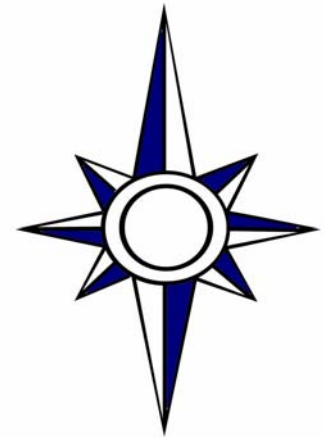




Pacific Forum CSIS



Comparative Connections



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

edited by

Brad Glosserman
Carl Baker

1st Quarter (January-March) 2008
Vol. 10, No. 1
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Pacific Forum CSIS

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

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

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A Quarterly Electronic Journal on East Asian Bilateral Relations

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

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

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

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

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

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by David G. Brown, The Johns Hopkins School of Advanced International Studies

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While Japanese and Chinese political leaders and diplomats worked to build the mutually beneficial strategic relationship and to advance the spring visit of China's President Hu Jintao, both sides found it hard going. The safety of imported Chinese *gyoza* (dumplings) became a major issue as reports of food poisoning of Japanese became front-page news. Responsibility for the poisoning became the center of contention. Health Ministry and public safety officials in both countries pledged cooperation in resolving the issue but failed to identify the cause. At the same time, expectations for a resolution of the East China Sea dispute before the upcoming Hu visit faded. By mid-March, both sides were taking the position that resolution should not be linked to a visit. Scheduling problems, failure to resolve the East China Sea dispute, and the *gyoza* controversy, combined to push the visit back to an early May time frame.

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The first quarter of 2008 was a period of transition for Moscow and Beijing. Vladimir Putin switched roles with successor Dmitry Medvedev, but did not fade away. Hu Jintao sailed into his second five-year term as the next generation of China’s leaders emerges. The quarter also witnessed political changes in neighboring countries with strong implications for Russia and China. Beyond presidential politicking, Beijing and Moscow were confronted with a “domino” effect for self-rule: Kosova declared independence from Serbia; the fate of Taiwan remained uncertain for most of the first quarter as Beijing and Washington worked to rein back efforts by Taiwan’s President Chen and the Democratic Progressive Party to move toward *de jure* independence; and riots in Tibet in mid-March cast a long shadow over the 2008 Beijing Olympics. Between domestic preoccupations and external challenges, Sino-Russian bilateral relations switched from hibernation to hyperactivity in March: leaders congratulated each other on elections and reelections; defense ministers initiated a military hotline; the Shanghai Cooperation Organization (SCO) worked out new areas of cooperation, and stepped up cooperation with Afghanistan while trying to dampen Iran’s bid for SCO membership.

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Regional Overview:

(Waiting for) The Dawn of a New Era

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“It is always darkest just before the dawn of a new day” goes the old saying. Well, it looks pretty dark when it comes to U.S.-DPRK relations and the prospects for the Six-Party Talks, with no significant progress reported this quarter in the quest for a “complete and correct declaration” of North Korea’s nuclear programs and activities. Hope springs eternal, however, as both sides continued to work toward a much needed “third breakthrough” in the next quarter.

Meanwhile, with a change of government in Seoul and an impending change in Taipei, an era of improved relations with Washington may be dawning. It’s a new day in Thailand as well, or perhaps more accurately, a return to the (good?) old days when Thaksin ruled. Election results in Malaysia indicate that politics as usual will no longer be the norm in Kuala Lumpur, while in Russia, a change in leadership seems to represent no change at all. No change is also the operative word when it comes to Burma. Unfortunately, it just appears to be getting darker when it comes to Tibet as well. Finally, with the U.S. economy sneezing, how confident are we that Asia will not soon catch cold?

Six-Party Talks: (still) waiting for Dec. 31

The last quarter of 2007 ended with Six-Party Talks participants waiting for the mutually acceptable “complete and correct declaration” of all North Korean nuclear activities due by Dec. 31. This quarter ended the same way. What little movement that did take place in this first quarter of 2008 seemed mostly in the wrong direction.

In response to an apparent Chinese-suggested compromise, Washington announced that neither separate declarations nor a partial declaration setting aside some issues (read: uranium enrichment and alleged support to Syria) was “politically sustainable.” (A “secret” declaration may be possible, however – more on this later.) As chief U.S. negotiator Assistant Secretary of State for East Asia Christopher Hill warned: “We cannot pretend that activities don’t exist when we know that the activities have existed.” At quarter’s end, Hill was also noting that “we can’t afford any further delays here,” adding that “we do need to make some progress here very soon.”

On a more positive note, Hill did note during a speech at Amherst on Jan. 30 that the U.S., after examining imported aluminum rods that were part of the evidence of a suspected uranium enrichment program, was “on the way toward ruling out that they have developed a uranium enrichment capacity such that they have developed fissile material from such a program.” Of

course, no one had ever accused Pyongyang of actually producing fissile material from its alleged clandestine uranium enrichment program. This would have required building several thousand centrifuges – the two dozen or so reportedly purchased from Pakistan were for back-engineering purposes. Nor does Hill’s statement rule out the existence of such a program or intention. It does open the door, however, for a DPRK acknowledgment of the centrifuge and aluminum rod purchases without publicly tying them to a nuclear weapons-related uranium enrichment program *per se*.

Responding to repeated calls by Washington (among others) for a complete and correct declaration, Pyongyang steadfastly asserted that it had already provided everything it planned to provide in November 2007, stating unequivocally at quarter’s end that “the DPRK has never enriched uranium nor rendered nuclear cooperation to any other country. It has never dreamed of such things. Such things will not happen in the future either.” Again, claiming to have “never enriched uranium” is different from denying that a program existed to eventually accomplish this task or that enrichment equipment was acquired for other “peaceful purposes” (i.e., reactor fuel fabrication) rather than to build weapons. As has been previously suggested in these pages, Pyongyang still has the option of admitting that it purchased centrifuges and other uranium enrichment-related equipment without specifically acknowledging that this was done in violation of previous agreements. It remains to be seen if the Bush administration is prepared to settle for this type of compromise (but don’t be surprised if Pyongyang offers to sell the now useless centrifuges and aluminum rods to the U.S. at a profit).

The second part of the above-cited March 28 *KCNA* statement, claiming never to have “rendered nuclear cooperation to any other country” is more problematic, given U.S. insistence that such a link exists. Details regarding the “smoking gun” have not been made public but unconfirmed reports indicate that Secretary Hill showed incoming ROK officials a videotape of the Israeli attack on the suspect Syrian nuclear facility that had a lot of very excited (North) Koreans exiting the premises. South Korean press reports also claim that Hill gave Pyongyang a list of DPRK officials, including nuclear engineers, who were involved in the supply of nuclear technology to Syria. Meanwhile, Japanese officials claim that Israeli Prime Minister Ehud Olmert briefed Prime Minister Fukuda Yasuo about the attack during summit talks in Tokyo on Feb. 27, confirming that it was a nuclear-related facility under construction with technical assistance from the DPRK.

Despite this reported evidence, Pyongyang continues to accuse Washington of clinging to its “incorrect” claims, further warning: “If the United States continues delaying the resolution of the nuclear problem by demanding what does not exist, this will have a serious impact on the desired disablement of the nuclear facilities.” This seemed to leave little room for the type of “confession” that Hill (and the U.S. Congress) are expecting.

While uranium enrichment and Syrian proliferation are important issues politically, they are not the only or even the most important unresolved issue strategically. Another apparent remaining major point of contention deals with the amount of plutonium currently in North Korean hands. Secretary Hill has previously used the figure of “up to 50 kilograms” when speaking of what must be accounted for. This appears to be a worst- case figure, adding what may have been extracted prior to the 1994 Agreed Framework with what could have possibly been reprocessed

since 2003 (minus what was consumed in the 2006 nuclear test). Unconfirmed reporting indicates that Pyongyang is only prepared to acknowledge or account for 30 kg, which leaves about two-plus bombs worth of plutonium unaccounted for. Somehow this gap needs to be closed.

Given all of the above, it would not be hard for pessimists – or realists – to pronounce the process doomed or already dead. Nonetheless, cautious optimism prevailed with Secretary Hill also noting at quarter’s end that “differences are not getting bigger; they are getting smaller.” Hill also indicated that another bilateral meeting with his counterpart, North Korean Vice Foreign Minister Kim Kye-gwan, was to take place in Southeast Asia early in the next quarter, aimed at seeking yet another “breakthrough.” [Hill and Kim met in Singapore on April 8 and reportedly agreed on the wording of a declaration that was not going to be released to the public but which would “probably persuade the U.S. Congress.” Hopefully we will be reporting the dawn of a new day in the six-party saga next quarter.]

In the meantime, as we await details of the next deal, it is useful to remind ourselves of what was actually agreed upon, first during the landmark September 2005 Joint Statement and later during the two “breakthrough” declarations that took place in February and October of 2007.

2005 Joint Statement. The key phrases related to the denuclearization process in the “Joint Statement of the Fourth Round of Six-Party Talks, Beijing, Sept. 19, 2005” are:

- The six parties unanimously reaffirmed that the goal of the Six-Party Talks is the verifiable denuclearization of the Korean Peninsula in a peaceful manner.
- The Democratic People's Republic of Korea (North Korea) committed to abandoning all nuclear weapons and existing nuclear programs and returning at an early date to the treaty on the nonproliferation of nuclear weapons (NPT) and to IAEA (International Atomic Energy Agency) safeguards.
- The DPRK stated that it has the right to peaceful uses of nuclear energy. The other parties expressed their respect and agreed to discuss at an appropriate time the subject of the provision of light-water reactor to the DPRK.
- The six parties agreed to take coordinated steps to implement the aforementioned consensus in a phased manner in line with the principle of “commitment for commitment, action for action.”

The U.S. and ROK also agreed to keep the southern half of the Peninsula nuclear weapons free and it was agreed that “the directly related parties will negotiate a permanent peace regime on the Korean Peninsula at an appropriate separate forum.” What has not been agreed upon is the “appropriate time” for discussion of light water reactors (LWRs). Washington has made it clear that this can only come after complete denuclearization while Pyongyang continues to insist that LWRs must be provided in advance of or simultaneously with the final act of denuclearization.

For a variety of reasons, including a dispute over frozen North Korean funds in a Macau bank, the process then remained stalled from September 2005 until February 2007, when the first

“breakthrough” took place in the form of the “Joint Statement from the Third Session of the Fifth Round of the Six-Party Talks, Beijing, Feb. 13, 2007,” where the six parties “reaffirmed their common goal and will to achieve early denuclearization of the Korean Peninsula in a peaceful manner and reiterated that they would earnestly fulfill their commitments in the [September 2005] Joint Statement.”

Feb 13, 2007 Agreement. The main denuclearization actions scheduled for the initial phase (first 60 days) were:

- The DPRK will shut down and seal for the purpose of eventual abandonment the Yongbyon nuclear facility, including the reprocessing facility and invite back IAEA personnel to conduct all necessary monitoring and verifications as agreed between IAEA and the DPRK.
- The DPRK will discuss with other parties a list of all its nuclear programs as described in the Joint Statement, including plutonium extracted from used fuel rods that would be abandoned pursuant to the Joint Statement.

In return, the U.S. would “begin the process of removing the designation of the DPRK as a state-sponsor of terrorism and advance the process of terminating the application of the Trading with the Enemy Act with respect to the DPRK.” The DPRK would also receive an “initial shipment of emergency energy assistance equivalent to 50,000 tons of heavy fuel oil (HFO)” as the first installment on a total assistance package representing the equivalent of 1 million tons of HFO. A number of working groups were also formed, including one on “Denuclearization of the Korean Peninsula” to be chaired by the PRC.

No time frame was established for implementation of the second phase, which was to include “provision by the DPRK of a complete declaration of all nuclear programs and disablement of all existing nuclear facilities, including graphite-moderated reactors and reprocessing plant,” although Secretary Hill hoped that this could be accomplished by the end of 2007.

There was no reference to frozen bank accounts in the February agreement but its implementation was delayed due to a delay in the release of these funds – apparently promised at a side meeting between Hill and Kim in Berlin in January 2007 – and the 60-day phase ended up taking about four months to complete.

The next Six-Party Talks session, in July 2007, failed to achieve much forward movement and it took another bilateral Hill-Kim session, in Geneva in early September, to set the stage for the year’s second “breakthrough” agreement, the “Second-Phase Actions for the Implementation of the Joint Statement, Beijing, 3 October 2007.”

Oct. 3, 2007 Agreement. In this agreement, participants “confirmed the implementation of the initial actions provided for in the February 13 agreement . . . and reached agreement on second-phase actions for the implementation of the Joint Statement of 19 September 2005, the goal of which is the verifiable denuclearization of the Korean Peninsula in a peaceful manner.”

Specifically, the DPRK “agreed to disable all existing nuclear facilities subject to abandonment under the September 2005 Joint Statement and the February 13 agreement” with disablement of the three main facilities at Yongbyon – the 5 megawatt Experimental Reactor, the Reprocessing Plant, and the Nuclear Fuel Rod Fabrication Facility – to be completed by 31 December 2007. Pyongyang also “agreed to provide a complete and correct declaration of all its nuclear programs in accordance with the February 13 agreement by 31 December 2007 ” and “reaffirmed its commitment not to transfer nuclear materials, technology, or know-how.” In return, Pyongyang would receive the already promised “economic, energy, and humanitarian assistance up to the equivalent of one million tons of HFO.”

Regarding the removal of North Korea from the state sponsors of terrorism list and Trading with the Enemy Act restrictions, “the United States will fulfill its commitments to the DPRK in parallel with the DPRK’s actions based on consensus reached at the meetings of the Working Group on Normalization of DPRK-U.S. Relations.” While a date was not specified, Pyongyang has made it clear that it expected (was promised?) that this would take place simultaneous with its nuclear declaration prior to Dec. 31, 2007. The North says the declaration it apparently provided privately to Secretary Hill in November was sufficient to initiate the promised U.S. actions; Secretary Hill has stated unequivocally that it did not pass the “complete and correct” credibility test. Hence the latest stalemate, which brings us to the April 2008 Hill-Kim meeting in Singapore.

What’s Next? Note that the above agreements specify that the million tons equivalent of aid is in compensation for the disablement of all nuclear-related facilities and material, including those yet to be identified but which are expected to be included in the anticipated, but perhaps secret, declaration. This would include the facility where their bomb or bombs are actually produced (specialists say this did not take place at Yongbyon) plus the nuclear test site, etc. It should also include “disablement” of Pyongyang’s plutonium assets, presumably including any plutonium residing in actual weapons, although it is unclear if the authors’ interpretation is shared by Pyongyang (or even by Washington).

Note that neither the Feb. 13 nor Oct. 3 agreement compels Pyongyang to list its past proliferation activities (since the DPRK claimed that it had never proliferated); it merely “reaffirmed its commitment not to transfer nuclear materials, technology, or know-how.” Nonetheless, as Secretary Hill has argued, “transparency” regarding the DPRK’s proliferation-related activities is essential, especially with rumors surfacing that such activities may not be limited to Syria.

If and when phase two is actually completed and all nuclear-related facilities have been “disabled,” then the phase three “dismantlement” or “abandonment” phase will begin. During Congressional testimony in February, Secretary Hill told Senator Lugar “we don’t know what kind of money will be needed for phase three,” but it will no doubt be considerable, even though the non-monetary rewards offered to Pyongyang – eventual full diplomatic recognition, access to international financial institutions, and a full peace regime to replace the current Armistice – are considerable, if it completely, verifiably, and irreversibly gives up its nuclear weapons programs and ambitions.

Democracy in action

While little change was occurring on the six-party front, considerable change was taking place throughout Asia when it came to the promotion of democracy or lack thereof. In *Korea*, conservative Grand National Party President Lee Myung-bak, elected in a December 2007 landslide, was inaugurated on Feb. 25, launching a new government that promises a pragmatic, economy-centered approach to politics. Lee pledged during the campaign to restore 7 percent growth, to reach per capital GDP of \$40,000, and claim the no. 7 spot in the rankings of developed economies. He also said that he will demand more reciprocity in North-South relations and will insist on Pyongyang's denuclearization before the South pursues large-scale economic aid promised by his predecessor Roh Moo-hyun during his summit with Kim Jong-il in October 2007. Lee has also pledged to restore and reinvigorate the U.S.-ROK alliance. His impending visit to Washington and subsequent summit session with President Bush at Camp David signals an appreciation by the Bush administration for Lee's more pro-U.S. stance.

As in Korea, the conservative opposition party also gained a sweeping victory in *Taiwan*, where the telegenic Ma Ying-jeou, a former mayor of Taipei from the opposition Kuomintang (KMT) party, bested Frank Hsieh of the Democratic Progressive Party (DPP), by a 58 to 42 percent margin in March elections. That rout followed the January Legislative Yuan vote in which the KMT and two small affiliates took three-quarters of the seats. By election time, the prospect of KMT domination of both the executive and legislative branches appeared to be a critical factor as voters entered the ballot box.

Even that wasn't enough to stem the opposition tide, however. Hsieh's warnings that Ma's pledge to improve cross-Strait relations threatened eventual unification with the mainland and the crackdown in Tibet was a harbinger of Taiwan's future were dismissed as scaremongering. Instead, Taiwanese opted for renewed emphasis on economic performance and downplaying of identity politics. After winning the vote, Ma said his first priority "is normalization of (economic) relations, and then a peace agreement."

During the campaign, Ma used a "Three No's" platform: no reunification, no independence (by Taiwan) and no use of force (by China). He has indicated a readiness to explore discussions with Beijing on a formula for reconciliation but he is not going to sell out Taiwan. Indeed, a key element of this election is a better definition of the center in Taiwan's politics: while Taiwanese are no longer enthralled by former President Chen Shui-bian's identity politics, there is clearly a demand for respect for Taiwan's political and economic accomplishments.

The question is whether Beijing is sharp enough to recognize this. China rejoiced in Hsieh's defeat – casting it as a repudiation of Chen's policies – and the rejection of the two referenda on membership in the United Nations. But as David Brown notes in his chapter on China-Taiwan relations, "the two referenda together got affirmative votes equal to about 80 percent of the voters who participated in the election. It would be a serious mistake for Beijing or others not to recognize the near universal desire in Taiwan for greater participation in international organizations or to underestimate the political pressure Ma will be under to show progress on this front."

Thailand also got a new government when the Supreme Court in January dismissed several allegations of vote fraud. That permitted the People Power Party (PPP) of Samak Sundaravej to cobble together a coalition government that claimed a majority in the 480-seat Parliament, much to the dismay of the former military rulers. Sundaravej, a three-time former deputy prime minister, took the top slot and promised to emulate many of the policies of former Prime Minister Thaksin Shinawatra, overthrown by a coup in 2006 – big infrastructure projects, support for rural areas, and a continuation of the war against drugs that resulted in thousands of extrajudicial executions.

Samak is a vocal fan of – some say surrogate for -- the former PM who returned shortly after his wife after months in exile in London. They both were arrested – they have been indicted on various charges – and released. The disposition of their cases is a real challenge for the government – and a test of its commitment to the rule of law. It will also test the patience of the former military rulers who had tried their best to keep the PPP from winning. Will they remain in the barracks or attempt another coup – this time presumably with less public support or international acquiescence – if Thaksin is acquitted or seems to be running the new government from behind the scenes? Probably (hopefully) not, but the situation will bear close watching.

In *Malaysia*, Prime Minister Abdullah Ahmad Badawi and his National Front (Barisan Nasional) lost the two-thirds majority in Parliament that they have held for nearly four decades in March elections. After winning a landslide election in 2004 that wiped out any doubts about his fitness to succeed former Prime Minister Mahathir Mohamad, Abdullah's administration has been hit by scandal and seen as indifferent to the growing burdens on ordinary Malaysians suffering rising costs of living. Yet confident that he could repeat his 2004 success, the prime minister called an early election – in part, it is said, to keep popular opposition leader Anwar Ibrahim off the ballot.

Abdullah miscalculated. The Barisan Nasional (BN) won just half the popular vote and lost its two-thirds parliamentary majority for only the second time since independence, falling from 90 percent to 62 percent of seats in the legislature. The opposition alliance's representation jumped to 82 seats from 19 seats in the outgoing 222-member Parliament. Just as alarming, the opposition now holds five of 13 state houses, a gain of four.

The government is claiming a mandate, but it's wounded. Four Cabinet ministers lost seats in the vote. In the aftermath of the ballot, key members of the BN rallied behind Abdullah, but young Turks in the United Malays National Organization (UMNO), the largest Malay political party in the BN coalition, are calling for his head. That fight will intensify.

Burma's leadership announced in February that it would hold a referendum in May on the country's new constitution. That document has not been officially released, but a copy leaked and its contents have infuriated opponents of the ruling State Peace and Development Council. The draft, composed by a group handpicked by the junta, enshrines the military's dominant role in society, bars National League for Democracy (NLD) leader and Nobel Peace Prize Laureate Aung San Suu Kyi from office, and protects members of the ruling junta from prosecution for any actions.

After a long silence, the NLD was reported in early April to have told its supporters to participate “without fail” in the election and to vote against the referendum. Other opposition groups have courageously backed that stand, despite a junta law that makes speech or pamphlets against the referendum an offense punishable by three years imprisonment.

March 2 *Russia* held its own democratic pageant, although the process was more style than substance. The results of that country’s presidential elections were never in doubt. First Deputy Prime Minister Dmitry Medvedev was President Vladimir Putin’s handpicked successor, and the nominee returned the favor – and ensured his election – by picking Putin as his prime minister, if elected.

Medvedev benefited from fawning coverage in the mass media and the disqualification of just about all serious opposition in the run-up to the vote. By election time, the only fear was that too many people would refuse to participate in a done deal: when the vote was in, Medvedev won more than 70 percent of ballots cast. (Estimates of turnout ranged from 64 to 69 percent of eligible voters; a record for a presidential election and more than voted in parliamentary elections in December). Now, the big question is who is going to be in charge. It is hard to imagine Putin in a backup position.

Putting the puzzle together

Various chapters in this issue of *Comparative Connections* explore the implications of these political changes for U.S. policy toward Asia. Here, we want to highlight the fact that radical shifts in policy are unlikely, no matter how promising or depressing the particular election outcome – or how great the hype. In particular, the results in Taiwan and South Korea have many anticipating a new phase in relations between those governments and that in Washington. No doubt, President Ma and President Lee have different views than their predecessors of the optimal relationship with the U.S. and China, and policy is likely to change. But any Taiwan government is going to be restricted by a public that has its own views of Taiwan’s appropriate relationship with the Mainland – and a Chinese government that faces challenges of its own. Taipei’s attempts to rebuild relations with Washington will irritate Beijing, perhaps raising tensions across the Taiwan Strait.

Similarly, President Lee may seek a harder line with North Korea, but Pyongyang will do its best to test that determination – indeed, it already has. The South Korean public may seek more respect from the North, but it is unclear how strong a stomach it will have if the North ratchets up tension on the Peninsula and puts pressure on the South’s economy. And it is unclear how the U.S. and South Korea will be able to craft a strategy that accommodates the normalization of relations between Washington and Pyongyang, progress in inter-Korean dialogue, a peace process on the Korean Peninsula, and gives due respect to South Korean desires to lead in as many areas as possible. In other words, change, no matter how positive in appearance, invites entirely new challenges for the U.S. and introduces new dynamics in regional relations.

Chinese “Soft Power” Takes a Hit

Those waiting for democracy, or even for the limited autonomy long sought by the Dalai Lama, in Tibet are also in for a long wait. Beijing expected that hosting the 2008 Olympics would help focus international attention on China. Be careful what you wish for! Just as Beijing wanted to use the Olympics to highlight its major accomplishments, others see it as an opportunity to highlight its shortcomings. There is lots of blame to go around – the Dalai Lama has reportedly been dismayed by the violence being instigated by Tibetan protestors, even as he condemns China’s overreaction and its eagerness to blame him for the problem – and, in the final analysis, all sides are likely to lose. But the biggest losers are likely to be China’s reputation and, by extension, its “soft power.” The main problem centers on Beijing’s historic unwillingness to see the Dalai Lama as part of the solution, rather than immediately and repeatedly branding him as the problem.

We will not try to recap the still unfolding crisis. It has been extensively covered in the international media everywhere except in China, where access to information on what is really happening remains very restricted. But anyone thinking that the Tibetans will be the only ones to take advantage of the Olympics spotlight will be in for more surprises as the Olympic torch makes its international journey and especially when the opening Olympic ceremonies begin. Chinese security forces will no doubt find themselves rushing from point to point to tear down banners and arrest protestors, all under the watchful eye of international camera crews, who will be bringing the action to us live. Keeping the press from Tibet is one thing; keeping it under control during a (deliberately) highly publicized event will be another thing entirely. It remains to be seen if the Olympics will be a public relations plus or nightmare for Beijing. Thus far, it does not look promising.

Will Asia catch cold?

Events this quarter – the sub-prime mortgage crisis, the roller-coaster ride in U.S. markets and the prospect of a recession in the U.S. – raised with renewed vigor a longstanding question: how dependent is the global economy, and that of Asia in particular, on the U.S.? There has been speculation that rising demand in Asia might “decouple” the region’s economy from that of the U.S. and insulate the region from gyrations in the U.S.

At the end of 2007, a growing chorus suggested that Asia had created new sources of demand that could replace the U.S. – which accounts for about 20 percent of global GDP – in the event of a slowdown there. The list of substitutes included a growing, consuming middle class in China, East Asia and India, and a reinvigorated Europe. One typical report came from *ING Investment Weekly* last year that argued “The EU imported \$190 billion worth of goods from China in 2006, comparable to the \$204 billion of China’s export volume to the United States in the same year. EU share of total Chinese exports is 20 percent and growing. The U.S. share of China’s exports has remained stable around 21 percent over the last decade. This might not be enough to fully offset a sharp decline in Chinese exports to the U.S. in the event of a U.S. recession, but could be sufficient to offset a moderate slowdown.”

The theory looked wobbly in January, when Asian markets tumbled in the wake of the U.S. slump. Fears that Asian banks might also be holding sub-prime mortgages were largely

unfounded, but investor concerns that resulted in a flight to more secure assets hit Asia hard. Confidence worldwide took a beating and Asia was not immune. By March, U.S. Treasury Secretary Henry Paulson was warning of a “sharp” economic downturn and the OECD said the U.S. economy was “essentially going sideways.” The Asian Development Bank’s forecast for developing economies in 2008 was a clear sign that Asia was not immune as hoped: it showed the slowest growth in five years. While 7.6 percent growth sounds good to many, it is a considerable drop from the 8.7 percent recorded in 2007, and the lowest annual figure since 2003, when those economies expanded 7.1 percent. More worrisome is the fact that the ADB forecast 8.2 percent growth for the region just six months ago. As the report explained, “Developing Asia is not immune to global developments, but neither is it hostage to them.”

By the end of the quarter, most economists seemed to think the decoupling debate was over. The ADB’s chief economist declared that “There is absolutely no evidence of decoupling when we look at either the trade or financial data. The evidence is rather to the contrary.” That view is shared by IMF managing director Dominique Strauss-Kahn and OECD secretary general Angel Gurría. In short, Asia may no longer automatically catch a cold whenever the U.S. sneezes, but there are enough cases of the sniffles going around to cause some concern.

Regional Chronology January-March 2008

Jan. 4, 2008: North Korea’s Foreign Ministry announces that Pyongyang “has done what it should do” in providing information regarding its nuclear program and that it has slowed the pace of disablement of the Yongbyon reactor because it “did not think the other parties had fulfilled pledges to supply energy aid in a timely manner.”

Jan. 7, 2008: Surin Pitsuwan assumes the five-year post as secretary general of the Association of Southeast Asian Nations (ASEAN) from Singapore’s Ong Keng Yong.

Jan. 7-12, 2008: Assistant Secretary of State Christopher Hill visits Tokyo, Seoul, Beijing, and Moscow for talks with his counterparts in the Six-Party Talks.

Jan. 8, 2008: Potjaman Shinawatra, the wife of Thaksin Shinawatra, deposed prime minister of Thailand, is arrested on charges of corruption upon her return to Thailand after months of exile. She is released on bail after a short court hearing.

Jan. 10-11, 2008: Indonesian President Susilo Bambang Yudhoyono visits Malaysia. Talks with Malaysian Prime Minister Abdullah Ahmad Badawi include treatment of Indonesian migrant workers, border issues, and trade and investment.

Jan. 11, 2008: The Replenishment Support Special Measures Bill becomes law in Japan, reauthorizing refueling operations in the Indian Ocean in support of Operation Enduring Freedom.

Jan. 12, 2008: Taiwan's opposition KMT party wins a landslide victory in the parliamentary polls, winning 81 seats in the legislature, while the DPP wins 27 seats.

Jan. 13-15, 2008: Indian Prime Minister Manmohan Singh visits China to try to boost contacts between the two countries. While there, the two countries sign five agreements including a memorandum of understanding to promote railway cooperation and in the areas of housing, geosciences, land resource management, and traditional medicine.

Jan. 13-16, 2008: Adm. Timothy Keating, US Pacific Command commander, visits China and meets officials from Central Military Commission, the General Staff of the Chinese People's Liberation Army (PLA), Guangzhou Military Area Command, and Ministry of Foreign Affairs.

Jan. 15, 2008: In an apparent reversal of policy, Australia announces that it will not sell uranium to India unless it signs the Nuclear Non-proliferation Treaty.

Jan. 16, 2008: Japan offers a new aid package to Vietnam, Myanmar, Laos, Burma, and Thailand) while encouraging them to make more progress on human rights and democratization.

Jan. 16-20, 2008: Deputy Secretary of State John Negroponte visits China to participate in the fifth U.S.-PRC Senior Dialogue.

Jan. 17, 2008: The UN Security Council says in a statement that it "regretted the slow rate of progress" Myanmar has made meeting objectives it set out last October. Underscoring the importance of "further progress" toward the goal of reconciliation between the military regime and the opposition, it noted that "an early visit by UN special envoy Ibrahim Gambari could help facilitate this."

Jan. 17, 2008: President-elect Lee says that South Korea will make no demand during his presidency for apologies about Japan's colonization of the Korean Peninsula at a meeting at the Seoul Foreign Correspondents' Club.

Jan. 18, 2008: Japan Prime Minister Fukuda Yasuo unveils in a speech to the Diet an ambitious diplomatic policy on environmental issues, saying he will lead the world in efforts to convert to a "low-carbon society" and to create a financial mechanism to help developing nations deal with global warming.

Jan. 18-19, 2008: British Prime Minister Gordon Brown visits China. The trip is portrayed in both London and Beijing as of vital importance to strengthening ties between the two countries.

Jan. 23, 2008: China and Vietnam agree at the second meeting of the China-Vietnam Steering Committee on Cooperation to properly handle their dispute over the South China Sea to ensure the steady and healthy development of bilateral ties.

Jan. 23, 2008: Russia delivers 50,000 tons of fuel oil to North Korea in line with a six-nation deal to resolve the country's nuclear problem.

Jan. 24, 2008: A Japanese naval ship departs for the Indian Ocean after the government forced a resumption of a refueling mission supporting the U.S.-led war on terror.

Jan. 24, 2008: The foreign ministers of the U.S., France, and UK make a joint statement at the World Economic Forum in Davos, Switzerland saying “the urgent need for progress towards a transition to democracy and improved human rights in Burma” was a priority for this year’s meeting.

Jan. 27, 2008: Former Indonesian President Suharto dies.

Jan. 29, 2008: Samak Sundaravej, ally of deposed Thai Premier Thaksin, is elected prime minister after winning a majority of votes in Parliament. Samak’s People Power Party (PPP) leads a six-party coalition that controls two-thirds of the seats in Parliament.

Jan. 28, 2008: The *USS Blue Ridge* docks in Hong Kong, the first U.S. warship allowed in since China refused a similar request in November 2007.

Jan. 29-31, 2008: Wang Jiarui, head of the International Department of the Chinese Communist Party’s Central Committee, and his delegation visit Pyongyang and meet Kim Jong-il and senior officials of the Workers’ Party of Korea. Kim reportedly tells Wang that “the present difficulties are temporary and can be conquered. There are no changes in the North’s stance to continue pushing forward the Six-Party Talks persistently and implementing all the agreements.”

January 30-31, 2008: FBI Director Robert S. Mueller III visits Vietnam and Cambodia. In Vietnam, Mueller meets senior law enforcement officials to discuss cooperation. In Cambodia he presides over the opening of the Embassy’s Legal Attaché office, which will cover both Cambodia and Vietnam. He also meets Prime Minister Hun Sen in Phnom Penh.

Feb. 2, 2008: Taiwan President Chen Shui-bian inaugurates a runway on Taiping Dao, one of the disputed Spratly Islands and insists the archipelago belongs to Taiwan despite claims by China and several other countries.

Feb. 6, 2008: Secretary Hill tells Senate Foreign Relations Committee that linking the Japan abductees to the state sponsor of terrorism list issue is “not in the interest of moving forward with the [Six-Party] Talks” and that costs associated with “phase 3” of the denuclearization process have not yet been identified.

Feb. 6, 2008: U.S. lifts sanctions on assistance to Thailand imposed after the 2006 coup.

Feb. 9, 2008: Two Russian bombers fly over the *USS Nimitz* and are intercepted by U.S. fighter jets in the Western Pacific Ocean. Meanwhile, Japan lodges a complaint with Moscow over allegations that a Russian bomber, thought to be one of those involved in the Nimitz fly-over, intruded into Japanese airspace.

Feb 11, 2008: East Timor’s President Jose Ramos-Horta is shot by rebel soldier in a pre-dawn attack on his Dili home, and later airlifted to Australia for treatment. Later Prime Minister

Xanana Gusmao, who was targeted in a separate incident but was unharmed, declares a 48-hour state of emergency, which was subsequently extended to Feb. 23.

Feb. 11, 2008: U.S. Defense Department analyst and a former engineer for Boeing are accused in separate spy cases with helping deliver military secrets to the Chinese government. Two immigrants from China and Taiwan accused of working with the defense analyst are also arrested.

Feb. 12, 2008: China and Russia submit a new draft for a treaty against space weapons to the UN Conference on Disarmament.

Feb 12, 2008: Japanese PM Fukuda condemns the actions of a U.S. Marine accused of raping a 14-year-old girl, and other officials said the incident may harm relations between the two countries.

Feb. 13, 2008: Malaysian Prime Minister Abdullah Badawi dissolves Parliament in preparation for snap elections.

Feb. 14, 2008: Beijing accuses the U.S. of fabricating spying allegations and says “China’s so-called espionage in the United States is completely groundless and with ulterior motives.”

Feb. 18-22, 2008: Secretary Hill visits China, South Korea, and Japan to discuss issues related to the Six-Party Talks. While in Beijing, he also meets North Korea’s Kim Kye Gwan.

Feb. 18-Mar. 3, 2008: The U.S. and the Philippines conduct the annual bilateral exercise *Balikatan*. The exercise involves field training, a command post exercise, and execution of humanitarian assistance/civic action projects.

Feb 19, 2008: U.S. Ambassador to the Philippines Kristie Kenney holds unprecedented secret meeting with Moro Islamic Liberation Front (MILF) chair Al Haj Murad Ebrahim.

Feb. 20-28, 2008: Defense Secretary Robert Gates visits Australia, Indonesia, India, and Turkey. During the visit, he meets a variety of security and defense officials and pledges arms upgrades and other Pentagon support for Indonesia.

Feb. 20, 2008: Burma’s military government announces that a draft of the new constitution has been completed and will be put to a referendum in May, followed by elections in 2010. It bars opposition leader Aung San Suu Kyi from standing as a candidate because she had a foreign husband.

Feb. 20-24, 2008: China’s State Councilor Tang Jiaxuan visits Japan for talks with PM Fukuda and other leaders.

Feb. 21, 2008: The Japanese Maritime Self-Defense Force supply vessel *Omi* resumes its refueling mission in the Indian Ocean after a four-month hiatus to continue the fight against international terrorism in cooperation with other countries.

Feb. 21, 2008: The U.S. Navy successfully hits a U.S. spy satellite. The U.S. describes the shoot-down as necessary over concern that toxic fuel on board the satellite could crash to earth and harm people. Russia and China criticize the action, saying it could harm security in space. China accuses the U.S. of using a double standard and requests the release of data related to the shoot-down.

Feb. 23-28, 2008: Secretary of State Condoleezza Rice visits South Korea, China, and Japan. While in South Korea she attends inauguration of Lee Myung-bak and meets officials from China and South Korea to discuss the Six-Party Talks process.

Feb. 25, 2008: Lee Myung-bak inaugurated the 17th president of South Korea. Immediately following his inauguration, Lee holds separate talks with Japanese PM Fukuda, Chinese State Councilor Tang Jiaxuan, Russian Prime Minister Victor Zubkov, and Secretary Rice.

Feb. 26, 2008: The New York Philharmonic Orchestra performs a landmark concert in North Korea. The concert was broadcast live on local television and included the national anthems of both countries, music by two U.S. composers, and a Korean folk song. The visit entailed the largest U.S. presence in North Korea since the end of the Korean War.

Feb. 28, 2008: Former Thai PM Thaksin returns from exile. He has been living outside Thailand since the military coup that deposed him in September 2006. He still faces a number of challenges, including an indictment for corruption.

Feb. 28, 2008: President Bush says he will attend the Beijing Olympics in August as a sports fan, but vows not to be “shy” about pushing China on human rights, Darfur, and Myanmar.

Feb. 29, 2008: U.S. Marine arrested on suspicion of raping a 14 year-old girl is released by Japanese authorities after the girl drops the accusation against him.

March 2, 2008: Dmitry Medvedev is elected president of the Russian Federation.

March 2-3, 2008: The Asia-Pacific Economic Cooperation (APEC) Senior Officials’ Meeting (SOM) is held in Lima, Peru with 21 representatives from its member countries attending the meeting. There were discussions on this year’s agenda items including regional economic integration such as the establishment of a Free Trade Area of the Asia-Pacific (FTAAP), structural reform, economic and technical cooperation, reform of APEC and the Corporate Social Responsibility (CSR). Specifics for the APEC Summit Meeting to be held in Lima in November were agreed.

March 2-7, 2008: The U.S. and South Korea conduct military exercise *Key Resolve* to provide training in aspects of reception, staging, onward movement, and integration of forces from bases outside of South Korea. The joint military exercise is characterized as designed to prepare for Seoul's plans to retake wartime command of its forces.

March 4, 2008: China announces that it will increase military spending this year by 17.6 percent, roughly equal to last year's increase. A Chinese spokesman said the country's decade-long military buildup does "not pose a threat to any country."

March 6, 2008: Suspected Russian arms dealer Viktor Bout, accused of flouting UN embargoes and wanted by Interpol, is arrested in Bangkok

March 6, 2008: Announcement is made that Presidents Lee and Bush will meet at Camp David for a private dinner and summit in mid-April. This will be the first time that leaders from the U.S. and ROK will meet there instead of the White House.

March 6-10, 2008: U.N. special envoy Ibrahim Gambari visits Burma. It is Gambari's fifth visit since he was appointed in early 2006 and his third since a crackdown on monk-led protests in September last year. Although Gen. Than Shwe refused to meet him, he met Aung San Suu Kyi twice as well as Information Minister Brig. Gen. Kyaw Hsan and several junior ministers.

