

# Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



Regional Overview:

## They're Baaaack!\*

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The US is back in Asia! This was the central theme of President Obama's major Asia policy speech, delivered in Tokyo on the first leg of a four-country swing through Asia this past quarter. North Korean "Dear Leader" Kim Jong-il also hinted that Pyongyang might come back to the Six-Party Talks after a visit to the North Korean capital by Special Envoy Stephen Bosworth. Kim did not meet Bosworth but he did meet with Chinese Premier Wen Jiabao at the beginning of the quarter, signaling that he too was back from the death bed many had placed him in.

While Washington's commitment to multilateral cooperation was renewed at the Asia Pacific Economic Cooperation (APEC) leaders meeting, whether or not APEC is back (or ever arrived), remains to be seen. Obama did revive and follow through on the Bush administration's earlier unrealized plan to convene the first-ever full ASEAN-US summit meeting. Historic rivalries within Southeast Asia also returned to the front-burner as Thailand and Cambodia turned up the heat against one another in a very un-ASEAN way. Asia's economies also appear to be returning from the dead while Australian Prime Minister Kevin Rudd's proposal for a new Asia-Pacific Community refuses to die, despite an apparent lack of enthusiasm for this idea within and beyond ASEAN.

### North Korea: a light at the end of the tunnel?

The third quarter ended with Pyongyang insisting that it would never come back to the Six-Party Talks, even while proclaiming that it was not abandoning the concept of denuclearization, only the means by which it could be accomplished: "We have never objected to the denuclearization of the Korean Peninsula and of the world itself. What we objected to is the structure of the six way talks which had been used to violate outrageously the DPRK's sovereignty and its right to peaceful [nuclear energy] development."

Pyongyang made it clear it was prepared to enter into direct bilateral negotiations with Washington – as one nuclear weapon state to another – but that it was "forever" abandoning the

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\* For those not steeped in American movie history, "they're baaaack" was a famous line proclaimed by a little girl (played by the late Heather O'Rourke) in *Poltergeist II*, the 1986 cult classic about evil spirits invading a suburban home. Hopefully America's "return" to Asia was a more welcome event but one can argue that there is still only a ghost of a chance that Pyongyang's return to the Six-Party Talks (if and when it actually occurs) will lead to Korean Peninsula denuclearization.

Six-Party Talks involving North and South Korea, China, Japan, Russia, and the United States since, to them, denuclearization was strictly an issue between the US and North Korea.

The first shift in the North's absolute rejection of a resumption of six-way talks came during Chinese Premier Wen Jiabao's visit to Pyongyang in early October. Wen proclaimed a breakthrough of sorts in announcing that the North was now "willing to attend multilateral talks, including the Six-Party Talks." This was predicated, however, on "progress" in US-DPRK bilateral negotiations – an official (North) *Korean Central News Agency (KCNA)* account of the discussion noted that the North "expressed our readiness to hold multilateral talks, *depending on the outcome of the DPRK-US talks*" [emphasis added] making it clear which was to come first.

Skeptics were quick to point out that even this small gesture seemed to be a costly one, with Wen announcing a new \$20 million aid and development package that many viewed as violating UN Security Council Resolution (UNSCR) 1984 mandatory sanctions. South Koreans further worried (as did your two authors) that the increased Chinese aid, apparently with no strings attached, undercut President Lee Myung-bak's "grand bargain" proposal, which promised a large package of economic and developmental assistance, but was predicated on a demonstrated commitment to denuclearization. If Washington was upset about this apparent reversal in China's approach toward Pyongyang (as it should have been) it did not say so publicly, instead praising Beijing's diplomatic initiative.

Prior to the Wen visit, Beijing had been following a more hardline approach, consistent with Washington, Seoul, and Tokyo. Some speculate that Beijing read (or, more accurately, misread) the visit to Pyongyang by former US President Bill Clinton to retrieve the two US journalists (see last quarter's issue for details) as a signal that the US was going to abandon its hardline approach and Wen's visit was aimed at keeping China ahead of this curve. Reports too numerous to discount revealed a fierce policy debate in China over the summer about how tough a stance Beijing should take toward Pyongyang. The softliners apparently won that debate.

Washington and Seoul continued to play hard to get, however, insisting that strictly enforced UNSC sanctions would remain until there was demonstrated progress toward denuclearization. For its part, Washington rejected Pyongyang's insistence on bilateral "negotiations," while not ruling out a visit to Pyongyang by Ambassador Bosworth to explain the necessity of returning to the Six-Party Talks. That visit took place in mid-December and resulted in an announcement from *KCNA* that both sides "reached a series of common understandings of the need to resume the Six-Party Talks and the importance of implementing the September 19 [2005] Joint Statement," which laid out the agreed-upon six-party denuclearization plan.

