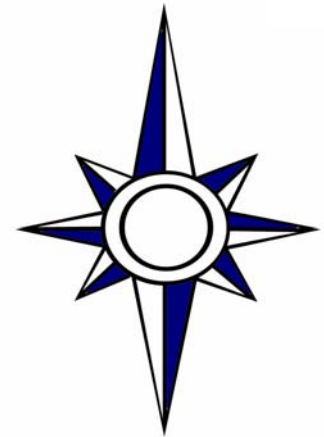




P a c i f i c F o r u m C S I S



Comparative Connections



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

edited by

Brad Glosserman
Sun Namkung

1st Quarter 2006
Vol. 8, No. 1
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Pacific Forum CSIS

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

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A Quarterly Electronic Journal on East Asian Bilateral Relations

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

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

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

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by Aidan Foster-Carter, Leeds University, UK

The variety and density of interactions testify to ever-growing ties between North and South. No one in Seoul (or at least in the ROK government) appears inclined to let the continuing impasse over the Six-Party Talks derail or even decelerate North-South links. However, it is not all plain sailing. The North is reluctant to make concessions and continues to stall on implementing its agreements. Defenders of the Sunshine Policy can point to subtle changes in North Korea's stance. Pyongyang's noisily extreme rhetoric continues unabated, but its deeds talk louder. This more careful calibration suggests a deepening commitment to the relationship as such. A more cynical view is that Kim Jong-il knows not to push the goose too far lest it stop laying golden eggs, in what remains financially and otherwise a very one-sided process.

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

The quarter ended as it began – with Prime Minister Koizumi expressing his inability to understand why China and the ROK refused to hold summit meetings due to differences over Yasukuni Shrine. Meanwhile, China's leadership made clear that it was writing off the next six months and looking to a post-Koizumi future. Beijing hosted a number of high-level political delegations and courted potential Koizumi successors. Reflecting the political stalemate, diplomatic efforts to resolve issues related to the exploration and development of natural gas fields in the East China Sea failed to make progress. In the face of "cold politics," economic relations continued "hot." For the seventh consecutive year, Japan's trade with China hit a record high in 2005, reaching \$189 billion.

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The first quarter of 2006 produced no movement in Japan-South Korea relations, nor Japan-North Korea relations. Politics remained chilly while economic and cultural relations were warmer. Japan-North Korea relations remained stalled over the abductee issue, and Japan-South Korea political relations remain stalled over Yasukuni Shrine. The Japanese and South Korean economies continue to integrate and interact, and cultural relations experienced no real controversies. The next quarter looks to be a continuation of this one. Japan and North Korea have not scheduled another round of bilateral talks, and Roh Moo-hyun and Koizumi Junichiro show no signs of extending the olive branch that will allow them to resume summit meetings. South Korea and Japan will continue discussions about a free-trade area, but negotiations are likely to make little progress.

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China’s Year of Russia and the Gathering Nuclear Storm

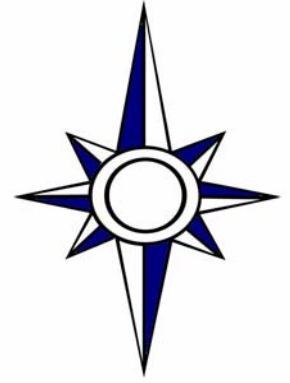
by Yu Bin, Wittenberg University

By any standard, China’s “Year of Russia” is unprecedented. The year-long celebration was officially inaugurated with President Putin’s fourth visit to China in March. Both sides hailed the relationship as being at the “highest level” and as the “strongest ever.” All the while, Russia’s energy *politik* continued. Political elites in Beijing and Moscow were faced with the challenging task of bridging misperceptions and dislike between ordinary Chinese and Russians that persist despite a decade of strategic partnership. This is particularly needed when the world, according to Moscow and Beijing, is overshadowed by the gathering “nuclear storm” of Iran and North Korea. Both have friendly relations with Russia and China while continuing to be at odds with the U.S., which is getting increasingly impatient with the nuclear potential, peaceful or not, of the two “rogue” states.

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Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



Regional Overview:

Let Freedom (and Democracy) Ring!

Ralph Cossa
Pacific Forum CSIS

The 2006 *National Security Strategy (NSS)* was released this quarter. News coverage has focused primarily on one word: preemption. Largely overlooked has been the much greater emphasis on the promotion of freedom and democracy as the primary objective of U.S. foreign policy in the second George W. Bush administration. How far and fast a nation (like China) proceeds down the path toward democracy – or refuses to do so (North Korea and Myanmar) – will have a major bearing on its future relations with a State Department that is being reoriented toward “transformational diplomacy.” Largely overshadowed by the *NSS* release were two Defense Department documents: the *Quadrennial Defense Review* and the *National Military Strategy to Combat WMD*.

While Washington pushes the theory of democracy, its practice has proven difficult for both Manila and Bangkok this quarter, even as the fruits of democracy have added challenges to Washington’s relations with Taipei. Meanwhile, Pyongyang has used the “hostile attitude” reflected in the *NSS* as yet another excuse for not returning to the stalled Six-Party Talks. One significant gathering of democracies this quarter was the inaugural ministerial-level Australia-U.S.-Japan Trilateral Strategic Dialogue focused, in part, on supporting the emergence of new democracies. Finally, Washington took a major step forward in advancing its “strategic partnership” with the world’s largest democracy, India, during President Bush’s historic visit to New Delhi in early March.

National Security Strategy: preemptive diplomacy?

In mid-March, the White House released the 2006 *National Security Strategy of the United States of America* outlining the Bush administration’s approach toward accomplishing its “most solemn obligation: to protect the security of the American people.” While the principle of preemption is reaffirmed, with the same caveats as previously expressed, the aspect that most distinguishes this year’s version from its 2002 predecessor is the increased emphasis on, if not preoccupation with, the promotion of democracy and, with it, a continued downplaying of traditional alliance mechanisms as a primary means for dealing with security challenges, in favor of ad hoc coalitions of the willing.

The terms democracy (in its various permutations) and freedom appear in the 2006 *NSS* over 200 times (a roughly three-fold increase over 2002). “Promoting democracy,” the 2006 *NSS* asserts, “is the most effective long-term measure for strengthening international stability, reducing regional conflicts, countering terrorism and terror-supporting extremism, and extending peace and prosperity.” Lifting a line verbatim from the president’s 2005 inaugural address, it further argues that “the best hope for peace in our world is the expansion of freedom in all the world.”

This year’s report is 18 pages longer than the 2002 version, in large part due to one additional chapter dealing with the challenges of globalization and a significant expansion of the opening chapter, which lays out the game plan for spreading democracy throughout the world. Given the importance of this blueprint of future U.S. action, this quarter’s regional overview will be devoted, in large part, to a chapter-by-chapter review of the 2006 *NSS*.

A nation at war! President Bush’s cover letter introducing this year’s report quickly sets the tone: “My fellow Americans,” it begins, “America is at war.” A “wartime national security strategy” is required, given “the grave challenge we face – the rise of terrorism fueled by an aggressive ideology of hatred and murder.” It also notes that the U.S. has “an unprecedented opportunity to lay the future foundation of peace,” observing that “the ideals that have inspired our history – freedom, democracy, and human dignity – are increasingly inspiring individuals and nations throughout the world.”

The opening letter also introduces the central theme of the *NSS* itself: “Because free nations tend toward peace, the advance of liberty will make America more secure.” As a result, the letter concludes, the Bush administration’s national security strategy is founded on two pillars: “promoting freedom, justice, and democracy” and “confronting the challenges of our time by leading a growing community of democracies.”

I. Overview of the U.S. National Security Strategy. Building on this theme, the one-page overview states at the onset that “[I]t is the policy of the United States to seek and support democratic movements and institutions in every nation and culture, with the ultimate goal of ending tyranny in the world.” The 2002 report was criticized for beginning with a bit of braggadocio about “unprecedented and unequalled” U.S. strength and influence. This year’s report avoids the bragging and simply asserts the intention to use this power to promote democracy and combat tyranny. It does include an important caveat, however, noting that this is “the work of generations,” that we are in the “early years of a long struggle,” comparing the current struggle against terrorism and tyranny to the early years of the Cold War.

II. Champion aspirations of human dignity. This chapter, barely over a page long in 2002 but six full pages in 2006, lays out the game plan for how the Bush administration intends to spread democracy throughout the world; a game plan which, with the possible exception of “applying sanctions that [are] designed to target those who rule oppressive regimes while sparing the people,” does not anywhere threaten or imply the use of military force to achieve this objective. The dozen other tools are primarily diplomatic:

supporting reformers in repressive nations, using foreign assistance selectively, building new initiatives, strengthening partnerships, etc. It promises to use such tools “vigorously to protect the freedoms that face particular peril around the world,” highlighting in particular religious freedom (a constant Bush theme) and women’s rights, among others.

Chapter II notes that the U.S. has “a responsibility to promote human freedom,” yet acknowledges [an Iraq lesson learned?] that “freedom cannot be imposed; it must be chosen,” and that its form “will reflect the history, culture, and habits unique to its people.” “In the cause of ending tyranny and promoting effective democracy,” it further asserts, “we will employ a full array of political, economic, diplomatic, and other tools at our disposal.” The emphasis is on helping nations “make the difficult transition to effective democracies,” while not “clinging to the illusionary stability of the authoritarian.” This apparent repudiation of the previous “interests-based” (vs. today’s “values-based”) approach to global partnerships continues to raise concerns among many less than fully democratic nations, especially in the Middle East, that continue to seek and value close partnership with Washington without being particularly eager to give up their firm control over their citizens for fear of the results of a democratic process (witness the Hamas victory in Palestine). Nonetheless, the 2006 *NSS* warns that governments failing to deliver the “benefits of effective democracy” leave themselves “susceptible to or taken over by demagogues peddling an anti-free market authoritarianism.” It should be noted, however, that the *NSS* acknowledges that the process of democratization will be a slow one. More importantly, none of Washington’s current close friends is on the current tyrants list.

In listing the nations whose citizens “know firsthand the meaning of tyranny,” two East Asian nations are singled out: the Democratic People’s Republic of Korea (DPRK), and Burma, using North Korea’s official name while avoiding to do so for Myanmar. The others were Iran, Syria, Cuba, Belarus, and Zimbabwe. China, whose “transition remains incomplete” (see discussion of Chapter VIII), is not listed.

III. Strengthen alliances to defeat global terrorism and work to prevent attacks against us and our friends. Despite its title, this chapter makes no reference to Washington’s long-standing traditional alliances, focusing instead on the broader group of “friends and allies” who have joined the U.S. in the war on terrorism. The chapter lays out the sources of terrorism – political alienation, grievances that can be blamed on others, subcultures of conspiracy and misinformation, and an ideology that justifies murder – and notes that “the genius of democracy is that it provides a counter to each.”

It notes that “democracy is the opposite of terrorist tyranny, which is why the terrorists denounce it,” but also acknowledges that “democracies are not immune to terrorism,” thus explaining how the home-grown London bombers can emerge even in a democracy. Most importantly, it argues that “the strategy to counter the lies behind the terrorists’ ideology is to empower the very people the terrorists most want to exploit: the faithful followers of Islam.”

This reinforces another constant Bush administration theme, repeated in Chapter III: “While the War on Terror is a battle of ideas, it is not a battle of religions. The transnational terrorists confronting us today exploit the proud religion of Islam.” One can find ample fault with the Bush administration in how it has conducted its war on terrorism, but it has made every effort, repeatedly in this and other documents and statements, to separate terrorism and Islam. It is only the terrorists themselves who try to make the connection. Rather than continue to brand the Bush administration as anti-Islamic, “responsible Islamic leaders need to denounce an ideology that distorts and exploits Islam for destructive ends and defiles a proud religion.” Amen!

While noting that “the advance of freedom and human dignity through democracy is the long-term solution to the transnational terrorism of today,” the 2006 *NSS* outlines four steps that will be taken in the short term: prevent attacks by terrorist networks before they occur, deny WMD to rogue states and to terrorist allies who would use them without hesitation, deny terrorist groups the support and sanctuary of rogue states, and deny the terrorists control of any nation that they would use as a base and launching pad for terror.

Unlike the 2002 edition, the term “preemption” does not appear in this chapter this year, although the first of the above four steps certainly indicates a need to be proactive, since “the hard core of the terrorists cannot be deterred or reformed; they must be tracked down, killed, or captured.” (A discussion of the doctrine of preemption is confined this year to Chapter V.) The discussion of “rogue states” and “terrorist allies” specifically identifies two states, Syria and Iran, as among those who have “chosen to be an enemy of freedom, justice, and peace,” adding that “the world must hold those regimes to account.”

Chapter III ends with a discussion of Afghanistan and Iraq, the “front lines in the War on Terror,” noting that “winning the War on Terror requires winning the battles in Afghanistan and Iraq.” As regards the broader struggle, it concludes that “America will lead in this fight, and we will continue to partner with allies and will recruit new friends to join the battle.” While the phrase “coalitions of the willing” is not specifically used in this chapter, this represents a clear call for like-minded states to join the U.S.-led ad hoc effort to combat terrorism and tyranny.

IV. Work with others to defuse regional conflicts. As was the case in 2002, this short chapter seems to be the catch-all for issues not addressed elsewhere. In the “Successes and Challenges” section, the only East Asia reference is to the tsunami relief efforts that “resulted in political shifts [in Indonesia] that helped make possible a peaceful settlement in the bitter separatist conflict in Aceh.” It does address, in more theoretical terms, such issues as conflict prevention and resolution (the “most effective long-term measure,” not surprisingly, being “the promotion of democracy”), conflict intervention, post-conflict stabilization and reconstruction, and genocide, noting in the latter case the “moral imperative” of taking action to “prevent and punish genocide.”

V. Prevent our enemies from threatening us, our allies, and our friends with weapons of mass destruction. As was the case in 2002, the need and justification for preemptive action is spelled out in this chapter. The U.S., the document asserts, “will, if

necessary, act preemptively in exercising our inherent right of self-defense.” There are important caveats, however. It notes that the U.S. “will not resort to force in all cases to preempt emerging threats,” stating instead a strong preference for “nonmilitary actions.” It also warns that “no country should ever use preemption as a pretext for aggression.” The *NSS* pledges that the U.S. “will always proceed deliberately, weighing the consequences of our actions. The reasons for our actions will be clear, the force measured, and the cause just,” it asserts, further stressing that international diplomacy remains the primary means of dealing with potential threats to national security.

The chapter identifies two specific nonproliferation objectives: closing a loophole in the Nonproliferation Treaty that permits regimes to produce fissile material that can be used to make nuclear weapons under cover of a civilian nuclear power program, and keeping fissile material out of the hands of rogue states and terrorists.

As regards the first objective, Iran and North Korea are identified as primary cases in point. In each case, a diplomatic solution is the preferred outcome. In praising the Six-Party Talks September 2005 Joint Statement aimed at denuclearization of the Korean Peninsula, the *NSS* clearly states that “regional cooperation offers the best hope for a peaceful, diplomatic resolution of this problem,” despite Pyongyang’s “long and bleak record of duplicity and bad-faith negotiations.”

This concept of “preemptive diplomacy” – my term, not theirs – can be seen in action both in the Six-Party Talks (assuming the talks resume – more on this later) and in Washington’s collaboration with the EU and others in dealing with Iran’s presumed nuclear weapons aspirations. Nonetheless, the *NSS* makes it clear that while diplomatic and other nonmilitary means are preferred, “we do not rule out the use of force before attacks occur,” in preventing or defending against the use of weapons of mass destruction (WMD) in general, even while avoiding any specific reference to military action in dealing with Pyongyang or Tehran.

As regards the second objective, the White House praises the Global Threat Reduction Initiative (GTRI), which locates, tracks, and reduces existing stockpiles of nuclear material, and efforts such as the Proliferation Security Initiative (PSI), aimed at shutting down WMD trafficking by targeting key maritime and air transportation and transshipment routes, along with “efforts to cut off proliferators from financial resources that support their activities.”

The latter is an obvious reference to the financial tightening actions being taken against North Korea. The *NSS* spells out the administration’s “broader concerns” regarding the DPRK: “The DPRK counterfeits our currency; traffics in narcotics and engages in other illicit activities; threatens the ROK with its army and its neighbors with its missiles; and brutalizes and starves its people.” It calls on Pyongyang “to change these policies, open up its political system, and afford freedom to its people.” In the interim, it warns that Washington “will continue to take all necessary measures to protect our national and economic security against the adverse effects of their bad conduct.”

Unlike 2002, this chapter also devotes some attention to the grave threat posed by biological and chemical weapons, stressing early detection and emergency response requirements (but avoiding discussion of global regimes such as the Chemical Weapons Convention or Biological Weapons Convention). It also addresses, head-on, the issue of Iraq and WMD, admitting that “pre-war intelligence estimates of Iraqi WMD stockpiles were wrong,” and identifying the following lessons learned: first, our intelligence must improve; second, there will always be some uncertainty about the status of hidden programs since proliferators are often brutal regimes that go to great lengths to conceal their activities; and third, Saddam’s strategy of bluff, denial, and deception is a dangerous game that dictators play at their peril.

It ends on a completely unapologetic note: “We have no doubt that the world is a better place for the removal of this dangerous and unpredictable tyrant, and we have no doubt that the world is better off if tyrants know that they pursue WMD at their own peril.”

VI. Ignite a new era of global economic growth through free markets and free trade.

As in 2002, this chapter underscores Washington’s commitment to promoting free and fair trade while reinforcing the mutually supportive link between economic and political freedom. It assesses successes and challenges since 2002 and then spells out a future three-prong strategy: opening markets and integrating developing countries; opening, integrating, and diversifying energy markets to ensure energy independence; and reforming the International Financial System to ensure stability and growth. The 2006 *NSS* provides a full page of specifics regarding each of these steps.

VII. Expand the circle of development by opening societies and building the infrastructure of democracy. Noting at the onset that “[H]elping the world’s poor is a strategic priority and a moral imperative,” this chapter also reviews successes and challenges since 2002, while indicating “The Way Ahead” for U.S. diplomacy, highlighting “transformational diplomacy and effective democracy” (a point further expanded upon in Chapter IX) and “making foreign assistance more effective,” in part through the creation of a new position of Director of Foreign Assistance (DFA) in the State Department, who will serve concurrently as Administrator of U.S. Agency for International Development (USAID).

VIII. Develop agendas for cooperative action with the other main centers of global power. Unlike the *NSS* reports issued during the Clinton era, where alliances formed the foundation upon which U.S. security strategy in Asia was based, Washington’s Asian alliances – with Australia, Japan, South Korea, the Philippines, and Thailand – are scarcely mentioned at all in the section on East Asia.

The one reference to the U.S.-ROK alliance in the 2006 *NSS* is a significant one, however, and bears repeating here: “With the ROK, we share a vision of a prosperous, democratic, and united Korean Peninsula. We also share a commitment to democracy at home and progress abroad and are translating that common vision into joint action to sustain our alliance into the 21st century.” This seems to imply that promoting democracy abroad (including in North Korea and China?) is a shared vision that provides a future

rationale or action plan for the alliance. Perhaps this is true from Washington's perspective. But, one finds little support for this particular mission in ROK strategic statements.

Significantly, more than half this section is dedicated to a discussion of China's proclaimed decision "to walk the transformative path of peaceful development." The 2006 *NSS* admonishes China to "act as a responsible stakeholder," repeating a term originally used by Deputy Secretary of State Robert Zoellick in a major China address last fall and repeated earlier in the quarter in the Defense Department's *Quadrennial Defense Review* – it is particularly refreshing to see State, Defense, and now the White House all singing the same tune regarding China. It is a song of engagement, that opens up the possibility of even greater cooperation between Washington and Beijing, as long as China's leaders "continue down the road of reform and openness . . . [to] meet the legitimate needs and aspirations of the Chinese people for liberty, stability, and prosperity."

This cannot happen, however, if China continues "holding on to old ways of thinking and acting that exacerbate concerns throughout the region and the world." Many have described Washington's approach toward Beijing as a "hedging strategy." The White House has now confirmed this suspicion, closing its East Asia discussion with this simple assertion: "Our strategy seeks to encourage China to make the right strategic choices for its people, while we hedge against other possibilities." Compare this to 2002, when the section ended by noting that "we will work to narrow our differences where they exist, but not allow them to preclude cooperation where we agree."

The contrast is even greater in discussing Russia. In 2002, Washington "was already building a new strategic relationship," despite Moscow's "uneven commitment" to free-market democracy. In 2006, the desire to work with Moscow remains, but "recent trends regrettably point toward a diminishing commitment to democratic freedoms and institutions" which will make a strengthening of the relationship difficult, if Washington cannot persuade Moscow "to move forward, not backward, along freedom's path." On the positive side of the ledger, the 2006 *NSS* applauds the "great strides in transforming America's relationship with India," even while improving its strategic relationship with Pakistan.

IX. Transform America's national security institutions to meet the challenges and opportunities of the 21st Century. In order to help transform the world, the Bush administration pledges to "continue to reorient the Department of State toward transformational diplomacy, which promotes effective democracy and responsible sovereignty." In 2002, it was the Defense Department that was slated for "transformation." That effort will be extended and enhanced, but the focus now is on getting U.S. diplomats "to step outside their traditional role to become more involved with the challenges within other societies, helping them directly, channeling assistance, and learning from their experience." This new "mandate to meddle" – again, my term not theirs – takes the traditional U.S. commitment to democracy to a new, more proactive level.

This effort will include ensuring that foreign assistance is used as effectively as possible; improving U.S. “capability to plan for and respond to post-conflict and failed state situations” (another Iraq lesson learned); developing a civilian reserve corps, analogous to the military reserves; and “strengthening our public diplomacy, so that we advocate the policies and values of the United States in a clear, accurate, and persuasive way to a watching and listening world.”

Transforming the Department of State is just one of three priorities, the other two being sustaining the transformation already under way (in the Departments of Defense, Homeland Security, and Justice, the FBI, and the Intelligence Community) and improving the capacity of agencies to plan, prepare, coordinate, integrate, and execute responses covering the full range of crisis contingencies and long-term challenges.

In working with allies, the *NSS* identifies three additional priorities: promoting meaningful reform of the U.N., enhancing the role of democracies and democracy promotion throughout international and multilateral institutions, and establishing “results-oriented partnerships” on the model of the PSI to meet new challenges and opportunities. In further defining these coalitions of the willing, the 2006 *NSS* notes that “these partnerships emphasize international cooperation, not international bureaucracy. They rely on voluntary adherence rather than binding treaties. They are oriented towards action and results rather than legislation or rule-making.”

X. Engage the opportunities and confront the challenges of globalization. This is a new chapter, focused on dealing with the challenges of globalization – public health issues (like pandemics), illicit trade (drugs, human beings), and environmental disasters – noting, again not surprisingly, that “effective democracies are better able to deal with these challenges than are repressive or poorly governed ones.”

XI. Conclusion. Also new in 2006 is a final chapter, which is short enough to repeat in its entirety, to let the reader decide for him- or herself:

“The challenges America faces are great, yet we have enormous power and influence to address those challenges. The times require an ambitious national security strategy, yet one recognizing the limits to what even a nation as powerful as the United States can achieve by itself. Our national security strategy is idealistic about goals, and realistic about means. There was a time when two oceans seemed to provide protection from problems in other lands, leaving America to lead by example alone. That time has long since passed. America cannot know peace, security, and prosperity by retreating from the world. America must lead by deed as well as by example. This is how we plan to lead, and this is the legacy we will leave to those who follow.”

In sum, there were many who saw the strong assertions regarding freedom and democracy in President Bush’s second inaugural address merely as an after-the-fact justification for the war in Iraq (given the absence of suspected weapons of mass destruction). The 2006 *National Security Strategy* should remove any doubt that this

commitment to the promotion of freedom and democracy is real and will be pursued proactively (but not necessarily through force of arms) during President Bush's second term.

The Quadrennial Defense Review and the National Military Strategy of the U.S.

Largely overshadowed by the *National Security Strategy* were two other key documents released by the Defense Department during this quarter: the *Quadrennial Defense Review* (*QDR*, released in January) and the *National Military Strategy to Combat Weapons of Mass Destruction* (*NMS*), released shortly after the *NSS* and designed to show how the Defense Department plans to implement the *NSS*.

QDR. The *QDR* is not a strategy document, nor is it a programmatic or budget document. Instead, it reflects the thinking of the senior civilian and military leaders of the Defense Department regarding defense transformation and where that effort stands.

It does contain a section on future challenges, noting that “the choices of major and emerging powers, including India, Russia and China, will be key factors in determining the international security environment of the 21st century.” Of the three, it identifies India as an “emerging” great power and a “key strategic partner.” While Russia remains “a country in transition,” the *QDR* states that it is “unlikely to pose a military threat to the United States or its allies on the same scale or intensity as the Soviet Union during the Cold War.” It does, however, express concern about “the erosion of democracy in Russia.”

China, by contrast, “has the greatest potential to compete militarily with the United States and field disruptive military technologies that could over time offset traditional U.S. military advantages absent U.S. counter strategies.” That said, U.S. policy remains focused on “encouraging China to play a constructive, peaceful role in the Asia-Pacific region and to serve as a partner in addressing common security challenges, including terrorism, proliferation, narcotics, and piracy.” As noted, it identifies Washington's desire for China to “emerge as a responsible stakeholder and force for good in the world.”

In dealing with all major and emerging powers, a “balanced approach” is needed, “one that seeks cooperation but also creates prudent hedges against the possibility that cooperative approaches by themselves may fail to preclude future conflict.” The *NSS*, as noted, more directly tied the need for a hedging strategy directly to the PRC.

NMS. The *National Military Strategy to Combat WMD* is very much a planning document that uses an “ends, ways, means” approach to planning, executing, and resourcing. It emphasizes those combating WMD missions in which the military plays a prominent role. It does not address specific threats – there are no references to China or North Korea anywhere in the document; nor does the term “preemption” appear anywhere in this report.

The reality of democracy

While Washington pushes the theory of democratization, its practice has proven difficult for several of Asia's newer democracies. As fate would have it, one particular day in February proved eventful for both Manila and Bangkok. Meanwhile, the vibrant practice of democracy has added new challenges to Washington's up-and-down relations with Taipei.

Philippine press crackdown. In the Philippines, President Gloria Macapagal-Arroyo declared a state of emergency on Feb. 24, following rumors of a coup attempt. The decree was lifted one week later (March 3) after the arrests of several alleged plotters and other dissidents, but concerns about the stability of the Arroyo regime continue. Concerns are also growing regarding a government crackdown on the free-wheeling Philippine press – three journalists from *The Tribune*, a daily newspaper critical of Arroyo, have been charged with rebellion and the director of the National Police has warned the press that it must conform to certain (unspecified) standards, subject to interpretation on a case-by-case basis.

The government also appears to be singling out the Philippine Center for Investigative Journalism, a small group whose corruption exposes were instrumental in bringing down Arroyo's predecessor, Joseph Estrada. The government has threatened to charge several Center members with sedition, raising more concerns about the Arroyo government's commitment to a free and fair press.

Thaksin's sudden demise. Meanwhile, in Bangkok, Prime Minister Thaksin Shinawatra dissolved Parliament, also on Feb. 24, calling for snap elections on April 2, following repeated accusations of corruption and demonstrations of concern about steps allegedly taken by Thaksin to curb press freedoms and interfere with independent institutions. Massive street demonstrations followed, along with an opposition threat to boycott the elections, thus creating a constitutional crisis (due to minimum vote percentage requirements). While Thaksin's supporters won easily on April 2, given the opposition boycott, his Thai-Rak-Thai Party gained fewer votes than expected and 39 legislative seats remained open due to insufficient turnout, prompting Thaksin to surprisingly resign on April 4 (a day after claiming that he would never do so, but within a few hours of meeting with Thailand's revered King, who appears to have convinced him otherwise). The drama seems far from over, however, and is likely to experience additional twists and turns during the next quarter.

Taiwan's unruly democracy. Last quarter, President Bush was praising Taiwan's democracy, citing it (during his Asia policy address in Kyoto) as a model for Beijing to follow. However, domestic politics in Taiwan continue to raise concerns in Washington, especially considering the unpredictable nature of its president, Chen Shui-bian, who keeps promising "no surprises" but seems full of them nonetheless.

Chen's New Year's surprise was a statement arguing that it was time to seriously consider abolishing the National Unification Council (NUC) and Guidelines for National Unification, one of the "five no's" that he had promised to avoid doing in his two inaugural addresses. "I'd also like to see the nation join the United Nations with the name of Taiwan," he wished out loud, raising concerns about another "no" (no name change). Direct U.S. intervention persuaded Chen to tone down, but not to abandon, his quest; on Feb 27, he announced that the Council "will cease to function" and the Guidelines "will cease to apply." Chen, for his part, argued on both sides of the issue, alternatively saying that he had not broken his promise and that the precondition for his promise – "as long as China has no intention of using military force" – had "already disappeared."

Chen's critics, in the U.S., China, at home, and elsewhere, argued that he had still gone too far, but the real concession was buried deeper down in his February announcement, when he acknowledged that constitutional amendments must be approved by three-fourths of Legislative Yuan (LY) members (unlikely given opposition control of the LY) and then be confirmed by a national referendum and that "any sovereignty issue that strays from constitutional proceedings not only fails to contribute to maintaining the status quo, but also should be disregarded."

Nonetheless, Washington remains alert for future surprises and sent a clear signal of its discontent with Chen's ruling Democratic Progressive Party (DPP) when it warmly hosted opposition leader (and likely Kuomintang candidate in the 2008 presidential elections) Ma Ying-jeou in Washington in late March.

Six-Party Talks: Pyongyang refuses to talk (again)!

There was no progress to report on the six-party front this quarter, with North Korea continuing to demand a lifting of the financial restrictions imposed last September and October on North Korean companies and on banks and other institutions dealing with the DPRK as a precondition to returning to the negotiating table. A meeting between U.S. and DPRK officials in New York in early March to explain (but not negotiate) U.S. legal actions failed to break the deadlock and Washington made it clear it would not relent on this point. In fact, a Swiss company, Kohas AG, joined the club this quarter, having its assets frozen for its alleged role in assisting North Korean proliferation efforts.

Pyongyang also used the "hostile attitude" reflected in the *NSS* as yet another excuse for not returning to the stalled Six-Party Talks, quickly condemning the report as a "brigandish document declaring a war." The DPRK Permanent Mission issued a statement on March 23 accusing the *NSS* of designating the DPRK an "outpost of tyranny" and a "target of pre-emptive attack," which reveals the Bush administration's "undisguised attempt to realize its wild ambition to realize 'regime change' through a 'pre-emptive attack.'" For the record, a word scan of the entire 2006 *NSS* report finds no reference to "outpost," "target," or "regime change," even though, as previously noted, it did acknowledge that the people of the DPRK (and of six other nations) "know firsthand the meaning of tyranny" and, in discussing Pyongyang's counterfeiting and narcotic trafficking, does state that "the DPRK regime needs to change these practices."

At quarter's end it was noted that senior officials from all six nations were scheduled to take part in the nongovernmental, track-two Northeast Asia Cooperation Dialogue (NEACD) in Tokyo in early April, raising hopes that this informal gathering could help move the denuclearization process forward. Of course, if Pyongyang wanted to return to the talks, it would not need a track-two meeting to provide the vehicle for its announcement. At a similar track-two gathering involving representatives from all six nations in late March – organized by the Council for Security Cooperation in the Asia Pacific (CSCAP) Study Group on Countering the Proliferation of WMD – the DPRK showed no hint of future flexibility.

Also scheduled along the sidelines of the NEACD was the first U.S.-ROK-Japan trilateral senior officials meeting in over a year (since Feb 2005). The so-called (or previously called, since the term seems to have fallen out of official use) Trilateral Coordination and Oversight Group (TCOG) is an important initiative dating back to the Clinton era, aimed at ensuring consistency among Washington, Seoul, and Tokyo in dealing with Pyongyang. No explanations have been given for the hiatus, but tensions between Tokyo and Seoul over history and territorial issues and growing concerns in Seoul about doing anything with Japan that does not also involve China no doubt contributed to the lull in this three-way dialogue.

Trilateral cooperation down under

While trilateral cooperation among U.S. allies has been on hold in Northeast Asia, it appears to be flourishing down under. The past few years have seen increased cooperation among Australia, the U.S., and Japan, highlighted at the beginning of last year by their close cooperation in responding to the tsunami disaster in Indonesia. That cooperation culminated this quarter in the inaugural ministerial-level Australia-U.S.-Japan Trilateral Strategic Dialogue involving Secretary of State Condoleezza Rice and her Australian and Japanese counterparts, Foreign Ministers Alexander Downer and Aso Taro.

Both prior to and during the trilateral meeting, a great deal of press attention was paid to differing views among the allies on China, with many observers noting that Canberra's ties with Beijing seemed much closer than Washington's and certainly better than the current strained relations with Tokyo. Others, as Minister Downer acknowledged in his Q&A session, have accused Australia of being too close to China or "not robust enough" in criticizing Beijing. The Joint Statement, however, devoted less than half a sentence to China, merely stating "we welcomed China's constructive engagement in the region," while Downer went to great effort to note that it was "very natural" for good friends "to meet together periodically to talk about global [and] regional issues" and that this "shouldn't be interpreted as an act of conspiracy against China. Of course it is not."

The Joint Statement noted that the three countries, "as longstanding democracies and developed economies" have "a common cause in working to maintain security and stability," indicating that discussions covered a "wide range of current security challenges, both regional and global." In a line no doubt enthusiastically supported, if

not deliberately inserted, by Washington, the Joint Statement also noted that “supporting the emergence and consolidation of democracies and strengthening cooperative frameworks in the Asia-Pacific region was a particular focus of our attention.” The three sides promised to continue the dialogue regularly at the ministerial level, augmented by senior officials meetings throughout the year.

Indian-U.S. “strategic partnership”

Finally, we would be remiss if we failed to at least acknowledge a significant event just outside the East Asia neighborhood that could have significant regional and global ramifications; namely, President Bush’s historic visit to the world’s largest democracy, India, and his signing of a Joint Statement expressing satisfaction with the “great progress” both countries have made “in advancing our strategic partnership to meet the global challenges of the 21st century.”

Few would argue against the advisability of closer ties between Washington and New Delhi. But even many enthusiastic fans of closer India-U.S. relations have expressed concern about the implications of Washington’s decision to treat New Delhi as a de facto nuclear weapons state by pledging to seek changes in U.S. laws and international protocols to allow greater cooperation on the peaceful use of nuclear energy.

Proponents argue that it will bring the vast majority of India’s nuclear facilities under International Atomic Energy Agency (IAEA) safeguards and that India’s track record as a nonproliferator (and as a democracy) merits special consideration. Critics argue that the precedents such a move would set could undermine the nonproliferation regime and be used as an excuse by countries like Iran and North Korea to justify their own actions (which is already occurring).

The debate is too complicated to sum up in a few sentences. Much has been written, including several series of *PacNet Newsletters* [www.csis.org/pacfor/pacnet] which will shed more light on the subject. What is clear is that the Bush administration faces an uphill struggle both internationally and perhaps more so domestically, in delivering on the U.S. side of the bargain, even as many critics in India complain that New Delhi gave too much or received too little in the deal. The debate is sure to heat up in the coming quarter as the U.S. Congress begins deliberations on legislation to allow the implementation of the U.S.-Indian agreement on civilian nuclear cooperation.

Regional Chronology

January-March 2006

Jan. 1, 2006: Taiwan President Chen Shui-bian's New Year's address calls for new policy of "active management, effective opening" toward China.

Jan. 3, 2006: Chinese government releases Hong Kong journalist Jiang Weiping who was on a list of prisoners the U.S. had wanted released prior to President Bush's November 2005 visit.

Jan. 3, 2006: North Korea says it will not attend the Six-Party Talks as long as U.S. financial sanctions remain in place.

Jan. 4: 2006: PM Koizumi reiterates his position that Yasukuni Shrine visits are "a matter of heart."

Jan. 5, 2006: Aircraft carrier *USS Kitty Hawk* sailor admits killing a 56-year-old Japanese woman in Yokosuka.

Jan. 6, 2006: Japan refuses to join Germany, India, and Brazil in new bid for permanent UN Security Council seats. Instead, Japan will work the U.S. on an alternate plan.

Jan. 8, 2006: Last of the KEDO workers withdraw from the light-water reactor construction site in Kumho, North Korea.

Jan. 9, 2006: North Korea officially denies U.S. claims of DPRK counterfeiting.

Jan. 9, 2006: Australian FM Downer meets Secretary Rice in Washington D.C.

Jan. 9-11, 2006: Indian Foreign Secretary Shyam Saran visits Beijing for second round of strategic dialogue.

Jan. 9-27, 2006: Japanese Ground Self Defense Forces conduct joint exercises with U.S. Marines in California; exercises focus on defense of remote islands.

Jan. 10-18, 2006: Kim Jong-il makes "secret" visit to China, echoing Deng Xiaoping's 1992 "Southern tour."

Jan. 10-19, 2006: JDA Director General Nukaga meets with counterparts in Britain, Russia, and U.S.

Jan. 11-12, 2006: Asia Pacific Partnership for Clean Development and Climate meeting held in Sydney, including representatives from the U.S., Australia, China, India, Japan, and South Korea. It is considered an alternate to the Kyoto Protocols.

Jan. 11-17, 2006: Assistant Secretary of State Christopher Hill visits Japan, South Korea, China, Vietnam, Malaysia, and Cambodia.

Jan. 13, 2006: USTR Rob Portman announces South Korea will reopen ROK markets for specific beef products.

Jan. 17-22, 2005: ROK FM Ban travels to New York to meet UN Secretary General Kofi Annan (Jan. 18) and to Washington for the Strategic Consultation on Allied Partnership (SCAP) meeting (Jan. 19).

Jan. 18, 2006: Asst. Secretary Hill visits Beijing to meet Chinese Vice FMs Yang Jiechi and Wu Dawei and DPRK Six-Party Talks envoy Kim Gye-gwan.

Jan. 19, 2006: Secretary of State Rice hosts ROK FM Ban for first SCAP meeting to discuss global, regional, and bilateral issues. A joint statement is released on the “strategic flexibility” of U.S. forces in South Korea.

Jan. 20, 2006: Japan halts import of U.S. beef after shipment of beef that did not conform to standards.

Jan. 20-Feb. 15, 2006: Third year of direct cross-Strait Lunar New Year’s flights between Taiwan and China.

Jan 19-25, 2005: Deputy Secretary of State Zoellick visits U.S. Pacific Command (Jan. 19-20) for consultations, Japan (Jan. 22-23) for talks on alliance and trade issues, and China (Jan. 23-25) for Senior Dialogue.

Jan. 23, 2006: U.S. Treasury Dept. team briefs ROK officials on alleged currency counterfeiting by North Korea.

Jan. 23, 2006: *Mainichi Shimbun* public opinion poll shows public evenly divided on question of whether next prime minister should visit Yasukuni Shrine.

Jan. 25, 2006: Taiwan resumes import of U.S. beef.

Jan. 25, 2006: Google officially launches service in China with .cn address.

Jan. 27, 2006: WHO secretariat rejects proposal giving Taiwan observer status.

Jan. 29, 2006: In Lunar New Year’s address, President Chen considers abolishing the National Unification Council and Guidelines, reapplying for UN membership as Taiwan rather than Republic of China, and calling for a new constitution.

Feb. 2, 2006: U.S. and ROK announce plans to open FTA talks in May.

Feb. 3, 2006: U.S. Defense Department releases 2006 *Quadrennial Defense Review*.

Feb. 3, 2006: ASEAN Secretary General Ong Keng Yong indicates that ASEAN is in discussions with Washington on establishment of the first formal U.S.-ASEAN Summit, which could take place in late 2006 or early 2007.

Feb. 4-8, 2006: DPRK and Japan resume normalization talks in Beijing, using the three-track format to cover one topic – historical, security, and abduction issues – per day.

Feb. 5, 2006: Cambodian King Norodom Sihamoni pardons political opposition leaders Sam Rainsy and Cheam Channy.

Feb. 9-10, 2006: Fourth round of China-Japan Strategic Dialogue held in Japan to discuss bilateral, regional, and global issues.

Feb. 10, 2006: Lee Jong-seok takes office as new ROK minister of unification.

Feb. 10, 2006: China and the Philippines formalize extradition treaty, which will support law enforcement efforts on drug trafficking and other transnational crimes.

March 10, 2006: Former Deputy Secretary Armitage visits Taipei.

Feb. 10-11, 2006: Moscow hosts G-8 finance ministers meeting; China, Brazil, India, and South Africa also invited.

Feb. 12, 2006: National Security Council Acting Senior Director for Asian Affairs Dennis Wilder and Clifford Hart, director of the State Department's Taiwan Desk, reportedly travel secretly to Taiwan to try to dissuade Chen Shui-bian from abolishing the National Unification Council.

Feb. 14, 2006: Myanmar's junta extends house arrest of democracy leader Aung San Suu Kyi's Deputy Tin Oo for another 12 months under the anti-subversion law.

Feb. 14, 2006: ROK FM Ban declares candidacy for United Nations secretary general.

Feb. 14-15, 2006: ROK Assistant DM for Policy Ahn and U.S. Deputy Under Secretary of Defense Lawless meet in Guam for sixth round of Security Policy Initiative meeting. Transfer of wartime operational control of ROK armed forces to Korea, consolidated relocation of U.S. forces, and the U.S. handover of 10 major security missions to Korea are on the agenda.

Feb. 14-18, 2006: Myanmar PM Soe Win meets Premier Wen Jiabao in Beijing.

Feb. 16, 2006: Macau's Banco Delta Asia agrees to terminate all links with North Korean entities and has appointed two independent accounting firms to monitor clients.

Feb. 16-19, 2006: *The Korea Times* and *Hankook Ilbo* conduct a survey of 1,000 people aged 18-23; 48 percent of respondents say they would support North Korea if the U.S. attacked nuclear facilities in the DPRK.

Feb. 17, 2006: Mudslide on the Philippine island of Leyte kills more than 1,800 people.

Feb. 20-March 5, 2006: U.S. and Philippine forces hold *Exercise Balikatan 2006* in Cebu, Luzon, and Jolo, Sulu. Two U.S. warships are diverted from the exercise to provide humanitarian aid to those affected by the Leyte mudslide.

Feb. 21-23, 2006: ROK and DPRK Red Cross committees meet at Mt. Kumgang to exchange letters between families and to discuss repatriation of ROK prisoners of war remaining in the North and abducted South Koreans.

Feb. 22, 2006: U.S. embassy official reveals the U.S. has provided the ROK government physical evidence of DPRK counterfeiting activity.

Feb. 22, 2006: Unification Ministry official states that the ROK government has agreed to the DPRK request for 150,000 tons of fertilizer for use in spring.

Feb. 24, 2006: Philippine President Arroyo declares state of emergency in the Philippines on the rumors of an attempted coup.

Feb. 24, 2006: Thai PM Thaksin dissolves Parliament and calls for snap elections on April 2, 2006.

Feb. 24, 2006: Amb. Ray Burghardt is appointed AIT Washington chairman; Amb. Stephen M. Young is AIT director in Taipei.

