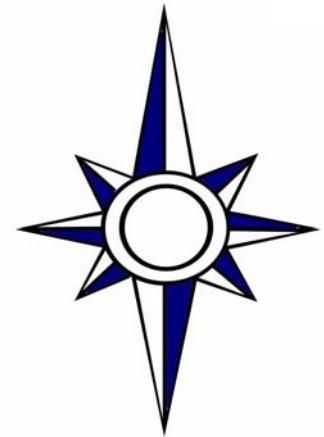




Pacific Forum CSIS



# Comparative Connections



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

*edited by*

Brad Glosserman  
Sun Namkung

2nd Quarter (April-June) 2007  
Vol. 9, No. 2  
July 2007

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

## Pacific Forum CSIS

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

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

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A Quarterly Electronic Journal on East Asian Bilateral Relations

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

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

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

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*Comparative Connections: A Quarterly Electronic Journal on East Asian Bilateral Relations* (print ISSN 1930-5370, online E-ISSN 1930-5389) is published four times annually (January, April, July, and October) at 1003 Bishop Street, Pauahi Tower, Suite 1150, Honolulu, HI 96813.

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**by Donald G. Gross, The Atlantic Council of the United States**

Concerted efforts by the U.S., China, the ROK, and Russia overcame “technical problems” and led to the return of some \$25 million in frozen funds to North Korea. U.S. Six-Party Talks chief envoy Christopher Hill traveled to Pyongyang to meet the DPRK foreign minister and his Six-Party Talks counterpart. Hill urged Pyongyang to accept IAEA inspectors, shut down its nuclear facilities, and attend the July round of talks. At quarter’s end, the U.S. and South Korea signed the free trade agreement (FTA). Despite the positive notes struck by U.S. and Korean trade officials, the Democratic leadership immediately denounced the FTA for adversely affecting U.S. auto makers and workers. Democrats are likely to block ratification of the FTA unless the Bush administration undertakes a strong lobbying effort in the coming months.

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**by Joseph Ferguson, National Council for Eurasian and East European Research**

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**by Robert Sutter, Georgetown University, and Chin-Hao Huang, CSIS**

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**by Scott Snyder, The Asia Foundation/Pacific Forum CSIS**

China's shadow over the Korean Peninsula is ever looming. As soon as KORUS FTA negotiations were concluded, the ROK media played up the FTA as having a strategic and economic significance to counter the pull of China's rise. Likewise, the North's eagerness to accept a surprise visit by Assistant Secretary of State Christopher Hill generated concern among some Chinese analysts that a rapid U.S.-DPRK rapprochement would cut China out of the picture. Meanwhile, the Sino-DPRK trade and aid relationship continues to grow, creating another source of anxiety for South Koreans worried that China is taking advantage of special economic concessions with the North. With the China-ROK economic relationship growing, China, closing the technology gap, has the South angst-ridden about being “sandwiched” between the economies of Japan and China. On the military front, China and South Korea agreed to open a hotline and exchanged top-level visits between defense ministers and army chiefs of staff.

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

The April 11-13 visit of China's Premier Wen Jiabao proved to be a public diplomacy success. Wen met Prime Minister Abe Shinzo and both agreed to advance their strategic relationship. Wen addressed the Diet, a historic first; engaged early morning Tokyo joggers in conversation; and played catch with a university baseball team in Kyoto. Wen considered his visit a success. And, judging from the attention given to a mid-June meeting between President Hu Jintao and former Prime Minister Nakasone and members of the Japan-China Youth Friendship Association, so did his boss. In the run-up to the September Party Congress, the media suggested that Hu was running on a platform of improving relations with Japan. Despite repeated high-level commitments to a resolution of the East China Sea issue, little progress was evident at quarter's end.



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**Treading Water, Little Progress**

**by David C. Kang, Dartmouth College, and Ji-Young Lee, Georgetown University**

Although progress was made in resolving the Banco Delta Asia dispute between North Korea and the U.S., and international inspectors were invited back into North Korea in June, relations between Japan and North Korea remain deadlocked, with no apparent progress or even political will to address the deep issues that divide them. Seoul and Tokyo made little progress on their history issues and took the fight (over the “comfort women” issue) to the pages of the *Washington Post*. However, the meeting of the foreign ministers of China, Japan, and South Korea this quarter was a positive step, and with elections coming up in Japan and South Korea, the prospect of further foreign policy changes appears likely. The summer may see movement on the nuclear issue, and the key question will be whether the DPRK and Japan make any progress on the abduction issue.

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Russia’s first-ever “Year of China” was somewhat “routinized” during the second quarter, following an extravagant opening in early 2007. Politicians, artists, journalists, and businessmen continued to flock to each country’s major cities as hundreds of celebration activities took place. Normal balancing and bargaining between interlocking institutions of the two strategic partners, however, provided both progress and problems, particularly in the economic area. The long-awaited oil pipeline from Russia’s Siberia to Daqing, China may be a matter of time as the pipeline infrastructure is built. Other high-profile energy contracts with China, however, were either being questioned or delayed. Moscow and Beijing were working hard to prepare the Shanghai Cooperation Organization (SCO) for two events: the *Peace Mission-2007* military exercise in Russia and a friendship treaty to be signed at the August summit in Kyrgyzstan.

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**Regional Overview:**

**Tests Postponed, Pending, Passed, and in Progress**

**Ralph A. Cossa, Pacific Forum CSIS**  
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The quarter opened with Assistant Secretary of State Christopher Hill proclaiming that we were “a few days away” from overcoming the “technical issues” that were holding up the Korean Peninsula denuclearization process. Unfortunately, those few days did not take place until mid-June, postponing the long-awaited 60-day test of the Feb. 13 “action for action” agreement until next quarter. Also pending is a test of the willingness of the nations of Southeast Asia to develop a meaningful Charter in commemoration of ASEAN’s 40<sup>th</sup> birthday, following this quarter’s review of (and reported revisions to) the groundbreaking draft provided last quarter by its Eminent Persons Group. The commitment of Thailand’s military leaders to restore democracy is also being tested, as is Beijing’s commitment to Hong Kong’s Basic Law on the 10<sup>th</sup> anniversary of reversion. Meanwhile, new U.S. Secretary of Defense Robert Gates and China’s new PLA Deputy Chief of the General Staff Zhang Qinsheng passed their initial diplomatic tests this quarter while making their first appearance at the Shangri-La Dialogue in Singapore. Finally, East Asia’s economy, 10 years after the Asian financial crisis, appears to have nicely survived the test of time.

**Korea: the test (finally) begins**

Last quarter ended with Pyongyang refusing to move forward on the implementation of the Six-Party Talks Feb. 13 denuclearization agreement until it was able to fully retrieve funds that had been frozen in Macao’s Banco Delta Asia (BDA) as a result of a U.S. Treasury Department finding against BDA for alleged involvement in DPRK money-laundering activities. (Of note, there is no reference in the Feb. 13 agreement to the BDA financial sanctions issue; the linkage apparently was created during a side agreement between Secretary Hill and his DPRK counterpart, Vice Foreign Minister Kim Gye-Gwan, when they met in Berlin in mid-January.) While proclaiming Pyongyang and BDA guilty in early February, the U.S. had nonetheless agreed to allow the funds to be released and transferred to the DPRK, with the understanding that the funds would be used “solely for the betterment of the North Korean people, including for humanitarian and educational purposes.” However, “technical issues” – the reluctance of any bank to involve itself in the transfer for fear of coming afoul of U.S. law – had made the transfer more difficult than anticipated by Assistant Secretary Hill.

As this quarter opened, the ever-optimistic Hill was asserting that the matter would be resolved in a few days and that all parties would be able to meet their initial 60-day requirements on schedule. April 13 came and went without much progress, however, (as did May 13) as a variety of options were pursued, all unsuccessfully. It wasn't until June 13, after Moscow offered to help, that the first withdrawals actually took place: according to the *Asahi Shinbum*, two unnamed businessmen each took out \$128,000 in cash, with the remaining funds reportedly converted into U.S. dollars and put into a single account. On June 18, Moscow reported that the transfer was finally underway, via the U.S. Federal Reserve Bank of New York (which ironically is not subject to U.S. Treasury Department rulings) and Dalkombank of Russia, to the Foreign Trade Bank of North Korea. Pyongyang announced on June 25 that it had its funds and was now prepared to proceed with the agreement.

Once the financial transfer process began, Hill made a trip to China, Japan, and South Korea to discuss next steps. To the surprise of many – reportedly including some of his interlocutors during the trip – he then made an unscheduled trip to Pyongyang on June 21-22, to “convey the importance of moving on to the next phase” directly to Kim Gye-Gwan and other North Korean leaders (although he did not see the “Dear Leader” himself).

It's not exactly clear what he told (or promised) North Korean officials during his first-ever visit to the North – or if the mere visit and demonstration of the Bush administration's commitment to continue one-on-one direct dialogue (within the context of the Six-Party Talks) was sufficient – but, as the quarter drew to a close, Pyongyang finally allowed an International Atomic Energy Agency (IAEA) team to visit its nuclear facilities at Yongbyon. It remains unclear just how long it will take to shut down and seal the North's 5-megawatt reactor and reprocessing facility. The most optimistic estimates see it happening by mid-July, opening the door for the next round of Six-Party Talks in Beijing sometime in July, followed by a ministerial-level session, as promised in the Feb. 13 agreement, “once the initial actions are implemented.”

### *The agreement, lest we forget*

To remind our readers, the 60-day action plan called on the DPRK to: shut down and seal for the purpose of eventual abandonment the Yongbyon nuclear facility, including the reprocessing facility; invite back IAEA personnel to conduct all necessary monitoring and verifications as agreed between IAEA and the DPRK; discuss with other parties a list of all its nuclear programs; and start bilateral talks respectively with the U.S. and Japan aimed at normalizing relations. In return, the parties would provide “emergency energy assistance” to Pyongyang, with the equivalent of 50,000 tons of heavy fuel oil to be provided during the initial phase. The next stage includes “provision by the DPRK of a complete declaration of all nuclear programs and disablement of all existing nuclear facilities” in return for “economic, energy, and humanitarian assistance up to the equivalent of 1 million tons of heavy fuel oil.” No time frame was established but Secretary Hill continues to hope this can be accomplished by year's end. The Feb. 13 statement also established five working groups; all were to (and did) meet within 30 days.

The promised ministerial – involving Secretary of State Condoleezza Rice and her DPRK, ROK, Chinese, Japanese, and Russian counterparts – to “confirm implementation of the Joint Statement and explore ways and means for promoting security cooperation in Northeast Asia,” will most likely coincide with the ASEAN Regional Forum meeting scheduled for Manila on Aug. 2.

### *The road, and tests, ahead*

While the transfer of BDA funds to North Korea appears sufficient to allow Pyongyang to proceed with its phase one commitments, it is doubtful we have heard the last of the financial sanctions issue. Overall U.S. warnings against doing business with Pyongyang reportedly remain in place and it is full access to the international banking system, not just the \$25 million, that Pyongyang really seeks, as partial proof that the Bush administration is willing to drop its “hostile policy” toward the DPRK. Getting past the “hostile policy” hurdle is likely to take longer than the end of this calendar year (and likely to cost considerably more than the promised million tons of fuel oil or equivalent of total aid).

This is not to demean the significance of this first step, but only to warn, as Secretary Hill himself has noted, that we remain “burdened by the realization of the fact that we are going to have to spend a great deal of time, a great deal of effort, and a lot of work in achieving [our full objectives, that is, the complete denuclearization].” It is important to note also that, while the Feb. 13 agreement is touted as a denuclearization pact, there is no reference to the North’s presumed stockpile of actual weapons. It is not clear, at least from Pyongyang’s perspective, that this ultimate bargaining chip has yet been placed on the table.

Meanwhile, Secretary Hill’s visit to Pyongyang underscores the fact that the Bush administration is “serious about doing everything we can to move the process forward.” A failure by Pyongyang to reciprocate would undercut Hill’s credibility (in Washington and in Asia) and could bring the process to a halt. As State Department spokesman Sean McCormack rightly noted, we are now at “an important moment in the Six-Party Talks because we are testing the proposition that North Korea has made that strategic decision to abandon its nuclear weapons programs and to abandon its nuclear programs.” This next quarter will (hopefully, barring further delays) finally allow us to attach a “pass/fail” grade to phase one. The next big hurdle (and test of Pyongyang’s sincerity) will center around some acknowledgment of Pyongyang’s uranium enrichment program (or at least the purchase of centrifuges and associated equipment), keeping in mind that it was this issue that caused the current crisis to unwind.

### **ASEAN Charter review process underway**

While the multilateral process in Northeast Asia remained stalled for most of the quarter, Southeast Asians pressed ahead with their most ambitious multilateral effort to date, the adoption of an ASEAN Charter to commemorate that organization’s 40<sup>th</sup> anniversary. The High Level Task Force (HLTF) on the Drafting of the ASEAN Charter and its

companion HLTF Assistant's Group met frequently during the quarter in hopes of having a solid draft ready for review by their foreign ministers at the 40<sup>th</sup> ASEAN Ministerial Meeting in Manila on July 30. Little has been revealed publicly about the review process, beyond the admission (reported last quarter) that some of the more controversial recommendations – the use of sanctions, including expulsion by non-compliant members, greater emphasis on human rights and democracy, and a relaxation of the full consensus method of decision-making – are likely to be toned down.

Senior ASEAN leaders continue to praise the process and its potential significance and some key recommendations on “improving ASEAN’s structure, giving ASEAN a legal standing, strengthening the Secretariat, and increasing ASEAN’s engagement with all stakeholders” (as highlighted in an ASEAN Fact Sheet) are likely to be sustained. At the June World Economic Forum in Asia meeting in Singapore, a senior ASEAN official, speaking on a not-for-attribution basis, acknowledged that the drafting process has been contentious, in large part due to the concerns of some of ASEAN’s “newer members.” A “meaningful” Charter was predicted, nonetheless, that would allow ASEAN to more effectively play its role as the designated driver of the broader East Asia community building process. Reports that former Thai Foreign Minister Surin Pitsuwan would become the new ASEAN secretary general coincident with the Charter’s adoption at the November ASEAN Summit in Singapore, were seen as a hopeful sign that ASEAN is serious about becoming more proactive and forward leaning as it approaches middle age.

### **Democracy delayed: Thailand’s slow return to constitutional democracy**

Nine months after Prime Minister Thaksin Shinawatra was ousted by a military coup, Thailand’s military shows little sign of preparing to relinquish power. On May 30, the Constitutional Court outlawed the former prime minister’s Thai Rak Thai party and banned 111 party leaders (Thaksin among them) from elections for five years. The day after the ruling, Gen. Sonthi Boonyaratglin, leader of the coup, said he backed an amnesty for Thaksin and party leaders. Three days later, Prime Minister Surayud Chulanont lifted the freeze on political activities that had been in place since the coup, effectively allowing new parties to form once the measure is approved by the legislature.

On June 12, the Assets Examination Commission (a body established after the coup) froze more than 50 billion baht (about \$1.6 billion) of Thaksin’s assets pending the outcome of court cases related to corruption and abuse of power charges. That did not deter the former prime minister, who a week later put in a bid to buy the British Premier League football (soccer, to U.S. readers) team Manchester City for an estimated 100 million pounds (about \$197 million). While prime minister, Thaksin mooted the idea of buying a team with state money. Now, he seems determined to do it on his own, a shrewd move given the Thai craze for soccer. (Previous bids for the Fulham and Liverpool teams failed.)

The Thai government was not impressed. Shortly after he made the bid, the government filed corruption charges against Thaksin. In early July, the court ordered more assets frozen, bringing the total sequestered to exceed 73 billion baht. Thaksin has been warned that he has until the end of July to report to Thai police or face an arrest warrant.

Meanwhile, the 100-member Constitutional Drafting Assembly June 11 began debating the draft constitution. The group had a week to discuss and propose changes; a final version is to be unveiled July 6 and put to a vote by the entire country on Aug. 19. With public sentiment reportedly running against the document, Surayud ordered government officials to help promote the new constitution. Former members of the Thai Rak Thai have said they would campaign against the new constitution.

On June 19, the Cabinet proposed an internal security law that will allow the head of the army, acting as head of the Internal Security Operations Command, or ISOC, to overrule civilian authorities. The draft would let him ban public assemblies, detain suspects for up to 30 days without charge, carry out searches without warrants, control possession of weapons, and “suppress” people or groups whose actions are considered harmful to national security. More troubling, the bill exempts all officials acting under its provisions from being punished by civil, criminal, or disciplinary actions. In short, all the quarter’s activities point to a determined effort to marginalize the former PM and his old party, and ensure that the military keeps a firm hand on political developments in Thailand.

### **Democracy (still) denied: Hong Kong after 10**

The quarter ended marking the 10<sup>th</sup> anniversary of the return of Hong Kong to the Chinese mainland. In what has become an annual ritual, thousands of demonstrators – 20,000 according to police, three times that said organizers – marched through the streets demanding more democracy. Don’t hold your breath.

The former British colony continues to be ruled by the formula set by the Basic Law, a mini-constitution agreed by the UK and the Chinese government over a decade ago. Universal suffrage is promised in the document “after 2007,” but no exact timetable was established. Chief Executive Donald Tsang has promised to “develop a system that is more democratic,” but he has pledged only progress toward, rather than the realization of, that goal.

Chinese President Hu Jintao made his first visit to the Special Administrative Region (or SAR, as Hong Kong is formally known) for handover celebrations, but he made no such commitments. During ceremonies to swear in Tsang and other ministers, and open a new bridge to Shenzhen, he merely noted that “democracy is growing in an orderly way” and commended “social harmony and stability” as essential for economic success. He urged citizens to show loyalty to China. Hu, along with other dignitaries, commended Hong Kong’s recovery and resilience after the 1997 Asian financial crisis and various difficulties, such as SARS, encountered since then. Hu left in time to ensure that he would not see any of the demonstrations.

While Hong Kong has bounced back, the “one country, two systems” model that it was supposed to advertise still rates a failing grade in Taiwan. Beijing has rarely overtly interfered with local governance – locals have for the most part, tried to anticipate Chinese complaints – but the growing demand for more democracy undermines Beijing’s claim that the model offers a tempting choice for Taiwan.

If the crowd at this year’s march was smaller than in the past – hundreds of thousands took to the streets when Tung Chee-hwa, Tsang’s predecessor was in office – there was a notable addition this year: breaking with tradition, Cardinal Joseph Zen Ze-kiun, the Roman Catholic bishop of Hong Kong, joined and carried a large flag in the front row of marchers. That move is likely to set back efforts to normalize relations between the Vatican and Beijing.

### **Shangri-La: Gates and Zhang get passing grades**

U.S. Secretary of Defense Robert Gates and PLA Deputy Chief of the General Staff Lt. Gen. Zhang Qinsheng had their Asia diplomatic coming out parties at this year’s Shangri-La Dialogue, organized by the London-based International Institute of Strategic Studies in Singapore at the beginning of June. Both were warmly received and generally praised for their performances. In Zhang’s case, he represents the senior-most Chinese official ever to attend the annual meeting of senior defense officials. Previously, Beijing had balked at sending senior representatives (at one point boycotting the event entirely), given the presence in the audience of academics from Taiwan. Taiwan government officials are not invited and the Taiwan scholars do not participate in the “government officials only” side meetings, but Beijing apparently wanted them excluded completely. IISS held firm and Beijing has now seen the benefit to being seriously represented at this premier gathering of defense officials and international security specialists. All told, a record 25 countries were represented at this sixth annual defense dialogue.

#### *Gates: the U.S. is not neglecting Asia*

Like his predecessor Donald Rumsfeld did twice before him, Gates kicked off the first plenary session, speaking on “The United State and Asia-Pacific Security” and arguing that “far from neglecting Asia, the United States is more engaged than ever before.” He highlighted America’s Asia alliances and key bilateral relationships and U.S.-Asia cooperation in countering terrorism, stemming proliferation, and responding to natural disasters. He stressed the importance of success in Afghanistan, citing the contributions of Japan, India, South Korea, Australia, New Zealand, and Mongolia, and urging others to “step forward . . . in the areas of governance, reconstruction, and counter-narcotics.”

Gates spent more time talking about Central Asia and the need to provide assistance there than he did on Iraq, briefly noting that “whatever your view on how we got to this point in Iraq, it is clear that a failed state in that part of the world would destabilize the region and embolden violent extremists everywhere.” While Gates avoided the infamous “you’re either with us or with the terrorists” stark choice once made by his commander-in-chief, he did note in discussing assistance to Afghanistan and Iraq (and with apparent



specific reference to Europe), that “the only division that matters today, when it comes to dealing with these kinds of problems, are those countries that live up to their commitments and those who do not.”

North Korea and Iran were identified as threats, Russia as a prospective partner: “one Cold War was enough.” He saved his comments on China to the very end and kept them brief (even if they featured prominently in news reporting on the speech and in the Q&A session). He noted that the U.S. “shares common interests” with China but remains “concerned about the opaqueness of Beijing’s military spending and modernization programs,” while concluding that “there is reason to be optimistic about the U.S.-China relationship.” His responses to the audience’s questions were direct, to the point, and on the whole well-received.

*Zhang: China is not a threat*

Gen. Zhang gave his presentation on “Strengthen Dialogue and Cooperation, Maintain Peace and Prosperity” during the second plenary session, speaking after his co-panelist, Indian Defense Minister A.K. Antony. He stressed that “China is different from the rising powers in history, as it chooses the path of peaceful development.” China, Zhang said, “all along adheres to a defense policy which is defensive in nature,” with the following four characteristics: it is for self-defense, it aims for independent defense, it is aimed to achieve limited military power, and it is a peace policy. He also pointed out that “it is obvious to all that China is gradually making progress in ‘military transparency,’ in light of the principles of trust, responsibility, security, and equality.” He called for “mutual confidence on the strategic level,” greater security cooperation, and “open multilateralism.”

Zhang’s remarks drew half a dozen or more relatively “softball” questions (compared to one question directed jointly at him and Minister Antony), and he seemed to search for prepared notes in responding. He saw progress in establishing a Beijing-Washington military hotline and expressed China’s commitment to UN peacekeeping operations. Time constraints prohibited him from answering all questions. Surprisingly, no one asked Zhang about China’s anti-satellite test.

Of interest was his answer, from the floor during the next session, to a question not publicly asked. After raising his hand from the audience, Zhang mentioned that he had been asked during the break about this year’s Pentagon China Report. It was, according to Zhang, “unreliable,” “not to be believed,” “a product of the Cold War mind set,” and “detrimental” to China-U.S. relations. It is interesting to note that the DoD report was not so offensive as to make it into Zhang’s prepared remarks, but that he felt compelled, nonetheless, not to ignore the report completely. Likewise, during a visit by a U.S. delegation in mid-May, Zhang also made no direct reference to the DoD China report but did, at the end of the session, hand out English versions of China’s most recent White Paper, noting “this contains the truth about the PLA, unlike the Pentagon’s report.” As one Chinese Foreign Ministry official noted privately about the Pentagon report: “it could have been a lot worse.”

## Ten years after the Asian financial crisis

The quarter also ended with the usual encomiums to Asia's continuing economic growth. The Asian Development Bank noted that the region is still the fastest-growing in the world. The head of the International Monetary Fund's Asia and Pacific department enthused that "Asia shines in the global economic landscape and its vitality stands out as a remarkable achievement." This praise is even more glowing since it reflects the remarkable comeback from the Asian financial crisis that began a decade ago and scorched Asia Pacific economies.

The meltdown began July 2, 1997 when the Thai government conceded to attacks by foreign speculators and devalued the baht. That retreat encouraged speculators to look elsewhere for targets, and found plenty in overheated economies of Indonesia, the Philippines, Malaysia and South Korea. Real estate and stock market bubbles burst, billions of dollars of wealth were lost, along with millions of jobs. One government fell.

A decade later, Asia has recouped the economic losses. In a recent report, the World Bank concluded "the region is far wealthier, has fewer poor people and a larger global role than ever before ... Emerging East Asia now has an aggregate output of over \$5 trillion, double the dollar value just before the crisis. Real per capital incomes in the previously crisis affected economies (Indonesia, Korea, Malaysia, Philippines, and Thailand) have significantly exceeded pre-crisis levels. For Emerging East Asia as a whole, they are some 75 percent higher." Kuroda Haruhiko, president of the ADB, noted in a speech commemorating the crisis that regional economies have learned lessons from the debacle, embraced reform, worked on economic fundamentals, and expanded regional economic cooperation.

Of course, not all has been put right. The political instability that followed has not been completely eradicated. Indonesia still founders, although it is making important progress. ASEAN has been rattled and lacks the strong leadership that Jakarta provided before 1997. Growth, while impressive, is still lower than pre-crisis levels. Confidence is lower than before – which may not be a bad thing if it prevents the hubris that allowed the crisis to take root.

New mechanisms have been developed to deal with another shock, such as the Chiang Mai initiative, but Kuroda (and he isn't alone) is worried. Capital flows into and out of the region have reached 8 percent of the GDP of Asia's largest emerging economies (China, Indonesia, Malaysia, the Philippines, South Korea, and Thailand), a historic high. China's stock markets have been rising at breakneck rates, despite attempts to slow their blistering pace. Some analysts worry that a shock in Shanghai could make "bahtulism" look like a summer cold.

At a July 2 forum sponsored by the ADB, speakers (former and serving economic officials) called for the creation of a regional fund to help safeguard against future shocks. The idea is not new – it was originally proposed by Japan during the 1997 crisis and was rejected by Washington and Beijing – and is gathering support. The region has ample

capital to use: today, Asia Pacific foreign exchange reserves top \$1.2 trillion and are growing at a rate of \$40 billion a month.

Those funds can provide a cushion, but working out the details of a workable reserve arrangement will be difficult. They are, after all, national reserves, and making them available to the region requires a readiness to share precious national assets and could create moral hazard issues. More worrisome is the degree to which those huge reserves are problematic on their own: they reflect huge global imbalances, an excess of savings over consumption that contributes to potential volatility. More balanced economic activity – a better match between regional production and consumption – would make such crises less likely in the first place and lessen the need for large shock absorbers.

### **In case you missed it: Asia Cooperation Dialogue**

Foreign ministers and chief delegates from 30 nations met in Seoul for the sixth Asia Cooperation Dialogue, a forum set up by former Thai Prime Minister Thaksin Shinawatra to encourage discussion and collaboration among foreign ministers across a broadly defined “Asia” – Bahrain, Iran, Oman, Qatar, and several Central Asian states are included in the mix. When established, some argued it was merely a platform for Thaksin’s international ambitions. It has survived him.

This year’s meeting focused on information technology and “bridging the digital divide.” Participants discussed 19 projects, including those in IT, energy, and regional security. As in most such large gatherings, a lot of the real work occurs in the hallways and in side meetings, some of which are covered in other chapters of this volume.

### **Future tests**

As noted, next quarter should provide a moment of truth for the six-party process. Will Pyongyang finally acknowledge its uranium enrichment efforts? Will Secretary Rice participate in a ministerial six-way dialogue absent such an acknowledgment (we would argue she should not, although she should most definitely not miss the ARF ministerial itself)? Even if phase one is declared complete, there will still be a long way to go in accomplishing all the tasks specified in the Feb. 13 agreement, much less in achieving the ultimate goal of complete denuclearization of the Korean Peninsula.

Next quarter should also provide some insights into their progress (or lack thereof) when the HLTF reports to the ASEAN foreign ministers on their efforts to finalize the ASEAN Charter draft, while Thai voters will go to the polls to approve or reject the draft constitution that will presumably open the door for the restoration of democracy in Thailand. If the voters reject the version put forth by the military’s drafting committee, the government is then supposed to choose from one of the previous Thai constitutions, in order to let the democratic process proceed. Test results here are still pending.

Next quarter will also feature the annual Asia Pacific Economic Cooperation (APEC) Leaders Meeting, this year in Sydney, Australia. President Bush was scheduled to make a side trip to Singapore to hold his first full ASEAN Summit. He has twice met with with the seven ASEAN APEC members (less Cambodia, Laos, and Myanmar), but not the full group. It appears this meeting may be “rescheduled,” however, and another “ASEAN Seven” will take place instead. If so, the White House should try to plan a Bush Asia trip by the end of the year. Perhaps to coincide with the third East Asia Summit in Singapore in November.

## **Regional Chronology** **April-June 2007**

**April 1, 2007:** U.S. and South Korea conclude free trade agreement negotiations.

**April 2-5, 2007:** U.S. Commerce Secretary Carlos Gutierrez visits Moscow, Russia and Kyiv, Ukraine to meet senior government officials, business leaders, and civic groups to discuss economic reforms, World Trade Organization accession efforts, and bilateral trade ties.

**April 3, 2007:** U.S. President George W. Bush and Japan Prime Minister Abe Shinzo have a 20-minute conference call to discuss Abe’s upcoming U.S. visit, North Korea, Iraq, and “comfort women.”

**April 3-4, 2007:** 14<sup>th</sup> South Asian Association for Regional Cooperation is held in New Delhi, India. Sideline meeting is held between the ROK and China.

**April 4, 2007:** The U.S. asks China to join a global effort to maintain international maritime security during Beijing’s navy chief Vice Adm. Wu Shengli visit to Washington. Wu expresses interest in the 1,000-ship Navy plan.

**April 4, 2007:** First U.S. Peace Corps Volunteer program to Cambodia begins with 28 U.S. volunteers who will be teaching English in villages across six provinces.

**April 8-9, 2007:** Fourth meeting of the High Level Task Force on the Drafting of the ASEAN Charter is held in Yangon, Myanmar.

**April 9-18, 2007:** Malaysia and the Philippines hold annual naval drill *MALPHI LAUT 10-2007*.

**April 10, 2007:** The U.S. Treasury Department announces the complete lifting of a freeze on \$25 million in DPRK assets being held by Banco Delta Asia (BDA) in Macao.

**April 10-13, 2007:** Chinese Premier Wen Jiabao visits South Korea and Japan. Seoul and Beijing agree to open a military hotline between naval and air forces and regular Seoul-Shanghai shuttle flights are to be created. A Japan-China joint statement was issued during Wen's visit to Japan.

**April 13-15, 2007:** Assistant Secretary of State Christopher Hill travels to Beijing to discuss issues related to the Six-Party Talks with Chinese and North Korean counterparts. North Korea misses April 14 deadline for closing its Yongbyon nuclear reactor.

**April 16, 2007:** India-Japan-U.S. Joint Naval Exercises are conducted in Guam.

**April 18, 2007:** About 80 U.S. soldiers are in Indonesia for *Garuda Shield 2007*, a joint exercise with Indonesian forces that signifies the resumption of brigade-level, army-to-army exercises that had been terminated in 1999. Washington restored full military relations with Indonesia in 2005.

**April 18-19, 2007:** The fifth Indonesia-U.S. Security Dialogue is held in Jakarta.

**April 19-20, 2007:** Fifth meeting of the High Level Task Force on the Drafting of the ASEAN Charter is held in Hanoi, Vietnam.

**April 20, 2007:** China and India hold 10<sup>th</sup> round of border talks in India to pin down a framework agreement to define the 2,000 km boundary between China and India.

**April 21-22, 2007:** Bo'ao Forum for Asia is held in Bo'ao, Hainan Province. Chairman Wu Bangguo of the Standing Committee of the NPC delivers the keynote speech.

**April 22-24, 2007:** The 2007 APEC Senior Officials' Meeting II held in Adelaide, Australia; on the agenda is the Free Trade Area of the Asia-Pacific, energy and climate change, and APEC reform.

**April 24-25, 2007:** Russia and Japan hold their 13<sup>th</sup> meeting of the Japan-Russia Agreement on Incidents Prevention at Sea in Moscow. An October 2006 search-and-rescue operations exercise by Japan's Maritime Defense Force and the Russian Navy is evaluated to be enhancing communications and operability.

**April 25, 2007:** Asst. Secretary of State Christopher Hill, meeting with Cambodian National Police Commissioner Gen. Hok Lundy, urges the Cambodian police to combat trafficking in persons, a serious problem in Cambodia.

**April 26, 2007:** Lt. Gen. Daniel Leaf, Deputy Commander of PACOM, visits Hanoi to discuss cooperation potential with Vietnamese military officials.

**April 26, 2007:** The DPRK and Myanmar normalize diplomatic ties; the agreement is signed during the second day of a three-day visit to Myanmar by North Korean Vice FM Kim Yong-il. Myanmar was the last ASEAN country to recognize the DPRK.

**April 26, 2007:** The second ROK-U.S. Consultations on Reconstruction and Stabilization is held to share experiences with providing emergency relief and reconstruction assistance for countries hit by natural disasters.

**April 26, 2007:** Japan and Russia conclude the first round of negotiations for the Cooperation in the Peaceful Uses of Nuclear Energy agreement.

**April 26-27, 2007:** Japanese PM Abe visits the U.S. at the invitation of President Bush.

**April 27, 2007:** Chinese Vice FM Yang Jiechi is appointed new foreign minister.

**April 27, 2007:** Singapore and Indonesia sign an extradition pact and military cooperation agreement in Bali.

**April 27, 2007:** Japan and the ROK hold first chairperson's meeting on the Second Phase of the Japan-ROK Joint History Research Meeting.

**May 1, 2007:** Japan-U.S. Security Consultative Committee (2+2) held in Washington, D.C. The 2+2 Joint Statement calls for greater Chinese military transparency, but does not mention Taiwan.

**May 2-8, 2007:** Prime Minister Lee Hsien Loong makes an official visit to the U.S. to meet President Bush, Commerce Secretary Carlos Gutierrez, Treasury Secretary Henry Paulson, among others.

**May 8, 2007:** Japanese Chief Cabinet Secretary Shiozaki Yasuhisa announces that PM Abe sent an offering to Tokyo's Yasukuni Shrine in late April in his "private capacity."

**May 8-11, 2007:** Fifth inter-Korean general-level military talks are held at Panmunjom.

**May 8-18, 2007:** Annual Thai-U.S. *Cobra Gold* exercises begin in the Thai resort town of Pattaya. Of a total of almost 5,000 personnel, 1,900 are from the United States with smaller contingents from Singapore, Japan, and Indonesia. *Cobra Gold* is the largest U.S.-led multilateral exercise in Asia.

**May 9, 2007:** Presidents Bush and Hu in a telephone call exchange views on climate change and North Korean nuclear issue.

**May 9, 2007:** Some 108 U.S. House of Representative members write to President Hu Jintao asking China to stop aiding the Sudanese government and stop the deterioration of the situation in Darfur. The letter says that if China's position remains unchanged, they would call for a boycott of the 2008 Olympics in Beijing.

**May 9, 2007:** Nobel Peace Prize laureate Jose Ramos-Horta elected president of Timor Leste.

**May 10, 2007:** Washington announces new trade policy that incorporates labor, the environment, and intellectual property rights protection.

**May 10, 2007:** The sixth Japan-ROK Politico-Military Talks are held in Tokyo to exchange views of the two countries on the emerging security environment, the security policies of the two countries, and shared common understandings.

**May 10-15, 2007:** Adm. Timothy Keating, commander of Pacific Command, visits China to meet senior Chinese military and civilian leaders. He visits China's eastern regional command in Nanjing, which has responsibility over the area of China directly across from Taiwan.