The North did not specify and has yet to agree to a date for the resumption of talks. It merely noted that "through working and frank discussion the two sides deepened the mutual understanding, narrowed their differences, and found not a few common points." Apparently they still found some uncommon points since *KCNA* announced that "both sides agreed to continue to cooperate with each other in the future to narrow down the remaining differences."

Bosworth was careful not to proclaim this positive step to be a real breakthrough and hinted that an additional bilateral meeting or meetings might be necessary before the Six-Party Talks

resumed. His three-day visit, which he insisted (without North Korean objection or correction) “took place within the framework of the six-party process,” was aimed solely at bringing Pyongyang back to the Six-Party Talks: “It is important to point out that these were exploratory talks, not negotiations,” Bosworth stressed to reporters upon his return from meeting DPRK Vice Foreign Minister Kang Sok Ju and senior nuclear envoy Kim Gye Gwan.

Pyongyang put a different spin on the meeting, insisting that “both sides had a long, exhaustive, and candid discussion on wide-ranging issues including the conclusion of a peace agreement, the normalization of the bilateral relations, economic and energy assistance, and the denuclearization of the Korean Peninsula.” During a post-visit press conference, Bosworth acknowledged that he underlined Washington’s willingness to help bring North Korea into the international fold and that discussion of a peace treaty could take place within the six-party framework: “As President Obama has made clear, the United States is prepared to work with our allies and partners in the region to offer North Korea a different future.”

There was an important caveat, however: “The path for North Korea to realize this future is to choose the door of dialogue in the Six-Party Talks and to take irreversible steps to achieve the denuclearization of the Korean peninsula.” He also made it clear that Washington was “not going to negotiate on any of these issues until we’re back at the table in the six-party framework” while noting that “there is ample opportunity for continued bilateral engagement and dialogue under the framework of the six-party process.”

Bosworth also made it clear that the lifting of UN sanctions was “a decision that was taken by the international community,” not by the U.S. alone and that “the formula for revision of the sanctions is quite clear.” The lifting of sanctions first requires Pyongyang not only to come back to the six-party process but to “resume significant progress on denuclearization.” At that point, “the Security Council will evaluate the status of the sanctions.”

The quarter ended on a potentially positive – dare we say hopeful? – note, with Pyongyang proclaiming in its annual New Year’s message that “it is the consistent stand of the DPRK to establish a lasting peace system on the Korean Peninsula and make it nuclear-free through dialogue and negotiations.” The *KCNA* statement noted that “the fundamental task for ensuring peace and stability on the Korean Peninsula and in the rest of Asia is to put an end to the hostile relationship between the DPRK and the USA.” It contained none of the invective or recriminations that often characterize *KCNA* statements regarding the US or South Korea and seemed to be extending an olive branch to Seoul as well: “Unshakable is our stand that we will improve the North-South relations and open the way for national reunification.” Of course, it also called on Lee Myung-bak to honor his predecessors’ agreements to send aid to North Korea and noted that its nuclear test and “successful” satellite launch (witnessed by no one else but themselves) “were a landmark event signaling the first victory in the building of a prosperous nation.”

### **Obama’s message to Asia: we’re back!**

Not surprisingly, the comments made by Ambassador Bosworth before, during, and after his Pyongyang visit were entirely consistent with the comments on North Korea made by President

Obama in his first major Asia policy address, delivered in Tokyo during his first visit to Asia in early November. His remarks included the promise of “a future of greater security and respect” if Pyongyang would return to the Six-Party Talks, uphold previous commitments, including a return to the Nuclear Non-Proliferation Treaty, and agree to “the full and verifiable denuclearization of the Korean peninsula.”

The president’s message to the rest of Asia was a simple one: “America is back!” Members of the George W. Bush administration could make the argument, convincingly in our view, that we never left, but there was a perception of benign neglect as the global war on terrorism and Iraq and Afghanistan reconstruction efforts seemed to divert Washington’s attention from East Asia. While one could see President Obama as equally preoccupied – with his efforts to push through a universal health care program added to the Afghanistan/Iraq/ counter-terrorism mix – his four-country swing through Asia, in conjunction with the APEC leaders’ meeting, provided an opportunity to build upon the fundamentals – the centrality of the US alliance network, the need for a cooperative, constructive relationship with China, and the growing importance of ASEAN in general and multilateral cooperation in general – that have been supported by past Democratic and Republican administrations alike.

With few exceptions, President Obama’s Asia policy pronouncements reflected “more of the same” and, hopefully, “much more of the same” when compared to the Bush administration’s Asia policies. Rather than reverse course, the focus was on building upon the existing base to take relations with Asia to the next level. We will leave it to the bilateral chapters to look in more detail at his visits to Japan, China, Korea, and with ASEAN and will focus here on the policy pronouncements contained in his Nov. 14 Tokyo speech.