Feb. 27, 2006: President Chen declares the National Unification Council “will cease to function” and unification guidelines “will cease to apply.”

Feb. 27-28, 2006: Eighty ROK and DPRK divided families meet via video conferencing.

Feb. 28-March 4, 2006: Asst. Secretary Hill travels to the Philippines, Indonesia, and South Korea.

March 1, 2006: Seoul sends stone stele *Bukgwandaechepbi* to Pyongyang.

March 1-5, 2006: President Bush travels to India, Pakistan, and Afghanistan.

March 2, 2005: President Bush and Indian PM Singh sign Civil Nuclear Cooperation Agreement.

March 2-3, 2006: North and South Korean generals meet in Panmunjom to discuss reopening the railway lines and roads between the two Koreas, and establishing a joint fishing area to prevent future skirmishes.

March 3, 2006: President Arroyo lifts state of emergency in the Philippines.

March 5-16, 2006: China holds its annual session of the National People's Congress.

March 6-7, 2006: Fourth round of consultations is held on East Sea oil explorations between China and Japan in Beijing.

March 7, 2006: U.S. State and Treasury officials meet DPRK representatives in New York to discuss issues related to sanctions levied on Banco Delta Asia.

March 8, 2006: The State Department releases its annual human rights report, detailing abuses in China and expressing concern about Russia's "backslides."

March 8, 2006: DPRK test-fires two short-range missiles toward the East Sea (Sea of Japan).

March 11-19, 2006: Seoul Mayor Lee Myung-bak travels to Washington, New York, and Los Angeles, meets Deputy Secretary Zoellick, Sen. Richard Lugar, among many others. ROK opinion polls put Mayor Lee as the leading presidential contender.

March 12, 2006: Voters in Iwakuni overwhelmingly (80 percent) reject a plan to bring more planes and troops to a nearby U.S. Marine base.

March 13, 2006: Chief Cabinet Secretary Abe announces that despite the rejection by Iwakuni residents, Tokyo plans to go ahead with the plan.

March 14, 2006: *KCNA* states that the DPRK has the right to launch a pre-emptive attack because the DPRK and U.S./ROK are technically still at war.

March 14, 2006: Chinese Premier Wen announces at a press conference that the RMB will not be revalued this year. He also cautions that unless the Yasukuni issue is resolved relations will be difficult with a post-Koizumi government.

March 14-19, 2006: Secretary Rice visits Indonesia and Australia, attends Trilateral Security Dialogue (March 18 in Canberra), and has side meetings with Australian FM Downer and Japanese FM Aso.

March 15, 2006: South Korea opens two official immigration checkpoints at the border shared with North Korea.

March 15, 2006: *Yoduck Story*, a musical written by a North Korean defector and set in a DPRK gulag, opens in Seoul.

March 16, 2006: White House releases its 2006 *National Security Strategy*.

March 16, 2006: Ambassador Vershbow says there are “plenty of opportunities” to discuss North Korea’s alleged illicit financial activities in the Six-Party Talks.

March 17, 2006: Ambassador Schieffer warns that Japan’s ban on U.S. beef imports could set off a trade war, also says that he expects Japan to reduce the disparity in defense spending between the two countries.

March 18, 2006: Trilateral Strategic Dialogue joint statement welcomes “China’s constructive engagement” in the region.

March 19, 2006: A Korea Institute for Defense Analyses survey shows 37.7 percent of Koreans see China as the biggest security threat in 10 years, followed by Japan (23.6 percent), North Korea (20.7 percent), and the U.S. (14.8 percent). 81.7 percent thought the U.S. was Korea’s best ally.

March 20, 2006: U.S. and Indonesia conclude a two-week Joint Combined Exercise for Training in the Sulawesi Sea to improve mutual cooperation and enhance mil-to-mil relations.

March 20-25, 2006: The 13th round of inter-Korea family reunions is held at Mt. Kumgang resort in North Korea. There was a flap on March 22 when two ROK reporters file a report describing a DPRK participant as an abductee.

March 20-26, 2006: Sen. Schumer (D-NY), Sen. Graham (R-SC) and Sen. Coburn (R-OK) travel to China to discuss currency valuation, intellectual property rights protection, and barriers to foreign investment.

March 21-22, 2006: President Putin meets President Hu in China for opening ceremony of the “Year of Russia.”

March 22-23, 2006: Taipei Mayor Ma Ying-jeou visits Washington.

March 22-23, 2006: U.S. human rights group Freedom House holds third international Conference on North Korean Human Rights in Brussels. South Korea attends as an observer. Some 90 ROK leftists protest that the U.S. is using human-rights as a ploy to block peace on the Peninsula.

March 23, 2006: Japan announces it is freezing loans to China, but may restart loans in April if relations improve.

March 23, 2006: Defense Secretary Donald Rumsfeld states that ROK and U.S. generally agree on a transfer of wartime command of ROK forces to the ROK and are discussing a timetable.

March 23-25, 2006: Malaysian FM Syed Hamid Albar visits Myanmar on a fact-finding trip on the progress of Myanmar's democratization progress; request to visit with Aung San Suu Kyi refused.

March 24, 2006: Indian PM Singh offers "treaty of peace, security, and friendship" to Pakistan.

March 24, 2006: Indonesia recalls ambassador to Australia to protest the granting of asylum to 42 people fleeing alleged abuse by Indonesian military in the province of Papua.

March 24, 2006: The Pentagon issues a report stating that Russian diplomats based in Baghdad may have passed along information about U.S. war plans to the Iraqi government of Saddam Hussein in 2003.

March 25-31, 2006: U.S. and South Korean forces take part in *RSOI (Reception, Staging, Onward Movement, and Integration)* and *Foal Eagle* exercises in South Korea.

March 26-31, 2006: U.S. Commerce Secretary Gutierrez visits China and Japan to discuss market access, intellectual property rights, and U.S. beef.

March 27, 2006: Japan integrates Self-Defense Forces' land, sea, and air branches to deal more effectively with terrorism, disasters, and joint action with U.S. military.

March 27, 2006: PM Koizumi defends visits to Yasukuni and says that he will use "appropriate judgment" about visiting the shrine again.

March 27, 2006: DPRK issues arrest warrants for four Japan-based activists "luring and abducting its citizens ... in broad daylight," apparently in reference to assistance given to North Koreans fleeing the DPRK.

March 28, 2006: U.S. and Japan postpone U.S. force realignment working-level talks scheduled for March 30-31 until April.

March 28, 2006: Sens. Graham (R-SC) and Schumer (D-NY) delay vote on a bill to impose punitive 27.5 percent tariff on Chinese goods for restricting its exchange rate.

March 29, 2006: UN Security Council passes unanimous resolution for Iran to suspend enrichment and reprocessing activities and submit to IAEA inspections within 30 days.

March 30, 2006: Treasury Dept. adds Swiss firm Kohas AG and Jakob Steiger to the list of proliferation supporters, which prohibits trading with any U.S. entity and freezes all assets of the designee in the U.S. Kohas AG acted as a technology broker for the DPRK.

March 30-April 1, 2006: Heads of seven Japan-China friendship organizations, including former PM Hashimoto, visit Beijing to exchange views on how to increase nongovernmental exchanges and promote bilateral growth. President Hu tells them he will agree to summit if Japan PM refrains from Yasukuni visits.

March 31, 2006: Taipei rejects applications for zoos to import gift pandas.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



U.S.-Japan Relations: Unfinished Business

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The U.S.-Japan alliance returned to earth this quarter. After a dizzying five-year run during which Japanese actions consistently exceeded U.S. expectations, old habits reasserted themselves in the first quarter of 2006. Unfinished business – base relocations and the reimposition of the Japanese ban on imports of U.S. beef – bedeviled both governments, while coordination on a range of other global issues proved equally frustrating. This is especially troubling as Japan becomes increasingly focused on the transition to the post-Koizumi era, which begins in September when the prime minister steps down. There is a real danger that alliance issues will fester as the Japanese gaze narrows to domestic concerns.

Interim, interrupted

It was hoped that the “interim” deal on the redeployment of U.S. forces in Japan agreed by the two governments at their October Security Consultative Committee meeting would provide a basis for a 21st century security alliance. (For details see, “The Alliance Transformed” in the last issue of *Comparative Connections*.) Developments have proven that no such deals should ever be considered done. The agreement was forged under the pressure of President George W. Bush’s then upcoming visit to Japan; there had to be a deal before he arrived. I argued last quarter that was dangerously reminiscent of the U.S.-Japan alliance of old; sadly, I got it right.

Since then, it has become apparent that, for the U.S., the deal was “interim” in name only. U.S. negotiators expected the final agreement, to be concluded by March 31, to look just like the October one. Japanese negotiators took interim to mean just that and have been trying to tweak the agreement. As early as Jan. 13, Foreign Minister Aso Taro was warning publicly that the deadline might not be met and indeed the gap between the two governments proved unbridgeable.

Discord was evident from the outset, as one Japanese community after another announced its reluctance to host U.S. forces relocated by the agreement. As always, opposition was fiercest in Okinawa, where plans to quickly move the U.S. Marine Air Station in Futenma to Nago got bogged down. In late January, Defense Secretary Donald Rumsfeld told visiting Japanese legislators from the ruling Liberal Democratic Party

(LDP), that the U.S. has “ been forced to wait endlessly. We will not wait ... We will have to implement the bilateral agreement no matter what.”

By March there were daily rumors that the Japanese government would try to amend the Nago project, prompting officials from Prime Minister Koizumi Junichiro on down to deny there would be any change. The prime minister minced no words. “We are going to try to gain consent for the existing government plan. ... I have no plans” to revise it. Japan Defense Agency Director General Nukaga Fukushima spoke from the same script, dismissing as “groundless” reports that Tokyo was prepared to modify the plans to build a new air strip. “Our stance remains absolutely unwavering.”

Okinawa is not the only bone of contention, however. The decision to redeploy from Atsugi to Iwakuni the fixed-wing aircraft from the U.S. aircraft carrier *USS Kitty Hawk* (nearly 60 in total) set off strong protests. On Feb. 7, Iwakuni Mayor Ihara Katsusuke announced that the city would hold a referendum on the move. In addition to irritating the central government in Tokyo, that decision irritated the Yamaguchi Prefecture governor as well as communities that have since merged with Iwakuni and which prefer negotiations with Tokyo to unilateral decisions. In the March 12 referendum, over 58 percent of voters turned out and made plain their opposition: 80 percent voted against the move. Prime Minister Koizumi promptly rejected the result, noting it had no legal standing. Meetings between Mayor Ihara and Tokyo officials continue to be a dialogue of the deaf.

Writing the check

The plan to relocate U.S. forces does not merely shuffle them around the Japanese islands. An integral part of the proposal shifts a substantial number of U.S. Marines from Okinawa to Guam. (That is “integral” in two senses: both as “key” and as “integrated” – the movement of troops and facilities is part of a single package and components cannot be selected *à la carte*. Some moves only make sense when combined with others. Japan’s seeming failure to appreciate this fact – and calling for the closure of some facilities without figuring out where they would go – has contributed to the differences between Washington and Tokyo.)

The U.S. is asking Japan to pay part of the cost of moving 8,000 Marines to Guam. The bill includes physically transporting troops and facilities as well as the construction of new facilities and infrastructure in Guam itself. The total cost is estimated at \$10 billion, and the U.S. went in high, asking Tokyo to shoulder about 75 percent of that amount. Deputy Under Secretary of Defense Richard Lawless was blunt: “The relocation is happening at Japan’s request, so it is only natural to ask Japan to foot 75 percent of the bill.”

Japanese responded with disbelief, and countered with an offer of \$3 billion in direct payments and additional funds (as much as \$1.5 billion) in loans. Bilateral senior working-level talks at the end of March failed to yield a mutually acceptable number, although a \$5 billion compromise looks obvious. The *Asahi* reported that five Cabinet

ministers, including Aso and Defense Agency head Nukaga, held talks March 28 and confirmed that Japan would only be able to shoulder up to 50 percent. Chief Cabinet Secretary Abe Shinzo denied that any official target has been set. The U.S. reportedly sweetened the deal by offering to keep some Japanese troops and aircraft in Guam on a “permanent training basis,” but that proposal raises constitutional questions. Minister Aso told a Diet committee that while Japan is eager to pay its share of the relocation costs, paying for military facilities overseas is plainly difficult because of constitutional restrictions.

U.S. Ambassador to Japan Thomas Schieffer inserted himself into the process in a high-profile speech in Tokyo in mid-March, calling on Japan to shoulder more of the financial burden of the alliance as a way of becoming a more equal partner with the U.S. He specifically criticized Japan’s commitment to hold defense spending to 1 percent of GDP. “The U.S. spends close to 4 percent of its GDP on defense, or 10 times what Japan spends on defense. Japan keeps its defense spending in fact at about 1 percent of GDP, something that the American people find hard to understand.” He added, “The United States hopes Japan will recognize this disparity and move to reduce it.”

The awkwardness of discussing any such expenditures in Japan was greatly magnified by the arrest of three officials from the Defense Facilities Administration Agency (DFAA) in late January on charges of bid-rigging. The DFAA mediates between the central and local governments in Japan and the arrests effectively crippled a key player in the base relocation process. It also shelved plans to upgrade the Defense Agency to a full-fledged ministry and focused attention on how money is spent at exactly the wrong time.

On the bright side...

While the headlines have been unsettling, there has been some good news for the military side of the relationship. Leading politicians in Aomori agreed to host a mobile *X-band* radar at the Air Self-Defense Force’s Shariki base in the city of Tsugaru. The radar would be part of the missile defense shield that the two countries plan to build. In March, a Japanese-developed nosecone for the U.S.-designed missile interceptor was successfully tested.

Most important is the handling of a vicious crime by a U.S. serviceman. A U.S. sailor on the *Kitty Hawk* admitted to killing Sato Yoshie, a 56-year old Yokosuka woman. In the past such a crime would have triggered widespread demonstrations and calls to revise the Status of Forces Agreement that controls the handling of such cases. Instead, the two governments worked closely together to detain and question the suspect, who was arrested within days of his confession. Ranking U.S. officials, including Lt. Gen. Bruce Wright, head of U.S. Forces Japan, made condolence calls, and over 100 U.S. military personnel attended Sato’s funeral. This smooth and sensitive response is a marked contrast to past incidents and demonstrates how the two governments have learned to handle such crises and prevent them from getting out of control.

Beef, again

If the stall on the bases plan was dispiriting, then so too was the revival of the bilateral beef spat. Last December, Japan lifted a two-year ban on imports of U.S. beef, imposed when a U.S. cow was discovered to have bovine spongiform encephalopathy (BSE or “mad cow” disease). The ban suspended some \$3 billion in trade, which quickly got the attention of President Bush (from a big cattle producing state), Vice President Cheney (ditto), and other top officials and politicians. The Japanese decision to lift the ban was carefully choreographed yet it still managed to offend just about everyone. It wasn’t fast enough for many Americans, while it was too fast for Japanese, who saw the prime minister’s fingerprints on a move that they thought endangered Japanese beef consumers for the sake of appeasing his friend in the White House.

As if to confirm those fears, on Jan. 20 Japanese inspectors found a bovine body part thought to be susceptible to BSE in a shipment from the U.S. and promptly reimposed the ban. U.S. officials were properly mortified: Deputy Secretary of State Robert Zoellick, visiting Tokyo at the time for other reasons, told his hosts the mistake was unacceptable. Agriculture Secretary Mike Johanns dispatched inspectors to Japan and additional inspectors to facilities in the U.S. Prime Minister Koizumi told the U.S. to find out what happened and why and to take steps to ensure that it did not happen again. The two governments held director-level consultations to ascertain what happened and how to prevent it from reoccurring.

As in the bases dispute, the Tokyo government was discredited as well. During Diet testimony, Minister for Agriculture, Forestry and Fisheries Nakagawa Shoichi confessed that Japan had not sent inspectors to check all U.S. beef processors before resuming imports as promised. He apologized but did not resign. Plainly, Japanese officials had fallen down on the job and were under pressure to restore their damaged credibility with the public. Negotiations with the U.S. have been tough and U.S. calls to resume imports have fallen on deaf ears.

By mid-March, Ambassador Schieffer was warning that a failure to settle the row could get serious. Complaining that the U.S. is at a loss on what to do, he admitted that “If it is not resolved in the near future, I am greatly concerned that the U.S. Congress might lose its patience, leading to a trade war.”

The press continued when Secretary of State Condoleezza Rice met Foreign Minister Aso in Australia. She complained that Japan was overreacting and urged Tokyo to lift the ban. Aso countered that the discovery of questionable beef products cast doubt on the U.S. system of assuring beef quality and that the Japanese public had to be confident that its food was safe. (Ironically, at the very time the two sides were debating the safety of U.S. beef, an expert panel of the Health, Labor and Welfare Ministry concluded that Japan had its first case of BSE in a beef cow. The previous 22 were all dairy cows.)

By the end of the quarter, beef experts from both governments were saying that they had a shared perception of the problem and were working to prevent its reoccurrence.

Iran intrudes on the bilateral agenda

Notable this quarter was the intrusion of third parties onto the bilateral relationship. Iran's refusal to end speculation about its nuclear intentions put Tehran on the U.S.-Japan agenda. Despite Japan's strong support for the global nonproliferation regime, Tokyo has continued to engage Iran, primarily to secure access to its petroleum resources, but also to maintain a channel of communication to the government in Tehran and hopefully maintain some influence with it. Both pillars of that strategy came under attack this quarter as international frustration with Iran's behavior mounted and the UN Security Council took up the issue.

After years of tough negotiations, in 2004, a Japanese company obtained the rights to develop the Azadegan oil field in southwestern Iran. This \$2 billion deal was intended to guarantee a supply of oil for an economy that imports 90 percent of its oil from the Middle East; Iran is the number three oil exporter to Japan. The Ministry of Economy, Trade and Industry helped broker the deal and retains an interest in it. As late as February, METI Minister Nikai Toshihiro was enthusiastic about the project and planned to continue its development.

But as concerns about Tehran's nuclear program mounted, Japan's readiness to provide the regime with hard currency came under fire. Throughout the quarter, there were media reports that Japan was under increasing pressure from the U.S. to end the investment; the names of those applying the pressure included Deputy Secretary of State Zoellick and Under Secretary of State for Arms Control and International Security Robert Joseph. In an interview with the *Nihon Keizai Shimbun*, U.S. UN Ambassador John Bolton came out and asked Japan "not to be pressed into a dilemma on the nuclear proliferation issue by Iran, which is using oil resources as its shield." In an earlier interview, Bolton made the choices clear: "We can understand Japan's energy problem, but in view of Japan's longstanding [commitment] to international nuclear nonproliferation, it is far more important for Japan to work together to prevent Iran from possessing nuclear weapons."

Japan has tried to communicate its concern – and that of the international community – to Tehran, but that effort, like all others, has fallen on deaf ears. If there is no solution to this problem – as is likely – then Tokyo will be forced to make uncomfortable choices between energy security, nonproliferation policy, and the U.S. desire to isolate Iran.

Indian irritations

Iran isn't the only country whose nuclear policies caused trouble for U.S.-Japan relations. President George W. Bush's decision to strike a deal with India that will provide nuclear technology to India also caused friction. This time, however, the positions are reversed. Tokyo is less inclined to support an agreement that sacrifices nuclear principle for pragmatism. Both the right and left flanks of the Japanese media agreed that it dealt a blow to the Nuclear Non-Proliferation Treaty (NPT) framework. Foreign Minister Aso told a House of Councilors committee that he was troubled by the deal. "I am most concerned about the (NPT regime) being turned into an empty shell." At the trilateral

U.S.-Japan-Australia meeting in March (discussed in more detail below), Aso had less reservations. In the statement released after the session, the three foreign ministers welcomed India's decision to place its civilian nuclear facilities and programs under International Atomic Energy Agency safeguards, calling it "a positive step toward expansion of the reach of international non-proliferation regime."

Security Council reform

The decision to put the Iran situation on the UN Security Council (UNSC) agenda linked that issue with another longstanding Japanese complaint – its desire for a permanent seat on the Security Council. The initial bid to win a seat, made in conjunction with Brazil, Germany, and India, was derailed last year when it encountered stiff opposition from just about everyone – the U.S. included.

The U.S. backs Japan's bid – and a statement to that effect is boilerplate on any declaration issued when officials from the two countries meet – but only Japan's and it is not prepared to put the UNSC at the top of its list of UN reforms. As Ambassador Bolton explained at the beginning of the quarter, "ideal reform would be to expand the [UNSC] membership to 16 with only Japan joining." Bolton noted that "Discussions are continuing to find a way to achieve what Japan desires and what we desire at the same time. For now, we cannot find any idea that meets not only Japan's wishes but also satisfies us." That lukewarm support has irritated some in Tokyo: at the annual U.S.-Japan Security Seminar that Pacific Forum CSIS hosts, some Japanese participants called Japan's bid "an alliance issue."

The U.S. stand reportedly pushed Japan to abandon the G-4 strategy and to work more closely with Washington on the issue. The problem is that UNSC reform ranks low among U.S. priorities, and Japanese frustrations are mounting. By the end of the quarter, it was reported that Tokyo had given up its reform proposals, and was pressing instead to get other countries to contribute more to the UN, to lighten Japan's load. That is certain to be unpopular and make Japan's bid even harder.

Six parties, not talking

Even though the Six-Party Talks on the North Korean nuclear issue did not resume, U.S. and Japanese officials consulted throughout the quarter, and repeatedly called on Pyongyang to return to the negotiating table. After Tokyo and Pyongyang resumed their bilateral discussions in December, Japan Senior Vice Foreign Minister Shiozaki Yasuhisa assured senior U.S. officials at the start of the quarter that Japan would not normalize ties with North Korea unless the abduction, missile testing, nuclear, and other issues were comprehensively resolved. After publication of the Bush administration's new *National Security Strategy*, which identified North Korea as one of seven "despotic" governments in the world, Chief Cabinet Secretary Abe noted that Tokyo and Washington would "continue to try to resolve problems (with North Korea) basically with the posture of dialogue and pressure." Abe told reporters he had conferred with U.S. National Security

Adviser Stephen Hadley on the phone prior to release of the document and the two governments agreed on how to handle Pyongyang.

That agreement was evident in their response to Pyongyang's complaints about the imposition of financial sanctions against North Korean companies and banks for money laundering and engaging in the proliferation of weapons of mass destruction. Assistant Secretary of State for East Asian and Pacific Affairs Christopher Hill briefed Japanese officials in January on U.S. actions and the basis for them. At a subsequent press conference, Foreign Ministry Spokesman Taniguchi Tomohiko dismissed the North Korean complaints saying "it is not really allowed for North Korea to continue to use this sort of excuse only to delay the reopening of the Six-Party Talks." Taniguchi went on to cite unconfirmed rumors that the Japanese ¥10,000 note is among those being counterfeited. He concluded by noting that the Ministry of Finance was working with that the U.S. to make sure North Korean counterfeits were not circulating in Japan and that the ministry was closely monitoring financial transactions between Japan and North Korea.

Making history down under

In mid-March, Secretary Rice traveled to Sydney, Australia to meet with Minister Aso and their Australian Counterpart Alexander Downer for historic minister-level trilateral talks. The three countries had held subCabinet-level discussions and decided last May to upgrade them to the secretary-minister level. The issues that the three discussed and the clear convergence of interests made plain the wisdom of the move.

In their joint statement, the three urged North Korea to "immediately and unconditionally" return to the Six-Party Talks. They expressed "grave concern" about Iran's nuclear program, and called on Tehran to promptly suspend its uranium enrichment activities. They also agreed on the need for concerted action by the UNSC to achieve that result. The three welcomed the U.S.-India nuclear agreement, under which Delhi will place its civilian nuclear facilities and programs under IAEA safeguards, calling it "a positive step toward expansion of the reach of international non-proliferation regime." The three supported Japan's bid for a permanent seat on the UNSC, as well as UN reform more generally.

Trilateral consultations make a lot of sense. The three countries have a wide range of overlapping interests, from engaging China and encouraging it to become a "responsible stakeholder" to closely coordinating in Iraq, where each has troops on the ground. Australia is providing protection for the 600 Ground Self-Defense Forces personnel that have been deployed in Samawah in southern Iraq since early 2004. Close consultation is especially important as the three governments contemplate redeployments and eventual withdrawal of their forces. Consistent with their shared concerns, the three ministers agreed to enhance the exchange of information and strategic assessments on major international and regional security issues and for regular trilateral consultations between their ambassadors in charge of counterterrorism.

While in Sydney, Dr. Rice and Minister Aso held a bilateral meeting of their own. That agenda mirrored that of the trilateral, and included many of the topics outlined here.

Stuck in the middle

There is another “trilateral” of vital importance to Asia’s future: the Japan-China-U.S. relationship. Unfortunately, the tensions between Tokyo and Beijing have made any cooperation and policy coordination among the three a virtual impossibility. (For a depressing recitation of the problems, see Jim Przystup’s chapters on Japan-China relations in *Comparative Connections*.) Japan’s treatment of “history,” particularly in the form of the prime minister’s visits to Yasukuni Shrine, is the biggest bone of contention. The U.S. has stayed out of those disputes, except as its alliance obligations dictate – for example, in responding (rhetorically, at least) to Chinese violations of Japanese territorial waters around disputed territories in the East China Sea.

There are many reasons for the U.S. failure to intervene, but the most important is President Bush’s relationship with Koizumi, which has insulated the prime minister from all official U.S. criticism. The president prizes loyalty and Koizumi’s support for the president since Sept. 11 has made him a very special friend. Yet, the tensions between Tokyo and Beijing have an undeniable impact on U.S. interests: there are suspicions throughout the region that the U.S. has encouraged or “enabled” Japan to get tough with China, and that the rift between Japan and China is somehow in the U.S. interest. Nothing could be further from the truth: the marginalization or isolation of Japan in Asia minimizes the influence of a key U.S. ally.

Thus, Deputy Secretary Zoellick expressed concern about deteriorating relations between Tokyo and Beijing to three top members of the ruling Liberal Democratic Party in late January. “We want Japan to become an even more positive global partner of the United States, and we also want Japan to prevent the history issue from becoming a minus,” Zoellick was quoted as saying. Expect less U.S. reticence in dealing with this issue in the future – especially when Koizumi relinquishes his post. His successor will not enjoy his immunity from criticism.

Domestic concerns

The search for a successor will oblige Japanese politics to turn inward in the months to come. That domestic focus could not be worse timed. The two governments must deal with the many challenges outlined above and Tokyo cannot afford to be distracted or less committed to their resolution. Resolving these issues will require sustained input from and the use of political capital by the highest levels of government. Failure could reverse many of the striking gains of the last four years, undo significant parts of the Koizumi legacy, and plunge the U.S.-Japan alliance into crisis.

Fortunately, the prime minister is scheduled to make a last trip to the U.S. this summer before relinquishing power. That could provide the prod for last-minute deal-making. That would look suspiciously like the U.S.-Japan alliance of old, and isn’t consistent with

the new and improved relationship both governments have touted in recent years. It would stem the immediate pressures on the alliance, however. And whoever is seen as dealing with these issues could find themselves advantaged in the contest to succeed Mr. Koizumi. That too is a depressingly familiar rationale for action, raising questions about just how durable this “new alliance” really is.

Chronology of U.S.-Japan Relations January-March 2006*

Jan. 3, 2006: GSDF advance team departs for a U.S. Marine Corps base in California for joint amphibious landing drills. More than 100 Japanese soldiers will participate.

Jan. 4, 2006: Prime Minister Koizumi Junichiro states in his first press conference of the New Year that Japan should give top priority to its relationship with the U.S., whose troops it relies on to help maintain national security.

Jan. 5, 2006: U.S. serviceman from the aircraft carrier *USS Kitty Hawk* admits killing Sato Yoshie, a 56-year-old Japanese woman in Yokosuka, Kanagawa Prefecture.

Jan. 6, 2006: Japanese police question U.S. sailor held in confinement at the U.S. naval base over the Yokosuka murder. Rear Adm. James Kelly, commander U.S. Naval Forces Japan, apologizes for the death of Sato Yoshie.

Jan. 6, 2006: Chief Cabinet Secretary Abe Shinzo says Japan will not join Brazil, Germany, and India in resubmitting a resolution to expand the UN Security Council because it is pursuing cooperation with the U.S.

Jan. 5-6, 2006: Japanese Senior Vice FM Shiozaki Yasuhisa meets Assistant Secretary of State Christopher Hill, Undersecretary of State Nicholas Burns, State Department Counselor Philip Zelikow, and White House Deputy National Security Adviser Jack Crouch to brief them on Japan’s talks with North Korea last month.

Jan. 9, 2006: Japanese police arrest and send U.S. sailor William Reese to prosecutors on suspicion of robbing and killing a Japanese woman in Yokosuka.

Jan. 9, 2006: Japan’s SDF and the U.S. Marine Corps conduct exercise simulating the recapture of an island. Specialists think the exercise is directed at the Senkaku Islands.

Jan. 11, 2006: Sasae Kenichiro, director general of MOFA’s Asian and Oceanian Affairs Bureau, meets Assistant Secretary Hill in Tokyo; they agree to continue to work for an early resumption of the Six-Party Talks.

* Compiled by Claire Bai, 2005 Vasey Fellow, Pacific Forum CSIS.

Jan. 11, 2006: Finance Minister Tanigaki Sadakazu visits U.S. and meets Treasury Secretary John Snow, Reserve Board Chairman Alan Greenspan, Vice President Dick Cheney, and Defense Secretary Donald Rumsfeld. They discuss their countries' economies and global economic issues such as high oil prices and China's economy and currency reforms.

Jan. 11, 2006: Wake is held in Yokosuka for Sato Yoshie. About 100 U.S. military personnel attend, including *USS Kitty Hawk* Commander McNamee, the suspect's commanding officer.

Jan. 11, 2006: Lt. Gen. Wright, commander of U.S. Forces Japan, calls at JDA, meets Administrative Deputy DG Takemasa Moriya and offers apologies for Sato's murder.

Jan. 13, 2006: FM Aso indicates in a news conference it is uncertain whether the U.S. and Japan can agree on a final plan on the realignment of the U.S. military presence in Japan by March.

Jan. 17, 2006: Nukaga Fukushima, JDA head, meets Secretary Rumsfeld for talks.

Jan. 17, 2006: A U.S. *F-15* jet fighter crashes near Ikejima Island in eastern Okinawa; the pilot ejects safely. Nishi Masanori, chief of the Naha Defense Facilities Administration Bureau, requests that the U.S. suspend training of *F-15s* until they find the cause of the crash. He calls for security checks on all planes at the Kadena base.

Jan. 18, 2006: After meeting Secretary Rumsfeld in Washington, JDA head Nukaga says he urged compromises to permit the two countries to conclude their agreement on relocated U.S. forces in Japan.

Jan. 19-25, 2006: Deputy Secretary of State Robert Zoellick travels to Japan and China to discuss security and trade issues, including Iran's disputed nuclear program.

Jan. 20, 2006: Japan halts U.S. beef imports after discovering a bovine body part thought susceptible to mad cow disease in a U.S. beef shipment. Agriculture Secretary Mike Johanns sends inspectors to Japan and extra inspectors to plants that sell meat to Japan.

Jan. 20, 2006: Japan appoints Saiki Akitaka, chief negotiator for Japan-North Korea governmental talks, as envoy extraordinary and minister plenipotentiary to the U.S.

Jan. 22, 2006: Shimabukuro Yoshikazu, thought more flexible than other candidates on a plan to relocate a U.S. military airport, wins mayoral election in Nago, Okinawa.

Jan. 22, 2006: Deputy Secretary Zoellick tells Japanese Agriculture Minister Nakagawa Shoichi that beef shipped to Japan that resulted in a new ban on U.S. imports was an unacceptable mistake.

Jan. 23, 2006: PM Koizumi tells Secretary Zoellick that Washington should act promptly to find out why spinal columns banned under a bilateral agreement were contained in a beef shipment to Japan and take measures to prevent any recurrence.

Jan. 23, 2006: FM Aso and Secretary Zoellick sign agreement in which Tokyo pledges \$1.2 billion annually to aid U.S. plans to change military redeployments in Japan. The deal includes funding support for two years instead of the normal five.

Jan. 23, 2006: Secretary Zoellick expresses concerns to LDP leaders on deteriorating relations between Tokyo and Beijing. “We want Japan to become an even more positive global partner of the United States, and we also want Japan to prevent the history issue from becoming a minus.”

Jan. 23, 2006: Ministry of Agriculture, Forestry and Fisheries confirms Japan’s 23rd case of mad cow disease. The cow, a 64-month-old Holstein in Hokkaido Prefecture, is already dead.

Jan. 24-26, 2006: Japan and the U.S. hold senior working-level talks in Honolulu to discuss U.S. military realignment in Japan.

Jan. 24, 2006: Japan and the U.S. hold a bureau director-level meeting in Tokyo between Japanese foreign, farm, and health ministry officials and a delegation from the U.S. agriculture department. They agree to continue efforts to prevent more bad beef being shipped to Japan.

Jan. 25, 2006: Amb. Saiki meets Daniel Glaser, deputy assistant secretary for terrorist financing and financial crimes at the Treasury Department. They agree to continue close cooperation in addressing North Korea’s alleged counterfeiting and other illicit activities.

Jan. 27, 2006: Prosecutors indict William Reese for the murder-robbery of Sato Yoshie.

Jan. 30, 2006: Agriculture, Forestry and Fisheries Minister Nakagawa apologizes to House of Representatives Budget Committee for the government’s failure to send officials to check U.S. beef processors prior to resuming U.S. beef imports.

Jan. 30, 2006: Japan’s Financial Services Agency and the U.S. Securities and Exchange Commission agree on a framework for regular high-level dialogue. The two agencies exchange views on such issues as accounting and audit standards and corporate governance.

Jan. 31, 2006: Prosecutors arrest three officials of the Defense Facilities Administration Agency (DFAA) on suspicion of bid-rigging projects ordered by the agency. The DFAA acted as intermediary between the central and local governments for the U.S. force realignment plan.

Jan. 31, 2006: Secretary Rumsfeld holds talks in Washington with Liberal Democratic Party (LDP) Acting Secretary General Aisawa Ichiro, former JDA Director General Ishiba Shigeru, and others. Rumsfeld calls for the swift relocation of U.S. Marine Corps Futenma Air Station to the coast of Camp Schwab in Nago.

Jan. 31, 2006: *Asahi Shimbun* reports that U.S. Ambassador to the UN John Bolton said “ideal reform [of the UNSC] would be to expand the membership to 16 with only Japan joining.” In his view, the U.S. would not support Japan’s proposed expansion of membership to 21.

Feb. 7, 2006: Iwakuni Mayor Ihara Katsusuke announces a local referendum on the redeployment of U.S. carrier-borne aircraft to Iwakuni.

Feb. 8, 2006: *Asahi Shimbun* reports that the U.S. will ask Japan to contribute \$6 billion to relocate as many as 8,000 Marines to Guam from their current facility in Japan. The relocation is scheduled for completion by 2012, but there are currently no facilities in Guam to receive the personnel and only \$100 million budgeted for the task.

Feb. 9, 2006: *USS Blue Ridge* calls at Muroran from its home port at Yokosuka, despite a request from local authorities to postpone the visit. Welcoming events were held back for the visit, and city officials declined invitations to an on-board reception.

Feb. 10, 2006: JDA DG Nukaga says in a Japan-U.S. defense meeting that the two countries need to accelerate talks and resolve various issues on the realignment of U.S. forces in Japan to meet the March goal of finalizing a bilateral agreement. U.S. Deputy Undersecretary of Defense Lawless expresses concerns about any delay.

Feb. 13, 2006: PM Koizumi says he will shelve plans to give Japan its first full-fledged Defense Ministry since World War II after a military bid-rigging scandal.

Feb. 13, 2006: U.S. Ambassador Thomas Schieffer says the U.S. is ready to consider alternative ideas on the realignment of its forces in Japan, the first time that a senior U.S. government official indicates U.S. readiness to consider changes to the bilateral accord.

Feb. 20-March 3, 2006: U.S. and Japanese personnel begin joint drills in Takashima, Shiga Prefecture.

Feb. 21, 2006: Secretary of Agriculture Johanns announces that Japan ended a decades-old ban on imports of fresh potatoes from the U.S. U.S. potato shipments will be allowed to enter the Japanese market on a conditional basis between February and June, and the potatoes will be used for potato chips. Japan imposed import restrictions on potato imports from the U.S. in 1950 because of concerns about potato wart disease and cyst nematode, a parasitic insect.

Feb. 27, 2006: U.S. asks Japan to consider transferring senior ground troop officers to Basra in southern Iraq to join a reconstruction project after Japanese troops withdraw from Samawah.

March 7-11, 2006: Japan and the U.S. hold senior working-level talks in Honolulu to discuss plans for U.S. military realignment in Japan.

March 9, 2006: Japan and the U.S. successfully conduct a joint missile interceptor test. The primary purpose of the test is to check a Japanese developed nosecone for the U.S. designed *SM-3* missile.

March 10, 2006: Agriculture Minister Nakagawa visits the U.S. and meets Secretary of Agriculture Johanns. Johanns asks Japan to resume imports of beef at an early date.

March 12, 2006: Voters in Iwakuni overwhelmingly reject a plan to bring more planes and troops to a nearby U.S. Marine base.

March 13, 2006: *Japan Times* reports that the U.S. has agreed to return three facilities in Okinawa to Japan: the Makiminato Service Area in Urasoe, Naha military port, and Camp Kuwae (Camp Lester) in Chatan. The U.S. has also agreed to return part of Camp Zukeran (Camp Foster).

March 14-18, 2006: Vice FM Yachi Shotaro visits the U.S. to hold talks with top officials and discuss issues such as the planned realignment of the U.S. forces in Japan, ban on U.S. beef, Iraq situation, Iran nuclear crisis, and UN reforms.

March 15, 2006: U.S. increases its estimate to relocate 8,000 Marines from Okinawa to Guam to \$10 billion and expects Tokyo to shoulder 75 percent of the cost. JDA rejects the proposal, noting that the budget is too “vague” to win Diet approval.

March 16, 2006: U.S. proposes providing facilities on Guam for SDF to keep troops and an aircraft squadron there on a “full-time” basis for training.

March 17, 2006: PM Koizumi denies media report that Tokyo will revise the Japan-U.S. plan to build a new U.S. military airfield in Okinawa.

March 17, 2006: After meeting Noriyuki Shikata, director of the Status of Forces Agreement Division, Iwakuni Mayor Ihara urges Tokyo to withdraw the planned relocation of U.S. carrier-borne aircraft to his city.

March 17, 2006: Ambassador Schieffer warns Japan that their row over Japan’s ban on U.S. beef imports could set off a trade war. He also says that he expects Japan to reduce the disparity in defense spending between the two countries.

March 18, 2006: U.S., Japan, and Australia hold security talks in Australia. Beijing's military and economic rise is the focus of the trilateral meeting. They share "grave concerns" about Iran's nuclear program and the UN Security Council must act to deter Tehran from producing an atomic bomb. In a joint statement, they say the DPRK should return immediately and without conditions to the Six-Party Talks.

March 22, 2006: *Asahi Shimbun* reports that Japan will propose a loan plan in lieu of payment for the estimated \$10 billion cost of relocating Marines from Okinawa to Guam. Japanese lenders would finance construction and would be repaid with revenues generated from housing built in Guam.

March 22, 2006: *Kyodo* reports that JDA DG Nukaga and Nago Mayor Shimabukuro Yoshikazu hold talks but fail to agree on plan to relocate U.S. air station.

March 23, 2006: *Kyodo* reports that the Yokohama District Court rejected the Zushi Municipal Government's lawsuit filed in September 2004 against over the state-approved construction of a U.S. military housing complex in Kanagawa Prefecture.

March 27, 2006: *BBC News* reports that Japan's military has been placed under a new unified command in the hope that the joint command office will smooth cooperation with U.S. forces in the Pacific.

March 26, 2006: JDA chief Nukaga and Nago Mayor Shimabukuro meet again in Tokyo to narrow differences over a plan to relocate a U.S. Marine Corps air station.

March 28-29, 2006: Japan and the U.S. begin technical meeting in Tokyo to discuss a U.S. call to lift Japan's reinstated import ban on American beef.

March 28, 2006: Japan and the U.S. postpone meeting at which they aimed to finalize a package on U.S. military realignment in Japan.

March 28, 2006: Homeland Security Secretary Michael Chertoff calls on Japan to implement a system to screen U.S.-bound shipping containers to guard against "dirty bombs" and other potential terrorist attacks.



U.S.-China Relations:
Discord on the Eve of the Bush-Hu Summit

Bonnie S. Glaser
CSIS/Pacific Forum CSIS

Economic issues garnered most of the attention this quarter with U.S. officials and members of Congress pressing China to address the trade imbalance, revalue China's currency, and curtail Intellectual Property Rights (IPR) violations in advance of Hu Jintao's April visit to the United States. Summit preparations were conducted in high-level visits. Deputy Secretary of State Robert Zoellick met Chinese leaders in Beijing and hugged a panda in Chengdu. Chinese Vice Foreign Minister Yang Jiechi visited Washington, D.C. and urged the Bush administration to rein in Taiwan President Chen Shui-bian. Two major U.S. government reports were issued – the *National Security Strategy* and the *Quadrennial Defense Review* – both of which provoked Chinese condemnation. Beijing convened the fourth session of the 10th National People's Congress, which focused on domestic priorities, including rural reform, education, public health, social security, and the legal system.

Economics remain center stage

In the run-up to President Hu Jintao's visit to Washington in April, economic issues were at the forefront of the U.S.-China relationship, with the mushrooming bilateral trade imbalance (the bilateral deficit hit \$202 billion last year), the valuation of China's currency, and rampant IPR violations continuing to be the dominant themes.

Senior U.S. officials across a range of government departments called for the "responsible stakeholder" concept introduced by Deputy Secretary of State Robert Zoellick last September to be extended to the economic realm of China's integration into the international community. In a speech to the U.S.-China Business Council in January, Deputy U.S. Trade Representative Karan Bhatia suggested that it is incumbent upon China to find a way to promote its own prosperity while at the same time generating mutual benefit for its trading partners. The next day at the World Economic Forum in Davos, Switzerland, Secretary of State Condoleezza Rice echoed this sentiment, saying that China has a responsibility to bring its economic system more in line with accepted international standards.

The U.S. Trade Representative (USTR) released its first top-to-bottom review of U.S.-China trade relations on Feb. 14, which called for greater accountability on IPR and market reforms. In a press conference to announce the release of the report, USTR Rob

Portman promised that U.S. officials would raise Washington's trade complaints with their mainland counterparts during the April China-U.S. summit meeting. The report set six goals for U.S. trade policy on China: 1) integrate China more fully as a responsible stakeholder into the global rules-based system of international trade; 2) monitor China's adherence to international and bilateral trade obligations and secure full implementation and compliance; 3) ensure that U.S. trade laws are enforced fully and transparently; 4) secure further access to the Chinese market and greater economic reforms in China; 5) pursue effective U.S. export promotion efforts; and 6) identify and proactively seek to address mid-and long-term trade problems. To advance these aims, the report called for the creation of a "China Enforcement Task Force," enhanced cooperation with allies on China trade issues, and expansion of economic exchanges with other Asian nations.

