House Foreign Affairs and Defense Committee, Tamogami testified as an unsworn witness on Nov. 11. He described the positions set out in his controversial essay as “not inaccurate” and defended his right to express his thoughts freely. He asserted that the war apology issued by Prime Minister Murayama in 1995 was a “tool to suppress free speech.” Previously, when Prime Minister Aso was questioned about his government’s position with

regard to the Murayama Statement, he said that “the statement you just mentioned and the Koizumi statement present the government’s view on the last major war. My Cabinet will follow that view.”

In response to questioning by the Democratic Party of Japan’s (DPJ) Asao Kenichiro, Tamogami said that as a result of the differences expressed with regard to government policy, he thought it “quite natural” to be dismissed “from the viewpoint of civilian control.” Nevertheless, he maintained that his essay was not wrong and that he thought it “necessary for Japan to move in the right direction.”

Prime Minister Aso appeared before the committee on Nov. 13. Addressing concerns over civilian control over the SDF, Aso told the lawmakers that “Civilian control worked perfectly,” citing the fact that Tamogami had been dismissed “right away.” He also made clear that he considered Tamogami’s decision to air his views in public to be “extremely inappropriate.”

**Prospect:** With domestic politics essentially gridlocked and the Aso government fighting for survival, significant progress in Japan-China relations should not be expected during the first quarter of the 2009.

### **Chronology of Japan-China Relations September-December 2008**

**Oct. 1, 2008:** Chief Cabinet Secretary Kawamura Takeo meets Chinese Ambassador to Japan Cui Tiankai to ask China’s cooperation to resolve food safety issues.

**Oct. 2, 2008:** Prime Minister Aso Taro, during Diet interpolation, reaffirms his government’s support for 1995 Murayama Statement.

**Oct. 2, 2008:** Defense Ministry dismisses ASDF colonel for allegedly leaking information of a Chinese submarine accident in South China Sea to *Yomiuri Shimbun*.

**Oct. 6, 2008:** Osaka Municipal Government reports detection of melamine in chocolates imported from China.

**Oct. 7, 2008:** Prime Minister Aso refuses to reply to questions regarding his intention to visit Yasukuni Shrine during autumn festival.

**October 6, 2008:** Japan’s Ministry of Agriculture orders tightened inspection regime for pet food product imports from China.

**Oct. 10, 2008:** Japan’s International Exchange Foundation hosts party celebrating establishment of the Japan Cultural Center in Beijing.

**Oct. 12, 2008:** Japanese housewife in Tokyo suburb of Hachioji becomes ill after eating beans imported from China.

**Oct. 14, 2008:** Japanese Foreign Ministry requests China's cooperation in addressing the contaminated beans issue.

**Oct. 17, 2008:** 48-member Diet delegation visits Yasukuni Shrine, but no members of Aso Cabinet participate.

**Oct. 17, 2008:** Japan's Ministry of Defense reports the sighting of a Chinese frigate in international waters off Nagasaki Prefecture.

**Oct. 17, 2008:** Tokyo Metropolitan Police report finding 1 millimeter hole in imported bean package that sickened the Hachioji housewife.

**Oct. 17, 2008:** Japanese Embassy officials visit Chinese bean processing plant.

**Oct. 21, 2008:** Japanese Defense Ministry reports ASDF identified four Chinese warships in international waters off Aomori Prefecture on Oct. 19.

**Oct. 22, 2008:** PLA delegation visits Hiroshima and Atomic Bomb Museum.

**Oct. 24, 2008:** PM Aso meets President Hu and Premier Wen in Beijing during Asia-Europe Meeting (ASEM) summit. Afterward, he delivers speech marking 30<sup>th</sup> anniversary of Japan-China Treaty of Peace and Amity.

**Oct. 26, 2008:** PM Aso, during interview on *China Central Television*, reaffirms government's support for 1995 Murayama Statement.

**Oct. 27, 2008:** Toyota Motors announces plan to build new factory in Changchun, Jilin Province.

**Oct. 29, 2008:** Osaka Prefectural Governor Hashimoto attends Nanking symposium on the environment.

**Oct. 31, 2008:** ASDF Chief of Staff Gen. Tamogami is dismissed following publication of his award winning essay "Was Japan an Aggressor Nation?"

**Oct. 31, 2008:** Japan announces intention to claim rights to continental shelf in the Pacific Ocean beyond current EEZ.

**Nov. 1, 2008:** China's Foreign Ministry takes note of Tamogami firing.

**Nov. 3, 2008:** China's Foreign Ministry expresses shock and indignation over Tamogami's views of history.

**Nov. 3, 2008:** Gen. Tamogami is retired.

**Nov. 7, 2008:** Director General for Asian and Oceanian Affairs Saiki Akitaka meets Vice Minister Wu Dawei in Beijing to discuss verification protocols for Six-Party Talks.

**Nov. 11, 2008:** Gen. Tamogami appears before Upper House Foreign Affairs and Defense Committee.

**Nov. 11, 2008:** Taiwan's legislature adopts resolution seeking apology and compensation from Japan for Taiwanese women forced into wartime sexual slavery.

**Nov. 12, 2008:** Kanagawa Prefectural Police announce plans to question citizen suspected of brokering organ transplants for Japanese in China in violation of Japan's organ transplant law.

**Nov. 13, 2008:** PM Aso, appearing before Upper House Foreign Affairs and Defense Committee, asserts civilian control over SDF is effectively functioning and labels Tamogami's essay extremely inappropriate.

**Nov. 19, 2008:** Hong Kong's *South China Morning Post* reports PLA will begin construction of aircraft carrier.

**Nov. 20, 2008:** Japan's Itochu Corp. announces plans to take 20 percent share in Chinese market-leading food processor Ting Hsin Group.

**Nov. 21, 2008:** Chief Cabinet Secretary Kawamura announces Dec. 13 as the date for Japan-China-South Korea summit in Fukuoka.

**Nov. 22, 2008:** PM Aso meets with President Hu on sidelines of APEC meeting in Lima, Peru. The 20 minute meeting focuses on global economic crisis.

**Dec. 1, 2008:** Japan cultural exhibition opens in Nanjing.

**Dec. 3, 2008:** PM Aso meets former Chinese Foreign Minister Li Zhaoxing at the prime minister's official residence.

**Dec. 5, 2008:** Agreement is reached in talks in Taipei on compensation for June accident between Japan Maritime Self-Defense Force ship and Taiwan fishing boat near Senkaku Islands.

**Dec. 6, 2008:** Foreign Ministry releases its public opinion poll on Japan's foreign relations with results that point to downward trend in Japan for relations with China.

**Dec. 8, 2008:** ASDF aircraft identify two Chinese maritime research ships operating in Senkaku Islands. The Foreign Ministry issues a protest.

**Dec. 10, 2008:** Visiting Nationalist Party (KMT) chairman asserts Taiwan's claim to Senkaku Islands during speech at Tokyo Foreign Correspondents Club.

**Dec. 13, 2008:** PM Aso and Premier Hu meet in Dazaifu, Fukuoka at Japan-China-South Korea summit.

**Dec. 19, 2008:** Kirin Holdings announces that in 2007 Japan fell to seventh place in beer consumption. China remains number one for fifth consecutive year.

**Dec. 20, 2008:** Japan's Ministry of Defense draft budget for 2009 reveals that defense spending will decline for seventh consecutive year and reach a 14-year low.

**Dec. 22, 2008:** *Kyodo* reports declassified Japanese diplomatic documents reveal that Prime Minister Sato had asked the U.S. in 1965 to use nuclear weapons against China in the event of a Japan-China war.

**Dec. 23, 2008:** China's Defense Ministry spokesperson announces that China is seriously studying the construction of an aircraft carrier and related issues.

**Dec. 30, 2008:** *Asahi Shimbun* reports China will begin construction of two aircraft carriers in 2009 with completion date of 2015.





Japan-Korea Relations:

## In a Holding Pattern with Hope on the Horizon

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The year ended fairly quietly in Japan-Korea relations with no major events marking the last few months of 2008. Japan-North Korea relations remained stagnant and Japan-South Korea relations essentially ignored the Dokdo/Takeshima dispute, instead focusing on dealing with the widening global economic crisis. The biggest diplomatic event was the successful trilateral summit in December among China, Korea, and Japan, which may set the stage for further diplomatic movement. Whether 2009 will bring dramatic progress on these issues remains to be seen, but with new leaders in Japan and South Korea entering their first full years of rule, the continued concerns about the health of North Korea's leader, and a new U.S. president, the new year holds the possibility for progress on at least some of these issues.

### **Japan-North Korea relations**

The inauguration of Aso Taro as Japan's new prime minister brought little change to Japan-North Korea relations. Despite a bilateral agreement made earlier this year that Pyongyang would reinvestigate the fate of the Japanese abductees in exchange for Tokyo's partial lifting of the sanctions on the North, the last quarter of 2008 saw little progress on that front. In October, Tokyo extended its sanctions against Pyongyang for another six months and for the fourth time since 2006, citing the lack of progress on the abduction issue and Pyongyang's nuclear development program. Throughout the quarter, North Korea reiterated its claim that Japan should not play any role in the Six-Party Talks, criticizing Tokyo's refusal to fulfill its obligation to provide energy assistance to the North under the aid-for-denuclearization deal. Aso's new administration continued to urge Pyongyang to move ahead with the reinvestigation of the abductees, but Tokyo's request to hold a bilateral meeting on the sidelines of the December Six-Party Talks fell on deaf ears.

### **Aso and the U.S. removal of North Korea from the State Sponsors of Terrorism List**

As expected, Prime Minister Aso continued a hard-line policy toward Pyongyang by refusing to provide energy and economic aid to the North as long as the abduction issue is left unresolved. Soon after the inauguration of the new government in late September 2008, Japan's new Foreign Minister Nakasone Hirofumi confirmed that Japan's position on North Korea "has not changed at all under the new administration" in a press conference on Sep. 30. Because Pyongyang had informed Tokyo that the re-launch of a committee that would reinvestigate the fate of the abductees would only follow a change in Japan's North Korea policy, the result was a return to

stalemate from the progress made during the Aug. 11-13 talks geared toward the normalization of bilateral ties. Against this backdrop, on Oct. 10, Japan extended its sanctions for another six months, including a ban on port calls by North Korean-registered vessels and a ban on all imports of goods from the North for the fourth time.