**May 12, 2007:** Chinese cargo ship *Jinsheng* collides with ROK cargo ship *Golden Rose* and does not render aid. All 16 crewmembers are lost on the *Golden Rose*.

**May 15-18, 2007:** Vietnamese President Nguyen Minh Triet makes a state visit to China at the invitation of Chinese President Hu Jintao.

**May 16-19, 2007:** Sixth meeting of the High Level Task Force on the Drafting of the ASEAN Charter is held in Penang, Malaysia.

**May 16, 2007:** The State Department expresses concern over a Russian deal to provide a nuclear research reactor for Burma which has "neither the regulatory nor the legal framework or safeguard provisions" to handle a nuclear program.

**May 17, 2007:** North and South Korea do a one time test-run of linked railroad tracks. To do the test-run, South Korea agreed to supply the North with \$80 million of aid to develop light industry.

**May 17, 2007:** Japanese Assistant to the Prime Minister Nakayama Kyoko in charge of the abductions issue meets Chinese Vice Foreign Ministers Wu Dawei and Dai Bingguo to discuss China-Japan relations and the North Korea nuclear issue.

**May 19, 2007:** First round of consultations, as prescribed by the seventh annual meeting of leaders of China, Japan, and the ROK held in January, is held in Beijing. Chinese Assistant Minister Cui Tiankai, Japanese Deputy Foreign Minister Yabunaka Mitoji, and ROK Deputy Minister of Foreign Affairs and Trade Shim Yoon-joe attend.

**May 19, 2007:** The Chinese government announces that it has invested \$3 billion with the Blackstone Group, a U.S.-based private equity firm.

**May 20, 2007:** A DPRK merchant ship *Kangsong* docks in Busan for the first time since the Korean War.

**May 22, 2007:** Assistant Secretary Hill on a Southeast Asia visit urges Burma to free Nobel laureate and opposition leader Aung San Suu Kyi. However, the Burmese junta extended her house arrest for another year.

**May 22-23, 2007:** U.S.-China strategic economic dialogue is held in Washington. U.S. Secretary of Treasury Paulson and Chinese Vice Premier Wu Yi head the delegations.

**May 24, 2007:** U.S. and Japan hold a plenary session in Washington to discuss the civil use of the Global Positioning System and its augmentations.

**May 24, 2007:** Japanese Foreign Ministry announces establishment of the International Manga Award. Foreign Minister Aso Taro will be on the selection committee.

**May 24, 2007:** India cancels a training program visit by government officials to China over China's refusal to issue a visa to an official from the Arunachal Pradesh region. China's reason is that the official is a Chinese citizen, therefore no visa need be given.

**May 24-25, 2007:** On the sidelines of the ASEAN Regional Forum's security policy dialogue, U.S., Japan, Australia, and India meet for the first "exploratory meeting" to discuss security issues.

**May 24-29, 2007:** The U.S. and Australia conduct the first-phase of the two-phased *Talisman Sabre 2007* biannual joint and combined exercise in Alaska. June 12-July 2 is the second half of the exercise to be held in Australia.

**May 25, 2007:** Pentagon releases annual report to Congress on China's military power. Chinese Foreign Ministry expresses "strong dissatisfaction and resolute objection."

**May 25, 2007:** The full text of the U.S.-Korea FTA is released.

**May 25, 2007:** Japan and China hold the eighth round of East China Sea talks in Beijing.

**May 26-29, 2007:** Assistant Secretary Hill visits Indonesia to discuss bilateral and global issues, as well as progress on the Six-Party Talks.

**May 28-29, 2007:** The eighth Asia-Europe Meeting (ASEM) foreign minister's meeting is held in Hamburg, Germany.

**May 29, 2007:** Russian Strategic Rocket Forces states it has tested an intercontinental ballistic missile capable of carrying independent warheads.

**May 29-June 6, 2007:** Korean and U.S. FTA delegations meet in Washington to complete the legal review process of the FTA text.

**May 30, 2007:** Thai Constitutional Court outlaws the former prime minister's Thai Rak Thai party and bans 111 party leaders, including Thaksin Shinawatra, from politics.



**May 30-31, 2007:** Assistant Secretary Hill meets Vice FM Wu Dawei to discuss the progress of the Six-Party Talks and the DPRK-related DBA fund issues. Hill also meets Assistant FM He Yafei to discuss U.S.-China bilateral issues.

**May 30-June 9, 2007:** Former Taiwanese President Lee Teng-hui visits Japan.

**May 31, 2007:** U.S.-Philippine naval *Carat* exercise begins in the Muslim militant region of Basilan. 1400 U.S. forces are participating with a focus on anti-terrorism, counter-smuggling, and humanitarian activities.

**June 1, 2007:** Korea-ASEAN Free Trade Agreement in Goods enters into force. The agreement applies to Korea, Indonesia, Malaysia, Myanmar, Singapore, and Vietnam.

**June 1, 2007:** North Korea rejects implementing the Feb. 13 denuclearization agreement until the BDA dispute is resolved.

**June 1, 2007:** The second Japan-Russia Strategic Dialogue is held in Tokyo, Japan.

**June 1-3, 2007:** The sixth IISS Shangri-La Dialogue is held in Singapore. Defense Secretary Robert Gates and Chairman of the Joint Chiefs of Staff U.S. Marine Gen. Peter Pace attend the meeting.

**June 2, 2007:** Japan-U.S.-Australia Defense Ministerial Meeting is held on the sidelines of the Shangri-La Dialogue.

**June 2, 2007:** Japan-ROK defense ministers meet on sidelines of Shangri-La Dialogue.

**June 2, 2007:** Four North Korean defectors arrive in the port of Aomori Prefecture, Japan.

**June 3, 2007:** China, Japan, and ROK Foreign Ministers' meeting is held in Jeju, Korea. Bilateral meetings among the country were also held.

**June 4-5, 2007:** The sixth Asia Cooperation Dialogue is held in Seoul.

**June 5, 2007:** On the sidelines of the ACD meeting, FMs Song Min-soon and Sergei Lavrov discuss the North Korean nuclear issue and bilateral cooperation in the development of the Far East and the Siberian region.

**June 6-7, 2007:** Japan and Australia hold "2+2" meetings in Tokyo to boost security cooperation.

**June 6-8, 2007:** The 31<sup>st</sup> G-8 Summit is held in Heiligendamm, Germany. President Bush meets Japanese PM Abe on the sidelines of the meeting June 6 to discuss issues on North Korea, energy, and climate change.

**June 6-10, 2007:** Indonesian Vice President Jusuf Kalla makes an official visit to China at the invitation of Chinese Vice President Zeng Qinghong.

**June 7, 2007:** China announces establishment of diplomatic relations with Costa Rica.

**June 7, 2007:** North Korea conducts a short-range missile test off its western coast.

**June 8, 2007:** The Outreach G-8 Session is held in Heiligendamm following the summit to exchange views on innovation and intellectual property rights, investment liberalization, social responsibility, energy, climate change, and other developmental issues with China, India, Brazil, South Africa, and Mexico.

**June 8-12, 2007:** Vice Premier Wu Yi is in Russia to attend the 11<sup>th</sup> International Economic Forum and activities related to “China Year in Russia.”

**June 11, 2007:** The 100-member committee begins debate in drafting a Thai constitution.

**June 11, 2007:** State of Hawaii Gov. Linda Lingle and Indonesian Defense Minister Juwono Sudarsono announce a joint National Guard State Partnership Program (SPP) between Indonesia and Hawaii in coordination with U.S. Pacific Command.

**June 11, 2007:** The 14<sup>th</sup> Korea-China Working Level Trade Talks are held in Seoul to discuss ways to further promote and cooperate on trade issues between the two nations.

**June 12, 2007:** Thai Assets Examination Commission (AEC) freezes more than 50 billion baht (about \$1.6 billion) of former PM Thaksin Shinawatra’s assets.

**June 12-July 2, 2007:** U.S. and Australian defense forces conduct the second part of a two-part *Talisman Saber 2007* in Australia.

**June 13, 2007:** A Russian Finance Ministry spokesman states that Russia is preparing to help the DPRK transfer funds from BDA; first withdrawals reportedly take place.

**June 14, 2007:** A full page advertisement in the *Washington Post* – running under the header “The Facts” – is taken out by Japanese Diet members and commentators, disputing claims that Japan engaged in “forceful coercion” of “comfort women.”

**June 14-15, 2007:** The sixth meeting of the U.S.-China Joint Liaison Group on law enforcement cooperation in the areas of anti-corruption, anti-terrorism, cyber crime, human trafficking, IPR, and legal assistance is held in Beijing.

**June 14-15, 2007:** The 12<sup>th</sup> meeting of the Korea-China Joint Committee on Environmental Cooperation is held in Huangshin, China over the issues of dust and sandstorm (DSS) response cooperation, Yellow Sea preservation, environmental industry cooperation, and environmental technology joint research.

**June 17-18, 2007:** Eighth round of negotiations over South Korean and Japanese exclusive economic zones are held in Seoul.

**June 17-19, 2007:** Philippines Secretary of Foreign Affairs Alberto Gatmaitan Romulo pays an official visit to China at the invitation of Foreign Minister Yang Jiechi.

**June 18, 2007:** Assistant Secretary Hill visits Beijing and meets Vice FM Wu Dawei to discuss the Six-Party Talks.

**June 18, 2007:** Assistant Secretary Hill and Special Representative for Korean Peninsula Peace and Security Affairs Chun Yung-woo meet in Beijing to discuss progress in the upcoming round of Six-Party Talks.

**June 18-23, 2007:** Vietnamese President Nguyen Minh Triet visits U.S. at the invitation of President Bush, the first time that a Vietnamese president has traveled to the U.S. since the end of the Vietnam War.

**June 19, 2007:** U.S. Congress passes International Nuclear Fuel for Peace and Nonproliferation Act of 2007. The bill establishes an international fuel bank to be set up under the IAEA and be available to countries cooperating with IAEA inspectors.

**June 19, 2007:** The Thai Cabinet proposes an internal security law that would allow the head of the army to overrule civilian authorities.

**June 19, 2007:** Ambassador Hill says BDA funds have been transferred to North Korea.

**June 19, 2007:** ROK FM Song Min-soon and Secretary Rice consult by phone over the North Korean nuclear issue and the KORUS FTA.

**June 19-20, 2007:** Assistant Secretary Christopher Hill visits Japan to exchange views on North Korean issues.

**June 19-21, 2007:** A U.S. Navy delegation led by Adm. Mike Mullen, Chief of Naval Operations, visits Vietnam for talks with the Vietnam Navy High Command.

**June 20-21, 2007:** The second U.S.-China Senior Dialogue is held in Washington.

**June 20-21, 2007:** The 20<sup>th</sup> ASEAN-U.S. Dialogue is held in Washington, D.C.

**June 21, 2007:** Thai prosecutors charge ousted Prime Minister Thaksin and his wife with corruption. The Supreme Court will decide July 10 whether to hear the case.

**June 21, 2007:** ROK FM Song Min-soon holds phone consultations with FMs Yang Jiechi and Aso Taro regarding developments in the North Korean nuclear issue.

**June 21-22, 2007:** Assistant Secretary Hill visits Pyongyang and has discussions on “all aspects of the six-party process” with DPRK Foreign Minister Pak Ui-chan and nuclear talks counterpart Kim Gye-gwan.

**June 22, 2007:** Amb. Hill announces in Seoul that North Korea has reaffirmed its willingness to shut down its nuclear reactor under the Feb. 13 agreement.

**June 22, 2007:** FMs Song Min-soon and Sergei Lavrov have phone consultations over the current progress of the North Korean nuclear issue.

**June 22, 2007:** Chinese Vice FM Dai Bingguo meets with Secretary Rice and National Security Advisor Stephen Hadley after the Senior Dialogue concludes.

**June 23, 2007:** First plenary meeting of second phase of the Korea-Japan Joint History Research Committee is held in Tokyo.

**June 24-25, 2007:** The World Economic Forum on East Asia 2007 is held in Singapore.

**June 25, 2007:** Chinese President Hu Jintao, in a speech to the Central Party School that lays out his vision of China, states that the Communist Party should retain control for the foreseeable future and economic reforms should continue.

**June 25, 2007:** North Korea announces that it has received funds from the once-frozen BDA accounts and is ready to fulfill its part of the Feb. 13 six-party agreement.

**June 26-29, 2007:** IAEA inspectors arrive in Pyongyang to inspect Yongbyon and a new facility under construction in Taechon.

**June 26, 2007:** The ninth Japan-China Consultations on the East China Sea and other matters is held in Tokyo.

**June 26, 2007:** The U.S. House of Representative Foreign Relations Committee passes a resolution condemning Japan’s sexual enslavement of women during World War II and the resolution urges Japan to acknowledge and apologize to the “comfort women.”

**June 26, 2007:** China arranges meeting between a U.S. delegation led by Deputy Assistant Secretary of State for East Asian and Pacific Affairs Eric John and a Myanmar delegation led by Information Minister Kyaw San and Foreign Minister Nyan Win in Beijing. They discuss human rights issues including the detention of Aung San Suu Kyi.

**June 26-28, 2007:** Chief of the U.S. Pacific Command Adm. Timothy Keating visits the Philippines for high level military and political discussions.

**June 27, 2007:** A White House spokesman says the U.S. is “deeply troubled” by repeated North Korean short-range missile tests, which occurred on May 25, June 7, and June 27.

**June 28, 2007:** Russia successfully tests new sea-based ballistic missile *Bulava*, which was designed to have a range of 6,200 miles and to carry six individually targeted nuclear warheads. It flew across the country and hit its target in Kampuchea.

**June 29, 2007:** The U.S. and Russian governments sign a Section 123 Agreement opening the road for further civilian nuclear cooperation.

**June 29, 2007:** President Hu Jintao visits Hong Kong to swear in Hong Kong Chief Executive Donald Tsang and to attend the “Handover” festivities.

**June 30, 2007:** National Assembly election is held in Timor Leste.

**June 30, 2007:** U.S. and South Korean officials sign the FTA in Washington despite threat from Democratic Congressional leaders to oppose ratification of the agreement.

**June 30-July 5, 2007:** Chinese FM Yang Jiechi visits Mongolia, North Korea, and Indonesia.

**July 1, 2007:** Former U.S. Deputy Secretary of State Robert Zoellick begins term as the 11<sup>th</sup> president of the World Bank.

**July 1, 2007:** Tenth anniversary of the handover of Hong Kong by the British to China.

**July 1, 2007:** Protestors march in Hong Kong asking for more democracy and for the first time a Roman Catholic bishop of Hong Kong participated.

**July 1-2, 2007:** Vladimir Putin visits George Bush at the Bush family home in Kennebunkport, Maine.

**July 2, 2007:** The 10<sup>th</sup> anniversary of the Asian Financial Crisis.

**July 2, 2007:** At a forum in Seoul, Gen. Burwell Bell, commander of U.S. Forces Korea, says that North Korea remains a threat despite its move toward dismantling their nuclear program.

**July 4, 2007:** International Olympic Committee awards 2014 Winter Games to Sochi, Russia.





**U.S.-Japan Relations:  
Steadying the Alliance and Bracing for Elections**

*Michael J. Green, CSIS/Georgetown University  
Shinjiro Koizumi, CSIS*

After taking office last September, Abe Shinzo won kudos at home and abroad by flying to China and South Korea to mend relations with Japan's two disgruntled neighbors. Critics who worried he would be too blunt and nationalistic to succeed as prime minister were quickly proven wrong. Few anticipated how many problems he would have on the domestic front. In the last quarter, Abe's high poll ratings were driven down by a series of scandals in his Cabinet and by backroom political maneuvering that gave the impression he was reversing Koizumi's reformist agenda. At the beginning of this quarter Abe once again used foreign policy – this time a successful summit with President George W. Bush and at the G-8 – to push his poll numbers up again. The success of the summit was particularly reassuring in the context of growing Congressional criticism of Japan over Tokyo's treatment of the "comfort women" issue.

Abe's overseas successes were soon offset by a domestic scandal over the government's mismanagement of pension accounts (that his government could ill afford) in the lead up to Upper House elections at the end of July. Abe will have to survive the Upper House election (he is not running but it will be seen as a referendum on his job) if he is going to move forward with his greatest goal: constitutional revision. Abe and the Liberal Democratic Party (LDP) hoped at one point that the constitutional revision pledge would carry them to victory in the Upper House election, but the pension system scandal has clearly become the issue on voters' minds – much to the government's chagrin. Still, Japanese voters appreciate toughness and perseverance, which Abe has in abundant supply, and that may save him yet.

**The "George and Shinzo" Summit**

Prime Minister Abe made his first official visit to Washington D.C. on April 27 at the invitation of President Bush. Koizumi Junichiro's close friendship with George W. Bush was legendary, and many observers on both sides of the Pacific worried that Abe would not be able to establish the same rapport or sustain the same level of close U.S.-Japan relations. This summit meeting was designed to dispel those concerns. The tone was set on the first day of Abe's arrival when President Bush and the First Lady took the unusual step of going across the street from the White House to Blair House to personally welcome the prime minister and his wife Akie. The two leaders also agreed to call each other by their first names, "George" and "Shinzo." The First Ladies took the lead from

their husbands and also went to a first name basis (“Laura” and “Akie”) as they traveled around Washington together, including a lunch at George Washington’s estate Mt. Vernon. The two couples also had an intimate dinner on the Abe’s first night in Washington at which Akie described in moving terms her visit with wounded American veterans from the Iraq War. Fellow conservatives, staunch allies in the war on terror, and both under assault in the press – it should not have been surprising that the two leaders and their wives enjoyed each others’ company.

President Bush and Prime Minister Abe also had work to do narrowing the apparent daylight between the United States and Japan on North Korea strategy in the wake of Assistant Secretary Chris Hill’s surprise announcement in March that Washington would take a series of steps to accommodate Pyongyang’s demands for the return of funds frozen in the Macao-based Banco Delta Asia because of money-laundering and other illicit activities. The sudden softening of the U.S. position was particularly threatening to Abe, who had risen to political prominence in Japan by taking a hardline position toward Pyongyang on the issue of Japanese citizens abducted by the North Koreans. The worst case scenario for Abe politically would be a U.S. decision to cease its support for Japan on the abductees issue in an effort to ease sanctions related to terrorism. (In 2003 the Bush administration announced that the Japanese abductees issue would also be considered when determining whether Pyongyang was sufficiently in compliance with U.S. laws to allow lifting of terrorism-related sanctions). Strategically, the worst case scenario for Abe would be that the softer U.S. line might represent a U.S. willingness to accept a nuclear-armed North Korea. With the North Koreans already more than a month behind on their commitment under the Feb. 13 agreement to shut down the Yongbyon reactor and the U.S. appearing ready to make further concessions to convince them to do so, Abe faced a serious political and strategic problem.

By all appearances, the two leaders succeeded in closing the gap on North Korea strategy. After discussing the issue at length in their intimate White House dinner and at Camp David, the two leaders stood side-by-side before the press where Abe reaffirmed his support for the Feb. 13 agreement (despite lingering Japanese consternation at not being consulted before the deal was struck) and President Bush warned that his own patience was “not unlimited” and reminded Pyongyang that there were still UN Security Council sanctions on the books. President Bush also pledged to take the abductees issue into account when considering whether to remove North Korea from the list of state sponsors of terrorism.

Abe also used the summit to make a pitch for support from the president on two other pet projects. The first was finding a top line replacement for the Japan Air Self-Defense Force *F-4 Phantom* jets (some of which are so old they are being flown by the sons of the jet’s original pilots). While Abe did not ask specifically for the U.S.-made *F-22 Raptor*, which is the most advanced fighter aircraft in the world and not available for export, he did reportedly ask for the president’s support as Japan develops its options – leaving the specific request for the *F-22* to his defense minister. Japanese Defense Minister Kyuma Fumio reportedly did ask Defense Secretary Robert Gates for information on the *F-22* in their meeting several days later. When Gates tasked the Pentagon to provide an answer,



the response to Japan was that the *F-22* remains unavailable for export, but that does not seem to have dampened the enthusiasm of Japanese pilots and their friends in the Prime Minister's Office to try to find a way to procure the *Raptor*. Other competitors for the project include the *F-15*, *F-18*, Eurofighter *Typhoon*, and possibly the *F-35 Joint Strike Fighter*. For the first time in five decades, there does not appear to be political support for a domestic champion to build Japan's next generation fighter.

Abe's other pet project was the idea of a summit of Asia's biggest democracies – Japan, the U.S., Australia, and India – which he first introduced in his campaign book *Toward a Beautiful Country*. The proposal initially was met in Washington, Canberra, and Delhi with mixed reactions: interest in strengthening cooperation, but concern about alienating China or other big Asian democracies not included, like Korea. At their meeting in Washington, President Bush promised to think about the proposal and then gave Abe a thumbs-up to explore the idea when the two leaders met again on the sidelines of the G-8 Summit in Heiligendamm, Germany. As a first step, the four nations sent deputy minister-level officials to a quadrilateral session on the sidelines of the ASEAN Regional Forum (ARF SOM) at the end of May. However, none of the officials involved showed any enthusiasm for the project, and the future of this concept may depend like many other things on the outcome of the July Upper House election.

One concrete area of cooperation announced at the summit in Washington was a new bilateral initiative to promote nuclear energy globally and to work together on a new framework to combat proliferation of nuclear weapons. Signed by U.S. Energy Secretary Samuel W. Bodman and Japanese Minister of Economy, Technology, and Industry Amari Akira, together with Minister of Education, Culture, Sports and Technology, Ibuki Bunmei and Foreign Minister Aso Taro, the U.S.-Japan Joint Nuclear Energy Action Plan is comprised of four main areas: 1) nuclear energy research and development cooperation under the Global Nuclear Energy Partnership (GNEP); 2) collaboration on policies and programs that support the construction of new nuclear power plants; 3) establishing nuclear fuel supply assurance mechanisms; and 4) joint collaboration to support the safe and secure expansion of nuclear energy in interested countries while promoting non-proliferation. Under the initiative, the U.S. and Japan are supposed to identify and establish a Steering Committee in June and initiate joint U.S.-Japan nuclear energy cooperative R&D in July.

### **Comfort women: Abe tries but Honda undeterred**

Since Abe put himself in a difficult position by provoking debates on the issue of comfort women in early March (see U.S.-Japan relations, "An Unexpected Rough Patch," *Comparative Connections*, Vol. 9, No. 1 for details), he has made every effort to lower tensions in Japan and the United States. Abe offered his own public apology (personally and as prime minister), expressed his personal sympathy for the situation of the surviving comfort women, and reaffirmed his government's commitment to the 1993 "Kono Statement," which acknowledged Japan's coercion of women during the war and offered a compensation package. In his April 3 teleconference with President Bush, he explained his views on the issue. In response, President Bush stated that he appreciated the prime

minister's candor and that he trusted Abe and believed in Japanese people's compassion for the former "comfort women." Abe also succeeded in initially calming the issue in Washington by meeting Congressional leaders including Sen. Daniel Inouye (D-Hi) and the Speaker of the House Nancy Pelosi (D-Ca). When asked about Abe's efforts at a press conference during the summit, President Bush said, "I accept the prime minister's apology." Abe also succeeded in dissuading a group of hot-heads in the Diet from traveling to Washington in May in a misguided effort to "convince" the U.S. Congress that Japan was not guilty of the charges asserted in the House resolution condemning Japan on comfort women sponsored by Rep. Mike Honda (D-Ca). Overall, it seemed in the wake of the Bush-Abe summit that the issue was quieting down.

The resolution continued to gain momentum, however, particularly after many of the same politicians who were convinced to stay home in May placed a paid advertisement in the *Washington Post* on June 14 making their claims and driving the co-sponsors of the Honda Resolution up to 140 members. The resolution (which is purely symbolic and does at least acknowledge the contributions of Japan to world peace and prosperity) passed in the House International Relations Committee on June 26 with a vote of 39-2. It appears likely to pass in the full House, but with no companion bill in the Senate. With movies about the Nanjing massacre due out this summer from Hollywood and politicians and pundits in Tokyo gearing up to defend the actions of the Imperial Japanese Army, it appears that there is little room left for actual historians to have any say about the past.

### **G-8 Summit: "George and Shinzo" meet again**

While Abe and Bush were in Germany to attend the G-8 Summit, they held their sixth meeting this year (including four teleconferences). According to the Ministry of Foreign Affairs, President Bush told Abe that "he was always ready to talk, whenever and wherever," emphasizing their deepened friendship. They reaffirmed their commitment to cooperate on various issues such as climate change, Iraq, the WTO Doha Round, North Korea, the fight against terrorism, and United Nations reform.

One of the key issues of the G-8 summit in Germany was climate change and how to reach a consensus between the U.S., Japan, and the EU on the issue. Since the differences between Europe and the U.S. were clear, Abe hoped that Japan could play a bridging role. By all accounts, Tokyo did help play a role in bringing Washington and Brussels closer together. In the Chair's summary, the countries participating in the Heiligendamm Summit succeeded in announcing that "we will consider seriously the decisions made by the European Union, Canada, and Japan which include at least a halving of global emissions by 2050." Before the summit on May 24, Abe introduced his initiative named "Cool Earth 50", which has three pillars:

- a long-term strategy to reduce the emissions of greenhouse gases globally;
- three principles for establishing an international framework to address global warming from 2013 onward:
  1. All major emitters must participate, moving beyond the Kyoto Protocol, leading to the global reduction of emissions.

2. The framework must be flexible and diverse, taking into consideration the circumstances of each country.
  3. The framework must achieve compatibility between environmental protection and economic growth by utilizing energy conservation and other technologies.
- Launching a national campaign for achieving the Kyoto Protocol target.

His initiative “propose(s) a long-term target of cutting global emissions by half from the current level by 2050 as a common goal for the entire world,” being compatible with the sentence in the Chair’s summary of the G-8 Summit in Germany. Abe appeared satisfied with the result because it was an essential step for Japan holding the 2008 summit to establish a common ground with other countries.

### **Abe gets a boost and then a bust**

After suffering from declining approval rating since successive scandals hit his administration, Abe’s approval rating stopped dropping and went up in early May. According to the *Yomiuri Shimbun* survey conducted on May 19 and 20, the approval rating of the Abe government hit 49.6 percent. It was the first time Abe’s approval rating went up since he became prime minister last September (in part because it was so high at the beginning, at over 70 percent). However, it was only a short break for Abe.

After the press revealed that the government had lost information on tens of millions of individual pension accounts (well before Abe came to power), the government’s approval rating plummeted again to a low of 36 percent in one *Asahi Shimbun* poll. The opposition Democratic Party of Japan disclosed that the Social Insurance Agency was unable to identify 50 million premium payments during a bungled shift to computerization in the 1980s, leaving many pensioners without payment, since the SIA did not know who they were. As the Japanese saying goes, “nakitsura ni hachi” (the bee stings you just when you cry), and Abe’s fortunes were further buffeted when Minister of Agriculture Matsuoka Toshikatsu was found hanging dead in his home with a suicide note essentially acknowledging his role in a scandal at the Agriculture Ministry. Since Abe had rejected calls to sack Matsuoka because of rumors about his involvement in the scandal, the tragedy stuck to Abe himself and cast public doubt on his judgment. Voices in the media argued that Matsuoka would not have killed himself if Abe fired him from his Cabinet. These blows sent Abe’s support rate down to 28.8 percent in a *Jiji Press* poll conducted June 8-11, the first time since April 2001 that a Japanese prime minister had dipped below the painful 30 percent support rate attained by Mori Yoshiro before he resigned.

### **The way forward**

Although he reassured the Japanese public of his ability to keep U.S.-Japan relations strong and made a successful debut at the G-8 summit, Prime Minister Abe could not avoid the serious damage caused by the pension scandals and the unexpected death of one of his Cabinet members in this quarter. He intended to raise constitutional revision as a major campaign issue for the upcoming Upper House election, but it has been put on the

side and the pension issue has been paid most attention. The only good news for his party may be that the biggest opposition party, the DPJ, is still weak and unable to take advantage of public dissatisfaction with the Abe government.

The next quarter will reveal whether the Upper House election gives Abe a new boost for constitutional revision ... or triggers political chaos. It appears more likely that Abe will lose the coalition majority in the Upper House, though that is still far from certain. The Upper House does not control the vote for prime minister, but a loss could force Abe to resign as former Prime Minister Hashimoto Ruytaro did in 1998. It is possible that Abe could stay in power even with a loss, or that the coalition could switch to another leader, such as Foreign Minister Aso. There is also a possibility that a loss by the coalition could trigger massive political realignment, which could ironically result in the division and destruction of the victorious Democratic Party of Japan. Although it is impossible to predict what is going to happen after the Upper House election, it is certain that the next quarter will see a different landscape of Japanese politics, possibly even one that is good for Abe.

On the diplomatic front, Japan and the U.S. will also have to work for close coordination as the Six-Party Talks resume and a six-party foreign ministers' meeting may take place in August. With the APEC summit set for Sydney, Australia in September, U.S. and Japanese leaders will meet at a time of increasingly dangerous protectionism in Washington and new questions about regional integration in Asia.

## **Chronology of U.S.-Japan Relations**

### **April-June 2007**

**April 3, 2007:** Prime Minister Abe Shinzo holds a teleconference with President Bush in which they discuss issues including North Korea and the dispute over “comfort women.”

**April 3-4, 2007:** Foreign Minister Aso Taro attends the 14<sup>th</sup> South Asian Association for Regional Cooperation (SAARC) Summit.

**April 8, 2007:** Incumbent Ishihara Shintaro (supported by Liberal Democratic Party/New Komeito) wins a third term as governor of Tokyo with 51 percent of the vote. The main opposition candidate, Asano Shiro, supported by the Democratic Party of Japan and the Social Democratic Party, receives only 31 percent of the vote.

**April 9, 2007:** North Korean Deputy Foreign Minister, Kim Gye-gwan states the implementation of the Feb. 13 six-party agreement, specifically the suspension of nuclear facilities in Yongbyon within the agreed time period, is moving slower than expected. U.S. chief negotiator Christopher Hill has a meeting with Japanese Director General Sasae Kenichiro to reaffirm that the U.S. and Japan will closely cooperate with each other in order to ensure that North Korea implements the Feb. 13 agreement.

**April 10, 2007:** The U.S. Treasury Department announces the complete lifting of a freeze on \$25 million in North Korean assets being held in the Banco Delta Asia in Macao.

**April 16, 2007:** India-Japan-U.S. Joint Naval Exercises are conducted in Guam.

**April 18, 2007:** The U.S. and Japan sign U.S.-Japan Joint Nuclear Energy Action Plan.

**April 19, 2007:** Agricultural Minister Matsuoka Toshikatsu holds a teleconference with U.S. counterpart Mike Johanns about the U.S. beef import issue.

**April 22, 2007:** The Upper House by-elections are held in Fukushima and Okinawa. The LDP wins in Okinawa and the DPJ wins in Fukushima.

**April 24, 2007:** The Cabinet approves a six-month extension of Japan's naval mission in the Indian Ocean in support of U.S.-led counterterrorism operations in Afghanistan.

**April 25, 2007:** Japanese government announces establishment of a study group under former Ambassador to the U.S. Shinji Yanai to examine options for execution of the right of collective self-defense.

**April 26, 2007:** PM Abe visits the U.S. and has dinner with President Bush and his wife at the White House. Abe also meets with 11 Congress members and explains the position of the Japanese government regarding the contentious "comfort women" issue.

**April 27, 2007:** PM Abe visits Camp David and meets with President Bush. They discuss North Korea, Iraq, collective self-defense, energy cooperation, and global warming.

**April 28-May 4, 2007:** PM Abe visits Saudi Arabia, the United Arab Emirates, Kuwait, and Egypt. He also visits members of the Self-Defense Forces operating with the U.S. and the U.K.

**April 29, 2007:** Defense Minister Kyuma Fumio visits U.S. Central Command (CENTCOM) Headquarters in Tampa and meets Vice Adm. David Nichols.

**April 30, 2007:** DM Kyuma asks for more information on *F-22* during his meeting with U.S. Defense Secretary Robert Gates.

**April 29-May 3, 2007:** FM Aso travels to Washington to meet with officials to discuss a variety of bilateral and regional topics. He attends the "Strategic Leadership Program" at the Center for Strategic and International Studies (CSIS).

**May 1, 2007:** A joint statement is issued at the conclusion of the U.S.-Japan Security Consultative Committee meeting, attended by Secretary of State Condoleezza Rice, Secretary of Defense Robert Gates, Minister for Foreign Affairs Aso, and Minister of Defense Kyuma Fumio.

**May 8, 2007:** Japanese Chief Cabinet Secretary Shiozaki Yasuhisa announces that PM Abe sent an offering to Tokyo's Yasukuni Shrine in late April in his "private capacity." China responds to this action by commenting that "Yasukuni is an important and sensitive political issue" and asks that the Japanese government act appropriately. South Korea responds angrily by blasting the move as "very regrettable" and calling on Japan to adopt a "correct perception of history."

**May 10, 2007:** The U.S. government terminates the deployment of U.S. Air Force *F-22s* at Kadena Air Base in Okinawa, Japan.

**May 10, 2007:** The sixth Japan-Republic of Korea Politico-Military Talks are held in Tokyo. On the North Korean nuclear issue, Japan and the ROK share the view that it was necessary to implement the "initial actions" at the earliest date possible, and they confirm that they will continue to closely coordinate with each other.

**May 14, 2007:** President Bush has a phone conversation with Abe in which they reaffirm demands for North Korea's abandonment of nuclear arsenal development and settlement of the issue of the abduction of Japanese citizens. Abe urges Bush to keep North Korea on its list of states sponsoring terrorism until the abduction issue is resolved and Bush responds that he would take it into consideration.

**May 14, 2007:** Japanese Deputy Chief Cabinet Secretary Shimomura Hakubun announces that Secretary Rice explained to Japanese lawmakers that the U.S. does not consider the abductees issue to be a prerequisite for the removal of Pyongyang from its list of terrorism-sponsoring states.

**May 15, 2007:** A National Referendum Bill is passed in Japan, establishing a process for public referenda on any constitutional changes.

**May 15, 2007:** Regarding Japan's support of the 2003 U.S. invasion in Iraq, Japanese DM Kyuma states: "It's always important to examine the past sincerely...Japan didn't have its own information on weapons of mass destruction in Iraq, Japan was not sure if weapons of mass destruction existed."

**May 23, 2007:** The Act to Promote the Realignment of U.S. Forces in Japan passes in the National Diet.

**May 24, 2007:** The U.S. and Japan hold annual U.S.-Japan Consultations on the Civil Use of the Global Positioning System (GPS) and release the Joint Announcement of the conference in Washington, D.C.

**May 24-25, 2007:** On the sidelines of the ASEAN Regional Forum's security policy dialogue, U.S., Japan, Australia, and India meet for the first "exploratory meeting" to discuss security issues.

**May 25, 2007:** North Korea test-fires missiles into the Sea of Japan which prompt a threat of sanctions by Abe. Abe states that his country's patience "isn't limitless" and Japan retains the option of further sanctions against North Korea.