To drive home the message that time is running out for Beijing to avert the passage of a retaliatory trade bill against China, Secretary of Commerce Carlos Gutierrez warned bluntly in a speech delivered to the Asia Society in Washington on March 14 that "Without concrete results, the administration, and the American people, may be forced to reassess our bilateral economic relationship." At the end of that month, Gutierrez traveled to China to lay the groundwork for the 17th meeting of the U.S.-China Joint Commission on Commerce and Trade (JCCT) that is slated for mid-April, just prior to Hu's arrival. The trip provided Gutierrez with yet another opportunity to prod Chinese leaders to put forward specific proposals for narrowing the U.S.-China trade deficit and putting an end to rampant violations of intellectual property rights.

The U.S. Congress was especially active in the first quarter of 2006 on issues pertaining to economic ties with China. News from the Hill for most of the quarter was dominated by the impending vote on legislation introduced by Sens. Lindsey Graham (R-SC) and Charles Schumer (D-NY) to impose an across the board 27.5 percent tariff on Chinese imports unless China allowed more flexibility in its currency. The threat to hold a vote by the March 31 deadline was deferred for six months, however, after the two senators, accompanied by Tom Coburn (R-OK), traveled to China in late March, where they met with Chinese leaders and came away convinced that China was committed to slowly loosen the restraints on the renminbi (RMB). Schumer told reporters that he and the co-sponsor of the legislation "are more optimistic that this can be worked out than we were in the past."

The danger of anti-China legislation loomed nevertheless, as Sens. Charles Grassley (R-IA) and Max Baucus (D-MT) launched a bill on March 28 that would impose penalties on countries like China that have a currency imbalance with the U.S. The legislation would modify the Treasury's currency report to focus on misaligned currencies rather than currency manipulation and require the Treasury Department to work with the International Monetary Fund to resolve major imbalances. Countries that don't comply would face cut-offs of U.S. government loan guarantees and lending from government-backed development banks. In contrast to the Schumer-Graham bill, which would violate WTO rules and is widely viewed as excessive, the Grassley-Baucus bill is judged by some to be a reasonable compromise that could be approved if China fails to allow the value of its currency to rise in the coming months.

Since the People's Bank of China released the RMB from its peg to the dollar last July, the yuan has appreciated by slightly more than 3 percent. Chinese officials insist that additional adjustments in the exchange rate must take place incrementally. They also maintain that China is working hard to rein in IPR violations, for example by eliminating the use of pirated software in government offices, and counter that expectations of a quick resolution are unrealistic given China's developing country status.

As the quarter ended, the U.S. and the 25-member European Union filed a trade case against China before the World Trade Organization in a dispute involving auto parts from the U.S. and other nations. The complaint alleges that China is imposing high taxes on imported auto parts in violation of its WTO pledges. If the dispute is not settled within the 90-day consultation period, the U.S. and the EU may pursue a case that could result in penalty tariffs being levied against Chinese products. Consideration is also being given to filing another complaint with the WTO against Chinese piracy of intellectual property rights. "We will not hesitate to pursue our legal options when negotiations are not productive," declared USTR Rob Portman when announcing the decision to file the auto parts case.

Zoellick advances his stakeholder concept and hugs a panda

Preparation for next quarter's Bush-Hu summit began this quarter with a visit Jan. 24-25 by Deputy Secretary Robert Zoellick to Beijing where he met Premier Wen Jiabao, Foreign Minister Li Zhaoxing, Vice Foreign Minister Dai Bingguo, Chairman of the National Defense Resources Council Ma Kai, Chairman of the China Banking Regulatory Commission Liu Mingkang, and Chairman of the China Reform Forum Zheng Bijian. Speaking to reporters following his meetings, Zoellick highlighted his attempt to further the dialogue with China on his "responsible stakeholder" concept by exploring how the Chinese could play a positive role in the international system on issues ranging from nonproliferation to energy security, counterterrorism, avian influenza, and the Asia-Pacific Partnership on Clean Development and Climate.

China's size and global impact deny it the luxury of simply concentrating on its domestic problems, Zoellick asserted. He urged Beijing to sustain and build the international system through active engagement with African countries in the energy sphere. Discussion of how to prevent Iran from developing a nuclear weapons program and reverse the nuclearization of the Korean Peninsula were also on Zoellick's agenda along with addressing Sino-Japanese tensions, which he raised with Japanese interlocutors en route to China. In the economic realm, Zoellick pressed for additional currency flexibility and steps to narrow the U.S.-China trade deficit, and stressed the importance of making progress in the April meeting of the JCCT.

After departing Beijing, Zoellick traveled to Chengdu, in China's southwestern province of Sichuan, where he visited the Panda Research Base. A photo of Zoellick holding a baby panda was widely circulated on the internet, prompting speculation that he was baiting those in the Bush administration who have branded him as a "panda-hugger" for devoting great efforts to engage cooperatively with China.

Taiwan rises to the top of China's concerns. . . again

In the third week of February, Chinese Vice Foreign Minister Yang Jiechi made a low-profile visit to Washington. His mission initially was to engage in further substantive preparations for the April Bush-Hu dialogue, but the focus of his visit was altered by Taiwan President Chen Shui-bian's Jan. 29 announcement of his intention to abolish the National Unification Council (NUC) and the National Unification Guidelines (NUG).

In meetings with National Security Advisor Stephen Hadley and Deputy Secretary Zoellick, Yang read a prepared demarche conveying Beijing's strong opposition to Chen's action and its expectation that the Bush administration would thwart Chen's plan. U.S. officials, while reaffirming the one China policy and Washington's opposition to any steps that would change the cross-Strait status quo, apparently rejoined that Beijing's refusal to engage in dialogue or any direct contact with Taiwan's democratically elected government exacerbated China-Taiwan tensions and increased the likelihood that Chen would continue to pursue steps that China judged to be destabilizing.

This message was reinforced publicly when Christopher Hill, assistant secretary for East Asian and Pacific Affairs, called on China to open dialogue with the elected leaders in Taiwan in testimony at a March 8 hearing on East Asian issues held by the Subcommittee on Asia and the Pacific under the House of Representatives' Committee on International Relations. Warning that "there shouldn't be any room for unilateral announcements or threat of force of any kind," Hill called on both sides to "show restraint," and underscored that nonpeaceful means of resolving differences must be excluded.

A week later, in remarks delivered to the U.S.-China Economic and Security Review Commission, Assistant Secretary of Defense Peter Rodman declared that the PLA military buildup changes the status quo in the Taiwan Strait, which "requires us to adapt to the new situation, as we are doing." Rodman's statement was undoubtedly welcomed by Taipei, which has long claimed that it is the PRC, not Taiwan, that is changing the status quo.

China was likely dissatisfied with the U.S. handling of the NUC/NUG matter, which resulted in a compromise with Taipei that the Council would "cease to function" and the Guidelines would "cease to apply." Chinese President Hu Jintao termed the move a "dangerous step" toward "Taiwan independence." Rumors circulated through Washington that Chinese officials were pressing President Bush to publicly rebuke Chen Shui-bian during Hu Jintao's April visit, as he did in December 2003 alongside Wen Jiabao to express his displeasure with Chen's sponsorship of a public referendum.

U.S. unveils its *National Security Strategy*, provoking Chinese ire

The *National Security Strategy of the United States of America (NSS)* issued March 16, contained a lengthy section on China. Echoing terminology used by the State Department and the Department of Defense, the *NSS* enjoined China to act as a responsible player and noted that while U.S. strategy seeks to encourage Beijing to make the right strategic

choices, “we hedge against other possibilities.” If China adheres to its commitment to stick to the path of peaceful development, the report says, the U.S. “will welcome the emergence of a China that is peaceful and prosperous and that cooperates with us to address common challenges and mutual interests.” As China’s economy grows, its people will seek to supplement their economic freedom with political freedom, according to the *NSS*, and continuing along this path will contribute to regional and international security.

The *NSS* prods Beijing to abandon “old ways of thinking” that incite concerns throughout the region and the world, including non-transparent military expansion, mercantilist approaches to “locking up” energy supplies, and supporting resource-rich countries without regard to their misbehavior at home and abroad. After delivering a speech on the report, National Security Advisor Hadley noted that the U.S. has areas of positive cooperation with China, but also has concerns about Chinese behavior.

China’s Foreign Ministry spokesman lauded the report’s recognition of the many common interests between the U.S. and China and its call for strengthening cooperation, but condemned its “irresponsible remarks and groundless accusations about China’s domestic and foreign policies.” Issuing China’s first official reaction to an *NSS* report since at least the 1990s, the spokesman called on the U.S. to be more objective in its assessment of China’s peaceful development, stop making statements that are not conducive to the healthy development of bilateral ties, and “take substantive measures to eliminate any negative impact” of the report.

Xinhua sharply reproached the *National Security Strategy’s* reaffirmation of the “preemptive” military strike strategy, which was introduced in the *NSS* issued in September 2002. It alleged that by touting the preemptive-strike strategy, the White House was trying to burnish President Bush’s hardline image to boost his domestic political support, which had recently sagged to a new low of 36 percent. The report, *Xinhua* charged, is “filled with a belligerent aggressiveness.” A contrary assessment was offered in a *People’s Daily* article which compared the current *NSS* report with the 2002 report and concluded that the new *NSS* reflects a continuing high level of concern about terrorism and the “axis of evil,” but “seems to have less anger and show more reason” and places greater stress on resolving issues through multilateral cooperation.

Bilateral military exchanges expand

A U.S. Pacific Command delegation visited China in March as part of a program for bilateral military exchanges agreed upon last October during Secretary of Defense Rumsfeld’s visit to China. In November, the program kicked off with a visit by 20 Chinese mid-level commanders and commissars to Hawaii, Alaska, and Washington, D.C. A group of Chinese specialists and military personnel traveled to Hawaii in January. The March delegation was composed of 20 field grade (lieutenant colonel and colonel plus Navy equivalent) current and former commanders from all services. The visit was aimed at enhancing mutual understanding and increasing exposure of U.S. field grade officers to the PLA. The delegation visited Beijing, Shanghai, Hangzhou, and Nanjing.

During their visit, China's Foreign Ministry spokesman declared that China would develop military ties with the U.S. "to build trust, friendship, and promote cooperation," adding that military exchanges would advance the development of bilateral relations. Further military exchanges will take place in April when the president of the U.S. National Defense University leads a delegation to China and Assistant Secretary of Defense Peter Rodman heads the U.S. delegation for the eighth round of Defense Consultative Talks in Beijing. U.S. Pacific Commander Adm. William Fallon is slated to make his second visit to China since assuming his post in May.

The *QDR*: China among countries at a strategic crossroads

On Feb. 3, the Department of Defense released the *Quadrennial Defense Review (QDR)*, a comprehensive review of the nation's defense strategy, force structure, modernization plans, infrastructure and budget that is required by law. As the first *QDR* to take full account of the post-Sept.11 security environment, it is especially significant. In a section that discusses countries at a strategic crossroads, China is singled out as having "the greatest potential to compete militarily with the United States and field disruptive military technologies that could over time offset traditional U.S. military advantages absent U.S. counter strategies." Sustained investment in China's military in the past decade puts regional balances at risk, according to the report.

The *QDR* enumerates steps the U.S. is taking to dissuade China and other major and emerging powers from developing capabilities that could threaten regional stability, as well as to deter conflict and to defeat aggression should deterrence fail. These steps include "persistent surveillance and long-range strike, stealth, operational maneuver, and sustainment of air, sea, and ground forces at strategic distances, air dominance and undersea warfare." The aim is to possess sufficient capability to convince any potential adversary, including China, that it cannot prevail in a conflict and that engaging in conflict entails "substantial strategic risks beyond military defeat." Chinese asymmetric capabilities combined with the challenges posed by the vast distances of the Asian theater and China's continental depth place a premium on maintaining forces "capable of sustained operations at great distances into denied areas."

While expressing concerns that China could emerge as a military rival, the *QDR* holds out the possibility that China could serve as a partner in addressing common security challenges, including terrorism, proliferation, narcotics, and piracy. Adopting Robert Zoellick's terminology, the *QDR* portrays the U.S. goal as encouraging China to "emerge as a responsible stakeholder and force for good in the world." At the same that the U.S. seeks cooperation with China and other emerging powers, the *QDR* insists that the U.S. must also create "prudent hedges" against the possibility that cooperative approaches by themselves may fail to preclude future conflict.

A Chinese Foreign Ministry spokesman voiced "firm opposition" to the China-related portion of the *QDR*, which he claimed "makes unwarranted criticisms of China's normal defense construction, interferes in China's internal affairs, plays up the 'theory of China's military threat,' and misleads the public." The Chinese media provided mixed

commentary on the *QDR*. One article, in the party newspaper *People's Daily*, denounced the U.S. for seeking to “maintain hegemony” and urged the U.S. to “abandon unilateralism” and not pursue “absolute military hegemony.” A milder review posted on the front page of *People's Daily's* Chinese language website, however, maintained that the *QDR* “does not regard China as a ‘real opponent’ of the United States” but instead emphasizes the importance of Sino-U.S. cooperation and China’s development potential. Moreover, the article contended that the *QDR* represents conservative voices in the U.S. that are in charge of coping with “worst-case scenarios” and doesn’t comprehensively reflect the views of the Bush administration. “Overall, the situation in current Sino-U.S. relations is good,” the article concluded.

National People’s Congress convenes

March annually witnesses the holding of the “two sessions” – the National People’s Congress (NPC) and the 10th National Committee of the Chinese People’s Political Consultative Conference (CPPCC) – which bring together more than 5,000 lawmakers and advisors. Chinese Premier Wen Jiabao delivered the government work report at the fourth session of the 10th National People’s Congress on March 15. He expounded on progress achieved in implementation of rural reform, strengthening education, improving the public health system, expanding the social security system, and bolstering democracy and the legal system. Touching on deficiencies in government work, Wen noted the propensity of some government employees to engage in “deceit and fraud,” be “extravagant and wasteful,” and even “venal and corrupt.” A growth target for GDP in 2006 was set for 8 percent; energy consumption per unit of GDP is planned to decline by 4 percent; urban employment is targeted to increase by 9 million persons; and the urban registered unemployment rate is due to remain under 4.6 percent.

The 11th Five Year Plan relies less on planning targets than in the past, however, allowing greater room for “market forces.” The only economic targets in the plan are an average annual growth rate of 7.5 percent, a pledge to double per capita incomes between 2000 and 2010, an energy efficiency goal of reducing energy consumption by 20 percent, and a target for reducing key pollutants by 10 percent. All other obligatory targets are social or environmental. The move represents a significant trend in Chinese macroeconomic policy development.

Eight priority tasks were assigned for the coming year, including: 1) maintaining steady and relatively fast economic growth; 2) practically facilitating construction of the rural areas; 3) intensifying industrial restructuring, resource conservation, and environmental protection; 4) promoting regional coordinated development; 5) strengthening science, education, and cultural construction; 6) further promoting reform and opening up; 7) resolving issues concerning the immediate interests of the masses; and 8) strengthening development of democratic politics and safeguarding social stability.

Premier Wen reaffirmed China’s commitment to pursuing peaceful reunification with Taiwan and placing hopes on the people of Taiwan to achieve that goal, while “uncompromisingly” opposing separatist activities aimed at Taiwan independence. In

foreign policy, he pledged that China would remain on the road of peaceful development, build good-neighborly relations with its neighbors, promote regional cooperation, actively participate in multilateral diplomacy, and work with the peoples of all nations to build a “peaceful, just and harmonious new world.”

The spokesman for the annual session of the NPC, Jiang Enzhu, announced that China’s defense budget for 2006 would reach 283.8 billion yuan (about \$35.1 billion), a 14.7 percent increase over last year. Later that month, Assistant Secretary of Defense Peter Rodman criticized that spending hike as well as China’s lack of transparency regarding defense spending in remarks delivered before the U.S.-China Economic and Security Review Commission. Drawing a contrast with the *QDR*, which “speaks openly and candidly about U.S. doctrine, assumptions, and plans,” Rodman asserted that China has yet to explain the purpose of its military expansion and provide basic information on the size and proficiency of its armed forces. Its lack of transparency prompts other countries to hedge against these unknowns, he claimed.

Rising protectionism and criticism of Bush may affect the summit

Chinese President Hu Jintao will likely be greeted in Washington in April with a politically unfriendly atmosphere. His host, President Bush, has been harshly criticized this quarter on the Dubai ports deal and the oversight of National Security Agency wiretaps. There is growing angst among both Republicans and Democrats about Iraq and the danger of a civil war there. Protectionist sentiment in the U.S. is on the rise. Under these circumstances, Washington is in no mood to roll out the welcome mat for Hu. Although the causes of U.S. problems can mostly be found at home, the ballooning U.S.-China trade deficit, China’s rampant intellectual property rights violations, U.S. worries that China’s growing appetite for energy will drive up prices and limit supply, and general U.S. anxiety about the implications of China’s rapid rise make China an easy political target.

Nevertheless, the two presidents will seek to have a productive exchange that advances strategic understanding and provides impetus for continued bilateral cooperation on the growing list of regional and global issues that affect both U.S. and Chinese interests. Also on the agenda for next quarter is the eighth round of Defense Consultative Talks between the U.S. and Chinese militaries, another visit by U.S. Pacific Commander Adm. Fallon to China, and the third round of the U.S.-China Senior Dialogue led by Deputy Secretary of State Zoellick and Chinese Vice Foreign Minister Dai Bingguo.

Chronology of U.S.-China Relations **January-March 2006***

Jan. 1, 2006: The Sino-U.S. textile agreement, signed in November 2005, takes effect, imposing quotas on 21 types of clothing and textiles from China by 2008.

Jan. 3, 2006: Sens. Norm Coleman (R-MN) and Barack Obama (D-IL) establish Senate China Working Group to look more closely at China's growing economic, political, and military influence and its implications for American interests.

Jan. 4-5, 2006: Sheng Huaren, vice chairman and secretary general of the Standing Committee of China's National People's Congress (NPC), exchanges views with U.S. Senate President pro tempore Ted Stevens on relations and parliamentary exchanges between the two countries in Hawaii.

Jan. 6, 2006: The National Defense Authorization Act for Fiscal Year 2006 is approved by the president and both houses of Congress. The Act prohibits the secretary of defense from procuring goods and services from China except under a waiver that deems a purchase necessary for national security purposes.

Jan. 9-17, 2006: U.S. Reps. Mark Kirk and Rick Larsen, founders of the House of Representatives' China Working Group, visit China for the first time since the establishment of the group last June.

Jan. 10, 2006: Cao Gangchuan, China's minister of national defense, expresses readiness to expand military relations with the U.S. on the basis of mutual benefit and equal consultation during his meeting with a delegation from the U.S.-China Working Group.

Jan. 13, 2006: China's legislator Wu Bangguo calls for the legislative bodies of China and the U.S. to have closer ties when meeting Lisa Murkowski, chairwoman of the Asia-Pacific group of the Senate Foreign Relations Committee.

Jan. 23-25, 2006: Deputy Secretary of State Robert Zoellick visits Beijing and Chengdu.

Jan. 25, 2006: Deputy U.S. Trade Representative (USTR) Karan Bhatia calls for China to be more responsible and take more of leadership role in global trading, even extending beyond its WTO requirements.

Jan. 25, 2006: The U.S.-China Business Council reports that trade with China is "clearly beneficial" for the U.S. as the U.S. experiences higher GDP, increased efficiency, and lower prices as a result of trading with China.

* Compiled by David Adam Fisher, CSIS intern

Jan. 26, 2006: At the World Economic Forum in Davos, Switzerland, Secretary of State Condoleezza Rice says that the U.S. should engage China and encourage it to become a responsible stakeholder in the international community. China also has the responsibility to reform its economic system to conform with international standards.

Jan. 27, 2006: Senate refers a resolution to the Committee on Foreign Relations that calls on the international community to condemn the *laogai*, the system of forced labor prison camps in China.

Jan. 30, 2006: U.S. reaffirms the “one China” policy in response to Taiwanese President Chen Shui-bian’s Lunar New Year’s address calling for the abolition of Taiwan’s National Unification Guidelines and National Unification Council.

Jan. 30, 2006: Officials from the U.S., China, Britain, France, Germany, and Russia meet in London to discuss the Iran nuclear issue.

Feb. 1, 2006: Congressmen accuse U.S. companies Microsoft, Yahoo!, Google, and Cisco of helping the Chinese government enforce censorship and track down “dissidents.” The companies call on the U.S. to engage the Chinese government to affect change in China.

Feb. 2, 2006: The U.S.-China Economic and Security Review Commission holds hearings on “Major Challenges Facing the Chinese Leadership.”

Feb. 2, 2006: Director of National Intelligence John Negroponte testifies to the Senate Select Committee on Intelligence on Current and Projected National Security Threats to the U.S. China is identified as “a rapidly rising power with steadily expanding global reach that may become a peer competitor to the United States at some point.”

Feb. 3, 2006: Department of Defense releases its *Quadrennial Defense Review*.

Feb. 9, 2006: Sens. Byron Dorgan (D-ND) and Lindsey Graham (R-SC) introduce legislation to withdraw normal trade relations treatment for China.

Feb. 12, 2006: NSC Acting Senior Director for Asian Affairs Dennis Wilder and Clifford Hart, director of the State Department’s Taiwan Desk, reportedly travel secretly to Taiwan to try to dissuade Chen Shui-bian from abolishing the National Unification Council.

Feb. 14, 2006: USTR releases a report to Congress on U.S.-China trade calling for the more stringent application of trade laws, the creation of “a China Enforcement Task Force,” and more bilateral dialogue.

Feb. 15, 2006: House holds hearing on “The Internet in China: A Tool for Freedom or Suppression.”

Feb. 22, 2006: Rep. Rob Simmons (R-CT) travels to Taiwan. He calls for Taiwan to approve the purchase of the U.S.-offered arms package and meets with Chen Shui-bian.

Feb. 22, 2006: Chinese VM of Foreign Affairs Yang Jiechi visits Washington and meets Deputy Secretary Zoellick, National Security Advisor Stephen Hadley, and Assistant Secretary Christopher Hill to discuss President Hu Jintao's upcoming visit to U.S. and concerns about Taiwan.

Feb. 27, 2006: Chen Shui-bian announces that Taiwan's National Unification Council will "cease to function." Hu calls the move "a dangerous step on the road toward 'Taiwan Independence.'" State Department spokesman says "It's our understanding that President Chen did not abolish it, and he reaffirmed Taiwan's commitment to the status quo."

Feb. 28, 2006: John Negroponte, director of National Intelligence, presents the "Annual Threat Assessment" to the Senate Armed Services Committee. China is described as "a rapidly rising power with steadily expanding global reach that may become a peer competitor to the United States at some point."

March 5-16, 2006: China holds annual session of the National People's Congress (NPC).

March 7, 2006: Chinese FM Li Zhaoxing, speaking on the sidelines of the NPC, calls on the U.S. to work with China to maintain peace in the Taiwan Strait. Li also suggested that the U.S. remove restraints on high-technology exports to China to improve the trade imbalance between the two countries.

March 7, 2006: At a Senate Armed Services Committee hearing, Chairman John Warner questions whether the U.S. would come to Taiwan's defense if the island's leaders precipitated an incident by changing the status quo.

March 8, 2006: State Department releases annual report detailing human rights abuses in China. China's State Council responds, accusing the U.S. of human rights abuses.

March 8, 2006: U.S. Coordinator for International Intellectual Property Enforcement Chris Israel, testifying in before a Senate Commerce, Science and Transportation subcommittee, says China has made limited progress toward improving its IPR situation, and those efforts are undermined by lack of political will and corruption.

March 13, 2006: U.S. Pacific Command delegation visits China as part of a program for bilateral military exchanges agreed during Secretary Rumsfeld's October visit to China.

March 14, 2006: In remarks to the Asia Society in Washington, Secretary of Commerce Carlos Gutierrez calls on China to reduce its trade surplus with the U.S. and improve protection of IPR.

March 14-19, 2006: Secretary Rice travels to Indonesia and Australia, where she calls on China to open its economy and be more transparent about its military buildup.

March 16, 2006: The White House releases *National Security Strategy of the United States of America* that reasserts the administration's belief in the doctrine of preemption and encourages China to act as "a responsible stakeholder."

March 16, 2006: Sen. Lugar (R-IN) introduces legislation calling for "a formal coordination agreement with China and India as they develop strategic petroleum reserves."

March 16, 2006: Assistant Secretary of Defense Peter Rodman delivers remarks before the U.S.-China Economic and Security Review Commission on "China's Military Modernization and Export Controls."

March 20-26, 2006: Sens. Schumer (D-NY), Graham (R-SC) and Coburn (R-OK) travel to China to discuss China's currency valuation, IPR protection, and Chinese barriers to foreign investment. They meet FM Li Zhaoxing, Commerce Minister Bo Xilai, Central Bank Gov. Zhou Xiaochuan and Vice Premier Wu Yi, and engage with students at Qinghua University.

March 26, 2006: Commerce Secretary Gutierrez arrives in Beijing for meetings with senior Chinese economic officials to finalize the agenda for the meeting of the Sino-U.S. Joint Commission on Commerce and Trade to be held in Washington April 11.

March 28, 2006: USTR Rob Portman names Stephen Kho, acting chief counsel for China enforcement, and Terry McCartin, deputy assistant U.S. trade representative for China enforcement, as co-chairs of the USTR's new China Trade Enforcement Task Force, which will oversee China's trading practices.

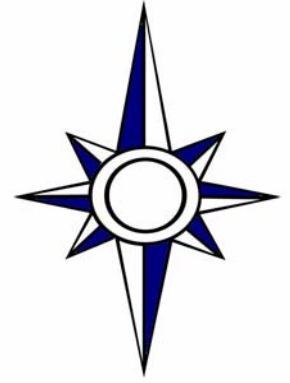
March 29, 2006: Under Secretary for International Affairs Tim Adams testifies at a Senate Finance Committee hearing on "U.S.-China Economic Relations Revisited."

March 29, 2006: Chinese delegation headed by Jiang Enzhu, chairman of the NPC's Foreign Affairs Committee, leads delegation to Washington and holds eighth round of formal meetings with the House of Representatives under the Inter-Parliamentary exchange mechanism.

March 30, 2006: U.S. and the EU request WTO dispute settlement consultations with China in response to its alleged unfair treatment of imported auto parts.

March 30, 2006: White House issues a statement expressing grave concern about Beijing's repatriation of a North Korean refugee, Kim Chun-hee. It urged China not to return refugees without allowing the UN High Commission for Refugees access to them.

March 31, 2006: USTR releases its 2006 National Trade Estimate on Foreign Trade Barriers. The chapter on China amounts to 71 of its 712 pages.



**U.S.-Korea Relations:
Forward on Trade as Nuclear Talks Sputter**

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In fits and starts, North Korea and the U.S. sought procedural common ground this quarter for resuming the Six-Party Talks on North Korea's nuclear program. The deputy head of Pyongyang's delegation, Ri Gun, traveled to New York in early March for a "working-level" meeting to discuss U.S. financial sanctions for North Korea's alleged counterfeiting of U.S. dollars.

The substantive positions of the two sides remained the same after the meeting: Pyongyang said it would continue to boycott the nuclear talks until Washington lifted the financial sanctions; Washington argued the sanctions were a purely "law enforcement measure" not linked to the nuclear issue. In mid-March, however, U.S. Ambassador to South Korea Alexander Vershbow proposed that discussions on the financial issue could continue bilaterally at the Six-Party Talks. At quarter's end, North Korea had not yet responded to this proposal.

In early February, the U.S. and South Korea announced the beginning of negotiations on a Free Trade Agreement (FTA) that U.S. Trade Representative (USTR) Rob Portman called the "most commercially significant free trade negotiations we have embarked on in 15 years." Not to be outdone, South Korean Trade Minister Kim Hyun-Chong said the initiation of FTA negotiations "is the most important event [in U.S.-Korea relations] since the signing of the military alliance in 1953." The first round of official talks is scheduled to begin in early June, following several procedural meetings.

The U.S. and South Korea held their first "Strategic Consultation for Allied Partnership" (SCAP) this quarter, not long after Presidents George W. Bush and Roh Moo-hyun agreed to initiate these talks at their summit meeting in November. During the consultation, the two governments reached a general agreement that the U.S. could exercise "strategic flexibility" and use its forces stationed in South Korea to meet military contingencies outside the Korean Peninsula.

Late in the quarter, the U.S. and South Korea also agreed to form a joint panel to consider the modalities of transferring wartime command of South Korean armed forces to the government of South Korea. At present, the commander of U.S. forces in South Korea would exercise operational control over the armed forces of South Korea, through the Combined Forces Command, during wartime.

Chairman Kim Jong-il confers with President Hu Jintao

As the New Year opened, North Korea declared it would boycott the Six-Party Talks until the U.S. lifted financial sanctions imposed for alleged counterfeiting of U.S. dollars: “We cannot sit down and discuss abandonment of our nuclear deterrent, designed to protect our system, with a counterpart that seeks to isolate and stifle us to death,” stated a commentary in *Rodong Shinmun*, the official newspaper of North Korea’s ruling party.

Facing new and severe financial pressure, North Korean leader Kim Jong-il sought support from China, making one of his periodic visits there on Jan. 10. After touring the booming cities of Guangzhou, Shenzhen, Wuhan, and Zhuhai, Kim met with Chinese President Hu Jintao on Jan. 17 and made two important announcements.

On the question of moving ahead with Chinese-style economic reform in North Korea, he took a more forward-leaning stance than ever before: “Rapid development in southern China left a deep and indelible impression on us. In a word, we are confident through our tour of southern China that the future of China is bright due to the *correct policy* of the Chinese Communist Party” (emphasis added). This was the first time Kim has given such a forthright political approval to China’s internal economic reform policies.

On the most pressing security issue, Kim reaffirmed North Korea’s interest in participating in the Six-Party Talks. He said: “There is no change in North Korea’s basic stand of maintaining the goal of denuclearizing the Korean Peninsula, implementing the joint statement of principles issued at the fourth round of the Six-Party Talks in September and pursuing a negotiated peaceful settlement.”

The same day as Kim made his public statements, Assistant Secretary of State Christopher Hill, head of the U.S. delegation to the Six-Party Talks, met with the heads of the North Korean and Chinese delegations in Beijing. (He had visited China just a week earlier to discuss “bilateral issues” as part of a scheduled tour of Asian capitals). In his Jan. 17 talks, Hill tried to defuse the impact of the counterfeiting controversy on the nuclear negotiations by stressing that illicit financial activities give rise to a purely “legal enforcement issue” that was separate from the nuclear question. Two days later, the Chinese put their weight behind an early resumption of the Six-Party Talks by proposing a meeting during the second week of February.

Although North Korea continued to resist fixing a date for the next meeting, it signaled a new policy direction on Feb. 9 when a Foreign Ministry official proclaimed that “the consistent policy of the [North Korean] government is to oppose all sorts of illegal acts in the financial field. We have the perfect legal mechanism to combat such illegal acts and any illegal acts are liable to severe punishment.”

Soon after, U.S. Ambassador to South Korea Alexander Vershbow commented that “we hope that the statement reflects a decision by the North Korean government to stop its involvement in illicit activities.” Vershbow said Pyongyang would have to offer

“convincing evidence” that it has destroyed all the counterfeiting equipment and printing plates allegedly used to manufacture the so-called counterfeit “supernotes.”

U.S. and DPRK: “working level” discussion of financial issues

In mid-February, U.S. and North Korean diplomats finally agreed on a procedural approach to the issue of North Korean counterfeiting to help get the Six-Party Talks back on track. They decided that a North Korean official – deputy North Korean nuclear negotiator Ri Gun – would travel to New York in early March for “working level” discussions on the counterfeiting problem.

In November 2005, Assistant Secretary Hill offered a briefing of this kind to Pyongyang by U.S. Treasury and Secret Service officials. However, when North Korea proposed to send its chief nuclear negotiator, Ambassador Kim Gye-gwan, Washington refused to accept him. The U.S. was unwilling to enter into what it saw as “political level” negotiations with Pyongyang on an essentially law enforcement issue.

The U.S. position, at that time, was colored by the Bush administration’s general view that it would not engage in *bilateral* talks with North Korea. President Bush has long criticized the Clinton administration for engaging in fruitless bilateral talks with Pyongyang and instead pursued the nuclear talks in a multilateral setting (drawing heavily on the assistance of China, in particular). Until the planned meeting with deputy negotiator Ri Gun, the only significant bilateral meetings between North Korea and the U.S. during the Bush administration have occurred on the margins of the Six-Party Talks.

An agreement by Washington and Pyongyang to meet March 7 apparently occurred because North Korea offered to send a diplomat of slightly lower rank than Ambassador Kim, the head of delegation. Ri Gun was well-known to U.S. officials from his many years at North Korea’s mission to the UN, where he served as the North Korea end of the famous “New York channel.” (During the 1990s, this diplomatic track played an important role in keeping open lines of communication between Washington and Pyongyang, despite the absence of formal diplomatic relations.) Even though Ri Gun’s rank as deputy nuclear negotiator (as well as director general of the Foreign Ministry’s North American Affairs Bureau) is roughly equivalent to that of Christopher Hill, the U.S. assistant secretary of state for East Asian affairs, Washington agreed to accept him in the interest of getting the Six-Party Talks back on track.

In retrospect, it appears that by attempting to align itself with countries combating counterfeiting and by agreeing to send deputy negotiator Ri Gun to the U.S., North Korea showed in February its desire to overcome the impasse in the Six-Party Talks. Similarly, by accepting a bilateral meeting with North Korea and by approaching the issue of counterfeiting in a low-key, matter-of-fact way, Washington also indicated its intent to avoid a long delay in the nuclear negotiations.

However, the results of the March 7 meeting by U.S. and North Korean diplomats were not terribly propitious. Washington clarified that the U.S. actions against a Macau bank in September as a “primary money laundering concern” under the Patriot Act were a “regulatory measure... not a sanction against North Korea” and were “separate and unrelated to the ongoing diplomatic negotiations of the Six-Party Talks.” Fearing a backdoor effort to establish an unwanted bilateral channel, U.S. diplomats reacted coolly to the North Korean proposal that the two governments set up a “non-permanent” bilateral committee to exchange information about financial irregularities. U.S. diplomats countered that North Korea should join the Asia Pacific Group on Money Laundering, an organization that seeks to curb illicit financial activities by criminals and terrorist groups, and would require more transparency from Pyongyang in its financial transactions. Deputy negotiator Ri responded that “due to Washington’s blockage of legitimate financial transactions, we are forced to use only cash now.” So he asked permission for North Korea to open an account in a U.S. bank – an action currently prohibited under U.S. law.

The meeting ended inconclusively, with North Korea vowing to continue boycotting the Six-Party Talks unless its demands are met and the U.S. saying it would not “negotiate” the “law enforcement matter” of financial sanctions. A day after this meeting, North Korea made clear its displeasure by test launching short-range missiles near North Korea’s border with China. South Korea downplayed the test as “not a big concern” while a U.S. spokesman said that North Korea’s missile program “poses a threat to the region and the larger international community.”

U.S. and DPRK: financial discussions continued

In mid-March, Ambassador Vershbow effectively gave the U.S. response to North Korea’s demand for a “semi-permanent” bilateral committee to discuss the issue of financial sanctions. Shifting from the previous U.S. position that regarded North Korea’s nuclear program as separate from its illicit financial activities, Vershbow said “we are prepared to continue to discuss [with North Korea] the same issues discussed in New York. But there are plenty of opportunities to do that in the context of the Six-Party Talks, where many different contacts can take place.”

In effect, Vershbow adopted the same position that Assistant Secretary Hill successfully used to out-flank Bush administration neo-conservatives who opposed direct, bilateral talks with North Korea. In Vershbow’s formulation, bilateral talks on the counterfeiting issue could take place on the sidelines of the multilateral talks on North Korea’s nuclear program. South Korea’s Foreign Minister Ban Ki-moon endorsed this view a few days later in the apparent hope of bringing North Korea back to the Six-Party Talks.

At the end of the quarter, it appeared possible that the U.S. and North Korea could broker a compromise to resume the nuclear negotiations along the lines Vershbow suggested. North Korea would thereby strengthen its bilateral track with the U.S., though not through the new forum on financial issues it originally desired. The U.S. would give

impetus to diplomatic efforts for resolving the nuclear issue, while expanding the Six-Party Talks beyond their original format.

U.S. and ROK: launching FTA negotiations

On Feb. 2, USTR Portman and Korean Trade Minister Kim Hyun-chong announced the launch of negotiations on a Korea-U.S. Free Trade Agreement. Portman called the talks the “most commercially significant free trade negotiations we have embarked on in 15 years.” Kim said the initiation of FTA negotiations “is the most important event [in U.S.-Korea relations] since the signing of the military alliance in 1953.” President Bush stated that a deal would “provide important economic, political and strategic benefits to both countries and build on America’s engagement in Asia.”

The South Korean government, in particular, took great pains to begin these talks by meeting the conditions laid down by USTR to initiate the FTA negotiations: in late January, much to the chagrin of the Korean film industry, Seoul cut in half the “screen quota” that had guaranteed the showing of Korean movies 146 days each year. Accusing the film industry of “collective selfishness,” Seoul acted decisively, after wrestling with this issue for almost 10 years.

Korea also agreed to resume the import of U.S. beef aged under 30 months, after prohibiting all U.S. beef imports since the discovery of mad cow disease in U.S. cattle in 2003. In public statements, ROK President Roh Moo-hyun indicated that achieving an FTA was a top policy goal during the remainder of his term in office.

The FTA negotiations will have to be completed no later than spring of 2007 since President Bush’s Trade Promotion Authority, which allows him to negotiate a trade agreement and then bring it before the U.S. Congress through an expedited procedure, expires in June 2007. There is little chance the U.S. Congress would extend the president’s negotiating authority beyond that time.

According to a study by the U.S. International Trade Commission, a U.S.-Korea FTA would bring about a more than 21 percent increase in Korean exports to the U.S. and more than a 53 percent increase in U.S. exports to Korea.

For Seoul, the potential growth of major exporting firms and increased U.S. direct investment accompanying an FTA would close the apparent “benefit gap” between the two countries. Overall, the Korean Institute for International Economic Policy calculates that, following an FTA, Korea’s real gross domestic product would increase by more than 7.5 percent or \$35.2 billion, leading to the creation of approximately 670,000 jobs.

More than the normal benefits of increased trade lay behind the two governments’ calculations, however. Seoul fears being overwhelmed by the rapid growth of China’s economy and seeks to lock in preferential trading arrangements with the U.S. to maintain its “qualitative edge” in technology and export products. At the same time, Seoul wants

to strengthen and deepen its alliance with the U.S. so it goes well beyond military cooperation.

For the U.S., striking bilateral trade agreements with Asian countries is also a way of countering China's aggressive economic diplomacy in the region and ensuring that U.S. companies will have optimal access to important Asian markets. Washington has an equally important motivation for strengthening the U.S.-Korea alliance, broadening its rationale beyond cooperation against a common military threat. In the last year, especially, the alliance has suffered major strains due to differences in the U.S. and South Korean approaches toward North Korea.

U.S. and ROK: new strategic consultations

South Korea and the U.S. conducted their first "Strategic Consultation for Allied Partnership" in Washington on Jan. 18-19. Foreign Minister Ban and Secretary of State Rice led their delegations at meetings designed to broaden the alliance relationship. Among the subjects for discussion were global terrorism and political relations in Northeast Asia as well as the current security threat from North Korea and the state of the alliance.

The U.S. and South Korea agreed during the consultation to coordinate closely in promoting democratic institutions and human rights, fighting terrorism, countering the spread of weapons of mass destruction, combating pandemic diseases, supporting multilateral peacekeeping, responding to crises, and managing disasters.

The most sensitive issue taken up in the consultation was the question of the "strategic flexibility" of U.S. forces stationed on the Korean Peninsula. The U.S. has long sought acknowledgement from South Korea that these troops could be deployed elsewhere in the event of a crisis, particularly a military contingency involving China in the Taiwan Straits. The joint statement released at the end of the meeting tried to balance the two governments' positions:

"The ROK, as an ally, fully understands the rationale for the transformation of the U.S. global military strategy, and respects the necessity for strategic flexibility of the U.S. forces in the ROK... In the implementation of strategic flexibility, the United States respects the ROK position that it shall not be involved in a regional conflict in Northeast Asia against the will of the Korean people."

In the statement, Seoul essentially accepted the reality that the U.S. could redeploy forces from the Peninsula for a Taiwan contingency regardless of the views of the Korean government. But the statement also put Washington on notice that it could not expect Korean support for any operation that would disrupt South Korea's harmonious relations with China.

Not long after this new round of talks ended, negotiators from the Defense Department and Defense Ministry, in mid-February, discussed the question of whether South Korea should be allowed to exercise control over its own armed forces during wartime. In 1994, Seoul acquired the authority, within the Combined [U.S.-ROK] Forces Command, to control its military during peacetime. But the control of South Korean armed forces has remained until now with the commander of U.S. Forces in Korea.

These talks led to an accord at the end of March to form a joint panel to study and develop detailed measures for the transfer of wartime command. The joint panel will report its results to the next meeting of the U.S. defense secretary and the South Korean defense minister at their “ROK-U.S. Security Consultative Meeting” scheduled for October 2006.

Commenting on this issue, President Roh said: “If South Korea and the U.S. agree within the year on the return of the military command [and to] implement the agreement step by step in the coming years, a more mature form of comprehensive security cooperation would become possible.”

Prospects

The good news this quarter is that the U.S. and North Korea are striving to overcome the impasse in the Six-Party Talks. The not-so-good news is that, at quarter’s end, their efforts show few signs of success. If the Six-Party Talks never reconvene, neo-conservatives in the Bush administration can take heart that an issue entirely unrelated to North Korea’s nuclear weapons program – counterfeiting of U.S. dollars – led to the demise of the nuclear negotiations. If, however, the two sides can reach a compromise to end the impasse, professional U.S. diplomats will deserve considerable credit for rescuing this all-important diplomatic track from oblivion.

The launch of negotiations on an FTA holds much promise for both South Korea and the United States. It offers a way to expand trade and investment between the two countries while strengthening the Korea-U.S. alliance. Given the strong commitment of both the Bush and Roh administrations to this historic measure, agreement on an FTA will likely be reached next spring, though only after a number of difficult negotiating sessions on some tough sectoral issues including automobiles, agriculture, intellectual property rights, pharmaceuticals, and steel.

Chronology of U.S.-Korea Relations January-March 2006

Jan. 3, 2006: North Korea says it will not attend the Six-Party Talks as long as U.S. financial sanctions remain in place.

Jan. 5, 2006: U.S. Secretary of State Condoleezza Rice calls North Korea a “dangerous regime.”

Jan. 8, 2006: Last of KEDO workers withdraw from the light-water reactor construction site in Kumho, North Korea.

Jan. 9, 2006: North Korea officially denies U.S. claims of DPRK counterfeiting.

Jan. 10, 2006: North Korean leader Kim Jong-il begins visit to China.

Jan. 17, 2006: U.S. Ambassador Vershbow says all South Koreans should be worried about North Korea.