Apparently the timing of the U.S.'s delisting of Pyongyang from the State Sponsors of Terrorism List the next day surprised Tokyo. It was not just because Japanese officials and families of the abductees had lobbied the U.S. to keep Pyongyang on the list until it made progress on the abduction issue, but also because Aso was informed of the U.S. decision only 30 minutes before the announcement became public. Japanese media such as the *Asahi Shimbun* described it as "a blow to Prime Minister Aso," and the Aso administration expressed its disapproval with the U.S. decision. In a meeting with U.S. Secretary of State Condoleezza Rice on Oct. 11, Finance Minister Nakagawa Shoichi called the move "very regrettable." Families of the abductees expressed disappointment and "shock." Responding to concerns that the U.S. decision would weaken the effectiveness of various sanction measures placed on Pyongyang, Aso argued instead that Tokyo's leverage over Pyongyang was not affected.

After the U.S. decision to delist North Korea had reinvigorated efforts toward denuclearization, the Aso administration reiterated that there was no fundamental change in Tokyo's stance, and that it would first seek progress in the abduction issue before making any economic and energy assistance to the North. On Oct. 14, before parliamentary deliberations, Aso stressed that he would maintain Japan's basic stance of seeking normalization of bilateral ties in a comprehensive manner to ensure progress in all the areas of abduction, denuclearization, and missile issues. Chief Cabinet Secretary Kawamura Takeo, who heads Japan's efforts on the abduction issue under the Aso administration, reconfirmed this basic policy by clarifying that there was no change in Japan's position after the North's removal from the U.S. terror list.

Meanwhile, North Korea continued its efforts to exclude Japan from the Six-Party Talks. In an Oct. 21 commentary, North Korea's official daily *Minju Joson* blamed Japan for attempting to impede the denuclearization process and to use it as a pretext to bolster Japan's military power and expansionist aims. According to *Kyodo* on Dec. 29, a senior North Korean diplomat warned that Pyongyang would suspend the disablement of its nuclear facilities unless Tokyo fulfilled its obligation to provide energy assistance under the Six-Party Talks agreement. Some observers saw this as a tactical move on North Korea's part. Given that Australia voiced its willingness to provide aid to the North in Japan's stead, it appears that Pyongyang is trying to drive a wedge in U.S.-Japan relations, knowing that the U.S. would want to proceed with the disablement. In response to Japan's diplomatic efforts to present a human rights resolution against North Korea to the UN Committee on Human Rights, North Korea's official *Korean Central News Agency of DPRK* Nov. 4 criticized Japan for its "intolerable violation" of North Korea's sovereignty.

Inside Japan, various media organizations eagerly reported any speculation about North Korean leader Kim Jong-il's health. On Oct. 18, the *Yomiuri Shimbun* reported that Pyongyang ordered its diplomats overseas to stay alert ahead of an upcoming announcement, which hinted at the possibility of Kim's death. The next day, the *Sankei Shimbun* reported that Pyongyang was likely to impose a ban on foreign travelers to the country when the announcement was made. However, South Korea's Unification Ministry spokesman Kim Ho-Nyoun said that nothing had been

confirmed, and South Korean daily *Choson Ilbo* criticized Japan's conservative media organizations on Oct. 20 for feeding "Kim Jong Il journalism," spreading rumors of Kim's death, and thereby generating unnecessary confusion about the stability of Northeast Asia.

### **The Six-Party Talks**

Tokyo welcomed the resumption of the Six-Party Talks held in Beijing from Dec. 8-11, and asked Pyongyang to hold bilateral talks on the sidelines, but to no avail. Japan, South Korea, and the U.S. held a coordination meeting on Dec. 3 and agreed that verification measures must include sample testing of specific nuclear facilities, while *Xinhua* reported on Dec. 8 that North Korea had two objectives for the December talks: to ensure speedy economic compensation and to achieve a common understanding on the issue of verification.

Unfortunately, the negotiations failed to produce an agreement on verification. North Korea rejected sample testing as a means of verifying its nuclear information, calling it an "infringement of its sovereignty." The North said it would allow only field visits, checking of documents, and interviews with technicians as methods of verification, which was not acceptable to other parties. According to the South Korean daily *Joongang Ilbo* on Dec. 11, Japan was particularly vocal about meeting the condition that the draft agreements use clearer and less ambiguous language.

### **Japan-South Korea relations: "friends in need"**

Even as the dispute over the Dokdo/Takeshima islets clouded bilateral relations, Seoul and Tokyo made major moves in their bilateral relations during this last quarter of 2008 through joint efforts to deal with the global financial crisis. Several high-level bilateral and trilateral meetings brought the two countries together, most notably the Seoul-Tokyo-Beijing trilateral summit held in Dazaifu, Fukuoka on Dec. 13. The three countries agreed to regularize their summit meeting and concluded a series of cooperation measures in the areas of currency swaps, North Korea's nuclear development program, and climate change, among others. Finally, at President Lee's invitation, Prime Minister Aso will visit South Korea in early 2009.

### **Aso-Lee meet to mend ties at ASEM**

In a breakthrough from the suspended "shuttle diplomacy" that had stopped since July 2008 due to the dispute over the Dokdo/Takeshima islets, President Lee Myung-bak and Prime Minister Aso Taro met for the first time as heads of state on the sidelines of the Asia-Europe Meeting (ASEM) in Beijing on Oct. 24. Leaving behind the summer's chilly mood, Lee and Aso revealed strong political will to repair ties between Seoul and Tokyo in the face of the global financial crisis, and promised to further strengthen bilateral relations through increased contacts between the leaders. During the 40-minute meeting, Aso proposed to Lee that China, Korea, and Japan hold a summit, and Lee endorsed the proposal. Lee also extended an invitation to Aso to visit Seoul, which Aso accepted. They also agreed to work closely toward the denuclearization of North Korea, and Lee said that Pyongyang should address "the inhumane abduction issue." Given that this meeting was intended to put bilateral relations back on normal footing, both leaders avoided mentioning difficult historical issues such as Dokdo/Takeshima.

In the wake of the successful summit, several bilateral meetings between high-ranking South Korean and Japanese officials followed throughout the quarter, further increasing bilateral cooperation. Another multilateral forum, the Asia-Pacific Economic Cooperation (APEC) meeting in Peru brought Foreign Ministers Nakasone and Yu Myung-hwan together on Nov. 20. During their first meeting as foreign ministers, Yu and Nakasone agreed to resume bilateral negotiations regarding a free-trade agreement (FTA). Seoul and Tokyo began the negotiations years ago, but they have been suspended since November 2004 after Japan refused South Korea's demand to open Japan's market to agricultural products. Since then, efforts to resume the negotiations have been derailed by the chilly political climate in Japan-South Korea relations, including the recent Dokdo/Takeshima issue. Regarding North Korea, the two foreign ministers agreed that verification measures on Pyongyang's nuclear development program must be put in writing, and Yu promised that Seoul would "cooperate as much as possible" on Japan's abduction issue. Later in December, the police chiefs of South Korea and Japan agreed to establish a hotline to promote cooperation in the area of cyber-crime.

### **Dokdo/Takeshima issue lingers**

The year 2008 ended with no diplomatic breakthrough regarding the various historical issues that continue to plague Japan-Korea relations, as this quarter saw both sides repeatedly put forward their claims about the islets. On Oct. 3, the Japanese Cabinet defended a new handbook for middle-school education that claims the Dokdo/Takeshima islets are a part of Japanese territory; President Lee reiterated that his administration will not yield to Japan's claim under any circumstances. Officials from South Korea's North Gyeongsang Province invited foreign media to tour the islets, attend lectures on sovereignty issues and international law, and to view ancient maps at the Dokdo Museum on Ulleung Island.

According to the Dec. 17 *Korea Times*, Japanese web users coordinated a cyber-attack against the South Korean nonprofit group Voluntary Agency Network of Korea that advances South Korea's claim on the islets. The Japanese government also distributed 23,500 copies of a pamphlet entitled "Ten Issues of Takeshima," published in English, Korean, and Japanese. According to the Dec. 29 *Donga Ilbo*, Tokyo then published the pamphlet in seven other languages, including Chinese, French, Arabic, German, Portuguese, Russian, and Spanish, and plans to send 1,000 copies to each of its diplomatic missions. For those who are interested, the pamphlet is available on Japan's Foreign Ministry website. South Korea sent a protest letter and requested that Japan remove the pamphlet from its website, while South Korea's Foreign Ministry also responded by posting a document on its website with its own claims, available in 10 languages. In a rare move, according to a diplomatic source in Seoul, Tokyo's decision not to mention the Dokdo/Takeshima islets in a high school teachers' guidebook – which will be revised in early 2009 – seems intended not to hamper its relations with South Korea.

In early November, Japan's Air Self-Defense Force Chief of Staff, Gen. Tamogami Toshio, was dismissed after it was revealed that he wrote an essay that attempted to legitimize Japan's military actions before and during World War II. According to the Nov. 3 *Asahi Shimbun*, Tamogami argues in his essay that the Chinese government's claim that Japan invaded China is false, and that Japan was a victim dragged into the war against China by Chiang Kai-shek.

Defense Minister Hamada Yasukaza told reporters that it was “inappropriate for the chief of staff to make public an opinion that is clearly different from the Japanese government position.” South Korea’s Ministry of Foreign Affairs and Trade criticized former Gen. Tamogami’s attempt to distort history and urged Japan to repent for its wrongdoings and to learn from them. In China, deputy spokesman of the Foreign Ministry said in a statement that China was “shocked and angered” by Tamogami’s comments.

