



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



Comparative Connections



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

edited by

Carl Baker
Brad Glosserman

1st Quarter (January-March) 2010
Vol. 12, No.1
April 2010

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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 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 US, 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 Carl Baker and Brad Glosserman, 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 US.

We regularly cover 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 US-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 Australia, India, and Russia) as events dictate. Our Occasional Analyses also periodically cover functional areas of interest.

Our aim is to inform and interpret the significant issues driving political, economic, and security affairs of the US 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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Table of Contents

Regional Overview:.....1

They're (Not Quite) Baaaack!

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

Last quarter we focused on remarks by US President Barack Obama and Secretary of State Hillary Clinton proclaiming that “America is back in Asia,” an obvious dig at real and perceived neglect of Asia by the previous administration. This quarter, both were forced to postpone planned trips to Asia although, in Secretary Clinton’s case, not before giving a major Asia policy address in Honolulu. This quarter also ended the same as last, amid hints that Pyongyang really would, at some not too distant point (but not this past quarter), return to six-party deliberations. On a more positive note, it looks like arms control agreements are on the way back, following the announcement that the US and Russia had finally come to terms on a new strategic arms agreement, to be signed by both presidents in April. Speculation about the “changing balance of power” in Asia also continues as a result of China’s economic resilience and apparent newfound confidence, although it still seems premature to announce that the Middle Kingdom is back, given the challenges highlighted at this year’s National Peoples’ Congress. Political normalcy also appears to be a long way from returning to Bangkok where the “red shirts” have once again taken to the street, prompting the government to declare a state of emergency.

US-Japan Relations:.....13

Many Issues, a Few Bright Spots

by Michael J. Green, CSIS/Georgetown University, and Nicholas Szechenyi, CSIS

Prime Minister Hatoyama Yukio moved to implement his domestic policy agenda with an eye toward the Upper House elections this summer but watched his approval rating fall as he and members of his ruling Democratic Party of Japan (DPJ) were beset by political fundraising scandals. The impasse over the relocation of Marine Air Station Futenma continued to dominate the bilateral agenda and alternative proposals put forth by the Hatoyama government failed to advance the discussion. Concerns about barriers to US exports and the restructuring of Japan Post emerged in commentary by the Obama administration and congressional leaders but a joint statement highlighting cooperation on the Asia-Pacific Economic Cooperation forum (APEC) reinforced the economic pillar of the relationship. The Toyota hearings in Congress were covered extensively by media in both countries but did not have an immediate impact on US-Japan relations. However, the recall issue and other developments point to potentially negative perceptions that could cloud official efforts to build a comprehensive framework for the alliance over the course of the year, the 50th anniversary of the 1960 US-Japan Security Treaty.

US-China Relations:.....23

The Honeymoon Ends

by Bonnie Glaser, CSIS/Pacific Forum and David Szerlip, George Washington University

After a relatively smooth period in US-China relations through the first year of the Obama administration, the “honeymoon” ended in the first quarter of 2010. The new year brought new frictions and returned to the spotlight many problem areas. The quarter began with an unexpected announcement from an unlikely player in China-US relations: Google, the internet giant, reported extensive hacking of its networks traced back to China and then redirected Google.cn users to its Hong Kong site to evade Chinese censorship. Tensions were further stoked by the notification of a major US weapons sale to Taiwan and President Obama’s meeting with the Dalai Lama. Economic frictions also intensified, particularly over the valuation of China’s currency. Despite these difficulties, the quarter closed with the pendulum swinging back toward the center. At the end of March, Obama and Deputy Secretary of State James Steinberg both reaffirmed the US commitment to a positive relationship with China; Beijing announced that President Hu would attend a major nuclear security summit in the US in April; and Obama and Hu, in a friendly phone call, renewed their determination to sustain healthy and stable ties.

US-Korea Relations:.....37

Nuclear South of the Border

by Victor Cha, CSIS/Georgetown University and Ross Matzkin-Bridger, CSIS

The first quarter of 2010 set the stage for what should be a busy year in US-Korea relations. The Six-Party Talks remain stalled, although dire conditions in the North may force Kim Jong-il back to negotiations soon. While North Korea continues to demand concessions, the US shows no sign of caving in. In South Korea, there was a flurry of mixed signals on whether the transfer of wartime operational control (OPCON) to Seoul scheduled to be completed in 2012 would go ahead as planned. Prospects for the US-ROK free trade agreement got a boost from President Obama and his administration, however, it remains uncertain when the deal will move to Congress for ratification. Finally, the issue of spent nuclear fuel reprocessing in South Korea has made its way to the forefront of US-Korea relations, where it will likely remain for some years.

US-Southeast Asia Relations:.....47

Denouement and Delay

by Catharin Dalpino, Georgetown University

After banner initiatives in US policy toward Southeast Asia were unveiled in 2009, a loss of momentum in early 2010 was hardly surprising. President Obama’s decision to delay his long-awaited trip to Indonesia twice in March added to the impression of a slump in relations with the region. The administration proved to be prescient in its warning last fall that greater engagement with the Burmese regime would not likely reap short-term gains when the junta announced restrictive election laws. However, in the first quarter of 2010 the US also moved forward on two regional initiatives – strengthening its interest in the TransPacific Trade Partnership and preparing to establish a Permanent Mission to ASEAN. Despite Bangkok’s ongoing political crisis and a new wave of “red shirt” protests, the US and Thailand implemented new rounds of two multilateral military exercises in this quarter, including the flagship *Cobra Gold*. At the end of the quarter the US and Vietnam signed a landmark Memorandum of Understanding on the development of civilian nuclear power facilities, a bilateral segue to the multilateral nuclear summit that Obama will host with 43 heads of state in mid-April.

China-Southeast Asia Relations:.....57
Trade Agreement Registers China’s Prominence

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

The China-ASEAN Free Trade Agreement (CAFTA), inaugurated on Jan. 1, marked the highlight of a quarter featuring otherwise slow Chinese-Southeast Asian interaction during the winter months. Premier Wen Jiabao did mention the trade accord in his report to the National People’s Congress in March, but official Chinese media accounts of interviews and commentary by Foreign Minister Yang Jiechi this quarter did not mention ASEAN or Southeast Asia in inventories of Chinese foreign policy priorities in 2010. In a visit receiving low-keyed and delayed treatment in official Chinese media, State Counselor Dai Bingguo, China’s senior foreign policy expert, traveled to ASEAN headquarters in Jakarta to give a speech in late January that highlighted the positive aspects of Chinese-ASEAN relations as well as important elements in China’s policy in Asia. Included in foreign assessments of China’s rising prominence in Southeast Asia was a hearing by a US congressional commission in February featuring views of two US administration officials and eight experts offering mixed conclusions. Chinese statements this quarter expressing strong differences with the US thus far have not shown much impact on Chinese relations with Southeast Asia.

China-Taiwan Relations:.....65
ECFA and Domestic Politics

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

The interaction between economic negotiations and Taiwan domestic politics will dominate cross-Strait relations this year. Formal negotiation of an Economic Cooperation Framework Agreement (ECFA) began in January and both sides now talk hopefully of completing the negotiations by June. On Taiwan, recent election losses make timely conclusion of the ECFA on terms welcomed by Taiwan voters important for President Ma Ying-jeou and the Kuomintang (KMT) party’s political fortunes. The announcement of a US arms sales package in January was welcomed by Ma, but predictably created tensions in US-China relations – tensions that raise the stakes when the Obama administration considers Taiwan’s request for *F-16 C/D* aircraft.

North Korea-South Korea Relations:75
Torpedoed?

by Aidan Foster-Carter, Leeds University, UK

2010 is a year of anniversaries on the Korean Peninsula, many of them miserable. It is the centenary of Japan’s occupation of Korea in 1910, an event unlikely to be much marked on either side of the Sea of No Agreed Name, given how bitter Korean memories remain. This June marks 60 years since a by-then partitioned peninsula erupted into a civil war which technically is not over, since the 1953 Armistice Agreement was never followed by a peace treaty. For South Koreans, April 1960 celebrates the ouster of their authoritarian first leader, Syngman Rhee, in an all too brief democratic interlude before soldiers seized power in Seoul. Twenty years later, May 1980 marks the bloody suppression of a rising against military dictatorship in Gwangju in the southwestern Jeolla region, still the heartland of political opposition in South Korea. Seven years later the generals were forced back to barracks for good – a rare achievement in Asia – and a sometimes fractious democracy has since grown strong roots.

China-Korea Relations:.....91
Fire Sale, Hot Money, and Anxieties about “Investments”

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

China and North Korea sustained high-level contacts during the quarter, but there seems to be little to show for it. North Korea’s major push to attract foreign investment appears to involve potential deals that Beijing has claimed do not violate UN resolutions toward the North. Meanwhile, Chinese leaders presented a positive outlook for the resumption of Six-Party Talks. Having received the title of representative for Korean Peninsula Affairs, China’s lead representative to the Six-Party Talks Wu Dawei stated that talks might resume before July this year in light of favorable diplomatic contacts with Pyongyang. Foreign Minister Yang Jiechi expressed support for improved inter-Korean and US-DPRK ties. China and South Korea pledged to strengthen their strategic cooperative partnership through intensified diplomatic, cultural, and economic exchanges. ROK Foreign Minister Yu Myung-hwan held talks with Premier Wen Jiabao and Foreign Minister Yang Jiechi in Beijing.

Japan-China Relations:.....99
All’s Well that Ends Well

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

The final report of the Japan-China Joint Study of History project was released at the end of January. While differences remained over issues related to Nanjing and postwar history, both sides expressed satisfaction with the three-year effort and committed to follow-on studies. At the same time, efforts to reach an implementing agreement on joint development in the East China Sea failed to make progress. Even the decline to single-digit growth in China’s 2010 defense budget, while welcomed in Japan, was met with skepticism and calls for greater transparency. Meanwhile, China protested Japan’s appropriations to support conservation and port construction on Okinotorishima. Then, with hopes fading in Japan for a resolution of the controversy over contaminated *gyoza* imported from China, Chinese authorities at the end of March announced the arrest of a former employee at the Tianyang Food Plant in Hebei Province who admitted under questioning that he had injected pesticide into the frozen *gyoza*.

Japan-Korea Relations:.....109
Same As It Ever Was

by David Kang, University of Southern California, and Ji-Young Lee, Oberlin College

Korea-Japan relations have foundered over territorial and historical disputes for quite some time. Indeed, much of this quarter’s report could have been written in 2004. Yet, we dutifully report the Japanese government’s latest claim, the South Korean government’s latest protest against that claim, while also reporting increased trade, travel, and institutional relations. Which leads to a question: how consequential are these territorial disputes? The mere fact that Japanese and Koreans think they are important enough to alter textbooks and put claims on the Foreign Ministry website makes them consequential. However, do these claims have an impact on the other military, diplomatic, or economic affairs in the region? One could make an argument that despite the *sturm und drang* over who owns Dokdo/Takeshima, those affairs have not yet led to different policies in other areas, and certainly nobody thinks the territorial disputes might lead to actual war. This is not the place to discuss that question in depth, but it is one of the more intriguing questions that occurs to us as we, yet again, write about the same issues.

China-Russia Relations:.....119

Putin Invited Xi: Overture to 2012

by Yu Bin, Wittenberg University

For most of the first quarter, “uneventful” was the best description for bilateral relations between Russia and China. This is especially true when contrasted with the high-profile events in 2009 when bilateral trade declined 31 percent from \$56.8 billion to \$38.8 billion, Russia sank a Chinese cargo ship in February, the energy “deal of the century” was concluded in April, Moscow’s Cherkizov Market was abruptly closed in June, the 60th anniversary of diplomatic relations was celebrated in October, and the China-Central Asian gas line and Russia’s Eastern Siberia-Pacific Ocean oil pipeline were opened in December. Only in late March, with the five-day visit by Chinese Vice President Xi Jinping to Russia, was there a return from mutual “hibernation” and an “obsession” with the Obama administration’s policies, though for different reasons. Prime Minister Vladimir Putin’s invitation was also seen as a “back-to-the-future” effort to size up Xi, who is poised to assume the leadership spot in China by 2012. For Putin, 2012 is also the time to retake the Russian presidency, if he desires to do so.

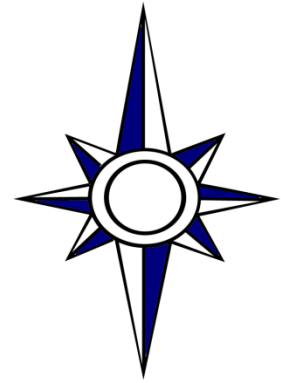
Special Assessment: Asian Regionalism.....125

New Challenges, New Visions, Pedestrian Progress

by Amy Searight, George Washington University

After a decade of rising regionalist aspirations and a flurry of community-building initiatives, the past year and a half has seen a slight shift in the momentum and direction of Asian regionalism. While the signing of regional free trade agreements continues and discussions on regional cooperative mechanisms proceed, the perceptions and political goals of many in the region have been recalibrated in the face of new challenges and new opportunities. By far, the biggest challenge was the global economic crisis, which had a mixed impact on Asian regionalism. New opportunities arose with the election of new political leaders in Australia, Japan, and the US, each of whom placed regional initiatives high on their political agenda. On the ground, however, progress on achieving tangible cooperation in regional frameworks, both trans-Pacific and East Asian, has been meager at best. The global economic crisis gave rise to the G20 that, while elevating the symbolic weight of Asian economies in global governance, has also created institutional competition for regional frameworks. Regional economic integration faces emerging and unresolved challenges, while effective frameworks for multilateral security cooperation remain elusive.

About the Contributors.....141



Regional Overview:

They're (Not Quite) Baaaack!*

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

Last quarter we focused on remarks by US President Barack Obama and Secretary of State Hillary Clinton proclaiming that “America is back in Asia,” an obvious dig at real and perceived neglect of Asia by the previous administration. This quarter, both were forced to postpone planned trips to Asia although, in Secretary Clinton’s case, not before giving a major Asia policy address in Honolulu. This quarter also ended the same as last, amid hints that Pyongyang really would, at some not too distant point (but not this past quarter), return to six-party deliberations.

On a more positive note, it looks like arms control agreements are on the way back, following the announcement that the US and Russia had finally come to terms on a new strategic arms agreement, to be signed by both presidents in April. Speculation about the “changing balance of power” in Asia also continues as a result of China’s economic resilience and apparent newfound confidence, although it still seems premature to announce that the Middle Kingdom is back, given the challenges highlighted at this year’s National Peoples’ Congress. Political normalcy also appears to be a long way from returning to Bangkok where the “red shirts” have once again taken to the street, prompting the government to declare a state of emergency.

North Korea: Still looking for the light at the end of the tunnel

Hopes were raised at the end of last year that Pyongyang would soon return to the Beijing-hosted Six-Party Talks, aimed (at least in everyone else’s mind) at Korean Peninsula denuclearization. No such luck! While Beijing has been the source of most of the optimism, someone obviously forgot to tell “Dear Leader” Kim Jong-il. He continues to insist, first and foremost, on some “progress” in bilateral US-DPRK negotiations and an end to Washington’s alleged “hostile policy” toward the North. Among the various “proofs” sought by Pyongyang is a lifting of UN Security Council sanctions, imposed after the North’s second nuclear weapons test in May 2008 (the first was in October of 2006). A peace treaty between Washington and Pyongyang – excluding Seoul, of course – was also on the North’s wish list this past quarter.

For its part, Washington – enthusiastically joined by Seoul and Tokyo and less so by Moscow (which finally, in late March passed the necessary legislation to implement UN-mandated sanctions) – continues to make it clear that the lifting of UN sanctions is a decision not for the US alone and that the formula for revision is quite clear: the lifting of sanctions first requires

* For those not steeped in American movie history, “they’re baaaack” was a famous line proclaimed by a little girl (played by the late Heather O’Rourke) in *Poltergeist II*, the 1986 classic about evil spirits invading a suburban home.

Pyongyang not only to come back to the six-party process but to “resume significant progress on denuclearization.” As Deputy Secretary of State James Steinberg noted during remarks at the Wilson Center on Jan. 29, “we believe it's important that the Six-Party Talks resume expeditiously and that North Korea begin to take those irreversible steps to eliminate its nuclear weapons program. In the meantime, neither the United States nor our allies will provide incentives or material benefits for North Korea simply to return to negotiations. The terms of the UN Security Council Resolutions will continue to be enforced.”

Perhaps, but Beijing is clearly marching to the sound of a different drummer. While paying lip service to UN Security Council (UNSC) sanctions, the Chinese leadership seems intent on trying (in time-honored fashion) to bribe Pyongyang back to the talks. To this end, Beijing reportedly agreed in early February to invest \$10 billion to build railways, ports, housing, and other infrastructure in the North; an investment that, if confirmed, would be equal to roughly 70 percent of North Korea's gross domestic product. This would also account for roughly 60 percent of total foreign investments in the country, a fact that is making Seoul (among others) increasingly nervous. Even if the truth turns out to be only one-tenth this amount, it would represent a sizable investment that could be seen as undercutting Seoul's “Grand Bargain” proposal (not to mention the spirit and intent of UNSC Resolution 1874).

Meanwhile, Washington will continue to exercise “strategic patience,” says Steinberg, while insisting that Pyongyang “live up to its commitments and its international obligations.” Once the North returns to six-way negotiations and “begins to make progress on denuclearization,” Washington will then, and only then, be prepared to engage “where appropriate,” – i.e., within the context of the broader multilateral framework – in bilateral talks. It would also be prepared, “with our South Korean partners,” to discuss “a permanent peace regime for the Korean Peninsula.”

At the end of the quarter, rumors that preparations appeared underway for a Kim Jong-il visit to China raised hopes that an announcement of Pyongyang's return to the Six-Party Talks would also be forthcoming once Kim is properly feted (and again rewarded).

One very significant caveat: if it turns out that North Korea had a direct hand in the mysterious sinking of a ROK naval vessel in disputed (by Pyongyang) waters in the West Sea, this could derail any hopes of a near-term resumption, as Seoul and Washington will have to focus first and foremost on an appropriate response.

Washington's mixed message

The announcement that President Obama planned a “spring break” trip to Indonesia, Australia, and Guam in March underscored his earlier message that “America is back in Asia.” Then, as it did so often with the Bush administration before it, reality set in, forcing him first to postpone the trip by a week (which would have then precluded his children from coming with him) and then until June (when the kids could once again join their father in visiting the Jakarta school where he studied as a child). The reason, which was understandable and fully understood by his Jakarta and Canberra hosts, was to ensure that his top priority health care package made it past a seemingly recalcitrant Congress. It would be at least a slight overstatement to say the legislation,

which did pass, will “define his presidency.” It is less of an overstatement to say that failure to pass it would have done so as well.

Some pundits were quick to label the cancellation “an insult to Indonesia and to ASEAN.” Nonsense! Indonesians were disappointed, but democratic governments and societies understand that domestic issues have priority and the quick rescheduling has served to limit the damage (assuming that he does in fact go in June). Some have even argued – in our view, believably – that Indonesian officials were somewhat relieved by the delay, since both sides were still frantically working on an unfinished “enhanced partnership” package. Meanwhile, the other ASEAN countries appear more interested in learning when Obama is going to visit them than they are heartbroken about his not going to Indonesia. This is clearly the prevalent view in the Philippines; officials there reveal privately that Manila feels somewhat neglected that no visit is yet planned there, despite its status as a formal treaty ally.

The Aussies received a double shot, since Secretary Clinton, along with Defense Secretary Robert Gates had earlier cancelled their trip down under to return home to help oversee relief operations in the wake of the horrendous earthquake in Haiti. As “good mates,” the Aussies were quick to understand the rationale and look forward to the next opportunity to reaffirm the alliance relationship.

Clinton’s “guiding principles”

Secretary Clinton did manage to complete the first leg of what would have been her fourth Asia-Pacific trip before the earthquake struck. On Jan. 12, she gave a major address at the East-West Center in Honolulu on “Regional Architecture in Asia: Principles and Priorities.” In addition to cheering the fact that Honolulu was chosen to host the 2011 Asia Pacific Economic Cooperation (APEC) Leaders Meeting in 2011, Secretary Clinton also laid out five guiding principles that the Obama administration would use in examining East Asia regionalism and America’s role in the process. The stated goal: “to build an institutional architecture that maximizes our prospects for effective cooperation, builds trust, and reduces the friction of competition.”

While Clinton is to be commended for clearly articulating the Obama administration’s position, our analysis shows that, at least in theory, these guiding principles represent little change from the Bush administration or its predecessors.

First and foremost, “*the United States’ alliance relationships are the cornerstone of our regional involvement.*” Nothing new here but worth repeating and, as always, listed first. The US bilateral alliances – with Australia, Japan, the Republic of Korea, the Philippines, and Thailand – are not “leftovers from the Cold War,” as some would maintain, but the foundation upon which US involvement in East Asian multilateralism will be built: “Our commitment to our bilateral relationships is entirely consistent with – and will enhance – Asia’s multilateral groupings.”

Second, “*regional institutions and efforts should work to advance our clear and increasingly shared objectives.*” In the security arena, these must include “nuclear proliferation, territorial disputes, and military competition – persistent threats of the 21st century.” From an economic perspective, “we must focus on lowering trade and investment barriers, improving market

transparency, and ... economic growth.” Politically, “we must support efforts to protect human rights and promote open societies.” All of these are long-standing US goals. What’s important here is the reminder, in a region where the process is often seen to be as (or more) important than the product, that substance matters.

This thought is brought home in the third guiding principle: “*our institutions must be effective and be focused on delivering results.*” This has long been an enduring (if not necessarily endearing) US characteristic. What’s changed, according to Secretary Clinton, is that “Asia’s rise over the past two decades has given the region an opportunity for progress that simply didn’t exist before.” As a result, she argued, “it’s more important to have organizations that produce results, rather than simply producing new organizations.”

Fourth, and potentially most controversially, “*we must seek to maintain and enhance flexibility in pursuing the results we seek.*” Noting that established institutions may sometimes “lack the tools necessary to manage particular problems,” Clinton notes that “where it makes sense, we will participate in informal arrangements targeted to specific challenges, and we will support sub-regional institutions that advance the shared interests of groups of neighbors.”

While she (along with all other members of the Obama administration) is careful not to use the term, she, in essence, is repeating the Bush administration’s warning that “coalitions of the willing” will be formed to fill the void when established institutions (regional or global) fail to address what are perceived as genuine US security concerns. She even cites the Bush administration’s most prominent sub-regional coalition, the Six-Party Talks, as an example “which show[s] the potential of an informal arrangement to advance shared interests.” She also cites the value of trilateral dialogues, using the examples of three-way dialogue among the US, Japan, and China, as well as among the US, Japan, and India.

Fifth, “*we need to decide, as Asia-Pacific nations, which will be the defining regional institutions.*” Noting that “eyes may glaze over when you hear all these acronyms,” she specifically cites two organizations in which the US currently participates, as worthy of continued support: the ASEAN Regional Forum (ARF) and APEC. She also discussed at a more recent gathering US participation in an organization in which the US has not yet been formally involved, namely, the East Asia Summit (EAS), which involves the 10 ASEAN nations, their “Plus Three” partners – China, Japan, and South Korea – plus Australia, India, and New Zealand.

Discussions were underway, she noted, “on how the United States might play a role in the East Asia Summit, and how the East Asia Summit fits into the broader institutional landscape, and how major meetings in the region can be sequenced most effectively for everyone’s time.” That the US will in some way become more involved in the EAS now appears clear; whether that involvement includes formal membership or some other form of association appears yet to be determined, however.

Secretary Clinton also noted that “we should look for more ways to enhance military-to-military cooperation and decrease mistrust and misunderstanding.” At present, there is no formal multilateral mechanism involving senior-most defense officials, although ARF meetings now frequently include side dialogues involving defense establishment participants. Here we would

humbly suggest that the Obama administration express its support for attempts by ASEAN to take its ASEAN Defense Ministers Meeting (ADDM) to the next level by establishing ADDM Plus (ADDM+), which many in ASEAN see as the more desirable alternative to the unofficial Shangri-La Dialogue, which brings regional and extra-regional defense chiefs together annually in Singapore under the auspices of the London-based International Institute of Strategic Studies (IISS). Which of these two efforts the Pentagon will choose as the “defining regional institution,” remains to be seen.

In words that would provide embarrassingly prophetic, Secretary Clinton also noted that “I don’t know if half of life is showing up, but I think half of diplomacy is showing up.” She then promptly cancelled the remainder of her trip and returned to Washington.

In fairness, she was talking about showing up for regularly scheduled events, such as ARF meetings and the APEC Leaders Meeting. In making the statement, however, she will cause any subsequent failure of the US to participate to become magnified. We can only hope that world (or domestic) events will not conspire to cause her or President Obama to miss any ARF or APEC events on their watch and that any subsequent decision to join the EAS comes with a solid commitment to make it to these meetings as well.

A new ‘START’ for arms control

President Obama made concrete progress in his effort to reshape US thinking about nuclear weapons this quarter. His overall approach was revealed in the Prague speech he delivered in April 2009 when he outlined his vision of a world free of nuclear weapons. That opened the door to talks with the Russians on a follow-up strategic arms reduction treaty (START), one originally scheduled to be completed as the 1991 Strategic Arms Reduction Treaty expired in December.

That deadline came and went as negotiations proved more difficult than expected. The chief obstacle was reportedly Russian objections to US missile defense deployment plans. Moscow continues to fear a breakout scenario that neutralizes the deterrent capability that is increasingly important to Russia’s diminished military.

Ultimately, Obama called the Russian bluff and a deal was announced on March 26. The new treaty caps the two countries’ deployed warheads at 1,550; it sets a combined limit of 800 deployed and non-deployed ICBM launchers, SLBM launchers, and heavy bombers equipped for nuclear armaments; and it limits deployed ICBMs, deployed SLBMs, and deployed heavy bombers equipped for nuclear armaments to 700. Verification measures employ old and new techniques, including on-site inspections and exhibitions, data exchanges and notifications related to strategic offensive arms and facilities covered by the Treaty, and provisions to facilitate the use of national technical means for treaty monitoring. Finally, the US insists the treaty “doesn’t have any constraints on testing, development, or deployment of current or planned US missile defense programs or current or planned United States long-range conventional strike capabilities.”

Critics complain the treaty is too conservative and only ratifies unilateral cuts already in place. In fact, New Start represents a 74 percent cut from its predecessor, and a 30 percent cut below

levels agreed in the Moscow Treaty that was signed in 2002 and expires in 2012. The launcher ceiling is a 50 percent cut from the 1,600 now permitted. Of course, there is no guarantee that either legislature will ratify the Treaty, but optimism is the prevailing sentiment among even realists in both countries.

The Treaty is significant on two counts. First, it represents a genuine “reset” to US-Russia relations. The bilateral relationship has been on the rocks for some years now and it is vital that the two countries demonstrate that they can – and desire to – work together on key international issues. Missile defense issues are still a huge potential stumbling block but this agreement is an important signal.

Second, the deal provides momentum for international arms control talks. Obama hosts a nuclear safety conference in mid-April; the new Treaty should convince the 43 heads of state that the two states with the biggest nuclear arsenals are serious about nonproliferation and disarmament. Hopefully that seriousness will prove contagious. In May, the Nuclear Nonproliferation Treaty Review Conference convenes at the United Nations. A global consensus is critical if the world hopes to roll back the North Korean nuclear program and cap Iran’s nuclear ambitions. A big two arms agreement could provide the cornerstone of a successful RevCon – and lead the way to a new round of nuclear weapons talks that includes still more states.

The new US Nuclear Posture Review, published after the end of the quarter, will be taken up in the next issue of *Comparative Connections*. (Those who can’t wait, can get a first glance at its contents in “The 2010 Nuclear Posture Review: Moving Toward No-First Use,” by Ralph Cossa, *PacNet* 17, April 6, 2010). It is another important part of the effort to transform the nuclear weapons discussion. The new policy represents a critical shift in US thinking with the potential to move the center of gravity of the nuclear weapons debate. We shall see if it has that impact.

About that changing balance of power ...

For some years now, there has been talk of the “changing balance of power in Asia.” Recently, the murmurs have become more pronounced. Blame a global recession that is widely seen as “made in the USA” along with China’s economic resilience and its newfound confidence; mix in US “distractions” – Afghanistan, health care, a poisonous political atmosphere in Washington DC, and precarious finances – and Asia’s strategic dynamics appear to be shifting.

Financial Times foreign policy analyst Gideon Rachman made the case most explicitly in a March 8 column, but there are echoes of this thinking throughout the region, typically heard when trying to explain the seemingly new boldness in Chinese foreign policy. More subtly, it is implicit in calls for greater US engagement with the region by many Southeast Asian analysts and governments.

This isn’t new – China’s rise has been “an ominous development” for nearly a decade. But the latest piece of the strategic puzzle is the new government in Japan: Prime Minister Hatoyama Yukio and his desire to “rebalance” relations with his ally and forge a new relationship with Asia. Rising tensions with Washington, triggered by delays in the Futenma relocation and the uncovering of the “secret nuclear pacts,” and the visit of Democratic Party of Japan kingpin

Ozawa Ichiro to Beijing with several hundred businessmen and politicians in tow are manifestations of new thinking in Tokyo. Forget the rhetorical bows noting that the US-Japan alliance is the cornerstone of Japanese foreign policy. According to this logic, Hatoyama's call for an East Asian community that excludes the US is proof of his real thinking and the final piece of evidence in the case for a shift in the balance of power.

This is an overly simplistic and alarmist assessment of regional dynamics. China is rising, but there are real limits to its influence, strength, and allure. China is a big presence in the region, but Asian governments have little faith or confidence in Beijing. The current Japanese government, like each of its predecessors, is debating its place in the region and the world. Rapprochement between Tokyo and Beijing is a good thing, but the issues that have long divided those two countries will remain powerful obstacles to an intimate relationship. Both governments – and all others in the region – still see the US role as integral. No other nation can, and is ready to, provide regional security and stability. Washington's power may be diminished, but it remains an integral part of the Asian order.

Celebration and trepidation at the NPC

This quarter also heralded the annual meeting of China's National People's Congress (NPC). The 3,000-odd part-time legislators look a lot like a rubberstamp legislature but the meeting itself affords a good look at the government's worldview and policy priorities. In his work report, Premier Wen Jiabao touted the country's impressive economic performance of the last year. While other nations struggled to escape the grip of the global downturn, China posted 8.7 percent growth, and even hit 10.7 percent in the last quarter of 2009. The target for 2010 remains 8 percent and looks to be easily achievable.

That target is within reach, but there are plenty of reasons to be concerned. While promising a 17 percent jump in state lending, Wen worried that "latent risks in the banking and public finance sectors are increasing." Corruption is always a problem – there are fears that stimulus efforts are being diverted and stolen. That is part of a bigger issue: widening inequality within the society and dangerously rising expectations. With tens of thousands – some say more than 100,000 – incidents of social unrest each year, public anger could boil over. The Chinese leadership worries about how it can rationalize the economy while ensuring that workers are not squeezed by the transition to a more market-driven economy. Even as new jobs are created, they don't necessarily hire displaced labor. That is a delicate and difficult process.

There were two other headline items at this year's NPC. The first was the decision to hold the defense budget increase to 7.5 percent. That is the first time that China's military budget has increased less than 10 percent since 1989. Critics will complain that the official budget still exceeds \$77 billion, and that the official budget doesn't include considerable expenditures; by some estimates, the real military budget is at least twice as large. But the smaller figure shows sensitivity to the need to choose between "guns and dofu" as well as concern about the constant complaints by other governments about a defense budget that appears to be at odds with the government's reputed intentions.

The second issue was the passage of the National Defense Mobilization Law, which lays down rules and procedures in the event of a national emergency. Its 72 provisions explain which government institutions have supreme authority in an emergency – the State Council and the Central Military Commission – and the extent of their power, which is sweeping. Indeed, the law calls for virtual full-scale mobilization of individuals, and control over almost all state and private assets.

Passage of the law shouldn't be seen as a portent: it has been discussed for some time. Some Chinese sources say the unrest in Tibet and Xinjiang underscored the need for better procedures in the case of an emergency to ensure that lines of communication and authority are clear.

Bangkok boils over

The situation in Thailand went from simmer to boil this quarter. The country's Supreme Court primed the pump when it held that former Prime Minister Thaksin Shinawatra, deposed in a coup in 2006, was guilty of corruption charges and ordered the seizure of a substantial chunk of his \$2.3 billion fortune. Thaksin, one of Asia's richest men, lost \$1.4 billion when the court concluded that the telecommunications magnate and his wife had hidden ownership of shares in a family business when he was prime minister. This created a conflict of interest, most evident in \$127 million worth of loans given to the Burmese government, which would be used to buy satellite services from his company.

Aiming for a Solomonic solution, the court concluded that it could not seize all his monies, as he had a considerable fortune before he took office that could not therefore be the fruit of those illegal activities. The court may have also reasoned that leaving him half his money would make it harder to call him a martyr.

Fat chance! Thaksin vowed to fight the verdict, while urging his supporters to protest peacefully. That call fell on deaf ears: Immediately after the decision there was a series of explosive attacks on branches of the Bangkok Bank, which is widely believed to support the group that ousted Thaksin. In Bangkok's red-hot political environment, many conspiracy theorists believed the bombings were done by the government to discredit the opposition movement. The "Red Shirts" that back Thaksin called for a million-person march in mid-March; supporters said about half that number turned out while other sources put the crowd at between 50,000-150,000. More significant than the events of that day was the fact that demonstrators have remained in downtown Bangkok ever since.

This standoff culminated in televised three-hour peace talks between Prime Minister Abhisit Vejjajiva and the opposition in late March. That yielded no result, nor did a follow-up session the next day. His offer to dissolve Parliament a year early, in December, won him no plaudits either. Two days later, the government tried to buy off Thaksin's supporters with a \$1.3 billion debt relief program that looked a lot like the former prime minister's plans. That too had little impact. Finally, after a ghoulish episode in which protestors threw blood at the government, the Parliament itself was overrun by protestors, forcing the evacuation by helicopter of some legislators. Mr. Abhisit issued a declaration of emergency, which is where the situation stood as we went to press.

It is hard to see a solution to this crisis. Thaksin has to be found guilty to validate the coup that removed him from office; anything less delegitimizes the current government. But his fate is symbolic of the deeper divisions in Thai society. Thaksin stood for poor and disenfranchised Thais who had been spectators to the country's economic success. To his foes, the former prime minister and his supporters are a threat to the established political order. There is increasingly little room for compromise.

Regional Chronology **January - March 2010**

Jan. 1, 2010: China and the Association of Southeast Asian Nations (ASEAN) officially initiate their free trade area agreement.

Jan. 6, 2010: US Defense Department announces that it will allow Lockheed Martin Corp. to sell *Patriot* air defense missiles to Taiwan to complete a \$6.5 billion arms package approved under then President George W. Bush in late 2008.

Jan. 6-7, 2010: Defense Secretary Pradeep Kumar leads an Indian delegation to participate in annual high-level bilateral talks with China on defense issues – the first time ever that the defense secretary has visited Beijing as the leader of the delegation.

Jan. 11, 2010: A North Korean Foreign Ministry spokesman calls for a peace treaty with the US saying it would “help terminate the hostile relations” between the two countries and “positively promote the denuclearization of the Korean Peninsula at a rapid tempo.”

Jan. 11, 2010: White House spokesman Robert Gibb dismisses North Korea's call for talks on a peace treaty to end the Korean War saying that the Six-Party Talks must resume before anything else happens regarding a peace treaty with North Korea.

Jan. 11, 2010: South Korean Defense Minister Kim Tae-Young says that the Six-Party Talks must resume before anything else happens regarding peace talks with North Korea.

Jan. 11, 2010: Robert King, the US special envoy for DPRK rights issues, says the DPRK must improve its “appalling” human rights record if it wants better relations with the US.

Jan. 12, 2010: North Korean Ambassador to China Choe Jin-su says Six-Party Talks could resume only with the lifting of sanctions on North Korea and acceptance of its latest proposal for peace treaty talks.

Jan. 15, 2010: Japan officially ends its eight-year naval refueling mission in the Indian Ocean as Defense Minister Kitazawa Toshimi states, “We will continue to act positively and proactively to contribute to international efforts against terrorism.”

Jan. 15, 2010: North Korea threatens a retaliatory attack and says it will exclude Seoul from all future talks on peace and security of the Korean Peninsula in response to a report that South Korea has a contingency plan to respond to an “emergency” North Korea.

Jan. 16, 2010: Japan and South Korea refuse to accept North Korea’s call for early talks on a peace treaty, saying they have no plans to lift sanctions unless it first makes progress in scrapping nuclear weapons.

Jan. 17, 2010: Japanese Foreign Minister Okada Katsuya meets his Chinese counterpart Yang Jiechi to discuss ways of bringing North Korea back to the Six-Party Talks and other issues.

Jan. 19, 2010: Prime Minister Hatoyama Yukio and President Obama each issue statements to commemorate the 50th anniversary of the signing of the US-Japan Security Treaty.

Jan. 21-22, 2010: Japan and the International Atomic Energy Agency (IAEA) host a meeting in Tokyo of 17 Asian countries as well as nuclear security experts from the US and Australia to discuss ways to address nuclear terrorism.

Jan. 24-27, 2010: South Korean President Lee Myung-bak visits India and meets Prime Minister Manmohan Singh. They sign cooperation accords on peaceful uses of outer space, information technology, science and technology, and the transfer of prisoners.

Jan. 26, 2010: China and Taiwan launch the first round of talks aimed at establishing a major trade pact known as the Economic Cooperation Framework Agreement (ECFA).

Jan. 26-Feb. 1, 2010: Envoys of the Dalai Lama meet Chinese officials in Beijing for the ninth round of talks on Tibet. The two sides fail to reach any agreement.

Jan. 27-31, 2010: The 40th annual World Economic Forum is held in Davos, Switzerland.

Jan. 29, 2010: The US Department of Defense informs Congress of the intent to sell an arms package to Taiwan worth more than \$6 billion.

Feb. 1, 2010: The US Department of Defense publishes its *Quadrennial Defense Review*.

Feb. 1-11, 2010: A total of 14,000 soldiers from Thailand, the US, Singapore, Indonesia, Japan, and South Korea participate in the annual *Cobra Gold* exercise in central Thailand.

Feb. 6-8, 2010: Wang Jiarui, head of the Chinese Communist Party’s International Department, visits Pyongyang and conveys a “verbal personal message” from President Hu Jintao to Kim Jong-il.

Feb. 11, 2010: Japanese Foreign Minister Okada visits South Korea and meets his counterpart Yu Myung-hwan and President Lee. He calls for “enhancing the future-oriented bilateral relationship while not forgetting what happened in the past 100 years.”

Feb. 13, 2010: Burma frees Tin Oo, who has been in prison or under house arrest for more than a decade and is vice-chairman of Aung San Suu Kyi's opposition National League for Democracy.

Feb. 15, 2010: Thailand deports the five-man aircrew, which had been detained since December 2009 along with their airplane and a 35-ton cache of arms from North Korea, after smuggling charges against them were dropped.

Feb. 15-March 19, 2010: *Balikatan 2010* joint exercises involving the militaries of the US and the Philippine to provide humanitarian and civic assistance are held.

Feb. 18, 2010: The Dalai Lama visits Washington and meets President Obama and Secretary of State Clinton.

Feb. 23, 2010: A US Department of Defense spokesperson announces it was informed that China "has postponed planned exchanges such as their chief of the general staff's visit to the United States, the commander of US Pacific Command's visit to China, and a visit to the US by one of China's military region commanders."

Feb. 24, 2010: The US and South Korean envoys to the Six-Party Talks, Stephen Bosworth and Wi Sung-lac, meet in Beijing with China's envoy, Wu Dawei, in an effort to encourage North Korea to return to the forum.

Feb. 25, 2010: The Supreme Court in Burma rejects an appeal by pro-democracy leader Aung San Suu Kyi against an extension of her house arrest.

Feb. 26, 2010: US Six-Party Talks Envoy Bosworth visits Tokyo and meets Japan's chief delegate to the Six-Party Talks Saiki Akitaka and Foreign Minister Okada.

Feb. 26, 2010: Thailand's Supreme Court rules that the Thai government will confiscate frozen assets worth 46 billion baht (\$1.4 billion) from deposed Premier Thaksin Shinawatra.

Feb. 26, 2010: South Africa confirms that it seized spare parts for T-55 tanks on a ship sailing from North Korea to the Republic of Congo.

Feb. 28, 2010: Cheng Yonghua arrives in Tokyo to assume his post as China's ambassador to Japan.

March 1-3, 2010: US Deputy Secretary of State James Steinberg and National Security Council (NSC) Senior Director for Asia Jeffrey Bader visit Beijing to discuss a range of bilateral issues.

March 2, 2010: In a speech to the UN Conference on Disarmament, North Korean diplomat Jon Yong-ryong rejects South Korea's appeal for the resumption of Six-Party Talks and states that the nuclear issue on the Korean Peninsula should be settled between the DPRK and the US as it is a product of the hostile policy of the US toward the DPRK.

March 4, 2010: China announces a 7.5 percent increase in defense spending for 2010.

March 4-5, 2010: Deputy Secretary Steinberg and NSC Director for Asia Bader visit Tokyo.

March 7-17, 2010: Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell travels to Asia with stops in Singapore, Kuala Lumpur, Vientiane, Jakarta, Bangkok, and Tokyo.

March 8-18, 2010: The US and ROK Combined Forces Command holds its annual joint military exercise *Key Resolve/Foal Eagle* “to improve the command’s ability to defend.”

March 9, 2010: China accuses the Dalai Lama of trying to “create chaos” in Tibet, on the eve of the anniversary of the March 10, 1959 uprising against Chinese rule that drove the Buddhist monk into exile.

March 10, 2010: Myanmar’s military junta bars pro-democracy leader Aung San Suu Kyi from running in upcoming elections by passing the Political Parties Registration Law, which excludes anyone convicted by a court of law from joining a political party.

March 11-23, 2010: Thailand’s Parliament passes an Internal Security Act, vowing to use “all means” to stop violence and allows authorities to deploy troops on the streets during mass anti-government rallies in Bangkok, to impose curfews, and ban gatherings.

March 18, 2010: *Yonhap* news agency reports that North Korea executed Pak Nam-gi, the country’s former top finance official, over the country’s failed currency reform.

March 18, 2010: The White House announces that President Obama has canceled a planned trip to Australia and Indonesia to help ensure passage of a health care reform bill.

March 18-19, 2010: South Korean Foreign Minister Yu Myung-hwan visits Beijing and meets Premier Wen Jiabao, Foreign Minister Yang Jiechi, and Public Security Minister Meng Jianzhu to discuss bilateral and regional issues, including the Six-Party Talks.

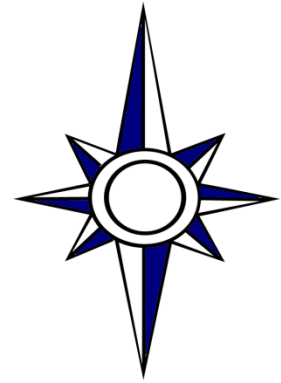
March 26, 2010: The US and Russia agree to a new Strategic Arms Reduction Treaty.

March 26, 2010: The South Korean Navy frigate, *Cheonan*, explodes and sinks while on a routine patrol mission near Baengnyeong Island.

March 29, 2010: India and the US announce the successful conclusion of negotiations granting rights to India to reprocess spent nuclear fuel.

March 29-30, 2010: The G8 Foreign Ministers Meeting is held in Ottawa, Canada.

March 30, 2010: Russia’s president signs an order implementing UN Security Council-approved sanctions against North Korea. The UNSC originally approved the sanctions in June 2009.



**US-Japan Relations:
Many Issues, a Few Bright Spots**

**Michael J. Green, CSIS/Georgetown University
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Prime Minister Hatoyama Yukio moved to implement his domestic policy agenda with an eye toward the Upper House elections this summer but watched his approval rating fall as he and members of his ruling Democratic Party of Japan (DPJ) were beset by political fundraising scandals. The impasse over the relocation of Marine Air Station Futenma continued to dominate the bilateral agenda and alternative proposals put forth by the Hatoyama government failed to advance the discussion. Concerns about barriers to US exports and the restructuring of Japan Post emerged in commentary by the Obama administration and congressional leaders but a joint statement highlighting cooperation on the Asia-Pacific Economic Cooperation forum (APEC) reinforced the economic pillar of the relationship. The Toyota hearings in Congress were covered extensively by media in both countries but did not have an immediate impact on US-Japan relations. However, the recall issue and other developments point to potentially negative perceptions that could cloud official efforts to build a comprehensive framework for the alliance over the course of the year, the 50th anniversary of the 1960 US-Japan Security Treaty.