Jan. 18, 2006: U.S., Chinese, and North Korean Six-Party Talks negotiators meet in Beijing; North Korean leader Kim Jong-il meets Chinese President Hu Jintao.

Jan. 19, 2006: The U.S. and South Korea issue a joint statement, after first Strategic Consultation for Allied Partnership talks, on the “strategic flexibility” of U.S. forces in South Korea.

Jan. 23, 2006: U.S. Treasury team briefs South Korea on alleged North Korean counterfeiting.

Jan. 26, 2006: South Korean court orders two U.S. manufacturers of Agent Orange defoliant used during the Vietnam War to compensate 6,800 affected Korean nationals.

Feb. 2, 2006: U.S. and ROK announce plans to open FTA talks in May.

Feb. 3, 2006: In the *Quadrennial Defense Review*, the U.S. Defense Department calls North Korea a “potentially hostile state.”

Feb. 14, 2006: South Korea and the U.S. begin Security Policy Initiative (SPI) talks in Guam to discuss further development of the military alliance, including operational wartime control by South Korea.

Feb. 22, 2006: U.S. embassy official reveals the U.S. has provided the ROK government physical evidence of DPRK counterfeiting activity.

Feb. 28, 2006: North Korea claims it is also a victim of counterfeiting.

March 1, 2006: State Department reports it has “substantial evidence” of North Korean counterfeiting of U.S. currency.

March 6, 2006: U.S. and South Korea conduct a procedural meeting in Seoul for their upcoming FTA negotiation.

March 7, 2006: U.S. and North Korean officials meet in New York to discuss U.S. financial sanctions.

March 8, 2006: North Korea tests two short-range missiles.

March 11-19, 2006: Seoul Mayor Lee Myung-bak travels to Washington, New York, and Los Angeles, meets Deputy Secretary Zoellick, Sen. Richard Lugar among many others. ROK opinion polls put Mayor Lee as the leading presidential contender.

March 16, 2006: The White House releases *National Security Strategy of the United States of America* that reasserts the administration’s belief in the doctrine of preemption and describes the DPRK as one of the seven “despotic systems.”

March 16, 2006: Ambassador Vershbow says there are “plenty of opportunities” to discuss North Korea’s alleged illicit financial activities in the Six-Party Talks.

March 21, 2006: U.S. and South Korea continue SPI talks in Seoul.

March 22, 2006: FM Ban says North Korea could possibly discuss the counterfeiting issue within the framework of the Six-Party Talks.

March 23, 2006: Defense Secretary Donald Rumsfeld states that ROK and U.S. generally agree on a transfer of wartime command of ROK forces to the ROK and are discussing a time table.

March 25, 2006: U.S. and South Korean forces begin annual military exercises – *RSOI* (*Reception, Staging, Onward Movement and Integration*) and *Foal Eagle*.

March 29, 2006: U.S. and South Korea agree to form a joint panel to study South Korea retaining operational command of its armed forces during wartime.

March 30, 2006: U.S. Treasury freezes U.S. assets of a Swiss company allegedly supporting North Korea’s WMD proliferation activities.



**U.S.-Russia Relations:
The Lines Are Drawn**

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After nearly a half-decade of strategic cooperation, U.S.-Russia relations appear to have reached a turning point in the first months of 2006. The momentum behind this turn has been building for at least two years, but events of the past three months have put the future of the strategic partnership in doubt. Apart from the usual catalogue of disagreements – U.S. designs in Central Asia and the Caucasus, Russia’s stalled democratic development, and the fate of Ukraine and Belarus – there have emerged a number of other troubling issues that are potentially more damaging to the future of the U.S.-Russian partnership. These include the Iranian nuclear issue, Moscow’s *rapprochement* with Beijing, and a disturbing report that Russian diplomats may have shared sensitive information with the regime of Saddam Hussein about U.S. war plans in Iraq in 2003.

Energy politics and confrontation in the CIS

After a quiet end to 2005, relations between the U.S. and Russia heated up in the early days of January. At the time, Russia had been threatening to cut off gas supplies to Ukraine. Moscow claimed that Ukraine had been siphoning off gas that was meant to be supplied to the rest of Europe – a claim that Ukrainian leaders denied. At the last minute, a deal was brokered that kept the gas flowing. But Moscow substantially increased the price to put it more in line with market prices. Ukraine protested, and was supported by the United States. The U.S. press loudly denounced Russia’s strong-arm move, pointing out that Belarus still receives gas at far below market value (although it has become clear that Moscow is looking to increase the price for Belarus, as well). Both the *Washington Post* and the *The New York Times* published editorials Jan. 4 strongly denouncing the Russian move. The *Washington Post* followed up with another editorial the next day entitled “Kremlin à la Saud,” pointing out that – like Saudi Arabia in the 1970s – Russia has the power to set prices in the international gas market, suggesting that this event could set a dangerous precedent. Secretary of State Condoleezza Rice followed suit and criticized Russia’s “politically motivated efforts to constrain energy supply to Ukraine.” What was lost to many people who followed the political aspects of this issue was the fact that the five-year deal gives Russia a virtual monopoly on the marketing and delivery of Central Asian gas (not just Russian) to all of Europe, via Ukraine.

Ukraine continues to be a focal point of U.S.-Russian contention, a fact since last year's election of President Viktor Yushchenko, a man widely supported in the West. Yushchenko favors Ukrainian membership in NATO, as well as the EU. As Russia's Black Sea Fleet is based in Sevastopol, a primarily ethnically Russian city sitting on Ukrainian soil, this idea is anathema to Moscow. Russia's lease on the Sevastopol base runs until 2017, but Yushchenko hopes to join NATO as early as 2008. Interestingly, polls indicate that a majority of Ukrainians is against holding a referendum on joining NATO. Additionally, recent parliamentary elections in Ukraine gave a blow to Yushchenko and his allies, as a pro-Moscow party won the biggest number of seats. Yushchenko can decide to join forces with the party of his former prime minister, Yulia Timoshenko, but she has made it clear that she is strongly against the gas deal with Moscow that Yushchenko brokered. Belarus also remains a sensitive issue for Moscow and for Washington. Presidential elections were held there in late March. "Europe's last dictator" (in the words of the U.S. government), Alexander Lukashenko, won 83 percent of the votes, suggesting a fixed election. While Moscow applauded the results, Washington criticized them. Washington is expected to put more pressure on Lukashenko, but thus far he seems immune to it, and he continues to have Moscow's unwavering support.

Elsewhere in the CIS, Georgia also tends to divide the guardians of the U.S.-Russian strategic partnership. Like Ukraine, Georgia aspires to NATO membership, and like Ukraine, Russian soldiers are stationed on Georgian soil. Of greater concern, however, are the two separatist movements in Georgia (Abkhazia and Ossetia), which threaten to make the already tiny nation even smaller. Russia tacitly supports both separatist movements and has soldiers ostensibly posing as observers on the ground in Abkhazia, a former playground for the Communist elite on the Black Sea. Meanwhile, Moscow continues to claim that Georgia – tacitly or not – allows Chechen rebels safe haven in the northeastern part of Georgia. In the trans-Caucasus region, both the U.S. and Russia seek Azeri military cooperation in the form of access to that nation. Both Moscow and Washington want to play a brokering role between Azerbaijan and Armenia in the Karabakh conflict. Moscow and Washington are also seeking a cooperative relationship with Kazakhstan. Such cooperation does not necessarily entail canceling out the actions of the other in Kazakhstan, but the nature of military sales and energy politics, however, often gives the overtures a competitive undertone.

U.S.-Russian competition in the former Soviet Union (or CIS) is a natural by-product of Russia's decline and U.S. pre-eminence in global affairs. The sustained bitter rhetoric of the last few years, and the buildup of perceived slights in Moscow, as well as what is seen as a continuing pattern of lecturing by the U.S., combine to threaten to irreparably damage the relationship. This past quarter, in particular, witnessed a flurry of negative reports in the U.S. on the state of affairs in Russia, and much of it was deemed offensive by Moscow.

U.S. reporting on Russia

The first of the reports was by the respected Council for Foreign Relations (CFR). A blue-ribbon bipartisan commission was organized and chaired by two prominent politicians, former Democratic Senator and vice-presidential nominee John Edwards, and former Republican Congressman and vice-presidential nominee Jack Kemp. The report stated that, "U.S.-Russian relations are clearly headed in the wrong direction," and added, "the very idea of 'strategic partnership' no longer seems realistic." The commission urged the Bush administration to stop treating Russia as a strategic partner and to adopt a policy of "selective cooperation" and "selective opposition." The commission was particularly negative about the Putin administration, citing its poor track record in democratic development and its tendency to stamp out any opposition, whether it be politically based or grassroots based. Although CFR is a nonpolitical organization, the Russian press noted its strong political connections across Washington.

The report's publication coincided with Russian Foreign Minister Sergei Lavrov's visit to Washington. Lavrov's discussions with Condoleezza Rice and National Security Adviser Stephen Hadley did nothing to dispel the notion of a political and strategic disconnect between Moscow and Washington, although Lavrov was granted some time with President Bush to discuss the Iranian situation (more on this below). The think-tank *Stratfor.com* issued an analysis of the CFR report, suggesting that the commission has "laid the ideological groundwork for a far more adversarial foreign policy" between the U.S. and Russia. Other observers, however, insist that for the Bush administration, strategic cooperation on terrorism, narcotics, and proliferation will continue to trump the political concerns about democratic development in Russia and in the CIS.

Prior to the CFR report, the *Washington Post* reported that there was a divide within the Bush administration about Russia policy. According to the article, Vice President Dick Cheney and Secretary of State Rice have been both seeking out expertise on Russia from outside the administration. The article reported that while Rice is prone to look past differences over the path of democracy in Russia and the CIS to focus on strategic issues, Cheney appears to be listening to the views of such individuals within and outside the government (such as Sen. John McCain) who are advocating the expulsion of Russia from the G8. Thus far, George Bush has seemed to rely mostly on Rice for his Russia policy, as well as the senior director for Russia affairs at the National Security Council Thomas Graham, who, like Rice, advocates a constructive relationship with Moscow, rather than focusing on the negatives. It is speculative to say whether Bush will change his mind, but the events of the last few weeks paint a negative picture for the future of U.S.-Russian relations.

Two days after the release of the CFR report, the State Department issued its 2005 *Country Reports on Human Rights Practices*. The report, as in the past several years, gave Russia a failing grade, not only pointing out the stunted development of civil society and democratic opposition groups in Russia, but also the continuing bloody stalemate in Chechnya, hazing in the army, bureaucratic corruption, muzzling of the press, and a whole litany of other abuses. The usual Russian reaction is to chide the U.S. for its

“double standards,” listing such things as the Abu Ghraib scandal, election irregularities in Florida, the U.S. support of dictators in Central America and the Middle East, and other examples. This year was no different. Even before Foreign Minister Lavrov traveled to Washington – perhaps anticipating U.S. criticism – he published an editorial in the Russian daily *Moskovskie Novosti* in which he outlined Russia’s approach to its own brand of democracy.

One week later, the White House published the *National Security Strategy*, and in it issued its own condemnation of democracy in Russia. In Russia it was taken as another slap in the face on the eve of Russia’s historic hosting of the G8 summit this year. Although the text addressing Russia consisted of a mere two paragraphs (in a 49-page document), the Russian Foreign Ministry issued a scathing reply on March 20. It said, “One cannot escape the impression that [Washington] is using populist slogans in its own interests,” adding that, “no one has, or can have, a monopoly on the interpretation of democracy... each state must follow its own path toward democracy, as did and does the United States.” The Russian daily *Nezavisimaya Gazeta* ran an article talking of a new Cold War in the CIS, similar to the East-West confrontation, “only in a significantly narrower arena, with a different correlation of forces, and with somewhat diminished zeal.”

On the heels of all of these reports came perhaps the most disturbing event: a Pentagon report that Russian diplomats based in Iraq and perhaps a source in the U.S. military command in Qatar passed sensitive information to the regime of Saddam Hussein about U.S. war plans just prior to the U.S. invasion in 2003. The Russian government dismissed the report, while the Bush administration remained largely quiet. If this is correct, then the U.S. has a much larger concern with the Russian government than the freedom of press or presidential elections in some CIS country. If it turns out that a few diplomats were working independently, then this suggests that the Kremlin lacks control; a concerted effort by the Russian government would be even more disturbing. The U.S. needs a strong relationship with Russia to effectively combat terrorism, proliferation, and the trafficking of narcotics, but if Moscow has decided to take a stand against Washington, then U.S. strategy needs to change. Iraq and Iran could prove to be the ultimate testing grounds of Moscow’s intentions.

Russia and the U.S. in Asia

Iran and its incipient nuclear program continue to dog the relationship between Moscow and Washington, although reports in the first weeks of the year suggested that Moscow was tiring of Iran’s subterfuge and was demanding a full accounting. A plan put forth by the Russian government after a visit by Foreign Minister Lavrov to Tehran called for Iran to admit UN inspectors, and in return Moscow would establish a Russian-Iranian joint enterprise to enrich uranium in Russia. But as the weeks dragged on with no firm deal, many in the West were left wondering if Iran was playing Russia to buy itself more time. Russia’s stance has been frustrating for the Bush administration. Moscow claims to agree, but there has been little to no pressure on the Iranians. The Europeans have been much more cooperative in this regard.

Washington was also put off by the decision of the Russian government to invite the Hamas leadership to the Kremlin in early March. Many see this as an attempt by the Russian government to reassert itself into the politics of the Middle East. Nevertheless, it seems a clumsy and reckless attempt to many, including officials in Washington.

Putin's visit to China follows the concerted push in the last quarter of 2005 to shore up Russia's relations with the nations of East Asia, for whom Moscow hopes to become a primary supplier of energy. For now the Russian focus is on developing the infrastructure (rail and pipe) of the oil industry in Siberia. But if China and Japan build a substantial gas network, then Russia can become the supplier of first resort for natural gas, as it is in Europe. This goal will not be easily reached, but it is attainable, and the Kremlin appears fixated on this idea. In Southeast Asia Russia hopes to become a primary arms supplier. Russia fears losing India, one of its best clients, and hopes to partially offset such a loss with increased arms sales to Indonesia, Malaysia, and Vietnam (as it also eyes new markets in Latin America and North Africa). Perhaps in this vein, Russian Prime Minister Mikhail Fradkov visited Hanoi in February.

The indications are that both Moscow and Washington are taking preliminary steps to seek out alternatives to the close partnership that has guided bilateral relations for the past five years. Russia looks to reassert itself as the political power broker it once was in the CIS, and as the primary energy supplier in both Europe and East Asia. To achieve this, the leadership in Russia may feel that U.S. dominance in these regions must be circumvented, if not undermined. The U.S., however, seems bent on maintaining its preeminent position across Eurasia. Russia is perhaps seen as more of a hindrance, rather than a strategic threat, like China. Nevertheless, it is understood that Russia is capable of forming partnerships that could hinder, if not block, the U.S. in achieving its strategic goals. The decisions being made in both governments might well be outlining just such a scenario of strategic competition, and not a continuation of the strategic partnership.

Chronology of U.S.-Russia Relations January-March 2006

Jan. 4, 2006: Russia and Ukraine reach 11th hour deal that assures Ukraine continued supplies of natural gas at a rate below market value. Russia's heavy-handed tactics cause an uproar in the U.S. press, as well as in the U.S. government.

Jan. 11, 2006: Russian Deputy Prime Minister and Defense Minister Sergei Ivanov publish an op-ed in the *Wall Street Journal*, entitled "Russia Must Be Strong."

Jan. 16, 2006: Russian President Vladimir Putin publicly states that there is little dividing Russia from the EU and the U.S. on Iran's uranium enrichment activities.

Jan. 23, 2006: Russian Foreign Minister Sergei Lavrov meets with senior officials in Tehran to discuss the Iranian nuclear program. He seeks a softening of the Iranian stance.

Feb. 7, 2006: Japanese Prime Minister Junichiro Koizumi fails to attend the annual rally on Northern Territories Day in Tokyo. At this rally Japanese gather to demand the return of the four disputed islands with Russia.

Feb. 11, 2006: G8 finance ministers meet in Moscow to discuss details of the June G8 summit in St. Petersburg. U.S. Treasury Secretary John Snow attends.

Feb. 16, 2006: Russian Prime Minister Mikhail Fradkov arrives in Vietnam for a two-day visit to warm relations and to increase Russia's profile in Southeast Asia.

Feb. 28, 2006: In an editorial in the *Wall Street Journal*, President Putin states that the "establishment of a reliable and comprehensive system of energy security is one of the strategic goals for the G8."

March 3, 2006: Hamas leaders meet with the Russian leadership in Moscow.

March 5, 2006: Council on Foreign Relations issues a critical report on Russian internal and external affairs.

March 5, 2006: Russian FM Lavrov arrives in Washington for a meeting with U.S. leaders, including Condoleezza Rice. Lavrov also meets briefly with President Bush.

March 8, 2006: The State Department releases its *Country Reports on Human Rights Practices*. The report chides Russia on its "backslide" from democracy.

March 11-12, 2006: Ukrainian Foreign Minister Boris Tarasyuk visits Washington and discusses NATO membership for his country.

March 16, 2006: U.S. Energy Secretary Samuel Bodman visits Kazakhstan and meets Kazakh President Nursultan Nazarbayev. The two discuss the trans-Caspian shipment of Kazakh oil to the Baku-Ceyhan pipeline.

March 16, 2006: The White House issues its *National Security Strategy*, which expresses concern about Russia's democratic development.

March 19, 2006: Presidential elections in Belarus give President Alexander Lukashenko 83 percent of the votes.

March 24, 2006: Pentagon issues report stating that Russian diplomats based in Baghdad may have passed information about U.S. war plans to the Iraqi government in 2003.

March 26, 2006: Ukrainian parliamentary elections fail to designate a clear-cut winner, though they are seen as a blow to President Viktor Yushchenko and his forces.

March 29, 2006: Putin expresses frustration about the pace of Russia's accession to WTO membership, citing new demands by the U.S.



U.S.-Southeast Asia Relations:

U.S. Ratchets Up Regionalism and Boosts Ties with Muslim States

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Determined to reverse impressions that the United States is out of sync with regional dynamics, the State Department floated the idea of a formal U.S.-ASEAN Summit and speculated publicly on a possible U.S. role in the next East Asia Summit. Condoleezza Rice made her first visit to Jakarta as secretary of state, while U.S. Trade Representative Rob Portman launched negotiations with Malaysia on a free trade agreement in Washington. Southeast Asia's two oldest democracies, Thailand and the Philippines, spent much of the quarter in political turmoil. Protests in Thailand put U.S.-Thai Free Trade Agreement (FTA) talks on ice, but the *Balikatan 2006* exercises went forward in the Philippines as planned, despite a declaration of national emergency. As the U.S. and Vietnam moved closer to agreement on Hanoi's accession to the World Trade Organization (WTO), the focus began shifting to Congress and the debate on Permanent Normal Trade Relations. In Cambodia, the return of exiled opposition leader Sam Rainsy – and hints that Rainsy could join the government coalition – led Washington to contemplate shifts in U.S. policy.

Testing the regional waters

By the end of January, criticism of the recent U.S. misses and missteps in Southeast Asia was beginning to show on the Bush administration. Southeast Asian governments and pundits on both sides of the Pacific continued to fault the State Department for Secretary Rice's absence at the ASEAN Regional Forum (ARF) meeting in Vientiane last summer, while the business community complained that there was no U.S. representation at the ASEAN Business and Investment meeting in December. In January, Secretary Rice postponed her planned trip to Indonesia because of Israeli Prime Minister Ariel Sharon's health crisis, an unfortunate reason to skip her first call upon the capital of the largest Muslim-majority country in the world. Although U.S. officials downplayed the importance of last December's East Asia Summit in Kuala Lumpur, it endured as a reminder of Washington's explicit exclusion from a regional forum. In early February, Singaporean Ambassador to the U.S. Chan Heng-chee told an Asia Society forum that China's rise in Southeast Asia was helped by a lackluster U.S. response to the 1997 financial crisis, reinforcing a growing perception in Washington that the U.S. is losing ground to China in the region.

In February, the U.S. attempted to apply a tourniquet by opening discussion on a U.S.-ASEAN Summit. Although the U.S. and ASEAN have been dialogue partners for three decades, there is as yet no regular and formal consultative process. On the table are two proposals: a meeting on the margins of the November APEC Summit in Hanoi or a 2007 summit to mark the 30th anniversary of U.S.-ASEAN relations. In both, the U.S. assumes exclusion of Myanmar, the invariable obstacle in attempts to expand relations with ASEAN. A meeting in Hanoi in November would also exclude Phnom Penh and Vientiane, since Cambodia, Laos, and Myanmar are not APEC members. ASEAN maintains the categorical imperative of including all members, but is quietly exploring options for an ASEAN-9 dialogue configuration, which would bypass only Myanmar.

U.S. diplomats also began preparing the ground for a possible entry into the East Asia Summit (EAS). At a Manila press conference in March, Assistant Secretary of State Christopher Hill announced that he was consulting with the governments of Malaysia (last year's host), the Philippines (the 2006 host), and Indonesia about a role for the U.S. in the group. Joining the EAS would require that the U.S. accede to the ASEAN Treaty of Amity and Cooperation (TAC). This has heretofore been seen as impossible because of ASEAN's notional attempts to create a "nuclear free zone" and because Myanmar would again be a sticking point. However, Asia analysts in and out of government are encouraging the administration to rethink that assumption, and the possibility of signing (if not ratifying) the TAC is no longer rejected automatically.

One offshoot of this increased activity is the view expressed carefully in some Congressional offices and Washington think-tanks that U.S. policy in Southeast Asia is increasingly held hostage to Myanmar. There is no broad sentiment to overturn Myanmar sanctions at this time, but there is growing acknowledgement that more frank discussion is needed within the U.S. policy community. There are also signs that ASEAN is wearying of the longstanding Myanmar stalemate, which could push regional leaders in either direction. Although ASEAN officials continue to dispatch envoys to Yangon to promote political reconciliation between the military junta and the National League for Democracy, they privately complain that such activities are time-consuming with little hope of immediate payoff. At the end of the quarter, ASEAN Secretary General Ong Ken Yong attempted to draw China and India in by urging them to press Myanmar for greater political progress.

Deepening relations with Jakarta and Kuala Lumpur

Although dynamics between the U.S. and Muslim societies in Southeast Asia continued to show tensions – this quarter over the U.S. response to the Hamas victory in the Palestinian elections and caricatures of the Prophet in Danish newspapers – official relations with both Indonesia and Malaysia were on the upswing. The visit of Secretary Rice to Indonesia was swaddled in complimentary rhetoric. Just before her departure, a senior U.S. official remarked that Indonesia can (and implicitly should) return to its pre-1998 status as a "big player," and pointed to ASEAN as an area for greater Indonesian influence. Although the need to find counterweights for China in the region was no doubt a factor, he may have had more specific uses in mind – during her visit Rice praised

Indonesia's position on Myanmar. She also lauded Indonesian democracy, visited an Islamic school, and highlighted her consultations with Indonesian officials on Iran.

The visit helped to extend Washington's honeymoon with the Yudhoyono-Kalla administration, but both sides also raised red flags. Rice noted democratic progress but also said the U.S. looks forward "to greater accountability and complete reform in the military sphere." In private meetings, Indonesian Foreign Minister Hassan Wirajuda raised doubts about Indonesia's participation in the Proliferation Security Initiative (PSI) because of its possible infringement on sovereignty, an intense concern since fully two-thirds of Indonesian territory can be considered coastal.

U.S.-Malaysian relations took a quantum leap this quarter when U.S. Trade Representative Rob Portman opened negotiations with Kuala Lumpur on a free trade agreement. This was the next step in the growing momentum in U.S.-Malaysia trade, which now averages \$44 billion per year. In May 2004 the two countries signed a Bilateral Trade and Investment Framework Agreement (TIFA). This March the Malaysian government announced it would open the Malaysian market to U.S. boneless beef, a concession that helped bring Washington on board for FTA talks. Both sides are under pressure to conclude negotiations by the end of 2006 in order to submit an agreement to the U.S. Congress before the Bush administration's Trade Promotion Authority (TPA) expires in July 2007. Nevertheless, there will be contentious issues to resolve, auto parts and financial services in particular.

Stepping lightly with distressed democracies

Relations with Thailand and the Philippines were affected this quarter by protracted political crises in both countries. A two-month long protest against Thai Prime Minister Thaksin Shinawatra, sparked by the sale of his family telecommunications company to a Singaporean firm for a tax-free \$1.9 billion, left many issues in Thailand's domestic and foreign portfolio in limbo. Sporadic violence continued in the Muslim-majority southern provinces. The chairman of the National Reconciliation Commission, Anand Panyarachun, delayed submitting the Commission's report in part because, as the protests wore on, it was increasingly unclear who would receive it. Negotiations on the U.S.-Thailand Free Trade Agreement were suspended, as was the signing of Thailand's FTA with Japan.

The prime minister's political opposition lay with the Bangkok classes, which had become increasingly disillusioned with Thaksin's policies and personality, while his strength in the rural sector, which had given him a clear majority in elections only last year, appeared to hold. A complicated chess game played out, in which Thaksin endeavored to remain in power until the April 2 snap elections, which he would most likely win, while the opposition clearly wanted him to step aside. The opposition's boycott of the polls and their attempts to turn the elections into a referendum on Thaksin, through a "Vote No" campaign, helped to ensure that even if polls did go forward they were not likely to settle the issue. A more fundamental issue is constitutional reform. The

opposition wants to close loopholes they feel that Thaksin has exploited in the past five years and does not believe that reform led by a Thaksin administration will do that.

With the exception of a brief period of national emergency, called by President Gloria Macapagal-Arroyo when rumors of a coup against her surfaced, the Philippine political crisis was more low-key, in part because it is of longer duration. Since the 2004 elections, in which questions of electoral abuse were raised, Arroyo's political legitimacy has diminished in some quarters. Constitutional issues are also involved because of a growing movement to change the Philippines political system from a presidential to a parliamentary one. As the crisis drags on, doubts have arisen about whether Arroyo has the political capital to complete peace negotiations with the Moro Islamic Liberation Front (MILF). Although breakthroughs have been reported in the talks, such as the MILF's renunciation of its demands for an independent territory, they are unlikely to move to completion without a strong push and sustained attention from Manila.

Despite this turmoil, U.S.-Philippines relations remained on even keel this quarter, and the annual *Balikatan* joint training exercises went forward even in the midst of the national emergency. A mudslide that nearly covered a town in southern Leyte underscored one of the benefits of bilateral military cooperation – U.S. ships, helicopters, and troops that had been positioned for the *Balikatan* exercises were diverted to help in the relief efforts.

Picking up momentum with Vietnam

Two deadlines have helped focus, and improve, U.S.-Vietnam relations this quarter: Bush's planned November visit to Vietnam for the APEC Summit, and Vietnam's expected accession to the World Trade Organization (WTO). Vietnam completed its 12th multilateral WTO round in Geneva in March. Hanoi is close to concluding its series of bilateral WTO negotiations, with the U.S. rounds the most significant obstacle. In order to join the WTO this year, Vietnam must wrap up talks with the U.S. before the summer, so that Congress can consider Permanent Normal Trade Relations (PNTR) status for the country.

Although the USTR has not yet given final approval, both sides are obviously preparing for the PNTR push. One sign is increased activity in human rights diplomacy, which has had a negative impact on other areas of U.S.-Vietnam relations in recent years. The bilateral human rights dialogue, suspended in 2003, was resumed in Hanoi and U.S. officials commented favorably on it, particularly in the area of religious freedom. Although the State Department renewed Vietnam's status as a "Country of Particular Concern" (CPC) in November, in March U.S. Ambassador to Hanoi Mike Marine hinted that the department may lift the CPC designation in the near future. To examine, if not check, this acceleration in relations, the Human Rights Subcommittee of the House International Relations Committee held hearings on human rights in Vietnam at the end of March. Even Vietnam's Congressional critics cited signs of improvement, although it is not clear if they will allow PNTR to go through without challenge.

Turning a page with Cambodia?

A greater surprise has been an upturn in U.S.-Cambodia relations this quarter. The State Department and Congress are quietly rethinking aid sanctions on Phnom Penh as dynamics within that country's political elite begin to shift. The year began on a negative note as the government imprisoned a prominent human rights activist and other civil society opposition figures who protested the Cambodia-Vietnam border agreement signed last October. The government timed their release to the visit of Assistant Secretary of State Christopher Hill in mid-January, and Prime Minister Hun Sen went so far as to label the releases "a gift to the United States." In short order, an agreement was reached to enable exiled opposition leader Sam Rainsy to return to Cambodia, and the prime minister even speculated publicly on repealing the defamation law that had enabled the government to prosecute Rainsy and other opposition politicians. Hun Sen saw more at stake than pleasing the U.S., however. These moves were made in advance of Cambodia's annual meeting with its international donors, an important event since the country still relies on foreign assistance for half of its national budget.

These events were enough to improve U.S.-Cambodia relations, but a prospective political development could rewire the relationship altogether. Since Rainsy's return, rumors have strengthened that he and Prime Minister Hun Sen are considering a role for the Sam Rainsy Party in the government coalition, after the 2008 elections if not before. During his year abroad, Rainsy no doubt came to question how effective he could be from the outside, but the greater gain in such an arrangement would go to Hun Sen. For nearly a decade, the U.S. Congress has clearly favored Rainsy over Hun Sen, although administrations have tried to maintain a nonpartisan approach. If the Cambodian political establishment does reshuffle the cards, U.S. policymakers will be forced to rethink their approach.

Looking ahead

As the major meetings of the year draw closer – the ASEAN Regional Forum in Kuala Lumpur, the APEC Summit in Hanoi, and the East Asia Summit in the Philippines – Washington will be increasingly pressured to act on its expressed intentions to strengthen formal U.S. relations with regional institutions. U.S. policymakers may be able to finesse the nuclear issue with the Treaty of Amity and Cooperation to join the East Asia Summit, as Australia did last year, but Myanmar policy is likely to be a greater obstacle, and one that could also block the establishment of a formal U.S.-ASEAN Summit.

Given the volatility of the U.S. image in the Muslim world, U.S. policymakers will have to invest some time in maintaining momentum in relations with Indonesia and Malaysia, although the fundamentals are clearly improving. U.S. and Thai officials will have to make a quick start in resurrecting FTA talks if an agreement is to be reached before the TPA expires. Although the U.S. should continue to maintain a low profile in dealing with the situation in southern Thailand, U.S. policymakers should make clear that it will support Thai efforts to find a constructive resolution to problems in the south as soon as the political dust in Bangkok clears.

Momentum with Vietnam is only likely to increase in pace and intensity as the year goes on. Assuming a successful conclusion of bilateral WTO talks, the relationship will focus heavily, but not exclusively, on the PNTR debate in Congress this summer. However, in June, Secretary Rumsfeld will visit Vietnam in the hopes of advancing the security dialogue to the point that a formal announcement of a strategic framework can be made during Bush's visit to Hanoi in November.

Chronology of U.S.-Southeast Asia Relations January-March 2006

Jan. 6, 2006: The State Department protests the arrests of Kem Sokha, human rights activist, and three other civil society figures in Cambodia and charges the Cambodian government with attempting to neutralize all opposition.

Jan. 12, 2006: Four-day talks to negotiate the U.S.-Thailand Free Trade Agreement, the sixth round of negotiations, begin in Chiang Mai amidst protests there and in Bangkok.

Jan. 13, 2006: U.S. Ambassador to Cambodia Joseph Mussomeli says the Cambodian government should stop arresting critics and "needs to chill."

Jan. 13, 2006: State Department expresses concern that no one has been brought to justice in Thailand for the 2004 disappearance of attorney Somchai Neelaphaisit, who alleged that the police tortured prisoners, after four officers charged in the disappearance were acquitted.

Jan. 16, 2006: Through a diplomatic note, the U.S. informs the Philippine government that it will retain custody of four Marines accused of rape while their case is processed through the Philippine courts. The Marines will reside at the U.S. Embassy in Manila.

Jan. 17, 2006: Assistant Secretary of State Christopher Hill opens the new U.S. Embassy in Phnom Penh. Prime Minister Hun Sen uses the occasion to free Kem Sokha and three other activists, calling the releases "a gift to the United States."

Jan. 17, 2006: U.S. and Philippine militaries embark upon a month of small unit exchanges – *Balance Piston 06-02* – in North Catabato under the U.S. Joint Combined Training program for the Pacific Rim.

Jan. 23, 2006: Ministry of Trade and Industry in Vietnam announces new allocation procedures for quotas on U.S.-bound textile exports. Under the new system, 40 percent of the quota will be automatically allocated, vs. 70 percent in previous years; the remaining 60 percent will be divided among companies with good performance records in 2005.

Jan. 25, 2006: U.S. Ambassador to Thailand Ralph Boyce seeks assurances from the Thai government that U.S. businesses would not lose preferences with the expiration of trade provisions in the 1966 Thailand-U.S. Treaty of Amity and Economic Relations. Under WTO rules, the provisions expired Dec. 31, 2005.

Feb. 3, 2006: ASEAN Secretary General Ong Keng Yong indicates that ASEAN is in discussions with Washington on establishment of the first formal U.S.-ASEAN Summit, which could take place in late 2006 or early 2007.

Feb. 3, 2006: At an Asia Society forum in Houston, Singaporean ambassador to the U.S. Chan Heng-chee says, “The U.S. response or failure to respond to the Asian Financial Crisis in 1997 strengthened China’s standing in the region...China did not take a wrong step during this crisis.”

Feb. 6-19, 2006: Protests against caricatures of the Prophet Mohammed in Danish newspapers spread to the U.S. Embassy in Jakarta and the U.S. Consulate in Surabaya.

Feb. 10, 2006: State Department issues a statement welcoming the return to Cambodia of Sam Rainsy, opposition leader whose year-long exile was ended when King Norodom Sihamoni pardoned his criminal conviction for defamation at the government’s request.

Feb. 15, 2006: U.S. moves the Philippines from the “Special 301 Intellectual Property Rights Priority Watch List” to the “Watch List,” which signifies improvement.

Feb. 17, 2006: After the Philippines suffers a massive mudslide in Leyte, the U.S. diverts a naval vessel docked in Subic Bay for *Balikatan* exercises to provide disaster assistance; U.S. helicopters, also in country, perform rescue and relief services.

Feb. 20, 2006: *Balikatan 2006* training exercises are launched, with simultaneous activity in Cebu, Luzon, and Sulu. The exercises focus on counterterrorism and interoperability between the two militaries, and involve 5,500 U.S. and 2,800 Philippine personnel.

Feb. 20, 2006: U.S. and Vietnam resume official dialogue on human rights in Hanoi, after a three-year hiatus.

Feb. 22, 2006: Indonesian President Susilo Bambang Yudhoyono indicates that he will back Exxon Mobil as the lead operator of the Cepu Contract Area in East and Central Java in the oil company’s dispute with the wholly-owned state enterprise P.T. Pertamina.

Feb. 24, 2006: In response to Philippine President Gloria Arroyo’s declaration of national emergency, the State Department issues a statement urging the government and anti-Arroyo activists to reject violence and protect civil liberties. Arroyo imposed the emergency because of a rumored coup plot timed to coincide with 20th anniversary celebrations of the 1986 “People’s Power” revolution.

Feb. 28, 2006: Intel announces it will build a \$300 million semi-conductor assembly and testing plant in Ho Chi Minh City, making it the largest investment in Vietnam by a U.S. company. Operations will begin in the second half of 2007.

Feb. 28, 2006: State Department issues a statement welcoming the unanimous decision of the Cambodian National Assembly to reinstate Sam Rainsy and two opposition MPs, all of whom had been expelled from the legislature in 2005.

March 1, 2006: Thai government suspends talks on the U.S.-Thai Free Trade Agreement because of snap elections scheduled for April 2. Negotiations are tentatively set to resume in October. Bangkok also postpones signing a free trade agreement with Japan.

March 1, 2006: Vietnam's 54 shrimp companies that have been exporting to the U.S. since 2004 ask the Department of Commerce to reconsider anti-dumping tariffs against them. A decision will be forthcoming in 90 days.

March 2, 2006: Assistant Secretary of State Christopher Hill arrives in Manila to co-chair the ASEAN Regional Forum Intersessional Support Group and to kick off a "listening tour" of the region on the U.S. role in Southeast Asia. He indicates that U.S. reservations against the East Asia Summit are waning.

March 3, 2006: President Arroyo lifts the state of emergency in the Philippines.

March 7, 2006: Malaysia announces it will open its market to U.S. boneless beef.

March 8, 2006: U.S. Trade Representative Rob Portman launches first round of negotiations between the U.S. and Malaysia for a free trade agreement. A heavy turnout of senators and congressman is viewed as a hopeful sign for approval of a final agreement.

March 10-11, 2006: FBI Deputy Director John S. Pistole visits the Philippines. The U.S. provides more than \$12 million in assistance, equipment, and training to help strengthen Philippine law enforcement.

March 12, 2006: In response to Myanmar's announcement of an avian flu outbreak near Mandalay, the U.S. provides 2,000 units of protective clothing and sprayers through the Food and Agricultural Organization.

March 14, 2006: A senior U.S. official, speaking on background, asserts that "Indonesia can be a big player again," and suggests the country could take a more vigorous role in ASEAN.

March 14, 2006: UN and Cambodia issue agreements that form a legal foundation for efforts to put Khmer Rouge leaders on trial for crimes against humanity during their 1975-78 reign.

March 14-15, 2006: Secretary of State Condoleezza Rice visits Indonesia, the only Southeast Asian country in a trip that includes Australia, Chile, and Peru. She meets the Indonesian foreign policy establishment, visits a Muslim school, and launches an \$8.5 million U.S. assistance program to promote education using Sesame Street characters.

March 15, 2006: Exxon Mobil and P.T. Pertamina sign a joint operating agreement for the Cepu oil block.

March 17, 2006: U.S. announces a \$11.5 million grant to Indonesia for poultry and health surveillance programs to avert avian flu. To date, the virus has killed 22 Indonesians. Jakarta estimates it will require \$900 million to fight the disease.

March 17, 2006: U.S. Ambassador to Vietnam Michael Marine indicates that the State Department is “exploring conditions” for Vietnam’s removal from the list of Countries of Particular Concern on religious freedom.

March 24-25, 2006: U.S. and Vietnam hold negotiations on Vietnam’s accession to the World Trade Organization, on the margins of the 12th multilateral round on Vietnam and the WTO in Geneva.

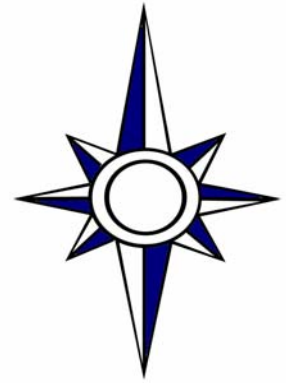
March 28-29, 2006: At the first international conference for victims of Agent Orange, held in Hanoi, war veterans from the U.S., Australia, South Korea, Australia, New Zealand, and Vietnam call for the U.S. government to apologize for the use of defoliants during the Vietnam War, and for U.S. manufacturers of Agent Orange to pay compensation “commensurate with liability.”

March 29, 2006: House International Relations Committee’s Subcommittee on Human Rights conducts hearings on human rights in Vietnam, to assess progress in light of the anticipated debate on granting Permanent Normal Trade Relations to Hanoi this summer.

March 29, 2006: Testifying before the Senate Foreign Relations Committee, State Department EAP DAS Eric John signals that the Bush administration will support renewal of the import ban in the Myanmar Freedom and Democracy Act.

March 29, 2006: U.S. Peace Corps announces that it will place Volunteers in Cambodia for the first time in that country’s history. Scheduled to arrive in 2007, the first volunteers will teach English and work in health education.

March 30, 2006: ASEAN Secretary General Ong Ken Yong pressures China and India to persuade the Burmese junta to step up democratic reform after Malaysian Foreign Minister Syed Hamid Albar, in his capacity as ASEAN Special Envoy to Myanmar, is denied permission to meet National League for Democracy leader Aung San Suu Kyi.



**China-Southeast Asia Relations:
Progress with Limitations**

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The quarter saw much less of the high-level Chinese-Southeast Asian interchange that marked past periods and was notable in the lead-up to the East Asia Summit in December 2005. The visit of Myanmar's prime minister to China in February was the highlight in bilateral exchanges. Beijing hosted a major international donors' conference in January to assist China, Southeast Asia, and other Asian states affected by the avian flu epidemic.

The mid-winter Lunar New Year's or "spring festival" celebrations usually are periods of relative inactivity for Chinese leaders. Senior Chinese leaders also were preoccupied this year with issues related to the new five-year development plan and significant changes in domestic laws and regulations considered at the annual National People's Congress session in March. Chinese leaders had little to say about policy toward Southeast Asia at the Congress, which as usual featured detailed press conferences by the Chinese premier and Chinese foreign minister discussing salient policy issues. This seemed to reflect the absence of significant controversy in Chinese-Southeast Asian relations rather than any diminution of Chinese attention to the region.

Meanwhile, political turmoil in Thailand prompted the Chinese premier to postpone a visit to Bangkok scheduled for April, according to Thai media reports. China responded to the February landslide disaster in the Philippines with a pledge of \$1 million in assistance, but avoided significant comment on President Arroyo's declaration of a state of emergency and related political difficulties.

There was little official reaction in Southeast Asia to Chinese developments with implications for Southeast Asian security. These included the disclosure at the National People's Congress that China's defense budget would increase over 14 percent in 2006, and a concurrent report by the Chinese-controlled media in Hong Kong of a Chinese general and deputy director of the Science and Technology Commission of the People's Liberation Army (PLA) General Armament Department disclosing the Chinese military's determination to build an aircraft carrier fleet. China welcomed Southeast Asian statements criticizing the Taiwan president over his controversial decision in February to end the island's National Unification Council and Guidelines for political unification with China.

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Prime Minister Soe Win's visit

At the invitation of Chinese Premier Wen Jiabao, Myanmar's Prime Minister Soe Win visited China (Feb. 14-18). It was Soe Win's first visit to Beijing since becoming prime minister two years ago. Soe Win's first stop was in Kunming, the capital of the southwestern province of Yunnan, which borders Myanmar. Yunnan shares borders with Myanmar, Laos, and Vietnam and has China's highest rate of drug use and drug-related crime. The border between Myanmar and China has been a major source of illegal drug trade. Closer cooperation between China and Myanmar has yielded positive results in controlling the illegal drug trade in recent years. The UN has praised Myanmar for reducing the land cultivated for opium by 80 percent over the last decade. In an attempt to further enhance cross-border operations, Soe Win sought to learn more from Yunnan's programs in growing alternative crops to opium poppies and promised to step up Myanmar's efforts in cracking down on drug trafficking within its borders.