In this major policy address, America’s self-described “first Pacific President” (based on his Hawaii roots) underscored both the central role of the US bilateral alliance structure in Asia – with Korea, Australia, the Philippines and Thailand, as well as “our close friendship with Japan – which will always be a centerpiece of our efforts in the region.” In an obvious rejoinder to frequently heard complaints in Beijing about the US alliance network being a “leftover” from history or representing a “Cold War mentality,” Obama pointed out that “alliances are not historical documents from a bygone era, but abiding commitments to each other that are fundamental to our shared security.”

Prior to his trip, President Obama had referred to the Japan-US partnership as one of “equals,” and “not a senior-vs-junior partnership,” clearly playing to Prime Minister Hatoyama Yukio’s proclamations about wanting a greater say in the alliance. In truth, a “more equal” relationship is exactly what Washington has been seeking, one in which Japan sees itself as playing a more active security as well as economic role globally in support of common objectives. He noted that he and Hatoyama had both been elected “on the promise of change,” and that both were “committed to providing a new generation of leadership for our people, and our alliance.” He even tried (unsuccessfully – see the U.S.-Japan chapter) to defuse the most contentious alliance issue by agreeing to a “high-level working group” to discuss Okinawa relocation issues, even while making it clear that he was committed to the overall Japan base restructuring plan negotiated under the direction of Bush’s and his defense secretary, Robert Gates.

President Obama also expressed support, both in his Tokyo speech and upon arrival at the APEC leaders meeting in Singapore, for Asia-Pacific multilateral institutions. It was here he distinguished his policies from those of his predecessor: “I know that the United States has been disengaged from these organizations in recent years. So let me be clear: those days have passed.”

In fairness, George W. Bush was a perfect eight-for-eight when it came to APEC, something his predecessor could not claim. But perceptions trump reality and Obama’s assertion reinforced the “America is back” message that he wanted to deliver (and that most of Asia wants to hear). He also reaffirmed the longstanding US preference for multilateral mechanisms that include the US: “the United States expects to be involved in the discussions that shape the future of this region, and to participate fully in appropriate organizations as they are established and evolve.”

He did not specifically address Prime Minister Hatoyama’s support for an East Asia Community that presumably would exclude the US. Nor did he address Australian Prime Minister Kevin Rudd’s earlier proposal for a more inclusive Asia-Pacific Community, which would presumably include the US. Rudd sponsored a major gathering in Sydney in December to further explore and refine his proposal but it is not clear how it differs from the ongoing East Asia Summit (EAS), absent the lack (thus far) of US participation and the apparent removal of ASEAN from the driver’s seat, a characteristic that has the countries of ASEAN less than fully enthused about the proposal.

The event that captured the most headlines in Singapore – for all the wrong reasons – was President Obama’s summit with the 10 members of ASEAN. Again, this is part of a continuing effort to build closer ties with Southeast Asia. A similar summit had been planned two years ago but was scrubbed when President Bush had to rush home to deal with Iraq rather than continue on to Singapore after the 2007 APEC leaders meeting in Sydney.

The first full ASEAN-US summit placed a US president and Burmese prime minister in the same room at the same time. It helped underscore one major policy difference with his predecessor: his willingness to outstretch his hand to those who are prepared to unclench their fist. In his Tokyo speech he noted: “We support a Burma that is unified, peaceful, prosperous, and democratic. And as Burma moves in that direction, a better relationship with the United States is possible.”

Even here, the objective remains the same as in previous administrations: promoting free and fair elections (as promised by the Burmese leadership) and obtaining the release from house arrest of Aung San Suu Kyi. This openness to dialogue with Burma also opens the door for Washington and the other nine members of ASEAN to craft a more unified policy toward Burma aimed at achieving these twin goals.

President Obama’s visit to Shanghai and Beijing helped set the tone for a “spirit of partnership” between China and the US. In his Asia policy address in Tokyo, President Obama defined the parameters of the relationship, noting that “in an inter-connected world, power does not need to be a zero-sum game, and nations need not fear the success of another.” He acknowledged that Washington and Beijing “will not agree on every issue,” and that his administration “will never waver in speaking up for the fundamental values that we hold dear.” But, he asserted, “the United States does not seek to contain China,” further noting that “the rise of a strong,

prosperous China can be a source of strength for the community of nations.” Obama seems determined to take China-US relations to the next level of cooperation on strategic as well as economic and environmental issues. It remains an open question, however, just how prepared Beijing is to take “yes” for an answer and truly cooperate on issues of importance to the Obama administration, such as nonproliferation (read: Iran and North Korea) and climate change.