### **Looking ahead: the Dec. 13 trilateral summit**

In contrast to the seemingly endless historical disputes, the highlight of the quarter was the Seoul-Tokyo-Beijing summit in December, which was held in Dazaifu, Fukuoka, an area symbolic of ancient historical ties between the three countries. The leaders of South Korea, Japan, and China – Lee, Aso, and Wen Jiabao – met for their first summit outside of the ASEAN Plus three setting, and agreed to “be the engine of growth to counter global financial turmoil.” The crisis-turned-opportunity trilateral summit was a notable, positive development in regional cooperation although the three countries have held eight summits so far in “separate rooms” on the sidelines of the ASEAN Plus Three. Triggered by the ever-growing level of interdependence among the three countries, the summit appears to pave the way for the continued integration of three economies, whose combined gross domestic product accounts for 16.7 percent of the world total.

Among the achievements of the summit, and probably most significant for its implications for the creation of a regional security structure in East Asia, the three agreed to hold a trilateral summit in Northeast Asia every year. Although it remains to be seen whether this will actually occur, an annual summit could signal the first step toward more multilateralism and institutionalization in Northeast Asia, especially if the current discussion in Washington about turning the Six-Party Talks into a permanent institution continues to move forward. Second, the three leaders agreed to expand their mutual currency swap deals to \$30 billion each, and to begin a joint research program exploring possibilities for concluding a trilateral free trade agreement. Ahead of the meeting, Aso and Lee held a separate bilateral meeting and agreed to increase their own bilateral currency swap arrangement to the level of \$20 billion. Third, the three leaders issued an “Action Plan for Promoting Trilateral Cooperation,” calling for trilateral cooperation in over 30 areas, including environmental protection, joint relief operations, and human exchanges. According to the Dec. 15 *People’s Daily*, the three countries will also launch an East Asia Climate Partnership Plan to cope with air pollution.

Although it is too early to tell how far the three countries can go in their “unity” with historical issues lingering over domestic politics and foreign relations, both Seoul and Tokyo saw the summit as a success and a meaningful step toward a more forward-looking stance. According to South Korean and Japanese media reports, Seoul and Tokyo are coordinating the timing of Aso’s visit to South Korea, which is likely to be early 2009.

### **Economic relations**

In the face of the global financial crisis, South Korea, Japan, and China agreed to a number of measures aimed at coping with their own economic difficulties. Finance Ministers Kang Man-su,

Nakagawa Shoichi, and Xie Xuren released a joint statement on Nov. 4 that they would hold more frequent talks on macroeconomic and financial policies and to expand their existing bilateral currency swap deals.

Both the South Korean and Japanese economies were under stress by the close of 2008. South Korean financial markets experienced a dollar shortage this year, as foreign investors took dollars out of South Korea to cope with losses at home due to the financial crisis. According to the Dec. 3 *Choson Ilbo*, during the third quarter of 2008, South Korea's gross national income plunged to the lowest point since the Asian financial crisis in the late 1990s.

Japan, the world's second largest economy, was also hit by the global financial crisis and slid into recession for the first time since 2002. According to a Japanese Cabinet announcement on Nov. 17, Japan's GDP in the third quarter of 2008 contracted by 0.1 percent compared to the second quarter, which had already recorded -0.9 percent growth. *Kyodo* reported on Oct. 18 that 90 percent of locally renowned companies believed the Japanese economy was in a "recession phase." In response, Prime Minister Aso announced a \$275 billion stimulus package that includes \$20 billion to be distributed in fixed-sums to every household in the country. The package is expected to expand loans to struggling small-and-medium-sized firms and includes a cut in payroll deductions for employment insurance.

In the area of international trade, eight Japanese car makers decided to reduce their production by a collective 700,000 cars until the year's end. Nissan Motors alone announced that it would cut back production by 147,000 units, and also plans to lay off 1,500 non-regular workers. Sony is undergoing a large downsizing, laying off 8,000 temporary and contract workers. Sony also announced plans to shut down 10 percent of its 57 factories after its operating profit plunged 90 percent in the second quarter of 2008.

At the same time, South Korea's annual trade deficit with Japan in 2008 again marked the record low of \$30 billion (even without including the December totals.) According to the Dec. 22 *Choson Ilbo*, the record low deficit is the result of a 73 percent strengthening of the Japanese yen against the Korean won, prompted in large part because South Korea's economy continues to depend on key Japanese technology for its own manufacturing. The *Chosun Ilbo* also reported on Nov. 25 that as the yen continued to rise against the won, South Korea's small- and medium-sized businesses that had borrowed yen when the exchange rate was favorable were in danger of yet another financial crisis.

The weakening of the won and the rise of the yen's value by 50 percent in just one year affected the tourism industry, attracting Japanese tourists to South Korea while curbing South Korean tourist visits to Japan. According to South Korea's Busan Immigration Service, the number of South Korean tourists to Japan from Busan in September declined by 17 percent compared to the previous year, the first drop since 2003. On the other hand, the strong yen attracted more Japanese tourists to South Korea, accounting for a 12 percent increase compared to a year earlier.

The Dec. 9 *Joongang Ilbo* reported that the weak won did, however, provide some advantages to Korean export-oriented firms by making their goods relatively cheaper to purchase. However, according to a survey by the Korea Trade-Investment Promotion Agency, South Korean

exporting companies were not benefiting as much from the depreciation of the won against the yen, as 15 out of 39 major Japanese companies that import from Korea have cut supply prices in consideration of Korean companies' profit from the yen's appreciation.

In another sign of increased integration of the economies in South Korea and Japan, South Korea's port city Busan and Japan's city of Fukuoka decided to form a supra-regional economic zone to bolster exchanges. The project was initiated in March, when Busan Mayor Hur Nam-sik visited Fukuoka and proposed economic bilateral cooperation, and Fukuoka accepted. Busan and Fukuoka play key roles in their respective countries' automobile and heavy industries sectors. The Oct. 13 *Choson Ilbo* reported the two cities are scheduled to establish a council for economic cooperation to create closer links between their auto industries.

### **Society and culture**

On Nov. 27, the Northeast Asian History Foundation announced the result of a survey conducted in October by the firm World Research, which explored South Korean, Japanese, and Chinese views on history. Some 93.6 percent of Chinese respondents said that they were proud of their country, followed by 89.4 percent of Japanese and 86.2 percent of South Korean respondents. Japan-South Korea relations were perceived as bad by 76.8 percent of South Korean respondents, which is up from 67.7 percent in 2007, compared to only 45.6 percent of Japanese respondents, up from 34.4 percent in 2007. Asked about history-related issues that need immediate attention for resolution, 85 percent of South Korean respondents said the Dokdo/Takeshima islets, while some 50 percent of Chinese respondents and 55.4 percent of Japanese respondents cited the distortion of facts in history textbooks. Among South Koreans, 96 percent were keenly aware of the Dokdo/Takeshima issue, which is up from 92.7 percent in 2007. Japanese interest in the issue dropped from 75.2 percent in 2007 to 67.8 percent in 2008.

*The Japan Times* on Dec. 6 reported that 388 South Korean atomic bomb survivors had filed lawsuits at district courts in Hiroshima, Osaka, and Nagasaki Prefectures to demand compensation for the psychological suffering they had endured caused by the Japanese government's refusal to disburse health-care benefits to atomic-bomb survivors who live overseas. In 1974, Japan's Ministry of Health and Welfare had issued guidance to local governments that limited health-care benefits to atomic bomb survivors living in Japan. In November 2007, the Japanese Supreme Court declared the 1974 guidance illegal.

On Nov. 14, Seoul's City Council adopted a resolution urging Japan to return the *Uigwe* that had been looted by Japan's colonial administration in 1922, and another resolution to set up an ad hoc committee to implement the resolution. The *Uigwe* is a collection of descriptions and illustrations on the preparations and processes of major events in the royal household and the government of the Chosun dynasty, and the *Uigwe* is enshrined in UNESCO's Memory of the World Register along with the *Choson Sillok*. Japan returned 47 volumes of the *Sillok* in 2006, but it has not returned the *Uigwe*, which is currently in the Archives and Mausolea Department of Japan's Imperial Household Agency, located in the Imperial Palace in Tokyo.

## **The coming quarter**

The coming quarter holds the potential for continued improvement of relations between Tokyo and Seoul. The financial crisis will likely be the focus of policymakers throughout the world, and Northeast Asia is no exception. As the economies of Japan and South Korea continue to slide in recession and the approval ratings of both Lee and Aso remain mired in the low 20s, the chance for dramatic moves on secondary issues is unlikely. However, the coming quarter could see Prime Minister Aso's first visit to South Korea for a summit with President Lee. The economic crisis also provides the opportunity for the two sides to further institutionalize working relations in a number of economic areas, from trade and finance to visas and legal issues.

Regarding Japan-North Korea relations, much will depend on the pace and content of the Obama administration's policy toward the North. If, as expected, the Obama administration continues to pursue a denuclearization policy working within the Six-Party Talks framework, Japan will face a difficult choice about whether and how much to participate in the discussion and implementation of agreements that are reached. Similarly, it will put Japan in an awkward situation, where the domestic priority of solving the abductee issue first may run counter to the Obama administration's goal of solving the nuclear issue first. Whether and how this is resolved will have a strong influence on how and whether Japan-North Korea relations progress.

## **Chronology of Japan-Korea Relations October-December 2008**

**Oct. 1, 2008:** South Korea and Japan hold their seventh round of high-level talks to bolster their economic ties.

**Oct. 3, 2008:** Japanese Cabinet defends a new handbook for middle school education that describes the Dokdo/Takeshima islets as Japanese territory.

**Oct. 6, 2008:** South Korean *Yonhap* says that North Korea fired a short-range missile into the Yellow Sea.

**Oct. 10, 2008:** Japan extends sanctions against North Korea for another six months.

**Oct. 11, 2008:** The U.S. delists North Korea from its State Sponsors of Terrorism List.

**Oct. 12, 2008:** Foreign Minister Nakasone Hirofumi responds to the U.S. delisting of North Korea by issuing a statement that Japan will work toward the North's verification measure along with other participants in the Six-Party Talks.

