

Comparative Connections

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Regional Overview:

Bangs, Blinks, and Ballots

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The quarter started with a bang, literally, as North Korea made good on its threat to test a nuclear weapon, resulting in a strongly worded (but not strongly enforceable) UN Security Council resolution (UNSCR 1718) imposing sanctions. To the surprise of some, Pyongyang agreed to return to another round of Six-Party Talks this quarter; to the surprise of virtually no one, the talks went nowhere. The most anticipated multilateral event of the quarter, the second East Asia Summit (EAS), was postponed (ostensibly due to weather), but the Asia Pacific Economic Cooperation (APEC) Leaders Meeting did take place on schedule, along with a side meeting between President Bush and the “ASEAN Seven.” Democracy took another hit in the region, this time via a military coup in Fiji, even as the road back to democracy in Thailand is proving to be longer than promised. The Asia Pacific economic outlook remains good, with the region continuing to set the pace for the rest of the world. The political outlook is not as sunny.

DPRK still not bluffing!

Like the second quarter of 2006, last quarter also ended on a “will they or won’t they” note . . . and once again they did! Demonstrating that the UN Security Council resolution issued after their July missile test (UNSCR 1695) was not a sufficient deterrent to further provocative action, Pyongyang on Oct. 9 made good on its threat to conduct its first ever nuclear weapons test. Debate continues as to just how large or how successful the test was, but by most accounts (most decidedly including its own), North Korea seems to have joined the *de facto* nuclear weapons club. Ironically, but perhaps not by pure coincidence, the test took place on the very day the UNSC was to nominate South Korean Foreign Minister Ban Ki-Moon as the next UN secretary general.

The international community’s response to the nuclear test was swift and, at least rhetorically, quite harsh. China joined the international chorus condemning Pyongyang’s “brazen” action, agreeing that “some punitive measures” were in order after the North “defied the universal opposition of international society and flagrantly conducted the nuclear test.” Those punitive measures were soon to be spelled out in UNSCR 1718, approved after several drafts, on Oct. 14.

CVID returns!

Significantly, the final approved version of UNSCR 1718, in some respects, was even stronger than the first and second drafts put forth by the U.S., UK, France, and Japan. All versions branded the test “a clear threat to international peace and security,” with the final version also “recalling that the DPRK cannot have the status of a nuclear weapon state” in accordance with the Nuclear Non-Proliferation Treaty (NPT). While the first draft stated that Pyongyang “shall eliminate its nuclear weapons and nuclear programs, to be verified by the IAEA,” the final version “decides that the DPRK shall abandon all nuclear weapons and existing nuclear programmes in a complete, verifiable, and irreversible manner,” and further decides that it “shall abandon all other existing weapons of mass destruction and ballistic missile programmes in a complete, verifiable, and irreversible manner.” The return of CVID – the earlier U.S. demand for the complete, verifiable, irreversible dismantlement of all DPRK nuclear weapons programs – provides ample testimony to Beijing’s anger (and embarrassment) toward Pyongyang for defying its earlier stern public admonitions not to conduct the test.

The final draft also includes the establishment of a Committee of the Security Council tasked, among other duties, “to examine and take appropriate action on information regarding alleged violations,” and also “to promulgate guidelines as may be necessary to facilitate the implementation of the measures imposed by this resolution,” with the Committee reporting to the UNSC on its work, recommendations, and observations “at least every 90 days.”

Chapter 7 sanctions as necessary

Unlike UNSCR 1695, this time the U.S. was also able to invoke Chapter 7 of the UN Charter, which includes enforcement mechanisms. However, the final version included the caveat “and taking measures under its Article 41.” Article 41 notes that “the Security Council may decide what measures not involving the use of armed force are to be employed to give effect to its decisions” It is Article 42 which permits “such action by air, sea, or land forces as may be necessary to maintain or restore international peace and stability” in the event Article 41 measures prove inadequate. To underscore the difference, the final version of UNSCR 1718 states definitively that “further decisions will be required [by the UNSC], should additional measures be necessary.”

While such a caveat seemed inevitable in the post-Iraq world, it provides (presumably) unintended assurance to North Korea that harsh measures will not be taken, even though the resolution did call on all members “to take, in accordance with their national authorities and legislation, and consistent with international law, cooperative action including through inspection of cargo to and from the DPRK, as necessary.” Beijing and Seoul, among others, have made it clear that, at this point in time, intrusive inspections are not deemed “as necessary.”

While the word “sanctions” does not appear anywhere in the text (or even in earlier versions), the resolution provides a long and comprehensive list (further articulated by the Committee) of items that could not be supplied to or purchased from the DPRK – the first draft’s more all-encompassing suggested prohibition of “arms or any related material” was rejected, however, in favor of the specified list. “Luxury goods” were also prohibited, in an apparent attempt to make the North Korean elite feel the effects of the sanctions.

While the UNSC sanctions are mandatory, it remains to be seen how aggressively they will be pursued or how strictly or broadly they will be interpreted or enforced. Despite U.S. grumblings, Seoul appears intent on insulating its “Sunshine” policies from the sanctions effort, indicating that it will be essentially business as usual as far as its Kumgang tourist project and the Kaesong economic development zone projects are concerned: “We judged that the contents of the resolution of the U.N. Security Council do not directly affect the economic cooperation programs between the two Koreas, including Kaesong and Kumgang Mountain,” a Foreign Ministry spokesman said the morning after sanctions were approved, noting that South Korea “will go ahead with the economic cooperation programs in harmony with the resolution.”

The attempt by the original drafters to also include specific reference in UNSCR 1718 to blocking financial transactions “in relation to illicit activities such as those related to counterfeiting, money-laundering or narcotics, including by freezing any financial or other assets or resources on their territories that are associated with such programs or activities” also failed to make the final cut, further watering down the sanctions message and effectiveness, at least in Washington’s eyes. It did, however, suggest a direct linkage between such illicit activities and Pyongyang’s nuclear program, even while Washington continued to argue that there should be no linkage between six-party nuclear weapons discussions and the lifting of U.S. restrictions ordered against Macao’s Banco Delta Asia (BDA) specifically for such activities.

DPRK warns of war (again and again)!