President Obama’s above-referenced comments on North Korea, along with a stern warning that the US would continue to apply sanctions without movement on denuclearization, demonstrated that he remained in lock-step with ROK President Lee Myung-bak and helped set the tone for a constructive, largely non-contentious visit to Seoul. President Obama even hinted that there may finally be some progress on the one remaining sore point in US-ROK relations: the failure of his administration to deliver on the Korea-US (KORUS) Free Trade Agreement (FTA) negotiated by their predecessors and strongly supported by Lee. In his Tokyo speech he noted: “Together, with our South Korean friends, we will work through the issues necessary to move forward on a trade agreement with them.”

In sum, Obama’s first major Asia policy address sent the clear message that “America is back,” especially in preserving and strengthening its Asian alliance relationships, constructively engaging with China and with regional multilateral forums, and pursuing regional and global nonproliferation and disarmament agendas. Thus far, he seems to be practicing what he preaches.

As we approach the end of President Obama’s first year in office, we think it is fair to say that, with one important exception, US relations with the countries of East Asia are better today than when he took office. This is no small accomplishment since, again with one (different) exception, relations were already quite good; as argued earlier, the Bush administration left Asia in pretty good shape.

The two exceptions are obvious. The one relationship that has gotten worse under President Obama is perhaps the most important one, between Washington and Tokyo. The fault lies primarily (but not exclusively) with Japan; a new government took power, led for the first time ever by the Democratic Party of Japan (DPJ), which ran against the policies of the past. While Prime Minister Hatoyama still pays rhetorical allegiance to the US-Japan alliance relationship as the foundation of his foreign policy, in practice tensions have grown over his apparent decision to consider walking away from a base relocation agreement negotiated between the Bush administration and the prior Liberal Democratic Party-led government which was accepted – as any government-to-government agreement should have been – by the Obama administration. As we approach the 50<sup>th</sup> anniversary of the alliance (Jan. 19, 2010), both sides are trying hard to get the relationship back on track. This will require some patience on Washington’s part and some political courage on Tokyo’s. Putting off the decision on relocating Futenma Air Base until May solves little; bad news does not get better with age!

The Bush administration’s major Asian dark spot was North Korea, where efforts to craft a denuclearization agreement crumbled as Pyongyang walked away from earlier pledges to verifiably give up its nuclear weapons. Things quickly went from bad to worse as the North welcomed the Obama administration first with a long-range missile test and then with its second nuclear-weapon test (the first was in October of 2006) amid pledges to never return to the Bush-

initiated Six-Party Talks. In the face of strict United Nations sanctions and a consistent hardline approach from Washington and Seoul, the North now appears to be relenting at least on the latter point, and the prospects of a resumption of dialogue now appear good (even though the prospects of actual denuclearization are as low as ever).

In short, as President Obama looks back on his first year, he can be generally pleased with his Asia policy. But, his first order of business for the new year is getting US-Japan relations back on track, sustaining the positive momentum on both halves of the Korean Peninsula and in Southeast Asia, and then testing Beijing's sincerity about being a "responsible stakeholder," a term (and aspiration) left over from the Bush years and a hope still largely unfulfilled.

### **The joy of sassiness**

Relations between Thailand and Cambodia, troubled for some time now, erupted anew this quarter. In 2009, the longstanding dispute over the demarcation of the border near the Preah Vihear temple complex again triggered violence, as the two militaries exchanged fire on a couple of occasions. Fortunately, the incidents were contained and tamped down. The tension reflected efforts to use the dispute for domestic political purposes in each country. Cooler heads prevailed and the two governments put the dispute in perspective and moved on to other issues.

Passions were inflamed again in the last quarter of 2009 when Cambodian Prime Minister Hun Sen named Thaksin Shinawatra his personal advisor and a government economic advisor. Few moves could have been more provocative. Thaksin is the former prime minister of Thailand who was ousted in a coup in 2006 and subsequently sentenced to a two-year jail term for abuse of power after being tried by a Thai court in absentia in September 2008. Thaksin twice visited Cambodia last quarter; each trip triggered an extradition request from Thailand, and both were ignored by Hun Sen, who seems to have delighted in poking Thai authorities in the eye.

His provocations worked. Bangkok responded to Thaksin's appointment by withdrawing its ambassador from Phnom Penh; Cambodia reciprocated the next day. Bangkok also tried to void a memorandum of understanding on a maritime boundary settlement signed when Thaksin was prime minister and suspended joint cooperation projects in the Gulf of Thailand. Thaksin added insult to injury by securing the pardon of a Thai air traffic control employee in Cambodia who had been convicted of spying after providing Thaksin's flight schedule to the Thai embassy. That triggered a round of tit-for-tat expulsions by the two governments.

