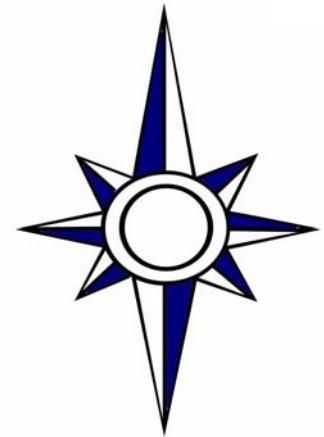




Pacific Forum CSIS



# Comparative Connections



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

*edited by*

Brad Glosserman  
Sun Namkung

4th Quarter 2005  
Vol. 7, No. 4  
January 2006

[www.csis.org/pacfor/ccejournal.html](http://www.csis.org/pacfor/ccejournal.html)

## Pacific Forum CSIS

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

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

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Volume 7, Number 4  
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Bilateral relationships in East Asia have long been important to regional peace and stability, but in the post-Cold War environment, these relationships have taken on a new strategic rationale as countries pursue multiple ties, beyond those with the U.S., to realize complex political, economic, and security interests. How one set of bilateral interests affects a country's other key relations is becoming more fluid and complex, and at the same time is becoming more central to the region's overall strategic compass. *Comparative Connections*, Pacific Forum's quarterly electronic journal on East Asian bilateral relations edited by Brad Glosserman and 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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Completion of the Sept. 19 Joint Statement at the Six-Party Talks set the stage this quarter for top-level Chinese diplomatic interaction with the two Koreas. PRC President Hu Jintao made visits to Pyongyang and Seoul in October and November, respectively. Both visits boosted China's diplomatic aims and strengthened China's relations with Pyongyang and Seoul. But the visits also highlighted the economic, diplomatic, and policy gaps in China's relationships with the two Koreas and shed new light on the difficulty of reaching a satisfactory solution to the DPRK's ongoing nuclear development efforts. The economic balance sheet illustrates the differences in China's relationship with the two Koreas: China's 2005 trade balance with the DPRK is expected to be \$2 billion and trade with the ROK is expected to total \$100 billion.

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Prime Minister Koizumi Junichiro's Oct. 17 visit to the Yasukuni Shrine effectively put Japan-China relations into a political deep freeze. Meetings on sensitive East China Sea issues were cancelled and prospects for a Japan-China leadership summit before the end of the year went from slim to none. In December, Foreign Minister Aso Taro and Democratic Party of Japan President Maehara Seiji raised the issue of a China threat, which Beijing dismissed as irresponsible and without foundation. China's diplomatic White Paper, issued at the end of December, announced that China has never been a threat and that it never had and never would seek hegemony. While economic engagement continues to strengthen, the outlook for political relations for the near term is "bleak." The leadership in both countries continues to focus more on defining the past on its terms than building a cooperative future.



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As “Japan-Korea Friendship Year” limped to a close, petty unresolved problems continue to overshadow the relative stability of the actual relationship. The media in both countries had a field day with the various spats, almost gleefully highlighting disputes over territory, textbooks, and history. Luckily, very few of these disputes had actual consequences on their policies. The economic interaction proceeds apace, and the long-discussed free trade agreement (FTA) remains a victim not of historical sentiment, but something more mundane: domestic politics on agricultural issues. Against the backdrop of the stalled Six-Party Talks, Japan-North Korea negotiations aimed at normalizing ties have made very slow progress. By quarter’s end, Japan and North Korea agreed to resume normalization talks as early as late January.

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By any measurement, 2005 elevated China-Russian relations to a higher level across many fields: Presidents Hu Jintao and Vladimir Putin met four times; they issued a joint declaration on the international order in the 21<sup>st</sup> century; began strategic dialogues (February and October), held their first-ever military exercises (August), recorded trade of \$29 billion (up 33 percent), and coordinated foreign policy (30 consultations between the foreign ministers). These high-profile and glittering interactions, however, were somewhat overshadowed at yearend by a serious pollution accident in the Songhua River – a painful reminder that high-profile diplomacy is not the only priority between the two powers that share more than 4,000 kilometers of border. The China-Russian strategic partnership relationship was tested and strained by the accident.

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The number of high-level visits, new dialogue mechanisms, initiatives, and major agreements during 2005 could certainly be characterized, in the words of Ambassador David Mulford, as at “an all-time high” for U.S.-India relations. But a careful review of the year confirms that while the tone of the bilateral relationship has undergone a profound, positive change, there is significant work to be done in sustaining this progress. The year saw the signing of a new framework agreement for defense cooperation, a major initiative to pursue civilian nuclear cooperation, and a state visit by Prime Minister Manmohan Singh to the U.S. Meanwhile, U.S. and Indian trade and investment ties, though growing swiftly, remain far below their potential and the U.S. and India continue to search for the same “wavelength” on a range of regional and international issues.

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Regional Overview:

## Promoting Freedom and Democracy Amidst Missed Opportunities

Ralph A. Cossa, Pacific Forum CSIS  
Jane Skanderup, Pacific Forum CSIS

President Bush made his first trip to Asia in two years, attending the Asia Pacific Economic Cooperation (APEC) Leaders Meeting in Busan, South Korea and also visiting Japan, China, and Mongolia. In Japan, he gave a major Asia policy speech which reinforced his “freedom and democracy” theme, but missed the opportunity to shed much additional light on Washington’s future defense transformation plans or to ameliorate growing China-Japanese tensions. Other significant multilateral events this quarter included another (abbreviated) round of Six-Party Talks that made little headway (another missed opportunity); the World Trade Organization’s (WTO) Doha Round session in Hong Kong, which was only slightly more productive; an ASEAN Plus Three (A+3) and various ASEAN Plus One summits that added, at least marginally, to the East Asia community-building process; and the inaugural East Asia Summit (EAS), which did not. All in all, 2005 was a good (but not great) year, politically and economically, for East Asia and for Washington’s relations with its Asian neighbors. The economic forecast for 2006 looks generally bright; the political forecast perhaps a bit more cloudy.

### **Bush’s Asia trip: opportunities seized ... and missed!**

President Bush’s whirlwind Nov. 15-21, 2006 East Asia tour, which included stops in Japan, South Korea, China, and Mongolia, began with a major Asia policy address in Kyoto, Japan, where he stressed that “freedom is the bedrock of America’s friendship with Japan – and it is the bedrock of our engagement with Asia.” The promotion of freedom and democracy has, of course, long been a staple of U.S. foreign policy. But, in his second term, President Bush has made it more of a centerpiece, especially in the Middle East, where it has helped to justify the U.S.-forced regime change in Iraq and also caused a certain level of consternation among traditional not-so-democratic U.S. friends and allies.

Throughout his Asia trip, President Bush repeatedly seized the opportunity to reaffirm Washington’s (and his own personal) commitment to the promotion of democracy, free and fair trade, and political and especially religious freedom. But other important opportunities were missed, by the president and by his interlocutors, to better define the current and future U.S. role in Asia.

**Prosperity begets freedom begets prosperity.** During his Nov. 16 Kyoto address, President Bush identified freedom as “the basis of our growing ties to other nations in the region and ... the destiny of every man, woman, and child from New Zealand to the Korean Peninsula.” Citing the examples of Japan, South Korea, and Taiwan, he noted that “freedom is an outgrowth of economic prosperity,” and that the “best opportunity to spread the freedom that comes from economic prosperity is through free and fair trade.” He cited Myanmar and North Korea as two examples of states “whose leaders have refused to take even the first steps to freedom.” Beijing got off easier; Bush cited China as among those states that “have taken some steps toward freedom – but they have not yet completed the journey.”

In noting that Taiwan had “moved from repression to democracy as it liberalized its economy,” he reinforced the theme that Taipei’s transition to democracy could provide a useful model for Beijing: “By embracing freedom at all levels,” Bush noted, Taiwan had “created a free and democratic Chinese society.”

While Beijing took some offense at Bush’s report card and his citing of Taiwan as an example, there was much in the speech, and in his subsequent visit to Beijing – where his pro-Taiwan democracy remarks were not publicly repeated – that should have been reassuring to China.

**Cross-Strait policy unchanged.** In Kyoto, and again in Beijing, President Bush praised current and past Chinese leaders for their initial steps down the road toward greater economic and political reform and expressed appreciation for China’s “important role” in pursuing the denuclearization of the Korean Peninsula. He reaffirmed that America’s “‘one China’ policy remains unchanged” and that “there should be no unilateral attempts to change the status quo by either side.”

In a pre-trip interview with *Phoenix TV*, he went even further, stating that “we do not support independence” and that he was “optimistic there will be a peaceful resolution because I have seen cross-Straits discussions starting to take place.” Unfortunately, this dialogue has primarily been between Beijing and the leaders of Taiwan’s opposition parties; President Bush missed the opportunity to stress the need for direct dialogue between Beijing and the democratically elected leadership in Taiwan, without whom there can be no peaceful resolution.

**U.S.-China relations remain “complex.”** One major criticism of the Bush administration has been its “mixed signals” toward Beijing: the accusation that, during Bush’s first term, there were two China policies, one pursued by State Department “internationalists” and the other by the Pentagon and administration “neocons.” In an attempt to overcome this perception, Deputy Secretary of State Robert Zoellick, in New York in September, gave what was described as the definitive description of the Bush administration’s second-term approach toward China, calling on Beijing to be “a responsible stakeholder in the international system.” Rather than reinforce or expand upon this concept, as many anticipated (or hoped), President Bush never publically repeated the “responsible stakeholder” phrase, causing many in Asia to again question if Zoellick was merely speaking for the State Department – or perhaps just for himself, since his boss, Secretary of State Condoleezza Rice, has likewise failed to use this terminology.

In fairness, Bush's senior Asia policy advisor on the National Security Council, Dr. Michael Green, did use the term in briefing reporters during the trip and many of the major points made in Zoellick's speech (although not the "responsible stakeholder" phrase) were repeated by Donald Rumsfeld during his long-awaited first trip to China as defense secretary in mid-Oct. The term also reportedly came up in private conversations with Chinese officials. While the press had made much of the fact that the term "stakeholder" does not easily translate into Chinese, specialists like Bonnie Glaser argue persuasively that Beijing fully understands the concept. The real point of contention, as outlined in last quarter's regional overview, is conflicting definitions of the word "responsible." In his September speech, Zoellick warned that "China's involvement with troublesome states indicates at best a blindness to consequences and at worst something more ominous." On the other hand, Beijing sees the Bush administration's tendency to interfere in the internal affairs of these so-called troublesome states and its willingness to deal with "splittist troublemakers" like Taiwan President Chen Shui-bian or the Dalai Lama as the greater sin. The definition of what constitutes "responsible" is clearly in the eye of the beholder.

President Bush called his decision to attend church services in Beijing an "affirmation of my strong belief that people should be able to worship freely." This was not unprecedented, of course. His two most recent predecessors, and his secretary of state, had done the same. But it reinforced the president's view that freedom of religious expression was a fundamental human right, a point further underscored by Bush's public meeting with the Dalai Lama in Washington 10 days before his China visit.

Meanwhile, Bush's Chinese hosts used his visit to demonstrate that they no longer felt it was necessary to seize the opportunity of such visits to make grand gestures or provide significant "deliverables." Usually, in advance of a presidential visit, Beijing will release a few political prisoners from a U.S.-provided "wish list" as a goodwill gesture; this time Beijing unceremoniously added to the list instead. During his last visit, in February 2002, the Chinese government allowed live press coverage of Bush's speech to university students; this time his primary Chinese photo op was a mountain bike ride with Chinese Olympic hopefuls. This reflects a newfound, and growing, confidence in Beijing when it comes to dealing with Washington.

**Alliance maintenance.** While freedom was clearly identified as the bedrock of U.S. policies in Asia, little was said during Bush's Asia trip of the current (much less future) role that America's alliances and military force presence in Asia play in nurturing and protecting this freedom. In fact, in what had to have been a first in the past half-century of presidential addresses on Asia, during the president's major policy address in Kyoto, the word "alliance" was barely uttered. The president missed the opportunity to explain why the U.S. bilateral alliance structure in Northeast Asia still makes sense and remains essential to future stability.

This is not to imply that alliances no longer matter. In fact, Tokyo and Washington did agree on some significant force restructuring this quarter aimed at making the alliance more sustainable (and the U.S. "military footprint" in Japan less intrusive): at the Oct. 29 "2+2" meeting of foreign and defense ministers, agreement was reached to move the Third Marine Expeditionary Force (III MEF) headquarters and 7,000 Marines from Okinawa to Guam and the *Kitty Hawk* air wing from Atsugi to Iwakuni. It was also announced that the conventionally powered *USS Kitty*

*Hawk* would be replaced by a nuclear powered aircraft carrier when the *Kitty Hawk* was retired in 2008. Prior to the “2+2” meeting, agreement was reached to build a 5,850 foot runway through existing Camp Schwab housing and extending onto a land fill in Oura Bay in Okinawa, thus making the promised (since 1996) relocation of Marine aviation forces from Futenma Air Base finally possible (presuming continued local opposition can be overcome or ignored). Nonetheless, defense transformation was not mentioned in the president’s speech and was barely touched upon during his visit to Japan.

**Reaffirming the U.S.-ROK alliance ... for now!** President Bush did focus on alliance maintenance during his subsequent summit meeting with ROK President Roh Moo-hyun in Gyeongju on Nov. 17, immediately prior to the APEC Leaders’ Meeting in Busan. The two presidents highlighted “the contribution of the alliance to securing peace and stability on the Korean Peninsula and in Northeast Asia for the past fifty years,” but made no references to the alliance’s future relevance post-reunification, a constant theme during the Kim Dae-jung era. The two did agree to launch a strategic dialogue (Strategic Consultation for Allied Partnership or SCAP) at the ministerial-level in early 2006, “to consult on bilateral, regional, and global issues of mutual interest.” They also agreed “to make common efforts to develop a regional multilateral security dialogue and a cooperation mechanism, so as to jointly respond to regional security issues,” further stating that the Six-Party Talks “could develop into such a regional multilateral security consultative mechanism once the North Korean nuclear issue is resolved.”

Presidents Roh and Bush reiterated that “a nuclear-armed North Korea will not be tolerated,” a common theme but one made irrelevant by Pyongyang’s declaration, last February, that it was indeed nuclear armed. They nonetheless welcomed North Korea’s commitment, under the Sept. 19 Six-Party Joint Statement, to abandon all nuclear weapons and existing nuclear programs and “looked forward to progress in the fifth round of talks, which should be dedicated to the implementation of the Joint Statement.”

### **Six-Party Talks: another missed opportunity**

Had the two presidents looked backward, at the first session of the fifth round of Six-Party Talks, held in Beijing Nov. 9-11, they might have had less to look forward to. Little progress was expected at this abbreviated session, recessed after three days, to allow most of the participants (less the DPRK contingent) to proceed to Busan for the APEC meetings. Even less was achieved. While the brief Chairman’s Statement reaffirmed that all parties would “fully implement the Joint Statement in line with the principle of ‘commitment for commitment, action for action,’” no resumption date was set. Instead, Pyongyang made it clear that it had no intention of returning until Washington ended its “hostile policies” toward the DPRK.

The theme was a familiar one but the specifics were new, and revolved around the Bush administration’s decision to freeze the assets of eight North Korean companies – Hesong Trading Corp., Korea Complex Equipment Import Corp., Korea International Chemical Joint Venture Co., Korea Kwansong Trading Corp., Korea Pugang Trading Corp., Korea Ryongwang Trading Corp., Korea Ryonha Machinery Joint Venture Corp., and Tosong Technology Trading Corp. – viewed as weapons of mass destruction (WMD) proliferators, and level sanctions against a bank

based in Macao, Banco Delta Asia, for money-laundering, saying it was aiding North Korea's black-market and counterfeiting operations.

Washington argued that such measures were "necessary for our defense and the defense of our friends and allies," and were "independent of the diplomatic efforts that we are pursuing" with the North. Under Secretary of State for Arms Control Bob Joseph went so far as to assert that "We believe that [the sanctions] will reinforce the prospect for the success of those talks." Pyongyang obviously disagreed and even some administration supporters openly questioned the timing (although not the validity) of the administration's charges.

According to ROK press reports, DPRK Vice Foreign Minister Kim Gye-gwan purportedly put forth a roadmap at the November Talks, under which Pyongyang, with appropriate incentives, would suspend nuclear tests, ban nuclear relocation, ban further nuclear production, verifiably stop nuclear activities, dismantle its facilities, and return to the Nuclear Nonproliferation Treaty and International Atomic Energy Agency inspections. While details remain sketchy, Washington's reaction was clearly drawn. National Security Advisor Stephen Hadley, aboard *Air Force One* en route Asia with President Bush, reiterated that the U.S. "will continue to adhere to a policy of no economic aid for North Korea before it gives up its nuclear programs."

At quarter's end, Pyongyang was still describing the sanctions levied against the Macau bank and the eight North Korean companies as an embodiment of U.S. hostile intent and insisting that denuclearization talks could not proceed without first removing this new obstacle, while Washington was insisting that Pyongyang honor its commitment to return to the talks and disarm without preconditions.

As frequently noted in these pages, the failure of the other five six-party participants to speak with one voice in dealing with Pyongyang impedes future progress. In this regard, the leaders of China, South Korea, Japan, Russia, and the U.S., when all together in Busan, passed up the opportunity to meet jointly or to issue a definitive statement calling on North Korea to live up to its promises under the September 2005 Six-Party Joint Declaration. This would have sent a powerful message to Pyongyang to stop stalling and to enter into serious negotiations to quickly and verifiably abandon all its nuclear weapons programs. Ever eager to avoid hurting Pyongyang's feelings, the Seoul-initiated APEC Chairman's Statement did not even mention North Korea in passing; the closest it came was a general statement endorsing the need to "eliminate the threat of weapons of mass destruction and their means of delivery."

### **APEC Summit: some modest accomplishments**

At the Nov. 18-19 APEC meeting, the major focus for the 21 members was a strong statement in support of the WTO Doha Development Agenda round slated to take place the following month in Hong Kong. The final APEC statement argued that "there is more at stake in Hong Kong than just another phase of economic liberalization," and committed leaders to "live up to the political challenges" of the Doha round. The overt acknowledgment of the need to take on domestic interest groups for the sake of the broader good is unusual for APEC; the laggards in market opening lost out in this statement.

APEC also agreed to adopt model measures by 2008 for the regional and free trade agreements (RTAs/FTAs) that have become fashionable throughout APEC, perhaps in a bow to critics who argue that these deals are trade distorting, are confusing to businesses in creating a “spaghetti bowl” of regulations, and often have more political motivation than economic rationale. This year, for example, Japan and Malaysia agreed to an “economic partnership agreement,” Japan’s own version of an FTA, which seems to have little detail except on timber issues. Meanwhile, China and Chile signed an FTA driven principally by copper – they are the world’s largest consumer and producer, respectively – as well as Chilean fruit exports.

In these and other bilateral deals, not only are agreements sometimes vague but implementation monitoring is sketchy or nonexistent. The danger is that global standards needed to open up truly inefficient, protected markets are lowered. If the APEC model measures are to be effective, they must live up to the founding goal of serving as a building block, not an obstacle course, for broader multilateral deals. [For more on this subject, see PacNet No. 50, “APEC 2005: Economics Takes Center Stage,” Nov. 23, 2005.]

**Preparing for the pandemic.** In addition to other agreements on energy cooperation, on a roadmap to assess progress on the Bogor Goals of trade liberalization, and several antiterrorism measures, APEC leaders agreed to establish the “APEC Initiative on Preparing for and Mitigating an Influenza Pandemic.” After the tsunami disaster in late 2004, government leaders became more alert and responsive to the need for a collective approach to prepare for such cross-border threats. The initiative initially entails a tabletop exercise in early 2006 to identify ways to improve surveillance, transparency, and collective response capabilities, and may pursue greater coordination among many health-related agencies throughout the region. Hopefully, heads of government will closely monitor the progress of this initiative and adopt appropriate recommendations that emerge.

At the December ASEAN Plus Three meeting, Malaysia proposed to establish a regional WHO collaborating centre for influenza and a regional avian influenza research and reference centre. Such efforts reflect a growing regional awareness of the potential consequences of an avian flu pandemic, if human-to-human transmission occurs. Meanwhile, the human death toll from the H5N1 virus reached 74 by quarter’s end, with 93 of the total 142 cases and 39 of the 74 confirmed deaths occurring in 2005, all in five East Asian countries (Cambodia, China, Indonesia, Thailand, and Vietnam). [As *Comparative Connections* was going to press, the first non-East Asian human cases and first three 2006 deaths were being recorded, all in Turkey.]

### **East Asia Summitry: much ado about something?**

Many of the APEC leaders (less President Bush) reconvened less than four weeks later in Kuala Lumpur for the annual series of ASEAN summits. Between Dec. 12-14, 2006, ASEAN leaders met amongst themselves, with their Plus Three partners, and in individual ASEAN Plus One meetings with their Australian, New Zealand, and Indian counterparts. This was the second time that Canberra and Wellington and the third time that New Delhi participated in this conclave. Russian President Vladimir Putin also appeared on the ASEAN summit scene for the first time, conducting his first A+1 dialogue. He was also invited to meet with, but not to officially join, the other 16 assembled leaders at the first annual East Asia Summit.



**Whither the EAS?** Was the inaugural East Asia Summit (EAS), held in Kuala Lumpur on Dec. 14, “much ado about nothing,” as many critics are already claiming, or “a historic event whose future impact is likely to be as significant as the first [1976] ASEAN summit,” as Barry Desker, head of Singapore’s influential Institute of Defence and Strategic Studies, argues? [PacNet 55B, Dec. 23, 2006, “Why the East Asian Summit Matters,” Dec. 19, 2005] The answer is: it’s too soon to say.

It remains unclear just what the EAS will eventually become. An analysis of the first meeting makes it fairly clear what it will not be, however: it will not form the base of the much-heralded but still dormant East Asia Community. That role appears destined to remain with the more exclusive ASEAN Plus Three gathering. It is also highly doubtful that it will, or wants to, pose a threat to U.S. interests.

The EAS host, Malaysian Prime Minister Abdullah Badawi, made it abundantly clear that the 10 ASEAN countries and their Plus Three partners constituted the core, noting that “You are talking about a community of East Asians; I don’t know how the Australians could regard themselves as East Asians, or the New Zealanders for that matter.” “We are not talking about members of the community,” Badawi continued, even though Australia, New Zealand, and “our immediate neighbor” India have “common interests in what is happening in the region.” The architects of East Asia community-building, he clearly inferred, would all be Asians, with the A+3 (vice EAS) participants providing the base. The EAS would provide a vehicle for outsiders to endorse the community building effort; it “could play a significant role,” but would not be an integral part of (much less drive) the process.

For his part, Australian Prime Minister John Howard, while noting that the EAS had “exceeded my expectations,” argued that APEC, rather than the EAS or A+3, should remain “the premier body.” APEC, he noted, has the “great advantage” of including the U.S. We would note that it also includes Taiwan (a.k.a., Chinese Taipei) – another “great advantage” – but excludes several of the lesser developed ASEAN states, including Myanmar (which from Washington’s perspective may be yet another plus).

The EAS Chairman’s Statement underscored, twice, that ASEAN will be the “driving force” behind East Asian community-building. The KL Declaration on the Summit declares that future meetings “will be hosted and chaired by an ASEAN Member Country ... and be held back-to-back with the annual ASEAN Summit.” Beijing had suggested that it host the second round but ASEAN remains as concerned about sharing driving privileges with its other community members as it does allowing outsiders a greater say in the community-building process.

The Chairman’s Statement and KL Declaration both acknowledge that building an East Asia Community is “a long term goal.” First priority will go toward building “a strong ASEAN Community which will serve as a solid foundation for our common peace and prosperity.” This should make Indonesia happy: Jakarta, which had previously put forth its own proposals for building an ASEAN Community, had believed that pushing for the EAS was premature. Prime Minister Badawi had been the primary proponent of the EAS, apparently catching Indonesian President Susilo Bambang Yudhoyono (among others) by surprise when he pushed for the EAS at last year’s summit in Vientiane. That was before Australia and New Zealand were added to the mix, which clearly curbed Badawi’s enthusiasm.

**Should Washington be concerned?** The quick answer is “no.” In fact, it is not clear that Washington even desired a seat at the EAS table – getting President Bush to two Asian summits in four weeks would have been no mean feat. Nonetheless, Washington will continue to watch the EAS closely to see if certain members attempt to move this embryonic organization in a direction that runs contrary to U.S. interests.

In an apparent attempt to address one of Washington’s potential concerns, the KL Declaration noted that the EAS would be “an open, inclusive, transparent, and outward-looking forum in which we strive to strengthen global norms and universally recognized values.” Washington’s membership would still require it to accede to the ASEAN Treaty of Amity and Cooperation (TAC), something the Bush administration (like its predecessors) has been reluctant to do. Observer status appears possible, however (and is more likely to be sought by Washington).

Chinese Premier Wen Jiabao seemed to be opening the door for this when he noted that the EAS should “welcome the participation of Russia” and “strengthen contact with the United States, the European Union, and other countries.” Wen stressed that the EAS would not be “closed, exclusive, or directed against any particular party.” (Secretary Zoellick had warned Beijing that it should not use its participation in multilateral organizations like the EAS to “maneuver toward a predominance of power” or otherwise be seen as deliberately trying to undercut Washington’s influence or interests. Beijing, among others, clearly heard this message.)

Still undefined is how the EAS (or the A+3, for that matter) will interact with broader regional organizations such as APEC or the ministerial-level ASEAN Regional Forum (which includes Washington and the EU among its members). Hopefully, this will be one of the modalities to be addressed by EAS participants when they next convene in December 2006 in Cebu, Philippines.

How the EAS relates to the region’s other multilateral organizations and initiatives – both institutionalized (like the ARF and APEC) and ad hoc (like the Six-Party Talks and the Proliferation Security Initiative) – will also be a key factor affecting Washington’s attitude, as will its adoption of global norms, especially in the areas of counterterrorism and counter-proliferation. Will the EAS (or A+3, for that matter) reinforce or dilute these efforts? Will it help regional states more effectively address growing transnational challenges ... or provide another excuse for avoiding such efforts? The answers to these questions will help determine Washington’s attitude toward the EAS and any subsequent East Asian Community.

To the extent this new grouping signals its willingness to coexist with Washington, and is not seen as threatening or attempting to undermine Washington’s bilateral alliances, its own central role in East Asian security affairs, or the broader Asia-Pacific regional institutions in which it participates, there is little reason to expect objections from Washington or a serious effort to discourage or derail this or any other regional community building efforts.

**TAC: why not join?** For its part, Washington should begin exploring the possibility of seeking observer status in the EAS. It should also be asking itself why it continues to resist acceding to the TAC. The oft-stated contention that this would somehow undercut America’s Asian alliances appears unfounded: two of Washington’s Asian allies – Thailand and the Philippines – are charter members of ASEAN, while the other three – Australia, Japan, and the Republic of Korea

– have now acceded to the TAC without any perceptible impact on Washington’s network of bilateral alliances.

As a member of the ASEAN Regional Forum (ARF), Washington has already endorsed the purpose and principles of the TAC “as a code of conduct governing relations between states and a unique diplomatic instrument for regional confidence-building, preventive diplomacy, and political and security cooperation.” Perhaps it’s time to take the next step, in order to demonstrate its commitment to regional prosperity and stability and to underscore its support for East Asia community-building.

**Is community-building possible?** While much attention has been paid to the Bush administration’s reaction to East Asia community-building, the biggest threat to this effort comes not from Washington but from within the “community.” The sad truth is, with or without Washington’s acquiescence, East Asia community-building is not going to be easy, given rising nationalism in Japan, China, South Korea, and elsewhere. Even within ASEAN, there are clear differences of opinion regarding the focus and intent of the EAS, especially between Indonesia and Malaysia. Meanwhile, unless and until Tokyo, Beijing, and Seoul can more effectively channel or control their respective nationalist tendencies, it is difficult to image a true East Asian community taking shape.

The primary catalyst for today’s tensions has been Japanese Prime Minister Koizumi Junichiro’s continued visits to the Yasukuni Shrine – he made his 2005 visit on Oct. 17 – along with lingering disputes over textbook renditions of history. Japanese textbooks have come under the most scrutiny, given the approval of one controversial textbook series in particular (which has been adopted by less than 1 percent of Japan’s public schools), but textbooks in South Korea and especially China would also fail most objectivity tests (and we won’t even try to add North Korean textbooks to this mix).

Prime Minister Koizumi argues that he is merely honoring his campaign pledge to continue paying tribute to Japan’s war dead – there are over 2.5 million souls interred at Yasukuni, unfortunately including 14 World War II “Class A” criminals, the source of the controversy. But, Koizumi has also sworn to preserve, protect, and promote Japanese national security interests, and his continued annual visits to the Shrine are making this increasingly hard to do, at least when it comes to promoting harmony in the immediate neighborhood, much less attempting to create a sense of East Asia community.

Meanwhile, the failure of the U.S. to speak out publicly on this issue, combined with the (correct) impression that the U.S. stands firmly behind Koizumi and his quest for acceptance of a greater political and security role in East Asia, has translated into increased ill will against Washington, especially from its other key East Asia ally, South Korea. President Bush was questioned repeatedly during his recent Asia visit about his reaction to the “antagonizing” Yasukuni visits. While he reportedly did discuss the issue with Koizumi in private, in public Bush repeatedly ducked the question – yet another missed opportunity – responding instead that “I believe a useful role for me, as someone who is friendly with the three leaders involved, is to remind people that it is best to put the past behind and move forward in the future.”

Unfortunately the high-profile visits make putting the past behind impossible. [For more on this topic, see PacNet No. 53 “Yasukuni Shrine: Time to Make a Deal,” Dec. 6, 2005]

### **WTO Hong Kong Ministerial: living up to low expectations**

Meanwhile, the WTO Doha round drags on. As the year wore on, expectations wore thin for the once-heralded Sixth WTO Ministerial in Hong Kong on Dec. 13-18. In the end, the ministerial had the dubious distinction of achieving very modest goals, but this at least allowed officials to avoid a total collapse of the negotiations as occurred in Cancun (2003) and Seattle (1999). For advocates of free trade that actually impacts global markets and benefits people, the six days of negotiations among the 149 members “may have amounted to little more than an expensive experiment in sleep deprivation,” *The Economist* asserted.

The group ducked the hard issues and kicked the can down the road on opening global markets for agriculture, manufacturing, and services. The most notable accomplishment was setting a deadline for implementation of an agreement already made in July 2004, which is to eliminate subsidies on agricultural exports by 2013. The EU finally budged on this one, and without the concessions on market opening from large emerging economies that it had insisted on.

As for achieving the “development” part of the Doha agenda – key to the WTO earning legitimacy as more than a rich man’s club – this round achieved more than usual, but less than hoped. The core proposal to grant the 32 poorest members totally free access to rich country markets was diluted to allow tariffs of up to 3 percent on products imported from those countries, a caveat that was motivated by U.S. concern about textiles from Bangladesh and Cambodia. The U.S. also promised to ease export subsidies for cotton, which sub-Saharan Africa claims fosters dumping and thus depresses prices for its cotton exports. This is less than Africa wanted, but probably more than U.S. farm and textile producers will accept.

In addition, the rich countries (EU, U.S., and Japan) made substantial pledges, yet with vague details, to increase aid to poor countries, and the U.S. agreed to new rules on its food aid to reduce displacement of locally produced goods. Cynics could say that the rich countries gave in just enough to keep members at the table, but not enough to make any real difference in raising standards of living. Yet Kamal Nath, India’s minister of commerce and industry and a rising star in the Group of 20 developing countries, was more impressed, saying “For the first time, it doesn’t appear like a script written by developed countries,” *The New York Times* reported.

Pascal Lamy, WTO secretary general, claimed that Hong Kong’s accomplishments moved the Doha round from 55 to 60 percent toward completion. And at least completion is still a goal: the group agreed to a new round by April 30 and to finalize the round by the end of 2006, a deadline driven by the Bush administration’s imperative to get any WTO agreement passed by Congress before fast-track negotiation power expires in mid-2007. Lamy claimed that the Hong Kong deal put “political energy” back into the negotiations. But indicative of the uninspired will to compromise was the debate in Hong Kong on how to move forward on service sector tariffs, a debate that merely addressed whether negotiations would be mandatory or “encouraged,” with the latter winning out. The pressure is on.

## **2005 regional economic overview and 2006 preview**

As last year's economic overview predicted, the dramatic decline in the dollar since 2002 resulted in calls for greater exchange rate flexibility in 2005, with the yuan taking center stage, at least in the halls of the U.S. Congress. All year long, China resurfaced again and again as the highest priority for Bush administration economic officials, who worked hard, but with only limited success, to assuage congressional concerns that they weren't pressing China enough on a range of issues: compliance with WTO commitments, freeing the yuan's peg to the dollar, enforcing intellectual property rights, addressing the burgeoning trade deficit, textile quotas, and the list goes on. Interestingly, the interaction between the economic bureaucracies of the two countries continued to intensify throughout the year, and a host of new cooperative agreements on labor, the environment, energy, and AIDS, for example, were enacted this year, in addition to the steady diet of bilateral dialogues on trade, currency, and other economic matters. Indeed, given all the attention to China's successful "soft" diplomacy in East Asia, one might have missed the fact that in the U.S.-China case, there is real meat on the bones of bilateral economic interaction.

East Asian economic growth slowed on average to 7.1 percent GDP in 2005, compared to 7.6 percent in 2004, but was surprisingly resilient despite a doubling of oil prices, reduced imports from China, and a softening of the IT market early in the year. Most of the moderation was in the five largest ASEAN countries – Indonesia, Malaysia, Philippines, Singapore, and Thailand – while the PRC continued to grow at a rapid 9.3 percent, according to the World Bank. Japan's growth potential looked positive early in the year, and caused much debate about how permanent this would be. Despite a respectable annual GDP growth estimate of a solid 2.3 percent, economists were still divided at yearend about the extent of reforms required to get Japan back on track as an economic powerhouse. South Korea is back on an even keel after early weakness, with 2005 growth estimated at 3.8 percent, led by strong exports and a gradual recovery in private consumption, not to mention a thriving equity derivatives market.

### **Preview for 2006: energy issues, currency pressures intensify, yearend WTO finale?**

The forecast for 2006 is for modest economic growth across the region, while the PRC is expected to slow to about 8.9 percent. (These are estimates from the November 2005 World Bank East Asia update and higher ranges for China, Japan, and others are estimated by the IMF and national governments.) The international financial institutions (IFI) continue to urge structural and other adjustments to increase private domestic demand and reduce reliance on exports, and thus susceptibility to external shocks. Continued corporate and banking reform is necessary to foster a favorable investment climate, which has not reached pre-1997 financial crisis levels as hoped for.

Among the major concerns outlined by the Asian Development Bank in their 2006 outlook are increasing oil prices, a possible avian flu pandemic, a rising interest rate environment, and a disorderly adjustment of the global payments imbalance. The latter has been raised by many economists for several years as the major weakness in the global economy, and could be addressed by a tighter fiscal policy in the U.S. to address the deficit and a looser monetary policy in Asia to allow currencies to appreciate. But politicians in the U.S. and Asia have found these

issues difficult to address with any rigor, since the policies would squeeze U.S. consumers and Asian producers.

As a result of these two unmet policy challenges, Asia's undervalued currencies and huge current account surpluses will remain high on the political agenda, at least for the U.S. Congress in an election year. China needs to press on with financial reforms that allow it to broaden the trading band of the yuan beyond the minor adjustment made on July 21, deemed overly cautious by most economists. But exchange rate issues may need to be rethought in 2006; the yen could appreciate should Japan's recovery hold steady, and U.S. monetary policy – a steadying global force under Chairman Alan Greenspan – will undergo a leadership change early in the new year.

Globalization will continue to challenge national governments to adopt the right mix of policies that can equip their societies to reap the benefits of fierce competition. The test for 2006 is for governments to take even bolder steps to shake up domestic competition and free up individual entrepreneurship, which has not been the traditional economic culture in Asia. Governments also need to take leadership on addressing chronic problems, such as energy security and improving energy efficiency, which entails an overhaul of tax and subsidy policies. Finally, given the export focus of the region, Asian governments need to stay invested in a strong WTO outcome. Regional dialogue on the importance of WTO has been notably lacking from the community-building initiatives described above, and yet it is liberalization in investment, trade, and capital flows that have undergirded the interdependence on which the region is attempting to build. Asian governments are challenged in 2006 to stay on the learning curve and continue adopting responsive economic policies.

### **Regional Chronology October-December 2005**

**Oct. 1, 2005:** Three suicide bombings in Bali kill 26, with 122 wounded.

**Oct. 5, 2005:** Alexander “Sandy” Vershbow confirmed as U.S. ambassador to ROK.

**Oct. 7, 2005:** IAEA and Director General Mohamed ElBaradei win 2005 Nobel Peace Prize.

**Oct. 7, 2005:** 21 bipartisan senators send a letter to USTR Robert Portman urging him to impose economic sanctions worth \$100 million a month on Japan for its ban on U.S. beef imports.

**Oct. 8, 2005:** Over 80,000 die in a magnitude 7.6 earthquake centered near Muzaffarabad in Pakistani Kashmir.

**Oct. 8-11, 2005:** Chinese Vice Premier Wu Yi meets DPRK Chairman Kim Jong-il in Pyongyang to discuss the next round of Six-Party Talks.

**Oct. 10, 2005:** Former Indonesian President Megawati meets Kim Jong-il.

**Oct. 10-12, 2005:** U.S. hosts trade ministers in Zurich and Geneva ahead of December WTO ministerial conference and offers a plan to cut agricultural tariffs and subsidies.

**Oct. 10-15, 2005:** Secretary of State Condoleezza Rice travels to Kyrgyzstan, Afghanistan, Kazakhstan, Tajikistan, Pakistan, and Russia.

**Oct. 11, 2005:** Secretary Rice reaches agreement with Kyrgyz President Bakiyev for long-term rights to use Manas airbase “until the situation in Afghanistan is completely stabilized.”

**Oct. 11, 2005:** Japanese PM Koizumi’s postal reform package is approved 338 to 138.

**Oct. 12, 2005:** Sean Garland, leader of Irish Republican Army splinter group, is indicted for conspiring with North Korea to circulate fake \$100 supernotes in Asia and Europe.

**Oct. 12, 2005:** Chinese conduct their second successful manned space launch, *Shenzhou*.

**Oct. 12, 2005:** Yasukuni Shrine association returns to South Korea *Bukgwandaechoepbi*, a stone monument memorializing the defeat of 16<sup>th</sup>-century Japanese invaders on the Korean Peninsula.

**Oct. 12, 2005:** Former President Lee Teng-hui begins two-week U.S. trip.

**Oct. 12-13, 2005:** U.S. and China conclude fourth round of textile talks with no agreement.

**Oct. 12-13, 2005:** Second China-ASEAN Eminent Persons Group Meeting held in Kuala Lumpur.

**Oct. 13, 2005:** New ROK Ambassador to the U.S. Lee Tae-shik arrives in Washington.

**Oct. 14, 2005:** Lien Chan, former KMT head, makes a private visit to China, one day after China rejects legislative speaker Wang Jin-pyng as Taiwan’s representative to APEC.

**Oct. 14-17, 2005:** PRC and Japan holds third round of China-Japan Strategic Dialogue in Beijing.

**Oct. 16-Nov. 1, 2005:** Philippines and U.S. militaries hold joint exercise *Talon Vision* and *Amphibious Landing Exercise 06*.

**Oct. 17, 2005:** PM Koizumi visits Yasukuni Shrine.

**Oct. 17-19, 2005:** New Mexico Gov. Bill Richardson visits North Korea “to move the diplomatic process forward.”

**Oct. 17, 2005:** The U.S.-India Science and Technology Agreement is signed to facilitate “a wide range of scientific and technical cooperation.”

**Oct. 17-25, 2005:** Defense Secretary Rumsfeld travels to China, South Korea, Mongolia, Kazakhstan, and Lithuania. He skips Japan.

**Oct. 18, 2005:** China cancels FM Machimura Oct. 23-24 visit due to Yasukuni visit.

**Oct. 19, 2005:** China's State Council issues first White Paper on the state of Chinese democracy.

**Oct. 19, 2005:** ROK FM Ban Ki-moon cancels trip to Japan and reports that Roh-Koizumi December talks will be postponed due to Koizumi's Yasukuni visit.

**Oct. 19-21, 2005:** Russia and China hold second round of Sino-Russian Strategic Security Talks in China.

**Oct. 21, 2005:** U.S.-ROK Security Consultative Talks held in Seoul.

**Oct. 21, 2005:** U.S. Treasury Department designates eight North Korean entities for supporting WMD proliferation and freezes their U.S. assets.

**Oct. 24, 2005:** Indonesia pulls another 2,500 troops from Aceh as part of August Helsinki peace accord.

**Oct. 24, 2005:** Australia, Japan, and U.S. hold trilateral security talks in Tokyo to discuss Iraq, Afghanistan, and North Korea.

**Oct. 24-28, 2005:** Singapore PM Lee conducts his first visit to China.

**Oct. 26, 2005:** Japan and the U.S. reach agreement on relocation of U.S. bases on Okinawa and the construction of a heliport at Camp Schwab.

**Oct. 26-27, 2005:** SCO Summit meeting in Moscow.

**Oct. 28, 2005:** 11<sup>th</sup> round of inter-Korean economic talks held to discuss inter-Korea rail infrastructure, fisheries cooperation, and flood control projects. South and North open joint office to oversee inter-Korean trade in Kaesong.

**Oct. 28-30, 2005:** Chinese President Hu Jintao visits Pyongyang.

**Oct. 29, 2005:** U.S. and Japan hold "2+2" meeting in Washington, release document detailing transformation and realignment of the alliance. Japan supports U.S. plan to replace the *USS Kitty Hawk* with a nuclear-powered *Nimitz*-class aircraft carrier in Yokosuka, Japan.

**Oct. 31-Nov. 2, 2005:** President Hu visits Vietnam.

**Oct. 31, 2005:** Koizumi reshuffles Cabinet. Abe Shinzo is named chief Cabinet secretary and Aso Taro is foreign minister.



**Oct. 31-Nov. 4, 2005:** Former ROK President Kim Young-sam visits Taiwan.

**Nov. 1, 2005:** North and South Korea agree to field joint teams for the Asian Games in Doha and the Olympic Games in Beijing.

**Nov. 3, 2005:** Japan and North Korea resume negotiations for normalization of relations.

**Nov. 5-11, 2005:** Twelfth round of inter-Korea family reunions held at Mt. Kumgang.

**Nov. 7-17, 2005:** U.S. and India holds *Cope India 2005* exercise near Calcutta, India..

**Nov. 8, 2005:** State Department cites China as one of eight “countries of particular concern” for denying religious freedom in its 2005 International Religious Freedom Report to the Congress.

**Nov. 9, 2005:** President Bush meets the Dalai Lama at the White House.

**Nov. 9-11, 2005:** Fifth round of Six-Party Talks takes place in Beijing.

**Nov. 11, 2005:** U.S. completes pull-out from Uzbek bases.

**Nov. 13, 2005:** Petrochemical explosion at the Jilin Petroleum and Chemical Company in China spills 100 tons of benzene into the Songhua River. The benzene slick is expected to reach Khabarovsk in mid-December.

**Nov. 15-16, 2005:** The 17<sup>th</sup> APEC ministerial meeting is held in Busan, Korea.

**Nov. 15-21, 2005:** President Bush visits South Korea, Japan, China, and Mongolia and attends the APEC Leaders’ Meeting in Busan.

**Nov. 17, 2005:** President Hu state visit to Seoul, in advance of APEC.

**Nov. 18, 2005:** Agreement on 2006 New Year’s cross-Strait charter flights announced.

**Nov. 18-19, 2005:** APEC Leaders’ Meeting is held in Busan with numerous side meetings. Bush meets with Roh, ASEAN leaders, among others. Roh meets with Koizumi for 20 minutes; Hu refuses to meet Koizumi at all.

**Nov. 18-21, 2005:** U.S. and India hold first Defense Procurement and Production Group meeting to discuss ways to strengthen defense logistics, industrial, and technological cooperation.

**Nov. 19, 2005:** Asst. Secretary of State Christopher Hill, in discussing nuclear standoff with Pyongyang, says “ it’s time for the Chinese to take a little more responsibility to clean up that mess.”

**Nov. 20, 2005:** Putin and Koizumi meet in Japan.

**Nov. 22, 2005:** U.S. restores mil-mil ties with Indonesia after a six-year ban over human rights concerns.

**Nov. 22, 2005:** KEDO board agrees to terminate light-water reactor project.

**Nov. 27-Dec. 3, 2005:** Mongolian President Enkhbayar visits China, signs agreements covering border demarcation, transportation, energy, education, and scientific research.

**Nov. 28, 2005:** State Department condemns Myanmar's military junta for extending opposition leader and Nobel Prize winner Aung San Suu Kyi's house arrest for 12 months.

**Dec. 4, 2005:** 250,000 protesters in Hong Kong demonstrate for the right to directly elect their leaders.

**Dec. 4-7, 2005:** Indian PM Manmohan Singh visits President Putin in Moscow.

**Dec. 6, 2005:** Pyongyang threatens to boycott Six-Party Talks unless the U.S. lifts sanctions issued Oct. 21 on North Korean companies for alleged counterfeiting, money laundering, and arms sales.

**Dec. 7, 2005:** Ambassador Vershbow calls North Korea "a criminal regime."

**Dec. 7-8, 2005:** U.S. and China hold second Senior Dialogue in Washington.

**Dec. 8, 2005:** PM Koizumi announces decision to extend for one year SDF activities in Iraq.

**Dec. 9-12, 2005:** China and Thailand hold naval search and rescue exercises in the Gulf of Thailand.

**Dec. 9, 2005:** Japan and the U.S. agree to extend the current agreement on Japan's cost sharing covering U.S. forces in Japan for an additional two years.

**Dec. 10, 2005:** Australia signs Treaty of Amity and Cooperation with ASEAN for a seat at the East Asia Summit.

**Dec. 11, 2005:** Brunei, Indonesia, Malaysia, and the Philippines agree to joint patrols of the Sulawesi Sea, an area often hit by kidnappers and pirates.

**Dec. 12, 2005:** Japan partially lifts ban on U.S. beef.

**Dec. 12, 2005:** China releases white paper on "China's Peaceful Development Road."

**Dec. 12, 2005:** ASEAN Plus Three (A+3) held in Kuala Lumpur, Malaysia. There are no scheduled China-Japan or Japan-Korea side meetings due to Koizumi's visit to Yasukuni.

**Dec. 12-13, 2005:** ASEAN annual summit and ASEAN Plus One meetings held in Kuala Lumpur.

**Dec. 13, 2005:** Russian President Vladimir Putin attends Russia-ASEAN meeting in Kuala Lumpur.

**Dec. 13, 2005:** ROK and ASEAN sign accord to complete free trade agreement by end of 2006.

**Dec. 13, 2005:** PM Singh meets with ASEAN for the fourth India-ASEAN summit. India also meets with Japan and South Korea in separate bilateral meetings on the sidelines.

**Dec. 13-16, 2005:** Seventeenth inter-Korea ministerial talks are held on Jeju island.

**Dec. 13-18, 2005:** Sixth WTO Ministerial Conference is held in Hong Kong.

**Dec. 14, 2005:** East Asia Summit is held in Kuala Lumpur with ASEAN, China, Japan, Korea, Australia, New Zealand, India in attendance and Russia as observer.