In its first official statement after its self-declared “successful” nuclear test, Pyongyang warned that “if the U.S. keeps pestering us and increases pressure, we will regard it as a declaration of war and will take a series of physical corresponding measures.” While war has yet to be officially declared (perhaps because the Korean War, still under the 1953 Armistice, has yet to be officially declared over), DPRK Ambassador to the UN Pak Gil-yon, in walking out of a UNSC session called to announce the resolution’s unanimous passage, repeated the “declaration of war” accusation.

Pyongyang was quick to totally reject the “unjustifiable” resolution, calling the UNSC’s “coercive” resolution “gangster-like” and “a clear testament that the Council had completely lost its impartiality.” Pyongyang claimed that the test “was entirely attributable to United States threats, sanctions and pressure,” but that it was still “unchanged in its will to denuclearize the Korean Peninsula.” Despite its vivid demonstration that its long-declared nuclear weapons capability was more than

theoretical, Pyongyang argued that it remained committed to the Six-Party Talks September 2005 Joint Declaration, further stating that the test “constituted a positive measure for its implementation.” All that was required to get Pyongyang to give up its nuclear weapons was for Washington to drop its “hostile policies” toward the DPRK.

Everyone blinks and talks resume

Despite repeated calls for North Korea to return to the Six-Party Talks (including in UNSCR 1718), Pyongyang initially remained adamant that it would not return to denuclearization talks until Washington lifted the BDA sanctions. Meanwhile, Washington was being equally firm and unyielding. North Korea “can have a future or it can have these weapons. It cannot have both,” Assistant Secretary of State Christopher R. Hill remarked prior to the test: “We are not going to live with a nuclear North Korea, we are not going to accept it.” Nor was Washington prepared to negotiate the enforcement of its laws. It was prepared to explain the nature of the BDA sanctions and the steps Pyongyang could take to alleviate them – in short, by verifiably stopping its counterfeiting and money-laundering activities – but would not meet in separate bilateral negotiations, on this or any other matter, outside the six-party process.

Despite these seemingly unyielding stances, in late October both sides seemingly blinked, with Hill going to Beijing for Chinese-hosted direct discussions with his DPRK counterpart, Vice Foreign Minister Kim Gye-gwan. As a result of these “bilateral negotiations” (as termed by Pyongyang), North Korea agreed to another round of Six-Party Talks “on the premise that the issue of lifting sanctions should be discussed and resolved.” Despite this agreement in principle to resume the dialogue, a second Hill-Kim meeting was needed, again hosted by Beijing, before a date was finally set for what was officially to be the second session of the fifth round of Six-Party Talks.

New session, same results

This session, held in Beijing Dec. 18-22, ended much the same as the first session had some 13 months earlier, with a vague promise to implement the September 2005 denuclearization agreement “as soon as possible,” but with absolutely no forward progress toward that goal. Like November 2005, the participants could not even agree on a date for the next session, promising only to “reconvene at the earliest possibility.”

As anticipated/demanded by Pyongyang, the issue of lifting sanctions was indeed discussed, but it was not resolved. What Washington approached as a negotiating point, Pyongyang stuck to as a precondition for any movement toward denuclearization. At the onset of the talks, Assistant Secretary Hill, asserted that, from a U.S. perspective, the nuclear and sanctions issues were completely separate and should not be linked: “I would rather not obscure the [denuclearization] problem by talking about finances.” At the end of the day, however, Hill acknowledged that Vice Foreign Minister Kim apparently had “strict instructions” not to discuss nuclear developments until the sanctions issue was “resolved.”

The U.S. has argued, thus far unpersuasively, that the pot of gold at the end of the cooperation rainbow would far exceed the \$24 million in assets frozen as a result of the BDA action. This may be true, but totally misses the point. From Pyongyang's perspective, it is not just about the money (although the sanctions have reportedly hurt). To Pyongyang, the sanctions provide more "proof" of the Bush administration's "hostile policy" toward the DPRK. It is this policy, and not just the BDA sanctions, that must be demonstrably changed before Pyongyang would even consider giving up its nuclear weapons. In other words, even if the BDA issue is successfully resolved – through the lifting of U.S. restrictions or, more feasibly, a finding that only certain accounts were suspect and restrictions against the others were withdrawn – this would not guarantee progress toward the denuclearization goal.

Previously, Pyongyang also insisted that the delivery of two light-water nuclear reactors, promised under the now defunct 1994 Agreed Framework, was another prerequisite. Pyongyang has also branded the U.S.-led Proliferation Security Initiative (PSI) – aimed at preventing the illegal movement of weapons of mass destruction and especially their delivery to terrorists – as another clear example of Washington's hostile intent to "isolate and blockade" the DPRK. For that matter, UNSCR 1695 and 1718 have also been condemned as "a product of the U.S. hostile policy toward the DPRK."

It is not clear whether all these additional "proofs" of non-hostile attitude must be "resolved" before it will begin serious denuclearization discussions. However, North Korea has clearly signaled that it has no intention to actually give up its nuclear weapons until the U.S. has demonstrated (by the above-mentioned actions and more) that it has fully abandoned its hostile policy. This makes it extremely difficult to be positive about the next round of Six-Party Talks, when or if it ever occurs.

Democrats take control of Congress

Contrary to popular belief, the Republican Party setbacks in November – Democrats regained control of both the U.S. House of Representatives (expected) and the Senate (hoped for but not anticipated) – are not likely to have a major impact on the six-party deliberations or on Asia policy in general. An increasing number of Congressmen from both sides of the aisle had been calling on the Bush administration to have direct dialogue with the North (which it arguably is now doing, both in the context of the Six-Party Talks and directly via the Hill-Kim meetings and others being arranged to further discuss the BDA sanctions). But North Korea has no great fans in the Congress and Democrats have been as critical of Bush's failure to halt Pyongyang's nuclear programs as they have been about not talking, frequently demanding a tougher stance (including military action if necessary).

While Bush's foreign policy is likely to come under increased scrutiny now that the Democrats are in control, the focus will largely be on the Middle East in general and Iraq in particular. Continued engagement with China is not an issue and support for Japan and for U.S. alliances in Asia remains largely bipartisan. There is concern, perhaps not displaced, that House Speaker Nancy Pelosi will bring her long history of antagonism

toward China's human rights practices with her as she becomes the first woman to lead the House, but she will have many other issues to focus upon and the House has only limited sway in affecting foreign policy (another example of the wisdom of America's founding fathers).