Politics and money

The quarter began with a key personnel change in the Hatoyama Cabinet. Finance Minister Fujii Hirohisa resigned in early January apparently for health reasons, though the media speculated that he had become exasperated with the Cabinet after struggling to produce a draft budget for fiscal year 2010. Prime Minister Hatoyama quickly nominated Deputy Prime Minister and Minister for National Policy Kan Naoto as Fujii's successor. Kan retained his post as deputy prime minister and tried to set an assertive tone as finance minister. On several occasions he indirectly called on the Bank of Japan to take additional measures against deflation. In mid-March the Central Bank voted to facilitate monetary easing by injecting an additional \$110 billion into a \$112 billion lending facility for commercial banks established last December to offer short-term loans. Kan also advocated a comprehensive look at tax reform including the consumption tax (despite Hatoyama's pledge not to increase it for four years) and championed fiscal stimulus to boost growth. The Diet passed a supplemental budget for fiscal year 2009 in January and a record \$1 trillion budget for fiscal year 2010 cleared the legislature in March. Attendant bills also passed authorizing cash payments to households and eliminating high school tuition – two key components of Hatoyama's domestic agenda and promises from the DPJ's campaign "Manifesto" – but questions lingered about the impact of fiscal policy on the deficit. Standard & Poor's announced in late January that it was revising the outlook for Japan's long-term credit rating due to concerns about deflation and the increasing debt-to-GDP ratio, but this did not dissuade the Hatoyama government from moving ahead with its plans for fiscal stimulus and implementation of the Manifesto.

The government also took steps to realize Hatoyama's goal of reducing greenhouse gas emissions 25 percent below 1990 levels by 2020. In late February, the Environment Ministry issued an outline of a basic bill on climate change including an environment tax and emissions trading system. A heated debate within the government over whether to propose binding caps on emissions or caps based on carbon intensity (meaning overall emissions could rise with increased output) – and whether to promote nuclear energy, opposed by the Social Democratic Party (SDP), a member of the ruling coalition – prevented submission of a detailed bill but a broad policy framework was approved by the Cabinet on March 12 and submitted to the Diet for debate.

A plan to restructure the postal service, or Japan Post, also sparked a lively debate within the Hatoyama government. On March 24, Minister of Internal Affairs and Communications Haraguchi Kazuhiro and Minister for Financial Services and Postal Reform Kamei Shizuka announced a plan for the government to retain control of more than one-third of Japan Post Bank and Japan Post Insurance and double the limits for deposits and insurance coverage. Other government agencies complained that the measure was not sufficiently debated and the business community (and later the US government) expressed concern that Japan Post would gain an unfair competitive advantage. Hatoyama sided with Kamei and the plan was approved on March 30, signifying a reversal of attempts at structural reform championed five years ago by former Prime Minister Koizumi Junichiro and economist Takenaka Heizo. Kamei had long promised to halt the privatization of Japan Post, but Hatoyama's deference to Kamei raised eyebrows at the unexpected clout wielded by Kamei's small People's New Party (PNP) in the face of strong opposition from within the DPJ itself. This episode demonstrated Hatoyama's prioritization of coalition solidarity going into the Upper House election this summer, but raised new doubts about the prime minister's leadership.

The DPJ's prospects going into the Upper House campaign have sagged somewhat due to public frustration with continuing corruption of *seiji to kane*, or "politics and money." Hatoyama has yet to recover from revelations last June that one of his aides had listed deceased individuals as donors in funding reports dating back to 2005. The funds in question were provided by his mother (heir to the Bridgestone tire fortune) over a five-year period, a relatively minor infraction compared to other fundraising scandals, but the public remains dissatisfied with his explanations and the ordeal tainted Hatoyama's campaign rhetoric on transparency and accountability in government. More severe was the arrest in January of three former aides to DPJ Secretary General Ozawa Ichiro, one of whom was a member of the Lower House, for allegedly covering up illegal donations from a construction company used to purchase real estate. Government prosecutors did not indict Ozawa but several public opinion polls reflected support for his resignation as secretary general. Expectations were that Ozawa would remain the major political force within the DPJ even if he resigned before the Upper House election, though it remained an open question how far the public prosecutors and tax authorities might go in pursuing the case. A third scandal involved the arrest in March of an aide to DPJ lawmaker Kobayashi Chiyomi for allegedly accepting illegal donations from a teachers union.

A March 15 *Asahi Shimbun* poll posted a 32 percent approval rating for the Hatoyama Cabinet and a disapproval rating of 47 percent. Luckily for Hatoyama, the opposition Liberal

Democratic Party (LDP) has yet to recover from the election loss last year. Former Health and Welfare Minister Masuzoe Yoichi and former Finance Minister Yosano Kaoru both threatened to quit the party in March citing weak leadership and former Internal Affairs Minister Hatoyama Kunio, the prime minister's brother, actually resigned and hinted at forming a new party. Neither party fared particularly well in the *Asahi* poll with 30 percent of respondents supporting the DPJ and 21 percent the LDP.

Futenma unresolved

The impasse over an agreement to relocate Marine Air Station Futenma on Okinawa consumed both governments throughout the quarter. Secretary of State Hillary Clinton and Foreign Minister Okada Katsuya met in Honolulu on Jan. 12 to discuss Futenma, but also initiated a comprehensive government-to-government dialogue on the alliance. They emphasized the depth and breadth of alliance cooperation in a joint press conference after the meeting, but the media honed in on references to security cooperation and a statement by Clinton on the need for Japan to "follow through on its commitments, including Futenma." Assistant Secretary of Defense for Asian and Pacific Security Affairs Wallace Gregson and Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell participated in Security Sub-Committee (SSC) talks in Tokyo the week of Feb. 1 and other exchanges took place subsequently, but the overwhelming concern of the media was whether the Hatoyama government would put forth a viable alternative to the existing agreement on Futenma. Obama administration officials, in congressional testimony and other venues, repeatedly stated a preference for the 2006 agreement while waiting for a proposal from Tokyo.

The DPJ-led coalition entered into a cacophonous debate over Futenma that only confused the coordination with the US. The Social Democratic Party (SDP) pushed aggressively for the base to be relocated outside Okinawa Prefecture and even outside Japan, while the election of a mayor in Nago city (the proposed location for the replacement facility in the existing agreement) added his voice to those opposed to the current relocation plan. Public polling showed strong dissatisfaction with Hatoyama's handling of alliance issues and showed support for moving the new facility out of Okinawa. Hatoyama also sent inconsistent messages, occasionally sympathizing with the SDP and Okinawa public opinion while acknowledging the difficulty of relocating Futenma outside the prefecture. He also backtracked on the timeline for a decision, at first stating he would have a plan ready by the end of March, but later arguing that wasn't required to resolve the issue by his self-imposed deadline of May. Internal Cabinet debates were repeatedly played out in public, but a dialogue channel was established between Chief Cabinet Secretary Hirano Hirofumi and US Ambassador to Japan John Roos. Hirano took personal charge of a task force to work on a new plan and deliberately excluded any officials previously involved in the negotiations, which further confused coordination with Washington.

Foreign Minister Okada was dispatched to Washington at the end of March and reportedly floated two proposals: one involving the transfer of some helicopter units to an inland runway on Camp Schwab near Nago (as opposed to the offshore runway included in the existing agreement) and the construction of a facility for other functions on reclaimed land near White Beach on the Katsuren Peninsula; another would build a replacement facility on Tokunoshima Island in Kagoshima Prefecture. Okada met with Defense Secretary Robert Gates on March 29 and later

that day with Secretary Clinton on the margins of the G8 foreign ministers meeting in Ottawa, but did not appear to make progress. Okada reiterated Hatoyama's promise to resolve the issue by the end of May.

Despite the challenges surrounding Futenma, the two governments worked to demonstrate a commitment to charting a future course for the alliance. President Obama and Prime Minister Hatoyama each issued a statement on Jan. 19 commemorating the 50th anniversary of the signing of the US-Japan Security Treaty and noting the comprehensive nature of the relationship, as did the bilateral Security Consultative Committee. Hatoyama also discussed the importance of the relationship in a January address to the Diet and in remarks at the National Defense Academy of Japan in March. The *Quadrennial Defense Review*, released by the Defense Department on Feb. 1, spoke to the centrality of alliance relationships for US strategy in Asia. And, the Hatoyama government established a defense advisory board to offer recommendations for the National Defense Program Guidelines due in December. While the board membership has a heavy "Asianist" flavor, it also includes a number of senior experts with a background in US-Japan relations, an encouraging sign for long-term defense planning.

Issues on the economic agenda

President Obama announced an initiative to double US exports in five years during his State of the Union Address and later introduced a National Export Initiative to support that goal. This coincided with statements addressing perceived barriers to US exports and the office of the US Trade Representative issued its National Trade Estimate at the end of March with several issues related to Japan including the limited inclusion of US automobiles in Japan's eco-friendly purchase program (Japan's version of "cash for clunkers") and concerns about potential disadvantages for US insurance firms if the restructuring plan for Japan Post becomes law. The issue of US exports also got the attention of Congress. House Ways and Means Committee Chairman Sander Levin (D-MI) together with other Democratic lawmakers submitted a letter to President Obama on March 26 urging action on barriers to US exports and specifically referenced concerns about unfair competition in the Japanese insurance market.

The two governments have seized on the APEC calendar as an opportunity for bilateral coordination on regional economic integration. As hosts of the APEC forum in 2010 and 2011, respectively, officials are working on a two-year agenda to establish momentum on several key initiatives. Foreign Minister Okada and Secretary Clinton issued a joint statement on APEC at the end of March identifying signature issues under the theme of human security including agricultural productivity, agriculture-related trade and investment, women's entrepreneurship, adaptation to climate change, and emergency preparedness. Another development related to Prime Minister Hatoyama's vision of an East Asian Community (EAC) was Japan's announcement in mid-March that a detailed plan focusing on economic growth would be developed by the end of May and could include a potential role for the US. If realized, this initiative could clear up confusion about the motivations behind the EAC and the potential to exclude the US and compete with APEC as a driver for regional integration.

Perceptions matter

The decision by Toyota to recall millions of vehicles due to safety concerns and the testimony of company president Toyoda Akio before Congress in February, while not at all related to the US-Japan relationship, nonetheless drove the headlines in both countries and could influence public opinion. The US media generally treated the hearings as a consumer safety issue and a “Toyota problem” rather than a referendum on Japan. In contrast, some reporting in the Japanese press linked the hearings to the state of the bilateral relationship, in some instances referencing frustration with the lack of progress on Futenma or desired revenge for the collapse of Chrysler and General Motors. Toyoda and senior officials from Toyota North America were criticized by members of Congress for a poor response to the crisis and a lack of transparency in procedures, but some lawmakers also expressed appreciation for Toyota’s contributions to the US economy. The lack of a solution to the problem of unintended acceleration in Toyota vehicles and the March 30 announcement by the Department of Transportation that engineers at the National Aeronautic and Space Administration (NASA) were enlisted to study the problem suggest this issue will remain in the forefront for some time. Transportation Secretary Ray LaHood told the press he intends to travel to Japan in the summer to continue discussions with Toyota officials.

Two other developments reflected the sense of uncertainty in the US-Japan relationship this quarter. A March 8 editorial in the *Washington Post* summarizing an interview conducted with DPJ Upper House member Fujita Yukihisa criticized him for adhering to conspiracy theories about the 9-11 attacks and characterized his views as emblematic of anti-American sentiment in the DPJ. The *Post* printed a rebuttal by Fujita a few days later and a letter of support from an American who applauded Fujita’s work on behalf of former POWs, but the exchange reflected the view that the US-Japan relationship is in a state of drift. Another commentary published at the end of March by the Heritage Foundation expressed concern about Japan’s future trajectory, noting that economic stagnation and constraints on security policy place it on the verge of irrelevance in Asia. These perceptions do not represent the full spectrum of opinion but suggest that Japan’s leadership credentials are being questioned by some observers in Washington.

Next quarter

On the domestic front, the Hatoyama government will initiate another round of the popular hearings aimed at curbing wasteful spending (*shiwake*) in April and is expected to release a mid-term fiscal policy framework in June. In the diplomatic arena Japan assumes the presidency of the United Nations Security Council in April and will likely play a central role in drafting new sanctions against Iran. Prime Minister Hatoyama will visit Washington in mid-April for a nuclear security summit hosted by President Obama and observers wait in anticipation to see if DPJ Secretary General Ozawa will visit Washington during the Golden Week holidays in early May. APEC preparatory meetings also afford opportunities for bilateral dialogue with a Senior Officials Meeting, Meeting of Ministers Responsible for Trade, and the Energy Ministerial scheduled for late May and June. Finally, the two heads of state will attend the G8 summit in Huntsville, Ontario, from June 25-27.

Chronology of US-Japan Relations January - March 2010

Jan. 4, 2010: Prime Minister (PM) Hatoyama Yukio holds a New Year's press conference and stresses the importance of reaching a decision on the relocation of Marine Air Station Futenma.

Jan. 6, 2010: Finance Minister Fujii Hirohisa resigns, citing poor health, and is replaced by Kan Naoto.

Jan. 6, 2010: Defense Minister Kitazawa Toshimi meets US Ambassador to Japan John Roos to discuss relocation of Futenma and the 50th anniversary of the US-Japan Security Treaty.

Jan. 7, 2010: Six members of Congress sign a letter to PM Hatoyama expressing support for the Guam International Agreement.

Jan. 9-10, 2010: Chief Cabinet Secretary Hirano Hirofumi visits Okinawa to consider relocation options for Futenma.

Jan. 11, 2010: *Yomiuri Shimbun* poll reveals a 56 percent approval rating for the Hatoyama Cabinet.

Jan. 12, 2010: Secretary of State Hillary Clinton and Foreign Minister (FM) Okada Katsuya meet in Honolulu to discuss issues including US-Japan relations, North Korea, Iran, Afghanistan, Burma, and nonproliferation.

Jan. 13, 2010: Prosecutors search the office of a funding group for Democratic Party of Japan (DPJ) Secretary General Ozawa Ichiro in a probe into possible political funding irregularities.

Jan. 14, 2010: In an interview with *Reuters*, FM Okada dismisses the idea that the Hatoyama government is promoting relations with China at the expense of the alliance with the US.

Jan. 15, 2010: The Special Measures Law authorizing Japan's Maritime Self-Defense Force (MSDF) refueling operations in the Indian Ocean expires.

Jan. 15, 2010: Three current and former aides to Ozawa Ichiro are arrested and charged with falsifying political funding reports in connection with a land purchase in Tokyo.

Jan. 18, 2010: The Hatoyama Cabinet posts a 41 percent approval rating in a *Kyodo News* poll. A *Yomiuri* poll released the same day lists a 45 percent approval rating with 70 percent saying Ozawa should resign as DPJ secretary general because of an alleged funding scandal.

Jan. 19, 2010: PM Hatoyama and President Obama each issue statements to commemorate the 50th anniversary of the signing of the US-Japan Security Treaty. The bilateral Security Consultative Committee ("2+2") also reaffirms the importance of the US-Japan alliance.

Jan. 19, 2010: Japan Airlines files for bankruptcy.

Jan. 19, 2010: The Government of Japan announces that automobiles imported under the Preferential Handling Procedure (PHP) could be eligible for inclusion in a program offering subsidies for the purchase of eco-friendly vehicles.

Jan. 20, 2010: Defense Minister Kitazawa dispatches a Self-Defense Force International Disaster Relief Medical Support Unit to Haiti to assist with earthquake relief efforts.

Jan. 21, 2010: During a session of the Lower House Budget Committee, PM Hatoyama states the US-Japan-China relationship is not an “equilateral triangle” and notes the alliance with the US is the foundation of Japanese foreign policy.

Jan. 22, 2010: A poll by *Yomiuri Shimbun* and Waseda University shows 35 percent of the public wants the DPJ to win an outright majority in the Upper House election; 54 percent do not.

Jan. 24, 2010: Susumu Inamine, an opponent of the relocation plan for Futenma, wins Okinawa’s Nago City mayoral election.

Jan. 26, 2010: Standard & Poor’s cuts Japan’s sovereign credit rating outlook to negative based on concerns about government debt.

Jan. 27, 2010: Japan’s Finance Ministry announces that exports increased for the first time in 15 months due to robust demand in Asia.

Jan. 29, 2010: PM Hatoyama addresses the Diet and states the US-Japan alliance is the cornerstone of Japan’s diplomacy.

Feb. 1, 2010: The Department of Defense publishes the *Quadrennial Defense Review*.

Feb. 1, 2010: Deputy US Trade Representative Demetrios Marantis visits Tokyo and urges Japan not to discriminate against US firms in banking, insurance, and express mail services as it considers reorganizing the postal service (Japan Post).

Feb. 1-2, 2010: Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell and Assistant Secretary of Defense for Asian and Pacific Security Affairs Wallace Gregson visit Tokyo for a meeting of the bilateral Security Subcommittee.

Feb. 2, 2010: Assistant Secretary Campbell urges Japan to sign the Hague Convention on Child Abduction after meeting with affected families at the US Embassy in Tokyo.

Feb. 2, 2010: Assistant Secretary Campbell and Ambassador Roos pay a courtesy call to DPJ Secretary General Ozawa.

Feb. 3, 2010: US Trade Representative Ron Kirk issues a statement lamenting Japan’s release of a limited list of US automobiles eligible under Japan’s eco-friendly car purchase program.

Feb. 4, 2010: Tokyo prosecutors announce a decision not to indict Ichiro Ozawa in connection with a funding scandal.

Feb. 9, 2010: PM Hatoyama selects Edano Yukio as minister for Government Revitalization, succeeding Sengoku Yoshito, who was tapped to run the National Strategy Office in the Cabinet.

Feb. 12, 2010: President Obama tells *Bloomberg Businessweek* that Toyota has an obligation to act decisively in response to concerns about safety after a global recall.

Feb. 13-20, 2010: Senator Jim Webb, Chairman of the East Asian Affairs Subcommittee of the Senate Foreign Relations Committee, visits Tokyo, Okinawa, and Guam.

Feb. 16, 2010: PM Hatoyama appoints an advisory board to offer recommendations for the National Defense Program Guidelines to be finalized by the end of 2010.

Feb. 18, 2010: Japanese officials meet with Brad Roberts, deputy assistant secretary of defense for nuclear and missile defense policy, to discuss extended deterrence.

Feb. 20, 2010: Chief Cabinet Secretary Hirano visits Okinawa a second time to consider options for the relocation of Marine Air Station Futenma.

Feb. 22, 2010: Finance Minister Kan advocates an inflation target and reiterates a government commitment to strengthen domestic demand while calling on the Bank of Japan to take steps to counter deflation.

Feb. 22, 2010: Japan hosts the first Senior Officials Meeting for the Asia-Pacific Economic Cooperation (APEC) forum.

Feb. 24, 2010: Toyota Motors President Toyoda Akio testifies before Congress regarding concerns about consumer safety resulting from a large-scale recall.

Feb. 26, 2010: PM Hatoyama tells reporters he is considering Japan's accession to the Hague Convention on Child Abduction.

Feb. 26, 2010: FM Okada meets US Special Representative for North Korea Policy Stephen Bosworth in Tokyo to discuss efforts at resuming the Six-Party Talks.

Feb. 26, 2010: Japan's Ministry of Environment releases an outline of a draft bill on climate change policy.

Feb. 28, 2010: The Hatoyama Cabinet's approval rating stands at 43 percent according to a *Nikkei Shimbun* poll.

March 1, 2010: Finance Minister Kan tells a Diet committee he hopes the consumer price index will turn positive by the end of 2010.

March 1, 2010: Four trade union members are arrested on suspicion of violating the Political Funds Control Law with regard to donations allegedly received by the election campaign office of DPJ Lower House member Kobayashi Chiyomi.

March 1, 2010: Former Health and Welfare Minister Masuzoe Yoichi threatens to leave the Liberal Democratic Party (LDP), citing weak leadership since the DPJ election victory last year.

March 2, 2010: Chief Cabinet Secretary Hirano meets Ambassador Roos to discuss relocation plans for Futenma.

March 2, 2010: The US Chamber of Commerce, the US-Japan Business Council, the American Chamber of Commerce in Japan and 10 other organizations issue a joint statement expressing concerns about the Hatoyama administration's preliminary draft bill to scale back the privatization of the postal service (Japan Post).

March 4-5, 2010: Deputy Secretary of State James Steinberg visits Tokyo for meetings with FM Okada and other officials.

March 8, 2010: The *Washington Post* publishes an editorial critical of Fujita Yukihisa, a DPJ member of Japan's House of Councilors (Upper House).

March 9, 2010: A *Yomiuri Shimbun* poll posts a 41 percent approval for the Hatoyama Cabinet and a disapproval rating of 50 percent. Seventy-eight percent of respondents said Ozawa should resign as DPJ secretary general because of an alleged fundraising scandal and 79 percent felt that Hatoyama has not adequately explained his fundraising irregularities. The DPJ approval rating was 31 percent compared to 20 percent for the LDP.

March 9, 2010: A panel of experts submits a report to the Ministry of Foreign Affairs regarding confidential agreements reached between Japan and the US in the 1960s on the introduction of nuclear weapons into Japan.

March 15, 2010: Former Internal Affairs Minister Hatoyama Kunio, brother of PM Hatoyama, resigns from the LDP.

March 17, 2010: The Bank of Japan eases monetary policy by voting to inject an additional \$110 billion into a \$112 billion lending facility for commercial banks.

March 17, 2010: In an appearance before the Lower House Foreign Affairs Committee, FM Okada says Japan might allow the introduction of nuclear weapons by the US in an emergency but that the Hatoyama government would uphold Japan's three non-nuclear principles.

March 17, 2010: Principal Deputy Assistant Secretary of State for East Asian and Pacific Affairs James Donovan and Deputy Assistant Secretary of Defense for Asian and Pacific Security Affairs Michael Schiffer testify before the House Subcommittee on Asia, the Pacific and the Global Environment during a hearing on US-Japan relations.

March 19, 2010: PM Hatoyama instructs his Cabinet to develop specifics on the East Asian Community concept by the end of May.

March 22, 2010: PM Hatoyama emphasizes the importance of the US-Japan alliance in an address to the National Defense Academy of Japan.

March 24, 2010: The Diet passes Hatoyama government's record \$1 trillion budget for fiscal year 2010.

March 26, 2010: FM Okada meets Ambassador Roos to discuss alternatives for the relocation of Air Station Futenma.

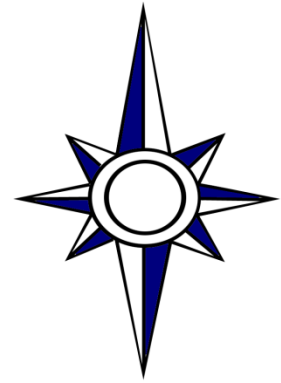
March 26, 2010: House Ways and Means Committee members including Chairman Sander Levin (D-MI) send a letter urging the Obama administration to address barriers to US exports including restrictions on beef imports and unfair competition in Japan's insurance market.

March 29, 2010: FM Okada meets Defense Secretary Robert Gates in Washington and later with Secretary Clinton on the margins of the G8 foreign ministers meeting in Canada regarding the Futenma relocation issue.

March 29, 2010: A *Nikkei Shimbun* poll reports a 36 percent approval rating for the Hatoyama Cabinet.

March 30, 2010: Chief Cabinet Secretary Hirano states during a press conference that the government is working on relocation plans for Futenma within Okinawa Prefecture.

March 30, 2010: Secretary Clinton and FM Okada release a joint statement on US-Japan cooperation in APEC.



**US-China Relations:
The Honeymoon Ends**

**Bonnie Glaser, CSIS/Pacific Forum CSIS
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After a relatively smooth period in US-China relations through the first year of the Obama administration, the “honeymoon” ended in the first quarter of 2010. The new year brought new frictions and returned to the spotlight many problem areas. The quarter began with an unexpected announcement from an unlikely player in China-US relations: Google, the internet giant, reported extensive hacking of its networks traced back to China and then redirected Google.cn users to its Hong Kong site to evade Chinese censorship. Tensions were further stoked by the administration’s notification to Congress of a major weapons sale to Taiwan and President Obama’s meeting with the Dalai Lama. Throughout the quarter, economic frictions intensified, particularly over the valuation of China’s currency. Despite these numerous difficulties, the quarter closed with the pendulum swinging back toward the center. At the end of March, President Obama and Deputy Secretary of State James Steinberg both reaffirmed the US commitment to a positive relationship with China; Beijing announced that President Hu would attend a major international nuclear security summit in the US in April 2010; and Obama and Hu, in a friendly phone call, renewed their determination to sustain healthy and stable ties.

Google leaves China

On Jan. 12, internet search provider Google announced that it would stop cooperating with Chinese censors and threatened to pull out of China after it discovered that “highly sophisticated” cyber attacks originating in China had stolen some of the company’s source code and broken into the Gmail accounts of Chinese human rights advocates. Google said the attacks occurred in early 2010 and targeted at least 34 major Silicon Valley firms. The announcement stunned US observers, many of whom had long criticized Google’s cooperation with Chinese censorship rules and now saw Google’s threat as a major repudiation of Chinese practices. Google’s stance quickly became a political matter with potential fallout for bilateral relations; the US Embassy in Beijing issued a formal *demarche*, and Secretary of State Hillary Clinton called on China to end internet censorship and investigate the attacks. China’s Foreign Ministry spokesman, Ma Zhaoxu, responded sharply to Clinton, calling on the US to “stop attacking China” and saying that such statements “undermine China-US relations.” The Chinese insisted that the Google issue was an “individual commercial case” that would not affect the overall environment for foreign investors or the China-US relationship.

The Google story received attention throughout the quarter. On Feb. 18, the *New York Times* reported that an investigation team that included US intelligence agencies had discovered that the attacks originated from two Chinese universities, Shanghai Jiaotong University and Lanxiang

Vocational School in Shandong Province. Both institutions denied involvement, and soon after, *China Daily* ran an editorial arguing that the “Google farce” was “absurd and fictionalized” and had the potential to “push the already flagging bilateral ties to plunge deeper into troubled waters.” Chinese commentators similarly accused Google of fabricating the cyber attacks in order to bolster US political positions, and they accused the US government of meddling in China’s domestic affairs while insisting that China’s constitution guarantees freedom of speech for China’s citizens and internet users.

Subsequent negotiations between Google and the Chinese government failed to produce a workable compromise. On March 22, Google announced that it was relocating its Chinese search engine from mainland China to Hong Kong to evade Chinese censorship policies. Chinese officials charged that Google had violated the written promise that it made when it entered the Chinese market. Soon after the announcement, Chinese citizens began leaving flowers and notes outside Google’s Beijing headquarters to express their sympathy for the company and their opposition to Chinese internet censorship. The Chinese government was less supportive of Google’s move. The Communist Party newspaper *People’s Daily* published a scathing critique of Google, which stated, “For Chinese people, Google is not god, and even if it puts on a full-on show about politics and values, it is still not god.... Its cooperation and collusion with the US intelligence and security agencies is well-known.... All this makes one wonder. Thinking about the US’s big efforts in recent years to engage in Internet war, perhaps this could be an exploratory pre-dawn battle.”

Google’s decision was seen as a partial repudiation of Chinese internet policies. At the same time, it also demonstrated the unwillingness of a major US company to completely abandon the Chinese market as Google said it would retain much of its existing operations in China, including its research and development and its local sales force, and would continue to operate online maps and music services in China. The company’s attempts to straddle this fine line were quickly challenged by two major Chinese companies when both China Mobile and China Unicom announced plans to drop Google search engines or Google operating systems from their mobile phones. At the end of March, the future of the internet giant in China remained up in the air. Although Chinese internet users were able to access uncensored results from Hong Kong, many US commentators argued that it was only a matter of time before China would cut off all domestic access to Google, originating from Hong Kong or elsewhere.

Taiwan arms sale rattles Beijing

On Jan. 7, the US Department of Defense awarded a contract to Lockheed Martin worth \$978 million to sell *PAC-3* missiles to Taiwan. Chinese commentators reacted with fury, even though the sale had been sealed during the George W. Bush administration. The announcement was only the beginning of the quarter’s controversy over Taiwan arms sales. In the midst of the Google squabble, the Obama administration notified Congress on Jan. 29 of its intent to sell \$6.4 billion worth of military equipment to Taiwan, including 114 *Patriot Advanced Capability (PAC-3)* missiles (\$2.81 billion), 60 *UH-50M Black Hawk* helicopters (\$3.1 billion), 12 *Harpoon II* anti-ship missiles (\$37 million), two *Osprey-class* mine-hunting ships (\$105 million), and communication equipment for Taiwan’s *F-16 A/B* fighter aircraft (\$340 million). The package was similar in value to one announced by the Bush administration in October 2008 and was

limited to items still pending from an \$11 billion package originally pledged in April 2001. The sale did not include funding for Taipei's long-standing request for a submarine feasibility study or advanced *F-16 C/D* fighter planes, for which the Obama administration has not accepted a formal letter of request from Taipei.

Less than a day after the announcement, Chinese Vice Foreign Minister He Yafei issued an official *demarche* to US Ambassador Jon Huntsman, saying that the sale "constitutes a gross intervention into China's internal affairs, seriously endangers China's national security and harms China's peaceful reunification efforts." Vice Minister He also warned that the sale would "definitely undermine" bilateral relations and would have a "serious negative impact" on future bilateral cooperation. In response, China stated that it would suspend some military exchanges with the US, cancel an upcoming vice ministerial-level dialogue on security, arms control and nuclear nonproliferation, and would impose sanctions on the US companies involved in the arms sale (potentially affecting Boeing, Lockheed Martin, Raytheon, and United Technologies). The Foreign Ministry also said that the sale would "inevitably affect" China-US cooperation on "relevant important international and regional issues."

At least rhetorically, China's response to the January 2010 weapons sale to Taiwan was tougher than its reaction to the Bush administration's October 2008 Taiwan arms package. In the earlier case, Beijing had suspended military-to-military exchanges and arms control/security dialogues, but never before had China threatened to sanction US firms or explicitly said it would curb cooperation on other security matters such as North Korea, Iran, and nonproliferation.

The reasons for China's tougher response are numerous. First, the escalation reflected deep-seated and growing indignation and resentment over the US practice of selling weapons to Taiwan. In numerous public statements, Chinese officials repeatedly expressed their belief that the practice violated the three joint communiqués and ran counter to the China-US Joint Statement signed by Presidents Hu and Obama in November 2009 which stated that "respecting each other's core interests is extremely important to ensure steady progress in US-China relations." Chinese Foreign Minister Yang Jiechi maintained that "the Chinese government and people feel indignant about this," adding that "it is our sovereign right to do what is necessary." Second, Chinese leaders may have felt under domestic pressure to make a strong response. The perception that the US had violated China's core interests struck a raw nerve and incited a nationalistic reaction from both the Chinese elite and public citizenry. Although the influence of public opinion on Chinese decision making is not comparable to that in democracies, the views of the people as expressed on the internet are closely monitored by the government and taken into account in policy formulation. Chinese leaders cannot afford to be seen as not adequately defending Chinese sovereignty and territorial integrity lest they be fiercely criticized.

Finally, despite the fact that President Obama during his November 2009 visit to China told President Hu directly that the Taiwan Relations Act remained a component of the United States' one-China policy, recent developments in bilateral and international relations had raised Beijing's expectations, with some believing the sale would not happen so soon after Obama's visit to China and others believing the quality and quantity of the sales would begin to decrease. These expectations were raised, in part, by the Obama administration's constant emphasis over the last year on the importance of bilateral cooperation for solving the most pressing regional and

international security issues. Additionally, Chinese expectations grew in the wake of Beijing's successful handling of the world financial crisis, with many in China believing that the power gap between China and the US was shrinking and that China's growing clout provided Beijing with greater leverage to deter US arms sales to Taiwan.

China's outrage was displayed in both Chinese and Western media, with some Chinese experts calling on their government to carry out its threats and others arguing that China should go even further. One vocal supporter of sanctioning US companies was retired Rear Adm. Yang Yi of the National Defense University, who demanded that Chinese leaders follow through with the sanctions threat, adding that Beijing was going to "give a lesson to the US government that harming others will harm yourself." Jin Canrong, a leading international affairs expert at Renmin University, proposed that it was only "fair and proper" for China to accelerate the development and testing of high-tech weaponry. "The US," Jin added, "will pay a price for this. Starting now, China will make some substantial retaliation, such as reducing cooperation on the North Korea and Iran nuclear issues and anti-terrorism work." Possibly the most vocal critic of the US was Maj. Gen. Luo Yuan, a senior researcher at the Academy of Military Sciences, who gave numerous interviews in the aftermath of the weapons sale notification. To one news outlet, Luo argued that the arms sale gives China "justified cause" to increase its military spending and expand and accelerate military modernization, explaining that "the tiger that does not show its fierceness will be treated like a sick cat." In an interview with *Reuters*, Luo went even further, arguing that China's retaliation "should not be restricted to merely military matters" and calling on his government to "punish" the US by "dumping some US government bonds."

At the policy level, however, China's bark was worse than its bite. Beijing suspended the planned security dialogue with the US, and visits by leading Chinese and US military representatives, including chief of the PLA General Staff Department Chen Bingde and Commander of US Pacific Command Adm. Robert Willard, were postponed, along with other low-level military exchanges. However, in February and March, respectively, the *USS Nimitz* and *USS Blue Ridge* were permitted to make port calls in Hong Kong, actions that had not been allowed in previous arms sales spats. The US remained optimistic that military ties would be resumed within months and Defense Secretary Robert Gates indicated that he still hoped to visit China before the end of the year. Regarding sanctions on US arms manufacturers that sell weapons to Taiwan, the Chinese Foreign Ministry twice reiterated that it would carry out the sanctions, but no actions have been taken.

After nearly three weeks of Chinese media outrage, calls came from within China for all sides to tone down the rhetoric and move forward. *Global Times* – an English-language newspaper sponsored by the Communist Party's *People's Daily* that is typically known for publishing conservative, hard-line articles on Sino-US relations – ran two such articles. On Feb. 19, prominent US expert and dean of Beijing University's School of International Studies, Wang Jisi, argued that both China and the US "are facing the same global realities" and must cooperate to achieve economic recovery and make progress in dealing with pressing global issues such as climate change and the development of new forms of energy. Wang even mocked the hyperbole of domestic media that had argued that China-US relations had reached an all-time low and that the two nations had begun a new Cold War. Then, on Feb. 21, *Global Times* carried an editorial entitled, "Time to Drop Illusions in Sino-US Ties." While the editorial was critical of the arms

sale and President Obama's meeting with the Dalai Lama, it was also pragmatic about the future of bilateral relations: "Reality allows for no illusions. Washington will not change fundamentally in a short period of time. The old issues will keep cropping up, including human rights, arms sales to Taiwan, the Dalai Lama and more. But meanwhile, Sino-US ties are also advancing. Relations will continue moving forward with periodic conflicts for a long time." The editorial even recognized US domestic political pressures that lead to support for Taiwan and Tibet, arguing that, despite these forces, "the huge interests at stake bring the two sides together to work out a solution."

Obama meets the Dalai Lama

In early February, the White House announced that President Obama would meet with the Tibetan spiritual leader, His Holiness the Dalai Lama, on Feb. 18. He had requested a meeting with the president in autumn of 2009, but the administration demurred because it did not want to offend Beijing on the eve of Obama's visit to Beijing – marking the first time since 1991 that the Dalai Lama traveled to Washington without meeting the US president. Obama dispatched his senior advisor, Valerie Jarrett, to Dharamsala in September to meet the Dalai Lama and convey his commitment to supporting the Tibetan people in protecting their distinct religious, linguistic, and cultural heritage, and to gain his understanding for postponing the meeting. At the time, the administration's decision was criticized in the US by Republicans and Democrats alike, who accused Obama of kowtowing to Beijing. During his November trip to China, Obama informed Hu Jintao that he planned to meet with the Dalai Lama in the coming months.

The president's meeting with the Dalai Lama took place in the White House Map Room, which is located in the residence, instead of the more formal and politically charged Oval Office where most foreign dignitaries are welcomed. The choice of location indicated the administration's desire to avoid breaking with past practice so as to minimize negative reaction from Beijing. Underscoring the private nature of the encounter, no reporters or photographers were permitted; the White House issued a single in-house photo of Obama and His Holiness. Following the meeting, the White House issued a statement affirming Obama's "strong support for the preservation of Tibet's unique religious, cultural and linguistic identity and the protection of human rights for Tibetans." The president also praised the Dalai Lama's "commitment to nonviolence and his pursuit of dialogue with the Chinese government," and he encouraged both sides to "engage in direct dialogue to resolve differences." The Dalai Lama met with reporters, and called the US a "champion" of democracy and freedom.

As expected, the Chinese government sharply criticized the meeting. Foreign Ministry spokesman Qin Gang accused the US of "conniving and supporting anti-China separatist forces" and expressed China's "strong dissatisfaction and resolute opposition to this meeting," which, he said, had "seriously damaged" bilateral ties. Vice Foreign Minister Cui Tiankai summoned US Ambassador Jon Huntsman to issue a "stern representative," according to state news agency *Xinhua*. Zhu Weiqun, in charge of Tibetan issues for the CCP Central Committee United Front Work Department, said that the meeting could "seriously undermine the Sino-US political relations." An editorial in the *People's Daily* highlighted China's growing confidence in handling external pressure: "The Dalai Lama's meeting with Obama is nothing more than a farce. A significant fact he can never change is that the Tibet issue is China's internal affair and a

powerful China has become a significant force in the world political structure.” A commentary published in the government-controlled Hong Kong media suggested, however, that Beijing was seeking to limit the impact of the meeting on overall bilateral cooperation. *Wen Wei Po* reported that the “important common interests” between the US and China provided “ballast” for stabilizing bilateral ties and quoted Gong Li, director of the Central Party School’s Institute of International Strategic Studies, as maintaining that the current strains in the bilateral relationship were “temporary” and would not change the “interdependence” of the two countries’ interests.

Pressure mounts on China to revalue its currency

The first quarter of 2010 witnessed a heated back and forth between the US and China over the latter’s currency, which the US and many other countries insist is undervalued. Pressure mounted on the Obama administration to take action against China, as business leaders, economists, and pundits portrayed the issue as emblematic of broader strains in the US-China economic relationship. The issue entered the spotlight when President Obama, while speaking to Democratic senators on Feb. 3, said that the administration was planning to take a tougher stance against Chinese currency valuation policies – leading to immediate speculation that the US Treasury Department might, for the first time in 16 years, identify China as a currency manipulator in its report due on April 15. In its last report on China’s currency, the Treasury said the *renminbi* “remains undervalued” but cited favorably several steps the country had taken to keep the global economy – as well as its own – from an even deeper downturn. In March, Obama once again commented on the Chinese currency issue in a speech on trade, saying that a revalued *renminbi* would make “an essential contribution” to a healthier global economy. He indicated, however, that the US was committed to working through the G20 to achieve a broader “rebalancing” in world trade.

In an uncharacteristically sharp rebuttal, Chinese Premier Wen Jiabao accused the US of practicing protectionism by keeping the value of the US currency artificially low. Wen’s comments, delivered at a press conference held after the closing session of the annual National People’s Congress meeting in Beijing, set off a political firestorm on Capitol Hill and united Democrats and Republicans for one of the few instances since Obama’s inauguration. In a letter to Treasury Secretary Timothy Geithner and Commerce Secretary Gary Locke, 130 members of Congress demanded the administration designate China a currency manipulator and then begin talks with Beijing on its foreign exchange regime and signal its willingness to enter a formal complaint at the World Trade Organization.

Senators Charles Schumer (D-NY) and Lindsey Graham (R-SC) revived legislation that would force the US to increase pressure on China to raise the value of its currency, a move that would make China’s goods more expensive and help alter some of the trade imbalances around the world. The draft bill, similar to a measure considered in 2007, would require the Treasury Department to determine if a nation has a currency misaligned with the dollar. It would also make it easier for companies to seek import duties to compensate for an undervalued currency. Contributing to the chorus of voices demanding that China revalue the *renminbi*, Paul Krugman, a Nobel-prize winning economist at Princeton University, argued at an Economic Policy Institute event in Washington that global economic growth would be about 1.5 percentage points higher if China stopped restraining the value of its currency and running trade surpluses.

Responding to the moves in Congress, Foreign Ministry spokesman Qin Gang said that “such behavior is a bad example of protectionism that is detrimental to the recovery of the world economy.” However, China also attempted to assuage US political concerns. In late March, China sent Deputy Commerce Minister Zhong Shan to the US to discuss currency and trade issues with members of the administration and Congress. At least publicly, the gap in the two sides’ positions was not narrowed. During Zhong’s visit, Treasury Secretary Geithner urged China to make its currency policies more flexible, to which Zhong responded that revaluation was “not a good recipe for solving problems.” In Beijing, Premier Wen told a group of foreign entrepreneurs that the US and China would “settle disputes and problems” at the upcoming Strategic and Economic Dialogue, scheduled for the end of May. Signaling that an eventual compromise was likely, Wen told the audience, “Looking back, the disputes and differences between China and the United States have been settled one by one, leading to an increasingly close political and economic relationship.”

Mending ties

Just as quickly as China-US friction had emerged in January, tensions were resolved in March with a carefully orchestrated series of diplomatic moves. The process began with a visit to Beijing early in the month by Deputy Secretary of State James Steinberg and the National Security Council’s Senior Director for Asian Affairs Jeffrey Bader. After eight hours of meetings with Chinese officials, including State Councilor Dai Bingguo, statements released by respective government spokesmen suggested that the gap between the two sides on Taiwan and Tibet remained as wide as ever. The Chinese attempted to focus the discussions on rectifying the wrongs committed by the US in selling arms to Taiwan and holding a meeting between the US president and the Dalai Lama, while the US sought to shift attention to “issues of mutual concern,” including Iran’s and North Korea’s nuclear programs, trade and market access issues, and climate change.

Beijing insisted that the US take steps to repair the damage that it had inflicted on the relationship. China’s Ministry of Foreign Affairs spokesman stated that a “pressing issue right now is for the Americans to take China’s position seriously, genuinely respect China’s core interests and major concerns, show sincerity, and take practical action to propel relations between the two countries back onto the path of sound and stable development.” The State Department spokesman signaled that the US and China would continue to disagree on the meaning of “respect for China’s core interests” and that its policy toward Taiwan would remain unchanged. He noted that the senior US officials visiting Beijing had reiterated Washington’s consistent approach that adheres to a one-China policy, the three China-US joint communiqués and the Taiwan Relations Act, and anticipates a peaceful resolution of cross-Strait differences.

Private reports of the meetings indicate that Beijing presented the US officials with a list of demands, including promises to end arms sales to Taiwan and presidential meetings with the Dalai Lama – a list that was seen by the US as unacceptable and one that the Chinese side undoubtedly realized was unachievable. The conversations were likely a key turning point, as the US officials yielded no ground. Following the visit, China likely concluded that the paramount importance of China-US relations to Chinese national interests required making

amends. Perhaps the Chinese also recognized that they had overreached in their threats, expectations, calculations, and demands. In the hope that the Obama administration's emphasis on cooperating with Beijing to address global challenges might result in US willingness to make concessions on China's core interests – Taiwan, Tibet, and Xinjiang – the Chinese had tested the new US president, but had come up short.

The upcoming nuclear security summit planned for mid-April in Washington created some urgency. Hu Jintao surely realized that a refusal to attend in response to US actions that were in accordance with long-standing policies and practices on the issues of Taiwan and Tibet would have been widely perceived as indicative of China's parochial mindset and its unwillingness to be a responsible global player. Thus, a solution needed to be worked out that would allow the US-China relationship to return to normal while enabling China's leaders to save face.

After Steinberg and Bader departed Beijing, Foreign Minister Yang reiterated in a March 7 news conference broadcast live on China's official television network that the arms package to Taiwan and President Obama's meeting with the Dalai Lama had "seriously disturbed" bilateral ties and "undermined" China's "core interests." Yet, even as Yang called on Washington to "seriously consider China's position" and take "credible steps" to "respect China's core interests and concerns," he emphasized that "a sound US-China relationship" is in the "fundamental interests" of both countries, and that China is "committed to promoting positive, cooperative, and comprehensive" bilateral ties. Commentary in the Chinese media also signaled that Beijing was ready to find a compromise. A March 8 editorial in *Global Times Online* noted that "despite clashes and conflicts," the "interests" of both countries are "so intertwined and globalized" that neither can "afford the heavy price that may be extracted by strained relations."

After attending a G20 meeting in Canada, Chinese Vice Foreign Minister Cui Tiankai transited through Washington, where he met top administration officials, including National Security Advisor James Jones on March 22-23. During Cui's visit, the US once again reaffirmed its commitment to the one-China policy and noted Chinese concerns over both Taiwan and Tibet. After Cui's departure, Chinese Foreign Ministry spokesman Qin Gang said that China was "willing to strengthen communication with the United States" and that the best way to decrease bilateral tensions was to put "dialogue and consultations on an equal footing."