**Dec. 14-16, 2005:** ROK President Roh makes state visit to the Philippines.

**Dec. 16, 2005:** First shipment of U.S. beef since 2003 arrives in Japan.

**Dec. 16, 2005:** At the request of the U.S., the UNSC hears a briefing on human rights abuses in Myanmar.

**Dec. 19, 2005:** Aceh Monitoring Mission reports that the last weapons held by Aceh Freedom Movement (GAM) turned over to the government.

**Dec. 20, 2005:** ROK Unification Minister Chung Dong-young meets with Secretary Rice in Washington to brief her on the outcome of the inter-Korea talks.

**Dec. 20, 2005:** DPRK official news agency reports North Korea will start to develop and build light-water reactors based on indigenous technology.

**Dec. 21, 2005:** Hong Kong legislators defeat a Beijing-backed proposal to revamp the Hong Kong political system because it did not have a timetable for one-person one-vote general elections.

**Dec. 22, 2005:** OPEC holds talks with China to secure Chinese market share and to discuss investments into Chinese refinery infrastructures.

**Dec. 22, 2005:** Japanese FM Aso states that China is “beginning to pose a considerable threat” due to increased military expenditures and the lack of transparency.

**Dec. 22, 2005:** Beijing releases foreign policy White Paper assuring that China will “never be a threat to anyone” and will not seek hegemony.

**Dec. 24-27, 2005:** North Korean Vice Premier Ro Tu Chol visits China for discussions on bilateral issues.

**Dec. 25, 2005:** Japan-North Korea bilateral talks resume in Beijing. Japanese abductees, security concerns, and normalization are on the agenda.

**Dec. 26, 2005:** Thai forces start joint patrol of Malacca Straits with patrol boats from Malaysia, Singapore, and Indonesia.

**Dec. 27, 2005:** Indonesia's Aceh rebels disband and demobilize armed wing of GAM.

**Dec. 27, 2005:** Philippine prosecutors file charges against four U.S. marines for alleged Nov. 2 rape that occurred while the men were in a joint exercise with Filipino forces.

**Dec. 29, 2005:** Tan Sri Dr. Noordin Sopiee, Chairman and CEO of ISIS-Malaysia loses his long battle with thyroid cancer and the East Asia security community loses a trusted friend, mentor, and leading intellectual. We all mourn Noordin's untimely passing.

**Dec. 30, 2005:** Unification Minister Chung resigns; his resignation is accepted Jan. 1, 2006.

**Dec. 31, 2005:** North Korea bans international humanitarian assistance to regain control over food distribution, limit outside contact, and prevent urban unrest.



**U.S.-Japan Relations:  
The Alliance Transformed?**

**Brad Glosserman  
Pacific Forum CSIS**

The last quarter of 2005 will be remembered as a historic moment for the U.S.-Japan alliance. In October, the Security Consultative Committee (the “SCC” is the meeting of secretaries/ministers of foreign affairs and defense, sometimes referred to as the “2+2”) ratified an interim report on the realignment of U.S. forces in Japan that could usher in a new era in relations between the two countries. If realized, the report will transform the alliance.

That’s a big “if.” This is only an “interim” report and the problems it “solves” have plagued the alliance for a decade. Seeing the agreement implemented will be difficult. Moreover, the weeks before the agreement was reached were marked by rancor and rhetoric that matched that of the dark days of Japan bashing. Petulance and posturing are a poor foundation for a “rejuvenated” alliance.

**An ugly October**

The quarter began with news that U.S. Defense Secretary Donald Rumsfeld would skip Japan on an Asia tour that included stops in China and South Korea. Although Pentagon officials denied any link between the hole in the itinerary and the failure of the two countries to agree on realignment issues, the Japanese press hyperventilated over the possibility. (Officially, the visit wasn’t canceled because it was never actually scheduled.) Media reports speculated that the failure to agree on the relocation of Futenma Air Station was creating strains in the alliance and they invoked the “Japan passing” of the Clinton years. That Rumsfeld was going to finally visit China only underscored Japanese unease. Reports of the “flyover” reportedly prompted a Japanese Cabinet meeting to break the stalemate.

By mid-month, the tide had apparently turned. There were reports of agreements in principle on components of the realignment process. The two governments were said to have concurred on the relocation of the U.S. Marine Corps III Marine Expeditionary Force (MEF) to Guam, on cutting the number of marines on Okinawa, and relocating some aircraft and some fighter exercises from Kadena Air Base to Japan Air Self Defense Force bases outside the prefecture.

Stalemate continued on the thorny issue of Futenma, however, and bilateral negotiations got testy. U.S. Deputy Under Secretary of Defense Richard Lawless played “bad cop,” fingering Japan as the obstacle to progress. “We can’t have an agreement on the major principles (of

realigning U.S. forces) without resolving the Futenma issue,” he said. “We want you (Japan) to help us replace Futenma for the benefit of the alliance because the alliance needs this capability.” Bluntly he explained, “we are saying to the Japanese governments – you undertook this obligation in 1996 to replace Futenma, we’ve been waiting.” Delay “is not our fault.” He warned that the alliance risked being damaged by “interminable dialogue over parochial issues,” and called for a dramatic acceleration of the process “to make up for time lost to indecision, indifference, and procrastination.” Lawless told the *Financial Times* that the solution was simple: leadership in Japan. Failing to convince the Japanese people of the benefits of hosting U.S. bases meant that “the U.S.-Japan security relationship will not reach the point it needs to as an alliance.”

While Lawless carries weight, the most important factor in Japanese minds was the impending visit of U.S. President George W. Bush, scheduled for mid-November. Both sides wanted to showcase a healthy, vital alliance and that required an interim agreement.

### **A warrior retires**

By the end of the month, it was becoming clear that Japan was ready to make hard decisions. On Oct. 27, the U.S. Navy announced that Tokyo had finally agreed to the basing of a nuclear-powered aircraft carrier in Japan. The *Kitty Hawk*, a diesel-powered carrier, currently based at Yokosuka (home of the U.S. Seventh Fleet) was commissioned in 1961, making it the oldest ship in active service; the U.S. Navy has wanted to replace it for some time. Unfortunately, new carriers are nuclear-powered and the Japanese public has staunchly opposed the stationing of a nuclear-powered warship on its territory – both because of objections over the war-fighting capability of the ship and its nuclear reactor and the fear of radiation leaks.

Announcing the decision, Chief Cabinet Secretary Hosoda Hiroyuki explained, “Japan believes that the continued presence of the U.S. Navy will contribute to safety and stability, in Japan, the Far East, and the world.” He assured residents that the U.S. said it would take “strict safety measures,” would not run the reactor while anchored in Japan, and would conduct no repairs of the reactor there. Locals were not mollified. Nonetheless, the new vessel, the *George Washington*, is expected to be stationed in 2008.

### **The SCC delivers**

The *Kitty Hawk* decision was the first concrete indication that the Oct. 29 SCC meeting in Washington would be a success. It was. The SCC document confirms the guidelines for bilateral cooperation laid out at the last SCC meeting (Feb. 19, 2005; for details see “U.S.-Japan Relations: History Starts Here,” *Comparative Connections*, Vol. 7, No. 1, April 2005). The two sides are to step up cooperation across an entire spectrum of threats and national security concerns, and the report identifies “essential steps to strengthen posture” for cooperation. They include close and continuous policy and operational coordination, bilateral contingency planning, information sharing and intelligence cooperation, improving interoperability, expanding training opportunities, shared use of facilities, and ballistic missile defense. Another potentially significant section of the new report has been less noted. It calls on U.S. forces and the SDF to

strengthen cooperation with other partners to contribute to international security; that includes exercises with third partners, as well.

Media attention has focused on the details of force realignment laid out in the document. And – surprise, surprise – they confirm most of the earlier leaks. According to the report,

- Headquarters of U.S. Forces, Japan, will establish a bilateral and joint operations coordination center at Yokota Air Base.
- U.S. Army Japan command structure at Camp Zama will be modernized to a deployable, joint task force-capable operation headquarters element. A Ground SDF Central Readiness Force Command will be established at Camp Zama.
- Japan's Air Defense Command and relevant units will be co-located with the headquarters of 5<sup>th</sup> Air Force at Yokota.
- Measures to facilitate civilian aircraft, including reducing air space under U.S. control and co-location of civilian air traffic controllers at Yokota will be considered, as will transfer of the Kadena radar approach control to civil-military dual use.
- A site for deployment of a new *X-band* radar system will be studied and the U.S. will deploy active defense as needed. (This anticipates development of a missile defense system.)
- The Futenma replacement facility will remain in Okinawa, but will be relocated to Camp Schwab in northern Okinawa in shorelines areas and adjacent areas of Oura Bay. The reassignment of air units at Futenma is under review; *KC-130s* that were to be relocated to Iwakuni Air Station may now go to Maritime SDF Kanoya Base.
- The leak about moving the headquarters of III MEF to Guam was confirmed. The remaining units will be reduced to a Marine Expeditionary Brigade, resulting in the transfer of about 7,000 officers and enlisted personnel, and dependents, out of Okinawa. The Japanese government will pay for much of the move.
- Remaining marine units will be consolidated to reduce their footprint on Okinawa. In addition, the U.S. will try to implement shared use of Kadena Air Base, Camp Hansen, and other facilities on the island.
- The carrier jet and *E-2C* squadrons will be relocated from Atsugi Air Facility to Iwakuni Air Station.

According to Japan Defense Agency Director General Ohno Yoshinori, the SCC meeting heralds a fundamental shift in the alliance. While the alliance originally focused on the defense of Japan and had, in the last decade, encompassed “situations in the area surrounding Japan,” “we’re now talking about joint activities in various areas between Japan and the United States in order to improve the peace and security around the world.” Secretary of State Condoleezza Rice agreed: “a relationship that was once about the defense of Japan or perhaps about the stability of the region, has truly become a global alliance.”

Secretary Rumsfeld echoed that sentiment, saying “it would be difficult to overemphasize the importance of today’s meetings and the progress that’s been made in the alliance.” Ohno called the consultations “a truly historic process for a transformation of the U.S.-Japan alliance” and “opening a new era.” In the press conference after the meeting, he qualified the extent of Japan’s

new role, explaining that “we will engage in activities that will not involve the use of force or would not be conducted in conjunction with the use of force...”

### **The best of the best**

The stage was thus set for a successful visit by President Bush to Japan. The Nov. 16 summit marked President Bush’s first visit to Japan in two years and featured a 90-minute meeting between him and Prime Minister Koizumi Junichiro, which was followed by a press conference and a speech in Kyoto. The summit covered the usual topics: the prime minister’s landslide election win in September, U.S. base realignment, reduction of the burden on Okinawa, reconstruction assistance to Iraq, China, North Korea, BSE (Bovine Spongiform Encephalitis), avian influenza, Myanmar, the upcoming world trade talks, Japan’s economic reforms, and UN reform.

In their press conference afterward, Koizumi highlighted the centrality of the alliance in Japan’s foreign policy, noting that “The stronger and closer Japan-U.S. relations are, the more likely we are able to forge better relations with countries around the world, starting with China, the Republic of Korea, and other Asian countries.” This comment engendered some controversy, as it linked the U.S. to Japan’s troubled relations with its neighbors. Outrageous though it may seem, the notion has taken root: in recent conferences in Asia, participants suggested that Washington has encouraged – or at least enabled – Tokyo to take a harder line in dealing with China. U.S. officials insist, however, that they urge Japan to smooth tensions in relations with its neighbors, although the close personal relationship between the president and the prime minister prevents any public criticism.

The highlight of Bush’s visit was the speech he gave in Kyoto. Recapping the themes of his second inauguration – democracy and freedom – it set the tone for his entire Asian tour. The address applauded the U.S.-Japan relationship and held up Japan to show what democracy and freedom can bring to a country. “Japan is a good example of how a free society can reflect a country’s unique culture and history – while guaranteeing the universal freedoms that are the foundation of all genuine democracies. By founding the new Japan on these universal principles of freedom, you have changed the face of Asia.... A free Japan has transformed the lives of its citizens.... A free Japan has transformed the lives of others in the region.... A free Japan is helping to transform the world.” Hard to beat that.

### **Beef: from agendas to menus**

If one issue threatened to stick in the two leaders’ throats, it was the continuing Japanese ban on imports of U.S. beef. In early October, a bipartisan group of U.S. senators sent U.S. Trade Representative Robert Portman a letter urging him to impose sanctions on Japan for the failure to resume beef imports. On Oct. 24, the Japanese Food Safety Commission’s prion research group, which had been investigating the safety of U.S. beef, released a draft report saying the risk of getting beef with BSE, or mad cow disease, was extremely low as long as the proper safeguards were in place. A week later, the panel adopted the report, and on Dec. 8 the Food Safety Commission announced that it approved the lifting of the ban, which was officially lifted Dec. 12. By Dec 16 the first shipment of U.S. beef in nearly two years arrived in Japan. Beef



producers anticipate that it will take three years for exports to reach their pre-ban level of 300,000 tons annually.

### **More good news**

The U.S. and Japan continued their close cooperation and consultation on other security issues. The two countries remain in sync in dealing with North Korea and demanding its complete denuclearization. The issue was on the agenda of meetings and phone calls between Secretary Rice and Foreign Minister Aso Taro, and Christopher Hill, who heads the U.S. delegation to the Six-Party Talks, regularly consulted his Japanese counterparts in person and on the phone. Washington and Tokyo insist that the DPRK's demand for light-water reactors is contingent on Pyongyang first verifiably dismantling all its nuclear programs and coming into compliance with the Nuclear Nonproliferation Treaty and IAEA safeguards. They both separate bilateral concerns with the DPRK – the U.S. worries about counterfeiting U.S. currency while Tokyo is focused on the abduction of its citizens – from the Six-Party Talks that deal with nuclear questions.

This quarter, the two governments also moved forward on missile defense (MD). On Oct. 17, JDA Director General Ohno and Secretary Rumsfeld agreed to push bilateral research on MD to the development stage in fiscal year 2006. This announcement followed Japan's decision to procure additional PAC-3 missiles to increase its arsenal to 32 by 2010. On Dec. 24, the Japanese Cabinet and the Security Council gave the go-ahead for development of the next generation missile interceptor for the MD system. Also, during the quarter Japan again extended its deployment of SDF forces to Iraq for another year and its Maritime SDF deployment in the Arabian Sea.

### **And yet...**

Despite all these positive developments, “transformation of the alliance” remains a possibility, not a certainty. First, the difficulties that blocked implementation of the 1996 SACO (Special Action Committee on Okinawa) agreement – which first called for the relocation of Futenma – remain. Okinawa Gov. Inamine Keiichi opposes the plan to move Futenma and is lobbying Tokyo hard to reverse course and move the base out of Okinawa. Virtually every community that is affected by the report opposes it. Nukaga Fukushima, director general of the JDA after Koizumi shuffled his Cabinet, has met with the governors of eight prefectures and 38 mayors, town, and village heads, and concedes it is an uphill battle. During his December visit to the U.S., Foreign Minister Aso told Secretary Rumsfeld that local objections to the interim report were “very severe.” On Dec. 22, governors of 14 prefectures that host U.S. bases and facilities met and adopted a statement demanding that the government negotiate with the U.S. to reflect the wishes of local residents and groups in the final report, which is due in March.

The severity of the challenge doesn't cut much weight in Washington. All Japanese media reports say the U.S. considers the “interim” report final in all but name. It is counting on Japan to deliver what has been agreed. That will take political support from the highest levels, and it is – from my perspective – difficult to see Prime Minister Koizumi spending his political capital on this question, given the other domestic political fights he faces. In an interview with the *Financial Times* last year, former JDA head Ishiba Shigeru said the prime minister “does not

have a strong commitment to solving [the Okinawa bases] problem.” Moreover, recent history, including the bases and beef, shows that the U.S. has to get downright nasty to get Tokyo’s attention when dealing with tough issues. That is not a solid foundation for an alliance. Finally, though denied by the U.S., there is also justifiable concern about the departure of Japan hands from the administration – this quarter, NSC Senior Asia Director Michael Green returned to academia and assumed the Japan chair at CSIS in Washington DC. How will this new group respond to Japanese decision making? Will they be able to balance the inevitable complaints about U.S. heavy-handedness with sufficient “understanding” of Japan’s particularities?

The changes in the U.S. are matched by changes in the new Koizumi government. He shuffled his Cabinet after the September election landslide and many key portfolios are held by contenders to succeed the prime minister when (if) he steps down in September as promised. They are, for the most part, cut from the same cloth as Koizumi – a new breed of politician, more assertive of Japanese national interests and likely to follow his lead on key issues, including the controversial visits to Yasukuni Shrine.

While this new assertiveness is welcome in the U.S. – it facilitates the readjustment of the alliance and the shouldering of regional and global responsibilities by Japan that Washington has long sought – it could be trouble for the alliance if it increases tensions with Tokyo’s neighbors. If Japanese intransigence results in Tokyo’s marginalization in the region and if the U.S. is seen as contributing to the Japanese hard line – which, as noted, is suspected – then the alliance will suffer as neither development is in the U.S. national interest.

With the final report on realignment due in March, we will soon have some indication of just how historic this quarter’s developments truly are.

### **Chronology of U.S.-Japan Relations October-December, 2005\***

**Oct. 4, 2005:** Japan’s Defense Agency (JDA) Defense Policy Bureau Director General Ofuru Kazuo visits U.S. and meets Deputy Under Secretary of Defense Richard Lawless to discuss the Futenma Air Station relocation.

**Oct. 4, 2005:** Japan’s Cabinet officially extends legislation allowing the Self-Defense Forces (SDF) to continue its mission in the Arabian Sea as part of the war on terror.

**Oct. 5, 2005:** U.S. and Japanese navies practice a sub-hunting exercise near Okinawa. *SHAREM* will include about 12 ships, *P-3* aircraft, and submarines.

**Oct. 5, 2005:** U.S. Treasury Secretary John Snow hails Japan’s economic reforms as an example for Europe.

**Oct. 7, 2005:** 21 bipartisan senators send a letter to USTR Robert Portman urging him to impose economic sanctions worth \$100 million a month on Japan for its ban on U.S. beef imports.

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

**Oct. 9, 2005:** JDA announces addition of 18 *PAC-3* surface-to-air guided missiles to increase current arsenal to 32 missiles by 2010.

**Oct. 11, 2005:** Treasury Secretary Snow praises PM Koizumi's reform efforts, including postal privatization.

**Oct. 11, 2005:** PM Koizumi's postal reform package approved 338 to 138 with the full support of the Liberal Democratic Party-led bloc, as well as ex-LDP members who voted against the bill in July.

**Oct. 13, 2005:** Senior Japanese and U.S. government officials fail to agree on Futenma Air Station relocation.

**Oct. 14, 2005:** Diet approves postal privatization bills.

**Oct. 17, 2005:** JDA Director General Ohno Yoshinori and Defense Secretary Rumsfeld agree to advance ongoing bilateral research on a missile defense system to the development stage in fiscal year 2006.

**Oct. 17, 2005:** PM Koizumi visits Yasukuni Shrine for the fifth time.

**Oct. 18, 2005:** U.S. and Japan agree that the U.S. Navy will transfer its carrier-based aircraft from a base near Tokyo to the Marine Corps Iwakuni Air Station in Yamaguchi Prefecture.

**Oct. 18, 2005:** Federal Reserve Chairman Alan Greenspan and Japanese Finance Minister Sadakazu Tanigaki discuss the state of the U.S. and Japanese economies.

**Oct. 20, 2005:** Henry Hyde, chairman of the House International Relations Committee, protests Koizumi's Yasukuni Shrine visit to Japan's Ambassador to U.S. Kato Ryozo.

**Oct. 22, 2005:** Japanese government conveys concern about U.S.-India nuclear cooperation agreement, saying it could send a wrong message to North Korea and Iran.

**Oct. 23, 2005:** Japan and U.S. hold strategic dialogue at the sub-Cabinet level in Tokyo, and exchange views on Iraq reconstruction, the situation on the Korean Peninsula, the Japan-U.S. alliance, and the situation in the Asia Pacific region and how Japan and the U.S. should work together with other countries such as China, India, Russia, and ASEAN. The Japanese side also explained PM Koizumi's latest visit to Yasukuni Shrine.

**Oct. 24, 2005:** Japan's Food Safety Commission's prion research group releases draft report saying the risk of mad cow disease being found in North American beef is "extremely low" if import terms are met.

**Oct. 24, 2005:** Australia, Japan, and U.S. hold trilateral security talks in Tokyo to discuss Iraq, Afghanistan, and North Korea.

**Oct. 25, 2005:** Japan hands over to the U.S. two Japanese nationals charged with defrauding U.S. aid organizations of \$14,500 by falsely claiming they were victims of the Sept. 11, 2001 terrorist attacks.

**Oct. 26, 2005:** U.S. accepts Japan's proposal on a replacement facility for the relocation of the Futenma Air Station in Okinawa.

**Oct. 26, 2005:** PM Koizumi dismisses the idea that Tokyo will agree to resume imports of American beef in time for President Bush's trip to Japan next month.

**Oct. 26, 2005:** U.S. Commerce Department rules that super-alloy degassed chromium imported from Japan was dumped on the U.S. market.

**Oct. 29, 2005:** Tokyo and Washington reach agreements to finalize reshaping their bilateral alliance, including major troop redeployments, new construction, and increased jointness among U.S. and Japanese personnel.

**Oct. 31, 2005:** Okinawa Gov. Inamine Keiichi rejects plan to relocate the Futenma Air Station within Okinawa Prefecture. New Defense Agency Director General Nukaga Fukushima says he hopes to win over local communities on this matter.

**Oct. 31, 2005:** PM Koizumi launches new Cabinet and new LDP leadership. Deputy LDP Secretary General Abe Shinzo is appointed chief Cabinet secretary; Aso Taro is named foreign minister; Finance Minister Tanigaki Sadakazu retains his portfolio; and Nukaga Fukushima is named Defense Agency director general.

**Oct. 31, 2005:** Yasuhiro Yoshikawa, head of a specialists panel of the Food Safety Commission, says his panel adopted a draft report recommending an end to Japan's two-year-old ban on U.S. and Canadian beef imports.

**Oct. 31, 2005:** U.S. and Japanese chief delegates to the Six-Party Talks meet in Tokyo in preparation for the fifth round of talks.

**Nov. 3, 2005:** FM Aso Taro phones Secretary Rice and they confirm that they would meet on the sidelines of the ministerial meeting of the APEC forum in mid-November in Busan. Rice also asks Aso to visit the U.S. as early as possible.

**Nov. 3, 2005:** Rear Adm. James Kelly, commander of U.S. Naval Forces in Japan, tells reporters about safety of the type of nuclear-powered aircraft carrier the U.S. plans to deploy in Japan.

**Nov. 7, 2005:** Okinawa Gov. Inamine meets with JDA chief Nukaga to discuss the Japan-U.S. agreement to relocate the Futenma Air Station within Okinawa.

**Nov. 9, 2005:** Fifth round of Six-Party Talks begin in Beijing.

**Nov. 13, 2005:** Madeleine Bordallo, Guam delegate to the U.S. House of Representatives, says Japan and the U.S. plan to begin moving U.S. Marines from Okinawa to Guam in 2008 and finish by 2012 and intend to start building facilities in Guam for the marines next year.

**Nov. 15-16, 2005:** President Bush visits Japan. He meets PM Koizumi at a summit in Kyoto and stresses the importance of the alliance for promoting freedom in Asia and pursuing global economic and security matters.

**Nov. 16, 2005:** FM Aso and Secretary Rice meet and agree to maintain close cooperation to resolve North Korea's nuclear ambitions and to continue discussions on UN Security Council reform during a meeting on the sidelines of ministerial talks of APEC.

**Nov. 16-25, 2005:** *ANNUALEX 2005*, a joint military exercise between the U.S. and Japanese navies is held. It consists of simulated wartime exercises with the *Kitty Hawk* aircraft carrier, two U.S. submarines, nine U.S. Navy ships and 49 ships from the Japan Maritime Self-Defense Force.

**Nov. 18-19, 2005:** APEC Economic Leaders' Meeting is held in Busan, South Korea.

**Nov. 20, 2005:** U.S. decides to base the *George Washington* nuclear-powered aircraft carrier at the Yokosuka naval facility, which will replace the *Kitty Hawk* and will be the first nuclear carrier based in Japan.

**Nov. 24-25, 2005:** FM Aso visits Okinawa to exchange views with Gov. Inamine, and visit the site where replacement facilities for Futenma Air Station will be constructed.

**Dec. 1, 2005:** U.S. Ambassador to Japan Thomas Schieffer urges Japan and China to improve their relationship to ensure regional stability.

**Dec. 1, 2005:** U.S. and Japan agree to hold joint disaster drills on Okinawa at least annually to better coordinate responses to accidents involving military aircraft outside the bases.

**Dec. 2-4, 2005:** FM Aso visits the U.S. for talks with Vice President Cheney, Secretary Rice, Secretary Rumsfeld, and National Security Advisor Stephen Hadley.

**Dec. 7, 2005:** USTR for Japan, Korea, and APEC Affairs, Wendy Cutler, announces that the U.S. submitted to Japan an extensive set of reform recommendations intended to further open the Japanese market to U.S. companies in key sectors.

**Dec. 8, 2005:** Japan's Food Safety Commission says it approved the easing of a two-year government ban on U.S. and Canadian beef, paving the way for imports to resume.

**Dec. 8, 2005:** PM Koizumi announces decision of the Cabinet to extend for one year SDF activities in Iraq.

**Dec. 8, 2005:** Department deputy spokesman Adam Ereli says U.S. welcomes Japan's decision to extend its deployment of troops to Iraq for another year.

**Dec. 9, 2005:** Japan and the U.S. reach basic agreement to shorten the period of a bilateral agreement on Japan's sharing the costs (*omoiyari yosan* or "sympathy budget") for stationing U.S. forces in Japan to every two years from the current five years.

**Dec. 12, 2005:** Japan conditionally lifts a two-year-old ban it had imposed on U.S. and Canadian beef because of mad cow disease.

**Dec. 13, 2005:** JDA Director General Nukaga meets Deputy Under Secretary Lawless, visiting Japan to discuss the planned realignment of U.S. forces in Japan.

**Dec. 16, 2005:** The first shipment of U.S. beef in nearly two years arrives in Japan after the easing of an import ban.

**Dec. 19, 2005:** Zenshoku Co. in Osaka adds U.S. beef to its Korean barbecue menu again, becoming the first restaurant to offer U.S. beef to consumers after Japan's resumption of imports from the U.S.

**Dec. 21, 2005:** Ambassador Schieffer expresses hope that the U.S. would win back Japanese consumers' trust in American beef.

**Dec. 22, 2005:** Tokyo Metropolitan Police Department arrests a 23-year-old female sailor stationed at Atsugi Naval Base on suspicion of being involved in a hit-and-run accident in Hachioji City. Three elementary-school-age boys are injured, but the woman is released under the Status of Forces Agreement, as she was on official duty at the time.

**Dec. 24, 2005:** Cabinet and the Security Council give official green light for Japan to proceed with joint development of a next-generation missile interceptor with the U.S.

**Dec. 26, 2005:** Kanagawa Gov. Shigefumi Matsuzawa calls on FM Aso to seek revision of the current plan to realign U.S. forces before its finalization.



U.S.-China Relations:

## **China Welcomes Bush and Ponders a U.S. Invitation to be a Responsible Stakeholder**

Bonnie Glaser  
CSIS/Pacific Forum CSIS

President George W. Bush's November visit to Beijing produced no concrete deliverables, but provided an important opportunity for U.S. and Chinese leaders to engage in a strategic conversation about the bilateral relationship and the changing world in which it is embedded. After almost six years as secretary of defense, Donald Rumsfeld traveled to China, where he sparred with Chinese military researchers from the Central Party School and the Academy of Military Sciences and became the first foreigner to visit the Second Artillery Corps. In Washington, D.C., the second round of the Senior Dialogue was held, broadening and deepening strategic discussions between senior Chinese and U.S. officials and holding out hope that a new framework for the relationship could help manage U.S. and Chinese differences.

### **Bush in Beijing: a church service, cycling, and dialogue**

President Bush's speech in Kyoto, delivered a few days prior to his arrival in Beijing, undoubtedly irked Chinese leaders. The president's message that freedom and democracy are essential to sustained prosperity and that market-oriented economic policies will eventually lead to political freedoms in China wasn't new and by itself would not have irritated Beijing. It was the highlighting of Taiwan as a model of democracy in the region that China should learn from that Beijing found objectionable, especially since in the context of the speech Taiwan was implicitly portrayed as a sovereign state. Chinese Foreign Ministry spokesman Liu Jianchao reproached the president, saying: "Taiwan is not a state, it's an inalienable part of China's territory."

In the lead up to the Bush-Hu Beijing summit, senior officials from both the U.S. and China played down expectations about possible agreements and emphasized an increasingly complex, yet robust bilateral relationship with both important common interests and undeniable differences. In a pre-summit briefing aboard *Air Force One*, Michael Green, special assistant to the president for national security affairs and senior director for Asian affairs at the NSC, described the upcoming summit as part of an "ongoing dialogue" between the two leaders in which they are "working through" issues. Green also noted that the premise for Bush's discussions with Chinese leaders is that U.S.-Chinese relations can be strengthened based on a "comprehensive," "cooperative," "constructive," and "candid" dialogue.

President Bush began his Beijing visit, the third stop on a four-nation Asia tour, by attending an early-morning service at a state-sanctioned Protestant church near Tiananmen Square that was reported in a few local newspapers, but was not covered on state-run television. Secretary of State Condoleezza Rice stated in a press conference later in the day that Bush had an “extensive discussion” of religious freedom and human rights with Chinese President Hu Jintao and also raised these issues with Premier Wen Jiabao. This was contradicted, however, by China’s Foreign Ministry spokesman, who insisted that “Honestly, human rights issues made up a tiny, tiny, tiny part of the meeting between the leaders of the two countries.” The U.S. media excoriated the administration for failing to obtain the release of any of the unjustly imprisoned journalists, business people, or political prisoners from the list that was presented to Hu’s aides when the two presidents met in New York in September. Rice candidly admitted that “We’ve certainly not seen the progress that we would expect, and I think we’ll have to keep working on it.”

Economic issues topped the agenda of Bush’s talks with Chinese leaders, including China’s burgeoning bilateral trade surplus with the U.S. – expected to top \$200 billion this year – intellectual property rights (IPR) protection, and the valuation of the renminbi, which Beijing allowed to appreciate by a miniscule 2.1 percent last July. Hu promised to “gradually achieve balanced trade between China and the United States” and to “unswervingly” press ahead with currency reform, without presenting a plan or committing to a timetable for achieving those objectives.

Although U.S. officials did not expect Hu to announce a further revaluation of the yuan during Bush’s visit – which would have had the appearance of acting under U.S. pressure – privately many suggest that action on the currency front is imperative prior to Hu’s visit to Washington in the first half of 2006 if the U.S. president is to keep pressures from Congress at bay and ensure that trade issues remain on the margins of the 2006 election campaigns. Sens. Charles Schumer (D-NY) and Lindsey Graham (R-SC) threatened this quarter to reintroduce legislation next spring that would place a 27.5 percent tariff on all Chinese imports in the absence of a substantial appreciation of the yuan.

Hu announced China’s willingness to “step up” IPR protection, but the pledge fell short of U.S. expectations. Two months earlier when the presidents met in New York, Hu made a public commitment to strengthening IPR enforcement, which he said was in China’s interest. Thus, in this meeting, as noted by Michael Green in his pre-summit briefing, the U.S. was “looking for some concrete action to follow up on that commitment,” but none was forthcoming. Nor did Beijing offer better access for U.S. products in IP-intensive industries such as motion pictures and software.

In an accord timed to coincide with Bush’s visit, China agreed to buy 70 *Boeing 737* aircraft at \$4 billion with options to purchase an additional 80, although the details – including the price per aircraft – apparently had yet to be worked out. The following month, Prime Minister Wen inked an agreement to buy 150 *Airbus A320* passenger planes at a whopping \$10 billion and signed a memorandum with Airbus on importing a general assembly line.



A three-day session of the Six-Party Talks was held the week before Bush's arrival in Beijing, but produced no positive results, despite Hu Jintao's long-awaited visit to Pyongyang in late October. President Bush once again expressed his gratitude to Beijing for its constructive role in the multilateral talks on the North Korean nuclear issue, while urging China to use its leverage to achieve the shared goal of complete dismantlement of North Korea's nuclear programs. China didn't offer to put pressure on Pyongyang to end its stalling tactics and proceed with implementation of the Joint Statement that was reached at the fourth round. Instead, Hu simply reiterated that China would work with the other parties to promote the six-party process in an effort to achieve a peaceful solution to the Korean Peninsula nuclear issue at an early date. Rising U.S. frustration over China's unwillingness to press North Korea was apparent on the eve of Bush's arrival in Beijing when Christopher Hill, top U.S. negotiator to the Six-Party Talks, stated that China's failure to do enough to prevent the DPRK from acquiring nuclear weapons meant it should now "take a little more responsibility for cleaning up that mess."

In an implicit criticism of China's approach to Japan, which puts history disputes at the center of the bilateral relationship and requires Japan's Prime Minister Koizumi Junichiro to forswear visits to the Yasukuni Shrine (where the spirits of Japan's war dead are enshrined), President Bush encouraged Hu to develop future-oriented good relations with its neighboring countries. In his retort, Hu insisted that blame for the downturn in China-Japan relations lies solely with Tokyo and accused Koizumi of reneging on an understanding reached between the two sides earlier in the year to end his public worship at the shrine.

The two leaders also agreed to work together to advance the Doha Round of the world trade talks, to combat terrorism, to fight proliferation of weapons of mass destruction, and to prevent the spread of bird flu. In addition, they discussed energy, Taiwan, and exchanged ideas on how to strengthen cooperation in Asia-Pacific affairs.

According to *Xinhua News Agency*, Hu put forward five proposals for promoting U.S.-China constructive and cooperative relations: 1) maintain the momentum of high-level exchanges and increase dialogues between the two countries' law-making bodies; 2) make joint efforts to create favorable conditions for further trade and economic cooperation; 3) adhere to the principles of equality, mutual benefit and common development, and expand the spheres of cooperation for a win-win result; 4) work to gradually realize a balance of trade; and 5) manage properly the friction and problems emerging from trade and economic cooperation through dialogue and consultation.

Following the Bush-Hu *tête-à-tête*, there was a brief photo op with the two presidents, but no questions were taken. President Bush later held his own press conference that was not covered by the domestic Chinese media. In fact, except for a brief exchange with Chinese Olympic bicyclers before setting off on a 45-minute mountain bike ride, nothing that Bush said was communicated directly to the Chinese people on state television despite U.S. officials' expressed desire prior to the visit to allow the president's message to be heard by all Chinese citizens, just as Hu Jintao's message is conveyed unvarnished to the American people when he visits the United States.

Beijing's expectations for the summit were even lower than Washington's and were largely met. The symbolism of the U.S. president on Chinese soil meeting with China's president enables the Chinese Communist Party to demonstrate that it is successfully managing relations with the world's sole superpower. In addition, President Bush restated U.S. policy toward Taiwan, allowing the Chinese leadership to remind China's citizens of U.S. adherence to the three China-U.S. Communiqués (Beijing leaves out the U.S. commitment to the Taiwan Relations Act), its support for a "one China" policy, and opposition to unilateral changes to the status quo. But Bush did not explicitly agree to Hu Jintao's invitation to work jointly with Beijing to restrain Taiwan independence, as China had hoped.

The Chinese likely welcomed Rice's statement that the U.S. doesn't have any desire to see a weak China and President Bush's description of U.S.-China relations as "good, vibrant," and "strong." After the president's departure for Mongolia, Vice Foreign Minister Yang Jiechi told *China Daily* "President Bush's visit has greatly increased mutual understanding, deepened mutual trust and strengthened cooperation between China and the United States."

### **A long-awaited military visit**

After years of strained ties between the U.S. and Chinese militaries following the April 2001 collision of a Chinese fighter and a U.S. Navy surveillance plane, Donald Rumsfeld made his first trip to China as President Bush's defense secretary in mid-October. In the preceding two years, even as small steps were taken to rebuild the military relationship, Rumsfeld had declined to visit Beijing, although he had accepted in principle China's repeated invitations.

In group discussions at the CCP Central Party School and the PLA's Academy of Military Sciences, Rumsfeld urged the Chinese to be more transparent about their military and to open up their political system to ensure future prosperity and ease fears abroad about China's intentions. Speaking at the Central Party School where the Communist Party grooms future leaders, Rumsfeld maintained that China had sent "mixed signals" about its goals that left other countries uneasy about its motives. "A growth in China's power projection understandably leads other nations to question China's intentions, and to adjust their behavior in some fashion," he said. "The rapid, non-transparent nature of this buildup contributes to their uncertainty."

At the Academy of Military Sciences, Rumsfeld had a candid exchange of views with military researchers. One participant said privately that the Chinese side had expected the U.S. defense secretary to be hawkish and arrogant, but instead found him to be friendly, patient, and both willing to listen to their concerns and directly answer questions. Rumsfeld's main message – that it is up to China to make decisions regarding its military buildup, but greater transparency will dispel suspicions and enhance regional stability – was considered reasonable by many of the PLA officers who attended.

China's defense budget was discussed in a private meeting between Rumsfeld and China's Defense Minister Cao Gangquan as well as in a joint press conference. Cao disputed U.S. claims that China greatly underestimates its military spending, insisting that \$30.2 billion for the current year reflects "the true budget." Cao told reporters that Beijing could not afford to build up its military at the pace it is accused of because it needed to lift 30 million people out of poverty.

The two defense chiefs agreed to boost military educational exchanges and fleet visits, and Rumsfeld said he came away from his talks with Cao convinced that the Chinese want to “find activities and ways we can work with each other that will contribute to demystifying what we see of them and what they see of us.”

In a private meeting with Rumsfeld, Chinese President Hu underscored the importance of bilateral military ties in bolstering the broader relationship between the U.S. and China. Hu also asserted that the “intense and candid talks” would “help the military forces of our two countries to better enhance their mutual understanding and friendship.” A Chinese Defense Ministry spokesman quoted Hu as saying bilateral military ties have “huge potential,” citing the differences between the armed forces as demonstrating the “need to step up interaction.”

Although the PLA rejected the Pentagon’s request to allow the defense secretary to visit China’s central military command center in the Western Hills, Rumsfeld became the first foreign official to visit the headquarters of China’s Second Artillery Corps, which oversees the nation’s arsenal of conventional and nuclear missiles, located in Qinghe outside Beijing. During the tour, Gen. Jing Zhiyuan, commander of China’s missile forces, addressed concerns raised when Maj. Gen. Zhu Chenghu told reporters in July that China might launch a nuclear attack against the U.S. in the event of U.S. intervention in a Taiwan crisis. Gen. Jing characterized such talk as “completely groundless” and insisted that China had not changed and would not change its long-standing pledge to not use nuclear weapons first against any country.

After Rumsfeld’s visit, the PLA daily newspaper *Liberation Army Daily* reported that “military interaction between China and the U.S. has now been restored to a normal level.” It called on both sides to work hard together to further advance comprehensive, objective, and mutual understanding between the Chinese and U.S. armed forces.

In December, Deputy Under Secretary of Defense Richard Lawless traveled to Beijing to discuss the U.S.-China military exchange program in 2006 and bilateral issues such as the military maritime consultative talks. He met with China’s Deputy Chief of the PLA General Staff Xiong Guangkai, who spoke positively of U.S.-Chinese military contacts in personnel and technology exchanges, security policy consultations, and ship visits. Xiong noted China’s readiness to work with the U.S. side to further expand exchanges and cooperation. A few weeks later, Xiong retired at the age of 66 after serving as deputy chief of the general staff of the PLA since January 1996.

### **U.S.-China Senior Dialogue, round two**

The second round of the U.S.-China Senior Dialogue, dubbed the “Strategic Dialogue” by Beijing, took place in Washington, Dec. 7-8. After a lengthy discussion of the meaning of the term “responsible stakeholder,” the Chinese and U.S. participants broke into two groups. In one group, Deputy Secretary of State Robert Zoellick and his counterpart Executive Vice Foreign Minister Dai Bingguo engaged in an in-depth discussion of foreign policy issues, while Under Secretary of State for Economic, Business and Agricultural Affairs Josette Shiner and Zhu Zhixin, vice chairman of China’s National Development and Reform Commission (NDRC) had a separate conversation about economic matters.

The concept of “responsible stakeholder” was publicly unveiled in a speech by Zoellick on Sept. 21, in which he noted that the U.S. had essentially achieved its objective of integrating China into the international system and is now encouraging China to become a “responsible stakeholder” that will work with the U.S. and other nations to sustain, adapt, and advance the peaceful international system that has enabled its success.

The speech prompted an intense debate among Chinese officials and institute researchers about U.S. policy toward China, the nature of the international system, and China’s role in the world. Despite the difficulties translating the term “stakeholder” into Chinese, the foreign policy elite in Beijing understood that the U.S. was seeking to provide a new strategic framework in which the two countries could expand cooperation where their interests coincide or overlap, and avert strategic competition where their interests diverge or even clash. Some Chinese researchers reacted warily to the concept and warned against abandoning China’s independent foreign policy to advance an international system that is dominated by and serves the interests of the U.S. Other analysts welcomed the U.S. offer to partake in a concert of major powers and maintained that through the process of dialogue and cooperation, the U.S. would be compelled to modify some of its hegemonist policies and Beijing would have increased opportunities to shape the evolving international system.

The second round of the “Senior Dialogue” focused on Iraq, Afghanistan, Iran, and North Korea. In addition, both sides discussed the domestic context of their respective foreign policies, with the U.S. side highlighting that China’s undervalued currency and persistent IPR violations are domestically unsustainable in the U.S., and Beijing emphasizing the reasons why a benign international environment is imperative for China’s economic development. Other topics weaved into the conversation included combating terrorism, preventing the proliferation of weapons of mass destruction, enhancing energy security, reducing the risks of pandemic disease, and protecting human rights.

To reinforce the U.S. message, Zoellick took Dai to the former home of U.S. President Franklin Roosevelt in Hyde Park. “FDR was associated with developing a concert of powers after World War II,” Zoellick told *The Australian* in an interview, citing the United Nations and Bretton Woods as examples. “What I am suggesting to the Chinese is that rather than keeping China contained or at arm’s length or in balance, we are trying to urge China to play a role in this system of systems that has evolved,” he added. Zoellick also admitted that in presenting a new framework for the U.S. approach to China, he seeks to counter some of the thinking that “just sees China as a threat.”

Although these talks on strategic issues remain conceptual, in a statement issued by Zoellick at the close of the second round he noted that the both sides hope that their dialogue “will lead to greater cooperation at the operational level.” *Xinhua News Agency* described the discussions as “candid, in-depth, and constructive” and maintained that the dialogue further enhanced mutual understanding and increased consensus. The two sides agreed to continue the Senior Dialogue in the first half of next year.

## Summing up and looking forward

The three major events of the fourth quarter of 2005 – the visits by President Bush and Secretary Rumsfeld to China and the second round of the Senior Dialogue – helped to end the year on a positive note for the bilateral relationship. A trade war over textiles was averted, confrontation over the valuation of China's currency was postponed, differences over the sensitive issue of Taiwan remained under control, and an unprecedented bilateral dialogue on strategic issues was inaugurated. Relatively stable bilateral ties continue to serve the interests of both Beijing and Washington for reasons that are self-evident: China's continued economic development rests on the maintenance of a favorable international environment, the most important element being good relations with the United States; and the U.S. is focused on strengthening democracy in Iraq and Afghanistan, and benefits from China's cooperation on an ever-expanding list of issues, including sustaining progress in the Six-Party Talks, combating WMD proliferation, and responding to the growing nontraditional threats to international security such as avian influenza.

The danger of a drift toward China-U.S. strategic confrontation that seemed inescapable earlier in 2005 has not disappeared, however. The effective management of differing interests and increased friction in both the security and economic realms will require sustained attention in 2006 if the current positive trend is to be sustained. Opportunities for strengthening bilateral ties will be present during Hu Jintao's rescheduled visit to the U.S., the Defense Consultative Talks between the U.S. and Chinese military establishments, and the third round of the Senior Dialogue, all planned for the first half of 2006.

### Chronology of U.S.-China Relations October-December 2005\*

**Oct. 3, 2005:** U.S. Treasury announces that a Treasury economic attaché, David Loevinger, will be posted in Beijing to deal with foreign exchange issues as well as energy and antiterrorism efforts.

**Oct. 5, 2005:** The U.S. Committee for the Implementation of Textile Agreements accepts petitions from the U.S. textile industry to launch investigations into whether quotas should be imposed on 21 categories of clothing and textile imports from China.

**Oct. 6, 2005:** Treasury Secretary John Snow tells the Senate Finance Committee that upcoming U.S.-China Joint Economic Commission meetings in Beijing will be an opportunity to press the Chinese to overhaul their currency system more quickly.

**Oct. 6, 2005:** Sens. Evan Bayh, Debbie Stabenow, and Charles Schumer submit a resolution expressing the sense of the Senate that the International Monetary Fund should investigate whether China is manipulating the rate of exchange between the yuan and the dollar. The bill is referred to the Committee on Foreign Relations. Schumer says in an interview that he will push forward legislation; which would impose 27.5 percent tariffs on imports from China in November if Beijing has not revalued the yuan by that time.

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\* Compiled by Cheng Sijin, CSIS intern and Ph.D candidate, Boston University

**Oct. 11, 2005:** Visiting Japan, Snow urges China to adopt a more flexible, market-driven currency while applauding the recent upswing in Japan's economy.

**Oct. 11-17, 2005:** Snow visits China where he meets with finance sector leaders and attends the G-20 meeting as well as U.S.-China Joint Economic Commission meetings.

**Oct. 12, 2005:** Chinese conduct their second successful manned space launch, *Shenzhou*.

**Oct. 12, 2005:** U.S. and China begin another round of textile talks in Beijing.

**Oct. 13, 2005:** Richard Trumka, secretary treasurer of the AFL-CIO, urges the U.S. government to challenge more strongly China's unfair manipulation of its exchange rate.

**Oct. 13, 2005:** U.S. and China fail to agree on a formula to regulate Chinese textile exports in the just concluded recent round of textile talks.

**Oct. 16-17, 2005:** Treasury Secretary Snow, Federal Reserve Chairman Alan Greenspan, and Securities and Exchange Commission Chairman Christopher Cox participate in U.S.-China Joint Economic Commission talks. A joint statement highlights agreement to cooperate in reforming and regulating financial markets and the need for currency stability.

**Oct. 17, 2005:** State Department spokesperson congratulates the Chinese people on the successful conclusion of *Shenzhou 6*, the second Chinese manned space mission.

**Oct. 18-20, 2005:** Secretary Rumsfeld visits China for the first time as President Bush's secretary of defense. Rumsfeld meets with President Hu Jintao and his counterpart, Gen. Cao Gangchuan.

**Oct. 19, 2005:** U.S. Trade and Development Agency announces that the U.S. and China have signed a \$1.27 million technical assistance agreement aimed at promoting beneficial trade, cooperation in aviation standards and air safety practices, and government-industry collaboration, as part of the U.S.-China Aviation Cooperation Program launched in 2004.

**Oct. 20, 2005:** U.S. and China sign a bilateral aviation safety agreement to enhance air safety while reducing regulatory burdens and costs for airlines and aviation authorities of both countries, according to a Federal Aviation Administration press release.