China is likely to feel some heat if it continues to stonewall on the issue of RMB revaluation, although this was likely to be the case regardless of which side won in November. Likewise, there is concern about Congressional receptivity toward free trade area arrangements – negotiations continue with South Korea and Malaysia but are on hold with Thailand after the coup – but this may give U.S. negotiators more leverage. At any rate, the prospects of any new FTA being presented before the Congress by the fast track de facto March 2007 cut-off date appear slim.

ASEAN summits rained out

Senior officials had already traveled to Cebu in early December to prepare for their annual round of summitry when host Manila elected to postpone the meetings until early in the new year, ostensibly as a result of an impending typhoon (which did, in fact, strike the region, with some consequence). This being the Philippines, rumors were rampant that concerns about a terrorist plot against the assembled heads of state also prompted the postponement. A not-so-confidential government threat assessment had reportedly stated that, while no specific plot had been detected, the possibility of a terrorist attack during the summits “is not far fetched.” The report cited the Abu Sayyaf, the Moro Islamic Liberation Front, and the Indonesia-based Jemaah Islamiyah as groups that could pose a threat to the summit. Regardless of the veracity of the report, security is likely to be intense when the officials finally gather in Cebu in mid-January 2007.

In addition to the ASEAN and ASEAN Plus Three (China, Japan, South Korea) Summits and traditional rounds of ASEAN Plus One individual meetings between ASEAN leaders and heads of government from Australia, New Zealand, India, and the plus three states, all 16 were to meet for the second East Asia Summit, the most publicized and potentially least consequential of the various gatherings. The U.S. remains outside the EAS, although it was reportedly prepared to send a senior official from its Manila Embassy as an observer. Little information was available in advance about the agenda of this “leaders-led” meeting.

The ASEAN leaders were scheduled to sign an ASEAN Convention on Counter Terrorism (ACCT) that would make it an obligation for member countries to extend mutual legal assistance in criminal matters, “including extradition or prosecution of perpetrators of terrorist acts.” ASEAN leaders were also to discuss a Charter being developed by its Eminent Persons Group that would give the organization a stronger legal basis and better allow it to enforce its agreements and, for the first time, punish members that do not follow the rules. The ASEAN leaders were also expected to endorse a plan to speed up regional integration and create a common market by 2015, instead of 2020, as originally planned.

More of the same from APEC

The annual Asia Pacific Economic Cooperation (APEC) Leaders Meeting was held Nov. 18-19, 2006 in Hanoi, Vietnam. In their declaration, the assembled grandees reaffirmed their commitment to free trade, and said that reviving the stalled round of Doha global trade talks remains a priority. “We should ... spare no effort to break the current deadlocks and achieve an ambitious and overall balanced outcome.” To underscore their seriousness, the leaders issued a separate statement on the Doha Round. They also endorsed the Hanoi Action Plan designed to implement the Busan Road Map agreed at last year’s summit, calling it the foundation of APEC economic and trade cooperation for the next 15 years.

As in previous years, the leaders pledged to fight terrorism, the proliferation of weapons of mass destruction and other threats to regional security and stability, such as pandemic disease, natural disasters, and ensuring reliable supplies of energy. While Vietnamese President Nguyen Minh Triet said in his chairman’s statement that the North Korean missile and nuclear tests were “a clear threat to our shared interest in peace and security,” the leader’s declaration itself made no reference to the DPRK nuclear weapons program. It did declare support for the Six-Party Talks and the need for a peaceful solution to the crisis in Northeast Asia.

The leaders also took heed of criticism that APEC is a talk shop whose “lowest common denominator” approach to problems is far too low. They agreed that APEC needs reform to ensure that the forum is relevant and effective. Some complain that the group needs to restore its original focus, or return to trade promotion. According to Foreign Minister Alexander Downer, Australia, the host of the 2007 meeting, will “prepare a work plan that will include a very significant focus on energy cooperation, clean energy and climate change issues.”

A Free Trade Area of the Asia Pacific?

The U.S. wants APEC to consider an Asia Pacific Free Trade Area (APFTA), a proposal that has two apparent purposes. First, it is intended to restore some “oomph” to stalled global trade talks by hinting that a regional alternative might be in the works. Second, the initiative would blunt fears (hopes? designs?) that the East Asia Summit or ASEAN Plus Three might prove the nucleus of a regional bloc that could exclude the U.S. In their final declaration, the leaders agreed to follow-up on the U.S. proposal, but only to study whether it is a reasonable long-term objective for APEC. President Bush’s team called that a victory.

Getting approval will be an uphill battle. China prefers a smaller regional grouping, since that would give it more influence. Even a stalwart U.S. ally like Japan recognizes the need for more Asian integration before tackling the larger Asia-Pacific project. Kawai Masahiro, of the Asian Development Bank, explained at the U.S. Asia Pacific Council Conference that was held in Washington after APEC, that East Asia first wants to

consolidate itself before moving toward an Asia Pacific FTA. That prompted some angry rebuttals about Asian priorities by U.S. economists present.

On a related note, APEC leaders agreed on key elements for six model free trade agreement (FTA) chapters to ensure that FTAs promote trade rather than inhibit it.

Sideline sessions

As usual, Hanoi provided opportunities for President Bush to meet allies and other diplomatic partners. Bush held his first sit-down with Japanese Prime Minister Abe Shinzo (as prime minister; the two men met frequently while Abe was chief Cabinet secretary). They applauded the strength of the bilateral alliance and committed to continuing close cooperation to deal with North Korea and ballistic missile defense. North Korea and related issues dominated Bush's one-on-one meeting with ROK President Roh Moo-hyun, and the three-way conversation between Bush, Roh, and Abe, the first trilateral meeting of the three leaders since 2002. The three men agreed to work closely, and with China too, to resolve the North Korean problem.