**May 28, 2007:** Matsuoka Toshikatsu, Japan's agriculture minister who came under fire over money scandals, commits suicide at his Tokyo residence.

**May 29, 2007:** The Japanese Supreme Court dismisses a lawsuit against aircraft noise around the U.S. Yokota Air Base, refusing to award compensation for "future noise."

**May 30, 2007:** G-8 foreign ministers meeting in Potsdam, Germany.

**June 6, 2007:** PM Abe, while visiting Germany to attend the G-8 Summit in Heiligendamm, holds a summit with President Bush for approximately 50 minutes on the sidelines. The agenda includes: climate change, North Korea, UN Security Council reform, Iraq, U.S. beef imports, and the WTO Doha Rounds.

**June 6, 2007:** Japan-Australia Joint Foreign and Defense Ministerial Consultations held in Tokyo.

**June 6, 2007:** The U.S. Department of State and the Ministry of Economy, Trade and Industry of Japan release the "United States-Japan 2007 Investment Initiative Report" prepared for President Bush and PM Abe.

**June 14, 2007:** The U.S. and Japan begin two-week long bilateral military exercises over Guam, with the participation of Japan's *F-2* jets for the first time outside Japan.

**June 14, 2007:** A full page advertisement in the *Washington Post* – running under the header "The Facts" – is taken out by Japanese Diet members and commentators, disputing claims that Japan engaged in "forceful coercion" of "comfort women."

**June 15, 2007:** In a speech delivered at an economic conference sponsored by the *Yomiuri Shimbun*, U.S. Ambassador to Japan Thomas Schieffer calls on Japan to deregulate and open its market to greater foreign investment.

**June 19-20, 2007:** Assistant Secretary Christopher Hill visits Japan to exchange views on North Korean issues including the Six-Party Talks with Sasae Kenichiro, director general of the Asian and Oceanian Affairs Bureau.

**June 20, 2007:** Japan's Parliament passes legislation approving a two-year extension of the country's air force transport mission in Iraq, despite criticism of Tokyo's involvement in the increasingly unpopular war.

**June 21, 2007:** Japan's ruling party leaders approve plans to extend the current parliamentary session, delaying next month's Upper House elections and giving the administration more time to push through legislation it hopes will boost its popularity.

**June 26, 2007:** The Honda Resolution (HR. 121) addressing “comfort women” passes in a 39-2 vote in the House Foreign Affairs Committee. The resolution will now proceed to a full House vote, slated for sometime before the August recess.





U.S.-China Relations:

## Two Bilateral Dialogue Mechanisms Manage Friction

Bonnie Glaser  
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The second round of the Strategic Economic Dialogue produced a few agreements, but failed, as expected, to make headway on the contentious issue of the value of China's currency. U.S. lawmakers on both sides of the aisle called for Beijing to take immediate steps to reduce its \$232 billion trade surplus with the United States. Presidents George Bush and Hu Jintao met on the sidelines of the Group of Eight (G-8) summit in Heiligendamm, Germany. While both countries opposed Germany's push for binding caps on greenhouse gas emissions, they continued to disagree on the degree of responsibility that emerging economies (that are among the top emitters of greenhouse gasses) should bear for reducing emissions. The failure of many Chinese products to meet safety standards became a new source of friction in the bilateral relationship. The fourth round of the Senior Dialogue provided an opportunity for high-level officials to review a broad range of bilateral, regional, and global issues.

### **Tension mounts on economic issues**

Following the U.S. Commerce Department's announcement of the decision to impose countervailing duties on imports of coated paper from China at the end of last quarter, the U.S. took action against China in early April at the World Trade Organization (WTO). Charging that China was failing to abide by its 2001 WTO entry agreement, the U.S. filed two cases over pirated copies of music and movies, and market access barriers against U.S. films, books, and software. Announcing the WTO actions, U.S. Trade Representative Susan Schwab underscored that the decision to seek dispute settlement "is a normal way for mature partners to resolve disputes after they have tried and failed to resolve them privately" and should not be seen as hostile acts against China.

Beijing was stunned and angered by the decision, however, and warned that it could seriously damage cooperation and harm bilateral trade. Intellectual Property Office Commissioner Tian Lipu complained, "The United States has ignored the Chinese government's immense efforts and great achievements in strengthening IPR protection and tightening enforcement of its copyright laws." Privately, the Chinese protested that the U.S. action was contrary to the bilateral understanding that trade disputes would be resolved through dialogue. In a phone call with Treasury Secretary Henry Paulson, Chinese Vice Premier Wu Yi suggested that the second round of the Strategic Economic Dialogue (SED), planned for late May, be postponed.

Democratic trade hawks and many Republicans in Congress praised the move against China to reduce the bilateral trade deficit, now at \$232 billion, but they also urged further tough measures. Chairman Max Baucus (D-Mt.) and Ranking Member Chuck Grassley (R-Ia.), along with all members of the Senate Finance Committee, sent a letter to Wu Yi on the eve of the SED urging resolution of key trade and economic issues, including the value of China's currency, IPR enforcement, implementation of China's commitments in the WTO, removal of tariff and non-tariff barriers on environmental goods and services, and restrictions on Chinese imports of U.S. agriculture products. Later that month, Republicans and Democrats on the House Ways and Means Committee also sent a tough letter to Wu Yi citing China's "massive and constant interventions in the currency markets" to keep the value of its currency low, its use of subsidies to promote exports, and its "inability to enforce intellectual property rights."

As a demonstration of its irritation, China informed the U.S. that Finance Minister Jin Renqing and Central Bank Gov. Zhou Xiaochuan would be unable to attend upcoming finance meetings in Washington because they were too busy with domestic matters. In addition, Chinese officials abruptly halted discussions with U.S. counterparts on a proposal by Washington that Beijing purchase 15 coal-mine methane capture projects – which would cut the equivalent of 25 million metric tons of carbon dioxide gas – and 15 next-generation coal-fire plants, and eliminate import tariffs for U.S. environmental goods and services into China.

As the second round of the SED drew nearer, Secretary Paulson sought to lower expectations for any breakthroughs. At a Peterson Institute of International Economics forum, Paulson said he was looking for short-term achievements as "signposts along the way" that the high-level dialogue is producing progress. He also prodded China to move more quickly to allow its currency to rise in value against the dollar, noting that it was an "unnatural act" for China to be so integrated in the global economy without having a currency set by market forces. Paulson also warned that legislation penalizing China was not only possible, but likely, although he refused to say whether the Bush administration could support any of the at-least 15 bills in Congress seeking to punish Beijing.

Just days before the opening of the SED, China sought to alleviate pressure from Congress by allowing the *renminbi* to fluctuate more during each day's foreign exchange trading. The People's Bank of China declared that the daily limit for a rise or fall in the *renminbi* would be increased from 0.3 percent to 0.5 percent. At the same time, however, the bank issued a separate statement quoting an unidentified spokesman as saying that the decision does not mean that the exchange rate "will see large ups and downs, nor large appreciations." At a news briefing, Alan Holmer, the Treasury Department's special envoy for China, said this was a "useful step" but that, in general, reforms were "not fast enough as far as the U.S. administration is concerned."

The May 22-24 SED that brought together 15 Chinese government ministers and the heads of nine U.S. Cabinet-level agencies produced agreements on expanding air cargo and passenger routes, investment opportunities for U.S. companies in China, and joint cooperation to develop clean coal-burning technologies and reduce trade barriers to

products that help reduce pollution. The talks also produced a Chinese nod to increase the cap on investments in Chinese stocks by foreign investors to \$30 billion (from \$10 billion) and permission for overseas banks to enter China's securities industry and issue yuan-denominated credit/debit cards. No breakthroughs were made on the larger issues of trade, currency, or IPR protection. The Chinese also promised to invest in U.S. businesses and announced that a recent procurement and investment mission from China had led to investments of \$32.6 billion in 25 U.S. cities and 24 states.

In her speech to the SED, Wu Yi warned that attempts to politicize economic and trade issues should be resisted. "Politicizing economic and trade issues is absolutely unacceptable, since it is of no help but will make the situation more complicated, harm bilateral economic and trade relations, or even cause serious negative impact on the progress of overall China-U.S. ties," she said. Paulson attempted to put the best face on the completed second session of the SED: "While we have much more work to do, we have tangible results of our efforts thus far," he stated, adding, "I have no doubt that we're getting more results than we would have without this dialogue."

The Chinese delegation had meetings on Capitol Hill, which Paulson hoped would help them better appreciate the growing protectionist sentiment in Congress and especially the mounting anger toward Chinese trade policies and practices. The Chinese had their own agenda, however. "We hope that the U.S. Congress will be able to have a correct understanding of the importance and significance of China-U.S. economic and trade relations and will bear in mind the overall interests of the United States in approaching this issue," said Zhu Guangyao, a Finance Ministry official.

At a Rose Garden press conference, following a meeting with Wu Yi, President Bush maintained that "we value our relationship" with China, but that the trade deficit "must be addressed" and urged Beijing to allow the value of its currency to rise. Bush also pressed the Chinese to buy American beef, which China has banned due to concerns about safety, citing cases of mad cow disease in the U.S.

Not surprisingly and almost reflexively, official Chinese media called the second round of the SED a success. *Xinhua* quoted Wu Yi as saying the talks had deepened U.S.-China "understanding" and "strategic mutual trust" and did not mention President Bush's call for China to accelerate its currency revaluation. Chinese researchers mostly evaluated the SED positively, but some experts were not so sanguine. In an interview with a Guangzhou newspaper, Yuan Peng, director of the Institute of American Studies at the China Institutes of Contemporary International Relations, described Sino-U.S. economic and trade relations as "transforming from being a stable cornerstone of Sino-U.S. relations in the past to a troublesome matter."

In its semi-annual currency report issued in mid-June, the Bush administration once again did not cite China as a country that manipulates its currency to gain unfair trade advantages. Signaling growing Congressional impatience with the glacial pace of the rise in the value of China's currency, a group of leading Republic and Democratic senators proposed legislation aimed at forcing penalties on China over what they alleged is a

policy of suppressing the value of its currency to promote exports. The bill, sponsored by Sens. Baucus, Grassley, Charles Schumer (D-Ny.), and Lindsey Graham (R-Sc.), is one of several pieces of legislation that have been introduced in the House and Senate this year aimed at penalizing China for unfair trading practices. The decision by the four prominent senators to introduce legislation was widely interpreted as reflecting Congressional opinion that Paulson's strategy had failed to achieve the desired results.

### **The G-8 summit**

Both the United States and China unveiled plans for combating climate change on the eve of the Group of Eight (G-8) summit in Heiligendamm, Germany. While both countries opposed Germany's push for binding caps on greenhouse gasses emissions, Washington and Beijing continued to disagree on the degree of responsibility that emerging economies that are among the top emitters of greenhouse gasses should bear for reducing emissions. The U.S. plan calls for the 15 major industrialized nations to band together and set shared targets for cutting greenhouse gas emissions, but allows each nation to decide how to reach the global reductions goal. President Bush declared the U.S. intention to convene a series of meetings beginning later this year of the nations that produce most greenhouse gas emissions, including developing countries like India and China.

Briefing China's own plan a few days later, National Development and Reform Commission Chairman Ma Kai welcomed the U.S. proposal but cautioned that it should "complement" rather than "replace" the existing UN Framework Convention on Climate Change, including the Kyoto Protocol which excludes China and other developing countries from emissions caps. Ma explained that China would reduce greenhouse gas emissions through its drive to increase energy efficiency and reiterated the government's target that it set a year ago of reducing energy consumption per unit of economic output by 20 percent by 2010. "To ask the developing countries to lower emissions too early, too abruptly and too bluntly will hinder their development and hamper efforts to achieve industrialization and modernization," said Ma.

Chinese President Hu Jintao elaborated on China's carbon emissions reduction efforts in a speech delivered at the outreach session between the G-8 members and five major developing countries: China, India, Brazil, Mexico, and South Africa. He stressed that climate change should be tackled in the context of sustainable development and with the principle of "common but differentiated responsibilities" established in the UN framework that imposes the major burden for action on the industrialized countries. Hu called on the developed countries to meet the emission reduction targets set in the Kyoto Protocol, provide assistance to developing countries, and continue to take the lead in undertaking obligations to reduce emissions after 2012.

Climate change was one of four issues discussed by the G-8 + 5 sessions in Germany. The other issues were market access for investment, intellectual property right violations, energy security, and development in Africa. However, the joint statement only mentioned the latter four topics as planned for inclusion in high-level structured discussions within

the G-8 framework during the next two years. China and India, the second and fourth largest emitters of carbon dioxide, a major contributor to global warming, played a key role in keeping climate change off the action agenda.

The leaders of the eight countries agreed in the joint statement to “seriously consider” a proposal put forward by the EU, Canada, and Japan on reducing global emissions of greenhouse gasses by 2050 by at least 50 percent from 1990, and expressed the hope that all major greenhouse gas emitting countries will make efforts toward this end.

In a bilateral meeting on the margins of the G-8 summit, Hu echoed Wu Yi’s message during the SED that trade and economic issues should not be politicized. Hu also underscored the need to nurture strategic mutual trust and to correctly understand each other’s strategic intentions. On Taiwan – a topic that never goes unmentioned at high-level meetings between U.S. and Chinese officials – Hu urged the U.S. to “properly handle the Taiwan issue and jointly safeguard peace and stability in the Taiwan Strait,” according to China’s *Xinhua* news service. Privately, officials said that Hu pressed President Bush to take steps to prevent Taiwan President Chen Shui-bian from realizing his goal of holding a referendum calling for Taiwan’s entry into the UN under the name Taiwan. In the region and international security basket, the two presidents discussed the Iran nuclear issue, progress toward removing nuclear weapons from the Korean Peninsula, and the humanitarian crisis in Darfur, Sudan. President Bush endorsed the SED as the appropriate mechanism in which to resolve trade frictions.

### **Military ties make more progress**

The quarter opened with a visit to the U.S. by China’s navy chief, Vice Adm. Wu Shengli. At the Pentagon, Wu was hosted by Adm. Michael Mullen, chief of naval operations. Mullen encouraged Adm. Wu to consider Chinese participation in global maritime partnership initiatives, including the 1,000-ship navy, a concept that envisions a transnational network of navies, the shipping industry, and law enforcement agencies to respond to crises or emergencies at sea. Wu apparently expressed interest in the concept, which was first proposed at an international seapower symposium in 2005. Following talks at the Pentagon, Wu visited the Naval Academy and toured the aircraft carrier *USS Truman* in Norfolk.

Adm. Timothy Keating, who assumed the helm of U.S. forces in the Pacific in late March, made his first visit to China in early May. In Beijing, Keating met with Gen. Guo Boxiong, vice chairman of the Central Military Commission, and other senior military and foreign ministry officials. Among the topics discussed with Guo was China’s Jan. 11 test of an anti-satellite weapon. Guo termed the test a normal scientific experiment that had no serious consequences or ulterior motives and insisted that the test posed no threat to any other country and contributed only marginally to the amount of debris in orbit. Keating suggested that the test belied China’s stated intention to rise peacefully, noted that it had “military overtones . . . if not direct military application,” and produced a substantial amount of debris that poses a risk to other satellites.

In an interview with the *Voice of America*, Keating called for increasing U.S.-China military contacts, which he said would help lead to better understanding of each country's strategic intentions. While endorsing frequent U.S. demands for greater military transparency, Keating noted that by itself, transparency isn't sufficient. "The notion of transparency means we're watching and we can see through certain things. I would rather we engage, and we look each other in the eye and talk, more than just watch."

In a press roundtable at the U.S. Embassy after his discussions in Beijing, Keating revealed that he had had an in-depth conversation with Gen. Wu about aircraft carriers. Noting that China is "very intrigued by and interested in the concept of carrier program development," he said "we would, if they choose to develop [an aircraft carrier program] help them to the degree that they seek and the degree that we're capable in developing their programs." Keating's comments prompted much speculation about whether the offer of U.S. assistance was authorized and indeed whether any assistance would be legal under the 2000 National Defense Authorization Act (NDAA), which imposed highly restrictive controls on U.S. military exchanges with the PLA. PLA researchers were both skeptical and suspicious. Maj. Gen. Yang Chunchang of China's Academy of Military Sciences told the Chinese-run Hong Kong daily *Wen Wei Po* that he "was concerned about Keating's remarks." Many Chinese strategists are wary of U.S. efforts to gather intelligence about Chinese military capabilities through joint exercises and exchange visits.

The mainland Chinese press was upbeat in reporting on Keating's visit, but quoted unnamed experts as saying that "obstacles – including proposed U.S. *AMRAAM* and *Maverick* missile sales to Taiwan – would "prevent" bilateral military ties from "going forward." Keating also traveled to Nanjing where he visited military academies and Nanjing Military Region's 179<sup>th</sup> Brigade.

In early June at the annual Shangri-La Dialogue in Singapore, U.S. Secretary of Defense Robert Gates was relatively sanguine about U.S.-China relations, saying "As we gain experience in dealing with each other, relationships can be forged that will build trust over time." Perhaps with the statements in mind that his predecessor Donald Rumsfeld made two years earlier at the same forum questioning China's intentions in building up its military and claiming that China faces no threats to its security, Gates carefully distinguished between "capacity" and "intent." "I believe there is reason to be optimistic about the U.S.-China relationship," he stated. Gates noted U.S. concerns about the opaqueness of Beijing's military spending and modernization programs, but he did not dwell on these concerns and his tone was congenial rather than combative. In addition, Gates emphasized the need for dialogue to increase understanding and prevent miscalculation, citing the example of negotiations between Washington and Moscow during the Cold War.

China's military intelligence chief, Gen. Zhang Qinsheng – the highest-ranking Chinese military officer ever to attend the annual Asian security conference – insisted that China's strategic intent was purely defensive and that its declared \$45 billion defense budget was "true and authentic." He denounced the Pentagon's report on Chinese military power,

which was released the week prior to the opening of the conference, calling it a “product of the Cold War mindset.” Five years after the U.S. first proposed the establishment of a military hotline, Zhang said that China would finalize arrangements for a direct communication link with Washington in September during the next round of China-U.S. defense consultative talks.

During the discussion period following a presentation by Japanese Defense Minister Kyuma Fumio, Gen. Zhang expressed concern about the planned deployment of missile defense systems by the United States and Japan, noting that China is “worried that this kind of deployment would destabilize Asia and create uncertainty in terms of regional stability and peace.” Asked whether the U.S. would offer to cooperate with China in missile defense in the same way it has proposed missile defense cooperation with Russia, Gates told reporters, “I think if the Chinese were to express an interest in it we would certainly take it seriously.” He maintained that the missile defense systems under development are designed to thwart limited attacks by rogue states or terrorists, not to defeat a large-scale threat of the kind posed by the missile arsenals of Russia and China.

### **Tainted Chinese products cause friction**

At the end of last quarter, Chinese food safety standards were called into question when pet cats and dogs in the United States became ill and some died due to contamination of a vegetable protein used in animal foods imported from China. Melamine, a chemical toxin, was first found in wheat gluten and later was found to have contaminated rice protein concentrate used to make pet foods. A major pet-food recall ensued, adding friction to already tense U.S.-China trade relations.

Initially, Beijing denied any responsibility: “The poisoning of American pets has nothing to do with China,” maintained a report in *People’s Daily*. However, in late April China banned the use of melamine in vegetable proteins that are made for export or for use in domestic food. Beijing also grudgingly granted U.S. regulators permission to enter the country to investigate whether Chinese suppliers had exported contaminated pet food ingredients to the U.S.

Then in May, there were reports of alleged deaths in Panama last year caused by the use of industrial toxins in cough medicine exported from China. Charges followed that Chinese-made toothpaste was tainted, prompting the U.S. Food and Drug Administration to issue warnings. China’s General Administration of Quality Supervision, Inspection and Quarantine called the warnings “unscientific, irresponsible, and contradictory.”

With pressure growing from regulators in the U.S., Europe, and other parts of the world, China was compelled to act. A Chinese court handed down a death sentence against Zheng Xiaoyu, the head of China’s Food and Drug Administration from 1998 to 2005, after he pleaded guilty to bribery and corruption charges. On June 6, China released its first five-year plan to improve food-and-drug safety standards. The plan calls for increased inspections of food exports, improved procedures for recalling tainted products, more pollution monitoring in food-producing areas, as well as an improved structure for

monitoring – and blacklisting – food trading companies. According to the Chinese state-run media, the plan also aims to implement a system of special inspections for 90 percent of food producers. The government announced a target of 2010 for new controls on food and drug imports and exports and increased random testing on medicines. As with other policies in China, however, the major challenge will be enforcement.

Perhaps due to increased scrutiny, reports of defective Chinese products continued to surface. In mid-June, Chinese toys were recalled for safety violations such as lead paint, use of kerosene, and items that could cause a choking hazard. The revelation that every one of the 24 toys recalled for safety reasons in the U.S. so far this year was manufactured in China harmed China's reputation with American parents. Then the U.S. National Highway Traffic Safety Administration ordered Foreign Tire Sales Inc., a small importer in New Jersey, to recall as many as 450,000 tires that it bought from a Chinese manufacturer and sold to U.S. distributors. Apparently the tires were missing gum strips that prevent layers of tire tread from separating due to wear and tear.

Worried that the made-in-China label could become seriously damaged in China's most important export market, Chinese officials embarked on an education campaign, briefing reporters and distributing fact sheets that maintained that tainted Chinese products represent only a miniscule portion of the country's sales to the U.S. and should not be exaggerated. At the same time, the Chinese government took tit-for-tat retaliatory actions against health supplements, raisins, orange pulp, and dried apricots from the U.S., claiming that they did not meet Chinese safety standards. By the end of the quarter, concerns mounted that the uproar over tainted Chinese imports could merge with tensions over the U.S. trade deficit with China and complicate attempts to resolve differences.

### **Strategic discussions in the Senior Dialogue**

The fourth round of the U.S.-China Senior Dialogue was held in Washington D.C. and the Wye River Conference Center in Maryland on June 20-21. The U.S. called the talks between Deputy Secretary of State John Negroponte and Executive Vice Foreign Minister Dai Bingguo "constructive and frank." The talks were wide ranging and included discussion of denuclearization of the Korean Peninsula, curbing Iran's pursuit of nuclear weapons capability, the humanitarian crisis in Darfur, establishment of a peace and security mechanism in Northeast Asia, human rights, climate change, energy security, Taiwan, combating the spread of weapons of mass destruction, and bilateral China-U.S. relations. The two sides also reviewed sub-dialogues, including those held this year on Africa, the Middle East, Central and South Asia, and Northeast and Southeast Asia.

*Xinhua* reported that both sides agreed to further broaden common interests, facilitate exchanges and cooperation on the basis of equality and mutual respect, and enhance strategic mutual trust to ensure a sound and steady development of bilateral relations. In addition, *Xinhua* emphasized U.S. and Chinese agreement that the Taiwan issue should be handled properly to safeguard peace and stability across the Taiwan Strait and the



overall bilateral relationship. Both sides agreed to hold the next round of strategic dialogue in Beijing before the end of this year.

During his visit, Dai Bingguo met with Secretary of State Rice and Assistant to the President for National Security Affairs Stephen Hadley. Dai also attended a dinner with the top foreign policy advisers of leading U.S. presidential candidates that was arranged by John Hamre, president of the Center for Strategic and International Studies.

### **Keeping relations stable**

In the run-up to the 17<sup>th</sup> Party Congress this fall, China is especially keen to keep U.S.-China relations on an even keel. Containing friction over trade will pose a challenge, however, as many U.S. lawmakers look to use legislation to compel steps by Beijing to revalue its currency or punish it for failing to act. China will also have to grapple with persisting concern about the safety of its food and consumer products, not only in the U.S., but also in its other export markets as well as domestically.

High-level bilateral exchanges will slow during the summer. In September, Chinese Foreign Minister Yang Jiechi will visit Washington D.C. after attending the United Nations General Assembly in New York. That same month, U.S. and Chinese defense officials will plan an agenda of military exchanges for the coming year and hold discussions on security issues of common concern at the defense consultative talks. A visit by Wu Bangguo, chairman of the Standing Committee of China's National People's Congress, is tentatively scheduled for the fourth quarter.

## **Chronology of U.S.-China Relations April-June 2007\***

**April 1-6, 2007:** A senior PLA Navy delegation led by Navy Commander Vice Adm. Wu Shengli meets officials at Pacific Command in Hawaii and in Washington, DC, including Commander of U.S. Pacific Forces Adm. Timothy Keating and Chairman of Joint Chiefs of Staff General Peter Pace. The delegation also visits the U.S. Naval Academy.

**April 5, 2007:** Chairman of Chinese National People's Congress Wu Bangguo meets with a visiting U.S. Congress delegation organized by the Aspen Institute.

**April 6-9, 2007:** Chinese Assistant Foreign Minister Zhai Jun visits Sudan as a special envoy of the Chinese government.

**April 7, 2007:** Chinese Foreign Minister Li Zhaoxing talks to Secretary of State Condoleezza Rice over the phone on China-U.S. relations and other issues of mutual concern.

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\* Chronology by CSIS intern Wang Liang.

**April 7, 2007:** China's Foreign Ministry spokesman repudiates criticism of China's human rights situation in the U.S. Department of State's *Supporting Human Rights and Democracy: The U.S. Record 2006* as "groundless and slanderous."

**April 9, 2007:** Chinese Depute Foreign Minister Dai Bingguo talks to U.S. Deputy Secretary of State John Negroponte over the phone and exchanges views on Darfur.

**April 9, 2007:** Chinese Assistant Foreign Minister He Yafei receives a delegation from the U.S. House Armed Services Committee led by Chairman Soloman Ortiz.

**April 9, 2007:** The U.S. files WTO cases against China over deficiencies in China's intellectual property rights laws and market access barriers to copyright-based industries. China expresses strong regret and dissatisfaction over the U.S. decision, saying it will "seriously damage" bilateral cooperation and harm business ties.

**April 11, 2007:** Ambassador Andrew Natsios, President Bush's special envoy to Sudan, tells the Senate Foreign Relations Committee that China is increasingly cooperating with the U.S. to help end the violence in Sudan's Darfur region.

**April 12-20, 2007:** U.S. Environmental Protection Agency (EPA) Assistant Administrator Granta Nakayama visits China and signs a letter of intent to facilitate cooperation in improving the quality of farm chemicals with the Ministry of Agriculture. He also meets officials from the State Environmental Protection Administration and General Administration of Quality Supervision, Inspection and Quarantine.

**April 13, 2007:** Visiting U.S. Secretary of Transportation Mary Peters says in Beijing that the U.S. expects to reach an open skies agreement with China.

**April 13-15, 2007:** Assistant Secretary of State Christopher Hill travels to Beijing to discuss issues related to the Six-Party Talks with Chinese and North Korean counterparts. North Korea misses April 14 deadline for closing its Yongbyon nuclear reactor.

**April 15, 2007:** During a visit to Guam, Adm. Timothy Keating says tensions over Taiwan are a factor in the U.S. military build-up on Guam, but adds that Washington is working hard to ensure hostilities do not erupt in the Taiwan Strait.

**April 16, 2007:** A daylong meeting of the U.S.-China Joint Economic Committee is held.

**April 16, 2007:** Chinese Assistant FM He receives a delegation led by GOP Rep. Michael Conaway.

**April 17, 2007:** U.S. Defense Department delegation led by General Counsel William Haynes visits Beijing and meets PLA officials including Director of the General Political Department Li Jinai.

**April 18, 2007:** President Hu Jintao sends a telegram to U.S. President Bush to express China's condolences over the shooting at Virginia Tech.

**April 23, 2007:** China gives U. S. Food and Drug Administration permission to enter China to investigate whether Chinese suppliers exported contaminated pet food ingredients to the U.S.

**April 24, 2007:** Adm. Timothy Keating testifies before Senate Armed Services Committee.

**April 24, 2007:** Chinese Vice Premier Wu Yi says that China will "fight to the end" against the U.S. complaint to the WTO over intellectual property rights.

**April 25, 2007:** Chinese Assistant FM He receives visiting U.S. Assistant Secretary for Economic, Energy, and Business Affairs Daniel Sullivan. The two sides exchange opinions on China-U.S. trade relations and the China-U.S. Strategic Economic Dialogue.

**April 25, 2007:** Chinese Ambassador to the U.S. Zhou Wenzhong announces that Tai Shan, the giant panda cub, will stay at the Washington Zoo for two more years as an envoy of goodwill from the Chinese people and as a symbol of friendly cooperation between China and the U.S.

**April 26, 2007:** Data from the Council of Graduate Schools shows that applications from Chinese students for admission to U.S. graduate schools have risen 17 percent. China is the second leading country of origin for international students in U.S. graduate schools with 62,582 students.

**April 27, 2007:** China names Yang Jiechi, former ambassador to the U.S., foreign minister.

**April 27, 2007:** American Chamber of Commerce releases White Paper saying that an attempt by the U.S. Congress to force China to revalue its currency by imposing punitive tariffs on Chinese exports would be counterproductive and do nothing to redress the trade imbalance.

**April 27, 2007:** Five Americans are expelled from China after staging an illegal "Free Tibet" demonstration at Mount Everest base camp.

**April 28, 2007:** Chinese Vice FM Dai Bingguo and the Deputy Secretary Negroponte discuss the Darfur issue and the Six-Party Talks by phone.

**May 1, 2007:** Deputy Secretary Negroponte tells the House Committee on Foreign Affairs that "the United States is seeking real partnership with 'a prosperous China' that is stable, respectful of its citizens' rights and at peace with its neighbors."

**May 2, 2007:** Representatives from China, the United States, Britain, France, Russia and Germany meet in Paris to discuss the Iran nuclear issue.

**May 4, 2007:** Chinese FM Yang Jiechi and Secretary Rice meet on the sidelines of the meeting in Egypt to launch the International Compact for Iraq.

**May 8, 2007:** The Chinese Foreign Ministry expresses “strong dissatisfaction” and “firm opposition” to a report produced by the United States Commission on International Religious Freedom (USCIRF) on the religious situation in China.

**May 9, 2007:** Presidents Hu and Bush talk over phone about the upcoming China-U.S. Strategic Economic Dialogue, climate change, and the DPRK nuclear issue.

**May 9, 2007:** Chinese trade delegation led by Vice Minister of Commerce Ma Xiuhong signs 27 contracts in California to buy \$4.3 billion worth of technology products.

**May 9, 2007:** A 19-member delegation from the U.S. National Defense University Capstone Program, headed by Gen. William Nyland (ret.), arrives in China for a five-day visit, during which they traveled to Beijing, Chongqing, and Nanchang.

**May 10, 2007:** U.S. court finds Chi Mak, a Chinese-born engineer, guilty of conspiring to export sensitive defense technology to China.

**May 10, 2007:** More than 100 U.S. congressmen sign a robustly worded letter calling on President Hu to take immediate action to stop bloodshed in Darfur, Sudan.

**May 10-14, 2007:** Adm. Timothy Keating visits China for the first time since becoming head of Pacific Command. At the invitation of Guo Boxiong, vice chairman of the Central Military Commission of China, Keating meets Zhang Qinsheng, deputy chief of the General Staff of the PLA and Vice Foreign Minister Zhang Yesui in Beijing. Keating also visits military institutions and bases in Nanjing.

**May 11, 2007:** The Chinese Ministry of Labor and Social Security releases a report that predicts around 3.5 million workers will become unemployed and at least 10 million farmers will be affected if the yuan were to appreciate another 5 to 10 percent.

**May 14, 2007:** Hollywood director Steven Spielberg sends a letter to President Hu calling on China to pressure Sudan to accept UN peacekeepers.

**May 15-20, 2007:** The PLA Navy frigate *Xiangfan* joins the Western Pacific Naval Symposium joint exercise in Singapore together with 14 warships from 12 countries including the United States, Japan, Australia, South Korea, and India.

**May 16, 2007:** A Chinese trade delegation led by Vice Minister of Commerce Ma signs agreements with U.S. companies at the Chicago Board of Trade to buy 5.76 million tons of soybeans worth \$2.07 billion.

**May 17-18, 2007:** Chinese Assistant FM Li Hui meets Assistant Secretary of State for South and Central Asian Affairs Richard Boucher in Washington to discuss Central Asian issues under the senior dialogue framework.

**May 18, 2007:** Members of the Senate Finance Committee send a letter to China's Vice Premier Wu Yi urging resolution of key trade and economic issues at the Strategic Economic Dialogue.

**May 19, 2007:** The Chinese government announces that it has invested \$3 billion with the Blackstone Group, a U.S.-based private equity firm.

**May 21-22, 2007:** A U.S. labor union delegation visits China to meet Chinese officials from the All China Federation of Trade Unions ending a long boycott on dealing with China's state-controlled labor federation. The group is also received by Jia Qinglin, Chairman of Chinese People's Political Consultative Conference.

**May 21, 2007:** China and the U.S., together with Russia, Japan and France, agree to a joint statement on nuclear nonproliferation cooperation at the Global Nuclear Energy Partnership (GNEP) meeting in Washington, DC.

**May 22-24, 2007:** Second U.S.-China Strategic Economic Dialogue held in Washington. It concludes with agreements on financial services, aviation, and energy cooperation.

**May 22-25, 2007:** U.S. Navy destroyer *Stethem* (DDG-63) makes a ship visit to Qingdao and holds a joint exercise with the PLA Navy destroyer *Qingdao*.

**May 23, 2007:** U.S. FDA announces that it will begin testing samples of all toothpaste imported from China after the discovery that some Chinese manufacturers used a poisonous ingredient in toothpaste sold in Panama, the Dominican Republic, and Australia. China's General Administration of Quality Supervision, Inspection, and Quarantine calls the warning "unscientific, irresponsible and contradictory."

**May 24, 2007:** President Bush receives Vice Premier Wu Yi in the White House after the second Strategic Economic Dialogue. Wu also meets Senate Majority leader Harry Reid, House Speaker Nancy Pelosi, members of the House Financial Services Committee, and other members of the Congress.

**May 25, 2007:** Pentagon releases annual report to Congress on China's military power. Chinese Foreign Ministry expresses "strong dissatisfaction and resolute objection."

**May 30, 2007:** U.S. Commerce Department announces additional preliminary duties of up to 99.65 percent on imports of glossy paper from China, on top of smaller duties imposed earlier.

**May 30, 2007:** The Organization Department of the Central Committee of the Chinese Communist Party signs a memorandum of understanding on personnel training with General Electric. The deal includes a plan for GE to train selected Chinese business executives from 2008-2010.

**May 30-31, 2007:** Assistant Secretary of State Christopher Hill visits Beijing and discusses the Six-Party Talks and the Sino-U.S. relations with counterpart Vice FM Wu Dawei and Assistant FM He Yafei.

**June 1, 2007:** U.S. Department of State issues a statement on the 18<sup>th</sup> anniversary of the Tiananmen Square massacre calling for “the Chinese government to move forward with a reexamination of Tiananmen, to release all Tiananmen era prisoners, and to cease harassment of the families of victims of Tiananmen.”