The consensus is that Cambodia is "winning" this tiff. Hun Sen looks like a defiant leader fending off a powerful neighbor and he is ready to exploit Thaksin's business connections for both his country and his own personal gain. Thaksin has a platform to thumb his nose at Bangkok, and every Thai reaction gives him more publicity. For its part, the Thai government looks weak and ineffectual. Having withdrawn its ambassador and frozen talks, it is unclear what leverage Thailand has or how it can resolve the situation without losing face. ASEAN is another loser: the organization's unwillingness to address a contretemps of this nature makes it look feckless, exposing its noninterference policy as an excuse for shying away from substantive issues. This inaction only adds to the chorus of complaint that ASEAN is weak and has lost its sense of purpose. Meanwhile, the ASEAN Regional Forum (ARF), which is supposed to be

transitioning from a confidence building mechanism to a more proactive diplomatic role, remains silent on an issue that seems ideally suited for a preventive diplomacy intervention, provided both parties agree. To date, there is no indication they have even been asked.

## **Forever APEC**

The annual APEC leaders meeting convened in Singapore Nov. 14 and 15. The final declaration looks a lot like its predecessors. It reiterates the commitment to free trade, rejects protectionism, and recognizes the need for a long-term growth strategy that respects the diversity of APEC's members. In a departure from earlier documents, it endorsed the G20 Framework for Strong, Sustainable and Balanced Growth, a sign of the prominence that group now enjoys. APEC leaders promised to continue economic stimulus packages until there is a durable and sustainable recovery. And, like the G20, the leaders acknowledged that "growth as usual" is no longer an answer. "We need a fresh growth paradigm. We need a fresh model of economic integration."

Expectations for more than rhetoric were bound to be frustrated. The leaders called for "an ambitious outcome in Copenhagen," while dropping a proposal from early drafts that embraced sharp cuts in greenhouse-gas emissions to half their 1990-levels by 2050. They anticipated the outcome of the December climate talks in Copenhagen by calling for a political commitment to tackle climate change and leaving the details for negotiations in 2010 – after the original deadline for a deal had expired.

For a forum that is ostensibly devoted to economic and trade issues, the leaders' declaration was disappointing. Of course, they rejected "all forms of protectionism" and reaffirmed their "commitment to keep markets open and refrain from raising new barriers to investment or to trade." They pledged – stop us if you've heard this one before – to press for the successful conclusion of the Doha Round of trade talks by the end of 2010. But a group that accounts for 54 percent of global economic output must offer more than the same old rhetoric as the world grapples with the worst economic crisis since the Great Depression and trade talks remain deadlocked.

Instead the group will continue to explore an Asia-Pacific free trade area. In theory, that remains the APEC goal. This year's declaration noted the group will "continue to explore building blocks towards a possible Free Trade Area of the Asia Pacific (FTAAP). ... We look forward to the progress update from Ministers and officials next year on the outcomes of the exploration of a range of possible pathways to achieve FTAAP." Differences among the 21 APEC member economies mean progress toward that end will be fitful at best. To move them along, President Obama told the APEC leaders that his administration would pursue the Transpacific Partnership with a group of seven like-minded countries – Singapore, Chile, New Zealand, Brunei, Australia, Peru, and Vietnam – "to craft a platform for a high-standard, comprehensive agreement – one that reflects US priorities and values – with these and additional Asia-Pacific partners." Consider that as one more strand in the Asia-Pacific "noodle bowl" of economic agreements.

This list of complaints should look familiar. We – and others – roll them out after each summit. On the other hand, the APEC meeting does provide an opportunity for regional leaders to meet trans-Pacific counterparts: A substantial number of bilateral meetings occur on the sidelines of



the forum. While the benefits of this process can't be quantified, it would be churlish to say it doesn't have its benefits. And, if nothing else, the readiness of the US president to engage at APEC demonstrates the ongoing US commitment to the region. (Of course, when he doesn't show, it makes an equally powerful statement.)

### **Ever upward**

The economies of East Asia continue to post impressive results, prompting all sorts of commentary about the region's status as the pacesetter for the global economy and breathless speculation – again – about the coming Pacific Century. The premises are correct, even if the conclusions are not. The Asian Development Bank explained the reasons for optimism in a December update of the regional economic outlook, noting “The prospects for much of the region look rosier than they did in September when we last did a full study of the region. Fiscal and monetary stimulus policies and a moderate improvement in the G3 economies of Europe, Japan and the U.S. helped East Asia and Southeast Asia in particular.”

According to the bank, East Asia – China, Hong Kong, South Korea, Mongolia, and Taiwan – will register 5.1 percent growth in 2009 and 7.3 percent in 2010; those numbers represent upward revisions from 4.4 percent and 7.1 percent respectively. Southeast Asia will grow 0.6 percent in 2009 and 4.5 percent in 2010, an increase from the September forecasts of 0.1 percent and 4.3 percent. China's numbers are unchanged: the ADB expects 8.2 percent growth in 2009 and 8.9 percent in 2010. India's outlook is also bright: it is expected to register 7.0 growth in 2009, 1 percentage point higher than previously expected. The 2010 figures are unchanged, remaining at 7.0 percent.