Other notable sidebars included sessions with Vietnamese president and APEC host Nguyen Minh Triet, Russian President Vladimir Putin, and Chinese President Hu Jintao. In his meeting with Australian Prime Minister John Howard, the two men spent time discussing Iraq and climate change. While both professed concern about greenhouse gasses, they also agreed that the Kyoto protocol on climate change is not the answer.

President Bush also held his second summit with the so-called ASEAN Seven, those ASEAN members who also participate in APEC. Since this grouping does not include Myanmar (Burma), it is politically easier for Bush to participate. Bush reportedly found the first summit, along the sidelines of last year's Busan APEC gathering, useful and has apparently agreed to make it an annual event, despite concerns expressed by some in Washington that attending this year's event would "legitimize" Thailand's coup, given the presence of interim Prime Minister Surayud Chulanont at the meeting.

Elsewhere on the trip, Bush stopped before APEC in Singapore, where he caucused with President Lee Hsien Loong, and after the summit he met Indonesian President Susilo Bambang Yudhoyono in Jakarta.

Democracy in Asia continues to struggle

2006 was not a great year for democracy in Asia and this trend was very much in evidence during its final quarter, with a coup in Fiji the starkest example. Meanwhile, Thailand's military government seems to be losing its popularity as it struggles to govern and Taiwan's president Chen has been subjected, once again, to an impeachment attempt, even as Manila struggles with constitutional change.

In *Fiji*, paradise was lost for the fourth time in 19 years, when the legal government was once again overthrown. Head of the armed forces Commodore Voreqe Bainimarama deposed Prime Minister Laisenia Qarase and his Cabinet, charging that the government was corrupt. Bainimarama put down a 2000 coup by businessman George Speight and installed Qarase as interim prime minister. The two men fell out when the prime minister – who won two subsequent elections – invited some of the coup plotters into his government and prepared legislation to give them amnesty. The government also prepared legislation to grant indigenous Fijians ownership of coastal waters, a move Bainimarama said discriminated against the Indian population.

On Dec. 5, Bainimarama seized power, removed Qarase from office, suspended parts of Fiji's bill of rights, and fired security officials. Army doctor and Methodist lay preacher Jona Senilagakali was named interim prime minister. Senilagakali argued the coup was "an illegal takeover to clean up the mess of a much bigger illegal activity of the previous government." He added that "Democracy may be all right for certain places in the world but I don't think the type of democracy (in) Fiji" is that practiced in the West. After warning external powers to butt out – international condemnation of the coup was uniform and fierce – he said Fiji would seek aid from countries like China and Indonesia, and even friends such as Taiwan, if sanctions were imposed. That didn't halt criticism but apart from cutting aid and suspending Fiji's participation in the Commonwealth, reaction has been limited.

Thailand's military government continued its search for legitimacy. That effort was hampered by its failure to charge former Prime Minister Thaksin Shinawatra with any wrongdoing. Cognizant of the need to justify its actions, the ruling Council for National Security (CNS) released a 38-page *White Paper* with its justification for the Sept. 19 coup. The new government has said that it plans to hold elections in October 2007, but first it wants a new constitution. On Jan. 2, King Bhumibol Adulyadej signed a royal command appointing 100 prominent persons as members of the Constitution Drafting Assembly (CDA). The list includes academics, bureaucrats, senior judges, and former politicians. Also named is the wife of Somchai Neelapaijit, the Muslim human rights lawyer who disappeared in March 2004.

The new government's competence and credibility took a real hit Dec. 18, when the Central Bank announced foreign exchange restrictions on investors who did not keep their money in Thailand for a year. That prompted a 15 percent plunge in the market – the loss of \$23 billion in value – the next day, pushing the stock market to its lowest level in 17 years. The Central Bank rescinded the move a day after but not before doing great damage to the government's image and consumer confidence.

Finally, the new year rang in with a series of eight explosions in Bangkok that killed three people and wounded 38. The government blamed disgruntled politicians who lost power in the coup, rather than Muslim militants from the south or foreign forces.

Taiwan President Chen Shui-bian dodged another bullet this quarter (this time, the attack was metaphorical). In early November, a high court prosecutor said he had enough evidence to charge Chen's wife, son-in-law, and several senior aides with embezzlement. The prosecutor would have charged Chen if he didn't enjoy presidential immunity. That inspired the opposition to try the third impeachment vote in the Legislative Yuan since June when the scandal began to emerge. The vote failed once again.

Chen explained that the funds were for "diplomatic purposes," i.e., discretionary funds the president's office uses to buy foreign government support for Taiwan's effort to gain international recognition. Unfortunately for the president, it is hard to see how \$450,000 in expenses for luxury items and fake receipts by the president's wife qualify. Chen said that he would step down if his wife were convicted. At the end of the December, Chen's son-in-law was found guilty of insider trading and sentenced to six years in prison and fined NT\$30 million (\$917,000).

While the scandals didn't hurt the president's Democratic Progressive Party in mayoral elections – they retained control of their traditional stronghold of Kaohsiung – they are likely to further diminish any hope that Beijing will constructively deal with the elected government in Taipei as well as discredit democracy for many mainlanders.

Philippine President Gloria Magapagal Arroyo once again found herself behind the political curve. Her supporters in the House of Representatives attempted to push a new constitution – "cha cha" or charter change in the local political lexicon – with a parliamentary maneuver that would have made Senate opposition to the move irrelevant. Widespread outcry by them and other members of Philippine civil society forced the legislators (and the president, who is believed to be acting through them) to retreat. Arroyo conceded defeat but said that constitutional change would remain a priority for her administration.

The economic outlook: generally good

The regional economic outlook is good. While the IMF predicts global growth of 4.9 percent in 2007 (a slight drop from the 5.1 percent of 2006), the Asia Pacific region will continue to set the pace for the rest of the world. The World Bank's annual report on "Global Economic Prospects" projects 8.7 percent GDP growth in 2007 in East Asia and the Pacific, a slight decline from the 9.2 percent growth recorded in 2006, the highest rate since 2001.

The U.S., long the source of final demand for the region, will see its economy expand 2.5 percent in 2007 – at least that is the prediction of 50 top forecasters in a survey released in November by the National Association for Business Economics. The European Central Bank sees GDP growth in the 12-nation euro zone of 2 percent in 2007, a drop from the 2.7 percent expected in 2006, but near doubling the 1.4 percent that the euro zone has averaged since 2001.