March 8, 2008: Malaysian elections enable the Barisan Nasional (BN) to retain power but show dramatic new inroads by opposition parties.

March 10-17, 2008: Indonesian President Yudhoyono visits Iran, Senegal, and the United Arab Emirates. In Iran, he meets President Mahmud Ahmadinejad and Supreme Leader Ayatollah Khamenei to discuss Tehran's nuclear program, investment, and trade. In Senegal, he attends the 11th Organization of the Islamic Conference.

March 11, 2008: Department of State releases its annual report on human rights. Unlike previous years, China is not listed as among the top 10 most systematic human rights violators, but is described as an authoritarian regime that denies its people basic human rights and freedoms, tortures prisoners, and restricts the media.

March 13, 2008: China releases its annual report on human rights in the U.S., which calls the U.S. record "tattered and shocking," and criticizes the U.S. for its high crime rates, large prison population, and the wars in Iraq and Afghanistan.

March 13-14, 2008: Assistant Secretary Hill and North Korean Vice Foreign Minister Kim Kye Gwan hold talks in Geneva aimed at breaking the deadlock over North Korea's nuclear program. Hill describes the discussion as a good consultation. State Department Head of Korean affairs Sung Kim remains in Geneva and has an additional meeting with representatives from North Korea on March 14.

March 14, 2008: Protests against Chinese rule in Tibet turn violent with shops and vehicles torched and at least two people reportedly killed by security forces in Lhasa. The protests that began on March 10, the anniversary of a 1959 uprising against Chinese rule, were initially led by hundreds of Buddhist monks, but attracted large numbers of ordinary Tibetans. The U.S. and the European Union lead international calls for restraint by China in its response to the protests.

March 14, 2008: The Chinese and Russian Defense Ministries open a direct telephone line. In their first telephone conversation over the line, Chinese Defense Minister Cao Gangchuan tells Russian counterpart Anatoly Serdyukov that the link reflects the level of political trust and strategic coordination between the two countries. Cao said the line will ensure timely consultations and coordination on hot issues.

March 17-18, 2008: Secretary of State Rice and Secretary of Defense Gates visit Russia and meet President Putin and President-elect Medvedev. Gates and Rice saw Putin and Medvedev before talks with Russian defense and foreign ministers on a broad range of bilateral, strategic issues, including missile defense, post START arrangements, and cooperation on nonproliferation as well as counterterrorism.

March 19, 2008: South Korea's Business Institute of Sustainable Development announces that ₩5.5 trillion (\$5.5 billion) in lost productivity in 2007 as a result of "yellow dust" from China.

March 20-22, 2008: Foreign Minister Yu Myung-hwan makes his first visit as foreign minister to China to plan for a likely May state visit by President Lee to Beijing.

March 22, 2008: Ma Ying-jeou wins the presidential elections in Taiwan with 58 percent of the votes. In his acceptance speech he says that he would pursue closer economic relations with mainland China, confidence-building measures to reduce the chance of an accidental war, and eventually a peace agreement with Beijing.

March 26, 2008: President Bush calls President Hu Jintao to discuss the opportunities created by the Taiwan elections, the situation in Tibet, Burma, and North Korea.

March 26-30, 2008: South Korea Foreign Minister Yu Myung-hwan visits the U.S. in preparation for upcoming visit by President Lee Myung-bak. He meets Secretary of State Rice.

March 27, 2008: South Korea supports a resolution at the UN Human Rights Council in Geneva expressing deep concern about continuing reports of systematic violations in North Korea. It was adopted with 22 countries in favor, 7 against, and 18 abstentions. South Korea was absent or abstained from similar votes in the past.

March 28, 2008: North Korea fires multiple short-range ship-to-ship missiles into its territorial waters in the West Sea. The U.S. responds by saying the tests are "not constructive" and urging the North to focus on nuclear disarmament.

March 28, 2008: Australian Prime Minister Kevin Rudd visits Washington and meets President Bush. They call for Chinese leaders to meet the Dalai Lama to defuse tensions in Tibet.

March 28, 2008: North Korea states it has "never enriched uranium nor rendered nuclear cooperation to any other country."

March 31, 2008: Secretary Hill says differences with North Korea "are getting bigger; they are getting smaller."



**U.S.-Japan Relations:
Working through Tough Issues**

**Michael J. Green, CSIS/Georgetown University
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Japanese domestic politics was in turmoil this quarter due to a divided legislature and the opposition's efforts to block several key pieces of legislation in an attempt to force Prime Minister Fukuda Yasuo out of office. The deadlock centered almost exclusively on economic issues, much to the dismay of U.S. investors who have increasingly begun to question the ability of the political leadership in Japan to manage the economy. The Fukuda administration signaled Japan's sustained commitment to the U.S.-Japan alliance and a leadership role in international security by passing a bill re-authorizing Maritime Self Defense Force (MSDF) refueling operations in the Indian Ocean. But a collision between an MSDF *Aegis*-equipped destroyer and a fishing boat near Tokyo in February, coupled with continued fallout from a bribery scandal last fall, forced the government to focus more on structural reform at the Defense Ministry at the expense of new policy initiatives. Rape allegations against a U.S. soldier stationed in Okinawa and the detainment of another as a murder suspect sparked demonstrations against the U.S. military presence in Japan, though the two governments worked closely to prevent a crisis. Bilateral coordination on the Six-Party Talks continued and there were hints of renewed interest in a trilateral consultation framework with South Korea. Several events in Washington were dedicated to the U.S.-Japan alliance and brought public attention to pressing issues and ideas that might inform a bilateral agenda going forward.

The “twisted Diet”

Both the ruling Liberal Democratic Party (LDP) and the opposition led by the Democratic Party of Japan (DPJ) refused to budge on major legislation and the prolonged deadlock in the Diet has now become a matter of domestic and international concern. The impasse began when the opposition parties used their majority in the Upper House to block tabling of the Replenishment Support Special Measures Bill, which was necessary to renew MSDF refueling operations in the Indian Ocean that were suspended last November after a previous measure was allowed to expire. Fukuda used the government coalition's supermajority in the Lower House to ram through the legislation last year and that bill was officially enacted on Jan. 11, with the MSDF refueling operations resuming in late February.

Next, the opposition targeted budgetary legislation that initiated a spirited debate over several tax measures, including the renewal of a provisional gasoline tax earmarked for road construction.

Critics argued that the revenue should either be used for discretionary spending or abolished altogether to benefit consumers, while proponents cited the need for such revenue in the face of a budget deficit over 150 percent of GDP. Fukuda offered to shift revenues to discretionary spending after one year, but failed to reach a compromise with opposition parties. Bitter partisanship also affected important personnel decisions; opposition leader Ozawa Ichiro rejected two government nominees to head the Bank of Japan, forcing the appointment of an interim governor amid turmoil in global financial markets and leadership expectations of Japan as host of this year's G-8 summit. Western publications including *The Economist* and the *Washington Post* ran feature stories expressing concerns that the stalemate in the Diet reflected a Japan in decline and could cause foreign investors to flee the Japanese market.

Policy paralysis led the media to mock the legislature as the *nejire kokkai* or “twisted Diet” that cannot function when divided. Machimura Nobutaka, Fukuda's chief Cabinet secretary, even commented that the Diet looked to be on the verge of collapse. This caused a decline in Fukuda's approval rating, which stood at 31 percent according to a *Nikkei* poll released on March 24, but that same poll also revealed – as did many others over the course of the quarter – that support for the opposition was lukewarm at best as 40 percent of respondents favored the LDP and 30 percent supported the DPJ.

Speculation on the future has begun focusing on three scenarios: a Lower House election sometime in the next year that triggers political realignment and breaks the impasse; a “grand coalition” between the LDP and DPJ to pass key legislation on taxes and security before going to elections; or an election result that changes nothing, meaning months if not years of further stalemate. Elections could come as soon as May, though most bets were on a dissolution of the Lower House for elections timed to coincide with municipal Tokyo elections in the summer of 2009. Odds are that the “twisted Diet” will again figure in the next quarter's report.

Challenges for the Ministry of Defense

Soon after the Indian Ocean bill passed, Defense Minister Ishiba Shigeru announced a reorganization initiative for the ministry designed to enhance coordination by integrating civilian staff and uniformed officers under three joint bureaus. The plan did not progress very far before the ministry had to focus on other aspects of reform in the wake of a collision between an MSDF *Aegis*-equipped destroyer, the *Atago*, and a fishing boat off the coast of Chiba Prefecture on Feb. 19. The fishing boat sank and the crew is presumed dead, though still officially listed as missing. An investigation uncovered various protocol violations and communication mishaps, prompting Ishiba to dismiss the head of the MSDF, discipline several dozen civilian staff, and cut his own pay temporarily to take responsibility. (The “rules of the road” in post war Japanese seamanship put far more of a responsibility on the heavy and slow moving naval vessels, which leaves little room for error by their skippers.) In response to public outrage over the incident, Prime Minister Fukuda called for structural reforms to improve management and coordination. The timing was most unfortunate in that the ministry had just begun to recover from a bribery scandal last fall involving a former vice minister and was poised to concentrate on exploring new Self-Defense Force missions.

Consultations on North Korea

Bilateral consultations on the Six-Party Talks occurred frequently in the first few months of the year. Persistent concerns in Japan about a softening of the U.S. position on abductees – whether North Korea would be removed from the state sponsors of terrorism list before progress on the matter – and the degree to which the Bush administration may have shifted its emphasis from complete denuclearization to disablement and nonproliferation contributed to the frequency of dialogue on this issue. Assistant Secretary of State Christopher Hill noted in testimony before the Senate Foreign Relations Committee on Feb. 6 that while the decision to recommend removing North Korea from the list is not linked directly to progress on the abduction issue, the U.S. would not do so absent movement in discussions between Japan and the DPRK. Hill met his Japanese counterparts several times to discuss North Korea's failure to meet a Dec. 31, 2007 deadline to issue a complete declaration of all its nuclear programs and how to move things forward. Media reports suggested that the trilateral U.S.-Japan-ROK framework might be revived to prevent North Korea from driving wedges between the parties. Secretary of State Condoleezza Rice met with Prime Minister Fukuda, Foreign Minister Komura Masahiko, and Defense Minister Ishiba in Tokyo on Feb. 27 and publicly stressed the importance of receiving a complete declaration from the North Koreans and supporting Japan's commitment to the abductees. Pyongyang's short-range missile launches on March 28 seemed to suggest that cooperation was not imminent.

Incidents involving U.S. military personnel

On Feb. 10 police in Okinawa arrested a U.S. marine alleged to have raped a 14 year-old girl. This evoked painful memories of a rape incident in 1995 that precipitated a crisis in the U.S.-Japan alliance, but 12 years later the two governments used measures in place to coordinate closely on the matter and prevent any escalation in tensions. The police ended up not pressing charges and released the marine. But this episode did revive public concerns about the U.S. military presence in Japan, which were reinforced in March when a taxi driver was found stabbed to death in his cab near Yokosuka and authorities found a credit card belonging to a U.S. sailor in the back seat. The suspect was soon found and placed in U.S. military custody, and the U.S. Navy pledged its full cooperation with the investigation by Japanese police. This development led to demonstrations in Okinawa and calls for a revision of the bilateral Status of Forces Agreement (SOFA). The government stopped short of taking such action, but these incidents could complicate efforts to implement a realignment plan for U.S. forces announced in 2006 and negotiate Japan's financial contribution to costs associated with keeping U.S. forces in Japan, or host nation support.

Japan and the U.S. presidential campaign

On Jan. 21 the Hillary Clinton campaign issued a statement regarding the U.S.-Japan alliance in response to widespread criticism in Japan that the Asia section of her foreign policy blueprint in the November/December 2007 issue of *Foreign Affairs* focused solely on the U.S.-China relationship. While the article mentioned U.S.-Japan collaboration in the context of engaging China on energy issues, the failure to discuss Japan separately as a close ally revived anxieties about "Japan passing," or the notion that the U.S. would develop a relationship with China and

marginalize Japan. The Jan. 21 statement stressed that the U.S.-Japan alliance “must continue to provide the foundation for America’s policy in the Asia-Pacific region,” and Amb. Richard Holbrooke, a Clinton adviser, met with the Japanese media in New York that day to alleviate any concerns about Clinton’s views toward Japan.

The future of the U.S.-Japan alliance under a new administration was a hot topic in Washington and several organizations including CSIS held seminars on the subject. These seminars suggested there is a fairly robust bipartisan consensus on the importance of the U.S.-Japan alliance in addressing regional and global issues, though priorities may differ among the candidates. Tending to fundamental alliance matters such as realignment or host nation support while considering a broader framework for bilateral cooperation will remain a great challenge and require senior-level attention from any new administration.

What lies ahead?

The turmoil in Japanese domestic politics could raise expectations of an election in the Lower House, though this might not occur until after the G-8 summit in July or even 2009, as noted above. The Fukuda administration has an active diplomatic agenda on tap as host of the Tokyo International Conference on African Development (TICAD) in May which will address boosting economic growth on the continent, achieving the UN Millennium Development Goals (MDG), consolidating peace and democratization, and addressing environmental issues and climate change. Climate change will also figure prominently at the G-8 summit in Hokkaido; Japan has already joined the U.S. and Great Britain in promoting clean technologies for the developing world and will seek to form a consensus on greenhouse gas emissions reduction targets. Fukuda will also lead discussions on the world economy, nonproliferation, and African development as a follow-up to TICAD.

Japan announced its intention to continue a human resource development program in Asia for peacekeeping operations and Prime Minister Fukuda said he will submit to the Diet a permanent dispatch law for the Self-Defense Forces, both positive signs that Japan continues to contemplate its global leadership role. North Korea’s continued defiance will require an even greater degree of bilateral coordination to ensure common understandings on denuclearization and the abductees. The U.S.-Japan alliance will enter a new era in the maritime domain when the aircraft carrier *USS Kitty Hawk* will be swapped out this summer for the *USS George Washington*, a nuclear-propelled carrier. The wild cards for the alliance are Okinawa and the overall U.S. force realignment plan. Securing the funds necessary to implement the agreement will prove most challenging in Japan’s partisan political environment.

Finally, events in Tibet – which are certain to color U.S.-China relations over the next quarter – may put China back at the center of U.S.-Japan coordination next quarter.

Chronology of U.S.-Japan Relations January-March 2008

Jan. 1, 2008: Prime Minister Fukuda delivers a new year's address and posts it on YouTube in English and Japanese.

Jan. 4, 2008: PM Fukuda holds his first press conference of 2008 and states that Japan would be a world leader in sharing environmental technologies and a more open state with strong connections to the international community. He also reiterates his commitment to reauthorizing the refueling operations in the Indian Ocean.

Jan. 7, 2008: U.S. Assistant Secretary of State Christopher Hill and Sasae Kenichiro, Japan's top negotiator in the Six-Party Talks, agree to keep requiring North Korea to submit a complete and correct declaration of its nuclear activities after missing the Dec. 31 deadline.

Jan. 10, 2008: Former PM Mori Yoshiro of the LDP meets President-elect Lee Myung-bak in Seoul. Lee and Mori agree on the need for strong cooperation between the U.S., Japan, and South Korea.

Jan. 11, 2008: The Replenishment Support Special Measures Bill becomes law, reauthorizing refueling operations in the Indian Ocean in support of Operation Enduring Freedom.

Jan. 11, 2008: According to a public opinion poll by *Nikkei Shimbun*, 43 percent supported Fukuda's decision to pass the new Indian Ocean bill by voting a second time in the Lower House, and 38 percent did not support it. The approval rating of the Fukuda Cabinet is 42 percent.

Jan. 17, 2007: Defense Minister Ishiba orders the MSDF to resume its naval refueling mission in the Indian Ocean based on the new special measures law.

Jan. 18, 2008: In Tokyo, PACOM Commander Adm. Timothy Keating exchanges views with Foreign Minister Komura Masahiko on U.S.-Japan defense cooperation and relations with China.

Jan. 18, 2008: PM Fukuda addresses the Diet and declares that Japan would play a responsible role on global issues like terrorism and global warming. He also promises to advance debate on a permanent dispatch law for the Self-Defense Forces and calls the U.S.-Japan alliance the foundation of Japan's diplomacy. As for the realignment of U.S. forces in Japan, he promises to decrease the burden on the people and listen to public opinion in Okinawa.

Jan. 21, 2008: Amb. Richard Holbrooke delivers a statement from Senator Hillary Clinton in which she called Japan an "indispensable ally," stressing that in the years ahead, Japan and the U.S. must "work to preserve peace, stability and prosperity in the Asia-Pacific."

Jan. 26, 2008: Prime Minister Fukuda speaks on the occasion of the annual meeting of the World Economic Forum in Davos and proposes his "Cool Earth Promotion Programme" in order to take initiative as the chair of the G8 Summit in July.

Feb. 6, 2008: Assistant Secretary Hill testifies before the Senate Foreign Relations Committee that removing North Korea from the state sponsors of terrorism list and progress on the Japanese abductee issue are not directly linked.

Feb. 11, 2008: U.S. Marine is arrested on suspicion of raping a junior high school girl in Okinawa Prefecture.

Feb. 13, 2008: Foreign Minister Komura summons U.S. Ambassador to Japan Thomas Schieffer to the Foreign Ministry in response to a case involving the alleged rape of a 14 year-old middle school girl in Okinawa Prefecture. The foreign minister also asks Schieffer to ensure the U.S. government strictly enforces military discipline.

Feb. 14, 2008: PM Fukuda tells Okinawa Gov. Nakaima Hirokazu in a meeting in Tokyo that he would increase pressure on the U.S. to tighten military discipline. Nakaima conveyed the anger of local citizens and expressed deep concern regarding the realignment of U.S. forces in Japan, including the relocation of Futenma Air Station.

Feb. 19, 2008: An MSDF *Aegis*-equipped destroyer collides with a fishing boat off the coast of Chiba prefecture, sinking the fishing boat and leaving the crew missing.

Feb. 20, 2008: U.S. Forces Japan imposes tight restrictions on all military personnel, dependents, and Defense Department civilians in Okinawa, and at Marine Corps Air Station Iwakuni and Camp Fuji in mainland Japan. Military personnel are restricted from leaving their bases except for official business, work, worship or travel to and from housing, essentially banning troops from off-base bars, restaurants, and nightclubs.

Feb. 21, 2008: The MSDF supply vessel *Omi* resumes its refueling mission in the Indian Ocean after a four-month hiatus to continue the fight against international terrorism in cooperation with other countries.

Feb. 21, 2008: Assistant Secretary Hill visits the Ministry of Foreign Affairs and agrees to continue close cooperation for the development of the Six-Party Talks.

Feb. 22, 2008: PM Fukuda directs Defense Minister Ishiba to conduct an organizational review of the Ministry amid mounting criticism of its handling of a collision between its most advanced naval destroyer and a small fishing boat.

Feb. 27, 2008: Secretary of State Condoleezza Rice meets with PM Fukuda, Foreign Minister Komura, and Defense Minister Ishiba to discuss North Korea, U.S. support for the abductees, and U.S.-Japan ROK cooperation. She also expresses her deep regret over the incident of alleged rape.

Feb. 29, 2008: U.S. Marine arrested on suspicion of raping a 14 year-old girl is released by Japanese authorities after the girl drops the accusation against him.

March 3, 2008: In a government panel on Defense Ministry reform, the government decides to begin work on a full-scale reorganization of the ministry following a series of scandals and accidents.

March 11, 2008: A group of Japanese prefectural governors conveys to the central government their request to review the Japan-U.S. Status of Forces Agreement (SOFA).

March 17, 2008: According to a *Kyodo News* poll, Prime Minister Fukuda's public approval rating decreases to 33 percent and his disapproval rating is 50 percent. As for political parties, 23 percent support the DPJ and 31 percent the favor the LDP.

March 17, 2008: Assistant Secretary Hill and Saiki Akitaka meet and confirm that North Korea must provide a complete and correct declaration of its nuclear programs.

March 19, 2008: Assistant Secretary Hill states that a trilateral dialogue among the U.S, Japan, and the ROK could take place before the next round of the Six-Party Talks.

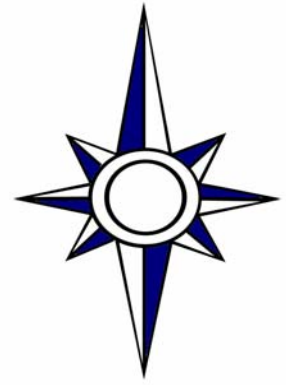
March 19, 2008: A taxi driver is found dead in his cab near Yokosuka Naval Base in Kanagawa Prefecture. Police find a credit card belonging to a U.S. sailor in the back seat and begin searching for the suspect.

March 23, 2008: Over 6,000 people participate in demonstrations in Okinawa protesting the U.S. military presence there. They demand the government implement fundamental changes to the Japan-U.S. SOFA, and that the U.S. military presence be reduced.

March 24, 2008: Prime Minister Fukuda states in an appearance before the Upper House Budget Committee that he does not intend to revise the Japan-U.S. SOFA.

March 27, 2008: Prime Minister Fukuda announces several compromise proposals regarding tax legislation, but they are rejected by the opposition parties.

March 31, 2008: The provisional gasoline tax, an issue emblematic of the partisanship in the Diet, expires after opposition parties refused to renew related legislation.



U.S.-China Relations:
Bilateral Stability, but Challenges on China's Borders

Bonnie Glaser
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Developments on China's domestic front were prominent this quarter with extreme winter weather coinciding with the Spring Festival, the annual convocation of the "two meetings" in Beijing, and protests in Tibet that spread to neighboring provinces with Tibetan populations. Key events in Sino-U.S. bilateral ties included the fifth Senior Dialogue in Guiyang, a brief visit by Secretary of State Condoleezza Rice to kick-start the Six-Party Talks, and a visit by FBI Director Robert Mueller to discuss security for the upcoming August Olympic Games. In the military sphere, the Commander of U.S. Pacific Command Adm. Timothy Keating traveled to China and the Defense Policy Coordination Talks produced several agreements. Stable and complicated were watchwords for the Sino-U.S. relationship.

Domestic events in China capture attention

For Chinese leaders, domestic concerns always take priority over foreign policy, and the opening quarter of 2008 was no exception. Extreme winter weather, the worst in five decades, hit China's central, southern, and eastern provinces in January and February, claiming 129 lives and destroying 485,000 houses and 90 million hectares of crops – \$22 billion in direct economic losses. The snowstorms occurred at the peak of the Spring Festival travel season, stranding millions of travelers at airports and train stations. To alleviate public suffering and underscore the government's responsiveness to the people's needs, the central government mobilized 300,000 soldiers, 325,000 armed police, and 1.85 million paramilitary to participate in disaster relief efforts. The U.S. government donated \$150,000 and the Department of Defense provided disaster relief materials worth about \$820,000. When Secretary of State Condoleezza Rice met Chinese President Hu Jintao in late February, Hu thanked the U.S. people and government for their assistance.

In March, Chinese attention focused on the Chinese People's Political Consultative Conference, the legislature's top noncommunist advisory body, and the National Party Congress (NPC), the nation's legislature. The NPC signed into law decisions made at the CCP Party Congress last November, appointed new Cabinet ministers and other top officials, approved a 17.6 percent increase in the military budget, and unveiled a bureaucratic reorganization that established "super-ministries" for industry, transport, housing, construction, and the environment to promote efficiency and end turf wars.

While the NPC was still in session, protests erupted in Tibet, posing a major challenge to the Chinese leadership just five months prior the Beijing Olympics. Peaceful demonstrations by monks at monasteries in Tibet on March 10, marking the 49th anniversary of the failed 1959 uprising against Communist rule, were followed by riots in Lhasa, the capital of Tibet, and spread to Tibetan populations in neighboring Sichuan, Qinghai, and Gansu provinces. The Chinese government first dispatched police to quell the violence and subsequently sent PLA units to assist. According to China's official *Xinhua* news agency, 18 civilians and one police officer died while 241 police officers and 382 civilians were injured. The Tibetan government-in-exile, based in India, disputed Beijing's casualty figures, saying at least 140 people died in demonstrations.

In a statement issued March 15, Secretary Rice voiced concern about "reports of a sharply increased police and military presence in and around Lhasa" and called on China to "exercise restraint" in dealing with the protests and urged all sides "to refrain from violence." Rice cited President Bush's consistent support for "substantive dialogue" between the Chinese government and the Dalai Lama and his representatives "so that long-standing issues with regard to Tibet may be resolved." Rice also conveyed U.S. concern about the situation in Tibet in a phone call with Foreign Minister Yang Jiechi, who insisted that "the violent crimes were organized, premeditated, and masterminded by the Dalai Lama clique, with the collaboration of domestic and overseas separatist forces seeking 'Tibet independence.'" President Bush's silence on the events in Tibet was notable.

Administration officials maintained that Bush believed it would be more effective to communicate privately with Hu Jintao, with whom the president has a special rapport. They said Bush privately had counseled restraint, the admission of U.S. observers into Tibet, and the conduct of open trials of those who had been arrested. On March 26, Bush phoned Hu and urged the resumption of consultations with representatives of the Dalai Lama as part of a process that addresses the grievances of the people in Tibet. In reply, according to *Xinhua*, Hu reiterated Beijing's willingness to have a dialogue with the Dalai Lama "As long as the Dalai really gives up his proposal for "Tibet independence," stops his activity of splitting the motherland, particularly the criminal activities he instigated and planned in Tibet and other localities as well as the activity of undermining the Beijing Olympics, and recognizes that Tibet and Taiwan are inseparable parts of Chinese territory." The exchange did not suggest any new flexibility on the part of Beijing.

Senior dialogue and senior visits promote relations

Deputy Secretary of State John Negroponte traveled to the city of Guiyang in Guizhou province with his counterpart Chinese Vice Foreign Minister Dai Bingguo for the fifth U.S.-China Senior Dialogue Jan. 17-18. The agenda included regional security issues such as Burma, North Korea, Iran, and Taiwan as well as foreign assistance, energy security, and climate change. According to *Xinhua*, the two sides had a "frank, sincere, and in-depth exchange of views on the development and changes in the international situation, how to ensure the long-term healthy and steady development of China-U.S. relations and strengthen coordination and cooperation on regional and international issues between the two countries, and other issues." *Xinhua* cited Negroponte's commitment to develop "constructive, long-term and stable relations of

comprehensive cooperation with China.” The U.S. proposed launching a high-level dialogue on development assistance that would be headed on the U.S. side by Director of U.S. Foreign Assistance Henrietta Fore.

Breaking new ground, a Chinese military officer was included in the Senior Dialogue in Guiyang. This followed the first-time inclusion of a participant from the Pentagon in the prior round last June. At the Guiyang talks, Maj. Gen. Ding Jingong represented the PLA and Assistant Secretary of Defense James Shinn represented the Department of Defense.

After the Dec. 31 deadline passed for Pyongyang to provide a complete declaration of its nuclear programs and its past proliferation activities with no signs of progress, Secretary Rice headed to the region in late February in an attempt to break the logjam. North Korea was at the top of the agenda in Rice’s meetings in Beijing, her second stop after Seoul. The Chinese tabled some creative ideas during the discussions and Rice instructed Assistant Secretary Christopher Hill, the U.S. negotiator to the Six-Party Talks, to remain in Beijing for further talks. On her way to Tokyo, Rice told the press that she remained confident that the Chinese are using their influence with the North Koreans because they want to achieve denuclearization of the Korean Peninsula. “They are meeting their obligations,” she added.

Although Rice’s stopover in Beijing was short, she covered a broad range of issues and held meetings with Foreign Minister Yang Jiechi, State Councilor Tang Jiaxuan, Premier Wen Jiabao, and President Hu Jintao. In addition to North Korea, the two sides discussed Darfur, Burma, Taiwan, foreign assistance, and human rights while providing an assessment of the overall development of the bilateral relationship. A major achievement of the visit was an agreement to resume the U.S.-China human rights dialogue, which was halted by Beijing in 2004 when the Bush administration sponsored a resolution before the UN Human Rights Commission to censure China.

According to the Chinese official media, in Rice’s meeting with Hu Jintao the two sides agreed to “step up bilateral constructive and cooperative relations and handle ties from a long-term and strategic perspective.” Hu applauded the progress in the bilateral relationship made in recent years, saying that “The cooperation keeps expanding and the strategic significance of the bilateral ties grow higher and higher.” Rice expressed her appreciation for Chinese efforts to resolve international issues, including North Korea and Darfur. Underscoring Chinese concern about the upcoming March elections in Taiwan, Hu stressed that China would “resolutely deter the adventurist activities of Taiwan independence separatist forces.” Perhaps in an effort to reassure the Bush administration that Beijing would not overreact to possible developments on Taiwan, Hu added that efforts would be made “to prudently handle the Taiwan issue.”

Speaking to the press alongside Foreign Minister Yang Jiechi, Rice reiterated U.S. commitment to a one-China policy, U.S. opposition to unilateral changes in cross-Taiwan Strait relations, and U.S. expectations that differences between Beijing and Taipei will be solved peacefully. In addition, she restated the Bush administration’s opposition to the Democratic Progressive Party’s referendum asking Taiwan voters whether they supported joining the United Nations under the title of Taiwan. Rice indicated that the referendum was “not constructive and would, in fact, serve no useful purpose.” When the referendum was held in tandem with the Taiwan

presidential elections on March 22, it did not pass because only 35 percent of eligible voters participated in the referendum, which was significantly less than the 50 percent that is required for it to be valid.

U.S. officials said Rice specifically discussed with Yang Jiechi the arrest of Hu Jia, among China's most prominent political dissidents, and the continued jailing of Jude Shao, a China-born U.S. businessman who is serving a 15-year sentence on tax evasion charges he and his supporters say were fabricated. Acknowledging to reporters that she had raised individual human rights cases with the Chinese, Rice maintained, "We do this with respect but these are issues that are very near and dear to American values."

FBI Director Mueller in Beijing for Olympic security talks

Cooperation between Chinese and U.S. intelligence and law-enforcement agencies gained attention in early January with the three-day visit of FBI Director Robert Mueller to Beijing. China's preparation for the Beijing Olympics was the main focus of the visit. Mueller toured Olympic venues in the Chinese capital and was briefed by the police, paramilitary, and counter-intelligence agencies in charge of security for the August games. In brief remarks to reporters, Mueller termed China's security preparations for the Olympics "impressive" and acknowledged that the FBI was lending its expertise on fending off possible terrorist attacks. In addition to Olympic security, he cited terrorism, computer crimes, and corruption as areas of Sino-U.S. cooperation. "Both countries face threats from terrorism, face threats from cyber-crime, hackers and the like and so my discussions with my counterparts here have discussed those areas where we have mutual concerns," Mueller said.

Taiwan's election relieves worries, raises new concerns

The election of Kuomintang (KMT) candidate Ma Ying-jeou as Taiwan's president and the defeat of the referendum that asked Taiwan voters if they wanted to join the United Nations under the name of Taiwan eliminated a potential crisis for Beijing and produced a new strategic opportunity to transform cross-Strait relations. In the March 26 phone call between Presidents Bush and Hu, Bush encouraged China to reach out to Taiwan and to try and resolve differences. According to *Xinhua*, Hu expressed his expectation that the Chinese mainland and Taiwan will make joint efforts and create preconditions to formally end their hostility through consultation, reach a peace agreement, construct a framework for peaceful development, and usher in a new situation of cross-Strait relations.

Even as Chinese fears about the dangers of Taiwan independence began to recede, new worries surfaced. Chinese scholars visiting Washington voiced concern that U.S.-Chinese cooperation to manage Taiwan, which they viewed as bolstering trust between the two countries, would now come to an end. They feared a rapid improvement in U.S.-Taiwan relations, heralded by a possible visit to the U.S. by Ma Ying-jeou prior to his inauguration and potential approval of Taiwan's request to purchase 66 *F-16 C/D* fighter jets, could come at China's expense and cause Beijing to be cautious in responding to Ma's victory. Speaking at a conference held at The Brookings Institution, Yuan Peng, director of the American Studies Institute under the China Contemporary Institutes of International Relations, called for Washington and Taipei to avoid

taking steps that would rouse Chinese suspicions and instead reassure China so as to promote positive-sum rather than zero-sum interactions among the U.S., China, and Taiwan in the future.

Headway in bilateral military ties

Adm. Timothy Keating made a four-day trip to China in mid-January, his second visit since assuming his post as commander of the U.S. Pacific Command in March 2007. In Beijing, Keating met with Central Military Commission Vice Chairman Guo Boxiong, PLA General Staff Chief Chen Bingde and his deputy Ma Xiaotian, Ding Jingong, deputy chief of the Ministry of Defense's Foreign Affairs Office, and Foreign Minister Yang Jiechi. Keating also visited the Chinese Academy of Military Sciences where he held a seminar with Chinese researchers.

Chinese media reporting on the visit was upbeat, reflecting the positive trends in recent months in the U.S.-Chinese military relationship. In an interview after Keating's meetings in Beijing, China's official news agency for overseas Chinese reported Ding Jingong's statement that the visit played a "positive role" in enhancing bilateral military cooperation. In a sign of Beijing's willingness to get beyond the issues that caused the November denial of the *USS Kitty Hawk* port visit to Hong Kong, *Xinhua* quoted Ding as saying that China welcomed suggestions Keating made for more mutual port visits, as well as for observation of multinational and bilateral military drills and exchange programs for commissioned and non-commissioned officers.

Chinese concerns about Taiwan independence activities and U.S. actions that allegedly encourage Taiwan independence were raised in every meeting. Using especially tough language, Guo Boxiong called for the U.S. to "stop its arms sales to Taiwan, stop its military connections with Taiwan, refrain from sending wrong signals to Taiwan, and jointly maintain the Taiwan Strait's peace and stability."

Keating also visited Shanghai and Guangzhou, where he toured PLA military institutions and bases. In Guangzhou, Keating was hosted by Lt. Gen. Zhang Qinsheng, formerly PLA deputy chief of staff, who is now commander of the Guangzhou Military Region. At the Navy Service Arms Command Academy, Keating delivered a speech in which he stressed the desire of the U.S. military to cooperate with all countries in the Asia-Pacific region, including China, to protect peace and stability in the region.

Talking with the press in Beijing, Keating highlighted trust, confidence, and transparency as the themes of the visit. He maintained that he is developing "an honest and true friendship" with some of China's senior officials, adding "I can pick up the phone and call some of these guys." In response to a question about why the *USS Kitty Hawk* transited the Taiwan Strait after it was denied entry into Hong Kong and headed for its home port Yokosuka, Keating noted that there had been inclement weather on the leeward side of Taiwan. In addition, he bluntly stated that the Taiwan Strait is international water and the U.S. does not need China's permission to sail through it. "We will exercise our free right of passage whenever and wherever we choose as we have done repeatedly in the past and we'll do in the future," Keating stated. These comments were strongly denounced by Chinese netizens on several popular mainstream and military enthusiast bulletin boards in China.

At the end of January, China permitted the *USS Blue Ridge*, an amphibious command ship and the flagship of the Seventh Fleet, along with its 700 crew members to make a port call in Hong Kong. Bilateral military ties took another step forward in February with the signing of an accord on providing access to military records that may yield information on the remains of U.S. military personnel missing from the 1950-53 Korean War and the finalizing of an agreement to install a hotline between the two militaries. Ambassador Charles A. Ray, deputy assistant secretary of defense for POW/missing personnel affairs and Maj. Gen. Qian Lihua, director of the Ministry of National Defense Foreign Affairs Office, signed the accord on archive access in Shanghai. The hotline agreement was signed by Qian Lihua and Deputy Assistant Secretary of Defense David Sedney, who was in Beijing for the fourth round of Sino-U.S. Defense Policy Coordination Talks. The Chinese also agreed to convene expert-level discussions on nuclear strategy and policy issues that will include active duty military officers from China's Second Artillery and the U.S. Strategic Command. Presidents Bush and Hu agreed to launch a dialogue on nuclear matters in April 2006, but little progress has been made in the past two years. In the meantime, China's ongoing modernization of its nuclear arsenal has raised U.S. concerns and prompted calls for greater transparency about the intentions behind the program.

Finally, Chinese and U.S. naval officers concluded an annual maritime safety meeting under the framework of the Military Maritime Consultative Agreement. Since the MMCA was signed in 1997, there have been seven plenary meetings, 12 working group meetings, and one special meeting. According to China's Defense Ministry, the two sides discussed holding a joint maritime exercise within the year. *Xinhua* reported "the mechanism has played an important role in enhancing mutual understanding and trust, promoting China-U.S. maritime military safety, and deepening exchanges and cooperation between the two navies." In addition to the MMCA talks, the U.S. delegation, led by Maj. Gen. Thomas Conant, director for strategic planning and policy of the U.S. Pacific Command, met Rear Adm. Zhang Panhong, the deputy commander of the PLA North Sea Fleet, and visited the fleets of the Chinese navy.

In early March, the Pentagon released its annual assessment of Chinese military capabilities that is mandated by the U.S. Congress. As in previous years, the report highlighted Beijing's lack of transparency, which "poses risks to stability by increasing the potential for misunderstanding and miscalculation" and leads to "hedging against the unknown." The report claimed that although the near-term focus of China's military modernization is preparing for contingencies in the Taiwan Strait, analysis of China's military acquisitions and strategic thinking suggests Beijing is also developing capabilities for use in other regional contingencies, such as conflict over resources or disputed territories. Chinese military programs generating concern include the development of cruise and ballistic missiles capable of striking aircraft carriers at sea, the test of an anti-satellite weapon, and the deployment of new intercontinental ballistic missiles.

China condemned the Pentagon's report, saying it was a distortion of the facts, interfered in the country's internal affairs, and demonstrated "Cold War thinking." Chinese Foreign Ministry Spokesman Qin Gang declared "We are extremely dissatisfied," and demanded that the U.S. "correctly recognize China and China's development." In a critique of the report published in *China Daily*, the head of Fudan University's Center for American Studies, Shen Dingli, objected to the report's premise that "China is only permitted to engage in coastal defense and protect

itself at its front door.” Shen also contended that China had been compelled to develop space capabilities after years of unsuccessfully trying to persuade the U.S. not to militarize outer space.

Stable and Complicated

Chinese specialists on America remain cautiously upbeat about the development and prospects for Sino-U.S. relations. Writing in *Beijing Review*, People’s University Associate Dean Jin Canrong summed up Sino-American ties in 2007 as stable and complicated. He maintained that the attitudes of both sides toward the concept of “stakeholders” suggest that their relationship will head in a positive direction. In the future, Jin suggested, two factors will determine the stable development of future Sino-American ties: Whether the U.S. accepts China’s peaceful rise as a fact, and whether China accepts the existing world system under U.S. domination.

In an interview with *China Daily*, Chu Shulong, another leading America expert from Qinghua University, asserted that after many years of friction, relations between China and the U.S. have entered a period of strategic stability. “As long as the two sides can properly handle the Taiwan question and jointly deal with the threat posed by the Taiwan independence forces, bilateral ties will develop steadily in the coming years,” Chu said.