**June 2, 2007:** Zhang Qinsheng, deputy chief of the PLA General Staff, attends Sixth Shangri-La Dialogue in Singapore.

**June 5-8, 2007:** Chinese and U.S. negotiators hold first round of WTO talks on copyright issues in Geneva.

**June 5, 2007:** President Bush meets with Chinese Muslim dissident Rebiya Kadeer in Prague. China condemns the action as “a blatant interference in China’s internal affairs.”

**June 8, 2007:** Presidents Bush and Hu meet on the sideline of the G-8 Summit in Heiligendamm, Germany.

**June 8, 2007:** Chinese General Administration of Quality Supervision, Inspection, and Quarantine announces that certain health supplements and raisins imported from the U.S. have failed to meet Chinese safety standards and have been returned or destroyed.

**June 6-9, 2007:** Chinese National People’s Congress delegation led by Vice Chairman Sheng Huaren visits Washington and attends the 4th meeting of the parliamentary exchange between the United States and China. The delegation is received by Vice President Dick Cheney.

**June 12, 2007:** U.S. State Department releases its 2007 Trafficking in Persons Report. China stays in the Tier 2 Watch List for the third year and is criticized for its policies on North Korean refugees.

**June 13-18, 2007:** Commissioner for U.S. Customs and Border Protection in the Department of Homeland Security W. Ralph Basham, visits Hong Kong and Beijing. In Beijing, he signs a memorandum of cooperation with China’s Custom’s Minister Wu Xinsheng on counterfeiting products and meets officials from the Chinese Ministry of Public Security, Ministry of Commerce and Ministry of Foreign Affairs.

**June 14, 2007:** The U.S.-China Economic and Security Review Commission holds a hearing on “China’s Energy Consumption and Opportunities for U.S.-China Cooperation to Address the Effects of China’s Energy Use.”

**June 14-15, 2007:** The sixth meeting of Joint Liaison Group between China and the U.S. on law enforcement cooperation is held in Beijing. The meeting addresses law-enforcement issues concerning the fight against corruption, cyber crime, fugitive matters, human smuggling, intellectual property, mutual legal assistance, and repatriation.

**June 15, 2007:** U.S. Commerce Department tightens regulations on aircraft engines, high-performance computers, and other technology exports to China of that have possible military uses. Some 31 products are added to a list that requires special export licenses.

**June 18, 2007:** Assistant Secretary Hill visits Beijing and meets Vice FM Wu Dawei to discuss the Six-Party Talks.

**June 18, 2007:** Two Major League Baseball teams, the New York Yankees and the Seattle Mariners, sign four Chinese baseball players.

**June 18, 2007:** A petition is filed with the U.S. Department of Commerce and the International Trade Commission requesting the imposition of a combination of U.S. countervailing and dumping duties on Chinese off-the-road tires.

**June 19, 2007:** U.S. Deputy Secretary of Treasury Robert Kimmitt visits Beijing and meets Gov. Zhou Xiaochuan of the People’s Bank of China, and other officials on bilateral investment issues.

**June 20-21, 2007:** The fourth round of the Senior Dialogue is held in Washington D.C. Deputy Secretary of State John Negroponte and Chinese Vice Minister Dai Bingguo hold talks on a broad range of bilateral and international issues.

**June 25, 2007:** The U.S. National Highway Traffic Safety Administration orders Foreign Tire Sales Inc., a tire importer, to recall as many as 450,000 tires that it bought from a Chinese manufacturer and sold to U.S. distributors. The Chinese tire maker, the Hangzhou Zhongce Rubber Company, rejects U.S. charge of defects.

**June 26, 2007:** China arranges meeting between a U.S. delegation led by Deputy Assistant Secretary of State for East Asian and Pacific Affairs Eric John and a Myanmar delegation led by Information Minister Kyaw San and Foreign Minister Nyan Win in Beijing. They discuss human rights issues including the detention of Aung San Suu Kyi.

**June 28, 2007:** The U.S. Food and Drug Administration announces it will block imports of farm-raised catfish, basa, shrimp, dace, and eel from China unless they are proven free of illegal antibiotics and chemicals.

**June 28, 2007:** Minister Li Changjiang of the General Administration of Quality Supervision, Inspection, and Quarantine meets U.S. Ambassador to China Clark Randt Jr. in Beijing. Randt presents a letter on U.S. beef exports to China written by U.S. Trade Representative Susan Schwab and Secretary of Agriculture Mike Johanns.

**June 29, 2007:** Minister Li Changjiang of the General Administration of Quality Supervision, Inspection, and Quarantine holds a telephone conference with U.S. FDA officials on its import controls on fish products from China.





U.S.-Korea Relations:  
**Finally Progress on the Feb. 13 Joint Agreement**

Donald G. Gross  
The Atlantic Council of the United States

Concerted efforts by the U.S., China, South Korea, and Russia in mid-June finally overcame “technical problems” and led to the return of approximately \$25 million in frozen funds to North Korea. After helping to break this logjam, U.S. chief envoy to the Six-Party Talks Christopher Hill traveled to Pyongyang for meetings with the DPRK foreign minister and chief delegate to the Six-Party Talks.

Hill strived to accelerate North Korea’s compliance with the Feb. 13, 2007 joint agreement by urging Pyongyang to quickly accept inspectors from the International Atomic Energy Agency (IAEA), shut down its nuclear facilities, and participate in a new round of nuclear negotiations in July. Hill’s meetings were the highest level of U.S. bilateral contacts with North Korea’s regime since October 2002.

The U.S. and South Korea signed the free trade agreement (FTA) at the end of the quarter, just one day before President Bush’s “fast track” authority to negotiate trade agreements expired. Despite the positive notes struck by U.S. and Korean trade officials, however, Democratic Congressional leaders immediately announced they would oppose the FTA because it adversely affected U.S. auto manufacturers and workers. Democrats, who control Congress following the 2006 mid-term elections, are likely to block ratification of the FTA unless the Bush administration undertakes a strong lobbying effort in the coming months.

**Resolving the BDA issue**

From the beginning of April through early June, U.S. diplomats struggled with transferring approximately \$25 million in North Korean funds held in a Macau bank to Pyongyang. The Banco Delta Asia (BDA) originally froze these funds at the request of the U.S. Treasury in the fall of 2005, because the monies were reportedly derived from counterfeiting and other illegal activities. When North Korea entered into the Feb. 13, 2007 joint agreement to shut down its reactors, the U.S. provided an explicit though unstated *quid pro quo* to facilitate return of the seized monies.

At the time that Ambassador Hill made this promise, he could not have anticipated the difficulties in transferring the funds. As he put it at the last round of Six-Party Talks in March, the “political will” to return the funds to North Korea existed among all the parties but “technical difficulties” prevented its immediate implementation.

As diplomats quickly ascertained, virtually all international banks refused to be conduits for monies associated with North Korea’s counterfeiting and money-laundering. Reportedly, Hill and other U.S. diplomats spent much of April and May making “cold calls” to U.S. and other financial institutions, seeking unsuccessfully to arrange a pipeline for returning the North Korean funds.

While the funds issue was percolating and holding up the next round of Six-Party Talks, U.S. Ambassador to the ROK Alexander Vershbow sent two important diplomatic signals in the first half of May. He first attempted to curb Seoul’s enthusiasm for moving ahead on bilateral relations with Pyongyang while the BDA funds issue remained unresolved and while Pyongyang was unwilling to move ahead on the nuclear negotiations. Vershbow chided Seoul saying that its engagement policy should run at the same pace as North Korea’s participation in the denuclearization process described in the Feb. 13 agreement. In spite of the U.S. ambassador’s intervention, South and North Korean officials worked feverishly to arrange for two trains to cross the Demilitarized Zone (DMZ) in mid-May for the first time since the Korean War.

Vershbow made a second important statement May 9, more in line with Seoul’s political aspirations and current policy direction. He suggested that even before President George W. Bush left office in early 2009, it might be possible to negotiate a new peace treaty for the Korean Peninsula that would replace the 1953 Armistice Agreement.

Despite Vershbow’s efforts to put the nuclear negotiations in a larger political context, North Korea was publicly unimpressed. On June 1, Pyongyang reaffirmed that it rejected any further steps to implement the Feb. 13 denuclearization agreement until it received back in full the \$25 million in funds frozen in the Macau bank.

Concerted efforts by the U.S., China, South Korea, and Russia led finally on June 17-19 to the return of North Korean funds at the BDA to Pyongyang, via a Russian commercial bank. North Korea had insisted on obtaining the monies through normal banking channels to reaffirm its access to the international financial system. In response, North Korea announced that it would allow IAEA inspectors to enter the country, as a means of implementing the Feb. 13 joint agreement.

The White House praised the announcement, saying “this is a good step. Now we can hopefully continue on the path set out in the agreed Feb. 13 framework that will lead to a nuclear-free Korean Peninsula.”

## **Ambassador Hill travels to Pyongyang**

Resolution of the long-standing BDA issue led to an apparently quick decision by Ambassador Hill to visit Pyongyang on June 21 for two days of talks with North Korean officials. The very fact of the visit – the first by a ranking U.S. ambassador since October 2002 – had critical significance since it demonstrated U.S. willingness to deal directly with North Korea, as Pyongyang has long demanded.

When Hill later traveled to South Korea for meetings with Foreign Ministry officials, he gave an upbeat review of his discussions in Pyongyang, saying “the talks were very detailed, very substantive, useful, and positive.” He said that based on his meetings with North Korea’s ambassador to the Six-Party Talks, Kim Gye-gwan, and Foreign Minister Pak Ui-chun, North Korea was prepared to promptly shut down its nuclear facilities consistent with its commitment in the Feb. 13 agreement.

During his press conference in Seoul, Hill underscored the U.S. intention to achieve a “comprehensive solution” of outstanding issues with North Korea, as referenced in the Feb. 13 agreement and the September 2005 statement of principles. Such a comprehensive solution could prospectively include a variety of measures:

- a denuclearization agreement;
- a new peace agreement that replaces the 1953 Armistice;
- a regional multilateral security mechanism;
- normalization of U.S.-North Korea relations; and
- a Japan-North Korea agreement.

North Korea gave its own assessment of talks with Ambassador Hill on June 23 in a Foreign Ministry statement that said that the discussions held by Washington and Pyongyang “were comprehensive and very productive.” The statement added that the two governments “agreed to consider the possibility of opening a meeting of six-party chief delegates in early July and a six-party foreign ministerial meeting on the sidelines of the ASEAN Regional Forum, which will be held in the Philippines in early August, and cooperate to achieve those goals.”

A North Korean Foreign Ministry spokesman also confirmed that Pyongyang would respect the wishes of U.S. Treasury Department officials who urged in March that any frozen funds obtained from the BDA be used for humanitarian purposes. He said that “the released money is planned to be used to improve the livelihood of the people and other humanitarian purposes as agreed” with the U.S.

After traveling from Seoul to Tokyo to brief Japanese officials, Hill stressed that the U.S. “really thinks this is the time to pick up the pace” in implementing the Feb. 13 joint agreement. He said that Washington expects Pyongyang to shut down its main reactor approximately three weeks after North Korea and IAEA nuclear inspectors agree on monitoring procedures. At that point, under the Feb. 13 agreement, North Korea would

receive 50,000 tons of heavy fuel oil which would be supplied by South Korea at a cost of approximately \$21 million.

For his part, South Korean President Roh Moo-hyun chose to highlight the broader significance of North Korea's decision to begin shutting down its nuclear facilities. He pointed out that "North Korea's denuclearization pledge will become an important milestone leading to permanent peace on the peninsula and a multilateral security structure for Northeast Asia. Sustained peace on the peninsula would eventually make possible an overland road trip from South Korea to the North, China and Russia, opening a new horizon for the Korean economy."

Despite the political breakthroughs in implementing the six-party agreement, the quarter came to an end on a sour note. On June 27, North Korea conducted its third short-range missile test in approximately 30 days. The White House National Security Council spokesman Gordon Johndroe, on the same day, said the U.S. was "deeply troubled" by the repeat missile launches and urged North Korea to refrain from activities that destabilized the region.

### **Ups and downs for KORUS**

In early May, the U.S.-Korea Free Trade Agreement (KORUS) ran headlong into the new reality of Democratic Party control of Congress, following the November 2006 elections. Congressional leaders, led by Speaker of the House Nancy Pelosi, pushed hard and obtained Bush administration support for new "trade policy guidelines" for environmental and labor rights that must be included in all pending and future U.S. trade agreements.

Under the new guidelines, South Korea would have to agree to the following:

- Adopting and enforcing laws that abide by basic international labor standards that are outlined in a 1998 declaration of the International Labor Organization.
- Incorporating commitments to labor rights in the body of the free trade agreement, rather than in the usual form of a side agreement.
- Adopting and enforcing laws that implement a number of key multilateral environmental agreements.
- Taking steps that make it easier for poor people to obtain access to cheaper generic drugs.

Shortly after Congressional and administration officials announced the new guidelines, Ambassador Vershbow stressed in Seoul the need for South Korea to incorporate these requirements. He said that "we need to work together in the coming weeks. Both of us, global leaders in terms of labor and environmental standards, can find a way to reflect a strong commitment to these standards."

Although the new U.S. policy applied broadly to current trade negotiations and agreements with Peru, Panama, and Colombia as well as South Korea, Korean officials initially rejected the idea of “renegotiating” the FTA. Trade Minister Kim Hyun-chong initially told Vershbow that such a renegotiation would be “impossible.” Even more emphatically, chief South Korean negotiator Kim Jong-hoon said “if the U.S. demands South Korea renegotiate to reflect its unilateral view, we could break down the agreement. We couldn’t one-sidedly accept a request to renegotiate the agreement that already reflects the balance of interests.”

Three days later, on May 18, chief negotiator Kim announced a change in position, after intervention by South Korea’s Blue House. Kim said “if the U.S. officially asks for renegotiation of the South Korea-U.S. FTA, we will thoroughly consider whether the proposal has an aspect of reflecting interests on both sides.”

The result of final negotiations in Seoul that began June 21 was not surprising, given the strong desire of President Roh to achieve the FTA as a main element of his legacy. South Korea accepted the U.S. demands to include new policy guidelines in the FTA. Prime Minister Han Duck-soo justified the South Korean decision on two grounds. For one thing, he said, “if the amendments aren’t reflected in the agreement, the South Korea-U.S. FTA may not be endorsed by the U.S. Congress.” Additionally, he pointed out, in accepting the new policy guidelines, Korean negotiators were able to “block further requests by the U.S. Congress on automobiles, rice, and other items.”

On June 30, one day before President Bush’s “fast-track” authority to negotiate trade agreements expired, the U.S. and South Korea officially signed their FTA in Washington. U.S. Trade Representative Susan Schwab struck a positive note when she said that “America’s economic future depends heavily on more free trade agreements like the one we are signing today with Korea.”

However, signs that the FTA faced an uncertain fate in both Korea’s National Assembly and the U.S. Congress were fully evident on the day of signing. In Seoul, thousands of farmers and workers marched and chanted anti-FTA slogans, apparently not mollified by government promises of assistance to economic sectors that could be hurt by U.S. imports.

In Washington, Speaker Pelosi and other House Democratic leaders issued a public statement opposing the FTA. They said that “Unfortunately, the [FTA] as currently negotiated is a missed opportunity. We cannot support the [FTA] as currently negotiated.” House Democrats are particularly upset that the FTA, as signed, does not sufficiently open the Korean market to U.S. automobiles at the same time as it eliminates U.S. tariffs on Korean-made cars and pick-up trucks.

## Prospects

The Six-Party Talks are once again moving forward, after overcoming the unexpectedly difficult problem of transferring frozen bank funds back to North Korea. Mired in Iraq, the U.S. administration is seeking a diplomatic “win” in these negotiations. North Korea increasingly appears to want a settlement as well – although it likely will resist pressure to give up the nuclear material it has already produced. It is hard to believe that late last year, North Korea defied the world by exploding a nuclear device and the Six-Party Talks appeared destined to fail.

In statements issued following Ambassador Hill’s visit to Pyongyang, both the U.S. and North Korea referred to seeking a “comprehensive” solution of issues taken up in the Six-Party Talks. Along with denuclearizing North Korea, these issues include: 1) achieving a permanent peace arrangement for the Korean Peninsula that replaces the 1953 Armistice; 2) establishing a multilateral security mechanism in Northeast Asia; 3) resolving bilateral U.S.-North Korea disputes leading to normalization of relations; and 4) striving for a resolution of outstanding conflicts between Japan and North Korea.

Clearly, the U.S. would not be willing to move forward significantly on these additional issues until North Korea has frozen its nuclear facilities and is proceeding down the path of denuclearization. Once that occurs, however, parallel negotiations on these other important issues could lead to an even bigger negotiating breakthrough than occurred in the 1994 Agreed Framework.

The U.S.-Korea FTA has encountered serious obstacles in the U.S. Congress that, left unaddressed, will block ratification of this agreement. The most critical issue is the automobile sector, where Michigan members of Congress, with the support of organized labor, have the backing of Speaker Pelosi and other Democratic leaders. Sen. Hillary Clinton has also voiced opposition to this agreement, as currently drafted. Although members of Congress publicly call for greater opening of South Korea’s auto sector, their core concern is reportedly USTR’s decision to give up tariff protection for U.S. autos, particularly a 25 percent tariff on imports of pick-up trucks.

The Bush administration will have to undertake a strong lobbying effort on Capitol Hill to achieve ratification of the U.S.-Korea FTA. In so doing, it would be well advised to reach an accommodation with Michigan members and representatives of organized labor that compensates for any negative impact of the FTA on the U.S. automobile sector.

## **Chronology of U.S.-Korea Relations**

### **April-June 2007**

**April 1, 2007:** U.S. and South Korea concludes free trade agreement.

**April 26, 2007:** The second ROK-U.S. Consultations on Reconstruction and Stabilization is held to share experiences with providing emergency relief and reconstruction assistance for countries hit by natural disasters.

**May 4, 2007:** U.S. Ambassador to South Korea Alexander Vershbow says South Korea's policy of engagement with North Korea should keep pace with denuclearization process.

**May 9, 2007:** Amb. Vershbow says a peace treaty ending the Korean War could be negotiated before President George W. Bush's term ends.

**May 10, 2007:** Washington announces new trade policy that incorporates labor, the environment, and intellectual property rights protection.

**May 11, 2007:** ROK Trade Minister Kim Hyun-chong tells Amb. Vershbow that FTA renegotiations would be "impossible."

**May 15, 2007:** Amb. Vershbow says the U.S. seeks to revise U.S.-Korea FTA based on new U.S. trade policy guidelines that call for higher labor and environmental standards.

**May 16, 2007:** Chief South Korean FTA negotiator Amb. Kim Jong-hoon tells *Yonhap News* in a phone interview that "if the U.S. demands South Korea renegotiate to reflect its unilateral view, we could break down the agreement. We couldn't one-sidedly accept a request to renegotiate the agreement that already reflects the balance of interests."

**May 16, 2007:** Washington presents Seoul with specific text based on the new trade policy guidelines incorporating labor and environment concerns and a request to hold additional bilateral consultations in the later half of June.

**May 17, 2007:** North and South Korea do a test-run of linked train lines. To do the test, South Korea agreed to supply the North with \$80 million of aid to develop light industry.

**May 18, 2007:** South Korea says it will "thoroughly consider" the U.S. request for renegotiation of the FTA.

**May 22, 2007:** PM Han Duck-soo says that Korea will not renegotiate the FTA even if requested by the U.S., however further talks are possible as "additional negotiations."

**May 25, 2007:** The full text of the U.S.-Korea FTA is released.

**May 29-June 6, 2007:** Korean and U.S. FTA delegations meet in Washington to complete the legal review process of the FTA text.

**June 1, 2007:** North Korea rejects implementing the Feb. 13 denuclearization agreement until the BDA dispute is resolved.

**June 7, 2007:** North Korea conducts a short-range missile test off its western coast.

**June 8, 2007:** The 13<sup>th</sup> Security Policy Initiative is held in Seoul. Topics covered relocation of U.S. bases and transfer of wartime control from the U.S. to South Korea.

**June 19, 2007:** Ambassador Hill says BDA funds have been transferred to North Korea.

**June 19, 2007:** ROK FM Song Min-soon and Secretary Rice consult by phone over the North Korean nuclear issue and the KORUS FTA.

**June 19, 2007:** Seoul holds inter-agency ministers' meeting to discuss the ROK's position on Washington's proposal based on new U.S. trade policy guidelines.

**June 21-22, 2007:** U.S. head nuclear talks envoy Amb. Hill visits Pyongyang and has discussions on "all aspects of the six-party process" with DPRK Foreign Minister Pak Ui-chan and nuclear talks counterpart Kim Gye-gwan.

**June 21-22, 2007:** U.S. and South Korean negotiators begin talks in Seoul to negotiate additional FTA proposal submitted by the U.S.

**June 22, 2007:** Amb. Hill announces in Seoul that North Korea has reaffirmed its willingness to shut down its nuclear reactor under the Feb. 13 agreement.

**June 25, 2007:** North Korea announces that it has received funds from the BDA accounts.

**June 26-29, 2007:** IAEA inspectors visit the Yongbyon nuclear facility and the under construction facility in Taechon in North Korea.

**June 27, 2007:** A White House spokesman says the U.S. is "deeply troubled" by repeated North Korean short-range missile tests, which occurred on May 25, June 7, and June 27.

**June 29, 2007:** South Korean PM Han Duck-soo says Korea has accepted new U.S. labor and environmental standards in the FTA, to further U.S. congressional ratification.

**June 30, 2007:** U.S. and South Korean officials sign the FTA in Washington despite threat from Democratic Congressional leaders to oppose ratification of the agreement.

**July 2, 2007:** At a forum in Seoul, Gen. Burwell Bell, commander of U.S. Forces Korea, comments that North Korea remains a threat despite its move toward dismantling their nuclear program.





**U.S.-Russia Relations:  
Death of the 1990s**

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The summit meeting at Kennebunkport, Maine between Presidents George W. Bush and Vladimir Putin was meant to smooth over the harsh rhetoric bandied about between Moscow and Washington over the past several months. The primary points of contention are similar to past controversies, namely defense issues in Eastern Europe and Eurasia, as well as political developments in Russia. But in fact, the Kennebunkport summit may have signified something much more profound: the death of the bilateral relationship of the 1990s. In this case the death was both literal (with the passing of Boris Yeltsin) and figurative, given Russia's economic and political resurgence and the United States' reeling international image.

The 1990s marked the nadir of Russia's international standing. Few in Russia look wistfully back on the days of economic and political chaos in that country. GDP declined by 50 percent between 1991 and 1995, unbridled NATO expansion took place along Russia's western borders, and the bilateral relationship was viewed by most in Russia as one in which the U.S. was clearly the dominant partner. The perception was that every time Washington told Moscow to jump, the response was: "How high?" Now, Vladimir Putin, flush with cash, possessing undisputed political power at home, and author of an ambitious agenda overseas and domestically, has come at the invitation of George Bush to be recognized as a political equal. A headline in the influential Russian daily *Izvestia* on July 2 summed up the expectations in Russia: "Normal Relations Between Big Boys." People can argue about whether the Cold War has reemerged or whether it ever went away. But one thing is clear: the 1990s have died. Russia has boldly declared that it will no longer stand by and watch the U.S. dictate the political agenda in Eastern Europe and Eurasia. A literal sign marking this change can be seen with the passing on April 23 of Boris Yeltsin, Russia's first post-Cold War president who oversaw the 1990s chaos.

**Bad blood or domestic posturing?**

The majority of the analysis of U.S.-Russian relations in the Western and Russian press these days is direly pessimistic. There is no question that relations have regressed since the days of the post-Sept. 11 "strategic partnership." But as was argued here last quarter, relations have not regressed to the tenor of the Cold War. They more resemble the tone in late 1999 after the NATO bombing of Yugoslavia (when Putin was prime minister). And like that turbulent year, defense issues primarily shape the relationship today. This

quarter was no exception. Missile defense, the CFE Treaty, START I (due to expire in 2009), and NATO expansion were the headline issues, as well as the Iran and Kosovo situations. The two presidents did manage to tone down the rhetoric at the summit in Kennebunkport. There, the two leaders met like old friends and reaffirmed their friendship, if also their inability to see eye-to-eye on many issues.

The harsh rhetoric of the past few months is nothing new. In fact, political players in the two nations have been expressing frustration and vexation with the other side with regularity since 2003 (after the beginning of the war in Iraq). But what seems to have taken this invective to an even higher level over the last quarter is the posturing of Putin himself. In the last few months, Putin (to paraphrase his words) has criticized the U.S for preaching about democracy without practicing it at home, has compared Bush administration policies to those of the Third Reich, and has cast aspersions on the U.S. for using atomic weapons against a civilian population and chemical weapons against a third-world nation. Putin has repeatedly singled out Washington in public speeches, some of these abroad, others at home. The Russian government has strongly opposed U.S. plans to deploy a missile defense system in the Czech Republic and Poland. Putin has declared a moratorium on Russia's implementation of the Conventional Forces in Europe (CFE) Treaty and has threatened to re-target nuclear missiles on Europe (ostensibly NATO members).

The leadership in the U.S. has not taken all this sitting down. For instance, Bush was quoted by a prominent Russian daily (*Kommersant*) accusing Moscow of "instigating a cold war." Secretary of State Condoleezza Rice has called Russia's political development "troubling." Rice's State Department this quarter issued two reports condemning Russia's human rights' record and the state of media freedom in that country. Congress (on both sides of the aisles) has consistently leveled criticism at Russia, and Putin in particular. Rep. Tom Lantos recently compared Putin to Popeye, gulping down spinach in the form of bloated oil profits. One U.S. official termed the dialogue, "a rhetorical race to the bottom."

Putin's remarks seem to be particularly harsh and his tone is always steely and combative. His seeming deep anti-Americanism should probably be taken at face value. Given Putin's training and background as a KGB operative (Gorbachev and Yeltsin were apparatchiks and party bosses for their respective regions) it might not be mistaken to ascribe Putin's visceral hatred of the U.S. to his experiences as a 'foot soldier' in a losing war (the Cold War). And perhaps his anger has built up during his two terms, but being the cautious, calculating man he is, he decided to keep this inside of him, until recent months. Why the change? Two possible answers could be that his term is drawing down (thus excusing him from being politically correct at all times) and that he is pandering to domestic political sentiment. In Moscow (and elsewhere in Russia) the expanding economy has led to a growing confidence among the populace and heightened irritation at the perceived high-handed attitude of Washington over the past two administrations.

But does this mean the “new Cold War” as many have come to call the situation reaches the level of the 1940s-1980s? No matter how harsh the rhetoric, the two nations do recognize the strategic necessities of avoiding a relationship like that prior to the 1990s. The two nations are competitors, but not sworn enemies. Russia is looking to restore influence in the regions (Eastern Europe and Eurasia) that traditionally have been important to its national security. The U.S., meanwhile, is very busy cementing a new place for NATO in Eastern Europe and for itself in Central and South Asia. Although many in the U.S. can understand the Russian viewpoint, they cannot understand why the Russian leadership seems bent on poisoning the bilateral partnership, since this partnership will do more to ensure Russian national security in the 21<sup>st</sup> century than any other. In fact, Putin’s very public criticism may be a cynical way of easing his successor into office, by allowing this successor (whether it be Sergei Ivanov or Dmitri Medvedev) to be seen as relatively pro-American in comparison to Putin.

### **The Gabala gambit in Heiligendamm**

On June 6-8, leaders of the G-8 nations gathered for a summit in Heiligendamm, Germany. As usual, trade issues were high on the agenda. For the European G-8 member countries, energy security was an issue of concern given Russia’s recent penchant for bullying neighbors, and at least twice shutting off gas or oil supplies for brief periods to back up a point. But the headline-grabbing event at Heiligendamm was the proposal by Putin to share a radar facility in Azerbaijan with the U.S. in the development of the U.S./NATO missile defense system in Europe. In the weeks leading up to the summit, the proposed missile defense system, and in particular U.S. plans to install a radar station in the Czech Republic and 10 missile interceptors in Poland, had irked the Kremlin no end. Putin and almost all his top advisors had publicly criticized the U.S. for installing a system that was “clearly aimed at Russia.” Bush sent both Defense Secretary Robert Gates and Secretary Rice on two different occasions to Moscow in April and May to assuage the Russian side, but to little effect. Until the eve of the Heiligendamm summit, the Russian government continued its criticism of the proposed missile defense system.

At the summit Putin surprised Bush by suggesting that in place of a radar facility in the Czech Republic, the U.S. and Russia could share a facility at Gabala in Azerbaijan. The U.S. side appeared to be slightly taken aback, and Bush promised to study the “interesting proposal.” One of the more surprising aspects of the Russian proposal was the tacit admission that Iran is indeed a problem state. Russia has clearly relaxed its support for Iran in the last half year, and this proposal highlights this fact. The Iranian government protested the Russian proposal and asked for clarification. The Russian government issued several statements in an attempt to mollify Tehran.

In the United States, and to a lesser extent in Russia, many experts dismissed the proposal as nothing more than a gambit, with little serious substance. The facility – they argue – is located in a poor position geographically (too close to account for Iran’s northeastern section), and has aged quite poorly. In fact, before Bush even returned home both the White House and the Pentagon downplayed the offer, and insisted that even were there to be cooperation at Gabala, the U.S. would still push for facilities in Eastern Europe.

## Energy issues

Across Eurasia, the Russian government continues to seek direct control of the vital energy resources in the region (or at least to control access to these resources). In the Russian Far East, BP became the latest Western victim of a hostile takeover by the growing behemoth Gazprom. Late last year Gazprom was able, with the help of the Russian Ministry of Fuel and Natural Resources, to gain control of the Sakhalin-2 project. Faced with the threat of the revocation of its operating license (due to “environmental transgressions”), Shell and its Japanese partners Mitsui and Mitsubishi agreed to sell a controlling portion of the Sakhalin-2 project shares to Gazprom.

Although BP was not faced with a similarly explicit threat, political pressure was brought to bear on BP and its Russian partner TNK. It was clear that the Kremlin and Gazprom were prepared to turn up the heat. Rather than face a situation similar to that faced by Shell and partners late last year, BP agreed to sell its controlling stake (63 percent) in the coveted gas fields near Kovykta (which is located to the northwest of Lake Baikal). Although details have not been made public, it is said that BP sold the rights to Gazprom for one-third their market value (Shell also agreed to part with its shares for less than fair value). One Russian source (*RIA-Novosti*) referred to Gazprom’s intervention as a “rescue” of the Kovykta fields.

Exxon-Mobil, which controls the Sakhalin-1 project, has thus far been above the fray and has maintained a cordial relationship with Russian authorities. But recent tidings may not bode well for this giant in the Russian Far East. Gazprom’s Deputy Chief Executive Alexander Medvedev told Exxon executives that his firm is opposed to Exxon-Mobil’s plan for gas exports to China from the Sakhalin-1 project. Medvedev stated that the natural gas produced by the Sakhalin-1 project should be used for Russian domestic consumption. Medvedev then suggested that Exxon-Mobil should coordinate long-term export plans with Gazprom. It is no coincidence that Gazprom has its own gas export plans for China, and these are likely to involve the Kovykta fields. It bears mentioning that Dmitri Medvedev (no relation to Alexander), the deputy prime minister and close Putin confidante, is also chairman of the board of Gazprom. The connection between the Kremlin and Gazprom is close, to say the least.

In Central Asia, Russia is doing its utmost to outfox U.S. and Western pipeline strategies. Kazakhstan and Turkmenistan are being lined up to supply Russian pipelines emanating from the region with oil and gas aplenty. These pipelines run directly to Europe, and a new pipeline is being connected through the Balkans to ports on the Adriatic Sea that can get resources to market as easily as the U.S.-backed Baku-Ceyhan pipeline can. Putin visited both Kazakhstan and Turkmenistan for almost a week in May. Putin’s interest in reviving relations with two of the resource-richest nations in Central Asia is not only because of the economic and strategic U.S. presence there, but also due to China’s growing interest and economic presence in the region. Meanwhile, Putin’s visit to an energy summit in Austria on May 23-24 suggests that Russia may be considering making that country an energy hub to Europe for Gazprom.

## **Kennebunkport, Maine**

Just prior to the Heilegendamm summit, Bush invited Putin to visit the family home in Kennebunkport, Maine. This gesture was made even as Putin was making his comparison of the U.S. to Nazi Germany. The angry rhetoric continued to emanate from Moscow right up to the Kennebunkport summit. It is interesting to note that the last visits to the two presidents before the summit were made by President Tomas Ilvas of Estonia to Washington and Venezuelan President Hugo Chavez to Moscow. Both leaders have made news of late with combative comments to their larger neighbors. The symbolism seemed to bode poorly for the summit.

The summit, contrary to the expectations of many observers, was cordial. The short and informal nature of the meeting prevented the two from coming up with substantive results given the broad nature of the bilateral relationship. Strategic issues were the focus, which meant the economic and energy issues were skirted. Bush and Putin were able to calmly discuss major issues on the agenda: missile defense, Iran, nuclear proliferation, and Kosovo. The two leaders also demonstrated that they do feel comfortable around one another. Chummy personal relationships may hark back too closely to the 1990s for some observers, but this has not affected how these two presidents prefer to interact.

At Kennebunkport, Putin took a step beyond his Gabala “gambit” and proposed that the two nations cooperate in building a European-wide missile defense system, which would include a radar facility in Russia. Putin said that he would favor establishing the system under the aegis of the NATO-Russia Council. He also said that Russia would agree to modernize the Gabala facility. In return, Putin suggested that no additional facilities would be necessary elsewhere in Europe. If the U.S. accepts this plan, Putin said, then relations would move “to an entirely new level.” Although Bush expressed interest in the proposal and promised to study it further, he pointed out his desire to include Poland and the Czech Republic in any missile defense system.

The two leaders did agree on the need to keep Iran from advancing further down the road toward nuclear proliferation, and although no details were given, the two governments could come out with a new proposal to keep pressure on Iran. In this regard the two presidents promised to send a “common message” to Iran about nuclear proliferation. Additionally, the Russian Federal Agency for Nuclear Power (Rosatom) pledged that all fuel given to Iran for its Bushehr reactor would be returned to Russia once it was spent.

The Strategic Arms Reduction Treaty (START I) is due to expire in 2009, so the two governments put into motion a process that aims to extend this agreement. On July 3, Secretary Rice and Foreign Minister Lavrov signed an accord that will mark the beginning of talks aimed at establishing a new strategic arms framework based on START I. Although the two leaders did discuss the Kosovo independence issue, it is unclear how far the discussions went. The U.S. and NATO support independence, and Russia backs Serbia in opposing this. Moscow, of course, is concerned about the precedent this would set for smaller states breaking away from larger ones. Russia has had this concern since the break-up of the Soviet Union, as there are a number of

candidates for independence along Russia's long periphery. On the other hand, when this issue comes to a UN vote, the Russian government may hypocritically choose to abstain, in hopes that a precedent is established, thus allowing two small regions of Georgia to break away and become part of Russia (Abkhazia and South Ossetia).