The IMF's World Economic Outlook, published in October, provides an equally bullish picture for Asia. Overall, “Emerging Asia” will grow 5.0 percent in 2009 and 6.8 percent in 2010. China is a driving force in that expansion. Its economy is anticipated to show 8.5 percent growth in 2009, and 9 percent growth in 2010. India's picture is a little less bright: 5.4 percent in 2009 and 6.4 percent in 2010. The ASEAN 5 – Indonesia, Malaysia, Philippines, Thailand, and Vietnam – should grow 0.7 percent in 2009 and 4 percent this year. After shrinking 5.4 percent in 2009, the Japanese economy is forecast to expand 1.7 percent in 2010. South Korea's economy will shrink 1.0 percent in 2009, and grow 3.6 percent in 2010; that is fourth among “advanced economies,” lagging only Singapore and Taiwan in Asia.

In comparison, Morgan Stanley anticipates 10 percent GDP growth in China in 2010, and 8 percent growth in India. The ASEAN four economies – Singapore, Malaysia, Thailand and Indonesia – are expected to register no growth in 2009 and 4.8 percent in 2010. That is a little below the go-go years, but it is still impressive when compared to the rest of the world.

### **More noodles in the bowl**

Another important development last quarter was the inauguration of several free trade agreements. The *India-ASEAN FTA* in goods was signed on the sidelines of the ASEAN summit that convened in Bangkok Oct. 13. The deal will create an FTA of 1.7 billion people with a combined GDP of \$2.3 billion. It eliminates tariffs on more than 4,000 products, ranging from

electronic goods and textiles to chemicals and capital goods over six years. With bilateral trade between India and ASEAN already reaching \$48 billion in 2008, the FTA is expected to boost trade by \$10 billion in the first year alone. Beyond its economic significance, the FTA is symbolic as well. It is India's first multilateral trade agreement and a highpoint for Delhi's "Look East" policy, which is designed to tie India more tightly to East and Southeast Asia.

On Oct. 15, South Korea and the European Union (EU) initialed a free trade deal that could be worth as much as \$149 billion to both economies. South Korea is the EU's fourth largest trade partner, with the EU exporting a little more than \$38 billion in goods in 2008 and importing \$58.7 billion the same year. It is estimated that the agreement will quickly eliminate \$2.4 billion worth of Korean import duties annually for EU exporters of industrial and agricultural products, while the EU will eliminate around \$1.64 billion of duties. The deal is one of the most ambitious that the EU has ever signed – and could well reflect the boost given to South Korean negotiators after they concluded a deal with the US (even though the KORUS FTA has not been ratified by either legislature.) Seoul is reportedly contemplating a delay in ratifying the EU deal until after local and regional elections scheduled for June 2010 to bypass domestic opposition.

Jan 1, 2010 was the big day, though. The new year saw the *China-ASEAN Free Trade Area (CAFTA)* go into effect. By size – 1.9 billion people – CAFTA is the world's largest trade area; in terms of GDP (\$6 trillion, with \$4.5 trillion in inter-regional trade), it is number three, trailing NAFTA and the EU. Trade between the parties comprises 13.3 percent of global trade and half the total trade of Asia in 2008. The two regions attracted a combined 10 percent share of global foreign direct investment (\$167.3 billion) in 2008. The FTA will remove tariffs on 90 percent of traded goods in two phases: the six original ASEAN members (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand), will cut the average tariff on Chinese goods from 12.8 percent to 0.6 percent. By 2015, the newer ASEAN members (Cambodia, Laos, Myanmar, and Vietnam) will follow suit. Of course, there are provisions that insulate some industries from competition. High-tariff items listed as "highly sensitive" (such as rice, cars, and petrochemical products) are subject to a slower schedule: the original ASEAN six have until 2015 to cut tariffs below 50 percent and the new members have until 2018.

Negotiated in 2003, signatories had seven years to prepare. During that time, China has surpassed the US to become ASEAN's third largest trade partner, trailing Japan and the EU. Trade between the two has exploded, expanding from \$59.6 billion in 2003 to \$193 billion in 2009. China's share of Southeast Asia's total commerce has nearly tripled during that time, increasing to 11.3 percent from 4 percent.

The deal has had unanticipated follow-on effects. While it couples China and ASEAN more tightly and allows Southeast Asian industry to benefit from China's voracious demand, it has also meant that ASEAN economies are feeling more directly the impact of Chinese competition. That has in some cases increased resentment of China in Southeast Asia. Ironically, it has also underscored the desire of ASEAN nations to see the US (and Japan) more deeply engaged with the region to balance China's growing weight and influence.