**Oct. 14, 2008:** South Korea, Japan, and the U.S. meet to discuss trilateral security cooperation.

**Oct. 14, 2008:** Prime Minister Aso criticizes the U.S.'s decision to delist North Korea from the State Sponsors of Terrorism List in a parliamentary committee.

**Oct. 18, 2008:** Japan's *Yomiuri Shimbun* reports that Pyongyang ordered its diplomats to stay alert ahead of an upcoming announcement.

**Oct. 21, 2008:** North Korea's *Minju Joseon* argues that Japan should be removed from the Six-Party Talks since it impedes the denuclearization process.

**Oct. 24, 2008:** President Lee Myung-bak and Prime Minister Aso Taro hold their first summit meeting in Beijing before the Asia-Europe Meeting (ASEM).

**Oct. 26, 2008:** Seoul Metropolitan Government approves a plan to build the Museum of War and Women's Human Rights. It will exhibit evidence of Japan's forced mobilization of Korean women as military sex slaves and have rooms for related educational programs and seminars.

**Oct. 28, 2008:** Japan agrees to a U.S. position that other countries can shoulder Japan's share of energy assistance to North Korea.

**Oct. 29, 2008:** South Korea's state-funded center, Donghae (East Sea) Research Institute, opens to conduct research on resources of the East Sea/Sea of Japan and the Dokdo/Takeshima islets.

**Oct. 31, 2008:** Japan's Air Self-Defense Force Chief of Staff Gen. Toshio Tamogami is dismissed for his essay in which he argued that Japan was a victim, dragged into the war against China by Chiang Kai-shek.

**Nov. 2, 2008:** Democratic Party of Japan compiles a draft proposal for additional economic sanctions against North Korea to include a total ban on exports and travel to the North.

**Nov. 4, 2008:** North Korea's *Central News Agency of DPRK* criticizes Japan for its efforts to present a human rights resolution against North Korea to the UN Committee on Human Rights as "intolerable violation" of the North's sovereignty.

**Nov. 4, 2008:** Finance Ministers of South Korea, Japan, and China release a joint statement that they would hold more frequent talks on macroeconomic and financial policies and to expand bilateral currency swap deals.

**Nov. 13, 2008:** *Kyodo* reports that Japanese and South Korean foreign and defense officials agree to cooperate for the denuclearization of North Korea.

**Nov. 14, 2008:** Seoul's City Council adopts a resolution urging Japan to return the Uigwe looted by Japan's colonial administration in 1922.

**Nov. 20, 2008:** Foreign Ministers Yu Myung-hwan and Nakasone Hirofumi meet on the sidelines of the Asia-Pacific Economic Cooperation (APEC) forum and agree on how to proceed with the verification measure of Pyongyang's nuclear development program.

**Nov. 25, 2008:** Foreign Minister Nakasone welcomes the plan to resume the Six-Party Talks from Dec. 8.

**Dec. 3, 2008:** Japan, South Korea, and U.S. meet to lay groundwork before the Six-Party Talks.

**Dec. 3, 2008:** The police chiefs of South Korea and Japan agree to set up a hotline to promote cooperation to fight cyber crime.

**Dec. 5, 2008:** 388 South Korean atomic bomb survivors file lawsuits against Japan at district courts in Hiroshima, Osaka, and Nagasaki Prefectures with a demand to compensate them for psychological suffering caused by its refusal to disburse health-care benefits.

**Dec. 7, 2008:** *Kyodo* releases a poll that shows that the approval rating of Aso's Cabinet dropped to 25.5 percent as of the first weekend of December.

**Dec. 8-11, 2008:** The Six-Party Talks are held to discuss the verification protocol Pyongyang's nuclear program.

**Dec. 9, 2008:** Japan's Chief Cabinet Secretary Kawamura Takeo says that Japan will continue to seek bilateral talks with North Korea on the sidelines of the Six-Party Talks.

**Dec. 13, 2008:** South Korea, Japan, and China hold their first trilateral summit meeting in Dazaifu, Fukuoka, Japan.

**Dec. 16, 2008:** South Korea's Voluntary Agency Network of Korea, a vocal advocate of South Korea's claim over the Dokdo/Takeshima islets, says that its website has become the target of cyber attacks from coordinated Japanese web users.

**Dec. 17, 2008:** *Yonhap* reports that the Japanese government has decided to exclude any territorial description of the Dokdo/Takeshima islets in a high school teachers' guidebook.

**Dec. 17, 2008:** *Korea Times* reports that some Japanese web users coordinated a cyber-attack against South Korean nonprofit group Voluntary Agency Network of Korea that advocates South Korea's claim on the islets.

**Dec. 29, 2008:** *Kyodo* reports that a senior North Korean diplomat warns that the North would not proceed with the disablement of its nuclear facilities unless Japan fulfills its obligation of providing energy aid to the North under the Six-Party Talks deal.



**China-Russia Relations:  
Embracing a Storm and Each Other?**

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In contrast to the hectic third quarter of the Beijing Olympics and South Ossetia, the last quarter of 2008 was calmer for Russia and China. Their bilateral relations, nonetheless, seemed to become more substantive. The 13<sup>th</sup> annual Prime Ministerial Meeting in Moscow in late October and the 13<sup>th</sup> session of the Russian-Chinese Intergovernmental Commission on Military-Technical Cooperation in Moscow in early December provided some fresh impetus for the impasse in two important areas of bilateral relations: the long-awaited oil pipeline to China and military relations. Separately, the quarter also witnessed the final, albeit low-key, ceremony for settling the last territorial issue when Russia officially transferred to China control of one and a half islands of the disputed territory near Khabarovsk. However, the world around Russia and China was in turmoil not only because of the financial tsunami that was leaving no nation behind, but also because of regional crises between India and Pakistan as well as Israel and Palestine, and the stagnation in the Korea denuclearization process.

**Back to basics**

There were four meetings during the quarter between the top leaders of the two nations. President Hu Jintao and President Dmitry Medvedev met twice in one week: during the Nov. 16 G20 summit in Washington and the Nov. 23 Asia-Pacific Economic Cooperation (APEC) Leaders Meeting in Lima, Peru. The prime ministers also met twice in a matter of days: at the 13<sup>th</sup> annual Prime Ministerial Meeting on Oct. 28 in Moscow and the annual Shanghai Cooperation Organization (SCO) Prime Ministerial Meeting on Oct. 30 in Astana, Kazakhstan.

Frequent high-level contacts came against a backdrop of the end of an extraordinary year for Russia and China as well as their bilateral relations. For the PRC, it was certainly a year of tragedy and triumph: the devastating winter storm, the riots in Tibet, the Sichuan earthquake, the tainted-milk scandal, the Beijing Olympics, and a successful space walk. For Russia, Ossetia and oil prices besieged the change of guard in the Kremlin. The newly installed President Medvedev was soon challenged by a five-day crisis/war with Georgia over South Ossetia in August, which was, in essence, a confrontation with Washington over both geo-politics and petro-politics in northern Caucasus and beyond. Meanwhile, roller-coaster oil prices from an unprecedented high of \$147 per barrel in July to the low of \$38 per barrel at year end also jolted China and Russia.

Facing ripple effect of those hectic domestic and international developments in the first three quarters of 2008, Russia and China turned to each other in the last quarter of the year. The two prime ministerial meetings in late October focused on functional and economic issues at bilateral

and multilateral (SCO) levels. The two presidential meetings in November were largely on multilateral and global issues. Between the two sets of high-level contacts was the third round of Russian-Chinese consultations on strategic security on Nov. 5-6 in Moscow, where Chinese State Councilor Dai Bingguo and Russian Security Council Secretary Nikolai Patrushev used the opportunity to coordinate positions regarding regional and international issues.

Dai's visit was one day after President Medvedev delivered his annual state-of-the-nation address to the Federal Assembly, which was one of the topics of the talks. Medvedev's speech covered major changes in both Russian domestic and foreign policies, including proposals to extend the terms of the president and Parliament to six and five years, respectively, from their current four-year terms, and the deployment of the *Iskander* missile system in the Kaliningrad region to neutralize the U.S. missile defense system in Europe. Other topics included Central Asia, northern Caucasus, missile defense, and the international financial crisis.

"We had a thorough exchange of opinions," said Dai after the talks. The two sides also pledged to strengthen mutual trust, support each other in national sovereignty, security and integrity, and boost cooperation in maintaining world peace and furthering mutual prosperity. Another two strategic dialogues were also scheduled. After the meeting, Dai met Foreign Minister Sergei Lavrov and then President Medvedev on Nov. 7.

### **13<sup>th</sup> Prime Ministerial Meeting in Moscow**

While the other three high-level meetings were all on the sideline of multilateral gatherings, the 13<sup>th</sup> annual Prime Ministerial Meeting in Moscow on Oct. 28 was the most substantive. After eight years as Russian president, Vladimir Putin was "demoted" to the position of prime minister. For the first time, Chinese Premier Wen Jiabao was negotiating with his Russian counterpart who has real, if not final, control of daily management of the vast Eurasian power.

As usual, the meeting was the culmination of various subcommittee meetings in the areas of trade and economics (Oct. 14), nuclear cooperation (Oct. 17), humanitarian cooperation (Oct. 25), and the second Sino-Russian energy talks mechanism at the vice prime minister level (Oct. 26), which was initiated by President Hu and Medvedev in July. The day of the Prime Ministerial Meeting coincided with the opening of the third Russian-Chinese Investment Forum in Moscow. Energy cooperation topped the agenda of the Wen-Putin talks and Wen made five proposals at the meeting: deepen cooperation in energy and natural resources, boost cooperation in trade and technology, increase cooperation in finance and investment, deepen local and regional cooperation, and boost cooperation in international economic affairs. In all, 14 agreements were signed including:

- A memorandum of understanding on cooperation in the petroleum field between the Chinese National Petroleum Corporation (CNPC) and Russian Pipeline Transport Company on the construction and operation of the crude oil pipeline from Skovorodino to the Sino-Russian border.