Looking ahead to the second quarter of 2008, the main event in Sino-U.S. relations will be the fourth session of the Strategic Economic Dialogue, scheduled to be held in Washington in June. This is likely to be the last SED meeting under the Bush administration. A visit by Wu Bangguo, Politburo Standing Committee member and chairman of the National People’s Congress, is also under discussion. Wu’s visit had been planned for October last year, but was canceled after Washington provided an unusually public and warm reception for the Dalai Lama and awarded him a medal. No chairman of the NPC has visited the U.S. since Wan Li in 1989, nearly two decades ago, and both countries hope to realize the visit in the coming months.

Chronology of U.S.-China Relations January-March 2008*

Jan. 12, 2008: Taiwan’s opposition KMT party wins a landslide victory in the parliamentary polls, winning 81 seats in the legislature, while the DPP wins 27 seats.

Jan. 13-16, 2008: Adm. Timothy Keating, commander of the U.S. Pacific Command, visits China.

Jan. 16-20, 2008: U.S. Deputy Secretary of State John Negroponte visits China for the fifth round of the Senior Dialogue, which is held in Guiyang with his counterpart Executive Vice Foreign Minister Dai Bingguo.

Jan. 21, 2008: The World Bank appoints a Chinese economist as its chief economist.

* Chronology by CSIS intern Kingston Kwek

Jan. 23, 2008: Foreign Minister Yang Jiechi meets Secretary of State Condoleezza Rice on the sidelines of the six-nation foreign ministers' meeting on the Iranian nuclear issue in Berlin.

Jan. 28, 2008: China approves a request for the U.S. Seventh Fleet command ship *USS Blue Ridge* to make port visit in Hong Kong, allowing its 700 sailors to remain a few days in Hong Kong.

Jan. 28, 2008: Adm. Keating says at a forum hosted by Asia Society that Beijing is developing weapons systems that exceed what the U.S. sees as necessary for self-defense.

Jan. 30-31, 2008: FBI Director Robert Mueller makes a three-day visit to Beijing and is briefed by the police, paramilitary, and counterintelligence agencies in charge of security for the August Olympic games.

Feb. 5, 2008: Director of National Intelligence Mike McConnell presents the annual threat assessment to the Senate Select Committee on Intelligence, with China occupying a prominent portion of his statement.

Feb. 8, 2008: The Department of Defense provides disaster relief materials to China that includes 6,000 winter coats, 1,657 blankets and 87,552 military food ration packs, valued at \$820,000, to help alleviate the suffering of people in southern, central and eastern China from heavy snow.

Feb. 11, 2008: The FBI arrests alleged spies for the Chinese government, including a Pentagon official who helped Beijing obtain secret information about U.S. weapons sales to Taiwan and U.S. military programs.

Feb. 12, 2008: Russia and China propose a new international treaty to ban the deployment or use of weapons in outer space, and the use or threat of force against satellites or other craft.

Feb. 13, 2008: U.S. film director Steven Spielberg withdraws as artistic adviser for the 2008 Olympics, accusing China of not doing enough to pressure Sudan to end the "continuing human suffering" in the troubled western Darfur region.

Feb. 13, 2008: Thomas Fingar, deputy director of the Office of the Director of National Intelligence, warns that military confrontation in the Taiwan Strait is one of the most worrying potential threats facing the U.S. at a House Armed Services Committee hearing.

Feb. 18, 2008: Foreign Ministry Spokesman Liu Jianchao expresses concern about a U.S. plan to destroy a malfunctioning satellite and calls for the U.S. to fulfill its international obligations in earnest.

Feb. 19, 2008: Assistant Foreign Minister He Yafei holds talks with Assistant Secretary of State Christopher Hill to exchange views on the North Korean and Iranian nuclear issues, Myanmar, and anti-proliferation.

Feb. 20, 2008: The Chinese Ministry of Public Security says that China will send the fifth contingent of peacekeeping police to Kosovo in early March.

Feb. 21, 2008: Nine retired senior military officials from the U.S. and China, led by former Vice Chairman of the U.S. Joint Chiefs of Staff Bill Owens and former Deputy Chief of the PLA General Staff Xiong Guangkai respectively, meet on the southern island of Hainan to discuss ways to reduce tensions between the two countries.

Feb. 25, 2008: The 17th Central Committee of the Communist Party of China kicks off its second plenary session to discuss the restructuring of government departments and candidates for state leaders.

Feb. 26, 2008: Secretary of State Rice visits Beijing as part of a tour of Northeast Asia.

Feb. 26, 2008: Representatives of China, U.S., Russia, U.K., France, and Germany meet in Washington to discuss the Iranian nuclear problem. China's representative says that China supports negotiations as a means to resolve the problem.

Feb. 27, 2008: In testimony to the Senate Armed Services Committee, Director of the U.S. Defense Intelligence Agency Lt. Gen. Michael Maples says China has deployed more than 1,000 ballistic missiles against Taiwan and has developed more powerful missiles with the range to cover the entire continental U.S. and its allies in the region.

Feb. 28, 2008: President Bush says that he will attend the Beijing Olympics in August as a sports fan, but vows not to be "shy" about pushing China on human rights as well as Darfur and Myanmar.

Feb. 28-March 1, 2008: Deputy Assistant Secretary of Defense for East Asia David Sedney holds Defense Policy Consultative Talks in Shanghai with counterpart Gen. Qian Lihua.

March 3, 2008: The Pentagon releases its annual report on China's military as mandated by Congress.

March 3, 2008: The Bush Administration delivers a report to Congress entitled "the 2008 Trade Policy Agenda," which states that China has overtaken Japan to become the third largest export market for the U.S.

March 4, 2008: China says it plans to increase military spending by 17.6 percent this year, to 417.8 billion RMB, or \$59 billion.

March 4, 2008: The National People's Congress (NPC) opens in Beijing. The main agendas are controlling inflation, the Olympic games, and a governmental reorganization.

March 5, 2008: Two House subcommittees hold a hearing to explore the economic and security implications of “sovereign wealth funds,” including the activities of the China Investment Corporation, with assets of \$200 billion.

March 7, 2008: Washington seeks permission from Beijing for the *USS Kitty Hawk* Battle Group to visit Hong Kong in mid-April.

March 7, 2008: President Hu Jintao meets former President George H.W. Bush in Beijing.

March 10, 2008: Tibetan protests begin in conjunction with the anniversary of the 1959 rebellion against Chinese rule.

March 11, 2008: Department of State releases its annual report on human rights. Unlike previous years, China is not listed as among the top 10 most systematic human rights violators, but is described as an authoritarian regime that denies its people basic human rights and freedoms, tortures prisoners, and restricts the media.

March 13, 2008: China releases its annual report on human rights in the U.S., which calls the U.S. record “tattered and shocking,” and criticizes the U.S. for its high crime rates, large prison population, and the wars in Iraq and Afghanistan.

March 18, 2008: The U.S. Security and Economic Review Commission holds a hearing on China’s Expanding Global Influence: Foreign Policy Goals, Practices, and Tools.”

March 19, 2008: Secretary Rice telephones Foreign Minister Yang Jiechi and urges restraint on the part of the Chinese government in its response to Tibetan protestors, and encouraging Beijing to talk with the Dalai Lama.

March 21, 2008: Vice Premier Wang Qishan meets U.S. Trade Representative Susan Schwab in Beijing and pledges China’s constructive role as a bridge in the Doha round of negotiations on world trade.

March 22, 2008: Taiwan holds a presidential election. KMT candidate Ma Ying-jeou wins with 58.45 percent of the vote against 41.55 percent for DPP candidate Hsieh Chang-ting.

March 25, 2008: U.S. Secretary of the Air Force Michael Wynne announces that in March 2005 the U.S. accidentally shipped four nose cone fuses for intercontinental ballistic missiles to Taiwan instead of the helicopter batteries that Taiwan ordered.

March 26, 2008: China’s Foreign Ministry Spokesman Qin Gang voices concern about the mistaken U.S. shipment of fuses to Taiwan. Qin demands that the U.S. conduct an investigation and provide “truthful and detailed information to the Chinese side and eradicate the negative impact and evil consequences hence incurred.”

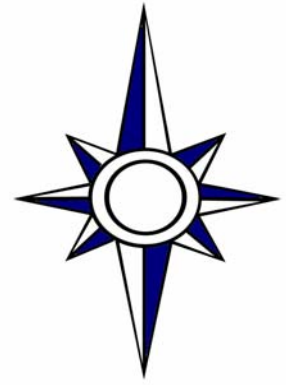
March 26, 2008: China allows the first group of foreign journalists to visit Lhasa since the violence began in Tibet.

March 26, 2008: President Bush calls President Hu Jintao to discuss the opportunities created by the Taiwan elections, the situation in Tibet, Burma, and North Korea.

March 28, 2008: Foreign Minister Yang Jiechi and Secretary of State Rice talk by phone, discussing bilateral ties and the Six-Party Talks.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



U.S.-Korea Relations: A New Day

Victor Cha, Georgetown University

The major event of the first quarter of 2008 was the inauguration of a new government in South Korea. The Lee Myung-bak government offered some initial signals of the types of policies it intends to pursue both on and off the peninsula. While there is much that was accomplished under the Roh Moo-hyun government in U.S.-ROK relations, most experts agree that the overall tone between the new Lee government and the Bush administration will improve considerably. Meanwhile, U.S.-DPRK relations in the context of the Six-Party Talks remain stuck on completing the second phase of the denuclearization agreement, despite some audibles by the U.S. team in conjunction with the Chinese. While we may be in the first quarter of the year, it may be the last quarter for the six-party process absent any progress.

“It’s the economy, Pabo (Stupid)”

Lee Myung-bak won the presidency by the largest margin of victory of any ROK president since the establishment of democracy in the country in 1987. Though part of this margin is attributable to dissatisfaction with the previous government’s performance, the victory undeniably marked a swing of the political pendulum back to the right-of-center in Korean politics after a decade of left-of-center politics. The former chairman of Hyundai Construction put forward three major policy priorities – revitalizing the economy, enhancing Korea’s position as a global player, and restoring trust in the U.S.-Korea alliance.

As with almost all democratic presidential elections, the key issue motivating voters’ political choice was the economy. Lee has promised to take Korea “back to the future” by reemphasizing the return to a pro-growth national economic strategy rather than the prior government’s focus on income redistribution. While the Roh government’s intentions were noble, their policies failed to achieve the desired objectives. As a result, income gaps remained wide, educational reform did not happen, unemployment did not decline, and the major *chaebol* conglomerates felt as though they were under siege from their government. Lee’s 7-4-7 proposal has famously promised raising Korea to the 7th largest economy in the world, creating a \$40,000 GDP per capita income level, and achieving 7 percent growth in the economy. Post-election, Lee’s team has already tried to dampen down expectations of achieving the 7 percent growth. Indeed, when a group of former U.S. government officials were invited to meet the president-elect in January (including the author), his first question was about the sub-prime mortgage crisis in the U.S. and the impact this would have on the global economy and Korea’s overall growth. Under Lee, Korean businesses will operate under a friendlier climate with likely reductions in corporate taxes (up to 3 percent), more public construction projects (including Lee’s idea of a “Korea canal”), and expansion of Seoul city. As important to the Lee government as growth is, to re-

instill confidence within Korean corporations to invest in the country is a top priority. Estimates are that Korean companies have accumulated upward of \$60 billion in cash, uncertain of investing in the economy given the previous government's policies. For these companies, Lee's presidency clearly presages a new day.

Mind-meld

President Lee will make his first trip to Washington in April to spend an evening and morning at Camp David. The choice of the venue is significant because it affords leaders the opportunity for private meals, one-on-one time, walks through the woods, and rides on the golf cart where some personal chemistry can be created. This was the primary element missing in the alliance over the past several years.

There were many important agreements reached between the U.S. and South Korea over the past five years – arguably more substantive agreements than in any five-year period in the alliance. The return of over 60 military camps and bases to the Koreans, the transfer of wartime operational control (OPCON) over ROK forces (by 2012), and the agreement to relocate Yongsan garrison constituted the biggest changes in the U.S. force presence in Korea in decades. In addition, the U.S. committed to work on a visa waiver program for Korea and inked a blue-ribbon standard free trade agreement (FTA) with South Korea, constituting the largest FTA outside of NAFTA and America's single largest bilateral FTA.

In spite of these agreements, the tone in the U.S.-Korea relationship was never good. In part, this had to do with ideological differences, but it also had to do with a lack of personal chemistry between the two leaders. President Bush's close personal ties with leaders like Koizumi Junichiro, John Howard, Tony Blair, Angela Merkel, and even Hu Jintao were never approximated with Roh. This is likely to change with Lee. For the first time in arguably a decade, Bush will meet with a Korean leader much like himself: a conservative, pragmatic businessman who is a man of faith. Their first telephone conversation after Lee's election was pleasant and even contained a joke or two about the two leaders' relative golf capabilities. This ability to connect at a human level will be welcome by alliance supporters as a missing ingredient in an otherwise sturdy alliance relationship.

All signals from the Lee administration in the past quarter indicate that they will continue with the alliance agreements from the previous administration. There has not been much publicity in this regard because most of the focus between the inauguration in late-February and the end of the quarter has been on preparations for the National Assembly elections on April 9 where Lee hopes the conservatives can win back a majority. The low-key but important visits by National Security Advisor Byung-kook Kim and Foreign Minister Yu Myung-hwan in March to Washington, however, made clear the policy directions of the new administration – all of which are probably music to the ears of most supporters of the alliance.

On North Korea, the Lee administration began implementing its "reciprocity-first" policy. Rather than prioritizing handouts to Pyongyang, Lee made clear in his inaugural address as well as in other statements his intention to help the DPRK reach a \$3,000 per capita income in one decade as long as Pyongyang reciprocates cooperation in denuclearization and in inter-Korean

relations. Of the three baskets of inter-Korean assistance – humanitarian (food, fertilizer), economic cooperation projects (Kaesong industrial complex and Kumgang mountain tourism project), and big-ticket infrastructure projects (joint fisheries zone, road and rail promised by Roh government in October 2007 summit) – Lee will likely continue food and fertilizer (albeit at lower levels if there is no progress on Six-Party Talks) and the inter-Korean cooperation projects, but will not expand the latter or start the big-ticket infrastructure projects without reciprocity from the North on denuclearization. Deputy Minister Park In-kook's strong statements before the UN Human Rights Council in Geneva that Seoul would no longer remain silent on DPRK human rights abuse was another clear indication of the policy's new direction.

Some on the left in Seoul have criticized Lee's policy as "no-policy," but for both conservatives and for those who want negotiations with North Korea, Lee's policies are the right mix of carrot and stick. Or as one top official put in informally, "sometimes, silence is a policy." The new emphasis on human rights will be welcomed by President Bush who arguably has done more on the issue than any previous U.S. president, setting up a program for resettling DPRK defectors in the U.S., appointing a special envoy, and hosting North Korean defectors in the Oval Office. The ROK statement at the UN Human Rights Council in Geneva was made without much fanfare and yet was made decisively by the Lee government. By contrast, it took almost 12 hours of negotiation to get Seoul to agree to include one line in the 2006 ROK-U.S. Joint Declaration at Gyeongju on the "mutual concern for the situation of the people of North Korea."

Moreover, the coordination of inter-Korean assistance with Six-Party Talks will be welcomed by all members of the talks. The Unification Ministry's free-hand to spend its budget on North Korea independent of progress in the Six-Party Talks was a coordination challenge for those seeking to modulate the right amount of pressure and incentives to bring the North to negotiate seriously on denuclearization. Lee has sought to reduce the role of this agency and put the Foreign Ministry in the lead on North Korea. This new policy does not guarantee success, because in the end, the decision rests with Pyongyang to make the right choices, but it is clearly a policy that reflects the administration's more pragmatic and less ideological view of the DPRK.

A global U.S.-ROK alliance?

Another theme likely to resonate in U.S.-ROK relations under the new Lee government is the broadened scope of the alliance. Again, this was a trend that was held up prominently during the Roh Moo-hyun years, and the previous government deserves credit for stepping up in Iraq where the ROK had the third largest ground contingent doing important force protection and training activities, particularly in Irbil, not just humanitarian assistance. Seoul also contributed UN peacekeeping forces in Lebanon and was an early supporter in Afghanistan. The problem was that even as Korea's scope expanded in its global operations, its mentality did not. In other words, it was not to fight the global war on terror or for stability in the Middle East that Korea sent troops to Iraq; instead, it was seen as a quid pro quo for hoped-for concessions by the Bush administration on North Korea. Lee will not allow an obsession with North Korea to dictate ROK global policy. As he stated throughout the campaign, he will treat the North as a "normal" country, not as an exception to every global norm that Korea aspires to. In this regard, the context of every foreign policy decision does not need to be "cleared" by pro-DPRK factions. Seoul can renew its commitment to the global war on terror in Afghanistan without anxiety that

this might elicit a negative response from the DPRK. It can talk about increasing the ROK's profile as a provider of overseas development assistance to the world without leftist hesitation that such ODA money should be used for the DPRK rather than to combat AIDS in Africa or avian flu in Vietnam. Seoul can also improve relations with Japan without the biases held by the political left, who display a combination of anxiety and insecurity disguised as nationalism towards its neighbor.

FTA and OPCON

The two concrete policy issues between the U.S. and ROK in the run-up to Lee's April Camp David visit were on trade and OPCON. In the latter case, many of Lee's top military advisors were outspoken in their opposition to the Roh government's conclusion of an agreement to return wartime OPCON over ROK forces to South Korea by April 2012. The view was not that the concept of OPCON transfer was wrong, but that the Roh government was pursuing it for ideological reasons without a clear assessment of the strategic environment in which such a transfer would happen. Though this looked as if it might be the first issue of contention between the two governments, early and quiet trips by both U.S. and ROK interlocutors helped to ease some of the anxiety surrounding the issue and address some of the ROK concerns.

The free trade agreement is, however, another matter. The degree of frustration on the Korean side at how this very important agreement – important not just for the U.S.-ROK alliance, but also for free trade and U.S. leadership in Asia – has become a victim of the U.S. election campaign has been palpable. Despite revisions that have already been made on the Korean side to meet Congressional demands, the prospects of passage in the U.S. Congress seem slim. The ROK interlocutors worked throughout the quarter to sort out a path to salvage the agreement.

While there is a great deal of pessimism in the commentary/pundit echo chambers in Washington about the FTA, I think that what is greatly underestimated is the determination and political will of both the new Lee government and the Bush administration to get the agreement through. This is by far the largest bilateral FTA the U.S. has negotiated, and the largest FTA outside of NAFTA. Its passage is not only a symbol of the alliance, but also a symbol of U.S. leadership in free trade when other multilateral forums are in jeopardy. The call for a "strategic pause" on U.S.-negotiated FTAs would only sideline the U.S. while China and the EU continue to move forward negotiating preferential arrangements.

There were rumors that the Lee government would come to Washington with the decision to re-open its beef market to the U.S., which constitutes an important pre-condition to removing some of the voices of opposition to the FTA on Capitol Hill. Presuming that the Grand National Party (GNP) does well in the National Assembly elections, this would set the stage for bringing the FTA before the Korean national legislature for ratification. On the U.S. side, there are concerns that elements of the FTA are not acceptable (e.g., autos), but one should not underestimate the political will of the Bush administration, even in its last months, of pressing hard to move the agreement through with the help of key Cabinet secretaries. The administration has not yet made the FTA a "high politics" issue, but if it does, there may be a brighter outcome than most today expect.

Six-Party Talks in the Fourth Quarter?

The biggest headline event in U.S.-DPRK relations during the quarter had nothing to do with nuclear weapons and everything to do with music. The New York Philharmonic's well-publicized visit to Pyongyang offered a moment of "violin" diplomacy that captured the world's imagination. The North Koreans were gracious hosts and the event constituted a good example of the things available to the DPRK once it makes the decision to denuclearize. Unfortunately, the key immediate indicator of that decision – the nuclear declaration and the disablement of Yongbyon – lacked any significant movement. An informal declaration provided by the North in November 2007 apparently did not come close to being acceptable. While the disablement process at Yongbyon has moved forward well with U.S., Russian, Chinese, Japanese, and South Korea experts all on the ground at Yongbyon at one time or another (unprecedented in terms of multilateral nonproliferation efforts in the North), Pyongyang appeared not to be ready to reveal all of its past nuclear activities, including uranium-based programs and past proliferation activities. U.S. negotiator Chris Hill in conjunction with the Chinese hosts of the Six-Party Talks tried to come up with "work-throughs," – diplomatic instruments to finesse the data declaration – but as of the end of the quarter, these do not appear to have worked.

Many on the conservative side are arguing that we are now in the fourth quarter of Six Party talks with no DPRK cooperation even three months after the Dec. 31 deadline. While optimism is not warranted, a great deal has been accomplished since the February 2007 agreement, and for this reason, diplomats will continue to try to achieve completion of this second phase of "declaration and disablement." Meanwhile, Hill's time might be better spent getting the US-ROK FTA passed.

Chronology of U.S.-Korea Relations January – March 2008*

Jan. 3, 2008: ROK Defense Minister Kim Jang-soo says wartime OPCON of ROK troops must be transferred from the U.S. by the agreed April 17, 2012 date, but left open that this transfer may be rescheduled depending on security circumstances in 2012.

Jan. 4, 2008: President-elect Lee states in a meeting with U.S. experts led by Stephen Solarz that Seoul and Washington should work together to form a stronger alliance.

Jan. 8, 2008: Transition team spokesman Lee Dong-gwan states that the scheduled transfer of wartime OPCON of ROK military forces needs to be carefully considered in light of the North Korean nuclear issue.

Jan. 8, 2008: U.S. Trade Representative Susan Schwab says in a teleconference from Las Vegas that the benefits from the ROK-U.S. FTA should not be sacrificed due to some opposition. She argues that the agreement benefits all Americans.

* Chronology written by Taylor Fincher

Jan. 10, 2008: U.S. Assistant Secretary of State Christopher Hill states that President Bush plans to send Secretary of State Condoleezza Rice to attend President-elect Lee's inauguration ceremony in February.

Jan. 10, 2008: *Korea Herald* reports that a U.S. delegation, intent on transferring wartime OPCON of ROK troops in 2012, will meet with Lee's transition team on Jan. 14 to discuss the issue. The delegation will be headed by Deputy Assistant Secretary of Defense for East Asia David Sedney.

Jan. 10, 2008: President-elect Lee, in a meeting with Assistant Secretary Hill, asks the U.S. to engage in dialogue with the North Korean military leadership to assuage fears of regime collapse.

Jan. 11, 2008: The ROK presidential transition committee begins considering whether ROK should be a part of the U.S.-led Proliferation Security Initiative since full participation may affect inter-Korean relations.

Jan. 14, 2008: Ahn Sang-soo, floor leader of the Grand National Party, says the National Assembly has discussed the possibility of ratifying the FTA with the U.S. by the end of February. Sohn Hak-kyu, the new chairman of the United Democratic New Party, says he would back the agreement if provisions are made to help rural farmers who could be hurt by the agreement.

Jan. 15, 2008: President-elect Lee states that the Combined Forces Command is an important force in providing Northeast Asian security. He discusses with Gen. Burwell Bell many issues to further improve the ROK-U.S. military alliance and maintain a defense position against the DPRK.

Jan. 21, 2008: Chung Mong-joon, the special envoy of President-elect Lee, arrives in Washington to discuss positions of the incoming government including improvement of bilateral relations, ratification of the FTA, and the ROK's entry into the U.S. visa waiver program. Chung also states that the U.S.-ROK relationship has been damaged in the past due to a lack of sincere dialogue and that the new government hopes to rectify this.

Jan. 22, 2008: Chung shows caution over renegotiating the transfer of the wartime military OPCON of ROK troops. He states that according to some Korea experts he met with in the U.S., the transfer could send the wrong message to the DPRK. Chung meets with Secretary of Defense Robert Gates, but said he will not bring up the transfer first.

Jan. 22, 2008: President Bush "drops by" on Chung's meeting with National Security Advisor Steve Hadley and indicates that bolstering the U.S.-ROK alliance is one of his top priorities and he is anxious for a visit from Lee.

Jan. 23, 2008: A ROK liaison officer is sent to the US Navy's 5th fleet in Bahrain to work on better cooperation with the U.S. Navy, and to coordinate protection of ROK citizens, ships, and sailors in the region amidst growing numbers of pirate attacks.

Jan. 24, 2008: Kathleen Stephens, advisor at the State Department's East Asia and Pacific Affairs, is nominated as the next U.S. ambassador to ROK.

Jan. 24, 2008: Ministry of National Defense states that ROK and U.S. militaries agree to conduct joint recovery and identification of soldiers' remains from the Korean War.

Jan. 28, 2008: Commander, U.S. Pacific Command Adm. Timothy Keating states that the transfer of wartime OPCON is very important and the U.S. forces in Korea will remain between 25,000-28,000 troops.

Jan. 28, 2008: Gen. Bell states that the U.S. is unwilling to renegotiate the transfer of wartime OPCON of ROK, seeing "no military rationale" to delay the transfer.

Jan. 28, 2008: In his State of the Union Address, President Bush urges lawmakers to ratify the FTA with ROK, stating that it will enhance U.S. competitiveness in fast-changing Asian markets and strengthen the alliance between the two countries.

Jan. 29, 2008: Korean newspapers report concern that the ROK-US FTA is in danger.

Jan. 30, 2008: Following a month-long investigation, the Ministry of National Defense states that it aims to complete by 2010 a decontamination process at 18 former U.S. military bases transferred to ROK.

Feb. 1, 2008: Gen. Bell announces plans to extend length of tours for U.S. soldiers from one to three years and increase opportunities for their families to stay in Korea.

Feb. 4, 2008: U.S. Forces, Korea announces plans to reduce its troop level to 25,000 by the end of the year as part of a global plan to reposition U.S. troops.

Feb. 5, 2008: President-elect Lee, in a meeting with 10 members of the New Beginnings Group formed by Stanford University and the Korea Society, including former ambassadors Mike Armacost, Tom Hubbard, and Jack Pritchard, states that the ratification of the FTA would take the U.S.-ROK alliance to a new level of cooperation.

Feb. 10, 2008: President of the Korean Confederation of Trade Unions Lee Suk-haeng begins a four-day trip to the U.S. to discuss joint action with U.S. labor groups to block the ratification of the ROK-U.S. FTA.

Feb. 11, 2008: In Hawaii, officials from ROK and the U.S. discuss the handling of U.S. ammunition reserves stored in ROK. These talks are part of a plan to end the program of stockpiling munitions in Korea.

Feb. 11, 2008: Members of the Democratic Labor Party blockade the location where the Parliament was to discuss the U.S.-ROK FTA, forcing the meeting to be postponed.

Feb. 14, 2008: U.S. Representative Royce submits a bill to the House to upgrade ROK to the level of NATO +3 member status in the U.S. foreign military sales program. This will allow ROK to purchase a wider variety of military supplies at a lower price.

Feb. 15, 2008: ROK and U.S. sign an agreement to boost cooperation between the countries' militaries in the information technology sector. This is done in preparation for the transfer of wartime OPCON of ROK forces so that both militaries will be able to effectively support joint missions.

Feb. 18, 2008: President-elect Lee urges President Roh to work closely with the National Assembly to ratify the U.S.-ROK FTA before his term expires. Lee Hye-min, ROK deputy negotiator for the FTA, states in a radio address that both countries agreed that there will be no additional negotiation of the agreement.

Feb. 18, 2008: President-elect Lee names former Ambassador to Japan Yu Myung-hwan as foreign minister and former Defense chief Gen. Lee Sang-hee as defense minister.

Feb. 19, 2008: Japan, Korea, and the U.S. agree to mobilize their militaries together to handle non-security related matters such as disaster situations.

Feb. 20, 2008: A U.S. nuclear-powered submarine arrives in Busan to prepare for the *Key Resolve/Foal Eagle Exercise 2008* scheduled for early March.

Feb. 25, 2008: Condoleezza Rice attends the inauguration ceremony of President Lee and confirms the strong alliance between the two countries.

Feb. 25, 2008: The chief U.S. negotiator for the FTA repeats the message that the ROK has to open its market to beef imports if Korea wants the U.S. to ratify the agreement.

Feb. 26, 2008: The New York Philharmonic Orchestra performs a landmark concert in North Korea. The concert was broadcast live on local television and included the national anthems of both countries, music by two U.S. composers, and a Korean folk song. The visit entailed the largest U.S. presence in North Korea since the end of the Korean War.

Feb. 28, 2008: President Bush meets 20 experts to discuss a strategy to win ratification of the FTA with ROK amid growing concerns that the agreement may not be ratified.

March 1, 2008: 27,000 US troops, the *USS Nimitz* aircraft carrier, and a number of ROK soldiers begin the military exercises known as *Key Resolve* and *Foal Eagle* to improve both countries' combat-readiness.

March 3, 2008: The DPRK intensifies its criticism of the joint military exercises between ROK and U.S.

March 4, 2008: Assistant Secretary of State Hill meets South Korean counterpart Chun Yung-woo to discuss how to resume the Six-Party Talks.

March 5, 2008: Ambassador Alexander Vershbow says the U.S. wants the ROK to assume 50 percent of non-personnel costs for U.S. troops in Korea. He also expresses the idea of a longer term agreement rather than continuing to renegotiate on an annual basis.

March 6, 2008: Announcement is made that Presidents Lee and Bush will meet at Camp David for a private dinner and summit in mid-April. This will be the first time that leaders from the U.S. and ROK will meet there instead of the White House.

March 7, 2008: Defense Minister Lee Sang-hee talks via phone with his U.S. counterpart Robert Gates to discuss the prioritizing of a cost sharing plan for U.S. troops in Korea. Ambassador Vershbow also visited Lee to further discuss the U.S. position on the issue.

March 13-14, 2008: Assistant U.S. Secretary of State Christopher Hill and North Korean Vice Foreign Minister Kim Kye Gwan hold talks in Geneva aimed at breaking the deadlock over North Korea's nuclear program. Hill describes the discussion as a good consultation. State Department's head of Korean affairs, Sung Kim, remains in Geneva and has an additional meeting with representatives from North Korea on March, 14.

March 15, 2008: Gen. Bell tells the House Appropriations Committee that the ROK has agreed to cover majority of the costs of moving U.S. forces out of Seoul, an approximate cost of \$10 billion, also stating that both countries will equally split the costs of relocating the 2nd Infantry Division.

March 16, 2008: President Lee urges farmers to end their opposition to the ROK-U.S. trade agreement in favor of constructive dialogue. He states that although the government has budgeted \$100 billion for rural communities, free trade should be discussed on the part of the farmers.

March 17, 2008: ROK claims that Gen. Bell's statements to the U.S. House Appropriations Committee claiming that Korea will cover the majority of costs of relocating troops from Seoul are unrealistic and wishful thinking. The Korean Defense ministry states that the maximum amount paid by ROK will be \$4.38 billion.

March 18, 2008: ROK National Security Advisor Byung-kook Kim leaves for Washington to meet National Security Advisor Hadley and Secretary Rice.

March 18, 2008: Gen. Bell denies making the statement that ROK will pay \$10 billion to relocate U.S. troops. He claims this was a misunderstanding and that ROK is actually expected to pay ₩5.59 trillion (approximately \$5.75 billion).

March 24, 2008: U.S. State Department notifies Congress of six arms and defense exports to Korea in 2007, each amounting to \$50 million.

March 26-30, 2008: Foreign Minister Yu Myung-hwan visits the U.S. and meets Secretary Rice to prepare for the April 15 summit to take place between the presidents.



**U.S.-Russia Relations:
Weathering the Storm**

Joseph Ferguson
National Council for Eurasian and East European Research

As even the most casual of observers knows, the U.S.-Russian bilateral relationship has deteriorated steadily over the past five years. Signs seemed to point to this past quarter as the culmination of the confrontation between Moscow and Washington, with a number of key events scheduled to occur: a Kosovar declaration of independence, further NATO expansion, the Russian presidential election, and a 2+2 meeting focused on the controversial missile defense system in Eastern Europe. But as the quarter ended with an unexpected, yet cordial summit meeting between Presidents Bush and Putin in Sochi, the relationship seemed to have weathered the cold winter and spring seems to have brought a harbinger of better relations – at least until the U.S. presidential election in November.

Strategic issues dominate

Traditional strategic issues that divided the U.S. and the Soviet Union during the Cold War have tended to keep Moscow and Washington at odds for the past half decade, hence the tendency for analysts and experts to term the recent tensions a “new Cold War.” Geopolitics in Europe, Central Asia, and the Middle East continue to divide the two nations. Additionally, strategic weapons systems and arms control agreements have become points of contention, yet again.

Within Europe, the Balkans have maintained their place as a crossroads of misperception and competing strategies. In February, Kosova declared independence from Serbia. This declaration was almost immediately greeted with approval and recognition in Washington and much of Western Europe. The State Department has been particularly enthusiastic about completing the political consolidation of the Balkans. The Russian government, however, condemned the Kosovar declaration; Vladimir Putin called it “immoral and illegal.” Kosovar independence is a double-edged sword for Moscow. On the one hand, Russia (like China, which also opposes an independent Kosova) does not want to see similar declarations from small, ethnic republics within the Russian Federation, such as Chechnya. On the other hand, there is concern expressed in the U.S. that the Kosovar declaration would give Russian-supported separatist movements in Georgia (Abkhazia and South Ossetia) impetus to declare independence themselves. Ultimately, the Russian government did not support similar declarations in the Caucasus, and the Kremlin instead called for the Kosova issue to be taken again to the UN Security Council. Most saw this as a face-saving measure by Moscow to demonstrate continued solidarity with Serbia, but recognized there is little Russia can do to change the reality on the ground.

The Russian government has been much more forceful in its opposition to the declared determination by the Georgian and Ukrainian governments to follow a roadmap to potential NATO membership. The so-called Membership Action Plan (MAP) for Georgia and Ukraine is as strongly supported by Washington as it is opposed by Moscow. President Bush personally lobbied for the MAP at the April NATO summit in Bucharest, Romania. Several weeks prior to the Bucharest summit on the occasion of the visit of Ukrainian President Viktor Yushchenko to Moscow, Putin said that if Ukraine joins NATO, Russia would likely target nuclear missiles on that country.

Putin had been invited annually to the NATO summits since 2002, but had always declined the invitation. Therefore his decision to attend the 2008 Bucharest summit was seen by some as an attempt to somehow impose the will of Russia on the proceedings. The Bucharest agenda included membership for Albania, Croatia, and Macedonia; the MAPs for Georgia and Ukraine; the alliance's manpower troubles in Afghanistan; and the controversial missile defense system, parts of which NATO plans to install in Poland and the Czech Republic. After meeting with the leaders of NATO's 26 members (and arriving unannounced and uninvited to a state dinner), Putin told a press conference of his opposition to the expansion of the alliance into Georgia and Ukraine: "The appearance on our borders of a powerful military bloc ... will be considered by Russia as a direct threat to our country's security."

Moscow received unexpected support from France and Germany on this issue. German Chancellor Angela Merkel has led the push from several NATO members to veto the MAP for Georgia and Ukraine. This was clear already before the Bucharest summit, hence Bush's personal lobbying efforts. But in Bucharest, both France and Germany had their way in pushing support for Moscow on this issue. Evidently in return, Moscow made it known that it would allow NATO forces air and land non-lethal supply corridors across Russia and Central Asia into Afghanistan. Thus, Moscow indicated that it was prepared to bargain. This strategic accommodation was also evident in the 2+2 talks in Moscow, and later at Sochi between Bush and Putin concerning the missile defense system, elements of which the United States and NATO are planning to install in Eastern Europe. NATO strongly endorsed the missile defense system at the Bucharest meeting.

At the Sochi summit of April 5-6 (the 28th meeting between Bush and Putin), the atmosphere was friendly and "nostalgic" as the two presidents met for perhaps the last time. Putin proudly displayed the plans and models for the 2014 Sochi Winter Olympics. The two continued to disagree about the missile defense plans, in spite of Bush's assurances that such a system would not be aimed at Russia. Putin continued to state his opposition to the establishment of such a system, particularly on Eastern European soil. "Our fundamental attitude to the American plans have not changed, however, certain progress is obvious," he said. Bush countered by saying, "we've got more work to do to convince the Russian side that the system is not aimed at Russia." The U.S. has indicated that it would be prepared to put off the final installment of missile interceptors until Iran develops long-range ballistic missiles and to allow Russian monitors at radar and missile sites. It remains to be seen whether this will be enough to assuage the Kremlin. Putin remained vague in response to these points at Sochi, although he did say he was "cautiously optimistic" that a settlement could be reached. The two leaders addressed other issues such as most favored nation (MFN) trade status for Russia, the treaty on Conventional

Forces in Europe (CFE), and the Strategic Arms Reduction Treaty (START), which is set to expire in 2009.

Additionally, the two leaders signed a joint declaration, or “strategic framework” to guide relations. The declaration stated that the two nations “are dedicated to working together and with other nations to address the global challenges of the 21st century, moving the U.S.-Russia relationship from one of strategic competition to strategic partnership.” The declaration also touched on trade, climate change, defense technology cooperation, counter-terrorism, nuclear nonproliferation, WTO membership for Russia, energy cooperation, and the nuclear issues in Iran and North Korea.

On these last two issues, incidentally, it was a relatively quiet quarter for U.S.-Russian relations. Iran remains out of the reaches of the UN as long as Russia maintains its veto power. Russia does not want Iran to develop nuclear weapons, but most assuredly wants to profit from commercial exports of nuclear energy and technology to that country.

Although the positive atmosphere at Sochi was good for the bilateral relationship – Bush and Putin have always got on well together – but they often turn around to their domestic audiences and criticize each other’s policies or governments. The sense of optimism, rather, is more in the hope that President-elect Dmitry Medvedev will be his own man and establish a workable political agenda that will be less about “sovereign democracy” and will look more toward the West for inspiration.

Russia’s new president-elect

As expected, Medvedev was elected president in the first round of elections in Russia on March 2. Over the next few weeks, Medvedev delivered a series of speeches – almost in campaign style – and gave interviews espousing his vision of Russia. As during the run-up to the election, Medvedev said all the things that liberals in Russia and optimists in the West hoped to hear. He spoke of the need to stamp out corruption and to establish a sound rule of law in Russia. Furthermore Medvedev has stated that he wishes to see Russia continue to build an economy based on free market principles, and has hinted that he is “in principle” against state corporations. The growth of the state monopolies, particularly in the energy industry, has given many in the West pause for concern.

Both Medvedev and First Deputy Prime Minister Sergei Ivanov have been quoted recently in the Russian press and on state television saying that the establishment of more state corporations is something that Russia should avoid. Some Russian analysts feel that Ivanov’s support of Medvedev on this issue is a blow against the group of political heavyweights known as the *siloviki*. These former security service personnel – many of them Kremlin aides – have frequently been named to head the state-controlled corporations. Ironically, Ivanov is himself a member of the *siloviki*, and heads the United Aircraft Corporation, a conglomeration meant to challenge the supremacy of Airbus and Boeing in the development of commercial aircraft. But, indications are that Ivanov is lining up behind Medvedev, a good sign for those in Russia and the West banking on the idea that Medvedev can control the *siloviki*, who are seen as more prone to fomenting competition with the U.S. Interestingly, in a March interview with the *Financial*

Times, Medvedev also stated that the main powers over domestic and foreign policy will rest with the office of the president, as outlined in the Russian constitution, and not with the prime minister. Vladimir Putin, of course, will serve as Medvedev's prime minister.