On Jan. 1, the *ASEAN-Australia-New Zealand Free Trade Agreement* also went into effect, creating a group of 600 million people with a combined GDP of \$2.8 trillion. The agreement will

cover about 70 percent of Australian trade with ASEAN (Australia and New Zealand have had an FTA since 1983) and will eliminate tariffs on 96 percent of Australian exports to ASEAN by 2020. ASEAN accounted for 15 percent of Australia's trade, and equals Canberra's trade with China, its largest trading partner. The FTA is Australia's first multi-country FTA. For New Zealand, ASEAN collectively is the country's fifth largest export market and fifth largest source of imports. The deal has entered into force for Brunei, Burma, Malaysia, the Philippines, Singapore, and Vietnam; Indonesia, Cambodia, Laos, and Thailand are expected to ratify the agreement in the first half of 2010.

We'll leave it to the professional economists to determine whether such arrangements are good for the global trade system. For our purposes, the proliferation of FTAs has profound consequences. The web of connections among various Asian associations is thickening. Economic ties are being strengthened. A community is emerging. If an Asian community is being created, economic links will shape its membership. It will be harder to exclude countries from a "political" community when they are intimately linked via economic agreements. In addition, there are security concerns that arise from the increasing permeability of borders. It may prove difficult to reconcile the need for stricter management of trade – a result of fears about proliferation of weapons of mass destruction, but also stemming from worries about transnational crime and various forms of illegal trafficking – with tariff-free trade. In theory, the two notions aren't contradictory. Practice may prove otherwise.

### **Regional Chronology** **October - December 2009**

**Oct. 1, 2009:** China celebrates the 60<sup>th</sup> anniversary of the Communist Party's victory in China's civil war with a massive parade in Beijing.

**Oct. 2, 2009:** Kurt Campbell, assistant US secretary of state for East Asian and Pacific affairs, meets Burmese Health Minister U Thaung on the margins of the UN General Assembly.

**Oct. 4-6, 2009:** Chinese Premier Wen Jiabao visits North Korea and meets Kim Jong-il.

**Oct. 9-10, 2009:** Premier Wen, Japanese Prime Minister Hatoyama Yukio, and South Korean President Lee Myung-bak hold talks in Beijing on ways to boost economic cooperation and bring North Korea back to the negotiating table.

**Oct. 12, 2009:** North Korea fires five surface-to-surface *KN-02* missiles off its east coast.

**Oct. 12-14, 2009:** Russian Prime Minister Vladimir Putin visits China and meets Premier Wen Jiabao. They agree to increase coordination on global challenges, promote a new international financial order, and improve representation of developing countries and emerging economies.

**Oct. 13-29, 2009:** The US and India conduct a joint military exercise codenamed *Yudh Abhyas (Preparation for War)* in Uttar Pradesh, India.

**Oct. 15, 2009:** North Korea accuses South Korea of sending warships across their sea border and said the “reckless military provocations” could trigger armed clashes.

**Oct. 15, 2009:** The European Union and South Korea sign a free trade agreement. The agreement is expected to come into force in the second half of 2010.

**Oct. 23, 2009:** The US freezes the assets of North Korea’s Amrogang Development Bank, which it says is controlled by previously sanctioned Tanchon Commercial Bank. It also designates Tanchon bank president Kim Tong Myong as a proliferator of weapons of mass destruction and freezes his assets.

**Oct. 23, 2009:** The 15<sup>th</sup> ASEAN summit is held in Hua Hin, Thailand.

**Oct. 24, 2009:** Indian Prime Minister Manmohan Singh and Chinese Prime Minister Wen Jiabao meet on the sidelines of the East Asia Summit to discuss tensions between the two countries over their unresolved border dispute.

**Oct. 24, 2009:** ASEAN Plus 3 summit is held in Hua Hin, Thailand.

**Oct. 25, 2009:** East Asia Summit is held in Hua Hin, Thailand.

**Oct. 27-30, 2009:** Singapore hosts a Proliferation Security Initiative exercise named *Deep Sabre II*, which involves military and civil agencies from 22 countries practicing maritime interdiction strategies targeting vessels that transport weapons of mass destruction.

**Oct. 30, 2009:** *Yonhap* reports that the ROK National Intelligence Service (NIS) has identified the DPRK Telecommunications Ministry as the origin of a series of cyber attacks in July on state and private websites in the ROK and the US.

**Nov. 3, 2009:** North Korea announces that it has completed reprocessing spent fuel rods and that “noticeable successes have been made in turning the extracted plutonium weapons-grade [sic] for the purpose of bolstering up the nuclear deterrent in the DPRK.”

**Nov. 3-4, 2009:** Assistant Secretary of State Campbell and deputy Scot Marciel visit Burma ending a US policy of isolating the regime. During the visit they meet Premier Thein Sein and Aung San Suu Kyi.