Declining U.S. growth – and a concomitant diminishing appetite for imports from the region – will be offset by falling oil prices (which by year’s end had fallen more than 20 percent from their July peak of \$78 a barrel) and growing demand from consumers within the region itself as its middle class expands and picks up slack from the developed world.

The consensus view of Japan’s prospects is that the country will register 2 percent growth in fiscal 2007. Many economists are holding their breath, however; the Bank of Japan ended its zero interest rate policy after six years in July, raising rates to 0.25 percent and many anticipate another rise this year that could choke off recovery.

For South Korea, Standard and Poor’s reckons on 4.5 percent growth in 2007, down from 4.9 percent in 2006. That is in line with the Seoul government’s predictions but higher than other economic institutions.

Standard & Poor’s puts real Chinese GDP growth at 10 percent in the year ahead (following 10.5 percent growth in 2006), and India’s economy is expected to expand 7.5 to 8 percent, marking a similar slowdown from the 8.5 percent recorded last year. Strong growth in India is good news for its trading partners in South Asia; the World Bank forecasts regional gross domestic product in South Asia will grow 7.5 percent in 2007 after expanding 8.2 percent in 2006.

The UN Economic and Social Commission for Asia and the Pacific (ESCAP) predicts aggregate 6.9 percent growth among developing countries of East Asia region, a 0.2 percent decline from 2006. (For the sake of comparison, ESCAP forecasts 9.9 percent and 8.1 percent growth in China and India, respectively; the World Bank, the IMF’s sister institution, anticipates 9.6 percent growth in China in 2007.)

The big question mark is China. The country’s leaders are still worried about overheating and they are trying to rein in red-hot property and credit markets. As in the past, success is an iffy proposition. The government set a target of 8 percent growth for 2007, but it has a miserable record: growth has exceeded targets every year this decade. While the World Bank worries that “High investment rates and excess capacity in several sectors dominated by state-owned enterprises leave open the possibility of a sharp decline in investment,” it is confident that “continued robust investment demand and a pickup in private consumption” should keep the Chinese economy strong.

China is at the heart of the regional economy and any slowdown there will be felt among its trading partners. The ESCAP report notes “A reduction in Chinese domestic demand would lead to reduced exports and growth in the region. Countries would be affected according to the depth of their involvement in China. ... If China’s GDP growth drops below 7 percent, GDP growth in Taiwan and Singapore would decline by 0.4 percentage points, while GDP growth in Hong Kong and South Korea would fall by 0.3 percent. Net exports in developing Asia (excluding China) would decline by almost 2 percentage points, while the current account balance as a percentage of GDP would deteriorate by almost 0.1 percentage points.”

Experts have two other concerns. The first is Japan, which is only now seeing economic prospects improve after a decade of seeming stagnation. The Abe government has to make difficult decisions about whether to prime the pump as many of its predecessors did to revive economic prospects, or to follow the line of Koizumi governments that put priority on getting the country's economic house in order – the result of those years of deficit spending. It is unclear where Abe will come down, although he looks more like a traditionalist than his predecessor. The prospect of an Upper House election this summer could tilt him toward more spending. Japan is also dependent on China for its own strengthening performance – according to ESCAP, China has been Japan's second largest trading partner since 2005, representing 17 percent of Japan's total trade, and Chinese goods account for 21 percent of its total imports – which means a slowdown there would hit Japan hard.

A second potential problem is financial market volatility. This remains a worry of central bankers, who are increasingly concerned about hedge fund exposure and overextended credit markets. The Asia Pacific region should be better prepared for such risks after the 1997-98 financial crisis but the blunders of the Thai government in December, when it tried to impose currency controls on foreign investors and triggered a plunge in its own market, is a reminder that some wounds are self inflicted.

The political outlook: glass half full?

Glass “half full” proponents will look at recent and impending political developments in East Asia and see cause for cautious optimism. Regional insurgencies seem under control (or at least no worse than ever), there were no major confrontations over the past year (even the coups were conducted without hardly a shot being fired), and none is anticipated in 2007, North Korean declarations of war notwithstanding. Tensions between China and Japan have ameliorated and there has even been a lessening of rhetoric between Seoul and Tokyo. Southeast Asia seems stable and the region as a whole, as discussed above, is enjoying great prosperity.

Looking ahead, it is difficult to be too optimistic, however. North Korean nuclear and missile tests have already upped the ante and there is growing evidence that Pyongyang seems intent on pushing full speed ahead with its nuclear weapons programs while waiting for regime change in Washington two years hence. Presidential elections later in 2007 are sure to bring with them increased anti-American sentiments in South Korea, magnified by different opinions on how best to handle the North plus contentious negotiations over a free trade agreement and base relocation and the issue of operational control over the ROK's armed forces (not if, but when and how, and with what consequences). There are signs that Abe Shinzo's honeymoon with Japanese voters is over and his fate could be prematurely decided by this year's Upper House elections. Tensions with China and Korea remain just below the surface as all wait to see what he plans to do regarding Yasukuni Shrine visits. Young regional democracies will continue to be tested, especially in Southeast Asia, and the situation in Fiji is just one part of a growing crisis in good governance throughout Oceania, made worse by Chinese and Taiwanese attempts to buy influence and allegiance in this increasingly unstable region.

All this ensures that Washington, while still preoccupied with the Middle East, will continue to face a series of continuing challenges to its interests in East Asia and the Pacific, even as the region watches to see what the impact of a Democrat-controlled Congress will have on trade policy and human rights issues.

Regional Chronology October-December 2006

Oct. 1-31, 2006: Japan has presidency of the UN Security Council for October.

Oct. 2, 2006: At the North's request, the first inter-Korean military talks since July's missile tests are held at Panmunjom.

Oct. 3, 2006: North Korea announces plans to conduct a nuclear test to counter "hostile U.S. policy."

Oct. 4, 2006: U.S. sends a message to DPRK via its UN mission in New York not to conduct the test.

Oct. 6, 2006: UN Security Council issues statement that urges "the DPRK not to undertake such a test and to refrain from any action that might aggravate tension, to work on the resolution of non-proliferation concerns and to facilitate a peaceful and comprehensive solution through political and diplomatic efforts."