**Oct. 24, 2005:** Secretary of Commerce Carlos Gutierrez calls on China to implement economic reforms, expressing concerns about practices such as providing subsidies for production costs and issuing loans to state-owned enterprises with no hope of repayment. He warns of "a risk of restrictions on commerce" in the absence of reform.

**Oct. 24-28, 2005:** Linton Brooks, head of the Department of Energy's Nuclear Security Administration, announces Oct. 25 that the U.S. and China will step up cooperation on nuclear security at the week-long U.S.-China 2005 Integrated Nuclear Material Management Technology Demonstration.

**Oct. 26, 2005:** U.S. Trade Representative (USTR) Rob Portman announces in Geneva that the U.S. has initiated a special process under World Trade Organization (WTO) rules to obtain information on China's intellectual property enforcement efforts. Japan and Switzerland separately submit similar requests.

**Oct. 30, 2005:** Next round of textile talks between the U.S. and China opens in Washington.

**Nov. 1, 2005:** The U.S. and China Business Councils for Sustainable Development sign agreement to collaborate on economic, social, and environmental projects, beginning with expanding the use of clean-burning bio-fuels, creating a more sustainable strategy for the cement industry, and implementing by-product synergy.

**Nov. 1, 2005:** U.S. State Department and Chinese Foreign Ministry hold consultations on arms control and nonproliferation. Director General of the MFA's Department of Arms Control and Disarmament Zhang Yan heads Chinese delegation; the U.S. side is led by Assistant Secretary for International Security and Nonproliferation Steven G. Rademaker.

**Nov. 2, 2005:** David Spooner, chief textile negotiator for the USTR, announces that the fifth round of textile talks made progress, but concluded without an accord. Both sides agree to extend a quota on imported socks from China until the end of 2005.

**Nov. 4-9, 2005:** Secretary of Commerce for Intellectual Property Jon Dudas travels to China to meet Chinese officials to track progress on commitments made by the Chinese government at a July 2005 meeting of the Joint Committee on Commerce and Trade.

**Nov. 8, 2005:** The U.S. and China reach agreement on Chinese textile exports, covering more than 30 individual products and instituting quotas that will begin at low levels in January 2006 but will increase by about 3 percent each year until 2008, when safeguard measures are due to expire under WTO rules.

**Nov. 8, 2005:** Officials from the U.S. and China meet in Washington for the inaugural session of the Joint Committee on Environmental Cooperation, established to further scientific and technical cooperation on environmental issues between the U.S. Environmental Protection Agency and China's State Environmental Protection Administration.

**Nov. 8, 2005:** In an interview with the Hong Kong-based, Chinese-owned *Phoenix TV*, President Bush says that he hopes to discuss free trade, intellectual property rights and, the currency issue, as well as areas of cooperation during his upcoming visit to China.

**Nov. 8, 2005:** State Department cites China as one of eight "countries of particular concern" for denying religious freedom in its 2005 International Religious Freedom Report to the Congress.

**Nov. 9, 2005:** U.S.-China Economic and Security Review Commission releases annual report on China, concluding that "trends in the U.S.-China relationship have negative implications for the long-term economic and security interests of the United States."

**Nov. 14, 2005:** USTR Portman says at a conference in Beijing that the U.S. and China have a broad economic relationship that, for the most part, is mutually beneficial, but there are a number of issues that still need resolution. He expresses concern especially with the growing trade deficit with China, expected to top \$200 billion in 2005.

**Nov. 15, 2005:** Policy planning departments of the Department of State and the Chinese Ministry of Foreign Affairs hold a round of talks on regional and global issues.

**Nov. 16, 2005:** President Bush delivers a speech in Kyoto, Japan in which he urges China to grant more political freedom to its people and cites Taiwan as an example of successful transition from repression to democracy.

**Nov. 16, 2005:** Sens. Chuck Schumer and Lindsey Graham announce that the Senate will delay consideration of a sweeping economic sanctions bill on China this year, but warn of reviving it next spring if they are not satisfied with China's currency reform.

**Nov. 19, 2005:** U.S. Attorney General Alberto R. Gonzales holds talks with counterpart Minister of Public Security Luo Gan in Beijing on expanding cooperation between U.S. and Chinese law enforcement agencies. Gonzales calls for more substantive results in deporting criminal suspects, antiterrorism, fighting drugs, and protecting IPR.

**Nov. 19, 2005:** U.S. and China announce joint actions at bilateral, global, and regional levels to prevent and respond to avian and pandemic influenza, including vaccine development and testing, surveillance and rapid response, and preparedness planning.

**Nov. 19, 2005:** President Bush arrives in China, attends services at a state-sanctioned Protestant church in Beijing, and meets President Hu and Premier Wen Jiabao.

**Nov. 22, 2005:** Department of Energy's National Nuclear Security Administration announces that the U.S. and China agree to cooperate on installing special equipment at Chinese ports to detect smuggling of nuclear and radioactive materials.

**Nov. 27-30, 2005:** Assistant Secretary of State for African Affairs Jendayi Frazer travels to Beijing to conduct talks with the Chinese Foreign Ministry on Africa as part of Deputy Secretary of State Robert Zoellick's Senior Dialogue with China.

**Nov. 28, 2005:** Secretary Snow, upon the release of a required report to Congress on currency practices of major U.S. trading partners, says that China has demonstrated greater exchange rate flexibility by adopting a new exchange-rate mechanism, but it must do more to develop open capital markets "as quickly as possible."

**Nov. 30, 2005:** Sen. Joseph Lieberman says in a speech at the Council on Foreign Relations that U.S. failure to cooperate with China to find alternate energy sources could lead to military conflicts over dwindling world oil reserves.



**Dec. 4, 2005:** A Council on Foreign Relations report finds China challenging U.S. interests and values in Africa, shielding “rogue states,” harming the environment, and thwarting anti-corruption drives, but stops short of calling China an adversary.

**Dec. 5, 2005:** Assistant Secretary Frazer disputes the Council of Foreign Relations report and says that Chinese interests are not in direct competition with those of the U.S., although the two countries differ on certain issues such as Sudan.

**Dec. 7, 2005:** Acting Assistant USTR for Intellectual Property Victoria Espinel tells House Judiciary Committee that the administration is considering stronger actions against China and Russia if they fail to fulfill commitments to protect IPR.

**Dec. 7-8, 2005:** Second round of U.S.-China Senior Dialogue takes place in Washington followed by a visit to President Franklin Roosevelt’s home in Hyde Park, NY.

**Dec. 9-10, 2005:** Senior U.S. and Chinese defense officials conduct talks in Beijing on strengthening military cooperation. Deputy Under Secretary of Defense Richard Lawless and Zhang Bangdong, director of the Foreign Affairs Office of the Chinese Ministry of Defense, discuss military exchange programs and maritime military security.

**Dec. 12, 2005:** USTR releases its 2005 Report to Congress on China’s WTO Compliance, noting that China is continuing to make progress in meeting its membership commitments, although serious problems remain in select areas such as IPR enforcement.

**Dec. 14, 2005:** Senate Republican Policy Committee policy paper on China’s legal commitments under WTO rules says that China has failed to fulfill its obligations, causing material harm to U.S. economic interests, and calls for measures such as countervailing duty to address these violations.

**Dec. 15, 2005:** Delegation from China’s National Defense University headed by Rear Adm. Yang Yi, visits the Pentagon.

**Dec. 16, 2005:** House and Senate pass a concurrent resolution calling on the international community to condemn the Laogai, the system of forced labor prison camps in China.

**Dec. 28, 2005:** U.S. imposes sanctions on six Chinese government-run companies under the Iran Nonproliferation Act for transfers that contribute to Iran’s ballistic missile chemical-weapons programs. Of the six, three had been previously sanctioned.





U.S.-Korea Relations:

## The Six-Party Talks: What Goes Up Can Also Come Down

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The Six-Party Talks on North Korea's nuclear program suffered a major reversal this quarter as Washington and Pyongyang unleashed verbal attacks on each other over activities outside the scope of the negotiations – counterfeiting U.S. dollars, drug trafficking, and Pyongyang's dismal human rights record. North Korea said it would boycott the talks until it obtained a high-level meeting with U.S. officials to discuss financial sanctions related to North Korea's alleged counterfeiting.

Factions in the Bush administration that oppose the Six-Party Talks or seek to rein in Ambassador Christopher Hill (who achieved the September agreement to eliminate North Korea's nuclear program) escalated U.S. rhetoric to a high pitch in early December. After U.S. Ambassador to South Korea Alexander Vershbow termed North Korea a "criminal regime," Pyongyang fired back that his remarks constituted "a provocative declaration of war on our people."

By the end of the quarter, it appeared that the apparent disarray within the U.S. government over policy toward North Korea had seriously undercut the ability of U.S. negotiators to reach a diplomatic resolution of the nuclear issue. It was not clear whether or when a new round of the Six-Party Talks could be scheduled.

South Korea's Defense Ministry sought National Assembly approval in December for its plan to cut the number of South Korean forces in Iraq by 1,000 – approximately one-third of the contingent of 3,250 troops South Korea has sent to Iraq to support the U.S.-led coalition. Although the U.S. protested this decision, South Korea's defense minister justified it by citing the success of the Oct. 15 referendum in Iraq, which laid the basis for adopting a new national constitution.

On economic and trade matters, Presidents Roh Moo-hyun and George W. Bush, at their meeting in mid-November in Gyeongju before the APEC summit in Busan, agreed to put a U.S.-South Korea free trade agreement (FTA) on a fast track, with negotiations beginning this spring. Their decision reflected the desire of both governments to strengthen U.S.-South Korea relations at a time when differences over strategy toward North Korea have caused major strains in the alliance.

## **A short round of Six-Party Talks**

Following their surprise agreement on a Joint Statement Sept. 19, the U.S. and North Korea this quarter mounted strong rhetorical attacks on each other that threatened to set back indefinitely the Six-Party Talks.

The U.S. first shifted attention to North Korea's criminal activities and away from the nuclear issue in early October when State Department spokesman Adam Ereli said U.S. relations with Pyongyang would be affected by its illicit activities. Ereli specifically referred to sanctions that the U.S. Treasury imposed in September against a Macau bank, Banco Delta Asia, for helping North Korea allegedly launder millions of counterfeit U.S. dollars produced in North Korea. Later in October, the U.S. Treasury froze the assets of eight North Korean companies for allegedly engaging in weapons proliferation.

Newly appointed U.S. Ambassador to South Korea Alexander Vershbow further lowered expectations for the Six-Party Talks in October when he told Korean Minister for Unification Chung Dong-young there was a long way to go before the nuclear issue could be resolved. Revealing visceral antipathy toward North Korea, Vershbow later said, "to normalize relations with North Korea is not a simple or easy step for an American political leader given how awful that regime really is. So I hope North Koreans will do their part in building confidence. We're ready to do our part."

Not surprisingly, when the Six-Party Talks reconvened in early November for a short round, North Korea vigorously protested the U.S. sanctions on its alleged counterfeiting, saying they manifested Washington's "hostile" attitude and undercut U.S. promises of improved diplomatic relations in the Joint Statement.

On the other main issue of contention – North Korea's demand that the U.S. provide a light-water reactor in exchange for dismantling its nuclear program – the parties stuck to their previous positions. The U.S. said it would consider supporting peaceful nuclear energy production in North Korea once Pyongyang rejoins the Nuclear Nonproliferation Treaty. North Korea countered it could not dismantle its nuclear program without first obtaining a U.S. assurance that it was entitled to peaceful use of nuclear energy.

Just before this round of the Six-Party Talks ended, the head of the U.S. delegation, Ambassador Christopher Hill, promised North Korea a briefing by U.S. law enforcement officials to explain the nature of U.S. sanctions on its alleged counterfeiting. This "offer" became a subject of controversy itself as the DPRK insisted Hill had promised a "high-level" meeting that would include "negotiations." The U.S. denied the North Korean assertion, saying Hill had only offered to provide North Korea with an explanatory briefing on the legal basis for these sanctions.

## **Presidents Roh and Bush meet at the APEC summit**

Public attention then moved to South Korea-U.S. relations. Meeting on the sidelines of the Nov. 18-19 APEC summit, Presidents Roh Moo-hyun and George W. Bush issued what came to be called the "Gyeongju Declaration."

Two sections of this joint statement stood out. The two presidents launched “a strategic dialogue called Strategic Consultation for Allied Partnership at the ministerial-level to consult on bilateral, regional and global issues of mutual interest” that will begin in early 2006. The new strategic consultation strengthens the role of the State Department and South Korea’s Foreign Ministry in shaping U.S.-Korea diplomatic relations. For years, the well-established annual “Security Consultation Meeting” (SCM) between the U.S. secretary of defense and the Korean defense minister has been the only institutionalized dialogue of this kind.

Presidents Roh and Bush also agreed that “moving from the current armistice mechanism to a peace mechanism would contribute to full reconciliation and peaceful reunification on the Korean Peninsula.” Importantly, they conditioned the start of “discussions on a peace regime” (that would take place in a forum separate from the Six-Party Talks) only on “progress” in the nuclear negotiations, rather than a final nuclear agreement. Moving ahead with the planned discussions on a new peace mechanism would have major historical significance since diplomatic and military relations on the Korean Peninsula have been legally based on the 1953 Armistice – a simple ceasefire agreement – for more than half a century.

Following the Gyeongju summit, the State Department undertook an urgent effort to research the legal basis for a new peace mechanism and to consider the modalities of a new negotiation that could take place alongside the Six-Party Talks. Despite President Bush’s agreement to proceed with a comprehensive peace treaty, the U.S. National Security Council reportedly downplayed its significance and regarded the plan as “tentative.”

In late November, North Korea issued a scathing denunciation of the U.S. for the reported decision of the Korean Peninsula Energy Development Organization (KEDO) to terminate its long-standing project to build two light-water reactors in North Korea. The Bush administration had long objected to the U.S. commitment to construct the reactors, which was given as part of the 1994 Geneva Agreed Framework for ending Pyongyang’s nuclear program. According to a statement of the DPRK’s *Korean Central News Agency*, “The U.S. has completely overturned the basic agreements and caused us massive economic losses.” North Korea demanded compensation for the termination of the project, which had already been suspended for two years.

North Korea continued its criticism of the U.S. in early December, turning once again to the issue of sanctions the U.S. imposed in September on a Macau bank. North Korean diplomats in New York reportedly informed the State Department that Pyongyang would boycott the Six-Party talks until a “high level” meeting on the issue occurred.

### **U.S. escalates verbal attacks on North Korea**

Over the past year, when North Korea made rhetorical threats or issued inflammatory statements of various kinds, both the White House and State Department have either dismissed or downplayed their significance. This approach reflected the U.S. determination, first, to end a 13-month impasse in the Six-Party Talks and, second, to strengthen the diplomatic process for seeking a peaceful resolution of the nuclear dispute.

The U.S. approach abruptly changed on Dec. 6 when Ambassador Vershbow accused North Korea of being a “criminal regime” that engages in counterfeiting, drug trafficking and illicit weapons sales. He likened North Korea to Nazi Germany for running a state program of foreign currency counterfeiting. Over the next several days, Vershbow continued his denunciations of North Korea as a major “military threat” whose “people remain oppressed by a regime whose policies have failed to address even the most basic needs of its citizens.” After strenuously defending the U.S. financial sanctions to South Korean media, Vershbow criticized Pyongyang for using the issue to create an “artificial obstacle” to the nuclear talks.

The U.S. Special Envoy for North Korean Human rights, Jay Lefkowitz, reinforced Vershbow’s comments when Lefkowitz visited Seoul in early December to attend a major human rights conference organized by Freedom House. Calling North Korea a “deeply oppressive nation,” Lefkowitz said “we do not threaten the peace by challenging the status quo. ... Indeed, failing to follow this path and take steps towards liberalization is a far greater risk to the long-term security and economic prosperity in the region.”

North Korea reacted predictably to Vershbow’s rhetorical attacks, saying “we regard the reckless remarks from the U.S. envoy as kind of a provocative declaration of war on our people.” Pyongyang further criticized the ambassador’s comments as “harming the spirit of the Sept. 19 Joint Statement” which had looked forward to normalizing U.S.-North Korean relations after Pyongyang dismantles its nuclear weapons program.

Once it became clear that Vershbow intentionally opened a new line of diplomatic attack on North Korea, the principal question among U.S. experts was why the U.S. administration had escalated a dispute, which is likely to lead to another long impasse in the Six-Party Talks. The best answer was found in a confluence of two negative reactions within the Bush administration to the Sept. 19 statement.

Not surprisingly, the hardline conservative faction centered in Vice President Dick Cheney’s office viewed the Sept. 19 statement as a major setback for their longstanding efforts to undermine the diplomatic process on the nuclear issue. Contrary to expectations, Ambassador Hill had obtained Pyongyang’s agreement to dismantle its nuclear program and breathed new life into the Six-Party Talks.

A second more moderate faction, centered in the National Security Council, also objected to the State Department’s handling of the negotiation of the joint statement. To obtain administration approval for the language Hill negotiated, Secretary of State Condoleezza Rice, over one frenetic weekend in mid-September, directly sought the support of President Bush, largely bypassing the NSC staff. Though Rice received the approval from Bush, her actions gave rise to NSC and Defense Department concerns that the State Department was exercising too much control over the negotiations. On bureaucratic grounds – as way to restore their own influence and more “balance” to the interagency process – the NSC staff aligned with conservative hardliners on this issue.

South Korean officials were deeply dismayed by the escalation of U.S. rhetorical attacks on North Korea and the impact they would likely have on the nuclear negotiations. In a highly unusual rebuke, Foreign Minister Ban said “related countries need wisdom to refrain from using expressions [unfavorable to] dialogue partners.” While ROK officials agreed with the substance of Vershbow’s remarks, they argued that his verbal attacks on North Korea would prove counterproductive by disrupting the nuclear negotiations and making it harder to eliminate the DPRK’s illicit activities in other areas.

Hoping to finesse the current disputes and avoid a new period of tensions between the U.S. and South Korea over strategy toward North Korea, an unnamed senior South Korean diplomat proposed a compromise formula in mid-December. He suggested that Ambassador Hill could hold a “high-level” meeting with North Korea concerning financial sanctions on the margins of the next round of the Six-Party Talks. Ambassador Vershbow concurred with this concept though he underscored that any such meeting would be a briefing and not a negotiation.

### **South Korean troops in Iraq**

ROK Defense Minister Yoon Kwang-ung told a parliamentary committee in mid-November that South Korea plans to cut approximately 1,000 soldiers from the contingent of 3,250 troops sent to Iraq to support the U.S.-led coalition. South Korea currently has the third largest deployment of forces in Iraq, next to the U.S. and Great Britain. Its troops are stationed near the northern city of Irbil where their mission is mainly to assist in reconstruction and humanitarian work. In the Gyeongju Statement, President Bush expressed his appreciation for this support.

In Defense Minister Yoon’s view, a cut in South Korean troops would be possible following the success of the Oct. 15 referendum in Iraq, which laid the basis for the adoption of a new constitution. The reduction in forces would be mandated through a National Assembly resolution, which is necessary for extending the general deployment of South Korean troops for another year. Their current mission expires Dec. 31.

Although the planned cut in ROK forces was revealed in South Korean media in late October, Yoon’s comments to the parliamentary committee were reported by journalists accompanying President Bush to the APEC meeting as major breaking news. National Security Adviser Stephen Hadley tried to downplay the issue by noting President Roh’s supportive statements to President Bush at their summit in Gyeongju: “And what President Roh said to the president is we remain committed to Iraq, it’s important to bring democracy to Iraq, and we will continue to provide troops to that mission. [President Roh] was pretty confident that the mandate would be extended.”

In late November, Ambassador Vershbow reportedly expressed to Yoon Washington’s unhappiness over the planned troop cut. Nevertheless, in late December, the National Assembly approved the reduction, while extending the overall deployment through the end of 2006.

## **A candidate prepares**

Preparing for his anticipated campaign to run for president of South Korea in 2007, Unification Minister Chung Dong-Young made a high visibility trip to the U.S. from Dec. 18-20. During his six-day visit, he met with Secretary Rice, National Security Advisor Stephen Hadley, and Deputy Secretary of Commerce David Sampson. He briefed them on the early December inter-Korean talks, as well as the progress in building the Kaesong industrial complex. In turn, U.S. officials briefed Chung on North Korea's alleged counterfeiting.

At the National Press Club, Chung first laid out his vision of inter-Korean relations and then turned to South Korea's relationship with the U.S. He said: "the ROK-U.S. alliance has been a linchpin for the peace and security of the Korean Peninsula. Given the unique geopolitical status of the Korean Peninsula, I believe our staunch alliance will ever be strengthened to play a pivotal role in realizing the solid order of peace in Northeast Asia as well.... The U.S.-ROK alliance is no longer just a military alliance: it is evolving into a comprehensive, dynamic, and mutually beneficial alliance based on the common values of democracy, market economy, freedom and human rights. Korea's vision for peace and economic prosperity confirms to America's values and interests in maintaining peace and stability in Northeast Asia." Upon his return to Seoul, Chung resigned Dec. 30 as unification minister, allowing him to focus on the upcoming presidential campaign.

## **U.S.-South Korea negotiation on a free trade agreement**

At their November summit on the margins of the APEC meeting in mid-November, Presidents Bush and Roh agreed to put negotiation of a U.S.-South Korea free trade agreement (FTA) on a fast track, with substantive discussions beginning in the early spring of 2006. The launch of these negotiations, long sought by South Korea, appeared contingent on South Korea lifting its ban on imports of U.S. beef due to the threat of mad cow disease.

A "quarantine panel" of the South Korean Ministry of Agriculture subsequently concluded in mid-December that U.S. and Canadian beef are safe and can be imported from cows aged up to 30 months. The government decision followed a report from the World Organization for Animal Health that Canadian and U.S. beef in this age range carry a low risk of mad cow disease.

It suits both the U.S. and South Korea to move ahead with their long-delayed FTA negotiation. Both governments would like to broaden their alliance, making it more "comprehensive" by establishing closer relations in economics and international trade. An FTA would allay some of the tensions in the alliance that have emerged in the past two years over different strategies toward North Korea.

## **Prospects**

This quarter saw a remarkable reversal in outlook for the Six-Party Talks on North Korea's nuclear program. In mid-September, the talks successfully produced agreement on joint principles that include complete dismantlement of Pyongyang's nuclear facilities and the future normalization of U.S.-North Korean diplomatic relations. Yet by early December, the U.S. and



North Korea were trading volatile rhetoric and North Korea had announced it would boycott the talks until its concerns were satisfied.

North Korea's reaction to the imposition of U.S. financial sanctions for alleged counterfeiting and to the reported cancellation of KEDO's construction of light-water reactors was not unexpected. What caught most U.S. observers by surprise, however, was the sudden escalation of the Bush administration's verbal attacks on North Korea's illicit counterfeiting, drug-trafficking, and dismal human rights record. Pyongyang's violations of human rights and its criminal activities have been known for years and yet the U.S. dealt with these issues apart from the Six-Party Talks, because it always considered ending Pyongyang's nuclear program to be the highest policy priority.

By the end of the quarter, it appeared that factional differences within the U.S. administration had seriously undercut the efforts of Ambassador Hill and the State Department to reach a diplomatic resolution of the nuclear issue. For the immediate future, the apparent disarray within the U.S. government over policy toward North Korea threatens once again to aggravate U.S. relations with South Korea and cause further delay in negotiating implementation of the September 2005 agreement to eliminate Pyongyang's nuclear program.

### **Chronology of U.S.-Korea Relations October-December 2005**

**Oct. 5, 2005:** Alexander "Sandy" Vershbow confirmed as U.S. ambassador to ROK.

**Oct. 13, 2005:** New ROK Ambassador to U.S. Lee Tae-shik arrives in Washington.

**Oct. 17, 2005:** New Mexico Gov. Bill Richardson arrives in Pyongyang for meetings with North Korean officials on nuclear issues.

**Oct. 21, 2005:** Defense Secretary Donald Rumsfeld visits Seoul for security consultative meeting.

**Oct. 21, 2005:** U.S. Treasury Department freezes assets in U.S. of eight North Korean entities for supporting WMD proliferation.

**Nov. 9-11, 2005:** Fifth round of Six-Party Talks held in Beijing.

**Nov. 12, 2005:** State Department says the recent round of Six-Party Talks was "useful."

**Nov. 15-16, 2005:** The 17<sup>th</sup> APEC ministerial meetings is held in Busan, Korea.

**Nov. 17, 2005:** Meeting in Kyong-ju, Korea, Presidents Roh and Bush pledge to launch a U.S.-Korea strategic dialogue and agree on the need for a new peace regime for the Korean Peninsula.

**Nov. 18-19, 2005:** APEC Leaders' Meeting in Busan.

**Nov. 22, 2005:** Foreign Minister Ban Ki-moon says Korea will notify U.S. of plans to withdraw 1,000 Korean troops from Iraq.

**Nov. 22, 2005:** KEDO board agrees to terminate light-water reactor project.

**Nov. 28, 2005:** North Korea says it will demand compensation for reported canceling of the KEDO project to build light-water reactors.

**Nov. 30, 2005:** North Korea rejects a U.S. proposal for a working-level meeting to provide an explanatory briefing on the legal basis for sanctions.

**Dec. 6, 2005:** Pyongyang threatens to boycott Six-Party Talks unless the U.S. lifts sanctions issued Oct. 21 on eight North Korean companies for alleged counterfeiting, money laundering, and arms sales.

**Dec. 7, 2005:** Ambassador Vershbow calls North Korea a “criminal regime” for engaging in counterfeiting, drug-trafficking, and selling weapons.

**Dec. 9, 2005:** U.S. Special Envoy for Human Rights Jay Lefkowitz in Seoul attacks North Korea as a “deeply oppressive nation” for human rights violations.

**Dec. 10, 2005:** North Korea terms Vershbow’s remarks “a provocative declaration of war on our people.”

**Dec. 14, 2005:** South Korean livestock panel determines it is safe to import American beef and lifts the beef import ban due to mad cow disease.

**Dec. 15, 2005:** South Korean National Assembly Speaker Kim Won-ki condemns Vershbow’s remarks.

**Dec. 18, 2005:** Pyongyang suspends indefinitely Six-Party Talks until U.S. sanctions against the North Korean companies are lifted.

**Dec. 18-20, 2005:** ROK Unification Minister Chung Dong-young travels to Washington, gives a “presidential” speech (Dec. 19) at the National Press Club on “Korea Peace Economics,” and briefs Secretary Rice (Dec. 20) on the recently held inter-Korea talks (Dec.13-16).

**Dec. 20, 2005:** DPRK official news agency reports North Korea will start to develop and build light-water reactors based on indigenous technology.

**Dec. 30, 2005:** National Assembly approves deployment of South Korean troops to Iraq for one more year by a small margin, but reduces number of forces.

**Dec. 30, 2005:** Unification Minister Chung resigns and his resignation is accepted Jan. 1, 2006.



**U.S.-Russia Relations:  
Eurasian and East Asian Contexts**

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The last quarter of 2005 was a relatively quiet time in U.S.-Russia relations. The malevolent rhetoric that marked the bilateral dialogue over the past two years subsided somewhat. Instead, the leaders of the two nations focused some of their energy on shoring up relations with nations across East Asia. Both George Bush and Vladimir Putin visited the region; Putin on two occasions. The two leaders met in South Korea on the sidelines of the APEC summit. Central Asia and the Middle East, however, remain the primary focus of strategic maneuvering for both nations, and top officials from Moscow and Washington continued to visit these regions with regularity. Meanwhile, Russian-Japanese relations have advanced in the economic sphere, but the territorial dispute remains at an impasse, and no progress was made during Putin's visit to Tokyo in November.

**The Eurasian context**

Russian leaders continue to insist that the greatest threats to Russian security come from Central Asia and other regions south of Russia. Moscow has shored up military relations with Kazakhstan and Uzbekistan, and hopes to continue the development of multilateral institutions in the region. Russian leaders have led the push to expand the dialogue within both the Shanghai Cooperation Organization (SCO) and the Collective Security Treaty Organization (CSTO), which, unlike the SCO, excludes China. Leaders in Moscow continue to see Washington behind every opposition party and independent political force in the former Soviet Union states.

Leaders in Washington, on the other hand, see Russian machinations behind the Iranian nuclear program, and Moscow has ratcheted up the situation by agreeing to sell to Tehran 32 sophisticated *Tor-M1* air defense missile systems, a contract worth \$1 billion. This was announced in the Russian press on the occasion of the visit to Moscow of U.S. Under Secretary of State Nicholas Burns, who had come to Russia to address both the Iranian issue and the controversial Duma legislation that was passed in late December on the status of nongovernment organizations (NGOs – both Russian and foreign) operating in Russia. Washington is concerned that the legislation represents yet another step backward for the development of democracy in Russia. This has been an on-going theme in U.S.-Russia relations for the past decade, but in particular since Vladimir Putin became president. Secretary of State Condoleezza Rice also visited Moscow on her way back from a tour of Central Asia, and expressed her concern and that

of the U.S. government directly to Putin about Russian actions in Iran, and about the impending NGO legislation.

This legislation, which was eventually passed by the Russian Duma Dec. 23, called for all NGOs to register with the proper authorities in Russia. The Russian government is concerned about the foreign funding of NGOs in Russia, and the Kremlin wants to assure oversight of these organizations. The primary fear in Moscow is the funding of Islamic charitable organizations operating in the Caucasus and along the southern border of Russia with Central Asia. This is no doubt a big and justifiable concern for Moscow. But Moscow is also concerned about the influence of U.S. organizations that fund NGOs in Russia. In early November the U.S. Congress passed legislation allotting \$4 million to the development of independent political parties in Russia. Moscow wants no repeat of the color revolutions that swept the former Soviet republics in Eastern Europe (Ukraine), the Caucasus (Georgia), and in Central Asia (Kyrgyzstan). Washington feels, however, that democracy and civil society are under siege in Russia. Rep. Chris Smith (NJ), co-chairman of the Helsinki Commission, an agency of the U.S. government, stated that “Unfortunately, this bill reflects the continued wariness of some Kremlin officials, including President Putin, toward the concept of an independent civil society.” Other leaders in the Senate and House have argued that Russia should be denied the upcoming G-8 presidency as host of the summit next year in St. Petersburg. Op-eds in *The New York Times*, *Washington Post*, and the *Wall Street Journal* all urged the same. The Russian government changed the wording of the legislation somewhat (perhaps in a nod to foreign concerns) to allow already-existing NGOs to not re-register, calling only on new NGOs to register.

U.S.-Russian competition in Central Asia has heated up over the past two years, and there is no question that this will continue, in spite of the common goals in the war of terror that have united the two nations since the fall of 2001. Gen. Yuri Baluyevsky, chief of the Russian General Staff, has been quite vocal in his displeasure of U.S. actions in former Soviet states (including the Baltics, the Caucasus, and Central Asia). This has been a recurring theme by military, political, and opinion leaders in Russia over the past two years, so much so that Putin cannot ignore these voices. On the occasion of the visit by Secretary Rice to Romania in early December, both Foreign Minister Sergei Lavrov and Defense Minister Sergei Ivanov were quoted in an article in the Moscow daily *Nezavisimaya Gazeta* as saying that the establishment of U.S. military bases in Romania would “complete the circle” that the U.S. is putting up around Russia.

As mentioned, the Iranian nuclear issue continues to haunt relations between Moscow and Washington. The Bush administration is bound and determined to see that the Iranian nuclear program is stopped before Tehran has time to develop nuclear weapons. The Kremlin, on the other hand, sees great economic potential in Iran. This is indicative of the entire relationship and the two sides’ frequent inability to effectively communicate their respective strategies and interests, and the two sides’ conflicting priorities. This holds true in Europe, Central Asia, and in the Asia Pacific region.

Energy continues to play a significant, yet positive role in the bilateral relationship. Apart from the partnership in the war on terror, this is perhaps the issue that most binds the two sides. Russian energy giant Gazprom wants to become a crucial natural gas supplier to the U.S., and wants U.S. capital to develop offshore Arctic and Siberian gas fields. There is great interest in

the U.S., not only for these fields, but also for the Sakhalin projects, which already have substantial U.S. investment. In October, George Bush met with Russian Minister of Industry and Energy Viktor Khristenko, who brought energy executives from Russia's largest energy firms to the White House. The discussion centered on U.S.-Russia energy cooperation. Khristenko stated that Russian firms, led by some of these energy companies, have invested close to \$1 billion in the U.S.

With energy in mind the U.S. leadership watched closely the presidential elections in Azerbaijan and Kazakhstan, in which the incumbents of both countries won (Ilham Aliev in Azerbaijan and Nursultan Nazarbayev in Kazakhstan). These two nations are the crown jewels of the Caspian energy basin, and Moscow has been particularly assiduous in cultivating a strong relationship with Kazakh leader Nazarbayev. The U.S. has been successful in wooing the Azeri leadership with large investments from U.S. energy firms, and the potential for military cooperation (Azerbaijan also sits just north of Iran).

### **The East Asian context**

At the APEC Summit in Busan, the meeting between Bush and Putin was cordial. The two discussed ways to improve cooperation in political and economic spheres in the Asia Pacific region. They also discussed the continuing impasse on the Korean Peninsula, and ways in which the two could cooperate in pushing the Six-Party Talks forward. Bush, however, also reportedly brought up not only the NGO legislation with Putin (as Secretary Rice brought it up with Foreign Minister Sergei Lavrov in Korea), but also the Iranian nuclear issue.

Following his trip to South Korea, Vladimir Putin made a state visit to Japan, the first since the fall of 2000. His two-day trip disappointed those expecting some sort of breakthrough on the territorial issue. But the trip did have significant meaning. Putin was escorted to Japan with a large group of Russian business elites (over 100 people), primarily from the energy industry. Obviously, the East Siberian pipeline was a topic of major discussion among business people and between government officials. What is interesting is that it is normally Japanese business delegations to Russia that are so large. This marked by far the largest Russian business presence at a summit. And for good reason: the bilateral trade turnover increased by nearly 50 percent in 2004, totaling \$8.8 billion. The 2005 figures are expected to climb to \$10 billion. Putin reaffirmed Russia's commitment to building an oil pipeline to the Pacific. Meanwhile Putin and Koizumi signed 10 different documents on economic cooperation.

Additionally, where Japan once seemed to possess the carrots in the relationship, Russia now seems to have the upper hand economically; credit the energy equation. Tokyo could once say: if Moscow does not want to talk about territory, then we will refrain from investing in Russia. At one time Russia was desperate for such investment, particularly in the Russian Far East. But now cash- and suitor-rich Russia can look elsewhere for investment flows and for economic cooperation. Russia has already found half a dozen nations besides Japan to invest in energy projects in Siberia and the Russian Far East, particularly Sakhalin. This is a fundamental shift in the bilateral equation that was markedly apparent during the Putin visit to Japan. Japanese businesses are moving more rapidly into Russia, no matter how the government in Tokyo might feel about this. One of Japan's flagship corporations, Toyota Motors, is building an assembly

plant in St. Petersburg. And large trading houses, including Mitsubishi and Mitsui, are deeply involved in energy projects from the Caspian to the Pacific. It can now be argued that the territorial dispute is officially dead. Japan is unlikely now to recoup the disputed islands; certainly not all four islands. But unlike the past, this may not hinder the positive development of relations between Moscow and Tokyo.

Ironically, strategic cooperation between Japan and Russia may be closer to reality, a result of necessity on both sides. Tokyo's relations with Moscow may now be better than with any other neighbor in East Asia. Editorials in two major dailies of both countries (the *Yomiuri Shimbun* and the *Nezavisimaya Gazeta*) called for closer strategic cooperation in the face of a rising China and a weakened Russian Far East. But other media outlets in both countries continued to harp on the territorial dispute, including the Russian daily *Novaya Gazeta*, which, in Cold War fashion, published an analysis on the strategic importance of the Kuril Islands to Russia and the North Pacific.

In December, Putin traveled to Malaysia to attend the ASEAN Summit in Kuala Lumpur. He was later invited to speak at the inaugural East Asia Summit. In his speech, Putin pledged to ramp up oil deliveries to the Asia Pacific region, from the current 3 percent level of Russia's total exports to 30 percent by 2020. "Russia's experience in hydro and nuclear energy could be very useful, as could the possibility of carrying out pilot projects for studying nontraditional energy sources and using energy-saving technology."

The fact that Putin was able to speak at the East Asia Summit (EAS) could be seen as something of a coup for Russia. When the Kremlin put out feelers about being invited to the summit (which was originally conceived as a meeting of ASEAN leaders, plus leaders from China, Japan, and South Korea), the reception around the region was cool. Efforts by Russian diplomats were eventually rewarded by the host country Malaysia, which invited Putin to attend the ASEAN summit and then to speak at the EAS, although Russia was not a member. Russian leaders see multilateral institutions as a means of inserting a Russian diplomatic and political presence into the Asia Pacific region, including in Southeast Asia. This is a low-cost, high-effect way of assuring that Russian interests are heard and known throughout the region.

It was necessary for the leadership in the U.S. and Russia to step back and lessen the negative rhetoric this past quarter, especially after the difficult summer. Both the Bush administration and the Kremlin recognize that strategic necessity dictates a functioning relationship, no matter how political differences may divide them. Iran, however, could be a breaking point. If Russia continues to aid the development of the nuclear program there, leading to further proliferation in Southwest Asia, then this could be the breach that breaks the strategic partnership. In the Asia Pacific, the two nations will want to cooperate in assuring a peaceful settlement on the Korean Peninsula, and in assuring that China's ascendance to superpower status is similarly peaceful.

## **Chronology of U.S.-Russia Relations October-December 2005**

**Oct. 11-13, 2005:** Secretary of State Condoleezza Rice visits Kazakhstan, Kyrgyzstan, and Tajikistan.

**Oct. 13, 2005:** Russian Prime Minister Mikhail Fradkov announces that his government has approved a blueprint to develop the Kuril Islands through 2015.

**Oct. 14-15, 2005:** Secretary Rice makes a surprise visit to Moscow and meets with Russian President Vladimir Putin in an attempt to win Russia's support for referring Iran to the UN Security Council over its nuclear program.

**Oct. 19, 2005:** World Bank President Paul Wolfowitz arrives in Moscow and meets with Russian Economic Development and Trade Minister German Gref to discuss financing legal reform in Russia.

**Oct. 20, 2005:** U.S. Ambassador to Russia William Burns answers questions about U.S. foreign policy in Central Asia to members of the Russian State Duma (the Russian Parliament) in Moscow.

**Oct. 24, 2005:** U.S. National Security Adviser Stephen Hadley meets in Moscow with Russian Foreign Minister Sergei Lavrov and other Russian senior officials to try and gather Russian support for U.S. policy toward Iran.

**Oct. 24, 2005:** President George Bush greets Russian Minister of Industry and Energy Viktor Khristenko and leaders of Russia's petroleum industry in Washington, who are in the U.S. to promote U.S.-Russian energy cooperation.

**Oct. 31, 2005:** Senior Japanese and Russian government officials agree to speed up talks on cooperation in building an oil pipeline linking Eastern Siberia with the Russian Pacific port Nakhodka.

**Nov. 3, 2005:** Gen. John Abizaid, commander-in-chief of U.S. Central Command (CENTCOM), visits Kazakhstan.

**Nov. 4, 2005:** U.S. House of Representatives passes a bill on appropriations for Foreign Operations, Export Financing, and Related Programs. The bill allocates \$95 million to the National Endowment for Democracy, of which Russian political parties will receive \$4 million in 2006.

**Nov. 18, 2005:** Presidents Bush and Putin meet on the sidelines of the APEC summit in Busan, South Korea. At the meeting Bush expresses concern to Putin about a recent Kremlin campaign to tighten control over Russian and foreign nongovernmental organizations (NGOs) operating in Russia.

**Nov. 20-21, 2005:** President Putin spends two days in Tokyo on an official state visit, his first to Japan in five years. Putin and Japanese Prime Minister Koizumi Junichiro sign a number of agreements on economic and energy cooperation, but the long-standing territorial dispute is largely passed over in discussions.

**Nov. 27, 2005:** Former Russian Nuclear Energy Minister Yevgeny Adamov is indicted in a U.S. court on charges of stealing \$9 million of U.S. Department of Energy money intended to improve safety at Russian nuclear plants. Swiss high court rules Dec. 22 that Adamov will be extradited to Russia to face abuse of office and \$500 million fraud charges.

**Nov. 28, 2005:** Russian Foreign Minister Sergei Lavrov addresses a roundtable of the Russian-U.S. Business Cooperation Council in Moscow.

**Dec. 1, 2005:** Gen. Yuri Baluyevsky, chief of the Russian General Staff, expresses concern about U.S. interference in the political affairs of the former Soviet states.

**Dec. 1, 2005:** Under Secretary of State for Political Affairs Nicholas Burns arrives in Moscow to express U.S. concern about proposed legislation in the Russian Duma that would hinder the ability of independent NGOs to work effectively in Russia.

**Dec. 3, 2005:** It is reported in the Russian press that Moscow will supply 32 sophisticated *Tor-M1* air defense missile systems to Tehran under a contract worth \$1 billion.

**Dec. 7, 2005:** On a visit to Ukraine, Secretary Rice criticizes Russia's controversial draft law on NGOs.

**Dec. 7, 2005:** President Putin offers former U.S. Commerce Secretary Donald Evans chairmanship of Rosneft, a Russian state oil company. Evans declines the offer Dec. 19.

**Dec. 14, 2005:** Putin visits Malaysia to attend the ASEAN summit in Kuala Lumpur. While there he addresses Asia Pacific leaders at the East Asia Summit.

**Dec. 23, 2005:** A controversial bill restricting the activities of NGOs in Russia easily passes its third and final reading in the State Duma.





U.S.-Southeast Asia Relations:

## **Military Relations Restored with Indonesia, while U.S. Passes on the First East Asia Summit**

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Full-scale military relations have been restored with Indonesia, including Foreign Military Financing for lethal equipment, in recognition of the country's democratic practices and its importance for the U.S. global war on radical Islamic extremism. Although not a member of the first East Asia Summit (EAS), Washington launched an Enhanced Partnership with ASEAN by agreeing to a multi-dimensional Plan of Action that includes additional cooperation on security, trade, and investment. U.S. relations with the Philippines were complicated by reports in the local media of classified U.S. assessments of Philippine politics that emphasized vulnerabilities in President Arroyo's government. While Philippine-U.S. joint military exercises continued, the arrest of five U.S. marines on rape charges led to calls in the Philippine Congress for amending the Visiting Forces Agreement. The U.S. may provide some equipment and training for anti-piracy patrols in the Malacca Straits conducted by Singapore, Indonesia, Malaysia, and Thailand. Under Secretary of State Karen Hughes' visit to the region led to her enthusiastic endorsement of Malaysia's politics of inclusion as a possible model for Iraq.

### **Military relations restored with Indonesia**

Completing the process of restoring U.S. military relations with Indonesia that began with the resumption of International Military Education and Training (IMET) in February, the State Department announced Nov. 22 that Foreign Military Financing (FMF) was once again available to Jakarta. Originally cut off in 1991 because of Indonesian military involvement in the Dili massacre of East Timor civilians, the ties were further reduced after military-backed militias killed thousands of people during the August 1999 East Timor independence vote. During 14 years of minimal military relations, the Indonesian armed forces' equipment deteriorated to such a degree that its navy could not safeguard archipelago waters from smugglers and poachers and much of its air force was grounded for lack of spare parts.

With Indonesia seen as the focal point of terrorism in Southeast Asia, the Bush administration persuaded Congress that the world's most populous Muslim country and the largest Muslim democracy known for a predominantly moderate approach to Islam was a key to Southeast Asian stability and security, especially since it is astride the region's vital sea lanes. Thus, the State Department has waived conditionality in military sales and announced plans to help modernize and reform the Indonesian military – a prospect that is said to support mutual security objectives,

“including counterterrorism, maritime security, and disaster relief.” Nevertheless, the State Department announcement went on to note that the U.S. will continue to press Indonesia to account for past human rights abuses – the behavior that led Congress to cut military ties in 1991 and 1999.

President Yudhoyono hailed the U.S. decision as “a new chapter in the strategic relations between Indonesia and the United States.” The waiver allows the U.S. to sell lethal equipment to Indonesia; however, there are still members of Congress who remain dissatisfied with Indonesia’s justice system and the absence of accountability for the Indonesian Army’s depredations in East Timor and Papua. Washington may also be concerned about the Indonesian military’s turn to Russia and even China as alternative suppliers. With U.S. arms sales once again available, the Indonesian military (TNI) has declared the refurbishing of *F-16s*, *F-5s*, *C-130s*, and *OV-10s* “priorities.” Nevertheless, the TNI also stated that other suppliers (Russia, China, South Korea, and Spain) would be considered because they may be less expensive than U.S. platforms and more politically reliable.

In actuality, the TNI has received some training and assistance from the U.S., beginning in 2003, as part of the global war on terror. It has been the world’s largest beneficiary of counterterrorism training that also involved local constabulary forces. In 2005, the TNI participated in over 100 events under the U.S. Pacific Command Theater Security Cooperation Program.

Indonesian human rights groups have objected to the State Department restoration of lethal weapons sales, arguing that Washington should have used the prospect of the waiver as leverage to insist on TNI reforms so that it would not continue to behave as if it were above the law. On other matters, Jakarta was gratified that Congress omitted references to the possibility of Papuan independence from a November State Department Authorization Bill, thus reaffirming Washington’s commitment to Indonesia’s territorial integrity. However, when the State Department’s counterterrorism expert, Henry Crumpton, visited Jakarta in October, he was peppered with questions about why Jakarta authorities have not been given access to Indonesian terrorists in U.S. custody whose testimony could be used against those incarcerated in Indonesia for numerous bombings across the archipelago since 2000. To make matters worse, a leading Southeast Asian terrorist wanted for questioning by Indonesia escaped from U.S. custody in Afghanistan in July, a fact that became public only in early November.

### **Absent from first East Asia Summit, but links with ASEAN enhanced**

East Asian regionalism has been dominated by ASEAN for the past 15 years. The Asia Pacific Economic Cooperation (APEC), the ASEAN Regional Forum (ARF), and ASEAN Plus Three (A+3 – Japan, the ROK, and China) have all adopted the ASEAN consensus principle and their agendas are frequently set by ASEAN members. The U.S. participates in all except the A+3, from which the East Asia Summit (EAS) emerged on Dec. 14 – a half-day event following the ASEAN summit. Washington elected not to join the initial summit, which added Australia, New Zealand, and India to the A+3.

The U.S. was not prepared to sign ASEAN's Treaty of Amity and Cooperation (TAC) – a condition for EAS participation – because as a nonaggression pact the TAC requires all signatories to resolve disputes peacefully. For some U.S. officials, this stipulation was interpreted as a potential constraint on the U.S. military in the Pacific. However, since the EAS is now scheduled to meet annually, following the ASEAN summit, Washington would do well to reconsider its decision. Even without the U.S., however, some ASEAN countries – notably Malaysia – see Australia and Japan as representing U.S. interests and believe additionally that India's introduction dilutes the "East Asian" composition of the group. Most ASEAN members and China will continue to emphasize the A+3 framework for economic agreements and East Asian political discourse where neither Australia, New Zealand, nor India are members. It appears that ASEAN will continue to dominate East Asian conversations.