A week later, the elements of the well-choreographed diplomatic dance were revealed over the course of several days. President Obama took the unusual step of personally accepting the credentials of China's incoming ambassador to the US, Zhang Yesui, in the Oval Office. Although the meeting was billed by the White House as a reciprocal gesture to President Hu's meeting with US Ambassador to China Jon Huntsman after his appointment, the move was not typical for a US president, and it indicated the administration's strong desire to restore the cooperative bilateral relationship. After the meeting, the White House press office released a statement describing the conversation between Obama and Zhang: "The president stated his determination to further develop a positive relationship with China. He reaffirmed our one China policy and our support for the efforts made by Beijing and Taipei to reduce friction across the Taiwan Strait. The president also stressed the need for the United States and China to work together and with the international community on critical global issues including nonproliferation and pursuing sustained and balanced global growth."

Deputy Secretary of State Steinberg reaffirmed Obama's statements one day later when he spoke at the Foreign Press Center in Washington. Steinberg provided the details of his March trip to Beijing, saying that he and Bader had explained to their Chinese counterparts the US positions on the issues of concern. Once again, he stated that the US adheres to a one-China policy and that "we do not support independence for Taiwan and we oppose unilateral attempts by either side to change the status quo." Steinberg also welcomed improvements in cross-Strait relations under Taiwan President Ma Ying-jeou, saying that the "PRC-Taiwan dialogue contributes to the objective of a peaceful resolution that has been long central to our approach." Notably, Steinberg eschewed using the term "core interests," a term that had caused much confusion in both Beijing and Washington after Obama's November 2009 China trip due to its connotations in China, particularly regarding Taiwan.

On Tibet, Steinberg told attendees, "We reaffirmed our position that we do consider Tibet to be a part of the PRC and do not support independence for Tibet, but we strongly support continued dialogue between the Chinese government and the representatives of the Dalai Lama to resolve the differences." He also noted that, in Beijing, he had reiterated the core approach that President Obama takes toward China, which is "that the United State seeks a relationship with China marked by a positive and pragmatic cooperation in which we expand our areas of mutual interest while candidly addressing our differences." Steinberg stressed the importance of positive China-US security and economic relations. In the security realm, he proposed "intensified dialogue" to address US concerns about China's military modernization and to clarify China's strategic interests and intentions, and called for China's continued cooperation on North Korea and Iran. Finally, regarding the economic relationship, he told his interlocutors in Beijing that all countries must "do their part to assure sustainable, global economic growth and to avoid zero sum solutions that in the end benefit no country."

These statements, meant to reassure Beijing of the continuing US commitment to past agreements and communiqués and nothing more, were met by notable Chinese reciprocation. For many months, China had repeatedly criticized attempts to impose sanctions on Iran over its nuclear program and had continually urged the concerned parties to settle the matter through diplomacy. For example, in September 2009, Chinese Foreign Ministry spokeswoman Jiang Yu stated that "China always believes that sanctions and pressure should not be an option." However, on March 31, China changed its tune, likely as a result of behind-the-scenes diplomacy with Washington. On that day, US Ambassador to the UN Susan Rice announced that the five permanent members of the United Nations Security Council, along with Germany, would soon launch negotiations on a new round of Iran sanctions. Although the Chinese Foreign Ministry was tight-lipped, saying only that "China is highly concerned about the current situation and will strengthen cooperation with all parties," State Department spokesman P.J. Crowley told US media on April 1 that "China has indicated a willingness to be a full participant as we go through the specifics of what would be in [a UNSC resolution sanctioning Iran]." The same day, President Obama indicated in an interview that negotiations at the UN Security Council on Iran sanctions would soon be progressing. *Reuters* reported that an official with knowledge of China's position said that Beijing would likely support the blacklisting of Iranian banks, the imposition of travel bans, and the freezing of assets but was unlikely to blacklist Iranian shipping companies, ban arms imports, or approve sanctions against Iran's oil and gas industries.

Another piece of the carefully choreographed diplomatic deal was an hour-long phone conversation between Presidents Obama and Hu that took place on the evening of April 1, during which the two leaders discussed pressing issues, including Iran sanctions, nuclear nonproliferation, currency issues, and international economic growth. Earlier that day, the Chinese Foreign Ministry announced that President Hu would be attending the US-hosted nuclear summit in Washington in mid-April.

The final component of the deft diplomatic bargain was made public on April 2. The Obama administration announced that it would delay a decision on whether to declare China a currency manipulator. In making the announcement, however, Secretary Geithner pledged to raise the issue at a series of upcoming forums: a meeting of finance ministers and central bank governors from the Group of 20 nations in April; the semiannual Strategic and Economic Dialogue between the US and China in May; and a meeting of G20 leaders and finance ministers in June.

After a brief tense period in US-China relations over issues new and old, the first quarter of 2010 ended on a positive note. Between Google, Taiwan arms sales, the Dalai Lama meeting, and currency valuation disputes, many thought that US-China relations might be entering a period of extended strain. In the end, the importance of preserving a cooperative China-US relationship for both countries prevailed, and US and Chinese diplomats worked together to find a mutually acceptable way forward. A key lesson that has hopefully been learned is that on issues where US and Chinese interests overlap or converge, the two nations should work together; on matters that their interests conflict, they must carefully manage their differences.

The road ahead

An opportunity to further improve the US-China bilateral relationship will be presented in mid-April, when Presidents Obama and Hu are likely to hold a bilateral meeting on the margins of the nuclear security summit. They will probably firm up plans for Hu to make a state visit to the US later this year. The resumption of bilateral military ties will take place gradually, beginning with low-level exchanges and working toward a visit to China by Secretary of Defense Gates in the last half of the year. In the meantime, the two countries will work with the other members of the UN Security Council to pass a resolution that imposes new sanctions on Iran as part of an effort to persuade Tehran to stop all enrichment activities and forego development of nuclear weapons. Next quarter, the main event will be the second round of the Strategic and Economic Dialogue, which will be held in Beijing in late May. Secretary of State Clinton and Treasury Secretary Geithner will travel to China for those talks, which will focus on the full range of bilateral and global issues in US-China ties. In June, the US and Chinese presidents will both attend the G20 summit in Toronto, where they will seek to hash out a strategy to stabilize the global economy with the leaders of the other leaders of the new world club.

Chronology of US-China Relations January – March 2010

Jan. 6, 2010: The US Department of Defense announces the award of a \$968 million contract to Lockheed Martin for the sale of 253 *PAC-3* missiles and related hardware to Taiwan.

Jan. 8, 2010: A Chinese Foreign Ministry spokesman denounces the US decision to sell advanced air defense missiles to Taiwan.

Jan. 11, 2010: The World Trade Organization announces that it will investigate import tariffs levied by the US on Chinese tires in September 2009.

Jan. 12, 2010: Google threatens to end all operations in China after discovering that its “corporate infrastructure” had been hacked by a sophisticated attack originating within China.

Jan. 12, 2010: *Xinhua* reports that China’s military successfully tested mid-course missile interception technology on domestic territory.

Jan. 14, 2010: Commander of US Pacific Command Adm. Robert Willard and Assistant Secretary of Defense for Asian and Pacific Security Affairs Wallace Gregson testify before the House Armed Services Committee on Chinese cyber and space technology modernization.

Jan. 21, 2010: The US Commerce Department announces an investigation into charges that Chinese companies are selling oil well drill pipe in the US at unfairly low prices.

Jan. 22, 2010: Secretary of State Hillary Clinton calls on Beijing to end internet censorship, leading China’s Foreign Ministry to declare that US criticism could hurt bilateral relations.

Jan. 22, 2010: A Taiwanese military plane carrying humanitarian aid to Haiti is allowed to refuel in the US.

Jan. 27, 2010: En route to Honduras, Taiwan President Ma Ying-jeou stops in San Francisco, discussing US-Taiwan relations via telephone with members of the US Congress, including House Speaker Nancy Pelosi.

Jan. 29, 2010: The Obama administration notifies Congress of its intent to sell \$6.4 billion in weapons to Taiwan, including *Patriot* and *Harpoon* missiles, *Blackhawk* helicopters, and mine-sweeper ships.

Jan. 29, 2010: In a speech in France, Secretary Clinton warns that China will be under pressure from the US and other Western nations to cooperate on UN sanctions of Iran.

Jan. 30, 2010: In response to US arms sales to Taiwan, China announces a suspension of military and security exchanges, and threatens to levy sanctions on US companies selling weapons to Taiwan.

Feb. 2, 2010: The US Senate unanimously votes to condemn China for cyber attacks on Google.

Feb. 3, 2010: President Barack Obama tells Democratic senators that he will “get much tougher” on China regarding the valuation of its currency and its trade policies.

Feb. 3, 2010: China's Foreign Ministry warns that a meeting between President Obama and the Dalai Lama would hurt ties between the US and China.

Feb. 5, 2010: China's Commerce Ministry announces that it will levy heavy anti-dumping duties on imports of US chicken parts, one of the few highly profitable US exports to China.

Feb. 17, 2010: A US aircraft carrier, the *USS Nimitz*, makes a port call in Hong Kong.

Feb. 18, 2010: US computer security experts, including representatives from the National Security Agency, link alleged Chinese hacking of Google and other US companies to two prominent Chinese universities, Shanghai Jiaotong University and Lanxiang Vocational School.

Feb. 18, 2010: President Obama meets the Dalai Lama in the map room at the White House.

Feb. 19, 2010: Chinese Foreign Ministry spokesman Ma Zhaoxu says President Obama's meeting the Dalai Lama "amounted to serious interference in Chinese domestic affairs, and has seriously hurt the feelings of the Chinese people and seriously damaged China-US relations."

Feb. 19, 2010: The US-China Economic and Security Review Commission holds a hearing in Washington on the implications and repercussions of US debt to China.

Feb. 23, 2010: US Department of Defense officials confirm that China has postponed several military exchanges with the US in response to announced weapons sales to Taiwan, including a planned trip to the US by China's Chief of the PLA General Staff Chen Bingde.

Feb. 23, 2010: US Commerce Department announces duties of 11-13 percent on Chinese steel imports intended to offset subsidies provided to the industry by the Chinese government.

Feb. 25, 2010: Huang Xueping, spokesman for the Chinese Ministry of Defense, condemns the US for accusing China of hacking and for selling arms to Taiwan, warning the US to "speak and act cautiously."

March 1-3 2010: Deputy Secretary of State James Steinberg travels to Beijing, accompanied by the National Security Council's Senior Director for Asian Affairs Jeffrey Bader to discuss Taiwan, North Korea, Iran, and other issues of importance in bilateral relations.

March 3, 2010: Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell discusses US-China relations before the House Committee of Foreign Affairs.

March 3, 2010: US Trade Representative Mark Kirk testifies before the US Senate Finance Committee that the administration is developing a "holistic" plan for trade relations with China and that the next Strategic and Economic Dialogue with China would occur in May.

March 9, 2010: Yi Gang, head of China's State Administration of Foreign Exchange, says that China is committed to purchasing US Treasury bonds.

March 9, 2010: US Trade Representative Mark Kirk tells an audience in Washington that the US is considering filing a WTO complaint against China for internet censorship rules.

March 11, 2010: Speaking in Washington, President Obama calls on China to adopt a “market-oriented exchange rate” for its currency.

March 11, 2010: The US State Department issues its annual report on human rights, which is sharply critical of Chinese human rights practices.

March 12, 2010: In response to President Obama’s comments a day earlier, Su Ning, vice governor of the People’s Bank of China, accuses the US of politicizing currency values.

March 12, 2010: In response to the State Department report on human rights, China’s State Council issues a report criticizing US gun policies, homelessness, and racial discrimination.

March 14, 2010: At a press conference in Beijing following the close of the annual session of the National People’s Congress, Premier Wen Jiabao says the US is practicing protectionism by depreciating the value of the dollar.

March 15, 2010: A bipartisan group of 130 US lawmakers sends a letter to Obama administration officials urging the White House to take immediate action to address China’s “currency manipulation.”

March 15, 2010: Zhang Yesui, formerly the head of China’s mission at the United Nations, replaces Zhou Wenzhong as China’s ambassador to the United States.

March 16, 2010: The US House of Representatives votes 412–1 for an end to the persecution of Falun Gong practitioners in China.

March 18, 2010: Speaking in Beijing, Ambassador Jon Huntsman urges China to cooperate with the international community on major issues, notably Iran.

March 18, 2010: Deputy Assistant Secretary of State for East Asian and Pacific Affairs David Shear and Deputy Assistant Secretary of Defense for East Asia Michael Schiffer testify before the US-China Economic and Security Review Commission on the future of US-Taiwan relations.

March 21, 2010: Minister of Commerce Chen Deming warns that if the US launches a “trade war” with China, “the American people and US companies will be hurt even more [than China].”

March 21, 2010: US Chamber of Commerce Senior Vice-President Myron Brilliant says that China can no longer count on the US business community to prevent the US government from taking actions against China over its exchange rate.

March 22, 2010: Google announces that it will relocate its Chinese internet search engine from mainland China to Hong Kong to avoid Chinese censorship restrictions.

March 22-23, 2010: Chinese Vice Foreign Minister Cui Tiankai, transiting through Washington, meets National Security Advisor James Jones, Deputy Secretary of State James Steinberg, and members of the National Security Council.

March 23, 2010: Commander of US Pacific Command Adm. Robert Willard testifies before the House Armed Services Committee on Chinese military modernization.

March 23, 2010: US Senators Charles Schumer (D-NY) and Lindsey Graham (R-SC) announce plans for legislation aimed at pressuring China to strengthen its currency.

March 24, 2010: Chinese Deputy Commerce Minister Zhong Shan visits US Treasury and Commerce officials and members of Congress in Washington to discuss currency valuation.

March 25, 2010: The *USS Blue Ridge* makes a port call in Hong Kong for a five-day recreational and cultural exchange mission.

March 30, 2010: President Obama meets new Chinese Ambassador to the US Zhang Yesui at the White House, telling Zhang that “our two countries should build a positive, cooperative, and comprehensive relationship for the 21st century.”

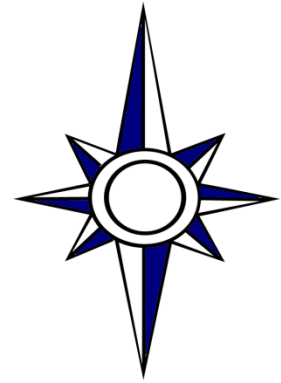
March 30, 2010: Deputy Secretary of State Steinberg tells a press briefing in Washington that the US seeks to develop positive, pragmatic and cooperative relations with China and adheres to the one China policy pursued by previous US administrations.

March 31, 2010: US Ambassador to the UN Susan Rice announces that China has begun cooperating with the UN Security Council to negotiate a fourth round of sanctions against Iran.

March 31, 2010: Former US Secretary of State Madeleine Albright and former US Assistant Secretary of State Richard Williamson visit China to lead the first high-level dialogue between the Chinese Communist Party and the Republican and Democratic parties.

April 1, 2010: China’s Foreign Ministry spokesman Qin Gang says Hu Jintao will attend the April 12-13 nuclear security summit in Washington on his way to Brazil, Venezuela, and Chile.

April 1, 2010: Presidents Obama and Hu hold a one-hour telephone conversation to discuss China-US cooperation on Iran sanctions, nuclear nonproliferation, currency issues, and international economic growth.



**US-Korea Relations:
Nuclear South of the Border**

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The first quarter of 2010 set the stage for what should be a busy year in US-Korea relations. The Six-Party Talks remain stalled, although dire conditions in the North may force Kim Jong-il back to negotiations soon. While North Korea continues to demand concessions before a return to talks, the US shows no sign of caving in. In South Korea, there was a flurry of mixed signals on whether the transfer of wartime operational control (OPCON) to Seoul scheduled to be completed in 2012 would go ahead as planned. Prospects for the US-ROK free trade agreement got a boost from President Obama and his administration, however, it remains uncertain when the deal will move to Congress for ratification. Finally, the issue of spent nuclear fuel reprocessing in South Korea has made its way to the forefront of US-Korea relations, where it will likely remain for some years.

Six-Party Talks update

Despite hopes that the Six-Party Talks would restart during the early part of 2010, there is still no agreement on when negotiations will resume. The US maintains that all the parties except North Korea are ready to return to the negotiating table. Meanwhile, Pyongyang has demanded discussions on a peace treaty with the US as a precondition to any nuclear talks and it is also calling on the UN to lift all international sanctions, although it is clear that North Korea has very little leverage for making demands. The Obama administration has held firm to its position that sanctions and a peace treaty will not be used as bargaining chips to entice the North into talks. Pyongyang's habitual renegeing has finally caught up with it. The North Korean regime is under unprecedented fire for bungling the economy, leading to reports that Kim Jong-il is gearing up for a trip to Beijing this spring to secure Chinese aid. Given the North's heavily weakened position, some have argued that this visit could also serve as a segue into a new round of Six-Party Talks.

The recent economic disasters in North Korea have shaken the core of the Kim Jong-il regime. Kim may have no choice but to return to negotiations in order to receive the aid necessary to stabilize his economy – and the government's grip on power. The devastating currency revaluation of November, 2009 sent prices in North Korea skyrocketing. This combined with an exceptionally poor harvest has left the already impoverished North Korean citizens in a newfound state of destitution. Such gross mismanagement is not necessarily unprecedented in the North, however the mounting backlash from the citizens is something new. This time there seems to be a sense among the population that the ruling regime bears some responsibility in the debacle. The government acted swiftly to place blame on Pak Nam-gi, the ranking party official in charge of finance. Pak was first relieved of duty, and then reportedly executed by firing squad

in early March. Subsequently, there were reports that one of Pak's deputies was also executed. Nevertheless, reports of small, yet continuous, pockets of domestic unrest signal that the currency reform has caused lasting damage to the relationship between North Korean citizens and the regime.

The debate over OPCON

The US and South Korea spent the quarter sending mixed signals about the OPCON transfer, which is currently scheduled for April, 2012. The agreement, which was conceived in 2007 during the tenure of President Roh Moo-hyun, stipulates that the US will transfer wartime command of South Korean troops to the ROK military for the first time since the early days of the Korean War. Several South Korean lawmakers have urged a delay in the transfer, arguing that the ROK military may not be ready to respond to North Korea's unconventional weapons threat. USFK Commander Gen. Walter Sharp went on the record in late March stressing that the transfer is going ahead on time. Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell struck a more flexible tone, saying that he took South Korean concerns seriously and that the transfer issue is "a matter for further high-level dialogue between the two countries."

Those opposed to the OPCON transfer argue that it would significantly weaken the defense posture of the two allies against North Korea. Specifically, there are concerns over whether South Korea is ready to respond to a potential increased nuclear capability in the North. Further, opponents point to the proposed deactivation of the Combined Forces Command, which would establish two separate commands for the South Korean and US militaries. Some question whether this divided command structure would be wise given provocations from Pyongyang.

Others argue that changing the transfer timetable at this time would send the wrong message to the North. These proponents contend that regardless of the OPCON transfer, the militaries of both South Korea and the US are capable of dealing with North Korea's nuclear threat. Any talk of delaying the transfer, they argue, would convey weakness and a lack of confidence in the abilities of the ROK.

South Korean crisis management went on worldwide display after the March 26 patrol boat tragedy that left 46 ROK sailors dead. The ship reportedly exploded and broke in half in the Yellow Sea, just south of the border with North Korea. South Korean officials are still investigating the cause of the incident, although several major newspaper have been quick to report the possibility that a North Korean torpedo or mine could have been responsible. The US Navy aided in the search and rescue mission, sending four US vessels to look for any survivors. The mission was eventually shifted from rescue to salvage. Seoul will take the operational lead, with Washington providing high-tech equipment and maritime salvage experts.

Shot in the arm for KORUS

The KORUS free trade agreement (FTA) got a boost from President Obama this quarter when he called for stronger trade relations with South Korea in his State of the Union Address in January. He touted free trade agreements as a key component of the National Export Initiative, which aims to double US exports over the next five years. The president estimates that this would help

support 2 million jobs across the country. These statements are significant in that they framed free trade as a means for increasing jobs and stimulating the US economy. Other administration officials have also begun to echo that sentiment. This is a shift from much of the usually negative free trade rhetoric which focuses on potential losses. According to recent statistics from the East-West Center, the states of Washington, Oregon, Vermont, Idaho, and New Mexico all have over 1,000 jobs per 100,000 residents linked to Asia exports. The US public is starting to hear a new discourse about how free trade can be part of the answer to the recession.

In March, a group of lawmakers from the US and Korea announced plans to form a task force to build bipartisan support for the FTA in both countries. Their goal is to expedite the ratification process, which has progressed at a frustratingly slow pace. Meanwhile, the Korea-European Union FTA is on schedule to be inked this spring. If that deal were to be ratified before KORUS, the US would be faced with the possibility of losing real market share in Korea. This message was not lost on President Obama, who in his State of the Union Address urged that, “We have to seek new markets aggressively, just as our competitors are. If America sits on the sidelines while other nations sign trade deals, we will lose the chance to create jobs on our shores.”

While US Trade Representative Ron Kirk notes that there are still outstanding issues in the FTA regarding autos and beef, there is a growing sense that they can be taken care of through side agreements that would not require an amendment of the FTA. The administration has clearly come out positively on the FTA, although we have yet to see a decisive push for ratification. The likelihood of ratification continues to rise, but the timetable is still uncertain. Although the end of the health care debate could allow Congress to shift its focus, the political climate surrounding trade remains difficult, especially heading into the midterm elections in November. Both sides realize that it will still take some time for ratification to be considered, but there is a renewed hope that movement should be possible shortly after the elections.

Nuclear, south of the border

While a conclusion may soon be in sight for the FTA, another major issue in US-ROK relations is beginning to emerge. In early March, Seoul hosted an international conference on atomic energy where South Korean Prime Minister Chung Un-chan reaffirmed his country’s commitment to move forward with recycling its nuclear waste. This is a controversial move that encompasses a range of issues from energy security to nuclear nonproliferation.

Lacking an indigenous abundance of the natural resources necessary for electricity production, South Korea has turned to nuclear power as an efficient and cost effective alternative. The ROK currently gets about 30 percent of its electricity from nuclear energy and the plan is to increase that share to 59 percent by 2030. While nuclear power is good for air quality, it also produces potentially dangerous nuclear waste. South Korea already houses over 10,000 tons of nuclear waste and the government is encountering difficulties in finding permanent storage facilities to house this radioactive material. This is where the idea for recycling originates. If there was an option to reuse parts of the waste as fuel, the waste problem could be significantly reduced. This is also an attractive option to Seoul from an energy security perspective because it would reduce South Korea’s reliance on imports.

Recycling also presents a number of challenges. Recycling spent fuel can be undesirable from a nonproliferation standpoint as it brings the nuclear material one step closer to being usable for nuclear weapons. South Koreans counter that they are working on perfecting an advanced recycling technique known as pyroprocessing, which may be more proliferation resistant than the current industry standard used by Japan and France known as the Plutonium Uranium Extraction (PUREX) method. PUREX separates plutonium – which can be used to make nuclear weapons – from the nuclear waste slurry, creating a dual-use concern. Pyroprocessing uses a high-temperature method of recycling that does not extract pure plutonium. However, there is a dispute among scientists regarding how proliferation resistant pyroprocessing will be once it is ready for commercial use.

Another challenge facing South Korea in its quest toward pyroprocessing is the fact that it is party to several agreements that ban spent nuclear fuel “reprocessing” in the country. Through the 1992 Joint Declaration on Denuclearization of the Korean Peninsula, both the North and the South pledged to refrain from any type of fuel enrichment or reprocessing. The 1974 nuclear accord between Washington and Seoul also forbids spent nuclear fuel reprocessing in South Korea. Seoul contends that because pyroprocessing is inherently more proliferation resistant than traditional reprocessing, it should be considered separately. Additionally, the South Korean government points to what it calls a double standard in the fact that the US does not seriously object to reprocessing in Japan, but prevents Seoul from dealing with its serious waste problem. The 1974 accord expires in 2014, and the US and South Korea are now working swiftly to develop a successor agreement. All eyes are on the US government’s decision on how to deal with Seoul’s plan to pyroprocess. If the US objects, it would likely strike a blow to bilateral relations. However, any move toward developing an operational pyroprocessing capability in the South could complicate denuclearization talks with the North.

Outlook

President Lee Myung-bak and the South Korean government have already signaled that they are ready to move ahead with the development and implementation of pyroprocessing. Over the next several quarters, look for the US to develop a firm stance on pyroprocessing in the South. On the Six-Party Talks, all parties are looking toward North Korea to join the group and agree to a new round of negotiations. If Kim Jong-il does indeed make his much speculated trip to China, there will be heightened anticipation of an imminent return to talks.

Chronology of US-Korea Relations January - March*

Jan. 7, 2010: A senior US State Department official says that the US would welcome a visit to China by DPRK leader Kim Jong-il.

Jan. 10, 2010: DPRK Foreign Ministry says that the resumption of the Six-Party Talks depends on building confidence between Pyongyang and Washington and calls for a peace treaty.

* Prepared with assistance from David Shin W. Park

Jan. 11, 2010: Robert King, the US special envoy for DPRK rights issues, says the DPRK must improve its “appalling” human rights record if it wants better relations with the US.

Jan. 11, 2010: White House spokesman Robert Gibb dismisses the DPRK’s call for talks on a peace treaty to formally end the Korean War before addressing the issue of dismantling Pyongyang’s nuclear programs.

Jan. 12, 2010: DPRK Ambassador to China Choe Jin-su says that the DPRK will not return to nuclear disarmament negotiations unless the US agrees to peace treaty talks and lifts sanctions.

Jan. 13, 2010: US Special Envoy for the DPRK Stephen Bosworth says, “When North Korea comes back to Six-Party Talks and resumes making progress for the goal of denuclearization, the Security Council will examine the appropriateness of a revision of the sanctions resolution.”

Jan. 13, 2010: DPRK says it will allow in more US tourists after years of heavy restrictions on visits, according to the Koryo Group, a tour operator that specializes in DPRK tourism.

Jan. 14, 2010: *Rodong Sinmun*, the newspaper of DPRK Workers’ Party, calls for the withdrawal of US troops from ROK.

Jan. 14, 2010: In a conversation with ROK Internet users, Special Envoy King says the DPRK should follow in the footsteps of Russia and China and open its economic and political systems to improve conditions for its people. He also says the US will not normalize ties with a country that systematically abuses the rights of its people.

Jan. 15, 2010: ROK Trade Minister Kim Jong-hoon says that the ROK government will not respond if the US repeats its demand to amend a bilateral free trade accord.

Jan. 18, 2010: *Chosun Ilbo* reports that senior officials in the U.S. administration, congressmen, and staff see nearly no prospect for the ratification of the ROK-US free trade agreement by the US Congress, according to a group of ROK lawmakers following a visit to Washington.

Jan. 20, 2010: *Yonhap* reports that the ROK defense minister said the proposed transfer of wartime operational control (OPCON) to ROK is scheduled for the “worst” possible time.

Jan. 22, 2010: US Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell says the Obama administration will work closely with ROK toward congressional approval of the KORUS FTA at a hearing before a Senate Foreign Relations Subcommittee.

Jan. 21, 2010: *Korea Times* reports that United States Forces Korea (USFK) will not pay for the cleanup of Camp Hialeah in Busan. Civic groups blame the ROK government for failing to get the USFK to share cleanup costs.

Jan. 24, 2010: *Korea Times* reports that the ROK is moving to hold behind-the-scenes discussions with the US in a bid to amend an agreement on cooperation in nuclear energy.

Jan. 24, 2010: US Navy announces it assisted of a DPRK-flagged ship in the Gulf of Aden.

Jan. 26, 2010: DPRK announces a shipping exclusion zone off part of its west coast.

Jan. 27, 2010: US President Barack Obama in the State of the Union Address calls on DPRK and Iran to abandon their nuclear ambitions, warning of stronger sanctions if they continue to pursue atomic weapons in violation of international accords.

Jan. 27, 2010: *Korean Central News Agency* reports that DPRK detained a US citizen for illegally entering the country from China on Jan. 24.

Jan. 27, 2010: Adm. Robert Willard, commander of US Pacific Command, says the DPRK appears willing to resume the search for the remains of missing US service members on its soil.

Jan. 27, 2010: US State Department spokesman Philip Crowley denounces the DPRK for escalating tensions by firing artillery shells along the disputed western sea border.

Jan. 29, 2010: ROK and the US agree to conduct a feasibility study on pyroprocessing.

Jan. 29, 2010: President Obama says he will move for congressional approval of pending free trade deals with the ROK, Colombia, and Panama.

Jan. 29, 2010: State Department spokesman Crowley dismisses a DPRK offer to reopen talks on finding US soldiers missing since the Korean War, saying Pyongyang must first resume discussions on ending its nuclear ambitions.

Jan. 30, 2010: Deputy Secretary of State James Steinberg expresses US support for President Lee Myung-bak's proposal to meet DPRK leader Kim Jong-il.

Feb. 1, 2010: *Rodong Simun* urges the US to give up the Cold War mindset and conclude a peace treaty.

Feb. 2, 2010: Lt. Gen. Benjamin Mixon, commander of US Army, Pacific, says the US wants to organize trilateral military exercises with the ROK and Japan to better deal with disaster relief and humanitarian assistance.

Feb. 3, 2010: President Obama certifies that the DPRK would remain off the US list of terrorist states, despite some calls from Congress for the state to be put back on.

Feb. 3, 2010: Director of National Intelligence Dennis Blair says in testimony before Congress that the DPRK relies on its nuclear weapons program because of a crumbling military that cannot compete with the ROK.

Feb. 3, 2010: US Forces Korea Commander Gen. Walter Sharp says US troop levels in the ROK will remain unchanged after Seoul takes back the wartime operational control of its troops.

Feb. 3, 2010: US Secretary of Defense Robert Gates says at a hearing of the House Armed Services Committee that additional US ground forces may not be able to arrive in ROK in time in case of an emergency situation in DPRK due to US commitments in Iraq and Afghanistan.

Feb. 4, 2010: Officials at a House Armed Services Committee hearing say the US will mobilize additional forces to send to the ROK in case of a DPRK regime collapse or other contingency.

Feb. 4, 2010: State Department spokesman Crowley says the DPRK's proliferation of weapons of mass destruction could result in relisting as a state sponsor of terrorism.

Feb. 4, 2010: US Defense Department report claims the ROK is interested in participating in a US-led ballistic missile defense system, but Seoul denies any concrete commitment.

Feb. 5, 2010: DPRK announces US missionary Robert Park would be released after admitting that he entered the country illegally and showed "sincere repentance" for the transgression.

Feb. 8, 2010: In an interview with *CNN*, US Secretary of State Hillary Clinton says the Obama administration will continue engaging the DPRK to convince it to return to the Six-Party Talks.

Feb. 9, 2010: State Department spokesman Crowley says Kim Jong-il's declaration that he is committed to shelving the country's nuclear weapons program must be followed by action to rejoin international negotiations.

Feb. 10, 2010: *Chosun Ilbo* reports that a Gallup poll shows ROK citizens believe that the US-ROK alliance has become stronger since the inauguration of the Lee Myung-bak administration.

Feb. 12, 2010: After his four-day trip to North Korea, UN Undersecretary for Political Affairs Lynn Pascoe says the DPRK is not eager to return to the Six-Party Talks.

Feb. 15, 2010: *Korea Central News Agency* reports the DPRK will seek to end hostile relations with the US through "dialogue and negotiation" and also push to mend ties and unite with the ROK by promoting reconciliation and cooperation.

Feb. 19, 2010: *Korean Central News Agency* says the DPRK's "nuclear deterrent for self-defense will remain as ever and grow more powerful ... as long as the US nuclear threat and hostile policy persist."

Feb. 24, 2010: US Special Envoy Bosworth says he is "confident" that Six-Party Talks will resume after meeting Wu Dawei, his Chinese counterpart, in Beijing.

Feb. 24, 2010: ROK Defense Minister Kim Tae-young says he hopes the US security umbrella would remain intact for a long time.

Feb. 25, 2010: ROK National Assembly approves a government proposal to send 350 troops to protect ROK civilian aid workers in Afghanistan. The troops will be deployed in central Parwan province from July 2010 to the end of 2012.

Feb. 25, 2010: Center for International Security and Cooperation (CISAC) reports that Stanford specialists are working with doctors from Pyongyang's Ministry of Public Health to develop that country's first diagnostic laboratory for drug-resistant tuberculosis.

March 3, 2010: In a speech to the Conference on Disarmament, DPRK diplomat Jon Yong Ryong says, "The nuclear issue on the Korean peninsula should be settled between the DPRK and the US from every aspect as it is a product of the hostile policy of the US toward the DPRK."

March 4, 2010: US Special Envoy Bosworth says that the US and China agreed to boost diplomatic drives to resume the stalled Six-Party Talks "as soon as we can."

March 7, 2010: *Korean Central Broadcasting Station* denounces the annual *Key Resolve-Foal Eagle* US-ROK military exercise saying it would indefinitely suspend denuclearization talks and all military dialogue as long as the "hostile war games" continue.

March 8, 2010: The US and the ROK begin their annual joint military exercise.

March 11, 2010: Gen. Sharp says that US troops who would be tasked with eliminating the DPRK's weapons of mass destruction in the event of armed conflict are participating in the current *Key Resolve-Foal Eagle* US-ROK military exercise.

March 11, 2010: South Korean Prime Minister Chung Un-chan speaks at the Summit of Honor on Atoms for Peace and Environment (SHAPE), and reiterates Seoul's intention to pyroprocess spent nuclear fuel.

March 15, 2010: ROK government official says that the US has hired a US think tank to gauge public opinion in the ROK on the proposed delay of handing wartime OPCON to Seoul.

March 16, 2010: *Korea Herald* reports that revision of a 1974 nuclear energy agreement between the ROK and the US is expected to be critical to the development of the alliance as Seoul explores ways to reuse its mounting nuclear waste.

March 17, 2010: *Chosun Ilbo* reports that Assistant Secretary of State Kurt Campbell told US Ambassador Kathleen Stephens, an ROK lawmaker, and activists in a closed-door session that he doubted Kim Jong-il would live beyond 2013.

March 17, 2010: ROK Defense Minister Kim Tae-young says that the DPRK has increased its missile arsenal by 25 percent in the past two years to about 1,000.

March 17, 2010: *Asahi Shimbun* reports the US has asked the ROK to put a regional defense system against ballistic missiles on the agenda for security talks between the two countries.

March 18, 2010: *Yonhap* news agency reports that Pak Nam Gi, the ruling Workers' Party finance and planning department chief who spearheaded the currency reform in the DPRK, was executed by a firing squad in Pyongyang.

March 18, 2010: *Korea Times* reports that a US Joint Forces Command report says that the ROK, like Japan, has the technology to build a nuclear arsenal quickly if it decides to do so.

March 22, 2010: *Korean Central News Agency* announces that the DPRK will put on trial a US citizen identified as Aijalon Mahli Gomes, who entered the country illegally.

March 26, 2010: In comment on *KCNA*, the DPRK military threatens "unprecedented nuclear strikes" over a report that the US and ROK are preparing for possible instability in the DPRK.

March 26, 2010: Gen. Sharp suggests discussions at the "highest levels" of the ROK and US governments over delaying the handover of full control of ROK troops to Seoul in 2012 at a hearing of the Senate Committee on Armed Services. Adm. Robert Willard, commander of the US Pacific Command, says that the US is ready to transfer the wartime command control of the ROK troops to Seoul as scheduled in 2012.

March 26, 2010: ROK warship *Cheonan* splits apart near the maritime border with the DPRK and sinks after an explosion in the rear hull. The cause of the explosion remains unclear, and officials say it could take weeks to determine.

March 27, 2010: US State Department spokesman Crowley says that the US has no evidence that DPRK is involved in the sinking of *Cheonan*.

March 29, 2010: ROK officials rule out that an accident or collision with a reef caused the *Cheonan* to sink. Defense Minister Kim Tae-young suggests that one of the many DPRK sea mines placed during the Korean War could have sparked the explosion that sunk the *Cheonan*.

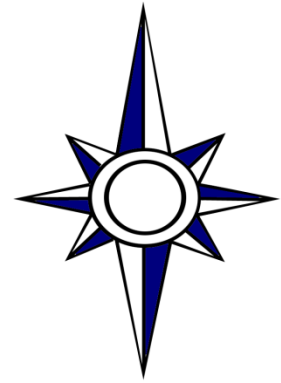
March 29, 2010: DPRK accuses the US and the ROK of creating provocations by allowing tourists and journalists into the Demilitarized Zone. The DPRK demands an end to the tours, calling them part of a pattern of "psychological warfare" and warning of "unpredictable incidents including the loss of human lives in this area for which the US side will be wholly to blame."

March 30, 2010: ROK Defense Minister Kim Tae-young says, "North Korea may have intentionally floated underwater mines to inflict damage on us."

March 31, 2010: ROK's *Yonhap* reports that Secretary of State Clinton has acknowledged that the DPRK possesses nuclear weapons.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



Catharin Dalpino
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US-Southeast Asia Relations: Denouement and Delay

After banner initiatives in US policy toward Southeast Asia were unveiled in 2009 – the US-ASEAN Leaders Meeting, signing the ASEAN Treaty of Amity and Cooperation, and a 45-degree change in Burma policy that added engagement to sanctions – a loss of momentum in early 2010 was hardly surprising. President Obama’s decision to delay his long-awaited trip to Indonesia twice in March added to the impression of a slump in relations with the region. The administration proved to be prescient in its warning last fall that greater engagement with the Burmese regime would not likely reap short-term gains when the junta announced restrictive election laws. However, in the first quarter of 2010 the US also moved forward on two regional initiatives – strengthening its interest in the TransPacific Trade Partnership, which could be a route to trade liberalization with several Southeast Asian countries, and preparing to establish a Permanent Mission to ASEAN. Despite Bangkok’s ongoing political crisis and a new wave of “red shirt” protests, the US and Thailand implemented new rounds of two multilateral military exercises in this quarter, including the flagship *Cobra Gold*. At the end of the quarter the US and Vietnam signed a landmark Memorandum of Understanding on the development of civilian nuclear power facilities, a bilateral segue to the multilateral nuclear summit that Obama will host with 43 heads of state in mid-April.

An ebb in momentum

By all accounts, 2009 was a banner year for US relations with Southeast Asia. Determined to raise the US profile in the region and improve the tone of discourse – key elements in “soft power” – the Obama administration dispatched Secretary of State Hillary Clinton to ASEAN meetings, signed the ASEAN Treaty of Amity and Cooperation, and launched the first-ever US-ASEAN Leaders Meeting, on the margins of the November Asia-Pacific Economic Cooperation (APEC) meeting in Singapore. These were largely symbolic acts but important ones that were, in the view of many Southeast Asians, overdue. The administration also won the approval of the pragmatic ASEAN countries with the review of its Burma policy, adding engagement to the ongoing menu of sanctions.

The inevitable ebb of this momentum was readily seen in the first quarter of 2010. The course of health care reform legislation compelled President Barack Obama to postpone a long-anticipated trip to Indonesia twice; the trip is now scheduled for June. (Some Indonesians count three postponements, the first one in November, when Obama was expected to visit his boyhood home after attending the APEC meeting in Singapore.) Given the historic importance of the health care vote – and the result – the fallout from the cancellations was minimal. Had the health care

bill not passed in the House of Representatives, Obama could have been seen as failing on both the domestic and foreign policy fronts, so the end is viewed as having justified the means.

However, in planning for a presumed March visit, the spotlight was focused on US-Indonesian relations and movement toward the completion of a US-Indonesia Comprehensive Partnership was greatly anticipated. The Comprehensive Partnership is wide-ranging and includes cooperation on security, trade, education, infrastructure, and climate change. Like many “deliverables” tailored for a presidential visit, a good deal of the Comprehensive Partnership is old wine poured into new bottles, but it is also meant to be a game plan for a long-term bilateral relationship that the US increasingly views as central to its Southeast Asia policy.

But the *Tentara Nasional Indonesia* (TNI) appeared to have a short-term shift in mind as well. In early March reports in the Indonesian press indicated that Jakarta nurtured hopes that the finalization of the Comprehensive Partnership would include restoration of US assistance to *Komando Pasukhan Khusus* or *Kopassus*, the TNI elite Special Forces unit that has been sanctioned for human rights abuse under the Leahy Law in the 1990s. These reports presaged the visit to Washington of four *Kopassus* officials, led by the unit’s commander, Maj. Gen. Lodewijk Paulus. Jakarta hoped that training and other assistance could be extended to junior *Kopassus* forces who were not associated with abuses in East Timor in the 1990’s, but the Leahy Law requires that the entire unit be sanctioned if officers within it were found to have committed abuses. Although the administration cautioned that it saw no quick restoration of relations with *Kopassus*, remarks by former Indonesian Defense Minister Juwono Sudarsono in the *Jakarta Post* raised hopes on the Indonesian side that assistance to the unit would be a “deliverable” for the Obama visit. As planning resumes for a June trip, dialogue between the two governments on this issue is likely to focus on the difficulty of circumventing the long-established Leahy Law and the need to resolve this issue in the fullness of time.

Strengthening the US-Southeast Asian regional framework

In her Jan. 12 address to the East-West Center in Honolulu on Asian regional architecture, Secretary Clinton made ASEAN one of the points of focus. Her remarks included the customary US boilerplate on the need for ASEAN and other regional institutions to strive for greater efficiency and division of labor among the proliferation of regional groups. At the same time, she signaled US interest in joining the East Asia Summit (EAS), although it remains unclear what niche the EAS fills in the Asian regional framework. Clinton also had a pointed message for ASEAN when she said that “... the ASEAN Regional Forum (ARF) should make good on the vision laid out ... to assume greater responsibility for disaster relief and humanitarian operations.” This is a clear reference to the Joint Voluntary Exercises on Disaster Relief inaugurated in May 2009 in the Philippines, originally a US initiative. As yet, ARF has made no concrete decision to maintain an annual schedule for this series.

In the meantime, Washington plans to make good on its pledge to open a Permanent Mission to ASEAN in Jakarta. In January, Josh Cartin, a Foreign Service officer, became the resident representative of the new mission in Jakarta. The administration pledges to have a resident ambassador for ASEAN affairs in place by the end of the year. At present, that position is filled by East Asia Pacific Deputy Assistant Secretary of State Scot Marciel from Washington.

Less clear are the plans for a second round of the US-ASEAN Leaders Meeting, commonly referred to as the US-ASEAN Summit. Last fall, Vietnamese President Nguyen Minh Triet reportedly issued an invitation to President Obama to visit Hanoi in 2010 for the second summit. With three Asia trips already planned for the year – the Indonesia/Australia make-up visit, the G20 meeting in Seoul, and the APEC meeting in Yokohama – it is not clear when Obama might fit a visit to Vietnam into his schedule. Some administration officials are thought to favor a US-ASEAN meeting on the margins of the UN General Assembly meeting in New York in the fall, a convenient if uninspiring option.

The “creeping multilateralization” of security

The US continued to participate in and encourage the informal multilateralization of security exercises in Southeast Asia in early 2010. Despite the ongoing political crisis in Bangkok, in February, Thailand and the US were joined by Singapore, Japan, Indonesia, and South Korea in the 29th round of the *Cobra Gold* exercises, with 15 nations observing. The exercises, the largest in the region, included 5 engineering construction and 7 medical civic action projects.

In recent years, China has attempted to organize bilateral “echo” exercises with Thailand, and this year Beijing proposed air, sea, and land drills. Included in the package was a proposal for a simulated amphibious landing that worried some Western analysts that China might see some application to Taiwan. Although Thai-Chinese exercises are much smaller than *Cobra Gold*, they have progressed steadily over the past few years and, like Chinese actions in the South China Sea, have the potential to erode the US security influence in Asia.

In early March, maritime Southeast Asia was jolted when Singapore warned that a terrorist group planned to attack oil tankers in the Straits of Malacca. The littoral states – Singapore, Indonesia, and Malaysia – quickly raised their security threat-level warnings. A terrorist attack in the Straits has been a frequent worry for security planners in the post-Sept. 11 environment. On an annual basis, 60,000 ships pass through the Straits and 90 percent of the oil imported by China, Japan, and South Korea moves through those sea lanes. Some analysts believe that the threat was connected to Indonesian police operations against a new terrorist group in Aceh, but there is no consensus on the source. However, the threat underscored the need for greater cooperation on maritime security among the littoral states and with the regional powers, a point that the US has long advocated.