Oct. 8-9, 2006: PM Abe Shinzo makes official visit to China and meets President Hu Jintao, Premier Wen Jiabao, and Chairman Wu Bangguo. Both sides agree to promote exchange and cooperation in politics, economy, security, society, and culture.

Oct. 9, 2006: South Korea Foreign Minister Ban Ki-Moon is confirmed by the Security Council as next United Nations secretary general, to succeed Kofi Annan on Jan. 1, 2007.

Oct. 9, 2006: PM Abe travels to South Korea and meets President Roh Moo-hyun for the long awaited bilateral meeting.

Oct. 9, 2006: North Korea announces that it has successfully conducted a nuclear test. U.S. Geological Survey detects an earthquake with a estimated magnitude of 4.2 in Hwaderi near Punggye-Yok.

Oct. 9, 2006: Presidents Roh Moo-hyun and George W. Bush have a 20-minute phone conversation regarding the announcement of the nuclear test by North Korea.

Oct. 9, 2006: Presidents Vladimir Putin and Bush have a phone conversation about the North Korean nuclear test and agree the test dealt a blow to the global nonproliferation regime and that there was need to coordinate efforts to resolve the problem.

Oct. 11, 2006: DPRK *Korea Central News Agency* declares U.S.-initiated UN sanctions an “act of war.”

Oct. 11, 2006: Kim Yong-nam, president of the Presidium of the DPRK Supreme People’s Assembly, meets delegation from Japan’s *Kyodo News* headed by President Ishikawa Satoshi.

Oct. 11-14, 2006: State Councilor Tang Jiaxuan, Vice Foreign Minister Wu Dawei, and others visit Washington, D.C. and Moscow to discuss the situation on the Korean Peninsula.

Oct. 11, 2006: Japan announces new sanctions against North Korea for its nuclear test, include a ban on all North Korean ships from Japanese ports.

Oct. 13, 2006: Presidents Roh and Hu hold a Korea-China summit in Beijing.

Oct. 14, 2006: UNSC Resolution 1718 is unanimously passed: it imposes sanctions on North Korea and demands a halt the DPRK nuclear and missile programs.

Oct. 15, 2006: UN General Assembly elects ROK Foreign Minister Ban Ki-moon as next UN secretary general.

Oct. 16, 2006: Presidents Roh and Putin hold 20-minute phone conversation to discuss the North Korean nuclear test. Roh reiterates that Seoul would not tolerate a nuclear North and that it supports UNSC Resolution 1718.

Oct. 16-31, 2006: U.S. and Philippine forces engage in amphibious exercises.

Oct. 17, 2006: Russian PM Mikhail Fradkov meets President Roh during a visit to Seoul.

Oct. 17-22, 2006: Secretary of State Condoleezza Rice travels to Japan, South Korea, China, and Russia to discuss implementation of UNSCR 1718.

Oct. 18, 2006: U.S. Congress enacts National Defense Authorization Act for 2007, which requires appointment of a senior U.S. coordinator on Korea within 60 days.

Oct. 18, 2006: The 28th ROK-U.S. Military Committee Meeting held in Washington.

Oct. 18-19, 2006: SCO holds first education ministerial meeting in Beijing. Representatives agree to set up expert team to verify education certificates of SCO member states.

Oct. 19, 2006: State Councilor Tang Jiaxuan, special envoy of President Hu, meets Kim Jong-il in Pyongyang.

Oct. 19, 2006: ROK, U.S., and Japan foreign ministers hold a two-hour meeting at ROK FM Ban's residence. This is the first trilateral meeting among the ministers since October 2000.

Oct. 20, 2006: The 38th ROK-U.S. Security Consultative Meeting (SCM) held in Washington, D.C. Defense Ministers Donald Rumsfeld and Yoon Kwang Ung lead delegations.

Oct. 20, 2006: State Councilor Tang Jiaxuan briefs Rice on his meetings in Pyongyang with Kim Jong-il.

Oct. 22, 2006: Fourth round of U.S.-Korea talks on a free trade agreement open in Jeju.

Oct. 24, 2006: Australia-Japan-U.S. Counterterrorism Talks held in Tokyo.

Oct. 27-28, 2006: UN Secretary General-elect Ban Ki-moon at the invitation of Beijing visits China to meet President Hu, State Councilor Tang, and Foreign Minister Li Zhaoxing and to discuss the North Korea nuclear stand-off.

Oct. 30, 2006: China-ASEAN Commemorative Summit held in Nanning, China.

Oct. 30-31, 2006: Naval and law enforcement personnel from Australia, Bahrain, France, Italy, UK, U.S. amid other nations participate in Proliferation Security Initiative exercise *Leading Edge*, the maritime portion of a two-phase exercise in the Persian Gulf.

Oct. 30-31, 2006: Bush-Putin-initiated Global Initiative to Combat Nuclear Terrorism meeting held in Rabat, Morocco. Representatives from 12 nations attend.

Oct. 31, 2006: North Korea announces that it will return to the Six-Party Talks after a secret meeting between Kim Gye-gwan, Christopher Hill, and Wu Dawei. At the meeting, U.S. tells North Korea that it is prepared to discuss issues surrounding Banco Delta Asia and to form a bilateral mechanism or working group to deal with the problem.

Nov. 1, 2006: President Roh nominates Lee Jae-jeong, senior vice president of the Advisory Council on Democratic and Peaceful Unification, as unification minister; Song Min-soon, chief secretary to the president for unification, foreign, and security affairs as foreign minister; Gen. Kim Jang-soo, Army chief of staff, as minister of defense; and Kim Man-bok, first deputy director of the National Intelligence Service (NIS), as NIS director.

Nov. 5-12, 2006: Under Secretary for Political Affairs Nicholas Burns and Under Secretary for Arms Control and International Security Robert Joseph travel to Tokyo, Beijing, and Seoul to discuss the Six-Party Talks and implementation of UNSCR 1718.

Nov. 7, 2006: In U.S. mid-term elections, the Democratic Party regains a majority in the House of Representatives and the Senate.

Nov. 7, 2006: WTO General Council approves Vietnam's membership. Vietnam will formally join the WTO Jan. 11, 2007.