Despite these developments, the U.S. is strengthening its ties to ASEAN. Following on the 2002 announcement by U.S. and ASEAN leaders of the economics-oriented Enterprise for ASEAN Initiative (EAI) and ASEAN Cooperation Plan (ACP), in November of this year, ASEAN and the U.S. launched an Enhanced Partnership emphasizing further political and security cooperation as well as economic activities. In the Enhanced Partnership statement, Washington acknowledged the TAC's importance as a code of conduct promoting peace and stability in the region, though making no commitment to join. The State Department and ASEAN ministers have agreed to develop a Plan of Action to implement the Enhanced Partnership. ASEAN members hope this plan will move U.S.-ASEAN cooperation beyond counterterrorism into other domains. The Singapore Foreign Ministry labeled the Enhanced Partnership a "strong U.S. commitment to ASEAN," as have Thailand and Malaysia. Specifically, the Enhanced Partnership calls for more trade and investment as well as closer cooperation in combating transnational crime, terrorism, the nonproliferation of WMD, illegal drug trafficking, and maritime and border security improvements. It is still too early to assess how these new pledges will be implemented.

On the sidelines of the APEC summit in Busan, Korea, in November, President Bush raised the issue of Myanmar's human rights violations with ASEAN leaders. However, ASEAN Secretary General Ong Keng Yung demurred that the association did not want to do anything that might lead Myanmar's ruling junta to withdraw from ASEAN. At the same time, Secretary of State Condoleezza Rice characterized Myanmar's military government as "one of the worst regimes in the world." In December, Washington's UN Ambassador John Bolton persuaded the UN Security Council to hear a report on the political and human rights situation in Myanmar – the first time the Security Council had so agreed – though no subsequent Security Council action was taken.

### **Complexities in Philippine relations**

In the past quarter, a kaleidoscope of issues characterized U.S.-Philippine relations ranging from counterterrorism to U.S.-Philippine military training and exercises, to allegations of spying on sensitive official U.S. assessments of Philippine politics, and the applicability of the Visiting Forces Agreement to crimes committed by U.S. military personnel on Philippine territory. Following last quarter's U.S.-Southeast Asia *Comparative Connections* article on a Filipino-American's alleged spying, the situation became even more complicated. Leandro Aragoncillo – the Filipino-American FBI agent – has been charged with passing classified information to

opposition politicians in the Philippines from both FBI and White House computers, the latter when he worked in the vice president's office. The documents dealt with U.S. embassy political assessments of Philippine President Arroyo's policies and staff and were passed through a former Philippine official now in the U.S. and currently a target of charges by the Arroyo government. According to Philippine press reports, the documents mentioned armed supporters who would back Mrs. Arroyo in the event of a coup attempt by an "unreliable military."

The U.S. embassy in Manila stated in October that local press accounts of the purloined documents were "distorted" and insisted that the U.S. investigation was an "internal issue" in the U.S. and would not affect Philippine-U.S. relations. Among the press stories circulating in the Philippines is that the documents showed that former President Fidel Ramos was involved in a planned coup, an assessment dismissed by President Arroyo.

Radical Islamist terrorism continues to roil the southern Philippines. Reports circulate of Indonesian militants, involved in the 2002 Bali bombing, joining the radical Abu Sayyaf. The most prominent Indonesian terrorist, Dulmatin, carries a \$10 million price on his head offered by the U.S. – a reward second only to the \$25 million offered for Osama bin Laden and Iraqi insurgency leader, Abu Musab al-Zarqawi. The U.S. Pacific Command also has a rewards program for the capture of top Abu Sayyaf leaders. The Bush administration's counterterrorism coordinator, Henry Crumpton, visited the Philippines in late October. While praising Manila's counterterror actions, he also urged the passage of an antiterrorism law by the Philippine Congress to strengthen the government's ability to pursue and apprehend terrorists more effectively in the southern Philippines. The Congress has balked on the bill, fearing that President Arroyo could use it against her critics and the country's legitimate opposition, in effect restoring the dreaded martial law of the Marcos era. Muslim representatives also fear it could be used against members of their faith.

U.S.-Philippine joint military exercises were carried out in Luzon in October. Some 5,000 U.S. and Philippine personnel – the U.S. forces from Okinawa – participated in *Talon Vision* and *Philbex 06*. In addition to improving interoperability, U.S. forces engaged in medical and engineering civic action in the villages surrounding the training areas. U.S. armed forces publicity about the exercises emphasized their utility for joint disaster relief as in the aftermath of the December 2004 tsunami. Beach landings and simulated counter-insurgency urban warfare were also components of this year's exercises. In November and December a small number of U.S. trainers worked with Philippine forces in Sulu on small weapons tactics. The U.S. also provided medical services to local communities. Some Mindanao media claimed that the U.S. forces were fighting alongside Philippine troops against Moro rebels – an allegation denied by the Philippine government.

Meanwhile, the Philippine air force continued its precipitous decline, retiring the last of its old F-5 combat jets in October, leaving an air force consisting only of five jet trainers, helicopters, and propeller-driven aircraft. Military officials state that lack of funds means that no new jet fighters can be purchased until 2011 at the earliest. The U.S. provides assistance in upgrading Philippine ground forces under a five-year Philippine Defense Reform Program but is not currently aiding either the navy or air force with new equipment.

A new source of friction in Philippine-U.S. military affairs occurred Nov. 1 when five U.S. marines at the end of joint exercises allegedly raped a Filipina in Subic. Leftwing Philippine legislators and human rights groups have used the alleged attack to call for the termination of U.S. exercises in the Philippines and the abrogation of the Visiting Forces Agreement (VFA). A Philippine military spokesman countered that the alleged attack was an isolated incident and had nothing to do with the joint exercises. Because the U.S. marines remain in the custody of the U.S. embassy prior to any trial, some Philippine lawmakers argue that the VFA should be amended to require the hand over of U.S. troops accused of serious crime to Philippine authorities.

The Philippine president's office, responding to public criticism of the VFA, agreed in November to review provisions of the agreement relating to the custody of U.S. military personnel accused of crimes prior to trial. Part of the problem in amending the agreement is that the VFA was signed in Washington as an executive agreement, but in Manila the agreement was ratified by the Philippine Senate as a treaty. Any change would, therefore, have to be submitted to the Philippine Senate, thus reopening the VFA's future. The Philippines requested custody of the accused marines in late November, but as of December 2005, they were still held by the U.S. embassy.

### **Anti-piracy patrols in the Malacca Straits**

Over the past year, the Malacca Straits states have enhanced their anti-piracy efforts through greater coordination of their maritime patrols in the Straits. They have added an airborne dimension to sea-based monitoring called "Eyes in the Sky" to which Thailand will also contribute. User states, particularly the U.S., have expressed interest in assisting these efforts. Singapore has endorsed these offers, but Malaysia and Indonesia have been reticent. Nevertheless, in late October, Malaysian Defense Minister Najib Razak stated that the Straits states would welcome "a supporting role" by the U.S. such as the provision of aircraft for "Eyes in the Sky." At the same time, he stressed that U.S. participation "must not undermine national sovereignty of the littoral states." This seemed to mean that the U.S. could pilot the surveillance planes, but all monitoring on board could only be carried out by personnel from the littoral states' armed forces. Any interception of suspected pirate vessels would also be the sole responsibility of the Straits states. Indonesia's navy chief, Adm. Slamet Subianto, was unwilling to go as far as Najib Razak. The admiral rejected the participation of any foreign country in any capacity. If other states wished to help, Subianto said, "they could just donate their equipment. We will operate the equipment, not them."

By mid-December a standard operating procedure among the three littoral states had been reached in which for the first time they could enter each other's waters in pursuit of a suspect vessel, though once a neighboring country's waters were entered, no military action could be taken by the pursuit ship. The three Straits states also agreed that user countries could assist by providing equipment and training, though not participation. Indonesia stated that aid from the U.S. and Japan was expected "in the near future..."

## **U.S. concerns about terrorism in southern Thailand**

Although increasingly concerned with religiously inflected violence in southern Thailand where there have been more than 1,000 deaths since January 2004, the Bush administration has classified the separatist revolt as a “domestic issue” and not part of Washington’s global war on terror. Neither has Thailand requested assistance from the U.S. However, in mid-October, U.S. Ambassador Ralph Boyce, in talks with Thai Deputy Prime Minister Chidchai Vanasathiday, expressed U.S. apprehension that if the unrest was not resolved soon, the area could become a breeding ground for international terrorism. In early November, responding to U.S. press reports that Thailand – among other countries – had allowed the CIA to hold terrorist suspects in secret prisons, Bangkok vehemently denied the allegation.

Competition between the Russians and the U.S. for Thailand’s next large purchase of combat jets centered on the best deal manufacturers could provide. The Russians reportedly offered to accept Thai agricultural products in exchange for *SU-30MK* jet fighters. For the first time, the U.S. ambassador also said the U.S. would be willing to consider barter trade in partial payment for combat aircraft. No decision has been reached.

## **Human rights in Vietnam and Cambodia.**

The State Department’s annual Report on Religious Freedom released in November lists two Southeast Asian states of “particular concern” – Vietnam and Myanmar. Hanoi immediately protested, noting that it had entered into an agreement with the U.S. in May that addressed these concerns and that the State Department even acknowledged that religious freedoms had improved when Hanoi released some prisoners of conscience and reopened churches previously closed in the Central Highlands. Secretary Rice stated that if Vietnam’s record continues to improve, the country would “eventually” be removed from the list of countries of particular concern. In a Nov. 14 article, the Vietnamese Communist Party paper *Nhan Dan* characterized Vietnam’s place on the U.S. list as “ill-intentioned political pressure on Vietnam [and] a sheer fabrication.” Hanoi warned that bilateral ties could be negatively affected.

Members of the U.S. House of Representatives expressed concern in late October that fundamental human rights and liberties had come under attack by Cambodia’s Hun Sen government. Citing a report by Human Rights Watch, Iowa Republican Jim Leach noted that the ruling coalition was using the courts to harass government critics and members of the opposition Sam Rainsy Party whose parliamentary immunity had been lifted earlier in the year. Moreover, critics of a recent border treaty between Cambodia and Vietnam that apparently conceded some land to Hanoi had been arrested or forced into exile, including former King Norodom Sihanouk’s nephew, who fled to stay with his father in Beijing.

## **Malaysia praised as a model of Muslim moderation**

Karen Hughes, the under secretary of State for public diplomacy on a global tour of Muslim countries to help repair the U.S. reputation, praised Malaysia’s moderate Islamic practices in a late October visit. She stated that the ruling Barisan Nasional coalition of ethnic-based parties could be an “outstanding” model for Iraq and also lauded Prime Minister Abdullah Badawi’s

*Islam Hadhari* concept, which embraces tolerance and modernity. In contrast to her Indonesian visit where she was grilled on U.S. racism and the Palestine issue by students at Syarif Hidayatiellah Islamic University, Secretary Hughes' visit to Malaysia was low profile. While Hughes played down the significance of the Indonesian students' remarks, a leading Indonesian Islamic educator, Azymumardi Azra, the State Islamic university's rector, said Hughes was wrong to dismiss the students' views, which reflect the attitude of mainstream Muslims in Indonesia. The U.S. undersecretary seemed more at ease in Malaysia where she stated: "Islam Hadhari has a powerful message of inclusion and tolerance. We discussed ways in which Malaysia can participate in international conferences to spread this message." Malaysian Deputy Prime Minister Najib Razak said that Iraq could learn from Malaysia's power-sharing experience where all major groups are included. He further suggested that this could be a way to bring the Sunnis on board.

### **Singapore's desert training**

Finally, Singapore's armed forces carried out the first ever unilateral combined exercise in the U.S. Mojave desert from Nov. 10-22. The air force and army utilized helicopters, *F-16s*, artillery, and commandos at the 29 Palms, California, U.S. military reservation. The Singapore second minister for defense, Ng Eng Hen, thanked the U.S. for the use of its facilities "to hone the operational proficiency of its units by operating in unfamiliar and challenging terrain" – though how desert warfare fits Southeast Asia's jungle environment is something of a mystery.

### **Conclusion: whither East Asian regionalism?**

Until about 10 years ago, East Asia was described as under-institutionalized when compared with other major world regions. That is clearly no longer the case. While the U.S. belongs to several East Asian regional organizations, including APEC, the ASEAN post-ministerial conferences, and the ARF, Washington has held back from joining the EAS – perhaps seeing it as an extension of former Malaysian Prime Minister Mahathir's early 1990s idea of an East Asia Economic Community that would exclude North America, Australia, and New Zealand. However, the initial EAS included close U.S. allies – Australia, the ROK, and Japan – as well as states important to U.S. objectives, among them India. If countries with which the U.S. has defense agreements have signed ASEAN's TAC (a condition of EAS membership), Washington should reconsider its refusal to do so. Although it is much too early to know whether the EAS is an embryo for an East Asian Community, given U.S. economic and security interests in the region, Washington should be on the inside helping to shape any nascent community's future rather than on the outside belittling its prospects.

## **Chronology of U.S.-Southeast Asia Relations October-December 2005**

**Oct. 1, 2005:** Three suicide bombers struck in Bali at tourist locations killing at least 25 and injuring over 100.

**Oct. 1, 2005:** In response to the U.S. ambassador's concern that foreign terrorists could be operating in southern Thailand, Prime Minister Thaksin states: "I do not believe it," though he later acknowledged there may be links among Islamist terror groups throughout Southeast Asia.

**Oct. 2, 2005:** Secretary of State Condoleezza Rice condemns the terrorist bombings in Bali and reaffirms the "common fight against terror" with Indonesia.

**Oct. 6, 2005:** U.S. posts an \$11 million reward for information leading to the capture of Dulmatin and Umar Patek, suspects in the 2002 Bali bombing. The reward is exceeded only by the \$25 million offered for Osama bin Laden and Abu Musab al-Zarqawi.

**Oct. 7, 2005:** U.S. and Philippine officials claim that one of the masterminds of the 2002 Bali bombings, Dulmatin, is hiding in Mindanao. An electronics expert, trained by al Qaeda, he is believed to be with a group of militants from Abu Sayyaf and Jemmah Islamiyah.

**Oct. 7, 2005:** U.S. Charge d'Affaires Daryl Johnson denies that Washington plays any role in the political turmoil in the Philippines and reiterates U.S. support for President Arroyo's government.

**Oct. 11, 2005:** U.S. Health and Human Services Secretary Michael Leavitt signs cooperation agreements with Cambodia and Thailand to combat a possible avian flu pandemic and pledged \$1.8 million to each country for its efforts.

**Oct. 13, 2005:** Secretary Leavitt signs a cooperation agreement with Laos promising \$3.4 million to control outbreaks of avian flu. Soon thereafter, he pledges another \$7 million to assist Vietnam. U.S. Ambassador to Thailand Ralph Boyce expressed concern that less developed Southeast Asian states may be unaware of a flu outbreak until it has already spread beyond the region.

**Oct. 16, 2005:** U.S. and Philippine forces begin a two-week war game called *Talon Vision* on the main island of Luzon. Its purpose is to improve interoperability in joint amphibious landings and other operations. U.S. forces are coming from Okinawa.

**Oct. 17, 2005:** After Cambodia's Prime Minister Hun Sen arrests activists for alleged defamation when they challenged Cambodia's recent border demarcation agreement with Vietnam, the U.S. embassy in Phnom Penh called on the Cambodian government to protect the constitutional right of freedom of expression.



**Oct. 20, 2005:** On a tour to improve U.S. understanding of and image in the Muslim world, President Bush's special envoy on public diplomacy, Karen Hughes, faces harsh questioning from Muslim women university students in Jakarta about the U.S. invasion and occupation of Iraq.

**Oct. 22, 2005:** U.S. backs Indonesian government plan to strengthen counterterrorism legislation.

**Oct. 22, 2005:** State Department bioterrorism expert Henry Crumpton in Manila urges Southeast Asian states to prepare for bioterror attacks from al-Qaeda-affiliated groups that have stated intentions to develop such weapons.

**Oct. 24, 2005:** Malaysian Defense Minister Najib Razak says that the U.S. could provide aircraft for the littoral states' "Eyes in the Sky" anti-piracy patrol of the Malacca Straits but that the primary responsibility remains with the straits states. So far, there are only two flights per week.

**Oct. 25, 2005:** Singapore Prime Minister Lee Hsien-loong, speaking at the PRC Higher Party School, reiterates his government's position that Asia be open to all great powers, including the U.S., China, the EU, and Japan.

**Oct. 27, 2005:** U.S. embassy in Jakarta issues a warning to avoid non-essential travel to Indonesia after the Oct. 1 Bali bombing. The last time a U.S. travel warning was issued was in May.

**Oct. 28, 2005:** A U.S. Navy ship, *Joint Venture*, delivers humanitarian supplies to Mindanao for a U.S.-Philippine joint civic action effort.

**Oct. 28, 2005:** State Department expresses concern about Myanmar's intimidation efforts toward the ILO office in Rangoon which received 21 death threats in August and September.

**Oct. 28, 2005:** Congressman James Leach, chairman of the House International Relations Committee, castigates Hun Sen's government in Cambodia for human rights and press freedom violations.

**Oct. 29, 2005:** Vietnam demands that the U.S. remove it from a State Department blacklist of religious rights violators so as not to negatively affect the recent progress in bilateral relations. The list is produced annually as mandated by Congress.

**Oct. 30, 2005:** Philippine Foreign Affairs Secretary Alberto Romulo briefs U.S. Director for National Intelligence John Negroponte on the current Philippine political situation. Negroponte praises Philippine reform and counterterrorist efforts.

**Nov. 2, 2005:** U.S. defense officials reveal Omar al-Faruq, al-Qaeda's most senior operative in Southeast Asia, escaped from U.S. custody in July.

**Nov. 4, 2005:** U.S. Treasury Department freezes the assets of six Thai companies with alleged ties to Burmese drug traffickers linked to the United Wa State Army's heroin and methamphetamine distribution networks.

**Nov. 7, 2005:** Thai Prime Minister Thaksin denies there was ever a secret prison in his country where the CIA held terrorist suspects.

**Nov. 8, 2005:** In the U.S.-Thailand Strategic Dialogue, Thai officials briefed U.S. representatives on the situation in the restive south, while U.S. officials affirmed this was Thailand internal affair, though Washington was ready to assist if requested.

**Nov. 8, 2005:** Secretary Rice releases the State Department's annual report on international religious freedom and mentions Vietnam as one of eight countries of "particular concern." Hanoi condemns its inclusion.

**Nov. 8, 2005:** Thailand and the U.S. conclude a two-day "Strategic Dialogue" at which both sides agreed to encourage Myanmar toward democratization. While Washington supports sanctions, Bangkok prefers quiet diplomacy.

**Nov. 10-22, 2005:** Singapore Armed Forces conduct first unilateral exercise at the U.S. Marines Training Center in 29 Palms, California. The exercise integrates the Singapore Air Force with commando ground forces and includes UAVs.

**Nov. 15, 2005:** U.S. and Vietnam sign accord permitting the emigration of Vietnamese who had been unable to benefit from the U.S. humanitarian resettlement program before it ended in 1994. The U.S. will accept applications from Vietnamese citizens who would have been eligible for immigration under the earlier program.

**Nov. 17, 2005:** U.S. and several ASEAN members led by Thailand call for an "enhanced partnership" on security and development issues at a meeting prior to APEC in South Korea.

**Nov. 18, 2005:** Malaysian Prime Minister Badawi, meeting President Bush on the eve of the APEC summit, urges the U.S. to be more even handed in its treatment of Muslims in Iraq and the Palestinian territories.

**Nov. 18, 2005:** President Bush and Southeast Asian leaders congratulate Indonesia on the killing of Azahari, one of the region's most wanted terrorists who built the explosives used by suicide bombers in Bali, the Jakarta Marriott, and the Australian embassy. Bush meets with six ASEAN leaders on the sidelines of the APEC meeting in Busan, Korea.

**Nov. 18, 2005:** U.S. and Australian defense chiefs agree to enhance Southeast Asian counterterror cooperation, building on their work with Indonesia and the Philippines.

**Nov. 22, 2005:** Under Secretary of State Nicholas Burns, citing national security interests, waives conditionality pertaining to Foreign Military Financing and defense exports to Indonesia, thus expanding bilateral military reengagement.

**Nov. 22, 2005:** Indonesia welcomes renewal of military ties with the U.S., broken after the 1991 Indonesian military shootings in East Timor. The ties have been restored to acknowledge Indonesia's cooperation in the war on terror.

**Nov. 28, 2005:** U.S., Thai, and Singapore air forces begin annual *Cope Thunder* air exercise with a two-day Command Post event. A follow-on flying exercise will occur in February 2006.

**Nov. 28, 2005:** State Department condemns Myanmar's military junta for extending opposition leader and Nobel Prize winner Aung San Suu Kyi's house arrest for 12 months.

**Nov. 29, 2005:** Indonesian President Yudhoyono lifts an entry ban that had been placed on terrorism expert Sidney Jones of the International Crisis Group. The president's action is a rare example of his overriding the bureaucracy. The ban on Jones was creating international embarrassment for Indonesia.

**Dec. 2, 2005:** UN Security Council agrees to a U.S. proposal to hold a formal briefing on the situation in Myanmar – the first time the UNSC will discuss the political situation in that country. U.S. Ambassador John Bolton claims that Myanmar was seeking nuclear power capabilities, an allegation denied by Burmese authorities.

**Dec. 6, 2005:** U.S. embassy in Manila “temporarily” closes for security reasons.

**Dec. 6, 2005:** Philippine Defense Secretary Arelino Cruz, Jr. meets Secretary Rumsfeld in Washington while about 200 U.S. troops are in the southern Philippines conducting training and civic action programs.

**Dec. 6, 2005:** U.S. State Department denounces the “National Convention” of Myanmar's military junta, calling it “neither a credible political process...nor a means for the national reconciliation.” It has no legitimacy to draft a constitution representative of the Burmese people.

**Dec. 7, 2005:** Thai Justice Minister denies U.S. media reports that the U.S. CIA operated a secret jail in Thailand for captured high-level terrorist suspects.

**Dec. 7, 2005:** Director of U.S. National Intelligence John Negroponte meets with President Arroyo and reportedly urges that the Philippines pass antiterrorist legislation against the growing threat of Jemmah Islamiyah training activities in Mindanao.

**Dec. 12, 2005:** Singapore Ministry of Defense announces purchase of 12 *F-15SG* fighters to be the Republic's next multi-role combat aircraft. Delivery is scheduled for 2008-2009.

**Dec. 16, 2005:** At the request of the U.S., the UNSC hears a briefing on human rights abuses in Myanmar. Ambassador Bolton said, on the basis of the briefing, that the U.S. would “continue advocating Security Council scrutiny.”





**China-Southeast Asia Relations:  
Emphasizing the Positive; Continued Wariness**

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Chinese officials and official commentary this quarter continued the positive message of reassurance to Southeast Asian neighbors that China's rising power was not a threat to the region but a source of multifaceted economic and trade related opportunities. The Chinese government's decision in December to value upward by a significant margin the size of China's economy was accompanied by a reassuring White Paper issued by the Information Office of the State Council that emphasized that China's economic and other power sought a "benevolent" order at home and abroad that posed no danger to neighbors or others. This year's White Paper contrasted markedly with the tougher language about Chinese determination and resolve in the face of threats to Chinese interests in Asia and elsewhere that appeared in a White Paper issued by the same office a year ago regarding China's National Defense.

Backed by burgeoning trade and a dizzying array of meetings and contacts involving Chinese and Southeast Asian leaders, generally adroit Chinese diplomacy integrated Chinese activities and interests further with those of individual Southeast Asian states and with the growing range of regional multilateral organizations headed by ASEAN. The Chinese approach continued to be publicly praised and welcomed by the leaders of Southeast Asian governments and regional organizations. The result has been a steady stream of assessments by prominent pundits and specialists highlighting Southeast Asia as the leading area of Chinese gains in influence around its periphery in the post-Cold War period, and claiming that Chinese progress in Southeast Asia is a clear indicator that a China-centered order is emerging in Asia that reduces America's longstanding preeminence in the region.

The capstone of the quarter's activities in Chinese policy was the whirlwind of events surrounding the visit of Chinese Prime Minister Wen Jiabao to Malaysia Dec. 11-15. Following the 11<sup>th</sup> ASEAN summit that took place in the Malaysian capital, Wen participated in the ninth ASEAN plus China meeting, the ninth ASEAN Plus Three (China, Japan, and South Korea) meeting, and the inaugural East Asia Summit (EAS) that formally involved leaders of the ASEAN Plus Three (A+3) along with those from India, Australia, and New Zealand, with Russia's President Vladimir Putin also participating. Wen held a bilateral summit with his Malaysian counterpart, and had formal meetings with most heads of the visiting delegations with the notable exception of Japanese Prime Minister Koizumi Junichiro. Differences with Japan

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were behind China's decision not to hold the meeting of Chinese, Japanese, and South Korea leaders that usually accompanies the ASEAN Plus Three summit.

The Chinese government had many reasons to be satisfied with the results of the meetings, but the sessions also illustrated some of the limitations and shortcomings in China's actual influence in Southeast Asia after many years of growing trade, "win-win" diplomacy, and regional integration. Though not addressed often in formal meetings involving Chinese and Southeast Asian leaders, recent media and scholarly assessments and international conferences examining China-Southeast Asian relations have put some emphasis on the fact that the actual behavior of Southeast Asian governments shows that China's rise and regional activism have been accompanied by varying degrees of wariness on the part of China's neighbors. This, in combination with keen awareness of salient negative implications of Chinese development for Southeast Asian governments and their people, poses serious and continuing obstacles to the emergence of any sort of China-centered order in Southeast Asia.

### **Advancing China's regional integration**

Highlights of China's regional activism prior to the Kuala Lumpur summits saw China pay closer attention to the economic needs of Indochina. During the Second China-ASEAN Business and Investment Summit held in Nanning, Guangxi, on Oct. 18-23, Chinese Vice President Zeng Qinghong met with Cambodian Prime Minister Hun Sen and Vietnamese Deputy Prime Minister Nguyen Tan Dung to establish several broad goals for closer economic development. At the conclusion of the summit, the Vietnamese government agreed in principle to allow northern Lao Cai province to expand economic ties with China's Yunnan province, paving the way for an economic corridor linking Kunming-Lao Cai-Hanoi-Hai Phong, four key localities of the two countries. On Oct. 31-Nov. 2, Chinese President Hu Jintao visited Vietnam to give bilateral relations another boost. The two countries expressed satisfaction over their economic and trade relations, pledging to bring their bilateral trade volume to \$10 billion by 2010, to speed up the process of land border demarcation, and to ensure that a new border administration document will be signed by 2008.

China National Offshore Oil Corporation (CNOOC) signed on Nov. 2 an agreement with the Vietnam National Petroleum Corporation to conduct joint oil and gas surveys in the Gulf of Tonkin. CNOOC also has been working closely with Vietnam Oil and Gas Company and Philippine National Oil Company to collect seismic data in the gulf area. In light of these collaborations, Philippine Foreign Secretary Alberto Romulo on Oct. 21 praised the momentum of development in relations between the Philippines and China as well as those between ASEAN and China.

China's relations with Singapore also warmed. From Oct. 24 to Oct. 28, Singaporean Prime Minister Lee Hsien-loong made his first state visit to China since assuming power last year. Prime Minister Lee met President Hu. Lee also met Liaoning Party Secretary Li Keqiang to sign a memorandum of understanding with the city of Tianjin to help Singapore-based companies expand into the industrial zone of the Bohai Rim area. In Thailand, the Chinese Ministry of Agriculture and the Thai Agriculture and Cooperatives struck a unique deal in which the Chinese agreed to supply Thailand with 96 armored personnel carriers (APC) in exchange for 100,000

tons of dried longan fruit. Delivery of the first APC will take place by August 2006 with the contract completed within a three-year period. Also in the defense area, a visiting Chinese destroyer in December held a joint naval exercise with Thai forces in the Gulf of Thailand, and the Chinese and Vietnamese defense ministers in October reached an agreement on joint naval patrols.

Among other activities, China also sought cooperation with Southeast Asian governments on emerging nontraditional threats to state security. Understanding the potential impact avian flu might have on the region's economy, Beijing hosted on Dec. 6-7 the Ministerial Conference for Asian Cooperation on Highly Pathogenic Avian Influenza Control in Kunming. Moreover, the Yunnan provincial government announced that it would set up a joint mechanism with the Laotian government to prevent spread of bird flu at border areas.

### **Meetings in Malaysia**

Prime Minister Wen Jiabao did not appear to flag despite a very busy schedule of meetings in Malaysia. His activism was all the more remarkable coming after a week of visits he made to four European countries.

Addressing the ASEAN-China meeting on Dec. 12 with a speech entitled "Deepen Comprehensive Cooperation and Enhance China-ASEAN Strategic Partnership," Wen put forward initiatives to advance Chinese relations with the premier regional group in Southeast Asia. They involved promises to forge a stronger bond of friendship, to put in place a framework for relations, to build the China-ASEAN free trade agreement, to identify areas of cooperation, and to vigorously promote personnel exchanges.

"Working Together for a Better Future Through Stronger Cooperation" was the title of his speech on the same day to the A+3 summit. It called for accelerating the development and conducting feasibility studies of an East Asia Free Trade Area; expanding the Chiang Mai Initiative and developing a framework for regional financial cooperation; closer cooperation regarding energy use; and greater efforts to manage health emergencies and major natural disasters. Emphasizing the positives for Southeast Asia in burgeoning trade relations with China, Wen also stressed that in the past five years China has provided "nearly \$3 billion in economic assistance and concessional credit to ASEAN countries," and that "of the \$10 billion of concessional loans and preferential export buyers credit China would offer to developing countries in the next three years, about one third will be provided to ASEAN countries."

The Chinese leader explicitly disavowed a Chinese leadership role in regional organizations in deference to ASEAN, asserting "ASEAN is the organizer and main driving force for 10+3 cooperation... China will continue to support ASEAN in playing the leading role."

The Chinese prime minister's remarks at the East Asian Summit (EAS) on Dec. 14 hailed the inaugural leaders' meeting, emphasized China's opposition to a "closed, exclusive" regional grouping, favored openness to the non-East Asian participants in the meeting, and urged strengthened contacts with "the United States, the European Union, and other countries." He stressed China's importance as the world's third largest trader and Asia's largest importer, and

noted percentage increases in the investment of Chinese companies in Asia. He assured the assembled leaders that China would pursue “peaceful” development, would “never seek domination in East Asia,” and “will not develop at the expense of others.” Official Chinese media echoed these themes, and stressed that the EAS and A+3 are expected to coexist and “complement each other.”

The China-Malaysia summit held Dec. 15 was marked by a joint communiqué in which the two sides agreed to further trade valued at \$26 billion in 2004 to reach a goal of \$50 billion by 2010; conduct a feasibility study on an Economic Partnership Agreement (which is a part of the ASEAN-China Free Trade Agreement); exchange information in nontraditional security areas; promote consultation and cooperation in defense and security areas; and expand military exchanges between the two countries. The communiqué said Malaysia welcomes the contribution of China, as a main user of the Malacca Straits, to enhance security in the Straits.

Prime Minister Wen’s bilateral meetings with participants in the EAS generally were full of positive rhetoric, with the notable exception of Japan. Typical of the positive were Philippine President Arroyo’s remarks upon meeting Dec. 11 with Wen that China-Philippines relations have entered “a golden period.” By contrast, official Chinese media made clear that the Chinese embargo on interactions with Prime Minister Koizumi remains firm despite the emphasis on affability and regional cooperation at the Malaysian meetings. They even highlighted Wen’s refusal to acknowledge Prime Minister Koizumi’s request to borrow Wen’s pen in order to sign the EAS declaration at a public ceremony on Dec. 14 as a deliberate “snub.” Wen later explained the reasons for China’s stance against Japan at the press conference following the signing ceremony. An editorial in *China Daily* at the start of the Kuala Lumpur meetings went further, accusing Japan of seeking a “leader” role in Asia that it judged was unwarranted, given Tokyo’s lack of “credibility.” Meanwhile, Chinese reporting on the Chinese leader’s meeting Dec. 14 with the Indian prime minister was less effusive than that dealing with China-India meetings in recent years, highlighting that “common interests of the two nations are greater than their differences, and bilateral cooperation is greater than their competition.”

### **Limitations and obstacles to China’s regional leadership**

Away from the generally positive official commentary of Chinese meetings with Asian partners and often forced *bon ami* that characterizes ASEAN and its related regional meetings, some media and scholarly assessments, including this quarter two widely attended international meetings on China and Southeast Asia at the American Enterprise Institute (AEI) in Washington DC on Nov. 4 and Dec. 12, have highlighted a reality in China-Southeast Asia relations. Assessing reasons for Southeast Asian wariness of and differences with China, they show that China’s years of growing trade and diplomatic activism in Southeast Asia has yet to translate into any sort of an emerging China-centered order in the region, despite the widely publicized predictions of prominent pundits and specialists.

Scholars from Southeast Asia and other expert participants at the Nov. 4 AEI meeting summarized the discussion of the regional situation by noting that most Southeast Asian governments hold serious reservations about China’s role, particularly regarding such security issues as the South China Sea; and that despite differences with U.S. policy, most Southeast



Asian governments want the United States to continue to provide a security umbrella for the region. Long-term reservations over Chinese intentions are seen behind a “hedging” approach used in various ways by Southeast Asian governments and by ASEAN as a whole. Governments in Singapore and the Philippines are seen to engage China constructively but emphasize close security cooperation with the U.S. The predominantly Islamic countries of Indonesia and Malaysia oppose major aspects of the U.S. war on terrorism, but seek improved military and other relations with U.S., while they engage more closely with China. For geographic, historical and other reasons, countries along China’s land border have fewer options to oppose China openly, but Thailand has kept its options open by markedly improving military ties with the U.S., and Vietnam has moved forward with military ties with the U.S. in 2005. ASEAN, meanwhile, has worked assiduously in recent years to reach out to the U.S., Japan, India, the EU, and other powers, providing a favorable strategic context as it seeks to engage a rising China in constructive regional arrangements.

Southeast Asian wariness of China’s leadership in the region was seen in the widely reported tug-of-war that occurred behind the scenes over the role and composition of the East Asia Summit. China supported the original Malaysian initiative in 2004 that envisaged an exclusive East Asian group, and it proposed Beijing as the site for the second summit in 2006. China had supported Asian groupings that exclude the U.S. and other non-Asian powers in the past, and it currently supports the Shanghai Cooperation Organization (SCO) as an exclusive regional body dealing with Central Asia. In 2005, it backed efforts by that body to exclude U.S. and other U.S.-related military involvement in the region. In a graphic demonstration of Chinese hard power, thousands of Chinese armed forces also teamed up with Russian armed forces in a large military exercise in August that was under the auspices of the SCO though it was conducted along China’s East coast, signaling Chinese power and firmness to Japan, Taiwan, and the U.S.

An exclusive East Asian summit with China playing a leading role was resisted by Singapore, Indonesia, and others backed by Japan. In the end, they succeeded in opening the East Asia Summit to India, Australia, New Zealand, and Russia, all of who were happy to play active roles that implicitly diluted China’s influence. The broadly representative East Asian Summit left the door open to U.S. participation. ASEAN also asserted its leadership as the EAS convened, with the second summit in 2006 now slated for Manila, not Beijing. Official Chinese comment reacted graciously with strong rhetorical support for ASEAN and its leading role, while accusing Japan of unwarranted leadership ambitions in Asia.

A hard look at the interests of most Southeast Asian governments and of ASEAN as a leading regional organization also underscores reluctance by these governments and this institution to fall under China’s sway, and to heighten their interest in nurturing close ties with one another and with other powers. Growing trade is the main foundation of Chinese influence in Southeast Asia, yet a closer look shows that China’s trade, while increasing fast, is not yet the leader in Southeast Asia. The growth figures are seen as deceptive, as recent large-scale foreign investment in China has made it the hub of international trade networks, including Southeast Asia, where a commodity crosses borders several times before completion, with the full value of the commodity being counted each time it crosses the border. This leads to double and triple counting in Chinese foreign trade figures with Southeast Asia and other areas. Over half of China’s foreign trade in 2004 was such processing trade. Meanwhile, the final consumer of the

finished product involving Southeast Asian-China trade often is not in China but in the U.S. or the EU, making Southeast Asian trade with China dependent on consumers in these developed countries, not China.

The restructuring that has accompanied China's rise as a focal point of Asian manufacturing and trade means that investment from developed countries that used to go to Southeast Asia now goes to China. Entrepreneurs from the more well-to-do Southeast Asian states increasingly find they need to invest in China in order to compete, disrupting their businesses at home and dislocating local labor forces. Even the very poor Southeast Asian nations seem to have difficulty competing with Chinese textile and other manufacturers.

The investment loss Southeast Asian countries suffer as a result of competition from China is hardly made up by Chinese investment in the region. Southeast Asian investment in China is several times larger than Chinese investment in Southeast Asia. Despite the fanfare that often accompanies announcements of Chinese promises for investment, the actual amount of money leaving China is small. According to Chinese government and OECD figures, worldwide Chinese investment in 2004 cost China under \$4 billion, and one European source said Chinese investment in Southeast Asia in 2004 is \$224 million. Despite the importance of Chinese foreign assistance to Myanmar, Laos, and Cambodia, China's foreign assistance to Southeast Asia does little to offset the negative implications of China's economic rise. Some of the Chinese concessions, such as the "early harvest" features governing agricultural trade in the China-ASEAN Free Trade Agreement have led to unexpected imbalances negatively affecting Southeast Asian farmers.

This checkered Chinese record contrasts with investment and foreign assistance from the U.S., Japan, and other developed countries that remain much more important than those of China to most Southeast Asian countries. The manufacturers in these countries are less of a threat to Southeast Asian producers and laborers than those in China.

Positive publicity and adroit Chinese diplomacy also do not cover a variety of other negative consequences of China's rise for Southeast Asian governments. Chinese dam building along the Mekong River is having an increasingly negative impact on fishing and related river dependent enterprises among the ASEAN countries downstream. Chinese exploitative business practices are seen in widespread reports of illegal logging in Myanmar and other ASEAN states. Chinese entrepreneurs have penetrated many miles into the periphery of Myanmar, Laos, and other nearby countries, engaging in unsupervised and unregulated business activities that breed local resentment to what some are now calling "the ugly Chinese." Meanwhile, China's strong support for the military regime in Myanmar undermines ASEAN's efforts to get the military junta in Yangon to ease repression. The Southeast Asian governments this quarter released a strong statement of protest against Myanmar but failed to elicit Chinese support on the issue. It appears that for a variety of reasons, including its global pursuit of energy sources and raw materials, Beijing will continue to seek closer ties with Myanmar regardless of the views of other ASEAN states. In December, Myanmar Prime Minister General Soe Win said that in line with the development of economic and trade cooperation, traditional friendship between Myanmar and

China would be enhanced. Myanmar's state-run Myanmar Oil & Gas Enterprise, or MOGE, has also been conducting a feasibility study on a China-Myanmar gas pipeline that will be launched shortly.

### **Outlook and implications for the U.S.**

There is no easy answer to many of these obstacles to greater Chinese influence and leadership in Southeast Asia. Long wary of Chinese intentions and ambitions, many regional governments and ASEAN seem likely to remain interested in hedging against Chinese dominance in regional organizations and to have willing partners wanting to improve relations with ASEAN and the countries of the region, including Japan, India, Australia, Russia, and others. The concrete benefits the regional governments derive from Chinese trade, investment, and aid will offset to some degree the negative impacts of China's rise for their economies and societies, but will not replace soon the importance of investment, aid, and markets provided by the U.S., Japan, and the EU. The U.S. will continue to loom large as the region's main security guarantor.

Under these circumstances, U.S. policy would appear well advised not to be misled by pundits and specialists who forecast an emerging China-centered order in the region that will marginalize the U.S. Chinese leaders are often frustrated by U.S. policies and power, and they seem desirous over the long-term to see their periphery free from constricting U.S. great power involvement. Nevertheless, they see little to be gained from directly challenging the U.S.; for the most part, they have crafted China's recent rise to not appear to come at the expense of U.S. interests. Indeed, China's efforts stressing harmony and peace in Asia mean that Beijing is less likely to object strongly, as in the 1990s, to U.S. development of military and security ties with Thailand, the Philippines, Malaysia, Vietnam, and others, easing the way for these countries to enhance security ties with the United States.

In sum, to enhance the U.S. position in the region, U.S. policy should probably avoid direct competition with China, which seems unwarranted and is unwelcome in Asia. There seems more to be gained by fixing some of the negative features in Asia related to the war in Iraq, the Middle East, Korea, and U.S. unilateralism and inattentiveness to Asian government concerns. Recent trends suggest the United States would find a number of Southeast Asian governments and ASEAN welcoming U.S. efforts to seek real partnerships and cooperation at a time of rising Chinese prominence in Asia.

## **Chronology of China-Southeast Asia Relations October-December 2005\***

**Oct. 7, 2005:** 2,250 enterprises register to showcase products at the 2005 China-ASEAN International Trade Fair in Nanning, Guangxi province.

**Oct. 10, 2005:** Organizing committee of second China-ASEAN forum on legal affairs says China and ASEAN will promote legal development in the China-ASEAN Free Trade Zone.

**Oct. 12-13, 2005:** Second China-ASEAN Eminent Persons Group Meeting held in Kuala Lumpur.

**Oct. 17, 2005:** A reception, jointly hosted by the Chinese People's Association for Friendship with Foreign Countries, the China-ASEAN Association, and China Singapore Friendship Association, is held in Beijing to mark the 15<sup>th</sup> anniversary of the establishment of China-Singapore diplomatic relations.

**Oct. 18, 2005:** Central banks of China and Indonesia sign a currency swap deal that will allow Indonesia to swap its currency for up to \$2 billion of Chinese yuan when necessary.

**Oct. 18-21, 2005:** Second China-ASEAN Expo is held in Nanning, Guangxi, during which 95 agreements have been signed with a total contract value of \$4.79 billion, and China and ASEAN have agreed to build up a free trade area before 2010.

**Oct. 18-23, 2005:** Second China-ASEAN Business and Investment Summit held in Nanning, Guangxi with meetings between Chinese Vice President Zeng Qinghong and Cambodian Prime Minister Hun Sen, Thai Deputy Prime Minister Somkid Jatusripitak, and Vietnamese Deputy Prime Minister Nguyen Tan Dung. Zeng says the work of demarcation between China and Vietnam is going smoothly and would be completed before 2008.

**Oct. 19-21, 2005:** The second International Congress of the ASEAN and China Cooperative Operations in Response to Dangerous Drugs is convened in Beijing. Nearly 200 police officers and officials from international anti-narcotic organizations discuss strategies for combating transnational drug trafficking and vow to strengthen co-operative efforts in fighting the increasing menace of amphetamine type stimulants (ATS).

**Oct. 21, 2005:** Philippine Foreign Secretary Alberto Romulo praises the development of relations between the Philippines and China as well as those between ASEAN and China.

**Oct. 21, 2005:** ASEAN General Secretary Ong Keng Yong says the governments of China and ASEAN have agreed on general topics of service trade and mutual investment in the region.

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

**Oct. 24-28, 2005:** Singapore PM Lee conducts his first visit to China since he took office last year, meets President Hu and Liaoning Party Secretary Li Keqiang, and signs a memorandum of understanding with the city of Tianjin to help Singapore-based companies expand into the Bohai Rim area.

**Oct. 25, 2005:** Vietnamese government agrees in principle to allow northern Lao Cai province to expand cooperation ties with China's Yunnan province.

**Oct. 26, 2005:** China's Defense Minister Cao Gangchuan and Vietnamese Defense Minister Pham Van Tra sign an agreement for joint patrols in the Beibu Gulf in Beijing.

**Oct. 31-Nov. 2, 2005:** President Hu visits Vietnam to boost bilateral relations. The two countries express satisfaction over economic and trade relations, pledging to bring bilateral trade volume to \$10 billion by 2010, and to speed up the process of land border demarcation and ensure that a new border administration document will be signed by 2008.

**Nov. 2, 2005:** China National Offshore Oil Corp sign an agreement with the Vietnam National Petroleum Corporation to conduct joint oil and gas survey in the Gulf of Tonkin.

**Nov. 2, 2005:** Chinese Water Resources Minister Wang Shucheng and Cambodian counterpart Lim Kean Hor, sign a memorandum of understanding to strengthen and expand cooperation on water resources.

**Nov. 8, 2005:** China Assets Supervision and Administration Commission say that the China Southern Power Grid Company will supply Vietnam with electricity of 1.3 billion kwh annually for 10 years.

**Nov. 15-16, 2005:** The 17<sup>th</sup> APEC Ministerial Meeting is held in Busan, South Korea. Ministers pledge to support the Doha Round of trade negotiations and endorse an initiative to fight bird flu. Chinese FM Li and Minister of Commerce Bo Xilai attend.

**Nov. 16, 2005:** Defense Minister Cao Gangchuan says China is ready to advance state and military relations with Singapore to contribute to regional peace and stability.

**Nov. 17, 2005:** Cambodian National Assembly President Prince Norodom Ranariddh says that Cambodian National Assembly is ready to expand cooperation with Chinese legislature to promote the rule of law.

**Nov. 17-19, 2005:** APEC CEO Summit is held in Busan, South Korea.

**Nov. 18-19, 2005:** 13<sup>th</sup> APEC Economic Leaders' Meeting is held in Busan, South Korea. President Hu attends and exchanges views with other APEC economic leaders on advancing free trade, counter-terrorism and avian influenza.

**Nov. 18, 2005:** State-owned China National Offshore Oil Corp. says that together with the Philippine National Oil Co. and Vietnam Oil & Gas Co., it collected seismic data from 11,020 sq. km in the gulf under an agreement signed in March.

**Nov. 18, 2005:** Southwest China's Yunnan province announces plan to set up a joint mechanism with Laos to prevent spread of bird flu at border areas.

**Nov. 30, 2005:** China and Singapore sign a memorandum of understanding on aviation transportation expansion.

**Dec. 2, 2005:** 17 media practitioners from ASEAN countries (except Thailand) send media representatives to the ASEAN-China Journalists Visit Program to get first-hand information about the development in China.

**Dec. 6-7, 2005:** Agriculture ministers and officials from 16 Asian countries and representatives of international organizations attend Ministerial Conference for Asian Cooperation on HPAI (highly pathogenic avian influenza) Control in Kunming.

**Dec. 6-7, 2005:** Wu Guanzheng, member of the Standing Committee of the Political Bureau of the CPC, meets Hadi Utomo, chairman of Indonesia's Democratic Party, and says China will combine efforts with Indonesia in promoting long-term development of bilateral ties based on the Five Principles of Peaceful Coexistence.

**Dec. 8-10, 2005:** The 12<sup>th</sup> round of border negotiations between China and Vietnam is held. Chinese Vice FM Wu Dawei and Vietnamese counterpart Vu Dung attend.

**Dec. 9, 2005:** ASEAN-China Eminent Persons Group submits report to the ASEAN-China Ministerial Meeting for consideration at the 9<sup>th</sup> ASEAN-China Summit.

**Dec. 9, 2005:** A widely publicized video that shows police in Malaysia conducting a strip search of a female tourist from China touches off anger in both countries; Malaysian government tries to contain the furor.

**Dec. 9, 2005:** Malaysia announces that Chinese nationals intending to visit the country will have the option of online visa applications and paying the visa fee using credit cards when the system is up in two months.