Another window on Southeast Asian security opened wider this quarter with the signing of the US-Vietnam Memorandum of Understanding (MOU) on Nuclear Cooperation. The MOU builds on a bilateral process that began in 2007 and is intended to result in a legally binding agreement to help Vietnam develop a safe civilian nuclear energy capacity. The MOU mirrors the intention of several ASEAN states to expand into nuclear energy and provides a segue to the participation of several Southeast Asian countries in the US-hosted nuclear summit in mid-April. Although the focus of that meeting will be on nonproliferation, the growing Southeast Asian interest in the peaceful uses of nuclear power will no doubt be reinforced.

Redirecting free trade

On Jan. 1, the China-ASEAN Free Trade Area (CAFTA) was finalized, after an eight-year negotiation and implementation process, making it the largest free trade arrangement in the world. This salutary event was juxtaposed against a halting US record of trade liberalization with Southeast Asia and an administration agenda that does not include a US-ASEAN FTA in its plans. Efforts to negotiate bilateral FTAs with Thailand and Malaysia have lapsed. In their place, Washington is urging these two countries – and any other APEC members – to consider accession to the TransPacific Trade Partnership (TPP). In November 2009, President Obama signaled clear interest in US membership in the TPP, and the administration has since publicly touted the group as a potential springboard for a regional free trade regime. In March, officials from the US Trade Representative joined trade officials from seven other Asia-Pacific countries in a negotiating round in Melbourne. Vietnam has also indicated a firm interest and participated in the Melbourne rounds; Singapore and Brunei are already members.

Since then, Kuala Lumpur has expressed interest in the TPP and seems to be persuaded that US-Malaysian trade can benefit from that arrangement at least as much as it would from a US-Malaysia FTA. Thailand has not weighed in publicly and is not likely to do so until the government has been able to stabilize the domestic political situation. It is not clear what other Southeast Asian countries might be inclined or able to join the TPP. Jakarta has not as yet expressed concrete interest and the Philippine constitution prohibits participation in free trade agreements of this nature.

Entry into the TPP will not necessarily be smooth sailing for the US. Several sectors may present obstacles, including textiles, agriculture, dairy, and intellectual property. Congress has indicated some concern about including Vietnam in an agreement if US allies are not included. The administration has not yet conducted extensive consultations with Congress on the TPP. It intends to do so this spring, before the next TPP round in June. In the present political climate, however, it is unlikely that the administration will be able to change the minds of 50 percent of Congressional Democrats who have opposed new trade agreements in the next few months. Nevertheless, administration officials remain convinced that over the long run the TPP offers the best possibility for a regional FTA that includes the US.

Burma: a disappointment but hardly a surprise

When the Obama administration reported out the results of an internal review of Burma policy and announced opening the door to engagement with high levels of the Burmese government, US officials were cautious to the point of being pessimistic about the possibility that a modest change in the policy paradigm would have an immediate effect on the Burmese regime. They were proved right in early March when the regime promulgated five laws for planned elections later this year. The law that has caused greatest concern in the international community governs political parties. That law outlaws politicians with criminal records, which includes National League of Democracy (NLD) leader Aung San Suu Kyi, who last year was convicted of illegal contact with a foreigner when an American swam across the lake that borders her house. Many senior NLD leaders have also been incarcerated as political prisoners. A second clause requires parties to contest for at least three parliamentary seats in the election or risk losing their legal

status as political parties. State Department officials were quick to express their dismay and disappointment over the political party law.

In late March, the NLD announced that it would not participate in the elections, effectively forfeiting their status as a political party. The NLD decision, although expected, places the US and the European Union in a particular dilemma as they had been the strongest supporters of the NLD. The Burmese regime will put forward one or more political parties in the election – at least one will be a spin-off of the government-created Union Development and Solidarity Association – and other groups with less government involvement may also emerge to participate. Washington has said that the elections cannot be free and fair if political prisoners are not released and allowed to compete. However, a report issued in late March by an Asia Society Task Force on Burma reveals a broader spectrum of opinion in Asia on the elections. Although many Asian leaders do not expect the elections to be free and fair, they nevertheless believe they represent a landmark in Burmese politics and, with the creation of upper and lower houses of a Parliament and regional and district legislatures, offer some degree of political pluralism. These differences in perception could make it more difficult to coordinate an international response to the elections.

Administration officials may be candid in admitting that the new Burma policy has not met with short-term success, but they are not ready to abandon engagement altogether. The administration has no plans to lift sanctions in the near term, and it is unlikely that either the US or Burma will be inclined to increase engagement significantly before elections. However, the administration does not rule out a deeper relationship with Burma if the Burmese political situation improves. When he testified before the House Armed Services Committee in late March, Adm. Robert Willard, commander of the US Pacific Command, raised the possibility of US-Burma military-to-military engagement “when US policy allows.” Nor is the administration likely to walk back its commitment to humanitarian assistance to Burma, barring new obstacles presented by the regime. Humanitarian assistance is increasingly viewed as a policy element in its own right, rather than a means of encouraging political change and will likely endure regardless of political conditions in Burma.

Refugees and human rights

Although Burma continued to consume the lion’s share of attention, US officials and human rights groups had other causes for concern in Southeast Asia this quarter. This included the firebombing of Malaysian Christian churches in early January after the Malaysian Supreme Court ruled that a Catholic church could use the term “Allah.” In February, the second trial of Malaysian opposition leader Anwar Ibrahim began and the Malaysian government warned foreign governments not to comment on the trial, a message that was believed to be intended specifically for Australia. At a press conference in Kuala Lumpur in March, US Assistant Secretary of State for East Asia and Pacific Affairs Kurt Campbell responded to a question on the Anwar trial by urging the Malaysian judiciary to pursue “an impartial application of the law.”

The year began with US expressing displeasure with both Thailand and Laos over the repatriation of 4,000 Hmong to Laos in late December 2009. In early January, Rep. Eni Faleomavaega, chair of the Asia Subcommittee of the House International Relations Committee,

led a Congressional delegation that included Rep. Mike Honda of California and Rep. Joseph Cao of Louisiana to Laos. They visited repatriated Hmong in Phalak, an area set up by the Lao government for the returnees and reported that they saw no signs of mistreatment. Some refugee advocates believe that the delegation saw a Potemkin village, but the issue has subsided for the moment. However, as long as the countries involved stick to monolithic views of the Hmong, the potential for future such incidents will remain. Encouraged by the international media, some US groups are inclined to regard all Hmong in Laos as *de facto* political prisoners because of their association with the US during the Vietnam War. That may be true in some cases, but does not take into account the fact that fully one-third of the Hmong fought with the *Pathet Lao* (roughly the same proportion that sided with the US), and were rewarded with political positions after the war. Thailand is inclined to view the Hmong (and other Southeast Asians who cross its border) as economic migrants. While this is no doubt the case with many Hmong, Thailand's categorical insistence on this score raises hackles with the refugee affairs community. In the past, Laos has often viewed Hmong who leave as potential political insurgents, fearing that they will connect with exile groups in the diaspora who seek to overthrow the regime in Laos. The government has softened its position somewhat but that suspicion is still prevalent in some quarters, particularly the Lao security sector.

A different refugee issue persisted into 2010 with Cambodia over Phnom Penh's returning 20 Uighur asylum seekers to China last December. Administration officials disclosed that the issue had been raised with the Cambodian government at very high levels without success. If the Hmong issue with Laos and Thailand could be considered an artifact of a past war, the Uighur issue with Cambodia might be viewed as a harbinger of Chinese influence in Southeast Asia and has a wider impact as a result. Toward the end of the quarter, US officials indicated that Washington would send a message to Phnom Penh by withholding surplus equipment, but this is unlikely to blunt Beijing's growing leverage in Cambodia and the other small states of mainland Southeast Asia.

Looking ahead

The second quarter of 2010 will likely see an increase in US momentum in Southeast Asia as President Obama makes his visit to Indonesia and ASEAN and its dialogue partners prepare for the summer ASEAN meetings. Before then, several Southeast Asian leaders will attend the nuclear summit in Washington. With 43 heads of state expected, it is unlikely that any one Southeast Asian leader will have significant "face time" with Obama, but their collective presence will be noted. Secretary Clinton's participation in the ASEAN meetings in Hanoi will follow through on the Obama administration's pledge to "show up" in Southeast Asia. However, the ASEAN countries will also judge the administration's commitment to strengthening its relations with the region by its handling of the second US-ASEAN Leaders Meeting. A time and venue for the summit meeting should become apparent in the next quarter. Lastly, the next quarter should reveal more information about the intentions of the Burmese regime, and Gen. Than Shwe in particular, as the country presumably moves closer to elections. If an opposition other than the NLD – caged or quasi-independent – emerges, it will likely be in the spring and early summer. Prospects for instability in Burma will increase the closer the country comes to elections, which could have implications for Burma's neighbors, especially China and Thailand.

Chronology of US - Southeast Asian Relations January - March 2010

Jan 7-8, 2010: A House Asia Subcommittee Congressional Delegation, led by Chair Eni Faleomavaega and including Rep. Mike Honda and Rep. Joseph Cao, visits Laos and checks on status of 4,000 Hmong repatriated from Thailand in late December.

Jan 12, 2010: Secretary of State Hillary Clinton delivers a major policy address on Asian regional architecture in Honolulu, with considerable attention to ASEAN.

Jan 20, 2010: Singapore assumes command of Combined Task Force 151, a multinational anti-piracy group, from the US in a ceremony in Bahrain.

Jan 20, 2010: The US takes a major step toward establishing a Permanent Mission to ASEAN, the first ASEAN dialogue partner to do so, when Josh Cartin takes up his responsibilities as Resident Representative of the US Ambassador for ASEAN Affairs in Jakarta.

Jan 21, 2010: Assistant Secretary of State for East Asia and Pacific Affairs Kurt Campbell confirms that US sanctions on Burma will remain in place “until Burmese authorities demonstrate they are prepared to make meaningful progress on US core concerns,” in testimony before the Asia Subcommittee of the Senate Foreign Relations Committee.

Jan 25-27, 2010: Indonesia and the US co-sponsor an interfaith dialogue in Jakarta that includes participants from several Asian nations.

Feb 1-11, 2010: The US and Thailand, joined by Singapore, Japan, Indonesia, and South Korea complete the 29th round of *Cobra Gold*, with observers from 15 countries.

Feb 2, 2010: The (second) sodomy trial of Malaysian opposition leader Anwar Ibrahim begins in Kuala Lumpur. On May 8 Deputy Foreign Minister A. Kohilan Pillay warns foreign governments not to criticize the Malaysian justice system or to “meddle” in the trial.

Feb 10, 2010: Burma convicts US citizen Nyi Nyi Aung (born Kyaw Zaw Lwin), a pro-democracy activist arrested in September, for forging a national identity card, possession of undeclared foreign currency, and failure to renounce his Burmese citizenship; charges that are widely considered to be politically motivated.

Feb 15, 2010: The *USS Patriot* arrives in port at Sihanoukville to conduct training exercises with the Cambodian Navy, emphasizing damage control, search and seizure, and at-sea rescue.

March 1-5, 2010: Four leaders of the Indonesian TNI Special Forces unit *Kopassus* visit Washington for discussions on the prospects of resuming training for the unit.

March 3, 2010: Assistant Secretary Campbell testifies before the House Subcommittee on Asia, Pacific and Global Environment (House International Relations Committee).

March 4, 2010: Singapore Navy warns that an unidentified terrorist group is planning an attack on oil tankers in the Straits of Malacca.

March 8, 2010: The Burmese government issues five laws on the election commission, political party registration, lower and upper houses of Parliament, and state and division legislatures.

March 10, 2010: State Department spokesman Philip Crowley tells reporters that the Burmese political party registration law is “a mockery of the democratic process and ensures the upcoming election will be devoid of credibility.”

March 10, 2010: At a press conference in Kuala Lumpur, Assistant Secretary Campbell is asked if the US will support Vietnamese efforts to negotiate a solution to South China Sea problems with China and responds that Washington “welcomes China’s commitment to engage again in the Code of Conduct.”

March 11, 2010: Assistant Secretary Campbell visits Laos to participate in the US-Laos Comprehensive Bilateral Dialogue, the highest-ranking US official to do so. He also meets representatives of the Mekong River Commission.

March 11, 2010: As pro-Thaksin “red shirt” protestors gear up for another round of demonstrations, the US Embassy in Bangkok calls upon the protestors to foreswear the use of violence and the Royal Thai government to exercise appropriate restraints.

March 12, 2010: Singapore, Thailand, and US Air Forces conclude *Copy Tiger*, annual trilateral air exercises, at Korat Airbase in Thailand. This year’s exercises included 80 aircraft and 1,000 personnel from the three air forces.

March 15, 2010: The US and Vietnam join six other nations (including Singapore and Brunei) at the fourth round of TransPacific Trade Partnership negotiations in Melbourne.

March 16, 2010: “Red shirt” protests in Thailand cause Assistant Secretary Campbell to cancel the Bangkok leg of his trip, explaining that he “does not want to add to the logistical burden of our Thai friends.”

March 18, 2010: Indonesian and US Air Forces begin a review of *F-5s*, *F-16s* and *C-130s* for the first time in two years, to remedy maintenance issues that resulted in part from the multi-year gap in military cooperation when the Indonesian military was under US sanctions.

March 18, 2010: Burmese authorities release US citizen Nyi Nyi Aung, who returns to the US.

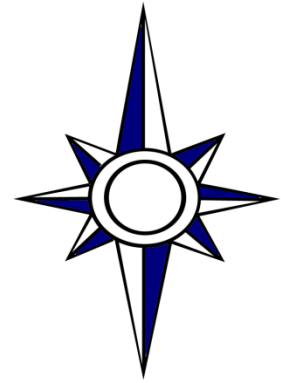
March 19, 2010: The White House announces that President Obama will postpone his trip to Indonesia because of the House vote on health care legislation.

March 25-26, 2010: Commander of the US Pacific Command Adm. Robert Willard testifies before the House Armed Services Committee and Senate Armed Services Committee on security conditions and cooperation in the Asia-Pacific region.

March 29, 2010: Burmese opposition party, National League for Democracy, announces it will not participate in planned elections because of “unjust” electoral laws, which would require that the party to expel its leader, Aung San Suu Kyi.

March 30, 2010: Vietnam and the US sign a Nuclear Cooperation Memorandum of Understanding to help develop the Vietnamese civilian nuclear power sector.

March 31, 2010: US Trade Representative releases annual its National Trade Estimate Report, which identifies barriers to foreign trade around the world, including Southeast Asian countries.



China-Southeast Asia Relations:
Trade Agreement Registers China's Prominence

Robert Sutter, Georgetown University
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The China-ASEAN Free Trade Agreement (CAFTA), inaugurated on Jan. 1, marked the highlight of a quarter featuring otherwise slow Chinese-Southeast Asian interaction during the winter months. Premier Wen Jiabao did mention the trade accord in his report to the National People's Congress in March, but official Chinese media accounts of interviews and commentary by Foreign Minister Yang Jiechi this quarter did not mention ASEAN or Southeast Asia in inventories of Chinese foreign policy priorities in 2010. In a visit receiving low-keyed and delayed treatment in official Chinese media, State Counselor Dai Bingguo, China's senior foreign policy expert, traveled to ASEAN headquarters in Jakarta to give a speech in late January that highlighted the positive aspects of Chinese-ASEAN relations as well as important elements in China's policy in Asia. Included in foreign assessments of China's rising prominence in Southeast Asia was a hearing by a US congressional commission in February featuring views of two US administration officials and eight experts offering mixed conclusions. Chinese statements this quarter expressing strong differences with the US thus far have not shown much impact on Chinese relations with Southeast Asia.

China-ASEAN free trade agreement

Chinese media duly publicized the positive aspects and also noted some of the negatives associated with the China-ASEAN Free Trade Agreement (CAFTA). They reported that China first proposed the idea of an FTA in 2000 and planning began in 2002. China granted duty-free status to 500 agricultural products from ASEAN countries in 2004 and both sides began implementing "comprehensive duty reductions." An agreement was reached in 2007 to open markets for trade in services, and in 2009 an agreement was reached on investment.

Beginning Jan. 1, 2010, 90 percent of the products traded between China and six ASEAN members – Brunei, Philippines, Indonesia, Malaysia, Thailand, and Singapore – are duty free. Such duty-free trade for the other four ASEAN members – Vietnam, Laos, Cambodia, and Myanmar – will take effect in 2015.

CAFTA represents the world's third largest free-trade zone in terms of trade volume, and the largest in terms of population. It affects over 1.9 billion people and the regional Gross Domestic Product (GDP) is nearly \$2 trillion. It is set to significantly boost the China-ASEAN trade volume, which has grown strongly in the past decade, though the volume declined 13.2 percent in 2009 on account of the international recession. Chinese officials have stressed that Chinese and ASEAN industries "complement each other," with a Commerce Department official telling

China Daily in late December that “China imports resource-related products,” and exports manufactured goods ranging from steel to garments.

An official in the Chinese Communist Party’s Central Party School wrote recently that the momentum of CAFTA should reinforce movement toward an Asia-wide trade community. The official stated that even though the US being “the largest export market for many Asian economies was not favorable for a regional integration regime in Asia,” the global economic crisis “has shattered the US dominance on world economy.” The Asian economies should use this “unprecedented opportunity” to shake off “economic neocolonialism” and “unfair treatment toward Asian countries in the current world economic system” by advancing beyond CAFTA to a region-wide economic community.

Chinese officials and media also noted problems associated with CAFTA. Commerce Ministry officials endeavored to reassure Indonesian and some other Southeast Asian manufacturers who have voiced public opposition to the impact of Chinese manufactured imports on their businesses. Chinese media cited foreign commentary for the view that CAFTA will spark “fiercer competition in selected industries,” the market share of Southeast Asian manufacturing enterprises “will probably be eroded by powerful Chinese competitors,” and greater unemployment may result.

Dai Bingguo at ASEAN headquarters

State Councilor Dai’s trip to and speech at the ASEAN Secretariat in Jakarta on Jan. 22 represented the highest-level Chinese visit to the office. It came as part of a brief trip to Brunei and Jakarta, with a stopover in Singapore. Among others, Dai met with the ASEAN leadership, paid a courtesy call on Indonesian President Susilo Bambang Yudhoyono, and used the stopover in Singapore to call on Lee Kwan Yew.

Dai’s speech represented one of the most thorough recent expositions of Chinese policy toward ASEAN and Asia as a whole. It received curious treatment in Chinese media, with *China Daily* and other outlets publicizing the speech in early February, two weeks after it was delivered. The highlights of the speech included inventories of improving China-ASEAN relations, with recognition of problems ahead. Dai also registered explicit assurance to the US and recognition of continued wariness in Asia concerning China’s rise.

Dai recognized the progress in China-ASEAN relations by noting that:

- 766 flights between major cities in China and ASEAN occur every week
- In January-October 2009, 4 million people from ASEAN visited China and 3.7 million Chinese visited ASEAN
- 6,000 Chinese language volunteers are teaching 50,000 Southeast Asian students in classes sponsored by, among others, 35 Confucius Institutes.

On CAFTA, Dai stressed mutual benefits while also noting differences. He advised that “all parties” need to make “adjustments” that will eventually “enhance competitiveness” and improve

development. He pledged that China will work “relentlessly” to assure goals of mutual benefit and common development.

On what has been a somewhat slow Chinese process in establishing official relations with the ASEAN Secretariat and appointing a formal ambassador to ASEAN, Dai said that China “will give positive consideration to the establishment of a permanent body to ASEAN,” and as a “first step” it will set up an “ASEAN Affairs Office” in the Chinese Embassy in Indonesia in 2010.

On broader Chinese relations with Asia, Dai made several points. He was frank about China not challenging the US in Asia, saying, “The United States is an important partner for East Asian countries as well as for China. We value our relationship with the United States and we have neither the intention nor the ability to push it out. We are willing to see the United States play a constructive role in promoting stability and development in Asia.”

On Asian wariness of a rising China, he said, “If some people still do not quite believe our intention and want to wait and see what China really wants, they may do so. But just keep in mind that if they wait for too long, they may very well miss the opportunity of cooperation with China, which would be totally unworthy.”

Dai was cautious about building Asian multilateral cooperation, making the argument for taking “gradual steps,” doing “easy tasks” first, and taking account of “each other’s comfort level.” As publicized in Chinese media, his speech did not mention regional proposals by the prime ministers of Japan and Australia, though Dai showed China’s priority for an Asia-only grouping when he said, “We should remain open to other regional cooperation mechanisms while deepening 10+3 cooperation.”

China-Vietnam disputes

Relations between China and Vietnam saw renewed tensions this quarter. In February 2010, the *New York Times* reported that Vietnam intends to use its chairmanship role in ASEAN this year to “internationalize” the issue of the disputed areas around the Paracel Islands in the South China Sea. According to the report, Vietnam is actively working behind the scenes to lead concerned countries on this issue into a joint negotiation forum, thus forcing China to participate and negotiate on the future terms of the disputed islands in a multilateral setting. The Vietnamese effort is a clear response to an announcement by Beijing earlier this year that China will soon develop a more robust tourism industry on the disputed islands. Hanoi has expressed concerns about the Chinese proposal, saying that it would “further complicate the situation.” China tends to take a hardline approach on sovereignty issues. On the Paracel Islands, China has indicated that it will stick to its principles and would prefer to negotiate and resolve any disputes over the territorial claims on a bilateral basis. A subsequent report in the *China Daily* opined that Hanoi’s efforts will be unsuccessful, in part because other countries in the region will be unable to adopt a common, unified position or consensus vis-à-vis China on this issue. Other Chinese experts contend that Vietnam’s efforts to bring other countries into the dispute to increase its overall bargaining power are “doomed to fail.”

US, Japan, Taiwan initiatives

Chinese media duly noted Secretary of State Hillary Clinton's repeated reference to China in her speech on the Obama administration's Asia-Pacific policy at the East-West Center in Hawaii in January. They cited Chinese experts welcoming a more active US role at a time of rising Chinese salience in the region. Regarding the subjects of Chinese and US aircraft carriers which are of considerable interest and importance in Southeast Asia, Robert Willard, the commander of US Pacific Command, forecast to a congressional committee in January that China would have an operational aircraft carrier for training purposes in 2012, and that China "has developed an anti-ship ballistic missile ... designed specifically to target aircraft carriers."

Sustaining low-keyed Chinese media comment critical of Japanese Prime Minister's Hatoyama Yukio's proposal for an East Asian Community, a Jan. 19 *China Daily* report reviewed the progress in high-level Chinese-Japanese contacts and other areas, and then noted that the "10+6 model" proposed by Japan "will significantly slow down the process of East Asian integration ... China firmly believes that only the '10+3' model is truly feasible." The report said that Japan's proposal to include India, Australia, and New Zealand could only be considered "after an East Asian Community is firmly established" on the basis of the "10+3" model favored by China and involving ASEAN along with China, Japan, and South Korea.

Taiwan President Ma Ying-jeou used his New Year's message to feature the argument that Taiwan needs an economic cooperation framework agreement with China in order not to be left out of the rapidly developing trend of regional economic integration seen notably with the start of the China-ASEAN Free Trade Agreement.

Assessing China's rise

Foreign assessments this quarter dealing with China's rising prominence in Southeast Asian and broader Asian affairs generally avoided the frequent past practice of exaggerating China's power and influence while denigrating the importance of the US, other international actors, and the regional countries themselves. Writing in the academic journal *Pacific Affairs*, South Korean expert Jae Ho Chung featured a wide variety of Asian reactions to China's rising influence. He depicted some Southeast Asian governments, notably Myanmar, Cambodia, and Laos, as going along with China's rising influence without many apparent reservations. He saw a few regional governments, notably Japan and Australia, adopting military force buildups or other measures in order to "balance" against perceived adverse consequences of China's rise. More common in Southeast Asia were governments engaged in contingency plans to secure their interests and independence of action in the changing regional dynamics as a result of China's ascendancy. They cooperate with China on the one hand and take measures on the other to insure that they are not dominated by China. Thailand, Singapore, and the Philippines were characterized as among the most active in this regard, while Malaysia, Indonesia, and Vietnam were seen as less active "hedgers."

Writing in the journal *Contemporary Southeast Asia*, Renato Cruz De Castro illustrated the trend of regional wariness and contingency plans regarding China's growing influence. He showed that closer Philippine-US military cooperation developed over the past decade not only has

solidified the US-Philippine alliance to the point that the US will remain the Philippine's sole strategic ally for the foreseeable future, but also has "transformed the alliance into a hedge against the challenge of growing Chinese power in East Asia."

A hearing focused on assessing China's influence in Southeast Asia and its implications for the US was held by the US-China Economic and Security Review Commission in February. It featured comprehensive treatment including statements by representatives of the US State and Defense Departments and eight expert witnesses. The US administration witnesses endeavored to place China's rising influence in the context of a regional environment very much influenced by the US and other powers as well as by the Southeast Asian governments themselves. They welcomed China's greater engagement and showed US willingness and abilities to deal with challenges and contingencies posed by China's rise. Thus, China's trade with the ASEAN states has been growing for over a decade, but still is only 11 percent of regional trade. It is slightly ahead of US trade and behind Japan's trade levels. Growing Chinese trade has produced local economic dislocations and tensions with some Southeast Asian countries. Investments by China are a small fraction of the investments in Southeast made by Japan or the US. Chinese aid and commercial financing were increasing and prompted American concern because China appears to undermine US-backed efforts to use assistance to promote better governance. Chinese defense ties were seen as "relatively modest ... China is long from becoming the security partner of choice to the region as a whole."

The US government was depicted as actively engaged with countries in the region bilaterally and multilaterally, standing against any use of force to resolve disputed claims in the South China Sea. Witnesses criticized perceived Chinese efforts to intimidate US oil companies working with China's Southeast Asian neighbors over disputed territorial and resource claims, or to advance claims to navigation rights at odds with "customary international law, as reflected in the UN Convention on the Law of the Sea." The US government witnesses advised that "as China becomes more present, regional awareness of the importance of a vibrant US stabilizing presence remains strong, and has in some areas increased." These trends actually favor closer ties to the US as Southeast Asian nations desire an active and engaged US presence in the region to serve as a counterbalance to China. Southeast Asian nations were portrayed as "highly valuing US engagement because it comes from a country that is not directly on any of its borders, has no territorial claims, and has a long history of having and supporting mutual interest."

The eight nongovernment specialists came from differing backgrounds, with some representing institutions with reputations for more conservative or more liberal orientations. Their testimony covered the full range of Chinese economic, political, and security engagement with Southeast Asian countries bilaterally and in multilateral institutions. The testimony was generally in line with the administration witnesses' depiction of China's rise and the regional responses to China's role. The Chinese efforts had succeeded in reducing past regional concerns about China as a direct threat to the well-being of Southeast Asia, but prevailing wariness continued. China's prominence as a trading partner was duly emphasized, as was the importance of the CAFTA, though it was noted that CAFTA's importance remained to be seen in a situation where "89 percent of ASEAN's trade is not with China." China's security role in the region was seen as being much less significant than its economic and political role. Special attention was devoted to

assessing the substantial and often negative impact of Chinese development and dam building along rivers that originate in China and flow through Southeast Asia.

The nongovernment witnesses were forthright in offering a long list of recommendations on how the US government could become more active and effective in fostering US interests in Southeast Asia. These involved following up with initiatives for greater engagement with Southeast Asian governments diplomatically in bilateral and multilateral mechanisms, fostering trade and investment, targeting US assistance more effectively, and standing firm against the use of force or intimidation in the South China Sea while building on the variety of US security mechanisms and connections in the region. Many of these proposals involved US constructive interchange and engagement with China over common ground and differences. It was averred that the US would be wise to continue promoting the theme that regional dynamics in Southeast Asia should not be portrayed as “the US vs. China,” as regional governments appear loath to choose between these two important partners.

Outlook

The spring quarter usually is marked by more activity in leadership visits and interchange between China and Southeast Asia than occurs during the winter months. The upcoming ASEAN summit in Hanoi, as well as Chinese Premier Wen Jiabao’s official visit to Indonesia in April, will show how China responds and reacts to managing regional concerns on the CAFTA as well as on other regional issues. Whether the assertiveness seen in Chinese statements in recent months regarding differences with the US over Taiwan and other issues will spill over and impact Southeast Asia may be evident in these interchanges. An alternative would be for Chinese leaders and commentators to reaffirm the past Chinese emphasis on reassurance of its neighbors and the US as seen in the authoritative speech by State Councilor Dai Bingguo at ASEAN headquarters, something that has not been otherwise highlighted in recent months.

Chronology of China-Southeast Asia Relations January – March 2010

Jan. 1, 2010: China and the Association of Southeast Asian Nations (ASEAN) kick off the regional free trade area, effectively lowering average tariffs for goods from ASEAN countries to 0.1 percent while six Southeast Asian countries will lower average tariffs on Chinese goods to 0.6 percent.

Jan. 6, 2010: Chinese Defense Minister Liang Guanglie meets Singapore’s Chief of Army Neo Kian Hong in Beijing. They pledge to expand military-to-military ties and areas for bilateral defense cooperation.

Jan. 11, 2010: Chairperson of the Standing Committee of the National People’s Congress Wu Bangguo meets the head of Thailand’s National Assembly, Chai Chidchob, to discuss prospects for parliamentary exchanges.

Jan. 14, 2010: Chinese officials meet representatives from Myanmar's Military Affairs Security unit (formerly known as Military Intelligence) to discuss ways to curb arms smuggling and counter-insurgency activities along the Sino-Myanmar border.

Jan. 15, 2010: The Singapore-China Association for the Advancement of Science and Technology (SCAAST) is established to promote science and technology exchanges and collaboration between the two countries. The group will focus on bio-technology.

Jan. 18, 2010: Chinese President Hu Jintao and Premier Wen Jiabao exchange congratulatory messages with their Vietnamese counterparts to mark the 60th anniversary of diplomatic ties. The two sides pledge to build a more comprehensive, strategic, and cooperative partnership and seek greater collaboration to resolve remaining border issues. The anniversary will also involve a series of activities under the banner of the China-Vietnam Friendship Year 2010.

Jan. 20, 2010: Representatives from China, Cambodia, Laos, Myanmar, Thailand, and Vietnam meet in Bagan, Myanmar for the Seventh Senior Officials meeting for the Coordinated Mekong Ministerial Initiative Against Trafficking (COMMIT). They are joined by other ASEAN member states and representatives from the United Nations to discuss plans and priorities to counter human trafficking activities in the region and strengthen joint law enforcement activities.

Jan. 22, 2010: Chinese State Councilor Dai Bingguo meets Indonesian Coordinating Minister for Political, Law and Security Affairs Djoko Suyanto in Jakarta for the second round of the China-Indonesia strategic dialogue. He also meets ASEAN Secretary General Surin Pitsuwan at the ASEAN Secretariat.

Feb. 5, 2010: A *New York Times* article discusses Vietnam's push to "internationalize" the Paracel Islands in the South China Sea by seeking to enlist other countries to convince China to negotiate the future settlements over the disputed islands in a multilateral setting.

Feb. 16, 2010: ASEAN Secretary General Surin Pitsuwan reviews and discusses the benefits and potential difficulties for member states taking part in the CAFTA. While acknowledging the agreement will require adjustments for certain countries, on the whole, he sees opportunities for growth for ASEAN member economies.

Feb. 24, 2010: The National People's Congress approves a 51-item agreement that was signed by Chinese Foreign Minister Yang Jiechi and Philippine counterpart Alberto Romulo in October 2009 to strengthen bilateral cooperation in consular affairs and promote the strategic relations.

Feb. 25, 2010: China and Cambodia sign a treaty to provide a legal basis for officials to cooperate on consular affairs as well as to combat illegal immigration and transnational crimes.

Feb. 27, 2010: *Zhongguo Xinwen She* news agency reports that Chinese RADM Yin Zhuo sees the rapid buildup of ASEAN member states' submarine fleets along China's coastal borders as a challenge to China and a source of increasing tensions in the South China Sea.

March 4, 2010: Head of the Communist Party Central Committee International Department Wang Jiarui leads a delegation to Nay Pyi Taw and meets Myanmar Prime Minister Thein Sein. They reaffirm the friendly traditional ties between China and Myanmar and discuss prospects for enhanced cooperation in the energy sector and bilateral trade.

March 8, 2010: Vietnam announces that it remains committed to implementing the terms of the land border boundary agreement signed with China in 2008 to maintain peace and stability along the two countries' borders and to more effectively tackle such trans-border crimes as human trafficking, drug trade and arms smuggling.

March 10, 2010: Chinese peacekeeping experts and officials take part in the ASEAN Regional Forum (ARF) Peacekeeping Experts' Meeting in Bangkok to discuss the evolving complexity of peace operations and the increasingly important role regional organizations contribute toward such operations.

March 11, 2010: The Chinese Embassy in Thailand convenes a public press conference to rebuke recent claims that the Chinese mega-hydropower projects in Southwest China are affecting the water volume in the Mekong River.

March 18, 2010: Chinese Vice Premier Hui Liangyu visits Phnom Penh and meets his Cambodian counterpart to discuss bilateral relations. The two sides agree to improve and expand high-level exchanges and to deepen business, trade, and economic cooperation.

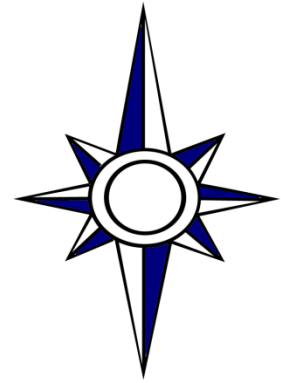
March 21, 2010: Vice Premier Hui arrives in Vientiane to meet senior Laotian officials. They discuss prospects for increasing bilateral cooperation, especially in trade and investment.

March 23, 2010: Chinese Defense Minister Liang Guanglie meets the commanding general of Thailand's National Defense Studies Institute. They agree to work to help elevate bilateral strategic cooperation and deepen joint training activities.

March 24, 2010: The \$120 billion Chiang Mai Initiative Multilateralization Agreement on currency swaps among China, Japan, South Korea and ASEAN member states comes into effect.

March 29, 2010: ASEAN Secretary General Surin Pitsuwan visits Beijing and meets senior officials including Prime Minister Wen Jiabao, Foreign Minister Yang Jiechi, and Commerce Minister Chen Deming.

March 29-31, 2010: China hosts a meeting with representatives from ASEAN countries on defense and security issues in Beijing. Sponsored by the Academy of Military Sciences and the People's Liberation Army, the dialogue seeks to deepen mutual trust and focuses on regional defense matters.



**China-Taiwan Relations:
ECFA and Domestic Politics**

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The interaction between economic negotiations and Taiwan domestic politics will dominate cross-Strait relations this year. Formal negotiation of an Economic Cooperation Framework Agreement (ECFA) began in January and both sides now talk hopefully of completing the negotiations by June. On Taiwan, recent election losses make timely conclusion of the ECFA on terms welcomed by Taiwan voters important for President Ma Ying-jeou and the Kuomintang (KMT) party's political fortunes. The announcement of a US arms sales package in January was welcomed by Ma, but predictably created tensions in US-China relations – tensions that raise the stakes when the Obama administration considers Taiwan's request for *F-16 C/D* aircraft.

ECFA

The informal talks between Beijing and Taipei about an Economic Cooperation Framework Agreement (ECFA), which had been occurring away from public view since last summer, led to the first round of formal negotiations in Beijing on Jan. 26. Officers from the two authorized representative organizations, Beijing's Association for Relations Across the Taiwan Strait (ARATS) and Taipei's Straits Exchange Foundation (SEF), served as titular heads of the delegations. The negotiation teams were led by Tang Wei, director of China's Ministry of Commerce Taiwan, Hong Kong and Macau Department, and Huang Chih-peng, director of Taiwan's Bureau of Foreign Trade. The session produced agreement on the broad outlines and the procedures for conducting the negotiations. The agreement will include market access for goods and services, tariff reductions, early harvest lists, rules of origin, dispute resolution, safeguards measures, investment, economic cooperation, and information exchange.

It has been recognized for months that the negotiations would need to proceed rapidly if the agreement was to be signed at the fifth round of ARATS-SEF talks scheduled to be held in China in late May or June. Even though it was announced in December that ECFA would be on the fifth round agenda and contacts had continued in the interim, two months elapsed before the second round of negotiations was held in Taipei beginning March 31. Beijing negotiator Tang Wei visited Taipei in late March and Vice Minister of Commerce Jiang Zengwei came as the head of a large commercial delegation a week before the negotiations. The second round began the all-important negotiation of the early harvest lists of products and services that will be the first to benefit from tariff reductions. At its conclusion, the negotiators confirmed that further rounds would be needed.

Despite the delay in negotiations, both sides have been increasingly positive in their expectations that the agreement will be completed in time for the fifth round. President Ma, Premier Wu

Den-yih, and many other officials in Taipei have been expressing their hopes or expectations for conclusion of negotiations by June. Beijing leaders have generally been more cautious, stating that the agreement would be concluded this year. ARATS Chairman Chen Yunlin and the Taiwan Affairs Office (TAO) spokesman have expressed hope that the agreement would be concluded in time for the fifth round. Both sides want to sign the agreement then, which will be held in China, because a delay until the sixth meeting means it would be signed in Taiwan and provide the Democratic Progressive Party (DPP) an opportunity to mobilize opposition on the eve of the year-end municipal elections.

The DPP continues to oppose ECFA on substantive, procedural, and sovereignty grounds – a lack of transparency in the negotiations, fears that agricultural and other vulnerable sectors would be hurt by market-opening concessions, the lack of specificity in the government's plans for trade adjustment assistance, lingering concern that the agreement may weaken Taiwan's sovereignty, and opposition to any greater integration with China. President Ma and other senior government and KMT officials have been holding meetings around Taiwan and briefing the Legislative Yuan (LY) to build support. However, as the content of the agreement and the specifics on adjustment assistance are not yet available, the DPP has been able to exploit public fears and suspicions.

The domestic political dimension

The KMT, which Ma Ying-jeou now leads as party chairman, has suffered a series of electoral setbacks in county-level and LY by-elections from last December through February. These setbacks come on top of Ma's poor poll numbers, which have been hurt over the past year primarily by Taiwan's globally induced recession and the administration's mishandling of Typhoon *Morakot* and the issue of importing US beef. While the SEF-ARATS agreements have generally gained majority approval, the DPP has continued to attack every aspect of Ma's handling of cross-strait relations. In this domestic context, Ma and the KMT need to sign an ECFA agreement that will be welcomed by the Taiwan public to head into the year-end municipal elections, which involve cities with about 45 percent of Taiwan's population, with a positive record of accomplishment. If the ECFA is not successfully concluded in the summer, the DPP will be able to exploit this issue during the run-up to the elections.

Beijing seems to understand the political stakes involved as officials have been acknowledging this privately for some time. More recently, senior leaders have addressed Taiwan's concerns. On the eve of Chinese New Year, President Hu visited a Taiwan cooperative project in Fujian Province and said that Beijing would take into account the interests of Taiwan, particularly its farmers, and conclude an agreement that would be beneficial to both sides. At the National People's Congress (NPC) in March, Premier Wen Jiabao and Politburo Standing Committee member Jia Qinglin both gave similar assurances. Wen spoke of the need to sacrifice some of Beijing's interests to benefit Taiwan. President Ma welcomed Wen's remarks. So it seems clear that at the leadership and working level there is an understanding that Beijing must restrain its demands and be generous in meeting Taiwan's needs in the negotiations to help Ma. In late March, TAO Minister Wang Yi was more specific, stating that Taiwan would get five benefits under ECFA: reduction of tariffs, benefits for small and medium industries, protections for weak

Taiwan industries, no expansion of Chinese agricultural exports, and no export of Chinese workers to Taiwan.

Politically, Taiwan's desire to avoid being marginalized as regional trade liberalizes in Asia is another key issue related to ECFA. President Ma, Vice President Vincent Siew, and other senior leaders in Taiwan have said repeatedly that concluding the ECFA with China will open the door for Taiwan to participate in regional liberalization, most likely by being able to negotiate free trade agreement (FTA)-like agreements with Asian trade partners. If this occurs, Ma will be able to demonstrate that his policy of reconciliation with Beijing is bringing tangible benefits. Beijing's policy on this remains unclear. Scholars and some working-level officials understand the importance of the FTA issue and at times hint at flexibility. However, senior leaders have not addressed the issue publicly. When asked, TAO Minister Wang has only said that this is an issue that involves international relations. As the ECFA negotiations near conclusion, it is likely that Taipei will press Beijing to address the issue.

Security issues

There is still no indication that the People's Liberation Army (PLA) has changed the continuing deployment of short- and medium-range missiles targeting Taiwan. In addition, Beijing also has approximately 150 long-range *DH-10* Land Attack Cruise Missiles (LACM) deployed within range of Taiwan and US bases in Japan. The press has also reported this year the deployment of *S-300PMU2* air defense missiles at an air base in Fujian that would provide coverage over Taiwan. So despite the reduction of tension, there has been no reduction of the PLA military threat directly targeted at Taiwan.

Press reports in early January that the US had issued contracts to defense firms to provide Taiwan with *PAC-III* batteries and missiles sparked an outpouring of criticism from Beijing about US arms sales. Most commentators either did not understand or chose to ignore that these contracts were to implement sales that had been approved by the Bush administration in late 2008. The Ministry of Defense reserved the right to take unspecified action. Academics urged the government to consider stronger measures, including sanctions against companies supplying the arms. The message was clear that Beijing was sounding increasingly intolerant of arms sales. This was occurring as the Obama administration was finalizing decisions on a new package of arms sales.

On Jan. 29, the Pentagon notified Congress of a \$6.4 billion package of arms, including additional *PAC-III* batteries and missiles, *Blackhawk* helicopters, two *Osprey-class* mine sweepers, *Harpoon* missiles and equipment for the *Po Sheng* C4ISR program. The Ma administration welcomed the decision as a symbol of Washington's continuing commitment to Taiwan's security, noting that this support helps give Taiwan the confidence it needs to negotiate with Beijing. However, the DPP opposition criticized the package as long-delayed and inadequate because it did not include funding for diesel submarines or *F-16 C/D* aircraft.

Beijing responded promptly. The Foreign Ministry described the action as a serious violation of the three US-China Joint Communiqués, particularly the 1982 Arms Sales Communiqué, and said US-China cooperation on certain international issues could be affected. The Ministry of

Defense announced that some military-to-military exchanges would be postponed, and the Foreign Ministry added that China would impose sanctions on US firms engaged in arms sales. Considerable anger was voiced on blogs and there was much speculation about which firms might be sanctioned as the atmosphere of US-China relations deteriorated. The fact that most of the weapons systems involved had been approved in 2001 by the Bush administration, with notification delayed in part out of consideration for Chinese views and that the item of greatest concern to most in Beijing, the *F-16 C/D* aircraft, was not included gained Washington almost no credit. It should be noted that none of Beijing's criticism of the arms sales package was aimed at the Ma administration.

Assessing Beijing's response two months after the announcement, it appears that Beijing is determined to find more effective ways to influence US decisions regarding arms sales to Taiwan and to sound tougher to the domestic audience, but without damaging overall US-China relations. When National Security Council Senior Director for Asian Affairs Jeffrey Bader and Deputy Secretary of State James Steinberg visited Beijing in late February, Beijing spoke positively about the importance of US-China relations while placing the blame for deterioration on the US. It was up to the US to make things right. To what extent the arms notification is influencing Beijing's handling of the Iranian sanctions issue remains unclear. Beijing has contacted US firms urging them not to be involved in sales, but it is unlikely to take specific actions against them until it sees whether its warnings have been heeded. So it will be some time before it is known what sanctions are imposed. Furthermore, Beijing must proceed carefully on sanctions because it could undermine the support of the US business community for US-China relations.

In late March, Deputy Minister of National Defense Andrew Yang confirmed that Taiwan is developing a surface-to-surface missile with a range of 1,200 km. and a cruise missile with the range of 800 km. Yang commented that the development of these systems was consistent with Taipei's doctrine of "peace through strength."

Diplomatic and international issues

The diplomatic and international space issues have not been sources of cross-Strait dissention recently. The uncertainty about whether Taipei would be invited to participate as an observer at the World Health Assembly (WHA) in May was removed when Taipei announced that its invitation had been received. During the announcement, Taipei stated that since its inclusion in the World Health Organization's International Health Regulations in 2009, it has had "smooth" communications with the WHO and that this has helped it deal with the H1N1 pandemic.

Meanwhile, Taipei has indicated that it wishes to become an observer in both the UN Framework Convention on Climate Change (UNFCCC) and the International Civil Aviation Organization (ICAO). However, as the Ma administration's priority is on reaching agreement on the ECFA, those two objectives are not being actively pursued at this time. The de facto "diplomatic truce" that has put on hold competition for diplomatic recognition is also holding.