Nov. 7, 2006: First sub-ministerial meeting of the ROK-U.S. Strategic Consultation for Allied Partnership held in Seoul with Vice Minister of Foreign Affairs and Trade Yu Myung-hwan and Under Secretary Burns heading their delegations.

Nov. 7, 2006: U.S. Ambassador to the Philippines Kristie Kenney states that the U.S. is satisfied with the conduct of a trial for four U.S. marines charged with rape. Kenney said the trial showed that the Philippine-U.S. Visiting Forces Agreement worked and requires no revision.

Nov. 7-16, 2006: Some 25 senior SCO military officials meet in Beijing for the second "China's Peaceful Development and the SCO" forum and to discuss defense cooperation. Officers from observer nations Mongolia, Pakistan, Iran and India also attend.

Nov. 8, 2006: U.S. Defense Secretary Donald Rumsfeld resigns and former CIA Director Robert Gates is nominated as the new defense secretary.

Nov. 8, 2006: Under Secretary Burns and Chinese Vice Foreign Minister Yang Jiechi hold third round of the U.S.-China Senior Dialogue in Beijing.

Nov. 9-10, 2006: PM Fradkov visits China to hold 11th regular China-Russia Prime Ministers' meeting with Premier Wen Jiabao and attend the closing ceremony of the Year of Russia.

Nov. 9-15, 2006: Japan and U.S. forces hold annual joint exercise in waters around Japan.

Nov. 13, 2006: U.S. House of Representatives fail to approve Vietnam's PNTR status.

Nov. 13, 2006: South Korea announces it will not join Proliferation Security Initiative.

Nov. 14-21, 2006: President Bush and Secretary Rice travel to Vietnam, Singapore, and Indonesia. Bush holds bilateral meetings with leaders from Singapore, Japan, South Korea, Vietnam, Australia, China, and Russia.

Nov. 15, 2006: U.S. and South Korean defense officials begin two days of meetings on burden-sharing arrangements in Washington.

Nov. 15, 2006: Commander of U.S. Pacific Fleet Adm. Gary Roughead arrives in China on the *USS Juneau* for a weeklong visit that includes U.S.-Chinese joint naval exercises.

Nov. 15-16, 2006: The 18th Joint Asia Pacific Economic Cooperation (APEC) Ministerial Meeting is held in Hanoi. Sidelines meetings occur among the Six-Party Talks nations.

Nov. 18, 2006: Bush, Abe, and Roh exchange views on the situation in Northeast Asia on the sidelines of the APEC meeting.

Nov. 18, 2006: President Bush meets leaders of the seven ASEAN members of APEC on the sidelines of the conference.

Nov. 17, 2006: UN General Assembly approves resolution on the “Situation of human rights in the Democratic People’s Republic of Korea (DPRK),” which includes condemnation of abductions as an international concern and a violation of human rights.

Nov. 17-19, 2006: The 14th APEC Leaders Meeting is held in Hanoi, Vietnam.

Nov. 18, 2006: President Bush expresses “understanding” of Thailand’s political situation. In a separate meeting with President Arroyo, the Philippine leader calls for a “deeper and broader” U.S. role in Philippine counterterrorism.

Nov. 18-19, 2006: APEC Leaders Meeting is held in Hanoi. President Bush and PM Abe meet for the first time since Abe took office, reaffirm the U.S.-Japan alliance and close cooperation on the DPRK. U.S.-Japan-ROK meeting also held, and three leaders agree that close trilateral cooperation is important to deal with the North Korean nuclear issue.

Nov. 19, 2006: U.S. and Russia sign WTO market access agreement that moves Russia closer to full integration with the global, rules-based trading system.

Nov. 19, 2006: U.S. and PLA navies take part in a bilateral joint search and rescue exercise. Following a port visit to Zhanjiang, the *USS Juneau* participates in the exercise off the southern Chinese coast.

Nov. 19-22, 2006: President Roh makes a state visit to Cambodia, the first visit by a sitting Korean president since normalization in 1997.

Nov. 20-23, 2006: Russian Minister for Emergencies Sergei Shoigu visits Beijing to attend a SCO emergency ministers conference for coordinating and integrating measures in time of emergency. An action plan on cooperation in disaster relief is passed.

Nov. 24, 2006: Taiwan President Chen Shui-bian survives third impeachment vote.

Nov. 24, 2006: Korea rejects shipment of U.S. beef because of bone fragments.

Nov. 26-29, 2006: Indonesian President Susilo Bambang Yudhoyono visits Japan and meets PM Abe. The two leaders establish a Strategic Partnership for Peaceful and Prosperous Future.

Nov. 27-28, 2006: China hosts preparatory meetings for resumption of Six-Party Talks.

Nov. 28, 2006: Assistant Secretary of State Hill and Kim Gye-gwan begin two days of meetings in Beijing about resuming Six-Party Talks; South Korea extends its deployment of troops in Iraq for a year.

Nov. 28, 2006: NATO summit convenes in Riga, Latvia. It is the first NATO summit held on the territory of the former Soviet Union.

Nov. 30, 2006: Fourth annual U.S. Asia Pacific Council is held in Washington. The conference focuses on “Fundamental Change in Asia and the United States Response.”

Dec. 1, 2006: Korea rejects second batch of U.S. beef.

Dec. 3-10, 2006: President Roh makes state visits to Indonesia, New Zealand, and Australia. He meets President Yudhoyono to exchange views on collaboration on energy, resources and other issues. Visiting New Zealand and Australia, Roh calls for collaboration on natural resources and energy, shipbuilding, and information and technology.

Dec. 4, 2006: President Bush accepts resignation of John Bolton, U.S. envoy to the UN.

Dec. 4, 2006: In a notorious rape trial in the Philippines that dragged on for over a year and became a test for the U.S. Visiting Forces Agreement, one U.S. marine is convicted and three others acquitted. Sentenced to 40 years, he became the first U.S. soldier convicted of wrongdoing since the Philippines shut down U.S. bases in 1992.

Dec. 4, 2006: U.S. and South Korea open fifth round of bilateral meetings on an FTA in Big Sky, Montana.

Dec. 5, 2006: Commodore Voreqe Bainimarama, armed forces chief overthrows elected Fijian government of Laisenia Qarase in a bloodless coup.