- A \$300 million agreement on joint financing of Russian-Chinese projects, particularly machinery and technical products, by the Bank for Foreign Economic Activities and Development of Russia and the China Import and Export Bank.
- A memorandum on the joint development of a civilian heavy-duty helicopter by the Russian Oboronprom and the Chinese company Aviacopter.
- A letter of intent on purchasing civilian-use helicopters from Russia OAO Military Helicopters Corporation.
- A memorandum between Rosatom and the State Nuclear Power Technology Corporation on the construction in China of two expansion blocs of the Tianwan Nuclear Power Plant and a demonstration of a commercial-sized fast neutron reactor.
- An agreement on the cooperation in developing nanotechnologies between Russian Nanotechnologies Corporation and Chinese Science and Technology Ministry.
- An agreement to host a Year of Russian Language in 2009 in China and the Year of Chinese Culture in 2010 in Russia to mark the 60<sup>th</sup> anniversary of the establishment of the diplomatic relations, which will be in 2009.

### **End of longest-running soap opera in oil transportation history?**

The memorandum on cooperation in the petroleum field is a broad framework under which China will grant long-term loans to Russian state oil company Rosneft (\$15 billion) and Russian pipeline giant Transneft (\$10 billion). In exchange, the two Russian companies would construct a 67-kilometer branch line to China from the main Eastern-Siberia-Pacific Ocean oil pipeline and supply China with 15 million tons of oil annually for 20 years beginning from 2010.

Thus, 14 years after its inception by the late Russian President Yeltsin in 1994 and four years since the last Russian governmental decision to build the 67-kilometer branch line to China (an executive order by then Prime Minister Mikhail Fradkov at the end of 2004), the October 2008 memorandum in Moscow indeed sees the light at the end of the pipeline. For this, a leading Russian affairs expert in China hailed the deal as “a strategic breakthrough” in bilateral relations.

Until year end, however, the two sides were laboring through several rounds of negotiations over the loan rate, repayment guarantee, and pricing mechanism for oil shipment to China. The Russian side preferred a floating, or market, price for oil delivery and a fixed rate for loans from China. China insisted on the opposite: fixed pricing for oil from Russia and a floating credit rate to Russia at LIBOR+5 percent. Calling it “absurd lending terms,” Russian negotiators simply broke away from the talks in Beijing on Nov. 13 and did not return until 10 days later. On Dec. 10, the two sides met in Moscow again and by Dec. 15, Rosneft indicated that China has agreed to the principal terms of the Russians. There was, however, no signing of the final agreement by year end. This means that any meaningful talks will not start until February 2009 because of the long holiday breaks for both Russian and Chinese New Year in January (Dec. 31 to Jan. 13 for Russia and Jan. 25-31 for China). Already, Natural Resources and Ecology Minister Yuriy

Trutnev remarked in a TV interview that “in February, the Russian government would once again check if it is capable to fill up the East Siberia-Pacific Ocean oil pipeline to China that is being constructed.” “We must make sure again that ... we are indeed ready to fill up the pipeline... Otherwise, if we have concerns, we shall take relevant measures,” said Trutnev.

The delays in getting an agreement on the details for the loan and price rates also mean that the branch line to China may be further postponed as construction should be carried out in winter conditions when the ground is frozen.

### **Crisis and opportunity**

In the energy business, crisis for suppliers means opportunities for consumers and vice versa. This most recent round of juggling between Moscow and Beijing on the oil business began in early October when the Russian government was reportedly starting to “review” the feasibility study prepared by Transneft and financed by the Chinese. By this time, oil prices were rapidly declining from the peak of \$147 per barrel in July to below \$100 on Oct. 1, \$75 in mid-October, and below \$40 at the yearend. This was, according to Leonid Grigoryev, director of the Institute for Energy & Finance Studies in Moscow, “an unacceptable price as the upper limit of costs stands at \$60 per barrel.” Meanwhile, the Russian government budget, which is heavily dependent on oil revenue, was based on \$95 per barrel. The Russian stock market, too, was heading toward a steep decline and by the second week of October, it had plummeted 69.7 percent from its all-time high in May, the biggest drop among emerging markets since the start of the year. As a result, almost all Russian oil companies were in deep financial trouble due to their massive exposure to foreign loans in recent years. Rosneft has the biggest foreign debt – \$21.4 billion at the end of June and must pay off a debt of \$13.4 billion by the summer of 2009. Worse, the once easy credit was gone. Oil-for-credit with China, therefore, became Russia’s reluctant choice in the 4<sup>th</sup> quarter.

Until this point, working with other sources for its growing energy needs proved to be more productive for China. In the past few years, several large-scale energy projects have been either completed or are in good progress, such as the launch of the China-Kazakh oil pipeline in December 2005, the pending gas line from Turkmenistan via Uzbekistan and Kazakhstan in 2009 (first stage), and the construction of the Burma-China oil/gas lines in early 2009. Meanwhile, “[A]lmost all of Russia’s pipelines now extend to the West, but the fastest growing economies are in the Asia-Pacific region,” remarked Andrew Ostrovsky, deputy chief of the Far East Institute of the Russian Academy of Science in late October. Despite being the world’s number two oil producer after Saudi Arabia, Russia is only the fifth-largest exporter of oil to China. Still, oil from Russia is badly needed as the Chinese economy continues to expand in the next few years, even if the world economy is slowing down considerably. With excessive oil supply, declining demand, and lowered price, China is ready for a final deal.

### **Military cooperation: upturn after three-year interlude**

2008 turned out to be quite extraordinary for military-to-military relations between Russia and China. A military hotline was set up in March. Russia conducted an emergency airlift operation (300 tons of humanitarian aid) to China’s southwestern Sichuan Province for earthquake relief in

May. Toward year end, military technology cooperation between Moscow and China also showed some signs of life after a three-year ebb, during which there were no major procurement orders from China, unlike the previous decade when \$25 billion worth of air, naval, and ground equipment were delivered to China. The last, or 12<sup>th</sup>, Military-Technology Meeting was held in Sochi, Russia, in 2005, co-chaired by then Defense Ministers Sergei Ivanov and Cao Gangchuan.

The triggering event for the three-year stagnation in the military sale area was the \$1.5 billion contract in 2005 for 34 *Ilyushin-76* military transport planes, four *Ilyushin-78* in-flight refueling tankers, and 88 additional *D-30KP-2* engines. Later, the Russian side was simply unable to fulfill the contract due to the inability of the Tashkent plant to meet its commitments on time. Later, China rejected a new Russian proposal for a price hike. As a result, China's share of Russia's military sales has been dropping steadily: from 64.3 percent of total deliveries of \$6.126 billion in 2005, to 38.3 percent of \$6.46 billion in 2006, and 21 percent of \$7.5 billion in 2007. "Our Chinese partners have very much criticized the non-fulfillment by Russia of the terms of a contract concluded in Sochi in 2005 ... on the delivery to China of the *Ilyushin Il-76* military-transport planes and long-range refueling planes *Il-78*. The known stagnation in the bilateral military cooperation in the sphere of the Air Force began from that moment," remarked a representative of the Russian delegation led by Defense Minister Anatoly Serdyukov traveling to Beijing.

The *Ilyushin* episode, however, is only the most visible problem in Sino-Russian military technology transactions. For a long time, Chinese have complained about Russia's poor after-sale servicing of armaments and military equipment and Russia's inability to fulfill some concluded contracts. Russia, in turn, is quite bitter about China's illegal copying of Russia's military technology.

On Dec. 9-11, the 13<sup>th</sup> session of the Russian-Chinese Intergovernmental Commission on Military-Technical Cooperation was held in Beijing and co-chaired by Russian Defense Minister Anatoly Serdyukov and his Chinese counterpart Gen. Liang Guanglie. It was the culmination of several separate steps during the 4<sup>th</sup> quarter for renewed effort on military-to-military relations. Apparently, consensus was reached during the October Prime Ministerial Meeting in Moscow to boost the military technology cooperation.

President Hu, in his Nov. 14 meeting with President Medvedev at the sideline of the G20 meeting in Washington, had expressed hope for a successful meeting of the Chinese-Russian Commission on Military-Technical Cooperation. This high-level attention to military relations was picked up by the 12<sup>th</sup> round of strategic consultations between the general staff departments of the two armed forces in Beijing on Nov. 24-25, which was co-chaired by PLA's Deputy Chief of General Staff Ma Xiaotian and Lt. Gen. Burutin, first deputy chief of general staff of the Russian Armed Forces. According to an official press release, the two sides conducted a candid exchange of views on current international political and military situations, regional hotspot issues, antiterrorist and peacekeeping operations and other issues of common concern, and carried out in-depth consultations on further strengthening the relations between two militaries and reached broad agreement. The Chinese believed that the two armed forces should tap the potential for and widen the channels of cooperation.

By the time the 13<sup>th</sup> Russian-Chinese Intergovernmental Commission on Military-Technical Cooperation met in Beijing, Russia's military-industrial complex, like Russian oil companies, faced growing financial constraints. A breakthrough in military sales to China would definitely alleviate the dire situation. For the PLA, the time is perhaps right for another major transfer of Russian military technology to China as the PLA is working for its next "big items" such as a large transport plane, heavy-duty helicopters, large naval vessels including carriers, and carrier-based jet-fighters. The meeting also took place on the eve of the 60<sup>th</sup> anniversary of China-Russia ties in 2009. The two sides therefore agreed to make the best of this opportunity to improve military ties. For these reasons, among others, Russian Defense Minister Serdyukov led a team of heavy-weight participants to Beijing: Director of the Federal Service for Military-Technical Cooperation Mikhail Dmitriyev, Deputy Foreign Minister Alexei Borodavkin, Director General of the Rosoboronexport state-owned weapons trading company Anatoly Isaikin, Director of Armaments and Deputy Defense Minister Vladimir Popovkin, Director of the Department for Defense Industry and High Technologies under the Russian government Nikolai Moiseyev, and Sukhoi Chief Executive Officer Mikhail Pogosyan.