President Bush personally spoke with Medvedev by phone in mid-March, and then met with the president-elect at the summit meeting in Sochi. Bush said that he was favorably impressed by the serious and intelligent demeanor of Medvedev. Bush also said that he looks forward to working with Medvedev, who will be sworn in May 7. The two will meet again at the G-8 summit in Hokkaido, Japan in July.

Meanwhile, in the U.S. presidential primaries Russia has cropped up in the debates and discussions, and not in a positive light. For the most part, however, the Russian leadership has gotten used to being a punching bag in the U.S. political debate, so comments by John McCain belittling Putin and by Hillary Clinton belittling Medvedev were met with nary a shrug in Moscow.

Energy nationalism

Apart from the presidential elections in Russia, which were seen by in the West as dubious at best in terms of transparency, the issue that has grabbed the attention of most observers these past few months is the Russian government's slow encroachment into almost every project and sector of the energy industry. Where the beginning of 2007 saw Gazprom's semi-hostile takeover of the Sakhalin-II oil and gas project (at the expense of Shell, Mitsubishi, and Mitsui), the beginning of 2008 has seen the Russian government moving against TNK-BP. Gazprom again seems primed to move into any vacuum created by a forced sell-off or nationalization of TNK-BP. Recently BP employees have had their visas revoked, and TNK-BP offices have been raided by Russian law enforcement officials. TNK-BP has been targeted for back tax claims, and at least one Russian employee has been accused of industrial espionage. This has all been eerily reminiscent of the actions taken against the private oil firm Yukos from 2003 onward, and against the Sakhalin-II consortium in 2006-07. In fact, TNK-BP was forced to sell off 63 percent of its stake in the Kovykta gas project (East Siberia) to Gazprom in the summer of 2007, but the deal has not yet been finalized.

It is unclear whether the move against BP is part of the larger deterioration of Anglo-Russian relations since the poisoning of Alexander Litvinenko in London in late 2006, or part of the larger strategy to nationalize all strategic industries and projects within the Russian Federation. More than likely it is a combination of the two, although the strategic aspect most likely carries more weight in the Kremlin's calculations. Thus far the major energy project with U.S. participation, Sakhalin-I, has yet to run afoul of Russian authorities and the project has been relatively free to run itself and continue producing oil and gas. To date, Washington has had little comment concerning energy affairs in Russia, leaving the criticism for the press. When and if Gazprom moves against Exxon and Sakhalin-I, rest assured, the U.S. government will take a big interest in the proceedings.

In Europe, U.S.-backed and Russian-backed gas pipelines are competing for market share. Washington backs the Nabucco pipeline project, which is projected to convey Caspian gas via

Turkey and the Balkans to Central Europe. Moscow backs the South Stream pipeline project (run, of course, by Gazprom), which aims to bring Central Asian gas to Southeastern Europe. South Stream is much farther ahead in the race to supply the “New Europe” with gas, having received support from the governments in Austria, Bulgaria, Greece, Hungary, Italy and Serbia. Only Romania backs the Nabucco project. The problem for the Nabucco project is assuring supplies of gas. At one point it was hoped Azeri, Iraqi, and even Iranian gas could be used. But reality has proven to be more difficult to implement than the plans. South Stream, however, will have assured access to Russian, Kazakh, and Turkmen gas. The U.S. government has lobbied governments across Southeastern Europe to stick with the Nabucco project; meanwhile Gazprom is already putting the necessary pieces in place. Putin derisively dismissed the idea of competition between the two projects, insisting that the South Stream project is a done deal and that Nabucco is dead on arrival: “You can build a pipeline or even two, three, or five. The question is what fuel you put through it and where do you get that fuel. If someone wants to dig into the ground and bury metal there in the form of a pipeline, please do so, we don’t object.” He went on to add: “There can be no competition when one project has the gas and the other does not.”

Northeast Asia

Russia’s desire to re-emerge as a power in Northeast Asia has been limited to weapons sales and its role – however small – in the Six-Party Talks on Korean Peninsula security issues. More recently the Russian military has taken to reestablishing air patrols along the East Asian littoral. The overflight of the U.S. carrier Nimitz off of the coast of Japan in February by a Tupelov *Tu-95 “Bear”* bomber demonstrated Russia’s resolve to be noticed in the region. This was the first such incident since 2004.

There is some speculation that the Kremlin has been unhappy with the progress of the Six-Party talks on Korean Peninsula security issues. It is not only the obstreperous behavior of Pyongyang that is said to have been wearing on Russian negotiators, but more so the fact that the recent series of bilateral talks between the United States and North Korea have essentially sidelined the other players, especially Russia and Japan. In late March the Kremlin replaced Deputy Foreign Minister Alexander Losyukov – Moscow’s representative not just at the Six-Party talks, but also the longtime de facto Northeast Asian representative – with Alexei Borodavkin. Borodavkin has been most recently Russia’s representative to the Organization for Security and Cooperation in Europe. Losyukov’s replacement may be a sign of Moscow’s discontent with the direction of the talks.

An overlooked aspect of the Joint Declaration issued by the six-party members in February 2007 is that of the working groups. The six parties agreed to the establishment of five working groups, one of which is the Working Group on Economy and Energy Cooperation (chaired by South Korea). One of the tasks outlined for this working group is the delivery of 1 million tons of heavy fuel oil to North Korea, or its equivalent in energy related equipment. With an eye perhaps to maintaining its traditional influence in Pyongyang, the Russian government has recently indicated that it would be prepared to deliver additional fuel oil to the DPRK. Russia, incidentally, chairs the Working Group for a Northeast Asia Peace and Security Mechanism. If one of the goals of the Six-Party Talks is the promotion of security cooperation in Northeast Asia

(as outlined in the Joint Declaration), then establishing a reliable source of energy not just for North Korea, but for all of Northeast Asia would be a major accomplishment. Having Russian energy delivered to the Korean Peninsula, Northeast Asia, and beyond in the Asia-Pacific region would say much more about Russia's re-emergence in the region than having Russian bombers buzz U.S. carriers in the Sea of Japan.

What the future holds

The U.S. and Russia seem to have weathered the worst of the winter storm. The leaders of both countries recognize that relations, although thorny at times, need to be focused on strategic matters. Although traditional strategic matters bring to mind the worst days of the Cold War, today's strategic matters include antiterror campaigns, counterproliferation efforts, and trade issues. The Kremlin and the White House recognize this and look past the noise that emanates from the international press and political opposition.

Over the next few months, as the U.S. presidential election heats up, there will be more criticism of Russia. After Medvedev's swearing-in May 7, it remains to be seen how the new administration in Russia will react to this criticism. As mentioned, Medvedev will meet with Bush in early July in Japan. Perhaps at this time it will be clear what the two governments have come up with in terms of a compromise over the missile defense system. Additionally, within Russia there will be decisions made this spring about laws on foreign investment in strategic industries, and on the purchase of the majority share on the Kovykta gas project in East Siberia. Both of these decisions might tell us a lot about the economic philosophy of the Kremlin under Medvedev.

Chronology of U.S.-Russia Relations January-March 2008

Jan. 10, 2008: Vladimir Putin appoints Duma lawmaker Dmitri Rogozin as Russia's permanent representative to NATO. A staunch Russian nationalist, Rogozin's appointment is a harbinger of difficulties in Russia-NATO relations.

Jan. 16, 2008: Ukrainian President Viktor Yushchenko and Prime Minister Yulia Timoshenko make a public appeal to NATO, declaring Ukraine's readiness to advance to a Membership Action Plan (MAP) with NATO.

Feb. 5, 2008: In testimony to Congress, National Director of Intelligence Michael McConnell warns of Russia's growing financial clout and its willingness to use this to leverage political goals.

Feb. 5, 2008: In an interview with a Polish newspaper, Russian Foreign Minister Sergei Lavrov labels U.S. plans to build a global missile defense shield an example of "imperial thinking."

Feb. 9, 2008: Four Russian Tupolev *Tu-95* "Bear" bombers pass close by the U.S. carrier *Nimitz* in international waters off of Japan.

Feb. 10, 2008: Russian First Deputy Prime Minister Sergei Ivanov gives a conciliatory speech at a Munich security conference, the same venue where a year before Putin had launched a scathing broadside at Washington.

Feb. 12, 2008: With Ukrainian President Viktor Yushchenko at his side, Putin tells a group of journalists in Moscow that if Ukraine joins NATO Russia might be forced to target nuclear missiles on that country.

Feb. 17, 2008: Kosova officially declares its independence from Serbia. The next day the U.S. recognizes this act despite Russia protestations.

March 2, 2008: Dmitry Medvedev is elected president of the Russian Federation.

March 11, 2008: In its annual report on human rights, the State Department accuses the Russian government of corruption and electoral abuses.

March 18, 2008: In Moscow, Minister of Foreign Affairs Lavrov and Minister of Defense Anatoly Serdyukov meet with U.S. counterparts Secretary of State Condoleezza Rice and Secretary of Defense Robert Gates. The four discuss pressing strategic issues such as missile defense, NATO expansion, and the CFE Treaty. Gates and Rice also meet with President Putin and President-elect Medvedev.

March 20, 2008: Georgian President Mikhail Saakashvili meets President George Bush in Washington and urges Washington's support for placing Georgia on a membership track to NATO.

March 20, 2008: Russian law enforcement authorities raid the Moscow offices of BP and TNK-BP.

March 26, 2008: In a speech delivered in Los Angeles, Republican presidential nominee John McCain argues that Russia should be excluded from G8 membership.

March 27, 2008: The Kremlin announces that Deputy Foreign Minister Alexander Losyukov will be replaced by Alexei Borodavkin as representative to the Six-Party talks in Korea.

April 1, 2008: George Bush arrives for a brief visit to Kiev and meets the Ukrainian political leadership, including President Yushchenko and Prime Minister Timoshenko.

April 3-4, 2008: Bush and Putin attend the NATO summit in Bucharest, Romania.

April 5-6, 2008: Putin hosts Bush for their final summit together as presidents at Putin's vacation home in Sochi along the Black Sea in southern Russia. This is their 28th meeting together as presidents of their respective nations.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



U.S.-Southeast Asia Relations:

Domestic Drama and a New Path to ASEAN

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On a bilateral level, U.S. relations with Southeast Asia held steady in the face of complicated political transitions in Thailand and Malaysia. Incremental gains were seen in security ties with U.S. allies and partners in the region – Thailand, the Philippines, Indonesia, and Singapore – while two issues remaining from the Vietnam War era complicated relations with Vietnam and Cambodia. Although the U.S. is no closer to signing the ASEAN Treaty of Amity and Cooperation, three new initiatives with ASEAN were put onto the table in early 2008, suggesting an alternative path to a stronger regional role for the U.S. However, Burma's deteriorating situation casts a long shadow over U.S. bilateral and regional relations with Southeast Asia. The regime's determination to go forward with a constitutional referendum in May is creating new fissures within the region and will make it more difficult for Washington to pursue comprehensive plans of any kind to strengthen relations with ASEAN.

Political transitions and trials

In January, Thailand ushered in a government elected at the end of 2007. Led by Samak Sundaravej, the People's Power Party (PPP) was an avowed partisan of former Prime Minister Thaksin Shinawatra. Samak leads a government coalition that contains several parties, leaving the Democrat Party as the sole opposition force. Although Thaksin's Thai Rak Thai Party had been disbanded because of electoral abuse, the new coalition features a number of close associates and veterans from the Thaksin administration. In February, Thaksin made an emotional return to Thailand and, following a path that had been forged by his wife who returned before him, was arrested on corruption charges and released on bail. The trial of the Shinawatras, the date for which has not been set, will be a litmus test for the Samak government. If the judicial proceeding is perceived to be free and fair, it could help settle continuing tensions between pro- and anti-Thaksin groups. If, however, the government is charged with judicial interference, the popular uprising that developed in 2006 is likely to return with a vengeance. Thaksin's return is a high-stakes strategy and will affect stability in Thailand for the next several months.

The return of elected government to Thailand enabled Washington and Bangkok to normalize relations that had suffered a legal and political setback because of the 2006 coup. The main impact of U.S. sanctions had been on security assistance to Thailand, which was restored in February. It is not clear if the gap of more than a year will make it difficult to re-integrate Thai participants into the International Military Education and Training (IMET) program and pick up the relationship in other ways. In addition, the Samak government reversed currency controls that had been imposed after the 2006 coup, a move that pleased U.S. and other international

investors. Fortunately, full relations were restored in time to mark the 175th anniversary of the U.S.-Thailand Treaty of Amity and Commerce, which makes Thailand the oldest treaty ally of the U.S. in Asia. To observe the occasion, Foreign Minister Noppadon Pattama visited Washington in March. His meeting with Secretary of State Condoleezza Rice underscored normalization of relations. After the coup, Foreign Minister Nitya Pibulsongkran, a former Thai ambassador to the U.S., was not received in Washington. The only jarring note to Noppadon's visit was Prime Minister Samak's trip to Burma a few days before, and Samak's statement while Noppadon was in the U.S. that Thailand supported the Burmese government's plans to hold a referendum on the new constitution in May.

Malaysia also entered into a turbulent political period during the quarter. In February, Prime Minister Abdullah Badawi dissolved Parliament and announced elections for early March. His timing was precise – he wanted to preclude the possibility that former Deputy Prime Minister Anwar Ibrahim, now a prominent opposition figure, could participate in the elections. Anwar was prohibited from running for office until April of this year, less than a month after the elections. However, this strategy did not save Abdullah and his Barisan Nasional (BN) coalition from a serious humiliation at the polls. Although the BN and its lead party the United Malay National Organization (UMNO) retained power, it lost five states, three of which are the wealthiest in the country. This signifies the coalition's poorest electoral result in the history of Malaysia and Abdullah has come under increasing pressure from within UMNO and the BN to step aside. Some Malaysian analysts doubt he will last the year.

A political upset of a very different sort took place in Timor Leste when President Jose Ramos-Horta was attacked by rebels on Feb. 11 and critically wounded. Prime Minister Xanana Gusmao escaped the ambush. Rebel leader Alfredo Reinado, who led the assault, was killed when Horta's guards opened fire in response to the attack. It is not clear whether the incident was an assassination attempt on the two leaders or a botched plan to kidnap them, with the aim of negotiating Reinado's surrender to the government. If there was a silver lining in this situation, it is that it dramatized the severity of the problem with disaffected soldiers and militia in Timor Leste – a problem that had been festering since the 2006 violence. In addition, it gave Prime Minister Gusmao an opening to demonstrate more decisive leadership.

None of these three situations affected U.S. bilateral relations in a significant way, other than the normalization of relations after the Thai elections, but each could have affected – and could still affect – regional security.

Pushing the security envelope

The first quarter of 2008 saw modest movement in security relations with the other U.S. treaty ally in Southeast Asia, the Philippines. In February the annual *Balikatan* exercises opened in Mindanao and the Sulu Archipelago. In contrast to the joint exercises after Sep. 11, 2001, which focused on counter-insurgency training, the 2008 exercises conspicuously avoided any appearance of “war games.” Instead, the three-week event focused on 23 joint humanitarian projects in these Muslim areas of the Philippines. The exercises were paired with a secret meeting that month between U.S. Ambassador Kristie Kenney and Al Haj Murad Ebrahim, chair of the Moro Islamic Liberation Front (MILF). Manila's negotiations with the MILF broke down

in December over issues of Muslim ancestral lands and the size of a promised autonomous zone. In addition, anti-American sentiment had increased in MILF territories because of a crackdown by the Philippine Navy that local Muslims assumed was supported by the U.S. Although the results of the meeting were not made public, its very existence signaled increased U.S. interest in seeing a negotiated settlement between the Philippine government and the MILF.

U.S.-Indonesian security ties also got a boost in February when Secretary of Defense Robert Gates visited Indonesia as part of a wide-ranging trip that included Turkey, India, and Australia. With the resumption of the security relationship in the past three years, Gates was forthcoming in discussing possible arms sales to Jakarta. However, his main thrust was to underscore Indonesia's role in the region, which he described as "bedrock," and its importance to the security environment. He downplayed counterterrorism cooperation, which was the entry point for the resumption of security ties in 2005.

U.S.-Singapore relations ventured into a different dimension of security. When Finance Minister Tharman Shanmugaratnam visited Washington in March and met Treasury Secretary Henry Paulson, the two countries (with Abu Dhabi) announced a joint initiative aimed at improving transparency and providing assurance that sovereign wealth funds, a new issue in economic security, will not use their investments to further their governments' political goals. Although the program is relatively mild, urging funds to adopt voluntary codes of conduct, it was an attempt to reduce nationalist tensions that had been raised since the appearance of these instruments in the international economy.

As the U.S.-Singapore initiative suggests, U. S. economic policy in Southeast Asia is likely to be responsive rather than pro-active in the next several months. An attempt to restart free trade agreement talks with Malaysia was made early in the year, but that FTA is increasingly reckoned to be doomed, as was the U.S.-Thailand FTA. The U.S. Trade Representative has informally mentioned the possibility of a free trade agreement with Vietnam as the next hope for trade liberalization in the region. But, for domestic reasons on both sides, that is a mid-term goal at best. In the meantime, economic diplomacy in the region must also cope with the impact of the falling U.S. dollar and the U.S. recession, both of which have been cited as contributing to the rice shortage in Asia.

New business and old issues in Vietnam and Cambodia

U.S.-Vietnam relations began the new year with a disappointment over the cancellation of Deputy Secretary of State John Negroponte's planned visit to Vietnam, due to inclement weather in China, where he had participated in the U.S.-China Senior Dialogue. Negroponte's trip was to have been his first since the Vietnam War. However, the downturn was fleeting; at Washington's urging, Hanoi made tentative plans for Prime Minister Nguyen Tan Dung, who had been invited by President Bush during the 2006 APEC meeting, to visit Washington in the early summer. Vietnam worried about the impact that the Vietnam Human Rights Act, which would link U.S. non-humanitarian assistance to Vietnam to human rights improvements, would have on the visit. Over the past several years, the Act has passed in various versions in the House three times, but has always died in the Senate. In March, the Senate Foreign Relations

Committee held hearings on U.S.-Vietnam relations that focused primarily on human rights, but it appears that the legislation will once again fail in that chamber.

A “new” issue in the bilateral relationship is actually a very old one: the continuing impact of dioxin, the toxic chemical in Agent Orange and other herbicides used in Vietnam during the war, on the Vietnamese environment and the population in the areas where it was sprayed or stored. A \$3 million earmark to begin addressing this issue was placed in the 2007 Appropriations Act by Senator Patrick Leahy. The administration’s inter-agency process to determine responsibility for disbursing the funds was protracted, with responsibility ultimately given to the U.S. Agency for International Development. But, the earmark has not yet been paid out. Pressure in this regard increased when the U.S. Court of Appeals in New York turned down the petition of the Vietnamese Victims of Agent Orange/Dioxin (VAVA) to reconsider the lower court’s dismissal of their class action lawsuit against 30 U.S. chemical companies that manufactured the herbicides during the war. For the foreseeable future, the best hopes for finding funds to remediate the dioxin problem in Vietnam are the Congressional earmark and philanthropic groups that have moved into this issue in recent years. Laos was also affected by herbicides sprayed during the war, but there is as yet no process to address this problem.

Although U.S.-Cambodian relations continue on a positive trajectory, a legacy issue with that country has surfaced as well. The government of Cambodia is responsible for over \$300 million in loans (including debt servicing costs) made by the U.S. government to the Lon Nol regime in the early 1970s. Many Cambodians favor settling with a debt-to-development scheme that would allow the government to apply the outstanding balance to development projects. This was done with the debt owed to the U.S. by South Vietnam, and is the basis for the U.S.-Vietnam Education Foundation. However, in hearings held by the House Asia Subcommittee in February, the Bush administration indicated that it was not willing to consider this option for Cambodia. This issue is not likely to be a major problem in the bilateral relationship, but it will be an irritant.

A new ASEAN game plan

Many Southeast Asians continue to complain that the U.S. is not sufficiently engaged in relations with the Association of Southeast Asian Nations (ASEAN), particularly in contrast to new regional powers such as China and India. Events this quarter suggest that Washington is picking up the pace, albeit down a path of its own making. An earlier momentum in Washington to consider signing the ASEAN Treaty of Amity and Cooperation, a necessary step in joining the East Asia Summit, appears to have cooled. However, three initiatives unveiled this quarter are quantum steps, if not leaps, forward.

On Jan. 7, former Thai Foreign Minister Surin Pitsuwan took up his new position as ASEAN secretary general. Surin was the author of the “flexible engagement” proposal to amend the “ASEAN way” in 1998, which was not adopted formally but has become a *de facto* alternative for ASEAN on occasion. Harvard-educated, Surin is particularly adept at explaining Southeast Asians to Americans, and vice-versa. He lost no time in midwifing a new U.S. initiative with the ASEAN Secretariat, the ASEAN Development Vision to Advance National Cooperation and Economic Integration, which was given the acronym ADVANCE. The ADVANCE program is

intended to complement the ASEAN-U.S. Trade and Investment Framework Agreement (TIFA) signed in 2007. At present, it has three features: joint policy studies; an ASEAN Single Window program to standardize customs clearance for goods going to or from the U.S. and ASEAN countries; and a series of activities to promote market integration within ASEAN. Like most initiatives of this kind, some activities are old wine poured into new bottles, but the appearance of the ADVANCE program so early in Surin's tenure signals that he will actively work to strengthen U.S. relations with ASEAN.

Washington has demonstrated momentum in this regard as well in recent months. In February, the Bush administration nominated Scot Marciel, current deputy assistant secretary of state in the East Asia Pacific Bureau with primary responsibility for Southeast Asia, to be the first U.S. ambassador for ASEAN Affairs. That position will be Washington-based and held concurrently with the Southeast Asia DAS position. Marciel would be the first ambassador to ASEAN from any country sparking the potential for other regional actors to follow suit.

Another U.S. initiative is the informal proposal for a full U.S.-ASEAN Summit in Singapore later this year while President Bush is in the Asia-Pacific region. The tacit ground rule for a meeting with all 10 ASEAN governments is that Burmese representation would be downgraded to the foreign minister level at most. It is unclear if this will be acceptable to Burma, or to ASEAN as a whole, and when the Summit would take place. The two possibilities are July, after Bush attends the G8 meeting in Tokyo, or August, after he attends the Olympics in Beijing. Despite the potential problem with Burmese representation, a summit under these terms would be significant, creating a precedent that subsequent administrations would be expected to follow.

Burma: A new spiral down

Despite attempts on both sides of the Pacific to improve U.S. relations with ASEAN, Burma continues to be a sticking point. It also creates friction within ASEAN itself. To date, the Philippines has abstained from ratifying the ASEAN Charter because of President Arroyo's objections to the situation in Burma. However, Arroyo continues to be besieged by political and public opposition to her administration, and some Philippine analysts believe that she will eventually accede to ratification. With Thai Prime Minister Samak's proclamation of support for the constitutional referendum in May, new cracks within ASEAN could develop over Burma.

Indeed, the Burmese referendum on the regime-driven new constitution and the government's announcement of elections in 2010 have occasioned a new round of political repression in the country. In February, the regime promulgated the Constitutional Approval Law, establishing a three-year imprisonment as penalty for disrupting the referendum. A companion law, Decree 5/96, punishes critics of the junta's "road map" to democracy with up to 20 years in prison. The law that authorizes the referendum denies monks, nuns, and political prisoners the right to vote, a widespread attempt to disenfranchise both the leaders and the foot soldiers of last year's "Saffron Revolution."

In March, UN Special Envoy for Burma Ibrahim Gambari made his third trip to Burma since the confrontation between the junta and monks last year. He met with members of the constitutional

drafting and review committees but was denied a meeting with Senior Gen. Than Shwe. Gambari admitted that the visit produced no “tangible results,” but vowed to continue his efforts.

The tense political situation in Burma is further exacerbated by persistent rumors that Than Shwe is in very poor health, with attendant speculation on shifts, purges, and even internal coups within the junta. If Than Shwe loses his leadership position for whatever reason, it is not likely to lead to a democratic moment in Burma, much less a democratic transition. As in previous junctures over the past 20 years, any sudden vacancy at the top will likely be filled promptly with a senior – and hard line – regime veteran. The nervousness of the Burmese military elite may have increased with the recent release of *Rambo 4*, in which Sylvester Stallone’s self-styled avenger takes up the cause of Karen guerrillas in Burma against the government. In the vast majority of governments in the world, this would be a comic coincidence, but the xenophobic junta may take it as concrete proof that the outside world is ready and willing to take it over.

A busy and volatile new quarter

The spring and early summer should reveal how well the Samak government settles into place in Bangkok and whether Abdullah can rescue his political career in Malaysia. Absent a major shift in internal dynamics within the regime, the Burmese junta is not likely to be dissuaded from conducting the May referendum, and this turning point will have regional and international repercussions. On the economic track, Washington will not be positioned to pursue serious trade initiatives in the region until a new administration and Congress are in place – and the president’s fast-track authority is restored. Therefore, the main focus of U.S. relations with Southeast Asia for the remainder of the year will be on diplomatic moves. The confirmation of a U.S. ambassador for ASEAN affairs will be a milestone, although Burma issues will set the tone of the hearing process this spring. Because it will be held with a lame duck U.S. administration, a 10-plus-one U.S.-ASEAN Summit will be discounted in Southeast Asian eyes, but it too would set a precedent for greater U.S. engagement in the region. For that reason alone, it is worth pursuing.

Chronology of U.S.-Southeast Asia Relations January-March, 2008

Jan. 14, 2008: Malaysia and the U.S. resume discussions on a bilateral free trade agreement, after nearly a year’s hiatus.

Jan. 15, 2008: Singaporean Defense Minister Teo Chee Hean visits Washington.

Jan. 19, 2008: Deputy Secretary of State John Negroponte cancels a planned visit to Vietnam after the U.S.-China Security Dialogue due to protracted winter storm in China.

Jan. 25, 2008: Lionsgate Productions releases *Rambo 4*, in which the mercenary played by Sylvester Stallone turns his attentions to the plight of Karen guerillas in Burma.

Jan. 27, 2008: Former Indonesian President Suharto dies, sparking a public mourning period but little political disturbance.

Jan. 29, 2008: Samak Sundaravej, leader of the People's Power Party, is inaugurated as Thai prime minister and leader of a broad coalition of parties.

Jan. 30-31, 2008: FBI Director Robert Mueller visits Vietnam and Cambodia.

Feb. 5 and Feb. 25, 2008: Under targeted sanctions laws passed in late 2007 in the wake of the crackdown in Burma, the Bush administration adds nine new individuals and their companies to the sanctions list.

Feb 6, 2008: Deputy Secretary of State Negroponte certifies to Congress that a democratically elected government has taken office in Thailand, enabling the Bush administration to remove legal restrictions on assistance to the Thai government applied after the September 2006 coup.

Feb. 11, 2008: Rebel forces in Timor Leste critically wound President Jose Ramos-Horta in an attack in which rebel leader Alfredo Reinado is killed by Horta's guards. Prime Minister Xanana Gusmao escapes harm.

Feb. 11, 2008: The State Department issues strong criticism of Burmese military regime, maintaining the plans for a constitutional referendum and subsequent elections are "further evidence of [the junta's] refusal to pursue a meaningful and time-bound dialogue with Burma's democratic and ethnic minority representatives."

Feb. 13, 2008: Malaysian Prime Minister Abdullah Badawi dissolves Parliament in preparation for snap elections.

Feb. 14, 2008: Philippine security officials announce they have uncovered an assassination plot against President Gloria Arroyo by groups linked to Al-Qaeda. Some in the Manila political community express skepticism given the timing of anti-Arroyo rallies planned for the next day.

Feb. 14, 2008: U.S. House of Representatives Foreign Affairs Committee Subcommittee on Asia, Pacific and the Global Environment holds hearings on "United States and Cambodia: Bilateral Relations and Bilateral Debt."

Feb. 18, 2008: The 24th annual US-Philippine *Balikatan* exercises open in Mindanao and the Sulu Archipelago.

Feb. 18, 2008: Amnesty International issues an open letter to ASEAN foreign ministers urging them to move quickly to implement Article 14 of the new ASEAN Charter, which calls for the establishment of a regional human rights body.

Feb. 19-20, 2008: ASEAN foreign ministers hold retreat in Singapore to discuss further regional integration.

Feb 19, 2008: U.S. Ambassador to the Philippines Kristie Kenney holds unprecedented secret meeting with Moro Islamic Liberation Front (MILF) chair Al Haj Murad Ebrahim.

Feb. 22, 2008: U.S. Appeals Court in New York rejects the request of the Vietnamese Victims of Agent Orange (VAVA) to reverse the lower court's dismissal of VAVA's class action lawsuit against 30 American chemical companies that manufactured Agent Orange and other herbicides used in the Vietnam War.

Feb. 25, 2008: White House nominates Scot Marciel as first U.S. Ambassador for ASEAN affairs. The position is to be held concurrently with Marciel's present role as deputy assistant secretary of state for Southeast Asia.

Feb. 25, 2008: U.S. Secretary of Defense Robert Gates visits Indonesia as part of a multi-region tour of U.S. security partners that includes Australia, India, and Turkey.

Feb. 25, 2008: USAID and the ASEAN Secretariat announce their new joint effort, the ASEAN Vision to Advance National Cooperation and Economic Integration (ADVANCE) to promote development of an ASEAN Community by 2015.

Feb. 27, 2008: Burmese government announces a new Constitutional Approval Law, with harsh penalties for political dissent.

Feb. 28-March 4, 2008: Assistant Secretary of State for East Asia/Pacific Christopher Hill visits Thailand and Vietnam.

Feb 28, 2008: Former Thai Prime Minister Thaksin Shinwatra returns to Thailand and, according to plan, is arrested on corruption charges and released on bail.

March 6-10, 2008: UN Special Envoy for Burma Ibrahim Gambari makes third trip to Burma since the confrontation between the junta and Buddhist monks last year, which he reports produced "no tangible results;" he vows to continue his efforts.

March 6, 2008: With the help of U.S. security forces, Thai police arrest Russian arms trafficker Viktor Bout on suspicion of terrorism in a sting operation, in which Bout attempted to purchase millions of dollars worth of weapons for sale to the Columbian insurgent group Fuerzas Armadas Revolucionarias (FARC).

March 8, 2008: Malaysian elections enable the Barisan Nasional (BN) to retain power but show dramatic new inroads by opposition parties.

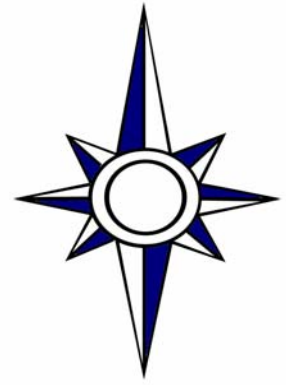
March 12, 2008: Senate Foreign Relations Committee holds hearings on U.S.-Vietnam relations, with a strong emphasis on human rights.

March 14, 2008: Thai PM Samak travels to Burma and meets Senior Gen. Than Shwe.

March 19, 2008: The White House releases statement commemorating 175th anniversary of the U.S.-Thailand Treaty of Amity and Commerce, which established Thailand as the oldest treaty ally of the U.S. in Asia.

March 19-21, 2008: Thai Foreign Minister Noppadon Pattama makes his first official visit to Washington in his new capacity.

March 20-21, 2008: Singaporean Finance Minister Tharman Shanmugaratnam visits Washington for consultations with Treasury Secretary Paulson. The two countries, joined by Abu Dhabi, release a set of common policy principles for sovereign wealth funds, urging that SWF's adopt voluntary best practices.



**China-Southeast Asia Relations:
Incremental Progress without Fanfare**

Robert Sutter, Georgetown University
Chin-Hao Huang, SIPRI

Preoccupied this quarter with key decisions on appointments, budgets, and government reorganization in the lead-up to the 11th National People's Congress while facing serious disruption caused by February snowstorms and instability in Tibet during March, senior Chinese leaders had little time for travel to or substantial interaction with Southeast Asia. Chinese economic relations with the region moved forward, defense relations with Singapore and Indonesia advanced, and China and Vietnam seemed to calm disputes over territorial claims in the South China Sea.

Diplomacy, economic ties

The absence of the senior Chinese leaders from Southeast Asian and other world capitals was underlined by reports that President Hu Jintao would be making his first trip abroad, in May to Japan, since the 17th Chinese Communist Party Congress in October – an absence from the diplomatic circuit of more than eight months. Other senior Chinese leaders also have been focused on the many key policy decisions and appointments related to the party and government congresses held every five years; they have had less time for foreign policy. Foreign Minister Yang Jiechi traveled to Southeast Asian countries this quarter, visiting Cambodia and Brunei, though his visit to Australia received much more media attention. In late March, Prime Minister Wen Jiabao attended the Greater Mekong Subregion (GMS) Summit in Laos.

In commentaries at the turn of the year, Chinese officials and official Chinese media duly highlighted progress in relations with Southeast Asia, but there were few exceptional developments noted. Foreign Minister Yang gave only passing reference to relations with ASEAN in a press conference reviewing developments in 2007 that was published by official media Dec. 31, 2007. A commentary in *China Daily* on China's successful diplomacy in Asia in 2007 saw Southeast Asian news overshadowed by developments in relations with Japan, India, and Central Asia, and involvement in the Six-Party Talks on North Korea. A similarly low priority to news about China-Southeast Asia developments was seen in the publication by the Chinese government-owned Hong Kong paper *Wen Wei Po* of a Chinese Foreign Ministry White Paper on Chinese Diplomacy in 2007.

Low-level Chinese media coverage made clear that the administration is satisfied with the existing channels of bilateral and multilateral interchange with Southeast Asia and the ever-closer economic relationships with the region. Chinese participation in ASEAN- related meetings at an appropriately high level continues, as does progress in advancing the China-ASEAN Free

Trade Agreement. Ambitious Chinese-supported plans to integrate neighboring Southeast Asian countries by means of road networks, railways, and other transportation, communication, power generation, and pipeline connections continue to receive high priority from the Chinese administration.

China's military diplomacy

China's military diplomacy in Southeast Asia saw new developments this quarter. A senior-level defense dialogue between China and Singapore was initiated in Beijing in January. Subsequently, Chinese Defense Minister Cao Gangchuan visited Indonesia and sought to elevate the strategic partnership to new heights. Notwithstanding these closer contacts, Southeast Asian countries remain cautious in their engagement with Beijing, especially in light of the lack of transparency in the People's Liberation Army (PLA) and the uncertainties over its intentions. This was reflected in a recent high-level dialogue of military officials and scholars from ASEAN on "Building China-ASEAN Regional and Military Confidence."

At the invitation of the PLA Deputy Chief of General Staff Ma Xiaotian, Singapore's Permanent Secretary of Defense Chian Chie Foo visited Beijing in early January to co-launch the first defense policy dialogue between the two countries. They hailed this new initiative as an important milestone in bilateral military relations and agreed that the dialogue will become more regularized and serve as an important platform for increasing mutual understanding, improving and expanding confidence and trust between the two militaries, and discussing actionable programs for closer partnerships in the security sector. According to the Singaporean press, the two sides reached several conclusions in their first joint defense agreement, which included deepening collaboration on humanitarian relief and search-and-rescue activities, increasing senior level exchanges between the two militaries, and convening seminars, debates, and workshops on regional security.

Defense Minister Cao Gangchuan visited Jakarta and met with his Indonesian counterpart in late January 2008 to expand bilateral defense ties. China and Indonesia have seen increasing levels of exchanges in the security and military sector of late, especially since President Hu and Indonesian President Susilo Bambang Yudhoyono signed a joint declaration in 2005 proclaiming a "strategic partnership" between the two countries. Since then, arms exports from China to Indonesia have increased considerably – valued at \$4 million in 2006 according to SIPRI arms transfer data. China became an increasingly important arms supplier to its Southeast Asian neighbor when the U.S. placed an arms embargo on Indonesia from 1991 to 2005. More recently, at the January meeting, China and Indonesia agreed to establish a working committee to explore the prospects for closer cooperation in several areas, including training of military personnel and manufacturing defense equipment. Cao's visit paved the way for closer collaboration between the arms industries in both countries. In March 2008, *Jane's Defense Industry* reported that the China North Industry Corporation (NORINCO), a state-affiliated high-technology arms manufacturer, formalized an agreement with two Indonesian state-owned agencies to "jointly develop rocket launchers and accompanying ammunition for the Indonesian Armed Forces." The report said NORINCO will work with Indonesia's Ministry for Research and Technology and the state-run agencies to develop the research and development for the propellants and other new equipment to help modernize and better equip the Indonesian military.

In spite of closer military-to-military exchanges and dialogue between China and key Southeast Asian countries, there is still a perceived wariness by Southeast Asian neighbors about Beijing's unpredictability and long-term intentions. The PLA's remarkable modernization, coupled with past records of aggression and provocative, uncompromising positions on sensitive territorial disputes remain a source of concern. Southeast Asian countries continue to seek greater transparency regarding Chinese military capabilities and intentions, notably by calling for more senior-ranking PLA representation at such regional forums as the Shangri-La Forum. These efforts have been met with some success. In March, China hosted a three-day meeting, inviting senior military officials and scholars from Southeast Asia to discuss the prospects for confidence building in the region. The Southeast Asian participants were encouraged to see China's budding interest to increase such exchanges. According to Indonesian press, Brig. Gen. Marciano Norman, director of strategic environment analysis at the Defense Strategic Directorate General of Indonesia's Ministry of Defense, underscored the need for China to modernize its military in a transparent manner and hoped that China would not misuse its increased capabilities to threaten other countries or regions. As such, in light of Beijing's growing activism in its military diplomacy, the debate on whether its behavior will change is still at an early and uncertain stage.

Patterns of trade – the debate over Asia's “decoupling”

According to Chinese media, China-ASEAN trade will exceed \$200 billion in 2008, up from over \$190 billion in 2007 and \$160 billion in 2006. (Other sources say the trade volume exceeded \$200 billion in 2007). China and ASEAN are now each other's fourth largest trading partners. In 2007, the leading members of ASEAN trading with China in priority order were Singapore, Malaysia, Thailand, Philippines, and Indonesia. Cumulative ASEAN investment in China was reported at about \$40 billion and cumulative Chinese investment in ASEAN was a bit over \$1 billion.

Commentators in official Chinese media joined international experts and media commentaries in disputing those who maintain that burgeoning Asian trade and investment networks centered on China have created an Asian economic sphere independent of global demand trends. These Asian trade and investment networks centered on China are said by some to have “decoupled” Asia from its dependence on the U.S. and other developed countries. In contrast, the *Straits Times* on Feb. 16 featured a commentary by prominent journalist and scholar Nayan Chanda arguing that the aftershocks from the U.S. stock market slide have put to rest this theory of decoupling. An International Monetary Fund article that month reviewed China's role in ever more integrated trade with Southeast Asia and other regional trading partners. It concluded that the U.S. and Europe “remain the main destination of final good exports by emerging Asian economies” and “exposure of Asian economies to inter-regional exports has actually increased over the past 15 years.” Most notably, *China Daily* on Jan. 11 featured an article by a Chinese government researcher who warned that those who see the Asian and Chinese economies decoupling from dependence on the U.S. follow flawed reasoning that “could create a false sense of security.” He mustered data to show “U.S. consumption has and is likely to keep acting as a decisive factor in Chinese exports.”