Other economic and trade issues

Taipei and Beijing have taken the steps necessary to begin implementing agreements concluded late last year. Both sides announced that the Financial Sector Memorandums of Understanding (MOUs) had come into effect in January. This cleared the way to begin liberalizing reciprocal portfolio investments in each other's stock markets and both sides are taking steps to prepare for opening their banking, securities, and insurance markets to firms from the other side. The process of reciprocal opening will be an issue in the ECFA negotiations. In March, both sides announced that the agricultural products, industrial standards, and fishing crew agreements reached at the fourth SEF-ARATS talks had come into effect. With the number of Chinese tourist arrivals increasing, Taipei raised the daily limit on PRC tourists to 6,000 to accommodate the growth. Taipei and Beijing are reportedly continuing to consult about the reciprocal opening of tourism offices – an action that had been expected in February.

Although trade between Taiwan and China, including Hong Kong, declined substantially during 2009, reflecting the global recession, statistics for the first two months of 2010 indicate that it is recovering to pre-recession levels. According to Taiwan Customs statistics, total trade between Taiwan and China, including Hong Kong, was \$109.3 billion in 2009, down 17.5 percent from 2008. Taiwan's exports to China were down 16 percent and its imports from China were down 22 percent. According to Chinese Customs data, imports from Taiwan accounted for 8.5 percent of China's total imports in 2009, down from 9.1 percent in 2008. Consequently, the long-term decline in Taiwan's share of China's imports continued through the global recession. The decline in Taiwan exports came in tandem with a 38 percent decline in Taiwan investments in China in 2009, as reflected in investment approvals recorded by Taiwan's Ministry of Finance.

Taiwan's exports to China surged 54 percent in January-February 2010, reaching \$38.4 billion. Ministry of Finance officials commented that both imports from and exports to China, including Hong Kong, were close to the peaks achieved in the same period of 2008, suggesting that cross-strait trade had recovered to its pre-recession level.

Looking ahead

The coming months will test the ability of the two sides to reach agreements on issues that affect fundamental economic interests. Experience indicates this usually takes longer than anticipated. Consequently, it is possible that negotiations on ECFA will continue beyond June and the fifth round of the ARATS-SEF talks may be postponed until later in the summer. Timing is not so important. What will be important is the ability of both sides to reach a mutually beneficial agreement. The double taxation agreement, an agreement on Intellectual Property Rights (IPR), and the reciprocal opening of tourism offices are other pending issues that will be litmus tests of the two sides' ability to deal with sensitive issues. Reaching agreement on these should help build trust between the two sides.

Some US officials recently made remarks indicating that Taiwan's air defenses will need to be upgraded to meet the growing threat from China. However, there is no indication that the Obama administration will address Taipei's request for *F-16 C/D* aircraft in the coming months.

Chronology of China-Taiwan Relations

January - March 2010

Dec. 31, 2009: In an interview, President Ma Ying-jeou says that a peace agreement with China is not possible with 1,300 missiles aimed at Taiwan.

Jan. 1, 2010: President Hu Jintao briefly mentions promoting peaceful development of cross-Strait relations.

Jan. 4, 2010: US media reports that Raytheon has won a contract to upgrade Taiwan's *Patriot* missiles.

Jan. 5, 2010: Chinese Ministry of Foreign Affairs spokesman calls for an end to US arms sales to Taiwan.

Jan. 6, 2010: President Ma says the Taiwan government will refer to the Economic Cooperation Framework Agreement (ECFA) publicly in Chinese as *liangan chingji shiehyi*.

Jan. 6, 2010: The US Department of Defense announces the award of a \$968 million contract to Lockheed Martin for the sale of 253 *PAC-3* missiles and related hardware to Taiwan.

Jan. 8, 2010: Chinese Ministry of Defense opposes US arms sales to Taiwan and says it reserves right to take action.

Jan. 8, 2010: Premier Wu Den-yih says Taiwan's aim is to sign the ECFA in May.

Jan. 9 2010: Kuomintang (KMT) loses three Legislative Yuan (LY) by-elections.

Jan. 9, 2010: Chinese Vice Minister of Foreign Affairs He Yafei criticizes US arms sales to Taiwan.

Jan. 11, 2010: President Ma tells KMT legislators that Taiwan will be able to sign free trade agreements (FTAs) after the ECFA is completed.

Jan. 11, 2010: Vice President Vincent Siew says the ECFA is the key to concluding FTAs.

Jan. 11, 2010: China conducts an anti-ballistic missile test.

Jan. 11, 2010: Secretary of State Hillary Clinton says US will continue to sell arms to Taiwan.

Jan. 12, 2010: Mainland Affairs Council (MAC) says US arms sales give Taiwan confidence to negotiate with Beijing.

Jan. 15, 2010: US approves the first Taiwan military *C-130* aircraft to transit through the US en route to Haiti with relief goods.

Jan. 16, 2010: Cross-Strait Financial Memorandums of Understanding (MOUs) take effect.

Jan. 18, 2010: Mainland qualified direct institutional investors (QDIIs) become eligible to invest in the Taiwan Stock Exchange.

Jan. 19, 2010: Chinese Vice Minister of Health Huang Jiefu visits Taipei for talks.

Jan 20, 2010: MAC's Lai Shin-yuan and Minister of Economic Affairs (MOEA) Shih brief LY Speaker Wang Jin-pyng on the ECFA.

Jan. 20, 2010: Taiwan and Mainland think tanks release a joint report that provides a positive assessment of the ECFA.

Jan. 22, 2010: TAO Minister Wang Yi says FTAs involve international affairs issues.

Jan. 22, 2010: MAC Chair Lai states that he believes the ECFA will lead to FTAs.

Jan. 25, 2010: President Ma transits San Francisco en route to Honduras.

Jan. 25, 2010: Canadian think tank reports the deployment of the *DH-10* Land Attack Cruise Missile (LACM) in Guangxi Province.

Jan. 26, 2010: The first round of ECFA negotiations are held in Beijing.

Jan. 28, 2010: President Ma attends Honduran President Porfirio Lobo's inauguration.

Jan. 29, 2010: President Ma delivers relief supplies for Haiti in Dominican Republic.

Jan. 29, 2010: The Pentagon notifies Congress of a \$6.4 billion arms package for Taiwan.

Jan. 30, 2010: Chinese Ministry of Foreign Affairs announces temporary suspension of military exchanges with the US. Vice Minister He Yafei says US arms companies will be sanctioned.

Jan. 30, 2010: Democratic Progressive Party (DPP) notes that the US did not approve submarines or *F-16s* as part of the arms package and characterizes it as minimal action.

Feb. 1, 2010: US Department of Defense releases its Quadrennial Defense Review.

Feb. 2, 2010: China Ministry of Foreign Affairs spokesman says US companies who ignore objections will face sanctions.

Feb. 7, 2010: Premier Wu calls for the removal of Chinese missiles from Fujian in an interview.

Feb. 9, 2010: President Ma holds a press conference to report on ECFA progress.

Feb. 10, 2010: Executive Yuan Appeals Committee turns down a DPP appeal for a referendum on the ECFA.

Feb. 11, 2010: Taiwan's National Security Council Secretary General Su Chi resigns and later replaced by Victor Hu Wei-jen.

Feb. 17, 2010: President Ma says US arms sales to Taiwan contribute to cross-Strait progress.

Feb. 23, 2010: Taiwan Solidarity Union (TSU) announces plans for a referendum on the ECFA.

Feb. 27, 2010: DPP wins three LY by-elections; KMT wins one.

March 1, 2010: US National Security Council Director Jeffrey Bader and Deputy Secretary of State James Steinberg visit Beijing.

March 4, 2010: ARATS Chairman Chen Yunlin says the ECFA will likely be signed in May or June.

March 4, 2010: National People's Congress spokesman announces 7.5 percent increase in China's 2010 defense budget.

March 6, 2010: President Ma conducts a grass-roots forum on the ECFA.

March 8, 2010: Taiwan's Ministry of National Defense report says that the *F-16 A/B* aircraft are the aircraft in Taiwan's inventory that are better than China's aircraft.

March 9, 2010: Chinese Ministry of Foreign Affairs warns US about future arms sales to Taiwan.

March 11, 2010: Premier Wu approves regulations for cross-Strait banking, finance, and investment.

March 14, 2010: TSU launches a new ECFA referendum signature drive.

March 15, 2010: Taipei increases daily quota of Chinese tourists to 6,000.

March 16, 2010: Vice President Siew says the ECFA will pave way for FTAs.

March 16, 2010: Taiwan's Financial Supervisory Commission (FSC) issues regulations on cross-Strait banking, brokerage, and insurance.

March 17, 2010: Qinghai Vice Governor Wang Lingjun leads a delegation to Taiwan.

March 17, 2010: Taipei reports the deployment of *S300PMU2* air defense missiles in Fujian.

March 21, 2010: Agricultural products, standards, and fishing crew agreements take effect.

March 21-27, 2010: President Ma visits six South Pacific countries.

March 22, 2010: Ministry of Commerce Director Tang Wei visits Taipei for talks.

March 22, 2010: World Health Organization Secretary General Chan invites Taiwan to participate at the World Health Assembly as an observer.

March 25, 2010: Vice Minister of Commerce Jiang Zengwei begins five-day visit to Taiwan.

March 25, 2010: Commander of US Pacific Command Adm. Robert Willard says Taiwan needs to upgrade its air force.

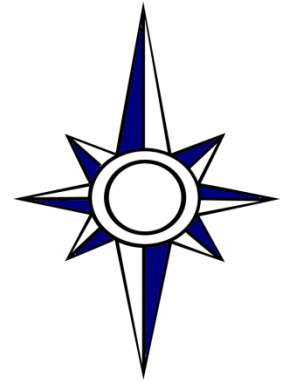
March 25, 2010: Taiwan Affairs Office Minister Wang Yi in *Yazhou Zhoukan* confirms there is no timetable for political talks.

March 26, 2010: American Institute in Taiwan (AIT) Director William Stanton expresses support for cross-Strait confidence-building measures.

March 26, 2010: AIT Chairman Raymond Burghardt greets President Ma during Guam transit.

March 29, 2010: Deputy Minister of National Defense Andrew Yang confirms Taiwan's missile development plans.

March 31, 2010: Second Round of ECFA negotiations begin in Taoyuan; focus is on "early harvest" lists.



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**South Korea-North Korea Relations:
Torpedoed?**

2010 is a year of anniversaries on the Korean Peninsula, many of them miserable. It is the centenary of Japan's occupation of Korea in 1910, an event unlikely to be much marked on either side of the Sea of No Agreed Name, given how bitter Korean memories remain. This June marks 60 years since a by-then partitioned peninsula erupted into a civil war which technically is not over, since the 1953 Armistice Agreement was never followed by a peace treaty. For South Koreans, April 1960 celebrates the ouster of their authoritarian first leader, Syngman Rhee, in an all too brief democratic interlude before soldiers seized power in Seoul. Twenty years later, May 1980 marks the bloody suppression of a rising against military dictatorship in Gwangju in the southwestern Jeolla region, still the heartland of political opposition in South Korea. Seven years later the generals were forced back to barracks for good – a rare achievement in Asia – and a sometimes fractious democracy has since grown strong roots.

Unhappy anniversary

A new century brought a new breakthrough. This June will see the 10th anniversary of the first-ever inter-Korean summit, when the South's then President Kim Dae-jung – a veteran democrat, and the first man of Jeolla to enter the Blue House – flew to Pyongyang to meet North Korea's "Dear Leader" Kim Jong-il. Paving the way for that, the road north was opened by a very different character – Chung Ju-yung, the tough elderly northern-born founder of the Hyundai conglomerate (*chaebol*). It was Chung's drive and cash – over and under the table – that persuaded Kim Jong-il in 1998 to take the revolutionary step of opening the southeast of his realm, the famed Diamond Mountains (Kumgangsan), to Southern tourism.

That ushered in a decade of "sunshine" between the Koreas, which remains controversial. For critics this was one-sided at best. The South gave; the North took. No progress was made on demilitarization, indeed the contrary; North Korea declared itself a nuclear weapons state.

Reacting to this and for other reasons, in December 2007 South Korean voters swung right. The leader they chose, Lee Myung-bak, ditched plans for wider cooperation agreed weeks before by his predecessor Roh Moo-hyun at the second Pyongyang summit even though these appeared substantial and mutually beneficial, at least to this writer. More generally, Lee made future relations conditional on North Korea's taking real steps toward nuclear disarmament. As *Comparative Connections* has duly chronicled since then, inter-Korean relations predictably worsened, although since last August they have improved a little.

Against this backcloth, June's 10-year anniversary looks unlikely to see much inter-Korean celebration. The first quarter of the new year and decade not only brought no progress, but ended with the North threatening brazenly to confiscate Southern assets at Mount Kumgang, itself mothballed since the fatal shooting of a Southern tourist in July 2008. Meanwhile, on March 26, a mystery explosion sank an ROK Navy corvette in disputed waters off the West coast, with the loss of 46 lives. If the DPRK turns out to have been responsible, as seems increasingly probable, inter-Korean relations can only get worse – perhaps ominously so.

Reconciliation and cooperation?

2010 began well, if only on paper. As we reported last quarter, North Korea's regular New Year editorial, carried in its three main daily papers (those of the Party, armed forces, and youth league), sounded a less bellicose note than usual. Noting the upcoming anniversary of the June 15 North-South Joint Declaration – Pyongyang always lauds this document, rather than the summit as such – which it hailed as bringing “great, unprecedented successes,” the editorial urged that “national reconciliation and cooperation should be promoted actively,” including “travel and contacts between people from all walks of life.”

As we commented at the time, “Fine words, but do they mean it?” These editorials are often described as setting policy for a new year, but in this case it seems more of a smokescreen. Nothing Pyongyang has done, as opposed to said, in the first quarter of 2010 suggests it is turning over a new leaf; one could say the same of Seoul. Rather, it is the mixture as before.

Juche jihad

Indeed, a fortnight later Pyongyang had reverted to its more customary mode of threatening fire and brimstone. True, it was not unprovoked. The North could hardly stay silent while the Seoul “reptile press” was openly discussing joint contingency plans with the US for various scenarios, including collapse of the DPRK. Under the left-leaning Roh Moo-hyun, the ROK had hitherto refused to go beyond an outline concept plan for any such situation, known as ConPlan 5029. Lee Myung-bak had no such inhibitions and acceded to Washington's wish for a detailed fully operational plan: OPlan 5029. (This was promptly hacked in December, presumably by the North which has both an obvious motive and known cyberwar capacity.)

On Jan. 15, the official *Korean Central News Agency (KCNA)* issued a rare statement by the National Defense Commission (NDC) – the DPRK's top executive body, ranking above the merely civilian Cabinet. The statement did not pull its punches against what it called “a scenario for toppling the system in the DPRK jointly drafted by the American master and his stooge.” The full text can be read at <http://www.kcna.co.jp/item/2010/201001/news15/20100115-11ee.html>. It threatened “a sacred nationwide retaliatory battle to blow up the stronghold of the south Korean authorities including Chongwadae” – i.e., the Blue House, South Korea's version of the White House. Earlier unofficial translations used the phrase “holy war,” which made a few headlines. For good measure the NDC also demanded the immediate disbandment and severe punishment of those “tricksters” and “plot-breeding mechanisms” the Unification Ministry (MOU) and National Intelligence Service (NIS). And it drew a wider lesson: “The army and people of the DPRK regarded from the outset the improved north-south relations and the resumption of

dialogue touted by riff-raffs of south Korea including its chief executive as sheer hypocrisy and have followed their rhetoric with vigilance without even a moment's slackness.”

Yet other Northern actions suggested that “hypocrisy” is not all on one side. This fiery talk came the very day that Seoul confirmed Pyongyang’s belated acceptance of its stingy offer, made last October, of 10,000 tons of maize. The first food aid for two years, this is a far cry from the 500,000 tons of rice and 300,000 tons of fertilizer that the South used to send North (ostensibly on loan terms) during the previous decade of the “sunshine” policy.

Kaesong: mixed messages

A day earlier, the North also proposed talks with the South on their two cross-border joint ventures, each located just north of the Demilitarized Zone (DMZ) on opposite sides of the peninsula. The Mt. Kumgang tourist resort on the east coast has seen all tours suspended by Seoul since July 2008, when the Korean People’s Army (KPA) shot dead a female ROK tourist who strayed off-limits and then refused to allow the South to investigate her death.

By contrast, the Kaesong Industrial Zone (KIZ; the South calls this the Gaeseong Industrial Complex, or GIC), an hour’s drive north of Seoul, is a going concern where over 100 small South Korean firms (SMEs) employ about 42,000 Northern workers to produce a range of goods. Three days of talks on and in the KIZ were held on Jan. 19-21, but left the South puzzled and dismayed. After months of harassment in the first half of 2009 (see past issues), latterly the North had seemed to grasp that this is self-defeating. In December, both Koreas sent a joint team to look at industrial parks in China and Vietnam. Pyongyang appeared to have got the message: the competition is tough, so the two Koreas had better pull together.

Apparently not. The talks ended without agreement, though they agreed to meet again on Feb. 1. To Southern surprise, the North resurrected the demand it first made last May, but had dropped since, for a 300 percent wage rise from the present basic monthly \$58 (most in fact earn a bit more, with overtime). No one could deny this is a low wage, although for working conditions these must be the best factory jobs in North Korea. But wage competitiveness is the KIZ’s main advantage. The North’s demand would render the zone wholly uneconomic and sound its death-knell. That may well be what some in Pyongyang want.

As always, it is worth reading North Korea’s own words. *KCNA* reported the KIZ meeting at <http://www.kcna.co.jp/item/2010/201001/news21/20100121-07ee.html>. The contradictions are glaring. First, the North says that “laws and regulations on the KIZ, contract on lease of land, wages and taxation ... should be settled in conformity with international standards,” though it immediately adds “and the peculiarities and actual conditions of the zone.” Yet two paragraphs later they claim that “the south side has viciously pursued the confrontation policy to seriously get on the [North]’s nerves and is opposing even negotiations on the increase of wages for the workers in the KIZ, which are very paltry at present, while refusing to pay more under unreasonable pretexts of “financial resources” and the like.”

If this makes sense at all, it seems that for Pyongyang local peculiarities trump international standards. But realistically they cannot do so, in a global market – not to mention a lingering economic crisis, and the debt-laden balance sheets of most small ROK firms.

No Six-Party Talks till sanctions are lifted

Back in militant mode, on Jan. 17 DPRK media showed Kim Jong-il inspecting a large-scale joint drill of the army, navy and air force. The “dear leader” often visits military bases, but this is the first time he has been shown watching the KPA in action. Some photographs of this drill showed road signs with South Korean place names, lest anyone fail to get the message.

Militancy also continued over the nuclear issue. On Jan. 18, Pyongyang said that it will not return to the Six-Party Talks unless United Nations sanctions are lifted. Or in *KCNA*’s rather convoluted words, “If the six-party talks are to take place again, it is necessary to seek whatever way of removing the factor of torpedoing [sic] them.” Otherwise this would be like “talks between defendant and judge.” The DPRK Foreign Ministry also reiterated that the way forward is first to conclude a peace treaty to replace the 1953 Armistice Agreement – a longstanding Pyongyang demand. Seen from Seoul, Washington, and Tokyo, this is back to front on both counts. North Korea must first recommit to denuclearization, this time with substantive steps to show it is serious. Only then can sanctions be lifted, and only then would a peace treaty have any meaning. It is hard to see how this impasse can be overcome.

(Looking back as of early April, the word “torpedoing” is an arresting choice of metaphor. *KCNA* used it again on March 23, three days before the *Cheonan* sank, with the headline: “US to Blame for Torpedoing Process for Solution to N. [nuclear] Issue.”)

Sea shells

Further raising tensions, from late January the KPA started firing artillery, albeit into the sea, in its own waters, and with due notice. On four occasions between Jan. 25 and Feb. 19, the DPRK declared a series of no-sail zones for varied time periods in western waters. Some of these adjoin two ROK-held islands near the Northern coast, Baengnyeong and Daecheong. For three days (Jan. 27-29) volleys of artillery shells were fired near the Northern Limit Line (NLL) – the *de facto* western sea border since the 1953 Armistice, unilaterally drawn by the UN to reflect the actual status quo after the belligerents could not agree. Having made little fuss for decades, in recent years Pyongyang has waxed irate about the NLL and proposed an alternative boundary line further to the south. But this would place Baengnyeong and other Southern-held islands inside Northern waters, hence it is obviously not a serious proposition.

Though no shells actually crossed the NLL, on the first day the South called this provocative and fired back – but again only within its own waters south of the line. By late February, a Southern defense spokesman called the latest shelling “a routine situation that is part of the North’s winter military exercise,” adding that it may go on till the end of March. Routine or not, a report submitted to the ROK National Assembly’s Defense Committee on Feb. 19 said Pyongyang has reinforced its military along the west coast of the peninsula and strengthened military drills. This again looks more significant in hindsight than it appeared at the time.

Where to meet?

The shelling did not stop the Koreans talking about their two joint venture zones just north of the DMZ. But they got nowhere, being far apart on the agenda, format, and venue for talks. On Kaesong, the North suggested that the South's issues like smoother cross-border passage were best left to military-level talks, which in the past have handled issues relating to the border and security. The South agreed, proposing to meet on Feb. 23 at the border village of Panmunjom, the venue for all military meetings hitherto. The North then counter-proposed March 2, at Kaesong, but the South said it will insist on Panmunjom, rather than set the precedent of holding a military meeting inside North Korea. With both venue and agenda still in dispute, the chances of progress on substantive issues looked remote.

Separately, South Korea with some misgivings accepted the North's request for talks on resuming tours to Mount Kumgang. At talks in Kaesong on Feb. 8, North Korea asked for tours to restart from April 1, breezily declaring that the South's three conditions – a probe into the shooting, efforts to ensure no repetition, and a cast-iron safety guarantee – had been met. But as the North well knows, the South's key demand is to send in its own investigating team – which the North resolutely refuses. The Northern side proposed continuing the talks on Feb. 12, but the South declined unless the North accepts their three conditions first.

You will present yourselves for our inspection

Rather than compromise, much less yield, North Korea then typically upped the ante. On March 4, its Asia-Pacific Peace Committee (APPC), which handles cross-border exchanges, warned that “if the south Korean government continues to block the travel route while making false accusations, we will be left with no choice but to take extreme measures.”

A fortnight later on March 18, the APPC notified MOU and tour operator Hyundai Asan that it would “conduct a survey of south Korean property in the Mt. Kumgang area from March 25 ... All assets of those who fail to cooperate with the measure will be confiscated and they will be unable to visit Mount Kumgang again.” Under such duress, representatives of Hyundai and other investors had no choice but to comply. The ROK government did not attend as such, although the state-run Korean Tourism Organization (KTO) sent a team, presumably to keep an eye on things. KTO also has some property of its own at Kumgang.

The assets involved are substantial. Hyundai Asan has a lease on the Mt. Kumgang site until 2052, and has already paid \$487 million for the privilege since 1998. That is just fees as Hyundai et al have also had to bear all the costs of construction and equipment. Altogether some 37 ROK firms have invested a total of \$316 million in facilities at Kumgang: hotels, a hot spring spa, a golf course, restaurants and more. Obviously all are suffering as their cash flow has dried up after 21 months of closure and some are close to bankruptcy.

Who will invest ever again?

Yet Pyongyang is mistaken if it thinks Lee Myung-bak will yield to such blackmail, or that the companies have any power to pressure him. (Since Chung Ju-yung's death, Hyundai has split

into separate units and the rump that owns Asan has no political clout these days.) As one Southern investor noted, “The North is threatening to seize our firms’ real estate while talking about attracting large amounts of foreign investment. What South Korean or foreign business will make new investments in the North under these circumstances?”

The actual inspections, which began March 25 and ended March 31, were conducted by a group of 20 DPRK officials, including KPA officers. Unlike the brusqueness seen in equivalent theatricals at the KIZ in 2008, the atmosphere was businesslike with no menacing language. Whereas firms in the KIZ were asked how long it would take them to pack up and leave, the question at Kumgang was how soon they could begin operations if tours resumed.

Even so, menace is implicit. The North also had no mandate to “inspect” a 13-story state of the art family reunion center, conceived in happier times but barely used as yet, built by the ROK government for \$53 million. What next? If as rumors suggest the North lets Chinese tour firms operate at Kumgang, it would create an interesting three-way spat. Chinese investors are buying DPRK mines and infrastructure, but stolen property is something else.

A strange sinking

Even as inspections began at Kumgang-san, they were overshadowed by a shock from the other side of the peninsula. At about 9.30 pm on Friday March 26, the ROK Navy (ROKN) Pohang class corvette *Cheonan* – one of 24 similar domestically built craft in the fleet; 1,200 tons and 88 meters long, carrying torpedoes and missiles and a crew of 104 – suffered a mysterious explosion that tore a hole below the waterline in the rear hull, shutting off the engine and power. The ship sank within two hours. Those who were able jumped into the chilly waters. Fifty-eight were rescued, but 46 are missing and presumed dead. (A week later none had been found, but the toll had risen by 10: one navy diver died, and a fishing boat roped in to assist the search sank with the likely loss of its nine-man crew, apparently after a collision.)

All this happened in inshore waters a mile off Baengnyeong – the ROK’s northwesternmost island, far out on a limb close to the DPRK coast and nearer to Pyongyang than to Seoul. As noted above, North Korea disputes these seas, which have seen three fatal firefights in the past decade – the most recent only in November. In all but one the KPA came off the worse.

Unsurprisingly, many at first feared the worst. Hours before, in rhetoric extravagant even by Pyongyang’s usual standards, the KPA General Staff had threatened “unprecedented nuclear strikes of [our] invincible army” against “the US imperialists and the South Korean puppet warmongers” if they sought to bring down the DPRK. Amid initial confusion, South Korea’s President Lee Myung-bak hastily convened a security Cabinet meeting, while on Wall Street jitters caused both the ROK *won* and the general stock index to fall slightly and briefly. Yet, despite natural suspicions Seoul kept its cool, with no hasty rush to judgment or action.

The next day brought more calm, if not clarity. Navy divers were swiftly on the scene, but two days later they were still being hampered by bad weather and strong currents. It will take up to a month to investigate (and if possible salvage) the *Cheonan* and determine what really happened. It lies in waters only about 20 meters deep, so one hypothesis was that it struck a reef or rocks –

or perhaps an old mine left over from the Korean War. Another theory is that munitions on board exploded. Still another, according to anguished relatives who claimed to be quoting survivors, is that the vessel – built in 1989 – was old and leaky. ROK Defense Minister Kim Tae-young commented after visiting the scene that the boat “appeared to have been split in half.” Indeed it was, with the two halves ending up almost 200 meters apart. To any expert, including military who briefed off the record, that suggested a torpedo strike.

Not the North, says Seoul

Yet for several crucial days at first, this was not the line that South Korea wanted to put out. The morning after, an unnamed senior official in Seoul said that “given the investigations ... so far, it is the government’s judgment that the incident was not caused by North Korea, although the reason for the accident has not been determined yet.” Without being unduly conspiratorial, such a comment was in any event prudent – not to say essential. Had this been indubitably a Northern attack, it would have put the South in a very awkward spot. Not to respond would be read in both halves of Korea as weakness; yet a hasty or excessive riposte would run a real risk of rapid escalation into the apocalypse of a second Korean War. As it was, the *Cheonan*’s sister ship *Sokcho*, rather than rushing to the rescue, fired for five minutes at an unidentified object seen on radar heading north. This was later said to have been probably a flock of birds, but some wonder if it was a KPA semi-submersible craft.

By reacting as it did, the South bought time, calmed the all-important markets, and took a potentially very dangerous immediate security situation off the boil – whatever the truth. This came at a political price, however. As grieving relatives demanded answers and had guns pointed at them for their pains, the Seoul press and public opinion roundly criticized the authorities for poor communications, ineffectual response, and secrecy. A week later, the survivors were still being kept from the media. On April 2, Defense Minister Kim finally said what many were by now thinking – that a torpedo was the likeliest cause. He also admitted that two KPA submarines were in the area during March 24-27, but still downplayed the idea of any DPRK involvement. If he is serious this suggests friendly fire, which is hard to credit.

At this writing the mystery remains. It may well suit Seoul for the ambiguity to continue, as is possible if even eventual salvage proves inconclusive. But silencing the survivors arouses suspicion, and in a democracy – many will be conscripts – cannot be maintained indefinitely.

Some claim it would be irrational for North Korea to do this, yet the North does much that is hard to fathom. Plausibility is not proof, but this could be a carefully targeted escalation from the three naval skirmishes of the past decade. If those were scratches, this is a gouge. It smacks of desperation, and may even relate in some obscure way to the succession process. Kim Jong-eun is reputedly a hothead who has already been slapped down by his father for meddling in military matters, so this could be his bright idea of how to make waves.

Presumably the message to Lee Myung-bak is that the North is not to be trifled with, and a warning that if it chooses it could rain hard on his parade: such as the G20 summit, which Seoul will host in mid-November. More broadly, Lee’s general shunning of the North must have left it feeling cornered; this amid a delicate succession and a botched currency reform.

Give the North a card to play

On March 25, the day before the *Cheonan* tragedy, South Korea's leading daily, the center-right *JoongAng Ilbo*, published a "Viewpoint" article under the headline: "Give the North a card to play." Author Yi Jung-jae, an economics editor at the paper, fretted that,

The Lee Myung-bak administration's so-called diplomacy of practicality has no tolerance for North Korea. Inter-Korean exchanges have been deadlocked since the shooting of a South Korean tourist at Mount Kumgang in July 2008. The number of people traveling between the countries plunged by 35 per cent last year from 2008. Humanitarian aid came in at 63.7 billion *won*, half the amount in 2008. Discussions on developing North Korean resources have not even come up.

Resources are Yi's particular worry, with Chinese firms investing and Kim Jong-il expected to visit Beijing soon. He quotes an unnamed former vice minister: "If we just sit around, we probably will see all North Korean resources end up in Chinese hands." Of the Kumgang standoff, he says, "This has produced no progress at all. But a game of cat and mouse is no good for either country." His recommendation: "The government should make concessions and call for joint development of natural resources." And he ends with a warning: "If we don't do something soon, Kim will not be the only one to pay for the consequences."

What next?

Yi may have been more prescient than he knew. If the *Cheonan* was sunk by the North, it raises the question: What card will the South now play? With local elections scheduled for June 2, Lee Myung-bak's hardline image and the fortunes of his ruling conservative Grand National Party (GNP) render inaction hardly a viable option. Aid to the North has shriveled on his watch, so there is scant aid left to cut. He could close the Kaesong zone, as he has all but done at Kumgang. Yet, if anything, that would please Pyongyang's hardliners.

Already one can predict that the moment the rear hull of the *Cheonan* is raised, probably packed with the corpses of trapped young sailors – desperately trying to flee, or caught in their bunks – will see a huge outpouring of national emotion (never in short supply in Korea) and potential volatility. A president whose whole shtick is hands-on and can-do will be in the firing line. There may even be pressure for an Israeli-style targeted reprisal strike, say on one of Kim Jong-il's many villas. Let us hope, against hope, that North Korea really did not do it.

Chronology of North Korea-South Korea Relations January - March 2010

Jan.1, 2010: Sounding a more pacific note than usual, the customary joint New Year editorial of the three main DPRK dailies calls for "national reconciliation and cooperation" with the ROK, including "travel and contacts between the people from all walks of life."

Jan. 3, 2010: South Korea's Unification Ministry (MOU) reacts positively to the DPRK's New Year editorial, noting its emphases on denuclearization through dialogue and on improving its people's livelihood.

Jan. 3, 2010: The Korea Institute for Defense Analyses (KIDA), a think-tank under the Defense Ministry (MND), says the ROK should seek "various contacts" with the DPRK, including a third inter-Korean summit, to move President Lee Myung-bak's "grand bargain" plans forward.

Jan. 4, 2010: In his New Year address, President Lee proposes that the North and South open liaison offices in each other's capitals for "standing dialogue."

Jan. 4, 2010: President Lee proposes a joint project with the DPRK to repatriate the remains of tens of thousands of soldiers killed during the 1950-53 Korean War.

Jan. 5, 2010: Seoul says it will repatriate two Northern fishermen rescued after their boat drifted into Southern waters in the East Sea on Jan. 3, since that is their wish. They are duly returned overland via Panmunjom on Jan. 6. This is the third such case in as many months.

Jan. 5, 2010: The ROK's Defense Acquisition Program Administration (DAPA) says it will control arms sales more strictly and admits that a few years ago some ROK-made military truck tires found their way to the DPRK.

Jan. 5, 2010: Blue House spokesperson Kim Eun-hye reiterates that "the basic principle on [an inter-Korean] summit is that we won't hold a meeting just for meeting's sake ... the principle of denuclearization remains firm."

Jan. 5, 2010: Chinese news agency *Xinhua* reports that MOUs budget this year is \$154 million, up 27 percent on 2009. This includes extra funds for resettling DPRK defectors.

Jan. 6, 2010: ROK Foreign Minister Yu Myung-hwan says the DPRK began its covert second nuclear program, via uranium enrichment (UEP), "very early on": no later than 1996.

Jan. 7, 2010: The Seoul press reports that the Kaesong IZ will get its first hotel when the 101-room, 5-story Hannuri Hotel opens in March. The hotel was completed last June but its opening has been delayed by poor inter-Korean relations.

Jan. 7, 2010: Japan's *Asahi Shimbun* reports that Pyongyang University of Science and Technology (PUST) will finally open in April, seven years late, with some 200 undergraduate and 100 graduate students. Most classes will be taught in English by 13 professors from the ROK, US, and Europe.

Jan. 7, 2010: The (South) *Korea Times* reports that DPRK television showed 59 stills of a drill by the Korean People's Army (KPA)'s 105th Armored Division, watched by Kim Jong-il. Four of the photos showed signs bearing names of ROK cities and highways, suggesting the exercise was based on an attack on South Korea.

Jan. 8, 2010: A source in the ROK Ministry of Strategy and Finance (MOSF) tells *Yonhap* that in October-November a research institute of state-run Seoul National University (SNU) ran a training program in Dalian, China, for 40 DPRK officials. The syllabus included stock markets, supply of consumer goods, international trade, and intellectual property rights.

Jan. 9, 2010: *Rodong Sinmun* says, “We harbor worries that the South Korean authorities will race to the path of confrontation this year because they don’t want better inter-Korean relations.” On the same day *Minju Joson*, daily paper of the DPRK Cabinet, says it is North Korea’s firm stance that inter-Korean relations should be improved on the basis of the two joint declarations of June 15 (2000) and October 4 (2007).

Jan. 10, 2010: North Korea’s Foreign Ministry (FM) proposes discussions on a peace treaty, either within the Six-Party Talks framework or at an independent meeting of signatories of the 1953 Armistice (i.e. China, the US and DPRK – but not the ROK). Washington and Seoul call for Pyongyang to first return to the 6PT and make progress there.

Jan. 12, 2010: *Rodong Sinmun* says ROK “warmongers” have staged large-scale war maneuvers against the North since the outset of the year, raising cries of “infiltration” and “provocation.”

Jan. 13, 2010: *KCNA* warns that “our military will not tolerate even a bit” balloons carrying leaflets critical of the North’s leadership launched by activists across the DMZ, and calls on Seoul to punish those responsible. It says “hundreds of thousands” of leaflets were launched on Jan. 1. This is the first such warning by Pyongyang for 14 months.

Jan. 14, 2010: Report by the ROK National Assembly’s Foreign Affairs Committee says China has invested over \$200 million in 20 North Korean mines, as against only three such investments by South Korea.

Jan. 15, 2010: The National Defense Commission (NDC), the DPRK’s top executive body, threatens “a sacred nationwide retaliatory battle to blow up the stronghold of the south Korean authorities including Chongwadae” (the presidential office). MOU regrets that Pyongyang should react thus “based on some unconfirmed media reports.”

Jan. 15, 2010: North Korea belatedly faxes its acceptance of 10,000 tons of corn aid offered by the South in October.

Jan. 17, 2010: Kim Jong-il inspects a joint training exercise “to defend our socialist state from invaders.” As *KCNA* put it, “flying corps, warships and ground artillery pieces of various kinds showered merciless barrage at the ‘enemy group’ in close coordination, thus shattering the ‘enemy camp’ to pieces and turning it into a sea of flame.” This is the first report of Kim observing combined KPA maneuvers since becoming supreme commander in 1992.

Jan. 17, 2010: *Yonhap* quotes an unnamed source as saying China’s border city of Tumen will lend Pyongyang \$10 million to help upgrade the 170 km rail link to the DPRK port of Chongjin.

Jan. 18, 2010: An ROK intelligence source says the KPA joint exercise observed by Kim Jong-il involved some 10 jet fighters, warships, and 240 mm multiple-launch missile systems. It was held in a western coastal area near Pyongyang.

Jan. 18, 2010: Reaffirming that it will not return to the Six-Party Talks unless UN sanctions are lifted, North Korea's Foreign Ministry avers: "If the six-party talks are to take place again, it is necessary to seek whatever way of removing the factor of torpedoing them (sic)."

Jan. 19, 2010: ROK Foreign Minister Yu Myung-hwan says "North Korea has taken a stance that is hard to understand" on inter-Korean relations, making "unreasonable demands."

Jan. 19-20, 2010: A meeting in the Kaesong Industrial Zone (KIZ) to discuss its future fails to reach accord. North Korea persists in demanding large wage increases, while the South is more concerned about easing cross-border access. They agree to meet again on Feb. 1.

Jan. 20, 2010: In its first ever survey of North Korea, the South's National Human Rights Commission says the DPRK has six prison camps nationwide with some 200,000 inmates, where severe violations such as public executions, sexual assault, and torture are routine.

Jan. 20, 2010: ROK Defense Minister Kim Tae-young tells a forum in Seoul that the South "would have to strike right away" if the North showed clear signs it was about to use nuclear weapons. On Jan. 24 the KPA General Staff says it considers this an "open declaration of war" and warns that it may take "stern military actions."

Jan. 21, 2010: The Korea Institute for National Unification (KINU), Seoul's leading official think-tank on North Korea, issues a report predicting that as Kim Jong-il may well leave the stage after 2012 due to death or incapacity, "the North will likely undergo upheavals, which may include regime change, a military coup, riot, massacre or mass defections."

Jan. 22, 2010: Share Together Society, an ROK NGO, says it will ship enough milk for 40,000 children north each month. The first shipment from Incheon reaches Nampo that day.

Jan. 25, 2010: ROK Unification Minister Hyun In-taek sends a message to Kim Yang-gon, in his capacity as director of the Unification Front Department of the WPK, proposing talks on resuming tourism in Kaesong on Feb. 8.

Jan. 25, 2010: North Korea declares seas near the South's northwesternmost islands of Baeknyeong and Daecheong in the West/Yellow Sea as no-sail zones until Jan. 29. The zones overlap the disputed Northern Limit Line (NLL), the *de facto* sea border.

Jan. 27, 2010: The KPA fires about 30 artillery rounds near, but on its side of, the NLL. The ROK Navy ripostes with about 100 warning shots. The US condemns the DPRK for raising tensions. Pyongyang says this is an annual drill, which will continue. It does, firing a total of about 350 rounds through Jan. 29.

Jan. 29, 2010: At the World Economic Forum at Davos, President Lee Myung-bak tells the *BBC* that he is willing to meet Kim Jong-il at any time without preconditions.

Jan. 31, 2010: The DPRK declares five further no-sail zones, this time including east coast waters, effective Feb. 5-9. Seoul fears the North may test missiles as well as artillery.

Feb. 1, 2010: In a meeting on and in the Kaesong IZ, both sides agree that cross-border access issues raised by Seoul should be discussed in future military-to-military talks. The North continues to prioritize wage hikes, without specifying how much.

Feb. 4, 2010: North Korea-watchers in Seoul say last December's currency reform seems to have failed, and the official who led it may have been fired. Pak Nam-gi, head of the WPK planning and finance department, was last seen on Jan. 9. Later reports allege that Pak was publicly executed as a traitor and saboteur.

Feb. 8, 2010: Inter-Korean talks in Kaesong fail to agree on restarting cross-border tourism. The North continues to refuse Southern demands for a joint probe into the fatal shooting of a female tourist at Mt. Kungang in July 2008, which prompted Seoul to suspend tourism.

Feb. 8, 2010: In an unprecedented joint statement, the DPRK Ministry of People's Security and Ministry of State Security claim North Korea has "a world-level ultra-modern striking force and means for protecting security which have neither yet been mentioned nor opened to the public in total." They threaten "all-out strong measures to foil the treacherous, anti-reunification and anti-peace moves of the riff-raff to bring down the dignified socialist system."

Feb. 10, 2010: MOU says the DPRK produced 4.1 million tons of grain in 2009, which is 200,000 tons less than in 2008. It predicts a worsening food crisis this year.

Feb. 11, 2010: The ROK National Assembly's Foreign Affairs Committee approves a bill by the ruling Grand National Party (GNP) that would create a government body dedicated to North Korean human rights support for NGOs working in this area. The main opposition Democratic Party (DP) boycotts the vote, claiming this is an "anti-North Korean" bill that will backfire by "prolonging the chilled ties between the two Koreas while strengthening clampdowns in the North to consolidate the regime's security."

Feb. 12, 2010: Park In-kook, ROK ambassador to the UN, says the Security Council is not ready to discuss a possible removal of sanctions on North Korea, and would only consider this after significant progress toward denuclearization.

Feb. 15, 2010: In a meeting to mark Kim Jong-il's birthday, titular head of state Kim Yong-nam says: "Steadfast is the stand of the DPRK to improve inter-Korean relations and pave the way for national reunification on the basis of the June 15 and October 4 declarations."

Feb. 16, 2010: Kim Jong-il's birthday – officially his 68th, but maybe really his 69th – is celebrated as usual throughout the DPRK. *Rodong Sinmun* says: "We must follow and trust our General to the end of this world with the belief that we will triumph no matter what happens."

Feb. 16, 2010: The ROK's National Human Rights Commission of Korea (NHRCK) says that while its overall budget has been cut by 5 percent to \$4 million for fiscal 2010, the tiny portion it devotes to North Korea is unchanged from 2009 at \$294,000 – even though it had asked for less than half that. NHRCK concludes that the government is keen on this area.

Feb. 19, 2010: The ROK's National Oceanographic Research Institute warns on its website that the DPRK has again unilaterally designated six “naval firing zones” for three days from Feb. 20. Four are on the west coast and two in the east. On two previous occasions in February similar warnings were given but no actual exercises were conducted.

Feb. 19, 2010: *Yonhap* cites an unspecified ROK defense report as saying the KPA has deployed dozens of multiple rocket launchers – seen as a special threat to Seoul – along the west coast border. The South is “prepared for 33 possible North Korean attack scenarios.”

Feb. 19, 2010: *KCNA* avers that “only fools will entertain the delusion that we will trade our nuclear deterrent for petty economic aid ... We have tightened our belts, braved various difficulties and spent countless money to obtain a nuclear deterrent as a self-defense measure against U.S. nuclear threats ... We never meant to seek ‘economic benefits’ from someone or threaten others.”

Feb. 22, 2010: Seoul says it will accept the North's offer of military talks about cross-border transit issues on March 2, but insist that they be held at Panmunjom rather than in Kaesong.

Feb. 23, 2010: South Korea sends 20 trucks carrying 200,000 liters of hand sanitizer worth \$863,000 to Kaesong. The North thanks it for this, and for Tamiflu sent earlier on Dec. 12.

Feb. 25, 2010: Citing “some conciliatory moves since the latter half of last year,” ROK Vice Unification Minister Hong Yang-ho says in a radio interview that Seoul's tough approach toward the North has proven effective in pressing Pyongyang to open up for dialogue.

Feb. 25, 2010: The (South) Korea Customs Service (KCS) reports that inter-Korean trade fell 9 percent last year, from \$1.82 billion in 2008 to \$1.66 billion. The South's trade deficit nearly quadrupled to \$201 million, with DPRK exports of \$933 million against ROK sales of \$732 million. Much of this trade is inputs to and outputs from the Kaesong zone (KIZ).

Feb 25, 2010: The KPA General Staff attacks “the US imperialists and warmongers of the south Korean puppet army” for their (in fact routine) annual *Key Resolve and Foal Eagle* joint exercises, due on March 8-18.

Feb. 26, 2010: *KCNA* reports that “a relevant institution of the DPRK recently detained four south Koreans who illegally entered it. They are now under investigation by the institution.”

March 2, 2010: *Rodong Sinmun* criticizes South Korea for raising the “nonexistent” human rights issue in the DPRK.

March 2, 2010: North-South military working-level talks are held at Kaesong, but make no progress. The South wants extended border crossing hours and permission to use mobile phones, the Internet, and electronic tags on goods. The North reiterates its demand for higher wages and equipment to help it ease border restrictions.