### **East Asian affairs**

Russia's influence on the Korean Peninsula may actually be reawakening. In order to restart Six-Party Talks and to freeze the DPRK's nuclear program, Pyongyang has demanded that funds (\$25 million) it holds in a bank in Macao be unfrozen and transferred back to its own coffers. For four months a bureaucratic and political knot had held up this transfer. Many banks balked at the idea of transferring the funds for fear of being associated with and tainted by this "dirty money" (it was frozen as a result of accusations of money laundering and illicit activities). At the 11<sup>th</sup> hour the Russian government offered its services. In a roundabout way, the money was transferred from Banco Delta in Macao to the Federal Reserve Bank of New York, thence to the Russian Central Bank. In Russia, the Far Eastern Commercial Bank (Dalkobank) in Vladivostok agreed to transfer the \$25 million back to Pyongyang. This gesture was the most productive act that Russia has carried out as a participant in the Six-Party Talks. Whether this will reinvigorate Russia's role on the Korean Peninsula remains to be seen.

Elsewhere across East Asia, the Russian government has made a concerted effort to step up its nuclear exports in the region. Sergei Kiriyenko, head of Rosatom, announced a plan to construct floating nuclear power plants. The first such plant will be available in 2010 and Russia hopes to partially meet energy demands in its own far eastern regions. But Rosatom also hopes to export these plants, particularly in Asia, where China, Indonesia, and Malaysia have expressed interest. This spring also saw the announcement by the Russian Ministry of Industry and Energy (of which Rosatom is an agency) of plans to dispense nuclear technology and assistance to Japan, Myanmar, and Vietnam. Upon the announcement of nuclear aid to Myanmar, the State Department issued a severe criticism of the Russian plans to build a research reactor in that nation. This will undoubtedly fall on deaf ears as Russia's plan for increased exports to East Asia is spearheaded by nuclear technology and other forms of energy, as well as weapons.

In this vein, in late June the Indonesian government announced that it would sign a contract to purchase a number (yet unspecified) of corvette ships. These fast ships are ideal for littoral area operations. The hulls will be laid in Spain, while Russia will handle the final outfitting of systems and weapons. Each would cost between \$120-150 million. It is the latest in a series of defense deals between Jakarta and Moscow since 2003.

In broken record fashion, Japan and Russia continue to spar over the disputed territories. In June, Foreign Minister Lavrov became the first Russian foreign minister to visit the disputed islands since the collapse of the Soviet Union, visiting Kunashiri and Shikotan Islands. Lavrov's visit to the "Northern Territories" threw the Japanese government into a panic, as preparations were underway for Prime Minister Abe Shinzo to meet Putin at Heilegendamm and discuss the territorial dispute. In a press conference prior to the

summit, Putin announced with typical steely resolve that Russia was amenable to a settlement, but under the current circumstances it would be “difficult to find new measures [leading to a settlement].” At Heilegendamm, however, Abe offered to increase Japanese investment in the Russian Far East and the Kuril Islands, undoubtedly hoping to secure a favored position in Putin’s eyes. Nevertheless, the future seems to hold little promise – barring a geopolitical shift – for a settlement. Time is on Moscow’s side, and it can wait for further Japanese investment in the far eastern regions as it becomes economically feasible.

## **Upcoming**

One event to look forward to is the Shanghai Cooperation Organization (SCO) summit meeting, which is due to take place in Bishkek, Kyrgyzstan on Aug. 16-18. Iran and Kosovo will also be worth watching as they affect U.S.-Russian relations. In particular, Kosovo’s future will be debated in the U.N. Washington will look to hold Moscow to account, given its promises to put more pressure on Tehran to give up its nuclear ambitions. Likewise, now that the DPRK has said it would allow nuclear inspectors back into facilities in that country, it will be worth watching to see whether Russia will attempt to step up activity in light of its recent success in helping to solve the bank imbroglio. Lastly, Washington will have to answer soon to Putin’s latest proposal for a European-wide missile defense system.

With the two presidents stepping down next year, Bush and Putin find themselves in different positions. One is losing popularity, fighting tougher battles against domestic opposition, and facing a legacy of defeat in Iraq. The other has never been more admired at home (especially given Sochi’s selection as site of the 2014 Winter Olympics), has a booming economy, and has cemented his legacy of bringing Russia back to the table of big power diplomacy. Their relationship seems to mirror these trajectories as Bush has gone out of his way to reach out to Putin, even as Putin’s criticism of the U.S. has grown increasingly shrill. Expect this criticism to grow even louder as the U.S. presidential campaign goes into full swing.

## **Chronology of U.S.-Russia Relations**

### **April-June 2007**

**April 2-3, 2007:** U.S. Commerce Secretary Carlos Gutierrez visits Moscow and meets Russian Economic Development and Trade Minister German Gref to discuss Russia’s WTO accession.

**April 5, 2007:** U.S. Department of State releases annual report on human rights around the world. Russia gets a low grade in press freedom and political suppression.

**April 10, 2007:** U.S. Trade Representative Susan Schwab allegedly states that Russia is not ready to join the WTO and that Jackson-Vanik will remain in effect for the time being. Schwab later claims she was not accurately quoted.

**April 18, 2007:** Russian First Deputy Prime Minister Sergei Ivanov says that he does not see any need for Russian-U.S. cooperation in strategic missile defense. The U.S. government has offered to cooperate with Moscow to diffuse tension over this issue.

**April 21, 2007:** U.S. Secretary of Defense Robert Gates meets top Kremlin officials in Moscow – including Russian DM Anatoly Serdyukov – to discuss defense cooperation.

**April 23, 2007:** Russia’s first President Boris Yeltsin passes away.

**April 26, 2007:** In a Russian Duma address, President Vladimir Putin says he plans to suspend Russia’s commitments under the Conventional Forces in Europe (CFE) treaty.

**April 30, 2007:** Russia is placed by the U.S. Department of Commerce on a priority watch list for copyright piracy.

**May 3, 2007:** Japanese Foreign Minister Taro Aso arrives in Moscow for a short visit with Russian counterpart Sergei Lavrov, the first visit in three years by a Japanese foreign minister to Moscow.

**May 8, 2007:** In a speech on V-E Day in Moscow, Putin makes oblique comparisons between the U.S. and Nazi Germany.

**May 9, 2007:** Putin sets off on a six-day trip to Kazakhstan and Turkmenistan.

**May 10, 2007:** In a meeting with NATO officials, Russian Gen. Yury Baluyevsky, chief of the General Staff of the Russian Armed Forces, states that the CFE Treaty is on the “brink of collapse.”

**May 10, 2007:** In a talk at the Senate, Secretary of State Condoleezza Rice says that “the concentration of power in the Kremlin has been troubling.”

**May 14, 2007:** Rice arrives in Moscow to patch relations between Moscow and Washington on the eve of the G-8 summit. Rice meets Putin and FM Sergei Lavrov.

**May 16, 2007:** The State Department expresses concern over the prospect of a Russian deal to provide a nuclear research reactor for Burma which has “neither the regulatory nor the legal framework or safeguard provisions” to handle a nuclear program.

**May 23-24, 2007:** Putin visits Austria for an energy summit. Austria signs a long-term contract with Gazprom to meet 80 percent of Austria’s gas needs for the next 20-years.

**May 29, 2007:** The Russian armed forces test-launch two ballistic missiles, purportedly in response to U.S. plans for the European-based missile defense system.

**May 31, 2007:** President Bush begins European tour to the Czech Republic, Poland, Germany, Italy, Albania, and Bulgaria. Bush is en route to the G-8 summit on June 6-8.



**June 3, 2007:** FM Lavrov visits two of the four Russian-held islands claimed by Japan. He then travels to Seoul to meet Korean leaders.

**June 6-8, 2007:** The G-8 summit is held in Heiligendamm, Germany.

**June 7, 2007:** At the G-8 summit, Putin proposes that Russia share a radar facility with the U.S. in Azerbaijan (Gabala). Putin hopes the U.S. will abandon plans for establishing a radar facility in the Czech Republic and an interceptor station in Poland.

**June 7, 2007:** Japanese Prime Minister Abe Shinzo and Putin hold a meeting on the sidelines of the G-8 summit.

**June 15, 2007:** Secretary Gates meets Russian DM Serdyukov on the sidelines of a NATO ministerial meeting in Brussels.

**June 21, 2007:** In a meeting with Russian educators, Putin lashes out at “foreign” critics of the Stalinist purges, saying that Russia never used an atomic weapon against civilians, or sprayed defoliants across a third world nation.

**June 23, 2007:** BP agrees to sell its interest in the Kovykta gas field (worth an estimated \$18 billion) in Siberia to the Russian energy giant Gazprom, in the latest state-directed acquisition of energy assets across Russia.

**June 23, 2007:** Putin attends a Balkan energy summit in Zagreb. The next day he travels to Istanbul to attend the summit of the Black Sea Economic Cooperation Organization.

**June 23, 2007:** Russian Finance Ministry confirms transfer of funds from the Delta Banco Asia to North Korea was completed via Dalkombank.

**June 28, 2007:** For the second time in a month Russia test-fires a long-range missile, successfully sending the *Bulava* ICBM from the White Sea to the Kamchatka Peninsula.

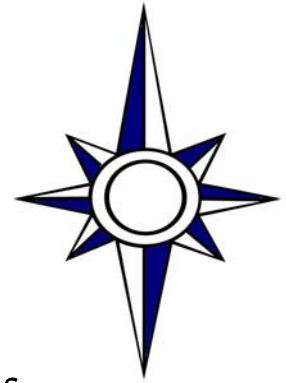
**June 29, 2007:** The U.S. and Russian governments sign a Section 123 Agreement opening the road for further civilian nuclear cooperation.

**July 1-2, 2007:** Vladimir Putin visits George Bush at the Bush family home in Kennebunkport, Maine.

**July 3, 2007:** Secretary Rice and FM Lavrov sign an accord to establish a new strategic arms framework based on START I.

**July 4, 2007:** International Olympic Committee awards 2014 Winter Games to Sochi, Russia.





U.S.-Southeast Asia Relations:  
**Better Military Relations and Human Rights Concerns**

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Military-to-military ties with Indonesia were significantly enhanced this quarter as plans were made for joint training that included counterterrorism for the first time. Jakarta also supported UN Security Council sanctions against Iran's nuclear program despite negative domestic reactions for opposing a fellow Muslim country. Regarding the Philippines, a U.S. Congressional hearing condemned extra-judicial killings and the impunity with which some elements of Philippine security forces have been treating political opponents and journalists. U.S. economic aid to the southern Philippines was praised by the Moro Islamic Liberation Front, currently in autonomy negotiations with Manila. U.S. Special Forces continue to train Philippine soldiers in the south to suppress the Abu Sayyaf terrorists with recent significant successes. Thailand rejected a U.S. offer to provide assistance to Bangkok's counterinsurgency efforts in the Thai south. U.S. officials regularly remind the Bangkok military caretaker government about the importance of restoring democracy by the end of the year. The two countries are also in a dispute over patent protection for pharmaceuticals needed for public health in Thailand. ASEAN leaders have urged the U.S. to strengthen its Southeast Asian ties and not hold them hostage to U.S. Burma policy. Vietnam President Triet's June visit to the U.S. led to new economic arrangements, but the visit was marred by Congressional complaints over human rights violations in Vietnam.

**Indonesia: military warmth, political differences, and major terrorist captures**

U.S. relations with Indonesia covered a wide range of events from military-to-military cooperation and praise for Indonesia's counterterrorism successes to political differences over human rights practices. At the annual June Shangri-La Dialogue in Singapore, Indonesian Defense Minister Juwono Sudarsono summed up Jakarta's view of U.S. armed forces by noting that the U.S. "remains the security provider" with "the largest number of ships, planes, and missiles" in the Asia Pacific. That presence keeps the region secure for international commerce, though Juwono also pointed out that China and Japan were developing capabilities "to codetermine the terms and conditions of western Pacific security ..." Earlier in mid-April, the Indonesian defense minister expressed hope that the U.S. will resume training for special forces for all three Indonesian services.

At this year's April Indonesia-U.S. Security Dialogue, U.S. delegates explained Washington's Iraq strategy and discussed global counterterrorism, while the Indonesians described their peacekeeping mission in southern Lebanon. U.S. Deputy Secretary of Defense James Shinn emphasized that Indonesia remained an important partner in fighting terrorism. And, Brig. Gen. John Toolen, director for the Asia-Pacific at DoD, stated that Indonesia's experience in handling natural disasters provided good lessons for the U.S. Indeed, U.S.-Indonesian cooperation in responding to natural disasters is an important component of their military relationship. Brig. Gen Toolen also looked forward to future joint military activities to counter terrorism and promote maritime security. If implemented, these last two categories would constitute an expansion of Indonesian-U.S. military ties. Counterterrorism cooperation has been limited to police and intelligence assistance till now, and U.S. maritime security has been primarily technical support.

In late March, the Indonesian and U.S. Marine Corps signed an agreement on joint military training followed a month later by an Indonesian army (TNI) and U.S. Army in the Pacific (USARPAC) accord to engage in joint training at the brigade level with an emphasis on UN peacekeeping operations. The focus is to help Indonesia's next deployment to the UN Peace Operation in Lebanon. At the end of May, Assistant Secretary of State for East Asia Christopher Hill met Indonesia's Vice President Jusuf Kalla and stated that Washington hopes to expand its training and joint military operations with the TNI. He also took the opportunity to deny allegations made by some in the Indonesian political opposition that the U.S. government had channeled funds to President Susilo Bambang Yudhoyono's 2004 election campaign.

Closer ties between the two countries may also be found in the foreign policy arena where Indonesia backed a UN Security Council resolution filed by the U.S. in late March, tightening sanctions over Iran for its nuclear development. As the world's largest Muslim country, Indonesian opposition politicians launched a stream of criticism at President Yudhoyono in April for opposing Iran, another Muslim country. He was accused of making Indonesia seem a pawn of the U.S. Indonesia's Foreign Minister Wirajuda replied that the government supports nuclear development for peaceful purposes only but objects to nuclear proliferation, implying that Jakarta does not believe Tehran's protestations that its nuclear development is exclusively peaceful. Perhaps in part to balance the Iran criticism, as host of the 116<sup>th</sup> Inter-Parliamentary Union conference in Bali that same month, Indonesia urged the U.S. to leave Iraq immediately, saying that the U.S. presence constituted a violation of Iraq's sovereignty. (Indonesia's position on Iraq puts it at odds with its neighbor Singapore, which has supported U.S. actions as essential for Middle East stability.)

Another political problem arose in June when U.S. Congresswoman Nita Lowey introduced legislation to cut some of the \$10 million military assistance appropriation moving through the U.S. legislature because of the TNI's failure to sell its business holdings as promised, as well as human rights violations related to those businesses. Additionally, she noted that no senior TNI officers responsible for the 1999 violence in East Timor have been prosecuted. While the proposed 25 percent cut in funds might make it through the House of Representatives, they are unlikely to be passed by the

Senate. Nevertheless, U.S. Congressional criticism of the TNI strengthened those in the Indonesian armed forces who are calling for more diversification in arms suppliers.

In the realm of maritime security, U.S. officials have praised the anti-piracy cooperation of the littoral states abutting the Malacca Strait (Indonesia, Malaysia, and Singapore). Piracy in Southeast Asian waters has significantly declined since 2004, and Lloyds Maritime Insurance has acknowledged the favorable change by lifting its “war risk” rating on commercial shipping. In April, U.S. Pacific Commander Adm. Timothy Keating stated that the U.S. shares maritime security information to boost regional security. Coordinated sea and air patrols in the Malacca Strait have also been supported by the U.S. provision of 10 radar systems being installed along the Indonesian island of Sumatra. The radars enhance Indonesia’s ability to monitor traffic in the waterway. Broadening the prospect of other maritime states’ assistance, on June 4, Indonesian Defense Minister Juwono called on Japan, South Korea, and China also to provide technical assistance for security in the Strait.

The U.S. additionally praised Indonesia’s significant counterterrorism achievements this quarter in arresting two top Jemaah Islamiyah (JI) militants. The capture of the group’s overall leader, Zarkasih, and the military commander, Abu Dujana, was described by International Crisis Group expert Sydney Jones as “a body blow” to JI. The arrests were the work of an elite counterterrorism unit of the national police, Detachment 88, established in 2003 with assistance from the U.S. and Australia. The U.S. State Department hailed Indonesia’s success and promised to continue U.S. assistance to bolster Jakarta’s counterterrorism capabilities. Authorities are still searching for Malaysian-born JI bomb specialist Noordin M. Top, who some analysts believe has started a splinter group that may be responsible for several bombings in Indonesia.

### **Philippines: human rights concerns and counterterrorism successes**

As with Indonesia, Philippine-U.S. relations this quarter were characterized by counterterrorism successes but human rights concerns. The government-funded U.S. Institute of Peace (USIP) in late March testimony before a U.S. Senate Foreign Relations subcommittee provided a pessimistic assessment of Philippine President Gloria Arroyo’s administration. USIP predicted the Philippine president, seen as politically weak, would not be able to stop the extra-judicial killings that have been plaguing the country. USIP Philippine director Eugene Martin stated that ever since her controversial reelection in 2004, Arroyo has relied on military and provincial leaders to prevent her impeachment and in exchange has given them a green light to deal with the communist New People’s Army (NPA) however they choose. Extra-judicial violence against political opponents and journalists has been reminiscent of the martial law period under the late Ferdinand Marcos. Martin recommended that the Philippine desire to qualify for the Bush administration’s Millennium Challenge Grant be used as leverage to demand rigorous action against the killings. Following up in its April Human Rights Report, the State Department explicitly blamed “some elements” of the Philippine security forces for the killings, disappearances, arbitrary arrests, and illegal detentions.

In hopes of encouraging best practices by Philippine security forces, the U.S. sent 111 Philippine National Police (PNP) and other law enforcement personnel to the International Law Enforcement Academy in Bangkok for courses in human rights, ethics, rule of law, and anti-corruption. U.S. law enforcement specialists came to Manila to conduct seminars on similar topics. The U.S. government has also provided grants to assist Philippines NGOs on voter education and to finance election monitors.

A delegation from the U.S. House of Representatives visited the Philippines in mid-April and met with PNP leaders to press American concerns about the officially acknowledged killings of 116 leftwing militants and 26 journalists. (Unofficial figures for both categories are much higher.) In response, the PNP cited a new executive order from the Philippine president's office that creates a system of prosecutors who can initiate investigations and work with the PNP from the outset in tracking the perpetrators of these crimes. Despite the fact that the Philippines has received more military assistance since 2001 than any other Southeast Asian country, its human rights record remains a serious concern for the U.S.

On a more positive note, U.S. efforts to assist development programs in the southern Philippines elicited praise from the Moro Islamic Liberation Front (MILF). Manila has been negotiating with the MILF for several years on the establishment of an autonomous region in Mindanao where *sharia* law could be practiced. The U.S. has been funding a Growth With Equity project in Mindanao that was extended in April for another five years. The MILF has asked Washington to involve the MILF directly in the Growth With Equity project so that it helps the peace negotiations. The U.S. aid pledge is approximately \$145 million.

A contingent of some 200 U.S. special operations forces has been stationed in Mindanao for several years training Philippine forces in counterinsurgency and civil-military relations. In late April, a three month counterterrorism exercise began in two Central Mindanao provinces focusing on small unit tactics. These exercises also offer a chance for U.S. and Philippine forces to visit rural villages and provide medical and dental services as well as constructing wells for potable water and repairing schools and roads.

This year's *Cooperative Afloat and Readiness Training (CARAT)* exercise for the Philippine and U.S. navies was held for the first time in southwestern Mindanao where Philippine forces have been battling the al-Qaeda-linked Abu Sayyaf (AS). Beginning on May 31, the exercise focused on maritime terrorism with Philippine and American forces operating together in teams. The current exercise is also designed to improve the Philippine navy's capability in securing southern waterways. Coincidental with the *CARAT* exercise was an agreement signed by the Philippines and Australia to train Philippine forces in anti-terrorist tactics in the south. The Australia agreement includes the provision of 28 high-speed gunboats for the Philippine navy. This emphasis on southern waterways by both the U.S. and Australia is probably motivated by the movement of pirates and Jemaah Islamiyah (JI) terrorists from Malaysia and Indonesia to the southern Philippines. Western and Philippine intelligence officials believe there are 30 to 40 Indonesian, Malaysian, and Singaporean Muslim militants hiding in the

Philippine south. Nevertheless, U.S. and Australian military aid adds only a limited capability to a weak Philippine armed force that has no fighter jets, a navy whose vessels date back to World War II, and an air force with propeller-driven planes and aging helicopters, most of which cannot operate at night.

U.S. forces in Mindanao have been assisting their Philippine counterparts in tracking AS militants. In April, the U.S. rewarded two Filipino informants \$85,000 for providing the information that led to the death of two AS leaders, Jumdan Jamalul and Bisang Sali, by Philippine soldiers. The rewards were provided by the State and Defense Department's "Rewards for Justice" program. (For background, see "Military Support and Political Concerns," *Comparative Connections*, Vol. 9, No. 1, April 2007.) In their hunt for AS personnel, the primary source of U.S. support has been Predator drones that have been instrumental in locating militants' camps and following their movements.

While the Philippines has had some significant successes in its anti-terrorist campaign, the effectiveness of the judicial system is another matter. U.S. officials complain that evidentiary and procedural obstacles have thwarted suspect detention and that anti-money laundering procedures remain weak. The Philippine Anti-Money Laundering Council cannot freeze assets for suspected terrorists without first obtaining a court order – a procedure that could take several months, giving suspects the opportunity to remove the funds in question.

### **Thailand and Laos: southern insurgencies, *Cobra Gold*, and IPR**

The southern Thai Muslim insurgency has caught Washington's attention. On April 18, the U.S. Special Operations commander in the Pacific, Maj. Gen. David Fridovich, offered to help train Thai forces in counterinsurgency, emphasizing how to use a "softer touch" to win over local populations. (U.S. and Filipino troops have had some success isolating insurgents with "soft power" tactics in the southern Philippines.) Critics of the U.S. offer worry that it could have the opposite effect of involving foreign jihadis who, so far, have not been evident in the three Muslim-dominated southern Thai provinces. The Thai government immediately rejected the offer, saying that the southern unrest was an internal affair. More than 2,000 lives have been lost over the past three years to the insurgency. Though refusing U.S. training, Thailand's Army Commander Gen. Sonthi Boonyaratglin said he would appreciate access to U.S. intelligence, especially in tracking foreign financial contributions to the insurgents. Thai Army officials have also stated that captured insurgents believe that some of their number had been trained by Indonesians present in Thailand. None have been found, however.

Concerned about the future of democracy in Thailand since the September 2006 military coup, U.S. officials have been urging the ruling military to keep its promise to hold elections by the end of the year. Brig. Gen. Toolen pointed out that Thailand was a "key spoke" in the U.S. "hub and spokes" Asian security arrangements. The U.S. general in charge of Southeast Asian affairs at the Pentagon stated: "Only a fair and legitimate government can defeat the terrorism that threatens our way of life, and we must regain our close relationship..." Gen. Toolen was referring to the fact that after the Thai coup

U.S. law required Washington to freeze several military programs, including \$24 million in aid.

Nevertheless, two important programs were unaffected by the military aid disruption: one in counterterrorism cooperation that primarily involves Thai police and intelligence, the other is the annual multinational *Cobra Gold* that began on May 8 and ran through May 18. Over 3,000 Thai forces trained with 2,000 Americans. Japan sent 47 troops, 70 came from Singapore, and 27 from Indonesia. Personnel from the latter three countries only participated in computer simulations, not the field exercises. *Cobra Gold's* scale has diminished in recent years because of the demand for U.S. forces in Iraq and Afghanistan. In past years, some 20,000 personnel participated in the exercise. This year's focus was on UN-type peacekeeping operations. China, Japan, France, Germany, and the Philippines sent observers.

Also noteworthy is that the *Cope Tiger* air force exercise involving Thailand, Singapore, and the U.S. went forward in February and the *CARAT* Thai-U.S. naval exercise is being held this summer. These military-to-military activities suggest that the security dimension of Thai-U.S. relations dominates political differences. Even after the Thai military coup in September 2006, Thailand remains a "major non-NATO ally." The U.S. has also responded positively to a 2007 Chinese proposal for joint exercises with ASEAN. The U.S. Marine Corps commander in the Pacific Lt. Gen. John Goodman welcomed the Chinese overture, saying these help avoid miscalculations, adding he would like to see U.S. forces take part in a China-ASEAN exercise.

Pharmaceutical products became a problem in U.S.-Thai relations in May. Thailand announced it plans to import some generic versions of AIDS drugs and a popular heart disease medicine because Thai citizens cannot afford the prices posted by the U.S. patent holders. The U.S. Trade Representative's (USTR) office charged that Thailand's intellectual property rights (IPR) protection had deteriorated to such a degree that Washington demoted it to the same category of IPR violators as China, Russia, and India under the annual Priority Watch List of the USTR. Although there has been no immediate sanction against trade in Thai products, if Bangkok does not become more transparent and does not honor pharmaceutical protection, the U.S. could take action under the World Trade Organization rules. Interestingly, former U.S. President Bill Clinton has applauded Thailand's decision to obtain lower prices on life-saving generic drugs and on May 9 in Bangkok announced that his foundation had negotiated deep price reductions for generic versions of these products that will particularly benefit Thailand and Brazil.

On the broader issue of IPR protection in Thailand, in mid-May, Washington offered to provide FBI agents to train and support Thailand's law enforcement agencies in investigating illegal Thai manufacturers of fake products. The U.S. cites Malaysia and the Philippines as examples of effective IPR protection whose practices the FBI could assist Thailand to adopt. The U.S. Embassy has also offered to broker talks between the Thai government and U.S. pharmaceutical companies. Nevertheless, when the Thai public health minister visited Washington in late May to press his government's case for generic drugs, he received no support from the U.S. Commerce Department or the USTR, who



argued that large numbers of fake products in Thailand would jeopardize future foreign investment.

The IPR imbroglio was followed in late May by the signing of a Sino-Thai Joint Strategic Plan of Action in Beijing which would lead to closer security cooperation. Thai analysts noted the timing and said the pact could give Thailand more leverage in dealing with the U.S. Surachi Sirikai, a political scientist at Thammasat University, stated: "Apart from long-standing military cooperation, the U.S. does not seem interested in anything except its own economic interests. Therefore, the image of a closer partnership with a major power like China should help boost our morale in light of the dispute with the U.S. ... and the downgrading of Thailand's trading status to the Priority Watch List."

In June, a bizarre plot involving Hmong refugees in the U.S. and possible arms smuggling through Thailand to overthrow the Laotian government was disrupted. A six-month investigation by anti-terrorism authorities in the U.S. led to the arrest of 10 people, including the legendary anti-communist Hmong leader Vang Pao, a retired U.S. Army officer, and a former Wisconsin state senator. Attempting to purchase arms and explosives from an undercover U.S. government agent, the plan involved smuggling the arms through Thailand to blow up buildings and assassinate Laotian officials in the country's capital, Vientiane. For the exposure of the plot and arrest of its principals, the Laotian government praised the U.S., and the Foreign Ministry emphasized the good relations that prevail between their countries.

Vang Pao, 77, a former general in the Royal Lao Army, had been a leader of the upland Hmong who assisted the CIA in America's "secret war" against the Pathet Lao during the Second Indochina War. He was resettled in the U.S. after fleeing Laos to Thailand in 1975. Thailand stated it had a clear policy not to allow any party to use its territory against its neighbors. Thailand currently shelters just under 8,000 Hmong refugees and plans to repatriate many if other countries will not take them. Refugees in Thai camps are protesting that they will resist being forcibly returned to Laos where, they believe, they face discrimination and arrest. The U.S. State Department expressed concern about Thai plans for the Hmong, especially since Laos will not permit monitoring of the returnees. Amnesty International reported in March that several thousand ethnic Hmong remain in the mountainous Laotian jungles experiencing shortages of food and medicine. They are harshly treated if apprehended by the Laotian army.

### **ASEAN-U.S. ties and other Southeast Asian states**

In early May at the ASEAN-U.S. Business Council meeting in Washington, Singapore Prime Minister Lee Hsien Loong used the occasion of the 30<sup>th</sup> anniversary of ASEAN-U.S. relations to urge that the relationship be raised to a higher level. He praised the quick U.S. response to regional natural disasters and implored Washington not to hold its relations with ASEAN hostage to the single issue of Burma (or Myanmar as it is called in ASEAN). A few weeks later, on a Southeast Asia tour, U.S. Assistant Secretary of State Christopher Hill once again called on Burma's government to free the country's political prisoners, including Aung San Suu Kyi, Burma's opposition leader who has been under

house arrest for 11 of the past 17 years. President Bush announced that the U.S. would continue economic and political sanctions against Burma. In mid-May, Washington also expressed concern over a possible Russian deal with Burma to provide the junta with a nuclear research reactor. The State Department warned that Burma lacks a regulatory framework and safeguard provisions for nuclear power research and that the U.S. has “no idea” what Russia’s motivation was for the agreement.

Malaysia has trod a tightrope in its relations with the U.S. with strong commercial and defense ties alongside political differences over U.S. Middle East policy. Kuala Lumpur works to keep these domains independent of each other. In mid-April, Malaysia defense chief Gen. Abdul Aziz Zainal stated his country would strengthen defense ties with the U.S. despite criticism from Malaysian Muslim groups. Gen. Abdul Aziz praised the long cooperation between the two countries in training, joint exercises, and intelligence sharing and went on to say that Malaysia would welcome even more U.S. navy port calls. The Chairman of the U.S. Joint Chiefs of Staff Gen. Peter Pace visited Malaysia in June and confirmed the close military to military relations. He invited Malaysian military leaders to Washington to meet with the U.S. Joint Chiefs about Malaysian defense plans to establish a joint force headquarters. Gen. Pace also underlined Malaysia’s important role in international peacekeeping, citing the “10 or so peacekeeping operations Malaysia is involved in” along with its “world-class peacekeeping center.” Pace also noted that Washington would like to continue peacekeeping cooperation with Malaysia. Nevertheless, Malaysian Defense Minister Najib Razak on April 17 once again declined to join the U.S.-formulated Proliferation Security Initiative (PSI), stating Kuala Lumpur felt uncomfortable with the legal implications of boarding and searching suspicious ships in international waters. Malaysia has sent observers to PSI exercises but has not participated.

In mid-June Malaysia’s human rights commission objected to the State Department’s demotion of Malaysia to the worst human trafficking category, “Tier Three.” Malaysia was cited for failure to improve its performance on punishing acts of trafficking, providing adequate shelters and social services to victims as well as protecting migrant workers from involuntary servitude. Malaysia admitted that more needs to be done, but its human rights commissioner stated the Tier Three designation was unfair. The commission has highlighted the concerns listed by the U.S. but has no enforcement powers. Prime Minister Abdullah noted that the Parliament passed an anti-trafficking bill with severe penalties, and the U.S. Embassy promised to strengthen cooperation on anti-human trafficking with Malaysian authorities.

In contrast to Indonesian and Malaysian criticisms of the U.S. Iraq occupation, Singapore’s prime minister praised U.S. efforts in the Middle East. In a speech at the April ASEAN-U.S. Business Council in Washington, Lee Hsien Loong declared that a U.S. retreat from Iraq that looks like a defeat will put Southeast Asia at risk, emboldening extremists and harming U.S. credibility. In a May meeting at the White House with President Bush, Singapore’s prime minister stated that ASEAN countries want the U.S. to maintain good relations with both China and Japan because Southeast Asian states do not want to “choose sides.”

## **Human rights concerns mar U.S.-Vietnam relations**

The Vietnam-U.S. Bilateral Trade Agreement that became effective in December 2001 has so successfully promoted trade and investment that two-way trade reached almost \$10 billion in 2006, making the U.S. Vietnam's largest export market. More than 1,000 U.S. businesses are operating in Vietnam with \$2.3 billion in foreign investment. The U.S. side is also providing information on Agent Orange, engaged in land mine clearing, and assisting Vietnam in reforestation, environmental protection, and health care.

These favorable markers have been challenged, however, by Vietnam's crackdown on domestic dissent, which began not long after the SRV's WTO December 2006 that was admission backed by the U.S. The jailing of an outspoken Catholic priest in March 2007 led to the introduction of a resolution in the U.S. Congress condemning Hanoi's crackdown on political free speech. The resolution warned that continued arrests and detentions could result in Vietnam being put back on the State Department's list of Countries of Particular Concern. Congressman Chris Smith of New Jersey stated: "This is a case worthy of particular attention as the Vietnamese government audaciously resumed its past oppression of human rights after Congress agreed to Vietnam becoming an official member of the WTO in December."

On April 8, the State Department issued a statement saying that the U.S. was "deeply troubled" by the increase in "harassment, detention, and arrests of individuals peacefully exercising the legitimate right to peaceful speech." By the end of May, the White House entered the discussion when National Security Council spokesman Gordon Johndroe said Vietnam's detention of peaceful protestors and democracy advocates was "anachronistic and out of keeping with Vietnam's desire to prosper, modernize, and take a more prominent role in world affairs." Cognizant of these reprimands, Hanoi decided less than two weeks before President Nguyen Minh Triet's June 18-23 visit to the U.S. to release a prominent government critic who had been convicted of spying in 2003 and sentenced to serve seven years. Pro-democracy advocates who were sentenced this year, however, remain in prison.

President Triet stated that he would focus on trade and investment during his late June visit to the U.S. A strong motivation for both sides in cementing their relationship is to balance China's growing economic and political influence on its southern neighbor. Indeed, one of Triet's first stops was the New York Stock Exchange where he expressed the hope that the "stock markets of the two countries would set up strategic partnerships in the near future." Triet also met with Citigroup, noting that Vietnamese enterprises were going to launch "a series of bond issuances and shares abroad, so they are in need of assistance from major banking institutions such as Citigroup." Following this meeting, Citigroup opened a \$500 million credit line with three Vietnamese electricity, coal, and shipping corporations.

The Vietnamese president's encounter with Congress and his meeting with President Bush did not go as smoothly, however. While the U.S. president promised assistance on the impacts of Agent Orange from the Vietnam War era on Vietnamese health as well as support for Hanoi's HIV/AIDS efforts, he also raised human rights concerns in their discussions following pressure from members of Congress and activist groups. On the Hill, a bipartisan group of lawmakers led by House Speaker Nancy Pelosi condemned Hanoi's crackdown on dissidents, religious leaders, and pro-democracy activists. Nevertheless, President Triet's visit accomplished his economic goals: more private U.S. investment for Vietnam and the inking of a trade and investment framework agreement that constitutes a necessary step toward a full blown free trade agreement.

### **U.S. future in Southeast Asia**

America's Southeast Asia profile reveals a robust military/security presence that is welcomed by all, especially with respect to sea-lane protection and assistance in counterterrorism law enforcement as well as military modernization. However, Washington's relations with ASEAN at this 30<sup>th</sup> anniversary of formal ties seem to be treading water. Unlike China and Japan which have significant aid programs, the U.S. lacks an overall strategy that coordinates its trade, aid, and investment with larger political goals. The recently signed U.S.-ASEAN Trade and Investment Framework Agreement could be the base for expanding economic relations while bypassing political controversies. Southeast Asia's interest in human security could also be a peg for enhanced U.S. relations, especially given the goodwill generated by U.S. tsunami aid and the U.S. Navy's humanitarian medical and civic action ship visits. Broadening the U.S. agenda could mitigate Southeast Asian views that Washington's attention to the region is exclusively focused on counterterrorism. Enhanced engagement is essential if the U.S. is to continue to be a major ASEAN partner.