Mekong development – greater cooperation with Japan

Chinese and foreign media highlighted continued progress in Chinese dams and development projects in the Mekong River and other neighboring regions in Southeast Asia that have met with considerable international controversy, notably because of their perceived adverse environmental impacts. Against this background, Chinese officials commented in official Chinese media in January on Japan's reported efforts to become more active in the region in order to counter China's rising influence. The officials called for China and Japan to reach agreement on working together regarding Mekong development. They judged that neither China nor Japan benefits from rivalry, and that the two countries should build on the recently improved atmosphere in Sino-Japanese relations to develop initiatives they proposed on advancing the economies, infrastructure, and environmental quality of the area.

South China Sea disputes

The visit to China of Vietnamese Deputy Prime Minister and Foreign Minister Pham Gia Khiem in January seemed to calm the unusual public discord between Vietnam and China over disputed territorial claims in the South China Sea that emerged in late 2007 [*Comparative Connections* 9:4 January 2008]. Pham led the Vietnamese delegation for the second annual meeting of the China-Vietnam Steering Committee on Cooperation. He held talks with Chinese State Councilor Tang Jiaxuan and Foreign Minister Yang Jiechi. According to official Chinese media, the two sides "agreed to properly handle the problems in bilateral ties, such as the South China Sea dispute, to ensure the steady and healthy development of bilateral ties."

The visit followed repeated demonstrations in Vietnam during November and December 2007 and early January 2008 against Chinese claims to South China Sea islands also claimed by Vietnam. There also was a reported violent clash in January 2008 between Chinese and Vietnamese fishermen in international waters in the Gulf of Tonkin that drew a protest from China.

Meanwhile, a March 12 *Xinhua* dispatch offering a rare assessment of Chinese concerns regarding relations with the Philippines suggested that all was not well in China-Philippine relations. It highlighted a statement from the Chinese embassy in Manila expressing concern over efforts of "some Philippine opposition lawmakers" to undermine existing Chinese-Philippine-Vietnamese cooperative arrangements on using resources in the South China Sea. It also noted the embassy's concern over numerous hearings in the Philippine Senate regarding alleged corrupt dealings of the government of President Gloria Macapagal Arroyo with a Chinese telecommunication company.

The disputes in the South China Sea received varied international attention. The Washington DC think tank, the Henry Stimson Center, issued an assessment of Chinese-Vietnamese tensions that duly noted overall improvements in Sino-Vietnamese relations while underscoring repeated clashes and major differences over the South China Sea. Various bilateral and multilateral accords involving Vietnam and China over the South China Sea have helped to manage tensions between the two sides, but have provided no final solutions. The *International Herald Tribune* reported on Feb. 28 that Beijing has warned international companies that if they pursued offshore

projects with Vietnam in disputed waters of the South China Sea, they would be excluded from Chinese markets.

The U.S. Department of Defense's annual report on the Chinese military was released in March and gave prominent attention to frictions between China and Vietnam and disputed Chinese territorial claims in the South China Sea. It highlighted "China's Critical Sea Lanes" passing through the disputed region as a possible driver in Chinese defense modernization, though it concluded that the extent to which concerns over secure access to resources passing through the region "is not known." The DOD assessment of China's view of its critical sea lanes seemed to be supported by Chinese government researcher Zhang Xuegang writing in the Jamestown Foundation's *China Brief* on Jan. 31. Repeating his arguments reported earlier [*Comparative Connections* 9:2 July 2007], Zhang stressed China's reliance on Southeast Asian transportation routes involving the South China Sea and the danger posed by an unnamed "other major power" (presumably the U.S.) possibly attempting to block China's transportation "lifelines."

The most dramatic development this quarter involving China and the South China Sea was the visit of Taiwan President Chen Shui-bian on Feb. 2 to Taiping Island, the largest island in the Spratly archipelago that has been occupied by Republic of China forces for decades. The visit provided some positive publicity for the beleaguered Taiwan leader at home, and it arguably strengthened Taiwan's efforts to secure access to resources in the region and to gain some voice in international dialogues dealing with competing claims to the region. Vietnam and the Philippines complained about the Taiwan leader's visit and China reiterated its claims to the disputed islands.

Olympic boycott over Burma (Myanmar)

The Chinese Foreign Ministry spokesperson responded to a question on Feb. 26 regarding calls by Burmese democracy activists for a boycott of the Beijing Olympics because of continued Chinese support for the Burmese military junta. The spokesperson's response emphasized China's "friendship and goodwill" that is conducive to "Burma's peace and democracy process" and "the realization of peace and reconciliation in Burma." It reiterated China's stance that the Olympics "should not be politicized, much less boycotted, for so-called political reasons."

Meanwhile, *Xinhua* on Feb. 18 reported Vice Foreign Minister Wang Yi told UN special envoy Ibrahim Gambari in Beijing that China supports Gambari's mediation efforts in Myanmar; welcomes Myanmar's seven-step road map and timetable leading to peace, development and a "disciplined, flourishing democratic nation;" and opposes international pressure and sanctions. Privately, Bush administration officials said that they see China playing a positive role in dealing with international efforts to achieve reconciliation and improved conditions in Burma.

Assessing China's rise

The debate continued this quarter among foreign specialists about the importance of China's rising prominence in Southeast Asia and its implications for the United States. The Congressional Research Service (CRS) added to its array of recent reports on how China is advancing rapidly in the region while the U.S. is seen to be in decline. According to a new CRS

report, *China's "Soft Power" in Southeast Asia*, China's economic importance and adroit diplomacy mean "Beijing has largely allayed Southeast Asian concerns that China poses a military or economic threat." In contrast, the report depicts declining U.S. prominence as the U.S. government shows "waning or limited attention" to Southeast Asia. China's large importance as a trading partner with and a recipient of foreign investment from Southeast Asian countries is said by the CRS experts to be complemented by China's role as "a major source of foreign aid" to Southeast Asia. The report gives a lot of attention to evaluating the very murky data on Chinese foreign aid and comes up with a conclusion supporting China's role as a leading aid giver.

In contrast, other U.S. and international analyses see the situation in more balanced terms as far as China rising at U.S. expense is concerned. A Mansfield Center Background Paper assessed the great power (U.S., China, Japan, and India) relationships in Southeast Asia as working very well for U.S. interests. Evelyn Goh's latest assessment "Great Powers and Hierarchical Order in Southeast Asia," *International Security* 32:3 (winter 2007/2008), disputes those arguing that a China-centered order is emerging in Southeast Asia. She depicts "a hierarchic regional order that retains the United States' dominant superpower position while incorporating China in a regional great power position just below that of the United States." Meanwhile Renato Cruz De Castro writing in the Taiwan journal *Issues and Studies* (43:4 (December 2007)) evaluates at length the successes in China's "soft-power statecraft" in the Philippines. Nevertheless, he shows that Manila "continues to foster closer political/security ties with the United States and Japan to balance China's growing political and economic clout in Southeast Asia."

Looking Ahead

Good weather in Beijing, scheduled meetings with ASEAN leaders, and pent-up diplomatic requirements appear likely to cause Chinese leaders to devote more attention than seen recently to maintain and develop improved relations with Southeast Asian nations and their leaders. However, the top Chinese leaders also are likely to remain preoccupied with internal problems like the crisis in Tibet, and they seem inclined to devote top priority to insure that the Beijing Olympic Games in August are carried out in ways that benefit the Chinese administration. In this context, Chinese leaders' attention to relations with Southeast Asia may not increase very much.

Chronology of China-Southeast Asia Relations January-March 2008

Jan. 7-8, 2008: Ma Xiaotian, deputy chief of general staff of the People's Liberation Army (PLA), meets Chiang Chie Foo, Singapore's Permanent Secretary of Defense, for the first China-Singapore defense dialogue in Beijing to discuss developments between the two militaries. They sign an agreement on search and rescue and humanitarian cooperation and agree to hold regular military and security-related seminars.

Jan. 9, 2008: Vietnamese officials dispatch riot police forces to contain rallies held close to Chinese diplomatic missions in Hanoi and Ho Chi Minh City. Similar anti-Chinese protests were held last December over the disputed Spratly and Paracel Islands.

Jan. 10, 2008: Wang Jiarui, chairperson of the International Department of the Central Committee of the Chinese Communist Party, meets Jose De Venecia, speaker of the Philippine House of Representatives in Beijing. The two exchange views on promoting closer relations between the two countries' main political parties. De Venecia also meets Wu Bangguo, chairperson of the Standing Committee of the National People's Congress.

Jan. 14, 2008: He Luli, vice chairperson of the Standing Committee of the NPC, concludes her five-day official visit to Myanmar, where she meets senior officials at the State Peace and Development Council to discuss bilateral political, economic, and cultural ties.

Jan. 14-17, 2008: Cao Gangchuan, vice chairperson of the Central Military Commission and defense minister, visits Brunei, Indonesia, and Saudi Arabia. In Brunei, Cao pays a courtesy call to Sultan Haji Hassanal Bolkiah and discusses current relations between the two armed forces. In Indonesia, Cao meets his Indonesian counterpart, Juwono Sudarsono. The two ministers agree to set up a working committee to explore prospects for expanding bilateral military ties, including cooperation in manufacturing defense equipment and training of military personnel.

Jan. 21, 2008: U Myint Maung, special envoy of the Myanmar prime minister, visits Beijing and briefs State Councilor Tang Jiaxuan on the latest political situation in Myanmar, including plans for national reconciliation. Tang conveys Beijing's concern with political stability and economic development in Myanmar and calls for greater consultation between all concerned parties within Myanmar.

Jan. 23, 2008: The second round of the China-Vietnam Steering Committee on Cooperation is convened in Beijing by Tang Jiaxuan and Pham Gia Khiem, Vietnamese deputy prime minister, in Beijing. The two sides agree to better handle the South China Sea disputes, maintain frequent senior-level exchanges, cooperate on cross-border crime, and promote cultural ties, among other things.

Jan. 31, 2008: Wen Jiabao, Chinese premier, sends an official note of congratulations to Samak Sundaravej, newly elected Thai prime minister, and seeks to deepen the strategic partnership between China and Thailand.

Feb. 1-3, 2008: Yang Jiechi, Chinese foreign minister, visits Cambodia for an official three-day visit to mark the 50th anniversary of Sino-Cambodian diplomatic relations. Yang meets King Norodom Sihamoni and Hun Sen, Cambodian prime minister. The two sides agree to establish 2008 as the "Sino-Cambodian Friendship Year," to elevate bilateral cooperation on the Mekong River regional economic development, to increase consultation in such multilateral fora as the UN, ASEAN, and the East Asia Summit (EAS), and to broaden people-to-people exchanges.

Feb. 2, 2008: Yang Jiechi visits Brunei and meets Sultan Haji Hassanal Bolkiah. The sultan notes that Brunei attaches great importance to its stable relations with China, regarding it as one of the most important bilateral ties. They agree to strengthen cooperation on energy security, agriculture, tourism, and infrastructure development.

Feb. 11, 2008: Qin Guangrong, vice governor of China's southwestern province of Yunnan, announces that the provincial government is on schedule to complete four main international railways by 2009, linking Yunnan to Myanmar, Thailand, and Vietnam. The project will improve regional trade and transport efficiency.

Feb. 19, 2008: Ibrahim Gambari, UN envoy for Myanmar, is in Beijing to meet senior Chinese officials, where he expresses concern that the Myanmar government is delaying approval for his visit to Myanmar in late April. At the conclusion of his consultations in Beijing, however, Gambari mentions that he has received “encouragement” from Beijing that Myanmar “may move up” the date of his visit.

Feb. 19, 2008: Luo Haocai, vice chairperson of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), visits Jakarta. Luo meets Agung Laksono, speaker of the Indonesian Parliament, to discuss the Beijing Olympics and cooperation in investment and trade.

Feb. 21, 2008: The Guangxi Zhuang Autonomous Region unveils the “Guangxi Beibu Bay Economic Zone Development Plan,” which will create a new regional logistics base, as well as a trade processing and manufacturing center between southern China and neighboring ASEAN countries, including Laos, Vietnam, and Thailand.

Feb. 26, 2008: Liu Jianchao, Chinese Foreign Ministry spokesperson, clarifies China's position toward Myanmar at a public press conference. Liu explains that China pursues a “good-neighborly and friendly” policy, and that it will continue to call for “peace and reconciliation” in Myanmar.

Feb. 27, 2008: The Cambodian Investment Board (CIB) announces that China, Thailand, and South Korea are the top three foreign investing countries in Cambodia in 2007. The CIB approved a total of \$51 million of registered capital and over \$461 million of fixed assets for Chinese investors last year.

March 1, 2008: The China-ASEAN Business Council announces that China and ASEAN have become each other's fourth largest trading partner. Total two-way trade stood at \$202.5 billion in 2007, a 26 percent increase from the previous year.

March 3-5, 2008: The Chinese Ministry of Foreign Affairs hosts the 9th China-ASEAN Joint Cooperation Committee in Chongqing. Senior officials from the ASEAN secretariat and member states as well as representatives from 11 governmental ministries in China attend.

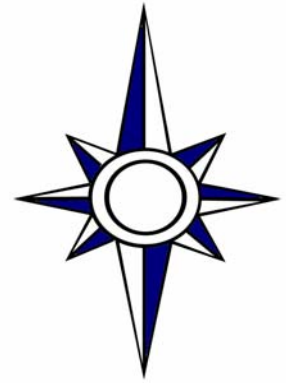
March 5, 2008: Malaysia's Public Bank announces the launch of the PB China-ASEAN Equity Fund (PBCAEF), which will invest in Chinese stocks listed in China, Hong Kong, the U.S., and other approved markets to capitalize on rapid economic growth in China and Southeast Asian countries.

March 12-15, 2008: The Chinese Academy of Military Science holds senior level gathering of military officials and scholars from Southeast Asia to discuss current trends in military modernization, regional security issues, and confidence-building measures.

March 21, 2008: Qin Guangrong, governor of Yunnan province, presides over the opening ceremony of the new trans-national highway linking Kunming city in southwest Yunnan to Bangkok, cutting total travel time by half to approximately 20 hours. *Xinhua News* reports that nearly \$400 billion worth of cargo will be transported each year via this new linkage between China, the Greater Mekong area, and Southeast Asia.

March 26, 2008: Wu Hongbo, Chinese Assistant Foreign Minister, visits Brunei to attend the 14th China-ASEAN Senior Officials' Consultation. The meeting seeks to implement the consensus reached at the 2007 summit held between both sides and strengthen their strategic partnership. Additionally, the meeting provides a platform to further exchange views on jointly implementing follow-up actions to the Declaration on the Conduct of Parties in the South China Sea.

March 29-31, 2008: Chinese Premier Wen Jiabao pays a working visit to Laos and takes part in the Greater Mekong Subregion (GMS) Summit in Vientiane. Wen meets Lao President Choummaly Saygnasone to discuss closer cooperation in the economic sector.



**China-Taiwan Relations:
Taiwan Voters Set a New Course**

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In January, Taiwan's voters delivered a stunning defeat to the Democratic Progressive Party in the Legislative Yuan elections. These results both foreshadowed and influenced the resounding victory Kuomintang candidate Ma Ying-jeou won in the March presidential election. Most importantly for cross-Strait relations, the UN referendum promoted by Chen Shui-bian failed to pass. Beijing's disciplined avoidance of overt interference in this year's elections paid off. Beijing and Washington both breathed sighs of relief. Beijing now faces major challenges. First, how to avoid short-term actions that would undercut domestic support in Taiwan for Ma's more positive attitude toward China and, over the longer term, how to seize the opportunity to promote more stable cross-Strait relations.

LY election

In retrospect, the Legislative Yuan (LY) elections in January appear more consequential than expected or first understood. Pundits had predicted the Kuomintang (KMT) would win, but had not expected it would garner 71 percent of the seats. The Democratic Progressive Party's (DPP) poor economic policy record, its corruption damaged image, and President Chen Shui-bian's divisive confrontational politics were seen as the principal reasons for the DPP's electoral defeat. The election was not a vote on Chen's cross-Strait policies. Equally important the two referendum proposals both failed because only 35 percent of the electorate participated, far below the 50 percent participation threshold for adoption. Chen correctly took responsibility and resigned as DPP Chairman.

Most important, the election convinced President Chen that his cherished referendum on Taiwan's joining the UN under the name "Taiwan" was not likely to succeed when pursued as a polarizing electoral strategy. Before the LY election, Chen had voiced optimism about its passage. After the election, Chen apparently concluded otherwise and took the initiative to approach the KMT to seek a compromise. Chen, Premier Chang Chun-hsiung, LY Speaker Wang Jin-pyng, and KMT Chairman Wu Poh-hsiung first explored the possibilities for a compromise on the two UN referenda at a discreet meeting in the government Guest House on Jan. 28. Weeks of speculation about various approaches on the referenda followed, but no DPP-KMT agreement proved possible.

When other options failed to gain support, Chen acquiesced in a proposal from DPP candidate Frank Hsieh Chang-ting that the DPP urge its supporters to vote for either or both of the two UN

referenda proposals. Chen continued to promote his proposal until Election Day. However, his rationale for doing so in March focused on the damage Taiwan would suffer internationally if both UN referenda should fail. He even argued that it was more important for voters to support the referenda than to vote for the DPP candidate. Divisive talk of the DPP's referendum being a way to vote against reunification subsided.

After having urged supporters to boycott the two referenda held in January, the KMT delayed taking a position on the March UN referenda until 10 days before the election. Then, KMT Chairman Wu Poh-hsiung urged supporters to vote for the KMT version and boycott the DPP version. He also noted the KMT's intention to have the LY adopt a resolution on "Advancing to the UN" to express the Taiwan people's desire to participate in the UN and other international organizations. The KMT had presented this neutrally worded resolution on UN participation to the LY on March 6.

Beijing's posture

Beijing continued to keep a low profile, to focus its concern on Chen's UN referendum, and to avoid any public comment on the candidates. Beijing frequently expressed its concerns that this was a period of "high danger" and its fears that Chen would take some unspecified separatist action before the end of his term. After Taipei's Central Election Commission (CEC) announced its decision on Feb. 1 that the two UN referenda would go ahead at the time of the presidential election, the Taiwan Affairs Office (TAO) put out a formal statement on behalf of the party and government warning that if the DPP's referendum were adopted it would damage cross-Straits relations and threaten regional peace. Foreign leaders visiting Beijing, including U.S. Secretary of State Condoleezza Rice, were pressed to express opposition to the referendum. Many governments obliged China on this. But there was neither high-level finger wagging at Taiwan voters nor threatening military maneuvers. On the contrary, on Feb. 26 the TAO announced some minor cross-Straits initiatives: tuition for Taiwan students in primary and secondary schools would be lowered to the level for local students and four additional agricultural zones for Taiwan investment were authorized. In addition, Beijing authorized Taiwan's Tzu-chi Foundation to open a charitable foundation in China. The pro-DPP *Taipei Times* accused Beijing of using sweeteners to woo Taiwan voters.

The National People's Congress (NPC) session and related meetings in March reflected Beijing's approach. President Hu Jintao publicly reiterated the key elements in Beijing's Taiwan policy, warning of the continued danger of separatism but not threatening Taiwan. Premier Wen Jiabao's report to the NPC and Jia Qinglin's remarks to the Chinese People's Political Consultative Conference (CPPCC) both were low-key reiterations of policy. The job of repeating Beijing's warnings about the dangers to peace from President Chen's UN referendum was left to Jiang Enzhu, the NPC spokesman. CPPCC spokesman Wu Jianmin expressed the hope that the elections would benefit cross-Straits relations. No mention of either candidate was made in public statements. When Premier Wen was asked about Taiwan at the post-NPC press conference, he responded in low-key, generally positive terms while reiterating opposition to the UN referenda.

Ma's decisive victory

Despite a sizable turnout, which usually favors the DPP, and the DPP's usually reliable internal polling that showed a closer race, Ma Ying-jeou won a decisive victory garnering 58 percent of the vote to Hsieh Chang-ting's 42 percent. Analysts in Taipei generally attributed Ma's win to the desire for change after 8 years of poor governmental and economic performance under President Chen. Ma's campaign platform on mainland policy – no independence, no unification, and no use of force – was reassuring and fit well with the electorate's preference for the status quo in cross-Strait relations.

Although the U.S. government remained neutral on the candidates, Washington's repeated criticism of Chen's UN referendum proposal appears to have influenced the election outcome. Because of the extensive publicity to the U.S. position, people throughout the island were aware of the deterioration of Taiwan's relations with the U.S. under the Chen administration. Both candidates spoke of the need to restore trust with the U.S. Though Hsieh tried to distance himself from Chen, he did not disavow long-term DPP independence goals, which were at the heart of Chen's problems with the U.S. The relative congruence of Ma's policy positions with those of Washington may have created the impression that he could do a better job of restoring relations with Taiwan's most important supporter.

In the campaign, President Chen and the DPP tried again to tar Ma and his running mate Vincent Hsiao with a pro-China label, most effectively by misrepresenting Siew's cross-Strait common market proposal as a "one China market" plan. Hsieh tried to discredit Ma's statements that he would deal with China on the basis of the "One China, respective interpretations" formula by repeatedly asserting that China had rejected that formula. Beijing was careful not to burn bridges by commenting on this during the campaign. Most importantly, despite the DPP attacks, Ma did not deviate from the "one China, respective interpretations" formula and his decisive victory indicates that this position was not a serious liability for him in this election.

Reactions abroad

Beijing breathed a sigh of relief. In what must be the record for understatement, the TAO said it had taken note of the leadership election. The official *Xinhua* news agency reported that Taiwan voters had "vetoed" the two UN referenda. Both the DPP and KMT UN referenda received about 35 percent participation far from the 50 percent participation level required for adoption. However, both received overwhelming support from those participating. Even when many were discouraging voters from participating in these referenda, the two referenda together got affirmative votes equal to about 80 percent of the voters who participated in the election. It would be a serious mistake for Beijing or others not to recognize the near universal desire in Taiwan for greater participation in international organizations or to underestimate the political pressure Ma will be under to show progress on this front. To minimize such misunderstanding, the DPP would be well advised to join in adopting unanimously the neutrally worded LY resolution proposed by the KMT.

Significantly, in a telephone conversation with President Bush after the election, President Hu Jintao said China wished to resume dialogue on the basis of the 1992 consensus. In reporting the

conversation, National Security Adviser Stephen Hadley stated that Hu had described the 1992 consensus as both sides support “one China” but “agree to differ in its definition.” The official *Xinhua* news agency’s English service (though not its Chinese service) reported this language on the 1992 consensus. Hu’s statement is an encouraging indication of flexibility on Beijing’s part.

Although Washington had studiously avoided taking sides in the election, the administration too was pleased by Ma’s win. A White House statement extended the president’s congratulations to Ma and praised Taiwan democracy as a beacon in Asia and the world. In a meeting with American Institute in Taiwan officials, Ma Ying-jeou expressed his interest in visiting the U.S. before his inauguration, as well as in visiting Japan. His request was still under consideration in Washington at the end of March.

International organizations

At the Executive Board’s meeting of the World Health Organization (WHO) in January, Beijing continued to block Taiwan’s participation in the recently revised International Health Regulations (IHR). Although the revised Charter of the WHO gives the Secretariat authority to deal with non-states on technical international health issues, the Secretariat has not yet established a liaison channel with Taiwan on IHR issues. Consequently, at the meeting, Taiwan’s diplomatic allies proposed that Taiwan should be authorized to set up a “focal point” for contacts with the Secretariat on IHR issues. As the IHR clearly state that only member states can establish focal points, it was relatively easy for Beijing to block this proposal. This pyrrhic diplomatic victory of course only angered people in Taipei, providing yet another example of Beijing’s unconcern for the health needs of Taiwan. Some believe that the Secretariat has not used the flexibility it has to find an informal way to include Taiwan in IHR implementation because the director general, who is from Hong Kong, is conscious of Beijing’s views. Beijing’s unreasonable position is an impediment to improving cross-Strait relations. Taiwan’s absence from the IHR creates a risky loophole in the international health regime.

In mid-March before the presidential election, Taipei expressed concern that the PRC was pressing other international organizations to agree to memoranda restricting contacts with Taiwan. Taipei mentioned the Organization for Economic Cooperation and Development (OECD). Although not a member, Taiwan has been participating for many years in various OECD working groups. Reportedly, Beijing is pressing the OECD to sign a memorandum on contacts with Taiwan when the OECD director general visits Beijing in April. Taipei also mentioned a similar PRC approach with the International Civil Aviation Organization (ICAO).

Kosova

Kosova declared its independence on Feb. 17. Two days later, Taipei formally recognized Kosovo as an independent country. Beijing promptly protested saying that Taiwan was not sovereign and had no right to recognize Kosova. Beijing made known that the People’s Republic of China did not recognize Kosovo – a position that many interpreted as driven by its fear that Kosova might set a precedent for Taiwan declaring independence. Given Russian and Chinese opposition there is no prospect of Kosovo’s independence being recognized through its joining the UN. So Kosova joins Taiwan as the only peoples not able to participate in the UN.

Given China's position in the UN, Kosova has not reciprocated Taiwan's recognition.

Trade and investment

According to Taiwan's Board of Foreign Trade, cross-Strait trade in 2007 grew 16.1 percent to reach \$102.3 billion. Taiwan's exports to China were \$74.3 billion, up 17.3 percent in 2007. As China's global imports grew 20.8 percent, Taiwan's share of the China market continued to decline. However, as Taiwan's exports to China accounted for 30.1 percent of the island's worldwide exports (up from 28.3 percent in 2006), Taiwan's dependence on the mainland market continued to increase. China's exports to Taiwan grew 13.1 percent to reach \$28.0 billion last year. Taiwan's Investment Commission reported in January that its approvals for investments in China reached a record high of \$9.97 billion in 2007. Trade and investment figures for 2007 are not yet available on the Chinese Ministry of Commerce website.

In early March, the Chen administration announced new measures to ease long-standing restrictions on investment in China and to encourage Taiwanese investors to repatriate profits to Taiwan. The Investment Commission announced a new more flexible method for calculating the 40 percent ceiling of a firm's capital that could be invested in China that will permit increased investments. The Commission also announced a new amnesty for Taiwan investors who had made unauthorized investments in the mainland, with only nominal fines, in order to encourage businesses to bring funds back to Taiwan.

Looking ahead

Ma's election creates welcome possibilities for stabilizing cross-Strait relations. At his first post-election meeting with the international media on March 23, Ma mentioned his desire to move ahead on charter flights, tourism, and other issues. Beijing has said that it hopes to implement the five-point program from the 2005 Hu-Lien joint communiqué. Both sides have talked ambitiously about a peace agreement. Hu's comments to Bush about the 1992 consensus are an encouraging sign. Nevertheless, making progress on these will not be easy. Beijing experts recognize that Ma will be operating under constraints imposed by the mainstream of KMT, by the opposition DPP, and by public opinion. Ma will need to show concrete benefits for Taiwan at each step to sustain support for improving cross-Strait relations.

However, Beijing's first challenge will be to avoid getting off on the wrong foot with the KMT administration. This could easily happen in the context of the World Health Assembly, whose annual meeting will be held two days before Ma's inauguration. Should Beijing continue to hamper Taiwan's dealing with the WHO or impose new limitations on Taiwan's dealings with the OECD or other technical organizations this will cut the political ground out from under Ma. Beijing's interests would be served by it unilaterally taking the initiative to ease its restrictions on the WHO Secretariat's dealings with Taiwan including on the IHR. Doing so would seem to be in line with Hu's four points, which call for doing everything that is in the interest of Taiwan compatriots.

Beijing must also be careful in its approaches to Taiwan's few remaining diplomatic allies. As Beijing is aware, Ma has called for a diplomatic truce. In effect Beijing has won that diplomatic

competition, and its interests would now be served by not seeking to woo Taiwan's allies. Announcing new policies to support debt forgiveness and to offer aid to developing countries even if they maintain diplomatic relations with Taipei would be a signal that would be welcome in Taipei. Should Beijing establish ties with one of Taipei's current allies after Ma's elections, this would immediately complicate his efforts to move ahead on cross-Strait issues.

For its part, Washington needs to move promptly to address Taiwan's request to buy *F-16C/D* aircraft, which are urgently needed to buttress Taipei's critical air defense needs. With Chen on the way out and the DOD's recent annual report on the implications of PLA modernization, there should be no reason for further delay.

Chronology of China-Taiwan Relations January-March 2008

Jan. 2, 2008: Ma Ying-jeou enunciates his policy of "no independence, no unification and no use of force" in interviews.

Jan 4, 2008: Taiwan Foreign Minister Huang cancels visit to Malawi.

Jan. 9, 2008: Prosecutors appeal Ma Ying-jeou's case to Supreme Court

Jan. 12, 2008: KMT wins decisive victory in LY elections.

Jan. 13, 2008: President Chen resigns DPP chairmanship.

Jan. 13, 2008: President Chen meets Nicaraguan President Ortega in Guatemala.

Jan. 14, 2008: President Chen attends inaugural in Guatemala.

Jan. 14, 2008: Beijing establishes of relations with Malawi; Taipei breaks relations.

Jan. 14, 2008: Cambodia denies Taipei's request to establish trade office

Jan. 15, 2008: TAO and ARATS express thanks for Taiwan rescue of PRC seamen.

Jan. 16, 2007: PRC Foreign Minister Yang meets Deputy Secretary Negroponte, urges firmer opposition to UN referendum.

Jan. 17, 2007: In Beijing, Negroponte publicly reiterates opposition to UN referendum.

Jan. 17, 2008: Hsieh Chang-ting calls for support of both UN referenda.

Jan. 21, 2008: At WHO, China blocks resolution to allow Taiwan participation in IHR.

Jan. 22, 2008: In Beijing, UK Foreign Secretary Brown opposes UN referendum.

Jan. 23, 2008: Vice Minister of Defense Ko says Taiwan needs cruise missiles.

Jan. 23, 2008: Secretary Rice meets FM Yang in Berlin, reiterates opposition to UN referendum.

Jan. 25, 2008: Global forum for new democracies meets in Taipei.

Jan. 26, 2008: French arms firm DCNS official visits Taiwan.

Jan. 28, 2008: President Chen hosts discreet KMT-DPP consultation at State Guest House.

Jan. 28, 2008: Vice President Lu visits Marshall Islands.

Jan. 29, 2008: Taipei American Chamber of Commerce recommends easing limits on investment in China.

Jan. 29, 2008: Beijing repatriates captured gangster Wang Hsuan-jen to Taiwan.

Feb. 1, 2008: CEC decides to hold UN referenda together with presidential election.

Feb. 1, 2008: Singapore's Lee Kwan-yew criticizes UN referendum.

Feb. 2, 2008: President Chen visits Taiping Island in Spratlys.

Feb. 2, 2008: TAO issues protest over CEC's referendum decision.

Feb. 2, 2008: First New Year charter flight arrives routinely in Taiwan.

Feb. 4, 2008: In New York, Negroponte urges China to be more generous toward Taiwan internationally.

Feb. 12, 2008: President Chen calls for support of both UN referenda.

Feb. 13, 2008: Hsieh Chang-ting supports cooperation with KMT on both referenda.

Feb. 13, 2008: NIO Deputy Fingar testifies U.S. worried about cross-Strait miscalculation.

Feb. 17, 2008: Kosovo declares independence.

Feb. 19, 2008: Taiwan extends recognition to Kosovo, but Kosovo does not reciprocate.

Feb. 19, 2008: PRC protests Taiwan's recognition of Kosovo.

Feb. 22, 2008: New Legislative Yuan opens first session.

Feb. 23, 2008: MND Minister Lee Tien-yu resigns over “Taiwan Goal”; Michael Tsai appointed first civilian Minister of National Defense.

Feb. 24, 2008: First Ma-Hsieh presidential campaign debate.

Feb. 25, 2008: Taiwan representatives barred from Lee Myong-bak’s inauguration.

Feb. 26, 2008: TAO announces new agricultural zone and student tuition policies.

Feb. 26, 2008: Secretary Rice in Beijing reiterates U.S. opposition to UN referendum.

Feb. 27, 2008: Beijing authorizes Tzu-chi Foundation to open charitable foundation in China.

Feb. 29, 2008: Ma Ying-jeou announces specific plans for cross-Strait flights and tourism.

March 3, 2008: President Chen says vote for UN referendum even if not for Hsieh.

March 3, 2008: DOD releases annual report on the PLA.

March 3, 2008: Jia Qinglin makes routine report to CPPCC on Taiwan.

March 4, 2008: NPC spokesman Jiang Enzhu warns that UN referendum threatens peace

March 5, 2008: Premier Wen Jiabao’s work report to NPC; PRC announces defense budget up 17.6 percent to \$58.79 billion.

March 5, 2008: President Hu Jintao makes moderate statement on Taiwan; says Taiwan independence “doomed to fail.”

March. 5, 2008: Executive Yuan eases restrictions on investment in China.

March 6, 2008: KMT proposes LY resolution on “Advancing to the UN.”

March 6, 2008: EU expresses opposition to UN referendum.

March 7, 2008: Brazil expresses opposition to UN referendum.

March 8, 2008: North Korea expresses opposition to UN referendum.

March. 9, 2008: Second Ma-Hsieh presidential debate.

March 10, 2008: Taipei’s Investment Commission launches amnesty for illegal investors in China.

March 14, 2008: In interview, Ma Ying-jeou rules out meeting with PRC leaders.

March 18, 2008: Premier Wen's post-NPC press conference.

March 18, 2008: DAS Christensen reiterates U.S. opposition to UN referendum.

March 18, 2008: Taipei Representative Wu says PRC seeking to block Taiwan's OECD participation.

March 22, 2008: Ma Ying-jeou elected president; UN referenda fail.

March 24, 2008: AIT Director Young meets Ma; Ma expresses interest in pre-inauguration visit to U.S.

March 25, 2008: DOD announces mis-shipment of missile fuse assemblies to Taiwan.

March 25, 2008: State Department Taiwan Director Spelman comments on post-election situation.

March 26, 2008: President Bush phones President Hu; Hu comments on 1992 consensus.

March 26, 2008: PRC demands investigation of missile fuse assemblies mis-shipment.

March 28, 2008: AIT Chairman Burghardt meets Ma and Chen in Taipei.



**North Korea-South Korea Relations:
Back to Belligerence**

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For almost the whole of the first quarter of 2008, official inter-Korean relations were largely suspended in an uneasy limbo. As of late March, that void was the story. Up to a point this was only to be expected. A new conservative leader in Seoul – albeit a pragmatist, or so he tells us – was bound to arouse suspicion in Pyongyang at first. Also, Lee Myung-bak needed some time to settle into office and find his feet.

Still, it was remarkable that this limbo lasted so long. More than three months after Lee's landslide victory in the ROK presidential elections on Dec. 19, DPRK media – which in the past had no qualms in dubbing Lee's Grand National Party (GNP) as a bunch of pro-U.S. flunkeys and national traitors – had made no direct comment whatsoever on the man Pyongyang has to deal with in Seoul for the next five years. Almost the sole harbinger of what was to come – a tocsin, in retrospect – was a warning snarl in mid-March against raising North Korean human rights issues. One tried to derive some small comfort from this near-silence; at least the North did not condemn Lee *a priori* and out of hand.

In limbo

Yet the hiatus already had consequences. Perhaps predictably, most of the big inter-Korean projects that Lee's predecessor, the center-left Roh Moo-hyun, had rushed to initiate in his final months in office after his summit last October with the North's leader, Kim Jong-il, barely got off the ground. The full diary of specific committee and sub-committee meetings anticipated in our last report thus went into abeyance, other than a couple of desultory and inconclusive meetings in January about roads and railways.

Nor did North Korea – no doubt too proud to ask someone it did not trust – request its usual fertilizer and rice aid, even as the seasonal clock was ticking for the former to come in time. (As April begins, it is too late now for this year; the well-informed Buddhist Southern NGO Good Friends reports that worried North Korean farmers are already feeling the pinch, with some observers fearing that chronic malnutrition could once more slip into actual famine.)

Granted, it was hard to be optimistic given that the Six-Party Talks (SPT) remained separately but similarly stalled. Moreover, a month after he took office on Feb. 25, Lee Myung-bak was still giving off mixed – if not contradictory – signals as to precisely what combination of stick and carrot his North Korean policy would comprise. Meanwhile, since in democratic South Korea the

government no longer monopolizes dealings with the North, citizens and some businesses continued their own contacts. The new administration neither encouraged nor reined them in, as ever simply requiring reports on what they were up to.

Pondering all this on March 26, I wrote: “Someone should make a move, and no doubt ere long they will.” And how. The next day the North expelled 11 Southern officials from the Kaesong Industrial Complex, unleashing a war of fierce words – and some deeds – which as of mid-April showed no sign of abating. So just as the bitter Korean winter gave way to warm spring, the peninsula’s political weather looked headed the opposite way. Hopes that ten years of the “sunshine” policy had rendered such wild swings and squalls a thing of the past may thus have been premature after all.

Happy New Year?

2008 had begun promisingly enough. North Korea’s joint New Year editorial of three daily papers – those of the party, military and youth movement – which typically sets the policy agenda, called last October’s North-South summit “a turning point in achieving national reunification”, at which “the road to many-sided cooperation was opened.”

As if to confirm this, three days later on Jan. 4 a second load of Northern zinc arrived in Incheon, the port city for Seoul. With an earlier shipment on Dec. 14, this completed the North’s initial repayments of minerals under a barter deal whereby the South is sending raw materials worth \$80 million for Northern consumer industries. In a telling comment on the one-sidedness of the “sunshine” policy, the Unification Ministry (MOU) noted that this was the first time Pyongyang has ever repaid any debt to Seoul. (The hitherto annual supply of rice and fertilizer is nominally a loan too, but no one seriously expects it ever to be repaid.)

On Jan. 7, MOU reported that in 2007 inter-Korean trade rose by one-third, from \$1.35 to \$1.79 billion. Although bizarrely the trade balance was not given, in an encouraging trend non-commercial exchanges – aid, to speak plainly – fell 13 percent, while the proportion of true commerce rose. Thus trade in minerals and marine products was up by over half (52 per cent) year on year, while shipments to and from the Kaesong Industrial Zone (KIZ), just north of the Demilitarized Zone (DMZ), rose 48 per cent.

A chillier wind

Yet already there were contrary signs too. Also on Jan. 7, President-elect Lee’s transition committee (TC) – increasingly making the running on policy, well ahead of Lee’s formal assumption of power on Feb. 25 – asked MOU to slow down some of the larger and newer inter-Korean projects agreed by Roh Moo-hyun, such as the proposed Haeju peace zone and a joint shipyard at Anbyon, pending their review as the incoming government. Not for the first time, there were hints that henceforth Seoul’s commitment to such ventures would be linked to progress in the SPT. In response, MOU asked that North-South meetings and surveys already agreed should be allowed to proceed as scheduled.