**Dec. 9-12, 2005:** Chinese naval fleet consisting of a Shenzhen missile destroyer and a Weishanhu supply ship arrive in Thailand's Sattahip port for a four-day visit. During the visit, the two navies hold a joint search and rescue exercise in the Gulf of Thailand.

**Dec. 10, 2005:** Thai Agriculture and Cooperatives Minister Khun Ying Sudarat Keyuraphan says China has agreed to supply Thailand with 96 armored personnel carriers in exchange for 100,000 tons of dried longan fruit. Delivery of the first APC will take place by August 2006 with the contract completed within a three-year period.

**Dec. 10, 2005:** Malaysian FM Syed Hamid Albar describes the relationship between ASEAN and China as “practical and pragmatic,” and their cooperation has contributed to the regional peace, security and prosperity.

**Dec. 10, 2005:** Chinese FM Li says at the East Asia Summit Foreign Ministers’ Working Lunch that China supports ASEAN’s role as the driving force in East Asia cooperation.

**Dec. 12, 2005:** Premier Wen attends ninth ASEAN Plus China Summit in Kuala Lumpur.

**Dec. 12, 2005:** The ninth Summit of ASEAN Plus Three held in Kuala Lumpur.

**Dec. 12, 2005:** Malaysian PM Abdullah Ahmad Badawi says China is not a threat but a challenge as it emerges as an economic giant, in a special interview on *RTM TV*.

**Dec. 14, 2005:** Premier Wen attends first East Asia Summit (EAS). He hails relations between China and ASEAN in his speech.

**Dec. 14, 2005:** Indonesian Ambassador to China Sudrajat says Indonesia is deeply committed to closer economic ties with China. Vice President Zeng Qinghong says during a meeting with Speaker Agung Laksono of the House of Representatives of Indonesia that China is ready to work with Indonesia to keep enriching the bilateral strategic partnership.

**Dec. 14, 2005:** Chinese Premier Wen meets with Myanmar counterpart Soe Win in Kuala Lumpur to discuss enhancing bilateral cooperation.

**Dec. 14-15, 2005:** Philippines immigration officials arrest 142 Chinese businessmen in a shopping mall. All are released on Dec. 17 after each paying 50,000 peso (\$1,000) bail.

**Dec. 15, 2005:** China and Malaysia release a joint communiqué after talks between Premier Wen and Malaysian PM Abdullah Badawi, in which the two sides agree to further expand strategic cooperation, conduct a feasibility study on an Economic Partnership Agreement, exchange information in nontraditional security areas, promote consultation and cooperation in defense and security areas, and expand military exchanges between the two countries.

**Dec. 17, 2005:** Construction of a freeway connecting Nanning, Guangxi province, and the No.1 highway of Vietnam, via Youyi Pass on the Sino-Vietnamese border, completed after three years.

**Dec. 20, 2005:** China and Thailand begin a joint meeting in Chiang Rai to strengthen ties and remove trade barriers.

**Dec. 23, 2005:** Maung Aye, vice chairman of the Myanmar State Peace and Development Council and vice senior general, tells a Chinese military delegation in Yangon that Myanmar will continue to develop friendly ties with China and between the two armed forces on the basis of the Five Principles of Peaceful Coexistence.

**Dec. 29, 2005:** Cambodia and China sign two agreements on economic and technical cooperation, with China making a \$6.25 million grant and providing an \$6.25 million interest-free loan.





**China-Taiwan Relations:  
Will Cross-Strait Momentum Resume?**

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While 2005 has seen a fundamental shift toward more stable cross-Strait relations, developments were largely on hold for much of this quarter. Beijing continued to pursue cooperation with the opposition parties and to minimize dealings with the Chen Shui-bian administration. Beijing did not implement any further unilateral steps to expand cross-Strait exchanges. Economic ties continued to grow but at a slower pace. Then in November, working through private associations, Beijing and Taipei agreed to renew and expand the arrangements for charter flights at the coming Chinese New Year. With Taiwan's local elections over, Taipei and Beijing will each need to decide whether to build on that base, as was not done in 2005, to tackle the other charter and tourism issues on the table. At present, it seems Beijing may be more willing to do so than President Chen. Progress on these and other economic decisions long pending in Taipei would serve Taiwan's interests.

**Courting the opposition**

Beijing's attention and united front work has continued to be focused on the Taiwan opposition. In October, Kuomintang Party (KMT) Taichung Mayor Jason Hu visited Sichuan to promote his city's interest in hosting the pandas that Beijing has offered to Taiwan. KMT Honorary Chairman Lien Chan established the Cross-Strait Peace Foundation, made a two-week personal visit to China in October, and went to Hong Kong in December, where he met with Taiwan Affairs Office (TAO) Director Chen Yunlin. A KMT delegation went to Beijing in October to discuss Chinese tourism to Taiwan with the TAO. Also in October, Beijing staged its first ever high-profile ceremony to commemorate the 60<sup>th</sup> anniversary of Taiwan's retrocession to China, an anniversary that the Chen administration chose to ignore this year.

Another KMT delegation led by Vice Chairman Chiang Ping-kun visited Beijing in November and reached agreement with the TAO on a 10-point program to assist Taiwan investors. The KMT and TAO had planned to co-sponsor a high-profile conference in Taipei in December. However, the plans were postponed when the Chen administration rejected the travel application of TAO Director Chen. When Wang Daohan, the chairman of Beijing's Association for Relations Across the Taiwan Strait (ARATS), died in December, only mid-level officials of KMT governments who had worked with Wang were invited to his funeral. The offer of the current Straits Exchange Foundation Chairman Chang Chun-hsiung to attend was rejected by Beijing.

While these activities received much attention, they could not accomplish progress on outstanding functional issues that would require agreement from the Chen administration. During these weeks, there were some discreet contacts between the private sector organizations authorized by Taipei and Beijing to deal with transportation and tourism issues. Information on these contacts is sketchy but leaves the impression that Beijing was taking positions that would not be acceptable to Taipei in order to delay progress, perhaps with the encouragement of the Taiwanese opposition parties. Then, in November, Beijing's Cross-Strait Aviation Transport Exchange Council, a new, nominally nongovernmental, organization again led by CAAC official Pu Zhaozhou, invited the Taipei Airline Association for talks. Within one-week, these two organizations reached agreement to renew and expand the arrangements for direct cross-Strait charter flights for the coming Chinese New Year. The Mainland Affairs Council (MAC) and TAO arranged nearly simultaneous announcements of the agreement.

### **Local elections and straws in the wind**

The New Year's charter agreement came on the eve of the local elections in Taiwan. President Chen's Democratic Progressive Party (DPP) suffered a larger than expected defeat. As the elections were fought and influenced primarily by local and domestic factors, it would be a mistake to read much into them about voter sentiment on cross-Strait issues. Nevertheless, the DPP's defeat has prompted considerable speculation that the elections will generate domestic pressure on the Chen administration to take a pragmatic approach on cross-Strait issues. The TAO's analysis is that the elections reflected the Taiwanese voters' desire for stable cross-Strait relations and indicated that various factors are constraining efforts to promote Taiwan independence.

*Xinhua News Agency* reported TAO Vice Minister Wang Zaixi's comment in Washington after the election that the door is wide open for dialogue with the Taiwan authorities. Wang spoke enthusiastically about the various steps Beijing took earlier this year to expand cross-Strait exchanges and indicated Beijing was committed to continuing that progress. Two days later, MAC Chairman Joseph Wu, also in Washington, reiterated his desire to pursue talks on cargo and passenger charter flights and tourism issues. Their comments illustrate that both sides are rhetorically just where they had been a year earlier when the first direct New Year's charters had been concluded and both were speaking positively about building on that foundation. Unfortunately, while much positive happened subsequently, developments prevented further progress on those issues.

There are a few straws in the wind that indicate some prospect for forward movement next spring. One was the visit by a 66-member tourism delegation led by the Chinese National Tourism Administration Director Shao Qiwei to Taiwan in October and November. While Shao was visiting in a private capacity as head of the Chinese National Tourism Association and while the trip was billed as a fact-finding, not a negotiating, visit, Beijing played up its significance. Upon his departure, Shao called for talks on tourism, and the MAC expressed its pleasure on the constructive approach he had taken. Plans for substantial Chinese tourism in turn imply the need for an expansion of air service to Taiwan and argue for reaching agreement on new direct charter service. Reportedly, Beijing has been proposing agreement on charter flights each weekend in its discreet contacts with the TAA this fall.

There will continue to be competing pressures on President Chen with respect to cross-Strait transportation. After the election, former President Lee Teng-hui publicly urged Chen not to relax any restrictions on economic contacts with the mainland. On the other side, voices from the business community and opposition parties have been urging Chen to expand transportation links. Even within the DPP, Lin Cho-shui and others in the New Tide Faction have called for further opening cross-Strait ties. However, on Dec. 14, President Chen told a group of visiting Americans that cross-Strait ties should be pursued in a gradual manner, with sea links coming before air links and cargo charters before passenger flights. These comments were one of several indications that President Chen believes that following its electoral defeat, the DPP needs first to consolidate support from its political base – a base that is opposed to closer ties with the mainland.

## **Economics**

Cross-Strait trade has continued to grow but at a reduced pace this year. Taipei's Board of Foreign Trade reported that January-September trade with the mainland reached \$51.8 billion, up a relatively modest 15 percent from a year earlier. Taipei's exports to China totaled \$37.3 billion, up 12.3 percent, and accounted for 27.2 percent of Taiwan's overall exports, a percentage that continues to grow. However, Taipei's Investment Commission reported that January-October investment in the mainland reached \$4.7 billion, down 13 percent from a year earlier.

One factor behind the slower expansion of cross-Strait ties is the large number of policy decisions on mainland investment issues that have long remained pending in Taipei. Two companies (Powerchip Semiconductor and Promos Technology) have had applications for the transfer of 8-inch wafer fabrication plants (fabs) to the mainland pending since late 2004. Decisions on authorizing chip packaging and testing firms to invest in the mainland were put on hold after Beijing's adoption of the Anti-Secession Law in March 2005. The business community has also been seeking an increase in the limitations on the amount of a company's capital that can be invested in China. While favorable decisions on these issues have reportedly been reached within the administration, internal differences within the DPP and the Chen administration have prevented implementation of these steps. And the government's unwillingness to move on these issues as well as its on-again-off-again approach to direct transportation have affected Taiwan's competitiveness in the China market. Although Premier Hsieh hinted, in late December, those decisions would soon be made public, the year ended without decisions being announced on these issues.

The contrast between the over-achieving and dynamic mainland economy and Taiwan's anemic economic performance in recent years continues. The American Chamber's most recent review of the Taiwanese economy describes Taiwan as a "consistent under-performer" and concludes that political rather than economic factors are the root cause of Taiwan's current economic malaise. Both the American and European Union Chambers of Commerce in Taipei continue to urge the government to open up cross-Strait economic ties to maintain Taiwan's competitiveness and its attractiveness to foreign investment.

## **Military developments**

The PLA kept a low profile this quarter on cross-Strait issues. Nevertheless, the modernization of the PLA continues at a pace that increasingly impresses U.S. military specialists. In Taipei, the impasse over both the special and regular defense budgets continued, and Taipei's failure to invest more significantly in its own defense continued to erode support for Taiwan in the U.S. With few in Washington still believing that even the modified special defense procurement budget will ever be adopted, there has been a shift in the U.S. government's approach from one urging passage of the special budget to one calling on both the Chen administration and the opposition to show responsibility and take steps to increase Taiwan's investment in its own defense.

## **On the international front**

There has been no let up in Beijing's efforts to undermine and block Taiwan's international relations. Beijing embarrassed the Chen administration by persuading Senegal to switch diplomatic ties back to Beijing in November. There are renewed worries in Taipei that the Vatican may soon follow suit. Perhaps as a consequence, the Taiwanese public's perception of hostility from Beijing as reflected in public opinion polls, which had reached an all-time low after the opposition party leader visits this spring, is gradually rising again.

Beijing's Olympic Committee has proposed that an Olympic torch route pass through Taiwan in the run-up to the 2008 Olympics in Beijing. However, since this torch would not be on an international route but one exclusively within China, the Chen administration rejected the proposal. Beijing's proposal that Taipei host some Olympic events, such as baseball, is pending with the Olympic Committee in Taipei, but may also be rejected, perhaps for a reason attributed to an anonymous Chen administration official – that there is no precedent for Olympic events being held in “two different countries.”

Concerns about a potential avian flu pandemic have again focused attention on Taiwan's relations with the World Health Organization (WHO). New rules adopted in 2003 created room for the WHO staff to have contacts with Taiwan. In May this year, the PRC signed a memorandum of understanding (MOU) with the WHO setting guidelines for WHO contacts with Taiwan. While critical of Beijing's role in deciding this framework, officials in Taipei have commented cautiously that the current technical level contacts are adequate. The head of Taiwan's Center for Disease Control attended a WHO-sponsored international conference on avian flu in Geneva in October as well as an APEC-sponsored regional conference in Australia. However, Taiwan was not included in the U.S.-sponsored International Partnership on Avian and Pandemic Influenza (IPAPI) launched at the UN this summer.

## **Looking ahead**

2005 has witnessed a substantial reduction in tensions in the Taiwan Strait. The crucial turning point was the December 2004 Legislative Yuan election in which President Chen failed to obtain a legislative majority. Since launching its Anti-Secession Law one week later, Beijing, under President Hu Jintao's leadership, has pursued a more creative and sophisticated united front

approach to expanding cross-Strait ties in a way that would appeal to Taiwanese and build ties to specific constituencies on the island. With the exception of agreements on two rounds of New Years charters, Beijing has preferred to deal with the opposition and to marginalize the role of the Chen administration. However, there are limits to what can be accomplished without the involvement and cooperation of the authorities in Taipei. Will Beijing continue to marginalize Chen for the remainder of his term or find ways to reach agreements to expand cross-Strait relations over the coming months? Hopefully, the tentative indications that Beijing may be willing to work through private organizations designated by the Chen administration to make progress on cross-Strait transportation and tourism issues will be borne out in the coming months.

Despite reduced cross-Strait tensions, there is no prospect of any progress on the fundamental political issues. President Chen continues to emphasize the importance of strengthening Taiwanese identity. However, there are mixed signals from various quarters in the DPP and government about the Chen administration's approach to functional issues. Progress on the outstanding transportation and tourism issues would be very much in Taiwan's own interest. These steps and decisions on the cross-Strait investment liberalization issues long pending in Taipei would both strengthen the competitiveness of Taiwan firms and contribute to economic performance and foreign investor confidence in Taiwan. Unfortunately, the signals coming from President Chen indicate that he will move cautiously and continue to place more importance on his political goals related to Taiwanese identity than on pragmatic economic steps that would strengthen Taiwan.

### **Chronology of China-Taiwan Relations: October-December 2005**

**Oct. 10, 2005:** KMT Taichung Mayor Hu departs for PRC visit.

**Oct. 11, 2005:** Taipei MND announces computer simulation in Hawaii postponed.

**Oct. 12, 2005:** Former President Lee Teng-hui begins two-week U.S. trip.

**Oct. 13, 2005:** LY Speaker Wang Jin-pyng selected as Chen's APEC representative.

**Oct. 14, 2005:** PRC MOFA says Wang's appointment inappropriate.

**Oct. 14 2005:** KMT's Lien Chan begins two-week private visit to PRC.

**Oct. 17, 2005:** Taipei MOFA joins criticism of Japanese PM Koizumi's visit to Yasukuni Shrine.

**Oct. 19, 2005:** In DC, Lee Teng-hui advocates offensive missiles to deter PRC and adopting name "Republic of Taiwan."

**Oct. 19, 2005:** State Department says Taiwan should not change its official name.

**Oct. 19, 2005:** President Hu Jintao receives U.S. Defense Secretary Donald Rumsfeld; PRC official reporting does not indicate Hu raised Taiwan issue.

**Oct. 20, 2005:** KMT delegation meets with Taiwan Affairs Office (TAO) to discuss tourism.

**Oct. 20, 2005:** KMT Chairman Ma Ying-jeou calls for direct transportation to spur Taiwan's economic competitiveness.

**Oct. 25, 2005:** PRC stages ceremony on 60<sup>th</sup> anniversary of Taiwan's return to China.

**Oct. 25, 2005:** President Chen questions use of term "retrocession" when referring to Taiwan and China.

**Oct. 25, 2005:** Senegal switches diplomatic recognition to PRC; Taipei severs ties.

**Oct. 27, 2005:** European Chamber in Taipei calls for direct transportation links.

**Oct. 28, 2005:** PRC Tourism Association head Shao leads large delegation on 10-day exploratory visit to Taiwan.

**Oct. 29, 2005:** Two *Kidd*-class destroyers handed over to Taiwan in a ceremony; as one of the speakers Brig. Gen. John Allen, principal director for Asian and Pacific Affairs in the Office of the Secretary of Defense, comments on lack of progress in the passage of Taiwan's arms budget.

**Nov. 1, 2005:** Opposition parties move cross-Strait peace bill through LY Procedures Committee.

**Nov. 1, 2005:** KMT delegation and TAO reach agreement on facilitation for Taiwan investors.

**Nov. 3, 2005:** PRC airline association requests consultations on New Year's Charter flights.

**Nov. 6, 2005:** PRC Tourism Association head Shao departs, calls for tourism talks. MAC commends delegation for constructive visit.

**Nov. 7, 2005:** Taiwan CDC head attends WHO avian flu conference in Geneva.

**Nov. 8, 2005:** Chen appoints former Vice Premier Lin Hsin-yi as APEC representative.

**Nov. 9, 2005:** In *Asahi* interview, President Chen urges Japan to play larger security role.

**Nov. 14, 2005:** SEF sends ARATS message requesting consultation on TAO Chairman Chen Yunlin's proposed visit to attend KMT conference in Taipei.

**Nov. 15, 2005:** Premier Hsieh says Taiwan not interested in being on China's domestic route for 2008 Olympic torch.

**Nov. 16, 2005:** President Bush's speech praises Taiwan democracy, criticizes China.

**Nov. 17, 2005:** MAC denies request for Chen Yunlin's visit.

**Nov. 18, 2005:** Agreement on 2006 New Year's cross-Strait charter flights announced.

**Nov. 19, 2005:** President Hu and Lin Hsin-yi have brief exchange at APEC.

**Nov. 20, 2005:** Presidents Hu and Bush meet in Beijing. The two reaffirm the cross-Strait status quo.

**Nov. 30, 2005:** PRC Olympic Committee sends letter to Taipei about co-hosting a 2008 Olympic event and being a part of the China's Olympic torch route. Taipei has passed on being on the torch route and is also expected to decline co-hosting an event.

**Dec. 1, 2005:** USTR's Stratford says U.S.-Taiwan FTA not likely in coming years.

**Dec. 3, 2005:** DPP suffers setback in local elections.

**Dec. 4, 2005:** Pro-democracy demonstration in Hong Kong.

**Dec. 5, 2005:** MAC Chairman Wu says no change in cross-Strait policy; Taipei will pursue agreements on further charter flights and tourism.

**Dec. 9, 2005:** MAC says those with PRC passports or household registry will lose ROC citizenship.

**Dec. 11, 2005:** Lee Teng-hui criticizes Chen for failing to fulfill promises on new name and new constitution.

**Dec. 13, 2005:** Taiwan Defense Vice Minister Tsai in Washington for annual Defense Review talks.

**Dec. 14, 2005:** President Chen tells Atlantic Council group that three links must develop gradually, cargo must come before passenger charters.

**Dec. 16, 2005:** MAC Chairman Wu says he will try to negotiate cargo charters after Chinese New Year.

**Dec. 17, 2005:** At *Kidd* Commissioning Ceremony, President Chen says defense budget to be increased to 3 percent of GDP by 2008.

**Dec. 19, 2005:** Taipei rejects KMT appeal of MAC rejection of visit by TAO's Chen.

**Dec. 22, 2005:** MAC Chairman Wu says clearance agreement a prerequisite for yuan exchange on Taiwan.

**Dec. 23, 2005:** PM Hsieh hints moves to liberalize mainland investments coming soon.

**Dec. 24, 2005:** Association for Relations Across the Taiwan Strait Chairman Wang Daohan passes away.

**Dec. 28, 2005:** SEF chairman Chang Chun-hsiung's offer to attend Wang's funeral rejected by Beijing.

**Dec. 30, 2005:** Wang Daohan's funeral in Shanghai.



# Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



## North Korea-South Korea Relations: Peace economics?

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In general the last quarter of 2005 brought even less joy to the world from North Korea than usual. September's euphoria over a hard-won agreement of principles at the Six-Party Talks soon dissolved in wrangling, and as of early 2006 this on-off dialogue again looks to be off. Elsewhere, the DPRK abruptly told those who had generously fed it for a decade that humanitarian aid was no longer needed, emboldened, critics claimed, by half a million tons of rice sent by South Korea (ditto China) with minimal monitoring.

Amid this generally worsening picture, unlike in the recent past (e.g., mid-2004 – mid-2005) Pyongyang did not suspend links with Seoul, yet neither did it rush to expedite them. By the numbers, North-South intercourse hit new records in 2005: inter-Korean trade topped \$1 billion, while three times more Southern visitors headed North than in 2004. Yet frustration continued in the South over Northern slowness to implement matters nominally agreed on earlier, ranging from military talks to the delayed opening of the two new cross-border railways – physically ready, but with no sign that trains will run any time soon. But the Kaesong industrial zone continued to grow, and North Korea partially patched up what threatened to be a damaging row (of its own making) with its main benefactor, Hyundai.

### **Send suits, shoes, and soap, now**

After September's 16<sup>th</sup> ministerial talks, the normal cycle of inter-governmental meetings continued with the 11<sup>th</sup> session of the Inter-Korean Economic Cooperation Promotion Committee (ECPC) on Oct. 28. Unusually this lasted only a single day, as the North accepted a longstanding Southern request to set the agenda in advance at working meetings, rather than waste time at the plenary stating positions in set speeches. The meeting was held in Kaesong rather than Pyongyang, to coincide with the opening in the Kaesong industrial zone of a permanent joint office to boost bilateral economic cooperation, where for the first time ROK and DPRK officials now routinely work side by side on Northern soil.

Sadly, context was not matched by content. To Southern frustration, the North refused to discuss most of the wide-ranging areas of cooperation it had canvassed just weeks before (see "Who's Singing Whose Song?" *Comparative Connections*, Vol.7, No. 2). Instead Pyongyang was fixated on a single deal: demanding light industrial raw materials on a vast scale – reportedly enough to

make 2 million suits, 60 million pairs of shoes, and 200 million bars of soap – in exchange for vague mining rights.

Seoul, by contrast, wanted to know when cross-border trains will run, and to take forward plans for joint farming, fishing, and more broached by the North in June and July. The result was stalemate: the meeting closed with a perfunctory joint statement and no date was set to meet again. Later working-level meetings failed to break the deadlock. Not for the first time it was hard to know what Pyongyang's game is, other than keeping everyone guessing.

### **Jeju: real carrots**

It was a similar story at the last quarterly Cabinet-level meeting of the year, held in Jeju (for the first time) in December. The ROK resort island province is a donor to the North in its own right, and marked the occasion by dispatching a 10,000-ton shipload of tangerines and carrots; many might see the latter as symbolic. For their part, Northern delegates made nationalistic digs about the prevalence of signs in English. Within the meeting they were no more positive: still stonewalling on economic projects and as ever refusing to discuss the nuclear issue despite the crisis in the Six-Party Talks. They even threatened to leave early in protest at the South's refusal to let its citizens visit Kim Il-sung's mausoleum, one of very few such restrictions remaining. The final joint statement was thus full of pious generalities and vague reaffirmations with just a few minor new specifics: cooperating in Taekwondo, seeking world heritage status for Kaesong city, and returning a monument, *Bukgwandaecheopbi*, to the North.

### **Kaesong: calling Dokdo**

Yet on some fronts, notably the Kaesong industrial zone (KIZ), North Korea does seem to be a more serious partner. Besides opening the joint business office mentioned above, the North also agreed to expedite construction of a training facility in the KIZ which, when completed later this year, will upgrade the skills of up to 30,000 DPRK workers annually.

Other obstacles lie elsewhere. In November, Washington at last granted export licenses so KT (Korea Telecom) could bring in equipment vital for a proper telecom service in the KIZ. This was launched Dec. 28, with ceremonial calls to – among other places – the disputed Dokdo islet (known and claimed as Takeshima by Japan). Though still very small scale, with ever more ROK firms setting up in the KIZ – the number is forecast to grow from 15 so far to 300 by end-2006; we shall see – it is not fanciful to imagine a new Shenzhen in the making, albeit a couple of decades behind that Chinese exemplar.

For Sunshine's advocates, such ventures also reduce tension. The very idea of commuting across the once impermeable Demilitarized Zone (DMZ) – two buses leave Seoul at 7:30 each morning – is startling. According to then Unification Minister Chung Dong-young – a likely contender in the 2007 presidential election – the Korean People's Army (KPA) has pulled back its troops eight miles north of Kaesong. They surely remain forward-deployed along the rest of the DMZ, the two corridors to Kaesong and Mt. Kumgang excepted.

## **Can aid and business breed peace?**

“Peace economics” is Chung’s term for his aim here. To critics, this laudable goal begs key questions of sequencing and conditionality. What aid if any should a nuclear-defiant North Korea be given? Is there not a risk that sweeteners meant to soften a dangerous dictatorship will instead simply prop it up? With kind friends in Seoul, why should Kim Jong-il change?

In a revealing phrase, an overview of ROK efforts on DPRK humanitarian issues, published on the Unification Ministry (MOU)’s website in late November, made a striking linkage:

“South Korea is currently providing 400,000~500,000 tons of food and 300,000 tons of fertilizers to North Korea *to fundamentally solve the problems of North Korean defectors* [emphasis added] and to enhance the living standards of North Koreans.”

While it is true that most DPRK refugees flee poverty in the first instance, the implication that fuller bellies should make them stay put is crude and unconvincing. Can Kim Jong-il’s regime be trusted to distribute aid equitably? Above all, can North Koreans be legitimately stopped from also seeking the freedom that the ROK constitution says is theirs by right?

## **A gadfly sociologist spooks prosecutors**

In democratic South Korea, questions like this remain hotly contested in what is sometimes ironically termed South-South conflict. Opinion polls show a majority favoring continued or increased aid to the North, while to conservative alarm even 60 percent of conscripts say they view North Korea as a partner. A special bugbear of the right is Kang Jeong-koo, an aging, radical sociologist given to what many see as pro-North remarks. This remains illegal under the still unrevised National Security Law (NSL), and Professor Kang was duly indicted, but the justice minister told the prosecution not to lock him up. Though within his rights, this was an unprecedented intervention and the prosecutor-general resigned in protest. With even a poll of CEOs (who surely have bigger things to worry about) citing the Kang affair as their main current concern, to an outsider it seems bizarre that a tedious but harmless gadfly, of a familiar type, should cause such a buzz – which he is no doubt enjoying it. There are also free speech issues, as Voltaire knew. Kang’s trial in February will ensure that the fun continues.

## **Tourism soars, spat settled – sort of**

Tourism (one-way, of course) has been a mainstay of the new inter-Korean ties. Hyundai’s tours to Mt. Kumgang, which marked their seventh anniversary in November and brought their millionth Southern visitor in June, laid a foundation for the “Sunshine” policy begun by Kim Dae-jung (ROK president 1998-2003) and continued by his successor Roh Moo-hyun.

But despite pouring at least \$1.5 billion into North Korea, Hyundai began the quarter under sanctions from Pyongyang for dismissing Hyundai Asan’s ex-CEO on corruption charges (more details in our third quarter roundup, “Full Steam Ahead,” Vol 7, No. 3). By mid-November, this row had been partially patched up, so that all concerned – including then Unification Minister Chung – could head for Kumgang’s hills and beaches to toast the tours’ seventh birthday.

Yet although Pyongyang has now eased limits on the Kumgang tours (still subsidized by Seoul), it has not yet accepted Hyundai Asan's new CEO. Nor is it clear if Hyundai will be allowed back onto further tourist projects, to Kaesong city (near) and Mt. Paekdu (far), on which it had already signed deals. If North Korea tries to give (or rather sell) these to other ROK firms, and if Seoul tolerates this breach of contract, then it sends a highly negative signal to anyone else contemplating business with the North. (Note that no other big *chaebol* besides Hyundai has gone in.) One would think Kim Jong-il might grasp this.

Still, beyond the Kumgang enclave the North's lure remains strong. October, remarkably, saw daily shuttle flights from Seoul to Pyongyang, bringing over 7,000 Southern tourists for a pricey (\$1,000 and up) one-night tour of the DPRK capital, the highlight being the Arirang mass games. Having belatedly grasped that this unique spectacular was a money-spinner, the DPRK opened it not only to South Koreans but all and sundry: the "reptile press" and even U.S. citizens, normally banned as tourists, unlike other Westerners.

The result was barbarian invasion on a scale not seen since 1989, when Pyongyang hosted a world youth festival. Then, the strains of Michael Jackson wafted across the Taedong River, courtesy of an impromptu alfresco Czech disco. This time there was no such disorder, but inter-Korean mixing on an unprecedented scale. Ordinary South Koreans were everywhere, large as life, doing their thing. The tens of thousands of Northerners who encountered them, even briefly, could not fail to see that their compatriots were richer, freer, and had more fun. The regime took a big risk with hearts and minds here; they must really need the money. If such tourism grows as planned, then so inevitably will cross-border cultural contamination.

### **More visitors than ever – in one direction**

Yearend brought the usual statistics. 2005 was a record year for inter-Korean visits, almost all in one direction. By end-November 80,000 South Koreans had gone North, more than triple 2004's total of 26,534. This excludes 284,502 tourists to Hyundai's Mt. Kumgang resort, which in June welcomed its millionth visitor since 1998. Besides the fall's festival flights to Pyongyang, a trickle of wider tourism saw 1,634 tour the ancient capital, Kaesong, close to Seoul just north of the DMZ. Cross-border roads in west and east, to Kaesong and Kumgang respectively, now take a daily average of 1,136 Southerners north in 161 vehicles (hardly jamming the highway); but their parallel railways have yet to roll. Meanwhile, the year saw 34 official inter-Korean meetings, up from 25 in 2004, but fewer than the 38 held in 2003. Some 3,151 South Koreans met Northern kin, or (in an innovation) saw them by video-link, but far more still yearn for this opportunity or die waiting. Even for the lucky few, these are just one-off meetings, with no subsequent communication of any kind permitted.

Inter-Korean trade also hit record levels, topping \$1 billion for the first time. Southern exports to the North in 2005 rose 60 percent from 2004 to \$710 million, while Seoul's imports were up 30 percent to \$340 million. Much of what the ROK sends is really aid rather than trade, whereas most DPRK exports are genuinely commercial. Separately, Seoul also tallied the cost of inter-Korean cooperation in 2005 at a (presumably rounded) \$1 billion. Some 503 ROK firms and 760 products are involved, most no doubt in trade, since total Southern investment in the North grew only from \$11.8 million to \$18.7 million.

## **A billion dollars a year**

Notwithstanding the nuclear impasse, South Korea may give the North \$1 billion annually for the next five years. Plans drawn up in July by the MOU, and published in November by a lawmaker of the opposition Grand National Party (GNP), Chung Moon-hun, would see \$1 billion (1 trillion won) go to support DPRK light industry, to help meet a demand for 30,000 tons of clothing fabric and 60 million pairs of shoes. Some 560 billion won would be earmarked for agricultural projects like the development of joint farming complexes, forestation, and exchanges of experts. Other areas include \$100 million for marine cooperation (100 billion won), \$150 million for joint mining projects (150 billion won), and \$120 million for cooperation in science and technology (120 billion won). None of this is yet approved or funded; Chung demanded that the national assembly be consulted first.

A still larger total of 3.32 trillion won will go to boost electric power in North Korea, but only if the nuclear issue is resolved. If it is, Seoul will spend 68 billion won on a geological survey and blueprints in 2006; 1.65 trillion won on supply lines, substations and transformers in 2007 and 2008; and 1.6 trillion won on electricity generation and supply in 2009 and 2010.

## **The inter-Korean chasm widens**

Less publicized figures from the ROK's National Statistical Office (NSO) in December quantified the vast and ever widening economic chasm between the two Koreas. In 2004, the South's gross national income (GNI) reached \$681 billion, 32 times the North's \$21 billion. The per capita gap was narrower (the South has twice as many people), but still striking: \$14,162 vs. \$914. In trade, the difference is staggering: the ROK's \$478 billion was 167 times the DPRK's \$2.86 billion. Still further apart were oil imports: the South's 826 million barrels trumping the North's 3.9 million by over 200-fold. Even in the long term, one can only wonder whether meaningful reunification will ever be feasible.

## **Food for thought**

Though not directly involved, South Korea had literal food for thought as it became clear that the DPRK would carry out its threat to ask the UN World Food Program (WFP) and others to cease humanitarian aid from the end of 2005. By general consent, what made this closure possible was not only a better harvest than usual, but also the DPRK's receipt of substantial non-WFP food aid with fewer strings attached. The ROK sent 500,000 tons of rice and 300,000 tons of fertilizer in 2005; Chinese aid is thought to be on a similar scale.

Seoul insists it does monitor what it gives, but in truth this is perfunctory. Richard Ragan, who heads WFP's DPRK operation (or what is left of it), said on Jan. 6 that whereas ROK monitoring will double from 10 visits in 2005 to 20 in 2006, WFP by contrast used to mount 300-500 local inspections every month, covering 35,000 kilometers.

## **Human rights and wrongs**

North Korea's human rights record remained a bone of contention: not between Seoul and Pyongyang – both prefer not to discuss this – but rather dividing South Korea from the U.S. and other Western allies. On Nov. 17, the ROK was among 62 member states to abstain when, for the first time ever, the UN General Assembly passed a resolution critical of DPRK human rights abuses, sponsored by the European Union, by 84 votes to 22. North Korea angrily dismissed this as “no more than barking of a dog at the moon.”

Similar embarrassment was seen in December when Freedom House, a Washington-based NGO, held a major conference in Seoul funded under the North Korea Human Rights Act (NKHRA) passed by the U.S. Congress in 2004. Attendees included the U.S. special envoy for DPRK human rights appointed under the NKHRA, Jay Lefkowitz, who was introduced by the new U.S. ambassador in Seoul, Alexander Vershbow. The ROK government kept its distance. In a typical view, Chung Eui-yong of the ruling Uri party, chairman of the National Assembly's Foreign Relations Committee, said that while Seoul did link aid to human rights, it “has no reason to officially confirm” this, nor to “unnecessarily provoke” Pyongyang.

## **Forging peace, or greenbacks?**

As it turned out Pyongyang (and Seoul) were less provoked over human rights, a familiar bugbear, than by a new curveball from Washington: its sudden emphasis on North Korea's long-known counterfeiting, drug trafficking, and other crimes. Deplorable as these are, they have been going on for years. South Korea was not alone in wondering why the U.S. chose a delicate juncture in the on-off Six-Party Talks to abruptly introduce this new theme, with Ambassador Vershbow roundly calling the DPRK “a criminal regime.” All too predictably, the result was to give North Korea a new cause for high dudgeon and a fresh excuse to take its bat home. Pyongyang currently refuses to return to the Six-Party Talks unless U.S. sanctions imposed in this regard are lifted, so we are back to stalemate for the time being.

Such tactical niceties are distinct from a less worthy reaction in Seoul, also too often seen over DPRK human rights; namely professing skepticism about the facts and demanding more proof. On both oppression and crime, there is evidence aplenty, so a “three monkeys” posture of turning a blind eye is untenable, and merely makes the ROK look craven or sly.

## ***Eminence grise* takes the helm in Seoul**

Although occurring in 2006 rather than 2005, it would be perverse not to record that South Korea begins the new year with a new person in charge of inter-Korean relations. In an episode that shows the relative priority of politics and policy in Seoul, Chung Dong-young, the smooth ex-TV news anchor appointed unification minister in June 2004 with no prior experience of either Cabinet office or North Korea, told President Roh on Dec. 27 that he will resign, which he did Dec. 30, and return to the ruling Uri party. Chung is favored to be elected Uri leader at its convention Feb. 18, and hopes in due course to be nominated as its candidate in the next presidential election due in December 2007 (Roh cannot run again). Chung's impromptu meeting with Kim Jong-il in Pyongyang last June did his campaign no harm. Yet he is seen as the

moderate candidate; his main rival is Kim Geun-tae, an ex-dissident who similarly resigned as health and welfare minister to re-enter the political fray.

The long expected mini-reshuffle that followed on Jan. 2 saw – as widely predicted – Lee Jong-seok appointed as the new ROK unification minister. Despite his lowly sounding title as deputy chief of the National Security Council, Lee – an academic expert on North Korea – has been Roh Moo-hyun’s *eminence grise*, not only on the DPRK but on security and overall foreign policy. His power was evident two years ago, when Foreign Minister Yoon Young-kwan was forced to resign over his failure to control jibes by senior Foreign Ministry officials against so-called “Taliban” in the Roh administration, whose anti-U.S. instincts and alleged sympathy for Pyongyang these career diplomats viewed as naïve and damaging to the U.S.-ROK alliance. Such circles regard Lee Jong-seok as heading the “Taliban” tendency.

Lee’s promotion may thus cause anxiety in Washington, especially with North Korea again refusing to return to Six-Party Talks. A more sanguine view is that at least Lee is now out in the open, and in an area matching his expertise. Initially he will chair the NSC’s standing committee, but this structure is soon to be replaced by a new Office for Security Policy Planning within the Blue House. Either way, both strategic and tactical arguments on how to handle what Chung Dong-young once strikingly called a brother and an ally – North Korea and the U.S. – will continue. While much hinges on what balance Seoul strikes, the fact that in under two years South Koreans may rebuff Uri and elect a conservative president – the opposition GNP is currently far ahead in the polls – might make Kim Jong-il ponder the merits of being more pliable while the going is good.

### **Chronology of North Korea-South Korea Relations October-December 2005**

**October:** Along with foreign tourists, 7,203 South Koreans fly to Pyongyang on nearly 100 direct flights from Seoul during October for one-night tours to see the Arirang mass games.

**Oct. 1, 2005:** The ROK repatriates via Panmunjom the body of Chung Song-taek, a North Korean spy who served 31 years in Southern jails until 1989. He died of cancer Sept. 29, age 84. This is the first such inter-Korean repatriation of remains.

**Oct. 1, 2005:** The first jointly managed inter-Korean venture is inaugurated in Pyongyang, with \$5 million each from the ROK’s Andong Hemp and the DPRK’s Saebyol. Pyongyang Hemp Textile Co plans to grow hemp in 8 Northern provinces and hire 172,000 workers on farms and in textile and paper plants. 170 businesspeople fly in from Seoul for the opening, followed by the first Northern investor relations seminar for Southern companies.

**Oct. 2, 2005:** ROK Foreign Minister Ban Ki-moon clarifies that any future provision of a light water reactor (LWR) to the DPRK would not be an extension of the project by KEDO (Korea Peninsula Energy Development Organization).

**Oct. 5, 2005:** Kim Yoon-kyu, dismissed in August as chief executive officer of Hyundai Asan, is sacked as vice chairman of Hyundai.

**Oct. 5-7, 2005:** A meeting in Kaesong agrees procedures for family reunions via video-link.

**Oct. 6, 2005:** Park Geun-hye, leader of the ROK's opposition GNP, says she opposes repatriating some 28 former DPRK spies unless the North also releases about 540 Southern POWs and 480 civilian abductees whom it is believed to be holding.

**Oct. 6, 2005:** MOU denies media reports that state funds for inter-Korean cooperation, totaling \$500,000, were among monies allegedly embezzled by Kim Yoon-kyu. But it confirms a claim by Lee Hahn-koo, a lawmaker of the GNP, that Hyundai received a total of 140 billion won (\$130 million, then) since 2003.

**Oct. 7, 2005:** Jacques Rogge, president of the International Olympic Committee (IOC), says the two Koreas hope to field a unified team at the 2008 Beijing Olympics.

**Oct. 10, 2005:** Hwang Seon, a Southern unification activist visiting for the Arirang show, gives birth to a baby girl in Pyongyang: the first South Korean to be born in the North.

**Oct. 11, 2005:** ROK Vice Unification Minister Rhee Bong-jo says a contract signed in 2000 by Hyundai, granting it exclusive rights to seven business fields in the North, remains valid.

**Oct. 12, 2005:** Vice Minister Rhee says the North has for the first time agreed to discuss an agenda in advance for the next inter-Korean economic meeting. Working-level talks will be held in Kaesong next week. Rhee also says the ROK has formed a task force to draw up a roadmap for comprehensive economic cooperation with the DPRK.

**Oct. 13, 2005:** The GNP proposes an inter-Korean special economic zone, to include Haeju and Kaesong in the North and with Paju in the South as its hub. It criticizes the ROK government for not raising human rights and other sensitive topics with the DPRK.

**Oct. 13, 2005:** MOU reveals that Seoul has formally proposed building more inter-Korean industrial zones like Kaesong, but that Pyongyang has yet to offer any response.

**Oct. 14, 2005:** ROK Prosecutor General Kim Jong-bin resigns in protest after Chun Jung-bae, the justice minister, in an unprecedented intervention, forbids the prosecution to detain sociologist Kang Jeong-koo while investigating him for alleged pro-North views.

**Oct. 18, 2005:** After 18 years, South Korea completes its \$380 million Peace Dam on the upper Han River. This is now seen as guarding against the collapse of the North's Imnam dam upstream, rather than any deliberate bid to flood Seoul as originally conceived.



**Oct. 20, 2005:** The Forum for Inter-Korean Relations, a coalition of ROK NGOs, says that most of the 1,000-odd Southern firms to have done business with the North have given up or gone bankrupt. FIKR calls on Seoul to take the initiative in future over business dealings with Pyongyang, and to insist that Hyundai's rights be restored.

**Oct. 20, 2005:** The North's Korea Asia-Pacific Peace Committee calls for Kim Yoon-kyu's reinstatement, accuses Hyundai of "improper behavior," blames the GNP for interfering, says it will seek other partners for tourism to Kaesong, and threatens to review and "readjust" all undertakings with Hyundai.

**Oct. 20, 2005:** ROK forms a nine-member civilian team – four accountants, three from NGOs, and two academics – to monitor transparency in spending inter-Korean funds.

**Oct. 23-31, 2005:** ROK inspectors monitor distribution of the South's rice aid at two sites in Wonsan on Oct. 23, and two places in Nampo on Oct. 31.

**Oct. 28, 2005:** The 11<sup>th</sup> meeting of the Inter-Korean Economic Cooperation Promotion Committee (ECPC) is held at the new Office of Inter-Korean Economic Cooperation in the Kaesong industrial complex. Despite prior working-level consultations Oct. 17, 20-21 and 25-26, no concrete progress is made and no date is set to meet again.

**Nov. 1, 2005:** A GNP lawmaker reveals an MOU blueprint to invest 5.25 trillion won in restoring the North's economy through 2010, if the nuclear issue is resolved.

**Nov. 1, 2005:** In Macau for the fourth East Asian Games, North and South Korean sports delegations agree to field a unified team for the 2006 Asian Games in Doha, Qatar and the 2008 Beijing Olympics. Details will be thrashed out at a meeting in Kaesong Dec. 7.

**Nov. 5-10, 2005:** The 12<sup>th</sup> separated family reunions since 2000 are held at Mt. Kumgang. A total of 589 South Koreans and 323 Northerners participate.

**Nov. 16, 2005:** The U.S. Department of Commerce grants KT (Korea Telecom) an export license for materials it needs to launch a telecom service in the Kaesong industrial zone.

**Nov. 17, 2005:** ROK is one of 62 member states to abstain when the UN General Assembly passes by 84-22 an EU-sponsored resolution critical of DPRK human rights.

**Nov. 17, 2005:** ROK Inter-Korean Exchange and Cooperation Promotion Committee approves supply of 60,000 tons of coal to Kaesong city from now until February.

**Nov. 21, 2005:** ROK National Assembly passes MOU's amendments to the 1990 Act on Inter-Korean Exchange and Cooperation, easing regulations for visiting the DPRK.

**Nov. 24-25, 2005:** A second round of video-link reunions is held, briefly connecting 40 families from each side.

**Nov. 26-28, 2005:** Ten ROK inspectors go North to monitor distribution of the South's rice aid. Five leave for Heungnam on Nov. 26, and another five for Nampo on Nov. 28.

**Nov. 28, 2005:** MOU says that some 1,130 North Koreans reached the South this year so far, bringing the total of defectors to 7,430. Supporting them costs \$50 million annually.

**Dec. 7, 2005:** Talks at Kaesong on forming a unified Korean team for the 2006 Doha Asian Games and the 2008 Beijing Olympics fail. They will meet again in February.

**Dec. 7, 2005:** New U.S. Ambassador Alexander Vershbow characterizes North Korea as "a criminal regime." ROK Foreign Minister Ban Ki-moon urges linguistic sensitivity.

**Dec. 8-11, 2005:** Freedom House, a U.S. NGO given U.S. government funds for that purpose, sponsors a major conference in Seoul on North Korean human rights. Attendees include U.S. special envoy Jay Lefkowitz. The ROK government keeps its distance, but is accused by delegates of perpetuating DPRK abuses by its silence.

**Dec. 8-9, 2005:** A third video reunion briefly links 151 South Koreans from 40 families with 104 Northern relatives, while 133 Northerners see 173 of their Southern kin.

**Dec. 9, 2005:** Minister Chung visits the Kaesong industrial zone, with four of his predecessors and a 57-strong business delegation.

**Dec. 13, 2005:** MOU and Hyundai Asan announce a \$4.8 million subsidy, which will allow up to 16,000 schoolteachers and pupils to visit Mt. Kumgang over the holidays.

**Dec. 13-16, 2005:** The 17<sup>th</sup> North-South ministerial talks are held in the ROK's island province of Jeju. An eight-point joint press statement breaks little new ground.

**Dec. 14, 2005:** ROK Vice Unification Minister Lee Jong-bo attends ceremony in Jeju to mark the province's shipping 10,000 tons of tangerines and carrots to the DPRK.

**Dec. 17, 2005:** In the first ever such case, the ROK allows a 2,000-ton DPRK oil tanker to shelter from heavy seas at an islet port north of Jeju.

**Dec. 18, 2005:** The ROK Construction Ministry says it will increase imports of Northern sand from 3.5 million cu. m in 2005 to 6 million cu. m in 2006, and extend the source of supplies from rivers near Kaesong to include the east coast.

**Dec. 20, 2005:** A survey on Dec. 6-7 shows 47 percent of South Koreans approve the current level of aid to the North. 18 percent want this increased, 26 percent want it cut, and 7 percent want it to stop.

**Dec. 22, 2005:** Some 50 officials from each side attend the opening of the Kaesong office of the DPRK's General Guidance Bureau for central special economic zone development (GGB). The office's 30-odd staff will deal with labor provision, tax and other issues.

**Dec. 27, 2005:** ROK driver hits three Korean People's Army (KPA) soldiers at Mt. Kumgang, killing one. The DPRK hands him over to ROK authorities for prosecution.

**Dec. 27, 2005:** ROK buys land and signs a contract to build a \$19 million training center in the Kaesong industrial zone (KIZ). When completed a year hence, this will train up to 30,000 DPRK workers annually in 30 lecture rooms and 57 "exercise rooms."

**Dec. 28, 2005:** ROK Information and Communications Minister Chin Dae-je is one of 340 guests attending KT's opening ceremony to launch telecom services in KIZ.