During the meeting, the two sides exchanged views on major international and regional issues including missile defense, NATO expansion, north Caucasus, Korea, Taiwan, etc. Several agreements were reached including a joint antiterror military exercise in 2009, a Defense Chiefs Meeting in April 2009, and an intellectual property protection agreement between Russia and China that would significantly simplify and speed up Russia's transfer of military equipment and technology to China. Beyond that, there was a general upbeat sentiment.

In the joint press conference, Defense Minister Liang Guanglie said that the two sides reached wide-ranging consensus on further strengthening friendship and cooperation between the two armed forces. He hinted that 2009 – the 60<sup>th</sup> anniversary of the establishment of diplomatic relations between the two countries – would be a turning point to elevate bilateral relations to a new level.

To this end, Defense Minister Liang put forward a five-point proposal: continue to maintain the momentum in high-level exchanges between the Chinese and Russian armed forces, implement well the existing cooperative projects between the two armed forces in various fields, strengthen exchanges in the training of personnel and in other specialized areas, jointly discuss expanding the field of cooperation, and make the joint antiterror military exercise between the Chinese and Russian armed forces next year successful.

The Russians showed equal, if not more, enthusiasm for future development. "The Beijing session was the beginning of a new stage in bilateral military characterized by the focus on new high technologies and new models of arms and military hardware," remarked Mikhail Dmitriyev, director of the Federal Service for Military-Technical Cooperation. "The commission has decided not just to step up our cooperation but also to raise it to a higher, new level of quality, including joint development of high-tech military products," he said. The understanding was that China would not only continue the licensed production of Su-series jet fighters but would also work with Russia on the development and sale of *Su-35* multi-role fighter and *Su-33* carrier-based jet fighter, and even the *Yak141* vertical takeoff fighter. Indeed, "[A]n inventory of all current and future project in all areas of our cooperation, including aircraft building, engines, ships, missile defense and armor without a particular emphasis on any of them, was carried out ...," said Mikhail Dmitriyev, director of the Federal Service for Military-Technical Cooperation.

The positive outcome of the 13<sup>th</sup> Military-Technology Commission led to the meeting between President Hu Jintao and Defense Minister Serdyukov. Hu spoke highly of the meeting. “I know that you have done a lot of work on your two days visit here. ... As a result of the commission’s work, important documents were signed,” Hu told Serdyukov. “We have worked fruitfully with Chinese Defense Minister Liang Guanglie for two days and conducted the 13<sup>th</sup> meeting of the Russian-Chinese Inter-governmental Commission on Military-Technical Cooperation,” the Russian minister said.

## **The future**

By the end of 2008, Russia and China found that the world has changed much, yet so little: so much because of their respective rise in the form of the Olympics and Ossetia after decades or centuries of decline; so little in that the oscillating oil prices leading to global recession are eroding the very environment and foundation of their success. What lies ahead remains uncertain even for the world’s most powerful nation (the U.S.) with the pending Obama administration in a world of ongoing crises in the world economy, South Asia, and the Middle East. Because of this uncertainty, Moscow and Beijing may increasingly turn to one another in the coming Year of the Ox, a year in which, according to Chinese mythology, would reward, albeit modestly, those with endurance.

## **Chronology of China-Russia Relations October-December 2008**

**Oct. 14, 2008:** In an low-key ceremony, Russia officially transfers control over half of Bolshoi Ussuriisky Island (*hei xia zi dao*) and all of Tarabarov Island (*yin long dao*), in total about 375 square km, to China. Zhao Xidi, an ambassador-level official with the Chinese Foreign Ministry, and Vladimir Malyshev, deputy director of the Russian Foreign Ministry First Asian Department, jointly unveil the boundary markers. Russia and China reached an agreement on dividing the disputed islands in the Amur River in 2004. The border was legally established in July 2007 in a supplemental protocol. The transfer was the final settlement of the border issue after more than 40 years of negotiations between the two governments.

**Oct. 14, 2008:** The 11<sup>th</sup> meeting of the Sub-Commission for Trade and Economic Cooperation is held in Moscow and co-chaired by Minister of Economic Development Elvira Nabiullina and Minister of Commerce Chen Deming. A joint statement pledged to enhance coordination in solving problems in market access and trade.

**Oct. 14-18, 2008:** A Chinese naval squadron consisting of destroyer *Tai Zhou* and guided missile frigate *Ma An Shan* arrive at the port of Vladivostok for a four-day visit. The Chinese squadron is led by the PLAN East Sea Fleet Commander Vice Adm. Xu Hongmen and hosted by Deputy Commander-in-Chief of the Russian Navy’s Pacific Fleet Vice Adm. Sergei Viktorovich Avramenko.

**Oct. 17, 2008:** The 12<sup>th</sup> Meeting of the Russian-Chinese Nuclear Issues Subcommittee for the regular Russian-China Prime Minister Meeting is held in Beijing. A protocol is signed for

building the third phases of the gas centrifuge plant and two additional units of the Tianwan nuclear power plant.

**Oct. 25-28, 2008:** Vice Premier Wang Qishan visits Russia to attend a session of the Sino-Russian energy talks mechanism prior to the 13<sup>th</sup> meeting of the Chinese-Russian Prime Ministers Regular Meeting.

**Oct. 25-30, 2008:** State Councilor Liu Yandong visits Russia at the invitation of Deputy Prime Minister Alexander Zhukov for the ninth session of a China-Russia Committee on Humanitarian Cooperation.

**Oct. 27-29, 2008:** Premier Wen Jiabao visits Moscow for the 13<sup>th</sup> regular meeting of the Russian and Chinese heads of governments on Oct. 28 with his Russian counterpart Vladimir Putin. In Moscow, Wen meets President Medvedev and State Duma speaker Boris Gryzlov and co-chairs with Putin the opening session of the third Russian-Chinese Investment Forum. Several commercial documents are signed in the areas of oil pipelines, nuclear power, helicopter sales, banking, and joint development of a heavy civilian helicopter.

**Oct. 30-31, 2008:** The seventh annual Council of the SCO Heads of Government (prime ministers) meets in Astana, Kazakhstan. Several documents are signed including a protocol between the customs services of the SCO member states to exchange information on transfer of energy resources, the SCO budget for 2009. The action plan for implementing the multilateral trade and economic cooperation agreement is also updated.

**Nov. 5-7, 2008:** State Councilor Dai Bingguo visits Russia at the invitation of Russian Security Council Secretary Nikolai Patrushev. They hold the third round of Russian-Chinese Consultations on Strategic Security on Nov. 5-6. Dai meets Foreign Minister Sergei Lavrov and President Medvedev on Nov. 7.

**Nov. 16, 2008:** Presidents Medvedev and Hu meet in Washington following the G20 summit on the world financial crisis.

**Nov. 20, 2008:** Sun Xiaoqun, member of the CPC Central Committee, attends the 10<sup>th</sup> National Congress of the United Russia, Russia's ruling party holding two-thirds of the seats in the State Duma. Sun pledges to enhance exchange and cooperation with the United Russia.

**Nov. 23, 2008:** Presidents Medvedev and Hu meet in Lima, Peru, on the sideline of the annual APEC forum. Foreign Minister Yang Jiechi and Russian counterpart Sergei Lavrov also hold separate talks during the meeting.

**Nov. 24-25, 2008:** The 12<sup>th</sup> round of strategic consultations between the Chinese and Russian general staff departments of the two armed forces are held in Beijing.

**Nov. 26, 2008:** The 19<sup>th</sup> session of the Joint Control Group to promote confidence building measures is held in Beijing with participants from Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and China.

**Nov. 27, 2008:** Jing Zhiyuan, commander of the Second Artillery Force of the PLA, meets Lt. Gen. Burutin, first deputy chief of general staff of the Russian Armed Forces at the Second Artillery Force Headquarters.

**Dec. 4, 2008:** The Russian-Chinese Sub-Commission on Banking Cooperation discusses in Beijing the possibilities of using national currencies in bilateral trade.

**Dec. 9-11, 2008:** Defense Minister Serdyukov visits Beijing for the 13<sup>th</sup> session the Russian-Chinese Intergovernmental Commission on Military-Technical Cooperation.

**Dec. 18-19, 2008:** Minister of Culture Alexander Avdeyev visits China and meets his counterpart Cai Wu.

**Dec. 23-24, 2008:** The third session of the Joint Russian-Chinese Border Commission is held in Beijing. The complete and final establishment and legal formalization of the border on Oct. 14, 2008 has turned the commission's work from border demarcation to checking of existing border along the border line.

**Dec. 29, 2008:** PLA Chief of General Staff Chen Bingde and Russian counterpart Nikolay Makarov hold their first-ever conversation via direct phone link.

**Dec. 29, 2008:** Foreign Minister Yang Jiechi initiates a telephone conversation with his Russian counterpart Sergei Lavrov. In addition to discussing bilateral issues, they exchange views on relations between India and Pakistan, express serious concern over tension in South Asia, and agree that Russia and China would coordinate their actions and do their best to ease tension by political and diplomatic means.

**Dec. 30, 2008:** President Medvedev sends a New Year eve message to President Hu, expressing deep satisfaction for the Russian-Chinese strategic partnership relations.

**Dec. 31, 2008:** President Hu sends New Year message to President Medvedev and announces the start of the Year of the Chinese and Russian Languages in China.



# Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



## U.S.-India and India-East Asia Relations: Old Narrative, New Chapters

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India's relations with the U.S. and East Asia during 2008 took place amidst remarkable flux domestically, within the South Asian region, and around the world – all of which directly and indirectly influenced developments in bilateral relations. The two issues that dominated U.S.-India relations during 2008 were the civilian nuclear cooperation deal and, at the end of the year, the U.S.-India-Pakistan triangle including the issues of terrorism and Kashmir. India's relations with East Asia were quiescent during 2008. A notable development was the completion of an India-ASEAN free trade agreement, although its economic implications remain uncertain. India accentuated the positive with Myanmar as bilateral relations became more cordial while relations with China seemed to be on hold for most of the year as the border dispute remained unresolved and India responded cautiously to the Chinese handling of unrest in Tibet.