## **Chronology of U.S.-Southeast Asia Relations April-June 2007**

**April 2, 2007:** A Burmese student who taught English at the American Center in Rangoon is released after three months in jail. He had been arrested after accepting a U.S. Embassy offer to visit the U.S. and accused of being involved in a U.S.-sponsored political training program in Washington.

**April 3, 2007:** The U.S. amends its International Traffic in Arms regulations to permit the sale of non-lethal defense equipment to Vietnam on a case-by-case basis.

**April 4, 2007:** First U.S. Peace Corps Volunteer program to Cambodia officially begins with 28 U.S. volunteers who will be teaching English in villages in six provinces.

**April 4, 2007:** At a DoD hearing to determine "enemy combatant" status, Southeast Asian Jemaah Islamiyah leader, Hambali, held at Guantanamo, denies that he was an al-Qaeda member.

**April 5, 2007:** U.S. Ambassador to Vietnam Michael Marine and visiting U.S. Congresswoman Loretta Sanchez criticize the physical prevention of wives of Vietnamese dissidents from visiting the ambassador's Hanoi residence.

**April 5-7, 2007:** U.S. House of Representatives Armed Services Committee delegation visits Vietnam to discuss the search for MIA remains.

**April 8-17, 2007:** Malaysian International Trade and Industry Minister Datuk Seri Rafidah Aziz leads a delegation to the U.S. to urge U.S. firms to set up service-based operations in Malaysia, a country with "a well-developed infrastructure, relatively low cost of doing business, as well as an educated and multilingual workforce."

**April 10, 2007:** Indonesian Defense Minister Juwono Sudharsono asks that the United States consider providing training to Indonesia's Special Forces.

**April 11, 2007:** Philippine National Police Deputy Director Avelino Razon, Jr. assures a House of Representatives Foreign Affairs Committee delegation that his country has "strong resolve" to uphold human rights amid the spate of extra-judicial killings in the Philippines.

**April 16, 2007:** The U.S. government advises its citizens not to use Indonesian airlines after a series of deadly accidents this year.

**April 16, 2007:** Indonesian Defense Minister Juwono visits the Pentagon.

**April 16, 2007:** New PACOM Commander Adm. Timothy Keating in Malaysia praises vastly improved security in the Malacca Strait and says sharing maritime security information is an important U.S. goal.

**April 16-19, 2007:** Counterterrorist officials from throughout Asia gather in Honolulu to compare experiences in fighting Islamist terrorism. They agree that much terrorist funding comes from Saudi Arabia.

**April 18, 2007:** About 80 U.S. soldiers are in Indonesia for *Garuda Shield 2007*, a joint exercise with Indonesian forces that signifies the resumption of brigade-level, army-to-army exercises that had been terminated in 1999. Washington restored full military relations with Indonesia in 2005.

**April 18, 2007:** The Fifth Indonesia-U.S. Security Dialogue takes place in Jakarta with both sides committing to strengthen cooperation.

**April 18, 2007:** Singapore Prime Minister Lee Hsien Loong is quoted in *The Wall Street Journal* urging the U.S. to refocus on Asia or risk losing influence to China.

**April 18, 2007:** U.S. Special Operations commander for the Pacific Maj. Gen. David Fridovich states that his troops, if asked, are prepared to train Thai forces in counterinsurgency. Fridovich cited rising violence in southern Thailand. Thai Army Commander Gen. Sonthi Boonyaratglin declines the offer.

**April 25, 2007:** Assistant Secretary of State Christopher Hill, meeting with Cambodian National Police Commissioner Gen. Hok Lundy, urges the Cambodian police to combat trafficking in persons, a serious problem in Cambodia.

**April 25, 2007:** Two Indonesian citizens are sentenced to more than a year in U.S. federal prison for conspiracy to smuggle sophisticated military devices to the Indonesian military. They will be deported upon completion of their sentences.

**April 25, 2007:** The Indonesian Army and U.S. Army in the Pacific agree to create joint training at brigade level for UN peace operations. Indonesian troops coming from this program would replace troops assigned to the UN Peace Operation in Lebanon.

**April 26, 2007:** Lt. Gen. Daniel Leaf, deputy commander of PACOM, visits Hanoi to discuss cooperation potential with Vietnamese military officials.

**April 27, 2007:** Some 120 Philippine and 50 U.S. soldiers begin a three-month anti-terrorism exercise in Mindanao.

**April 27, 2007:** U.S.-based East Timor human rights organization condemns the participation of Indonesian Maj. Gen. Noer Muis in a joint “command post” exercise with the U.S. military. Muis has been indicted for crimes against humanity in East Timor.

**April 30, 2007:** U.S. rewards two Filipino informants \$85,000 for providing information leading to the deaths of two leaders of the Abu Sayyaf terrorist group.

**April 30, 2007:** In its annual report, the office of the U.S. Trade Representative expresses concern over Thailand’s enforcement of intellectual property rights with a particular emphasis on generic drugs.

**May 1, 2007:** State Department’s annual terrorism report says Cambodia is vulnerable to a terrorist presence because of weak law enforcement and corruption.

**May 2, 2007:** The United States announces it will donate 11 Vietnam War-era *UH-11* “Huey” helicopters to the Philippine military to help fight communist and Muslim rebels, according to the chief of the Philippine air force.

**May 2-8, 2007:** Singapore Prime Minister Lee Hsien Loong’s U.S. visit includes Washington, D.C. and San Francisco.

**May 3, 2007:** Speaking at the 116<sup>th</sup> Inter-Parliamentary Union meeting in Bali, Malaysia calls upon the U.S. to leave Iraq and stop being the “world’s policeman.”

**May 8-18, 2007:** Annual Thai-U.S. *Cobra Gold* exercises begin in Pattaya. Of a total of almost 5,000 personnel, 1,900 are from the U.S. with smaller contingents from Singapore, Japan, and Indonesia. *Cobra Gold* is the largest U.S.-led multilateral exercise in Asia.

**May 9, 2007:** Bangkok announces that former U.S. President Bill Clinton's foundation had negotiated deep price reductions for generic versions of these products that will particularly benefit Thailand and Brazil.

**May 16, 2007:** The State Department expresses concern over the prospect of a Russian deal to provide a nuclear research reactor for Burma which has "neither the regulatory nor the legal framework or safeguard provisions" to handle a nuclear program.

**May 22, 2007:** U.S. Assistant Secretary of State Christopher Hill on a Southeast Asia visit urges Burma to free Nobel laureate and opposition leader Aung San Suu Kyi. However, the Burmese junta extended her house arrest for another year.

**May 23, 2007:** Assistant Secretary Hill meets Vietnam President Nguyen Minh Triet.

**May 29, 2007:** The White House expresses concern over the arrest of political dissidents in Vietnam, saying the detentions were out of character for the country's modernization.

**May 30, 2007:** At an Indonesian press conference, Assistant Secretary Hill states that the U.S. seeks to expand training and joint operations with Indonesian armed forces. He denied allegations in Indonesia that the U.S. contributed funds to President Yudhoyono's 2004 election.

**May 31, 2007:** U.S.-Philippine naval *CARAT* exercise begins in the Muslim militant region of Basilan. Some 1400 U.S. forces are participating with a focus on anti-terrorism, counter-smuggling, and humanitarian activities.

**May 31, 2007:** A U.S. maritime training ship, *Golden Bear*, docks in central Vietnam to distribute medical supplies as prelude to a training agreement between the California Maritime Academy and the Vietnam Maritime University.

**May 31, 2007:** Visiting Washington, top U.S. diplomat in Burma Shari Villarosa states that the new constitution being drafted in that country is a sham meant to solidify the military's power once a supposedly civilian government takes over.

**June 1-3, 2007:** U.S. Defense Secretary Robert Gates, Director of National Intelligence Mike McConnell, PACOM head Adm. Timothy Keating, and Joint Chiefs of Staff Chairman Peter Pace attend the annual Shangri-La Dialogue of Asian-Pacific defense and foreign affairs officials in Singapore.

**June 2, 2007:** Defense Secretary Gates meets Singapore PM Lee to discuss bilateral defense cooperation and regional security. Gates expressed appreciation for Singapore's reconstruction assistance to Afghanistan.

**June 4, 2007:** Gen. Peter Pace visits Kuala Lumpur to discuss cooperation between the two countries' militaries. He also addresses students at the Malaysia Armed Forces Staff College.

**June 5, 2007:** Laos commends the U.S. for arresting Hmong leader Vang Pao and eight others for plotting to overthrow the Lao government.

**June 7, 2007:** Through its Rewards for Justice Program, the U.S. pays out over \$10 million to four former Abu Sayyaf terrorist group members who provided information that led to the death of two top Abu Sayyaf leaders in Sulu.

**June 9, 2007:** Vietnam release Nguyen Vu Binh, a prominent government critic, before the trip of President Nguyen Minh Triet to the U.S.

**June 11, 2007:** Indonesia and the Hawaii National Guard announce an agreement to collaborate on non-lethal equipment maintenance and disaster relief operations.

**June 12, 2007:** State Department releases its *2006 Human Trafficking Report* which blacklists Malaysia (with a Tier Three designation) for the first time for failing to prevent thousands of young women and children from falling victim. The Philippines is also listed as not fully complying with minimum protection standards.

**June 13 and June 16, 2007:** The two top leaders of the Southeast Asia al-Qaeda-linked Jemaah Islamiyah are apprehended by the elite U.S.-trained Detachment 88 of the Indonesian National Police, significantly weakening the terrorist group's leadership.

**June 18-23, 2007:** Vietnam's President Nguyen Minh Triet visits the U.S., emphasizing enhanced economic relations but encounters human rights concerns in Congress.

**June 19-21, 2007:** A U.S. Navy delegation led by Adm. Mike Mullen, Chief of Naval Operations, visits Vietnam for talks with the Vietnam Navy High Command.

**June 26-28, 2007:** Chief of the U.S. Pacific Command Adm. Timothy Keating visits the Philippines for high-level military and political discussions.





China-Southeast Asia Relations:  
**China's Activism Faces Persistent Challenges**

Robert Sutter, Georgetown University  
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The major developments in this quarter included the Vietnamese president's state visit to China in May and China's military diplomacy at the Shangri-La Dialogue in early June. Assessments of China's expansive engagement in Southeast Asia continue to show that while Beijing seeks to increase its influence in the region, it faces persistent challenges and limitations in translating its vision of a strategic partnership with Southeast Asia into a sustainable reality.

**Vietnamese president's visit**

At the invitation of Chinese President Hu Jintao, Vietnam's President Nguyen Minh Triet visited China May 15-18. The state visit helped to foster closer bilateral political and economic relations. Both leaders took the opportunity to review their engagement over the last few years. On the political level, both countries have maintained frequent senior-level visits. The establishment of a steering committee on bilateral cooperation has sought to further increase mutual understanding and trust. The Vietnamese side mentioned that "developing relations with China is the first priority in Vietnam's foreign policy." As such, it is willing to deepen the scope and depth of their relations.

A joint communiqué was issued during the state visit, announcing that China and Vietnam will cooperate to ensure partial demarcation this year and full demarcation of their borders by 2008. Since 2002, both sides have engaged in over two dozen rounds of official negotiations to resolve historical border disputes. In addition, the communiqué stated that they will increase joint oil and gas exploration activities in the Beibu Gulf. On the South China Sea, perhaps one of the thorniest issues for both sides, they agreed to refrain from taking unilateral actions that might upset the status quo or exacerbate the conflict. This agreement came in response after a strong official Chinese protest over Vietnam's decision to engage British Petroleum for a joint venture to explore natural gas fields near the Spratly Islands in the South China Sea in April 2007.

Bilateral trade and economic relations between China and Vietnam has been robust. China has been Vietnam's largest trading partner for two consecutive years. In 2006, total trade volume between both sides amounted to nearly \$10 billion, a 21 percent increase from 2005. Officials project that bilateral trade will increase by 50 percent to \$15 billion within the next three years. The two sides agreed to widen bilateral trade along the

borders, improve and enhance the quality of goods in transaction, and promote bilateral investment. China supported Vietnam's membership in the World Trade Organization in January 2007, and it will continue to work with Vietnamese counterparts to further economic collaboration under existing multilateral frameworks, which include the WTO, ASEAN Plus Three, the Asia-Pacific Economic Cooperation, and Greater Mekong Subregion. Both sides concluded that there is a need to conduct a joint study to address some of the emergent challenges following Vietnam's accession to the WTO and issues that may arise with the impending China-ASEAN free trade zone. They have recently agreed to accelerate the construction of an economic cooperation zone along their borders at Pingxiang city in China's Guangxi Zhuang Autonomous Region and Vietnam's Lang Son province. The special zone will include a logistics park, processing park, and will see an elimination of tariffs and import linkage tax.

### **China's participation at the Shangri-La Dialogue**

The highlight of this quarter's military diplomacy between China and Southeast Asia was the active participation by a senior-level Chinese delegation at the Shangri-La Dialogue, an annual Asian security meeting. Held in Singapore from June 1-3, the conference convened scholars, experts, and defense officials from 26 countries. Lt. Gen. Zhang Qinsheng, deputy chief of the general staff of the People's Liberation Army (PLA), delivered a speech on China's role in building international stability. In assessing Zhang's speech to the plenary, it appears that there were three main messages: first, a peaceful external environment is critical for China's internal development, and as such, it will actively pursue a policy of peaceful and cooperative development with regional and international partners to ensure stability in its periphery and elsewhere; second, Beijing's fundamental principle in managing its military relations will be based on "mutual respect, consultation on an equal footing, mutual benefits, and enabling all sides to win through cooperation," a clear message reassuring countries in Southeast Asia that China's emergence as a rising global power will be peaceful and non-confrontational; and more important, taking a swipe at Western military powers, Zhang stated that China "resolutely opposes war policy, aggressive policy, and expansion policy" and will conduct itself "in a spirit of the strong not subjugating the weak, the rich not bullying the poor."

The key messages of Zhang's speech were consistent with Beijing's "new security concept," an ambitious policy that seeks to ensure China's peaceful rise as a global power and to further strengthen strategic partnerships with key neighbors and regions. Specialists quoted in a *Straits Times* article on Zhang's speech noted that China increasingly understands the need to assuage international concern about its military intentions and capabilities. In order to dispel such suspicion, Beijing has considered taking a more proactive approach, and Zhang's participation in this year's Shangri-La Dialogue is an important indication. According to the *South China Morning Post*, Zhang also met with U.S. Joint Chief of Staff Gen. Peter Pace and other senior Pentagon officials in private to raise concerns over the Pentagon's recent assessment of China's military expansion. The Chinese delegation also displayed greater self-confidence as they interacted with other participants throughout the conference during the question and answer period and breakout sessions. There will be residual challenges and internal

resistance in Beijing to adopt full openness and transparency in its military affairs, but Zhang's participation in this year's Shangri-La Dialogue indicated that it is now more willing to engage with the international community.

Remarks made by Singaporean Prime Minister Lee Hsien Loong and Defense Minister Teo Chee Hean on China's rise were reflective of the general perception shared by Southeast Asian governments. Lee acknowledged that while the U.S. remains the primary security guarantor in the region, other emergent powers such as China, Japan, and India are "exerting a decisive benign influence in the region." The looming challenge for Southeast Asian countries mainly lies with China's economic might as they continue to compete for foreign direct investment, export markets, and production and manufacturing bases; ASEAN has been striving to evolve into a closer economic bloc in response. Lee stated that most Asian countries "see China's actions [in its military build-up] not as a threat to regional security, but as a specific response to the cross-Strait [sic] situation." He also explained that the prevailing strategic balance in the region will not be upset anytime soon, given the heavy U.S. presence and its vital role in the region's stability and prosperity. In Defense Minister Teo's speech, he noted that while the implications of China's rise for the region will become increasingly "complex" and "less clear-cut" the array of strengthening bilateral and multilateral mechanisms in the region – which includes defense treaties, strategic partnerships, the ASEAN Regional Forum, APEC, and the East Asia Summit – will help manage political, economic, and military relations in the region. The underlying implications of Teo's statement suggest that increasing dialogue in these different settings will decrease conflicts and confrontation and further embed rising powers, including China, in regional prosperity and stability.

### **Security, energy, and the Strait of Malacca**

An unusually frank and comprehensive assessment of China's key energy, security, and other interests in Southeast Asia, and China's likely responses to challenges to those interests, came in an article in the spring 2007 edition of the international journal *China Security*. It was written by a Zhang Xuegang, an expert on China-Southeast Asian matters, who works for a Chinese government institution, the China Institutes of Contemporary International Relations (CICIR). Zhang's article presumably reflects personal views, though there was no such disclaimer in the article, which presumably also provides indications of thinking in CICIR, an organization known for its close contacts to Chinese foreign and security officials.

Zhang gave due attention to various Chinese economic, political, and security interests in Southeast Asia, but he emphasized strongly that "more than any other factor, however, it is energy – including China's dependency on the Strait of Malacca ... that is the driving force behind China's interconnectedness with Southeast Asia." To underline his point, he said that "China is dependent on the Strait for 80 percent of its oil importation," and that "over half the vessels passing through the Strait now head for China."

Zhang considered alternatives to oil shipments for China through the Malacca Strait but found each wanting. A proposed canal through the Kra peninsula was hampered by economic and technical constraints and “upheaval” among Thailand’s southern Muslim populations. A simpler plan for roads, rail, and pipeline communication across the peninsula ran up against Thai government preoccupations with other matters since the 2006 military coup. Zhang noted that China and Myanmar have been working on a proposed oil pipeline from the southwestern Myanmar coast to Kunming in China’s Yunnan Province. But he claimed that “because the [Myanmese] junta worries about being excessively dependent on exporting oil to China,” the planned oil pipeline has “stagnated recently.” The author noted that “a less sensitive” gas pipeline linking Burma and China was going forward and that Thailand and other Southeast Asian states exported gas to China. Meanwhile, an ambitious 5,500 km trans-Asian railway network that would link China to many ASEAN states and provide means for shipping oil was said to face “a number of problems,” notably the estimated cost of \$11 billion.

In this situation of high Chinese dependence on free flow of oil through the Malacca Strait, Zhang listed perceived threats. The U.S. headed the list. He advised, “America’s dominant control of this critical channel would provide it with a strategic grip on the whole of East Asia, an alarmingly vulnerable situation for China.” He also noted dangers from Japanese, Indian, and other moves to exert influence in the strait. He advised that China was endeavoring to use approaches of reassurance and cooperation to build constructive relations with Southeast Asian countries and other powers including the United States that would secure Chinese energy flows and other concerns. At the same time, he carefully noted that in the event that sea-lanes were blocked because of a conflict over Taiwan or for some other reason, “China would employ force against any military threats to those interests.” He added “China possesses the capability, through surface and sub-surface naval capabilities as well as its short- and medium-range conventional missiles, to achieve such goals from the Taiwan Strait to the Malacca Strait.”

Zhang’s clearly focused assessment of the serious dilemma Chinese energy security faces in the Strait of Malacca has surfaced from time to time in comment attributed to Chinese officials, though official Chinese media is more prone to emphasize the positive as China seeks mutually advantageous gains and “win-win” solutions as China advances diplomatic, economic, and other relations with Southeast Asian countries. The Chinese controlled Hong Kong newspaper *Wen Wei Po* on Jan. 14, 2004 ran an account of President Hu Jintao warning Chinese officials of the need to take measures to deal with China’s strong dependence on sea-lanes through the Strait of Malacca. According to various reports, the rising importance of energy security in Chinese national security policy has reinforced Chinese interest in acquiring aircraft carriers and other military means that would advance Chinese power projection abilities in the South China Sea and elsewhere. Adm. Timothy Keating, the commander of U.S. forces in the Pacific, was reported to have told journalists in late May after visiting China earlier that month that “all the Chinese leaders with whom he spoke ... indicated their inclination to pursue the development of aircraft carriers.”

## **Chinese bases in Myanmar?**

As the Chinese administration has developed close military ties with the Myanmar junta for almost 20 years, there have been repeated reports and some expert and government assessments that the relationship has reached the point of China establishing a SIGINT station on Great Coco Island along the Indian Ocean and establishing other bases in the country. Andrew Selth, a former Australian intelligence officer and now Research Fellow at Griffith University in Brisbane, used his expert knowledge of Myanmar and meticulous research and analysis to provide what appears to be the definitive assessment of the sensitive issue of reported Chinese bases in Burma. In the Griffith University's *Griffith Asia Institute Regional Outlook* paper No. 10 of 2007, Selth mustered a wealth of evidence to conclude that the Indian government was correct in recently concluding that past Indian expert and other charges of a Chinese SIGINT station or Chinese bases were wrong. Selth went on to note that China may have assisted with equipping and training "a number of small maritime surveillance sites scattered around the [Myanmese] coastline," but he judged that "it is unlikely that any Chinese military personnel are permanently based in Myanmar or directly operate any intelligence collection stations there." He also countered those who look at Chinese port construction as presaging Chinese naval bases, asserting "China may have helped to build or upgrade a number of ports in [Myanmar] but these are, and always have been, [Myanmese] facilities." He saw various and sometimes ulterior motives behind the recurring charges by foreign commentators, specialists, and governments that led to the "myth" of Chinese bases in Myanmar.

## **Assessing China's rise and implications for the U.S.**

Debate continued this quarter among international specialists about the significance of China's rising influence in Southeast and other parts of Asia for the longstanding U.S. leadership position in the region. Leading those warning of significant U.S. loss as China rises, Joshua Kurlantzick marked the publication of his book on China's adroit use of what he broadly defined as soft power to out maneuver the United States. He notably published a series of shorter commentaries including an assessment in the *Washington Quarterly* emphasizing Beijing's effective interaction with ASEAN and rising Asian multilateralism that he said increasingly marginalizes the United States. The journal paired Kurlantzick's assessment with a much more positive assessment of the U.S. position in the region as China rises by Daniel Twining, a U.S. Fulbright scholar at Oxford University and a German Marshall Fund fellow.

A prolific commentator, Kurlantzick has pursued arguments popular among experienced journalists and expert commentators in recent years showing the U.S. seriously falling behind China's rising influence in Southeast Asia on account of the war in Iraq, inattentive diplomacy, and U.S. foreign policies unpopular in the region. China's growing importance in Southeast Asia as a leading trader, foreign investment and foreign assistance partner, and attentive diplomatic actor in bilateral relations and multilateral forums is backed by China's growing military power and influence, undermining inattentive U.S. leaders preoccupied with Iraq and the broader war on terrorism. Underscoring this line of argument, the editor of the *Far Eastern Economic Review*

concluded in a commentary in May pegged to Kurlantzick's new book that while the bid of Maoist China to re-establish Chinese hegemony in Asia failed 30 years ago, what he called "China's bid for Asian hegemony" currently faces "favorable winds." Meanwhile, media reports of Singapore Prime Minister Lee Hsien Loong's meeting in Washington in early May with U.S. President Bush highlighted the common refrain from Southeast Asian leaders that the U.S. should pay more attention to the region and maintain an appropriate balance in its relations with China conducive to stability in Asia.

Twining's counterpoint to Kurlantzick showed that the U.S. leadership has hardly been passive or dormant in Southeast or other parts of Asia. Rather, it was seen following a grand design in Asia that will assure U.S. leadership in the face of China's rise. The U.S. plan focuses on building close relations with and facilitating the rise of Japan, India, and emerging regional powers in Southeast Asia, notably Indonesia. The binding ties between these states and the U.S. involve security cooperation and common political values. U.S. leaders seek partnerships not subordination, assessing that strong and likeminded independent Asian states with close and cooperative ties with the U.S. will insure an Asian environment that will channel China's rise in constructive directions favored by the U.S. and preclude disruptive Chinese actions at odds with U.S. interests in regional stability and development.

Interviews this quarter with current and former U.S. government officials concerned with Southeast Asia and China's rise reinforced Twining's assessment of generally effective U.S. activism and overall confidence in the face of China's rise in Southeast and other parts of Asia. The interviews did show that in recent years a number of U.S. officials were concerned with China's rise and its impact on the U.S. position in Asia. They were seen to break down into three groups pressing for change and greater activism in U.S. policy to deal with the consequences of China's rise in Southeast Asia and other parts of Asia:

- One group of U.S. officials saw China's leaders working actively to undermine the U.S. position as China rose in Asia.
- Another group saw China's leaders endeavoring to rise for other reasons, but the overall effect of China's rise was negative for U.S. influence and position in Asia.
- The third group, identified with former Deputy Secretary of State Robert Zoellick, saw the distinct possibility that the United States could work cooperatively and constructively with China as it rose in Asia, with overall benefit for U.S. interests.

All three groups ran up against what was seen as an attitude of "complacency" by senior U.S. decision makers. The officials in the three groups pressed actively against this perceived complacency, notably in 2003-2005. This prompted greater U.S. government activism and also thorough review of the importance and pros and cons for the U.S. of China's rise in Southeast Asia and other parts of Asia.

The U.S. government review seemed to show that the U.S. standing in and approach to Asia – as noted by Twining and others – was sound and that China's rise – while increasingly important – posed a less substantial and significant challenge for U.S.

interests than many of the published commentaries by specialists like Kurlantzick might have led one to believe. Thus, since 2005 there was said to have been a calming of Washington's angst and debate on China's rise. One official quipped, in noting why U.S. officials currently may not look at China's rise with great alarm, that U.S. officials are now suffering from "anxiety fatigue" as far as worrying about China's rise is concerned.

Meanwhile, a closer reading of some points in Kurlantzick's assessments and a variety of other data available this quarter also seem to support the view that China's rise in Southeast Asia may not be as strong or as significant for U.S. Asian leadership as some commentators say. For example, in a *Newsweek* commentary in April, Kurlantzick cited the author of an unpublished U.S. National Defense University (NDU) study to assert that "Chinese assistance to key Asian countries such as Indonesia and the Philippines now far outstrips U.S. largesse." A closer look at the NDU study shows that its methodology focused on adding up publicly announced or reported Chinese aid without clear evidence of whether the reports were true or whether actual money was transferred from China. This appeared to grossly exaggerate the amount of Chinese aid actually going to Southeast Asian nations. It belied the assessments of experienced analysts of China's secret foreign assistance program that, based on available Chinese government spending figures and other data, have put the cost to China of its foreign aid effort at around \$1 billion a year for the whole world. Among many notable areas of apparent exaggeration relevant to Southeast Asia and to the *Newsweek* commentary above, the NDU study said that \$4.3 billion of Chinese assistance went to Indonesia in 1998 – a figure that was clearly well above any U.S. aid to the country but which appears very hard to believe given China's overall restrictive foreign assistance efforts at the time and the concurrent turmoil and anti-Chinese feeling in Indonesia resulting from the Asian economic crisis.

Also this quarter, the argument that China's rising importance as a trading partner of Southeast Asian countries was displacing the U.S. ran up against an April 10 Research Memorandum by the Hong Kong Monetary Authority that concluded that Southeast Asian and other regional economies remain very dependent on the U.S. market and U.S. investment, and that "domestic demand in China still lacks the scale to take the driver's seat of demand growth in the region." China's image building in Southeast Asia suffered this quarter with the publication in April of a detailed *Washington Post* assessment of how Chinese firms destroy Southeast Asian forests, and the publication of studies from the Stimson Center, a Washington think tank, highlighting the role of Chinese firms and Chinese officials in the building of environmentally destructive dams in the Greater Mekong region.

That Southeast Asian and broader Asian multilateralism is less important than some may expect was underlined by Chinese commentary at the time of the Boao Forum for Asia in China's Hainan Island in April. Chinese official media quoted Long Yongtu, secretary general of the forum, a counterpart of the annual meeting of world leaders in Davos Switzerland, that Asia "needed at least 50 years to achieve economic integration." The media highlighted Sino-Japanese economic, political and other differences as significant "obstacles." A *China Daily* editorial on May 8 concluded that "a deeply integrated Asia

is far from a reality, given the huge differences between Asian countries. And there is no lack of sober understanding of the difficulties to be overcome.”

### **Looking ahead**

The 17<sup>th</sup> Party Congress of the Chinese Communist Party will be held in the fall, although exact dates have yet to be confirmed. It is expected that this year’s session will see the formal inclusion of Chinese President Hu Jintao’s ideology of a “harmonious world” included in the party doctrine as an important element of Chinese foreign policy. This was first hinted at the Central Work Conference on Foreign Affairs (FAWC) convened by Hu in August 2006 to address the widening array of problems in the conduct of its foreign affairs work and the need to better align Beijing’s foreign policy with its domestic priorities. The extent to which this would shift Chinese policy toward Southeast Asia will be closely monitored in the upcoming party congress.

## **Chronology of China-Southeast Asia Relations April-June 2007**

**April 1, 2007:** The *Washington Post* reports that Chinese firms and American consumers are destroying the Southeast Asian and Russian forests.

**April 3, 2007:** Thai Princess Maha Chakri Sirindhorn arrives in Beijing for a 12-day visit to China. Sirindhorn meets senior Chinese officials to expand fields of cooperation that will contribute to the strategic partnership between China and Thailand.

**April 4, 2007:** Lt. General Zhang Qingsheng, deputy chief of the General Staff of the People’s Liberation Army (PLA) meets Sjafrie Sjamsoeddin, secretary general of Indonesia’s Ministry of Defense, in Beijing for the second round of China-Indonesia security consultation. According to the *Zhongguo Xinwen She* news agency, the two sides exchange views on international and regional security issues and enhancing relations between the two armies.

**April 9, 2007:** *Newsweek* International publishes Joshua Kurlantzick adaptation of his book “Charm Offensive: How China’s Soft Power is Transforming the World” that highlights Chinese soft power.

**April 10, 2007:** Research Memorandum by the Hong Kong Monetary Authority concludes that Southeast Asian and other regional economies remain very dependent on the U.S. market, U.S. investment, and that China’s domestic demand still lacks the driving force to steer the region.

**April 12, 2007:** At the invitation of head of the Lakas-Christian Muslim Democrat Party, the ruling party in the Philippines, Ai Ping, director general of the Chinese Communist Party International Department, leads a delegation to observe the Philippine elections.



**April 21, 2007:** Wu Bangguo, chairman of the Standing Committee of the National People's Congress, meets Gloria Arroyo, president of the Philippines, at the annual Boao Forum for Asia (April 21-22). With relations "at an historic high" both sides agree to deepen cooperation in trade, agriculture, infrastructure development, and political trust.

**April 25, 2007:** According to *Jane's Defense Weekly*, China has put forth a proposal to ASEAN countries to organize its first multinational military exercise. While the responses from ASEAN are still unknown, China's overture indicates the PLA's intention to further engage military forces in the region.

**April 25, 2007:** Goh Chok Tong, Singapore's senior minister and former prime minister, begins a four-day official visit to China. He meets Jiang Zhenghua, vice chairman of the National People's Congress, to review the close political and economic ties between the two countries. China is Singapore's fourth-largest trading partner while Singapore is China's seventh-largest trading partner. China remains Singapore's top destination for foreign investment. Both sides agree to intensify trade and investment ties.

**April 28, 2007:** Wu Bangguo meets Ramli Ngah Talib, speaker of Malaysia's House of Representatives, and urges both sides to upgrade the level of bilateral ties and frame an action plan for strategic cooperation.

**May 2, 2007:** Mohammed Bolkiah, Brunei's minister of foreign affairs and trade, receives Wu Guanzheng, member of the Standing Committee of the Political Bureau of the Central Committee of the Chinese Communist Party, to discuss strengthening bilateral ties in trade and energy. They agree to increase trade to \$1 billion by 2010.

**May 2-8, 2007:** Singapore Prime Minister Lee Hsien Loong visits the U.S. and meets President Bush.

**May 8, 2007:** A *China Daily* editorial concludes that "a deeply integrated Asia is far from a reality, given the huge differences between Asian countries."

**May 10, 2007:** China and Vietnam announce that a new highway bridge spanning more than a quarter of a kilometer over the Honghe River on their borders is expected to be completed and opened for public use in December 2007. The new bridge will cut travel time and increase the flow of trade between both countries.

**May 14, 2007:** Liu Qi, member of the Political Bureau of the Chinese Communist Party Central Committee, meets Sombath Yialih, member of the Secretariat of the Central Committee of Lao People's Revolutionary Party, to exchange views on strengthening relations between the two parties and the two countries. Sombath is leading a senior Laotian delegation for a week-long visit to China.

**May 15-18, 2007:** Vietnamese President Nguyen Minh Triet visits China and meets Chinese President Hu Jintao in Beijing. They emphasize the positive political and economic relations in recent years. They agree to increase bilateral ties, enhancing cooperation in trade, politics, culture, transportation, and people-to-people exchanges. A joint communiqué agreeing to finish border demarcation in 2008 is also issued.

**May 16, 2007:** *China Security* publishes Zhang Xuegang's article, "Southeast Asia and Energy: Gateway to Stability," on China's relationship with energy. Zhang is a Chinese expert on China-Southeast Asian issues.

**May 23, 2007:** Beijing announces that it will not sign a joint statement issued by ASEAN urging Myanmar to release detained democracy leader and Nobel Peace Prize laureate Aung San Suu Kyi arguing her confinement is an internal matter for Myanmar's government and urges Myanmar to maintain political stability while making progress toward national reconciliation.

**May 23, 2007:** He Yong, deputy secretary of the Central Commission for Discipline Inspection of the Chinese Communist Party, meets Taufleuarachman Ruki, chairman of the Corruption Eradication Commission of Indonesia, to discuss increasing bilateral cooperation in combating corruption between China and Indonesia.

**May 25, 2007:** Lt. Gen. Zhang Qingsheng visits the Philippines to attend the third round of bilateral defense and security dialogue. Zhang and his counterpart discuss a wide range of issues, including maritime security, defense and military construction, terrorism, and the regional stability in Northeast Asia. Both sides agree to strengthen exchanges and collaboration between the PLA and the Armed Forces of the Philippines (AFP).

**May 28, 2007:** Adm. Timothy Keating, Pacific Command commander says, in reference to his May 10-15 visit to China, to the *Washington Times*, "all the Chinese leaders with whom he spoke ... indicated their inclination to pursue the development of aircraft carriers.

**May 29, 2007:** Lan Lijun, the Chinese ambassador to Indonesia, announces that Beijing will donate \$910,000 to support Indonesia's avian flu eradication program. China's assistance is provided under a memorandum of understanding between both countries on technical and economic cooperation in October 2006. Under the MoU, China agreed to contribute up to \$2.2 million to support the eradication program. In the first phase, China delivered \$775,000 worth of vaccines, syringes, disinfectants, and medical equipment.

**May 29, 2007:** According to the Chinese Ministry of Commerce, trade between China and Malaysia will reach \$50 billion before 2010. Assistant Commerce Minister Chen Jian notes that more Chinese companies are expected to invest in Malaysia given the latter's political stability and Beijing's policy of encouraging more enterprises to invest abroad. The first quarter of 2007 saw bilateral trade at \$13.4 billion. Malaysia is China's eighth largest trading partner and the second largest among ASEAN countries.