**Dec. 30, 2005:** Minister Chung tenders resignation to President Roh Moo-hyun.

**Jan. 2, 2006:** President Roh appoints Lee Jong-seok, long influential as deputy chief of the National Security Council, as the new unification minister.





**China-Korea Relations:  
Hu Visits the Two Koreas**

**Scott Snyder**  
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Completion of the Sept. 19 Joint Statement at the Six-Party Talks set the stage this quarter for top-level Chinese diplomatic interaction with the two Koreas. PRC President Hu Jintao made successive visits to Pyongyang and Seoul in October and November. Hu's visit to Pyongyang at the end of October was the first visit by a Chinese president since Jiang Zemin's visit in September 2001, and his state visit to Seoul in conjunction with the APEC meeting in Busan was his first as president of the PRC. Both visits boosted China's diplomatic aims and strengthened China's relations with Pyongyang and Seoul, respectively. But the visits also highlighted the economic, diplomatic, and policy gaps in China's relationships with the two Koreas and shed new light on the difficulty of reaching a satisfactory solution to the DPRK's ongoing nuclear development efforts.

The economic balance sheet illustrates the differences in China's relationship with the two Koreas: Hu's visit marked an intensification of China-DPRK economic ties, with reports of PRC pledges of up to \$2 billion in investments in the DPRK within the next few years to enhance stability and promote economic reform in North Korea, while indirectly stimulating greater PRC-DPRK trade that could expand as much as 30 percent to \$2 billion in 2005. During Hu's visit to Seoul, South Korea formally gave the PRC "market economy" status. The PRC-ROK bilateral trade balance will reach over \$100 billion for 2005, three years earlier than had been anticipated. In addition, South Korea has emerged in 2005 as one of the top three leading investors in China. The issue of North Korea's counterfeiting of U.S. dollars also involves China since U.S. sanctions on a bank located in Chinese-controlled Macao became a central challenge for Chinese diplomats responsible for overcoming an emerging stalemate in the Six-Party Talks.

Despite continued growth in the bilateral trade volume, tensions reemerged with the outbreak of public and symbolic "kimchi wars" over phytosanitary standards for South Korean imports of kimchi made in China. There were also a number of private-sector developments in the automobile and high-tech sectors that illustrate the complexity and likely challenges that intensified bilateral trade relationships may bring to the China-South Korean economic relationship.

## **Hu's the man on the state visit to Pyongyang**

President Hu Jintao's long-delayed visit to Pyongyang was designed to consolidate and stabilize China-DPRK ties. The achievement of the Joint Statement removed the primary obstacle that had reportedly delayed the Chinese leader's visit since April, allowing Hu to visit Pyongyang without the need to bring back nuclear concessions or to twist DPRK Chairman Kim Jong-il's arm on any immediate issues. The visit also marked the culmination of several years of concerted Chinese efforts to cultivate stronger political and economic ties with the DPRK leadership, including quarterly visits by senior PRC figures since 2003 designed to ensure direct communication and policy coordination with Kim Jong-il and the DPRK's top leadership.

Hu received the red carpet treatment from Kim Jong-il that has been reserved for Hu's predecessor Jiang Zemin and ROK President Kim Dae-jung: a personal airport greeting and send-off from the chairman himself, an adoring welcoming crowd of Pyongyang citizens that numbered in the tens of thousands, a special performance of the Arirang festival, a visit to the Chinese-backed joint venture Taean Friendship Glass Factory, and meetings with all the DPRK top brass, reportedly including a special introduction to the man rumored to be Kim Jong-il's chosen successor, his second son Kim Jong-chol. However, Chinese observers interpreted the fact that Hu's visit was combined with a visit to Vietnam illustrates that while China-DPRK ties had recovered, they were no longer as "special" as in the past.

Hu is reported to have promoted four principles for developing bilateral relations with the DPRK: 1) forging closer high-level contacts and exchanges, 2) expanding and enriching the scope and substance of cooperation, 3) promoting economic and trade ties, and 4) conducting active coordination for common interest. Hu's visit furthered the first objective, and it is reported that he mobilized many resources in pursuit of the second and third objectives, effectively restoring the China-DPRK relationship to its highest point since China normalized relations with South Korea in 1992.

Notable forms of expanded Chinese cooperation with the DPRK that coincided with Hu's Pyongyang visit included a new pattern in China's management of North Korean refugees who enter South Korean schools or other facilities not protected by diplomatic immunity. In the past, China had informally allowed North Korean refugees who came under South Korean protection at such facilities safe passage to Seoul, but in September the Chinese authorities took into custody North Korean refugees who had sought asylum at a South Korean school in Yantai and repatriated them to the North. There are rumors that China's cooperation with North Korea following the Hu visit includes the renewal of China-DPRK military cooperation in the form of Chinese supply of spare parts for aging North Korean military equipment.

President Hu's visit highlighted China's latest gift to Kim Jong-il: the Taean Friendship Glass Factory, an investment reportedly worth \$24 million. PRC Councilor Wu Yi had been in Pyongyang only weeks earlier on the Oct. 10 anniversary of the founding of the DPRK to jointly open the glass factory with Kim Jong-il and to remove any difficult issues in the way of Hu's visit. The Taean Friendship Glass Factory symbolizes a new Chinese emphasis in its relations with the DPRK, shifting from aid to investment and joint ventures with DPRK counterparts designed to promote economic stability in the DPRK, to consolidate Chinese economic influence

in North Korea, and to promote economic reforms according to the Chinese model. For instance, the PRC has also backed a China-DPRK joint venture bicycle factory in Pyongyang. However, even some Chinese analysts wonder whether China's partners in the DPRK share the priority put on reform and whether it is possible to induce true economic reform in North Korea under the current leadership.

The task of "conducting active coordination for common interest" presumably would include a clear understanding between China and the DPRK that North Korea would commit itself to fulfilling its denuclearization as promised in the Chinese-brokered Joint Statement that concluded the fourth round of the Six-Party Talks. However, Kim Jong-il's public commitment only extended to continued participation in the six-party process. The language of "coordination for common interest" might suggest that Hu expects no sudden surprises from Kim Jong-il's handling of the nuclear issue, although some Chinese analysts suggest North Korean surprises are unavoidable as a way for the North to demonstrate its independence from China. It remains to be seen whether the Chinese are willing to use their influence more actively to compel North Korean cooperation at the talks in the context of consolidated PRC-DPRK ties.

Finally, the October Hu visit to Pyongyang was important to both sides in light of the fact that Hu was scheduled to visit Busan in November for the annual APEC meeting. Thus, Hu's visit to North Korea prior to going to South Korea for APEC preserved a sense of balance in China's relations with the two Korea.

### **Hu in Seoul: taking comprehensive, cooperative partnership to a new level**

Hu returned to the Korean Peninsula three weeks after his visit to Pyongyang for a state visit with ROK President Roh Moo-hyun and the annual meeting of APEC. The Hu-Roh summit came one day prior to Roh's meeting with President George Bush in Gyeongju and two days prior to the APEC summit meeting in Busan. Although Hu's state visit to Seoul seemed to have been downplayed in the Korean press, it provided interesting protocol challenges in comparison with both Hu's reception in Pyongyang and with the Roh-Bush meeting the day after in Kyongju.

On the one hand, Hu's state visit to Seoul was subdued in comparison with the all-out reception he had received from Kim Jong-il only three weeks earlier. On the other hand, Roh received Hu for a state visit in Seoul, but Roh only dropped by Gyeongju on the way to Busan the next day for a summit meeting with Bush. One might argue that the comparative handling of the two visits – and the results, a PRC-ROK Joint Communiqué vs. a U.S.-ROK Joint Statement – represents a slight to the U.S. alliance. Alternatively, one might argue that the two visits were handled properly in light of the comprehensive economic ties that Seoul and Beijing now enjoy, evident tensions in the U.S.-ROK alliance relationship, and the stakes that Seoul has in working with Beijing to manage the danger of instability in North Korea.

The China-ROK Joint Communiqué emphasized that the "comprehensive, cooperative partnership" that had been affirmed during President Roh Moo-hyun's July 2003 visit to Beijing has developed beyond expectations and that it is time to take the relationship to a new level by continuing to expand and deepen exchanges and cooperation. Hu and Roh welcomed the Six-Party Talks Joint Statement and encouraged the concerned parties "to demonstrate sincerity and

flexibility, implement the statement in earnest, and continue to make progress in advancing the process of talks.” The Chinese side welcomed progress in inter-Korean reconciliation and expressed appreciation for South Korean efforts to promote peace, stability, and regional cooperation, as South Korea expressed “full understanding and respect” for China’s position that Taiwan is “an inalienable part of Chinese territory.”

Both leaders affirmed the desirability of deepening political contacts at the highest levels among executive, legislative, and party representatives of the two countries, pledged to strengthen coordination among foreign affairs departments, and “to continue strengthening dialogue and contact between the two nations in the realms of national defense and security and to expand exchanges between the two militaries.”

The Joint Communiqué cited the *Joint Research Report on Medium- and Long-Term Development Programs for China-ROK Economic Cooperation and Trade* as a roadmap for continuing to develop the bilateral economic relationship, welcomed the fact that bilateral trade would reach \$100 billion in 2005 (approximately 20 percent share of the ROK’s projected \$500 billion trade volume for 2005), three years earlier than anticipated, and set the goal of doubling trade to \$200 billion by 2012, the 20<sup>th</sup> anniversary of the normalization of China-South Korean relations.

The Joint Communiqué also mentioned South Korea’s designation of China as a market economy, cited private efforts to prepare for a bilateral FTA, mentioned efforts to redress China’s chronic trade deficit with South Korea, stressed the need for continued cooperation to manage bilateral investment, and encouraged a wide range of cooperative efforts in the fields of information technology, bioengineering, environmental technology, energy, and logistics. Finally, the two leaders designated 2007, the 15<sup>th</sup> anniversary of diplomatic normalization, as a year of China-ROK exchanges, resolved to facilitate youth exchanges, and tourism, including Chinese air routes to Jeju Island, and pledged to expand consular representation to Gwangju and Xian.

The day after the Roh-Hu summit, Hu addressed the ROK National Assembly, laying out his vision for the relationship and for China’s rise and regional role. Hu asserted that “Sino-South Korean relations have entered the best stage in history,” suggested that the relationship between China and South Korea is a model of peaceful coexistence between countries with different social systems, that the economic relationship is a model for “mutually beneficial, win-win, and common development,” that the two countries should be “friends that can learn from and complement each other,” and that “Sino-South Korean ties have gone beyond the scope of bilateral relations against the backdrop of a multi-polar world and economic globalization.”

Although not addressed publicly in specific terms, no doubt Hu also consulted with Roh and others about specifics of his visit to Pyongyang, the parallel positions of South Korea and China on how to address North Korea’s denuclearization and the response to Prime Minister Koizumi Junichiro’s continued visits to Yasukuni Shrine, and the future development of an East Asian community. It is also notable that the ROK government deferred to Chinese wishes on Taiwan representation at the APEC summit meeting, declining Chen Shui-bian’s choice of National



Assembly Speaker and KMT member Wang Jyn-ping in favor of former economics minister and Chen Shui-bian's special advisor Lin Hsin-i.

### **Kimchi wars: a cloud on the economic horizon**

The beginning of the quarter suggested the possibility of real economic and political trouble in the China-South Korea relationship, as the spat over phytosanitary standards and Chinese imports hit a new low over possible contamination of Korea's national staple, which has increasingly arrived on Korean dinner tables with the "made in China" label. There was a near doubling of kimchi imports to South Korea in the first nine months of 2005, with commercial restaurants in the lead to purchase the cheaper imported kimchi brands.

Korean concerns over contaminated food products from China spilled over from seafood to kimchi in mid-September as an opposition legislator revealed that kimchi made in China might have higher than allowable lead content. By mid-October, the Korean Food and Drug Administration revealed that Chinese imported kimchi contained parasite eggs in higher than expected levels, most likely in connection with Chinese use of animal manure as fertilizer for growing cabbage. The products in question were recalled and destroyed. The national outcry among South Korean consumers dried up kimchi imports and probably confirmed Chinese suspicions that the Korean press and protectionist farmers were trying to manipulate Chinese access to the Korean kimchi market.

Follow-up investigations revealed two facts that undercut Korean consumer reaction and damaged the position of the Korea Food and Drug Administration. First, it was revealed that Korean-made kimchi also contained ringworm eggs, albeit at lower quantities than the Chinese imports. Second, most of the increase in kimchi imports from China was led by Korean companies who had relocated their production operations to China, so the problem with Chinese kimchi production also involved production by Korean companies that sought to take advantage of China's lower labor and production costs.

Nonetheless, the news reports took a toll that finally stimulated a response from the Chinese government. In early November, the PRC announced its own concerns about contamination of Korean-made chili paste sold in China, imposed sanctions on a number of Korean producers, and also expressed concerns about the safety of some materials used in Korean-made cosmetics that enjoy rising popularity in the Chinese market. However, it turned out that none of the Korean companies cited by China was exporting to the Chinese market! The incident stimulated questions about the standards of the Korea Food and Drug Administration and served to intensify China-ROK governmental coordination to institutionalize more effective food safety and quarantine procedures as part of bilateral trade.

The 2005 "kimchi wars" are reminiscent of the 2000 China-ROK "garlic wars," which occurred just prior to China's entry into the World Trade Organization (WTO). At that time, the stakes were higher as there was no global mechanism to address bilateral trade disputes between China and South Korea. China's heavy-handed response linked South Korean telecommunications imports to the garlic exports, effectively forcing the South Korean government to stand down. Despite the existence of an institutional framework for managing China-ROK trade disputes

through the WTO, China's resort to unilateral measures during the latest incident showed a mixture of sophistication and heavy-handedness. The sanction of Korean companies not doing business in China was a cost-free face-saving measure, but the linkage of Korean consumer safety concerns over kimchi to questions about the safety of Korean cosmetics appears to be overdrawn and smacks of tactics used by China during the garlic wars. It remains to be seen whether such tactics will haunt the China-ROK trade relationship in the future.

### **Private sector challenges**

A wide range of predominantly private sector developments deserve brief mention as future issues for the rapidly growing China-South Korean economic relationship.

- Shanghai Automotive Industry Corp. (SAIC) – South Korean union leaders from Ssangyong Motors responded poorly to SAIC's announcement that the latest Ssangyong model would be produced in China. Labor union leaders sought a meeting in December with SAIC Chairman Hu Maoyuan following fruitless negotiations with Ssangyong Motor President Jiang Zhiwei over possible restructuring and technology transfers to China. SAIC's Korean investment is proving a valuable tool for Chinese executive learning on the subject of labor-management relations.
- Korean farmers in Hong Kong – Hundreds of militant Korean farmers in Hong Kong to protest WTO talks held in mid-December were detained after failing to observe the terms of peaceful demonstration set down by Hong Kong police authorities. Families of the farmers protested "human rights" violations by Hong Kong police during their detainment and a South Korean vice minister flew to Hong Kong to negotiate the release of the farmers. Chinese authorities attempted to expeditiously resolve the unwanted "export" of Korean protest methods, which drew the lion's share of international coverage during the Hong Kong WTO negotiations.
- Hyundai Motor Company investment in China – Hyundai Motors had a banner year with strong inroads into the China market, increasing sales an average of approximately 50 percent in 2005 on the strength of expanded production in Beijing and Shanghai; however, Hyundai and supporting auto parts suppliers that moved facilities to China face difficulties with technological processes walking out the back door to Chinese competitors and Chinese government negotiators who demand technology "offsets" in return for expanding production lines and facilities in China. An internal inspection team found that a Chinese local partner company of Hyundai had shared confidential data with Chinese competitors. South Korean corporations in the IT and other sectors continue to face challenges from Chinese efforts to steal South Korean technology and undercut South Korea's comparative advantage in the market.
- The "South Korean wave" of cultural exports to China continues to bolster South Korea's brand image and export competitiveness to China, but signs of a backlash have emerged on Chinese concerns that South Korean exports have become too successful in China. SK Communications opens *Cyworld* mini-homepage features in China and expects to reach 1 million subscribers by the end of 2005.

## Prospects for 2006

The immediate diplomatic challenge for Chinese policymakers as they look to 2006 is how to break the stalemate in Six-Party Talks resulting from North Korean efforts to link the U.S. sanctions on Macao-based Banco Delta Asia under the Patriot Act to a continuation of the six-party negotiations. These sanctions add a new dimension to China-DPRK-U.S. interactions since the bank in question is ultimately under the control of Chinese authorities, who certainly would have known in advance about the U.S. action under the banner of fighting terrorism. But it is also easy to imagine that the easiest access of DPRK high officials and companies to international capital would be through China-based banks, including the Bank of China. So the effectiveness of such sanctions will depend on China's cooperation – or at least acquiescence – to further actions that the U.S. might take under antiterrorism provisions. At the same time, to the extent that DPRK illegal activities become public – and it is easy to imagine that U.S. dollars are not the only money that a DPRK counterfeiting operation would be able to master – China most likely will not oppose sanctions. Thus, China's cooperation is crucial, but the fact that U.S. authorities are initiating the action gives China a form of plausible deniability regarding responsibility for such actions.

From a strategic perspective, Chinese leaders are very satisfied with the rapid development of China-South Korean economic ties and want to show off the relationship with South Korea as evidence of mutually beneficial cooperation between differing social systems. South Korea has benefited from China's economic growth, but South Korea's future economic prospects appear to be increasingly tied to China's economic future. For this reason, South Korean access to the Chinese consumer market will become increasingly important as international export competition grows. A Chinese economic slowdown would also have serious ramifications for South Korean economic prospects.

But will South Korea's ties to the Chinese economy have implications for South Korea's political and security orientation? Although there is little evidence that Chinese strategists are seriously attempting to exploit closer China-South Korean economic ties for political purposes, some see South Korea's alliance with the U.S. as an obstacle to the development of a deeper China-South Korean relationship. And some South Korean analysts are increasingly uncomfortable with the extent of South Korea's economic dependence on China. The next year may show whether South Korean deference to Chinese political preferences emerges as an inhibiting factor in managing U.S.-ROK alliance relations.

## **Chronology of China-Korea Relations October-December 2005**

**Oct. 3, 2005:** Korean shipbuilding companies announce plans to increase steel imports from China to address a shortage of steel sheets.

**Oct. 8-1, 2005:** PRC Vice Premier Wu Yi visits Pyongyang to join celebrations of the 60<sup>th</sup> anniversary of the Korean Worker's Party, meets with North Korean leaders including DPRK Chairman Kim Jong-il, and participates in ceremonies marking the opening of the Taean Friendship Glass Factory, a China-DPRK joint venture.

**Oct. 10, 2005:** ROK Ministry of Foreign Affairs and Trade announces that the Chinese government deported seven North Korean defectors back to North Korea in late September after they sought asylum at a South Korean school in Yantai, China Aug. 29.

**Oct. 11, 2005:** Korea Food and Drug Administration announces that kimchi imported from China has lead contents well below internationally recognized permissible level for vegetables, ending a consumer scare.

**Oct. 11, 2005:** ROK MOFAT announces that China has handed over to South Korea eight North Korean defectors who entered a South Korean school in Qingdao, China.

**Oct. 10-12:** Eighth Chinese World Chinese Entrepreneurs Convention is held in Seoul, including over 3,100 Chinese businessmen and over 500 Korean counterparts.

**Oct. 15, 2005:** *KCNA* releases text of telegram from Hu Jintao to DPRK Defense Commission Chairman Kim Jong-il, which states that "China will continue strengthening the bilateral friendly cooperative relationship between the parties, governments and peoples of the two countries under the spirit of maintaining tradition, seeking future-oriented relationship and enhancing friendly cooperation."

**Oct. 19, 2005:** Following Japanese Prime Minister Koizumi Junichiro's Oct 17. visit to Yasukuni Shrine, ROK Ministry of Education announces that it seeks a three-way meeting among education ministers from China and Japan to address alleged distortions in history textbooks in the three countries.

**Oct. 21, 2005:** Korea Food and Drug Administration announces that it has found parasites in kimchi imported from China.

**Oct. 24, 2005:** ROK MOFAT reveals that the Chinese government has warned the Korean embassy in Beijing that it could retaliate against ROK government reports that have raised fears over the safety of Chinese products.

**Oct. 25, 2005:** Hyundai Motor Company internal investigation reveals that a Chinese partner involved with computer simulation tried to sell confidential technologies to Chinese competitors.

**Oct. 26, 2005:** ROK Ministry of Commerce, Industry, and Energy announces that ROK machinery exports have surged 31 percent in the first nine months of 2005. Demand from China accounted for one-third of South Korean machinery exports.

**Oct. 26, 2005:** ROK Foreign Minister Ban Ki-moon downplays impact of safety concerns about kimchi imported from China on China-ROK relations.

**Oct. 28-30, 2005:** PRC President Hu makes state visit to Pyongyang, meets DPRK Central Defense Commission Chairman Kim, signs accord on economic and technical cooperation, and visits the Taean Friendship Glass Factory.

**Oct. 29, 2005:** Vice Foreign Minister Li Bin visits Seoul to brief counterpart ROK Vice Foreign Minister Song Min-soon on President Hu's visit to the DPRK and to discuss the anticipated fifth round of Six-Party Talks.

**Oct. 31, 2005:** PRC government announces a ban on 10 types of food products from major Korean manufacturers of kimchi, chili paste, and meat barbeque sauces.

**Nov. 3, 2005:** Korea Food and Drug Administration finds that 3.2 percent of Korean domestic kimchi manufacturers (16 out of 502 companies) contain parasite eggs.

**Nov. 7, 2005:** Ssangyong Motor Co. announces that it plans to focus on a Chinese joint venture to develop a new car in China rather than increasing domestic production.

**Nov. 9, 2005:** *KCNA* reports that Kim Jong-il has visited the recently commissioned Pyongyang Joint Venture Bicycle Factory, a joint venture with the Tienjian Leading Digital Trade Co., Ltd.

**Nov. 9, 2005:** Ssangyong Motor Co. labor union leaders announce a vote on whether to strike in response to Shanghai Automotive Industry Corporation plans to build a joint venture plant in China that labor leaders fear would result in plant closures and technology transfers to a China-based production plant.

**Nov. 9-11, 2005:** Fifth round of Six-Party Talks held in Beijing.

**Nov. 16, 2005:** PRC President Hu and ROK President Roh Moo-hyun hold summit meeting in Seoul as part of PRC state visit to South Korea.

**Nov. 17, 2005:** PRC President Hu addresses ROK National Assembly in Seoul.

**Nov. 18, 2005:** ROK government and ruling party decides to send food inspectors to Chinese facilities to check sanitation of kimchi and other agricultural products.

**Nov. 18-19, 2005:** ROK President Roh hosts APEC leaders in Busan.

**Dec. 2-3, 2005:** Vice Foreign Minister Song Min-soon meets with counterparts in Beijing to discuss how to resolve the impasse in Six-Party Talks resulting from North Korean objections to U.S. sanctions against Macao-based Banco Delta Asia for involvement with alleged counterfeiting and drug running activities by North Korean companies.

**Dec. 4, 2005:** Police arrests two Korean brokers for arranging illegal transplants of human organs in China.

**Dec. 13, 2005:** ROK President Roh meets PRC Premier Wen Jiabao on the sidelines of the East Asian Summit in Kuala Lumpur.

**Dec. 20, 2005:** POSCO announces that it will cut prices on 13 steel products by up to 17 percent in response to low-cost competition from Chinese steel producers.

**Dec. 24-27, 2005:** PRC Premier Wen affirms China's policy of developing friendly and cooperative relations with the DPRK during meeting with a DPRK delegation led by Cabinet Vice Premier Ro Tu-chol in Beijing. During his visit, Ro and Chinese counterpart Zeng Paiyan sign agreement on the joint development of offshore oil wells.

**Dec. 29, 2005:** ROK Vice Foreign Minister Song Min-soon states that the issue of North Korean counterfeiting is up to the U.S., North Korea, and China to resolve.



Japan-China Relations:  
**Yasukuni Stops Everything**

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Prime Minister Koizumi Junichiro's Oct. 17 visit to the Yasukuni Shrine effectively put Japan-China relations into a political deep freeze. Meetings on sensitive East China Sea issues were cancelled and prospects for a Japan-China leadership summit before the end of the year went from slim to none. In December, Foreign Minister Aso Taro and Democratic Party of Japan President Maehara Seiji raised the issue of a China threat, which Beijing dismissed as irresponsible and without foundation. China's diplomatic White Paper, issued at the end of December, announced that China has never been a threat and that it never had and never would seek hegemony.

**Back to Yasukuni**

On Sept. 29, the Tokyo High Court, dismissing an appeal seeking compensation for Prime Minister Koizumi's August 2001 visit to Yasukuni Shrine, ruled that the visit was "an act based on personal religious beliefs" and thus protected under the constitution. The next day, the Osaka High Court ruled that Koizumi's visits to Yasukuni were "official" and "religious" in nature but rejected plaintiff's claims for compensation. In a supplementary statement, the court found that the visits contravened the constitution's separation of religion and state.

Later that day, the prime minister told a Lower House Budget Committee that, "Some courts have ruled them constitutional in the past. Decisions vary from court to court. I have not visited there as part of my duties as prime minister." Later, Koizumi told reporters that the ruling would not affect his decision on future visits to the Shrine. After meeting with Koizumi, political confidant Yamasaki Taku told reporters "I got the impression that Prime Minister Koizumi will visit the Shrine before year's end without fail. His mind is made up."

Responding to a question regarding the Tokyo Court ruling, Chinese Foreign Ministry spokesperson Qin Gang asked reporters "Do you believe such logic?" Qin made clear that Yasukuni is "the major sticking point in the current difficulties facing China-Japan relations."

On the morning of Oct. 17, the prime minister visited the Shrine, and Japan's relations with China, hovering near the freezing mark, plunged to record lows. At a noon meeting of the government and ruling party coalition, Koizumi was quoted as saying that he visited the Shrine

“as a private citizen, not as prime minister” and prayed based on his resolve that Japan would “never fight a war again.” He went on to say “Japan is where it is today, owing to the people who went to war against their wishes.” The prime minister wanted “to work toward future-oriented relations with neighboring countries.” Chief Cabinet Secretary Hosoda Hiroyuki emphasized to reporters that the prime minister did not visit in his official capacity.

Beijing’s response was not long in coming. On the evening of Oct. 17, China’s Foreign Minister Li Zhaoxing called in Japanese Ambassador Anami Koreshige to express the strong displeasure of the Chinese government and people. The foreign minister noted that such a direct form of protest was unusual but an indication of the severity with which the Chinese government viewed the matter. China’s Ambassador Wang Yi also protested the visit to Foreign Minister Machimura Nobutaka

Subsequently, Beijing cancelled the scheduled Oct. 23 visit of Minister Machimura. The visit was to discuss the possibility of a summit meeting between Koizumi and President Hu Jintao sometime before the end of the year, as well as issues related to history, North Korea, and the East China Sea. Foreign Ministry Spokesperson Kong Quan announced that “given the present situation, the visit is not timely.” Kong charged that Koizumi had “destroyed the political base of China-Japan relations” and bore “responsibility for the results of his visit.”

Koizumi appeared nonplussed, telling the press that he visited Yasukuni in his private capacity and that “China and South Korea will eventually understand.” The matter was a spiritual issue, and foreign governments should not be telling Japanese not to pay their respects to those who gave their lives for Japan. Taking a long-term view, he was confident that in “10 years, 20 years, or 30 years, the issue will not be serious.”

On the evening of Oct. 17, Foreign Minister Machimura held a press conference and explained the protests lodged by Chinese and Korean ambassador. His response was to emphasize the private nature of the visit, that it represented a pledge that Japan would never again resort to war, and the intention to pursue future-oriented relations with neighboring countries.

The day after Koizumi’s visit, 92 members of the Liberal Democratic Party (LDP), including Party Secretary General Takebe Tsutomu visited the Shrine accompanied by nine members of the opposition. An additional 94 Diet members were represented by their secretaries. Four possible successors to the prime minister were equally divided: Abe Shinzo and Aso Taro indicated support for visits by the prime minister; Fukuda Yasuo and Tanigaki Sadakazu expressed concern with the effects of history issues on relations with neighboring countries.

Addressing relations with China, Machimura told an Oct. 23 *TV Asahi Sunday* audience that “Until now, we have often, though not always tended to think that it is best for Japan to follow everything China says, not insist on our own claims and keep a rather low profile.” The foreign minister thought “we should be able to say what we believe is right, and also listen to the other side sincerely.” Machimura said that the prime minister had visited Yasukuni, “to show that he should not succumb to foreign pressure.” Earlier, in response to the cancellation, the foreign minister told reporters that dialogue “is not closed at all” and that he would like to “pursue it from now on as well.”



Public opinion polls showed a closely divided public and political leadership. A *Tokyo Shimbun* poll of Oct. 17-18 indicated 48 percent in favor of the visit and 45 percent against, with 65 percent in favor of a new war memorial. An *Asahi* poll of the same dates found 42 percent supporting the visit, 41 percent opposed, and 65 percent concerned about deteriorating relations with China and the ROK. A *Kyodo News* survey conducted Oct. 17-18 reported 48.1 percent in favor and 45.8 percent opposed.

On Oct. 31, Koizumi reshuffled his Cabinet, appointing Abe Shinzo to replace Hosoda as chief Cabinet secretary and Aso Taro to replace Machimura as foreign minister.

Abe held his first press conference that day. He told reporters that he, like the prime minister, had visited Yasukuni Shrine as a Japanese citizen and political figure and expected that similar visits would continue. The next day, he told a press conference that he fully understood the feelings of the Chinese and Korean people and that Japan needed “to give explanations in a sincere manner.” Newly appointed Foreign Minister Aso in his first press conference acknowledged the differences between Japan and China on the issue and called for dialogue as the “only way” to resolve them. He noted that Japan enjoyed good economic relations with China and, while “things have not gone smoothly at the political level,” he did not think “the strained ties ...have damaged Japan’s national interests.”

China’s Foreign Ministry spokesman Kong replied Nov. 1, making clear that the responsibility for the present difficulties “does not lie with the Chinese side.” Kong observed that the issue was not one that could be addressed by dialogue; rather the issue was whether Japan would honor its commitment to earnest remorse on history and had indeed embarked on the road of peaceful development. He urged Japan to reflect sincerely on history.

The issue refused to go away – or rather political leadership in both countries found good reason to keep it alive. Within the LDP, Koizumi’s opponents used the Yasukuni issue to criticize the prime minister. On Nov. 5, during the New Komeito Party’s national convention, party leader Kanzaki Takenori, playing to the party’s strong religious support base, asked that the prime minister, foreign minister, and chief Cabinet secretary exercise restraint with regard to visiting the Shrine.

In a speech in Tottori Prefecture Nov. 13, Foreign Minister Aso defended the prime minister’s visits to the Shrine. Aso pointed out that even after the Class-A war criminals had been enshrined, Prime Ministers Ohira and Suzuki had visited Yasukuni and noted that their visits did not draw the criticism now directed at Koizumi. He went to say “I am not the only person who feels their criticism to be strange.... There is no country in the world that prohibits those who gave their lives for the sake of their country from being enshrined with greatest honor. It is natural for us to give thanks and to respect them. This is an important matter that could affect the basis structure of the state, so Prime Minister Koizumi cannot easily make a compromise.”

On Nov. 15, Foreign Minister Li Zhaoxing, during a press conference at the APEC meeting in Busan, rhetorically asked how European nations would react if Germany’s leaders should visit memorials devoted to Hitler and the Nazis. The following day, Chinese and South Korean presidents joined in urging that the problems of history not exercise a negative influence on

cooperation in Northeast Asia and in expressing the view that correct understanding of history is the foundation of stability in Northeast Asia. On Nov. 17, Chief Cabinet Secretary Abe replied that the prime minister visits the Shrine “to pray for people who died for their country and not of specific persons”; Abe thought “many Japanese people find such [an] analogy disagreeable.” Later asked if “those who died for their country” included Tojo Hideki and other wartime leaders, Abe demurred saying that he would not be drawn into a discussion of who’s in and who’s out.

During Dec. 28 yearend press conference, Koizumi, when asked if he planned to visit Yasukuni during the holidays, replied that he planned “to take a good vacation.” While acknowledging that Japan needed to “take steps to get understanding” of the Yasukuni issue, he asked China and the ROK “also to consider the matter.” He went to call for mutual efforts “to promote friendly relations.”

The Yasukuni issue resurfaced the long-running debate within Japanese political circles over the creation of a secular national war memorial. Following the prime minister’s previously articulated formulations on the issue, Abe, as chief Cabinet secretary, and Aso, as foreign minister, avoided taking a stand. Both cited the existence of various opinions as well as the need for broad political support and careful deliberation on the matter. On Nov. 9, 50 political leaders from the LDP, New Komeito, and Democratic Party of Japan, including former LDP Secretary General Yamasaki Taku, former Chief Cabinet Secretary Fukuda Yasuo, former Chief Cabinet Secretary Kato Koichi, New Komeito’s Secretary General Fuyushiba Tetsuo, and party leader Kansaki Takenori, joined in establishing a Secular War Memorial Association. Kansaki called on the prime minister to allocate funds for a feasibility study for a national war memorial. On Nov. 16, LDP General Council Chairman Kyuma Fumio also expressed his support for the idea.

On Dec. 5, however, the *Asahi* reported that the government had tentatively decided against including funds for a feasibility study in the 2006 fiscal year budget. On Dec. 14, the Secular War Memorial Association, meeting in a hotel near the Diet building, likewise decided to put off requesting a feasibility study in the coming fiscal year. However, Komeito’s Fuyushiba, vice chairman of the Association, made clear that his party had not given up hope on including a feasibility study in the 2006 budget. Funds for a study were not included in the final draft budget for 2006 adopted Dec. 22.

### **The search for a Japan-China summit**

A series of high-level diplomatic events – the APEC Summit in Busan, South Korea, Nov. 18-19; the Dec. 12 ASEAN Plus Three (A+3) meeting, followed by the first East Asia Summit (EAS) in Kuala Lumpur on Dec. 14 – provided opportunities for a Japan-China summit. Both Koizumi and the Foreign Ministry made clear Japan’s interest in making it happen, but as the EAS closed, the diplomatic box score read 0 for 3.

At APEC, Koizumi ran into a united China-Korea anti-Yasukuni front. While Koizumi did meet with Korean President Roh Moo-hyun, he failed to meet with President Hu – the Chinese Foreign Ministry made clear that “the atmosphere and conditions are not sufficient for making it happen.” A meeting between the foreign ministers also failed to materialize. More directly, there

was “absolutely no possibility” of such a meeting. Koizumi told reporters that he was “not at all concerned” with the failure to arrange a meeting and that he thought “friendly relations with China are important.” He did not believe that a single issue should stand as an impediment to developing relations with China and Korea. Taking a long-term view, the prime minister asserted that his visits to Yasukuni would not harm relations with China or Korea and that mutual understanding would come with the passage of time.

Looking ahead to the EAS, Foreign Minister Aso, speaking Dec. 7 at the Foreign Correspondents Club of Japan, set forth his views on Japan’s Asia Strategy. In his speech “Asian Strategy As I See it: Japan as the ‘Thought Leader’ of Asia,” Aso developed Japan’s vision for the future of regional cooperation and addressed issues of the past as well as Japan’s relations with its neighbors, China and Korea. Aso made clear that he was “sincerely aware of the fact that Japan in the past caused sufferings to many in Asia, and to the peoples of the Republic of Korea and China in particular”; thus it was “necessary for Japan to maintain continuously a spirit of deep remorse as well as thoughtfulness as a neighbor...” He hoped that Japan’s neighbors would “look at this issue within the overall context of the road Japan has taken over the past 60 years.” Speaking directly to Beijing, the foreign minister emphasized that “the rise of China is something we have been eagerly waiting for.” As for the overall relationship, Aso thought it “important” that the two countries “not allow isolated issues to impair progress as a whole” and “overcome the past through a spirit of reconciliation and collaboration so that the happenings of the past do not harm our future.” On Dec. 8, China’s Foreign Ministry Spokesperson Qin Gang delivered China’s appraisal of Aso’s address, making clear that “in our opinion, what is important is Japan should take concrete efforts, not only orally but in action, to eliminate the political obstacles in developing friendly and cooperative relations.”

That same day, however, at the Press Club of Japan, Aso told reporters that “just because China or the press say not to do something, this should not be why the prime minister of a country should not do so. Rather, he should exercise his own judgment.”

Koizumi traveled to Malaysia on Dec. 12 to attend the A+3 Summit, the Japan-ASEAN Summit, and the first East Asian Summit. Foreign Minister Aso arrived earlier to attend the A+3 ministerial meeting and the Japan-ASEAN ministerial meeting on Dec. 9 and the foreign ministers’ preparatory meeting for the East Asia Summit on Dec. 10.

Once again, there was hope in Tokyo that proximity to China’s leadership would result in a foreign ministers’ or summit meeting. Once again, China made clear that Japan should not hold its breath. Director General Cui Tiankai of the Asian Affairs Department warned, “it is impossible to expect everything to go ahead as usual, as if nothing has happened.” Cui charged that the Koizumi’s visits to Yasukuni “have harmed the political foundation” of the China-Japan relationship. On Dec. 4, Beijing announced that “due to the current atmosphere and condition” the “+3” meeting would be postponed. Commenting on the postponement of the “+3” summit, Koizumi observed, “for me anytime is fine, but it was the other side that postponed it...that’s all right by me.” On Dec. 8, Beijing also announced that there were no plans for a foreign ministers’ meeting during the A+3 summit.

Nevertheless, Foreign Ministers Li and Aso did exchange talking points at the A+3 dinner, with Li putting the worsening of bilateral relations squarely on Japan's shoulders, and, at the A+3 luncheon, Koizumi, seated next to China's Premier Wen Jiabao, turned the conversation to trade. Koizumi noted that Japan is now importing "a large quantity of Shanghai crabs." When asked by Wen if he liked the crabs, Koizumi replied that he did indeed.

On Dec. 14 at the conclusion of the Kuala Lumpur meetings, Koizumi met with the press. The prime minister again emphasized that he had always "been for friendly ties between Japan and China... Japan-China relations are extremely important." Accordingly, he believed that "we should never allow differences in views or confrontations on one or two issues to impede further growth of our bilateral relations." Turning more directly to Yasukuni, the prime minister sought to clear up misunderstandings with regard to his visits. His purpose in visiting the Shrine was "to pay sincere respects to the people who had to go to the battlefield and had to give up their lives." He had "no intention whatsoever to glorify or justify war." Thus the prime minister could not understand "why there are criticisms." As for future summit meetings, Koizumi said "I am prepared to hold summit meetings with the leaders of China and the ROK any time. I have no ill feelings. But I do not know what the attitudes are on the Chinese or ROK side."

As for the diplomatic main event, the EAS, and its run-up, revealed that Tokyo and Beijing were operating on different strategic tracks. China originally aimed to make ASEAN and the A+3 the core of a new East Asian structure – one consciously designed to exclude the U.S. Meanwhile, Japan, supported by Indonesia and Singapore, worked to broaden participation by including Asian democracies, Australia, India, and New Zealand. The communiqué, issued at the conclusion of the A+3 meeting, called for the A+3 grouping to assume the leading role in the "promotion of the community building" in East Asia. Many observers saw the document as moving the community under China's direction and influence. However, the declaration, issued at the conclusion of the EAS, suggested a shift in the direction of Japan and the region's democracies, by including the formulation that "The East Asian Summit can play a key role in the formation of the community."

Commenting on the summit document, China's Foreign Ministry Spokesperson Qin took the line that "China sticks to the principle of openness and transparency. We oppose exclusive cooperation targeting any third party." Thus, China "welcomed" the participation of Australia, India, and New Zealand, and Cui, director general for Asian Affairs, observed "the whole process is open." For Beijing and Tokyo, the net of the Kuala Lumpur meetings was a diplomatic draw. Where the East Asian community goes from the initial EAS is truly an open question.

## **East China Sea**

Following a four-month hiatus, consultations on issues related to energy development in the East China took place in Tokyo at the Foreign Ministry, Sept. 30-Oct. 1. The 18-member Japanese side was led by Director General of the Asian and Oceanic Affairs Bureau Sasae Kenichiro while the 17-member Chinese delegation was led by Director General of the Department of Asian Affairs Cui Tiankai.

At the end of September, five PLA Navy warships were detected in waters near the Chunxiao gas field. In a Sept. 30 speech in Tokyo, China's Ambassador Wang said that the ships were "simply operating in the open sea" and their appearance had "absolutely no relation to the gas field issue."

The Japanese delegation expressed concern about China's development activities, reiterated requests that China provide information and data on its exploration, and warned that, unless Chinese activities ceased, Japan would have no choice but to begin exploration activities on its side of the median-line boundary. The Chinese reiterated that China's development activities were taking place in undisputed Chinese waters. Japan, for the first time, formally presented proposals for joint development, covering both sides of the median line, but China held to its previous position that joint development extend only to the area to the east of the mid-line boundary, i.e., the Japanese side. Thus, the consultations made little progress on defining the area for joint development. However, recognizing the urgency of the issue, the two sides agreed to meet as early as possible, shortly deciding to resume talks in Beijing Oct. 19.

Meanwhile, the third round of Japan-China vice-ministerial talks was scheduled for Oct. 15-16 in Beijing. The *Sankei Shimbun* reported Vice Minister Yachi Shotaro as being "surprised" at the changes in the official posture of Chinese officials. In an Oct. 15 meeting, China's Foreign Minister Li told Yachi that the two countries should be able to solve all outstanding issues, including the East China Sea. Li also remarked that he appreciated Koizumi's warm welcome during his May visit to Japan and noted the prime minister's remark that he wanted "to make the East China Sea a sea of peace." Li also took time to point out that Koizumi's visit to Yasukuni was "an issue of national emotion." The Oct. 16 meeting was cancelled unexpectedly, leaving the Japanese delegation scrambling to reschedule the meeting for Oct. 17. Koizumi's visit to Yasukuni that day effectively ended the talks.

The next day, the *Yomiuri Shimbun* published the results of an Oct. 15-16 public opinion poll on political issues, including questions concerning the East China Sea. Seventy percent of the respondents thought that China should cease exploration activities and that, should China fail to do so, 65 percent believed Japan should develop gas fields on its side of the mid-line boundary.

Attempting to get ahead of the prevailing political winds, the opposition Democratic Party of Japan (DPJ) announced its intention to submit legislation aimed at banning other countries from resource exploitation in Japan's EEZ. On Nov. 17, the LDP, followed suit, announcing its intention to submit legislation in next year's ordinary Diet session. On Dec. 1, the LDP's Special Committee on Maritime Interests, chaired by Takemi Keizo, unveiled draft legislation that would protect ships and crew engaged in exploration activities in Japan's EEZ, establish a 500-meter safety zone around exploration platforms, and forbid entry into the safety zone to unauthorized ships. Two weeks later, on Dec. 16, the LDP adopted the legislative recommendations of the Special Committee on Maritime Interests.

During his visit to China, Maehara Seiji, president of the DPJ, raised the East China Sea issue with State Councilor Tang Jiaxuan. Maehara told Tang that unless China ceased its development activities, the Koizumi government will have no choice but to introduce legislation in the coming Diet session that will support Japanese exploration, and that if the government introduces such

legislation, it will likely do so with the support of his party. Tang replied that China is prepared to resume discussions at an appropriate time.

### **Security: defining the threat**

In his Dec. 7 speech welcoming the rise of China, Foreign Minister Aso also used the occasion to underscore Japanese concerns with China's continuing military buildup and the lack of transparency in the PLA's budget process. The next day in Washington, DC, DPJ President Maehara, in remarks at the Center for Strategic and International Studies, put the issue in politically starker terms, reportedly labeling China a "real threat."

Maehara left Washington Dec. 10 and traveled directly to China, arriving in Beijing Dec. 11, meeting that day with State Councilor Tang as well as Liu Hongcai, deputy chief of the Chinese Communist Party's International Liaison Department. On Dec. 12, Maehara delivered a speech to China's Diplomatic Academy in which he called attention to the "17 consecutive years of double-digit increases" in China's military spending and its "continuing modernization" and "the growing number of voices that regard China as a threat." Afterward, Maehara met with Xiong Guangkai, PLA deputy chief of staff and raised issues related to China's ICBM deployments and last year's intrusion of a nuclear-powered submarine into Japanese waters. Maehara told Xiong that "when we look into China's military buildup, I cannot but have doubts of its intent." Xiong's replied that China was continuing to lag in military modernization. On Dec. 13, Maehara met with China's Vice Foreign Minister Dai Bingguo – hoped for appointments with China's top leaders failed to materialize.

China's Foreign Ministry responded to Maehara's remarks by calling attention to the "facts": China had "never invaded any other country," China was a sovereign state, and thus it is "quite natural for it to maintain certain amount of military expenditure." Taking a comparative look at defense budgets, Spokesperson Qin noted that China's defense spending was "only \$25.6 billion while that of Japan was 1.62 times ours" – on a per capita basis that amounted to \$1,300 in Japan and "just \$23" in China. Given that Japan is "only 1/25" the size of China with "only 1/10" the population, Japan's military spending is "huge." Qin asked "how could Japan justify its purpose?"

On Dec. 22, Foreign Minister Aso, following the Cabinet meeting, spoke with reporters on China's military buildup. Expressing his concerns in language that paralleled Maehara's, Aso cited China's large population, possession of nuclear weapons, and 17 consecutive years of double-digit increases in defense spending as well as a lack of transparency, and observed that "it's becoming a considerable threat." The foreign minister's remarks went beyond the policy line as expressed in the 2005 Defense White Paper, which highlighted the need to watch carefully whether China's spending exceeds the legitimate needs of self-defense and labeled China's continuing modernization as a "cause for concern."

Beijing replied that there was no basis in fact for the threat accusations, China's development served the cause of world peace and stability and labeled Aso's remarks "irresponsible." On Dec. 22, Beijing released a diplomatic White Paper, which solemnly pledged that China would never use its growing power to threaten its neighbors. China would adhere to the "road of peaceful

development” and “never be a threat to anyone.” Contrasting China’s development with that of Japan in the last century, the document made clear that “China did not seek hegemony in the past, nor does it now, and will not do so in the future when it gets stronger.”

Attempting to gain control of the China threat debate, Koizumi, at dinner with former LDP Vice President Yamasaki and New Komeito Secretary General Fuyushiba on Dec. 27, was reported to have told them that he had said that China’s development represented a “chance” for Japan but that he had “never said that China was a threat.”

## **Outlook**

While economic engagement continues to strengthen, the outlook for political relations for the near term is, in a word, “bleak.” The issues of history permeate the relationship, and the leadership in both countries continues to be focused more on defining the past on its terms than moving beyond history and building a cooperative future. Taking the optimistic view, one can hold the hope that at least a floor has been reached.

## **Chronology of Japan-China Relations October-December 2005**

**Sept. 29, 2005:** Tokyo High Court dismisses suit seeking compensation for prime minister’s visits to Yasukuni.

**Sept. 30, 2005:** Osaka High Court rules Koizumi’s visits as “official” and “religious” in nature.

**Sept. 30, 2005:** Keidanren Chairman Okuda Hiroshi meets secretly in Beijing with President Hu Jintao. During Oct. 24 press conference, Okuda denied that he was acting as Koizumi’s special emissary.

**Sept. 30-Oct 1, 2005:** Japanese and Chinese diplomats meet in Tokyo to discuss East China Sea issues.

**Oct. 11-15, 2005:** Vice Minister of the Cabinet Office Erikawa Takeshi visits Beijing to discuss disposal of chemical weapons abandoned by Imperial Army.