### **Regional and local instability**

As events later in the year demonstrated, turmoil in Pakistan created instability in South Asia. Benazir Bhutto's assassination while campaigning in late December 2007 exacerbated uncertainty in a country already reeling from terrorist attacks, militancy in its tribal areas, and deteriorating relations with its troubled neighbor Afghanistan and with the U.S., its main economic and security supporter. Notwithstanding this tumult, and as a sign of the extra efforts being taken by both parties to maintain constructive ties, India-Pakistan discussions regarding bilateral relations including Kashmir continued until nearly the end of the year, when a pause was declared by India after the Mumbai terrorist attacks. Elsewhere in South Asia during 2008, Nepal continued its transition from monarchy to republic with the election of a Maoist-led government and the Sri Lankan civil war revived after the formal ending of an already battered ceasefire agreement in January. A caretaker government in Bangladesh prepared for elections that were eventually and uneventfully held in December.

Meanwhile within India, the Congress Party-led coalition government of Prime Minister Manmohan Singh faced persistent political pressure as the opposition won notable election victories – including the Bhartiya Janta Party's (BJP) first electoral victory in the southern state of Karnataka in early summer – its own leftist coalition allies sought to bring the government down over the U.S.-India nuclear deal, and the economy was buffeted by inflation, a global food crisis, unprecedentedly high energy prices and eventually the aftershocks of the financial crisis that began in the U.S. and rapidly spread around the globe. Furthermore India suffered a number of major terrorist attacks throughout the year – in Jaipur, Bangalore, and Ahmedabad, at the

Indian Embassy in Kabul in July, and most spectacularly, in the financial capital of Mumbai in late November.

### **U.S.-India relations: the nuclear deal, Pakistan and terrorism**

At the end of 2007 (see “India-Asia Pacific Relations: Consolidating Friendships and Nuclear Legitimacy,” *Comparative Connections*, Vol. 9, No. 4, January 2008), a major storyline of U.S.-India bilateral relations, the proposed deal for cooperation on civilian nuclear energy, had made considerable progress toward resolution including the completion of U.S.-India bilateral negotiations. The main unfinished business at the time included two major additional steps; India’s negotiation of a specific safeguards agreement with the International Atomic Energy Agency (IAEA) and approval by the 45-member Nuclear Suppliers Group (NSG). Once those two steps were completed and the U.S. Congress approved supporting legislation, President Bush would formally sign the deal and make specific certifications that would bring the deal into force. While the roadmap for the deal’s completion was clear, considerable drama hovered over nearly every milestone along its path, mostly, but not entirely, arising from domestic political developments within India. By mid-October 2007, Prime Minister Singh had informed President Bush that “certain difficulties” confronted the deal. Though the prime minister did not explicitly and publicly say so, these difficulties revolved around the opposition of leftist parties within his coalition government to the deal on grounds ranging from anti-Americanism, concerns about sovereignty, and political machinations and the unwillingness or inability of the Singh-led government to imperil the United Progressive Alliance (UPA) coalition government, which relied on the support of the leftist parties. Thus, 2007 ended with something like a cliff-hanger on what Under Secretary of State for Political Affairs Nicholas Burns has called the “symbolic center” of U.S.-India relations.

The new year of 2008 ultimately reduced the intense tension in the nuclear narrative, but not before numerous, simultaneous sub-plots, dramas, and storylines unfolded and were worked out. Of these, three were critical. First, Prime Minister Singh and his government dealt with the left’s opposition to the nuclear deal by winning a parliamentary vote of confidence in July following the withdrawal by the left of support for the government. However, there were charges of corruption surrounding the vote and the victory, though sizeable in terms of numbers, was the subject of controversy. A second, overlapping story line was India’s on-going efforts to negotiate an India-specific safeguards agreement with the International Atomic Energy Agency (IAEA). That process was complicated not only by the specific substance of such an unprecedented arrangement, but also by domestic politics within India. India’s government ministers repeatedly sought the approval of leftist opponents to proceed with negotiations with the IAEA. In the event on Aug. 1, the IAEA Board of Governors unanimously adopted the negotiated India-specific safeguards agreement. The third major sub-plot was gaining NSG support. After two rounds of meetings in August and September, NSG support was finally achieved on Sep. 6, when it approved civil nuclear cooperation with India. However, given China’s non-participation on the last day and the reservations of several countries to the deal, it remains to be seen whether future complications will emerge as, if, and when, specific elements of cooperation begin to take place.

Following completion of these three major steps and the approval by the U.S. Senate and House of Representatives of the agreement, the next step was President Bush’s signature Oct. 8 of the

“United States-India Nuclear Cooperation Approval and Nonproliferation Enhancement Act.” On Oct. 20, Bush certified, as required by the legislation, that U.S. nuclear transfers to India would be “consistent with the obligation of the United States under the [Nuclear Nonproliferation Treaty (NPT)] not in any way to assist, encourage, or induce India to manufacture or otherwise acquire nuclear weapons or other explosive devices.” Two other presidential certifications required before the Nuclear Regulatory Commission (NRC) can issue licenses for nuclear transfers to India include the entry into force of the India-IAEA safeguards agreement, which has already been completed, and that India’s declaration to the IAEA of its safeguarded facilities is “not materially inconsistent” with its previously negotiated commitment to place certain Indian facilities under IAEA safeguards. These certifications are expected to be *pro forma* since the underlying agreements have already been completed and are pending implementation.

The diplomatic and political achievements of the completed U.S.-India agreement, including the approval of the U.S. Congress (298 members of the House and 86 members of the Senate approved the deal), unanimous support of the IAEA and all 45 members of the NSG, are profound. That this achievement came within 10 years of India’s last set of nuclear tests in 1998 is also symbolic. Hence, a major narrative in U.S.-India relations since India first tested a nuclear device in 1974 and then again in 1998 has been brought to a drama-filled near-resolution. But there are yet many unanswered questions, not only about the specifics of actual cooperation between the two countries in the nuclear energy sector, but more generally about the “spillovers” of the nuclear agreement for overall bilateral relations. Moreover, with a new administration set to take office in Washington in January and India’s national elections to be held later in 2009, it is as yet unclear how the nuclear deal will be sustained through actual cooperation on civilian nuclear energy, nonproliferation differences more broadly, and other areas of bilateral relations.

The exuberance that greeted completion of the landmark nuclear deal was quickly overshadowed by the need to address the multiple and complex challenges posed by the November terrorist attacks in Mumbai. The dramatic attacks that lasted almost three days when armed militants stormed major international hotels, train stations, and the Jewish outreach center of Chabad Lubavitch among other buildings in India’s financial capital Mumbai. The incident, somewhat analogous to the Dec. 11, 2001 attacks on India’s Parliament, raised several extraordinarily complex issues in the context of U.S.-India bilateral relations. Precise, confirmed, unambiguous, and complete information on the motives, origin, and support for the attacks is still not available in the public domain. But, the U.S. immediately dispatched high-level officials to both India and Pakistan and Pakistan took a number of kinetic as well as law enforcement actions against organizations and individuals that India has claimed were responsible for the attacks. However, Indian statements even after these actions suggest that there remains a considerable gap in expectations and a considerable shortage of trust.

As of this writing, the situation is still unsettled with press reports claiming that Pakistani forces have been sent to the border with India and other reports citing Pakistani, Indian, and U.S. officials that they seek to avoid any military confrontation. Unlike in the aftermath of 2001, there has been no large-scale mobilization of either country’s armed forces. However, India has announced a “pause” in its bilateral dialogue with Pakistan and there is no indication of when it

might resume. While there is reason to hope that a military confrontation between the two nuclear-armed rivals can be avoided, the underlying issue of Pakistan and terrorism – westward in Afghanistan, domestically, and east into India – is not one that will go away any time soon. There has been much renewed discussion of the need for the U.S. to help broker a solution to Kashmir as a way of ending terrorism against India and helping Pakistan to focus on its western tribal areas and preventing militants from crossing into Afghanistan. However, with political change underway in Washington, Islamabad (a relatively new President Asif Zardari) and upcoming elections in India (and in Jammu and Kashmir following January's elections), it is not clear whether or when such a mediation process will begin. India remains opposed to the linkage of Kashmir alone with the terrorist attacks. India's Foreign Minister Pranab Mukherjee during a visit to the Jammu and Kashmir state during this month's elections there stated: "It's not a Kashmir issue; it is not merely an issue between India and Pakistan. It is part of the global action and global war against terrorism."

Apart from these two main areas of U.S.-India interaction during 2008 (the nuclear deal and the aftermath of the Mumbai attacks), there was continued dialogue and cooperation in the areas of defense as well as trade and investment ties. Secretary of Defense Robert Gates, who visited India in late February, stated that "We're not looking for quick results or big leaps forward, but rather a steady expansion of this relationship that leaves everybody comfortable." He did mention the U.S. is interested in bidding on India's planned purchase of new fighter aircraft and an agreement to facilitate logistics cooperation between the two countries. He also noted that U.S.-India cooperation on missile defense was at a "very early stage." Meanwhile, military-to-military cooperation through joint exercises continued apace, having been given a boost by the U.S.-India Defense Framework Agreement of 2005. The scale, frequency, and sophistication of service-to-service exercises have steadily increased. For example, army exercises focused on jungle-terrain low intensity conflict, counterterrorism and counterinsurgency. In 2008, there were four army-to-army, two navy-to-navy and one major multinational air force exercises held in which Indian and American servicepersons participated.

On the economic front, U.S.-India trade continued to expand as did U.S. foreign direct investment into India and Indian direct investment into the United States. However, there was a complete disconnect between India and the U.S. on the Doha round of world trade talks which are now stalled.