Soe Win's visit secured several important agreements to boost economic ties. The level of bilateral trade between China and Myanmar has grown in the last few years. Myanmar has created an industrial zone in its northeastern corner that relies on trade with China. Both sides agreed earlier to have the town of Muse linked to Yunnan's Ruili in order to enhance trade across the border. Muse is already a busy trade point with nearly 200 tons of registered goods transacted daily. According to Chinese statistics, Myanmar-China bilateral trade, including the border trade, reached \$1.145 billion in 2004, up 6.3 percent from 2003. China's exports to Myanmar totaled \$938 million, mostly construction materials and heavy-duty machinery, while its imports from Myanmar reached \$207 million. As last quarter's figures are still being computed, Chinese officials predicted that trade volume for 2005 could go as high as \$1.5 billion.

China is Myanmar's traditional ally and one of the top foreign investors and aid donors. During the February visit of Prime Minister Soe Win, Premier Wen announced eight key areas of closer economic cooperation, which included technology, civil aviation, and building a new power plant for Myanmar. China's interests seem to focus particularly on Myanmar's growing geopolitical and strategic importance in Chinese foreign policy. Myanmar has been instrumental in giving the Chinese a new trading route to the Indian Ocean. It is also rich in natural resources such as timber, gems, gas, and oil. A Memorandum of Understanding was signed between the two leaders, giving the Chinese greater access to develop Myanmar's natural gas fields.

The Chinese government continues to avoid criticizing Myanmar's human rights abuses and lack of democracy. Soe Win's visit was closely watched by other countries in Southeast Asia, as ASEAN has stepped up efforts to persuade Yangon to pursue democratic reforms and engage in constructive dialogues with opposition leader Aung San Suu Kyi. In December 2005, Myanmar responded to ASEAN pressure and stepped back from seeking chairmanship of the regional organization for 2006. But as ASEAN presses Myanmar, it appears that the military government has turned to China for economic aid and international attention, and that China is responding positively.

Chinese Foreign Ministry spokesmen have reiterated that Beijing did not wish to meddle with Myanmar's "internal affairs." China did, however, refrain from vetoing a decision taken up by the UN Security Council to informally discuss the situation in Myanmar last December. During Soe Win's visit, Premier Wen also expressed his concerns to his counterpart and urged the government to "push forward reconciliation in Yangon and realize economic development and social progress." Thus, Beijing seems to favor a more subtle approach on possible political reforms and reconciliation in Myanmar, while it focuses on the more pragmatic issues of mutual concern such as trade, economic ties, and cracking down on the drug trade. A foundation of China's argument is that stable society and sustained economic growth in Myanmar would not only be in China's interest but also would benefit peace and stability in the region.

Assessing economic relations

Commentaries in official Chinese media during January highlighted the positive in developments in China-Southeast Asian economic relations in the previous year. A lengthy assessment in *China Daily* on Jan. 9 evaluated the progress of China-Southeast Asian economic ties in the context of progress toward implementing the China-ASEAN Free Trade Agreement. It stressed the following highpoints:

- 2005 ASEAN-China trade was valued at over \$120 billion.
- ASEAN states had a trade surplus with China in 2005 of over \$16 billion.
- Chinese investment in Southeast Asia "in recent years" has "witnessed an annual average growth rate of 60 percent." In 2006, the Chinese government will provide loans of "up to \$5 billion" on favorable terms to support Chinese enterprises' investment in ASEAN.
- The first expressway linking China and ASEAN (a 179-kilometer expressway between Nanning, the capital of Guangxi Province, and Vietnam) opened at the turn of the year. A large port project in southern China for trade from ASEAN, a major road project linking Yunnan Province with Southeast Asia, as well as three separate Chinese rail links to Laos, Vietnam, and other Southeast Asian destinations are being built.

Chinese media disclosed that July 2005 marked the first phase of the China-ASEAN Free Trade Agreement (FTA) under which tariffs on 7,000 goods were lowered to 20 percent. The China-ASEAN FTA is scheduled to be fully implemented in six years, with tariffs further lowered to 12 percent in 2007, 5 percent in 2009, and 0 percent in 2012. Chinese officials saw the FTA giving an important boost to China-ASEAN trade, with the Chinese director of the ASEAN-China Business Council predicting in January 2006 that trade would reach \$200 billion by 2010.

Separate Chinese commentaries focused on the benefits countries such as Thailand, Malaysia, the Philippines, and Indonesia derived from economic relations with China over the past year. Chinese officials disclosed that Thailand benefited from the Early Harvest Program in the China-ASEAN Free Trade Agreement, running a surplus of \$220 million in trade with China involving fruits and vegetables in 2005. They said that Thailand and China planned to establish soon a China-Thailand Closer Economic Partnership Agreement (CEPA) that was proposed by the Chinese premier to his Thai counterpart during the ASEAN-China meetings in Kuala Lumpur in December. The agreement with Thailand will represent the first CEPA with a sovereign country. It follows similar agreements China has enacted with its two special administrative regions of Hong Kong and Macao, offering them more preferential trade and investment terms. Malaysia also is considering a CEPA with China, according to Chinese media. Meanwhile, Chinese media accounts disclosed that the Philippine trade surplus with China continued to grow, reaching \$4 billion in total trade valued at \$13 billion in 2004, and that Indonesia-China trade grew 40 percent in 2005.

Disclosures of some of the limitations in Chinese economic relations with Southeast Asia came from non-Chinese reporting or from closer reading of Chinese material. A report of a three-year investigation of Southeast Asian developments by the Stanley Foundation that was published at the end of 2005 concluded that Southeast Asians' motivations for increased trade with China often are "defensive," as "they view it as an opportunity to recoup some of the trade and investment the region has lost" to China. This loss of trade and investment was seen to have been exacerbated by the end of textile quotas for WTO members in 2005. The study went on to forecast "significant economic dislocation" in Southeast Asia as a result of closer economic integration with China, citing "early experience" showing that "Chinese goods may overwhelm indigenous Southeast Asian markets," prompting some analysts to forecast that Southeast Asia "could lose as much as \$400 billion to China over the next 15 years."

Limited Chinese investment

A key reason for such gloomy assessments is the marked decline in foreign direct investment (FDI) to Southeast Asia as China continues to receive the lion's share of FDI going to the developing Asian countries. China received \$64 billion of FDI in 2004 and \$60 billion in 2005. Though Chinese commentaries point to large percentage increases in Chinese investment in Southeast Asia and planned loans to encourage Chinese foreign investment in the area, a close reading of Chinese statements and official commentary shows that the actual amounts of such investments are small and do not come close to offsetting the investment that leaves Southeast Asia for China. Thus, a Jan. 16 *China Daily* report disclosed that while Philippine entrepreneurs in 2004 invested almost \$700 million in China, Chinese investment in the Philippines was miniscule, with the total Chinese investment through 2003 amounting to less than \$20 million. Such figures are generally consistent with trends in global investment involving China, according to official Chinese figures. The Chinese figures belie frequent non-Chinese media accounts that often grossly exaggerate the amount of Chinese investment going abroad. Thus, Chinese officials disclosed in official Chinese media on Jan. 24 that while China in 2005

received \$60 billion in FDI, “China’s outward direct investment totaled \$6.9 billion in 2005”; in 2004, China received \$64 billion in FDI and China invested \$3.6 billion abroad.

Limited Chinese aid

For a variety of reasons, China does not provide figures giving a clear and comprehensive depiction of China’s foreign assistance. Chinese officials and official commentary do frequently highlight the importance of Chinese foreign assistance in facilitating good economic relations and offsetting difficulties Southeast Asian states may have in adjusting to economic globalization and particularly China’s economic growth and competitiveness. Official Chinese media disclosed Jan. 7 that over the past year, China gave grants of \$33 million and loaned a larger sum to support infrastructure projects in Indonesia.

Other commentaries emphasize that China plays a particularly important role in providing assistance to the poor and authoritarian Southeast Asian governments near China: Myanmar, Laos, and Cambodia. Nonetheless, a closer look at Chinese aid to Laos, published in February by *China Development Brief*, found that while Chinese aid has built prominent projects, the actual amount of Chinese aid going to the aid-dependent country was relatively small (about \$200 million from 1988 to 2004). Using Lao government data for 2001-2002, the study showed that Laos received \$198 million from donor countries and \$130 million from the Asian Development Bank and the World Bank. Japan was the largest individual donor at \$100 million while China provided \$20 million during that period.

Avian flu, tsunami relief

Limitations in China’s aid to Southeast Asia seemed on display during the China-hosted international donors’ conference on avian flu in Beijing, Jan. 17-18, to provide assistance specifically to China and other “high-risk” Asian countries including many of China’s Southeast Asian neighbors, notably Cambodia, Indonesia, Laos, and Vietnam. The meeting was sponsored by China, the EU, and the World Bank, and followed a Jan. 12-13 conference in Tokyo hosted by Japan and the World Health Organization where experts from 22 nations discussed prevention and responses to the epidemic. The Tokyo meeting was attended by specialists from Taiwan, but Taiwan delegates were excluded from the Beijing meeting.

Official Chinese media seemed very pleased with the results of the Beijing donors’ meeting, which saw pledges of almost \$2 billion to assist China and other affected countries. The World Bank and the Asian Development Bank each pledged about \$500 million, the U.S. pledged over \$300 million, and Japan over \$150 million. China presumably will gain a proportional share of this international support, helping to pay for the extensive prevention measures undertaken. Though hosting the meeting, the Chinese government made little effort to play a leading role as an international donor. It pledged

\$10 million at the conference, and thereby appeared to assure that the Beijing meeting will provide significant net material aid for China.

Such small actual donations from China are consistent with the continued emphasis of Chinese officials as seen in year-end wrap-ups by official Chinese media that China “remains a developing country,” has “tens of millions of poverty-stricken people,” and will “suffer from a low per-capita GDP for a very long time.” As a result, “the Chinese government can only provide assistance within its capability,” according to Chinese officials. Against the background, *China Daily* on Jan. 19 reported that China’s actual contribution “in cash and kind” to the 2004 tsunami disaster was worth \$22 million. This small amount contrasted with many reports and estimates last year of much larger Chinese donations to the tsunami disaster as China endeavored to keep up with the widespread international support valued at several billions of dollars, provided by Japan and the U.S., including pledges of several hundreds of millions of dollars each from such middle powers as Germany, Australia, and even Norway.

The U.S. and regional policy implications

Secretary of State Condoleezza Rice’s visit to Southeast Asia and Australia in March prompted a new cycle of commentary seen in recent years in prominent media in the U.S. and Asia highlighting signs that China’s rising interaction and influence in Southeast Asia has come at the expense of and has significantly undermined U.S. leadership in Asia. Official Chinese commentary, by contrast, has continued to adhere carefully to an emphasis on “peace and development” in Chinese foreign policy that was set forth most recently in a December 2005 white paper released by Beijing that generally eschewed Chinese competition or confrontation with the U.S.

A scholarly assessment of China’s rise and U.S. leadership in Southeast Asia by a specialist at the U.S. Center for Naval Analysis (CNA) that was featured at an Asia Society forum in December 2005 seemed to reinforce the diffident public Chinese approach toward U.S. interests and leadership in Southeast Asia. It showed that key U.S. interests and leadership, focused heavily on sea lines of communication and the maritime nations of Southeast Asia, have not been adversely affected by China’s greater interaction with the region. Chinese influence historically has been focused on countries adjoining and near China’s land border, and the recent Chinese activism continues this trend. The assessment found little evidence that countries in Southeast Asia of importance to U.S. interests were drifting into a Sino-centric economic or political order detrimental to U.S. interests as has been predicted by some U.S. and Asian media.

The greater Chinese involvement in Southeast Asia was seen by the CNA specialist as coming at the expense of other powers, notably Japan, which had been the leading Asian power in the region in the 1980s and 1990s. Sino-Japanese competition has intensified as a result, and was evident notably in the Sino-Japanese tug of war regarding the role of China and participation of other regional powers in the East Asia Summit in Kuala Lumpur in December 2005 (See “Emphasizing the Positive; Continued Wariness,” *Comparative Connections*, Vol. 7, No. 4, January 2006).

The assessment confirmed that the biggest loser as a result of China's recent rise in Southeast Asia is Taiwan. Taipei used to exert considerable political influence in the region, in line with its importance as an investor and trading partner. Taiwan leaders in the 1990s traveled often to key Southeast Asian cities to meet high officials, and even prominent Southeast Asian leaders close to China, such as when Malaysia's prime minister traveled to Taiwan for talks during the 1997 Asian financial crisis. In recent years, however, Chinese diplomacy backed by China's economic and international influence has compelled Southeast Asian leaders to call a halt to such meetings. Moreover, the Southeast Asian governments have lined up publicly on China's side regarding recent China-Taiwan disputes. Thus, when Taiwan's president in February announced the ending of the island's unification council and guidelines for any political unification with China, even Singapore, the Southeast Asian government with the closest ties to Taiwan, condemned the move.

Chronology of China-Southeast Asia Relations January–March 2006*

Jan. 7, 2006: The first expressway uniting China and ASEAN opens to traffic. The expressway is 180 km long, starting from Nanning, Guangxi, and leading to the Friendship Pass at the Sino-Vietnamese border.

Jan. 9, 2006: *China Business Weekly*, published by *China Daily*, is published in Thailand in an arrangement with *The Nation* newspaper.

Jan. 9, 2006: Vietnam's northern province Cao Bang approves an investment of \$215.2 million to develop its infrastructure and industries in 2006-2010 to tap trade potential with Guangxi.

Jan. 11, 2006: According to the Information Office of China's Ministry of Commerce, China and ASEAN have further developed cooperation in trade, investment, and economic development in 2005.

Jan. 13, 2006: Chinese Ambassador to Myanmar Guan Mu encourages Chinese youth volunteers visiting Myanmar to serve their best to enhance friendly relations and raise Myanmar's agrotech and sports level.

Jan. 16, 2006: Chinese Defense Minister Cao Gangchuan tells media that the People's Liberation Army is looking to increase mil-mil ties with Thailand.

Jan. 17, 2006: Jia Qinglin, chairman of the National Committee of the Chinese People's Political Consultative Conference, meets former Thai Prime Minister Chavalit Yongchaiyudh.

* Compiled by Claire Bai, 2005 Vasey Fellow, Pacific Forum CSIS.

Jan. 17, 2006: A trade zone in Myanmar's border town of Muse linking China's Ruili in Yunnan Province will open before February. In a press briefing, a Myanmar official in Muse states that the border trade zone, known as the Muse 105 Mile Zone, will increase between the two countries.

Jan. 18, 2006: The China-ASEAN Association holds the third session of its first executive council in Beijing. Gu Xiulian, chairwoman of the China-ASEAN Association and vice chairwoman of the Standing Committee of the National People's Congress, says China expects to enhance ties with ASEAN.

Jan. 18, 2006: Yi Xiaozhun, vice minister of Commerce, announces that trade between China and ASEAN rose to \$130.4 billion in 2005, up 23.1 percent on a year-on-year basis.

Jan. 18, 2006: Top-level party, state, government, and legislative leaders of Vietnam and China exchange greeting messages on the 56th anniversary of the establishment of diplomatic ties between the two countries.

Jan. 22, 2006: Local customs statistics show that Shenzhen has become the largest importer of goods from ASEAN in China since the country and ASEAN began building a Free Trade Zone a year ago. Shenzhen imported \$176 million worth of ASEAN goods in the past year under the Sino-ASEAN preferential tariff agreement, constituting 13 percent of the country's total import of ASEAN goods.

Jan. 23, 2006: China sends over \$1.5 million worth of free military equipment to the Philippine military. The aid is to upgrade the military's civil construction capability and to help the fight against "communist rebels."

Jan. 27, 2006: Environmentalists report that illegal logging of Myanmar's forests on the part of China resumed following a four-month hiatus brought on in part by a critical report published by the NGO Global Witness.

Jan. 27, 2006: *Vietnam News* reports that the Trade Ministry says that Vietnam expects exports to China to post an annual growth rate of 13-14 percent in the next five years.

Jan. 30, 2006: The Department of Foreign Affairs of the Philippines says that the Philippine Embassy in Beijing will launch a book, entitled *Philippines-China Agreements (1975-2005): Bridges towards the Golden Age of Partnership*, on official agreements signed between the Philippines and China since 1975, when the two countries established diplomatic relations.

Feb. 2, 2006: Cambodian PM Hun Sen remarks that a powerful China offers more opportunities to the region and international cooperation, during his meeting with China's new ambassador to Cambodia, Zhang Jinfeng.

Feb. 8, 2006: China's Ministry of Commerce website reports that China customs statistics show that bilateral trade between China and Vietnam recorded a 21.6 percent increase to \$8.2 billion in 2005.

Feb. 9, 2006: Chinese government provides 60 million RMB (\$7.5 million) to build 700 houses for tsunami survivors in Indonesia's Aceh province under a friendship village program.

Feb. 9-10, 2006: China-ASEAN joint working group holds second meeting on implementing the Declaration on the Conduct of Parties in South China Sea at Sanya, Hainan.

Feb. 10, 2006: Li Jinjun, Chinese ambassador to the Philippines, and Alberto Romulo, Philippine foreign secretary, exchange bilateral extradition treaty documents. The extradition treaty will help existing bilateral cooperation on law enforcement and judicial matters, particularly drug trafficking and transnational crimes.

Feb. 14-18, 2006: Myanmar PM Soe Win visits China to discuss bilateral economic agreements. Soe visits Beijing, Shanxi, and Guangdong.

Feb. 15, 2006: China is to strengthen its support for anti-drug operations in Laos following Laotian PM Bounnhang Vorachith's declaration that Laos will end its 200-year old poppy cultivating history.

Feb. 16, 2006: Cambodian PM Hun Sen, Vietnam Foreign Ministry Spokesman Le Dung, and Indonesian Foreign Ministry spokesman reiterate their countries' stand on the one China policy when asked to comment on remarks by Taiwan leader Chen Shui-bian for the abolishment of the National Unification Council and the National Unification Guidelines.

Feb. 20, 2006: Law enforcement from China, Laos, Myanmar, and Thailand jointly raid a transnational drug ring, arresting 70 people involved in the ring and seizing 762.8kg of heroin, and foreign currencies (yuan, Hong Kong dollars, and Thai baht).

Feb. 23, 2006: Thai and Chinese military delegations exchange views during three days of meetings in China. Both sides pledge to increase military exchanges and work towards advancing closer mil-mil relations. Thai delegation consists of 69 members from the country's Defense College.

Feb. 28, 2006: Wang Zhaoguo, vice chairman of the Standing Committee of China's National People's Congress (NPC), says that the NPC is willing to strengthen communications with the Thai National Assembly, as well as exchanges and cooperation between subcommittees of the two parliaments, when meeting with First Deputy Speaker of the Senate of the Thai National Assembly, Nipon Wisityuthasart.

Feb. 28, 2006: *Vietnam News Agency* reports that a 110-kV transmission line, linking Vietnam's Tuyen Quang province with China's Yunnan province, is launched to help Vietnam import more electricity from China.

March 4, 2006: Spokesman for the National People's Congress reveals prior to the opening of the annual session that China's 2006 defense budget will be 283.8 billion yuan, an increase of 14.7 percent over last year's budget.

March 6, 2006: *Thai News Agency* says that Thailand's caretaker Deputy Prime Minister Somkid Jatusripitak and Chinese government officials have agreed to expand bilateral trade to reach \$50 billion annually by 2010.

March 9, 2006: Malaysian Deputy Prime Minister Najib Tun Razak says that Asian countries should look at China's development in a more positive perspective, at the opening ceremony of the "Malaysia and East Asia" seminar in Kuala Lumpur.

March 9, 2006: Gen. Wang Zhiyuan, deputy director of the Science and Technology Commission of the PLA General Armament Department discloses to Hong Kong *Wen Wei Po* newspaper, "The Chinese army will conduct research and build aircraft carriers on its own, and develop its carrier fleet." Related research and a development program are under way.

March 15-16, 2006: The seventh meeting of the China-ASEAN Joint Cooperation Committee is held in Nanning. Participants agree that their bilateral strategic partnership oriented to peace and prosperity has continued to advance.

March 15, 2006: A six-person delegation of Chinese journalists arrives in Myanmar for a goodwill visit.

March 15, 2006: China's Ministry of Commerce announces that trade between China and ASEAN showed year-on-year growth of 28.2 percent in the first two months of 2006.

March 16, 2006: Chinese Assistant Foreign Minister Cui Tiankai says at the 7th Meeting of China-ASEAN Joint Cooperation Committee that the China-ASEAN Commemorative Summit will be held in Nanning in October.

March 20-24, 2006: Jia Qinglin, chairman of CPPCC and member of the Standing Committee of the Political Bureau, visits Vietnam, meets Nong Duc Manh, general secretary of the Central Committee of the Communist Party of Vietnam, and makes five proposals on reinforcing and developing China-Vietnam relations.

March 20, 2006: Hanoi approves agreement between Vietnam and China on building a bridge over the Red River to facilitate transport of passengers and goods.

March 21, 2006: The Indonesian House of Representatives agrees to enact the Treaty on Mutual Legal Assistance in Criminal Matters between Indonesia and China.



**China-Taiwan Relations:
Missed Opportunities**

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The agreement to conduct an expanded round of direct cross-Strait charter flights during the 2006 Lunar New Year could have marked the resumption of progress on practical cross-Strait ties. However, reacting to his party's defeat in the recent county elections, President Chen announced Jan. 1 his intention to more "actively manage" – meaning to tighten restrictions on – cross-Strait economic ties. Nevertheless, President Hu Jintao and other Chinese officials continued to signal their interest in expanding cross-Strait transportation, economic, tourism, and cultural ties. In late January, President Chen announced his intention to abolish the National Unification Council (NUC). His motives were primarily domestic, but the implications of this proposal sparked a sharp response from Washington and Beijing. In the end, Chen stopped short of abolishing the Council. Cross-Strait rhetoric has been heated, but tensions have not escalated. In late March, Chen began announcing steps to implement further restrictions on investment in China. The most serious result of these developments has been that opportunities for expanding mutually beneficial economic ties and for making progress on practical cross-Strait issues have once again fallen victim to President Chen's domestic political maneuvering.

Charter flights

The second round of direct New Year's charter flights was conducted successfully by airlines on both sides between Jan. 20 and Feb. 15, but without the fanfare that accompanied the first flights a year earlier. The number of flights was increased to 72, the number of cities served was expanded, and the restriction that only Taiwan businessmen could use the flights was removed. Despite the continuing requirement that the flight paths go through Hong Kong airspace, the program was again seen as a success that proponents hoped would provide a basis for progress on other cross-Strait transportation issues. But that was not to be.

Chen tightens controls

On Jan. 1, President Chen Shui-bian announced plans to exert greater control over Taiwan's economic ties with the mainland. In 2001, when Taiwan was in the midst of its first recession, Chen adopted a less restrictive cross-Strait economic policy under the slogan "active opening, effective management" that was designed to help Taiwan's economic recovery. This policy had always papered over a contradiction between the

Democratic Progressive Party's (DPP) business supporters who favor expanding cross-Strait economic ties and DPP fundamentalists who want to restrict them. In the wake of the party's stunning defeat in the December 2005 county elections, Chen began signaling his desire to consolidate the DPP base among its core fundamentalist supporters. In rephrasing his early slogan this January as a new policy of "active management, effective opening" Chen was appealing to fundamentalists by placing priority on managing (that is restricting) rather than opening cross-Strait economic ties.

Chen also made it clear that in the planned Cabinet reorganization, all officials would be expected to support this new policy. In this respect, the most significant personnel shift was replacing Vice Premier Wu Rong-yi, a respected nonpartisan economist, with Tsai Ying-wen, a lawyer, a colleague of former President Lee Teng-hui and a person well known for favoring a cautious, restrictive approach on cross-Strait relations. The moderate outgoing premier, Hsieh Chang-ting, said in his departure press conference that he regretted not having been more successful in promoting a spirit of reconciliation in both domestic and cross-Strait contexts. More pointedly, Hsieh commented that he continued to favor progress on the "three links." Despite considerable misgivings within the DPP, party and government officials have toed the line on Chen's new policy.

Chen's January announcement explains why a series of measures to liberalize cross-Strait economic ties that the business community had expected to be approved in late 2005 were not implemented. These measures included easing limits on the capital companies can invest in China and approvals for additional 8-inch wafer plant exports and for chip design and packaging firms to invest in the mainland. Economic Minister Ho told the press that Powerchip, one of the firms applying to export an 8-inch plant, should focus on investing in Taiwan. There is now no expectation that these measures will be implemented.

The first step to implement the new policy came in early January. Taipei indicted United Microelectronics Corp. (UMC) Chairman Robert Tsao and Vice Chairman John Hsuan, alleging they helped establish a rival Chinese chip firm, Hejian Technology Corp. A few days later, UMC was fined NT\$5 million for investing in Hejian without government approval. These moves were intended to signal the government's intention to clamp down on unauthorized investments in China.

The administration began announcing its new controls in late March. The Mainland Affairs Council (MAC) stated that "large investments" and those involving "sensitive technologies" would be subjected to a new political level "policy inspection" in addition to the normal Investment Commission review. Corporate executives making personal investments in China would have to obtain their corporate board's approval. The Financial Supervisory Commission will consider ways to strengthen controls on loans for investments in China. The deposit required of travel agencies hosting PRC tourists will be doubled to NT\$ 2 million and the fines imposed when a Chinese tourist overstays will be increased.

Despite Chen's new policy, the business community has continued to press for easing restrictions. Shortly after the successful New Year's charters, Taiwan airlines called on the government to authorize regular weekend cross-Strait charter flights. In March, TSMC chairman Morris Chang urged the government to authorize the transfer of 0.18 micron chip technology for use by Taiwan chip manufacturers in China.

Beijing remains positive

Many have concluded that Beijing has no intention of doing business with Chen during his remaining two years in office. It has long been clear that Beijing sees no hope or reason for political talks, as there is no prospect that President Chen will agree to Beijing's one China condition. Nevertheless, there is considerable evidence that even now Beijing is open to having nongovernmental front groups negotiate not just the recent New Year's charters but also other charter flights and tourism issues.

Not long after Chen's new policy was announced and one might say despite that announcement, President Hu Jintao made an inspection trip to Fujian. While there he made a well-publicized visit to the Haicang Investment Zone, where he met with Taiwanese investors. Hu reiterated PRC policy to encourage Taiwanese investment, promote cross-Strait economic ties, and adopt measures beneficial to Taiwanese business. Hu urged nongovernmental organizations to start talks soon on the "three links." On Jan. 18 just before the Lunar New Year, Jia Qinglin, chairman of the Chinese People's Political Consultative Congress (CPPCC) and number-four man on the Politburo Standing Committee, met with Taiwanese business association representatives and again called for nongovernmental organizations to negotiate on charter and tourism issues. On Jan. 25, Civil Aviation Association of China (CAAC) officer Pu Zhaozhou, who had negotiated the New Year's charters for Beijing, called for negotiating additional holiday and weekend charters.

Two weeks later, after Chen announced his plans to abolish the National Unification Council (NUC), Pu Zhaozhou appeared at a Taiwan Affairs Office (TAO)-sponsored press conference and expressed an even more forthcoming view in calling for talks on both passenger and cargo charter issues. Cargo flights had been a Chen administration priority before Chen's Jan. 1 announcement. At the end of the New Year's charter flights, China National Tourism Association (CNTA) President Shao Qiwei urged progress on tourism issues. On Feb. 27, just when Chen's announcement on the NUC was expected, the TAO called for nongovernmental tourism organizations to hold consultations on Chinese tourism to Taiwan. Just what contacts have been held between nongovernmental association representatives on charter and tourism issues is not clear, but each side has attempted to place the onus for delay on the other.

At the annual National People's Congress (NPC) meeting in early March (shortly after Chen's decision on the NUC), it was natural that senior Beijing leaders put emphasis on their determination to check Chen's dangerous separatist moves. Nevertheless, the very brief references to Taiwan in Premier Wen Jiabao's NPC work report were expressions of well-known PRC views, including a reference to promoting the three links on a

comprehensive, direct two-way basis. When asked about Chen's actions at the end-of-NPC press conference, Premier Wen began by criticizing Chen for trying to block the three direct links and restrict the development of cross-Strait economic ties, policies that Wen said would make Chen unpopular.

On March 22 during the visit of a KMT delegation, the KMT and TAO Chairman Chen Yunlin announced plans for a KMT-CCP co-sponsored conference on cross-Strait economic and trade issues in Beijing on April 14-15. Taiwan airlines and the KMT have proposed that charter flights patterned on the New Year's flights be arranged on a weekly basis. It is planned that the conference will provide a forum for announcing some understandings on the technical aspects of how weekly passenger charter flights could work. The involvement of the KMT in this process will make it even more difficult for the Chen administration to accept the arrangements.

National Unification Council

At a press conference in his hometown during the Lunar New Year, President Chen surprised attendees by proposing that the moribund NUC and the policy under which it had been established, the 1991 National Unification Guidelines (NUG), be abolished. This was significant in part because in his first inaugural address Chen had made a commitment that the NUC would not be abolished. What was behind this proposal? Chen's motives were domestic – to appeal to DPP fundamentalists and to undermine support for KMT Chairman Ma Ying-jeou by tarring him as a proponent of the Council and of unification, which Ma had ill-advisedly stated earlier to be the KMT's eventual goal.

Washington reacted quickly and publicly by stating both that it opposed any unilateral changes to the status quo (implicitly including abolishing the NUC/NUG) and that it supported expansion of transportation and communications links and cross-Strait economic and cultural ties, a comment aimed at Chen's restrictive approach to cross-Strait issues. Beijing's reaction was again to accuse Chen of being a troublemaker who was sabotaging cross-Strait relations. The U.S. exerted heavy pressure on Chen not to abolish the NUC, by sending a senior NSC/State team to Taipei on a confidential mission to underline U.S. concerns directly to President Chen. On Feb. 27 Chen announced that the NUC would "cease to function" and the guidelines would "cease to apply." A few days later after Taipei had made clear on the public record that these phrases did not mean abolish, Washington considered the issue acceptably settled. Beijing however was seriously concerned and also saw a propaganda opportunity. President Hu and Premier Wen called Chen's decision deceptive and dangerous, and Beijing has continued to use the issue to mobilize international opposition to President Chen.

Ma enunciates his cross-Strait policy

In trips to Europe in February and the U.S. in March, KMT Chairman Ma Ying-jeou laid out his views on cross-Strait issues, which after a few missteps have settled into a consistent set of talking points. The KMT's goal is to preserve the status quo; neither

unification nor independence is a current issue. Independence is an option for Taiwan's people, but it is not an option sought by the KMT. The KMT accepts the one China principle, but asserts that each side has its interpretation of it. In office, the KMT would seek to resume talks on the basis of the 1992 consensus and negotiate practical agreements on travel, tourism, and other issues to stabilize cross-Strait relations. The KMT would also seek an accord with Beijing to assure peace for 30-50 years and seek a *modus vivendi* on Taiwan's international participation. Taiwan would strengthen ties with the U.S., Europe, Japan, and others. In Washington, Ma packaged these ideas under the slogan "five do's" to contrast his positive approach to cross-Strait relations to Chen's "five no's."

Such policy statements are quite in line with longstanding U.S. policy. This helps explain why Ma was very well received by the Bush administration when he visited Washington March 22-23. The official press in China reported favorably on Ma's visits but omitted mention of his ideas concerning "one China, respective interpretation" and a long-term *modus vivendi* – an indication that these are problematic issues for Beijing. The TAO did restate that in talks conducted on the basis of the 1992 consensus Taiwan's international participation could be discussed.

Trade and investment

Statistics for 2005 indicate a mixed picture for cross-Strait economic ties. According to Taipei's Board of Foreign Trade, Taiwan's exports to China reached \$51.8 billion, up 15.2 percent, while Taiwan's imports from China totaled \$19.9 billion, up 19.5 percent. While this growth was strong, the growth rate of total trade was the slowest since Taiwan recovered from its 2001 recession. While total cross-Strait trade thus reached \$71.7 billion according to Taiwan statistics, Beijing's figures put the total as usual at a higher figure, \$91.2 billion. China remained Taiwan's largest export market accounting for 27 percent of Taiwan's global exports. Nevertheless, Taiwan's share (11.3 percent) of PRC imports again declined slightly because China's imports from other countries grew more rapidly than those from Taiwan. Taiwan is becoming less competitive in the China market.

According to Taipei's Investment Commission, Taipei approved investments in China totaling \$6 billion in 2005, down 13.5 percent from the previous year. Taiwan's investment statistics are at best indicative only of trends. A poll of manufacturers conducted by the Ministry of Economic Affairs indicated that, despite the Chen administration's efforts to discourage investment in China, for the first time over 80 percent of Taiwan's global foreign direct investment went to the mainland in 2005.

Panda politics

At the end of the quarter, Taipei formally rejected Beijing's gift of pandas offered to KMT Chairman Lien Chan last summer. Beijing had been propagandizing their offer both to symbolize the more positive and friendly aspects of Hu Jintao's policy toward Taiwan and to score diplomatic points by offering the cuddly creatures free of charge, a feature

that the PRC, a party to the Convention on the International Traffic in Endangered Species (CITES), could only offer for gifts made to its domestic (as opposed to international) institutions. The Chen administration of course does not want the pandas precisely because they symbolize the non-hostile aspects of Beijing's policy and justifies its rejection of the gift as inconsistent with the fact that Taiwan is not part of the PRC and hence can't accept them free of charge. The losers in this tit-for-tat game are again the people of Taiwan, the majority of whom would love to receive the pandas.

Looking ahead

Given the political impasse, the private sector plays a large role in cross-Strait dealings, and ties are growing in many sectors. However, Chen Shui-bian's discouragement of investment over the past year and his new policy of tighter controls are impeding the natural development of cross-Strait economic and cultural ties. The principal loser is Taiwan and Taiwanese companies whose economic competitiveness in the China market will continue to erode because of government imposed restrictions. The Chen administration's decisions not to grant liberalizations long sought by Taiwan's internationally minded firms contributes to Taiwan's sub-par economic performance, discourages foreign direct investment in Taiwan, makes Taiwan a less attractive location for foreign business, and undermines Taiwan's international influence. Beyond these significant costs, Chen's new policy means that opportunities to negotiate arrangements to open cross-Strait travel and tourism for the benefit of Taiwan are being missed.

Uncertainty about Chen Shui-bian's intentions will continue to cast a pall over U.S.-Taiwan and cross-Strait relations in the months ahead. While tensions remain low, Beijing is deeply concerned that Chen will take other steps to pursue what they describe as his separatist agenda. Nevertheless, Beijing does want to expand cross-Strait economic and cultural ties and will look for ways to accomplish this, working with the private sector and opposition parties and giving as little credit to the Chen administration as possible. As this is an unattractive proposition for the Chen administration, little progress on these functional issues can be expected.

Chronology of China-Taiwan Relations January-March 2006

Jan. 1, 2006: President Chen Shui-bian's New Year's address calls for new policy of "active management, effective opening."

Jan.3, 2006: Chen asks British parliamentarians to review "one China" policy.

Jan. 6, 2006: TAO criticizes Chen; calls for progress on three links.

Jan. 6, 2006: MAC says Beijing using pandas for unification propaganda.

Jan. 9, 2006: United Microelectronics (UMC) officials indicted.

Jan. 13, 2006: Taiwanese and Chinese firms establish JV air cargo airline.

Jan. 14, 2006: Hu Jintao visits Haicang area in Xiamen; calls for progress on three links.

Jan. 14, 2006: *Janes* reports that U.S. turned down Taiwan request for info on JDAM and HARM missiles.

Jan. 17, 2006: President Chen criticizes KMT for “singing duet” with PRC.

Jan. 18, 2006: CPPCC Chairman Jia Qinglin meets local TAO heads; urges progress on “three links.”

Jan. 20, 2006: New Year’s charter flights begin.

Jan. 20, 2006: Premier Hsieh says he supports direct flights.

Jan. 20, 2006: KMT leaders pledge to push for weekly charter flights.

Jan. 25, 2006: CAAC’s Pu Zhaozhou says Beijing wants weekend and holiday charters.

Jan. 27, 2006: WHO secretariat rejects proposal giving Taiwan observer status.

Jan. 28, 2006: Beijing announces names for gift pandas.

Jan. 29, 2006: President Chen proposes scrapping National Unification Council (NUC).

Jan. 30, 2006: State Department reaffirms status quo in cross-Strait relations, but supports expanded political, economic, social, and cultural exchanges.

Feb. 2, 2006: KMT chairman Ma Ying-jeou warns Chen not to break five “noes” commitments.

Feb. 5, 2006: PRC MOFA spokesman says Chen’s NUC comments strain peace/stability.

Feb. 7, 2006: KMT Chairman Ma’s interview in *Asian Wall Street Journal*.

Feb. 8, 2006: Chen says his NUC policy is response to Ma’s unification goal.

Feb. 8, 2006: TAO calls Chen a troublemaker sabotaging cross-Strait ties. CAAC’s Pu Zhaozhou urges Taiwan to negotiate on charters.

Feb. 12, 2006: National Security Council Acting Senior Director for Asian Affairs Dennis Wilder and Clifford Hart, director of the State Department’s Taiwan Desk, reportedly travel secretly to Taiwan to try to dissuade Chen Shui-bian from abolishing the National Unification Council.

Feb. 13, 2006: KMT Chairman Ma speaks at London School of Economics.

Feb. 15, 2006: New Year's charter flights end. CNTA's Shao Qiwei calls for tourism cooperation.

Feb. 15, 2006: Ma in Dublin says independence an option for Taiwan, but not KMT.

Feb. 15, 2006: UMC fined for investment in Hejian.

Feb. 17, 2006: EVA and other Taiwan airlines propose weekend charters.

Feb. 21, 2006: KMT's Su Chi claims authorship of "1992 consensus."

Feb. 22, 2006: Taipei press reports NSC & State officials visited Taiwan on weekend.

Feb. 22, 2006: TAO Chairman Chen Yunlin says abolishing NUC would jeopardize ties.

Feb. 22, 2006: KMT delegation discusses tourism & charters with TAO.

Feb. 24, 2006: Amb. Burghardt appointed AIT chairman; Stephen Young as AIT director.

Feb. 27, 2006: TAO official reaffirms PRC interest in facilitating tourism to Taiwan.

Feb. 27, 2006: President Chen announces NUC will cease to function.

Feb. 27, 2006: State Dept. reiterates policy, says Chen has stopped short of abolishing NUC.

Feb. 28, 2006: President Hu describes Chen's actions as a "dangerous step."

Feb. 28, 2006: Beijing reiterates that pandas will be free.

March 1, 2006: EU statement says ceasing NUC operations will not help stability in Strait.

March 2, 2006: Premier Wen urges international community vigilance against Chen.

March 2, 2006: State Dept. spokesman comments on NUC, seeks clarification regarding cease vs. abolition.

March 3, 2006: Taipei MOFA spokesman says "cease to function" is not abolition.

March 5, 2006: Premier Wen's NPC Work Report addresses Taiwan in standard terms.

March 5, 2006: Jia Qinglin urges CPPCC members to reach out to DPP hardliners.

March 7, 2006: At hearing, U.S. Sen. John Warner warns Taiwan against provoking China.

March 10, 2006: Former Deputy Secretary Armitage visits Taipei.

March 14, 2006: At NPC press conference, Premier Wen calls Chen dangerous and deceitful.

March 17, 2006: Secretary Rice in Sydney says Taiwan has engaged in problematic behavior.

March 18, 2006: DPP holds demonstration against PRC threats to Taiwan.

March 20, 2006: Taiwan MND report says China gaining a military edge.

March 21, 2006: TSMC Chairman Morris Chang calls for export of 0.18 micron technology.

March 21, 2006: KMT chairman Ma at Harvard calls for cross-Strait *modus vivendi*.

March 22, 2006: KMT chairman Ma visits Washington; meets State Deputy Secretary Zoellick and others.

March 22, 2006: MAC announces some new measures to reduce reliance on China, tighten controls on investments to the mainland, and crackdown on smuggling.

March 22, 2006: TAO and KMT announce plans for April 14-15 economic and trade conference in Beijing.

March 24, 2006: DPP cancels planned “grand debate” on China policy.

March 26, 2006: In Jakarta, Jia Qinglin calls on friends to help defeat separatism.

March 31, 2006: Taipei’s rejects applications for zoos to import gift pandas.



**North Korea-South Korea Relations:
Squally but Steady**

**Aidan Foster-Carter
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The first quarter of 2006 saw inter-Korean relations brisk, in more senses than one. As the chronology illustrates, both the variety and density of interactions testify to ever-growing ties between North and South across a range of activities and on many levels: political and security, economic and business, social and cultural, and more. Rightly or wrongly, no one in Seoul (or at least in the ROK government) appears inclined to let the continuing impasse over the six-party nuclear talks – which have not met since November and show no sign of doing so any time soon – derail or even decelerate burgeoning North-South links.

However, it is not all plain sailing. From the Southern viewpoint, the North is not only reluctant to make concessions, but continues to stall on implementing matters to which it had agreed in outline. There are also quarrels: the past quarter saw several tiffs, and one major row that could have easily proved damaging. In the past any of these might have escalated out of hand, putting all ties on ice for months. That this did not happen is mainly due to the South's vast reserves of patience, which to critics risks shading into appeasement.

Yet defenders of the Sunshine Policy can point to subtle changes in North Korea's stance, too. Pyongyang's noisily extreme rhetoric continues unabated, but its deeds talk louder. At least twice in the past quarter the North showed its displeasure with the South by actions which, if regrettable and uncalled for, were noticeably less extreme than in the past. This more careful calibration suggests a deepening commitment to the relationship as such. A more cynical view is that Kim Jong-il knows not to push the goose too far lest it stop laying golden eggs, in what remains financially and otherwise a very one-sided process.

Military talks get nowhere

South Korea has long set great store by military talks with the North, partly because there is much to discuss, and also out of resentment that Pyongyang continues to view Washington as its sole worthy interlocutor on security matters – the boss, as it were. Rare talks between generals in 2004 made progress on two fronts: establishing naval radio contact to prevent fatal firefights like those in 1999 and 2002, and dismantling

propaganda loudspeakers and other structures along the Demilitarized Zone (DMZ), the border between the two Koreas.

Since then the North had been reluctant to reconvene this channel, but finally agreed to do so at Panmunjom in early March. South Korea hoped to flesh out details of a planned joint fishing area in the West (Yellow) Sea, the scene of past clashes, which the North agreed to in principle last year. Also on Seoul's agenda was installing a direct hotline between the two sides' West Sea fleet commands, and a second round of defense ministers' talks, which only happened once so far – soon after the June 2000 breakthrough Pyongyang summit.

The South also sought an agreement on land border security, pursuant to relinking railways in the Kyongui (west) and Donghae (east) cross-border corridors. Both are now open to road traffic, but no trains operate. At the latest in a series of lower-level practical meetings on railway matters, held just before the military talks, the North yet again prevaricated on test runs – originally due last October – and no date to meet again was set.

The opening day found the South optimistic. The atmosphere was good: for the first time the Northern team included a Korean People's Army (KPA) naval officer. The North had proposed, and the South readily accepted, raising the level of the talks from one-star to two-star generals. Yet hope turned to disappointment. The North not only predictably berated upcoming joint U.S.-ROK war games (on which more below), but also insisted that fisheries could only be discussed in the context of redrawing the inter-Korean maritime boundary, the Northern Limit Line (NLL). The NLL was unilaterally drawn up by the U.S.-led UN Command on the basis of actual control at the time of the 1953 Armistice. It has done the job for over half a century, but North Korea never formally accepted it and in recent years has proposed a line further south, putting several ROK islands in DPRK waters – an obvious non-starter.