The ministry also pleaded not to be abolished, as Lee planned. Currying favor with its new masters, MOU suggested that future aid might be linked to Pyongyang being serious about discussing the thousand-plus Southern POWs and abductees whom it still denies holding. The same day, the soon-to-be-ruling GNP asked the TC to be cautious in some contentious areas, like abolishing MOU, which might harm the party in National Assembly elections due on Apr. 9. This complex interplay of Lee, the TC, the GNP, MOU, and others did not help provide clarity. Although transitions are bound to be fluid in some degree, at least with the old sunshine policy, oft as I have criticized it, everyone knew where they were.

MOU survives

As observers everywhere – in Pyongyang above all, but also in Seoul and overseas – strove to read the tea leaves on what to expect from Lee Myung-bak, his bid to kill the MOU was one key signal, if hard to decode precisely. In part, it reflected a wider wish to slim down a government seen as having become bloated under Roh. Lee initially planned to close 5 out of 17 ministries, although in the end two were spared – including MOU.

He also had more specific motives, or at least the Ministry of Foreign Affairs and Trade (MOFAT) did. As we noted last time, under Roh MOFAT had smarted at MOU's policy autonomy, which often clashed with its own priorities. Some even feared MOU had gone native, in effect fighting Kim Jong-il's corner in Seoul. Hence abolishing MOU and folding it into MOFAT, as Lee planned, sent a clear signal that there was nothing special about North Korea, which from now on would be just one foreign policy issue among many – and subordinate to Lee's oft-expressed goal to mend fences with Washington.

Was that wise, or even correct? In Seoul, as no doubt in Pyongyang, some had their doubts. Both in law and substance, North Korea is not in fact just another foreign country for South Korea. Indeed in law it is not a foreign country at all. One fact not yet altered by a decade of the sunshine policy is that both the ROK and DPRK each still claim formal jurisdiction over the entire peninsula, and to be the sole legitimate government thereon. It would thus be anomalous in strictly legal terms to reclassify Northern affairs as foreign. To say this, importantly, entails no particular view on either Northern policy or diplomatic priorities.

Not foreign

After all, MOU originated in the former National Unification Board (NUB), set up in 1969 by the military dictator Park Chung-hee. For most of its nearly 40-year history it served and serviced ROK leaders more skeptical of the North than during the past decade. Although it was sunshine's begetter Kim Dae-jung who made it formally a ministry, it is not clear that this was a promotion. A decade earlier, at the start of the ROK's Sixth Republic under the ex-soldier Roh Tae-woo – a pioneer of judicious *Nordpolitik* – the NUB's minister also held the rank of deputy premier: a title which this post was subsequently stripped of.

As in law, so in substance. One concrete consequence of Seoul's legal stand is that it admits – if not always promptly or warmly – all North Korean defectors who reach its territory as ROK citizens by right. Peering ahead into an admittedly murky crystal ball, when the hour strikes, who

else but South Korea, by definition, will bear the awesome burden – Germany in spades – of eventual reunification? Despite the huge costs and challenges this will entail, it is impossible to envisage any future ROK government, of whatever political hue, being prepared to accept the Machiavellian alternative as variously mooted by Andrei Lankov and Robert D Kaplan: namely letting China pick up the pieces and do the job.

So in seeking to abolish the MOU Lee Myung-bak arguably committed what philosophers call a category-mistake, as well as a political misstep, which does not augur well. He must have known both that this would create needless anxiety in Pyongyang, and that in any case he'd be unable to ram it through an assembly still controlled by the center-left United Liberal Democrats (ULD) – who predictably played hardball to the last, refusing to confirm Lee's Cabinet nominees unless he made some concessions on his reorganization plans. It could be a different story now that the GNP has won a slim majority in the April 9 parliamentary elections to take control of the National Assembly (NA). The new NA convenes on Jun. 5.

Mixed signals

The row over MOU was just one example of more general mixed signals on North Korea. While Lee's general thrust was clear enough – more reciprocity and conditionality would be required of Pyongyang henceforth, and relations with the U.S. would take priority – the precise modalities and nuances were and remain unclear. Yet the devil is in the detail. Kim Jong-il could be forgiven – not a phrase one is accustomed to write – if, as the year began, he puzzled to decode precisely what the “bulldozer” in Seoul had in mind for him.

For one thing, many of the new economic projects lately launched by Roh are just the sort of pragmatic business cooperation that Lee claims to favor. Yet he has put these on ice, variously linking them to the nuclear issue, their likely cost – surely an investment for the future – and public sentiment, which polls suggest is in favor. Given that the Kaesong and Mt. Kumgang zones are already ongoing, the question is: What exactly is gained by linking such ventures to the nuclear issue, as opposed to continuing to pursue and deepen win-win cooperation (not one-way aid, for sure) as a separate inter-Korean channel in order to bind the North into economic dependency and so increase Seoul's leverage in the longer term?

As quoted here before, the sardonic Scottish Edwardian humorist Saki's comment applies: among all the ways to kill a cat, choking it on cream should not be overlooked. Conversely, making inter-Korean relations conditional on nuclear progress, while logical in theory, in practice reduces the ROK's separate clout by rendering North-South relations dependent on events beyond Seoul's control. Sunshine aside, realists too must surely ask whether such a strategy serves South Korea's national interests – however much it gratifies Washington.

Conditional on what?

But if there is to be conditionality, the next question is: On what? North Korea's sins are legion, so all its interlocutors have to prioritize somehow. The nuclear issue tends to take priority for obvious reasons. Yet human rights concerns loom large, albeit downplayed by the last two ROK governments. Not this one, which on March 29 reversed Seoul's recent practice and voted for the

latest UN resolution condemning DPRK rights abuses. Oddly, even as Pyongyang around that time began to hurl old-style abuse at Seoul on many fronts, including raising human rights concerns, it did not mention that particular vote.

As noted above, the MOU has suggested that this too should be part of future conditionality for the South; especially as regards its thousand-odd ageing POWs and later abductees (mostly fishermen), whose names are known but whom Pyongyang denies holding (it claims they are all in the North by their own will). Brazen as the North's stance is, any government in Seoul faces hard choices here. The new unification minister, Kim Ha-joong, told his NA confirmation hearing that he opposed any such linkage. Yet it continues to be mooted in some circles.

Back to belligerence

After growing hints during March, Pyongyang finally made up its mind about Lee – with a vengeance. On March 27 three months of uneasy limbo in inter-Korean ties ended abruptly when, in the small hours, North Korea expelled 11 Southern officials from the Kaesong industrial zone (KIZ). They apparently got their marching orders three days earlier, after Unification Minister Kim had warned that ambitious plans to expand the zone would be hard to achieve absent denuclearization. The previous ROK government had avoided any such conditionality; in 2006 the KIZ kept operating normally in July when the DPRK launched several missiles, and again in October when it detonated a nuclear device.

Contrary to some loose Western media headlines, those kicked out were not managers but only ROK government officials. In that sense the DPRK action, though sharp, was quite carefully calculated and calibrated. For Southern managers and the zone overall, it was – and at this writing remains – business as usual. Some of the former expressed cautious optimism, along with regret that Minister Kim had not chosen his words more carefully.

The expulsions were just the first shot in what was evidently a carefully planned campaign, which unfolded daily over the next few days. On March 28, the Korean People's Army (KPA) returned to an old familiar theme: accusing ROK warships of violating DPRK waters in the West (Yellow) Sea. The waters in question lie south of the Northern Limit Line (NLL): the de facto post-1953 marine border which was declared unilaterally by the UN side at the end of the 1950-53 Korean War, after failure to reach official agreement in the Armistice. For decades North Korea tacitly accepted this, only starting to challenge it in recent years for no very clear reason. Its own proposed line includes several Southern-held islands, and hence is obviously unacceptable to Seoul.

Not for the first time, the KPA threatened to “mercilessly wipe out the provocateurs.” As if to make good that threat, the same day it test-fired several short-range sea-to-sea missiles off the port of Nampo, having first given due warning to shipping. Meanwhile, a statement from the DPRK Foreign Ministry (MFA) blamed the U.S. for the stalled Six-Party Talks, and for not accepting Pyongyang's assurances that it has “never dreamed of” either enriching uranium or nuclear proliferation. MFA warned that if Washington continues “to cook up fictions,” this “will seriously affect the disabling of nuclear facilities” at Yongbyon.

With no let-up for the weekend, March 29 saw the North work itself up into a rage over some arguably ill-advised remarks by the new Chairman-designate of the ROK Joint Chiefs of Staff Kim Tae-young at his confirmation hearing before the National Assembly on March 26. Claiming that Kim had threatened a preemptive strike against DPRK nuclear sites, the KPA denounced “these outbursts” as “the gravest challenge ever in the history of the inter-Korean relations and a reckless provocation little short of a war declaration against the DPRK”; adding that it will ban all ROK officials from crossing the DMZ. Next day the KPA further threatened to preempt any such Southern preemption, and “not merely plunge everything into flames but reduce it to ashes.” Somewhat less extravagantly, it warned that all inter-Korean dialogue would be suspended unless the South retracts and apologizes.

Again, even amid the fire breathing one should note the niceties. These comments both came from the DPRK military, not the government. The first was a “notice” from the head of the Northern delegation to the inter-Korean general-level military talks to his Southern equivalent, while the second had *KCNA* quoting an unnamed military commentator in an unsourced article whose actual title was rather milder: “South Korean military authorities should behave with discretion.”

Meanwhile on March 29, MFA again swung into action on another front: denouncing the EU and Japan for sponsoring the now annual resolution at the UN Human Rights Council on March 27 condemning North Korea’s human rights violations. Interestingly, Pyongyang did not mention the aspect played up by most international media: that Seoul, which had usually abstained in recent years, switched under Lee Myung-bak to supporting the latest resolution, which passed by 22 votes to 7 with 18 abstentions. It is unclear why the North missed this obvious opportunity to hurl a bit more mud at the South’s new government. Could it, just for once, have been acting with restraint?

The next news came from Seoul. On March 31, *Chosun Ilbo* reported that KPA *MiG-21* and other fighter jets had made sorties near the DMZ some ten times since Lee’s inauguration, causing ROK planes to scramble in response. Not since 2005 have so many Northern planes crossed the ‘Tactical Action Line’: an imaginary line set by the South 20-30 km north of the DMZ and NLL, any movement in the air south of which requires an immediate ROK response. In addition KPA winter drills are said to be up 50 percent this year. On the ground, after a regular mobile exercise finished, the elite Mechanized Corps stationed in Hwanghae Province was reportedly spotted moving south. No date was given, but this was said to be an unprecedented military move.

A new month – technically beyond the first quarter, but as North Korea did not stop there then neither can we, at least briefly – finally brought direct criticism of the South’s new leader, and in no uncertain terms. On April 1 a lengthy commentary in *Rodong Sinmun*, the ruling Workers’ Party of Korea (WPK) daily, dubbed Lee Myung-bak “a vicious political charlatan and imposter” (sic) and a pro-US sycophant, for subordinating inter-Korean relations to wider diplomacy and linking cooperation to denuclearization.

And so it went on. As of mid-April, Pyongyang’s diatribes were daily. North Korea said it regarded inter-Korean dialogue as suspended, and was denying entry to ROK government officials – but not others. Witness a useful new weekly schedule of upcoming contacts on the

MOU's website, which has long meticulously itemized the now dense dealings between North and South after the event. This included the following for Apr. 7-12, in the MOU's words (and ROK-style Romanization of Northern names):

Eleven cases of humanitarian aid visits including:

- Korea Food for the Hungry International (four persons including Chairman Jung Jeong-seop) visits Pyongyang from April 9 to April 12 for consultations about support for Nangnangseomgim People's Hospital.

- ChildFund, Inc (four including director Lee Gwang-mun) visits Gaeseong on April 8 to have consultations about aid project for infants.

- Korea Foundation for International Healthcare (Secretary General of Korea Association of Health Promotion Lee Wu-cheol) visits Mt. Geumgang from April 8 to April 12 for examination of parasite and passing down related technologies.

Three cases of visits to Gaeseong Industrial Complex:

- Thirty-two people from The Export-Import Bank of Korea on April 8

- An investment inspection team of 56 people from Korea Land Corporation on April 10

- Ninety-nine people attend CL Electronics' groundbreaking ceremony on April 11.

All that sounds very much like business as usual. It is not really, of course, as long as the two governments remain at loggerheads. But unless the quarrel escalates to the point where either side decides to rein in this kind of activity too, then things may not be as bad as they sound. Note too that the South's Eximbank and Korland are para-statal entities, as the North is well aware; yet they continue to come and go. So for the next quarter, at least, inter-Korean ties may limp or hop along, so to say, on other legs – business, NGOs etc. – even while the government limb is out of action. That is better than nothing.

So Lee Myung-bak has much to mull, both with his advisers and allies. His imminent visits to both Washington and Tokyo, his first trips as president, will see all this discussed in depth. While Japan, having just renewed its own sanctions on North Korea, will welcome a harder line from Seoul, President Bush – whatever his personal gut instincts – might worry that the new inter-Korean spat is untimely, if (a big if) Chris Hill really does manage to pull another rabbit out of a frayed-looking SPT hat. Either way, one must wonder if Lee's pledge to link future inter-Korean progress entirely to the SPT can hold.

Chronology of North Korea-South Korea Relations January-March 2008

Jan. 1, 2008: North Korea's usual joint New Year editorial of three daily papers calls last October's North-South summit "a turning point in achieving national reunification", at which "the road to many-sided cooperation was opened."

Jan. 4, 2008: A second load of DPRK zinc reaches Incheon, completing the North's initial repayments under the raw materials for minerals barter deal (see Dec. 14).

Jan. 7, 2008: The conservative Grand National Party (GNP) asks President-elect Lee Myung-bak's transition committee (TC) to be cautious in some contentious areas, such as abolishing the Unification Ministry (MOU), which it fears may harm the party in National Assembly elections due on April 9.

Jan. 7, 2008: The TC asks MOU to slow some inter-Korean projects, like the Haeju peace zone and Anbyon shipyard, pending their review. Such plans – but not humanitarian aid – may in the future be linked to nuclear progress in the SPT. MOU pleads not to be abolished, and for already agreed North-South meetings and surveys to go ahead as scheduled.

Jan. 7, 2008: MOU puts to the TC the idea of making aid to North Korea conditional on repatriation of Southern POWs and abductees, thought to number 548 and 485 respectively (with perhaps a further 80,000 taken North during the Korean war, who are on no one's agenda). It cites Germany as a precedent, where West Germany paid the former East to release political prisoners.

Jan. 7, 2008: MOU reports that inter-Korean trade in 2007 rose 33 percent, from \$1.35 to \$1.79 billion. Main factors were a 52 percent rise in trade in minerals and marine products, and a 48 percent rise in shipments to and from the Kaesong industrial zone (KIZ). Non-commercial exchanges, meaning aid, fell 13 percent. No trade balance was given.

Jan. 10, 2008: A Seoul daily reveals that ROK intelligence chief Kim Man-bok secretly visited Pyongyang on Dec. 18. He told his DPRK counterpart Kim Yang-gon not to worry if Lee Myung-bak is the South's next president, as he will continue to engage the North.

Jan. 11, 2008: Choi Won-ho, president of a South Korean fast food franchise, says he will open Pyongyang's first chicken and beer takeaway and delivery service (by motorbike) in February, in a restaurant joint venture with the North's Rakwon General Trading Co.

Jan. 14, 2008: In his New Year news conference, Lee Myung-bak says he will cooperate fully with North Korea – if it adheres to denuclearization as agreed in the Six-Party Talks (SPT). To that end he is ready to meet Kim Jong-il any time – but only in Seoul. Calling accords reached by President Roh Moo-hyun at last October's summit "lacking in details", Lee says his government will study their implementation "from the perspective of feasibility, fiscal burdens on the people and the national consensus." Pyongyang has yet to comment on Lee or his election.

Jan. 20, 2008: Not for the first time, DPRK media demand the abolition of the Northern Limit Line (NLL), the de facto inter-Korean border in the West/Yellow Sea.

Jan. 21, 2008: Pyongyang postpones at short notice 2008's first scheduled inter-Korean meeting, due on Jan. 22-23 in Kaesong to discuss railway cooperation, on the ground that "it is the start of the year and there are a few things to prepare." This is taken as signalling that the North is unsure of the intentions of the South's incoming government.

Jan. 25, 2008: Working-level military talks at Panmunjom on security aspects of joint economic projects make little progress. The North again suggests reducing the daily cross-border rail service, which often runs empty. The South resists this for the sake of regularity.

Jan. 29-30, 2008: At the postponed working-level railway talks in Kaesong, it is agreed to retain daily service but to remove empty freight cars. Southern officials acknowledge that their 50-plus SMEs in the KIZ prefer the flexibility of trucks and road transport, since the train is slow and does not directly serve the zone.

Jan. 31, 2008: Wang Jiarui, a senior Beijing figure as director of the International Liaison Department of the Chinese Communist Party's Central Committee, visits the KIZ as a side trip from Pyongyang. This is a rarity: almost all visitors to the KIZ cross the border from Seoul. Wang is the KIZ's first high-profile Chinese visitor. Two PRC firms operate in the zone.

Feb. 4, 2008: Meeting in Kaesong, the two Koreas agree to send two 300-strong joint cheering squads to the Beijing Olympics in August. They will go by rail across the DMZ, on the first train to travel from Seoul to Beijing in over half a century.

Feb. 8, 2008: Unusually, 22 North Koreans whose boat drifted into Southern waters are returned, by land, the same day. The ROK government insists this was at their own request, and that the group – comprising related families – had not sought to defect.

Feb. 9, 2008: The Seoul press reports, as is later confirmed, that after inter-party talks the incoming administration will after all retain the MOU, but with less power.

Feb. 12, 2008: Pyongyang media, which rarely cover events in South Korea, report (with pictures) the fire that destroyed Seoul's historic Namdaemun gate two days earlier.

Feb. 12-13, 2008: Working talks in Kaesong on joint highway repairs in the North adopt a joint report on two site surveys carried out in December, but fail to agree on how to further inspect and renovate the Kaesong-Pyongyang road.

Feb. 14, 2008: In the first confirmation of repeated allegations by critics of the sunshine policy, sources in Seoul admit that the ROK military has known of, and seen across the border, KPA frontline units diverting Southern food aid around ten times since 2003. The outgoing government neither publicized this nor apparently ever protested to Pyongyang.

Feb. 17, 2008: Presidential TC sources confirm that MOU will remain, but is likely to be downsized into fewer and smaller divisions.

Feb. 18, 2008: Seoul media belatedly find that *Tongil Sinbo*, a nominally unofficial DPRK weekly on the South, on Jan. 26 criticized Lee Myung-bak's new year remarks on the North as reactionary, anti-reunification and "obscene talk of impropriety."

Feb. 19, 2008: 15 officials from the ROK Health Ministry join DPRK colleagues in 5-day site surveys of a hospital in Sariwon, south of Pyongyang, and for a planned surgical cotton factory. This was one of the projects agreed at last October's summit.

Feb. 21, 2008: Pyongyang denies rumours that 22 North Koreans whom Seoul returned on Feb. 8 after their boat drifted into Southern waters have been executed. It claims that they "flatly rejected an enticement that they would be guaranteed a wealthy livelihood if they defected to the South, and now live normal lives in their homes after returning."

Feb. 21, 2008: Pyongyang denies that it ever diverted Southern food aid to its military.

Feb. 21, 2008: At a tripartite meeting under the SPT, North Korea thanks China and South Korea for energy aid, but complains that it is being delivered too slowly.

Feb. 21, 2008: DPRK Vice Foreign Minister Kim Kye-gwan has a farewell meeting with his ROK counterpart Chun Young-woo in Beijing. The new government in Seoul is expected to replace Chun as its chief delegate to the SPT.

Feb. 25, 2008: Lee Myung-bak is formally inaugurated as the ROK's 17th-term president for a five-year term. DPRK media ignore this, but stress the need for great unity of the whole nation on the principle of independence.

Feb. 26, 2008: Meeting in Kaesong, the Koreans fail to agree on flags and anthems for their forthcoming football match due on March 26.

March 2, 2008: Former Unification Minister Lee Jong-suk, now a fellow at the Sejong Institute, says the ROK Bank of Korea (BoK)'s estimate of DPRK gross national income (GNI) per head in 2005 as \$1,108 – almost twice Vietnam's – is too high. Accusing BoK of incorrect methodology, Lee says an unpublished study he commissioned at MOU recalculated the North's overall GNI at \$8.4-8.9 billion – 1 per cent of the South's – or \$368-389 per capita.

March 2-7, 2008: The U.S. and ROK conduct their annual *Key Resolve/Foal Eagle* military exercises. As usual, various Pyongyang media lambaste this as a bid to ignite a new war.

March 3, 2008: At the UN Human Rights Council (HRC) in Geneva, South Korea urges the North to address international concerns about its human rights record.

March 3, 2008: North Korea's "guidance bureau of scenic site development" tells Hyundai Asan that visits by Southern civic groups to Mt. Kumgang and Kaesong city are suspended

indefinitely. They may still send aid and ordinary tourism is unaffected. No reason is given. This prevents one NGO from bringing in 70,000 coal briquettes on March 4.

March 6, 2008: The Committee for the Peaceful Reunification of the Fatherland (CPRF) attacks Seoul's comments on its human rights as "reckless remarks...treacherous outbursts [and] an intolerable, grave provocation." It calls the new ROK government "descendants of the past dictatorial regime."

March 6, 2008: *Choson Sinbo*, a Tokyo-based pro-Pyongyang weekly, says "the arrows of condemnation in DPRK rhetoric on joint military drills were targeted at the U.S. troops and South Korean warmongers, not the South Korean government." It adds, "The whole Korean people want the South Korean government neither to regress in the North-South relations nor to join in behavior to do so, and choose the path of independent reunification."

March 7, 2008: South Korea's Football Association says that soccer's governing body has ruled that the World Cup qualifier between the two Koreas will be held in Shanghai instead of Pyongyang on March 26. The South had complained after the North insisted that the ROK not fly its national flag or play its anthem, proposing joint symbols instead.

March 7, 2008: The Blue House – South Korea's presidential office – announces two new committees as part of a reorganization. The aim is to better coordinate unification (meaning relations with North Korea) and foreign affairs, and subordinate the former to the latter.

March 11, 2008: President Lee proposes "shuttle summit diplomacy" with North Korea, as with South Korea's other neighbors. *Yonhap* glosses this as "a delicate departure" from Lee's earlier stance, that he would only meet Kim Jong-il in Seoul and to discuss nuclear disarmament. Lee also tones down his earlier comments on DPRK human rights.

March 11, 2008: *Rodong Sinmun* claims that a projected triangular military alliance of South Korea, the U.S., and Japan is a leftover of the Cold War, aimed at stifling the DPRK.

March 14, 2008: *KCNA* says the DPRK will hold its first census in 15 years on Oct.1. MOU adds that the ROK will shoulder most of the cost (\$4 million out of \$5.6 million), with the United Nations Population Fund (UNFPA), which will assist, furnishing the rest.

March 16, 2008: North Korea's Democratic Front for the Reunification of the Fatherland (DFRF) accuses Southern conservatives of stepping up "propaganda broadcasting" aimed at fueling cross-border tensions and undermining the DPRK. It cites North Korea Reform Radio, Open Radio for North Korea and several Christian evangelical programs.

March 17, 2008: *Rodong Sinmun* warns that inter-Korean ties may become strained if the South keeps trying to reinforce its alliance with "foreign forces." It calls this "grave criminal moves" and "treacherous acts."

March 17, 2008: For the first time, Southern tourists visiting Mt. Kumgang may take their own cars. A convoy of 15 drives across the DMZ; 20 per day are allowed, with a 30 mph speed limit. Once arrived, visitors must use Hyundai's tour buses within the zone.

March 19, 2008: A 159-strong Southern business delegation flies to Pyongyang by special plane direct from Seoul, for a 4-day trip to inspect industrial plant and explore investment opportunities. Acheon Global, which arranged the tour, is run by Kim Yoon-kyu, whose ouster in 2005 as vice chairman of Hyundai Asan caused a major rift with Pyongyang.

March 26, 2008: President Lee renews his call to the North to scrap its nuclear weapons, citing a 1991 inter-Korean denuclearization accord. He also urges Pyongyang to be more serious about resolving POW and abductee issues, but says humanitarian aid will continue, as will the Mt. Kumgang and Kaesong projects.

March 26, 2008: The nominee to head the ROK Joint Chiefs of Staff, Gen. Kim Tae-young, tells a parliamentary hearing that the DPRK has enough plutonium to build six to seven nuclear weapons, but says there is no confirmation that it has done so.

March 26, 2008: Breaking with the previous administration's policy, South Korea says it will vote for a UN resolution criticizing North Korean human rights abuses.

March 26, 2008: The soccer world cup qualifying match between the two Koreas, moved to Shanghai, ends in a goalless draw. They will meet again in Seoul in June.

March 27-28, 2008: The two Koreas meet at Panmunjom to discuss energy aid to the DPRK in the context of the Six-Party Talks.

March 27, 2008: 11 ROK government officials leave the Kaesong Industrial Zone (KIZ) in the small hours (around 1 a.m.) at the North's insistence, three days after being given notice to quit. No force is used, and business at the KIZ otherwise continues as normal. The South says this is regrettable, and that it will not offer anything to appease the North.

March 28, 2008: The Korean People's Army (KPA) navy command accuses ROK warships of violating DPRK waters in the West (Yellow) Sea, vowing to "mercilessly wipe out the provocateurs." The KPA tests several short-range sea-to-sea missiles off the port of Nampo.

March 29, 2008: According to the DPRK's *Uriminzokkiri* website, the Pyongyang weekly *Tongil Sinbo* criticizes Lee Myung-bak's controversial plan to build a 450 km.- long grand canal as "no doubt an act of madness" serving no practical purpose.

March 29, 2008: The DPRK Foreign Ministry attacks the EU and Japan for sponsoring the annual resolution at the UN Human Rights Council condemning North Korea's human rights violations, but does not mention that South Korea voted for the resolution.

March 29, 2008: The KPA claims that the new chairman of the ROK Joint Chiefs of Staff had threatened a preemptive strike against DPRK nuclear sites. Calling this “little short of a war declaration,” the KPA says it would ban all South Korean officials from crossing the DMZ.

March 30, 2008: The KPA further threatens to preempt any Southern preemption, and thus “not merely plunge everything into flames but reduce it to ashes.” It warns that all inter-Korean dialogue will be suspended unless the South retracts and apologizes.

March 31, 2008: *Chosun Ilbo* reports that KPA *MiG-21* and other fighter jets have made 10 sorties near the DMZ since President Lee’s inauguration on Feb. 25. These and other KPA winter drills are up 50 percent this year.

April 1, 2008: A lengthy commentary in *Rodong Sinmun* attacks Lee Myung-bak as “a vicious political charlatan and imposter” and a pro-U.S. sycophant for subordinating inter-Korean ties to wider diplomacy and linking this to denuclearization and human rights. It names Lee 49 times, in the first direct insult of an ROK leader since 2000.

April 1, 2008: North Korea cancels two planned Southern visits to Kaesong. Acheon Corp., a church and an NGO were due to send 500 people to plant trees on Arbor Day, April 5. On April 10, 200 Gyeonggi province officials were set to visit, but the North said Gyeonggi governor Kim Moon-su – a GNP member – was not welcome, in effect aborting the trip.

April 2-3, 2008: A 6-strong civic delegation visits Mt. Kumgang to discuss events marking June 2000 joint declaration. The North warns that this event’s success depends on both sides’ attitude.

April 3, 2008: The head of the DPRK delegation to inter-Korean general-level military talks warns ROK military authorities that the North will take “prompt corresponding military countermeasures.” He dismisses the South's reply as “nothing but an excuse” in relation to earlier “outbursts let loose” by the chairman of the ROK Joint Chiefs of Staff.

April 3, 2008: The KPA Navy Command assails ROK “warmongers” for “perpetrating a serious military provocation” in the West (Yellow) Sea. The ROK navy retorts that its three patrol boats were south of the Northern Limit Line (NLL) and were there to stop Chinese fishing boats in Northern waters from crossing.

April 3, 2008: The North’s DFRF accuses “South Korea's conservative regime” of “driving north-south relations to confrontation and catastrophe, blatantly swimming against the trend of the era of independence, reunification, peace and prosperity.”

April 4-5, 2008: In a lengthy article, *Uriminzokkiri* calls Lee a traitor. It urges all Koreans to “step up their struggle against [his] anti-tribal and anti-unification scheme”.

April 5, 2008: *Rodong Sinmun* attacks “pro-U.S. conservative ruling forces in south Korea hell-bent on dependence on foreign forces and confrontation with fellow countrymen.”

April 5, 2008: Kim Yong-dae, presidium vice chairman of the Supreme People's Assembly (SPA, the North's rubber-stamp parliament), urges South Korea's new administration to adhere to past inter-Korean agreements and their spirit, and not to raise tensions.

April 5-7, 2008: *KCNA* reports undated visits by Kim Jong-il to different KPA bases on three successive days, and again on April 9. On April 7, it quotes Kim as saying the KPA could "beat back the enemy's invasion at a single stroke."

April 7, 2008: *Rodong Sinmun* criticizes the ROK for "following the U.S. imperialists". It warns that those who "dance to the whistle of outside forces will only suffer a collapse."

April 7, 2008: ROK unification minister Kim Ha-joong says Seoul will not riposte but wait until Pyongyang's misunderstanding eases, adding: "Our position toward mutual respect and co-prosperity between the two Koreas remains firm."

April 7, 2008: Senior Southern sports officials say plans to field joint inter-Korean athletic and cheering squads at the Beijing Olympics in August are stalled. They have been rebuffed twice by Northern counterparts when they tried to raise the matter recently.

April 7, 2008: The leftish Seoul daily *Hankyoreh* reports that North Korea has asked China for massive rice aid, having decided not to request this or fertilizer from South Korea unless Seoul moves to improve ties. Beijing has yet to respond.

April 7, 2008: In a telephone conversation with outgoing Russian president Vladimir Putin, President Lee reportedly seeks continued efforts to link the trans-Korean and trans-Siberian railways as well as other tripartite cooperation projects involving North Korea.

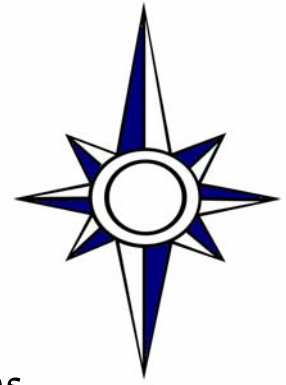
April 8, 2008: The South's Defense Ministry (MND) officially renames a June 2002 marine firefight as the "Second Yeonpyeong Sea Battle"; saying its previous name, "Exchange of Fire in the West Sea", did not reflect its significance. The government rather than their military units will henceforth host the memorial service for the six ROK sailors killed.

April 8, 2008: *Minju Josen*, daily paper of the DPRK Cabinet, attacks Seoul media claims that recent Northern criticism of Lee Myung-bak was intended to influence ROK national assembly elections as "a sophism for distorting truth."

April 9, 2008: The GNP narrowly wins control of the National Assembly, taking 153 out of 299 seats in South Korea's parliamentary election. The GNP victory is less overwhelming than in December's presidential election. Two other conservative groups also do well.

April 10, 2008: North Korea expels a Southern procurement supervisor from a construction site at Mt. Kumgang, where the South is building a \$60 million family reunion center. Later that day the North also blocks another ROK procurement official from entering the zone.

April 11, 2008: The *Korea Herald* quotes as unnamed ROK official as saying that on April 8 two KPA fighter jets flew within 10 km of the Military Demarcation Line (MDL).



China-Korea Relations:

Lee Myung-bak Era: Mixed Picture for China Relations

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The South Korean political transition to a new administration under President Lee Myung-bak catalyzed diplomatic contacts designed to size up the new leader and to establish the foundations for a new era in the Sino-South Korean relationship. Accompanying this transition, Beijing redoubled efforts to manage relations with Pyongyang through high-level party-to-party exchanges with Kim Jong-il. Chinese food assistance to North Korea and the North Korean commitments in the Six-Party Talks framework to declare nuclear-related programs dominated conversations with the Dear Leader. The rise in “fly-by-night” departures of South Korean small investors from China resulting from rising Chinese labor costs and changing incentives for investments in China requires diplomatic management between Beijing and Seoul. Finally, “yellow dust,” Tibet, Taiwan, and quality controls on food exports to Korea are nagging issues that cloud the relationship.

Transition to Lee Myung-bak

Immediately following his election Dec. 19, Lee Myung-bak pledged in a congratulatory meeting with Chinese Ambassador to South Korea Ning Fukui that he would “upgrade Korea-China economic relations as China is a critical trade partner for Korea.” However, some analysts in both Korea and China worried that Lee’s prioritization of U.S.-ROK security relations would have negative ramifications for Seoul’s relations with Beijing. Lee’s more conditional approach to the North suggested that there would be less overlap between the Chinese and South Korean approaches to North Korea that existed under President Roh Moo-hyun.

The Chinese government and the newly elected Lee administration exchanged special envoys in mid-January prior to Lee’s inauguration. Vice Foreign Minister Wang Yi came to Seoul as a special envoy of President Hu Jintao, inviting Lee to “strengthen strategic communications and expand mutually beneficial cooperation” while Lee sent Grand National Party (GNP) leader Park Geun-hye to Beijing as a special envoy, at which time Hu reiterated his support for progress in the Six-Party Talks and his commitment to “developing bilateral relations to a higher level.”

The primary Chinese interest in the transition to Lee is to probe the specific implications of a transition to a conservative South Korean administration for policy toward North Korea. Chinese Communist Party International Liaison Department head Wang Jiarui visited Seoul in November at which time he stated during a meeting with Park Geun-hye that “What North Korea is afraid of is not the GNP’s takeover of power, but rather of a rapid shift of policy toward North

Korea if the GNP takes power.” The Chinese leadership is concerned that a downturn in inter-Korean relations might sidetrack progress in implementing six-party agreements resulting in renewed tensions and heightened pressure on China to get tough with North Korea. Chinese analysts also warned that South Korea should be careful not to lean too closely toward the U.S. at the expense of China. In this respect, the resumption of trilateral security dialogue among the U.S., Japan, and South Korea may be a sensitive issue in Beijing if the scope of such talks extends beyond coordination on peninsular issues.

Days prior to Lee’s inauguration ceremony in late February, Ambassador Ning stated that China-South Korean relations are at a “new starting point” and that “the neighboring countries have become vital partners not only economically, but also on the international stage of diplomacy, security, and culture. China demonstrated its will to improve relations with the new government by having State Councillor Tang Jiaxuan attend Lee’s inauguration ceremony. But, China’s representation was low-key as Japan’s Prime Minister Fukuda Yasuo and U.S. Secretary of State Condoleezza Rice gained the lion’s share of press attention during the event.

South Korean Foreign Minister Yu Myung-Hwan made a point of making Beijing his first overseas destination in mid-March, prior to visiting the U.S. and Japan. In Beijing, Yu expressed concerns that the six-party process not stall out and emphasized that “a fortified Korea-U.S. alliance is not a minus to Korea-China relations and both relations need to maintain a win-win structure.” Yu consulted on preparations for an exchange of state visits, including a visit by President Lee to Beijing, possibly as early as May. In addition, Chinese and South Korean leaders might meet on the sidelines of the Asia-Europe Meeting in China in October, the APEC meeting in Peru in November, the ASEAN Plus Three meeting in Thailand in December, and possibly during the Beijing Olympics in August. Yu also mentioned the possibility of a trilateral summit meeting among Chinese, Japanese, and South Korean leaders.

President Lee’s appointment of the former South Korean Ambassador to China Kim Ha-joong as unification minister sends mixed messages. On the one hand, Kim was a loyal supporter of Kim Dae-jung’s Sunshine Policy as his Blue House advisor prior to spending all five years of the Roh administration in Beijing. Kim maintained a relatively low profile in Beijing, but is known to have aggressively pursued information from Chinese officials regarding sensitive issues related to North Korea’s leadership. It remains to be seen whether Kim will be effective in dealing with the North and what type of envoy Lee will select as his ambassador in Beijing.

China also received notification this quarter of approval by Seoul municipal authorities for the construction of a embassy complex in downtown Seoul consisting of a 10-story and a 24-story building, a grand gate, and a garden. The embassy will be the largest foreign diplomatic compound in Seoul with a total land area of over 17,000 sq. meters, surpassing Russia’s 12,000-meter complex in southern Seoul.

Lee Myung Bak, North Korea, and the China-DPRK relationship

One role of Chinese consultations with Seoul has evidently been to provide North Korea with a third-party assessment of the implications of the Lee Myung-bak administration, in addition to helping with information necessary for Lee to shape his own policy toward Pyongyang. CCP

International Liaison Department head Wang Jiarui was able to rely on his own conversations in Seoul prior to Lee's election as well as Beijing's initial exchange of special envoys in mid-January. Those visits along with Beijing's assessment of prospects for inter-Korean relations and his visit to Pyongyang at the end of January, when he met Kim Jong Il, made Wang the ideal choice to provide insights on both sides. During his visit to Pyongyang, Wang conveyed a verbal message from President Hu, invited Kim Jong-il to attend the Olympic opening ceremonies, and toured the Kaesong Industrial Complex, no doubt to underscore Chinese desires to see continuity and progress in inter-Korean economic relations and North Korea's own reform and opening to the outside world. Wang was quoted by *Xinhua* news agency as saying that "the present difficulties are temporary and can be conquered," while Kim Jong-il was quoted as saying that "There are no changes in the North's stance to continue pushing forward the Six-Party Talks persistently and implementing all the agreements."

Kim Jong-il followed up the Wang meeting one month later with a rare personal visit to the Chinese embassy in Pyongyang for a dinner and follow-up conversation with Chinese Ambassador Liu Xiaoming. In addition to a discussion of next steps in the Six-Party Talks, one of the topics reportedly discussed was the prospect of a visit to China in the first half of the year, possibly to occur in conjunction with a reported visit by Kim Jong-il to Vietnam to mark the 50th anniversary of Kim-il sung's visit to Hanoi. Such a visit would mark a major increase in Kim's international engagement and presumably would only be fully effective in the context of steps forward in implementing North Korea's denuclearization commitments as part of the six-party process.

North Korea is squeezed by a decline in Chinese grain exports caused by tightened Chinese export regulations from the beginning of this year and a global rise in food prices. In addition, North Korea has not yet been willing to request assistance from the Lee administration in the South, possibly fearing that such requests might either be rejected or used as leverage to pressure Pyongyang on other issues. The need for foreign exchange has prompted North Korea to be more active in allowing international and especially Chinese access to North Korean mineral resources, one factor that motivated South Korean interest in a summit under President Roh. But, it is not yet clear how or whether President Lee's early emphasis on "resource diplomacy" may be applied to North Korea. Although reports from South Korean NGOs working in the North are increasingly dire, there are suspicions that China will ultimately decide to provide enough assistance to the North to avoid refugee flows into China that might hurt stability during the Beijing Olympics this August.