### **India-East Asia relations: more of the same**

While India's relations with East Asia were quiescent during 2008, one notable development was the completion of an India-ASEAN free trade agreement in September. The deal took six years to conclude because of extensive differences among the parties. Even in the final agreement several hundred items were left on the negative list and therefore not subject to a reduction of duties and other barriers. The final agreement was expected to be signed on the sidelines of the historic ASEAN summit in December, but due to the postponement of the summit due to political uncertainty in the host country of Thailand, the deal will not be formally signed until later in 2009 at the next ASEAN-India summit. However, at least one Indian official greeted the delay as an opportunity. Minister of State for Commerce and Power Jairam Ramesh said the delay in signing "is an opportunity for India to take pro-active measures to strengthen its position

vis-à-vis trade of sensitive items, including commodities like tea, coffee and pepper where ASEAN nations, particularly Vietnam, have an edge over India.” With or without the deal, India’s trade with Southeast Asian countries continues to grow. In fiscal year 2007-2008 India-ASEAN trade was about \$38 billion and, according to Commerce Minister Nath, it will grow by \$10 billion to \$48 billion during the current fiscal year, which ends March 31.

It is not clear whether completion of the India-ASEAN free trade agreement will lead to completion of a bilateral free trade agreement with Thailand as originally envisioned or the completion of Comprehensive Economic Partnership agreements (CEPAs) with Japan and South Korea, which have also been under negotiation. Reports indicate that these arrangements are progressing very slowly and given the uncertainty in Thailand, it is difficult to imagine any quick resolution in that particular bilateral agreement.

India’s bilateral relations with Southeast Asian countries also progressed during 2008. Of particular note during the year was the thaw in India-Myanmar relations, which was evident in April when the ruling junta’s second most senior military leader and army chief, Gen. Maung Aye, made a state visit including meetings with all of India’s leadership and a trip to Bangalore to examine India’s space program! This visit marked a notable change from New Delhi’s decision in late 2007 to suspend the transfers of some military equipment to the Myanmar military regime in the aftermath of its suppression of demonstrations in August-September. During Gen. Maung Aye’s visit, the two countries signed an agreement on a major transportation project that would link India’s northeastern states to Myanmar and provide sea access and a double taxation avoidance agreement. The Indian government reportedly characterized the May referendum on the Constitution and general elections planned for 2010 as “positive steps,” but a statement of India’s External Affairs Ministry also “underlined the need for Myanmar to expedite the process and make it broad-based to include all sections of society, including Daw Aung San Suu Kyi and the various ethnic groups in Myanmar.” The Indian government also reiterated its opposition to sanctions against Myanmar. Discussions reportedly also addressed assistance from Myanmar against anti-India insurgents along the shared border. In May, following Cyclone *Nargis*, which wreaked havoc in Myanmar, India immediately sent relief supplies using its naval forces and dispatched medical teams.

India also maintained its exchanges with other Southeast Asian countries as part of its continuing commitment to the “Look East” policy started a decade and a half earlier. While there were no dramatic developments, New Delhi is now something of an unexceptional (if still comparatively marginal) player in regional dynamics. India’s economic growth rates, relative stability, improving relations with the U.S. and the Asia-Pacific region have provided the basis for sustained engagement with Southeast Asia.

Beyond Southeast Asia, India-China relations remained routine during the year. Prime Minister Singh visited Beijing early in mid-January, but no real agreements were reached, though an amiable joint declaration was issued. The border and territorial dispute continued to be the major backdrop to the relationship with no progress made toward settlement. In fact, there was a series of tit-for-tats about border incursions and charges of renegeing on previous agreements. Following his visit to China, Prime Minister Singh travelled to Arunachal Pradesh to focus on infrastructure and linking the state with India. One leading Indian analyst criticized the visit

saying that it “conspicuously skipped Tawang [a town of contention between China and India] and came after, rather than before, his China visit.” In June, following External Affairs Minister Mukherjee’s visit to Beijing, there was further criticism within India that China’s incursions had increased over the first half of the year along all sectors of the border including the so-called “finger point” area of Sikkim. Nevertheless, after a year’s hiatus, border talks resumed in mid-September. There was no progress however. And in November, a Chinese foreign ministry spokesman expressed “deep regret” at External Affairs Minister Pranab Mukherjee’s remark on Nov. 9 that Arunachal Pradesh is “an integral part of India.”

During the Tibet riots of March, India walked a carefully calibrated line. A statement by the External Affairs Ministry spokesperson in response to questions said: “We are distressed by reports of the unsettled situation and violence in Lhasa, and by the deaths of innocent people. We hope that all those involved will work to improve the situation and remove the causes of such trouble in Tibet, which is an autonomous region of China, through dialogue and non-violent means.” This statement, while careful was interpreted by government critics in India as being far too soft on China and out of line with more direct calls from several other democratic governments for direct talks between China and the Dalai Lama. However, others interpreted the Indian statement as having departed from the past in specifically calling for talks (i.e., “We hope that all those involved will work to improve the situation and remove the causes of such trouble in Tibet ... through dialogue and non-violent means.”). Whatever the interpretations of the comments, on the ground Indian authorities were tough on anti-China, pro-Tibet protestors.

Meanwhile, economic relations between India and China continued to grow with a nearly 70 percent growth in trade during the first six months of 2008 compared with the same period in 2007. Bilateral Sino-Indian trade now stands at about \$30 billion – nearly the same amount as U.S.-India bilateral trade. And there was implicit cooperation between the two countries in opposing the Doha round of WTO negotiations due to opposition to U.S. and European Union agricultural subsidies.

Prime Minister Singh travelled to Tokyo in late October as part of annualized, mutual, and reciprocal visits. While there, India and Japan issued a Joint Declaration on Security Cooperation and a Joint Statement on the Advancement of the Strategic and Global Partnership. Neither declaration marked a fundamental change in the relationship, but rather codified a number of ongoing and aspirational aspects of the bilateral relationship.

### **Looking ahead**

India’s relations with the U.S. and much of East Asia during 2008 were to some extent dominated by the completion of the U.S.-India nuclear accord. It is worth noting that of the five Asia-Pacific members of the Nuclear Suppliers Group, none was especially enthusiastic about the civilian nuclear cooperation agreement. This was especially true of China, Japan, and Australia. Therefore, perhaps the real test of their support for the agreement will be in its initial implementation over the coming months. Although the deal dominated India’s relations with the world during much of the year, it was immediately overtaken by the need to address the complex and difficult aftermath of the terrorist attacks in Mumbai. The task of addressing post-Mumbai continues, but there is reason to believe that perhaps the most dangerous period of the crisis has

passed and now months will be required to find a way back to the India-Pakistan bilateral talks that have been “paused.”

### **Chronology of India Relations with U.S. and East Asia January - December 2008**

**Jan. 13-15, 2008:** Manmohan Singh makes his first visit to China as Indian prime minister and meets President Hu Jintao and Premier Wen Jiabao among other leaders.

**Feb. 26-27, 2008:** U.S., Secretary of Defense Robert Gates travels to India for discussions about military cooperation.

**April 4-9, 2008:** Gen. Maung Aye, Myanmar’s second most senior military leader and army chief, makes a state visit to India and meets all of the country’s top leadership.

**April 24, 2008:** The sixth U.S.-India Global Issues Forum is held in New Delhi. The Forum develops new and expanded areas for cooperation between the two countries on multilateral issues such as the promotion of democracy, health, environmental protection, and human rights.

**May 13, 2008:** Eight bomb explosions kill nearly 70 and injure over a 100 persons in the center of Jaipur City, a popular tourist destination.

**May 15-16, 2008:** Indian External Affairs Minister Pranab Mukherjee attends the fourth stand-alone trilateral meeting of foreign ministers from India, Russia, and China (RIC) in the Russian city of Yekaterinburg. This is to be followed by a meeting of the foreign ministers from Brazil, Russia, India, and China (BRIC) on May 16.

**June 4-7, 2008:** Prime Minister Mukherjee visits Beijing for talks with Chinese officials – the first visit by an Indian external affairs minister to China since 2002.

**July 22, 2008:** The Congress Party-led coalition government survives a vote of confidence brought after left-wing parties withdraw their support over a controversial nuclear cooperation deal with U.S.

**July 26, 2008:** Sixteen bombs explode in the western Indian city of Ahmedabad, killing at least 56 people and injuring 150.

**Aug. 1, 2008:** The IAEA approves an India-specific Safeguards Agreement.

**Sept. 6, 2008:** The Nuclear Suppliers Group agrees to provide an exemption that permits its member states to engage in civil nuclear cooperation with India.

**Sep. 7-10, 2008:** India’s Defense Minister A. K. Antony meets Secretary of Defense Gates and other officials in Washington.

**Sep. 18, 2008:** The 12<sup>th</sup> round of India-China border dispute talks are held in Beijing.

**Sep. 27, 2008:** The U.S. House of Representatives approves the U.S.-India Agreement for Cooperation Concerning Peaceful Uses of Nuclear Energy (123 Agreement).

**Oct. 1, 2008:** The Senate approves the U.S.-India Agreement for Cooperation Concerning Peaceful Uses of Nuclear Energy (123 Agreement).

**Oct. 3-5, 2008:** Secretary of State Condoleezza Rice travels to India for consultations with Indian officials. This is her first visit to India since March 2006.

**Oct. 8, 2008:** President Bush signs into law the nuclear deal with India.

**Oct. 15-24, 2008:** *Malabar 2008*, a bilateral U.S.-Indian naval exercise is conducted off India's west coast.

**Oct. 21-23, 2008:** Prime Minister Singh makes an official visit to Japan.

**Oct. 30, 2008:** More than 80 people are killed in Assam in northeastern India. Indian officials suspect separatists in the region and Muslim extremist groups.

**Nov. 26-28, 2008:** About 200 people are killed and hundreds injured in a series of coordinated attacks by gunmen on the main tourist and business area of India's financial capital Mumbai.

**Dec. 15, 2008:** India announces a "pause" in the peace process with Pakistan.

**Dec. 30, 2008:** External Affairs Minister Mukherjee announces that India and China will have more rounds of border dispute talks without specifying any timeframe.

## About The Contributors

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