March 4, 2010: Pyongyang warns that “if the South Korean government continues to block the travel routes [i.e. tourism to Mt. Kumgang] while making false accusations, we will be left with no choice but to take extreme measures.”

March 4, 2010: *Rodong Sinmun* criticizes pressure from Seoul to discuss the North’s nuclear issue as “a ploy to whip up a wanton campaign against the DPRK ... As we have made clear repeatedly, the nuclear issue has nothing to do with inter-Korean relations.”

March 8, 2010: Korea Rural Economic Institute (KREI), a state think-tank in Seoul, says that absent foreign aid North Korea will be 1.2 million tons short of its food needs this year.

March 8, 2010: The launch of regular annual US-ROK military exercise *Key Resolve and Foal Eagle* brings the usual volley of threats from Pyongyang.

March 9, 2010: North Korea’s Foreign Ministry says “The DPRK is fully ready for dialogue and war. It will continue bolstering up its nuclear deterrent as long as the US military threats and provocations go on.”

March 9, 2010: ROK officials say they are watching closely DPRK moves to grant leases at Rajin to both Russia and China. They see this as a move toward opening, while remaining wary of any possible breach of UN sanctions.

March 11, 2010: North Korea’s APPC again threatens “extreme measures” if Seoul does not allow tours to Mt. Kumgang to resume.

March 13, 2010: MOU says it has allowed no new inter-Korean economic ventures since last April’s DPRK long-range missile test. The last approval was on March 12, 2009.

March 14, 2010: DPRK website *Uriminzokkiri* quotes the weekly *Tongil Sinbo* as saying Pyongyang’s March 4 warning on tourism “... is tantamount to an ultimatum.

March 14, 2010: Officials in Seoul report that on Jan. 27 Pyongyang revised regulations at its Rason (Rajin-Sonbong) economic and trade zone, in the far northeast, to allow “compatriots living outside the DPRK” to invest there. This includes South Koreans among others.

March 15, 2010: *Rodong Sinmun* says the servicepersons and people of the DPRK will clearly teach what “miserable end the US and south Korean bellicose forces will meet” if they dare provoke a second Korean War.

March 16, 2010: Southern sources say North Korea has put a top trade specialist, Ri Kwang-gun, in charge of inter-Korean economic cooperation.

March 17, 2010: ROK Defense Minister Kim Tae-young says the DPRK is believed to have about 1,000 short and longer-range missiles – up from an estimated 800 as of 2008 – and is continuing to bulk up its military power without giving up its nuclear ambitions

March 18, 2010: North Korea's APPC notifies MOU and tour operator Hyundai Asan that it will “conduct a survey of South Korean property in the Mt. Kumgang area from March 25 ... All assets of those who fail to cooperate with the measure will be confiscated and they will be unable to visit Mount Kumgang again.”

March 19, 2010: The North's General Scenic Spots Development Guidance Bureau condemns South Korea for suspending tours, blaming the deceased tourist for her “carelessness,” it says that Southern authorities “failed to properly take care [of] and control the tourists.”

March 22, 2010: Korea Electric Power Corp. (Kepco) says it has failed to sell two nuclear light-water reactors originally meant for North Korea under the 1994 Agreed Framework.

March 24, 2010: Seoul issues travel permits for companies to visit Mt. Kumgang for the North's inspections. While the ROK government is not directly represented, three officials of the state-run Korean Tourism Organization (KTO) make their own survey ahead of the North's.

March 25, 2010: ROK Foreign Minister Yu Myung-hwan says that an expected visit to China by Kim Jong-il could lead to a resumption of the Six-Party Talks.

March 26, 2010: In talks with Wang Jiarui, head of the international liaison department of the Chinese Communist Party (CCP), Chung Mong-joon, chairman of the ROK's ruling Grand National Party (GNP), calls on China to play a greater role in promoting dialogue between the divided Koreas, including acting as a mediator if the North misunderstands the South.

March 26, 2010: Inspections continue at Mt Kumgang. 20 DPRK officials, including KPA officers, visit a hot spring facility, a duty free shop, and a cultural center.

March 26, 2010: Reacting to reports of allied contingency planning for various scenarios on the peninsula, the KPA General Staff threatens “unprecedented nuclear strikes of [our] invincible army” against “the US imperialists and the South Korean puppet warmongers” if they seek to bring down the North's regime.

March 26, 2010: The 1,200 ton ROK Navy corvette *Cheonan* sinks off Baengnyeong – South Korea's northwesternmost island, close to the Northern coast and near the NLL, which the DPRK disputes, soon after an unexplained explosion tore through its hull.

March 27, 2010: Strong currents hamper divers looking for the *Cheonan*'s two broken halves. Theories as to what happened proliferate as relatives of those missing demand answers.

March 29, 2010: The KPA's Panmunjom Mission says “south Korean military warmongers have been busy staging an anti-DPRK psychological warfare in the Demilitarized Zone.” It warns that this must stop.

March 29, 2010: The ROK Joint Chiefs of Staff say the KPA has put its coastal military units on heightened alert and increased surveillance near the NLL, while Southern warships and helicopters search waters near Baengnyeong-do for dozens of missing sailors.

March 29, 2010: ROK Navy divers who hammered on the *Cheonan's* hull report no signs of life. President Lee Myung-bak visits the site. Defense Minister Kim Tae-young rules out an ROK mine as the cause, saying all were removed from the area by 2008.

March 31, 2010: Bad weather forces the ROK Navy to suspend searches at the *Cheonan* wreck. Press reports quote DPRK officials in China as denying any knowledge or involvement. The Seoul press claims that a KPA submarine had been in the vicinity, but the ROK Joint Chiefs of Staff decline to comment on military operational matters.

March 31, 2010: Press agencies report that the ROK has ordered all government officials to stay on emergency alert and not take leave until the *Cheonan* crisis is resolved.

March 31, 2010: The DPRK concludes its week-long inspections of ROK investment projects at Mt. Kumgang. The same day MOU calls on the North to resolve any problems through dialogue, and warns that, “if the property rights of our companies are not protected, not a single inter-Korean cooperation project can proceed normally.”

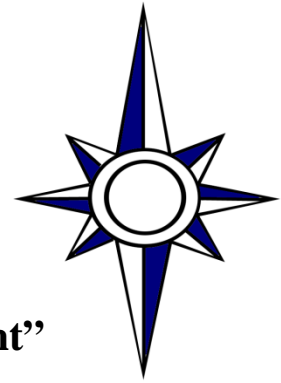
March 31, 2010: In his first public speech in office, new Vice Unification Minister Um Jong-sik urges the North to act “rationally” in “resolving current issues that are compounding problems in inter-Korean relations.”

Apr. 1, 2010: MOU says Southern businessmen have told it that the North plans to “freeze” the ROK-built but so far little-used family reunion center at Mt. Kumgang.

Apr. 2, 2010: Under the headline “Suspicion of N. Korean Hand in Sinking Mounts,” *Chosun Ilbo* quotes military sources as citing a “60-70 per cent chance” that the *Cheonan* was hit by a torpedo from a DPRK semi-submersible, rather than an old mine.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



China-Korea Relations:

Fire Sale, Hot Money, and Anxieties about “Investment”

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Asia Foundation/Pacific Forum CSIS

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China and North Korea sustained high-level contacts during the quarter, but there seems to be little to show for it. Wang Jiarui, head of the International Department of the Communist Party of China (CPC) Central Committee, met Kim Jong-il in Pyongyang and delivered a letter from President Hu Jintao, reportedly extending an invitation to Kim to visit China. Following the visit, the Chinese Foreign Ministry confirmed Pyongyang’s “persistent stance” toward denuclearization while Hu affirmed that friendly ties is China’s “consistent policy” toward Pyongyang. Two weeks later Kim Yong-il, director of the International Affairs Department of the Workers’ Party of Korea (WPK) Central Committee, visited Beijing, where he met President Hu. North Korea’s major push to attract foreign investment appears to involve potential economic deals that Beijing has claimed do not violate UN resolutions toward the North. Meanwhile, Chinese leaders presented a positive outlook for the resumption of Six-Party Talks on the sidelines of the annual session of the National People’s Congress (NPC) and Chinese People’s Political Consultative Conference (CPPCC) in March. Having received the title of representative for Korean Peninsula Affairs, China’s lead representative to the Six-Party Talks Wu Dawei stated that talks might resume before July this year in light of favorable diplomatic contacts with Pyongyang. Foreign Minister Yang Jiechi expressed support for improved inter-Korean and US-DPRK ties. China and South Korea officially launched Visit China Year 2010, pledging to strengthen their strategic cooperative partnership through intensified diplomatic, cultural, and economic exchanges. ROK Foreign Minister Yu Myung-hwan held talks with Premier Wen Jiabao and Foreign Minister Yang Jiechi in Beijing.

China and North Korea exchange high-level visits

Wang Jiarui made a four-day goodwill visit to North Korea on Feb. 6-9, during which he met DPRK counterpart Kim Yong-il, Secretary of the Workers’ Party of Korea Central Committee Choe Thae-bok, and Kim Jong-il. According to Chinese state media, Wang told Kim Yong-il that it is “imperative” for both countries to handle bilateral and party-to-party relations “from a strategic perspective” and to “enhance their political mutual trust amid the complicated and volatile international situation.” Reporting on Wang’s meeting with Kim Jong-il, Chinese state media hailed Kim’s firm commitment toward denuclearization and coordination with China, citing China’s willingness to “deepen traditional friendship” while “increasing practical cooperation for the benefit of regional peace and stability.” Following Wang’s visit to Pyongyang, the Chinese Foreign Ministry spokesman said eased tensions over the Korean Peninsula situation provide a good opening for the resumption of Six-Party Talks, reaffirming that the DPRK nuclear issue “can only be resolved through dialogue and negotiation.”

Receiving Kim Yong-il in Beijing two weeks later, President Hu affirmed that maintaining friendly ties with the DPRK has been China's "consistent policy," vowing to "expand pragmatic cooperation." Kim Yong-il held another round of talks with Wang Jiarui while in Beijing, where both sides agreed to strengthen party-to-party ties to support "common development" and "regional peace and stability." Kim Yong-il's visit unleashed speculation in the South Korean and Japanese media regarding Kim Jong-il's imminent visit to China, possibly in late March. The Chinese Foreign Ministry spokesman denied such claims, stating that the two parties have "traditionally enjoyed high-level visits" and that "we believe this tradition can be maintained."

Beijing appointed former Vice Foreign Minister Wu Dawei as special representative for Korean Peninsula Affairs on Feb. 10 and a new ambassador to the DPRK, Liu Hongcai, on March 8. In his newly renamed position, Wu received DPRK Vice Foreign Minister Kim Gye-gwan in February in Beijing, where both sides discussed bilateral ties, Six-Party Talks, and "issues of common concern." According to a Foreign Ministry press release, Wu is responsible for "Six-Party Talks and related issues." The title of Wu's revised position is similar to the title of his US counterpart, Stephen Bosworth, which is special envoy for North Korea policy. South Korean analysts suggested that the appointment shows that China is trying to separate the nuclear issue from China-DPRK relations, but the title change in combination with Wu's hosting of Vice Minister Kim Gye-gwan also seems to carry a protocol message for the US, given US insistence on a firm North Korean commitment to return to the Six-Party Talks as a precondition for issuing Kim a visa to visit the US. During Ambassador Liu's first meetings with senior DPRK officials in Pyongyang, both sides pledged to advance friendly relations across all fields.

Mixed China-ROK assessments for DPRK denuclearization

China raised hopes for the resumption of Six-Party Talks through high-level exchanges in February and its annual parliamentary and advisory meetings in March. Wu Dawei, who also serves as deputy director of the Foreign Affairs Committee of the CPPCC National Committee, told state media on March 4 that "China's goal is to restart the Six-Party Talks in the first half of this year," citing mutual distrust as the source of deadlock since December 2008. Foreign Minister Yang Jiechi expressed hopes for an early resumption of talks, stating that "none of the parties involved has given up the objective of achieving a denuclearized Korean Peninsula" and that "they have never abandoned the effective, multilateral mechanism of the Six-Party Talks."

While Kim Yong-il was in Beijing, ROK nuclear envoy Wi Sung-lac also visited Beijing on Feb. 23-24 and met Wu Dawei to discuss the North Korean issue, including the outcome of Wu's earlier meeting with Kim Gye-gwan in China. Unlike his Chinese counterparts, Wi provided no hint that multilateral talks were likely to resume, indicating that Pyongyang's position on Six-Party Talks generally appeared "the same as before." Wi, however, noted positive signs in bilateral efforts among other six-party members, including China-DPRK, China-ROK, China-US, and ROK-US. The Chinese Foreign Ministry spokesman expressed hope for progress in North-South relations as working-level inter-Korean talks began on March 2, stating that "China always supports the Korean Peninsula's north and south to advance dialogue and cooperation." The Chinese Foreign Ministry also expressed support for US-DPRK contact within the six-party framework, calling it "conducive to mutual trust."

On the other hand, ROK Foreign Minister Yu Myung-hwan in a *Xinhua* interview on March 15 stated that “North Korea’s insistence on bilateral talks with the US is a wrong approach.” Yu argued that the easing of international sanctions cannot be determined “unilaterally,” urging Pyongyang to firmly commit to denuclearization “in order to seek certain changes it wants.” He also stressed China’s role in both denuclearization and international sanctions as host of the Six-Party Talks and permanent member of the UN Security Council, especially “after [North Korea’s] two nuclear experiments.” Yu and Chinese counterpart Yang Jiechi had also met on Jan. 17 on the sidelines of the Forum for East Asia-Latin America Cooperation in Seoul, where they agreed to work toward early resumption of multilateral talks.

The DPRK Foreign Ministry stated on Jan. 11 that the resumption of talks and denuclearization would only be possible after the lifting of sanctions and signing of a peace treaty, challenging Seoul’s stance on an unconditional return to talks. Wu Dawei stated in March that the “US, ROK, and Japan” believe “Pyongyang must first return to talks and show notable progress in denuclearization before meeting of such conditions,” without elaborating on China’s position. In January, *Xinhua* stated that differences between North Korea and the US-South Korea over the nuclear issue lie in US insistence on “denuclearization first” and DPRK’s adherence to “peace first,” stating that the “different priorities are clear indications of their respective strategic interest.” It also emphasized that “a close look” at North Korea’s proposal indicates “Pyongyang’s understanding of the need to resume the Six-Party Talks and fulfill the Joint Statement on September 2005.” While the Chinese media has noted the possibility of simultaneous talks on denuclearization and peace, analysts such as Jin Canrong of Renmin University see the resumption of talks in the first half of 2010 as “highly possible” but “China is thinking about a compromise proposal, urging both the DPRK side and the US-ROK-Japan side to make some concessions to solve the problem.”

North Korea’s reform and opening, toward China

South Korean media has focused attention on North Korea’s unprecedented foreign investment deals involving China, most notably rumors regarding up to \$10 billion of Chinese investment commitments to North Korea and its 10-year lease of Rajin port. New foreign investments to North Korea are expected to come through the Taepung Group, and were reportedly discussed during Wang Jiarui’s February visit to Pyongyang. According to Yanbian Gov. Lee Yong-hee, the lease of Rajin’s pier number one may be extended by another 10 years providing an international route from Jilin Province to the East Sea/Sea of Japan. China’s *Global Times* on March 10 referred to Rajin as China’s “first access to the maritime space in its northeast.” Some South Koreans are concerned that China might even build a naval base at Rajin, but given North Korea’s fears of excessive Chinese influence and past failures to pursue reform and opening, this development seems highly unlikely. North Korea has also reportedly granted a 50-year lease to Russia to use Rajin’s pier number two. These moves seem to be part of an urgent attempt to attract foreign currency at a time of international financial sanctions and failed domestic reforms.

In addition, new construction on the Quanhe-Wonjong bridge between China and North Korea is expected to take place during the second quarter of 2010. North Korea has completed a major expansion of Customs facilities at Wonjong, and there are reports that the 50 km dirt road

between Wonjong and Rajin will be upgraded to support expanded commercial traffic. South Korean media reported in January that North Korea and the Tumen municipal government have agreed to begin reconstructing the railway linking Tumen to North Korea's Chongjin port from April 2010, for which Tumen will reportedly lend Pyongyang \$10 million, again raising speculations about Chinese strategic interests.

According to a *Global Times* report, Pyongyang has designated Wihwa and Huanggeumbyung Islands as a free trade zone in the China-DPRK border area near Dandong in an effort to attract total investments of \$500 million and \$300 million respectively. In line with Beijing's official position, the report noted that UN sanction resolutions against North Korea do not restrict such projects related to "normal bilateral trade." It also indicated that the Dandong Huashang Overseas Investment Corporation plans to send a delegation to the North, where local DPRK officials are working on detailed plans for the zone. In response to concerns in the ROK media, China's Foreign Ministry on Feb. 25 denied that these exchanges with North Korea violate UN resolutions, calling the projects "purely normal economic and trade contact."

North Korea's foreign investment drive has been accompanied by parallel efforts in China's northeast provinces to boost border trade and tourism. On March 17, Liaoning began the construction of two railways near the DPRK border, including between the provincial capital Shenyang and the port city of Dandong (across from the DPRK's city of Sinuiju), and between Dandong and Dalian, Liaoning's industrial center. According to Wang Tao of Dandong Import and Export Corporation, the Shenyang-Dandong and Dandong-Dalian railways, to be completed in 2014 and 2013 respectively at an estimated total cost of 50 billion RMB (\$7.3 billion), "will benefit trade between China and the DPRK." Lu Chao, a researcher at the Liaoning Academy of Social Sciences, claims that the projects will help expand bilateral exchanges since about 70 percent of cross-border trade depends on Dandong port and most Chinese tourists to the DPRK travel via the Yalu River Bridge linking Dandong and Sinuiju. Earlier in March, China's National Tourism Administration designated North Korea as an approved destination for Chinese tour groups and announced that the first group of up to 200 travelers will travel to the North on April 12 for a one-week tour, the cost of which is reportedly approximately \$1000/traveler. Proceeds will be split between the Chinese travel agency and North Korean counterparts.

Such deals have fueled fears in Seoul about Chinese competitiveness in the North, especially given strained inter-Korean investment environment. A January ROK National Assembly report indicated that China has expanded its mining rights in North Korea to cover up to 20 sites, compared to only three for the South, warning that "we are behind China in the development of North Korea's underground resources and need measures to cope with this." The ROK Unification Ministry in February claimed that North Korea received a total of 300,000 tons of food in the form of either credit or aid in 2009, mostly from China. Kwon Tae-jin of South Korea's Rural Economic Institute indicated that Chinese grain imports in the North jumped 3.6 fold to 13,834 tons in January this year, citing North Korean concerns about food shortages given strains on the food supply system since the November 2009 currency reform. North Korea is expected to face food shortages of up to 1.2 million tons in 2010 according to UN estimates in March. This figure does not take into account any possible increase in Chinese aid.

Despite ROK concerns about North Korea's growing reliance on China and Chinese strategic interests, some Chinese analysts argue that China is unlikely to continue to assist its ally unless Pyongyang adjusts its development approach. Given the "abject failure" of North Korea's market reforms, Peking University's Zhu Feng has indicated that China has the "capability" but "no intention" of "bailing out North Korea's economy," stating at a March forum in Seoul that without any change in Pyongyang's "very bizarre policy," offers of substantial aid to the North is "detrimental" to Chinese national interests.

North Korea's outreach to China amid strained domestic conditions appear to mark a potential turning point toward a strategy of reform and opening that is conducive to Chinese economic and strategic interests. Many economists cited Pyongyang's failed measures in 2009 to seize state control over markets as the directly opposite approach of Chinese reforms. Pyongyang's current external interests contradict the state-led strategy of self-reliance declared at the beginning of the year, when Rason was designated a "Directly Governed City" on Jan. 4 and Kim Jong-il on Jan. 7 called for building a "powerful and prosperous nation, by the country's own efforts and with its own technology and resources." According to Lim Eul-Chul at the Institute for Far Eastern Studies, North Korea is now planning to open foreign-owned factories in not only its special economic zones but also in major cities like Nampo and Wonsan, with close cooperation between the DPRK military and State Development Bank, to attract foreign investment. However, both South Korean and Chinese experts are largely skeptical about the creation of modern banking systems in the North, where investors have long complained of government practices that fail to meet basic international standards.

South Korea eyes Visit China Year 2010 and Shanghai World Expo 2010

Before leaving for Beijing in March, ROK Foreign Minister Yu Myung-hwan told *Xinhua* that "the most important goal for the visit is to strengthen the strategic cooperative partnership between the two countries and express our support for the Shanghai World Expo." Coinciding with Seoul's Visit China Year 2010, the Expo will be held from May 1 to Oct. 31, during which time up to 1 million South Korean tourists are expected to travel to Shanghai. The ROK Ministry of Knowledge Economy has pledged to promote South Korea's high-end technology and popular culture at the event, for which Seoul has spent a total of about \$60 million to display the second biggest national pavilion after China. There is also a corporate pavilion housing 12 ROK business giants including Samsung, Hyundai, LG, SK, and POSCO. Chinese officials expect the Expo to attract 70 million visitors including 3.5 million foreigners. North Korea will make its first international expo appearance in the 2010 Shanghai World Expo, for which it has been making preparations since July 2007.

With the launching of Visit China Year 2010, Chinese and ROK officials have pledged to cooperate on a range of political, economic, and cultural exchanges as promised between Presidents Hu and Lee Myung-bak in 2008 when they forged the China-ROK strategic cooperative partnership. South Korea has shown keen interest in the Shanghai Expo as a precursor to expected Chinese cooperation on the Yeosu Expo 2012, to be held during China's Visit Korea Year 2012, and the two presidents in their New Years messages on Jan. 1 reaffirmed cooperation on the two expos as an opportunity to strengthen bilateral ties. On March 26, Grand National Party (GNP) Chairman Chung Mong-joon met Wang Jiarui and Vice Premier Li

Keqiang in Beijing and agreed to strengthen party-to-party exchanges as a political foundation for the China-ROK strategic cooperative partnership. Foreign Minister Yang Jiechi also expressed support for the G20 summit in Seoul, calling it an important mechanism for promoting world economic governance and for addressing the “imbalance of international economic development,” resonating with President Lee’s priorities for the summit.

In January, a global marketing report showed that Seoul was the most popular travel destination among Chinese in December 2009 for the second consecutive year. As Foreign Minister Yu noted in Beijing, Seoul has taken recent steps to ease visa requirements for Chinese including no-visa policies to Chinese tourists traveling to Jeju Island and to Chinese students on school field trips. South Korea’s major department stores have reported a steady increase in spending by Chinese tourists, with the biggest retail store, Lotte, indicating that Chinese tourist sales reached 86 percent of Japanese tourist sales in January compared to 17 percent during the first quarter of 2009. Shinsegae reportedly receives about 200 Chinese customers a day, two to three times more than Japanese visitors, spending over \$868.21 per person. South Korean observers expect this trend in Chinese consumer spending to continue given China’s strengthening economy.

China-ROK coordination on North Korea: convergence or divergence?

Despite China-ROK efforts to upgrade their partnership, coordination of North Korea policy appears increasingly strained by differing perceptions of security interests, South Korean suspicions regarding the rationale for China’s enhanced diplomatic engagement with the North, and concerns about the intentions behind China’s economic engagement of the North. In the effort to resume Six-Party Talks, both sides seem to differ on the conditions for the DPRK’s return. Current troubles in the US-China relationship suggest that North Korea may fall behind in priority and that resumption of Six-Party Talks may be further delayed. At the same time, South Korean analysts recognize China’s critical position and hope that Chinese interactions with Kim Jong-il will lead to progress toward denuclearization and that North Korea’s apparent desperation won’t come at the expense of inter-Korean relations. China has affirmed Pyongyang’s commitment to denuclearization while pursuing “friendly ties” and economic deals with the DPRK that Seoul suspects undermine international sanctions. Beyond China’s provincial interests, North Korea’s foreign investment efforts appear driven by a desperate need to overcome internal financial difficulties and to reverse domestic policy failures as it struggles to reconcile national development strategies of self-reliance with the need for foreign currency, which ultimately will require some measure of opening to the outside world.

Another area of sensitivity in China-South Korean relations is having an effective dialogue on potential responses to instability in North Korea. Following US Forces Korea Commander Gen, Walter Sharp’s testimony in Washington on March 25 warning against the potentially “destabilizing and unpredictable” effects of “sudden leadership change in the North,” *Yonhap* reported that state-run think tanks in South Korea and China plan to hold a meeting with the US Pacific Command in April in Beijing to examine contingency scenarios in North Korea. A spokesman of the Korean People’s Army in response threatened “unprecedented nuclear strikes” against anyone seeking to overthrow the Pyongyang regime. This sort of reaction is precisely what China hopes to avoid, and may further inhibit prospects for effective China-South Korean interaction on such a sensitive issue, with or without the participation of the US.

Chronology of China-Korea Relations January - March 2010

Jan. 1, 2010: Presidents Hu Jintao and Lee Myung-bak exchange New Year greetings.

Jan. 6, 2010: South Korea's Eastar Jet Co. announces it will begin flight services to Shanghai and Shenyang from late April 2010.

Jan. 7, 2010: The ROK food safety agency recalls fake frozen Pollock entrails from China.

Jan. 12, 2010: London-based Clarkson PLC shows China has overtaken South Korea as the world's biggest shipbuilder.

Jan. 14, 2010: A South Korean report reveals China has expanded its mining rights in North Korea to cover as many as 20 sites.

Jan. 17, 2010: ROK Foreign Minister Yu Myung-hwan meets Chinese counterpart Yang Jiechi on the sidelines of the Forum for East Asia-Latin America Cooperation in Seoul.

Jan. 17, 2010: North Korea and the municipal government of Tumen City reportedly agree to repair the railway link between Tumen and Chongjin port.

Jan. 26, 2010: China, South Korea, and Japan hold a preliminary meeting on joint research on a trilateral free trade pact.

Jan. 31, 2010: China's Ministry of Commerce announces it would extend anti-dumping measures on phenol imports from Japan, South Korea, the US, and Taiwan.

Feb. 1, 2010: Chinese Assistant Foreign Minister Hu Zhengyue, Japanese Deputy Foreign Minister Sasae Kenichiro, and ROK Deputy Foreign Minister Lee Yong-joon hold their 4th round of consultations in Beijing.

Feb. 2, 2010: China's Ministry of Commerce announces temporary antidumping measures on terephthalic acid imports from Thailand and South Korea.

Feb. 3, 2010: Kim Yong Nam, president of the Presidium of the Supreme People's Assembly of the DPRK, awards a friendship medal to outgoing Chinese Ambassador Liu Xiaoming.

Feb. 6-9, 2010: Wang Jiarui, head of the International Department of the Communist Party of China Central Committee, leads a delegation to North Korea. He meets Kim Yong-il, director of the International Affairs Department of the Workers' Party of Korea Central Committee, on Feb. 7. He meets Kim Jong-il on Feb. 8 and delivers a letter from President Hu Jintao, and holds talks with Choe Thae Bok, Secretary of the Workers' Party of Korea Central Committee.

Feb. 8, 2010: Visit China Year 2010 is officially launched in Seoul.

Feb. 10, 2010: Former Chinese Vice Foreign Minister Wu Dawei is appointed special representative for Korean Peninsula Affairs. He meets DPRK Vice Foreign Minister Kim Gye-gwan in Beijing.

Feb. 18, 2010: Qiu Yanpeng, commander of the Chinese naval escort flotilla in the Gulf of Aden, visits ROK destroyer *Chungmugong Yi Sunshin* and meets Capt. Kim Myung Sung, commander of the ROK naval escort flotilla.

Feb. 23-24, 2010: ROK nuclear envoy Wi Sung-lac visits Beijing and meets Wu Dawei.

Feb. 23, 2010: Kim Yong-il, director of the International Affairs Department of the Workers' Party of Korea Central Committee leads a delegation to Beijing and meets President Hu and Wang Jiarui, head of the International Department of the Communist Party of China Central Committee.

March 2, 2010: China's National Tourism Association designates North Korea as an approved destination for Chinese tour groups.

March 5, 2010: New Chinese Ambassador to the DPRK Liu Hongcai arrives in Pyongyang and presents his credentials to Kim Yong-nam, president of the Presidium of the DPRK Supreme People's Assembly, on March 8.

March 5, 2010: The ROK Ministry of Land, Transport and Maritime Affairs announces an agreement with China to enhance bilateral cooperation on aviation safety.

March 16, 2010: Chinese Ambassador to the DPRK Liu Hongcai meets Premier Kim Yong-il and Vice Premier Ro Tu-chol in Pyongyang.

March 17, 2010: Northeast China's Liaoning Province begins construction on the Shenyang-Dandong and Dandong-Dalian railways near the DPRK border.

March 17-19, 2010: ROK Foreign Minister Yu Myung-hwan visits China and meets Premier Wen Jiabao and Foreign Minister Yang Jiechi.

March 24, 2010: ROK Ambassador to China Yu Woo-ik meets Chinese Defense Minister Liang Guanglie in Beijing.

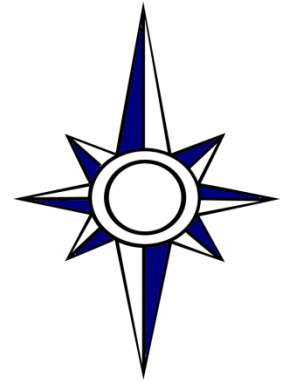
March 26, 2010: ROK Grand National Party Chairman Chung Mong-joon meets Wang Jiarui and Vice Premier Li Keqiang in Beijing and agrees to strengthen ruling party ties.

March 29, 2010: Samsung Electronics and Chinese retailer Suning Appliance Co. agree to sell \$1.46 billion worth of Samsung's products in 2010 to boost its presence in China.

March 31, 2010: New Chinese Ambassador to South Korea Zhang Xinsen arrives in Seoul.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



Japan-China Relations: All's Well that Ends Well

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The final report of the Japan-China Joint Study of History project, which was composed of studies by individual Japanese and Chinese historians and not a consensus document, was released at the end of January. While differences remained over issues related to Nanjing and postwar history, both sides expressed satisfaction with the three-year effort and committed to follow-on studies. At the same time, efforts to reach an implementing agreement on joint development in the East China Sea failed to make progress. Even the decline to single-digit growth in China's 2010 defense budget, while welcomed in Japan, was met with skepticism and calls for greater transparency. Meanwhile, China protested Japan's appropriations to support conservation and port construction on Okinotorishima. Then, with hopes fading in Japan for a resolution of the two-year running controversy over contaminated *gyoza* imported from China, Chinese authorities at the end of March announced the arrest of a former employee at the Tianyang Food Plant in Hebei Province who admitted under questioning that he had injected pesticide into the frozen *gyoza*.

Foreign policy triangulation

Prime Minister Hatoyama Yukio delivered his policy speech at the opening of the 174th session of the Diet on Jan. 29. In his discussion on foreign policy issues, he made clear that in building an East Asian community "not only is the importance of an unshakeable Japan-US alliance unchanged but such an alliance is indispensable as a precondition for forming an East Asian community." Elsewhere, Hatoyama pledged that he would "work to further enhance the mutually beneficial relationship with China based on common strategic interests...."

Meanwhile, the debate over the nature of the Japan-US-China relationship continued within the Democratic Party of Japan (DPJ). Ozawa Ichiro confidant Yamaoka Kenji observed that the Japan-China relationship was in the "best shape" in postwar history. He believed that relations among Japan, China, and the US "should be equally balanced like an equilateral triangle." Upper House DPJ Chairman Koshiishi Azuma also supported the equilateral concept. However, the prime minister and Foreign Minister Okada Katsuya rejected that formulation. On Jan. 19, Okada told a press conference that "Japan should not give equal treatment to the US, its ally, and China, which has adopted a different political system from Japan."

* The views expressed in this article are the views of the author alone and do not represent the views or policy of the National Defense University, the Department of Defense, or the U.S. government.

On Jan. 21, the prime minister told the Lower House Budget Committee that the lengths of the side of the triangle are “not the same length. The Japan-US alliance is the core.” Two months later, on March 22, in remarks delivered at graduation ceremonies of the National Defense Academy, Hatoyama described the Japan-US Alliance as “unshaken,” while, at the same time, calling for a security strategy that would “develop a network of confidence building and interdependence with our neighbors.”

High-level visits

Early in the new year, Shizuoka Gov. Kawakatsu Heita visited China and on Jan. 11 met Vice President Xi Jinping in Beijing. Xi emphasized the importance of developing the strategic and mutually beneficial bilateral relationship and told Kawakatsu that China would welcome a Hatoyama visit in 2010.

The Jan. 6 *Yomiuri Shimbun*, citing sources close to Japan-China relations, reported that the Chinese had unofficially broached the idea of historic reciprocal visits – a Hatoyama visit to Nanjing in June followed by a Hu Jintao visit to Hiroshima in November. According to its sources, the *Yomiuri* reported that China believed that an “improvement of popular feelings on both sides is indispensable” to further strengthening the mutually beneficial strategic relationship. In that context, a Hatoyama visit to Nanjing and an expression of deep remorse would serve to ameliorate the feelings of the Chinese people toward Japan. The next day, Chief Cabinet Secretary Hirano Hirofumi told a press conference that he was aware of the reports but did not see them as having any factual basis. As for the possibility of the prime minister visiting Nanjing, Hirano said that “at present we are giving no thought to the matter.”

East China Sea

The Dec. 31 *Yomiuri Shimbun* reported that Tokyo and Beijing had reached a de facto agreement on investment shares with respect to the development of Shirakaba/Chunxiao gas fields. The agreement, yet to be made public, allotted over 50 percent of the investment total to China, given the fact that China had previously developed the gas field. An agreement to implement the June 2008 deal on joint development remained unfinished and, as the *Yomiuri* reported, there were no prospects for further negotiations.

China’s Foreign Minister Yang Jiechi traveled to Japan in mid-January to attend the Asia-Central America Cooperation Forum and on Jan. 17, met with his Japanese counterpart. Noting the lack of progress in negotiating the implementation of the 2008 deal, Okada pressed Yang to move ahead on negotiations, and cautioned China against taking independent actions to develop the Shirakaba field, which would violate the agreement. Should China do so, Okada warned that Japan “will have to take certain actions.” Yang replied that China would honor the 2008 agreement and would like to continue negotiations at the working level. As for the Shirakaba/Chunxiao field, Yang emphasized China’s sovereignty and made it clear that, as such, the field was not subject to joint development.

Speaking at a news conference during the National People’s Congress, Yang said China “has consistently emphasized the position of arriving at an appropriate solution through dialogue.”

He described China's attitude as "positive." The foreign minister underscored the importance of creating "favorable conditions for realizing an agreement" and went on to note the great potential that exists for bilateral cooperation in the fields of energy, the environment, and high technology.

Senkaku Islands

On Jan. 14, the Japanese government authorized legislation appropriating funds to support construction of sea walls on Okinotorishima and Minamitorishima to prevent erosion and reinforce Japan's Exclusive Economic Zone (EEZ) claims. Okinotorishima and Minamitorishima are Japan's southernmost and easternmost islands respectively. The legislation would also support the construction of port facilities on the islands.

Chinese Foreign Ministry spokesperson Ma Zhaoxu told a press conference on Jan. 19 that Japan's "assertion of territorial waters under its jurisdiction with Okinotori Island as a base does not conform to international law." Okinotorishima's legal status could not be changed by Japan's artificial construction efforts.

The Japanese rejoinder came the following day. Foreign Ministry spokesperson Kodama Kazuo reasserted Japan's position that Okinotorishima is an island not a rock as China claimed. Kodama went on to say that "from July 31 ... to now, we have effectively controlled Okinotori Island as an island and have set an exclusive economic zone in the surrounding sea." Japan believed that "such rights and its status as an island have already been established."

Earlier in the month, on Jan. 12, Hokama Shukichi, the mayor of Japan's westernmost island, Yonagumi, called on Defense Minister Kitazawa Toshimi to consider deploying a Ground Self-Defense Force (GSDF) contingent to the island. Afterward, Kitazawa told reporters that "we should study this matter." Later, on March 18, Kitazawa told the *Yomiuri Shimbun* that the government should advance consideration of the "necessary level of GSDF presence there from the standpoint of surveillance and deterrence." Kitazawa visited Yonagumi Island on March 26 and, according to the mayor, spoke positively with regard to the request for the GSDF deployment to the island.

Also on the March 26, the First GSDF Composite Brigade, stationed at Naha, was reformed and, with the addition of 300 personnel, brought up to brigade status. The new 15th Brigade, with 2,100 troops, is aimed at strengthening Japan's defense posture in the southwestern islands.

Security

The Hatoyama government announced on Feb. 16 the creation of a panel on "Security and Defense Capability in the New Era, to be chaired by Sato Shigeo, CEO of the Keihin Electric Railway Company. The mission of the panel is to assist in the formulation of new National Defense Program Guidelines. In remarks delivered at the outset of the first meeting, which was held on Feb. 18 at the prime minister's official residence, Hatoyama indicated that the panel should conduct its deliberations "from the viewpoint of how Japan should deal with the escalation of nuclear and missile development by North Korea and the modernization of the military of Japan's neighbor." Japan's media interpreted the "modernization of the military of

Japan's neighbor" to mean China, and the government did not challenge that interpretation. A second meeting of the council on Feb. 24 was focused on "the international military situation in areas close to Japan."

Meanwhile, on March 4, Beijing announced a 7.5 percent increase in its defense budget for 2010. The single-digit number marked a retreat from 22 consecutive years of double-digit increases in defense spending. In making the announcement at the National People's Congress, Li Zhaoxing told the media "China is committed to a policy of peaceful development."

The *Asahi Shimbun's* March 5 editorial on China's defense budget titled "Slowdown with a Tint of Hegemony" expressed Japanese concerns. While welcoming the retrenchment, the *Asahi* pointed to China's continuing lack of transparency. Citing the PLA's increasing blue-water operational capabilities – efforts to construct port facilities in Sri Lanka, Myanmar, and Pakistan – as well as increasing space-based capabilities, the editorial cautioned that such actions are reinforcing apprehensions that China is aiming to become a "hegemonic country." The *Asahi* remained to be persuaded by China's leaders' statements to the contrary.

In an interview with the *Yomiuri Shimbun*, Defense Minister Kitazawa expressed his concerns with China's actions as opposed to policy statements. Taking up the issue of China's anti-satellite test, the minister said that Japan and the US should consider it "a global challenge."

History

At the Abe-Hu summit in October 2006, the two leaders agreed to a three-year joint study on history. The study was completed in December 2009 and released at the end of January 2010. The study is divided into three periods: ancient, medieval and modern history. Twenty-six papers were submitted, 13 by each side. However, they do not represent a consensus.

Both sides used the word "aggression" when referring to the 1937-45 Sino-Japanese War and the actions of the Imperial Army. The head of the Chinese team, Bu Ping, director of the Institute of Modern History at the Chinese Academy of Social Sciences, found the "common recognition and the issue of who bears responsibility for the war ... is an important outcome." As for the Marco Polo Bridge Incident, while many Chinese historians have consistently held the view that the action was "planned or plotted" by the Imperial Army, the Chinese papers entertained "the possibility that it may have occurred accidentally." The two sides were unable to reach agreement on the number of deaths in Nanjing, and, at the request of the Chinese side, the post-war section of the report, including the Tiananmen Square Incident, was not made public.

Foreign Minister Okada welcomed the reports saying that "Even if there may be differences in views, especially in modern and contemporary history, I think a common understanding can gradually be nurtured by working on it." Despite differences, both sides recommended follow-on studies. An anonymous Japanese diplomat was quoted as observing that the study "was a smart mechanism in terms of managing bilateral relations in a smoother fashion."

The gyoza caper: “book ‘em, Danno!”/case closed?

Japanese media greeted the second anniversary of the unresolved *gyoza* incident with a sense of resignation. Then, on March 26, the *Xinhua* News Service reported that the Ministry of Public Security had announced the arrest of a suspect identified as Lu Yueling, a 36 year-old former temporary employee at the Tianyang Food Plant in Hubei Province. Under questioning, Lu was reported to have admitted to using a syringe to inject the frozen *gyoza* produced at the plant with the pesticide, methamidophos, beginning in October of 2007. Lu told Chinese officials that he was unhappy with pay and working conditions at the plant. Subsequently Chinese authorities found two syringes with traces of the pesticide in sewers identified by Lu.

In Tokyo, the Foreign Ministry released a statement respecting “the efforts made by the Chinese police and others involved” and expressing the hope that “the arrest will shed more light” on the incident. Speaking the next day in Yokkaichi, Mie Prefecture, Foreign Minister Okada, after highlighting his role in pressing Foreign Minister Yang to admit that the incident took place in China, expressed his satisfaction with the “great efforts” that had been made to resolve the matter. Prime Minister Hatoyama also praised the efforts of the Chinese authorities and expressed his hope that resolution of the incident would further deepen Japan-China relations.

Outlook

Resolution of the long-running *gyoza* case at the end of the quarter stands as a promising start to the second quarter of the year. The likelihood of a Hatoyama visit to the Shanghai Exposition sometime in May or June should provide positive momentum to the bilateral relationship.

Chronology of Japan-China Relations January - March 2010

Dec. 31, 2009: *Yomiuri* Shimbun reports a de facto agreement on investment shares in Shirakaba/Chunxiao gas field in the East China Sea.

Jan. 4, 2010: Prime Minister (PM) Hatoyama Yukio visits Issei Shrine.

Jan. 4, 2010: Taiwan President Ma Ying-jeou meets Ono Yoshinori, former director general of Japan’s Defense Agency, and calls for closer defense cooperation among Japan, US, and Taiwan.

Jan. 4, 2010: Former Japanese Justice Minister Nagano Shigeto, who gained notoriety for denying the Nanjing Massacre, dies.

Jan. 5, 2010: Japan’s Interchange Association appoints Imai Tadadshi as successor to Saito Masaki as chief of its Taipei office.

Jan. 7, 2010: Japanese advertising giant Dentsu announces it will take a 40 per cent stake in China’s Suntrend Group.

Jan. 7, 2010: China criticizes Japan's plan for infrastructure development on Okinotorishima, which is located in the Senkaku Islands.

Jan. 10, 2010: Japanese government sources report that China may take over Japan's Maritime Self-Defense Force (MSDF) refueling operations in the Indian Ocean following the Jan. 15 expiration of its mission there.

Jan. 11, 2010: *Xinhua* announces successful Chinese ballistic missile intercept test.

Jan. 11, 2010: Shizuoka Gov. Kawakatsu Heita meets China's Vice President Xi Jinping in Beijing. Xi expresses hope that PM Hatoyama will visit China later in year.

Jan. 11, 2010: Beijing announces the opening of Lushunkou (Port Arthur) and Dalian (Dairen) in Liaoning Province to Japanese tourism; the Peninsula was the scene of major fighting in the first Sino-Japanese (1895) war and the Russo-Japanese war (1904-05).

Jan. 12, 2010: The mayor of Yonagumishima requests Minister of Defense Kitazawa Toshimi to deploy Ground Self-Defense Forces to the island; Kitazawa commits to studying the matter.

Jan. 14, 2010: The Hatoyama government approves funds for preservation measures and port construction on Okinotorishima and Minamitorishima Islands.

Jan. 15, 2010: China's Ministry of Public Security announces Japanese visitors ranked as China's largest group of tourists in 2009.

Jan. 17, 2010: Foreign Ministers Okada Katsuya and Yang Jiechi meet in Tokyo; discussion focuses on East China Sea.

Jan. 19, 2010: China protests Japan's decision approving conservation measures and port construction on Okinotorishima and Minamitorishima. Japan reasserts sovereignty claim over the islands the following day.

Jan. 21, 2010: Japan and China agree to cooperate on food safety issues, including information sharing and inspection visits to food processing facilities.

Jan. 24, 2010: *Kyodo* News Service reports that Japan's Environment Ministry will cooperate with China on measures to counter air pollution.

Jan. 27, 2010: Japanese, Chinese, and South Korean officials meet in Seoul and agree to hold the first joint meeting of government, industry, and academia representatives to discuss a trilateral free trade agreement (FTA) in Seoul later in the spring.

Jan. 29, 2010: PM Hatoyama delivers policy address to the opening session of the Diet.

Jan. 30, 2010: The second anniversary of the contaminated *gyoza* incident passes as responsibility remains undetermined despite ongoing investigations by China and Japan.

Jan. 31, 2010: Foreign Minister (FM) Okada tells TV *Asahi* that China's reaction to US arms sales to Taiwan was predictable and will not lead to China-US confrontation.

Jan. 31, 2010: Japan-China Joint History Research Committee releases the report on its three year study of history. *NHK's* Japanese language World Report segment on the study is interrupted in China during airing of scenes from Tiananmen Incident.