South Korea's "fly-by-night" operators

Rising labor costs, decreasing tax incentives, and a less favorable business environment for low-margin, labor-intensive investments in China have put increasing pressure on South Korean small businesses in the toy, textiles, shoe, and other sectors. Most of these companies sought low-wage workers in China to enhance competitiveness in the U.S. export market. With a new labor contract law making it harder to lay off workers and expiring tax incentives coming into effect at the beginning of 2008, many smaller South Korean businesses were squeezed into the red. As a result, dozens of South Korean firms decided to flee their businesses due to complex investment liquidation procedures. Early this year, an increasingly popular option for those

firms was to pack up and leave in the dead of night, leaving Chinese employees in the lurch and with little recourse in their efforts to receive back wages owed by the firms. Other Korean operators faced personal difficulties as they fell behind on payments and Chinese employees decided that they were a flight risk, often forcibly holding them at factories while demanding payment.

The situation was not unanticipated. A survey at the end of last year by Korea Trade-Investment Promotion Agency revealed that one in 10 Korean companies in China was considering withdrawal due to deterioration in the business environment there. Sung Jeung Han of the Korean Society and Enterprise Association in Qingdao estimated that 20-30 percent of the 6,000 Korean firms there are losing money as a result of increases in minimum wages of over 43 percent over the past three years to \$107 per month. In a survey by the Korea Chamber of Commerce and Industry's China branch conducted in mid-January of 350 listed members, it was revealed that 25 percent of firms have seriously considered leaving China, while another 3.1 percent said they are preparing for liquidation. The Export-Import Bank of Korea has estimated that over 200 Korean business owners in Qingdao had illegally shut down their businesses in recent years (comprising 2.5 percent of all South Korean investors there), leaving Chinese workers with no recourse. In Jiaozhou, Shandong Province, 103 of 119 businesses that had illegally shut down since the beginning of the year were reportedly from South Korea. A March report from the bank estimated that the investment environment had worsened in China (along with India and Kazakhstan) due to decreased tax incentives and rising costs for labor and materials.

The political and economic fallout from such pressures led the Federation of Korean Industries to recommend in mid-January that the South Korean government step in to provide assistance to smooth the exit process for Korean firms and to resolve tensions caused by South Korean "fly by night" practices. By February, the South Korean government began to step in to assist companies in managing the process of withdrawing from the Chinese market and held talks with Chinese officials on the matter. The Ministry of Foreign Affairs and Trade established a help desk for distressed Korean firms at the Korean embassy in Beijing and the consulate in Qingdao to provide assistance to South Korean investors in liquidating their assets and to serve as a liaison with Chinese agencies involved in the process. The South Korean government plans to establish a one-stop service to assist companies who want to exit China and press for improved transparency in China's corporate liquidation procedures. In addition, the South Korean government will facilitate judicial handling of suits against South Korean managers who have fled China so that workers can seek redress for back wages.

An ill wind and other challenges for China-Korean relations

Early predictions by the Korean meteorological service suggest that the spring of 2008 could be the worst year yet for yellow dust from China. The "gatecrasher of spring" is an unwelcome guest in Korea and Japan, but it had until recently been a catalyst for greater cooperation among the respective environmental ministries in Japan, China, and South Korea. But cooperation hit a snag earlier this year as a result of the unwillingness of the Chinese government to share meteorological information with Korea and Japan under the pretext that such information was a "state secret," inhibiting the capacity of China's neighbors to make more accurate forecasts for

how and when the dust might be at its worst. During periods when the dust does strike, South Korean elementary schools are closed and precision machinery operations in both South Korea and Japan require greater precautions to keep out the dust, which can increase the error rate of precision materials production. The Korea Environment Institute estimates that economic damage resulting from haze created by the dust amounted to ₩5.5 trillion (\$5.5 billion) in 2007, when 13 weather advisories were issued in South Korea, up from only three in 2003.

Another ill omen from China has been the precipitous fall in the value of Chinese equities in conjunction with difficulties in the U.S. markets. Based on the theory that the U.S. and China markets are decoupling, many individual Korean investors had sought to cash in on China's growth, but found themselves instead exposed to amplified effects of the inability of U.S. markets to properly measure risk. Meritz Securities estimated that Korean fund investments in China amounted to over ₩24 trillion (\$24 billion), or one-third of all overseas investment fund inflows into China. The Chinese market's drop of over 40 percent from its peak has been an additional blow to Korean investors.

A third negative story from China involves ongoing concerns regarding the quality of Chinese food imports to Korea. But this time the culprit involved a Korean company, Nongshim, which, when confronted with a customer who found rodent parts in a popular snack, claimed that it processed food products in China for sale in South Korea. The fact that a South Korean company faced difficulties as a result of failure to monitor its own food processing operations in China has generated additional pressure on the Korea Food and Drug Administration while defusing the issue as a political problem between Korea and China, unlike the "gyoza" controversy between China and Japan. In the wake of the controversy, the Korean Consumer Agency stated that coffee, sesame oil, and health supplement products from China have also been found to be tainted.

Finally, new cases of industrial espionage involving the stealing of technology and selling it to Chinese competitors were revealed this quarter. This time an LG Electronics engineer has been indicted for teaming up with former colleagues to steal and leak flat-screen TV technology to China's COC (Changhong-Orion PDP-Chaihong) that was used in a PDP plant constructed in Sichuan province. LG Electronics estimates that the leak will cost the company about ₩1.3 trillion won (\$1.3 billion) in losses. South Korean prosecutors acting on information provided by South Korea's National Intelligence Service (NIS) have also been investigating allegations of technology leakage at Ssangyong Motor, but the case is more complicated since that company was bought by Shanghai Automotive Industry Corporation (SAIC) in 2004, so any technology transfer made by the company after that time would be legal.

Taiwan-South Korea political parallelism

The election of Ma Ying-jou on March 23 as president in Taiwan extended the parallel political experiences of South Korea and Taiwan. Both Taiwan and South Korea experienced economic growth that contributed to democratization, experienced parallel transitions to opposition rule based on anti-corruption and national identity platforms, and have switched back to conservative rulers focused on recovering lost economic performance. The parallel has been so strong that candidate Ma pledged to focus on the economy like "Lee Ming-bo" (Lee Myung-bak's name in

Chinese), and came up with his own “633” pledge (6 percent growth, a per capita income of \$30,000, and 3 percent unemployment) to parallel Lee’s “747” campaign pledge to promote 7 percent growth, raise per capita income to over \$40,000 and become the 7th largest economy in the world. Ma’s election signals a potential opportunity for enhanced cross-Strait cooperation since Ma has also supported an improved economic relationship with Beijing based on a “one China common market,” and resumption of dialogue on the basis of “one China, differing interpretations.” To the extent that Ma can bring greater “international space” for Taiwan, this might also provide an opportunity to improve political relations with South Korea, which has remained sensitive to Beijing’s preferences in its dealings with Taiwan. For this reason, it is somewhat surprising that an international poll on developments in Tibet showed South Koreans to be the most critical regarding Chinese policies and management of Tibet. But a Korean company, Samsung, is a primary Olympic sponsor that would lose out if protests mar the Beijing Olympics.

Korean Peninsula: in the balance or out of balance?

The next quarter will see the renewal of top-level diplomacy in China’s relations with the two Koreas, including possible visits by both Lee Myung-bak and Kim Jong-il to Beijing. With Beijing as the center for Korean Peninsula-related diplomatic activity, Chinese policies toward the two Koreas are likely to receive renewed scrutiny in the coming months. President Lee will pursue more active relations with Beijing on the basis of a close U.S.-ROK relationship, rather than with the intent of playing a balancing role in Northeast Asia. This may pose a challenge to Beijing if viewed through the lens of regional geostrategic competition with the U.S. But, it holds the promise of deepening economic relations in many sectors, including the initiation of FTA discussions between China and South Korea.

The Chinese leadership is likely to find South Korean policies toward North Korea more challenging. President Lee’s emphasis on human rights and his apparent willingness to challenge the North carry mixed implications for China’s own interests and highlight differences with China that had been set aside under more progressive South Korean leaders. Lee’s policies will not deemphasize core shared interests, but his administration also has a different set of assumptions regarding what North Korea must do to pursue economic opening and who has the upper hand in the inter-Korean relationship. Longer-term, however, the objectives of denuclearization, opening, and promoting North Korea’s economic development will find a ready audience among Chinese officials interested in promoting regional stability and North Korean reform – if only as a means to reduce Beijing’s own burdens from North Korea’s “rubber stomach” and endless demands for assistance.

There remains evidence of discord within the Chinese foreign policy community over how to deal with North Korea. Different factions within China’s foreign policy establishment argue over how much China can afford to give to North Korea, whether North Korea holds strategic value for China, and the destabilizing costs of Chinese failure to challenge North Korea’s most brazen illegal actions even when they occur on Chinese soil. Many of these specific costs are outlined in detail in a book entitled “China’s Secret North Korea File,” published in Japan and supposedly written by Chinese government officials dissatisfied with Chinese policy. This internal debate has yielded casualties in several branches of the Chinese bureaucracy among specialists who

have been put under house arrest both for being too outspoken on North Korea and for alleged corruption. Although there are no perceptible changes in China's policy of trying to gently use its limited capacity to influence Kim Jong-il to move in a direction that accords with Chinese interests, a powerful counter-argument has coalesced in some quarters – as represented by this book – that Chinese policies would be best served by working more closely with the U.S. to achieve North Korea's denuclearization, even at the expense of the stability. Whether such arguments are incorporated into Chinese policy toward the Korean Peninsula remains to be seen. Nevertheless, North Korea's full denuclearization and/or future survival may depend on it.

Chronology of China-Korea Relations January-March 2008

Jan. 1, 2008: Municipal authorities in Dandong, Liaoning Province announce plans to construct a large bridge across the Yalu River to North Korea to expand capacity to handle bilateral trade with North Korea.

Jan. 7, 2008: Forty illegal laborers, including 13 Korean ethnic workers from China, are trapped and burned in a cold-storage warehouse under construction in Incheon, 50 miles south of Seoul.

Jan. 14, 2008: President-elect Lee Myung Bak meets Chinese special envoy Wang Yi during a visit to South Korea to consult on future prospects for Six-Party Talks.

Jan. 16, 2008: South Korean companies in China face toughening government regulations and decreasing incentives to operate there, spurring nighttime departures by some South Korean executives and employees.

Jan. 19, 2008: The Korean Customs Service reports that China has displaced Japan in 2007 as the largest exporter of goods to South Korea.

Jan. 20, 2008: The Bank of Korea releases a report concluding that an economic bubble is unlikely to occur in China.

Jan. 30, 2008: Senior Chinese Communist Party official Wang Jiarui meets Kim Jong-il in Pyongyang to discuss the Six-Party Talks and other issues in Sino-DPRK relations.

Feb. 8, 2008: Chinese Ambassador to South Korea Ning Fukui says Chinese-South Korean relations are “at a new starting point” in an interview at his office in Seoul.

Feb 19, 2008: South Korea's Ministry of Commerce, Industry, and Energy announces that the government has decided to implement measures to support South Korean investors in China that are planning to withdraw from the country.

Feb. 19, 2008: Korea Institute for Industrial Economics and Trade Senior Research Fellow Kim Do-hoon says that Hong Kong and China are likely to be South Korea's best FTA partners based on his study of the effects on local industry.

Feb. 19, 2008: China hosts a bilateral meeting between Six-Party Talks negotiators Christopher Hill and Kim Kye-gwan to discuss issues preventing North Korea from providing a declaration of nuclear-related facilities, programs, and materials as pledged under the Oct. 4 and Feb. 13, 2007 six-party agreements.

Feb. 25, 2008: Lee Myung-bak inaugurated as new South Korean president; meets with Chinese State Councilor Tang Jiaxuan.

March 1, 2008: North Korean leader Kim Jong-il has "cordial and friendly talks" during a visit to the Chinese Embassy in Pyongyang with Chinese Ambassador Liu Xiaoming.

March 2, 2008: President Lee names former South Korean Ambassador to China Kim Ha-joong as his first minister of unification.

March 4, 2008: Korea Hydro and Nuclear Power (KHNP) announces that it has signed a \$15.5 million contract with Guangdong Power Engineering Corporation to export nuclear technology through 2013 for reactors at Yangjian, Guangdong Province, which are based on the Korean Uljin plants.

March 6, 2008: Prosecutors announce the arrest and indictment of a former LG Electronics engineer for industrial espionage by stealing and leaking flat-screen TV technology to a Chinese competitor.

March 11, 2008: South Korea announces that the China has agreed to cooperate to recover the remains of An Jung-geun, the Korean independence fighter who assassinated Japan's first Resident General Ito Hirobumi in China in 1909. An was executed in China by Japanese military officials at Ryojun prison.

March 12, 2008: Korea, China, and Japan hold a fourth round of talks on a trilateral investment agreement.

March 17, 2008: Korea Development Institute releases a report describing the transition of China from a production base to an export market for Korean manufacturing products.

March 19, 2008: South Korea's Business Institute of Sustainable Development announces that ₩5.5 trillion (\$5.5 billion) in lost productivity occurred in 2007 as a result of "yellow dust" from China.

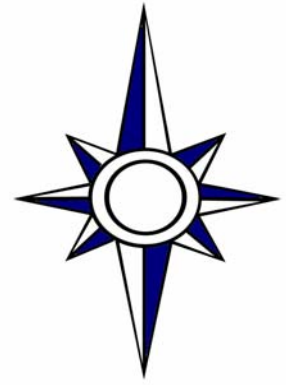
March 19, 2008: Korean producers of the film "Crossing," which is based on the story of North Korean refugees who escape to China, hold a press conference in Seoul.

March 19, 2008: The Korean Consumer Agency reports that over 10 different cases of spoiled food products from China have gone unreported in the Korean media.

March 20-22, 2008: Foreign Minister Yu Myung-hwan makes his first visit as foreign minister to China to plan for a likely May state visit by President Lee to Beijing.

March 22, 2008: Ma Ying-jeou is elected president of the Republic of China on a platform that stresses economic performance pledges similar to those of President Lee.

March 26, 2008: Korea Fund Ratings reports that Chinese equity funds have lost ₩12 trillion over the past five months. Korean investors represented 32 percent of total funds invested from overseas, according to Meritz Securities.



Japan-China Relations:
All about *Gyoza*: Almost all the Time

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While Japanese and Chinese political leaders and diplomats worked to build the mutually beneficial strategic relationship and to advance the spring visit of China's President Hu Jintao, both sides found it hard going. The safety of imported Chinese *gyoza* (dumplings) became a major issue as reports of food poisoning of Japanese became front-page news in early February. Responsibility for the poisoning, whether the result of the manufacturing process in China or deliberate action by individuals after the *gyoza* left the factory, became the center of contention. Health Ministry and public safety officials in both countries pledged cooperation in resolving the issue but failed to identify the cause, while retreating to positions that attributed responsibility to the other side.

At the same time, expectations for a resolution of the East China Sea dispute before the Hu visit, raised during the visit by Prime Minister Fukuda Yasuo to China in December, faded. By mid-March, both sides were taking the position that resolution should not be linked to a previously anticipated April cherry-blossom visit. Scheduling problems, failure to resolve the East China Sea dispute, and the *gyoza* controversy, combined to push the visit back to an early May, post-Golden Week time frame.

The new year: policies, trends, and concerns

In his address to the opening session of the 169th session of the Diet, Foreign Minister Komura Masahiko told the Diet that Japan will work to establish a "mutually beneficial relationship on common strategic interests" with China. Noting that 2008 marks the 30th anniversary of the Japan-China Treaty of Peace and Friendship as well as the Japan-China Youth Exchange Friendship Year, Komura committed Japan to a "build-up of dialogues and exchanges across a broad array of fields while making efforts to resolve outstanding issues."

2007 marked another banner year in Japan-China economic relations. After replacing the U.S. as Japan's largest trading partner in 2006, Finance Ministry's preliminary report on 2007 indicated that, for the first time on a calendar year basis, China, including Hong Kong, had replaced the U.S. as Japan's biggest export market. Exports to China hit ¥17.4 trillion, surpassing the ¥16.9 trillion of exports to the U.S. Exports to China and Hong Kong surged 19 percent while exports to the U.S. declined 0.2 percent.

At the same time, China's surging economy was becoming a matter of increasing concern. The Jan. 8 editorial in the *Tokyo Shimbun*, "Thoughts on the 'China Problem' at the beginning of the Year," called attention to the fact that China's economy, should it continue to grow at current rates, "is certain to surpass the size of the Japanese economy in the near future." Notwithstanding China's primacy as a trading partner for Japan, the editorial expressed the view that "Japan-China relations and the future of China and the world around it warrant no optimism." Citing China's double-digit increases in defense spending over the past 19 years, its lack of transparency, the degradation of its environment and potential instability, the editorial argued that "The 'China Problem' associated with its rapid development and its growing national power has surfaced as the toughest challenge of the 21st century for its neighbors."

On Jan. 16, Foreign Minister Komura hosted a Japan-Mekong ministerial meeting, involving counterparts from Thailand, Vietnam, Laos, Cambodia, and Burma. At the meeting, Japan committed to providing the Mekong countries with \$40 million in non-reimbursable aid to address poverty and to provide for the construction of infrastructure and distribution networks. Japan also committed to increasing official development assistance (ODA) to the five countries over the next five years as well as hosting approximately 10,000 students and trainees beginning this year. At the same time, Japan's Vice Minister of Defense Masuda Kohei visited Malaysia Jan. 22-23 for talks aimed at increasing defense exchanges with member states of ASEAN. The *Nikkei Shimbun* also reported that Japan is contemplating periodic defense ministerial meetings with ASEAN as well as participation in the ASEAN Defense Minister's Meeting in 2010. Both the *Nikkei* and the *Sankei Shimbun* portrayed the economic and security initiatives as steps aimed at countering China's growing influence in Southeast Asia. In mid-March, the *Nikkei* reported that Japan and China had agreed to a low-level dialogue on policy toward Southeast Asia and Africa, including ODA programs.

On Feb. 10, Komura addressed the subject of Asian security at the Munich Conference on Security Policy. To enhance regional stability and prosperity, Komura advocated increasing transparency to build relations of trust and confidence in both political and military fields. In this context, Komura called attention to China's continuing military expansion and areas where it lacks transparency. If it continues, China's lack of transparency would only increase security concerns in the region. Turning to bilateral relations with China, Komura explained that both countries are committed to advancing a mutually beneficial strategic relationship

On March 4, China released a military budget of \$45 billion for 2008, marking 20 consecutive years of double-digit increases in defense spending. In contrast, Japan's draft military budget for 2008 calls for a 0.5 percent decrease over 2007. China's military spending in 2007 surpassed that of Japan for the first time, and as the *Sankei Shimbun* pointed out, with the 2008 budgets "the disparity is only widening."

East China Sea

Early in the new year, *NHK* broadcast an interview with Foreign Minister Komura during which he expressed hope that the long-running issue concerning gas exploration rights in the East China Sea would be resolved before President Hu Jintao would visit Japan in the spring. China Ambassador to Japan Cui Tian-kai shared Komura's hopes, telling the press that two sides "are

making progress” and that he was hopeful that “we will arrive at a solution well before Hu’s visit.” Cui thought it possible to advance a “practical formula” that would allow for joint development without ceding territorial or legal claims. From contacts on both sides, he was “optimistic.”

In working-level talks during Prime Minister Fukuda’s December visit to China, Beijing advanced a proposal for joint development in areas near Japan’s claimed mid-term boundary. In Tokyo, a Japanese diplomat characterized the Chinese proposal as a “huge step” toward Japan’s proposal for joint development in areas that straddled the mid-line, one that implicitly acknowledged the Japanese position on the mid-line boundary. At the same time, China dropped previous proposals to develop areas around the disputed Senkaku (Diaoyutai) Islands or in areas along the Okinawa trough closer to Japan’s home islands. The “bottom line” for the Japanese diplomat was that “they have come much closer to the Japanese view.” While recognizing the ambiguity of the Chinese position, which would provide Beijing with deniability regarding territorial claims, he observed that “they are fully aware of the steps they have taken.”

On Jan. 17, newly appointed Administrative Vice Foreign Minister Yabunaka Mitoji told the *Nikkei Shimbun* that “We’d like to settle the issue if we can, without waiting for President Hu to visit Japan.” He went on to say that the two sides had been “negotiating quite hard,” that “mutual understanding has been deepening,” and that “we’re now talking with each other in a sincere manner.”

On Feb. 5, the *Yomiuri Shimbun* reported that the Fukuda government advanced a new proposal for joint exploration of two of the four natural gas fields, Shirakaba (Chunxiao) and Kashi (Taiwaitian). With a settlement involving all four fields and agreement on boundary lines not considered practical, Tokyo focused on a two-step process, which a Japanese diplomat involved in the negotiations thought was “more feasible.”

However, hopes for progress in Tokyo were dialed back in mid-February, when Beijing, in advance of bilateral talks scheduled for the end of the month, announced that China did not want to tie resolution of the East China Sea issue to President Hu’s visit to Japan. On Feb. 22-23 Vice Minister Yabunaka visited China and met with his counterpart, Vice Minister Wang Yi, in search of a breakthrough. On Feb. 26, Foreign Minister Komura told reporters that resolution of the issue is “not necessarily tied to President Hu’s visit to Japan.” Later, the *Sankei Shimbun* reported that at some point in the bilateral talks, when Japan had proposed taking the dispute to the International Court for adjudication, a “high ranking” Chinese government official admitted that “Japan would probably win its case.” The Chinese official was reported as saying that losing to Japan in international adjudication could not be allowed.

Meanwhile, the LDP’s Special Committee on Ocean Policy met on Feb. 21 to discuss the government’s draft plan on ocean policy. With regard to gas exploration rights in the East China Sea, the draft noted that “problems have been caused over resource development because areas asserted by the other side straddle the Japan-claimed exclusive economic zone.” The diplomatic language did not go down well with many who attended the meeting. One LDP member observed “The key point of how to protect Japan’s rights and interests in the East China Sea is

not included.” Also at issue was the vague reference to “the other side,” which drew a comment that the government gave “excessive consideration to China in drafting the plan.”

Responding to the LDP’s concerns, Chief Cabinet Secretary Machimura said that while he did not think it was significant whether individual countries were named, “the issues raised by the LDP would be addressed frankly and, if necessary, the points that should be revised, would be revised.” On March 3, the Cabinet adopted the Basic Plan on Ocean Policy aimed at continuing development and commercialization of the ocean’s resources, strengthening controls to deal with intrusion of foreign ships, and protection of the environment. The reference to “other countries,” which troubled some LDP members, survived in the final document, but language referring to securing Japan’s “interests” was included.

From March 22-24, the LDP’s former Secretary General Nakagawa Hidenao accompanied by former Defense Minister Koike, visited China and met Tang Jiaxuan and Vice Foreign Minister Wang Yi to exchange views on the East China Sea.

Advancing the Hu visit

On Feb. 18, the Foreign Ministry in Tokyo announced that State Councilor Tang Jiaxuan would visit Japan Feb. 20-24 and meet Prime Minister Fukuda and Foreign Minister Komura to discuss details of Hu’s anticipated spring visit to Japan. Tang also took up the increasingly contentious dispute over poisoned *gyoza* imported from China. With Fukuda, Tang proposed the building of a liaison structure that would provide for cooperation to ensure food safety, which Fukuda defined as “a matter of grave concern for both countries.” Tang also said that both sides should “not let this incident affect Japan-China relations as a whole” and pledged that China would deal with the issue “in a responsible manner.” Later, in a meeting with Democratic Party of Japan President Fukushima Mizuho, Tang acknowledged that the *gyoza* incident was a “serious matter” and offered his apologies. Tang said that China is carrying out a “thorough examination” and “with Japan will carry out reciprocal investigation.”

Chief Cabinet Secretary Machimura observed that the purpose of Tang’s visit was to make wide-ranging preparations for the Hu visit. While there were many things to be discussed, not all could be taken up in Hu’s meeting with the prime minister. For example, there were discussions over adulterated food and the East China Sea, which were best left to the working level or senior officials. Discussions with the prime minister should be conducted from a high strategic perspective.

The *Mainichi Shimbun* reported that Tang had sounded out Japanese officials on the prospects for a Hu visit starting on April 20. In response, the government began preparations that would include an audience with the emperor and a speech at Tokyo University. On Feb. 29, Foreign Minister Komura told reporters that he did not think the dates of the Hu visit would be determined by any findings from the ongoing *gyoza* investigations. On March 4, Fukuda took a similar line. However, the next day the *Sankei Shimbun* reported a senior government official had expressed his concern that the *gyoza* dispute would not produce a welcoming environment in Japan and would lessen by 50 percent the results of the pending visit.

Meanwhile, the dispute over the poisoned dumplings intensified, with each side accusing the other of being at fault, either in not accepting responsibility for the incident or failing to use proper testing methods in their respective investigations. At the same time, the government's calendar began to fill up. Korea's newly elected President Lee Myung-bak was scheduled to stop in Tokyo April 21-22 on his return from Washington. Soon the press was reporting that Hu's visit would be postponed until mid-May.

On March 4, when asked about Hu visiting Japan during the cherry blossom season, Chief Cabinet Secretary Machimura replied that the cherry trees bloom in February on Okinawa and in May on Hokkaido; he assured reporters that Hu would visit Japan at an "appropriate time." Two days later, Vice Foreign Minister Wu Dawei told the *Yomiuri Shimbun* that "May was still springtime." Wu went on to say that the leadership in both countries is engaged in developing 21st-century relations from a long-term, strategic perspective" and the *gyoza* incident would not affect this effort. Wu observed that in both countries investigative efforts were underway and that it was premature to judge the results of the investigations.

Meeting with the Japanese press at the Chinese embassy on March 11, Ambassador Cui, touching on the East China Sea issue and the *gyoza* controversy, said that their resolution should not be linked to the pending Hu visit. While expressing his understanding that the *gyoza* incident had nothing to do with food safety but was the result of human actions, the ambassador acknowledged that Chinese and Japanese police authorities had yet to determine the source of the incident. As for the delay in announcing the schedule for the visit, the ambassador asserted that it had "no relation" to the outstanding issues and, in all likelihood, would be released shortly.

Tibet and the Hu visit

In mid-March, unrest in Tibet played into Japan-China relations. Concern with the safety of Japanese citizens in Tibet caused the Japanese embassy in Beijing to request a visa to allow diplomats to travel to Lhasa. The Chinese Foreign Ministry, however, turned down the request on the grounds that Tibet was a domestic issue. Foreign Minister Komura told the Upper House Budget Committee that it will be difficult for diplomats to gain entry into Tibet, even if foreign citizens suffered no injury there.

Tibet also played into the planning for the Hu visit. At a March 17 news conference, Vice Foreign Minister Yabunaka told the press that "Basically, the riots have nothing to do with the visit." An unidentified official involved in the planning of the Hu visit was quoted in the *Yomiuri* as saying "We don't want to make waves at this point in time in connection with relations with China." But, on March 18, Fukuda expressed his concern and asked that both the Chinese authorities and those participating in the demonstrations act in a calm and appropriate manner. Foreign Minister Komura took a more critical position. While acknowledging the unrest was an "internal problem," he thought it "only natural for the international community to take interest in human rights issues." He said China should be "more transparent about its own account, as well."

The Japanese media asked if Tibet would be raised during the Hu visit. When Komura indicated that it would be, the press asked Chief Cabinet Secretary Machimura what message he would

like Japan to send. He replied that “if that’s what the foreign minister has indicated, that’s the way it will be. Beyond that I’m not thinking about any specific message.” Meanwhile, Komura made it clear that Japan would not boycott the Beijing Olympics, but that he would like to see the Olympics produce behind the scene results.

In Beijing, during a March 20 press conference, the Foreign Ministry’s deputy spokesperson said that he had not heard talk that Tibet would influence the Hu visit. The visit would take place in early May, and, “as long as there was no thought in Japan to turn Tibet into a new obstacle in China-Japan relations, planning was likely to move ahead smoothly.”

The Hu visit again drew political attention at a March 24 meeting of the Upper House Budget Committee, when the prime minister was asked if Tibet would be a discussion topic during the Hu visit. Fukuda replied that he “wanted to work to build a relationship in which the two countries could discuss issues frankly, if a frank exchange of views should prove to be necessary.” Chief Cabinet Secretary Machimura, when asked whether Tibet would come up during the April 17-21 visit of China’s foreign minister, replied that he was not at all thinking that the topic should be completely left off the agenda.

Gyoza

On Jan. 31, Deputy Vice Foreign Minister He Yafei met in Tokyo with Foreign Minister Komura. Among the issues discussed was food safety. In Chiba, a family fell ill after eating *gyoza* imported from China, and the *gyoza* issue came to dominate Japan’s front pages in early February. The *gyoza* were found to contain a high-level of the pesticide methamidophos, at levels 100 to 400 times greater than that allowed under Japanese health standards for imported Chinese cabbage, indicating that it was not residue from cultivation but had been introduced during the production or distribution process.. Police in Hyogo prefecture reported a 3 millimeter hole in a package of dumplings that caused the family to become ill after eating. On Feb. 2, *Kyodo News* reported 1,088 cases of claimed poisoning in 38 of Japan’s Prefectures.

The suspect *gyoza* packages were traced to Tianyang Foods located in Hebei province, where they were produced on Oct. 1 and Oct. 20, 2007. Beijing carried out a preliminary inspection of the factory site, but found no evidence of pesticides. At the same time, Tainyang was ordered to cease production and to recall its products from both domestic and foreign markets. The suspect *gyoza* was imported into Japan by JT Foods, a subsidiary of Japan Tobacco. Japan’s Minister of Health, Labor and Welfare Masuzone Yoichi announced “This is a life-threatening matter” and told consumers to “please check your refrigerator and never eat the food products.” Sales of Chinese food products plummeted in Japan.

In China, Cheng Fang, head of the Hebei Inspection and Quarantine Bureau, told a press conference that the factory did not use the pesticide found in the suspect dumplings. Samples were taken of dumplings produced within 11 days of the Oct. 1 and Oct. 21 dates and “no problems” were found in either the ingredients or production process. Investigations would continue to find out “how the harmful pesticide found its way into the product....”

On Feb. 3, Beijing dispatched a five-man team of experts to Japan, led by Li Chunfeng, vice director of the Import and Food Safety Bureau at the General Administration of Quality, Supervision, Inspection and Quarantine. Li told reporters that “by cooperating closely with the Japanese side, we would like to swiftly reach a scientific conclusion.” In the meantime, Li called for “objective and fair reporting” from the media. The next day, Li’s team met with officials from Japan’s Health, Labor and Welfare Ministry and Cabinet office. Hotta Shigeru, a senior official from the Cabinet office, emphasized the importance of bringing the issue “under control immediately, as it has become a major public concern in Japan.” Both sides underscored their interest in cooperating to produce an early resolution of the matter.

After three rounds of talks with Japanese officials, Li told reporters at a joint press conference that he believed that the dumplings had been contaminated during distribution and not at the Tainyang factory. Li asserted that the factory’s strict quality control measures made it almost impossible to have introduced the pesticide during the production process. Li again spoke to the safety of Chinese products, noting 1 billion Chinese would eat *gyoza* during the Chinese New Year celebration and that he would be one of them.

On Feb. 5, Foreign Minister Komura told the Upper House Budget Committee that, while a firm conclusion had not yet been reached regarding responsibility for the incident, an investigation team would be dispatched to China to assist in identifying the source of the problem. That same day, Yoneda Tsuyoshi, director general of the Criminal Affairs Bureau of the National Policy Agency made clear that it was “necessary for us to cooperate with China and announced that efforts at coordination had been put in motion. Nevertheless, the *Mainichi Shimbun* quoted a senior policy official as saying “I wonder to what extent Chinese authorities will disclose to Japan information disadvantageous to their country.” On Feb. 6, the Japanese inspection team, headed by Taiji Harashima, of the Cabinet office’s Consumer Policy Division toured the Tainyang factory. Afterwards, he told reporters that “the factory was clean and well kept” and that the team “did not find any problems during our tour.” And so, the mystery deepened.

On Feb. 10, Finance Minister Fukushiro Nukaga met his Chinese counterpart Xie Xuren during the meeting of the G-7 finance ministers. Both agreed that the *gyoza* issue should not be allowed to harm accelerating favorable trends in the bilateral relationship. Meanwhile, reports of contaminated *gyoza* packages, some with small holes in the packaging, others with a slick residue coating on the surface, continued to pour in from across Japan. After reviewing reports of hospitalization from possible food poisoning, Japanese health officials confirmed that the number of people who had suffered from organophosphate poisoning stood at 10.

In China Vice Minister Wei Chuanzhong of the General Administration of Quality Supervision Inspection and Quarantine told reporters that in the process from production through export the possibility of someone contaminating the *gyoza* was “exceedingly small.” Wei also said that inspections at the factory site had failed to yield any clues as to the cause of the incident. Beijing labeled Japanese assertions that the pesticide had been deliberately introduced in China as “unscientific” and “irresponsible.” Looking at declining production figures, the Tianyang factory manager, after again rejecting the possibility that the pesticide was introduced at the factory, asserted that those who suffered overwhelming loss were his employees.

On Feb. 21-22, Japanese and Chinese officials met in Tokyo to exchange information. Asked to comment on Japanese judgments that there was “almost no possibility” of the *gyoza* being adulterated in Japan, a Chinese official was quoted as saying that it was too early to reach that conclusion. Similar exchanges marked the Feb. 25-27 visit to Beijing by Ando Katshuharu, the vice director of Japan’s National Policy Agency, with the Chinese sticking to the line that the possibility of the pesticide being introduced in China was “exceedingly small.” The visit, however, did produce agreement between police authorities to cooperate toward an early resolution of the issue, to exchange information and evidence to accelerate the investigations, and to work in strict confidence.

Despite expressions of cooperation and good intention, the situation soon deteriorated after Ando’s return to Tokyo. On Feb. 28, Yu Xinmin, a high-level investigator in the Public Security Ministry, announced that after extensive tests, inspections, and interviews at the factory site “We believe there is little chance of putting methamidophos into the dumplings in China.” The Chinese police believed that the incident was not result of “tainted raw materials” but “caused by man-made factors.” While refraining from saying whether he thought the pesticide had been introduced in Japan and acknowledging that the Japanese police thought it “highly unlikely,” Yu went on to say “we have convincing evidence supporting our conclusion and so do the Japanese police.” He also alleged a lack of cooperation from the Japanese police, saying “we regret the police authorities of Japan not only refused our request to inspect the scene and the relevant material evidence...but also gave no comprehensive introduction on how they collected and examined the evidence.”

In Tokyo, National Police Chief Hiroto Yoshimura replied “We have provided all the documents that we thought would be helpful to China and I do not understand why I have to hear the word regret.” As for evidence requested by China, Yoshimura explained that “we are ready to provide them if a request is filed by the Chinese side in order to identify the suspect and build a criminal case.”

Asked about the Chinese position on pesticide introduction, Fukuda told reporters on the evening of the Feb. 28 that China’s willingness to cooperate with Japan in a thorough investigation was “very forward looking.” The prime minister thoroughly felt that China too wanted to find the cause of the incident and those responsible for it. Earlier, looking toward the Hu visit, Machimura said that he wanted the Chinese side to understand that it was necessary to cooperate to make it a success. Addressing Chinese complaints about Japan’s cooperation in the *gyoza* investigation, Machimura replied “China is not producing documents which Japan can trust.”

In addition to not being able to determine where the pesticide was introduced, questions also arose on the results of the testing done by both sides, which produced different conclusions. China’s Public Security Ministry said that after extensive testing of the pesticide and the plastic bags used in packaging, China’s conclusion that the pesticide was externally introduced “better reflects the truth.” The data showed that “the safety of Chinese goods is fully guaranteed.” The Chinese conclusion produced a strong reaction in Japan’s National Police Agency where it came as an “unexpected development” – one not seen as “a plus in resolving the problem.”

The downward spiral resulted in the postponement of the scheduled March 2 visit of Li Changjiang, the director of the General Administration of Quality, Supervision, Inspection and Quarantine. Meanwhile, former Minister of Economics and Industry Hiranuma told a *TBS* broadcast that the government should be “resolute” in maintaining a position that the pesticide was not introduced in Japan but in China.

A week later on March 10, a liaison conference of ministries involved in the *gyoza* incident opened in the Cabinet office. Press reports of the meeting noted that of the 20 items requested by Japan’s investigators during their tour of the Tianyang factory, China had provided three. The media characterized China’s response as “close to zero.” Pressed on the issue the next day, Fukuda said that the issue had been raised on every occasion, that some items had been supplied, and that he would like to see the remainder sent quickly in order to resolve the issue. Additional documents arrived on March 13, but were not in complete compliance with Japan’s requests. Minister for Consumer Affairs Kishida Fumio announced that the contents would be carefully examined and, if not adequate, Japan’s requests would continue.

Security/Taiwan

On March 13, Takamizawa Nobushige, director general of the Defense Policy Bureau, Ministry of Defense, met with the LDP’s Security Research Panel to review the ministry’s analysis of Chinese military trends. Asked how Japan would respond to a Taiwan Straits contingency, Takamizawa replied that “such an event would be a serious matter, and before determining whether it would be defined as a regional contingency, the SDF would naturally step up intelligence gathering activities. This would not be an alliance problem, but one of Japan’s security.” Takamizawa went on to say “if I was asked by China, would you recognize this as a contingency in areas surrounding Japan, my answer would be naturally.”

Takamizawa’s words raised questions as to whether he was referring to a “contingency in areas surrounding Japan,” a condition in which Japan had committed to provide rear area support for the United States. Upon returning to the ministry, he endeavored to clear up any confusion, telling an evening press conference that the government’s position had not changed, but that his words were inadequate. “I did not talk about the recognition of a contingency in areas surrounding Japan,” he told reporters. Rather, he explained that in the event of a China-Taiwan contingency, Japan should “strengthen warning and surveillance activities.” He pointed out that a “regional contingency is not a geographic concept” and that a China-Taiwan crisis would “not automatically extend to a regional contingency.” If it would lead to military action, Japan would naturally strengthen its intelligence gathering.” He apologized that his insufficient explanation had resulted in misunderstanding.

The next day, Minister of Defense Ishiba Shigeru acknowledged that parts of Takamizawa’s statements “could not help but give rise to misunderstanding.” Ishiba told reporters that “of all people, Takamizawa should well know that ‘regional contingency’ is not a concept that makes a specific region its target.” Noting that Takamizawa had already apologized for causing any misunderstanding, Ishiba concluded that he did not think there was “any problem.”

Outlook

Planning for the Hu visit should keep the relationship on track at least through early May. Afterwards, the Japanese will be looking for progress on the East China Sea and food safety. Looking ahead, a key question from Tokyo's perspective will be what Hu can deliver.

Chronology of Japan-China Relations January-March 2008

Jan. 4, 2008: Prime Minister Fukuda Yasuo visits Ise Shrine.

Jan. 5-6, 2008: Japan-China Joint Commission on the Study of History meets in Beijing.

Jan. 7, 2008: Chinese author Yang Yi nominated for Akutagawa literary prize given to new fiction authors writing in Japanese.

Jan. 9, 2008: Tokyo Governor Ishihara Shintaro invited to Beijing Olympics.

Jan. 10, 2008: Japanese military attaché in Beijing questioned by Chinese police following visit to massage parlor.

Jan. 16, 2008: Foreign Minister Komura Masahiko hosts Japan-Mekong Ministerial Meeting; Japan pledges \$6 billion aid package.