So there was no agreement, joint statement, or even a date set for another meeting. Several possible interpretations arise. North Korea's maximalism may mean it does not really want to talk – or that internal (perhaps intra-KPA) politics make it hard to yield and accept the NLL, even *de facto*. Or this may reflect a longstanding contrast in approach between a pragmatic South that prefers to start small and easy before tackling the tough stuff, and a North that sets great store by fundamentals – or claims to. In practice Pyongyang is slowly becoming more flexible, so the hope in Seoul is that patience will deliver the desired result.

Ministerial meeting postponed

South Korea was relatively unfazed by this deadlock, expecting to be able to press the issue again soon enough at the next round of Cabinet-level talks, due in Pyongyang at the end of March. Since the June 2000 summit this has become a regular quarterly forum, alternating between the two capitals – with occasional excursions, such as to the ROK resort island of Cheju last December. On March 11, however, the North unilaterally

postponed the next meeting, saying that “hostile war exercises and peaceful dialogue cannot go together.” The timing was unfortunate, coinciding with two joint U.S.-ROK military exercises, *Foal Eagle*, and *Reception, Staging, Onward Movement and Integration (RSOI)*. Both are routine: *Foal Eagle* dates back to 1961. Pyongyang’s protests are routine too, but their vehemence varies. In the past, the North cited the *Team Spirit* annual war games as an excuse to break off dialogue entirely. So a month’s postponement, this time, is a mere slap on the wrist.

That said, as of April 3 no new date had yet been set. The South has proposed April 20, but the North has yet to reply. April is a busy month in Pyongyang, both with events marking the birthday on April 15 of the DPRK’s founder and “eternal president” Kim Il-sung, and the Supreme People’s Assembly (SPA), the rubber-stamp Parliament that is due to meet April 11 – a single day suffices – to review the economy and this year’s budget.

Any further delay would disappoint the ROK’s new-ish Unification Minister Lee Jong-seok. Nominated by President Roh Moo-hyun Jan. 2 and finally confirmed Feb. 10, this meeting will be Lee’s first chance to meet his DPRK counterpart, “Cabinet counsellor” Kwon Ho-ung (quite what that obscure title connotes is unclear). Otherwise, dare one say, this channel’s temporary suspension is in practical terms by no means so serious as the abeyance of the Six-Party Talks; inasmuch as a plethora of other lower-level inter-Korean contacts in specific areas carries on.

Exchange or charity?

Some of these other channels have their own problems. When inter-Korean talks resumed in mid-2005 after almost a year’s hiatus, the North seemed unprecedentedly eager for wide-ranging economic cooperation. Except the Kaesong Industrial Zone, on which more below, little of this has come to fruition. Working-level economic talks in Kaesong in January failed to narrow differences evident at the 11th session of the Inter-Korean Economic Cooperation Promotion Committee (ECPC) last October. Like the Cabinet-level talks the ECPC is supposed to meet quarterly, but it has now gone nearly half a year with no new date fixed.

As discussed in the last issue of *Comparative Connections*, last fall the North demanded large quantities of raw materials for light industries ranging from soap to shoes. The South agreed in principle, but in exchange would like joint ventures in Northern minerals like coal, zinc, magnetite, and phosphoric concentrate. But despite having earlier reportedly accepted such reciprocity, North Korea now wants the two projects to be separate – with a strong implication that the South’s supply of basic necessities should be on a charitable rather than a commercial basis.

Yet here again formal deadlock seems not to prevent progress on the ground (in the ground, in this case). Korea Resources Corp (KoRes), the relevant ROK parastatal, is cutting its own deals. Having announced plans to invest in gold, silver, and zinc, on a joint venture or consortium basis, with Chinese firms in China, Mongolia, and North

Korea, on March 22, KoRes President Park Yang-soo signed an agreement in Beijing with China Minmetals, whose projects include coal mines in the DPRK. A week later KoRes reported another deal with a Chinese firm in Heilongjiang to jointly mine North Korean iron ore. Hoping to dig 144,000 tons over three years, it expects the first shipments in May, along with graphite from a mine just north of the DMZ where it is already invested; it is also eyeing DPRK magnesite (as distinct from magnetite). KoRes further reported that North Korea plans to invite over 100 interested parties from the South, including state banks, to an investor relations meeting in Pyongyang on April 28, to encourage further investment in mining. All in all, the DPRK's decrepit but extensive and varied mines look about to receive the fresh investment and upgrading that they have long needed.

Multifaceted aid

Northern demands for aid are brazen, given how much they get already. As the year began, the ROK Unification Ministry (MOU) revealed that since early December it had supplied 60,000 tons of coal to help Kaesong workers through the bitter winter. The 6 billion won (\$5.9 million) cost will come from MOU's 1 trillion won budget for inter-Korean cooperation.

Larger-scale seasonal aid followed, as is now routine. On Feb. 1, North Korea asked for 150,000 tons of fertilizer immediately with a further 300,000 tons to follow. Three weeks later the South agreed to the former, and shipments began Feb. 28 in both ROK and DPRK vessels. On past form, half a million tons of rice will also be demanded and offered ere long – despite North Korea's announcing last fall that it no longer needs humanitarian (as distinct from developmental) aid, to the consternation of international aid agencies.

In a new if overdue initiative, South Korea is to give a modest \$20 million over two years via the World Health Organization (WHO) for maternal and infant health care in the North. Specifically, this should cover vaccinating some 2.5 million under-5s and almost a million mothers. Seoul is also talking to Unicef and other UN bodies about further ways to help Northern women and children. This is all the more urgent in view of North Korea's ordering many foreign NGOs to leave. It is doubtful that food is so plentiful as to warrant such insouciance – the UN World Food Program (WFP) still hopes to negotiate a reduced role under the new policy – and the health situation certainly does not. Infant mortality in the DPRK is said to be nine times greater than in the ROK. South Korea, humanitarianism aside, should surely regard today's undernourished Northern children as part of the human capital of a future reunified Korea; as such, their health is vital. The memorandum of understanding also noted that this project helps to improve aid transparency; the ROK government smarts at criticisms that its generous and barely monitored food aid is what enables the DPRK to spurn the WFP.

Foreign press visits Kaesong zone

Many hopes in Seoul are pinned on the Kaesong Industrial Zone, just an hour's drive north of the Southern capital across the DMZ, where 15 (so far) ROK firms employ 6,000 DPRK workers making goods for export. On Feb. 27, Seoul-based foreign journalists were allowed their first glimpse of this flagship of North-South cooperation; a stream of articles followed in early March. Most were broadly positive: at \$57.50 per month, wages are low, but these are shiny new plants, not sweatshops. Yet, all remarked on constraints and contrasts. They were not allowed to speak to the mainly female Northern workforce, though some did try. The \$57.50 is paid to the government; no one would say how much the workers actually received. The zone's gleaming new buildings and brisk construction seemed worlds apart from the surrounding dusty brown treeless plains and decrepit hovels with plastic sheeting for windows. The Northern workers who commute between the two daily must notice too.

Trade tops \$1 billion

Thanks to Kaesong, inter-Korean trade last year topped \$1 billion for the first time, according to the South's Korea International Trade Association (KITA). Up 51.5 percent over 2004, this breaks down as \$340 million in DPRK exports and \$710 million sent by the ROK. While nearly all the former was true trade, much of what Seoul sent was really aid rather than commerce. The Kaesong zone's contribution – on both sides of the ledger: it imports machinery and raw materials to export finished goods like garments, watches, and kitchenware – more than quadrupled from 2004's \$42 million to \$177 million, or 17 percent of total trade. This will go far higher if the zone's ambitious growth plans are fulfilled: the 15 ROK firms there so far are due to jump to 2,000 by 2012. One billion dollars suffices to make South Korea the North's second trade partner, after China; by contrast, this is a minuscule 0.2 percent of the ROK's total trade. Trade has continued to grow in early 2006: January's \$63 million and February's \$66 million were up 27 percent and 42 percent, respectively, on 2005 figures.

Southern visitor numbers to North Korea also multiplied last year, more than tripling from 26,213 in 2004 to 87,028. In addition, 298,247 tourists visited the North's Mt. Kumgang resort, up 11 percent. No figures were publicized for flows in the other direction, which are tiny: mainly a handful of officials attending meetings. Sunshine is a largely one-way process, thus far.

Planning for the long-term, on March 15 the ROK officially opened large new combined customs, immigration, and quarantine (CIQ) offices on its side of both the Kyongui and Donghae trans-DMZ corridors. Costing \$43 million and \$56 million respectively, these can process 1.7 million and 2.6 million travellers annually. Last year's total was 402,485, with over 58,000 vehicle trips across the once impermeable border.

Don't mention abductions

Potentially the most serious inter-Korean row of the past quarter erupted at family reunions in the North's Mt. Kumgang resort on March 22. The 13th event of its kind since the 2000 summit, these follow a predictable and constrained format. Every few months, a fortunate few elderly Koreans get to meet relatives whom they have not seen for over half a century. They have just three days, in the glare of media publicity, and that is all. No further contact is allowed, even by telephone, letter, or email, much less the visits to ancestral homes and graves that Korean custom demands. Since last year there are now also even more tenuous videolink reunions: again one-time, for just two hours per family. During the past five years some 12,000 persons in total have participated; but in South Korea alone, almost twice as many (about 20,000) of the 120,000 who originally applied for reunions have died waiting.

South Korea would like to expand and expedite such meetings. Recently, not before time, it has also tried to raise in Red Cross talks the fate of about 1,000 ROK citizens believed to be held in the DPRK. (The figure would be far higher if the thousands of civilians taken North during the Korean War are included.) The ROK National Intelligence Service (NIS) tallies 538 prisoners of war (POWs) who ought to have been returned in 1953, plus a further 486 abducted since then, mostly fishermen. Pyongyang, naturally, denies detaining anyone and claims all are there of their own free will. In a vaguely worded concession whose worth remains to be tested, North Korea agreed at the latest Red Cross talks in February to work toward confirming the fate of persons missing during and after the Korean War.

However, the North has allowed a few individuals in this category to take part in family reunions. This latest round included two such: the son of an old POW, and Chon Mon-sook, a Southern fisherman kidnapped in 1969 who was briefly reunited with his wife. But when an ROK reporter tried to file copy which used the word "abductees," DPRK officials barged into the press room, seized tapes, and demanded that the offender leave on the bus with the families (rather than stay for the second half, when 100 more North Koreans were due to meet another batch of ROK relatives). This standoff held up the elderly South Koreans' departure by 11 hours until almost midnight. In the end the entire Southern press corps left the next day, in solidarity with their colleague. The second reunions thus passed unreported – giving participants more privacy than they usually get – but without further incident. It is not yet clear whether this contretemps may jeopardize an earlier agreement to hold a reunion twice as large as usual in June, involving 200 rather than 100 families from each side and their relatives, to mark the sixth anniversary of the June 2000 Pyongyang Summit.

Deplorable as this episode is, in the past Pyongyang might have cancelled the whole event on the spot, and not restored it for months. Hence the fact that the quarrel was controlled is progress, to some degree. The peacemaking included an expression of regret by Seoul (but not, it was emphasized, an apology). Southern conservatives were cross, but surely a case can be made for damage control. The North's behavior had already shown its true colors.

There is less excuse for Chung Il-yong, president of the Journalists' Association of Korea, who in a TV discussion on April 1 claimed (not for the first time) that some South Koreans went North voluntarily, and that it was often impossible to determine if someone had been abducted. He also contrived not to mention the censorship at Mt. Kumgang. Pro-abductee and defector civic groups, not a powerful force in Seoul, demanded his resignation. There were indeed defections to the North in the early heady days soon after partition in 1945, and a few of those under DPRK occupation in 1950 were voluntary, but all sources suggest that the vast majority were forcibly abducted or detained.

POWs: varied fates

More hopefully, Koreans hurt or unhelped by their governments are now better placed than before to secure their own salvation. A striking case in point, and a standing reproach to the likes of Chung Il-yong, is Lee Ki-chun. An ROK soldier captured during the Korean War, Lee (now 75) escaped via China half a century later in 2004 at his third attempt. Last June his wife escaped too, only to die in a traffic accident in the South. Lee's two daughters, the husband of one, and a grandson have followed, the last two as recently as March 31. This is only the second case where a POW has managed to bring out his family, doubtless paying one of a new breed of daring go-betweens to slip into North Korea and effect this.

Most are less fortunate. Another old Southern POW, Han Man-taek (72), who escaped to China last year, was arrested and repatriated to North Korea despite a plea from Seoul to Beijing not to do so. He is now thought to be in a prison camp.

***Les Miserables* out-miseried**

South Korean tendencies not to dwell on North Korean human rights abuses were jolted in March, at least temporarily. The DPRK gulag must be the least likely subject for a musical since Mel Brooks' fictional *Springtime for Hitler*. That did not deter Jeong Song-san. A DPRK defector once imprisoned for listening to ROK radio, Jeong devised *Yoduk Story*, a 3-hour song and dance extravaganza set in one of the North's most notorious concentration camps. Despite many obstacles – the original backers dropped out, possibly under official pressure (bad for Sunshine); Jeong even had to pledge a kidney as collateral for a loan, and received anonymous threats – the show opened in Seoul on March 15. Remarkably, this tale of everyday murder, torture, hunger, and rape became a hit, and soon sold out: it closed on April 2 but may now tour elsewhere in South Korea, or even travel overseas. The show was patronized (in every sense) by the rightwing opposition Grand National Party (GNP), somewhat to Jeong's discomfort. But his aim – to arouse South Koreans' awareness of atrocities being committed on their doorstep – succeeded beyond his expectations.

Yet some in Seoul have hearts of stone. Even as *Yoduk Story* played to packed houses, 90 ROK leftists paid \$1,300 each to fly to Brussels to picket a U.S.-funded hearing on DPRK human rights at the European Parliament. As defectors recounted their sufferings within, these worthies unfurled a banner which read "Stop attacking North Korea on the

pretext of human rights which blocks peace of Korea.” Others chanted “No war, no Bush.” Most passers-by appeared bemused; the Seoul daily *Chosun Ilbo*’s headline read: “Korean Protests Baffle Belgians.” And not only Belgians.

Billions for suffering spies: they cannot be serious

Earlier, North Korea began the year with its own implausible bid to play the human rights card. In a complaint filed with South Korea’s Human Rights Commission on Jan. 6, Pyongyang demanded “several billions of dollars” in compensation for the sufferings of its former agents who served long jail terms in the South, or had died there. It is true that these veterans, like many more innocent, were dreadfully tortured by the ROK’s former military rulers. Yet with blatant if typical asymmetry, whereas Seoul repatriated 63 such ex-spies to the North in 2000 as a unilateral goodwill gesture, Pyongyang has refused to yield an inch on the thousand-plus South Koreans it is reckoned to be illegally holding. This new demand could be a warning to Seoul not to raise human rights issues, or a pretext to extract ransom money, much as West Germany used to pay the former GDR to release political prisoners.

Four abducted Southern fishermen who had escaped from the North promptly countersued the DPRK for \$1 billion each. Little has been heard since of either suit, nor of another filed in Seoul on Jan. 17 by arguably the most neglected category of all. Families of senior civil servants and others, taken North when the DPRK briefly overran most of the South in 1950, sued the ROK government for negligence in failing to locate these victims. Unlike both POWs and post-war abductees, members of this much larger group have become non-persons. No one is fighting in their corner except their families – who in the past often suffered themselves from guilt by association (still practiced in the North) under former ROK military regimes.

KEDO, adieu

The new year also saw the sad closing of an important chapter in inter-Korean relations. On Jan. 6 the last 57 South Korean caretaker staff were evacuated from the now-terminated light-water reactor (LWR) project site at Sinpo, North Korea, on the *Hankyoreh*, a vessel that has shuttled fortnightly between the east coast ports of Kumho (DPRK) and Sokcho (ROK) for the Korean Peninsula Energy Development Organization (KEDO). The Northern authorities made them leave behind materiel worth \$45 million, including some 190 buses and jeeps plus 93 pieces of heavy equipment (cranes, excavators, concrete-mixers, and so on).

If opinions remain divided on how far the October 1994 Agreed Framework (AF) served its avowed purpose of reining in North Korea’s nuclear threat, there is no doubt that the now moribund KEDO consortium, created under the AF, helped to bring the two Koreas closer – despite misgivings in both Seoul and Pyongyang – by forcing them to cooperate practically. Over the past decade thousands of Southern engineers and others have lived and worked at Sinpo alongside Northerners. The *Hankyoreh* and its ilk, followed by direct flights, were the first regular North-South transport links. Though inter-Korean ties

now have their own momentum, the pioneering role of this pre-Sunshine precursor should not be forgotten.

Chronology of North Korea-South Korea Relations January-March 2006

Jan. 1, 2006: Former ROK President Kim Dae-jung restates his hope to revisit Pyongyang in 2006, adding that he hopes to make the trip by train.

Jan. 2, 2006: ROK President Roh Moo-hyun nominates Lee Jong-seok, long influential as deputy chief of the National Security Council (NSC), as new unification minister.

Jan. 3, 2006: A ton of rice from a model farm in Ryongsong, Pyongyang, aided by the ROK's Kyonggi province, arrives at Incheon. This is the first Northern rice sent South since flood aid in 1984. During 2005 South Korea gave the North 500,000 tons of rice.

Jan. 3, 2006: The ROK Unification Ministry (MOU) says that since early December it has supplied some 60,000 tons of coal to residents of Kaesong, DPRK. Last winter South Korea provided 20,000 tons of coal briquettes and 10,000 stoves.

Jan. 5, 2006: A survey of ROK conscripts finds that 60 percent see little or no risk of war on the Peninsula. 37.5 percent take little pride in being a soldier, while 63.2 percent say North Korea should be viewed more as a partner than an enemy – although vigilance should be maintained.

Jan. 6, 2006: MOU reports that inter-Korean trade in 2005 reached a record \$1.05 billion.

Jan. 6, 2006: The North's *Korean Central News Agency (KCNA)* says that a petition from ex-DPRK spies who served long prison terms in the South, seeking billions of dollars compensation for suffering at the hands of ROK military regimes, was handed to Southern authorities that day at Panmunjom. Three days later, four ROK fishermen who escaped after years of abduction say they will counter-sue for \$1 billion each.

Jan. 7, 2006: Lee Sung-woo, an ROK missionary, says that construction of a new church for foreigners in Pyongyang, approved in 2004, is being delayed because DPRK authorities now want his group to renovate the capital's existing Chilgol church instead.

Jan. 8, 2006: The last 57 South Korean workers at the Korean Peninsula Energy Development Organization (KEDO)'s light-water reactor project site are evacuated from Sinpo, DPRK to Sokcho, ROK. They have to leave behind equipment worth \$45 million.

Jan. 17, 2006: The Korean War Abductees' Family Union files two suits against the ROK government: for negligence in failing to find South Koreans taken to the North during the 1950-53 Korean War, and for refusing to enact a bill to restore the honor of those so abducted who were civil servants.

Jan. 19-20, 2006: Working-level talks held in Kaesong, the fourth since October, reach no agreement but narrow differences over mining and light industry projects.

Jan. 26, 2006: Yang Hyong-sop, presidium vice chairman of the DPRK Supreme People's Assembly (SPA), proposes a unification festival to mark the sixth anniversary of the June 2000 inter-Korean Summit.

Jan. 28, 2006: MOU reports that South Korean visitors to the North more than tripled from 26,213 in 2004 to 87,028 in 2005. This excludes 298,247 ROK tourists to the North's Mt. Kungang resort, up 11 percent.

Feb. 1, 2006: As usual at this season, North Korea asks the South to send fertilizer: 150,000 tons now, and 300,000 tons later on.

Feb. 3, 2006: The two Koreas agree to resume high-level military talks soon, after a 21-month hiatus.

Feb. 7-11, 2006: Four lawmakers of the ROK's ruling Uri party visit Pyongyang and meet senior officials. Their ostensible main purpose is to discuss academic exchanges between think-tanks. The group's leader, Rep. Lim Chae-jung, denies being an envoy for ex-President Kim Dae-jung, who has said he hopes to revisit the DPRK capital this year.

Feb. 9, 2006: ROK Vice Unification Minister Rhee Bong-jo reports that inter-Korean trade in January rose 27 percent year-on-year to \$63 million.

Feb. 10, 2006: For the sixth time in sporting events since 2000, both Koreas' athletes march together at the opening ceremony of the Turin Winter Olympics.

Feb. 10, 2006: Lee Jong-seok takes office as ROK minister of unification.

Feb. 17, 2006: The year's first meeting of the ROK National Security Council (NSC), adopts six key tasks for 2006, the foremost being to construct the basis for a peace mechanism on the peninsula.

Feb. 18, 2006: 99 ROK ambassadors visit the Kaesong industrial zone.

Feb. 20, 2006: North Korea sends a thank you on the completion of delivery of last year's provision of 500,000 tons of rice by South Korea.

Feb. 21-23, 2006: At the Red Cross talks at Mt. Kumgang, the DPRK for the first time agrees to work toward confirming the fate of persons missing during and since the Korean War. Both sides agree to a special (perhaps larger) family reunion in June, plus two more video reunions in June and August, with 60 families instead of the usual 40.

Feb. 22, 2006: South Korea agrees to send the North 150,000 tons of fertilizer. Shipments begin Feb. 28.

Feb. 26, 2006: After a meeting in Kaesong, officials from Kwangju say the ROK city will host a unification festival in June, with 1,100 participants from both Koreas.

Feb. 27, 2006: 124 Seoul-based foreign journalists visit the Kaesong industrial zone.

Feb. 27-28, 2006: 575 Koreans from 40 separated families on each side are temporarily reunited by videolink. Each family gets two hours.

Feb. 27-28, 2006: The 11th working-level contact on road and railway reconnection is held in Kaesong. Despite Southern hopes of test train runs in March, no progress is made.

March 1, 2006: In Kaesong, the ROK hands over war memorial *Bukgwandaechepbi*, erected in 1707, but seized by Japanese troops in 1905. Japan returned it to Seoul last October.

March 2-3, 2006: The first general-level military talks since 2004, held at Panmunjom in the DMZ, fail to agree on either maritime or land border security issues.

March 2-5, 2006: 37 DPRK ice hockey players and officials visit the ROK side of Kangwon province (bisected by the DMZ) for friendly matches, the first event of its kind.

March 5, 2006: South Korean farmers say they plan to set up a rice bank in May, to assist North Korea and Southern paupers. They hope to deliver via the new cross-border railway.

March 9, 2006: DPRK merchant ship *Kanpaeksan* starts loading 5,000 tons of fertilizer in the ROK port of Kunsan. It is the first Northern vessel to enter a Southern port since October.

March 11, 2006: North unilaterally postpones 18th round of ministerial talks set for March 28-31, protest routine U.S.-ROK military exercises due at the same time.

March 14, 2006: First inter-Korean trade union meeting in three years, held in Kaesong, reaches no concrete agreement but agrees that workers must promote reunification.

March 15, 2006: South Korea formally opens two new immigration and customs offices on its side of the DMZ, serving the Kyongui (west) and Donghae (east) road-rail corridors.

March 15, 2006: *Yoduk Story*, an unlikely musical written by a defector and set in the DPRK gulag, opens in Seoul. It becomes a surprise hit, and the run sells out.

March 19-23, 2006: UN High Commissioner for Refugees Antonio Guterres visits China, the first UNHCR head to do so in nine years. He calls for DPRK asylum seekers in China to be protected. China reiterates that they are illegal immigrants, not refugees.

March 20-25, 2006: The 13th round of reunions of separated families since 2000's inter-Korean summit is held at the North's Mt. Kumgang resort.

March 22, 2006: Northern officials physically prevent a ROK journalist at Mt. Kumgang from filing a dispatch referring to an "abductee," and demand that he leave. The row delays the return home of 99 elderly Southern family members. In protest, the entire ROK press corps leaves the next day. The second phase of reunions is held during March 23-25 without further incident

March 22, 2006: A Northern physician, who defected last year, tells a human rights forum in Seoul that the DPRK routinely kills babies with physical disabilities to "purify the masses." The New Right Union calls on the ROK government to actively protest such abuses.

March 22-23, 2006: A U.S.-funded meeting on DPRK human rights, held at the European Parliament in Brussels, hears testimony from defectors. It is picketed by 90 ROK leftists, protesting that human-rights agitation is a U.S. ploy to block peace on the Peninsula.

March 23, 2006: The semi-official *Yonhap News Agency* reports that the ROK will publish its biennial defense white paper in September. As in 2004, this will no longer label the DPRK as the "main enemy."

March 23, 2006: The ROK's human resources agency says it will open a \$16.4 million skill center in the Kaesong zone in June, to train 4,000 DPRK workers in 13 job areas.

March 23, 2006: ROK Foreign Minister Ban Ki-moon says the DPRK seems to be signalling a wish to return to Six-Party Talks and break the deadlock with the U.S.

March 24, 2006: ROK Unification Ministry admits expressing "regret" for the press row, so as not to jeopardize the family reunions, but insists it did not admit fault or apologize.

March 26, 2006: *Korea Times* reports that ever more Northern defectors are turning to crime, due to financial hardship and inability to adapt to life in South Korea.

March 26, 2006: After seeing the musical *Yoduk Story*, ex-ROK President Kim Young-sam (1993-98) denounces the DPRK as the world's most despotic country, and says there will be no true peace on the Peninsula as long as Kim Jong-il lives.

March 28, 2006: *JoongAng Ilbo* says South Korea is wary of China's rising influence in the North, even if it serves to reduce the threat from Pyongyang.

March 28, 2006: ROK's national museum announces an agreement with its DPRK counterpart to exhibit 90 of the latter's "significant cultural treasures" in Seoul in June.

March 28, 2006: ROK Trade Minister Kim Hyun-jong attends groundbreaking for a \$20 million water treatment facility in the Kaesong zone. Jointly built, it will supply 60,000 tons of water from a DPRK reservoir 17 km away to both the zone and Kaesong city.

March 28, 2006: ROK Unification Minister Lee Jong-seok signs an agreement with Lee Jong-wook, director general of the World Health Organization (WHO), to give WHO \$20 million over two years for maternal and infant health programs in North Korea.

March 28, 2006: A DPRK elite family, possibly diplomats or other state officials, arrive in Seoul after defecting via the ROK embassy in Budapest, Hungary on March 22.

March 28, 2006: *Rodong Sinmun* warns "South Korean warhawks" that the *RSOI-Foal Eagle* exercises, "collusion with foreign forces," could jeopardize Mt. Kumgang tourism.

March 28, 2006: KNTA, the ROK state tourism body, is running tour packages that include both Koreas from Beijing and Vladivostok. There is no travel across the DMZ.

March 29, 2006: ROK Korean Resources Corp (KoRes) says it will import its first DPRK iron ore in May, from a mine developed with a Chinese firm. It also announces an investor meeting April 28 in Pyongyang to raise Southern interest in Northern minerals.

March 29, 2006: ROK Unification Minister Lee Jong-seok deplores tacking other issues on to North Korea's nuclear problem. This is thought to refer to U.S. financial concerns.

March 30, 2006: ROK Vice Unification Minister Shin Un-sang says ROK proposed April 20 as a date for postponed ministerial talks, but the North has yet to respond.

March 30, 2006: ROK DM Yoon Kwang-ung warns that North Korea must give up nuclear weapons before a permanent peace treaty on the Peninsula can be discussed.

April 1, 2006: ROK President Roh Moo-hyun urges a meeting of Southern business bodies to invest more in the North. They ask for more certainty on the Kaesong project.

April 1, 2006: Chung Il-yong, president of the Journalists' Association of [South] Korea, says that some South Koreans went to the North voluntarily, and that it can be impossible to determine the truth about abductions. There are calls for him to apologize or resign.



China-Korea Relations:

Kim Jong-il Pays Tribute to Beijing – In His Own Way

Scott Snyder

The Asia Foundation/Pacific Forum CSIS

With prospects for renewed Six-Party Talks diminishing, Kim Jong-il's unannounced visit to China in January appears to have been a turning point for the Korean Peninsula and the North Korean nuclear issue. The rumors began as soon as Kim's special train was sighted crossing the border into China Jan. 10, sparking a week of "Where's Waldo" speculation and media sightings of Kim in various parts of China. Despite the rumors, Chinese officials followed precedent and kept mum until Kim's departure on Jan. 18. The fact that Kim's route overlapped with that of Deng Xiaoping's famous 1992 southern tour stimulated further speculation about North Korean efforts at economic reform. Chairman Kim got the red carpet treatment: he was accompanied throughout his visit by all nine members of the Central Committee of China's Politburo, and capped the trip with a meeting with President Hu Jintao in Beijing. But unlike Korea's tributary relationship with the Middle Kingdom in dynastic times, Chairman Kim seemed to come with empty suitcases, prepared more to pack and take home China's reward for good behavior than to offer gifts of his own.

China's embrace of Kim has produced considerable angst in South Korea, which fears that North Korea will become "China's fourth northeastern province," and thwart South Korean hopes for enhanced influence and eventual unification with North Korea. South Korea's "China threat" usually refers to China's rapid erosion of critical Korean technological advantages even as China's overall growth remains a boon to South Korean producers in many sectors. South Korean businesses face the dilemma of figuring out how to benefit from China's rise, while fending off its effects on Korea's competitiveness.

Six-star hospitality for the Dear Leader

Kim Jong-il's fourth visit to China in six years drew considerable media attention despite an itinerary that was shrouded in secrecy and announced only as Kim departed for home. Even after the fact, substantive briefings on the week-long visit were hard to come by. There were multiple meanings built into the interactions, and participants may have chosen to interpret what they saw and heard in their own way, missing or choosing to ignore intended signals. Coming on the heels of an October visit by President Hu Jintao to Pyongyang, the visit marked the culmination of a series of regular interactions since 2003 between Chairman Kim and top Chinese leaders who have attempted to reconstruct

the relationship – and induce (rather than force) a dependence that might constrain the North Korean leadership from taking actions contrary to China’s interests in regional stability. Although Chinese analysts assert that the relationship would never revert to the nostalgic interaction of the 1950s, the consolidation of the relationship shores up North Korea’s economic stability as well as reduces the chance of potential “surprises.”

While in China, Kim and his entourage visited six cities over eight days, including Guangzhou, Shenzhen, and Zhuhai in Guangdong province, Wuhan and Yichang in Hubei, and Beijing. He was reportedly accompanied by representatives of China’s top leadership at every stage of the visit, including Vice Premier Huang Ju during his tour of Hubei Province, former Guangdong Provincial Secretary Li Changchun in Guangdong, and by Zeng Qinghong during his visit to Shenzhen. In Beijing, Kim had meetings with President Hu, Premier Wen Jiabao, and National People’s Congress Standing Committee Chairman Wu Bangguo. All Standing Committee members of the CPC Central Committee Political Bureau, many of whom had undertaken individual visits to Pyongyang within the past three years to meet with Kim, were involved in the visit in some way. Kim Jong-il’s official itinerary included a heavy focus on visits to industrial, agricultural, and educational facilities, including the Shenzhen Nanshan Science and Technology Park, Guangzhou City University, Changfei Optical Fiber and Optical Cable Company, and the Institute for Crop Sciences under the auspices of the Chinese Academy of Agricultural Sciences.

The biggest challenge in analyzing the visit is to separate speculation driven by reports of Kim Jong-il sightings by Japanese media armed with telephoto cameras from the reality of what Kim and his entourage were doing and saying. For the record and in more unreserved terms than during previous visits, Kim provided expressive compliments to his hosts on the economic progress accomplished over little short of three decades. It was reported that Kim had “trouble sleeping at night” during his visit, pondering how to apply reforms to North Korea to generate the results he witnessed in Guangzhou. In his official toast offering thanks to Hu Jintao for arranging the visit, Kim said that he was “deeply impressed” by China’s “shining achievements” and “exuberant development,” especially China’s hi-tech sector.

The PRC top leadership made every effort to provide Kim and his entourage an opportunity to fully experience the fruit of China’s reforms in hopes that Kim would follow the Chinese path to reform, or at least to contribute to North Korea’s own reform path by benefiting from observing and applying some of China’s accomplishments. Given the level of China’s leadership involved, there must have been continuing attempts to choreograph the visit, delivering messages of encouragement and constraint in various ways, and hinting that Kim might perpetuate his regime’s survival and prosperity through more aggressive reform. Although there was little direct confrontation over the North’s nuclear program, there is likely no diplomatic tool available that the international community can count on if this visit fails to rein in the North Korean leadership from its worst nuclear impulses. It remains doubtful whether the Chinese diplomatic bar is high enough to satisfy desires of others, including those of the United States.

Another message of the trip was the PRC's commitment to underwriting regional stability to safeguard the conditions for China's peaceful development. By promoting a much deeper trade, investment, and financial relationship with North Korea, Chinese leaders brought Kim Jong-il into a closer embrace so as to limit the damage he might inflict from adventurist pursuits or crisis escalation that might derive from North Korea's isolation. Through provision of tangible guarantees of stability through development assistance, enhanced trading opportunities, and expanded investment in North Korea, Chinese leaders intended to partially offset the security dilemma the North faces in its confrontation with the U.S. by providing some support and reason for confidence to North Korea's reluctant reformers. However, it is unclear whether state-to-state management of the economic relationship or vibrant private cross-border trade that has already sprung up at the local level between China and North Korea would be the defining factor in finding the right balance between stability and reform.

While Kim Jong-il's appreciation for Chinese accomplishments may send a message to reformers in North Korea, the vagueness of that message presents the same problem that existed in January 2001 following Kim Jong-il's trip to Shanghai: what does the Dear Leader mean by "reform"? One result of the visit five years ago was that North Korea dispatched specialists to study architecture in Shanghai, but it is still unclear the extent to which the North Korean political system would feel challenged by attempts to "get under the hood" of North Korea's economy and introduce substantive changes that go beyond the external forms of development that Kim clearly seeks to incorporate and show off in Pyongyang as part of North Korea's "Arirang" nationalist narrative.

Kim no doubt sought answers from Chinese leaders on key questions that will influence North Korean priorities: what economic commitments will the PRC make to sustain the North Korean system, and in what forms will they come? How can the PRC help protect North Korea from threatening noises and actions from Washington, including the U.S. efforts to protect the global financial system from counterfeiting and money laundering? How will China assist the DPRK in its efforts to normalize diplomatic relations with the U.S., and for what price in terms of "guaranteeing North Korea's regime stability" and curbing North Korea's nuclear development program? Presumably, Kim sought firm commitments from Chinese leaders for assistance negotiated every five years as a basis upon which to make North Korea's own economic plans.

Reportedly, Kim Jong-il was not altogether happy with everything he heard during his visit. Surely, China sent clear signals regarding North Korean counterfeiting and money laundering practices, which may well extend to counterfeiting of Chinese currency and threatens to compromise China's own international reputation in the banking sector. South Korean media reported that a close associate of Kim allegedly involved with illicit financial activities was briefly detained in Macao and released during the visit to Guangdong province, a clear signal of China's intolerance for these types of activities. Chinese regulatory authorities in Macao continue to freeze North Korean cash in Banco Delta Asia accounts, with no sign of a plan for determining which accounts were legitimate and which were involved in money-laundering.

There are expectations in Beijing that North Korea will live up to its pledges to attend the six-party dialogue, and presumably to begin negotiating specific denuclearization commitments. It remains to be seen how long China will tolerate North Korea's use of U.S. "sanctions" – actually just a U.S. warning followed by a Chinese regulatory action – as a pretext to delay returning to Six-Party Talks. But subtle Chinese hints to the U.S. requesting it to save face for North Koreans and create an atmosphere for resuming the talks directly challenge Washington's claim that the counterfeiting question is a matter of law, not political negotiation. China will probably have to come up with some other way of patching up the process.

China's handling of Kim Jong-il's trip also carried with it a message to the U.S.: gradual reform of North Korea, yes, regime collapse, no. And nukes are not the top priority in China's eyes; the North's economic stability is paramount. Expanded economic support for North Korea through direct assistance, a growing trade relationship, closer political ties, and a trade deficit that served as a supplemental form of economic assistance to North Korea's government were all signs of China's determination to hold in place North Korean comrades rather than risk regime collapse or transformation by the Bush administration.

The Japanese press worked overtime to reveal the details of Kim Jong-il's itinerary; it focused on Kim Jong-il's personal life and discussed prospects for succession. Japanese magazines published news that Kim's new "wife" accompanied him on a "honeymoon" to Beijing and published in-depth speculation on the roles of his immediate offspring amid ongoing succession rumors. The visit also spawned rumors about Kim's health and possible medical check-ups in China to deal with symptoms of diabetes, including expected renal failure. These are sensational reports, until one remembers that Kim Il-sung lived for almost two decades with a giant gargoyle on his neck that attracted intense speculation, but never proved fatal.

Reports that Kim Jong-il's second son, Kim Chong-chol, accompanied his father on the trip to Beijing reinforced succession rumors. During the visit, it was reported that Kim's brother-in-law Jang Song-taek, who returned to the public eye as first deputy chief of the Workers' Party Central Committee after a two-year absence, would lead a 30-member delegation to China to further explore implications for North Korean reform. That visit took place under tight media restrictions at the end of March, following the route taken by Kim Jong-il in January. It is not yet clear what lessons the North might be ready to apply from the latest examination of China's reform path, but most bets are that it will be cautious and gradual in its application.

Watching from the sidelines: South Korean anxieties

While the U.S. issued warnings about North Korea's alleged counterfeiting and money laundering and China sought to enhance its economic influence in North Korea, South Korea was left on the sidelines. Inter-Korean relations are apparently stalemated, there is slower than expected progress in expanding the Kaesong Industrial Complex, and a growing perception that Chinese entrepreneurs are ahead of the game when it comes to

exploiting North Korea's remaining economic resources. South Korea is shut out by politics and the North.

South Korean officials speculated on prospects for further North Korean reform and opening, based on efforts that followed Kim's January 2001 visit to Shanghai. There was also concern that there would be movement in developing a Sinuiju Economic Zone that might compete with or distract from the Kaesong Industrial Complex.

While China's trade with the North increased to almost \$1.6 billion, the inter-Korean trade relationship struggled to catch up, registering almost \$1.1 billion in trade during 2005. Much of this growth was on the strength of the opening of the Kaesong Industrial Complex, but South Koreans eyed growing reports of Chinese joint ventures in North Korea, including a bicycle factory, investments in the coal and natural resource sectors, and plans to build transportation infrastructure, including a new highway from Hunchun to Rajin. Although all these efforts are in their early stages, South Korea has redoubled efforts to convince the North to expand cooperation with South Korea both inside and outside Kaesong.

Another effect of China's enhanced relations with North Korea has been to darken the atmosphere in South Korea regarding China's "problematic bond" with the North. Three developments illustrate the souring mood in South Korea. First, South Korea's envoy to Beijing Kim Ha-joong in February publicly advocated that South Korea continue to sustain and rely on the U.S.-ROK alliance, strongly hinting that his experience did not lead him to support enhanced China-ROK strategic cooperation. Second, the Korean Institute for Defense Analysis (KIDA) published a survey showing that a plurality of Koreans (37 percent) regarded China as the biggest threat to South Korea, a dramatic turnaround from earlier surveys that regarded China as Seoul's top diplomatic priority and expressed concern that U.S. policy was the greatest source of regional instability. Third, PRC Ambassador in Seoul Ning Fukui made a speech at KIDA that drew public criticism for comments on "strategic flexibility" of U.S. forces in Korea. Ning stated that if the U.S.-ROK alliance "is targeted towards a third country, China will have no choice but to shift its attention to the matter." While this comment is not so sensitive, the strong South Korean reaction may reflect increasing frustrations that Seoul's longstanding deference to China's regional security interests related to Taiwan and other matters has not been reciprocated in China's policy toward the Korean Peninsula.

Seoul's "China threat"

Despite finishing 2005 with a record bilateral trade volume that topped \$100 billion for the first time, this quarter marked the highest-level expression of concern from Seoul regarding the "China threat." But unlike the rhetoric from Japanese ministers about China's military growth, Seoul's concern is the economic competition that is squeezing South Koreans out of global markets. South Korean Finance and Economy Minister Han Duck-soo publicly warned that South Korean corporations need to cope with the challenge that derives from the closing technology gap between Chinese and South Korean firms. As new Chinese production comes on line, external technology inputs and

low labor costs will continue to squeeze South Korean bottom lines in many sectors. South Korean steel companies are feeling direct effects from enhanced Chinese competition as it moves up the production ladder. Chinese producers are now competing directly with South Korean counterparts to supply South Korean shipbuilders and automakers. Hyundai Heavy Industries and Samsung Heavy Industries are both switching to Chinese suppliers who can offer prices about 10 percent lower than South Korean steelmakers such as POSCO or Dongkuk Steel. Hyundai Heavy Industries will raise the proportion of steel from China to about 15 percent of its overall demand, or up to 500,000 tons, while Samsung Heavy Industry increases its consumption from Chinese producers from 2 to 9 percent of its overall purchases. This is a direct reflection of the improved quality and lower price of Chinese steel production over the past five years.

A report from South Korea's Ministry of Commerce, Industry, and Energy based on a January survey of 300 South Korean companies indicates that over 86 percent of respondents believe that the pace of technology development is faster in China than South Korea, with potentially severe implications for South Korean competitiveness in key sectors. The report assesses that South Korea is less than three years ahead of China in developing appliances containing liquid crystal displays (LCDs), and has only a two-year lead in rechargeable batteries. The gap is even narrower with CDMA mobile phones and communication equipment manufacturing, where South Korea is estimated to have only a one-year lead over China. Korean automobile parts makers have a three-to-eight year lead over Chinese competitors in production of many key parts and systems, and the Korean lead in the shipbuilding sector is estimated at about a decade.

Who is building a “rich and strong nation” in North Korea?

North Korean leaders have thrived on a shrewd combination of rhetorical defiance of the outside world that shrouds its core dependence. On the periphery of the international stage but geostrategically central to major power interests, the North Korean game under Kim Il-sung was to play the Soviets and Chinese against each other while collecting subsidies necessary for its own development. The game has become much more difficult in the post-Cold War decade, as Pyongyang has tried very hard to replace Soviet assistance with a flow of income from the U.S. and the international community that is derived from the threat of its nuclear development program. The Bush administration has not been willing to play that game, leaving Kim Jong-il precariously dependent on China.

China's economic rise has assured the North Koreans that there probably will be enough crumbs from the table that North Korea can keep itself alive under China's growing shadow. In the absence of a true major power competition on the Peninsula between China and the U.S., South Korea has been a satisfactory substitute donor, and Kim has done well to tap strategic anxieties about China's dominance, but a U.S. donor would offer Kim greater room for maneuver. If current trends continue, North Korean leaders will remain dependent on Chinese economic support but will still have a nuclear capacity that could be sold as part of a strategy of breaking away from Chinese dependence. Or Sino-U.S. cooperation – rather than geopolitical competition – could finally squeeze the North to make a choice between survival and nukes. Chinese policy remains profoundly

in favor of the status quo on the Korean Peninsula, despite a gnawing anxiety that North Korea's weakness may render the status quo unsustainable. What will trigger a new chapter in efforts to maintain that balance, and when, how, and whether one might finally reach the tipping point, are subjects to be addressed in future issues of *Comparative Connections*.