**May 29, 2007:** Chinese Premier Wen Jiabao meets Thai Prime Minister Surayud Chulanon in Beijing. They discuss historical amity between the two countries and agree to enhance strategic cooperation. The two leaders agree to maintain the frequent senior-level exchanges and meetings, work to boost trade volume to \$50 billion by 2010, and increase collaboration on cultural and educational exchanges, anti-drug campaigns, defense issues, and public health. These measures will be included in the “Thailand-China Joint Action Plan for Strategic Cooperation,” an agreement defining the renewed partnership between both sides.

**June 1, 2007:** Lt. Gen. Zhang Qingsheng visits Singapore to attend the Shangri-La Dialogue. Zhang delivers a speech on China’s role in international stability. His attendance marks the most senior-level delegation Beijing has dispatched to the meeting.

**June 1-3, 2007:** The sixth IISS Shangri-La Dialogue is held in Singapore.

**June 3, 2007:** To deepen collaboration between China and Singapore, Tharman Shanmugaratnam, minister of education of Singapore, announces that his ministry has agreed to help train 1,200 mid-to senior-level officials from Dalian through its urban development, public policy management, and administration programs.

**June 5, 2007:** Chinese State Councillor Tang Jiaxuan meets First Secretary of Myanmar’s State Peace and Development Council Thein Sein. Thein briefs Tang on the domestic situation in Myanmar; Tang urges Myanmar to “maintain stability, national concord and economic development, which serve the interests of Myanmar people and are conducive to regional peace, stability and development.” Both sides agree to strengthen bilateral relations through pragmatic cooperation in trade and drug enforcement mechanisms.

**June 6, 2007:** Philippine President Arroyo embarks on a two-day visit to Chengdu and Chongqing in southwestern China to strengthen trade and tourism ties between the two countries and encourage more Chinese investment in the Philippines.

**June 6, 2007:** Cambodian Prime Minister Hun Sen praises China for Beijing’s generous unconditional aid to Cambodia. Beijing has reportedly emerged as Cambodia’s biggest donor, with at least \$800 million of aid since 2005. International donors, however, have become increasingly frustrated with the lack of reforms and the government’s unwillingness to tackle corruption in Cambodia.

**June 6, 2007:** China and Myanmar agree to strengthen cooperation on management of border lumbering and on the protection of wild animals. According to the Chinese State Forestry Administration, Beijing has held two rounds of consultations with Myanmar since 2006 to address the problem and work toward a memorandum of understanding on forestry cooperation and a protocol on forest firefighting.

**June 7, 2007:** Chinese Vice President Zeng Qinghong meets Jusuf Kalla, his Indonesian counterpart, in Beijing. They agree to develop a stronger strategic partnership in several areas, such as trade, energy security, infrastructure development, agriculture, fishery, and public health. Kalla, on a five-day visit, also meets local officials in Sichuan and Hubei.

**June 12, 2007:** Following a visit to Kunming, Yunnan in early June, Lt. Gen. Thein Sein, first secretary of Myanmar's State Peace and Development Council, confirms that Myanmar will export natural gas from its offshore gas reserves to Yunnan via a pipeline China has offered to build. In April 2007, Beijing approved the construction of an oil pipeline from Sittwe, a port in southern Myanmar, to Kunming, Yunnan.

**June 14, 2007:** Chinese Foreign Ministry spokesperson Qin Gang condemns Vietnam for violating a regional code of conduct on the South China Sea and asks Hanoi to stop oil exploration near the Spratly Islands. BP, in a joint venture with the Vietnam National Oil and Gas Group, has reportedly halted plans to conduct further exploration.

**June 18, 2007:** Lou Gan, member of the Standing Committee of the Political Bureau of the CCP Central Committee, meets Vietnamese Deputy Prime Minister Truong Vinh Trong in Beijing to exchange views on judicial reform and bilateral relations. During Trong's week-long visit, he will also meet representatives from the Chinese Central Commission for Political Science and Law and the Supreme People's Court.

**June 21, 2007:** Malaysian Tourism Minister Datuk Seri Tengku Adnan Mansor arrives in Beijing for a week-long visit to meet with counterpart Shao Qiwei. The two sides propose a "zero-fee" package tour agreement, providing discounts for transportation and accommodations to promote bilateral tourism development. Malaysian authorities are targeting 1 million Chinese tourists during Visit Malaysia Year 2007, more than double the 440,000 who visited Malaysia in 2006.

**June 21, 2007:** Asian Development Bank announces that China, Thailand, and Laos have agreed to build a bridge across the Mekong River. The bridge will cross the Mekong River between Chiang Khong in northern Thailand and Houyxyay in Laos, directly linking China's Yunnan province with Bangkok. The infrastructure project will be completed in 2011 and will link the economies of Cambodia, China, Laos, Myanmar, Thailand, and Vietnam to facilitate trade, tourism, and further integrate the Mekong region.

**June 22, 2007:** Representatives from China and member countries of ASEAN conclude the second Conference on China-ASEAN People-to-People Friendship Organization (CACPPFO). A five-year plan to strengthen people-to-people cooperation and exchanges at senior-levels is issued.

**June 24, 2007:** The 16<sup>th</sup> World Economic Forum on East Asia opens in Singapore with participation from ASEAN countries and dialogue partners. The Chinese delegation is represented by Assistant Governor of the People's Bank Yi Gang. The forum will focus on four key themes: Asian leadership, risk management, sustainable growth, and the challenge of competitiveness for regional economies.

**June 25, 2007:** Chinese and Philippine police announce that they have jointly broken a major cross-border drug production and trafficking case, seizing more than 180 kg of methamphetamine hydrochloride, commonly known as “ice.” As part of the ASEAN-China anti-drug campaign, the Chinese Ministry of Public Security had been sharing information with police in the Philippines, Thailand, Malaysia, and Chinese Hong Kong and Macao.

**June 26, 2007:** The ASEAN Cosmetics Committee decides to collectively ban import of all Chinese toothpaste under the trademarks “Mr. Cool” and “Excel” which have been found to contain high levels of diethylene glycol (DEG), a toxic chemical.





**China-Taiwan Relations:  
Dueling in the International Arena**

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Beijing has remained concerned that President Chen Shui-bian will provoke some new cross-Strait confrontation. For his part, Chen has continued to try to create a stronger sense of Taiwan identity during his remaining months in office. These have lead Beijing to be even more implacable in insisting that Taiwan be viewed as part of China. Much of the confrontation has been in the international arena: over the Olympics, in the WHO and other international organizations, and for diplomatic recognition. There has been little movement on cross-Strait functional issues. On the military front, Taipei has been somewhat more open about its development of offensive missiles, and the Legislative Yuan has finally appropriated funds to begin procurement of some elements of the arms package.

**Beijing's official concerns**

Beijing officials have continued to express publicly and privately concerns that President Chen would provoke a confrontation over cross-Strait relations during his remaining time in office. In early April, Taiwan Affairs Office (TAO) Minister Chen Yunlin came to Washington for consultations. His main concern was that President Chen would some how launch a constitutional reform initiative, perhaps using some extra-constitutional convention or manufacturing a ruling from the Council of Grand Justices authorizing an extra-constitutional procedure. Secondly, Minister Chen was concerned about elements in the Democratic Progressive Party (DPP) promoting, with President Chen's support, a referendum on joining the UN under the name "Taiwan." Chen Yunlin's hoped to energize U.S. pressure on Taipei to block such moves as Beijing has little ability to block them on its own. Washington listened politely. While recognizing the limits of what lame duck President Chen could accomplish, the Bush administration remains suspicious of him and vigilant in promoting U.S. interests.

At the same time, Beijing remained more hopeful about the future. Although the DPP presidential primary in April pressured all the DPP hopefuls to voice support for hardline DPP goals, the emergence of Frank Hsieh Chang-ting as the DPP presidential candidate was seen positively. Beijing officials and academics remain uncertain as to who will win next March. However, with Hsieh's selection, they believe that, whoever wins, the next president will be easier to deal with than Chen Shui-bian. If KMT candidate Ma Ying-jeou were to win, Beijing believes the five-point program agreed between Secretary

General Hu Jintao and KMT Honorary Chairman Lien Chan in 2005 will provide a basis for progress. This belief was reaffirmed when Hu received Lien in Beijing on April 28 during the CCP-KMT Economic Forum. Beijing is less certain about the prospects if Hsieh is elected and will be watching his positions closely in the months ahead.

### **Chen promotes Taiwan identity**

With his ability to make progress on constitutional reform blocked, Chen Shui-bian has continued to focus on strengthening Taiwan identity at home and abroad. Chen sees this effort as an important part of his legacy, as a way to create political realities that his successor will not be able to reverse, and as a means to shape the coming presidential campaign. Chen is fearful that Ma will cut deals with Beijing that will prevent eventual independence, and he is suspicious of Frank Hsieh's more pragmatic approach to cross-strait relations.

To these ends, Chen launched a campaign to join the WHO as a full member in April. He quietly encouraged DPP Chairman Yu Shyi-kun's efforts to have the party adopt a resolution on making Taiwan a "normal country," a code word for changing the constitutional view of Taiwan's sovereignty, and he threw his weight behind the efforts of Yu and other DPP fundamentalists to gather signatures for a referendum on joining the UN under the name "Taiwan" to be held together with the election. Other name-rectification and de-sinification moves continue to be pursued.

### **Olympic gamesmanship**

Chen's efforts to promote Taiwan's separate identity have only increased Beijing's determination to block Taipei everywhere in the international arena. The more Chen pushes for acceptance of the name "Taiwan," the more Beijing has insisted on using the term "Taiwan, China" to reflect its view that Taiwan is part of China.

One arena has been the struggle over Taipei's place in the route that the Olympic Torch will follow next summer. Would Taipei be part of the torch's international travels or part of its passage through China? In talks in Taipei in April, Beijing's Olympic Committee proposed a route – from Hanoi to Taipei to Hong Kong – that at least conceptually could be interpreted by each side as consistent with its own position. At first it seemed, Taipei might accept this proposal. However, when the route was formally announced by the International Olympic Committee (IOC) on April 26, Taipei rejected it. Their reason for doing so was that Beijing would not use Taipei's Olympic name – Chinese Taipei – in referring to the route, instead using the name "Taiwan, China." Taipei was unwilling to accept this or an arrangement in which each side would choose its terminology because it believed that Beijing's voice was so dominant internationally that acquiescing in Beijing's calling it "Taiwan, China" in an Olympic context was unacceptable. Some time later, President Chen publicly said that to be acceptable the torch would have to come to Taipei from a third country and leave for a third country – a proposal Beijing is certain to refuse. DPP Chairman Yu proposed boycotting the Olympics.



Fortunately, there are time and opportunities for this issue to be revisited. There is the possibility of blurring the political implications by describing the route as being from the Vietnam Olympic Committee to the Chinese Taipei Olympic Committee to the Hong Kong Olympic Committee. This might provide a basis for agreement, provided Beijing would be willing to stick with using the “Chinese Taipei” Olympic terminology. In early June, Mainland Affairs Council (MAC) Chairman Chen Ming-tong said Taipei was open to further talks. It appears the IOC has urged Beijing to adhere to Olympic terminology. During press conferences in late June, the TAO spokesman used the term Chinese Taipei in discussing the torch issue. This was welcomed in Taipei.

### **International struggle**

On April 11, President Chen wrote WHO Director General Margaret Chan applying, not for observer status as a health entity, but regular membership in the WHO for “Taiwan.” The public explanation for this significant change was that 10 years of applications for observer status had failed and in addition that the U.S. proposed approach of seeking “meaningful participation” had proved far from satisfactory. President Chen laid out his justification of this new approach quite eloquently in an op-ed piece in the Washington Post on May 11. Of course the real political rationale for the move was the Taiwan identity and election aims described above.

The outcome of this new approach was quite predictable. On May 14, the World Health Assembly (WHA) voted 148-17 to reject Taipei’s application on the grounds that Taiwan is not a sovereign state and hence not qualified for membership. In contrast with previous years when many major states had supported observer status for Taiwan, this time not even all of Taiwan’s diplomatic allies supported its position. Most importantly, the U.S. decided to vote against Taiwan because of its “one China” policy in a move that also underlined its message that the U.S. could not support President Chen’s plan to apply for UN membership as “Taiwan.” While the outcome indicated that Chen’s application had proven counterproductive to Taiwan’s interests, the Chen administration insisted it had been worthwhile to make clear to the international community Taiwan’s just request.

This summer, the new International Health Regulations (IHR) adopted by the WHA will come into effect. Even though the IHR contain a provision for application by nonmember areas, Beijing has asserted that the IHR should apply to Taiwan as part of China. Beijing announced May 15 that it was negotiating with the WHO a supplement to the existing WHO-PRC memorandum of understanding (MOU) on Taiwan that would detail how the regulations would be applied to Taiwan. To buttress its resistance to Beijing’s interference in its dealing with the WHO on the IHR, Taipei revealed, as has been subsequently confirmed, that, contrary to normal practice, the WHO Secretariat had refused to share the text of the existing WHO-PRC MOU with other WHO member governments on the grounds that it was a confidential agreement with China. Taipei complained legitimately that the MOU requirement that every application for individuals from Taiwan to participate in WHO technical meetings had to obtain advance approval from Beijing was effectively denying Taipei the opportunity to participate in many technical meetings to which the WHO Secretariat had invited it. This situation should be

seen as unacceptable to all interested in an effective international health regime. How the IHR will apply remains to be worked out.

This year Beijing applied to resume participation in the World Animal Health Organization, normally referred to by its French initials as the OIE. In doing so, Beijing demanded that long-standing OIE member “Taipei China” must change its name in the organization to “Taiwan, China” and that the OIE must explicitly endorse its view that Taiwan is a part of China. The outcome of intense negotiations was that the OIE adopted a resolution changing Taipei’s name in the organization to “Chinese Taipei” and designating it a “non-sovereign regional member,” but saying nothing on the question of whether Taiwan is a part of China. The U.S. joined 113 others in voting for this resolution. Ignoring that it did not get what it want, Beijing declared the outcome a success; Taipei saw the language on its being “non-sovereign” as a humiliating defeat.

The international struggle continued also over diplomatic recognition. On May 1, tiny Saint Lucia, with a new government, decided to switch diplomatic recognition to Taipei. Taipei’s fleeting success did not last long. When Costa Rica joined in voting against Taiwan’s application for membership in the WHO, the handwriting was on the wall. On June 7, Costa Rica, the most highly regarded of Taiwan’s remaining diplomatic allies, announced the establishment of relations with Beijing and the termination of its diplomatic ties with Taipei. Taipei now fears Costa Rica’s decision will precipitate other defections, and Beijing’s Foreign Ministry has called on Taiwan’s remaining allies to establish ties under the “one China” principle.

### **DPP UN referendum**

The proposal for a referendum on joining the UN under the name “Taiwan” has long been a goal of DPP fundamentalist Trong Chai. Trong launched the DPP on a referendum signature drive while he was serving briefly as acting party chairman. President Chen and current Chairman Yu Shyi-kun have ardently supported the proposal, which they want held in conjunction with the election to help mobilize the DPP base. That UN membership is a quixotic objective and use of the name “Taiwan” even counterproductive is of little consequence because the motivation is overwhelmingly domestic politics. Candidate Frank Hsieh has long endorsed the goal of joining the UN as Taiwan but he has been remarkably silent on the referendum initiative. Ma Ying-jeou supports the goal of joining the UN but says the name used should be the one likely to be more effective.

This referendum plan has been among the factors Beijing has cited as making 2007 a dangerous year for cross-Strait relations. On June 13, TAO spokesman Yang Yi said the UN referendum proposal would be a significant step toward de jure independence and endanger peace in the Taiwan Strait. Washington has treated the issue carefully, endorsing referendums on domestic issues as a part of Taiwan’s democratic development but making explicit that it opposes this UN referendum because it is a unilateral action that appears designed to change Taiwan’s status. President Chen has reacted to U.S. opposition by insisting that the referendum plans will go forward. However, on June 29,

the Referendum Review Committee, voting along party lines, rejected the DPP's UN referendum proposal. This controversial decision is a serious setback, but it is not the end of the story.

### **Functional issues remain stalled**

It appears there was a long hiatus during April and May when no meetings were held on expanding cross-Strait charter flights and finalizing arrangements for Chinese tourists coming to Taiwan. Sources on both sides now indicate that the practical aspects of tourism have been resolved. The hang up appears to be the wording of a cover agreement on tourism in which Beijing is said to seek explicit language that the travel is domestic. As there are easy ways around the domestic/international terminology issue, it seems reasonable to conclude that there has been some opposition in Beijing to making progress with the Chen administration in the pre-election period. Nevertheless, on June 21, MAC Chairman Chen announced there had been some progress on the tourism issue which implies that talks have recently resumed, but without yet reaching agreement.

### **Military issues**

Press reporting on the computer simulation game held in mid-April as part of Taiwan's Han Kuang 23 military exercise produced additional public confirmation that Taiwan is developing missiles capable of striking the mainland. Taipei's Ministry of National Defense acknowledged the accuracy of April 21 press stories reporting that the MND had included the use by Taiwan's team of ballistic and cruise missiles in the simulation. On April 26, MND Minister Lee told the Legislative Yuan (LY) that Taiwan proposed calling its new missile system, the Tactical Shore-based Missile for Fire Suppression (TSMFS), believed to be Taiwan's Hsiung Feng 2E land attack cruise missile.

When this information hit the press, the U.S. government made public its opposition to Taiwan's development of offensive weapons. On April 25, NSC Director for Asia Dennis Wilder expressed the hope that Taiwan would not develop offensive weapons. On May 3, American Institute in Taiwan Director Young said the U.S. does not support Taiwan's development of offensive weapons. The PRC is however suspicious of the U.S. role, in part because some Americans outside government have supported Taiwan's development of cruise and/or ballistic missiles.

On June 15, the LY final adopted the 2007 budget, including initial expenditures for some U.S. arms. Specifically, the budget included initial funds for the purchase of P-3 aircraft, for upgrading Taiwan's existing PAC-2 missiles (but not for the purchase of new PAC-3 missiles) and for a study on the acquisition of conventional submarines. This budget will produce a modest increase in Taiwan's defense spending for the first time in many years. However, since major elements of the proposed defense budget were deleted by the LY, the 2007 defense budget amounts to about 2.6 percent of GDP rather than the proposed increase to 2.85 percent. MND has made clear that its next arms procurement priority is additional F-16 aircraft.

## **Looking ahead**

As noted in earlier reports, the political calendars in Beijing and Taipei will increasingly affect cross-Strait relations. With cross-Strait relations remarkably stable, the Beijing leadership is focused on more pressing domestic issues in the run-up to the 17th Party Congress. Beijing appears to see the danger of being drawn into the campaign in Taiwan, but how it will react to specific challenges remains to be seen.

In Taipei, various factions in the DPP are striving to push the coming presidential campaign in different directions. How Frank Hsieh shapes his campaign will have an important bearing on prospects for cross-Strait relations.

In these circumstances, Washington will need to maintain a steady, predictable policy toward both sides and make its policy clear, including when candidates in Taiwan advocate positions that, if implemented, would threaten cross-Strait peace or cause a deterioration in U.S.-Taiwan relations.

## **Chronology of China-Taiwan Relations April-June 2007**

**April 2, 2007:** 21 Century Constitutional Reform Alliance releases draft constitution.

**April 4, 2007:** Ma Ying-jeou's embezzlement trial begins in Taipei district court.

**April 7, 2007:** Secretary General Hu Jintao sends congratulatory message to KMT Chairman Wu Po-hsiung.

**April 9, 2007:** Chen Ming-tong is appointed MAC chairman.

**April 10, 2007:** DPP Chairman Yu Shyi-kun says party plans referendum on joining UN as "Taiwan."

**April 11, 2007:** President Chen writes WHO Secretary General Margaret Chan applying for membership as "Taiwan."

**April 11, 2007:** TAO Minister Chen Yunlin in Washington for consultations.

**April 11, 2007:** Japanese Prime Minister Abe Shinzo tells Chinese Premier Wen Jiabao Japan does not support Taiwan independence.

**April 12, 2007:** State Department says U.S. will not support "Taiwan" membership in WHO.

**April 14, 2007:** First Democratic Progressive Party (DPP) presidential primary debate.

**April 14, 2007:** National Association of Taiwan-Invested Enterprises (NATIE) forms in Beijing.

**April 15, 2007:** Joseph Wu arrives in Washington as new TECRO representative.

**April 16, 2007:** *Han Kuang 23* computer wargame begins; retired Adm. Blair is in Taiwan to observe exercise.

**April 18, 2007:** ASE announces Carlyle Group has withdrawn purchase offer.

**April 19, 2007:** Promos announces plans for 0.18 wafer plant in China.

**April 21, 2007:** Press says *Han Kuang* wargame includes use of short-range Taiwanese ballistic and cruise missiles against China.

**April 25, 2007:** U.S. NSC Director Dennis Wilder expresses hope Taiwan will not develop offensive weapons.

**April 25, 2007:** WHO spokesman says Taiwan not qualified for membership.

**April 26, 2007:** Ministry of National Defense Minister Lee Jye confirms development of *Tactical Shore-based Missile for Fire Suppression (TSMFS)*.

**April 26, 2007:** IOC releases route for Olympic torch passing through Taipei; MAC Chairman Chen rejects proposal.

**April 28, 2007:** Secretary General Hu Jintao receives KMT's Lien Chan and meets delegates to third CCP-KMT forum in Beijing.

**April 30, 2007:** President Chen belittles idea of "meaningful participation" in WHO and says WHO-PRC MOU demeans Taiwan's sovereignty.

**May 1, 2007:** Taipei announces reestablishment of relations with St. Lucia.

**May 3, 2007:** AIT Director Young says U.S. does not support Taiwan's developing offensive weapons.

**May 6, 2007:** Frank Hsieh Chang-ting wins DPP presidential primary.

**May 9, 2007:** Executive Yuan formally renames CKS Memorial as National Taiwan Democracy Memorial Hall.

**May 11, 2007:** President Chen's op-ed on WHO is published in the *Washington Post*.

**May 14, 2007:** Chang Chun-hsiung is appointed premier.

**May 14, 2007:** Week-long *Han Kuang 23* field exercise begins.

**May 14, 2007:** WHA votes 148-17 against considering Taiwan membership.

**May 15, 2007:** Beijing says PRC negotiating with WHO on how International Health Regulations (IHR) will apply to Taiwan.

**May 16, 2007:** President Chen says Taipei will apply to UN as “Taiwan.”

**May 16, 2007:** DPP establishes task force to draft “normal country” resolution.

**May 16, 2007:** Press reports Beijing pressure on Taipei in World Organization for Animal Health (OIE).

**May 21, 2007:** AIT Director Young urges opening cross-Strait economic ties.

**May 21, 2007:** President Chen says Olympic torch must come from and go to third countries.

**May 22, 2007:** President Chen says referendum on joining UN as “Taiwan” to be held during elections.

**May 25, 2007:** OIE adopts compromise resolution calling “Chinese Taipei” a “non-sovereign regional member.”

**May 29, 2007:** President Chen’s video press conference at National Press Club.

**May 31, 2007:** Taipei AMCHAM White Paper reiterates call to open cross-Strait economic links.

**June 4, 2007:** Ma Ying-jeou meets Taishang business leaders; says PRC missiles must be removed before talks on peace agreement.

**June 4, 2007:** MAC Chairman Chen says Taipei ready to reopen Olympic torch talks.

**June 5, 2007:** DPP Chairman Yu threatens to boycott Olympics.

**June 7, 2007:** Costa Rica announces relations with Beijing, severs ties with Taipei.

**June 7, 2007:** Former Taiwan President Lee Teng-hui visits Yasukuni Shrine to pay respect to a deceased relative.

**June 12, 2006:** At Cold War memorial ceremony, TECRO Representative Wu shakes hands with President Bush.

**June 12, 2007:** Ma Ying-jeou gives lecture in India, hopes for truce internationally and for “mutual non-denial.”

**June 13, 2007:** TAO spokesman Yang Yi says referendum on joining UN as “Taiwan” would be step toward de jure independence.

**June 14, 2007:** AIT Chairman Burghardt visits Taipei, meets President Chen.

**June 14, 2007:** Ma Ying-jeou visits Singapore.

**June 15, 2007:** LY passes budget including agreed arms package funding.

**June 15, 2007:** Dragon boat charter flights begin.

**June 16, 2007:** AIT Chairman Burghardt meets candidates Hsieh and Ma.

**June 19, 2007:** State Dept. spokesman expresses U.S. opposition to a referendum on UN bid as Taiwan.

**June 21, 2007:** MAC Chairman Chen says tourism talks have made progress.

**June 22, 2007:** State Dept. spokesman restates U.S. position opposing UN referendum.

**June 27, 2007:** TAO spokesman uses “Chinese Taipei” in Olympic torch context.

**June 28, 2007:** Taipei approves four IC packaging and testing investments in China.

**June 28, 2009:** Taipei rules duties on footwear imports from China.

**June 29, 2007:** Referendum Review Committee rejects DPP UN referendum proposal.







North Korea-South Korea Relations:  
On Track?

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The second quarter of 2007 saw growing momentum in inter-Korean relations. Having picked up speed after the Feb. 13 Six-Party Talks accord, this was hardly derailed by subsequent slippage in deadlines as the Banco Delta Asia (BDA) affair dragged on and North Korea's Yongbyon nuclear reactor failed to close. Only rice aid was withheld by Seoul, after some hawing, pending Pyongyang's full fulfillment of the Feb. 13 agreement. Even this began to flow by quarter's end, although Yongbyon remained open; by then South Korea, like the U.S. and other six-party participants, took the North's cooperation with IAEA inspectors as a sufficient signal of sincere intent to play ball, at least for now.

The quarter thus mainly saw renewal of a by-now familiar range of contacts: assorted talks – ministerial, economic, military, and more – as well as family reunions and visits of various kinds (almost all from South to North rather than vice versa). There were also at least two “firsts”: one much trumpeted, the other less so. Halfway through the quarter, May 17 saw the much-delayed first cross-border trains since tracks were severed during the 1950-53 Korean War. Despite much hoopla in Seoul (noticeably less in Pyongyang), these were only one-off test runs, with no indication of when regular service might begin.

Perhaps more significant, albeit far less reported, was an unprecedented tour of China and Vietnam in late June by a joint inter-Korean business team that looked at ROK firms and the investment situation in both countries. Barely a week later, the two Koreas finally agreed on a project involving raw material supply and mining cooperation. Like the railway test runs, this took two years to come to fruition, hardly what the DPRK calls *Chollima* speed (a winged horse of Korean myth, like Pegasus). If for real, then with the now established – if still small – Kaesong industrial park this may betoken the start of serious economic partnership between North and South, such as has obtained for almost 20 years now between China and Taiwan. Always assuming no more nuclear derailments.

**The South tries to raise the abductees issue**

The quarter began, however, with a thornier issue. On April 10-13, the eighth round of Red Cross talks – the numbering relates to June 2000's inter-Korean summit, which launched most of the subsequent inter-Korean dialogue – discussed *inter alia*, at Seoul's insistence, “persons whose fate is unknown during or after the 1950-53 Korean War.”

This phrase is code for some 542 Southern prisoners of war (POWs) still held in the North, and 485 (mainly fishermen) seized since 1953. The DPRK denies holding anyone involuntarily, but in recent years a few have escaped to tell grim tales. The South had long been hesitant to raise this issue, in marked contrast to Japan, for whom a far smaller number of abductions are its top policy priority with North Korea – wisely or otherwise.

While obviously a delicate area, if Kim Jong-il could manage a personal admission and apology (if not the whole truth) for past kidnappings from Japan, then it is not clear why South Korea should settle for less and allow over 1,000 of its aging citizens to remain prisoners of the North. The true number may be far higher, since this excludes thousands – estimates run as high as 84,000 – of South Korean civilians taken North during 1950-51 when the North's Korean People's Army (KPA) overran much of the South.

### **Sunshine's ironies: nuclear progress puts human rights on hold**

Unlike in Japan, for some reason this is not a matter that greatly exercises public sentiment in South Korea. During the South's decades of military dictatorship, victims' families mostly kept quiet, or were even persecuted; it did not do to have links to North Korea, even unchosen ones. That no longer applies, but now a perverse side-effect of the Sunshine Policy is reluctance by the ROK government and much of the public to push, or even hear, knotty problems that they fear might obstruct reconciliation on other fronts.

Nor is this problem solely a Korean one. By the same token, progress on the nuclear issue tends to mean regress on human rights, or at least unwillingness (even in Washington) to jeopardize a possible breakthrough in one area by raising contentious matters elsewhere. As the BDA fiasco showed, the U.S., like all interlocutors, must prioritize among the many concerns the DPRK raises.

So this was not the best season to publish the latest grisly accounts – there are several by now, based mainly on defector testimony – of North Korea's vile human rights record, as two more NGOs did recently. The U.S.-based (and controversially government funded) Freedom House launched its report *Concentrations of Inhumanity* in an indifferent Seoul May 21. Written by David Hawk, this updates his pioneering and magisterial *The Hidden Gulag*, issued in 2003 by the U.S. Committee on Human Rights in North Korea (HRNK). Hawk accuses the DPRK authorities of crimes against humanity – as did the UK-based Christian Solidarity Worldwide (CSW), in another solid account published a month later on June 19 as *North Korea: A Case to Answer - A Call to Act*. Both, one fears, risk falling on stony ground in the present climate.

### **The North brazenly it out**

At all events, South Korea got no joy in April's talks. As usual the North brazenly denied everything, threatening to walk out if it even heard words like abductees and POWs. An eventual statement agreed only to discuss "missing" persons further in the future. Elsewhere, however, they agreed to hold a trial exchange of video letters on CD between separated families at Chuseok, the Korean harvest festival, on Sept. 24-26. Video and in-

person reunions, for 40 and 100 families, respectively, from each side, will also be held at Chuseok. Those set to meet will for the first time include a lucky 20 who had met before.

Meanwhile another round of family reunions, the 15<sup>th</sup> since 2000, was held May 9-14 at the Mt. Kumgang resort in southeastern North Korea. As usual, two three-day sessions saw 100 seniors from each Korea briefly reunited with a larger number of kin from the other side. These remain one-off meetings, with no further contact of any kind permitted (letter, phone, or email); and their snails' pace, one every few months at best, means that most of the elderly persons affected will die before they ever have even this meager chance of seeing their loved ones after over half a century of separation.

### **Economic talks agree many things, not all new**

A week later the inter-Korean venue shifted from Mt. Kumgang to Pyongyang, and the topic to the easier one of economic cooperation. Yet the 13<sup>th</sup> meeting of the Economic Cooperation Promotion Committee (ECPC), held in Pyongyang on April 18-22, was not problem-free. No one much minded that the April 14 deadline to shut Yongbyon had just been missed. Rather, the hosts bowled a curveball. The start was delayed for most of the first day after North Korea unprecedentedly demanded to see drafts of not only the final joint statement – it is revealing that the South had already prepared this – but the ROK's keynote speech; it also sought a commitment in advance to rice aid. South Korea stood its ground. Later the North's chief delegate, Chu Dong-chan, stormed out after the South tried to link rice aid to compliance with February's six-party nuclear agreement.

### **Rail deal, finally**

Despite such histrionics and a final session lasting into the small hours, an agreement was duly reached. Its 10 points covered familiar ground, reflecting the North's reluctance to implement matters supposedly agreed already. A prime case are the two cross-border rail tracks, near the west (Gyeongui) and east (Donghae) coasts. New roads in each corridor opened in 2005 to regular if one-way traffic, taking Southern managers to the North's Kaesong industrial park and tourists to the Mt. Kumgang resort respectively. Yet parallel relinked railway lines had languished unused for two years, after test runs set for May 2006 were abruptly cancelled by the North. A year later, the Pyongyang ECPC meeting rescheduled this for May 17, subject to further talks due in Kaesong on April 27-28 on a military guarantee – that being the hold-up. The North's cold feet are the Korean Peoples Army's; soldiers look askance at their heavily defended front line becoming even slightly a front door.

### **Food aid to resume, quasi-unconditionally**

Similarly, Seoul made little headway in pressing for more aid to be sent overland, rather than expensively by ship as at present. In a partial concession, 50,000 of the 400,000 tons of rice that the South had already agreed to give will go by land – albeit by road rather than rail. But the greater concession was the ROK's, in resuming this aid – notionally a loan, but no one expects it to be repaid – suspended last year after the North's missile and

nuclear tests. The timing of the ECPC talks had been deliberate: the North reportedly wanted to meet sooner, but the South initially insisted on waiting until after the 60-day deadline (from Feb. 13) in the six-party accord for North Korea to shut its nuclear facilities at Yongbyon, as a key test of its commitment to genuine compliance. For this reason, the earlier joint statement after the 20<sup>th</sup> ministerial talks held in Pyongyang in late February did not mention aid, although North Korea apparently asked for 400,000 tons of rice and 300,000 tons of fertilizer – as it has received in most recent years, until 2006.

On March 7, the North had repeated its call for fertilizer, whose need was now urgent to be in time for the rice planting season. The South responded with alacrity; the same day, Vice Unification Minister Shin Eon-sang said that deliveries worth \$115 million would begin later in March. By early April, Shin sounded ready to disconnect rice aid, too, from nuclear compliance. Actual shipments resumed March 28, when a ship bearing 6,500 tons of fertilizer, 60,000 blankets, disinfectant against foot and mouth disease, and other items headed North from the ROK port of Yeosu. But on rice Seoul still seemed unsure; the ECPC agreement attached no formal conditions, but the South's chief delegate, Vice Finance Minister Chin Dong-soo, later stressed that delivery would depend on the North's nuclear compliance. That loosish linkage in the end prevailed.

### **“Soap for minerals” deal is reiterated**

Also agreed, or rather reaffirmed in a “revised and complemented” form, was a rather odd deal whereby Seoul will provide raw materials worth \$80 million (again notionally a loan) for very basic consumer goods like clothing and soap, in exchange for mineral rights. First mooted two years ago at the 10<sup>th</sup> ECPC meeting in July 2005, this time the South attached a clear conditionality: no train runs, no soap. Subject to that hurdle and working talks in Kaesong on May 2-4, the South would start sending materials in June – when it also expected site visits to the North's mines. South Korea has strategic as well as economic reasons to covet Northern minerals: a host of recent DPRK mining deals with Chinese firms has sparked fears in Seoul that North Korea is becoming a *de facto* fourth province of what no one nowadays calls Manchuria, much less Manchukuo.

Intriguingly, a separate clause envisaged joint resource development in third countries, to be discussed in talks at Kaesong in June. Perhaps they have Siberia in mind, with South Korea putting up capital, management, and technology while the North supplies labor.

### **The North tries it on at Kaesong**

Even at the now established if still small-scale Kaesong industrial park, North Korea is apt to try it on with the South. On April 17, the ROK Unification Ministry (MOU) confirmed reports that Pyongyang has demanded pay increases of 30 and 10 percent for those of its workforce who are graduates of four and two-year colleges respectively. Each category comprises about 11 percent of the 13,032 Northern workers at Kaesong, where average monthly wages, initially set at \$57.50, have risen to \$67 including overtime.