Feb. 5, 2010: A government task force headed by Minister of Land, Infrastructure, Transport and Tourism Maehara Seiji agrees to recommend easing of Japan's visa policy to allow the issuance of visas for individual Chinese at all Japanese consular offices.

Feb. 12, 2010: Tokyo Gov. Ishihara Shintaro announces that Ueno Zoo expects to receive a pair of giant pandas from China in early in 2011 at a cost of \$950,000 per year.

Feb. 18, 2010: *Yomiuri Shimbun* reports the popularity in China of a Japanese TV series about the fate of a 19 year-old Japanese woman left behind in China at the conclusion of World War II. The article's headline asks "Is this a change in attitude toward Japan?"

Feb. 7, 2010: New Japan-China Friendship Committee for the 21st Century begins a five-day meeting in Beijing. The group meets Premier Wen Jiabao then shifts the venue to Yangzhou in Jiangsu Province.

Feb. 16, 2010: Hatoyama government announces the creation of a panel on "Security and Defense Capability in the New Era" to assist in formulating Japan's new National Defense Program Guidelines.

Feb. 17, 2010: Koshi Higashi, Democratic Party of Japan (DPJ) Upper House chairman calls for equality in the Japan-US-China relationship at the reception for Upper House DPJ members.

Feb. 18, 2010: The panel on "Security and Defense Capability in the New Era" holds its first meeting at prime minister's official residence.

Feb. 24, 2010: Japan's Ministry of Economy, Trade and Industry and China's Ministry of Commerce hold regularly scheduled vice-ministerial talks in Tokyo, focusing on China's export control practices on mineral resources, including rare metals.

Feb. 24, 2010: "Security and Defense Capability in the New Era" panel discusses China.

Feb. 28, 2010: China's new ambassador, Cheng Yonghua, who describes his sighting of Fuji-san from the airplane as an emotional experience, arrives in Japan.

March 1, 2010: At a press conference in Beijing, Toyota President Toyoda Akio apologizes to Chinese consumers for vehicle recalls and quality-control shortcomings.

March 3, 2010: Japanese Coast Guard aircraft locates Chinese maritime research vessel operating in Japan's Senkaku Island chain within Japan's EEZ.

March 4, 2010: China announces 7.5 percent increase in defense spending for 2010.

March 7, 2010: Chinese FM Yang tells a news conference during the National People's Congress (NPC) that China's position on the East China Sea is to arrive at an appropriate solution through dialogue.

March 8, 2010: Japanese and Chinese diplomats meet in Beijing to discuss restarting the Six-Party Talks.

March 9, 2010: *Xinhua* News Service reports that secret understandings between Japan and the US on nuclear weapons contradict Japan's three non-nuclear principles.

March 11, 2010: PM Hatoyama meets in Tokyo members of New Japan-China Friendship Committee for the 21st Century and announces plans to visit Shanghai Exposition. Tang Jiaxuan, Chinese chairman of the Friendship Committee, invites Hatoyama to attend opening ceremonies.

March 16, 2010: FM Okada reasserts Japanese sovereignty over Senkaku Islands.

March 17, 2010: PM Hatoyama calls for greater efforts to resolve East China Sea issues in order to make the region a "Sea of Fraternity."

March 18, 2010: Minister of Defense Kitazawa expresses support for early consideration of Ground Self-Defense Force (GSDF) deployment to Yonagumi Island.

March 19, 2010: Wang Yi, former ambassador to Japan and presently director of the Taiwan Affairs Office, visits Tokyo and meets PM Hatoyama and Ozawa on Taiwan issues.

March 21-26, 2010: Japan Chamber of Commerce and Industry Chairman Okamura Tadashi, with leaders of Japan's regional Chambers of Commerce, visits China, marking the first such mission in 17 years.

March 23, 2010: A survey conducted in Taiwan by Japan's Interchange Association reveals that Taiwanese pick Japan over China as their favorite country.

March 24, 2010: Japan, China, South Korea, and ASEAN announce revamped currency swap procedures under the Changmai Initiative.

March 26, 2010: Minister of Defense Kitazawa visits Yonagumi Island and is asked by Yonagumi mayor to consider GSDF deployment to the island.

March 26, 2010: The GSDF Composite Brigade, stationed at Naha, is brought up to brigade status to strengthen Japan's defense posture in the southwestern islands.

March 26, 2010: *Xinhua* News Agency announces the arrest of a suspect in the contaminated *gyoza* incident.

March 27, 2010: PM Hatoyama and FM Okada express appreciation for efforts made by Chinese authorities to resolve the *gyoza* incident.

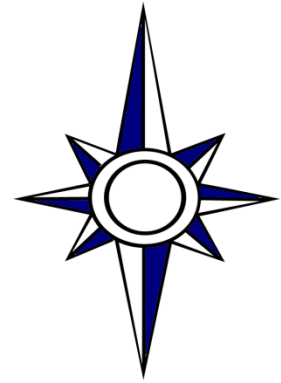
March 29, 2010: Minister of Defense Kitazawa tells *Nikkei Shimbun* that he has directed Ministry of Defense staff to study the deployment of the GSDF to Yonagumi Island.

March 30, 2010: China's Foreign Ministry informs Tokyo of the pending execution of a Japanese citizen convicted of smuggling drugs into China.

March 31, 2010: Japan expresses concern over the pending execution of the Japanese citizen through its embassy in Beijing. Chief Cabinet Secretary Hirano Hirofumi acknowledges the issue belongs to China's judicial system but cautions of the impact on bilateral relations.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



Japan-Korea Relations: Same As It Ever Was

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Korea-Japan relations have foundered over territorial and historical disputes for quite some time. Indeed, much of this quarter's report could have been written in 2004, or perhaps even earlier. Yet, we dutifully report the Japanese government's latest claim, the South Korean government's latest protest against that claim, and so on, while also reporting the increasing trade, travel, and institutional relations between the two countries. Which leads to a question: how consequential are these territorial disputes? The mere fact that Japanese and Koreans think they are important enough to alter textbooks and put claims on the Foreign Ministry website makes them consequential. However, do these claims have an impact on the other military, diplomatic, or economic affairs in the region? One could make an argument that despite the *sturm und drang* over who owns Dokdo/Takeshima, those affairs have not yet led to different policies in other areas, and certainly nobody thinks the territorial disputes might lead to actual war. This is not the place to discuss that question in depth, but it is one of the more intriguing questions that occurs to us as we, yet again, write about the same issues.

Japan-North Korea relations

In the midst of media reports on North Korea's deepening internal problems from a severe food crisis, human rights violations, uncertainty over succession, and Kim Jong-il's failing health, Japan-North Korea relations during the first quarter of 2010 continued the same old pattern of making no progress. Inside Japan, it was noticeable that anti-North Korean sentiments have grown stronger over the years, especially since Pyongyang's admission in 2002 that it had abducted Japanese citizens in the 1970s and 1980s to train its spies with Japanese language skills. Reflecting this general trend in Japanese society, the highlight of the quarter was the Hatoyama administration's wavering stance on the question of excluding children of pro-Pyongyang schools (*Chongryon*, the General Association of Korean Residents in Japan) from its new tuition waiver program. North Korea reacted angrily, accusing Tokyo of failing to treat "innocent children" with "impartiality." Pyongyang also revealed its lack of political will for better relations by refusing to send the North Korean women's soccer team to Japan for the East Asian Championship despite Tokyo's decision to issue visas to those players.

No Kids left out? Maybe...

In his New Year's message greeting, Kim Yong Nam, president of the Presidium of Supreme People's Assembly of DPRK, urged the *Chongryon* to make a "tangible contribution to bring an early day of the country's unification." This came at a time when the *Chongryon*, an organization that has functioned as *de facto* North Korean embassy in Japan, is going through a serious

weakening of its organization and losing membership. Its headquarters is located in Tokyo and it has regional as well as prefectural head offices and branches throughout Japan. Since Pyongyang admitted in 2002 that it had abducted Japanese nationals, the number of *Chongryon* members who retain their nationality registration as *Joseon* (North Korea) has significantly decreased from about 100,000 in the late 1990s to 30,000 or 40,000 today; some 10,895 *Chongryon* members are known to have switched their nationality to South Korea in 2003 alone following the admission.

On Feb. 10, the South Korean daily *Chosun Ilbo* reported that Kim Jong-il himself ordered *Chongryon* to focus on the task of rebuilding the organization this year. Since *Chongryon* members' remittances to North Korea have been an important source of hard currency to Pyongyang, Tokyo's financial sanctions not only blocked such remittance activities – which was a blow to the North Korean regime – but also affected the daily economic activities of *Chongryon* members living in Japan. In addition to the members' disillusionment with the North Korean regime and its legitimacy, behind the weakening of the *Chongryon* organization lies a series of Japanese economic sanctions that make it very difficult for people with the *Joseon* nationality to freely travel, do business, get bank loans, and invest in North Korea. According to the *Chosun Ilbo*, approximately 3,000 *Chongryon* members switch their nationality to South Korea every year and it is an open secret that the vice chairman of the *Chongryon* decided to have his daughter attend South Korea's Yonsei University, taking advantage of the university's offer of a special admission program designed to encourage *Chongryon* students' enrollment.

Against this backdrop, the Hatoyama administration's proposal to waive tuition for public high schools brought this tension to the fore. Some within the Japanese government attempted to link this program with the abduction issue, sparking a controversy inside Japan. According to the Feb. 22 *Kyodo News*, 73 pro-Pyongyang schools in Japan are authorized by prefectural governments, 10 of which are equivalent to Japanese high schools, and all of them operate in collaboration with the *Chongryon*. In principle, the Cabinet decided on Jan. 29 that schools for foreign students are eligible for the benefits of this program, provided that they are considered equivalent to Japanese high schools.

In the case of pro-Pyongyang schools, Prime Minister Hatoayama wavered between allowing these schools to be included in the waiver and excluding them, switching his position literally overnight. Nakai Hiroshi a conservative state minister in charge of the abduction issue, lobbied for the exclusion of pro-Pyongyang schools on the ground that such a subsidy would be tantamount to providing economic aid to North Korea. Those in favor of including pro-Pyongyang schools criticized the politicization of education, arguing that economic sanctions against North Korea and educating students in Japan who are descendents of North Korean residents are two different matters. For example, Fukushima Mizuho, state minister in charge of the declining birthrate, argued that political issues among adults should not affect children. Similarly, Japan's daily *Mainichi Shimbun* claimed in its editorial on March 11 that excluding pro-Pyongyang schools from the tuition exemption program is “irrational,” arguing that there would be no benefit to alienating and isolating children in those schools.

By mid-March, the controversy came to a temporary halt, driven by Hatoyama's governing style of let's-hesitate-for-a-moment. On March 13, the Japanese government decided to provisionally exclude pro-Pyongyang schools from the tuition waiver program, leaving the ultimate decision to

a third-party body in the Ministry of Education, Culture, Sports, Science and Technology that would review the schools' curricula. In response to Hatoyama's "clarification" that the issue is separate from the abduction issue, Nakai Hiroshi, minister of state in charge of the abduction issue, criticized him as being "super easygoing and too good-natured." On March 16, a UN committee on the Elimination of Racial Discrimination expressed concern over Japan's possible exclusion of students of pro-Pyongyang schools from the program, warning against "the differential treatment of schools for foreigners and descendants of Koreans and Chinese residing in (Japan), with regard to public assistance, subsidies, and tax exemptions."

Pyongyang's official *Central News Agency of DPRK* heavily criticized Japan for applying its anti-North Korea sanctions against innocent Korean students. Apparently monitoring discussions within Japan carefully, Pyongyang blamed Osaka Governor Hashimoto Toru's "Nazi comment" as "inciting racial discrimination," whose way of thinking "cannot be regarded as normal." With reference to the tuition waiver controversy, Hashimoto had said on March 10 that he "does not think the Korean people are illegal, but that North Korea's state system is illegal. This is the same as for the German people and the Nazis."

With regard to Japan's investigation over a "secret pact" with the US about nuclear deployments in Japan, Pyongyang's *Central News Agency of DPRK* on Jan. 9 argued that Tokyo was stepping up "nuclear weaponization," while deceiving the world "behind the smoke screen of the three non-nuclear principles."

Japan-South Korea relations: back to "been-there-done-that"?

Japan-South Korea relations during the quarter were in the mode of "trying new things to see if they work," as exemplified by Seoul's push for local-level suffrage for foreigners in Japan. In February, the overall tone of the meeting between Foreign Ministers Okada Katsuya and Yu Myung-hwan was encouraging. Okada offered an apology that said, "The people of South Korea were deprived of their country, and their ethnic pride was deeply hurt. We must never forget the feelings of the victims." On South Korea's part, breaking a long-held tradition of successive presidents, President Lee Myung-bak refrained from criticizing Japan for its colonial rule during his March 1 Independence Day speech. (Reportedly, he decided to only use the phrase "forceful annexation" once in his speech, instead of three times, as was written in the first draft.)

But in late March, South Korea's guarded hopes that the Democratic Party of Japan (DPJ)-led Hatoyama administration would face historical issues in a fresh manner were put to the test over the perennial issues of the Dokdo/Takeshima islets and history textbooks. Despite some positive developments between the two countries this quarter, Tokyo's approval of history textbooks for elementary schools on March 30, which describe the islets as Japanese and describe Korean occupation of them as "illegal," ruined whatever rapport Seoul had with Tokyo. With criticism of President Lee's mild approach to "the same old Japan" growing stronger, it remains to be seen whether South Korea's Japan policy may take a tougher turn in the coming months.

Complex politics of local suffrage issue in Japan

The Lee administration's interest and efforts in working with the DPJ toward the granting of local-level suffrage to permanent residents in Japan, a majority of them Korean descendents, began before the inauguration of Hatoyama's Cabinet in September 2009. After the 1995 declaration by the Supreme Court of Japan that the constitution does not prohibit granting permanent residents the right to vote in local elections, the DPJ, the New *Komeito* and the Japanese Communist Party submitted bills to address the issue, but to no avail. Now, with the DPJ in power for the first time in decades, the issue of local suffrage for foreign permanent residents was being taken seriously in Japan. By the quarter's end, however, divided politics in Japan, and a tug-of-war between advocates and opponents of the legislation, indicated that granting suffrage for permanent residents would not be an easy task.

When Prime Minister Hatoyama and DPJ Secretary General Ozawa Ichiro agreed on Jan. 11 to submit a bill on foreign suffrage to the regular Diet session that month, the news not only drew great attention from South Korea but also a strong backlash from conservative lawmakers from within the DPJ and the opposition party. For those who support the granting of foreign local suffrage, the legislation is critical in forging a future-oriented relationship based on trust with South Korea. Hatoyama, for example, noted this year's significance as the centenary of Japan's annexation of Korea in expressing his desire to push for the legislation.

But the legislation appears to be facing strong domestic opposition, based on two basic arguments. First, and the most interesting, is the fear that Korean voters could possibly moderate or even change the Japanese stance toward territorial disputes such as the Dokdo/Takeshima islets and Tsushima in South Korea's favor. Some even argue that if Koreans living permanently in Japan gain voting rights, they could move to Japan-controlled Tsushima and elect local assembly members who would then claim that the island is South Korean territory. More broadly, a concern has been expressed that foreign residents' voting behavior would bring about conflicts of interest that may not necessarily serve Japan's national interest.

The second argument made is that the DPJ's Ozawa is merely trying to get votes from members of a pro-South Korean group *Mindan* (the Korean Residents Union in Japan, a counterpart to a pro-North Korean group *Chongryon*) in preparation for the upcoming House of Councilors election this summer. According to the March 17 *Mainichi Shimbun*, there are over 910,000 permanent foreign residents in Japan as of 2008. Of them, 420,000 are special permanent residents from the Korean Peninsula or Taiwan, who have lived in Japan since before the World War II. Of those special permanent residents, 99 percent are Koreans who had been conscripted to Japan for forced labor and other reasons during Japan's colonial rule of the Korean Peninsula.

This historical root of Korean special permanent residents in Japan in part explains different approaches between the South Korean government and opponents of the legislation within Japan toward the legislation. While Seoul takes this issue primarily as a question of historical reconciliation and nationalism and therefore an important step for a future-oriented relationship between the two countries, for those within Japan who oppose to the bill, this is about domestic elections and the protection of Japan's national interest. According to a poll released by Japanese daily *Asahi Shimbun* on Jan. 19, 60 percent of Japanese respondents support the legislation

granting local suffrage to foreign permanent residents, while 29 percent oppose to it. Among the DPJ supporters, 70 percent support the bill, and of Liberal Democratic Party (LDP) supporters, 45 percent said they support it.

By March 17, Prime Minister Hatoyama acknowledged the difficulty of building a consensus within the ruling coalition to submit the bill during the current Diet session, but said that he had not given up. The same day, the South Korean government told the Japanese government that it wanted to postpone President Lee's visit, originally scheduled for April 10. Although South Korea's Ministry of Foreign Affairs and Trade cited a scheduling difficulty as the reason for the postponement, media reports speculated that Lee did not want to waste his official visit to Japan when it became apparent that the issue of local suffrage to permanent residents would not be achieved in time for the visit, and especially given the historical weight of this year being the centenary of Japan's annexation of the Korean Peninsula.

Dokdo/Takeshima and history textbooks: wavering Tokyo vs. angry Seoul

By the quarter's end, the Japanese government's approval of guidelines for elementary school textbooks that describe the Dokdo/Takeshima islets as Japanese territory reignited an old fight between Tokyo and Seoul. Apparently, Seoul was taken aback and seemed to find Tokyo's move quite unexpected – at least compared to last year's release of high school curriculum guidelines on Dec. 25 that describe the islets as Japanese territory but avoiding the direct mention of them by name. South Korean Foreign Minister Yu immediately summoned Japanese Ambassador to South Korea Toshinori Shigeie and filed a formal protest against the Japanese government with a warning that it could put a serious strain on Japan-South Korea relations. Amid a South Korean media barrage against Japan's "insensitive" move at a time when South Korea was going through a national crisis over the sinking of a navy ship, Prime Minister Chung Un-chan criticized Japan, saying, "How can a country have a future when it is not honest about history, and unable to teach its children the truth?"

According to the March 31 *Mainichi Shimbun*, it was also understood in Japan as "unprecedented" that textbook inspectors at the Ministry of Education, Culture, Sports, Science and Technology Ministry demanded that a national border line be drawn between South Korea and the islets for elementary school textbooks. *Mainichi* reported a quote by a Mitsumura Tosho Publishing spokesperson that the ministry's demand came as a "surprise," when they did "not even think about the matter until it was pointed out." One of the five textbooks used the expression that South Korea "illegally occupies" the islets. With these approvals, five Japanese textbooks for elementary school children now describe the Dokdo/Takeshima islets as Japanese territory. This means that all available textbooks for elementary school children make the claim, compared to 4 out of 21 social studies textbooks in Japanese middle schools, and 12 out of 112 textbooks for high schools.

The intertwined issues of the Dokdo/Takeshima islets and Japanese history textbooks have sparked several diplomatic disputes between Seoul and Tokyo. But given the Hatoyama administration's gestures toward an Asia-friendly strategy and the unusually undiplomatic manner in which the guidelines were approved, this flap seemed to indicate a lack of consistent foreign policy vision by Prime Minister Hatoyama and his Cabinet. One possible explanation is

that the administration cannot give sufficient attention to South Korea policy due to more pressing issues with the US over the realignment of the US Marine Corps Air Station Futenma in Okinawa and revelations of the “secret nuclear pact.” The other scenario is that despite the best intentions of the administration, Japanese foreign policy has already begun to implement the revised Fundamental Law of Education that put more emphasis on patriotism.

Immediate angry reactions from South Korea seem to indicate that Koreans are inclined to believe the second explanation. That is, the Hatoyama administration may rhetorically distance itself from the previous LDP governments, but in practice may be little different, at least in its approach on historical issues. The Dokdo/Takeshima islets issues might be seen by South Koreans as a litmus test of the Hatoyama administration’s commitment to a future-oriented relationship, resulting in a possible chilling effect on the thus-far nurtured diplomatic relations between Lee and Hatoyama. Within the South Korean government, discussions on how to deal with the issue are under way. To some senior lawmakers within the ruling GNP (Grand National Party) such as Kim Seong-jo, chief policymaker, Seoul must rethink President Lee’s quiet diplomacy, because it has proved to be “ineffective.”

Yet some signs for optimism

Although it seems nearly impossible for the Japanese emperor to accept President Lee’s invitation to visit Seoul any time soon to put an end to hard feelings and mark a new beginning, there were also important signs of goodwill between Tokyo and Seoul. During Japanese Foreign Minister Okada’s visit to Seoul in February, Okada and South Korea’s Unification Minister Hyun In-taek agreed to strengthen intelligence sharing on North Korea. In March, police chiefs of Japan and South Korea also agreed to share information by establishing a hot-line to better prepare for large-scale international summits planned for their countries, the G20 in South Korea and APEC in Japan. According to the Feb. 16 *Choson Ilbo*, discussions to set up a tripartite security dialogue body between Seoul, Beijing and Tokyo are underway among officials from the defense ministries, which will be the first such body if it is realized.

One encouraging sign of improving South Korean perceptions of Japan was reported in the South Korean daily *Donga Ilbo* on Jan. 1. According to a poll by the Korea Research Center, 35.9 percent of South Korean respondents said that they hate Japan, while 10.8 percent said they like Japan. Fifty-two percent said they neither hate nor like Japan. Somewhat surprisingly, this actually indicates that anti-Japanese sentiments in South Korea have been easing. A few years ago in 2005, a joint *Asahi-Donga* survey showed that 63.4 percent of South Korean respondents said that they hated Japan.

Toyota vs. Hyundai

As Japan began this year in its worst economic recession in the postwar period, Toyota Motor’s massive recalls and repairs in the US deepened a sense of crisis in Japanese economy. Toyota is one of the leading Japanese companies, but also has come to symbolize “perfection in craftsmanship” or “continued improvement” – something considered to be the very source of Japanese economic strength. The media coverage on the US congressional hearings on Toyota and on the limits of Japan’s mass production style was contrasted with the relatively good

performance and growth of Hyundai Motor of South Korea. The Oct. 3 *Washington Post* reported that Hyundai is “the biggest threat to Japanese automakers,” quoting Nissan Motor senior vice president Nakamura Shiro. Hyundai, along with General Motors and Ford Motors, have attempted to take advantage of Toyota’s troubles by offering US customers incentives if they changed their car from Toyota. Hyundai recorded an 11 percent sales increase in the month of February. Toyota, meanwhile, embarked on a large sales campaign including interest-free car loans for five years. The strategy was evidently a success, as the *Daily Yomiuri* reported on April 2 that Toyota’s sales in the US had surged 40.7 percent compared to the same month last year, and regained a 17.5 percent market share, just 0.1 percent less than GM’s, the market leader.

On a monetary front, South Korea marked a record-high in foreign currency reserves of \$273.7 billion in late January. As of December 2009, the country held the world’s sixth largest currency reserves after China, Japan, Russia, Taiwan, and India.

Society and culture

Japan-South Korea competition this quarter was nowhere more visible than in the 2010 Winter Olympics in Vancouver, with the competition between two 19-year-old figure skating queens, Asada Mao of Japan and Kim Yu-na of South Korea. Asada and Kim, hugely popular in their countries have been competing against each other ever since their junior years, and turned in two of the greatest performances in Olympic history, with Kim earning the gold and Asada the silver medal. This rivalry did not end in the Olympics and spilled over into the internet. On March 1, a popular Japanese website for posting messages reportedly attempted to tarnish Kim Yu-na’s reputation by saying that she had bribed judges to win the gold medal, prompting more than 10,000 South Korean internet users to launch a concerted attack on the site. The rivalry was reignited at the end of March, when Asada beat Kim to win her second title at the World Figure Skating Championships in Italy.

Japanese and South Korean historians produced a joint research report on March 23, which presented both challenges and achievements in realizing a deeper shared understanding of their shared history. The group’s first report in 2005 contained different views about issues such as the 1910 treaty of Japan’s annexation of the Korean Peninsula. The second report added a subsection on the history textbooks used in both Japan and South Korea. Overall, the report further highlighted the perception gaps between Japan and South Korea on issues such as “comfort women” and the status of the Dokdo/Takeshima islets. While frustrations over such gaps were expressed in media outlets, a joint agreement to reject the “*Imnailbonbu*” thesis, which says that Japan had occupied the Korean Peninsula from the end of the 4th to the 6th century, was considered a big achievement on the part of South Korea. The theory has already been recognized as incorrect in academic circles for some time.

There was also a growing trend toward tripartite cooperation between South Korea, Japan, and China in the field of education. According to the March 1 *Yomiuri Shimbun*, Japan’s Education, Culture, Sports, Science and Technology Ministry decided to work with Seoul and Beijing to integrate their evaluation systems and certify academic credits in their universities to encourage their students’ study abroad.

The coming quarter

The coming quarter promises to be eventful. Not only has the dispute over the textbooks just begun (again), but North Korean leader Kim Jong-il is reportedly planning to visit China and there may be some movement toward restarting the Six-Party Talks. If this occurs, we expect to see Japanese calls for attention to the abduction issue and a fair amount of diplomatic jockeying by all parties to the talks. The spring quarter will also see an increase in media and scholarly attention to the question of the 100th anniversary of Japan's annexation of Korea, which could either fan flames of nationalism on both sides (more likely) or lead to efforts at reconciliation (less likely).

Chronology of Japan-Korea Relations January - March 2010

Jan. 1, 2010: *Donga Ilbo* reports that a poll by the Korea Research Center shows that anti-Japanese feelings are easing among South Koreans.

Jan. 1, 2010: *Central News Agency of DPRK* reports that Kim Yong Nam, president of the Presidium of Supreme People's Assembly of DPRK encouraged the General Association of Korean Residents in Japan (*Chongryon*) in a New Year's message to make a "tangible contribution to bringing an earlier day of the country's reunification."

Jan. 5, 2010: Japan announces its decision to allow North Korea's women's soccer team to visit Tokyo for the East Asian Championships despite the sanctions in place. North Korea later announces its decision not to send its women's team.

Jan. 9, 2010: *Central News Agency of DPRK* criticizes Japan for "nuclear weaponization" under the cover of its three non-nuclear principles after Japan admits to having made a "secret pact" with the US government to introduce nuclear weapons into Japan in the past.

Jan. 11, 2010: Prime Minister (PM) Hatoyama Yukio and DPJ Secretary General Ozawa Ichiro agree to submit a bill to the regular Diet session in January to grant local-level suffrage to permanent residents in Japan.

Jan. 13, 2010: Japan's civic groups protest in front of a parliamentary committee in conjunction with the 900th weekly rally by former South Korean "comfort women."

Jan. 16, 2010: Foreign ministers of South Korea and Japan confirm that they oppose lifting of sanctions against the North and that North Korea's call for early talks on a peace treaty can be realized only after the North commits to denuclearization.

Jan. 21, 2010: The UN independent investigator on human rights in the DPRK affirms during his meeting with Foreign Minister Okada Katsuya that he will cooperate with Japan on the abduction issue.

Jan. 26, 2010: South Korea's Foreign Ministry renews its request that the Japanese government review its recent decision on pension refunds to Koreans who were forced into labor during the Pacific War.

Jan. 30, 2010: Japan's Internal Affairs and Communications Minister Haraguchi Kazahiro says that the Japanese government should not rush in submitting a bill to the ordinary Diet session to grant local voting rights to permanent foreign residents in Japan.

Feb. 1, 2010: South Korea's Cultural Heritage Administration of Korea says the government may formally request that Japan return about 660 books from the *Choson* era that are believed to have been taken by Japan's Governor-General of Korea during Japanese colonial rule.

Feb. 5, 2010: Prime Minister Chung Un-chan says that if Japanese Emperor Akihito visits South Korea, he should repent Japan's past wrongdoings during the colonial era and commit to a new relationship between the two countries.

Feb. 11, 2010: Foreign Minister Okada Katsuya visits Seoul and meets counterpart, Yu Myung-hwan. They agree to make joint efforts to mend ties as Okada offers an apology for Japan's colonial rule over Korea and to work closely on issues such as the climate change and the global economic crisis.

Feb. 11, 2010: South Korea's Unification Minister Hyun In-Taek and Foreign Minister Okada agree to enhance intelligence sharing on North Korea.

March 1, 2010: South Korean internet users stage a concerted attack on a Japanese website to protest anti-Korean posts by Japanese users.

March 3, 2010: Japan and North Korea clash over the abduction issue at a meeting of the UN Human Rights Council in Geneva.

March 3, 2010: North Korea's *Rodong Sinmun* says that the Japan must use "impartiality" in its decision on the possible exclusion of Korean schools in Japan in its tuition waiver program.

March 3, 2010: The ROK-PRC-Japan Green Technology Forum is held on Korea's Jeju Island. The forum brings green-technology experts and government officials to share information on environmentally friendly technologies, policies and practices.

March 10, 2010: PM Hatoyama says the abduction issue is not linked to his administration's pending decision on the inclusion of pro-Pyongyang schools in the tuition waiver program, but expresses the need for solid criteria to compare the curricula of these schools.

March 13, 2010: Nakai Hiroshi, Japan's state minister in charge of the abduction issue, criticizes PM Hatoyama for failing to clearly state his view on the issue of pro-Pyongyang schools' exclusion from the tuition exemption program.

March 15, 2010: South Korea and Japan police chiefs agree to establish a hotline to share information in preparation for the G20 meeting in Seoul and APEC leaders meeting in Tokyo.

March 16, 2010: A UN Panel on racial equality and nondiscrimination expresses concern about Japan's possible exclusion of pro-Pyongyang schools from its new tuition waiver program.

March 16, 2010: Around 300 mothers of children who attend pro-DPRK schools rally in Tokyo demanding that the government not to exclude those high schools from tuition waiver program.

March 17, 2010: PM Hatoyama acknowledges difficulty in building a consensus within the ruling coalition to submit a bill on local foreign suffrage during the current Diet session.

March 23, 2010: Japan's Lower House unanimously approves a bill to extend financial support to five Japanese abductees who were repatriated from North Korea for five years.

March 23, 2010: The second Japan-South Korea joint history research panel issues a report.

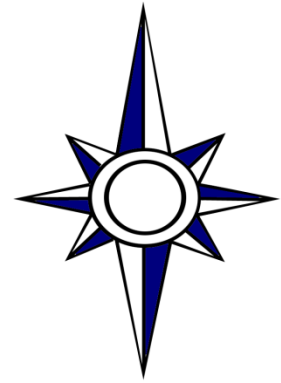
March 24, 2010: The South Korean government formally asks China and Japan to help locate the remains of Ahn Jung-guen, South Korea's independence hero who was executed by Japan after assassinating Ito Hirobumi.

March 26, 2010: Japan provides a list of 175,000 Koreans who were forced into labor during the colonial period to South Korea.

March 28, 2010: North Korea's *Rodong Sinmun* claims that Japan must compensate for crimes it committed during the Korean War and its colonial rule over the Korean peninsula.

March 30, 2010: Japan's Education, Culture, Sports, Science and Technology Ministry approves five elementary school textbooks that describe the Dokdo/Takeshima islets as Japanese territory. Foreign Minister Yu Myung-hwan summons Japanese Ambassador to South Korea Toshinori Shigeie to file an official protest over the claim.

March 31, 2010: *Kyodo* News reports that Japan is likely to extend sanctions against North Korea for another year after the April 13 deadline as the idea is approved at a meeting of senior vice ministers.



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China-Russia Relations:
Putin Invited Xi: Overture to 2012

For most of the first quarter, “uneventful” was the best description for bilateral relations between Russia and China. This is especially true when contrasted with the high-profile events in 2009 when bilateral trade declined 31 percent from \$56.8 billion to \$38.8 billion, Russia sank a Chinese cargo ship in February, the energy “deal of the century” was concluded in April, Moscow’s Cherkizov Market was abruptly closed in June, the 60th anniversary of diplomatic relations was celebrated in October, and the China-Central Asian gas line and Russia’s Eastern Siberia-Pacific Ocean oil pipeline were opened in December. Only in late March, with the five-day visit by Chinese Vice President Xi Jinping to Russia, was there a return from mutual “hibernation” and an “obsession” with the Obama administration’s policies, though for different reasons. Prime Minister Vladimir Putin’s invitation was also seen as a “back-to-the-future” effort to size up Xi, who is poised to assume the leadership spot in China by 2012. For Putin, 2012 is also the time to retake the Russian presidency, if he desires to do so.

Xi’s Russia trip: leaving no Russian territory behind?

Chinese Vice President Xi Jinping visited Russia at the invitation of Prime Minister Vladimir Putin on March 20-24. Although Xi’s visit was part of a four-nation trip (Russia, Belarus, Finland, and Sweden), China identified two significant aspects: it was the first important foreign visit paid by a senior leader after the conclusion of China’s annual parliamentary sessions and Xi’s role as both a leader of the Communist Party (one of the nine-member Standing Committee of the Politburo) and of the country (vice president). With these dual titles, Xi engaged in both inter-governmental and inter-party activities and met a wide spectrum of Russian political elites from both the ruling and opposition parties. Meanwhile, his five-day tour of Russia stretched from Russia’s outpost in the Asia-Pacific (Vladivostok), to St. Petersburg, which is Russia’s window to the West, and ended in Moscow.

During his two-day stay in Vladivostok, Xi discussed regional cooperation issues with the governor of Russia’s Primorsky Territory, Sergey Mikhaylovich Darkin, and other local officials. He also joined a bilateral symposium on economic and trade cooperation between Russia’s Primorye Territory and China’s northeastern provinces. This was followed by the signing of 15 agreements totaling \$1.6 billion for economic cooperation in technology, energy, and infrastructure development. These project agreements are part of the September 2009 intergovernmental agreement, “The Planning Framework for Regional Cooperation between Northeast China and the Russian Far East and Eastern Siberia,” which envisions more than 200 economic cooperation projects.

Xi's activities in Vladivostok also involved cultural and educational events, including visits to the Confucius Institute of Far Eastern National University, the "Ocean" All Russia Children's Center, where hundreds of Chinese children who suffered from the devastating 2008 earthquake had attended a rehabilitation program, and to a memorial complex of the Russian Pacific Fleet.

From Vladivostok, Xi flew across seven of Russia's nine time zones to St. Petersburg. Xi's arrival was of particular significance as China had just become the biggest trading partner for this most Westernized city of Russia, accounting for \$4 billion in trade for 2009. Its Chinese sister city, Shanghai, joined in 2006 with the St. Petersburg municipal government and the Export-Import Bank of China in the \$1.3-billion Baltic Pearl project, a combination of commercial, real estate, and tourism complexes. In his visit to the Baltic Pearl construction site, Xi said that it was the Chinese government's "unswerving policy" to encourage more enterprises to look overseas for investment and cooperation, and that Chinese should give full consideration to the interests of the Russians in any cooperative projects.

In her meeting with Xi, St. Petersburg Gov. Valentina Matviyenko, who is considered to be the most powerful female politician in post-Soviet Russia and a long-time friend of Prime Minister Putin, referred to Xi's visit as "historic." For the latter, however, "historic" also meant visiting an office in the city's Smolny Palace from which Bolshevik leader Vladimir Lenin led the October Revolution in 1917.

Party time

While today's Russian ruling elite have essentially abandoned Lenin's ideological legacy, Xi and his Chinese colleagues continue to pay homage to the Bolshevik leader while massaging market capitalism into managing the largest communist state in the 21st century. Part of Xi's mission in Moscow was to transcend this ideological divide by conducting the second "strategic dialogue" with the ruling United Russia (UR) Party on March 23. The Communist Party of China (CPC) and UR Party initially set up an inter-party mechanism in 1999 and held their first dialogue session in Beijing in 2009.

Nearly 100 delegates gathered in Moscow's Presidential Hotel for the dialogue under the theme of, "Chinese and Russian ruling parties' responsibility in the post-crisis era." Xi and Speaker of Russia's State Duma Boris Gryzlov co-chaired the meeting. In his opening speech, Xi encouraged the two parties "to continue the senior-level inter-party exchanges under new circumstances and carry out the agreement between the leaders of the two countries to constantly enrich the content of cooperation, create new cooperative forms, perfect cooperative mechanisms and raise the cooperation level for greater contribution to the comprehensive development of Sino-Russian relations," particularly during these times of international financial crisis. Xi briefed his Russian counterparts on how the CPC assessed the current situation and then made and implemented counter-crisis policies. When talking about the issue of effective governance, Xi also praised Putin for his role as the UR chairman in coping with the crisis.

Putin did not participate in the dialogue, but sent a congratulatory message saying that the dialogue between the two ruling parties was "of strategic nature" and "highly responsible." Among the delegates were head of the National Energy Administration Zhang Guobao,

Executive Vice Minister of the Policy Research Office of the CPC Central Committee and head of the CPC delegation He Yiting, Vice Minister of the International Department of the CPC Central Committee Chen Fengxiang, member of the Presidium of the UR General Council Zubarev, and deputy head of the State Duma Committee for Constitutional Legislation Irina Yarovaya. The meeting was described as “an intensive exchange of governance philosophies and experiences” in the areas of counter-crisis measures, anti-corruption, party building, effective governance, social welfare, and center-local cooperation.

Following the party meeting, Xi attended the opening ceremony of the Year of the Chinese Language in Russia, presided over the signing of 13 commercial and technology contracts valued at \$6.7 billion, and met separately with Prime Minister Putin, State Duma Chairman Boris Gryzlov, President Dmitry Medvedev, Chairman of Russia’s Communist Party Gennady Zyuganov, and Chairman of the Liberal Democratic Party of Russia (LDPR) and Vice President of the State Duma Vladimir Zhirinovskiy.

The “2012 factor”

In his meeting with the prime minister, Xi thanked Putin for inviting him for a “visit across Russia” and described the visit as “a dream come true” and “a great honor.” With “deep feelings of friendship toward Russia and the Russian people” as part of the generation that grew up under the influence of Russian literature, ideas and art, Xi said that he had been “enchanted by Russia’s nature, the cultured atmosphere and the hospitality of the Russian people.” Xi reiterated that relations with Russia were “a foreign policy priority. Maintaining long-term and successful development of bilateral relations and a strategic partnership is the policy of the Central Committee of the Communist Party of China and the Chinese government,” and that “in the future China and Russia should support each other on all strategic issues. We will invariably support you.” In response, Putin stated, “We have always supported China on most sensitive issues, including the Taiwan issue. I’d like to reassure you that Russia is ready to continue building its relations with China based on respect for our interests. Both Russia and China have many common interests.”

These words, in both public and private occasions, may not be pure rhetoric as the two large continental nations are moving and shaping their strategically important and operationally complex relationship across the second decade of the 21st century. In the longer term, 2010 is the beginning of another 60 years for bilateral relations as Chinese mythology depicts 60 years as a life cycle on the personal, social, and global levels. In the mid-term, the year is also the beginning of another 10 years of Putin’s political career as Russia’s national leader. Many Russian and foreign observers believe that the 58-year old prime minister has at least another 10 “useful” years in Russia’s high politics. If that is the case, Putin will surpass Joseph Stalin to become the longest-serving Russian/Soviet top leader since the Bolshevik Revolution in 1917. All of these possibilities depend on 2012 when the Russians will elect a new president.

While the “2012 factor” has been talked about in Russia since December 2007, when Putin chose Dmitry Medvedev as his preferred candidate for the 2008 presidential election, it is becoming increasingly clear that Vice President Xi Jinping will succeed President Hu Jintao as China’s paramount leader by 2012. Putin’s invitation to Xi for an official visit to Russia was, therefore,

by no means routine and ordinary. At a minimum, Putin needs to reverse Russia's economic decline following the 2008 financial crisis. In the next few years, he will have to significantly improve Russia's economic development to pave the way for his second chance as president. That cannot be easily achieved without financial inputs from China, as total foreign direct investment in Russia plunged 21 percent in 2009. A stable and working relationship with Russia's most powerful, and still rapidly growing, neighbor (China) will also be a foreign policy plus for Putin. Taking on, sizing up, and befriending China's future leader for his post-2012 political life were, therefore, both a tactical and strategic imperative.

The specifics of the private Putin-Xi meeting remain unknown. Pre-meeting remarks indicated that the two discussed some issues regarding immigration, regional cooperation, environmental concerns of Russia, the current business climate, "trade order" and its negative impacts on the wellbeing of Chinese merchants in Russia, etc. A Russian source revealed, however, that the meeting was "extremely cordial and productive."

Xi's visit to Russia was remarkably similar to President Hu Jintao's May 2003 visit to Moscow and St. Petersburg, when the schedule of the new Chinese president – whose country was virtually shut down by the Severe Acute Respiratory Syndrome (SARS) epidemic just a few months before – was carefully choreographed with a bilateral summit in Moscow, the SCO annual summit in St. Petersburg, and a grand tri-centennial celebration in St. Petersburg.

Partnership, perception, and problems

The "chemistry" between Putin and Xi is an indicator of the seriousness of their exchange for both current and future issues. Although Putin may regain the presidency in 2012, the global and regional environment will continue to change, perhaps at a faster pace than Russia's domestic situation. In 2009, Russia's GDP shrank by 7.9 percent, while China's growth rate was 8.7 percent. As a result, the ratio of the two countries' GDP (in 2008 dollars) rose from 2.63:1 in 2008 to 3.13:1 in 2009 in China's favor. Beyond Russia, China's phenomenal economic growth, even through the global recession, has led to a proliferation of futuristic talks about China's leadership role and emerging China-US forums (e.g. Beijing Consensus, G2, Chimerica, etc.) in the English-speaking world. No matter how unrealistic these notions are deemed to be by analysts, their growing "noise" is discomfiting to Russian ears, who retain a sense of strategic "entitlement" as a superpower.

Nevertheless, the diminishing regional influence of Russia is becoming more visible. The 7,000 km Turkmenistan-Uzbekistan-Kazakhstan-China natural gas pipeline that went into operation in mid-December 2009 effectively broke Russia's monopoly over gas exports from Central Asia. Although Putin and other Russian officials publicly supported the project, it was, at best a "lesser evil" than any West-designed and sponsored gas line from the traditionally Russia-dominated region. The once profitable sale of Russian arms to China continues to stagnate and slid to 18 percent of overall Russian military exports in 2009 and is projected to further drop to 15 percent for 2010. The Russians also expressed "surprise," if not a grievance, when China tested a missile interceptor in early January 2010 without notifying the Russian side. This happened just two months after the signing of the "Agreement on Mutual Notification of the Launches of Ballistic Missiles and Space Rockets" in October 2009.

For China, two incidents in 2009 – the sinking of the Chinese cargo ship *Xin Xing* (New Star) off Russia's coastal city of Vladivostok and the closing of Moscow's Cherkizov Market leading to a \$2 billion economic loss and dislocation of 30,000 Chinese businessmen – turned China's largely positive perception of Russia and particularly of Prime Minister Putin more negative. For the first time in the 60 years of bilateral relations, the ordinary Chinese had said "no" to Russia in a media outburst, thus forcing the Chinese government to take stronger positions and actively work to resolve these issues. Recently, a survey by the influential *Pew Global Attitudes Project* showed a significant decline in favorable opinion of Russia among the Chinese people from 54 percent in 2007 to 46 percent in 2009. Although during the same period of time Russia's favorable opinion of China dropped only 2 percent from 60 percent to 58 percent, an October 2009 survey by the Russian polling institute FOM indicated that 44 percent of Russians believed that the growth of China is a threat to Russian interests, while 39 percent polled said "no" and 17 percent had no opinion.

Given these challenges in bilateral relations, current and future political elites in Russia and China cannot, and should not, take their strategic partnership for granted. Indeed, despite the sustained efforts by both governments to push their citizens to get acquainted with one another in the past few years – China's Year of Russia in 2006, Russia's Year of China in 2007, China's Year of Russian Language in 2009, and Russia's Year of Chinese Language in 2010 – there has been no significant change in mutual perceptions according to the Pew surveys, although one may hypothesize that those cultural and language activities may have prevented the level of favorable opinions from deteriorating even further.

The Obama factor

Partnership and problems, therefore, seem to be the norms of the bilateral relationship. They are, however, not the only issues between Russian and Chinese leaders. Indeed, much of the first-quarter lull regarding bilateral interaction was due to the fact that both Moscow and Beijing paid more attention to the "smart," and "not-so-smart," policies of the Obama administration.

For Moscow, Obama's decision not to deploy missile defense system in Poland and the Czech Republic was a promising precursor to an even bigger diplomatic breakthrough for both sides, when Washington and Moscow worked out details of a new Strategic Arms Reduction Treaty (START) to be inked on April 8, 2010. For the next two to six years (if Obama is able to win elections for a second term), this is a favorable sign for smooth bilateral relations. Even former US Secretary of State Madeleine Albright, a long-time critic of Putin's Russia, has been toying with the idea of Russia joining NATO.