Chronology of China-Korea Relations January-March 2006

Jan. 10-18, 2006: DPRK Defense Commission Chairman Kim Jong-il makes a secret week-long visit to China, accompanied by every member of the Central Committee of the Chinese Politburo and follows the route taken by Deng Xiaoping during his famous "southern tour" of 1992.

Jan. 12, 2006: Korea Customs Service announces that South Korea's merchandise trade with China in 2005 reached \$100.6 billion.

Jan. 16, 2006: Taiwanese and Chinese media outlets decide to drastically cut the number of Korean dramas to be shown in China and Taiwan respectively in 2006.

Jan. 16, 2006: ROK National Intelligence Service announces the detention of two former Samsung Electronics employees who sought to smuggle critical LCD panel technology to China to build their own factory in Shenzhen.

Jan. 17, 2006: South Korean Ministry of Justice announces that over 10.3 million Koreans traveled overseas in 2005, with 28.7 percent of travelers visiting China.

Jan. 20, 2006: South Korean government issues a travel warning for Koreans traveling to Qindao and Shenyang following reports of murders, robberies, and kidnappings targeting Korean citizens in those cities.

Jan. 28, 2006: National Defense Commission Chairman Kim Jong-il hosts a Lunar New Year's banquet for Chinese embassy staff in Pyongyang.

Jan. 30, 2006: Christian Council of Korea (CCK) closes down the Commission to Help North Korean Refugees (CNKR) on the basis of reports that activists sought profits from its programs to assist North Korean refugees transiting China en route to South Korea.

Feb. 14, 2006: ROK Ministry of Justice announces plans to issue new employment visas from July for ethnic Koreans living in China and Russia.

Feb. 14-18, 2006: Chinese Vice Minister Wu Dawei visits Pyongyang in a failed attempt to jumpstart the Six-Party Talks.

Feb. 20, 2006: ROK National Institute of Environmental Research reports that rainfall in Seoul has become more acidic as a result of air pollutants traveling from China.

Feb. 21, 2006: The Korea Iron and Steel Association releases data showing that a quarter of China's steel exports came to Korea, while South Korean steel exports to China declined by over 24 percent during the past year.

Feb. 23, 2006: A *Korea Times* opinion poll reveals that 40 percent of respondents believe that China should be South Korea's top priority, while 60 percent believed that South Korea should declare neutrality in the event of a cross-Strait conflict where the U.S. wants to employ "strategic flexibility" to intervene in such a conflict.

March 1, 2006: ROK Ministry of Commerce, Industry, and Energy releases a survey showing that China is cutting into the technology advantage enjoyed in a wide range of sectors by South Korean firms.

March 8, 2006: ROK Minister of Trade Kim Hyun-chong expresses doubts about the possibility of a ROK-PRC free trade agreement.

March 9, 2006: ROK Ministry of Government Administration and Home Affairs announces that it will invite 11 government officials from China to study Korea's past rural development policies; i.e., the *Saemaul* ("New Village") movement.

March 11, 2006: Ssangyong Motors Company announces that it is considering cost cutting measures by sourcing components via a subsidiary of its owner, the Shanghai Automotive Industrial Corporation (SAIC).

March 18, 2006: A 30-member delegation led by first deputy chief of the Workers' Party Central Committee Jang Song-taek arrives in China to view China's economic reforms, following the same route as Kim Jong-il's visit in January.

March 20, 2006: Korea Institute for Defense Analysis poll shows that 38 percent of South Koreans consider China to be the biggest security threat Korea will face within 10 years, followed by Japan (23.6 percent), North Korea (20.7 percent), and the U.S. (14.8 percent).

March 20, 2006: ROK Financial Supervisory Commission announces that two Chinese companies will list shares on the Korea Stock Exchange by July.

March 21, 2006: Finance and Economy Minister Han Duck-soo urges South Korean corporations to improve their technical capacity to counter a threat from rising Chinese technological competitiveness in an address at the 11th Asia Economic Panel meeting.

March 22, 2006: ROK military announces plans to revise defense laws related to cyber-warfare to address cyber-warfare capabilities from China and North Korea.

March 23, 2006: Seoul Metropolitan Police Agency announces that four people were arrested smuggling fake Korean cigarettes from China containing higher than average levels of harmful substances.

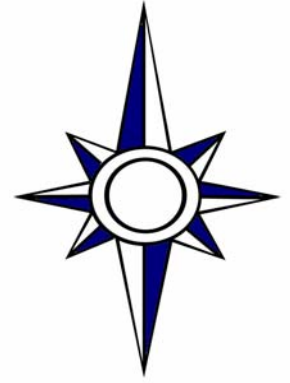
March 25-26, 2006: The Hong Kong Trade Development Council sponsors seven leading Hong Kong universities for recruiting students held at the Korean Student Fair.

March 27-28, 2006: ROK Financial Supervisory Commission Chairman Yoon Jeung-hyun hosts a two-day seminar on trilateral financial supervisory cooperation among supervisory authorities of China, Japan, and South Korea on how to implement an early warning system for financial instability, monitor hedge funds, and implement Basel II.

March 28, 2006: Ssangyong Motor CEO Choi Hyung-tak announces that the company would no longer build a jointly invested plant with its parent company, Shanghai Automotive Industry Corporation (SAIC) in China, following speculation that the Chinese government had rejected an application to build an auto plant in China.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



Japan-China Relations: Looking Beyond Koizumi

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The quarter ended as it began – with Prime Minister Koizumi Junichiro expressing his inability to understand why China and the Republic of Korea refused to hold summit meetings just because of differences over Yasukuni Shrine. He also could not understand why he should not pay homage at the shrine simply because China and South Korea said he should not do so. Meanwhile, China’s leadership made clear that it was writing off the next six months and looking to a post-Koizumi future. During the quarter, Beijing hosted a number of high-level political delegations and courted potential Koizumi successors. Reflecting the political stalemate, diplomatic efforts to resolve issues related to the exploration and development of natural gas fields in the East China Sea failed to make progress. China rejected Japan’s proposal for joint development, and when Chinese diplomats presented their ideas, Japanese diplomats found little they could agree to beyond agreeing to take them back to Tokyo, where the political reception proved decidedly frosty.

Despite the government adopting the position that China was not a threat to Japan, the political debate continued. The opposition Democratic Party of Japan adopted a party platform that China represented an “actual threat” to Japan. At the end of March, the Foreign Ministry released the 2006 Diplomatic Blue Book, which called attention to the lack of transparency in China’s military budget and in the modernization of the People’s Liberation Army. In the face of “cold politics,” economic relations continued “hot.” For the seventh consecutive year, Japan’s trade with China hit a record high in 2005, reaching \$189.3 billion.

Yasukuni

Prime Minister Koizumi opened the new year by visiting Ise Shrine on Jan. 4. Afterward, during a nationally televised news conference, Koizumi described his visits to Yasukuni Shrine as “a matter of the heart” and criticized China (and South Korea) for refusing to hold high-level political summits because of “this single issue.” The prime minister found it beyond his “understanding” that foreign governments would “try to intervene in a matter of the heart and make the Yasukuni Shrine into a diplomatic issue.” For his part, the door to summit meetings remained open and he was “willing to respond to talks at any time.” Koizumi then put the ball squarely in Beijing’s court, defining the problem as

“what decision the other sides make.” During an end-of-the-year press conference, China’s Foreign Ministry’s Spokesperson Qin Gang took a diametrically opposed stance, making clear that responsibility for the lack of progress in the bilateral relationship “is not on the Chinese side.” And so 2005 closed and 2006 opened.

At the same time, the Liberal Democratic Party’s coalition partner, the New Komeito Party, was taking a more measured position on policy toward China and South Korea. Komeito leader Kanzaki Takenori told a meeting of party executives that “Koizumi’s successor must get down to the task of improving deteriorating relations with China and South Korea.” Similar critical sentiments were expressed in an unprecedented dialogue between the chief editor of the *Yomiuri Shimbun*, Watanabe Tsuneo, and the chairman of the *Asahi Shimbun*’s editorial board, Wakamiya Yoshihumi. The dialogue was published in the February edition of *Ronza* magazine. Also joining the debate was former Vice Foreign Minister and Ambassador to the U.S. Kuriyama Takakazu, who criticized Koizumi in his article “Reconciliation – Challenges Facing Japanese Diplomacy.” Kuriyama’s article appeared in the January edition of *Gaiko Forum*.

From Islamabad, Foreign Minister Aso Taro defended Koizumi’s visits to Yasukuni, taking the position that there was “no need” to cease visiting the shrine “just because China tells him to.” While recognizing relations with China are “important,” he cautioned that “no progress will be made so long as Yasukuni is made the focus of everything.” In a Jan. 21-22 opinion poll conducted by the *Mainichi Shimbun*, it was found that the Japanese public was split evenly on the question of whether the next prime minister should visit Yasukuni. LDP supporters were more supportive of the visit at 74 percent.

Aso took a more diplomatic tone in his policy speech to the Diet on Jan. 20. The foreign minister stated that Japan “welcomes” China’s peaceful development and expressed the hope that “as a major partner in Asia and a member of the international community, China will come to embrace universal values common to humanity, such as democracy and human rights.” With regard to the past, he assured China that “we Japanese take most seriously the feelings of Chinese nationals concerning history.” Japan would “call on the Chinese people to build a relationship with Japan whereby the two countries, without dwelling unduly on the past, and seeing things in a broad perspective, concentrate their efforts on the basis of our mature friendship... to address the challenges posed by a broad range of global and regional issues.”

On Jan. 24, Koizumi appeared before both houses of the Diet, where his Asia policy was called into question. In response, the prime minister reiterated his belief that “close relations between Japan and the United States are extremely important for Japan to promote its policy toward Asia in a strategic way.” As for Yasukuni, Koizumi refused to back down. The prime minister again asserted that China and South Korea are the only two Asian states criticizing his visits. However, on Feb. 5, Singapore’s Senior Minister Goh Chok Tong told an audience at the Asia-Pacific Roundtable that Japan’s leaders should stop visiting the shrine and find other ways of paying respects to the war dead. Still, Koizumi was prepared “from a broad perspective” to enhance cooperation and build

a future-oriented relationship with China. To that end, he repeated his commitment to meet anywhere, anytime with China's leaders.

On Jan. 26, Chief Cabinet Secretary Abe Shinzo and Foreign Minister Aso, appearing before the House of Representatives Budget Committee, criticized Beijing for refusing to meet with Koizumi because of the Yasukuni issue. Abe told the legislators that it is "clearly wrong" to use "a political issue as a diplomatic instrument." Aso found the situation "abnormal," observing that his Chinese counterpart is "the only person who has refused to hold talks with me due to the Yasukuni issue."

The degree of difficulty in making that happened rocketed into the stratosphere, when, on Jan. 28, Aso told a Komeito Party meeting in Nagoya that a visit to Yasukuni by the emperor would be "best" in helping to resolve the issue of the prime minister's visits to Yasukuni Shrine. The reason, according to Aso, was that Japanese killed in the war went to their deaths shouting "banzai" for the emperor – not the prime minister. The foreign minister reiterated his view that a decision not to pay homage at Yasukuni should not be made on the basis of external pressure and his belief that an end to the Yasukuni issue would not solve all outstanding bilateral issues.

The foreign minister's remarks quickly drew fire from China's *New China News Agency* which branded his views as "representing the position of Japan's extreme right-wingers" and reflecting his "inability to squarely face his country's past military aggression." Political backpedaling began early the following week. On Jan. 30, Chief Cabinet Secretary Abe told reporters that the foreign minister was merely expressing his personal opinion. The following day, Aso told a press conference that he "simply intended to present a question about how we should offer our gratitude and respect to those who gave their lives for the nation." On the *Asahi* nightly news, Aso drew a distinction between his personal beliefs and feelings as foreign minister, admitted that "personal beliefs and state beliefs do not necessarily coincide," but assured his audience that he would "make judgments appropriately."

During a March 8 news conference China's Foreign Minister Li Zhaoxing returned to the Yasukuni issue, reiterating the charge that Koizumi's visits to the shrine were the equivalent of German leaders honoring Hitler and noting that "no German leaders have ever expressed their respects for Hitler." He went on to say that not only China but other countries could not accept "Japanese leaders worshipping Class-A war criminals." Koizumi replied that his visits were "to offer prayers to all the war dead." Both Abe and Aso deemed Li's remarks "inappropriate." When Vice Foreign Minister Yachi Shotaro tried to call in the Chinese ambassador to protest, Wang, citing a busy schedule, failed to show, leaving Yachi to protest over the telephone. The *Yomiuri* reported that Wang did not apologize, defended his minister's remarks, and that "an exchange of accusations followed."

During a televised March 14 news conference at the conclusion of the National People's Congress, Premier Wen Jiabao addressed the Yasukuni issue. Wen emphasized the source of the current tension "does not lie with China, nor with the Japanese people, but

with the Japanese leader” and made clear that failure to resolve this issue, would make the “smooth development” of relations “difficult” – even in a post-Koizumi government.

Building on his recent speeches welcoming the rise of China, Foreign Minister Aso placed an op-ed, “Japan Welcomes China’s Democratic Future,” in the March 13 *Wall Street Journal*. The op-ed found China’s evolution to democracy to be “imminent.” Looking back over the past two centuries, Aso described China’s history as “one of extremes” and suggested that China could “learn from Japan’s missteps” in experiencing “extreme nationalism.” Two days later, speaking to the Upper House Budget Committee, Aso expressed his dissatisfaction with the assistance China is providing to North Korea and emphasized that Japan was asking China for an explanation.

Unsurprisingly, Beijing found Aso’s *Wall Street Journal* effort to be “extremely inappropriate” meddling in “China’s political system” and urged Japan “to appropriately settle the question of its historical views to earn the trust of its Asian neighbors.” Beijing also denied that Japan had asked for an explanation of its trade with North Korea and labeled Aso’s recent statements as “contrary to diplomatic common sense.”

With respect to Yasukuni, the quarter ended as it began. On the evening of March 27, Koizumi met with reporters, after receiving the final budget for 2006. When asked if he would visit Yasukuni before leaving office in September, Koizumi replied that he would handle the matter “appropriately.” He then observed that while differences of opinion exist [with respect to Yasukuni], China and the ROK were the only two countries that refused a summit meeting because of those differences. What he could not understand were those who said that he should not pay homage at the shrine just because China and South Korea said that he should not do so.

East China Sea

Japan and China last met in October 2005 to discuss energy development in the East China Sea. During the October meeting, Japan had presented a proposal for joint development extending across both sides of the median-line boundary. China, however, held to its previous position that joint development should take place only on the eastern (Japanese) side of the line. Little progress was made in defining the area for joint development, and Beijing broke off the talks in response to Koizumi’s Oct. 17, 2005 Yasukuni Shrine visit.

On Jan. 6, the Japanese Foreign Ministry announced that Director General of the Asia and Oceanic Bureau Sasae Kenichiro would meet his Chinese counterpart Cui Tiankai in Beijing Jan. 9 to review informally issues affecting the bilateral relationship, including the East China Sea dispute. Sasae was accompanied by Kodaira Nobuyuki, director general of the Natural Resources and Energy Agency. The informal talks, however, failed to make progress. Japanese officials said China’s response to Japan’s earlier proposal was “problematic” and that China was preparing to present its own proposal at the next negotiating session. Both sides agreed to resume formal talks in either late January or early February.

Subcabinet-level talks, led by Vice Foreign Ministers Yachi and Dai Bingguo, resumed in Tokyo Feb. 10 and, to facilitate a more relaxed exchange of views, moved to a hot spring resort on Feb. 11. The agenda included issues related to history, the suicide of a Japanese diplomat at the Shanghai Consulate in 2004 and the East China Sea. Notwithstanding the relaxed atmospherics, progress remained elusive. On the East China Sea, China failed to present a response to the Japanese proposal. Both sides, however, agreed the working-level dialogue should continue.

Talks resumed in Beijing March 6 at the Diaoyutai Guest House. Japan's Sasae expressed the hope that China would present a "constructive and positive view" indicative of its "seriousness." The meeting, however was more of the same – the Japanese asking that China cease development of the Chunxiao gas field and provide data on exploration activities, the Chinese refusing to do so and not responding to Japan's proposal for joint development. Later, the Chinese proposed joint development of two areas, one in the north of the East China Sea near the median-line but still in the territory in dispute between Japan and South Korea and a second in the south in the vicinity of the disputed Diaoyu (Senkaku) islands. Japanese diplomats agreed to take back the Chinese proposal for further study, and both sides agreed to resume talks in Tokyo at an early date.

Japan's political leaders, however, expressed strong dissatisfaction with Beijing's proposals. Chief Cabinet Secretary Abe told a March 8 news conference that Japan could not accept China's proposal, asked for greater realism on the part of Beijing, and noted that "Japan has the right to carry out test-drilling." The *Sankei Shimbun* reported that Abe had upbraided Sasae for not refusing the Chinese proposals outright. Foreign Minister Aso made clear that the Senkaku islands are "indisputably Japan's territory both historically and under international law" and that Japan would not allow co-development in the area. An unidentified government source called Beijing's proposals "provocative," suggesting that China seemed interested in "picking a fight." Appealing for calm, Ministry of Economy, Trade, and Industry Nikai Toshihiro told a Lower House Budget Committee on March 8 that the various problems on the negotiating table with China – sovereignty issues as well as history – are "not problems that can be solved quickly" and will have to be dealt with "tenaciously." On March 10, the LDP approved legislation to protect companies engaged in the exploration and development of natural resources within Japan's EEZ.

China's Foreign Ministry Spokesperson Qin Gang, of course, saw it differently. Characterizing China's proposal as "rational, reasonable and constructive" in contrast to Japan's "unilateral position," Qin urged Tokyo to "carefully study" the Chinese proposal. Once again, Beijing refused to accept Japan's claimed median-line boundary along with its proposal for the joint development of the Chunxiao field and reasserted China's sovereignty claim to the Diaoyu/Senkaku islands. Qin also announced that China would continue to develop the Chunxiao field until agreement is reached on joint development. The *Sankei Shimbun* quoted a senior Foreign Ministry official as saying that China's assertion of sovereignty over the Senkakus as assuring that "talks will never move ahead." A second official speculated that China intended to complicate and draw out the East China talks by raising the Senkaku sovereignty issue.

On March 15, Foreign Minister Aso, in response to questions before the Lower House Foreign Affairs Committee, told the lawmakers that Japan “has to consider countermeasures” in the event China went ahead with exploration of the Shirakaba gas field. Two days later during a Cabinet meeting, METI Minister Nikai took issue with Aso and argued for a positive approach of solving the issue through continuing discussion.

On March 17, the *Sankei* reported that the Japan Defense Agency (JDA) was considering whether the Air Self-Defense Force would be allowed to provide covering fire in the event that ships of the Maritime Self-Defense Force were fired upon within Japan’s air defense identification zone, an area larger than the territorial air space. In the East China Sea, the air defense identification zone extends beyond the median-line boundary.

High-level visits

In Beijing and Tokyo, post-Koizumi politics – and their implications for China-Japan relations – began to dominate political agendas. On Feb. 8, Tang Jiaxuan, state councilor and former foreign minister, met in Beijing with LDP’s Noda Takeshi, head of the Japan-China Association. Taking a long-term perspective, Tang wrote off the next eight months, telling Noda that “we no longer expect anything from Prime Minister Koizumi. There is little possibility that our relations will turn for the better while he is in office.” Abe stated at a Feb. 9 press conference that he found Tan’s remarks “inappropriate” for someone in a national position and not in accordance with the pronouncements of China’s leaders with respect to the importance of Japan-China relations. Koizumi reacted by noting that he is “an advocate of friendly Sino-Japanese relations.”

On his return to Japan, Noda, in a Feb. 15 speech to a Tokyo audience, quoted Tang’s remarks and went on to say that “the question of paying homage at Yasukuni Shrine and policy toward China are important factors in considering the successor to Prime Minister Koizumi.” Also on Feb. 15, China’s ambassador to Japan, Wang Yi, speaking to the Japan-China Parliamentarian Friendship Association, reiterated China’s concerns with the prime minister’s visits to Yasukuni and called for the removal “of any political impediments” in the relationship.

At the same time, the Chinese visitors to Japan called on Abe to urge that steps be taken to improve bilateral relations. On Feb. 13, Jing Dunquan, vice chairman of the China-Japan Friendship Association, met Aso at the prime minister’s official residence. Jing also met Foreign Minister Aso on Feb. 14. Earlier on Jan. 18, Aso received guests from the China International Friendship Liaison Council and met Vice Foreign Minister Dai Bingguo on Feb. 10.

Looking ahead, Beijing moved to engage Japan’s political leaders through a series of high-level visits to China. The Japanese media interpreted China’s political activism as an effort to shape the post-Koizumi environment. In mid-February, Nakagawa Hidenao, chairman of the LDP’s Policy Research Council, and his Komeito Party counterpart Inoue Yoshihisa led a delegation of the coalition’s Exchange Council to China.

On Feb. 20, Nakagawa met with Li Zhangchun, Standing Committee member of the CCP's Political Bureau, in the Great Hall of the People. Li had a two track message: the first being that the current situation caused by the Yasukuni visits was "the most serious difficulty since the normalization of diplomatic ties," and the second that "we do not think the current chilly relationship will last long." Li called on Japan's leaders "to come up with sincerity and action." Nakagawa emphasized the importance of dialogue to address issues in the relationship and suggested informal talks toward that end.

The next day Nakagawa delivered a speech that called for the building of a future-oriented relationship. Nakagawa offered seven proposals, including a joint Japan-China study of history that could be opened to third country scholars, cooperation on North Korea and UN Reform, and the active development of youth exchanges. Yasukuni, however, was at the center of Chinese concerns. Wang Jirui, head of the CCP's International Department made clear that Koizumi's visits to the shrine were not "a minor difference" that could be compromised. When Nakagawa attempted to defend the visits as an expression of Koizumi's private beliefs, the Chinese refused to buy, asserting "it's impossible for political leaders to make a distinction between public and private capacity."

Also on Feb. 21, METI Minister Nikai arrived in Beijing. (Nikai is perceived to be a pro-China LDP leader.) On the following day, Nikai met with Premier Wen Jiabao, who made clear China's displeasure with Koizumi's visits to Yasukuni, and State Councilor Tang Jiaxuan. Nikai emphasized Japan's interest in expanding economic relations and building a future-oriented relationship. Wen welcomed Japan's participation on the 2008 Olympics and 2010 Shanghai Exposition and spoke positively with respect to the importance of cooperation in developing the East China Sea, having it become "a sea of peace."

The Wen-Nikai meeting marked the first Cabinet-level meeting since Koizumi's Oct. 17 visit to Yasukuni. When the Nakagawa delegation returned to Japan without receiving the high-level attention visited on Nikai, the Japanese media interpreted the difference in treatment as an effort to send the post-Koizumi contenders a message. Nakagawa is widely viewed as Abe's political consiglieri. The Nakagawa delegation had hoped to meet Wu Bangguo, Chairman of the Standing Committee of the National People's Congress, and Vice President (and Japan handler) Zeng Qinghong; both, however, proved unavailable. A meeting with Foreign Minister Li Zhaoxing was cancelled.

During his March 14 press conference, Premier Wen, while ruling out progress in bilateral relations as long as Japan's leader continued to visit Yasukuni, called for an expansion of economic ties and people-to-people exchanges to build mutual trust and cooperation for "win-win results." At the end of March, at the invitation of the China-Japan Friendship Association, heads of seven Japan-China friendship organizations, including former Prime Minister Hashimoto Ryutaro, former Foreign Minister Komura Masahiko, and former Home Affairs Minister Noda Takeshi visited Beijing. High-level meetings with President Hu and Premier Wen were on the delegation's schedule.

Security and the “China threat”

On Dec. 31, the *Nihon Keizai Shimbun* reported that the JDA announced that elements of the Ground Self-Defense Force would conduct joint exercises with the U.S. Marine Corps. The exercises took place Jan. 9-27 in waters off San Diego and focused on scenarios involving the defense of remote islands, such as the Senkakus. In early January, the *Sankei* reported that the JDA would be strengthening measures to deal with a sharp increase in the intrusions of Chinese military aircraft into Japan’s air defense identification zone over the East China Sea. From April through December 2005, the violations had already topped the all-time high of 30 set in Japan’s 1998 fiscal year.

On Jan. 31, the Cabinet adopted a government position paper stating that China did not represent a threat to Japan. The statement defined threat as “what is actualized with aggressive capability and intent combined.” At the same time, the document noted China’s 17 consecutive years of double-digit defense spending and called for transparency in China’s defense budget.

Meanwhile, the political debate over the “China threat” continued. In remarks to a *Kyodo News* Study Group on Jan. 11, Maehara Seiji, leader of the opposition Democratic Party of Japan, told his audience that, while there were views within the party that differed with his China threat assessment, he would continue to use the words “actual threat.” Earlier on Jan. 10, Maehara told Tan Gailin, assistant to the head of the CCP’s International Liaison Department, that he did not see China as “an enemy” and wanted to promote exchanges to advance relations. Two weeks later, on Feb. 23, the DPJ adopted as a party position the view that China represented an “actual threat” to Japan. The party noted China’s continuing military modernization as well as statements and actions that threatened Japan’s sovereignty. Earlier, in a Jan. 18 speech to the Foreign Correspondents Club, Minister of Agriculture, Forestry and Fisheries Nakagawa said that “Japan is facing military threats. Specifically, they are North Korea and China.”

On Feb. 15, China’s ambassador Wang entered the debate. In a speech to the Diet’s Federation of Japan-China Friendship, Wang attempted to explain increases in China’s defense spending, attributing increased personnel costs to China’s increasingly “affluent” standard of living. He went on to emphasize that the PLA’s *raison d’etre* was to “defend” China not to threaten others. The same day ASDF Maj. Gen. Takiwaki Horiyuki, commander of the air base at Naha on Okinawa, told reporters that China’s military build-up represented a threat to Japan. The next day, JDA Vice Minister Moriya Takemasa offered a correction, noting that Japan does not view China as a threat.

On Feb. 28, the *Sankei Shimbun* reported that the U.S.-Japan command post exercise *Keen Edge*, conducted Feb. 23-March 3, would deal with North Korea and China as “hypothetical enemies.” The exercises focused on missile defense and maritime security.

On March 3, the *Tokyo Shimbun* reported that the Foreign Ministry, in its annual Diplomatic Blue Book, would, without specifically identifying China, call attention to an arms buildup “that will directly affect Japan’s national security” and state that “in Asia,

there is a country that has been expanding armaments and has not fully uncovered its armed strength, constituting a matter of concern in the neighboring region.” Commenting on the text, a Foreign Ministry official told the paper that “it is apparent that the identity of the nation in question is China.” On March 22, the Foreign Ministry released the document that called attention to the lack of transparency in China’s military budget and modernization. While the JDA in its Defense White Paper has cited China specifically for a lack of transparency, the reference in the 2006 Blue Book represents a first in the Foreign Ministry’s publications. In his March 19 speech to graduates of the Defense Academy, Koizumi, without naming names, made reference to the fact that some countries “have been pushing nontransparent military expansion in recent years.”

Suicide at the Shanghai Consulate

At the end of 2005, the *Yomiuri Shimbun* revealed the May 2004 suicide of a cipher clerk at the Japanese Consulate in Shanghai and that the government had, on four occasions, lodged protests with Beijing alleging a violation of the Vienna Convention on Diplomatic Relations. The *Yomiuri* reported that the clerk’s suicide note to his family told a story of attempted blackmail by Chinese officials to secure access to confidential codes and of the clerk’s refusal to betray his country. Foreign Ministry spokesperson Katori Yoshinori acknowledged the story and the government’s protests at a Dec. 28 press conference, charging Chinese officials to be behind the incident.

In turn, China’s Foreign Ministry Spokesperson Qin Gang made clear that “Tokyo’s claim is not based on facts” and that China had expressed its “strong indignation toward the Japanese government for taking such a vile action that can smear China’s image.” Meanwhile, the Chinese embassy in Tokyo released a statement to the effect that the Japanese government initially had asked China not to disclose the suicide which Tokyo at the time had attributed to “work pressure.”

Speaking in Tokyo on Feb. 18, Foreign Minister Aso returned to the incident, telling a Tokyo audience that the cipher clerk had committed suicide after having an affair with an unidentified woman, that the incident involved “regrettable acts” on the part of Chinese security officials, and that clerk had “killed himself as he could not sell out his country.” Two days later Aso found himself back-peddling before the Diet, telling lawmakers that he had offered his account only as a hypothetical scenario. He also cautioned Japan’s diplomats to exercise caution when approached by attractive women.

Taiwan

Chinese sensitivities with regard to Taiwan were again aroused when Foreign Minister Aso told a Fukuoka audience on Feb. 4 that Japan’s colonial rule was responsible for Taiwan’s high standards of education. Aso said that he had learned about this from “an important figure on Taiwan” and that “all the elderly people knew about it.” The occupation was a time when “our predecessors did a good thing.” In his remarks, the foreign minister was reported to have called Taiwan a country. Aso later denied that he had called Taiwan a country, telling a Feb. 6 news conference that “I know it’s

problematical to say Taiwan is a country and I'm not that stupid." Beijing expressed surprise and outrage at the foreign minister's "openly prettifying" Japan's past military aggression.

However, during a March 9 meeting of the Upper House Budget Committee, the foreign minister again referred to Taiwan as a country, saying "it has a mature democracy and embraces a free economy. It is also a country under the rule of law." Aso, later amended his remarks, acknowledging that Japan had recognized Beijing as "the only legitimate government" of China and that it was correct to call Taiwan a "region." Also on March 9, Chief Cabinet Secretary Abe reaffirmed the Japan-China Joint Statement, noted that Japan's position had not changed, and observed "I think the foreign minister has understood our position."

Business and economy

For the seventh consecutive year, Japan's trade with China hit new record highs, growing at the rate of 12.7 percent and totaling \$189.3 billion. Exports to China grew 8.9 percent, amounting to \$80.3 billion, while imports increased 15.7 percent and hit \$109 billion. This left Japan with a record trade deficit with China of \$28.7 billion. A JETRO official noted that last year's anti-Japanese demonstrations and China's revaluation of the yuan had "no effect" on bilateral trade. At a Jan. 5 new conference, Keidanren Chairman Okuda Hiroshi told reporters that "when we look at our actual business in China...we do not get the impression that economic ties have cooled." Underscoring the growing importance of commercial relations with China, the Foreign Ministry announced that it would establish in April a Japan-China Economic Affairs Office in the Bureau of Asia and Oceanic Affairs.

The only dark cloud that appeared during the quarter was a result of investigations into illegal export activities of Japanese companies. At the end of January, Japanese media reported that METI had decided to file a criminal complaint under the Foreign Exchange and Foreign Trade Laws against Yamaha Motors for exporting remote-controlled helicopters to Poly Technologies, a Beijing-based company controlled by the PLA. Police authorities suspected that the helicopters could be converted to military use and employed in the spraying of toxic substances. On March 2, National Police Chief Uruma Iwao asked Japan's high-tech companies to exercise caution in exporting to China. Uruma asked that they "take into account national interests" in their business dealings and cautioned that China is "making greater efforts to integrate high technology into military equipment, so it is steeping up clandestine activities directed toward Japan."

Looking ahead

As the quarter drew to a close, it was clear that Beijing was making efforts to shape the post-Koizumi political environment. Its criteria for improving relations, however, remained unchanging – an end to visits to the Yasukuni Shrine by Japan's political leaders. While Japanese opinion polls point to a wide-based public understanding of the need to improve relations with China, among the front-runners to succeed Koizumi

bending to China's criteria during the run-up to the LDP party election is not likely to be a vote getter. The optimistic scenario is that things will not get worse.

Chronology of Japan-China Relations January-March 2006

Jan. 4, 2006: Prime Minister Koizumi visits Ise Shrine; afterward in nationally televised news cast, says he cannot understand foreign governments attempting to turn matter of the heart (Yasukuni) into a diplomatic issue.

Jan. 5, 2006: Keidanren Chairman Okuda tells news conference that economic relations, with one or two exceptions, were not been affected by political tensions during 2005.

Jan. 5, 2006: *Ronza* magazine publishes *Asahi-Yomiuri* editorial dialogue critical of Koizumi's visits to Yasukuni.

Jan. 9, 2006: Director general/working-level informal discussions in Beijing on East China Sea fail to make progress.

Jan. 9, 2006: China's director general for Asian affairs is reported to have criticized Japanese media for only reporting negative aspects with regard to China.

Jan. 9-27, 2006: Ground Self-Defense Forces conduct joint exercises with U.S. Marines in California; exercises focus on defense of remote islands.

Jan. 11, 2006: Democratic Party of Japan (DPJ) leader Maehara Seiji reiterates view that China is an "actual threat."

Jan. 11, 2006: China, Japan, India, South Korea, Australia, and the U.S. meet in Sydney to discuss global warming.

Jan. 13, 2006: JDA Director General Nukaga visits Moscow; asks Russian counterpart to consider impact on regional balance of Russia arms exported to China.

Jan. 18, 2006: Agriculture Minister Nakagawa in speech to Foreign Correspondents Club warns Japan is facing military threats from North Korea and China.

Jan. 18, 2006: LDP party convention adopts platform promising continued party members' visits to Yasukuni.

Jan. 20, 2006: Foreign Minister Aso Taro in foreign policy address to Diet "welcomes" China's peaceful development, assures China that Japan has learned lessons of history, and seeks to build a future-oriented relationship.

Jan. 23, 2006: *Mainichi Shimbun* public opinion poll shows public evenly divided on question of whether next prime minister should visit Yasukuni Shrine.

Jan. 23, 2006: DPJ adopts view that China is an “actual threat” to Japan.

Jan. 24, 2006: Koizumi tells Diet that only China and South Korea are critical of his visits to Yasukuni; reiterates interest in building future-oriented relationship and summit meeting.

Jan. 26, 2006: Chief Cabinet Secretary Abe Shinzo and FM Aso tell Diet that it is wrong for China to use Yasukuni as a diplomatic instrument.

Jan. 28, 2006: FM Aso suggests that the emperor should visit the shrine and thus resolve issue of prime minister’s visits.

Jan. 30, 2006: Abe tells reporters that Aso was simply expressing a personal opinion.

Jan. 31, 2006: Koizumi government adopts position paper stating that China is not a threat to Japan.

Jan. 31, 2006: FM Aso tells reporters that he only intended to raise the issue as to how best to pay homage to those who died for their country.

Feb. 4, 2006: FM Aso tells Fukuoka audience that imperial Japan was responsible for present-day Taiwan’s high educational standards; is reported to have referred to Taiwan as “a country.”

Feb. 6, 2006: FM Aso back-peddles on Taiwan remark, claiming “I’m not that stupid.”

Feb. 8, 2006: LDP leader Noda meets in Beijing with State Councilor and former Foreign Minister Tang; Tang writes off expectations of progress for Koizumi government.

Feb. 8, 2006: Japan Trade Union Confederation and All China Federation of Trade Unions agree to strengthen exchanges.

Feb. 9, 2006: Chief Cabinet Secretary Abe calls Tang’s remarks “inappropriate.”

Feb. 10-11, 2006: Vice ministerial-level talks in Tokyo on East China Sea again fail to make progress.

Feb. 13-14, 2006: Chief Cabinet Secretary Abe meets in Tokyo with Jing Dunquan, vice chairman of the China-Japan Friendship Association; Jing meets FM Aso Feb. 14.

Feb. 15, 2006: Noda quotes Tang's remarks in speech to Tokyo audience; China's ambassador Wang calls for removal of "political impediments" in obstacles in bilateral relations and asserts PLA *raison d'etre* is to defend China not threaten others.

Feb. 15, 2006: Tokyo District Court dismisses lawsuit by three Japanese women left in China at end of World War II, seeking damages from government for lack of support.

Feb. 18, 2006: FM Aso charges official Chinese involvement in 2004 suicide of Japanese cipher clerk in Shanghai Consulate.

Feb. 20, 2006: FM Aso backtracks on suicide charge saying he was offering a hypothetical scenario.

Feb. 20, 2006: Delegation of Ruling Coalition members, led by Nakagawa Hidenao, head of LDP's Policy Research Council, visits China; meets Li Zhangchun, Standing Committee member of Political Bureau; Li calls Yasukuni visits "most serious difficulty" since normalization.

Feb. 21, 2006: Nakagawa delivers speech in Beijing offering proposals for a future-oriented relationship.

Feb. 21, 2006: Association to Consider National War Memorial opens Diet study group under chairmanship of LDP's Yamasaki Taku.

Feb. 21, 2006: METI Minister Nikai arrives in Beijing.

Feb. 22, 2006: Nikai meets Premier Wen Jiabao and State Councilor Tang.

Feb. 24, 2006: Miyamoto Yuji, China-school diplomat, named ambassador to China.

Feb. 25, 2006: Chinese companies establish fund to support lawsuits of Chinese citizens seeking compensation for wartime forced labor.

March 5, 2006: Former Chief Cabinet Secretary Fukuda calls for improving relations with Japan's Asian neighbors, including China and South Korea.

March 6, 2006: Director general-level talks on East China Sea resume in Beijing. China advances joint development proposal. Japan and China agree to early resumption of Six-Party Talks.

March 8, 2006: Chief Cabinet Secretary Abe announces that Japan cannot accept Beijing's proposal and asserts Japan's right to carry out exploration activities.

March 8, 2006: METI Minister Nikai calls for continuation of diplomatic efforts to resolve East China Sea issues.

March 8, 2006: China's FM Li asserts that Koizumi's visits to Yasukuni are the equivalent of Germany's leaders honoring Hitler.

March 9, 2006: FM Aso again refers to Taiwan as "a country" in remarks before Upper House Budget Committee; later amends his statement acknowledging Beijing as the "only legitimate government."

March 10, 2006: Chief Cabinet Secretary Abe reaffirms one China policy; observes that he believes FM Aso understands Japan's position.

March 10, 2006: Nagano District Court rejects suit for compensation filed by wartime conscripted Chinese laborers and their families; appeal filed on March 16.

March 10, 2006: LDP approves legislation to protect Japanese companies engaged in resource exploration in Japan's EEZ.

March 14, 2006: Premier Wen in press conference cautions that unless the Yasukuni issue is resolved relations will be difficult with a post-Koizumi government.

March 15, 2006: FM Aso in op-ed in *Wall Street Journal* urges China to learn from Japan's missteps with regard to "extreme nationalism" and to embrace its democratic future which Aso finds "imminent."

March 15, 2006: FM Aso tells Diet that Japan would have to consider countermeasures should China develop other gas fields.

March 15, 2006: FM Aso expresses dissatisfaction with China's assistance to North Korea.

March 17, 2006: Defense Agency is reported to be considering allowing Air Self-Defense Force to provide covering fire in the event Maritime Self-Defense force ships are fired on in Japan's air defense identification zone; the zone extends beyond the median-line boundary in the East China Sea.

March 19, 2006: Koizumi, in speech to Defense Academy graduates, critical of lack of transparency in unspecified countries' military expansion, does not single out China.

March 21, 2006: Former DPJ leader Okada meets President Chen Shui-bian during visit to Taiwan.

March 22, 2006: Foreign Ministry Blue Book calls attention to lack of transparency in China's military budget and modernization.

March 22, 2006: Foreign Ministry postpones consideration of fiscal year 2005 ODA yen loans to China.

March 24, 2006: China's national Development and Reform Commission announces funding to support rehabilitation and expansion of Harbin's Unit 731 Germ Warfare Exhibition Hall into a peace park.

March 25, 2006: Japanese and Chinese Finance Ministers meet in Beijing.

March 25, 2006: Nakagawa Hidenao, chairman of the LDP's Policy Research Council, calls for mutual efforts to surmount the Yasukuni issue and for leaders in both countries to take risks toward that end.

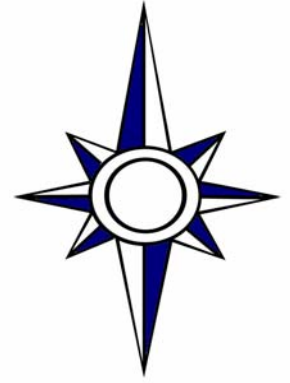
March 27, 2006: Defense Agency releases 2006 East Asian Strategic Review, which cites North Korea's nuclear challenge and China's striking military modernization as continuing sources of instability

March 27, 2006: Koizumi again expresses his inability to understand why, because of a single issue [Yasukuni], China and South Korea continue to refuse summit meetings, professes himself to an advocate of friendly relations with both countries.

March 30-April 1, 2006: Heads of seven Japan-China friendship organizations, including former PM Hashimoto, visit Beijing to exchange views on how to increase nongovernmental exchanges and promote bilateral growth. President Hu tells them he will agree to summit if Japan PM refrains from Yasukuni visits.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



Japan- Korea Relations:

Seirei Ketsuzetsu (Cold Politics, Warm Economics)

David Kang, Dartmouth College
Ji-Young Lee, Georgetown University

The first quarter of 2006 produced no real movement in Japan-South Korea relations, nor Japan-North Korea relations. Politics remained chilly while economic and cultural relations were somewhat warmer. Japan-North Korea relations remained stalled over the abductee issue, and Japan-South Korea political relations remain stalled over Yasukuni Shrine. The Japanese and South Korean economies continue to integrate and interact, and cultural relations experienced no real controversies. The next quarter looks to be a continuation of this one. Japan and North Korea have not scheduled another round of bilateral talks, and Roh Moo-hyun and Koizumi Junichiro show no signs of extending the olive branch that will allow them to resume summit meetings. South Korea and Japan will continue discussions about a free-trade area, although such negotiations are likely to make little progress.

Japan-North Korea: “Squeeze, but continue to negotiate”

Japan stepped up pressure on North Korea over the abduction issue and Japan-North Korea bilateral relations made little progress. Even as Prime Minister Koizumi Junichiro continued to oppose economic sanctions against North Korea, steps taken by Japan throughout the first quarter all seem to point in the direction of pressure rather than dialogue. Bilateral talks aimed at normalizing diplomatic ties, the first full-fledged negotiations since October 2002, did take place in early February in Beijing, but produced no concrete agreements. Oddly enough, both Japan and North Korea have urged the other to be “sincere” in dealing with “past crimes” – Japan’s colonial history on the part of North Korea, and the abduction of Japanese citizens on the part of Japan.

The complications added to the Six-Party Talks by the U.S. financial sanctions on the North’s alleged counterfeiting activities not only overshadowed the prospect for the Japan-North Korea bilateral talks, but also gave weight to sanctions advocates within Japan. For Tokyo, supporting the U.S. “squeeze the North, but continue to negotiate” strategy, as described by a senior U.S. official in the March 10 *New York Times*, means that the opportunity to normalize Japan-North Korea bilateral relations is tied to progress at the Six-Party Talks. At the start of the quarter, Japan’s Senior Vice Foreign Minister Shiozaki Yasuhisa assured senior U.S. officials that Japan would not normalize ties with North Korea unless the abduction, missile, nuclear, and other issues are comprehensively resolved, and that Tokyo will continue to work closely with the U.S. in moving the Six-

Party Talks forward. North Korea has called for the removal of the U.S. financial sanctions imposed upon it and complained that the Japan-U.S. joint “anti-DPRK moves” are intended to prepare the way for “a preemptive armed attack on the DPRK.”