Jan 16, 2008: Japanese Consul General in Shanghai, after visiting Nanjing Memorial Museum, expresses concern that exhibits could give rise to anti-Japanese feelings.

Jan. 17, 2008: Chinese youths injured by chemical weapons abandoned in China by the Imperial Army sue Japanese government seeking ¥66 million in compensation.

Jan. 18, 2008: FM Komura in a speech to the Diet defines policy toward China as pursuing “a mutually beneficial relationship based on common strategic interests.”

Jan. 22-23, 2008: Vice Minister of Defense Masuda Kohei visits Malaysia.

Jan. 23, 2008: Chinese internet service Baidu.com begins offering service in Japanese.

Jan. 30, 2008: Japan, China, Korea Policy Forum holds its first meeting in Tokyo. Former Prime Minister Nakasone Yasuhiro and Chinese and Korean ambassadors attend.

Jan. 31, 2008: Deputy Vice Foreign Minister He Yafei meets FM Komura in Tokyo to discuss food safety and contaminated *gyoza* issue.

Feb. 3, 2008: China sends expert team to Japan to discuss contaminated *gyoza* issue.

Feb. 5, 2008: Tokyo police arrest three Chinese and one Japanese in connection with amphetamine smuggling.

Feb. 6, 2008: Japanese inspection team travels to China to visit Tianyang *gyoza* factory.

Feb. 10, 2008: Finance Ministers Nukaga Fukushiro and Xie Xuren meet and agree not to allow *gyoza* controversy to impair development of bilateral relations.

Feb. 10, 2008: FM Komura calls attention to China's military build-up and lack of transparency in an address at the Munich Conference on Security Policy.

Feb. 13, 2008: Financial Services Minister Watanabe Yoshimi welcomes Chinese sovereign wealth fund investment in Japan.

Feb. 14, 2008: Toyota Motor Corp. President Watanabe Katsuaki announces plans to build new plants in China and India.

Feb. 20-24, 2008: State Councilor Tang Jiaxuan visits Japan to advance visit of President Hu and meets PM Fukuda and FM Komura on Feb. 21.

Feb. 21, 2008: LDP Special Committee on Ocean Policy meets to discuss government's draft plan on ocean policy.

Feb. 21-22, 2008: Japanese and Chinese police officials meet in Tokyo to exchange information on the contaminated *gyoza* issue.

Feb. 22-23, 2008: Vice FM Yabunaka Mitoji visits China meets with Vice Minister Wang Yi to discuss resolution of East China Sea issues.

Feb. 25-27, 2008: Investigators meet in Beijing to discuss contaminated *gyoza* issue.

Feb. 26-29, 2008: Japan's Chief of the Self-Defense Forces Saito Takashi visits China.

March 2, 2008: Visit of China's Director of the General Administration of Quality, Supervision, Inspection and Quarantine is postponed.

March 3, 2008: Fukuda Cabinet adopts basic plan on ocean policy.

March 4, 2008: China releases \$45 billion 2008 defense budget.

March 5, 2008: China's National People's Congress opens in Beijing. Premier Wen's work report touched on issues related to food safety.

March 10, 2008: Cabinet Liaison Conference on food safety meets in Tokyo as reports circulate of China's failure to provide requested information and documentation regarding the *gyoza* issue.

March 13, 2008: Ministry of Defense Director of Defense Policy Bureau Takamizawa Nobushige discusses Taiwan contingency with LDP's Security Research Council.

March 17, 2008: Vice FM Yabunaka, addressing unrest in Tibet and Hu visit, says riots have little do to with the Hu visit.

March 18, 2008: PM Fukuda expresses concern over developments in Tibet and his hope that Beijing and the demonstrators will conduct themselves in a calm and appropriate manner.

March 23, 2008: Finance Ministers Nukaga and Xie meet in Tokyo to discuss regional and global issues and bilateral cooperation.



Japan-Korea Relations:
Inaction for Inaction

David Kang, Dartmouth College
Ji-Young Lee, Georgetown University

Despite the change in Japanese leadership from hard-liner Abe Shintaro to the more dialogue-oriented Fukuda Yasuo, this quarter's Japan-North Korea relations were largely uneventful and produced little progress. Tokyo criticized Pyongyang for missing the year-end deadline for declaring all its nuclear programs and facilities, urging North Korea to make a "political decision" to fulfill its commitment under the Six-Party Talks agreement. Pyongyang reiterated that Japan should be excluded from the talks, and blamed Japan for the U.S. failure to remove Pyongyang from its list of state sponsors of terror. North Korea asserted that there would be no improvement in their bilateral relations as long as Japan continues to press resolution of the abduction issue on Pyongyang. By mid-March, Tokyo had decided to extend economic sanctions against Pyongyang for another six months after they expire April 13, if the current situation continues with no breakthroughs. Meanwhile, with the change in South Korean leadership from a liberal-minded Roh Moo-hyun to the more conservative Lee Myung-bak, Tokyo exerted diplomatic efforts to bring South Korea closer to Japan by trying to form a united front between Japan, South Korea, and the U.S. against North Korea.

Japan-North Korea relations: more of the same

North Korea missed the deadline for producing a full account of its nuclear programs, which set the tone for the quarter's bilateral relations; new opportunities that emerged during the last quarter of 2007 with Fukuda's inauguration did not materialize. Last quarter's small signs of Tokyo-Pyongyang détente were short-lived, and the near absence of bilateral interactions turned the clock back to the chilled relations of the past few years. Japan remained skeptical of Pyongyang's willingness to cooperate and regarded its failure to meet the deadline as being typical of North Korea.

At various times throughout the quarter, Japan reiterated its call on Pyongyang to fulfill its commitment to provide a full account of its nuclear programs. On Jan. 8, Japan's Foreign Minister Komura Masahiko told a news conference that there would be no progress on North Korea's nuclear issue "as long as North Korea does not make the political decision to give a complete and correct declaration." Japan joined the U.S. in claiming that they would not accept a partial declaration. In February, Prime Minister Fukuda expressed his "disappointment" over the stalled Six-Party Talks, but again emphasized his willingness to tackle the diplomatic hurdles between the two countries. In March, top negotiators of the Six-Party Talks, Christopher Hill of

the U.S. and Akitaka Saiki of Japan, made another joint request that Pyongyang act as soon as possible.

If Japan's attitude toward Pyongyang's missed deadline was its business-as-usual skepticism, North Korea played its part in making this quarter's developments the same old story by repeating the same criticisms of Japan, focusing on the usual past misdeeds. The official *Minju Joson* criticized Japan on March 23 for its failure to apologize and compensate the "comfort women" from World War II, and reiterated that Japan-North Korea relations will not improve as long as Japan continues to link their improvement with the abduction issue.

On March 15, Japan's Chief Cabinet Secretary Machimura Nobutaka said during his meeting with the families of those abducted by North Korea that the Japanese government would extend economic sanctions against the North for another six months "unless the attitude of North Korea changes for the better." Japan banned port calls by the ferry *Mangyongbong-92*, and imposed comprehensive financial sanctions on Pyongyang after North Korea conducted missile tests in July 2006 and the nuclear device detonation in October the same year. As a result, official economic activities between Japan and North Korea have been close to nil under these sanctions. Japan's Metropolitan Police Department arrested three men on suspicion of illegally importing North Korean sea urchins by disguising them as a product originating from the PRC.

Japan-South Korea relations: so far, so good

The highlight of this quarter for Japan-South Korea relations was a 50-minute summit meeting between Prime Minister Fukuda and President Lee on the day Lee was sworn in as South Korea's president on Feb. 25. Fukuda, who led a large party of delegates from Japan, was the first leader to meet with Lee following his inauguration. The two leaders agreed to resume bilateral FTA talks, to strengthen coordination with the U.S. to press for North Korea's denuclearization, and to take a future-oriented approach toward the historical issues that have bedeviled the two countries. Although much hinges on how Tokyo and Seoul handle the more substantive aspects of these diplomatic issues, the new leadership in Japan and South Korea seems to have opted for a more cooperative relationship, and certainly the rhetoric has become much warmer.

Overall, the quarter's developments showed that there is strong political will on the part of both Tokyo and Seoul for better bilateral ties and that both sides recognize the benefits that could come from such relationship. There were at least three issue areas that were on the bilateral agenda: more concerted efforts with Washington to effectively deal with North Korea, resumption of bilateral FTA talks, and a forward-looking relationship that goes beyond the past.

First, Tokyo hopes to use better Japan-South Korea ties to push Japan-North Korea bilateral issues forward by bringing Seoul's foreign policy closer to that of Japan. During the Fukuda-Lee summit, Fukuda proposed closer coordination between Japan, South Korea, and the U.S. in their bid to denuclearize the North. Soon after the summit, Foreign Minister Komura appeared on the Japanese TV network *NHK* and stressed that there was no difference between President Lee's North Korea policy and that of Japan, and said that Tokyo and Seoul sent the same message to Pyongyang.

Compared to the previous Roh government, it is clear that President Lee's professed foreign policy goals of "global diplomacy" and "pragmatic inter-Korean relations" resonate better with those in Japan as they seek to surpass ideological differences for tangible economic and diplomatic benefits. Just as importantly for Japan-South Korea relations, Lee stressed that his government would place special importance in strengthening the U.S.-ROK alliance, which underwent a rocky period under the former Roh government. In that light, although Tokyo does not seem to expect that the new South Korean government would change its existing dialogue-oriented policy on North Korea overnight, it found Lee's approach of providing economic assistance conditional upon the progress in the Six-Party Talks more reassuring. However, it remains to be seen whether South Korea will join Japan's attempt to form "a united front against North Korea" between Japan, the U.S. and South Korea, given the complex domestic political situation within South Korea.

Second, the Fukuda-Lee summit gave significant political impetus to stalled FTA talks that have been halted for three years because of disputes over the opening of agricultural markets. During the summit, Fukuda and Lee agreed to begin preliminary discussions on resuming negotiations for an economic partnership agreement. President Lee has consistently advocated ratification of an FTA with the U.S. as well as with Japan. In a February meeting with 10 Japanese lawmakers led by former Secretary General of the LDP Koichi Kato, then President-elect Lee suggested an FTA between Tokyo and Seoul as one of the ways to improve bilateral relations.

A third area of agreement between Fukuda and Lee was a decision to resume annual exchange visits by the two countries' leaders, the so-called "shuttle diplomacy." Lee agreed to visit Japan on April 20-21 and Fukuda is expected to make a return visit in the second half of this year. Given that the past record indicates the success or failure of such shuttle diplomacy tended to depend on how Tokyo and Seoul approached historical issues, Lee's announcement that the South Korean government would not demand that Japan apologize for colonization gives some hope for improved relations. Lee's predecessor, President Roh, and former Prime Minister Koizumi initiated shuttle diplomacy in 2004, but it was suspended the following year as Tokyo-Seoul relations grew bitter over historical issues based primarily around Koizumi's visits to Yasukuni Shrine and the vehement South Korean reaction to those visits.

Strong political will for improving bilateral relations was emphasized in President Lee's speech commemorating the "March 1st Independence Day Movement," a day celebrating the Korean public's 1919 protest against Japanese colonial rule. Given that a South Korean president's Independence Movement Day speech is always considered a gauge of bilateral relations between Tokyo and Seoul, Lee's emphasis on pragmatic diplomacy rather than on Japan's need for "heartfelt apology and corresponding action" marked an important departure from former President Roh. While Roh's addresses tended to *preach* to Japan a lesson about history, Lee warned of the danger of "being trapped in the past," and asked "how long should we be stuck in the past when there is so much to do together?" For his part, Prime Minister Fukuda emphasized the importance of "acknowledging past facts as facts and to face history humbly by always thinking how others think."

Despite Lee's announcement that he would not seek apologies from Japan over its past of colonization, dissension was also heard. On Jan. 18, the day after one of Lee's statements, South Korea's political parties lashed out at him for his remarks. While the pro-government United New Democratic Party demanded that Lee immediately retract his "thoughtless comment" and publicly apologize, the Liberty New Party criticized Lee's comments by asking if Lee was willing to sacrifice the nation's pride for his so-called pragmatic diplomacy. The progressive Democratic Labor Party called Lee a "dangerous leader with a distorted historical view."

Yet, Emperor Akihito's congratulatory message to Lee – which was not sent to Roh – brought a welcome response from South Korean major dailies. The *Joongang Ilbo* on Feb. 27 also interpreted Prime Minister Fukuda's visit to the restored river in downtown Seoul (Chungyecheon) on the first day of his visit to Seoul as a sign of respect for President Lee, who had overseen the river's revitalization while mayor. It was also reported that the joke among South Korean diplomats was that the Japanese seem to like President Lee more than the Koreans themselves.

The major South Korean dailies also pointed out that the fundamentals of bilateral ties remained largely unchanged. They argued that assuming that bilateral ties will automatically improve simply because of a change in South Korean leadership was equal to placing sole blame for rocky bilateral relations on Roh, when, in fact, Japan played an equally significant part. Korea has one of the most vocal democracies in the world, and leaders respond to their constituents as well as external events. In that light, the *Korea Times* on Feb. 29 warned President Lee that his policies could alienate him from the South Korean public should it fail to bring concrete results.

In Japan, the conservative daily *Yomiuri Shimbun* featured an equally skeptical article titled "Seoul ties thawing but can always get cold" on Feb. 28, and noted that the two leaders during their summit did not include any key policy issues in an effort to create an amicable atmosphere. On a cautionary note, the daily also reminded readers that the beginning of former President Roh's presidency also heralded promise, and at the time appeared to bring Roh and Koizumi closer with almost identical promises of a "future-oriented" relationship, but it failed. Other dailies such as the *Japan Times* focused on possible changes in Japan-North Korea relations boosted by the inauguration of pragmatic, conservative Lee in the office, cautiously raising hope of a united front between Japan, South Korea, and the U.S. against North Korea.

In a rare official move on the part of the South Korean government, the issue of granting suffrage to South Koreans residing in Japan again surfaced this quarter. Japan's Democratic Party of Japan leader Ozawa Ichiro, in a meeting with President-elect Lee on Feb. 21, promised that he would try to ensure ethnic South Koreans would be granted the right to vote in local-level elections. During their meeting, according to DPJ members, Lee sought the issue of local suffrage for South Koreans upon request from the Korean Residents Union (*Mindan*). On March 10, South Korean Foreign Minister Yu Myung-hwan brought up the issue during his meeting with Ota Akihiro, president of New Komeito, the third largest party in Japan and part of a ruling coalition with the LDP, which has been known to advocate such policy.

Economic and cultural relations: ever deepening integration

As the political relationship thawed between Tokyo and Seoul, the good news of the quarter was momentum to resume the FTA talks. Japan's *Nihon Keizai Shimbun* reported on Feb. 8 that the Japanese government hoped to reopen free trade negotiations after South Korea's April 9 parliamentary elections. Japan-South Korea FTA talks started in Dec. 2003, but were suspended after Japan rejected South Korea's demand to open 90 percent of its agricultural market and South Korea's car industry opposed the deal.

Amid the ever-growing current account deficit in South Korea, Seoul decided to make diplomatic efforts to address its growing trade deficit with Japan. According to *Choson Ilbo* on March 6, during Lee's visit to Tokyo in the late-April, South Korean government and business leaders will formally ask Japan to cooperate in reducing Seoul's trade deficit with Tokyo. South Korea's Ministry of Knowledge Economy (now there's an awkward English name!) and the Federation of Korean Industries launched a task force to study concrete measures to overhaul the materials and components industry because the industry accounted for more than half of South Korea's trade deficit with Japan. According to Bank of Korea data, South Korea posted its biggest monthly deficit in almost 11 years in January 2008. The seasonally adjusted current account deficit widened to a provisional \$2.03 billion in January, the biggest since \$2.21 billion deficit in February of 1997. The annual deficit with Japan has snowballed every year, reaching \$24.44 billion in 2004 and \$29.88 billion in 2007.

According to South Korea's Ministry of Commerce, Industry and Energy, the international competitiveness of South Korea's digital electronics industry increased in 2007, due in large measure to high quality. A survey of 32 products including digital TVs, mobile phones, display panels, next-generation fuel cells, and robots showed South Korea's technical competitiveness moving up an average 3 to 5 percent points on-year.

Against this backdrop, the trends of ever-deepening simultaneous cooperation and competition between South Korean and Japanese firms were more pronounced during this quarter. On Feb. 26, Sony announced a plan to jointly produce liquid crystal display panels with Sharp Corp. The decision was largely viewed in Japan and South Korea as Sony's bid to replace South Korea's Samsung Electronics as the global leader in the LCD TV market. Currently, Sony ranks second in global shipments of LCD TVs with a 17.1 percent market share, after Samsung's 18.7 percent. Sharp comes in third with 11.7 percent. According to the *Asahi Shimbun* of Feb. 27, Sony and Sharp will establish a joint venture in April 2009 and start operations in fiscal year 2009. Sony plans to invest more than ¥100 billion to acquire a 34 percent stake in the joint venture, while Sharp will hold the remaining 66 percent.

According to the South Korean daily *Choson Ilbo* of Feb. 25, Sony's decision was bad news to Samsung. Sony and Samsung have jointly produced LCD panels since 2003, investing ₩2 trillion to set up an S-LCD factory in South Korea's Tangjeong. According to the same daily, a Samsung Electronics executive said that it need not worry for now because of the high demand for LCDs, but that it could become a problem in two or three years. Meanwhile, South Korea's LG Electronics confirmed a report that it will buy LCD panels from its Japanese rival Sharp to

meet the growing global demand for flat-panel TV sets. LG Display is the world's second-largest LCD panel supplier after Samsung Electronics.

Competition between Japanese and South Korean carmakers for the South Korean car market seems imminent, as Japanese carmaker Toyota announced its plan to sell its Toyota brand in addition to the luxury brand Lexus in Korea next year. According to Toyota chairman Cho Fujio, Toyota will offer cheaper imported cars to South Korean consumers with an aim of 500 unit sales a month at first and 1,000 as soon as possible. The launch is likely to heat up competition in not only the import car market but also with domestic South Korean manufacturers such as Hyundai and Kia. Currently, Japanese carmaker Honda dominates the South Korean import car market, selling 7,109 cars last year based on three models of the CR-V, Accord, and Civic.

On the monetary front, the Korean *won* continued to weaken against the U.S. dollar and the Japanese *yen*. As the *yen/won* exchange rate soared, the weak *won* brought "a mixed blessing" for South Korean firms. Export-driven local IT companies, and local car manufacturers and shipbuilders became more competitive in the global market, while airlines, food makers, and oil refiners have been suffering from the weak *won*, as they had to pay more to import raw materials. Accordingly, the Bank of Korea decided to temporarily extend the maturity of *yen*-dominated loans as part of its efforts to protect corporate borrowers from the surge of the Japanese currency on the Seoul market.

Cultural integration between Japan and South Korea has been deepening in recent years, and during this quarter, the "Japanese Wave" in South Korea has received attention. Since the South Korean government lifted a ban on the sale of Japanese cultural products in 1998, the *Korea Times* reported on Feb. 21 the difficulty of "ignoring the growing Japanese trend" in Seoul. The *Yomiuri Shimbun* featured an article on March 19, "South Korea awash with Japanese pop culture," and noted that South Korean young people are swept up with interest in Japanese pop culture, including *manga*, novels, films, and "cosplay" cafes. According to the daily, of 4,095 *manga* published in South Korea in 2006, about 70 percent were translations of Japanese *manga*. Of the 100 best-selling books at Kyobo Book Center, the biggest in Seoul, the number of Japanese novels rose from 15 in 2003 to 42 last year, exceeding the number of South Korean novels on the list. It also commented that the Korean Wave was on decline because it had relied heavily on the popularity of a handful of actors.

In an important step toward historical reconciliation between Seoul and Tokyo, the remains of 101 Korean military conscripts who died during World War II were returned to South Korea from Yutenji Temple in Tokyo on Jan. 22, followed by a state memorial ceremony attended by high-ranking diplomats from both countries. The Japanese government invited 50 South Korean family members to attend the ceremony and provided about \$300 in condolence for each family. The South Korean ambassador to Japan called the repatriation of the remains a "valuable start to heal historical wounds." Former Prime Minister Koizumi promised former President Roh that Japan would assist Seoul's efforts to address the forced labor issue.

The coming quarter

With the summit between President Lee and Prime Minister Fukuda to take place in April, there is the possibility that relations between South Korea and Japan could further improve in the coming quarter. This could include restarted negotiations over the FTA, other aspects of economic cooperation, and attempts to deal with history. It remains to be seen how deep is the desire between both Lee and Fukuda to take the steps to elevate Japan-South Korea relations to a genuinely improved level, and how much domestic opinion at home will support or constrain both leaders. As to Japan-North Korea relations, much will depend on progress in the Six-Party Talks, and on North Korea and U.S. negotiations over their issues. Dramatic improvement, although always possible, at this point appears unlikely, given North Korea's apparent willingness to stall until the next U.S. president takes office early in 2009.

Chronology of Japan-Korea Relations January-March 2008

Jan. 7, 2008: Japan and the U.S. urge Pyongyang to submit "complete and correct" declaration of its nuclear programs and facilities.

Jan. 15, 2008: South Korea's Ministry of Commerce, Industry and Energy says competitiveness of the country's digital electronics industry moved up 3 to 5 percent points in 2007.

Jan. 16, 2008: Lee Sang-duk, a special envoy from South Korea's President-elect Lee, pays a visit to Prime Minister Fukuda. According to *Choson Ilbo*, Fukuda says that Tokyo will support Seoul and cooperate in its efforts to reunify the two Koreas.

Jan. 17, 2008: President-elect Lee says that South Korea will make no demand during his presidency for apologies about Japan's colonization of the Korean Peninsula at a meeting at the Seoul Foreign Correspondents' Club.

Jan. 22, 2008: The remains of 101 South Korean military conscripts by Japan's imperial army during World War II return to South Korea from Japan. ROK government delegation and 50 family members of the victims hold a memorial service at the Yutenji Temple in Tokyo. Japanese Foreign, Health, and Labor Ministry officials attend.

Jan. 29, 2008: Japan reiterates its call on North Korea to fulfill a commitment to provide a full account of its nuclear programs and facilities under the Six-Party Talks.

Jan. 31, 2008: North Korea's official *Korean Central News Agency* says that Japan-North Korea relations will not improve if Japan continues to make the resolution of the abduction issue a condition for better bilateral ties.

Feb. 11, 2008: President-elect Lee meets with 10 Japanese lawmakers led by Koichi Kato, former secretary general of the LDP, and discusses issues including the North Korean nuclear issue and the resumption of the FTA talks.

Feb. 19, 2008: Korean Institute of Defense Analysis hosts a trilateral South Korea-Japan U.S. security workshop and discusses nonsecurity related incidents such as rescue missions. They agree to jointly formulate plans to counter transnational disasters or accidents.

Feb. 21, 2008: President-elect Lee meets Democratic Party of Japan leader Ozawa. Ozawa promises Lee that he will try to ensure that South Koreans residing in Japan can be granted voting rights in local-level elections.

Feb. 24, 2008: Foreign Minister Komura Masahiko stresses that there is no difference between President Lee's North Korea policy and that of Japan.

Feb. 25, 2008: Lee Myung-bak inaugurated South Korea's president. During his inauguration speech, Lee emphasizes "global diplomacy," and "pragmatic inter-Korean relations" as pillars of his government's foreign policy goals.

Feb. 25, 2008: Prime Minister Fukuda and President Lee have a 50-minute summit at South Korea's presidential Blue House and agree to develop a future-oriented bilateral relationship. They also discuss various bilateral issues, including the resumption of FTA negotiations and the North Korean nuclear issue.

Feb. 26, 2008: Sony announces that it will jointly produce LCD panels with Sharp in a bid to replace Samsung Electronics as the leader in global shipments of LCD TVs.

March 1, 2008: President Lee stresses pragmatic diplomacy between Japan and South Korea during his speech commemorating the Independence Movement Day.

March 5, 2008: South Korea's Knowledge-based Economy Minister Lee Youn-ho says that the South Korean government and business leaders will formally ask Japan to cooperate to reduce the bilateral trade deficit during President Lee's summit with PM Fukuda in April.

March 10, 2008: South Korea's Foreign Minister Yu Myung-hwan asks the Japanese government to start a campaign to grant suffrage to South Koreans residing in Japan during his meeting with the leader of New Komeito Ota.

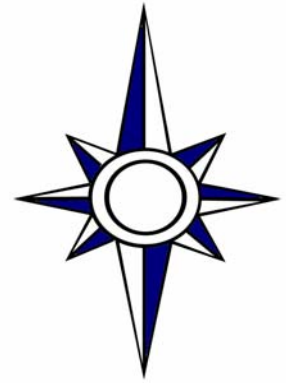
March 12, 2008: South Korea's Presidential Office announces that President Lee will visit Tokyo on April 20 to hold a summit with Prime Minister Fukuda on April 21.

March 15, 2008: Japan's top government spokesman Machimura Nobutaka says that the Japanese government is likely to extend economic sanctions against Pyongyang after they expire on April 13 in the absence of progress in the bilateral issues.

March 17, 2008: Top Japanese negotiator to the Six-Party Talks Akitaka Saaiki and U.S. counterpart Christopher Hill agree that North Korea should provide a complete account of its nuclear programs.

March 20, 2008: Japanese carmaker Toyota announces that it will sell the Toyota brand in South Korea in addition to the luxury Lexus brand next year.

March 23, 2008: North Korea urges Japan to make apologies and compensation for the “comfort women” in the official *Minju Joson* newspaper.



China-Russia Relations:

From Election Politics to Economic Posturing

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In both substance and symbolism, the first quarter of 2008 was a transition for Moscow and Beijing in their respective domestic domains. Russia's Vladimir Putin switched roles with successor Dmitry Medvedev, but did not fade away. China's Hu Jintao sailed into his second five-year term as the next generation of China's leaders emerges. The quarter also witnessed political changes in neighboring countries with strong implications for Russia and China. South Korea inaugurated a pro-U.S. president (Lee Myung-bak) on Feb. 25. Pakistani general elections on Feb. 22 led to the victory by the opposition parties. Taiwan voters chose the pro-stability Ma Ying-jeou over pro-independence Frank Hsieh on March 22.

Beyond presidential politicking, Beijing and Moscow were confronted with a "domino" effect for self-rule. On Feb. 17, Kosova declared independence from Serbia. The fate of Taiwan remained uncertain for most of the first quarter as Beijing and Washington worked to rein back efforts by Taiwan's President Chen and the Democratic Progressive Party to move toward *de jure* independence. And, riots in Tibet in mid-March cast a long shadow over the 2008 Beijing Olympics.

Between domestic preoccupations and external challenges, Sino-Russian bilateral relations switched from hibernation in much of January and February to hyperactivity in March: leaders congratulated each other on elections and reelections; the two defense ministers set up a first-ever military hotline; and the Shanghai Cooperation Organization (SCO) worked out new areas of cooperation in personnel training and in combating arms smuggling, and stepped up cooperation with Afghanistan while trying to dampen Iran's bid for SCO membership.

"Putin puzzle" continues

Beijing closely observed the "changing" of the guard in the Kremlin in the first quarter. Putin's surprise move last December to name his successor and reposition himself focused the attention of Chinese pundits and the public. China's Russia observers were divided. They were certain about the outcome of the upcoming election, given the strong and effective steering by Putin and his team. In this regard, Putin and the thrust of his policies would not fade away. Uncertainties had two manifestations: Putin's relationship with his "boss" Medvedev and Russia's future relationship with the West, particularly with the U.S. An authoritative Chinese analyst on Russia pointed to a "structural dilemma": the West is never at ease with a strong Russia pursuing its own developmental model.

What separates Beijing and the West in their respective perceptions of Russia's leadership transition is a matter of substance vs. form. For the West, Putin's rule means Russia's departure from democracy. Beijing nonetheless sees that Putinism works for Russia. During eight years under Putin, Russia has gone from chaos to stability, fragmentation to recentralization, and poverty to initial prosperity. It is only natural for Russians to continue those policies, with or without Putin. For Beijing, Moscow seems to have finally figured out its own approach to modernity: not the West, nor the East, but somewhere in the middle – the Russian way. According to First Deputy Prime Minister Sergei Ivanov, the fact is “that never before in Russian history – either in tsarist Russia or the former Soviet Union or modern Russia – has the chief of state in good health voluntarily stepped down.” In contrast to Yeltsin's “shock therapy” – meaning many shocks without therapy – Russia has opted for a “democratic and evolutionary development without any shocks,” stated Ivanov.

Part of the “Putin puzzle” is how Russia's new team will construct its China policy. Although both sides repeatedly claimed that the current bilateral relationship is the “best” in history, such a state of affairs was achieved at a time of Russia's historical decline and China's historical rise. In the foreseeable future, Beijing will have to adjust itself to an increasingly stronger and more self-confident Russia. Over the past eight years, China has learned through firsthand experience that Putin's ability to defend Russia's national interests, including in relations with China, should never be questioned nor discounted.

Russia's current tension with the West, though not all Russia's fault, is not favored by some Chinese analysts. Guan Guihai, deputy dean of Peking University's School of International Affairs, described Russia's effort to claim the Arctic and Russian bombers flying “close-in” to U.S. carrier groups as “provocative” and even “blackmail,” which runs counter to normal behavior toward a nation that has normal diplomatic relations with Russia. At a minimum, China does not want to see another Cold War in which it may have to choose sides. Many Chinese analysts do see the possibility that a stronger and more self-confident Russia, presumably under President Medvedev, will find an appropriate place for itself between East and West.

Foreign policy coordination: from outer space to the Taiwan Strait

The end of Putin's presidency in the first quarter, however, did not seem to create any major breaks in Beijing-Moscow teamwork in international politics. The two sides continued to cooperate in major international areas including Korean denuclearization, Iran, Kosova, Taiwan, and SCO. On Feb. 12, the two jointly submitted the “Draft Treaty on Preventing an Arms Race in the Outer Space” to the plenary session of the Conference on Disarmament Talks in Geneva. The Sino-Russian proposal came during a heightened pace on the part of the U.S. to perfect its own missile defense system and space-based weapons platforms. The pending deployment of U.S. missile defense facilities in Poland and Czech Republic is part of the tension between Moscow and Washington. U.S. efforts culminated on Feb. 21 when a modified *SM-3* missile fired from the cruiser *USS Lake Erie* off the coast of Hawaii hit an “ailing” U.S. satellite travelling at more than 27,000 km per hour.

Both Russia and China dismissed the U.S. argument for why it destroyed the satellite and tended to see it as the Pentagon's effort to secure supremacy in controlling outer space. Prior to this test, the U.S. had rejected the Sino-Russian proposal against weaponization of space, saying it will oppose any legal regime or other restrictions that seek to prohibit or limit U.S. access to or use of space.

For Moscow and Beijing, U.S. efforts to secure its place in outer space are worrisome enough. Events on earth, however, more directly affected the two. In his Feb. 5 annual intelligence assessment to the U.S. Senate, National Director of Intelligence Michael McConnell listed Russia and China as threats to the U.S. in several areas including finance, cyber security, and espionage. Meanwhile, the U.S. elections make things more difficult for Moscow and Beijing in their relationships with the sole superpower. John McCain, for example, claimed that he "looked into Putin's eyes but could see there only three letters – K-G-B." Hillary Clinton went further saying "Putin does not, by definition, have a soul." On the eve of Taiwan's presidential election on March 22, the U.S. deployed two aircraft carrier groups, the *USS Kitty Hawk* and the *USS Nimitz*, close to Taiwan. At more or less the same time, on March 14, the Chinese and Russian Ministries of Defense finally opened a direct telephone line after years of negotiations.

Bilateral economic relations: highs and lows

In the past eight years, the Sino-Russian strategic partnership has considerably broadened and deepened, ironically, without a much talked about oil pipeline from Siberia to China's northeast that was initially suggested by President Yeltsin in 1994. Now, Yeltsin is dead, the pipeline is still in the pipeline, and it remains to be seen what Prime Minister Putin will do in this vital area of Russian-China economic cooperation.

A glimpse at the bilateral economic relationship shows rapidly expanding economic relations between Moscow and Beijing. The year 2007 registered the highest growth of bilateral trade: total annual trade of \$48 billion in 2007 was a 44 percent jump over the previous year. Beyond this phenomenal growth in bilateral trade were several worrisome signs, particularly in the energy sector. In 2007, Russian oil exports to China fell about 10 percent, putting Russia fourth in China's overall oil imports. To China's displeasure, the Russian oil company Rosneft demanded a large price hike, which effectively breaches its contract with China National Petroleum Corporation (CNPC) signed in December 2004 on delivery of 48.4 million tons of oil to the year 2010 for \$6 billion. Rosneft sought to revise the terms of the contract in 2007, given the steep increases in world oil prices. CNPC, nonetheless, expected Rosneft to scrupulously uphold its responsibilities under the original contract. A compromise was reached in mid-January to increase the price by \$0.675 per barrel effective November 2007. The net result is that China gets less by paying more while Russia exports less for more or the same payment. To complicate matters further, the long expected Eastern Siberia-Pacific Ocean pipeline (ESPO) has been delayed another year to September 2009.

While Russian oil shipments decline and the pipeline is delayed, proposed Russian gas exports to China also continued to stall in the first quarter. During President Putin's official Oct. 14, 2004 visit to China, Russia's Gazprom and CNPC signed an agreement on strategic cooperation in Beijing. In March 2006, Gazprom and CNPC signed a protocol on gas shipments from Russia to

China, which documented the main agreements of the schedule, volumes and routes of gas deliveries, and the principles for shaping the price formula. The first gas is to be shipped to China in 2011, and the annual gas volume is to reach 68 billion cubic meters by 2020. The parties failed to come to terms and the talks were put off until 2007. The main issue has been the “price gap” between the two sides. While the Russian side insists that its gas deliveries should be based on the “market,” which essentially means the current European gas price of \$300 for 1000 cubic meters, China is not ready to accept the Russian pricing formula.

Part of China’s current reluctance to formulate its pricing strategy for Russian gas may be its expectation that other sources of gas, particularly from Central Asian nations such as Turkmenistan, would force Russia to lower its price. The Turkmenistan-China gas line will be 7,000 km long (188 km in Turkmenistan, 530 in Uzbekistan, 1,300 in Kazakhstan, and over 4,500 km in China). It will start to deliver gas to China from Jan. 1, 2009 with an estimated volume of 30 billion cubic meters.

China’s calculus, however, may not work. On March 11, a meeting in Moscow by top gas officials of Russia, Kazakhstan, Turkmenistan, and Uzbekistan led to an agreement to sell all gas at European prices (about \$300 per 1,000 cubic meters) effective January 2009. Russian media noted that the high gas price Central Asian nations charge Russia would dampen incentives for these states to build their own gas pipelines to Europe and China, leading to a virtual monopoly of gas delivery infrastructure for Russia. And until recently, the man in charge of Russia’s gas giant of Gazprom (from 2000) was Dmitri Medvedev. Welcome to the brave new world of Medvedev.

Chronology of China-Russia Relations January-March 2008

Jan. 10, 2008: Sino-Russian trade reached \$48 billion in 2007, up 44.3 percent year-on-year and the highest annual growth since 1993.

Jan. 24, 2008: Xi Jinping, a member of the Standing Committee of the Political Bureau of the Central Committee of the Communist Party of China (CPC), meets Gennady Zyuganov, president of the Communist Party of Russian Federation in Beijing. Xi praises the recent development of the China-Russia strategic partnership, vow that China is committed to making joint efforts with the Russian side to boost the partnership. Zyuganov was in China on an invitation from the Chinese Communist Party.

Feb. 12, 2008: China and Russia submit a joint proposal for an international treaty to ban the deployment of weapons in outer space at the UN-sponsored Conference on Disarmament in Geneva.

Feb. 21, 2008: Chinese Ambassador to Russia Liu Guchang and Russian First Deputy Foreign Minister Andrei Denisov attend a ceremony commemorating release of the “Collection of Documents of Russia and China for the Period 1999-2007.” They sign a consultation plan for

2008 on behalf of the two countries' Foreign Ministries. Nearly 100 people, including Federation Council Member and former Russian Ambassador to China Rogachev, Russia-China Friendship Association Chairman Titarenko, diplomats of the two countries, and journalists, attend the ceremony.

Feb. 26, 2008: Venshtorgbank (VTB), Russia's biggest bank, opens its first Chinese branch in Shanghai. The Shanghai branch will cooperate with China UnionPay system to provide banking card services to both domestic and Russian clients. It also plans to offer RMB services within three years. VTB is the largest international banking group in Russia. Operating in 17 countries with assets of \$80 billion, VTB is however a latecomer to China's lucrative banking sector, now saturated by more than 300 foreign banks.

March 3, 2008: President Hu Jintao initiates a telephone talk with Russian President-elect Dmitry Medvedev. Hu congratulates Medvedev on winning the elections and wishes him success. He invites Medvedev to pay an official visit to China.

March 6, 2008: Russian Emergency Situations Ministry sends three *IL-76* aircraft loaded with 10 heavy-duty diesel generators and 16,500 quilts in response to the snow disaster that struck southern China.

March 11, 2008: Russia, Kazakhstan, Turkmenistan, and Uzbekistan decide to sell gas at European prices (about \$300 per 1,000 cubic meters) beginning January 2009.

March 13, 2008: In a phone talk with President Hu, President Putin calls for the continuation of the "comprehensive development of Russian-Chinese strategic cooperation." Hu thanks Putin for Russia's humanitarian aid for the snow disaster in southern China.

March 14, 2008: A direct military hot line is opened between Russian and Chinese defense establishments. Defense Minister Anatoly Serdyukov and his Chinese counterpart Cao Gangchuan hold a telephone talk and agree the direct line ensures timely consultations and coordination between the two sides on hot issues around the world.

March 18, 2008: President Putin sends a letter to President Hu congratulating him on being re-elected president of China. Putin "re-confirms Russia's intention to develop the strategic partnership with China to the benefit of our peoples and in the interests of strengthening international peace and security and building a just multipolar world order." President-elect Medvedev sends a separate message to congratulate Hu.

March 18-19, 2008: National coordinators from the SCO member states meet in Beijing to discuss the Dushanbe summit of SCO heads of state and foreign ministers, and current affairs, including more cooperation with Afghanistan at the SCO-Afghanistan Contact Group,"

March 24, 2008: Iran submits an official membership application to SCO's Secretariat, according to Iranian Foreign Minister Manouchehr Mottaki during his visit to Dushanbe, Tajikistan. Chinese Foreign Ministry spokesman comments the following day that China welcomes Iran's desire to strengthen cooperation in all spheres with the SCO, but "The decision

on the admission of Iran to the SCO should be made unanimously by all members of this organization.”

March 24, 2008: Foreign Minister Sergey Lavrov and Chinese Foreign Minister Yang Jiechi discuss important bilateral issues by telephone, including the March 22 elections in Taiwan.

March 27, 2008: A session of the SCO’s Council of the Regional Anti-terror Structure (RATS) in Tashkent signs into effect two documents: an agreement on cooperation in fighting the smuggling of arms, ammunition, and explosives and an agreement on personnel training for the SCO member states’ anti-terror formations. At the initiative of the Chinese, the session considers issues related to ensuring security during the Olympic games in China.

About The Contributors

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