Obama's China policy, however, has been seen as far less consistent and certain, at least in the eyes of the Chinese. After a few months of stability and high expectations, Beijing was angered by a series of what it saw as policies reversals by Washington regarding Taiwan, Tibet, trade, Google, and currency issues. Indeed, many in China have become nostalgic for the "good old days" of the Bush administration.

Obama's seemingly different approach to relations with Russia and China, deliberate or not, have apparently inserted a wedge, at least psychologically, in the Moscow and Beijing strategic partnership. Russia's recent shift from its long-time *de facto* "neutrality" policy toward Iran's nuclear issue is seen by some in China as a consequence of the warming trend in US-Russian relations, with the effect of leaving China isolated and exposed on the Iranian issue.

Under these circumstances, Xi's visit to Russia – scheduled between the annual and routine summits of Chinese and Russian presidents and prime ministers – was both timely and future-oriented for vital and delicate bilateral relations.

Chronology of China-Russia Relations January - March 2010

Jan. 11, 2010: Russian missile warning systems detect a test by China of an interceptor missile, although China had not given prior notification.

Jan. 25, 2010: The Shanghai Cooperation Organization (SCO) sponsors a conference in Moscow for deputy ministers of foreign affairs on Regional Consultations on Afghanistan.

Jan. 25-26, 2010: Chinese and Russian frontier defense troops complete the first joint patrol along the Argun River, an ice-covered boundary river in the east of China's Inner Mongolia.

March 12, 2010: First Deputy Foreign Minister Andrei Denisov travels to Beijing and meets Vice Foreign Minister Wang Guangya and Foreign Minister Yang Jiechi to discuss a "collective approach" to the resolution of the Iranian nuclear problem, Afghanistan, the opening of the Year of the Chinese Language in Russia.

March 20-24, 2010: Chinese Vice President Xi Jinping makes an official visit to Russia as part of his four-European nation tour (Russia, Belarus, Finland and Sweden).

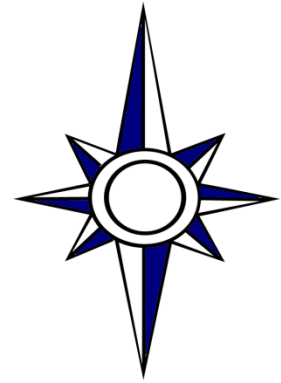
March 21-25, 2010: China's State Councilor Liu Yandong makes an official visit to Russia at the invitation of Russian Deputy Prime Minister Alexander Zhukov in order to attend the opening ceremony of the Year of the Chinese Language.

March 26, 2010: The seventh meeting of the SCO cultural ministers is held in China's Hainan Province. Li Changchun, a member of the Standing Committee of the Political Bureau of the CPC Central Committee, speaks at the meeting.

March 29, 2010: President Hu sends a telegram to the President Dmitry Medvedev expressing his condolences to the families of those killed and injured in the attacks in the Moscow metro. Hu also said that "China strongly condemns these attacks and expresses its support for the Russian efforts in fighting against terrorism, protecting its national security and social stability."

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



Special Assessment: Asian Regionalism *New Challenges, New Vision, Pedestrian Progress*

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George Washington University

After a decade of rising regionalist aspirations and a flurry of community-building initiatives, the past year and a half has seen a slight shift in the momentum and direction of Asian regionalism. While the signing of regional free trade agreements continues apace and discussions on regional cooperative mechanisms proceed unabated, the perceptions and political goals of many in the region have been recalibrated in the face of new challenges and new opportunities. By far, the biggest challenge was the global economic crisis, which had a mixed impact on Asian regionalism. On one hand, it spurred calls for regional action, much in the way of the financial crisis that hit Asia hard in 1997-98. Moreover, the relatively swift recovery of Asian economies seemed to highlight the fact that world economic power is shifting to East Asia. On the other hand, crisis revealed the extent to which East Asia remains deeply integrated with the global economy, in both trade and finance, and it called into question the relevance of regional solutions for dealing with global challenges.

New opportunities arose with the election of new political leaders in Australia, Japan, and the US, each of whom placed regional initiatives high on their political agenda. Australia's Kevin Rudd and Japan's Hatoyama Yukio laid out competing grand visions for regional architecture that engaged Asian diplomats and policy analysts in lofty and abstract debates about institutional design and the proper membership and pacing for community-building. The change in the US had an even greater impact on regional dynamics. After years of Bush administration policies that were perceived, fairly or not, as showing a lack of US interest in regional engagement, the Obama team took every opportunity to deliver the message that "the US is back" in Asia. Its outreach to ASEAN has been particularly aggressive, raising the hopes and expectations of those who would like to see greater US involvement in regional community-building.

On the ground, however, progress on achieving tangible cooperation in regional frameworks, both trans-Pacific and East Asian, has been meager at best. The global economic crisis gave rise to the G20 that, while elevating the symbolic weight of Asian economies in global governance, has also created institutional competition for regional frameworks. Regional economic integration faces emerging and unresolved challenges, as the noodle bowl of bilateral free trade agreements (FTAs) grows more tangled and the impact of Chinese economic competition deepens. Meanwhile, effective frameworks for multilateral security cooperation remain elusive.

Economic challenges and policy responses: the global economic crisis

The contours of Asian regionalism over the past 18 months have been shaped primarily by the severe global financial crisis that erupted in fall 2008. The crisis originated in the US, with the

collapse of the sub-prime mortgage market in 2007 and the demise of Lehman Brothers in September 2008. However the financial crisis quickly spilled over to Asia and the rest of the world, creating the worst synchronized world recession since the 1930s. The fact that the crisis dealt such a swift and sharp blow to the economies of East Asia took many by surprise. Asian banks were far less exposed to the direct impact of the global financial shock because they had not invested in the toxic assets nor engaged in many of the risky financial practices of their counterparts in the US and Europe. Yet, the unfolding economic crisis impacted the region especially hard through trade. The sharp economic downturn of the US and Europe reverberated through the Asian supply chain, leading to plummeting exports and industrial production. From peak to trough, Asian exports tumbled by over 30 percent, and real GDP fell by more than 8 percent in Japan and about 7 percent in other emerging Asia markets (excluding China, India, and Indonesia), which is not far from the 8.3 percent contraction in GDP experienced during the Asian financial crisis of 1997-1998.

“Decoupling” myth exposed

The crisis and its aftermath have reshaped understandings and aspirations surrounding Asian regionalism in several profound ways. First, it shattered the myth that Asia was “decoupling” from the US and the global economy. The decoupling thesis had been gaining currency in Asian policy circles as rapidly rising levels of intra-regional trade over the past decade seemed to suggest that Asian economies were decoupling from the global economy to form an autonomous zone of economic dynamism. The argument rested on two premises – first, that the declining share of exports to the US and other Western markets indicated that the region was increasingly self-reliant as a source of demand; and second, that China’s rapidly growing base of middle-class consumers would serve as the primary engine of growth and cushion against a US slowdown or global recession.

The precipitous declines in Asian exports and economic growth in the wake of the crisis exposed the shortcomings of the decoupling argument. Not only did China’s market fail to cushion the blow of the global slowdown, but China’s intra-regional imports initially contracted more sharply than US imports of East Asian goods (-17 percent for China compared to -6 percent for US in the fourth quarter of 2008). The central fallacy of the decoupling argument was to ignore the implications of East Asia’s increasingly networked trade, which actually served to *increase* linkages to the global economy. Growing levels of intra-regional trade have been driven by production networks engaged in cross-border trade in parts and components, in an increasingly fragmented regional chain of production. More than two-thirds of trade within Asia consists of intermediate goods, much of which is destined for assembly in China and exported outside the region. Only about 20 percent of East Asian trade has its final demand in Asia. This heavy dependence on US and global export markets was the key reason why Asia was not immune to the contagion of the global financial crisis.

Policy responses: more global than regional

Political decoupling was also called into question by the global economic crisis. Policy responses to the economic crisis were primarily global and unilateral rather than regional. This contrasts with the Asian financial crisis of the previous decade, which generated a flurry of

regional policy responses and institution-building, ranging from Japan's proposed Asian Monetary Fund and its offspring the Chiang Mai Initiative (CMI), to Japan's Miyazawa Initiative for regional economic recovery, to the institutionalization of ASEAN Plus 3 summitry. By contrast, the major change in financial architecture brought about by the recent economic crisis was the rise of the G20 and its displacement of the G8 as the "premier forum" for global economic management. Half of G20 membership is comprised of Asia-Pacific nations, with the "Asia 6" (Japan, China, India, Korea, Indonesia, and Australia) drawn from East Asia Summit (EAS) countries, and an additional four Asia-Pacific countries that are members of APEC (US, Russia, Canada, and Mexico). The three G20 summits convened between September 2008 and September 2009 became center-stage for global discussions on responding to the crisis and reforming international financial regulations, overshadowing not only the G8 but also APEC and ASEAN-centered regional dialogues. Further, there was no attempt to coordinate a regional strategy within the G20 or in regional-based forums. Major Asia-Pacific economies including the US, China, Japan, and Korea each put forth large stimulus packages, but they did so in an uncoordinated fashion, without devising collective targets or discussing the regional and global impact of their policies. Other than reiterating G20 pledges to refrain from trade protectionism, no serious effort was made to devise a collective regional strategy of fiscal or monetary response.

Regional financial mechanisms were also overshadowed by global policy responses. Most revealing was South Korea's response to the financial turmoil in fall 2008. Rather than drawing on its swap arrangements through the Chiang Mai Initiative, which amounted to \$23 billion, Korea instead turned to the US Federal Reserve for a \$30 billion line of credit with the government announcing that "the Korea-US swap line will be used prior to other liquidity supplies." The Fed also extended \$30 billion swap lines to Singapore, Australia, Japan, Brazil, Mexico, Canada, and several European central banks, which played a significant role in stabilizing these key regional financial markets. The liquidity provisions of the Chiang Mai Initiative, on the other hand, were not utilized by any of its ASEAN plus 3 members. In part this was due to the availability of credit from the US Federal Reserve, although a more significant factor was the massive foreign exchange reserves that East Asian countries have built up as unilateral strategies of insulation against a liquidity crisis.

Nonetheless, despite the limited relevance of regional financial institutions like CMI, the crisis did spur East Asian efforts to strengthen regional financial mechanisms and other areas of economic cooperation. Several ASEAN leaders called for expanding and strengthening the CMI, and the "Plus 3" countries of Japan, China, and Korea responded to these calls in ways that satisfied but also unsettled ASEAN. In an unprecedented trilateral summit held in Fukuoka, Japan in December 2008 – unprecedented because it was held apart from any ASEAN meetings – the three leaders announced that they would work together to accelerate the planned "multilateralization" and expansion of the CMI, with Japan, China, and Korea contributing 80 percent and ASEAN countries contributing 20 percent for a combined pool of reserves totaling \$120 billion. They also announced the creation of additional swap lines between China-Korea and Japan-Korea, raising the ceilings of swap lines to roughly \$30 billion each, seemingly in an effort to match the credit line offered by the US Fed. ASEAN countries had a mixed reaction to this new trilateral cooperation – on the one hand, they welcomed progress on expanding the CMI and better relations among their Northeast Asian neighbors; yet they quietly expressed anxious

concern about being left out and potentially marginalized in discussions on regionalism among the three powers.

The awkwardly named “Chiang Mai Initiative Multilateralization” (CMIM), which came into effect in March 2010, is the one tangible accomplishment and sign of progress toward regionalism that can be clearly linked to the global financial crisis, although its relevance is open to question. Japan and China managed to overcome their rivalry in formulating their relative contributions, which implicitly determines their voting weights and control over the institution. The compromise solution has both Japan and the combination of China and Hong Kong contributing \$34.4 billion each, or 32 percent each of the total \$120 billion. Critics point out however that the emergency liquidity available to CMIM borrowers, even in the new pooled arrangement, still falls well short of what would be needed to stem a liquidity crisis like the one experienced in the 1997-1998 Asian Financial Crisis. Moreover the link to the International Monetary Fund (IMF) remains in place, meaning that borrowers can only access 20 percent of funds before being subject to IMF authorization and conditionality, much to the dismay of ASEAN countries. ASEAN plus 3 countries have committed to establishing a regional surveillance unit to bolster the CMIM and pave the way to removing the IMF linkage, but they remain deadlocked over the details. Still, although the practical importance of the CMIM is debatable, the symbolic importance of the CMIM is significant, as the most advanced regional project and a framework that has generated genuine cooperation between Japan and China.

On trade, the crisis shifted the debate in Asian policy circles from “decoupling” to “rebalancing.” Proponents of rebalancing argue that Asian economies need to rebalance growth by relying less on exports and more on domestic demand. However stimulating domestic demand would require stronger social safety nets, since Asian consumers cannot be enticed to reduce their savings in favor of consumption as long as they remain concerned about retirement. Given the difficulties of discussing social safety nets in such a diverse region, much of the “rebalancing” discussion was diverted back to trade and FTAs, a relative comfort zone for many Asian governments. Taking a regional perspective, advocates argue that the best way to deal with global imbalances is to build up regional demand through a region-wide FTA. In this view, economic integration through an ASEAN plus 3 or ASEAN plus 6 FTA would unleash regional economic growth and reduce dependence on the US and European markets. In short, rebalancing became a new way to talk about decoupling – if East Asia had not yet successfully decoupled from the West, it could do so by rebalancing growth through region-wide FTAs.

Despite these calls for a region-wide FTA, however, very little progress was made on the ground. East Asian economies remain politically divided over their preference for an ASEAN plus 3 or an ASEAN plus 6 FTA. Meanwhile the noodle bowl of regional FTAs grew more tangled as a raft of bilateral and “ASEAN Plus 1” FTAs came into force, each with widely varying scope and coverage of trade and services, rules of origin, lists of exceptions, and other provisions.

Economic recovery brings mixed forecast for regional integration: some sun, some clouds

By mid-2009 signs of economic recovery had appeared in the region. China in particular emerged from its slowdown with rapid industrial recovery and a healthy appetite for regional imports. Optimists heralded these “green shoots” of economic recovery as further signs of the

bright prospects for Asian regionalism and regional economic integration. Yet there are clouds on this sunny horizon. As China surges in competitiveness, driven in part by import substitution and an undervalued currency, it has grown less dependent on imports from ASEAN. The *Asian Wall Street Journal* recently reported that Chinese exports to the six major ASEAN economies grew at an average annual rate of 14 percent from 2006-2009, while its imports from ASEAN grew by only 5.7 percent. According to official Chinese trade data, ASEAN's trade surplus with China shrunk dramatically from \$14.2 billion in 2007 to only \$400 million in 2009, with China actually running a trade *surplus* with ASEAN of \$400 million in the fourth quarter of 2009. Moreover, the World Bank reports that economic growth in developing East Asia, excluding China, was an anemic 1.3 percent for 2009, which means that the glowing assessments of China fueling economic recovery in the region are not entirely accurate.

China's surging exports to ASEAN has caused economic dislocation and growing political opposition to further economic integration. Opposition has been loudest in Indonesia, where manufacturers have pressured the government to delay implementation of the ASEAN-China FTA, which went into force on Jan. 1, 2010. In response, the Indonesian government formally requested to renegotiate parts of the trade pact to delay tariff eliminations on 228 products categories, including steel, chemicals, furniture, and textiles. It has also resorted to nontariff barriers to limit Chinese imports of sensitive goods. Complaints over "unfair" Chinese currency and trade policies are mounting in regional op-ed pages, casting some measure of doubt on the more optimistic scenarios of East Asian economic community.

The "vision thing": new leaders, new architects

Against the backdrop of global economic recession and recovery, newly elected political leaders in key Asia-Pacific states sought to shape the debate over Asian regionalism by putting forth new proposals and grand visions for a new regional architecture. Both Australian Prime Minister Kevin Rudd and Japan's Prime Minister Hatoyama Yukio laid out ambitious visions for the creation of a regional "Community" that would encompass both economic and security issues. Their competing proposals reignited the debate over definitional questions of regional community-building – who should be in, who should be out, and what kind of norms and structures are best suited to meet the challenges of such a large, politically and economically diverse region. The new Obama administration entered the fray by launching its own active regional diplomacy designed to deliver the message "the US is back" in Asia.

Australia

Prime Minister Rudd unveiled his vision for an "Asia Pacific Community" in a June 2008 speech that expressed strong dissatisfaction with the evolution of regional multilateral architecture, which had produced a patchwork of regional organizations, each with different memberships, narrow scope, and limited effectiveness. In his diagnosis, "none of our existing regional mechanisms as currently configured" are capable of engaging "in the full spectrum of dialogue, cooperation and action on economic and political matters and future challenges to security." His proposed solution to this problem was to create a single overarching regional body that "spans the entire Asia-Pacific region, including the United States, Japan, China, India, Indonesia and the other states of the region" that would combine economic, environmental, and security issues.

Rudd's Asia Pacific Community (APC) idea was met with a decidedly lukewarm response in the region. Singapore in particular has been a vocal critic, complaining about Rudd's lack of prior consultation with ASEAN governments and his failure to give adequate recognition to ASEAN's central role in regional architecture. Rudd dispatched special envoy Richard Woolcott on a "listening tour" of the region to consult with other governments on the concept, but ASEAN remained cool to the idea, while China dismissed the proposal saying that "conditions aren't ripe" to pursue the APC. In the face of this negative feedback, Rudd revised his ideas and adopted a more flexible approach to improving regional architecture. He abandoned the idea of creating a new structure, observing at the Shangri-La Dialogue at Singapore in May 2009 that "it is clear that no one wants more meetings" and "there is no appetite for additional institutions." Instead, he focused on options that would expand and upgrade existing regional bodies, such as adding India to APEC along with a security mandate, or expanding the EAS to include the US and Russia, or creating an "Asian G8" that would meet on the sidelines of the G20.

Prime Minister Rudd convened a meeting of regional experts and government officials in Sydney in December 2009 to try to build consensus toward one of these options that would meet Australia's aim of creating a more coherent and unified regional architecture. Yet Australia's initiative has not gained much traction in the region. Interestingly, several leading intellectuals in ASEAN, such as Hadi Soesastro and Jusuf Wanandi, embraced some of Rudd's ideas out of impatience with ASEAN's slow institutional development. But Rudd has failed to win over any ASEAN governments. Indonesia, which initially had appeared warm to the idea, has recently decided to stand firm with Singapore to oppose the plan. According to the *Sydney Morning Herald*, President Yudhoyono told Rudd in early March 2010 that Jakarta's priority lay in strengthening ASEAN. Similarly, Indonesian Foreign Minister Natalegawa told an Australian newspaper that Jakarta was "trying to avoid another layer, an out-of-nowhere construction not in concert, not in synergy with what we have."

Japan

The debate over regional architecture heated up further when Japan's Prime Minister Hatoyama floated his own concept for an East Asian Community (EAC) soon after taking office in September 2009. Within days of the inauguration of the new Democratic Party of Japan (DPJ) government, Hatoyama traveled to New York for the UN General Assembly meetings, where he first raised his EAC idea during a meeting with Chinese President Hu Jintao. In his speech to the UN, Hatoyama announced a "new Japan" that was ready to play a more proactive role, and floated his vision for creating an "East Asian community" that would be built on cooperation in trade, finance, currency, energy, environment, and disaster relief. The proposal was (and remains) exceedingly vague in its specifics and was wrapped in the gauzy rhetoric of Hatoyama's concept of "*yuai*" or fraternity. Interestingly, the idea of Japan taking the lead in forging an EAC did not originate with Hatoyama and the DPJ. Prime Minister Koizumi had first put forward the idea during a visit to ASEAN countries in 2002 and Tokyo convened a summit with ASEAN in December 2003 to build toward such a union. Yet Hatoyama's proposal was launched in a different political context and a changed regional environment, and it sparked a very different response.

Hatoyama's EAC idea met with a rather warm reception in East Asia and a very cold one in Washington. Meeting with his counterparts at the Mekong-Japan summit, and with China and South Korea at the Trilateral Summit in Beijing, Hatoyama asked for and received support for his initiative. China and Korea welcomed the initiative as a sign of the new DPJ's willingness to work toward historical reconciliation, while ASEAN appreciated Hatoyama's assurance that ASEAN would be at the core and viewed the initiative as signaling a new Japanese energy and engagement in forging regional cooperation. However the US was quite unhappy with its being excluded in the initial proposal. US officials were concerned that Hatoyama's initiative was rooted in the DPJ's campaign pledge to establish a more independent stance from the US while drawing closer to East Asia. It also did not go unnoticed in Washington that Hatoyama had first announced the EAC concept in a meeting with Chinese President Hu Jintao, without any prior consultation with Washington.

The confusion about Hatoyama's intentions was exacerbated by a series of contradictory statements coming from Tokyo. Foreign Minister Okada Katsuya, while observing in a press conference that "many people have many different ideas," went on to suggest that the envisioned community would encompass the EAS countries but would not include the US. Subsequently Hatoyama appeared to reverse himself to insist that the Japan welcomed US involvement, although involvement was left undefined. In the midst of contentious discussions on the future of the Futenma base relocation plan, the US made it clear to Japan that it had no intention of being excluded from Japanese-led efforts at regional institution-building. Assistant Secretary of State Kurt Campbell responded sharply to Hatoyama's proposal during an October visit to Beijing by insisting that the US is "going to be part of this party." "We are an active player and we're going to want an invitation" to any regional grouping.

The United States

The reaction of the Obama administration to Japan's seemingly exclusionary vision of an EAC helped to spur and further shape its regional diplomacy, which had been active from the start. Hillary Clinton took her inaugural trip abroad as secretary of state to the East Asia and pledged more active engagement with the region and better relations with China. Most importantly, she included a visit to ASEAN headquarters in Jakarta, where she announced that the US was planning to accede to the Treaty of Amity and Cooperation (TAC). In July 2009, during her first ASEAN ministerial meeting, she signed the TAC and declared that the "United States is back" in Asia. This became the recurring theme of speeches and remarks made by Obama administration officials in the first year, with Secretary Clinton framing a major Asia-Pacific policy speech in Hawaii in January 2010 around this theme.

President Obama himself delivered this message during his visit to Asia for the APEC Leaders Meeting in November 2009. In a speech in Tokyo, he stressed the importance of multilateral organizations in the region, saying "I know that the United States has been disengaged from these organizations in recent years. So let me be clear: those days have passed." Calling the US an "Asia Pacific nation" and declaring himself "America's first Pacific President," Obama said that the US "expects to be involved in the discussions that shape the future of this region," and he pledged to "participate fully" in regional organizations. He added that US wants to engage with the EAS "more formally," suggesting that it might seek membership in the grouping.

The Obama administration's more active engagement with ASEAN was warmly embraced in Southeast Asia, especially by Singapore and Indonesia, where op-ed pages were filled with glowing assessments of Obama's policies toward ASEAN and Asia. In addition to signing the TAC, the US announced a more flexible approach to dealing with the military rulers of Burma, signaling that US-ASEAN engagement would no longer be held hostage to this troublesome relationship. President Obama then convened the first US-ASEAN summit with all 10 leaders on the sidelines of the APEC Leaders Meeting in Singapore in November 2009, and issued a joint declaration endorsing the central role that ASEAN plays in regional multilateralism. The statement "reaffirmed the importance of ASEAN centrality" in the process of building regional architecture that is "inclusive, promotes shared values and norms, and respects the diversity within the region." The message of "ASEAN centrality" was reiterated by Secretary Clinton in her Asia-Pacific policy speech in Hawaii in January 2010, and has been especially welcomed by ASEAN governments at a time when the G20 and Australia's APC proposal are perceived as threats to ASEAN's traditional role as driver of regional community-building.

In other areas, however, the Obama administration's words of commitment and engagement were not met by much concrete action. The limitations of US policy on Asian regionalism were most clearly visible in trade policy, where the executive branch is severely constrained by rising skepticism toward free trade policies in public opinion and in Congress. US efforts to negotiate FTAs with regional partners in Asia, which had produced agreements with Singapore and Australia, a signed but unratified agreement with Korea (KORUS), and fitful negotiations with Thailand and Malaysia, essentially ground to a halt with the election of Democratic majorities in Congress in 2006. The Obama administration has been strikingly ambivalent on trade policy, and its hesitation to push for a seemingly strong win-win deal like KORUS has concerned many in the region who continue to hope for US leadership in regional economic integration. President Obama heard an earful of these concerns and complaints by East Asian leaders during his APEC trip in November. He responded by announcing the launch of negotiations for a Trans-Pacific Strategic Economic Partnership. TPP, as it has come to be known, would be a full-fledged FTA among the US and seven other Asia-Pacific countries – Singapore, Chile, New Zealand, Brunei, Australia, and Vietnam. Critics have derided TPP for its small size and its redundancy with existing US FTAs (with Singapore, Chile, and Australia). However the intent of TPP is as much strategic as commercial. By engaging in TPP negotiations, the US hopes to shape the debate over regional trade integration, and to give a boost of credibility to APEC's "long-term goal" of creating a Free Trade Area of the Asia Pacific, or FTAAP.

TPP is very much a child of APEC. The original P3 agreement among Singapore, Chile, and New Zealand was launched by leaders attending the APEC forum in Los Cabos, Mexico, and was subsequently joined by Brunei at the following APEC Leaders Meeting. TPP is seen by its advocates as an ideal vehicle for building a trans-Pacific, comprehensive, "gold standard" FTA that would exert strong gravitational pull on other APEC members to join, diverting attention and negotiating resources away from rival economic frameworks that exclude the US. However, TPP negotiations are likely to be a long, complicated process and Congressional approval in the end is by no means assured. The Obama administration will be hampered in negotiations by the lack of Trade Promotion Authority (TPA), which expired in 2007, and will be difficult to get from an increasingly polarized Congress. Meanwhile, the KORUS agreement continues to sit on

the shelf, despite the clear economic and strategic advantages that would come from the creation of the largest free trade area outside of NAFTA. In short, it is still not clear whether the US is really “back” in the forefront of Asian regionalism when the name of the regional game is trade.

APEC presents an opportunity for the US to demonstrate engagement and leadership when it hosts APEC in 2011. Japan, which hosts APEC this year, and the US have been repeating the mantra that they are working very closely together to deliver a “one-two punch” for dynamic back-to-back APEC years. Whether the US and Japan have the vision and political will needed to revitalize APEC remains to be seen. It will take considerable lifting power to forge an agenda that departs in meaningful ways from recent years, which has seen APEC devolve into a talk shop on best practices on various issues and, since 2008, an echo chamber for G20 discussions on trade and finance.

Traditional drivers in the slow lane

China, ASEAN, and Korea were the prime drivers of regionalism and community-building earlier in the decade. China and ASEAN worked toward completing FTAs with each other and with other regional economic partners, but they were not in the forefront of launching or shaping the new initiatives, other than seeking to counter Australia’s proposals. ASEAN remains the central hub of the emerging network of regional FTAs, but it has been internally focused on the process of ratifying its Charter, establishing its Human Rights Commission, and dealing with the problems posed by Thailand’s domestic political turmoil and the disruptions that it caused for ASEAN’s calendar of meetings and summits in 2008-2009.

Korea, which had been a driver in the “East Asian Vision” process launched in 1999 that laid out the vision for an East Asian Community, demonstrated a strong rhetorical commitment to regionalism; it remained active in the trilateral cooperation process with its Northeast Asian neighbors, and President Lee announced with much fanfare a “New Asia Initiative” aimed at strengthening ties to Southeast Asia. Yet, Korea’s primary diplomatic focus shifted to the global rather than its regional diplomacy. Given its role as chair of the G20 in 2010 and as one of the “troika” of countries managing the G20 process, President Lee seized the opportunity to catapult Korea into the ranks of the leading world powers on discussions of financial and economic management as well as climate change and green technology, positioning Korea as a “bridge” between advanced economies and smaller Asian emerging market economies.

Asian regionalism “on the ground”: progress or more of the same?

While leaders and intellectuals in the region engaged in lofty debates on alternative grand visions for regional architecture and “community,” existing frameworks for regional cooperation continued to muddle through, with mixed results.

APEC adrift, still

APEC notched its 20th anniversary in 2009, but celebration was decidedly muted in light of its lackluster record in recent years and its struggle to emerge from the shadows of the new G20. APEC Leaders’ Meetings in Peru in November 2008 and in Singapore in November 2009 were

most notable for reiteration of pledges on trade and finance that many of the same leaders made in the days or weeks before at the G20 summits held in Washington (in November 2008) and Pittsburgh (in September 2009). This year will present the same problem, with G20 host Korea determined to hold the G20 summit in the days prior to Japan's hosting of APEC in Yokohama.

APEC's meeting in Singapore was especially disappointing. Unlike Peru in 2008, which came at the gloomiest moment of the global financial crisis and was President Bush's last major international event, Singapore was viewed as an opportunity to lay solid groundwork for the back-to-back hosting years by Japan and the US. But the results were broad, vague, and meager. Singapore was determined to attack the "noodle bowl" aspect of FTAs by finding some ways to harmonize rules of origin, but the issues involved are extremely complex and APEC work yielded little progress. Singapore also continued the trend of adding agenda items and buzzwords to APEC, like shiny baubles on a Christmas tree. It had planned to include climate change discussions in APEC as a lead-up to the December UN meeting in Copenhagen, but it dropped the issue in the face of strong behind-the-scenes opposition from China. Singapore chose instead to emphasize "inclusive" and "sustainable" growth, with dialogue geared toward economic recovery and reforms to spread growth to all sectors of society. Admirable goals to be sure, but not an agenda designed to yield concrete collective initiatives.

Meanwhile, the major trade initiative on the APEC agenda continues to be FTAAP, an ambitious but perhaps unreachable goal. APEC recognized FTAAP as a "long term goal" in 2006 and since then has been studying possible pathways toward its creation, such as enlarging, docking, or merging existing FTAs, or negotiating FTA "building blocks" on a chapter by chapter basis, or taking a traditional "single undertaking" approach. Many view the Trans-Pacific Partnership (TPP) as a potential breakthrough, since it offers an incremental, bottom-up approach that could be gradually enlarged to an APEC-wide FTA. Nonetheless TPP negotiations will take place outside the APEC framework, and a host of conceptual and political obstacles will make meaningful on-the-ground progress toward FTAAP difficult to achieve in the near future. Smaller steps toward meaningful reform of APEC's institutional framework would perhaps have a larger impact on facilitating harmonization and other useful areas of economic cooperation, but the resistance of some members to institutional reform has discouraged more activist members from pursuing them.

ASEAN Plus Three and the East Asian Summit

The timing of Thailand's assumption as Chair of ASEAN in July 2008 for an unprecedented 18-month tenure dealt an unlucky blow to ASEAN-plus dialogues. Thailand's domestic political turmoil caused a series of cancellations, postponements, and venue changes for ASEAN meetings, just as the region was facing the debilitating economic fallout from the global financial crisis. As a result, both ASEAN Plus 3 and the EAS underwent a two-year hiatus, with no summits held in 2008. ASEAN already had a crowded agenda focused on securing final ratification of its Charter and moving forward to implement the charter's provisions, including drawing up the terms for a controversial human rights body. Coping with the economic crisis and ASEAN's organizational difficulties simply added to the distraction.

In terms of tangible accomplishments, the ASEAN Plus 3 Finance Ministers process continues to outpace all other regional projects in substantive cooperation and institution-building. As discussed above, the economic crisis spurred action by this grouping to accelerate the planned expansion and multilateralization of the Chiang Mai Initiative, although crucial components of the plan, such as establishing an Independent Surveillance Unit, have yet to be achieved. Meanwhile, Japan's proposal for an OECD-like regional policy institute, the Economic Research Institute for ASEAN and East Asia (ERIA), was successfully launched by the EAS countries. Designed to provide policy analysis and recommendations for economic integration among the 10 plus 6, ERIA is receiving positive reviews for its contributions. However the centerpiece of the trade agenda of both groupings is a region-wide FTA, and on this front very little progress is discernable. Political rivalry continues to drive discussion of the competing proposals, with China pushing for an East Asia Free Trade Area (EAFTA) among the 10 plus 3 countries, while Japan strongly advocates a larger Comprehensive Economic Partnership for East Asia (CEPEA) that would include the 10 plus 6 EAS countries. Leaders at the EAS in November 2009 agreed to consider these trade proposals "in parallel," but both appear to be on the slow track.

ASEAN Regional Forum (ARF): inching forward?

In contrast to the flurry of regional economic initiatives over the past decade that seem to herald deepening regionalism, on the security side the political difficulties of building trust and common interests around security issues have been much more apparent. The 27-member ARF continues to be recognized as "the main forum for multilateral security dialogue and cooperation" in the Asia-Pacific region, but almost since its inception it has faced the questions of relevance and effectiveness. The main challenge has been the very diverse political outlooks and interests of participants, with the majority of ASEAN members preferring a cautious and go-slow approach, which frustrates the more activist countries that seek robust dialogue and practical measures to deal with concrete security problems. These divisions have kept ARF on a slow path that has not moved much beyond the initial stage of confidence building to work on preventive diplomacy (as envisaged in the 1995 ARF Concept Paper). Further, the presence North Korea and Burma in the consensus framework of the ARF ensures that discussion of regional security or humanitarian issues related to these countries is taken off the agenda.

The sluggishness of the ARF led to proposals to transform the Six-Party Talks into a regional mechanism for dealing with security challenges, but the rising optimism (in some quarters) around these proposals three or four years ago have diminished considerably as the six-party process has faltered. Frustration with the ARF was also a primary motivating factor behind Australia's proposal for constructing a new regional structure that would deal more effectively with security challenges. The failure to gain traction on these proposals leaves the ARF firmly in place, at least for now, as the primary venue for forging regional security cooperation.

The ARF's activities over the past two years have not fundamentally altered the low expectations attached to the organization, but they do provide a glimmer of hope. First, the growing involvement of defense officials in the ARF process has yielded some value in dialogue, as well as some support for concrete exercises for practical security cooperation. Second, in recent years the ARF has focused on nontraditional security issues, driven in large measure by reactions to regional crisis – Sept. 11 and the Bali bombings of 2002 gave rise to a focus on counterterrorism;

a series of piracy and armed robbery incidents in the Malacca Straits early in the decade generated interest in working on practical contributions toward maritime security; and the 2004 Indian Ocean tsunami led to a new focus on disaster relief. As these agendas have developed, ARF members have begun to show a new, albeit limited, willingness to engage in practical security cooperation in these areas. Disaster relief in particular has been the focus of a number of desktop and field exercises over the past two years. Australia and Indonesia co-hosted a Disaster Relief simulation exercise in Indonesia in May 2008. Then, in May 2009, the US and the Philippines co-hosted an exercise in the Philippines to demonstrate a coordinated regional relief effort following a hypothetical typhoon. The “Voluntary Demonstration of Response” (VDR) was a five-day civilian-led and military supported demonstration of a coordinated regional relief effort, including joint search and rescue operations. It was the first field exercise ever conducted under the auspices of ARF, and it may point the way forward for more practical security exercises on disaster relief and other nontraditional security issues. It must be noted however that aside from the more activist ASEAN states – the Philippines, Indonesia, and Singapore – ASEAN as a whole remains cautious and at times resistant to proposals for organizing multilateral exercises under the ARF banner.

Chronology on Asian Regionalism May 2008 - March 2010

May 4, 2008: ASEAN plus 3 finance ministers agree to expand and strengthen the Chiang Mai Initiative into a multilateral currency swap facility of at least \$80 billion.

June 3, 2008: The governing board of the Economic Research Institute for ASEAN and East Asia (ERIA) holds its inaugural meeting at the ASEAN Secretariat in Jakarta.

June 4, 2008: Australian Prime Minister Kevin Rudd unveils his vision for an Asia Pacific Community (APC) in a speech at the Asia Society in Sydney.

July 1, 2008: Japan-Indonesia free trade agreement (FTA) enters into force.

July 10-12, 2008: Six-Party Talks are held in Beijing after a nine-month hiatus.

July 21, 2008: The 41st ASEAN Ministerial Meeting is held in Singapore.

July 22, 2008: Foreign ministers from the 10 ASEAN countries along with South Korea, China, and Japan hold an ASEAN Plus 3 meeting in Singapore. They are later joined by the foreign ministers of Australia, New Zealand, and India for East Asian Summit (EAS) consultations.

July 23, 2008: Foreign ministers from the US, China, South Korea, Japan, North Korea, and Russia meet informally on the sidelines of the ASEAN Regional Forum (ARF) to discuss progress in the Six-Party Talks on denuclearization of the Korean Peninsula.

July 24, 2008: The 15th ARF is held in Singapore, focusing on disaster relief, North Korea’s nuclear program, terrorism, the border dispute between Cambodia and Thailand, and the food and energy crisis.

July 24, 2008: North Korea signs the Treaty of Amity and Cooperation (TAC).

July 29, 2008: Doha Round negotiations at the World Trade Organization in Geneva collapse when the US, China, and India fail to resolve differences over agricultural protection in developing countries.

July 31, 2008: Japan-Brunei FTA enters into force.

Aug. 28, 2008: Eighth annual summit of the Shanghai Cooperation Organization (SCO) held in Dushanbe, Tajikistan.

Sept. 15, 2008: Lehman Brothers files for bankruptcy, setting off a financial panic that froze global credit markets, crushed stock and bond prices, and spread quickly to the real economy.

Oct. 1, 2008: China-New Zealand FTA enters into force.

Oct. 8, 2008: Philippine Senate ratifies the Japan-Philippine FTA, originally signed in 2006.

Oct. 23, 2008: China and Singapore sign an FTA.

Oct. 24-25, 2008: Seventh Asia-Europe Meeting (ASEM) summit is held in Beijing.

Oct. 29, 2008: US Federal Reserve announces temporary reciprocal currency arrangements of up to \$30 billion with central banks of Korea, Brazil, Mexico, and Singapore.

Nov. 14-15, 2008: Leaders of the Group of Twenty (G20) hold their first summit-level meeting in Washington, DC to address the global financial crisis. Leaders discuss financial reforms and pledge to refrain from trade protectionism and to revive Doha round.

Nov. 21-22, 2008: Asia Pacific Economic Cooperation (APEC) Leaders Meeting held in Lima, Peru. Leaders reiterate G20 pledges to refrain from trade protectionism and resume work on the Doha Round, and to work to improve international financial regulations and reform the IMF and World Bank.

Dec. 1, 2008: ASEAN-Japan FTA comes into force.

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

Dec. 11, 2008: Japan-Philippines FTA enters into force.

Dec. 12, 2008: The central banks of Japan, China, and Korea announce additional currency swap lines, increasing the size of one of the Japan-Korea swaps from the equivalent of \$3 billion to \$20 billion, and creating an additional swap arrangement between China-Korea in local currency equivalent to about \$30 billion.

Dec. 13, 2008: President Lee Myung-bak, Prime Minister Aso Taro, and Premier Wen Jiabao hold a trilateral summit in Dazaifu, Fukuoka, Japan – the first trilateral summit among the “Plus Three” countries to be held apart from ASEAN meetings.

Dec. 15, 2008: ASEAN Charter enters into force.

Dec. 25, 2008: Japan and Vietnam sign a bilateral FTA.

Jan. 1, 2009: Singapore-China FTA enters into force.

Feb. 16-22, 2009: US Secretary of State Hillary Clinton visits Japan, Indonesia, South Korea, and China.

Feb. 27, 2009: ASEAN and Australia/New Zealand sign an FTA.

Feb. 27-March 1, 2009: The ASEAN summit is held in Hua Hin Thailand, after being postponed in December due to political demonstrations that closed Bangkok’s airports.

March 5, 2009: Korea and Australia announce launch of formal negotiations for fTA.

April 2, 2009: Second G20 Leaders’ Economic Summit held in London.

April 28, 2009: China and Peru sign FTA.

May 3, 2009: Finance ministers from ASEAN Plus 3 announce agreement on the Chiang Mai Initiative Multilateralization (CMIM), which will expand the currency-swap facility from \$80 billion to \$120 billion. They also commit to establishing a regional surveillance unit, although details are left unspecified.

May 4-8, 2009: The US and the Philippines co-host the Voluntary Demonstration of Response (VDR) on Disaster Relief in the Philippines, with 20 ARF countries participating and 12 countries contributing civilian and military resources.

May 26, 2009: Foreign ministers of the Asia-Europe Meeting (ASEM) announce plans to expand membership to include Australia on Asian side, and Russia on European side, for the next ASEM summit meeting scheduled for October 2010 in Brussels.

May 29, 2009: Australian Prime Minister Kevin Rudd addresses Shangri-La Dialogue in Singapore and makes a revised case for his Asia Pacific community proposal.

June 15, 2009: Ninth SCO summit is held in Yekaterinburg, Russia.

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

July 18-23, 2009: The 42nd ASEAN Ministerial Meeting, Post-Ministerial Conferences, and

16th ARF meet in Phuket, Thailand.

July 22, 2009: Secretary Clinton at the ASEAN Post-Ministerial Conference, signs ASEAN TAC, while declaring “The United States is back in Southeast Asia.” She also announces US plans to open a mission to ASEAN in Jakarta, with the US ambassador to ASEAN in residence.

July 23, 2009: Secretary Clinton meets foreign ministers from the four Mekong riparian states (Cambodia, Laos, Thailand, and Vietnam) on the sidelines of the ASEAN summit to discuss bilateral cooperation between the two river basins of the Mississippi and the Mekong.

Aug. 6, 2009: India and Korea sign an FTA.

Aug. 13, 2009: India and ASEAN sign a FTA after six years of negotiations.

April 14, 2009: Japan and Peru launch negotiations for an FTA.

Sept. 21, 2009: Prime Minister Hatoyama meets Chinese President Hu on the sidelines of UN General Assembly meeting in New York, and broaches his idea of an East Asian Community, modeled on the European Union.

Sept. 23, 2009: Secretary Clinton announces a change in the Obama administration’s Burma policy to engage the military junta while still maintaining economic sanctions.

Sept. 24-25, 2009: Third G20 Economic Summit held in Pittsburgh, Pennsylvania. Leaders announce that the G20 is now the “permanent council for international economic cooperation,” replacing the G8 as the premier economic forum.

Oct. 1, 2009: Japan-Vietnam FTA enters into force

Oct. 10, 2009: Second Trilateral Summit between Japan, Korea, and China, held in Beijing.

Oct. 23, 2009: 15th ASEAN summit held in Hua Hin, Thailand. ASEAN leaders officially launch the new ASEAN Inter-governmental Commission on Human Rights (AICHR), with the aim of promoting regional cooperation on human rights and curbing human rights abuses.

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

Oct. 25, 2009: Fourth EAS meeting held in Hua Hin, Thailand. The summit had been rescheduled with change of venues several times due to the 2008-2009 Thai political crisis.

Nov. 6-7, 2009: First Japan-Mekong Summit held in Tokyo, Japan. Prime Minister Hatoyama meets leaders of Cambodia, Laos, Myanmar, Thailand, and Vietnam, and pledges to extend at least \$5.6 billion in fresh assistance to the Mekong region over next three years.

Nov. 14, 2009: President Obama announces in a speech in Tokyo that the US will negotiate a Trans-Pacific Economic Partnership, (TPP), with seven Asia-Pacific countries: Australia, Brunei Darussalam, Chile, New Zealand, Peru, Singapore, and Vietnam.

Nov. 14-15, 2009: APEC Leaders Meeting held in Singapore, with discussions on the theme of “Sustaining Growth, Connecting the Region.”

Dec. 3-5, 2009: Australia holds “Asia Pacific community conference,” a 1.5 track conference in Sydney to discuss Prime Minister Rudd’s proposals for creating an “Asia Pacific community.”

Jan. 1, 2010: ASEAN-China FTA comes into effect.

Jan. 1, 2010: ASEAN-India FTA comes into effect.

Jan. 1, 2010: ASEAN-Australia-New Zealand Free Trade Agreement comes into effect.

Jan. 1, 2010: India-Korea Comprehensive Economic Partnership Agreement enters into force.

Jan. 12, 2010: Secretary of State Hillary Clinton delivers major policy speech on “Regional Architecture in Asia: Principles and Priorities” at East-West Center, Honolulu Hawaii.

January 20, 2010: China and Taiwan begin formal talks on a trade deal termed the Economic Cooperation Framework Agreement (ECFA).

March 15-19, 2010: First round of TPP negotiations are held with trade officials from Australia, Brunei Darussalam, Chile, New Zealand, Peru, Singapore, US, and Vietnam.

March 24, 2010: Japan holds symposium on “Building the East Asian Community,” featuring presentations by 10 leading policy voices from the Asia-Pacific region, hosted by the Foreign Ministry’s affiliated think tank, the Japan Institute of International Affairs (JIIA).

March 24, 2010: The Chiang Mai Initiative Multilateralization (CMIM) agreement comes into effect.

March 29, 2010: New Zealand and Hong Kong sign a closer economic partnership (CEP) agreement, Hong Kong’s first FTA aside from its FTA with mainland China.

About The Contributors

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