A series of decisions made by Japan before the bilateral negotiations on Feb. 4-8 revealed widespread skepticism within the Japanese policymaking elite about the possibility of changes in the North’s behavior, and that Japan had no real interest in making any conciliatory moves toward North Korea, either. The Jan. 10 *Japan Times* reported that Japan planned to launch two more spy satellites into orbit by March 31, 2007 to improve monitoring capabilities of the North’s nuclear development facilities and its missiles. A week prior to the bilateral talks Japan decided that it would continue its suspension of food aid to North Korea in line with its policy that it will not normalize bilateral ties before the abduction issue is resolved.

On Feb. 2, the Fukuoka High Court nullified the Kumamoto Municipal Government’s preferential tax treatment for a hall associated with the General Association of Korean Residents in Japan (*Chongryun*). This move is worth noting because the group has enjoyed preferential benefits due to its *de facto* diplomatic mission status representing North Korean residents in Japan. This ruling marked the first judicial decision to halt a reduction or exemption of local taxes on halls associated with *Chongryun* for the reasons that “the group’s work does not benefit the general public.” Pyongyang was furious, claiming that Japan has created a hostile atmosphere against *Chongryun* and Korean residents in Japan where they are “put in fear and panic.”

Japanese moves to pressure North Korea continued. On March 23, Japanese police conducted their first-ever raid of six *Chongryun* offices that are suspected of being involved in abductions, including the Osaka office of the Chamber of Commerce of North Koreans. The police said that Lee Sam-jun, owner of a Chinese restaurant and the former president of the Osaka Chamber, had conspired in June 1980 with North Korean agents Shin Gwang-su and Kim Gil-wook to kidnap Hara Tadaaki, a then 43-year old restaurant employee. Tokyo plans to place Kim Gil-wook – who now lives in South Korea after serving jail time on espionage charges – on the international wanted list. As a result, diplomatic tension between South Korea and Japan is expected to increase, the *Chosun Ilbo* said on March 23. Japan and South Korea have an extradition treaty on the books.

The five-day Japan-North Korea bilateral negotiations Feb. 4-8 proceeded with the formula agreed in December last year: three separate panels on 1) the North’s nuclear weapons development program; 2) the abduction of Japanese citizens; and 3) compensation for Japan’s colonial rule. Although both sides met, the negotiations were fruitless. With the abduction issue at the top of the agenda of all three tracks, Japan was unyielding in insisting that Pyongyang 1) return any remaining abductees in North Korea; 2) provide concrete evidence on the fate of those Pyongyang says died in North Korea; and 3) hand over the North Korean agents who abducted Japanese citizens in the ‘70s and ‘80s. Faced with a hardline Japanese attitude toward the abduction and nuclear weapons issues, Pyongyang tried unsuccessfully to divert attention to the compensation for Japan’s

colonial past. North Korea declined Japan's proposal that Japan give a lump-sum relief payment in the form of economic aid instead of "compensation" for Japanese colonial rule. Overall, because Tokyo ruled out a possibility of any compromise in the abduction issue due in part to domestic pressure, it was simply hopeful that the North would change its mind and give in during the negotiations. Pyongyang's chief negotiator Song Il-ho said after the negotiations that "dialogue and pressure cannot coexist with one another."

Following the deadlocked bilateral talks, the U.S. military and Japan's Self Defense Forces engaged in exercise *Keen Edge*, held Feb. 23-March 3, which included simulations of North Korean missile launch detection and the evacuation of Japanese citizens from South Korea, among other scenarios.

By the quarter's close, Japan's ruling Liberal Democratic Party (LDP)-led coalition approved a bill on March 17 that would require the Japanese government to impose sanctions on North Korea if it failed to make progress in resolving the abduction issue. The *Chosun Ilbo* reported March 13 that Tokyo was looking at ways to enforce existing laws to strangle cash flows to North Korea. By interpreting foreign currency and trade laws more strictly, Tokyo decided to carry out unannounced inspections of an estimated 1,000 Japanese export companies that deal with hardware that could increase North Korea's military capabilities. The government also plans to check the remittances posted to North Korea, in some cases actually asking to open and inspect mail. Watanabe Shu, a House of Representatives member of the Democratic Party of Japan, drew attention when he reported that the number of remittances to the North was on the rise: 1,560 in fiscal year 2004, compared to 383 in fiscal 2002 and 506 in 2003.

Japan-South Korea relations

Japan-South Korea bilateral relations deteriorated badly in 2005 and the chill continued into the first quarter of 2006. Both Prime Minister Koizumi and President Roh Moo-hyun refused to budge when it came to matters related to Yasukuni Shrine, and each complained that the other lacked understanding of the efforts that he had made to improve the situation. Importantly, however, despite the nationalistic public sentiments around the 87th anniversary of the March 1 Independence Movement and Takeshima Day on Feb. 22, the two countries signed a bilateral pact that promotes judicial cooperation on criminal investigations. Meanwhile, the diplomatic deadlock over history issues has become more intertwined with domestic politics. Groups within each country voicing different approaches to the problem challenged the current leadership in both countries.

At a New Year's news conference Prime Minister Koizumi on Jan. 4 reiterated his views that his shrine visits are "a matter of [the] heart," and that, therefore, China and South Korea should not close the door to summit talks based only on that single issue. South Korea responded by urging the Japanese leadership to "try to win trust and respect from related countries from a correct stance on the perception of history." Later that month, Japan's Foreign Minister Aso Taro said that he believed that the emperor should visit Yasukuni Shrine, but backpedaled on his remarks after strong protests were lodged by Seoul.

On the 87th anniversary of the March 1 Independence Movement, President Roh advised Prime Minister Koizumi that an act of a nation's leader should be judged by the standard of whether such an act is proper in light of universal conscience and historical experience. His remarks on Japan's moves with regard to a revision of the pacifist Constitution that an "ordinary country" does not have to entail a military buildup were followed by Koizumi's advice to Roh that he should take a close look at Japan's behavior in the 60-year postwar period and its efforts to create a friendly relationship. Shortly after the March 1 Independence Movement Day, on March 6, a subCabinet-level strategic dialogue between Japan's Vice Foreign Minister Yachi Shotaro and South Korea's Vice Foreign Affairs and Trade Minister Yu Myung-hwan took place but there was no indication that it would serve as a turning point in bilateral relations.

Behind the chilly diplomatic scene lies domestic political dynamics in Japan and South Korea. Prime Minister Koizumi has been caught up with a series of scandals: the fabrication of earthquake-resistance design data for hotels, the alleged violation by Livedoor of the Securities and Exchange Law, bid-rigging cases involving the Defense Facilities Administration Agency, and the discovery of prohibited parts in a U.S. beef shipment. In addition, Koizumi was being criticized for not having explained how he would repair relations with China and South Korea.

While the "scandal Diet" was under way, *Asahi Shimbun* March 17 reported that recent moves within the LDP could make Japan's worsening relations with China and South Korea a key issue in the September election for the LDP presidency. According to *Asahi*, members of three LDP factions jointly founded a study group to promote Japan's policies toward Asia. Given the September election, this may provide a chance to improve Japan's ties with its Asian neighbors. At the same time, former Chief Cabinet Secretary Fukuda Yasuo, a potential candidate to succeed Koizumi who is also known as a dove, drew attention when he was welcomed by President Roh.

In South Korea, Grand National Party Chairwoman Park Geun-hye criticized President Roh, saying that Roh's "emotional responses cut off talks." On March 8, she paid a visit to Koizumi in Tokyo, and reportedly used the prime minister's motto – the Confucian tenet that "nothing can be done without trust" – to draw lessons for relations between Japan and South Korea. *Chosun Ilbo* quoted GNP officials on March 8 saying that Koizumi showed his appreciation for her remarks and emphasized the importance of friendship between the two countries.

The public rallied around the flag on the occasions of the March 1 Independence Movement (South Korea) and Takeshima Day (Japan). For example, in celebrating Takeshima Day Feb. 22, Shimane Prefecture decided to distribute copies of the quarterly *Photo Shimane* to some 260,000 households in the prefecture, in which the magazine claims that the Dokdo/Takeshima islets are indisputably Japanese territory. In South Korea, the *Korea Times* reported Feb. 21 that hundreds of South Koreans rallied in front of the Japanese Embassy in downtown Seoul, urging Shimane Prefecture to scrap its Takeshima Day statute and cancel the anniversary celebrations. In the meantime, the Japanese government requested an explanation of the "motive behind" the flight of

Korean Air Force Chief of Staff Gen. Kim Sung-il over the Dokdo/Takeshima islets. Gen. Kim led a squad of two *F-15 Ks* and two *F-16s* and circled above the islets for several minutes as a “symbolic gesture to inform Korea and the world that the Dokdo islets belong to Korea.”

The quarter closed with no positive changes; a spokesman for South Korea’s Chong Wa Dae (Presidential Blue House) said March 17 that President Roh would not hold a summit with Prime Minister Koizumi unless he promises to stop visiting Yasukuni Shrine, adding that “there is no Korean leader that would make a concession on the Yasukuni problem, which runs contrary to the history.” Though President Roh did mention in his March meeting with former Chief Cabinet Secretary Fukuda and former Prime Minister Nakasone Yasuhiro that he “wanted to [visit the Yushukan as a symbolic gesture against the temple] but was stopped” by his aides. Upon making that comment, he again blasted Koizumi for visiting the shrine.

Economics

Yet, even while politics is chilly, economic and cultural relations continue to be warm. The exception to this is Japan-North Korea relations. The strained bilateral relations between Japan and North Korea were very much in evidence as their bilateral trade reached a 28-year low in 2005. According to the Korea Trade-Investment Promotion Agency (KOTRA), Japan-North Korean trade volume was \$190 million in 2005, the lowest since 1977, with the North’s exports to Japan marking \$130 million and its imports from Japan \$60 million. *Joongang Ilbo* Feb. 13 reported Japan’s boycott of North Korean products and the North’s expansion of its trade with China as contributing factors. Recent developments in financial sectors along with the U.S. financial sanctions against North Korea are expected to worsen economic cooperation among Japan, South Korea, and North Korea; after the U.S. Treasury banned all transactions between U.S. financial institutions and Banco Delta Asia, the Macau-based bank, Japan’s largest banks have voluntarily ceased all transactions with the bank. Similarly, South Korean banks started to follow the U.S. lead in severing ties with Banco Delta, which started when South Korea’s National Federation of Fisheries Cooperation and Korea Exchange Bank terminated all transactions with the bank in early February.

Japan and South Korea are pulled by interdependence/integration and pushed by deepened competition. Some assert that a lack of political will is the cause for the lack of progress in Japan-South Korea FTA negotiations. On March 9, Japanese business leaders, bureaucrats, lawmakers, and scholars and South Korean journalists met at a symposium in Tokyo and agreed on a need to revive talks on a bilateral free trade agreement. Japan and South Korea launched the talks in December 2003, but they have been stalled since November 2004 due to differences in respective agricultural and fisheries policies. Positive signs occurred when South Korea’s Deputy Prime Minister and Minister of Finance and Economy Han Duck-soo said that Seoul would seek to resume FTA talks with Japan soon. In Japan, a key annual gathering of senior business leaders in Kansai called to improve relations with China and South Korea to create an East Asian economic bloc.

On the monetary front, Asian Development Bank President Kuroda Haruhiko announced that the Bank planned to introduce a notional unit of exchange called the Asian Currency Unit (ACU) as a yardstick to monitor moves in currency values. According to Kuroda, the ACU will facilitate development of an Asian multicurrency bond market and deepen capital markets, which will reduce exposure to external shocks. Meanwhile, Japan and South Korea reached an agreement Feb. 4 to increase the size of a bilateral currency swap agreement from \$7 billion to \$15 billion.

South Korea's trade deficit with Japan is on the rise, reaching \$23.7 billion in 2005, making the cumulative deficit more than \$250 billion. During this quarter, the big news in Japan-South Korea trade relations involved seaweed, computer memory chips, and the World Trade Organization (WTO). After Seoul filed a complaint against Japanese import quotas with the WTO, Tokyo agreed with Seoul to gradually expand import quotas for seaweed starting in April to 1.2 billion sheets by fiscal year 2015. On March 14, South Korea said it referred the Hynix Semiconductor dynamic random access memory microchip case to the WTO. In January, Japan levied a 27.2 percent punitive duty on Hynix chips to counter alleged subsidization by the ROK government on exports of Hynix products. Hynix received a total of 1.04 trillion won in subsidies in March 2004 alone, alleged Japan's Finance Ministry. South Korea's Foreign Affairs and Trade Ministry has criticized Japan's action, saying the loan to Hynix was not a subsidy.

More positively, Toshiba Corp. and LG Electronics Inc. have signed a cross-licensing agreement that will enable them to share patented optical disc technologies; the pact's coverage ranges from discs and disc drives to disc player-recorder technologies on which the companies have international patents. Korean Air and Japan Airlines concluded a code-sharing partnership on all routes between the two countries; the airliners will share all 185 flights a week by Korean Air and all 70 JAL flights.

On Feb. 18, *Chosun Ilbo* reported that Korean Railroad Corporation and JR Freight Railway are expected to start transport service for container freight. Using railway and shipping, goods from Seoul are expected to arrive in Tokyo within 48 hours. Seoul and Tokyo are under negotiation to begin the operation this July after signing a memorandum of understanding in April.

Culture

An interesting survey by the Japan Youth Research Institute showed that 49 percent of Chinese students and 40 percent of South Korean students who have visited Japan said they like Japan, while overall, only 25 percent of high school students in China and 24 percent in South Korea like Japan.

South Korea's GNP Chairwoman Park Geun-hye suggested a joint history textbook during her visit to Tokyo. This came as the South Korean government decided to award \$20,000 in compensation to the families of Koreans who died in forced labor under Japanese colonial rule. Meanwhile, South Korean prosecutors have started taking land from collaborators during Japanese rule. In response, the descendants of branded

collaborators have filed 26 lawsuits against the government; under a new bill passed last year, the South Korean Justice Ministry has for the first time terminated proceedings in four lawsuits, which means that the government has legal jurisdiction to take back land inherited from pro-Japanese descendants. In Japan, Tokyo decided to pay compensation of ¥8 million to 431 Korean and Taiwanese who were forcibly segregated in camps during the Japanese colonial period.

On a positive note, starting in March 2006, South Koreans will enjoy a 90-day visa waiver when they visit Japan. A South Korean Foreign Ministry spokesman welcomed the move and expressed the desire that the decision “will serve as an opportunity to facilitate human and cultural exchanges between the two countries and improve mutual understanding and friendship.”

Tying up loose ends, on March 1, South Korea returned the 18th century war monument, *Bukgwandaechepbi*, to North Korea. The monument was returned by Japan last year. After a brief ceremony and exhibition, Seoul sent it north, where the monument was originally situated to commemorate the 1592 victory over the Japanese invaders.

Finally, South Korea’s TV star “Yonsama” Bae Yong-joon and Japan’s maverick dot.com pioneer, Masayoshi Son of Softbank decided to join hands to spread Korean pop-culture in Asia. Bae and Softbank Korea announced Feb. 20 that they will make a joint investment of \$13 million to take over the KOSDAQ-listed Autowin Tech.

Looking ahead

The next quarter looks to be a continuation of this one. There has been no plan to reconvene the Six-Party Talks, Japan and North Korea have not scheduled another round of bilateral talks, and Roh Moo-hyun and Koizumi Junichiro show no signs of extending the olive branch that will allow them to resume summit meetings.

In economic matters, South Korea and Japan will continue discussions about a free-trade area, although such negotiations are likely to make little progress, given that the issue of agricultural subsidies and protection – the main issue in the free-trade talks – is an important domestic political item for both countries.

Chronology of Japan-Korea Relations January-March 2006

Jan. 2, 2006: North Korea criticizes Japanese Chief Cabinet Secretary Abe Shinzo for claiming that resolution of the North’s abductions is a precondition for normalizing diplomatic relations.

Jan. 4, 2006: PM Koizumi reiterates his position that Yasukuni Shrine visits are “a matter of heart” and criticizes South Korea and China for forgoing bilateral talks during his New Year’s news conference. South Korea’s Foreign Minister Ban Ki-moon responds by urging Japan to heed complaints from neighboring countries.

Jan. 6, 2006: Japan’s Senior Vice Foreign Minister Shiozaki Yasuhisa says that he has assured senior U.S. officials that Japan will not normalize ties with North Korea unless the abduction, missile development, nuclear and other issues are comprehensively resolved.

Jan. 10, 2006: *The Japan Times* reports that Japan plans to send two more spy satellites into orbit by March 31, 2007 to strengthen monitoring capabilities of North Korea’s missile and nuclear development facilities.

Jan. 10, 2006: The *Korean Central News Agency of DPRK (KCNA)* quotes *Rodong Shinmun* that Japan aims to “mount a preemptive armed attack on the DPRK,” denouncing Japan’s joint missile development system with the U.S.

Jan. 17, 2006: *Asahi Shimbun* reports that ROK FM Ban in a meeting with a group of journalists says that if the next prime minister continues to visit Yasukuni, the leaders of Japan and South Korea would not meet.

Jan. 20, 2006: Japan and South Korea sign a bilateral pact to facilitate cooperation on criminal investigations.

Jan. 24, 2006: *Sankei Shimbun* reports that recent surface-to-air missile data was leaked to a pro-Pyongyang group in Japan.

Jan. 25, 2006: PM Koizumi defends his visits to Yasukuni by saying that South Korea and China are the only countries that denounce the visits. President Roh says he will keep pressuring Tokyo to face up to its wartime behavior.

Jan. 28, 2006: Japan’s Foreign Minister Aso Taro says the emperor should visit Yasukuni Shrine.

Jan. 28, 2006: Japan’s Fisheries Agency says that Japan will expand its import quota on South Korean pressed seaweed to 1.2 billion sheets by 2015. In return, South Korea will withdraw a complaint it has filed with the WTO in December 2004.

Jan. 29, 2006: Japan continues to suspend aid to North Korea, despite an agreement to resume bilateral talks.

Jan. 31, 2006: FM Aso backpedals from his call for the emperor to visit Yasukuni Shrine, saying that he does not mean the monarch should visit under the current climate.

Feb. 2, 2006: *Mainichi Shimbun* reports that Japan's largest banks have voluntarily ceased all transactions with Banco Delta Asia, the Macau-based bank the U.S. has fingered as North Korea's main money-laundering channel.

Feb. 4, 2006: Chief Cabinet Secretary Abe says the government plans to urge municipalities to reconsider providing tax breaks for the General Association of Korean Residents in Japan (*Chongryon*) facilities.

Feb. 4-8, 2006: DPRK-Japan bilateral talks resume under a new three track format.

Feb. 8, 2006: Asian Development Bank President Kuroda Haruhiko announces that the ADB plans to introduce a notional unit of exchange called the Asian Currency Unit (ACU) as a yardstick to monitor moves in the currency values.

Feb. 9, 2006: Toshiba Corp. and LG Electronics Inc. sign a cross-licensing agreement to share patented optical disc technologies.

Feb. 9, 2006: *Today Online* reports that South Korean banks, the National Federation of Fisheries Cooperation and Korea Exchange Bank terminated all transactions with Macau Banco Delta in early February.

Feb. 12, 2006: Korea Trade-Investment Promotion Agency reports that trade volume between Japan and the DPRK was \$190 million in 2005, the lowest level since 1977.

Feb. 13, 2006: *KCNA* denounces Japan's Fukuoka High Court ruling that the tax exemption for a hall associated with the General Association of Korean Residents in Japan (*Chongryon*) can be canceled.

Feb. 13, 2006: PM Koizumi cautions against imposing sanctions on North Korea.

Feb. 18, 2006: *Chosun Ilbo* reports that Korean Railroad Corporation and JR Freight Railway will launch transport service for container freights using railway and sealines. Operations are expected to begin in July.

Feb. 20, 2006: ROK TV star Bae Yong-joon and Japan's Masayoshi Son of Softbank announce they will make a joint investment of \$13 million to further the Korean Wave in Asia.

Feb. 22, 2006: Chief Cabinet Secretary Abe reiterates Japan's claim to Dokto/Takeshima islets.

Feb. 22, 2006: *Joongang Ilbo* reports that Samsung Economic Research Institute and Japan Research Institute agree to cooperate in terms of joint research, exchanges of personnel, and research data over the next three years.

Feb. 23-March 3, 2006: U.S. and Japan forces hold joint command exercise *Keen Edge*.

Feb. 27, 2006: Japan's prefectural police in Fukui and Niigata obtain arrest warrants for two suspected DPRK kidnappers, Sin Guang-su and Choe Sung-chol.

March 1, 2006: Japan begins a 90-day visa waiver program for ROK visitors.

March 1, 2006: The 87th anniversary of the March 1 Independence Movement

March 1, 2006: South Korea returns 18th century war monument, *Bukgwandaechepbi*, to North Korea after being in Japan for a century.

March 3, 2006: Korea Exchange Bank reports its Tokyo and Osaka offices have been subjected to punitive measures by Japan's supervisory authorities for failing to report their overseas remittances with an unlicensed business suspected of money laundering.

March 6, 2006: Japan's Vice Foreign Minister Yachi Shotaro and South Korea's Vice Foreign Affairs and Trade Minister Yu Myung-hwan resume a sub-Cabinet-level strategic dialogue for the first time since last October in Tokyo.

March 8, 2006: ROK Grand National Party Chairwoman Park Geun-hye meets PM Koizumi and calls for "the right words to be spoken and the right actions to be taken."

March 8, 2006: *Kyodo News Agency* reports that North Korea launched two short-range surface-to-air missiles near North Korea's border with China.

March 14, 2006: South Korea refers the case of Hynix Semiconductor Inc. to the WTO to counter Tokyo's 27.2 percent punitive duty on Hynix DRAM chips in January.

Mar. 15, 2006: FM Aso speaking to the budget committee at the House of Councilors expresses dissatisfaction with South Korea and China for aiding North Korea.

March 16, 2006: In a meeting with former Japanese Prime Minister Nakasone Yasuhiro and former Chief Cabinet Secretary Fukuda Yasuo, Roh says that he wants to visit the Yushukan as a symbolic gesture against the temple.

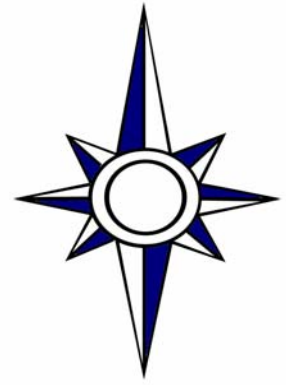
March 17, 2006: LDP panel agrees to draw up a bill that requires the Japanese government to impose sanctions on North Korea if it fails to make progress in addressing its human rights abuses, including the abduction issues.

March 17, 2006: ROK Chong Wa Dae (Blue House) says that President Roh would not hold a summit with PM Koizumi unless Koizumi promises to stop the shrine visits.

March 23, 2006: *Chosun Ilbo* reports that Japanese police conducted a raid on six pro-DPRK *Chongryon* offices and plans to place Kim Gil-wook who now lives in South Korea on the international wanted list to facilitate investigations on abductions of Japanese citizens by North Korea.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



China-Russia Relations: China's Year of Russia and the Gathering Nuclear Storm

Yu Bin
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By any standard, China's "Year of Russia" is unprecedented. The year-long celebration was officially inaugurated with President Putin's fourth visit to China in March, with more than 200 cultural, business, science, and political activities unfolding throughout China. Both sides hailed the relationship as being at the "highest level" and as the "strongest ever," which are both probably true.

Beyond the extravaganza, which will be followed by Russia's "Year of China" in 2007, Russia's energy *politik* continued. Political elites in Beijing and Moscow were faced with the challenging task of bridging misperceptions and dislike between ordinary Chinese and Russians that persist despite a decade of strategic partnership. This is particularly needed when the world, according to Moscow and Beijing, is overshadowed by the gathering "nuclear storm" of Iran and North Korea. Both have friendly relations with Russia and China while continuing to be at odds with the U.S., which is getting increasingly impatient with the nuclear potential, peaceful or not, of the two "rogue" states.

Putin in China

In his fourth official visit to China as president, Vladimir Putin brought with him a delegation of over 1,000 Russian officials and dignitaries of various capacities, as well as companies of performers. The visit also came at the 10th anniversary of the China-Russia strategic partnership of coordination and the fifth anniversary of the Sino-Russian treaty of good neighborly friendship and cooperation.

A grand ceremony was held in the Great Hall of the People to commence the high-profile Year of Russia in China. The audience of 5,000 was entertained by some of the finest Russian ballets and musicals, while leaders of the two nations spoke of a promising future tinged with doses of nostalgia. The Chinese people would not forget Russia's help during the War of Resistance against Japanese Aggression (1937-1945), President Hu Jintao noted. "Many courageous Russian people have sacrificed their precious lives on the Chinese land." Hu also expressed appreciation for the Soviet assistance to China after 1949, and stated that, "the friendship, which was forged and consolidated with blood and sincerity, will be engraved deeply at the hearts of the two peoples and becomes an important source of strength to boost the development of bilateral ties."

Putin's remarks on history, however, were less sanguine about the past and more directed toward the future. "Despite difficult turns of history, the peoples of Russia and China not only kept good relations with each other. Today, we are having an increasing understanding of the strategic advantage of our close bilateral contacts and intend to step them up for the good of the two peoples," stated Putin. "Our relations are not only a factor of geopolitical stability, they demonstrate an example of open international partnership, which is not aimed against third countries and contributes to the development of a more just world order," the Russian president underlined.

For Putin and his Chinese hosts, more pressing issues had to be dealt with first. Much of the Putin-Hu one-hour talk on the afternoon of March 21 focused on two issues: Iran and energy cooperation. The latter issue was more publicized, and the former given a lower profile, except for some occasional broad statements of principles for peaceful settlement from officials on both sides. There was, however, an unambiguous sense of anxiety and urgency permeating the Beijing summit regarding the Iran nuclear issue. Both Russia and China have huge commercial and strategic interests in Iran, which is also an observer at the Shanghai Cooperation Organization (SCO). Neither would like to see another nuclear-armed nation in an inherently unstable part of the world. Each wants to preserve the existing nonproliferation regime, which is now being torn apart by its potential and *de facto* violator(s) on one hand, and the U.S., the not-so-faithful but increasingly impatient chief enforcer of the system, on the other. If anything, the second term of the Bush administration has pursued a more discriminating policy of being perhaps "too soft" on its friends and allies (India, Israel, and Pakistan) and too harsh toward others (Iran and North Korea). It looks like Moscow and Beijing will have to choose from outcomes ranging from bad to worse.

As a result, the Iran nuclear issue was "likely" to be "topic No. 1" for the summit talks, according to Russian presidential assistant Sergei Prikhodko. Throughout the first quarter, Russia led an active mediating role in resolving the Iran nuclear crisis with its proposal to set up a venture inside Russia to avoid sanctions by Western powers. The impasse between Washington and Tehran, however, may render obsolete Moscow's approach. Prior to Putin's visit, Russia ruled out China's direct participation in the joint uranium processing venture. In Beijing, Russian officials sounded less confident about the prospect for Russia's mediation. "I don't know what position we shall take (at the UN Security Council), but very much will depend on China's stand," speculated Prikhodko. He clearly counted on more support and coordination from China to the extent that "China's role may be a focal one at a certain stage if the Iranian nuclear file is submitted to the UN Security Council," reported *Itar-Tass*, Russia's official news service.

Despite the huge stakes for both Russia and China, the Iranian issue only received a sentence at the end of the joint communiqué (Article 4 of Section 9). Indeed, it was the shortest line of the 10 articles in the last section of the document. If anything, the brevity of the mention of Iran in the joint statement may be a sign of uncertainty regarding the future, if not the potential divergence of positions between Moscow and Beijing. The bulk of the joint communiqué dealt with areas of bilateral relations: high-level contact (Section 1); China's "Year of Russia" and Russia's "Year of China" (Section 2); border

issues (Section 3); Taiwan (Section 4); economic relations (Section 5); the environment (Section 6); humanitarian exchanges (Section 7); border security and military cooperation (Section 8); and world affairs (Section 9).

Second-term Bush “blues”

Despite its location at the end of the document, the last section of the joint communiqué is actually the longest, with 10 articles ranging from the role of the UN, antiterror, nonproliferation, Iran, Korea, the SCO, Israeli-Palestine conflict, Iraq, Central Asia, and Russia-China-India trilateral cooperation. In contrast to the relatively higher level of optimism in the “PRC-Russia Joint Statement on 21st Century International Order” issued at the previous summit (July 1, 2005) the assessment’s tone was rather reserved.

In its second term, the Bush administration clearly switched to a tougher stance toward both China and Russia similar to, if not identical to, the period during early 2001 when Russian “spies” were expelled and U.S. and Chinese military planes collided. All this occurred when the U.S. is increasingly hampered by the bloody situation in post-Saddam Iraq.

Coupled with the looming “judgment day” on the Iran nuclear issue, this new harder line toward Russia and China casts a rather discomfoting shadow for Putin and Hu. While their joint communiqué sidelines international issues, there is a distinct section (number 4) devoted to Taiwan: the two sides “are determined to support each other in their policies and actions to safeguard national sovereignty, unification, and territorial integrity. Russia will continue to pursue a one China policy, recognize the Government of the People’s Republic of China as the sole legitimate government representing the whole of China, and Taiwan as an inalienable part of China’s territory. Russia will not establish official ties with Taiwan or carry out official exchanges with it, opposing any form of ‘Taiwan independence,’ including the ‘legalization of Taiwan independence,’ will not accept ‘two Chinas,’ ‘one China, one Taiwan,’ opposes Taiwan’s joining the UN and other international organizations where statehood is required, and will not sell weapons to Taiwan.” And “Russia understands China’s efforts to realize peaceful reunification according to the ‘Anti-Secession Law’ and thinks the Taiwan issue is China’s internal affair, which external forces have no right to interfere in.”

While much of these statements appear “routine” in the PRC’s official rhetoric, there was, nonetheless, a sharp contrast to the July 2005 joint communiqué that did not even mention Taiwan. China’s official *Xinhua News Agency* quoted Hu Jintao’s words in the summit that enhancing mutual political trust “is a long-term task and there is the need for strengthening mutual support over the issues affecting each other’s core interests. And China highly values Russia’s staunch support with regard to the Taiwan issue.” The emphasis on Taiwan indicates China’s heightened concerns regarding the Taiwan issue and its relations with Washington, which may complicate Beijing’s ability to support Russia’s mediating role on Iran. It appears that it is difficult enough for Moscow and Beijing to keep the existing international system, no matter how skewed, let alone shape a new one for the 21st century.

Time to cheer up

Precisely because of the mounting difficulties with Washington, Russian and Chinese leaders had every reason to unwind with a heavy dose of culture. At a minimum, this would provide a sanctuary from a more complex and challenging world. Peace and stability between the two largest states in the Eurasian continent is perhaps the best deterrent to external challenges.

The two years of cultural activities, however, were badly needed for other, and perhaps more serious, issues that have besieged the two continental powers. That is, the Russians and Chinese do not very much know, like, let alone love, one another. In their unprecedented transitions from orthodox communism, Russia and China actually have been drifting apart politically and socially. While political elites have traveled to each other's capitals more often than ever, their peoples are fixated on the West. This is particularly true for Russians, who are becoming more "European" in the reform decade by relocating to Russia's European parts from the Far Eastern areas – approximately more than 1 million moved in the 1990s. A rising fear, real or imagined, goes hand-in-hand with an increasingly isolated Siberia, despite the historical settlement of the border issue in late 2004. Last year's large-scale chemical spill on China's Songhua River, which joins the Amur River on the Russia and China border, reinforced the stereotype among some Russians of an ever expanding, and polluting, China. The latest survey conducted by Russia's Public Opinion Fund found that half of Russians (48 percent) considered China to be friendly toward Russia, while 30 percent regarded China as an unfriendly nation. While the percentage of those who have a favorable opinion of China is still higher than the unfavorable group, the figures in 2002 were 67 percent and 18 percent, respectively. Therefore, the tangible improvement in Russian-Chinese political, strategic, and diplomatic relations has yet to find a corresponding base among the two publics.

That said, the Chinese hold more positive views of Russia than the other way round, particularly of Russia's younger (relatively speaking) and more charismatic leader Putin. It is not clear if this has anything to do with the absence of a great leader in post-Deng China. Yet many Chinese also see Russia over-playing the energy card with its "strategic partner" China. To be sure, people do not have any illusions about getting a "friendly" price from Russia, yet questions arise on how and why "Putin the Great" is unable to finish Russia's "feasibility studies" for a pipeline to China. For the Russians, the long-term concern is the trade structure with China, in which the vast Eurasian nation is to quickly become a raw materials supplier to its southern neighbor, a future not easily digested by many Russians.

For these reasons, and others, the sentiments of the two peoples need to be connected, which may prove to be much more challenging than defining bilateral relations as strategic partners. As China hosts hundreds of cultural activities across the nation, the Russian government has also assigned 337.8 million rubles for funding the "Year of Russia" in China.

For Putin, the “Year of Russia” was also a time to indulge in his personal obsession with oriental mythology. (Putin is a black belt in judo and claims to be a “super fan” of Chinese martial arts.) After high politics in Beijing, Putin took a sojourn to the 1,500-year old Shaolin Temple in Henan province in central China, which makes him the first among incumbent world leaders to join more than 1 million pilgrims a year in visiting the legendary temple. Putin personally added the temple visit to his itinerary, where ancient traditions of meditation, simple lifestyles, and kung fu are kept alive as China pursues commercialism and Westernization.

Still no oil from Russia

Despite the festive atmosphere, however, it became painfully clear for many in China that even the heart-felt sentiments behind China’s Russian Year won’t result in Siberian oil. In the midst of the high-profile political and cultural events during Putin’s two-day visit, the Russian president only talked about Russia’s oil, and did not allow it to flow to its energy-starved neighbor.

Of the 22 agreements signed in Beijing, three energy deals attracted the most attention. Still, they fell short of Beijing’s expectations. One was an agreement between the Russian company Transneft and the China National Petroleum Corporation (CNPC) to carry out a “feasibility study” on the construction of a 70-km branch pipeline from the Russian city of Skovorodino to the Chinese border. Despite the assurance from Putin that the much-anticipated oil pipeline to China would be built, Putin did not spell out when the project would receive approval. In Beijing, Russian Industry and Energy Minister Viktor Khristenko made clear that decisions about the Siberian oil link to China would not be undertaken until after the feasibility study was completed. Foreign Minister Sergei Lavrov hinted at a more specific time frame of 2006 or in the “near future.”

It appears that Russia’s grand energy-*politiking* continued in the “Year of Russia,” to China’s increasing frustration. After years of “feasibility studies” of the main East Siberia-Pacific Ocean (ESPO) oil pipeline, the Russian government made the final decision to go ahead with ESPO at the end of 2004 when Russian Prime Minister Mikhail Fradkov signed the governmental resolution. Now it is time for feasibility studies of the 70-km branch line that will skirt China and remain inside Russian territory all the way to the Pacific port of Nakhodka, which is opposite Japan. Russia’s apparent delaying tactic on this branch line to China is bizarre considering that CNPC already committed \$400 million to finance the branch line, though the actual format is yet to be determined.

Behind the continuous tug of war over the pipeline lies divergent goals over the energy issue. For Beijing, it is, and should be, an economic issue to be determined largely, if not exclusively, by the mechanism of supply (Russia) and demand (China). Russia, however, has increasingly attached a strategic dimension to this trade. In the past few years, Russia has actively played its “oil card” between two Asian giants, China and Japan, while the price of oil on the world market soars, thanks in large part to demand from emerging economies like China and India and the instability of the Middle East.

In Beijing, Russian officials toyed with Russia's strategy to "diversify" energy supplies to the world market, presumably from its traditional export destination in Europe. And China was described as "a key element" in this emerging oil-*politik*, according to Minister Khristenko. Russian officials, however, did not elaborate on the specifics of this grand design. Its underlying conception is rather obvious. At a minimum, new markets for Russian oil and gas will create more demand for energy. China's seemingly endless appetite would lead to a higher price level than the current one even if Middle Eastern stability is assured. Moreover, any future price for China will be set by the market, which will, in turn, be used to adjust to market levels the currently "friendly" energy price for Russia's "near abroad" states (former Soviet republics).

Russia intends not only to diversify the market of its precious commodity, but also to spread the production risk from exploration to transportation, which has always been a challenge in the Siberian vastness. One of the three energy bills signed in Beijing forms two joint ventures with equal participation between Russia's Rosneft and China's CNPC. One deals in oil exploration and production in Russia, and the other is for marketing and retailing Russian oil products in China. In other words, Russia would gain access to China's huge and growing energy market while utilizing the Chinese for the more difficult and risky exploration.

Russia's "gas talk" in Beijing is part of the so-called "strategic diversification" in the energy sphere. Even though there is talk of supplying an estimated 80 billion cubic (2.8 trillion cubic ft.) of gas annually by 2011, this will not assuage China's frustration over the oil pipeline issue. No matter how irrational from China's perspective, the broader picture is Russia's concern of a perceived rapidly deteriorating bilateral trade structure in which Russia is rapidly becoming a raw material supplier to China. In 2005, only 2.2 percent of Russia's exports to China was machinery and other high-tech products, down from 28.8 percent in 2001; Russian-made machinery and electronic products made up only a fraction of China's \$350 billion of annual imports of mechanical and electrical products.

At the Beijing Business Forum on the second day of Putin's visit, the Russian president urged the Chinese to reverse the downward trend in Russia's machinery exports to China. President Hu, however, believed that Russian enterprises were "fully capable of achieving a bigger market share" in China "if they can bring their advantages into play and come up with competitive products and technology." In one of the five proposals he made at the forum, Hu pointed out that enterprises should be the "main force in the strengthening of international economic and technological cooperation," and governments should play a supportive and facilitating role "in their efforts to unfold mutually beneficial cooperation at different levels and in diverse spheres." "I sincerely hope that entrepreneurs in both countries would seek more partners, look for more opportunities, cooperate more and make still greater contributions in further promoting Sino-Russian economic and technological cooperation and promoting the development of strategic partnership between the two countries," noted Hu. Vice Premier Wu Yi, chairperson of the forum, too, urged cooperation between large companies of the two countries, especially on large projects. In the eyes of the Chinese, the Kremlin has

overplayed energy *politik*, focusing on strategic and political calculation at the expense of economic rationality. And the real problem of the “trade irrationality” [Putin’s words] cannot, and should not, be resolved solely by governmental regulatory means. The lack of competitiveness of Russian finished products is the key to the declining role of Russia’s machinery products in bilateral trade.

While the lack of competitiveness of Russian products in both Chinese and international markets cannot be redressed overnight, the Russians did have a medium-term, and perhaps achievable, goal in its China economic policy. Until Russia obtains the contract to construct more nuclear power generators in China, the Russian oil pipeline will remain on paper. On his first day, Putin made it clear that “cooperation between Russia and China in the energy sector includes continuation of our involvement in the construction of new nuclear facilities in China [emphasis added].” Yet, until at least one of the two Russian-built reactors in Tianwan (east China) becomes fully operational at the end of 2006, China may not contract for additional Russian reactors. “Should the first two reactors [be] successfully commissioned, Russia has the rights [emphasis added] to obtain a contract on constructing a third, fourth, and maybe other reactors,” claimed Russian Federal Atomic Energy Agency (Rosatom) Sergei Kiriyenko in Beijing. In the nuclear area – which means billions of dollars and years of employment for hundreds of workers – Russians’ needs, interests, and anticipations are at least as strong and passionate as those of the Chinese for oil and gas.

Chronology of China-Russia Relations January-March 2006

Jan. 4, 2006: President Vladimir Putin sends a New Year’s greeting to President Hu Jintao praising the “unprecedented level” of bilateral relations, and high expectations for the coming “Year of Russia” in China.

Jan. 11, 2006: President Putin holds brief talks with Chinese Vice President Zeng Qinghong while both attend the inauguration of Kazakh President Nursultan Nazarbayev.

Jan. 18, 2006: Russian-Chinese trade in 2005 rises by 37.1 percent to \$29.1 billion, making China Russia’s second largest trade partner after Germany.

Jan. 31, 2006: Russian Foreign Minister Sergei Lavrov and his Chinese counterpart Li Zhaoxing meet in London for talks on the Iran nuclear issue. Also covered are the Shanghai Cooperation Organization (SCO), environment, and “Year of Russia” in China.

Feb. 15, 2006: Maj. Gen. Zhang Qinsheng, assistant chief of general staff of the PLA, meets in Beijing with visiting Lt. Gen. Buzhinskiy, vice director of the International Military Cooperation Bureau and director of the International Treaty and Law Bureau under the Russian Ministry of National Defense. The two sides exchange views on how to further enhance the Sino-Russian military exchanges and cooperation.

Feb. 21-24, 2006: Russian Natural Resources Minister Yury Trutnev visits China, meets Zhou Shengxian, head of the Chinese Department for Environmental Protection, and signs a memorandum of understanding on joint water monitoring.

March 2-5, 2006: Russian Minister of Internal Affairs Rashid Nurgaliyev visits China. In Beijing, he and PRC Minister of Public Security Zhou Yongkang sign a protocol for setting up a joint working group on combating cross-border crime and another document on cooperation between the law-enforcement bodies of the two countries for 2006-2007. Nurgaliyev is received by PRC Vice-President Zeng Qinghong.

March 17-20, 2006: Russian Federal Agency for Atomic Energy Sergey Kiriyenko pays a working visit to China, including a trip to a nuclear power station construction site.

March 21, 2006: He Yong, a member of the Secretariat of the Communist Party of China (CPC) Central Committee, meets in Beijing with Vice Chairman of the Russian State Duma Vyacheslav Volodin, who is also secretary of the general council of the United Russian party. They exchange views on increasing party-to-party exchanges and promoting state-to-state relations.

March 21-22, 2006: Russian President Vladimir Putin pays a state visit to China as part of “Year of Russia” in China celebrations. Three oil and gas cooperation deals are signed; two pipelines are to be built from Eastern and Western Siberia to China and both states in a joint venture will develop the gas fields off of Sakhalin.

March 25-29, 2006: The commander-in-chief of Russia’s Ground Troops, Col. Gen. Aleksey Maslov, visits China on military cooperation. He holds talks in Beijing with the PLA’s chief of staff, Col. Gen. Liang Guanglie and Lt. Gen. Chen Xitao, deputy commander of the Beijing Military Area Command. He also visits the Nanjing military region and the Shanghai garrison, including the Chinese Ground Troops’ Command Academy in Nanjing and a tank combined unit.

March 29, 2006: Sixth meeting of the council of the SCO regional counterterrorism institutions is held in Tashken to discuss 15 issues, including approving SCO’s operation for the period of 2007-09 and holding antiterror exercises in China and Kazakhstan in August.

About The Contributors

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