**Oct. 13, 2005:** Japanese Foreign Ministry announces Third Japan-China Comprehensive Policy Dialogue, Oct. 14-17, in Beijing.

**Oct. 15, 2005:** Vice Foreign Minister Yachi meets Foreign Minister Li in Beijing to discuss Japan-China issues; second day of meetings scheduled for Oct. 16 is cancelled.

**Oct. 16, 2005:** Japan-China Foreign Ministry director general-level talks on North Korea and six-party meeting take place in Beijing.

**Oct. 16, 2005:** Taiwan's former President Lee Teng-hui backs Koizumi's visits to Yasukuni Shrine.

**Oct. 17, 2005:** Koizumi visits Yasukuni Shrine on first day of Autumn Festival.

**Oct. 17, 2005:** China protests Yasukuni visit.

**Oct. 17, 2005:** Chinese companies participating in Tsingtao Japan Week 2005 cancel visit to protest Yasukuni visit.

**Oct. 18, 2005:** 92 Diet members visit the Yasukuni shrine

**Oct. 18, 2005:** Beijing cancels visit of Japanese foreign minister scheduled for Oct. 23.

**Oct. 19, 2005:** Keidanren Chairman Okuda tells business audience in Kanazawa that, while Koizumi's visits to Yasukuni are affecting political relations, economic relations remain largely unaffected.

**Oct. 23, 2005:** Foreign Minister Machimura tells Sunday TV audience that, with regard to Yasukuni, Japan "should be able to say what we believe is right."

**Oct. 31, 2005:** Koizumi reshuffles Cabinet, appointing Aso Taro foreign minister and Abe Shinzo chief Cabinet secretary.

**Nov. 2, 2005:** Fifth meeting of Japan-China-ROK economic directors general in Beijing.

**Nov. 2, 2005:** Chinese Ambassador Wang speaks at National Defense Academy of Japan.

**Nov. 4, 2005:** Governors of Osaka, Kyoto, and Hyogo visit Beijing to promote tourism; meet with Vice Premier Wu Yi.

**Nov. 4, 2005:** China's Vice President Zeng Qinghong meets former Prime Minister Murayama Tomiichi in Xian; promotes wide range of exchanges.

**Nov. 5, 2005:** New Komeito Party leader Kanzaki calls on Koizumi to exercise restraint on Yasukuni visits.

**Nov. 9, 2005:** Multi-party coalition forms Association to Consider Secular War Memorial.

**Nov. 13, 2005:** Chief Cabinet Secretary Abe tells *TV Asahi Sunday* audience that China should reconsider patriotic anti-Japanese education campaign, calls attention to double-digit increases China's military spending, asks for increased transparency, pronounces himself fond of China, and supports increase of Chinese students studying in Japan.

**Nov. 13, 2005:** FM Aso defends Koizumi's Yasukuni visits in speech in Tottori Prefecture.



**Nov. 15, 2005:** China's FM Li compares Koizumi visits to Yasukuni to paying Germany's political leaders paying homage to Hitler.

**Nov. 16, 2005:** Koizumi meets President Bush; observes that "because the U.S.-Japan relationship is so strong, Japan will be able to build better ties with China and South Korea."

**Nov. 17, 2005:** Chief Cabinet Secretary Abe finds FM Li's "Hitler" analogy "disagreeable" to many Japanese.

**Nov. 17, 2005:** LDP announces draft legislation to govern exploration in East China Sea will be submitted to Diet in 2006.

**Nov. 17, 2005:** LDP Secretary General Takebe begins three-day visit to Beijing.

**Nov. 20, 2005:** *Xinhua News Agency* reports CCP Propaganda Departments adds 66 National Patriotic sites to existing list; at least five commemorate the struggle with Japan.

**Nov. 22, 2005:** Chinese work crews begin restoration of Beijing embassy and consular buildings damaged during April anti-Japanese demonstrations.

**Nov. 25-27, 2005:** Senior Vice FM Shiozaki Yasuhisa travels to Beijing to discuss Six-Party Talks and bilateral issues; meets Vice Foreign Minister Wu Dawei.

**Nov. 30, 2005:** Koizumi speaks at LDP headquarters on Yasukuni, and says he will not allow Yasukuni to become a diplomatic card for China and calls for revision of Article 9 of constitution.

**Dec. 1, 2005:** LDP Special Committee on Maritime Interests unveils legislation to protect exploration activities in East China Sea.

**Dec. 1, 2005:** State Councilor Tang meets supra-party Diet delegation representing the Japan-China New Century Association; says there is "no possibility" that China's development activity in East China Sea is siphoning off Japanese resources; calls for joint development while shelving sovereignty issues.

**Dec. 1, 2005:** Vice FM Wu meets with delegation, calls for complete dismantling/destruction of chemical weapons abandoned by Imperial Army by 2012.

**Dec. 2, 2005:** *Sankei Shimbun* reports Japan Coast Guard plan to upgrade patrol aircraft and ships to protect Japanese interests in East China Sea.

**Dec. 2, 2005:** Fourth round of China-Japan-ROK investment treaty discussions conclude in Amoy.

**Dec. 3, 2005:** FM Aso, meeting Secretary of Defense Donald Rumsfeld in Washington, tells Rumsfeld “we would like to be able to convince China to play a more constructive role in the international community.”

**Dec. 4, 2005:** Beijing announces postponement of China-Japan-ROK (+3) meeting during the ASEAN Summit in Kuala Lumpur.

**Dec. 5, 2005:** LDP and New Komeito secretaries general and Policy Board chairmen agree to elevate Defense Agency to Defense Ministry.

**Dec. 7, 2005:** FM Aso in Asia policy speech welcomes the “rise of China” while expressing concern with China’s defense policy.

**Dec. 8, 2005:** DPJ President Maehara labels China a “threat” in speech delivered in Washington, DC; on Dec. 12 Maehara repeats China threat remarks in speech in Beijing.

**Dec. 11-13, 2005:** Maehara travels to Beijing meets with State Councilor Tang, PLA deputy Chief of Staff Xiong, and Vice FM Dai Bingguo.

**Dec. 12-14, 2005:** ASEAN Plus Three Summit; Japan-ASEAN Summit; East Asia Summit in Kuala Lumpur; Koizumi speaks briefly with China’s Premier Wen.

**Dec. 15, 2005:** *Yomiuri Shimbun* poll indicates 73 percent of Japanese see Japan-China relations as not in good shape, an all time high; 72 percent distrust China; Dec. 28 *Nihon Keizai Shimbun* poll finds 69 percent distrust China, only 14 percent trust China.

**Dec. 16, 2005:** LDP adopts draft legislation to protect Japanese exploration in East China Sea.

**Dec. 20, 2005:** Koizumi government approves establishment (February 2006) of Japan-China 21<sup>st</sup> Century Foundation to provide scholarships to Chinese high school students (150-200 per annum) for study in Japan.

**Dec. 20, 2005:** Chinese work crews begin restoration of Japanese Shanghai Consulate building damaged during the April anti-Japanese demonstrations.

**Dec. 21, 2005:** Meeting of China, Japan, and ROK telecommunications ministers, scheduled for Jan. 9 in Amoy, is postponed.

**Dec. 21, 2005:** Tokyo Municipal Government includes funds for fishery research ship in 2006 budget, aiming to strengthen Japanese claims to waters off Okinotori island.

**Dec. 21, 2005:** LDP and New Komeito establish study groups to coordinate drafting of legislation to elevate Defense Agency to Defense Ministry

**Dec. 22, 2005:** FM Aso, following Maehara, sees China “becoming a considerable threat.”

**Dec. 22, 2005:** Beijing releases foreign policy White Paper assuring that China will “never be a threat to anyone” and will not seek hegemony.

**Dec. 26, 2005:** China’s Vice FM Qiao meets in Beijing with Japan’s Deputy FM Kono to discuss UN reform.

**Dec. 27, 2005:** Koizumi at dinner with former LDP VP Yamasaki and New Komeito Secretary General Fuyushiba speaks of China’s development as an opportunity for Japan, dismisses China threat; Koizumi also makes clear his intention to upgrade Defense Agency to Ministry before leaving office.

**Dec. 27, 2005:** Japan protests May 2004 reported suicide of Shanghai consular official in charge of encryption of classified communications at consulate; suicide note suggests Chinese pressure to reveal classified information; government sources reveal Dec. 27 protest to be the fourth on the matter. China denounced Dec. 29 the accusation as “vile behavior” of the Tokyo government.

**Dec. 28, 2005:** Koizumi indicates he will not visit Yasukuni during New Year Holiday; acknowledges that Japan must “take steps to get understanding in this regard;” ask China and Korea “also to consider the matter”; calls for mutual efforts to promote “friendly relations.”





**Japan-Korea Relations:  
The Big Chill**

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“Japan-Korea Friendship Year” limped to a close, with petty unresolved problems between Japan and South Korea continuing to overshadow the relative stability of the actual relationship. The media in both countries had a field day with the various spats, almost gleefully highlighting disputes over territory, textbooks, and history. Japan-Korea relations have worsened, not improved, in the past year.

It is important to keep these diplomatic disputes in context: very few of these disputes had actual consequences for policies on either side. Although South Korean President Roh Moo-hyun’s frigidly polite interaction with Japanese Prime Minister Koizumi Junichiro at the East Asia Summit was noted throughout East Asia, most policies between the two countries remained unchanged. South Korean-Japanese economic interaction proceeds apace, and the long-discussed free trade agreement (FTA) between the two countries is victim, not of sentiment over history, but of much more mundane domestic politics and an unwillingness by either side to give ground on agricultural issues. Policy toward North Korea is stalled, but that is because the Six-Party Talks themselves have not made progress. Thus, although relations are hardly warm, these disputes remain the province of rhetoric and showmanship. It is too early to tell whether 2006 will see renewed leadership between the two leaders or a slide further into diplomatic squabbling.

**Japan-North Korea relations: abductions as human rights**

Against the backdrop of the stalled Six-Party Talks, Japan-North Korea negotiations aimed at normalizing ties have made positive – albeit very slow – progress. By quarter’s end, Japan and North Korea agreed to resume normalization talks as early as late January and to set up working groups to separately deal with the “three-track talks”: 1) the abduction issue, 2) the national security issues, and 3) the normalization of bilateral diplomatic ties, including the settlement of Japan’s past colonial rule. While potential financial incentives have kept North Korea at the negotiating table with Japan, the U.S. has stepped up economic sanctions on Pyongyang, including banning U.S. banks from conducting business with a Macau bank suspected of involvement in North Korea’s money laundering. Using the normalization card as carrot, Japan has been pushing for the package of working groups to further discuss the issue.

A conciliatory mood from the Sept. 19 Joint Statement was carried over onto Japan-North Korea relations at the start of the quarter. On Oct. 13, Pyongyang signaled flexibility on the abduction issue that has caused a deadlock in the normalization talks since last year by saying that it was

willing to listen to what Japan had to say about the remains of abductee Yokota Megumi. Song Il-ho, vice director of the North Korean Foreign Ministry's Asian Affairs Department, hinted at an invitation for Prime Minister Koizumi to visit North Korea when he said, according to *The Japan Times*, "we would agree to anyone who would want to visit to improve bilateral relations, of course including Japanese Prime Minister Koizumi." Tokyo did not change its policy, but it did soften its stance on economic sanctions against North Korea. On Nov. 3, Abe Shinzo, newly appointed chief Cabinet secretary – who has been vocal in calling for economic sanctions – emphasized the importance of dialogue in tackling the abduction issue.

However, the two sides are at an impasse. Throughout bilateral negotiations held in early November and late December, Japan seemed to apply its "dialogue and pressure" approach toward North Korea; while it toned down the possibility of economic sanctions against the North, it has been firm from the outset in insisting that North Korea not be offered aid or normal diplomatic relations unless the abduction issue is resolved. On the part of North Korea, it has maintained its official position that the abduction issue has been settled, and tried to focus on historical issues. North Korea's acceptance of Japan's proposal for the package of three working groups is largely understood as an attempt to receive economic aid from Japan in the form of compensation for Japan's 35-year colonial rule of the Korean Peninsula, and to seek Japan's help amid the worsening U.S.-DPRK relationship.

Two days of bilateral negotiations on Nov. 3-4, the first full-fledged negotiation since November 2004, yielded no concrete agreement. With the abduction issue at the top of its agenda, Japan is said to have demanded that Pyongyang 1) return abductees to Japan, 2) conduct investigations to uncover the truth about the abductees, and 3) hand over North Korean agent suspects, according to the *Asahi Shimbun* Nov. 4. Tokyo pressed for further information on the eight abductees who have not returned to Japan (of the 15 North Korea admitted abducting,) and another three who Tokyo believes were kidnapped by Pyongyang. No solid progress was made, as Japanese Foreign Minister Aso Taro said, "they [Pyongyang] have insisted that the issue was resolved... I have not heard that they made a positive proposal on the abduction issue." On the other hand, Pyongyang's eyes were on reparations for Japan's colonial rule, which the *Korea Times* reported, could infuse as much as \$10 billion into the North Korean economy. Japan paid South Korea \$500 million at the time of Japan-South Korea normalization in 1965 and Tokyo promised full-scale financial aid to Pyongyang upon diplomatic normalization.

The December negotiations did succeed in producing a foothold on which both sides could seek to "take specific measures to resolve issues of mutual concern." North Korea suggested having experts from the two countries hold talks over the cremated remains which North Korea gave Japan in November 2004, and Japan agreed. However, Japan seemed cautious about the prospect for success; Japan's Chief Cabinet Secretary Abe emphasized "specific" means the return of any abduction victims who are living in North Korea, while Pyongyang kept arguing the abduction issue is resolved. Prime Minister Koizumi reiterated Japan's policy that normalization talks would not make much progress unless the abduction issue is dealt with during the December negotiations.

Aside from Japan-North Korea negotiations, another noticeable event was that the abduction issue has been included in the larger issue of North Korea's human rights. Both the Japanese government and civic groups have managed to push the issue onto the international stage with some success. On Dec. 6, Tokyo appointed its ambassador to Norway as special envoy to oversee human rights problems, including North Korea's abductions. According to *The Japan Times* Dec. 7, the post is aimed at drawing international attention to help resolve the abduction issue in the wake of U.S. President Bush's appointment of Jay Lefkowitz as his special envoy on human rights in August.

On the nongovernmental front, people from Thailand, Lebanon, South Korea, and Japan whose families or relatives were allegedly abducted to North Korea joined a rally in Tokyo to raise public awareness. A citizens' group on behalf of relatives of the Japanese abductees said that Pyongyang is believed to have abducted people from countries as diverse as Romania, China, Malaysia, Singapore, France, Italy, the Netherlands, and Jordan, based on the account of former U.S. Army Sgt. Charles Jenkins, a husband of repatriated abductee Soga Hitomi. Foreign Minister Aso indicated that Japan and Thailand could cooperate on the matter of a recent revelation that the North could have abducted a Thai woman.

On Dec. 16, at the United Nations General Assembly, member countries adopted a resolution criticizing North Korea's human rights violations, including the abductions of foreigners. The resolution was put forward by the European Union and cosponsored by the U.S., Japan, and other countries. China and Russia voted against the resolution and South Korea abstained from voting. Pyongyang criticized Japan along with the EU and the U.S. for exploiting human rights problems for political gains and later raised the issue during the December negotiations.

Although it is yet to be seen how Japan-North Korea bilateral negotiations and the Six-Party Talks would affect one another, there has been no clear indication that Japan-North Korea bilateral moves had any positive impact on the Six-Party Talks. Upon Pyongyang's announcement that it planned to start developing light-water reactors for nuclear energy in late December, Japanese Foreign Ministry spokesman Taniguchi Tomohiko said "it is going to be suicidal for North Korea to pursue the course. This is going to undermine the whole rationale of Six-Party Talks."

### **Japan-South Korea relations: Yasukuni, again...**

Prime Minister Koizumi's visit to Yasukuni Shrine Oct. 17 dominated the closing three months of "Japan-Korea Friendship Year." The quarter presented many opportunities for Japan-South Korea diplomacy at the highest level, but to no avail; the Roh-Koizumi summit scheduled in December as part of regular "shuttle diplomacy" did not occur; the 20-minute meeting between Roh and Koizumi on the sidelines of APEC only reminded them of the cold relations between the two countries, and Roh and his Chinese counterpart refused to meet with Koizumi at the East Asia Summit, criticizing Japan's "insincere" attitude toward its past wrongdoings.

Three observations deserve attention in the Japan-South Korea interaction. First, when it comes to the Yasukuni Shrine issue, there appears to be a repeated cycle of chain reactions: Japan's behavior upsets South Korea and leads Seoul to criticize Tokyo; in response, Japan makes a few

conciliatory moves emphasizing the importance of bilateral ties, but Seoul responds in a cold manner, arguing that Tokyo's deeds should live up to its words; then the cycle repeats itself with another set of Japanese "provocations." Second, Koizumi's decision regarding the Cabinet reshuffle in the wake of his reelection meant that the liberal South Korean government now had to deal with more hawks within the Japanese government, widening the gap in perspectives over various bilateral issues, including history and the North Korean nuclear crisis. Third, Tokyo has experienced more diplomatic isolation this quarter due to its behavior and comments over historical issues, in particular the Yasukuni Shrine issue, which had the unintended outcome of bringing South Korea and China closer, while Japan-U.S. ties became warmer.

This year Prime Minister Koizumi chose Oct. 17 to pay his fifth visit to the Yasukuni Shrine, and Seoul's reaction was outrage, as expected. South Korean Foreign Minister Ban Ki-moon summoned Japan's Ambassador to Korea Oshima Shotaro to lodge a complaint, saying that "it is not an exaggeration to call the Shrine visits the most critical factor in strained South Korea-Japan relations." The immediate reaction from South Korea's Blue House was to consider canceling President Roh's visit to Japan in December as well as the one-on-one meeting with Prime Minister Koizumi at the APEC summit. The next day Foreign Minister Machimura Nobutaka told the press that he hoped President Roh's scheduled visit to Japan would not be canceled, saying "exchanges between the two governments should not be stopped because of one issue" while Japanese government spokesman, Hosoda Hiroyuki tried to explain that Koizumi's visit to the shrine was done in his personal capacity, not as prime minister.

The issue of Yasukuni is divisive within Japan itself. The Osaka High Court ruled Sept. 30 that Prime Minister Koizumi's visits to the Yasukuni Shrine from 2001 to 2003 were done in his official capacity and therefore forbidden by the nation's Constitution. The decision came a day after the Tokyo High Court gave the opposite ruling on the matter. An opinion poll by *Mainichi Shimbun* shortly after Koizumi's Oct. 17 visit to Yasukuni showed that support for the visit was four points higher than those who opposed it, this in contrast to four previous *Mainichi* polls held before Oct. 17 which all had public opinion solidly against the visit. Among Japanese politicians, the leader of New Komeito, the ruling coalition partner of the Liberal Democratic Party (LDP), called on the foreign minister, chief Cabinet secretary, and prime minister to refrain from visiting Yasukuni; Former Prime Minister Nakasone Yasuhiro (1982-1987 – the third longest postwar term) urged Koizumi not to visit the Shrine and to refrain from "pandering" to populism. He urged Koizumi to have far-sighted policies. Cabinet members are said to hold different views on Koizumi's Oct. 17 visit while many refrained from making a judgment, reported *The Japan Times*.

On Oct. 31, Koizumi named Aso Taro as foreign minister and Abe Shinzo as chief Cabinet secretary. Aso is believed by South Koreans to have claimed that Koreans asked to be given Japanese names during the colonial era; Abe has been a leading figure in opposing normalized ties with North Korea. Because both are known as strong supporters of Koizumi's Shrine visits and have backed conservative moves to impose sanctions against North Korea over the abduction issue, South Korea read such appointments as Koizumi having "no further interest in ties with Korea and China." South Korea's Vice Foreign Minister Song Min-Soon also expressed concern that such appointments could affect the Six-Party Talks in a negative way.



Japanese Foreign Minister Aso and his South Korean counterpart Ban agreed to mend bilateral relations during their talks over the phone Nov. 2, but soon found that it was easier said than done. During their meeting on the sidelines of the APEC forum on Nov. 14, Ban told Aso that Tokyo should act in a way that reflected “sincere reflections” on its colonial legacy in order to instill trust of Japan in the minds of Korean people. Aso said what Koizumi has stated was his position and had nothing to add. When Aso urged Ban to confirm a visit by President Roh to Japan next month, Ban gave no reply.

Despite the lack of solid progress in mending bilateral ties, their meeting was not without fruit. They reached agreement 1) on the importance of implementing the September statement on dismantling North Korea’s nuclear programs; 2) to jointly draft a five-year program to promote cultural exchange, including exchanges among teachers and youths; and 3) to hold the first meeting of a second round of a joint historical study by the year’s end.

On the opening day of the APEC summit in Busan, South Korea, President Roh and Prime Minister Koizumi also held a brief meeting for 20 minutes, which was said to be barely long enough to exchange formal greetings with interpreters. After they exchanged opinions about Japan’s perception of history and possible followup measures for the Six-Party Talks, by the end of the meeting it became clear that a visit by Roh to Tokyo was “out of the question.” Foreign Minister Aso also expressed the view by saying “if he [President Roh] visits, it would mean that Japan must make some kind of a concession, and I am not sure whether it would be right to make it on Yasukuni.”

Not only did South Korean President Roh cancel his summit with Koizumi that had been scheduled for December, but Chinese President Hu Jintao refused to hold a one-on-one meeting with Koizumi at the APEC summit. The annual summit between China, South Korea, and Japan during the ASEAN Plus Three/East Asia Summit was cancelled as China referred to “the current atmosphere,” implicitly referring to Koizumi’s repeated visits to the Yasukuni Shrine. Despite the fact the Southeast Asian countries benefit from trade relations with Japan, Japan’s image at this year’s ASEAN meeting has been “tarnished” by repeated criticism of Koizumi’s visit to the Yasukuni Shrine. Apparently, Koizumi was puzzled by the strong reaction both from South Korea and China. However, the summit cancellation and criticism from South Korea and China did not change his position; Koizumi defended his visits as “a spiritual question” and said, “I don’t understand why anyone should be criticized for offering prayers.”

While Koizumi was trying to downplay the tension as “temporary” and said it would not undermine the regional influence of Japan, the Yasukuni issue provided common ground for South Korea’s Roh and Chinese Prime Minister Wen Jiabao during their bilateral meeting. They were brought closer as they strongly criticized the prime minister’s visits to Yasukuni; the two leaders shared the view that they cannot accept the Yasukuni visits and that Japan should offer its youth a correct history education.

After the East Asia Summit, Japan’s foreign minister made a conciliatory statement. In a statement at the 40<sup>th</sup> anniversary of the establishment of diplomatic relations, Aso said that Japan would seriously take heed of the sentiments of the South Korean people, but Foreign Minister Ban responded noting “their [Japan’s] actions need to be in line with their words.”

Thus, Japan-South Korea relations ended with a lot of rhetoric about who had the right to do what. Summits were cancelled, and little progress was made. However, as noted, the major policy issues confronting Japan and South Korea were not affected – the time to worry will come if sentiment gets in the way of policy, and that has not yet happened. Most of the rhetoric on both sides was aimed at pleasing domestic constituencies. In Koizumi’s case, he is walking a fine line between an increasingly influential – albeit still small – group of hardline nationalists, and the majority of Japanese who hold more moderate views. For Roh Moo-hyun, a spat with Japan is always an easy win, and a way to mask increasing criticism over his domestic economic policy and his policy toward North Korea.

### **South Korea-Japan economic relations**

The quarter witnessed no major development in Japan-South Korea economic ties, but small steps of continued and deepening interdependence. First, there was no official progress in resuming negotiations to conclude an FTA between Japan and South Korea, in large part because of domestic opposition from agricultural interests in both countries. In the meantime, South Korea-ASEAN FTA talks made substantial progress, with last-minute negotiations at the APEC summit aimed at finalizing the deal. As a result, South Korea will acquire important leverage in negotiating FTAs with other countries as it could utilize the South Korea-ASEAN FTA as the core of its trade strategy.

Second, Japan and South Korea found themselves in a similar negotiating position during the Doha Round of WTO talks over agricultural trade in Hong Kong. Both South Korea and Japan have been under strong pressure from inside and outside the country. Domestic agricultural interests in both countries linked the cultural tradition of viewing rice as “the life of our nation” as a justification for continued support and defense of agriculture; criticism of Japan and South Korea from rice producing countries over their protective approach increased during the Hong Kong talks, where agriculture is the main unresolved issue.

In November, South Korea’s National Assembly passed legislation allowing increased imports of rice after negotiating with the U.S., China, Thailand, and six other rice producers. The South Korean government – while increasing subsidies to rice farmers – must double its current 4 percent limit on rice imports by 2014 and eventually open the rice market fully. As for Japan, since 2000, Japan has allowed imports of 767,000 tons a year, about 8.8 percent of the overall consumption of 8.7 million tons. Japan places a 778 percent tariff (!) on rice imports in excess of the 770 tons of rice it imports under a low- tariff quota. The quota is equivalent to about 7.2 percent of domestic consumption. The U.S. has proposed setting a mandatory tariff limit for industrialized countries of 75 percent for agricultural products and Japan is strongly opposed to such a ceiling.

South Korea’s largest carmaker Hyundai Motors is on the move to increase advertising in Japan in an effort to increase market share there. Hyundai Motors has less than 1 percent of the Japanese market while it has a 2.9 percent share in the U.S. The company said it predicts sales in the Japanese market will rise soon, as its Grandeur sedans have been ranked 10<sup>th</sup> among 36 brands in the 2005 initial-quality study by J.D. Power & Associates, just ahead of Honda Motors.

Samsung Techwin, Samsung Group's digital camera unit, has signed an agreement with Japan's leading camera maker Pentax to jointly develop digital single lens reflex, or D- SLR cameras. According to a Samsung spokesman, Pentax's advanced optics technologies and Samsung's brand power, marketing capabilities, and manufacturing skills can lead to a bigger share of the local and foreign camera markets. In the global market, sales of digital cameras should rise to 89 million next year, an increase of about 7 million from this year.

The most notable foreign investment between the two countries was Japan's telecommunication company NTT DoCoMo Inc., which in December began negotiations to buy 10 percent of South Korea's telecommunications company KTF Co. for around \$500 million. DoCoMo had previously tried to purchase shares in SK Telecom, but the deal fell through in 2001. KT Corp., which owns a 49 percent stake in KTF and is South Korea's biggest telecommunications company, is also moving to increase its investments and alliances with other service providers. The company says 1 trillion won will be set aside for budding business such as WiBro, IP-TV, and digital content.

South Korea's flat panel maker Samsung SDI Co. decided to file a lawsuit in U.S. federal courts against Japan's Matsushita Electric Industrial Co. for alleged violation of its plasma display panel patents. Samsung SDI claimed that Matsushita infringed upon nine of its PDP technology patents. The lawsuit came after a year of consultations between the two companies failed to find a resolution.

Finally, for the first time since August 1998, the yen fell below 880 won. The weak yen raised concerns that Korean exporters that compete with Japanese firms could lose their edge.

### **Hallyu continues, but a backlash arises**

The chill of Japan-South Korea diplomacy and the heated confrontation over historical issues did not reverse the flow of the "Korean Wave," although it seemed to encourage the emergence of an "Anti-Korean Wave" in Japan. The number of Japanese who look favorably on Korea rose by 10 points to nearly 80 percent. And Japan's *NHK* public broadcasting company started to air a Korean drama, titled "the Promise of Jang Geum" on terrestrial channels at 11:00 PM. every Saturday, the same time "Winter Sonata" used to air. While Korean pop culture helped the Japanese public feel closer to the South Korean people, upgrading South Korea's image in Japan on the whole, there was a setback as a result of historical issues.

The backlash to the Hallyu (Korean Wave) is best exemplified by Sharin Yamamo's comic that reinterprets Japan's colonial rule over Korea. The *Mainichi Shimbun* reported that "Hate Korea: A Comic," whose interpretation of history shows "savagely Korean immigrants massacring innocent Tokyo residents in the wake of World War II," has gone through five printings and has sold more than 320,000 copies since its release in September. Another comic, fashioned after Kobayashi Yoshinori's "Manifesto of New Pride" series of comics, claims that Japan waged a noble war to liberate Asia from a racist world order.

In their report released on Oct. 28, Amnesty International urged the Japanese government to compensate Korean women forced to serve as sex slaves for the Japanese military during World War II. The report says the Asian Women's Fund set up to assist former sex slaves in South Korea, the Philippines, Taiwan, and the Netherlands in 1995 fails to meet international standards for compensation and "has been malignantly used by Japan to cunningly avoid its international and legal responsibility." Most women have refused to accept the money, demanding an explicit apology by Japan and larger sums in direct compensation from the Japanese government.

In a related issue, the Japanese government decided to compensate South Korean and Taiwanese Hansen's disease patients who were mistreated during Japan's colonial rule. Japan's Ministry of Health, Labor, and Welfare said that about 400 people will benefit based on its domestic compensation law for Japanese victims of the past Japanese government's policy of segregating Hansen disease patients from society.

The *Bukgwandaechepbi*, a monument stolen by the Japanese Imperial Army during the Russo-Japanese War was returned to Korea on Oct. 20. The monument was set up in 1709 in what is North Korea's Hamgyeong Province by the provincial governor to commemorate the 1592 victory of Gen. Chung Mun-Bu over Japanese invaders. The monument will stay in the National Palace Museum of Korea in Gyeongbok Palace for restoration for about six months to a year and then be sent on to North Korea, reported *Chosun Ilbo* Oct. 20.

Finally, Japan's Minister of Land, Infrastructure, and Transportation Kitagawa Kazuo confirmed that starting from early next year Japan will make a visa waiver for short-term South Korean visitors permanent. Koreans and Taiwanese are the two biggest groups of tourists in Japan.

### **Next quarter forecast calls for continuing chill**

The upcoming quarter portends little at this point. Japan and North Korea will meet over the abductee issue, but barring an unforeseen event, there is little prospect that any breakthrough will occur. Koizumi and Roh Moo-hyun have no plans to meet, and the Six-Party Talks are subject to a number of eventualities that may make a meeting unlikely. Even if the talks convene, it is unlikely any progress will be made.

## **Chronology of Japan- Korea Relations: October- December 2005**

**Oct. 1, 2005:** *Joongang Ilbo* reports Korea Trade Investment Promotion Agency survey shows that nearly 80 percent of Japanese have a favorable view of South Korea.

**Oct. 13, 2005:** Song Il-ho, vice director of North Korean Foreign Ministry's Asian Affairs Department, says that the DPRK welcomes PM Koizumi to Pyongyang to discuss the fate of Yokota Megumi's remains.

**Oct. 17, 2005:** PM Koizumi makes fifth visit to Yasukuni Shrine. South Korean presidential spokesman says Seoul will postpone the December Roh-Koizumi summit.

**Oct. 19, 2005:** Japan's Foreign Minister Machimura Nobutaka says he hopes President Roh visits Tokyo as scheduled.

**Oct. 20, 2005:** *Bukgwandaechepbi* returns to Korea from Japan. The monument, set up to commemorate the victory over Japanese invaders in 1592, was stolen by the Japanese Imperial Army during the Russo-Japanese war.

**Oct. 26, 2005:** A civil group, the Investigation Commission on Missing Japanese Probably Related to North Korea, says it will broadcast a shortwave radio program called "Shiokaze" (sea breeze) to any Japanese in North Korea.

**Oct. 26, 2005:** *Chosun Ilbo* reports that members of Japan's ruling coalition and the main opposition party are seeking ways to secure government funding to establish a secular war memorial in an effort to mend strained ties between Tokyo and its Asian neighbors.

**Oct. 27, 2005:** South Korea's Foreign Minister Ban departs for Japan to meet FM Machimura for a three-day visit.

**Oct. 28, 2005:** Japan's LDP announces constitutional revision bill.

**Oct. 31, 2005:** PM Koizumi names Abe Shinzo as chief Cabinet secretary and Aso Taro as foreign minister.

**Nov. 2, 2005:** *Japan Times* reports that Chief Cabinet Secretary Abe has softened his stance on the possibility of economic sanctions against North Korea.

**Nov. 2, 2005:** Newly appointed Foreign Minister Aso and South Korean counterpart Ban hold telephone conversation and agree to mend strained bilateral relations.

**Nov. 3, 2005:** North Korea says it is ready to make a proposal that could help resolve the abduction issue.

**Nov. 4, 2005:** Japan and North Korea end two-day bilateral negotiations, the first in 11 months, in Beijing. No agreement is reached, but both parties decide to continue talks to establish a framework for future discussions.

**Nov. 4, 2005:** *Mainichi Shimbun* reports that an opinion poll conducted after PM Koizumi's Oct. 17 Yasukuni Shrine visit shows that the percentage of supporters was four points higher than opponents. Regarding a proposal to construct a non-religious national facility to enshrine Japan's war dead, 66 percent were in support, while only 29 percent opposed.

**Nov. 5, 2005:** Kanzaki Takenori, the leader of New Komeito, calls on the foreign minister and chief Cabinet secretary as well as the prime minister to refrain from visiting Yasukuni Shrine in consideration of Japan's ties with its Asian neighbors.

**Nov. 10, 2005:** *Joongang Ilbo* quotes *Sankei Shimbun* that an annual soccer match between Japanese and South Korean lawmakers held since 1998 has been canceled as South Korean lawmakers said they would not play against any Diet members who had visited Yasukuni Shrine.

**Nov. 11, 2005:** South Korean lawmakers urge Japanese counterparts to show a more sincere attitude over history issues at the 31<sup>st</sup> meeting of the Korea-Japan Parliamentarians Union.

**Nov. 13, 2005:** Former vice president of the LDP says that there is a 50-50 possibility that PM Koizumi will visit North Korea before he leaves office next September.

**Nov. 14, 2005:** FM Ban and FM Aso meet on the sidelines of the APEC summit.

**Nov. 15, 2005:** FM Ban and China's FM Li condemn PM Koizumi's visits to the Yasukuni Shrine at their bilateral meeting on the sidelines of the APEC Summit.

**Nov. 18, 2005:** President Roh and Prime Minister Koizumi meet on the sidelines of APEC Summit for 20 minutes.

**Nov. 22, 2005:** Japan, the U.S., South Korea, and the EU agree to end the \$4.6 billion KEDO project intended to provide two light-water nuclear reactors to North Korea.

**Nov. 22, 2005:** Former Prime Minister Nakasone Yasuhiro warns the LDP of populism and urges LDP lawmakers not to visit Yasukuni Shrine.

**Nov. 24, 2005:** Chief Cabinet Secretary Abe says Japan supports a KEDO proposal to demand North Korea return money disbursed to finance a light-water reactor project.

**Nov. 30, 2005:** PM Koizumi says he does not understand why Japanese people as well as South Korea and China criticize his visits to the Yasukuni Shrine, while emphasizing the importance of relationships with Seoul and Beijing on the occasion of the 50<sup>th</sup> anniversary of the LDP.

**Dec. 1, 2005:** *Mainichi Shimbun* reports that ultranationalist sentiments gain popularity inside Japan as regional tensions rise. The newspaper cites Yamano Sharin's comic "Hate Korea: a Comic," which went through five printings and sold 320,000 copies since its release in September.

**Dec. 6, 2005:** Japan names Saiga Fumiko, ambassador to Norway, as a special envoy on North Korea's human rights.

**Dec. 7, 2005:** Samsung SDI files a suit against Matsushita Electric Industrial Co. for alleged violation of its plasma display panel patents.

**Dec. 12, 2005:** South Korean President Roh and Chinese Premier Wen agree in bilateral talks on the sidelines of ASEAN that it is up to PM Koizumi to mend ties with the two countries.

**Dec. 12-14, 2005:** During the ASEAN Plus Three/East Asia Summit meetings in Kuala Lumpur, a separate “Plus Three” summit among China, Japan, and South Korea does not take place, as China cancels the summit with Japan in reference to “the current atmosphere.”

**Dec. 16, 2005:** UN General Assembly adopts a resolution criticizing North Korea’s human rights issues, including the abduction of foreigners to North Korea. The resolution is passed by a vote of 88 to 21 with 61 abstentions. Japan cosponsored the resolution while South Korea abstained.

**Dec. 17, 2005:** *Asahi Shimbun* reports that Japan’s Minister of Land, Infrastructure, and Transportation Kitagawa Kazuo said that Japanese government has decided to permanently waive visa requirements for South Korean tourists.

**Dec. 18, 2005:** FM Aso says that Japan is prepared to deal with issues from the past and work toward improving relations with South Korea in a statement marking the 40<sup>th</sup> anniversary of the establishment of diplomatic relations between Japan and South Korea.

**Dec. 19, 2005:** ROK FM Ban urges for “a correct perception of history and to implement it” in response to Aso’s remarks a day earlier.

**Dec. 20, 2005:** *Korean Central News Agency* says that Pyongyang plans to start developing light-water reactors for nuclear energy. Japan responds a day later that it would be “suicidal.”

**Dec. 22, 2005:** *The Japan Times* reports that abductees’ families from Thailand, Lebanon, South Korea, and Japan vow to seek joint efforts for the return of their relatives from North Korea.

**Dec. 24-25, 2005:** Japan and North Korea hold bilateral negotiations and agree to resume normalization talks as early as late January.







**China-Russia Relations:  
Pollution, Politics, and Partnership**

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By any measurement, 2005 elevated China-Russian relations to a higher level across various fields: Presidents Hu Jintao and Vladimir Putin met four times; they issued a joint declaration on the international order in the 21<sup>st</sup> century; began strategic dialogues (February and October), held their first-ever military exercises (August), recorded trade of \$29 billion (up 33 percent), and coordinated foreign policy (30 consultations between the foreign ministers).

These high-profile and glittering interactions, however, were overshadowed at yearend by a serious pollution accident in the Songhua River, a tributary of the Heilong River (Amur in Russia) dividing Russia and China – a painful reminder that high-profile diplomacy is not the only priority between the two powers that share more than 4,000 kilometers of border. The China-Russian strategic partnership relationship, though far from derailed, was at times tested and strained by the accident.

**Water, water everywhere, but not a drop to drink?**

The environmental disaster began Nov. 13 after a huge explosion at a chemical plant in China's Jilin Province, 380 km from Harbin (population 3.8 million), capital of China's northernmost province bordering Russia, and 600 km from the Russian border where the Songhua River meets the Amur. Local officials in Jilin Province covered up the disaster for 10 days while some 100 tons of benzene and its derivatives leaked into the Songhua. As an 80-km (50-mile) belt of toxic benzene drifted downstream past Harbin, pollution levels on the river were 33 times above national standards at its peak, and millions of residents in Harbin had no running water for four days (Nov. 24-27).

The Russian side was genuinely alarmed by the prospect of toxic substances in the water supply of Russia's 70 population areas (and 1 million residents), a list that includes Khabarovsk, Amursk, and Komsomolsk-on-Amur. Legal experts, environmentalists, consumer activists, and lawmakers in Russia lost no time in assuming the worst for Russia's Far Eastern region. Some went as far as to threaten to sue China in the International Court in The Hague for compensation over the spill.

Chinese officials repeatedly sidelined the compensation issue, while emphasizing instead the need for a solution to the ecological problems. Meanwhile, Beijing took extraordinary efforts to contain the pollution and to coordinate with Russians at various levels to minimize the impact of this environmental disaster. On Nov. 22, China began to provide Russia with relevant information, and expert working groups from both sides started that same day. From Nov. 24, daily information on monitoring results were passed to Russia through a hotline set up between the environmental departments of the two countries. On Dec. 2, China supplied Russia with six water-quality testing systems (chromatographers) and 150 tons of activated charcoal to filter drinking water. A Chinese working team visited Moscow, Khabarovsk, and the Jewish autonomous region from Dec. 9-12, informing the Russian side about the pollution in the river, and discussing further efforts. An agreement for joint monitoring of the Songhua and Amur Rivers was signed in Khabarovsk Dec. 11 and joint monitoring began the following day. On Dec. 16, China started to send the second batch of two water-testing devices and 1,000 tons of activated carbon. And finally, at the request of the Russians, 4,000 Chinese workers hastily built a \$2.5 million temporary dam (443 m long and 4 m high) Dec. 16-21 on the Kazakevichev Channel on the Amur River to prevent the benzene slick from polluting Khabarovsk water supplies. For the longer-term, a subcommittee on environmental cooperation is to be established within the framework of the prime ministers' regular meeting.

While rapid measures were taken to address the cross-border pollution, Chinese leaders also took extraordinary steps to reach out to the Russians: Foreign Minister Li Zhaoxing apologized to Russian Ambassador to China Sergei Razov Nov. 26; Premier Wen Jiabao wrote to Russian Premier Mikhail Fradkov Dec. 4 pledging assistance in dealing with the aftermath of the toxic spill; and finally President Hu Jintao told visiting Russian First Deputy Prime Minister Dmitriy Medvedev Dec. 8 that the Chinese government would deal with the issue seriously and conscientiously with an attitude of being highly responsible to the two countries and the two peoples. "We will take all necessary and effective measures and do our utmost to minimize the extent of pollution and reduce the damage to the Russian side," promised Hu.

The emergency measures as well as the natural process in which the chemicals dissolved in the water and sediment on the river bottom seemed to work over time. The Amur did not show excessive levels of toxicity as feared. The medium- and long-term effects of the toxic spill to both nations, however, are yet to be determined. The Russians noted that the Songhua River, the upper tributary of the Amur, was already heavily polluted by 16 Chinese petrochemical factories, together with more than 2,000 other factories along the river. The Russian side therefore intended to monitor samples for the presence of other substances in addition to benzol and nitrobenzene released in the recent spill. The Chinese side, however, wanted to monitor the Songhua River for only benzol and nitrobenzene, at least for the time being.

For these reasons and others, Russian officials barely concealed their displeasure, despite the fact that the toxic spill did not lead to the worst case scenario. When Prime Minister Wen apologized to President Putin for the spill during the Dec. 13 ASEAN meeting in Kuala Lumpur, Putin reportedly only "noted" the efforts by China to contain the spill and agreed that the incident should not harm bilateral relations. A week later, Russian Foreign Minister Sergei Lavrov spoke of creating a "compensation mechanism" for damage caused to the Russian environment. The next day, Russian Natural Resources Minister Yuri Trutnev told reporters that any claims should

be filed after the situation was fully assessed. The crisis struck a nerve with some Russian officials who were long suspicious of China's motivations even with the construction of the temporary dam as requested by the Russians. Oleg Mitvol, deputy head of the Russian Federal Service for the Control of the Use of Nature, warned that the Kazakevichev Channel may dry up after being blocked by the dam, leading to a Russian-Chinese border change in favor of China. Although this possibility was quickly dismissed by other Russian officials as "utterly careless" and "ridiculous," there is no question that the political and social effects of the spill have been aggravating relations.

Ironically, the Jilin Chemical Plant, the source of the spill, was built in 1954-1957 with Soviet technical and financial assistance. The Chinese side initially planned to locate the plant at the confluence of the Songhua and Amur Rivers by the China-Soviet border. The Soviet planners and engineers, however, insisted on building it at the current site, which is 600 km away from the border and far enough to absorb any spill in the future.

### **Pillars of the Russian-China strategic platform**

It has been a long time since the China-Soviet "honeymoon" and the subsequent open hostility of the 1960s and 1970s. Despite the chemical spill, bilateral interactions remained normal and busy, at least on the surface: the second round of China-Russia Strategic Security Talks was held in Beijing in October; Premier Wen made an official visit to Russia in October; the fourth annual meeting of the Shanghai Cooperation Organization (SCO) Council of heads of government was held in Moscow in October; Russian Prime Minister Mikhail Fradkov visited China for the 10<sup>th</sup> regular prime ministerial meeting; Presidents Putin and Hu met during the APEC meeting in Busan, South Korea (November); President Putin and Premier Wen met in Kuala Lumpur during the ASEAN conferences; major military sales to China were delivered including two *Kilo*-class submarines and one destroyer; etc.

The second strategic dialogue in October between Russian Security Council Secretary Igor Ivanov and Chinese State Council Tang Jiaxuan reportedly covered almost every aspect of bilateral relations, including security issues at regional and global levels such as the SCO, Korea, antiterrorism, military relations, nonproliferation, etc. These went beyond the more technical talks between the deputy foreign ministers (held since 1991) and the General Staff (since 1997) of the two nations. The goal is to enhance political trust and understanding of each other's strategic intentions. As a positive sign, Ivanov met with several other Chinese leaders, including Foreign Minister Li and President Hu.

The second dialogue in Beijing was followed by two other high-profile exchanges. One was Chinese Premier Wen's visit to Moscow Oct. 26-27 for the fourth SCO prime ministerial conference. This was the first time that representatives from India, Iran, Mongolia, and Pakistan were taking part as observers. It focused largely on economic coordination among SCO member states, particularly the importance and urgency of their cooperation in oil and gas exploration as well as the construction of oil and gas pipelines. They also approved the budget of the SCO in 2006 and discussed issues such as setting up the development fund, the business council, and the interbank interaction system within the SCO. Agreements on aid for disaster relief and on banking cooperation among the member states were signed.

Wen also held a meeting with President Putin, who expressed delight that the SCO was “gaining pace and political weight.” Putin and Wen, however, reportedly concentrated on trade and economic issues. While Putin continued to stress that the two sides should optimize trade structures (meaning China purchases more Russian high-tech products), Wen expressed the hope that existing agreements be well implemented and that the two countries sign an investment protection agreement at an early date.

While closely coordinating their policies within the SCO framework, China and Russia continued to pursue their respective national interests through different means: economics for the former and security/military for the latter. In the opening session with SCO heads of government, Putin maintained that the struggle against terrorism and questions of security “must remain among the main issues in the (SCO).” Meanwhile, the Russians apparently showed more interest in developing SCO military potential. Gen. Leonid Ivashov, vice president of the Academy of Geopolitical Problems, told reporters that the SCO should grow into an alliance with a military potential equaling that of NATO. And this could be done on the basis of its political and economic cooperation. “Such an alliance will be capable of constructive collaboration with the West on the whole and NATO in particular, on issues of international security because then it will be a cooperation based on equality and equal weightiness,” remarked Ivashov. “If such an alliance is a success, the world will be a safe and more stable place, and the world will be no longer unipolar,” noted the general. Political scientist Andronik Migranian from the Moscow State Institute of Foreign Relations also pointed to the possibility and desirability of forming a military alliance on the SCO basis, with the goal of supplanting the U.S. and NATO but not directly confronting NATO. The head of the State Duma committee for international affairs, Konstantin Kosachev, too, did not rule out that the SCO will further strengthen its collective security mechanism, but dismissed the West’s fear as “exaggerated and far-fetched.”

Without directly and publicly joining the deliberation over the SCO’s military potential, Prime Minister Fradkov pointed out that the SCO’s enlargement with observer members such as Mongolia, Iran, Pakistan, and India “will give it new geopolitical contours.” Defense Minister Sergei Ivanov clearly stated that Russia does not plan to form any military alliances aimed against NATO in the East. That said, Russia was making headway during the last quarter of 2005 in developing closer military ties with some member of the SCO, such as Uzbekistan and Tajikistan, and to a lesser degree, Kazakhstan.