**Nov. 4-6, 2009:** Cambodia announces that it has appointed former Thai Prime Minister Thaksin Shinawatra as economic adviser to Prime Minister Hun Sen. Thailand responds on Nov. 5 by recalling its ambassador to Cambodia. On Nov. 6, Cambodia announces the withdrawal of its ambassador to Thailand.

**Nov. 6-7, 2009:** Japanese Prime Minister Hatoyama hosts the leaders of Southeast Asia’s five Mekong River nations to discuss a range of regional issues.

**Nov. 6-7, 2009:** China hosts an international conference on efforts to protect shipping in the Gulf of Aden from Somali pirates. Attendees reportedly include representatives from “Russia, Japan, India, the European Union, and other countries’ marine forces, including NATO.”

**Nov. 9, 2009:** The eighth round of START replacement consultations between Russia and the US begins in Geneva.

**Nov. 13-14, 2009:** President Barack Obama visits Japan and meets Prime Minister Hatoyama.

**Nov. 14-15, 2009:** Asia Pacific Economic Cooperation (APEC) leaders meeting is held in Singapore.

**Nov. 15, 2009:** President Obama meets the leaders of the 10 ASEAN countries for the first-ever summit involving that group of countries.

**Nov. 15-18, 2009:** President Obama visits China with stops in Shanghai and Beijing and meets President Hu Jintao.

**Nov. 18-19, 2009:** President Obama visits Seoul and meets President Lee Myung-bak.

**Nov. 22-26, 2009:** China’s Defense Minister Liang Guanglie visits North Korea and pledges with Defense Chief Kim Yong-chun to strengthen the military alliance between the two countries. He also meets Chairman Kim Jong-il.

**Nov. 24-25, 2009:** Indian Prime Minister Manmohan Singh visits Washington and meets President Obama.

**Nov. 28, 2009:** Japan launches a satellite that has the ability to monitor DPRK military facilities through high-definition imagery.

**Dec. 8-13, 2009:** US Special Representative for North Korea Policy Stephen Bosworth visits Pyongyang, Seoul, Beijing, Tokyo, and Moscow in an effort to bring North Korea back to nuclear disarmament negotiations.

**Dec. 12, 2009:** Thai authorities seize 35 tons of weapons including explosives, rocket-propelled grenades, and components for surface-to-air missiles from North Korea and arrest five crewmembers of an *IL-76* aircraft for illegal possession of arms.

**Dec. 14-22, 2009:** Chinese Vice President Xi Jinping visits Japan, South Korea, Myanmar, and Cambodia.

**Dec. 15, 2009:** Prime Minister Hatoyama announces that he will postpone a decision on relocating an American military base on Okinawa until next year.

**Dec. 14-15, 2009:** Vietnamese Prime Minister Nguyen Tan Dung visits Russia and announces that contracts worth billions of dollars to purchase Russian submarines, fighter jets, and other military hardware were signed while he was in Moscow.

**Dec. 17, 2009:** Japan announces that it will suspend new funds for its missile defense system and delay the deployment of new *Patriot Advanced Capability-3 (PAC-3)* surface-to-air interceptors until after April 2011.

**Dec. 18, 2009:** Presidents Obama and Medvedev meet at the conclusion of the Copenhagen climate talks to discuss the negotiations on the replacement of START-1.

**Dec. 19, 2009:** Cambodia deports 20 Muslim Uighurs, who had fled the Xinjiang region after unrest erupted there in July and were seeking asylum in Phnom Penh.

**Dec. 21, 2009:** China signs pacts worth \$1 billion in aid to Cambodia and thanks Phnom Penh for its decision on Dec. 19 to deport a group of Uighurs seeking refuge back to China.

**Dec. 23, 2009:** Russia announces that Burma will purchase 20 *MiG-29* fighter jets.

**Dec. 25, 2009:** Liu Xioabo, a veteran Chinese human rights activist is sentenced to 11 years in prison “for inciting subversion of state power.”

**Dec. 27-30, 2009:** Japanese PM Hatoyama and a high-level delegation visit India to strengthen economic and security cooperation. He meets Prime Minister Singh and Sonia Gandhi, chief of the ruling Congress Party.

**Dec. 28, 2009:** Thailand begins repatriating 4,000 Hmong refugees to Laos despite pleas from the US, UN, and human rights groups.

**Dec. 30, 2009:** Former Indonesian President Abdurrahman Wahid dies.

**Jan. 1, 2010:** ASEAN-Australia-New Zealand Free Trade Agreement goes into effect, creating a group of 600 million people with a combined GDP of \$2.8 trillion.

**Jan. 1, 2010:** China-ASEAN Free Trade Area (CAFTA) goes into effect, creating a group of 1.9 billion people with a combined GDP of \$6 trillion.