



Regional Overview:

Promoting Freedom and Democracy Amidst Missed Opportunities

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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 16th-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: 11th 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 17th 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.