Dec. 7, 2006: The U.S. and six other nations join Secure Freight Initiative to improve port security and prevent nuclear-related smuggling by using advanced detection devices to scan containers for nuclear and radiological materials. The initiative fulfills a congressional mandate established in the Safe Ports Act of 2006 to scan 100 percent of U.S.-bound cargo from three overseas ports.

Dec. 7, 2006: U.S. Special Envoy on Human Rights in North Korea Jay Lefkowitz participates in a UN panel discussion on North Korean human rights abuses. He calls on China and South Korea to play an active role in pressing North Korea to end abuses.

Dec. 8, 2006: Presidential memorandum is sent to Secretary Rice to impose sanctions on North Korea as described in Arms Export Control Act and the Atomic Energy Act.

Dec. 8, 2006: Philippine government announces postponement of East Asia Summit and other meetings planned for Dec. 11-13. It proposes to host the meetings in January 2007.

Dec. 9, 2006: U.S. Congress passes U.S.-India Peaceful Atomic Energy Cooperation Act.

Dec. 9, 2006: U.S. Congress passes bill on permanent normal trade relations status for Vietnam. This paves the way for implementation of WTO regulations in the bilateral trade relationship.

Dec. 9, 2006: Japan, Korea, and China agree on the sidelines of ASEAN-related meetings in Cebu, Philippines to start negotiations next year on a trilateral investment agreement.

Dec. 10, 2006: ASEAN Summit and ASEAN Plus Three Summit postponed until Jan. 10-15 due to Typhoon Seniang.

Dec. 11, 2006: U.S. Trade Representative releases *2006 Report to Congress on China's WTO Compliance*. It finds mixed record by China in implementing its WTO obligations.

Dec. 11, 2006: Former President George H.W. Bush leads U.S. delegation to Bangkok, for the 60th anniversary of King Bhumibol Adulyadej's accession to the throne.

Dec. 12, 2006: Secretary Rice and FM Alexander Downer meet in Washington, for 21st Australia-U.S. Ministerial Consultations to discuss global and regional security and the state of the 55-year old alliance between the two nations.

Dec. 13-16, 2006: Indian Prime Minister Manmohan Singh meets Japanese PM Abe in Tokyo. A Strategic and Global Partnership is established.

Dec. 14, 2006: Eighth UN Secretary General Ban Ki-moon is sworn in.

Dec. 14-15, 2006: First session of U.S.-China Strategic Economic Dialogue held in Beijing. Treasury Secretary Henry Paulson leads U.S. delegation, and Premier Wu Yi leads Chinese delegation. U.S. delegation meets President Hu and Premier Wen. Issues include trade reform, global current account imbalances, capital market reform, China's growth strategy and exchange-rate policy, and cooperation on energy and the environment.

Dec. 15, 2006: Japan Defense Agency upgraded to defense ministry, which will come into being Jan. 9, 2007. Education Reform Bill that aims to promote patriotism passes National Diet.

Dec. 18, 2006: Robert Gates sworn in as U.S. defense secretary.

Dec. 18, 2006: U.S.-based Verizon Business signs construction and maintenance agreement to build first generation undersea optical cable system – Trans-Pacific Express (TPE) – directly linking the U.S. and China.

Dec. 18, 2006: Thai Central Banks announces foreign exchange restrictions on investors who did not keep their money in Thailand for a year. The order is rescinded for only stocks, but bonds and some other investments still have restrictions.

Dec. 18, 2006: U.S.-India Peaceful Atomic Energy Cooperation Act signed by President Bush.

Dec. 18-22, 2006: Six-Party Talks resume in Beijing. North Korea insists on full-fledged nuclear power status.

Dec. 19, 2006: Philippine President Gloria Arroyo tells a gathering at the Asian Development Bank that “charter change” (constitutional revision) will remain a top priority during her administration.

Dec. 19, 2006: U.S. and DPRK meet on the sidelines of the SPT to discuss the financial issues.

Dec. 21, 2006: First meeting of Japan-China Exchange Year of Culture and Sports 2007 is held at the Keidanren Kaikan.

Dec. 21, 2006: Pacific Commander Adm. William J. Fallon declares that the U.S. armed forces could not accept a Philippine judge’s decision to keep a convicted marine in a Philippine jail in violation of the VFA.

Dec. 22, 2006: U.S. announces that it is canceling the February *Balikatan 2007* exercises that it holds with the Philippine armed forces due to the dispute over the custody of a U.S. Marine convicted of rape.

Dec. 22, 2006: U.S. and Japan sign agreement to exchange detailed global topographic data including images on terrain, waterways, geographic survey data, area names, aerial routes, earth magnetism, and water depths in areas including the East China Sea. The memorandum of understanding is believed to have the stipulation that the exchanged information be kept confidential.

Dec. 23, 2006: UN Security Council unanimously votes on Resolution 1737 to impose sanctions on Iran to curtail its nuclear program.

Dec. 26, 2006: A 7.1 magnitude earthquake off the coast of Taiwan disrupts internet and phone connectivity. A return to full service is expected to take about three weeks.

Dec. 27, 2006: ROK FM Song Min-soon meets PM Abe in Tokyo. FMs Song and Aso Taro sign treaty to aid law enforcement to tackle cross-border crimes.

Dec. 27, 2006: Vietnam’s East Asia Commercial Bank closes all correspondent accounts to transfer money in and out of North Korea. The decision was the result of Vietnam’s entry into the WTO and growing ties with the U.S.

Dec. 26-27, 2006: Japan-China joint history project convenes in Beijing.

Dec. 29, 2006: With the handover of the U.S. Marine to the U.S. embassy staff, the decision is made to hold *Balikatan* exercise in the near future.

Dec. 29, 2009: Thailand's Council for National Security (CNS) releases and distributes a *White Paper* outlining the justification for the Sept. 19, 2006 military coup.

Dec. 29, 2006: Beijing releases *China's National Defense in 2006* white paper.

Dec. 31, 2006: Philippine judge relents and returns the marine to U.S. custody.

Dec. 31-Jan. 1, 2006: Nine bombs explode in Bangkok, Thailand killing three and injuring 42 people.