There was no such policy debate among Chinese security experts regarding SCO’s military potential toward an alliance – at least, not publicly. SCO Executive Secretary Zhang Deguang told *Interfax* in Moscow Oct. 27, “I would like to state unambiguously that the SCO will never become a military bloc. It is neither our inclination nor aim.” In early November, Jia Xiaoning, deputy director general of the Foreign Ministry, also echoed that military cooperation among the SCO member states was not meant to build a military alliance. In Moscow, Premier Wen focused on China’s economic interactions with SCO states and proposed five measures to boost economic cooperation among SCO member states: improving institutional efficiency and coordination, upgrading informational and infrastructural mechanisms, closer agricultural cooperation, better exchange and cooperation among enterprises and localities, and more input from other regional organizations and international financial institutions. He urged member states to expand cooperation with observer states in the transport and energy sectors. To achieve

these goals, the Chinese premier said that China would train 1,500 technical personnel from SCO members with 75 million yuan (about \$9.3 million). China also announced \$900 million in preferential export buyers credit. The 20-year credit, with an annual interest rate of 2 percent, could be expanded.

### **Prime ministers meet: hard bargaining and things to cheer**

The most important bilateral event for the last quarter was the 10<sup>th</sup> prime ministerial meeting between Premier Wen and Prime Minister Fradkov in Beijing Nov. 3-4. The talks focused on economic issues and trade structure; energy cooperation (oil, gas, power transmission, and nuclear power); investment and banking protection; science, space, and hi-tech joint projects; and information technology and transportation infrastructure. Issues of “humanitarian exchanges” were also on the agenda, covering various areas (language training, education, culture and arts, health, sports, tourism, movie, archive exchanges, etc.) in the coming “Years of Russia and China” in 2006 and 2007.

Wen put forward a seven-point list regarding the next step in the concrete cooperation between China and Russia: 1) improve the trade structure, standardize trade discipline, and promote steady growth of trade; 2) begin early discussion and reach agreement on the oil pipeline construction project to deepen cooperation in electricity and nuclear energy; 3) sign the “Sino-Russian Agreement on Investment Protection” as soon as possible, and expand the scope of mutual investments; 4) step up exchanges of scientific and technological personnel as well as the transfer of scientific and technological results to raise the overall level of cooperation in science and technology; 5) support mutual cooperation in the neighboring regions of the two countries; 6) promote exchanges in humanist areas such as education, culture, health, sports and tourism; and 7) exert all efforts to do a good job with activities related to the “Year of China and Year of Russia.”

Eleven documents were inked, including a comprehensive joint communiqué. They included agreements on studying the Russian language in the PRC and the Chinese language in Russia; on mutual understanding of the rehabilitation and treatment of Russian children affected by the Beslan terrorist act; on mutual understanding in implementing the intergovernmental agreement on cooperation in preventing unfair competition and implementing the anti-monopoly policy; on regulating banking activities; a credit agreement between Vneshekonombank (Foreign Economic Bank of Russia) and the State Development Bank of China; an agreement between Vneshtorgbank (Foreign Trade Bank of Russia) and the Bank of China to open a credit line of \$200 million for Vneshtorgbank; an agreement on cooperation between Vneshtorgbank and the Chinese processing company that issues China Union Pay plastic cards.

The two sides bargained hard. The Russians seemed genuinely frustrated by the unbalanced trade structure: its exports to China consist primarily of raw materials and the share of engineering products in Russia’s overall exports to China declined from 4.8 percent in 2004 to 2.4 percent in the first nine months of 2005. The Russian prime minister urged China to install more Russian-designed nuclear power plants, including floating and spaceship-based nuclear power plants to offset the imbalance. Wen insisted that Russia honor all its commitments to supply oil to China, which was behind schedule at the time of the meeting. Wen also pressed for an early decision

and agreement over the Russian oil pipeline to China. The two sides also failed to reach a final agreement on the price of electricity exported from Russia.

Despite these differences, agreements and positive elements still dominated the talks. Wen Jiabao, for example, described the bilateral relations as “unprecedented” in their depth and width. Fradkov also met with President Hu after the prime ministerial talks. Both leaders were upbeat about the talks and the generally healthy state of bilateral relations.

### **China’s Year of Russia: an early start**

All these exchanges occurred before the toxic spill in mid-November. It also happened on the eve of China’s “Russia Year” in 2006, which will be officially inaugurated by President Putin when he visits China in late March 2006. Shortly before the spill, the sixth Session of the China-Russia Cooperation Committee on Education, Culture, Health, and Sports was held in Beijing. The two sides negotiated some 200 cultural, sports, educational, economic, and other events to be held throughout China for the Russia Year, which is unprecedented, even during the China-Soviet “honeymoon” years.

The chemical spill struck a deep and unpleasant note for the Russian and Chinese peoples, each of which has, since their reforms in the 1980s, largely looked to the West, not each other, for the betterment of their lives. It also brought to surface the deeply held distrust and suspicions between the two sides, particularly among the Russians. Despite unprecedented progress in the more tangible aspects of bilateral relations (political, strategic, and economic interactions), the intangible mutual perceptions/misperceptions and understandings/misunderstandings, are still unstable, and even negative. In that respect, the chemical spill kicked off a more difficult process of rediscovering, if not re-normalizing, the more subtle and indiscernible parts of the bilateral relations.

### **Chronology of China-Russia Relations: October-December 2005**

**Oct. 1, 2005:** President Vladimir Putin sends a congratulatory message to President Hu Jintao on the 56<sup>th</sup> anniversary of the founding of the PRC.

**Oct. 10, 2005:** Economic and trade ministers of SCO states meet in Dushanbe, Tajikistan to prepare for the SCO prime ministerial meeting in Moscow in late October.

**Oct. 15, 2005:** China’s Foreign Ministry spokesman Kong Quan strongly condemns the terror attack in the city of Nalchik in Russia’s Caucasus region.

**Oct. 17, 2005:** Russia’s major aircraft producer Sukhoi opens office Beijing to provide better after-sale service of the company’s products in China.

**Oct. 19-21, 2005:** China and Russia hold second round of China-Russian Strategic Security Talks in Beijing. Russian Security Council Secretary Igor Ivanov meets President Hu, Foreign Minister Li Zhaoxing, and Vice Foreign Minister Dai Bingguo.

**Oct. 19, 2005:** Delegation of the Chinese People's Political Consultative Conference (CPPCC) visits Russia, at the invitation of Russia's Federation Council.

**Oct. 20, 2005:** President Putin and his wife meet with China-Russian Friendship Committee deputy chairman Deng Rong, Deng Xiaoping's daughter.

**Oct. 24, 2005:** Russian FM Sergei Lavrov meets the SCO Secretary General Zhang Deguang prior to the Oct. 26 SCO prime ministers' meeting in Moscow.

**Oct. 24, 2005:** Chinese FM Li talks over the phone with Russian FM Lavrov on the situation in Syria and Lebanon.

**Oct. 26-27, 2005:** Premier Wen Jiabao attends the fourth annual SCO Council of heads of government meeting in Moscow. Wen has Oct. 26 meeting with Putin.

**Oct. 26-Nov. 1, 2005:** State Duma Deputy Andrei Kokoshin visits China to attend a conference on regional security and bilateral relations. Kokoshin also speaks at the Chinese Institute of International Strategic Research and meets Deputy Chief of Staff of the Chinese Army Xiong Guangkai, Defense Minister Cao Gangchuan, and Deng Rong.

**Oct. 29, 2005:** Russian Vice PM Alexander Zhukov arrives in Beijing. Zhukov and Chinese State Councilor Chen Zhili chair the sixth Session of the Sino-Russian Cooperation Committee on Education, Culture, Public Health, and Sports on Oct. 31, and with Chinese Vice Premier Wu Yi the ninth Session of the Committee of the Sino-Russian Prime Ministers' Meeting.

**Nov. 1-4, 2005:** Col. Gen. Anatoly Perminov, head of the Russian Federal Space Agency, negotiates with the Chinese National Space Administration on cooperation in space. He joins PM Fradkov for the 10<sup>th</sup> regular meeting with Premier Wen on Nov 3-4.

**Nov. 3-4, 2005:** Russian PM Fradkov visits China for the 10<sup>th</sup> regular meeting with Premier Wen. Fradkov also meets President Hu and NPC Chair Wu Bangguo.

**Nov. 7-16, 2005:** Ministry of National Defense hosts a 10-day SCO Defense and Security Forum in Beijing. Participants include 26 military officers from Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Uzbekistan, as well as observers from Mongolia, Pakistan, Iran, and India. The forum discusses the international situation, regional security, antiterrorism cooperation, and the role and the future development of the SCO.

**Nov. 13, 2005:** Some 100 tons of benzene leaks into the Songhua River after an explosion at a chemical plant in China's Jilin Province. The benzene slick flows downstream, passing Harbin (population 5 million) Nov. 23-26, entering the Heilong River (Amur for Russia) Dec. 15, and passing Khabarovsk (population 600,000) Dec. 22-27.

**Nov. 15, 2005:** Foreign Ministers Lavrov and Li meet in Busan during the annual APEC meeting. They discuss about issues regarding the Korean Peninsula, Middle East, Syria, and Iran.

**Nov. 18, 2005:** Presidents Putin and Hu meet on the sidelines of the APEC meeting. They discuss energy, trade, military-technology cooperation, SCO, and cultural exchanges.

**Nov. 24, 2005:** A hotline is set up between the Russian and Chinese environment protection agencies in border regions, according to Russian ambassador to China Sergei Razov who meets officials from China's State Environmental Protection Administration .

**Nov. 29, 2005:** First China-Russo Cooperative Narcotics Control Ministerial Meeting is held in Khabarovsk. Both nations agree to directly exchange information and coordinate operations against illicit drug activities.

**Nov. 30-Dec. 2, 2005:** The second Russian-Chinese-Kazakh oil forum opens in Beijing on issues of recovery, processing, and transportation of oil from Russia and Kazakhstan to China. Deputy head of the Federal Energy Agency (Rosenergo) Oleg Gordeyev heads the Russian delegation. Several hundred officials and business people from Russia, China, Kazakhstan, Great Britain, and other nations join the conference.

**Dec. 8-9, 2005:** First Deputy PM Dmitri Medvedev visits Beijing as president of the organizing committee of the "Russia Year in China" program. He and his Chinese counterpart and Vice Premier Wu Yi discuss programs for the Russia Year in China in 2006 and the China Year in Russia in 2007. Medvedev later meets President Hu.

**Dec. 10, 2005:** Russian FM Lavrov meets with Chinese counterpart Li Zhaoxing in Kuala Lumpur during the 11<sup>th</sup> ASEAN Plus Three conference, before the first East Asia Summit.

**Dec. 13, 2005:** President Putin and PM Wen meet in Kuala Lumpur. Putin reportedly "notes" efforts by China to contain a toxic chemical spill floating down river toward Russia. Putin and Wen agrees that the incident should not harm bilateral relations.

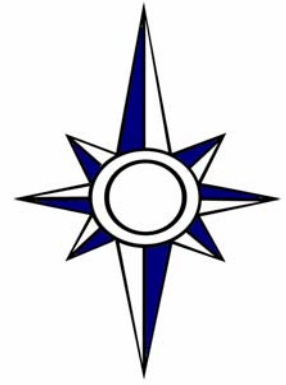
**Dec. 20-22, 2005:** National coordinators of the SCO states meet in Beijing to discuss issues on reforming the SCO's secretariat to enhance its functions, expand its competence, and increase the status of its leaders.

**Dec. 23, 2005:** Officials from SCO law enforcement authorities and financial institutions meet in the Uzbek capital of Tashkent to discuss measures to cut funding for terrorist groups.

**Dec. 25, 2005:** Russia's Transaero Airlines begins nonstop flights from Moscow to Sanya, China's southernmost resort of Hainan Island, which hosted 20,000 Russian tourists in 2005.

**Dec. 30, 2005:** President Putin congratulates President Hu on the New Year while expressing his belief that relations between Russia and China have entered a fundamentally new stage of development in 2005 and that the coming year of 2006 will open up new opportunities for Russia-China cooperation.





U.S.-India Relations:  
**The Best is Yet to Come**

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Measured by criteria such as the number of high-level visits, new dialogue mechanisms, initiatives, and major agreements, U.S.-India relations during 2005 could certainly be characterized, in the words of Ambassador David Mulford, as at “an all-time high.” But a careful review of the year confirms that while the tone and atmospherics of the bilateral relationship have undergone a profound, positive change, there is significant work to be done in transforming visits, mechanisms, initiatives, and agreements into sustainable progress in the relationship. This sense of there being more to do is perhaps what Prime Minister Manmohan Singh alluded to when, in an interview on the *Charlie Rose Show*, he said of his discussions with President George W. Bush that “we both agreed that the best is yet to come.”

The year just completed, 2005, saw the signing of a new framework agreement for defense cooperation, a major initiative to pursue civilian nuclear cooperation and a state visit by Prime Minister Singh to the U.S. at the invitation of President Bush. It remains to be seen how the processes launched on the defense and nuclear fronts will be implemented and whether a visit by President Bush to India in 2006 (as is widely expected) will continue the momentum in bilateral relations. Meanwhile, U.S. and Indian trade and investment ties, though growing swiftly, remain far below their potential and the U.S. and India continue to search for the same “wavelength” on a range of regional and international issues. One issue that did not interfere significantly with U.S.-India relations during the year, as it had during the first Bush administration, was the India-Pakistan dispute.

**A nuclear deal?**

The most dramatic and controversial development in U.S.-India relations during 2005 was the agreement to pursue civilian nuclear energy cooperation. At the close of the year, however, many uncertainties about the implementation of the agreement remain. As previous articles have discussed (see for example, “U.S.-India Relations: Stuck in a Nuclear Narrative,” *Comparative Connections*, Vol. 3, No. 1 and “U.S.-India Relations: Visible to the Naked Eye,” *Comparative Connections*, Vol. 3, No. 4 and “U.S.-India and India-Southeast Asia Relations: Delhi’s Two-Front Diplomacy,” *Comparative Connections*, Vol. 5, No. 4), India’s nuclear weapons development has long cast a pall over the entire bilateral relationship. The Bush administration

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\* The views expressed in this chapter are those of the author and do not necessarily reflect the views of any organizations with which the author is affiliated.

took office in 2001 determined to address this constraint to the relationship. In its first term, the administration was able to waive (but not repeal) sanctions in the wake of Sept. 11. Since then, ongoing discussions about India's nuclear status and the possibility of civilian nuclear cooperation have taken place without reaching any clear, workable formulation.

The agreement contained in the July 18, 2005 U.S.-India Joint Statement, issued during Prime Minister Singh's state visit to Washington, D.C., offers one such formulation. According to the statement, the United States is to take several actions. First, "...President [Bush] would...seek agreement from Congress to adjust U.S. laws and policies..." to make cooperation with India possible. Congressionally mandated restrictions currently preclude civilian nuclear cooperation with India. Second, President Bush agreed that the "United States will work with friends and allies to adjust international regimes to enable full civil nuclear energy cooperation and trade with India, including but not limited to expeditious consideration of fuel supplies for safeguarded nuclear reactors at Tarapur." Third, in response to India's expressed interest in participating in the International Thermonuclear Experimental Reactor (ITER) project, the U.S. agreed to "consult with its partners considering India's participation." And finally, the "United States will consult with the other participants in the Generation IV International Forum with a view toward India's inclusion." By the end of 2005, only the third item, India's participation in ITER, was fully implemented, though considerable efforts were underway on the other milestones.

For its part, India signed on to several "responsibilities and practices" in exchange for full civilian nuclear cooperation with the U.S. – and potentially other countries. According to the statement, "...India would reciprocally agree that it would be ready to assume the same responsibilities and practices and acquire the same benefits and advantages as other leading countries with advanced nuclear technology, such as the U.S. These responsibilities and practices consist of identifying and separating civilian and military nuclear facilities and programs in a phased manner and filing a declaration regarding its civilian facilities with the International Atomic Energy Agency (IAEA); taking a decision to place voluntarily its civilian nuclear facilities under IAEA safeguards; signing and adhering to an Additional Protocol with respect to civilian nuclear facilities; continuing India's unilateral moratorium on nuclear testing; working with the U.S. for the conclusion of a multilateral Fissile Material Cut Off Treaty; refraining from transfer of enrichment and reprocessing technologies to states that do not have them and supporting international efforts to limit their spread; and ensuring that the necessary steps have been taken to secure nuclear materials and technology through comprehensive export control legislation and through harmonization and adherence to Missile Technology Control Regime (MTCR) and Nuclear Suppliers Group (NSG) guidelines."

This framework agreement has been the subject of intense negotiations between the two countries and within the two polities since the July 18 announcement. The proposal has also attracted considerable international attention, including at meetings of the Nuclear Suppliers Group (NSG). Understanding the immediate lead up to the July 18 statement is important because it provides insights into the approach taken by the two countries and the obstacles that remain.

By spring 2005, there were already public indications that the U.S. and India had made progress in their discussions about possible civilian nuclear cooperation. At an April 14 joint press

conference held by Secretary of State Condoleezza Rice and External Affairs Minister Natwar Singh during the latter's visit to Washington, Singh noted that "my colleague, Dr. Montek Singh Ahluwalia [Deputy Chairman of the Planning Commission], is staying back to have discussions on economic matters and *matters related to the peaceful uses, civil uses of nuclear energy* [emphasis added], and also other scientific matters...*I am particularly happy to compliment our American friends for the fresh approach they have brought to bear on a subject that is of such vital importance for us* [emphasis added]." And, following a meeting between External Affairs Minister Singh with President Bush, Indian Foreign Secretary Shyam Saran briefed the press that "[President Bush] said India and the U.S. need to work in this particular area [the issue of energy] which would include the area of civil nuclear cooperation."

Soon after, the outlines of India's dual-track but overlapping strategy became evident. The first track involved taking steps to assure the Bush administration of India's commitment to the protection of technology and materials that it might receive under a nuclear deal. The steps that India took on this front would in turn facilitate the Bush administration's ability to make the case for civilian nuclear cooperation with India to the U.S. Congress as well as its international allies and partners. To this end, on May 13, both houses of India's Parliament passed the *Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Bill 2005*. An Indian Ministry of External Affairs spokesperson explained that while India has several pieces of legislation that relate to WMD, "the objective of introducing this legislation was to provide an integrated and overarching legislation which provides for prohibiting a range of unlawful activities in relation to WMD and their delivery system and WMD usable goods and technologies." This is quite significant in light of the fact that since India's May 1998 nuclear tests and its self-declaration as a nuclear weapons state, the U.S.-India dialogue has encompassed the need for an Indian legal framework for nonproliferation.

Three other elements of the Indian legislation are notable. First, in making the announcement, the spokesman asserts that "[t]his does not indicate any change in our nuclear policy. It does not in any manner constrain any nuclear programs, civilian or strategic." Throughout the year, as negotiations with Washington on possible civilian nuclear cooperation move forward, the Indian government sought to simultaneously allay criticism at home that it is "caving in" to U.S. demands. Second, the legislation is justified on the grounds that "updated controls over the export of WMD usable goods and technologies and prohibitions related to non-state actors will fulfill our mandatory obligations under the UN Security Council Resolution 1540 which was adopted on April 28, 2004." No mention is made of any possible relationship between this step and a nuclear cooperation agreement with the U.S. or other countries. Third, a direct link is made between the possibility of international nuclear energy cooperation and the legislation. In a seemingly choreographed exchange between an unnamed press person and the MEA spokesmen, when asked whether "this legislation makes it easier for India to fulfill its civilian nuclear energy requirements from abroad..." the spokesman replies "The fact that India has taken all the steps necessary to show that India is a responsible nuclear state is naturally a major statement to the world."

The outlines of the emerging U.S.-India accord and the Indian position in the negotiations became clearer in the course of an important speech by India's Prime Minister Manmohan Singh to the Defense Research and Development Organization (DRDO) May 17. In the speech, and

referring to the legislation discussed above, Singh laid out India's commitment to the nonproliferation of sensitive technologies, the logic for international suppliers to cooperate with India, and hints at India's willingness to sign on to certain elements of the international nonproliferation regime so long as these elements do not constrain India's "legitimate interests" regarding its "strategic programs," i.e., its nuclear weapons capabilities. The prime minister's text on this point is worth citing in full:

"The strict regulation of external transfers and tight control to prevent internal leakages [contained in the *Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Bill 2005*] should give confidence to the international suppliers of high technology items that their supplies will remain fully secure with us. We see no reason for nonproliferation concerns to be a barrier to high technology trade and commerce with our country. Our message to the international community is, therefore, is [sic] loud and clear – India is willing to shoulder its share of international obligation as partner against proliferation provided our legitimate interests are safeguarded. In the defense field and the nuclear field, our strategic programs are indigenous and not dependent on external sources of support. Nor can they be the subject of externally imposed constraints. Within these parameters, *India is prepared for the broadest possible engagement with the International nonproliferation regime* [emphasis added]."

Within two weeks of this speech, on June 3, the government of India announced that the prime minister accepted an invitation from President Bush to travel to Washington. On the same day, Prime Minister Singh said it was "imperative" that India "embark on a major expansion of nuclear energy," in part through international collaboration. He also said, "Artificial barriers and [nuclear] technology denial regimes are an anachronism in the age of globalization and must be progressively dismantled." On July 18, the U.S.-India Joint Statement, including the possibility of civilian nuclear cooperation, was issued.

With the proposed nuclear agreement now public, both Washington and New Delhi sought to address critics at home and abroad. The Bush administration's lead negotiator for the deal, Under Secretary of State Nicholas Burns, emphasized that India's commitments under the proposed deal "will actually strengthen the nonproliferation regime" and represents "a benefit to the United States." He stated that "especially when Congress comes back from summer recess, we will want to put in front of the Congress a specific program that would allow the United States to proceed to commit itself to this program of [nuclear] cooperation" with India. But critics could not wait and some members of the U.S. Congress and nongovernment specialists expressed misgivings about the possible deal. In any case, the administration was unable to provide Congress any "specific program" on the deal because India had yet to take some of the key nonproliferation steps it promised – the most important being a credible, transparent plan for the separation of its military and civilian nuclear facilities.

Meanwhile, Indian officials were responding to critics at home, too. Leftist members of Prime Minister Singh's United Progressive Alliance (UPA) coalition government criticized the deal as overly conciliatory to the U.S. And former Prime Minister Vajpayee wrote a letter to Prime Minister Singh expressing concern that the proposed agreement makes unreasonable demands on

India while the U.S. “has merely made promises” in return. No doubt to allay accusations of a surrender to Washington’s demands, shortly after the deal was announced India’s Defense Minister Pranab Mukherjee reiterated that India will not sign the Nuclear Nonproliferation Treaty, calling it “discriminatory and flawed.” And on his return to India, Prime Minister Singh reassured Parliament that nuclear cooperation with the U.S. would not limit or lead to any outside interference in India’s military nuclear program. On Aug. 15, India’s Independence Day, Prime Minister Singh’s address to the nation called his recent U.S. visit a “major step toward promoting friendship” with the U.S. that will help accelerate the development of India. But it was left to Indian National Security Advisor Narayanan to tell the press that India’s strategic nuclear program was “left untouched” by the recent agreement and that India “will have enough fissile material available to meet our current and future needs.”

In the fall, attention to the agreement shifted to the U.S. Congress, with both the Senate and House holding hearings on the proposed agreement. While Congress generally welcomes improved U.S.-India relations, considerable concern remains about the nuclear agreement. As matters stand at the end of the year, the onus appears to be on India to provide a plan for the separation of its civilian from its weapons-related facilities. Earlier expectations that this process could be achieved relatively quickly and without further negotiations now appear over-optimistic. Additional talks were held between the two countries in December without reaching an agreement and further talks are scheduled for January 2006. Even if the Indian government and the Bush administration reach an agreement on implementing the agreement, it will still require negotiations between the administration and Congress before it can take effect. Given congressional attitudes, there is no guarantee that the deal will be consummated – and perhaps not as currently formulated. It is worth noting that India’s Foreign Secretary Saran, during his December talks on the issue in Washington, made a call on Sen. Richard Lugar, chairman of the Senate Foreign Relations Committee. Saran opined that “It was an extremely positive meeting, and from my point of view a very encouraging meeting. I have every reason to believe that there is in fact a very encouraging environment for seeing this agreement through.”

### **Defense relations: frameworked**

A notable area of progress in U.S.-India relations in the five years since the Bush administration has taken office has been of defense cooperation. For example, more joint military exercises were held between the two countries in the period 2001-2005 than in the preceding 40 years. 2005 proved to be another year of robust defense exchanges.

During a four-day official visit to the U.S. beginning on June 28, India’s Defense Minister Pranab Mukherjee and Secretary of Defense Donald Rumsfeld signed a document entitled, *New Framework for the U.S.-India Defense Relationship* that is intended to guide the work of the Defense Policy Group and its various components. According to the document, the U.S. and India will undertake a range of 13 different activities ranging from conducting joint and combined exercises to concluding defense transactions. By itself, the *New Framework* broke no new ground. However, it was a restatement of the commitment to expanded defense and military ties.

Given the considerable criticism within India about ties to the U.S., Indian government officials sought to play down the agreement. In a briefing to the Indian press on the eve of Prime Minister Singh's state visit to the U.S., Foreign Secretary Saran described the defense agreement thus: "I think there is a certain misunderstanding about the framework agreement signed between India and the U.S. This is precisely what it is, it is a framework agreement. It is not as if it is an agreement for establishing a military alliance between India and the U.S. What it sets out is parameters within which India and the United States of America can potentially cooperate with one another if it is in their interest to do so." On Aug. 2, Defense Minister Mukherjee told Parliament that a new U.S.-India defense pact "signal[ed] the U.S. willingness to enhance defense cooperation with India and strengthen our defense capabilities," but that India will "not confuse U.S. interests with ours or subordinate our interests to U.S. interests."

Nor did Indian officials and spokesmen fail to mention some continuing concerns on the part of India about the reliability of the U.S. as a defense partner. In February, before his trip to the U.S., Defense Minister Mukherjee said that the possibility of sanctions reduces U.S. credibility as a reliable supplier of defense equipment. The U.S. sought to allay some of these concerns. According to an Indian briefer from the Ministry of External Affairs, in her March 2005 meeting with Prime Minister Singh, Secretary Rice reportedly "expressed United States' keen interest to emerge as a reliable partner and source for defense hardware and technology."

The U.S. and India also continued discussions about missile defense. In February, a U.S. delegation led by the Defense Security Cooperation Agency's (DSCA) regional director visited New Delhi to brief Indian officials on the Patriot missile defense system, which some reports say the Indian government will consider purchasing. In March, a meeting of the India-U.S. Defense Policy Group held in Hyderabad ended with an agreement to hold joint workshops on missile defense issues. However, in July India's defense minister stated that India had no intention of "accepting a missile shield from anyone." In September, the head of the Defense Security Cooperation Agency arrived in New Delhi for talks on possible sales to India of U.S.-made combat aircraft and *PAC-3* anti-missile systems.

There were also several reports during 2005 about possible arms sales to India – though no major sales were actually announced. In February, India's air force chief reportedly stated that U.S.-built *F-16* warplanes were among four types of multi-role fighters that India will consider purchasing. Meanwhile, U.S. defense companies evinced interest in the possibility of greater business with India as the country continued to import arms at a significant pace. An August Congressional Research Service (CRS) report indicated that India was the developing world's top weapons buyer in 2004, when it ordered \$5.7 billion worth of arms, as well as during the period 1997-2004, when it ordered \$15.7 billion worth of arms. An earlier Stockholm International Peace Research Institute (SIPRI) study claimed that India imported \$8.5 billion worth of weapons systems from 2000 to 2004, placing it second only to China. Press reports claimed that Lockheed Martin, for example, would consider a special license to share with India sensitive technology related to its *P-3C Orion* maritime patrol aircraft should the Indian Navy choose to purchase them.

There were several important military exchanges and joint exercises between U.S. and Indian forces. In April, Adm. William Fallon, commander of the U.S. Pacific Command, arrived in New Delhi to meet senior Indian military and civilian officials. In addition to meetings with India's

top civilian and military officials, Adm. Fallon observed Indian armored forces maneuvers in the Thar Desert and toured Western Naval Command warships off Mumbai. Regarding joint naval exercises, Fallon said “earlier joint exercises were limited to basics, but henceforth, we may advance to complexities and exchange of information.” Adm. Fallon also raised the prospect of having the “presence of an Indian liaison officer round the clock [to] help us better understand the intricacies in the Indian Ocean and the problems of the region.” India reportedly did not make a reciprocal offer. Ultimately, India turned down the suggestion to have Indian military liaison officers at the U.S. Central and Pacific Commands. In September, the *Malabar* joint U.S.-India naval exercise was conducted in the Arabian Sea. In November, the U.S. and Indian Air Forces conducted a joint exercise – *Cope India '06* in West Bengal. India’s leftist parties protested, but the Indian government insisted on continuing with the exercise.

### **Economics and trade: getting there**

Several new initiatives designed to build on growing trade and investment ties were launched in 2005. In mid-January, Transportation Secretary Norman Mineta and his Indian counterpart announced a U.S.-India “Open Skies” agreement that would remove restrictions and lower fares on airline service between the two countries. Expanded travel to India is expected to promote commerce. Later in the year, Mineta also said that the U.S. is committed to helping India fully develop its transportation infrastructure. In June, President Bush issued a proclamation determining “that India has made progress in providing adequate and effective protection of intellectual property rights.” He therefore terminated “the suspension of India’s duty-free treatment for certain articles under the GSP [Generalized System of Preferences].” Almost a decade earlier, the U.S. had suspended certain GSP benefits to India due to concerns about the protection of intellectual property. The U.S. move, in response to India’s strengthening of intellectual property protections, is expected to increase bilateral trade and investment.

In early November, Secretary of Treasury John Snow traveled to India where he met with the Indian finance minister, Central Bank governor, and other senior government and business leaders for a dialogue on financial, investment, and trade issues. Snow sought additional liberalization of the Indian banking, insurance, pension, and fund management sectors. In mid-November, U.S. Trade Representative Rob Portman visited New Delhi for meetings with top Indian officials, where he inaugurated the U.S.-India Trade Policy Forum and urged “ambitious” cuts in India’s trade-distorting agricultural subsidies. The U.S. and India also established a forum to promote teaching, research, and commercial linkages in agriculture.

Though overall trade and investment figures remain extraordinarily small – especially compared to U.S. trade with China or Japan – the pace at which these ties are growing suggests an untapped potential. According to India’s Embassy in Washington, “[i]n the first eight months of 2005 trade grew at 23.44 percent, with U.S. exports exhibiting strong growth of 37.43 percent.” The total trade volume has nearly doubled in the past three years from \$13.49 billion in 2001 to \$ 21.68 billion in 2004. And the U.S. remains, overwhelmingly, India’s largest investment partner – both through foreign direct and portfolio investments. The U.S. is also the chief destination of Indian investment abroad. During Prime Minister Singh’s visit to Washington in July, he and President Bush also announced the launch of a CEO’s forum whose purpose is to have top business leaders from each country develop suggestions of how to increase business links

between the two countries. The CEO forum is yet another, albeit nongovernmental element of the bilateral institutional framework for economic relations. A Financial and Economic Forum, a Commercial Dialogue, a Working Group on Trade and the newly launched Information and Communications Technology Working Group comprise other parts of this approach. While these efforts appear to be helping push the economic aspects of the relationship forward, ultimately it is India's economic and related conditions that will "pull" commerce with the U.S. faster and further. On this front 2005 gave mixed messages.

### **Foreign policy: a similar wavelength**

Notwithstanding Indian External Affairs Minister Singh's assertion to Secretary Rice that "we were on the same wavelength," U.S.-India relations on a range of foreign policy matters remained mixed. For example, the U.S. and India do not see eye to eye on the issue of a permanent seat on the United Nations Security Council for India. The July 18 Joint Statement between President Bush and Prime Minister Singh noted their agreement that "international institutions must fully reflect changes in the global scenario that have taken place since 1945." President Bush "reiterated his view that international institutions are going to have to adapt to reflect India's central and growing role." In the meantime, the two leaders expect that "India and the United States will strengthen their cooperation in global forums." Interestingly, Indian officials, despite several opportunities during the course of the year to criticize the U.S. unwillingness to explicitly support a permanent seat for India, declined to do so.

One of the most debated phrases of the bilateral U.S.-India relationship during the year emanated from an unnamed senior State Department official who reportedly stated March 25 that the Bush administration's "goal is to help India become a major world power in the 21<sup>st</sup> century. We understand fully the implications, including the military implications, of that statement." The statement in turn occasioned much discussion in India – with reactions ranging from dismissive to expectant. Indian officials suggested dissatisfaction with the phrase. Foreign Minister Singh, in his April 15 press conference in Washington, stated "Well, I think there has been an enormous change in the terminology. It was earlier said that the Americans would help India to become a global power. I think the message got through that this could have been better phrased, and [Secretary Rice] phrased it very well today." Dr. Rice said: "The first point that I would make is that India is becoming a global power not because the United States is making it one but because India is a democracy that is emerging to take on global responsibilities. It has the population, the reach, the increasing economic clout to do that. But the United States wants to be supportive of what we see as a positive trend in India's global role because India is a democracy and that matters to us in the global role that it is beginning to play."

One of the most contentious issues of the U.S.-India relationship during the year was Iran. With Washington increasingly worried by Iran's nuclear ambitions and New Delhi seeking energy and political cooperation with Tehran, it looked as if the twain would not meet. Indeed, India's position on Iran's nuclear program became increasingly intertwined, especially in the view of some members of the U.S. Congress, with the proposed U.S.-India nuclear deal. In March, during her visit to New Delhi, Secretary Rice expressed apprehensions about a gas pipeline running from Iran through Pakistan into India. But something of a denouement was reached Sept. 24 when India voted to support a European-sponsored resolution at the International Atomic



Energy Agency (IAEA) demanding that Teheran abide by its nuclear obligations. There has been considerable speculation that India's vote was motivated by a desire not to antagonize the U.S. Congress, which must ultimately approve implementation of the proposed civil nuclear cooperation agreement. Indian opposition parties, and members of the governing coalition severely criticized the government's stance, with the leader of the coalition-supporting Communist Party of India (Marxist) calling New Delhi's IAEA vote on Iran the "final act of surrender" to the U.S. Foreign Secretary Saran defended his government's vote in the interests of "allowing time for further negotiations" and being in India's national interest. It is probable that India's handling of its position that Iran must comply with its nuclear commitments will continue to shape attitudes in Congress toward approval of the U.S.-India nuclear deal.

Two bright spots in terms of cooperation, or at least not dissonance, related to India's neighborhood. The U.S. and India both expressed their support for democracy in Nepal. In a joint press conference during Rice's March 15-16 visit to New Delhi, Minister Natwar Singh stated that "we [the U.S. and India] agreed that recent events have been a setback in these goals. Democratic freedoms must be restored and reconciliation with political parties must lead to return to multi-party democracy in Nepal." Secretary Rice echoed these sentiments saying that on Nepal "[the U.S. and India] have had outstanding cooperation between our Ambassadors to try and help that country to get back on a democratic path. That simply must happen and we are in complete agreement that it needs to happen very, very soon." And following a subsequent meeting with Prime Minister Singh, an official briefer characterized Rice's comments on Nepal this way: "Dr. Rice welcomed the fact that the two countries had been in close touch on the Nepal situation and the two sides agreed that they needed to coordinate their approach to ensure an early return to democracy in Nepal."

India-Pakistan relations also developed in a manner that did not complicate U.S.-India relations. Throughout the year, the U.S. stated its support for the Composite Dialogue and offered to assist when called upon. India meanwhile insisted on its desire to continue with the dialogue but with the caveat that it was linked to the issue of cross-border terrorism. In March, External Affairs Minister Singh noted that "There should be no doubt about our commitment to achieving peace with Pakistan but it is critical that Pakistan implements fully its solemn commitment to cease all cross-border terrorism against India." Meanwhile, the U.S. decision to sell *F-16s* to Pakistan elicited predictable responses from India. Prime Minister Singh expressed "great disappointment" at the U.S. decision, saying the move "could have negative consequences for India's security environment." And Defense Minister Mukherjee said *F-16* aircraft "are not required for fighting terrorism." He added that "[g]iven Pakistan's track record, we fear such weapons will be directed toward India."

## **Conclusions**

The tone and atmosphere surrounding U.S.-India relations has become so positive and full of expectations that to question the real and sustainable progress in critical areas of the relationship appears almost curmudgeonly. But the reality of U.S.-India relations is not yet up to the heights achieved in mutual rhetoric, though slow and steady progress is being made to give substance to the relationship.

The improvement in U.S.-India relations is occurring in parallel with India's improved relations with the wider Asia-Pacific region. The connection between the two is becoming increasingly important because a key element of the Bush administration's agenda with India is to improve cooperation with New Delhi in the wider Asian context. In 2005 alone India signed on to the Association of Southeast Asian Nations (ASEAN) Treaty of Amity and Cooperation (TAC), joined the East Asia Summit as one of the initial members, became an observer at the Shanghai Cooperation Organization, and improved bilateral ties with Japan, China, Russia, and individual countries in Southeast Asia. These developments raise questions about what role the U.S. sees for India in the Asia-Pacific region and the effect of India's objectives with East Asia on its relationship with Washington. On the one hand, there are a number of benefits for the U.S. of India's expanded ties with the Asia-Pacific region (see "Delhi's Two-Front Diplomacy," *Comparative Connections*, Vol. 5, No. 4). But on the other, there are many potential challenges too. India certainly sees relations with countries such as China and Russia as partially designed to offset over-reliance on the U.S. Above all, India seeks a multipolar international order that will afford it more room for maneuver and increase its options. India's ties with specific countries like Myanmar run counter to U.S. policy. As U.S.-India relations move forward and India's ties with the Asia-Pacific region expand, there will likely be a combination of complications and opportunities for U.S.-India relations.

### **Chronology of U.S.-India Relations January-December 2005**

**Jan. 3, 2005:** During President and Mrs. Bush's visit to India's Embassy in Washington, DC to sign a condolence book for the victims of the December 2004 tsunami disaster, President Bush thanks India for its "especially strong" efforts as part of an initial core group of countries responding to the disaster.

**Jan. 13, 2005:** India's Minister of State for Civil Aviation Praful Patel meets Secretary of Transportation Norman Mineta in Washington to discuss an updated Air Services Agreement between the two countries. The existing Air Services Agreement is about 50 years old.

**Feb. 7-11, 2005:** U.S. Nuclear Regulatory Commission delegation led by Commissioner Jeffrey S. Merrifield meets with the Atomic Energy Regulatory Board of India for technical discussions regarding nuclear safety and visits to selected nuclear power and research facilities. This is the first visit to India by a member of the NRC since the U.S. and Indian government announced the Next Steps in the Strategic Partnership (NSSP) in January 2004.

**Feb. 9, 2005:** A joint delegation of representatives from the U.S. Department of Energy and the International Atomic Energy Agency (IAEA) visits India for the first India-U.S.-IAEA trilateral meeting on the Regional Radiological Security Partnership (RRSP) program designed to enhance the security of dangerous radioactive sources.

**March 3-4, 2005:** U.S. and Indian officials meet in Hyderabad to discuss missile defense. Agreement was reached to continue the dialogue and hold future workshops.

**March 4, 2005:** India's Parliament passes an amended Patents Bill 2005 that applies to food, chemicals and pharmaceuticals. The move is welcomed by the U.S. and will lead to the removal of some restrictions on Indian exports.

**March 15-16, 2005:** Secretary of State Condoleezza Rice becomes the first Cabinet-level official to visit India in the second Bush administration. It is Rice's first visit to India. In addition to discussing bilateral, regional, and global issues, a Joint Working Group on Civil Space Cooperation is launched.

**March 18, 2005:** U.S. Embassy in New Delhi rejects granting a visa to the chief minister of Gujarat state, Narendra Modi, to attend a conference in the U.S. India issues a demarche for reconsideration, but the U.S. government decision stands.

**March 19-28, 2005:** Adm. Arun Prakash, chief of Naval Staff, Indian Navy, and chairman Chiefs of Staff Committee makes an official visit to the U.S. to discuss ways to further U.S.-India naval cooperation including joint exercises and acquisition of U.S. equipment and systems for the Indian Navy.

**April 12-14, 2005:** External Affairs Minister Natwar Singh visits Washington at the invitation of Secretary Rice. The composition of the delegation accompanying Minister Singh suggests continued discussion of U.S.-India nuclear and technology cooperation. Following a meeting between Singh and President Bush, Foreign Secretary Saran briefs the press that "[President Bush] said India and the U.S. need to work in this particular area [the issue of energy] which would include the area of civil nuclear cooperation."

**May 13, 2005:** Both houses of India's Parliament pass the *Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Bill 2005*. The timing of the bill's passage is almost certainly linked to ongoing discussions with Washington regarding civilian nuclear cooperation.

**May 17, 2005:** In a speech to the Defense Research and Development Organization (DRDO), Prime Minister Manmohan Singh lays out India's commitment to the nonproliferation of sensitive technologies, the logic for international suppliers of high technology, including nuclear high technology, to cooperate with India and India's willingness to accept certain elements of the international nuclear nonproliferation regime while retaining its strategic nuclear capabilities.

**May 17, 2005:** U.S. and India hold a meeting of the bilateral Global Issues Forum. The U.S. delegation is led by Under Secretary for Global Affairs Paula J. Dobriansky and the Indian delegation by Foreign Secretary Shyam Saran. Among the topics discussed are environmental protection, sustainable development, and the promotion of democratic values and human rights.

**May 31, 2005:** Energy Secretary Samuel W. Bodman and Deputy Chairman of the Planning Commission of India Montek Singh Ahluwalia launch a new bilateral U.S.-India Energy Dialogue. Five working groups are established with each focusing on a range of energy topics.

**June 1, 2005:** Allan Hubbard, assistant to the president for economic policy and director of the National Economic Council (NEC) and Chairman Ahluwalia launch a reinvigorated U.S.-India Economic Dialogue. The four tracks of the dialogue are trade, commerce, finance, and environment. The two sides agree to explore adding an information and communications technology component to the dialogue.

**June 24, 2005:** Under Secretary of State Nicholas Burns and Foreign Secretary Shyam Saran meet in Delhi. According to an India spokesman, the main issues of discussion were the energy and economic dialogue and reform of the United Nations.

**June 28, 2005:** During a four-day official visit to the U.S., Defense Minister Pranab Mukherjee and Secretary Rumsfeld sign the *New Framework for the U.S.-India Defense Relationship* that is intended to improve cooperation between the two militaries, enlarge defense trade, co-produce military hardware and increase technology transfers.

**June 29, 2005:** President Bush issues a proclamation determining “that India has made progress in providing adequate and effective protection of intellectual property rights. Accordingly, I have determined to terminate the suspension of India’s duty-free treatment for certain articles under the GSP [Generalized System of Preferences].”

**June 29-30, 2005:** Inaugural meeting of the U.S.-India Joint Working Group on Civil Space Cooperation is held in Bangalore with Director P.S. Goel of the ISRO Satellite Centre leading the Indian delegation and Principal Deputy Assistant Secretary of State Anthony F. Rock heading the U.S. delegation.

**July 18-20, 2005:** Prime Minister Singh makes a state visit to the U.S. Singh addresses a joint session of Congress. The centerpiece agreement contained in the *U.S.-India Joint Statement* relates to pursuing civilian nuclear cooperation.

**Sept. 13-15, 2005:** President Bush and Secretary Rice meet Prime Minister Singh on the sidelines of the annual meeting of the UN General Assembly.

**Sept. 19, 2005:** External Affairs Minister Singh meets Secretary Rice.

**Sept. 21-25, 2005:** Indian Finance Minister P. Chidambaram visits the U.S. to attend the IMF-World Bank annual meeting. He participates in an India Investment Forum co-organized by the U.S.-India Business Council and meets CEOs of major U.S. companies to discuss issues relating to investments in manufacturing and infrastructure in India.

**Sept. 26-Oct. 5, 2005:** The U.S. and India conduct *Malabar 2005*, naval exercises off the coast of Goa. For the first time aircraft carriers are included.

**Oct. 3, 2005:** The U.S. and India sign the Protocol of Exchange of the Instrument of Ratification concerning Mutual Legal Assistance Treaty in criminal matters. The treaty is intended to improve law enforcement cooperation relating to terrorism, narcotics, trafficking, and organized crime.

**Oct. 8, 2005:** A major earthquake hits South Asia with the epicenter in Kashmir.

**Oct. 17, 2005:** Secretary Rice and Minister of State for Science & Technology, Biotechnology and Ocean Development Kapil Sibal sign a Science and Technology Umbrella Agreement. This new agreement, which for the first time establishes intellectual property right protocols and other provisions necessary to conduct active collaborative research, is expected to accelerate cooperation between Indian and U.S. scientists in government agencies, private sector, and academia in such areas as basic sciences, space, energy, nanotechnology, health, and information technology.

**Oct. 21-22, 2005:** Under Secretary of State Nicholas Burns visits India for the bilateral U.S.-India Asian Security Dialogue (previously held in Sept. 2004 and May 2005) and a meeting of the Joint Working Group on Civil Nuclear Energy Cooperation to pursue implementation of the July 18 U.S.-India agreement.

**Oct. 29, 2005:** Terrorists bomb three markets in Delhi. The attacks are condemned by President Bush and Secretary Rice.

**Nov. 7-10, 2005:** Treasury Secretary John Snow travels to India to co-chair the India-U.S. Financial and Economic Forum, a component of the U.S.-India Economic Dialogue. Among the issues discussed were fiscal and tax policies, the WTO Doha Round negotiations, strengthening India's infrastructure, and collective efforts to combat money laundering, and the financing of terrorism.

**Nov. 7-17, 2005:** *Cope India 2006* a joint military exercise between the U.S. and Indian air forces is held at Kalaikunda Air Station in West Bengal. During the exercise, USAF *F-16* fighters flew with IAF *Mirage 2000*, *MIG-21*, *MIG-29*, *SU-30*, and *Jaguar* aircraft.

**Nov. 9, 2005:** U.S. Trade and Development Agency and India's Finance Ministry sign agreement to increase cooperation with Indian public sector entities in the areas of project preparation, trade capacity building, investment analysis, training, and sector development.

**Nov. 12, 2005:** The U.S.-India Trade Policy Forum to expand trade and investment ties is launched in New Delhi during a visit of U.S. Trade Representative Ambassador Rob Portman. The U.S. has such a trade forum with the EU and China.

**Nov. 21-23, 2005:** The seventh round of the U.S.-India Defense Policy Group (DPG) is held in Washington. The meeting is co-chaired by Under Secretary of Defense for Policy Eric. S. Edelman and Indian Defense Secretary Shekhar Dutt.

**Nov. 30-Dec. 1, 2005:** The fourth meeting of the U.S.-India High-Technology Cooperation Group is held in New Delhi.

**Dec. 6, 2005:** The U.S. supports India's membership in the international thermonuclear experimental reactor (ITER) project. India's Ministry of External Affairs says that "U.S. support was instrumental in ensuring final agreement."

**Dec. 7-8, 2005:** The inaugural meeting of the U.S.-India Information and Communications Technologies (ICT) Working Group is held in Washington. A part of the U.S.-India Economic Dialogue, the initiative was agreed to during Prime Minister Singh's visit to the U.S. in July 2005.

**Dec. 21-22, 2005:** Indian foreign secretary visits Washington for consultations with U.S. counterpart Under Secretary of State Burns to discuss progress on implementing the July 18 Joint Statement on civilian nuclear energy cooperation. This is the second meeting of the Joint Working Group on Civil Nuclear Energy Cooperation.

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