The South is not keen, on several grounds. Most jobs at Kaesong are menial, so education hardly matters. There is reluctance to let the North intervene in hiring and firing – already a sore point, after U.S. charges that employment conditions in the zone are opaque and fall below ILO standards, e.g., what proportion of wages go to the employee as opposed to the DPRK government. This is no abstract point. South Korea was keen for Kaesong-made goods to be included in its recent free trade agreement (FTA) with the U.S., and indeed says that they will be – an interpretation denied in Washington.

More generally, there is unease as to what further demands the North may come up with. While short visits have gotten easier (DPRK permission is no longer needed), Pyongyang wants to charge large fees for those spending extended periods in the zone. Productivity at Kaesong is not very high, so margins are critical for Southern firms operating there.

### **River, sand, and fishing remain to be sorted**

Several further items in the April 22 ECPC statement had been agreed before, but not yet implemented. One hardy perennial, going back several years, is proposed cooperation to prevent flooding on the Imjin River, which flows from North to South. A document was to be exchanged in May, with site visits in the North to follow. By July none of this had happened, for two reasons. Pyongyang has its own linkages: it would not move on this until Seoul's rice aid was, literally, in the bag. And, as with cross-border railways, the Imjin – scene of fierce battles in the Korean War – will require a military guarantee.

Similarly, a meeting was set at Kaesong in June to seek to make concrete a range of prior outline agreements: preventing natural disasters, cooperation in science and technology and in fisheries, committees for business arbitration and immigration, and more. Before that, separate talks “as soon as possible” would try to implement a plan to extract sand jointly from the Han River estuary: a border area, so here again military guarantees are needed. And here again, as of early July, little if any had yet transpired; we shall see what progress the second half of the year brings.

### **Military talks make little headway**

Pyongyang's wider motives can be hard to read. At still rare general-level military talks held at the truce village of Panmunjom on May 8-11, Seoul's main agenda was to secure a military guarantee for the now imminent train tests and avoid a repetition of last year's last-minute cancellation. The North, by contrast, insisted on raising the issue of the west coast maritime border: the Northern Limit Line (NLL) imposed unilaterally by the UN command after the Korean War and never recognized by the DPRK. That prolonged the talks, with the South at a loss to understand either the logic of the North's position or why it chose to bring it up now (more on which below). Kim Jong-il may just be playing hard to get, but this also holds up Imjin flood prevention, Han gravel extraction, and so on.

## **Trains cross the DMZ, just once**

But this time the trains did at last run. On May 17, two crossed the Demilitarized Zone (DMZ) for the first time since the tracks were severed in the 1950-53 Korean War. With due symmetry, on the Kyonggui line north of Seoul a five-coach ROK train headed north from Munsan across the border to Kaesong, while on the east coast Donghae line a DPRK train of the same size trundled briefly into the South. Each train carried 100 Southern and 50 Northern VIPs, intermingled, who made polite conversation. (These logistics meant, of course, that in each case one contingent was ferried by bus across the DMZ to board the train in the first place).

Great was the rejoicing in Seoul (this writer was there). Unification Minister Lee Jae-jung spoke of this as “reconnecting the severed bloodline of the Korean nation.” Not to deny the emotional aspect, but a reality check is in order. For a start, to reiterate, these trains were at least two years late. The tracks have long been ready, but North Korea remains unready to let them be used – perhaps because of continuing KPA objections. Second, like those cancelled a year earlier, the May 17 outings were just one-off test runs, each covering barely 15 miles. There was no indication when regular services might begin.

Third, none of this came cheap. No prizes for guessing which side financed the entire cost of reconnecting cross-border railways, including equipment and construction on both sides of the DMZ. The bill to the South since 2000 is 545 billion won (\$583 million); wags worked this out at \$10 million per kilometer for May 17’s two trips. Nor did this suffice. To clinch the deal Seoul also agreed to supply the aforementioned \$80 million worth of light industrial raw materials: another project still unfulfilled after two years due to persistent foot dragging by the North. Still, taking the long view, from the standpoint of the Sunshine Policy all this is an investment – both economically and politically.

## **If road, why not rail?**

Pyongyang’s procrastination is puzzling. The two roads running alongside the railway are now in regular use. taking Southern tourists to the Mt. Kumgang resort, and managers and workers to the Kaesong industrial park. If roads can thus breach the DMZ, why not rail? It remains to be seen if and when with greater trust the North may ease up. For now, regular services even to Kaesong – much less Pyongyang, let alone Beijing and beyond, since that would require upgrading the North’s decrepit system – remain a distant dream.

But Seoul will keep pressing, not least because rail is a far cheaper way to convey aid and trade than by sea as at present. On July 9, *Yonhap News Agency* quoted MOU as saying that 50,000 tons of rice – one-eighth of this year’s total of 400,000 tons – will be sent by rail over a five week period, starting July 20: 30,000 tons will go north from Seoul on the Gyeongui line, and 20,000 on the east coast Donghae line. Next day, however, this report had been altered from rail to road. One can only wonder what lay behind this change.

For now, merchant shipping fills the gap. With far less fanfare, three days later on May 20 the first North Korean vessel in over half a century entered Busan, the South's major port and second city. Unlike the trains this was no mere symbolic one-off, but the start of a regular commercial inter-Korean route. The 1,853 ton *Kangsong* left a day later with 50 empty containers, inaugurating a thrice monthly service – run by a Southern firm, Kukbo Express – to Rajin, the DPRK's most northeasterly port, close to its borders with Russia and China. Busan to Rajin is a long way, far longer than the direct line across the DMZ. But this is for real, whereas trains so far remain the exception rather than the rule.

### **Ministers meet in Seoul**

Despite Southern excitement over the train runs, there was some worry whether the North might boycott the next (21<sup>st</sup>) inter-Korean ministerial talks in Seoul at end-May to protest the South's decision to withhold promised aid of 400,000 tons of rice until the Yongbyon nuclear site actually closed, as per the Six-Party Talks Feb. 13 agreement. Shipment of rice had been due to start in May. In the event the North did turn up; perhaps reassured that on May 22 the ROK had approved a budget of \$170 million for rice aid – at the inflated domestic price; never mind unification, this is also all about farm support – plus another \$80 million for raw materials for the North to make soap, footwear, and clothing, as mentioned above.

But this was no meeting of minds. For four days the South urged the North to start implementing Feb. 13, while North demanded rice, now. They adjourned without fixing a date for the next meeting: normally quarterly, so there is time yet. And they nearly failed to issue a joint statement, eventually managing a perfunctory four sentences of pious platitudes.

### **Summit anniversary marred by squabbles**

This was an unpropitious backdrop for the seventh anniversary of the June 2000 summit, a fortnight later. As usual a large Southern delegation, 284 strong, went to Pyongyang – but the ROK government was not invited, since Seoul was still withholding rice aid.

Even so it was not all plain sailing, with two separate rows. The first broke out when the North barred Park Kye-dong, a lawmaker of the South's conservative – but see below – main opposition Grand National Party (GNP), from the VIP stand at one event; claiming he had sat down at a shrine for the North's founding leader Kim Il-sung. Park denied this, and all GNP participants riposted by boycotting subsequent events, suspecting a set-up. Their pro-Sunshine compatriots protested but elected to continue partial participation in the program, leading to sour feelings within the ROK delegation and a mess overall.

Even Sunshine's advocates met pitfalls. When former Unification Minister Jeong Se-kyung in his speech called for a second inter-Korean summit meeting – something the North might be expected to favor – his hosts not only protested, but tried to get all footage referring to this deleted from ROK reporters' tapes. Such blatantly Orwellian news management did not go down well. If it spoiled the party, it was also a salutary

reminder of the nature of the DPRK regime to any whose eyes may be unduly bedazzled by Sunshine.

### **Inter-Korean commercial trade rises 40 percent**

Despite such political vicissitudes, business gets ever brisker. ROK Vice Unification Minister Shin Un-sang said on April 4 that inter-Korean commercial trade rose 40 percent year-on-year in the first quarter of 2007, to \$187 million. The semi-official *Yonhap News Agency* explained this as “mainly due to an influx of zinc bullion, sand, fishery items, shoes, clothing and watches into a joint industrial complex in ... Kaesong.” Although no balance or breakdown was given, the last three items sound more like exports from the Kaesong zone, while the first three are probably imports to South Korea more widely. True trade is still smaller than non-commercial trade (meaning aid) of \$278 million. The latter still rose – albeit by under 7 percent, as Southern official aid ceased while that from NGOs fell early in the year, until Feb. 13’s six-party agreement restored these flows.

In a later report, the ROK’s private sector Korea International Trade Association (KITA) noted in June that inter-Korean trade has tripled since 2000, with a January-May total this year of \$563 million. This makes South Korea the North’s second largest trade partner after China, hard on Beijing’s heels, if KITA’s forecast is correct that the total for 2007 will reach \$1.7 billion, up 27 percent over 2006.

Separately, MOU said on June 10 that almost a quarter (24 percent) of goods made in the Kaesong industrial complex during January-April, worth \$11.3 million were exported. The main destination was the European Union, followed by China, Russia, and Australia. The U.S. does not feature, since it objects to Kaesong both for FTA purposes and more widely. The latter seems perverse: whatever one feels about North Korea in general, it is bizarre to raise labor or human rights objections to what are surely the best jobs in the DPRK, working in shiny new ROK-owned factories with health and all other facilities.

### **A joint business team visits China and Vietnam**

In a new initiative on the business front, an inter-Korean team (seven members each from North and South) toured China and Vietnam for 10 days in late June. Organized by the ECPC, whose secretariat is in Kaesong, the group visited ROK businesses in Shanghai, Shenzhen, Guangzhou, Hanoi, and Ho Chi Minh City (Saigon). Also on the itinerary were investment promotion agencies in both countries, and a textile machinery exhibition in China. According to MOU, the delegates returned with “a greater understanding of the necessity of inter-Korean economic cooperation and a heightened sense of mutual solidarity with their counterparts.”



### **Light industry cooperation is agreed, at last**

For Seoul, one motive for this was to show Pyongyang both the benefits and practicalities of business cooperation. Coincidentally or not, barely a week later the two Koreas at long last finalized their above-mentioned raw materials-cum-minerals deal. Or almost. Their meeting in Kaesong ran overnight, by when they had agreed on prices of 62 out of 94 light industrial items the South will supply; the other 32 remain to be fixed. By Seoul's account, Pyongyang eventually gave in to the ROK's insistence on using local rather than world market prices. As with rice, the former are likely to be higher.

Assuming no further delays, the first 500 tons of polyester fabric – *Yonhap* in a wild moment said 5 million – worth \$800,000 will be sent North by July 25. Three days later, Southern officials will begin a 12-day survey of three zinc and magnesite deposits in the DPRK's mountainous northeast, with further joint surveys to follow in September and October. With rare equality, the North will pay for transportation, cargo handling, and demurrage while South Korea covers shipping, insurance and port usage, expenses that it reckons will not exceed \$4 million or 5 percent of the total \$80 million.

### **Rice aid, at last**

No less key in unblocking this and other holdups was the final resolution, at long last, of the BDA affair in June. On June 30, the last day of the quarter, a first shipment of 3,000 tons of rice left the ROK port of Gunsan for the DPRK's Nampo. Four days earlier, Unification Minister Lee Jae-joung announced Seoul's decision to finally start sending this year's full 400,000 tons, technically on a loan basis (though no one seriously expects Pyongyang ever to repay it).

Barring further hitches, the second half should thus see a resumption of what had become an annual flow of this magnitude – until last year, when the South withheld it in protest at the North's missile tests in July. Floods in the North that month made Seoul partly relent and offer a smaller amount of emergency rice aid – only for this too to be suspended after the DPRK's nuclear test last October. After February's Six-Party Talks agreement, Seoul softened again, agreeing to send the usual 150,000 tons of fertilizer; shipment began on March 27 and was completed on June 21. Rice aid was also reinstated for 2007, but withheld until the North fulfilled its Feb. 13 pledges – meaning that the BDA delay also held up rice shipments. By end-June, even though the Yongbyon reactor was not yet shut down, the South like other parties judged the process to be back on track.

Not that Southern food and other aid in fact ever stopped. Besides assistance from NGOs, often religious, some official rice continued to be sent. Thus the last 10,000 ton tranche of 2006's emergency flood aid rice was only shipped on June 25.

## **Oil flows, too**

At the same time oil flows resumed, again belatedly. Under the 1994 Agreed Framework, for almost a decade tankers regularly shipped the annual 500,000 tons of heavy fuel oil from ROK to DPRK ports, on behalf of the now defunct Korean Peninsula Energy Development Organization (KEDO) consortium. Similarly, Seoul agreed to supply the first 50,000 tons of heavy fuel oil (HFO) which under the Feb. 13 six-party accord is Pyongyang's reward for closing its Yongbyon reactor. Here again, though the shutdown had yet to occur, by end-June it was deemed imminent. Besides, the North insisted on having some oil in hand before it acted – and in the new Six-Party Talks atmosphere, no one (not even in Washington) is minded to quibble on the nuances of who moves first.

Thus, at a meeting in Kaesong on June 29-30, South Korea agreed to send 50,000 tons of HFO, starting within a fortnight, and hoping to complete 20 days after that – which takes us into August, potentially. 35,000 tons will go to Sonbong in the northeast, and 15,000 tons to Nampo on the west coast. The first shipment was due to leave July 12.

## **Two contrasting Fourths: GNP plumps for carrots**

Last year North Korea marked the Fourth of July (U.S. time) by launching seven missiles including a (failed) long-range *Taepodong-2*, prompting unanimous condemnation by the UN Security Council (UNSC). This year, South Korea's conservative main opposition Grand National Party (GNP) chose the same day to launch a new and less hardline policy towards the North with a report entitled "A Vision for Peace on the Korean Peninsula."

Chung Hyung-gun, a GNP lawmaker who chaired the task force that had worked on this since March, said that hitherto the party had "put too much emphasis on the principle of security first, exchanges later" and so "failed to react to the reality of the post-Cold War era in Northeast Asia." Henceforth, the GNP will support an inter-Korean summit, give the North 150,000 tons of rice a year (rather less than the recent annual norm of 400,000 tons), and offer economic support – once Kim Jong-il abandons nuclear weapons.

Both frontrunners for the GNP's presidential nomination, one of whom looks set to be the ROK's next president come February 2008, endorsed the change. It remains to be seen if this will soften Pyongyang's typically harsh dismissal of the party as flunkeyist traitors, as seen in its abovementioned harrying of GNP lawmakers who visited Pyongyang in mid-June. Possibly not, since the GNP's new seven goals toward the North still include a more open society and improved human rights. Recently, however, anti-GNP diatribes as carried on *KCNA*, the official DPRK news agency, are mainly attributed to obscure bodies in South Korea rather than presented as official comments by North Korea per se.

Northern rhetoric belies the fact that former GNP leader Park Geun-hye, daughter of the late dictator Park Chung-hee (1961-79), has visited Pyongyang, where she dined with Kim Jong-il. But nothing is certain. Park may lose the GNP nomination to her rival, former Seoul Mayor Lee Myung-bak. As for Kim, latest pictures seem to confirm rumors about his health. South Korea's *Yonhap News* did not pull its punches. Meeting China's

new Foreign Minister Yang Jiechi on July 3, it said, Kim “looked gaunt: wrinkles under his chin, disheveled and thinning hair, eyes a bit swollen and no pot belly.”

The dear leader may be getting over heart bypass surgery; Fidel Castro’s recovery warns against jumping the gun – or wishful thinking. But as the GNP rushes to join the peace camp, one hopes whoever next occupies the Blue House will be ready for anything north of the DMZ, as mortality and prudence alike demand. If Kim Jong-il dies suddenly, with no successor in place, what price Sunshine then? Seoul should keep its powder dry.

### **All at sea: risk of a fresh clash?**

Lest such counsel sound curmudgeonly at a time of rising optimism on the peninsula, it is salutary to visit <http://www.nk-news.net>, a witty but useful unofficial search engine for the DPRK’s *Korean Central News Agency*. (*KCNA*’s own site, <http://kcna.co.jp>, offers no such facility.) Entering ‘navy’ or ‘West Sea’ brings up six items since mid-May accusing the South of incursions in the West (Yellow) Sea, with lurid threats of reprisals. The ROK Navy denies any such intrusions, much less the seven to eight daily claimed by Pyongyang, and in turn charges Northern patrol boats with four violations of the Northern Limit Line (NLL) this year.

Thus on June 21, a KPA Navy spokesman warned that rising tension could lead not only to a third “skirmish” in these waters – which saw earlier brief but fatal firefights in 1999 and 2002 – but might even spark off a wider war. He added that “All the strike means of the DPRK are fully ready to send all targets, big and small, intruding into its waters into the bottom of the sea any time as the probability of hit is fully guaranteed with those targets accurately sighted.... The DPRK never makes an empty talk.”

While bellicose rhetoric from Pyongyang is normal, such frequency and intensity is rare, prompting growing unease in Seoul. The summer crab-fishing season is the riskiest time, with complex three- or even five-way congestion in these rich but contested border waters: fishing boats from both Koreas and also China, plus the two Koreas’ navies.

This is all part of North Korea’s campaign against the NLL, which on June 25 it called “an illegal ghost line.” True, the NLL was unilaterally laid down by the UN Command after the Korean War; so unlike the Military Demarcation Line (MDL) on land, it is not formally part of the 1953 Armistice. Yet the DPRK de facto accepted it for almost half a century, until 1999. Moreover the North’s alternative is a non-starter, since it would put several ROK-held islands in Northern waters.

So it remains a puzzle why Pyongyang is pushing this so hard: preventing potentially lucrative agreements on joint fishing from being implemented, and delaying other areas – like military guarantees for regular cross-border train services – on the pretext that the NLL must be settled first. While the hope must be that Kim Jong-il would not put at risk recent progress on the nuclear and Six-Party Talks fronts, the 2002 attack – which killed five ROK sailors; in 1999 the North lost perhaps 30-plus killed, while the South had no fatalities – made little sense either. Yet it caused only a brief shadow on Seoul’s Sunshine

Policy. At the fifth anniversary of the battle on June 29, relatives of the dead complained that their sons' sacrifice was played down for political reasons, the incident being defined officially as an accidental exchange of gunfire rather than a naval battle.

This may be changing. The ROK Navy has named its brand-new high-speed patrol boat after one of those killed. Launching the 440-ton *Yoon Young-ha* on June 29, Naval Chief of Staff Adm. Song Young-moo said he "would like to redefine the West Sea exchange of gunfire. It was triggered by the North's sudden attack aimed at abolishing the NLL." True peace on the peninsula will be when such attacks and all sabre-rattling stop, period.

### **KIDA urges Seoul to take the initiative**

A wider fear in Seoul is of being sidelined within the Six-Party Talks, whose principals are the U.S. and DPRK. This underlies a recommendation by the Korea Institute for Defense Analysis (KIDA), a think-tank affiliated with the ROK Defense Ministry (MND), that South Korea should take the lead in pushing for a peace treaty to replace the 1953 Armistice (which in fact the ROK under Syngman Rhee refused to sign) and so formally end the Korean War.

KIDA suggested this in a report in May, but the press only picked it up in July. A peace treaty has long been a key DPRK demand – but addressed to the U.S., excluding the ROK which used anyway to be lukewarm for fear this could lead to a U.S. troop withdrawal. The issue resurfaced in the Feb. 13 Six-Party Talks accord, but to be pursued in a separate forum after nuclear progress. Though the ROK government played down KIDA's idea as just one idea among many, it will be interesting to see if this gains traction in Seoul, be it under the soon to depart Roh Moo-hyun administration, or its incoming successor from 2008.

### **Next quarter's outlook**

Looking ahead, the rest of 2007 should see inter-Korean ties move ahead on all fronts – especially if the six-party process also makes progress. But even if the latter runs into new problems, precedent suggests this will not wholly darken Seoul's Sunshine Policy.

2008 is another matter. If – as seems likely – the GNP wins the presidential and parliamentary elections next December and April respectively, the next government in Seoul may well seek more reciprocity from the North than hitherto, but it will not abandon engagement as such. For its part, Pyongyang will have to decide whether to go on castigating the GNP as a bunch of traitors and risk losing valuable aid, or to tone down the rhetoric and accept the people's choice. We predict that after some initial theatrics, Kim Jong-il will not look a gift horse in the mouth for long.

On a different front: Recurrent doubts about the dear leader's health, with no successor in place, means that even (or especially) at a time of fresh confidence in gradualist outcomes for North Korea, the unexpected can never quite be ruled out. They know that in Seoul.

## **Chronology of North Korea-South Korea Relations April-June 2007**

**April 2, 2007:** *Yonhap* reports that in the past week Thai police arrested 50 North Koreans who illegally entered from China. Thailand does not recognize these as refugees, but normally lets them proceed to Seoul; 400 did so last year, and 150 are currently waiting.

**April 2, 2007:** Meeting at Panmunjom in the Demilitarized Zone (DMZ), the two Koreas' Red Cross bodies exchange lists of separated family members. They agree to finalize by April 27 the list of 100 persons from each side to participate in the 15<sup>th</sup> round of family reunions, set for May 9-14 at North Korea's Mt. Kumgang resort.

**April 2, 2007:** South Korea's under 17 soccer squad beats its Northern counterpart 2-1 in a friendly match at the Suwon world cup stadium near Seoul. The DPRK team came to Jeju on March 20 for a month's training. South Korea will host the world championships from Aug. 18 to Sept. 9.

**April 4, 2007:** Dissent emerges on whether the U.S.-ROK free trade agreement (FTA) concluded on April 1 covers goods made in the DPRK's Kaesong economic zone. While ROK Trade Minister Kim Hyun-chong says the FTA "opens a road" for Kaesong-made exports, Deputy U.S. Trade Representative Karan Bhatia retorts: "That's just a discussion we will undertake. Under this [free-trade agreement], goods from Kaesong will not be entering the United States."

**April 4, 2007:** A South Korean youth Red Cross delegation arrives at North Korea's Mt. Kumgang resort, to plant trees jointly with their Northern counterparts.

**April 5, 2007:** ROK Vice Unification Minister Shin Eon-sang says the South will "give rice to the North as scheduled" after bilateral economic talks set for April 18-21 in Pyongyang, even if the DPRK fails to shut its Yongbyon reactor as scheduled; on the grounds that "the momentum for inter-Korean development should not be lost."

**April 6, 2007:** A 49-strong Northern delegation arrives in Seoul for talks on merging two rival international taekwondo federations backed respectively by each Korea. It includes Jang Ung, the sole North Korean on the IOC, who heads the DPRK-backed International Taekwondo Federation (ITF). The ITF was founded in Seoul in 1966 by a northern-born ROK General Choi Hong-hi, who later moved to Canada and died in Pyongyang in 2002. The visitors include a demonstration team which puts on displays in South Korea.

**April 10-13, 2007:** The 8<sup>th</sup> round of Red Cross talks since the June 2000 summit agrees to hold extra family reunions this year. The North continues to deny having any Southern prisoners of war or abductees, though the South tallies over 1,000 such.

**April 17, 2007:** ROK MOU confirms that Pyongyang has demanded pay increases of 30 and 10 percent respectively for the Kaesong workforce who are four-year and two-year college graduates.

**April 18-22, 2007:** The 13<sup>th</sup> meeting of the Economic Cooperation Promotion Committee (ECPC) is held in Pyongyang, after a gap of nearly a year. Despite Northern histrionics, this reaches a 10-point agreement covering a range of issues including rice aid, business projects, and cross-border train test runs.

**April 27-28, 2007:** Working-level talks at Kaesong agree on most details of proposed test cross-border train runs on May 17. A military guarantee is still required.

**April 29, 2007:** Some 60 North Korean trade unionists and workers fly direct to Gimhae airport, near Busan in the south of the ROK, for three days of May Day celebrations with their Southern counterparts in the industrial city of Changwon, South Gyeongsang Province.

**May 2, 2007:** North Korea agrees to the first general-level military talks in almost a year, to be held at Panmunjom on May 8-10. South Korea had proposed meeting on May 3.

**May 3, 2007:** Presidium President of the Supreme People's Assembly (SPA) Kim Yong-nam, who as the North Korea's titular head of state, meets a delegation from the South's ruling Uri Party led by Kim Hyuk-kyu, a presidential aide (and himself a presidential hopeful). The delegation leaves Pyongyang on May 5.

**May 4, 2007:** At a meeting in Kaesong, South Korea agrees to send 500 tons of polyester fabric to the North on June 27, followed by 10 light industry experts in July.

**May 5, 2007:** ROK army sources observe their DPRK counterparts inspecting railway tracks within the DMZ, raising hopes of a security guarantee for cross-border test runs.

**May 5-8, 2007:** A delegation from the Peace Council of Religionists of South Korea, led by its Chairman Choi Gun-duk visits Pyongyang; overlapping with a group from the ROK's "Movement for a Reunified Korean Nation" which visits on May 4-7.

**May 8-11, 2007:** The 5<sup>th</sup> inter-Korean general-level military talks are held at the North's Tongil Pavilion at the truce village of Panmunjom. After extending the meeting by a day, they issue their first joint statement since 2000, agreeing on the need for marine security and a joint fishing zone in the West Sea. They also agree on security guarantees for test runs on the two reconnected cross-border railways on May 17.

**May 9-14, 2007:** The 15<sup>th</sup> reunion of separated family members, the first such meeting for 11 months, is held at the Mt. Kumgang resort in southeastern North Korea.

**May 10, 2007:** Kim Yong-nam meets a Southern delegation headed by Sohn Hak-kyu: former governor of Gyeonggi Province (greater Seoul) for the conservative main opposition Grand National Party (GNP), which he quit in March, but now the likeliest center-left candidate in December's ROK presidential election.

**May 17, 2007:** Two trains, one each from the North and the South, cross the DMZ on relinked tracks near the west and east coasts for the first time in half a century for short test runs. Both carry preselected passengers from both Koreas, and return the same day.

**May 19, 2007:** For the first time, a five-strong DPRK delegation comes to Seoul to take part in an international conference of Japanese war time sex slavery ("comfort women"). On May 21 participants call on Tokyo to apologize and take legal responsibility.

**May 21, 2007:** The U.S.-based Freedom House in Seoul releases its report *Concentrations of Inhumanity*, which accuses DPRK authorities of crimes against humanity..

**May 20, 2007:** A DPRK merchant ship docks in Busan, the ROK's main port and second city, for the first time since the Korean War. The 1,853 ton *Kangsong* will make three round trips monthly to Rajin in the DPRK's northeast, chartered by a South Korean firm.

**May 22, 2007:** The ROK approves budgets of \$170 million for rice aid and \$80 million to supply raw materials for the DPRK to make soap, footwear, and clothing.

**May 25, 2007:** Local ginseng growers in Geumsan in the ROK's South Chungcheong province say they have agreed a joint venture with Kwangmyongsong, a DPRK firm, to operate a 500 hectare ginseng farm near the Pyongyang-Kaesong highway and produce ginseng in Pyongyang. The ROK partner will provide seeds, materials, and processing.

**May 29, 2007:** The 21<sup>st</sup> North-South cabinet-level talks since the 2000 summit open in Seoul. The DPRK delegation flies in, led as usual by Cabinet Chief Councilor Kwon Hong, despite fears that they might stage a boycott.

**June 1, 2007:** The inter-Korean ministerial talks in Seoul close with a perfunctory joint statement and no date fixed to meet again. The North was miffed at the South's delaying rice aid until its Yongbyon reactor is closed as per the Feb. 13 Six-Party Talks accord.

**June 4, 2007:** The DPRK's National Reunification Institute (NRI) brands the ROK main opposition party, the GNP, as the "treacherous" successor to past "fascist cliques", which it "far surpasses ... in corruption and irregularities and frauds"; adding that the party's "impudent" bid to seek power is "a mockery of history."

**June 7, 2007:** As it did on May 25, and will again on June 27, North Korea test-fires a short-range missile at sea, possibly of a new solid-fuel design.

**June 7-8, 2007:** Talks at Kaesong on a deal for Seoul to send light industry raw materials in exchange for Northern mining rights, first mooted in 2005, fail to agree on pricing. Earlier talks on May 22-23 failed similarly.

**June 8, 2007:** Several hundred Southern pilgrims visit Yontong temple near Kaesong, restored with aid from Cheontae, the ROK's second largest Buddhist order. Cheontae plans to organize regular pilgrimages, despite criticisms that the DPRK's charge of \$100 per visitor – three times the rate at Mt. Kumgang – is exorbitant.

**June 8, 2007:** Working-level military talks at the truce village of Panmunjom agree on nothing, not even when next to meet, because of disputes over the Northern Limit Line (NLL), the de facto inter-Korean west sea border since the 1953 Armistice, which the DPRK wants to redraw. The ROK does not take issue with the North's missile test.

**June 10, 2007:** A meeting at the Central Workers' Hall in Pyongyang commemorates the 20<sup>th</sup> anniversary of the democratic movement in June 1987 in South Korea.

**June 10, 2007:** South Korea's unification ministry (MOU) says that 24 percent of goods made in the Kaesong industrial zone during January-April, worth \$11.3 million, were exported: mainly to the EU, China, Russia, and Australia.

**June 12, 2007:** The ROK says it will send 50,000 tons of corn and 10,500 tons of rice to the DPRK via the UN World Food Program (WFP). As emergency flood aid promised in 2006, this is separate from the bilateral 400,000 tons of rice aid still being withheld pending full fulfilment of the February 13 6-party nuclear accord.

**June 14, 2007:** A 284-strong Southern civil delegation flies to Pyongyang for the seventh anniversary of the June 2000 North-South summit. The ROK government is not invited.

**June 15-16, 2007:** The North bars a GNP lawmaker from one of the Pyongyang meetings. Southern delegates protest, and most planned events are cancelled for two days. A token communiqué of national unity is issued on June 17. The North also objects to a call for a new summit by former ROK Unification Minister Jeong Se-hyun at the welcoming dinner.

**June 15, 2007:** Korea International Trade Association (KITA) reports inter-Korean trade is up threefold since 2000, with an average annual rise of 24.3 percent. Trade from January to May this year totaled \$563 million; KITA forecasts that this year's total will rise 27 percent to \$1.7 billion.

**June 17, 2007:** *KCNA* announces that Ri In-mo, a captured KPA correspondent who spent 34 years including torture in ROK jails but did not recant and was repatriated in 1993, died the previous day. Kim Jong-il sends a wreath to his funeral on June 18, where SPA Presidium President Kim Yong-nam delivers the eulogy.



**June 18, 2007:** South Korea said it has sent a 10-person team to Pyongyang led by Kim Chang-seob, chief veterinary officer at the Agriculture Ministry, to assist the North with an outbreak of foot and mouth disease. Seoul already sent related aid worth \$3 million.

**June 19, 2007:** UK-based Christian Solidarity Worldwide releases *North Korea: A Case to Answer – A Call to Act*, which looks at the humanitarian crisis in the DPRK.

**June 21, 2007:** The ROK begins feeding 100,000 kilowatts (kW) of electricity to a newly built transformer substation in Kaesong, DPRK. About 15,000 kW has been being transmitted to the Kaesong industrial complex from South Korea since March 2005, but now a new \$37.7 million substation can supply ample electricity for the entire zone.

**June 21, 2007:** For the fifth time since mid-May, the KPA Navy threatens fierce reprisals against alleged marine incursions by ROK warships. The South denies any intrusions.

**June 22, 2007:** ROK Vice Unification Minister Shin Eon-sang reports the completion of fertilizer aid to the North, and of last year's emergency rice for flood aid. He adds that a family reunion center at Mt. Kumgang is one-third built, and due for completion this year.

**June 25, 2007:** North Korea criticizes the Northern Limit Line (NLL), the de facto inter-Korean west sea border since the 1953 Armistice, as an "illegal ghost line".

**June 26, 2007:** ROK unification minister Lee Jae-joung announces that South Korea will grant rice aid (technically a loan) as requested by the North, beginning June 30.

**June 26, 2007:** Some 100 former DPRK musicians and others form the General Association of North Korean Defector Artists in Seoul, to make Northern art forms better known and help change ROK fine arts from "indescribable corruption" to "healthy commercialism."

**June 26, 2007:** Hyundai Asan says it will double its tours to Mt. Kumgang starting July 1 from thrice weekly to daily, due to increased demand since North Korea allowed access to Inner Kumgang, a mountain hiking trail some distance from the main resort.

**June 27, 2007:** Korea Software Financial Cooperative – a private group of major ROK software developers, including Samsung, LG, SK, and PosData – says it is working out details with a DPRK counterpart, Samcholli General Corporation, to open software centers in Kaesong and Pyongyang.

**June 29, 2007:** On the fifth anniversary of a West Sea clash where five ROK sailors died, the ROK Navy launches a patrol boat named after one of them.

**June 29, 2007:** Jang Jae-on, president of the DPRK Red Cross, faxes Han Wan-sang, his ROK counterpart, in thanks for this year's 300,000 tons of fertilizer aid and promising to account for its distribution. Shipment began on March 27 and was completed on June 21.

**June 29-30, 2007:** At a meeting in Kaesong, South Korea agrees to send 50,000 tons of heavy fuel oil (HFO) to the North within a month, implementing the Feb. 13 six-party accord.

**June 30, 2007:** South Korea sends 3,000 tons of rice to the North, as a first installment of this year's 400,000 tons of aid: promised earlier, but withheld until Pyongyang began to implement the Feb. 13 six-party agreement.

**June 30, 2007:** *KCNA* accuses U.S. and ROK warplanes of 170 cases of "madcap aerial espionage" in June, and 1,100 so far this year. Such charges have long been routine.

**July 2, 2007:** South Korea says it will provide emergency food aid worth \$20 million to North Korea through the WFP, separate from its own bilateral aid. This includes 2,000 tons of corn, 12,000 tons of bean, 5,000 tons of wheat, 2,000 tons of flour, and 1,000 tons of powdered milk. This is the ROK's first aid to the DPRK via WFP since 2004.

**July 3, 2007:** A North Korean meeting to mark the 35<sup>th</sup> anniversary of the first inter-Korean joint statement on July 4, 1972, issued by the late presidents Kim Il-sung (DPRK) and Park Chung-hee (ROK), praises this for establishing the "three principles of national reunification: independence, peaceful reunification and great national unity."

**July 4, 2007:** A GNP task force unveils a radical new policy on North Korea, shifting the party's stance away from containment towards engagement with Pyongyang.

**July 4, 2007:** MOU says South Korea will begin shipping 6,200 tons of heavy fuel oil to the North next week, and that it expects Pyongyang to start shutting down the Yongbyon nuclear reactor once the shipment arrives.

**July 5, 2007:** *Yonhap* reports that the two Koreas will hold working-level military talks at the truce village of Panmunjom on July 10, to pave the way for a resumption of higher level dialogue between each side's generals.

**July 9, 2007:** *Yonhap* quotes MOU as saying that 50,000 tons of its 400,000 tons of rice aid will be sent by rail over five weeks, beginning July 20: 30,000 tons on the western Kyongui line, and 20,000 tons on the east coast Donghae line. Next day *Yonhap* amends this, substituting road for rail (there are parallel road and rail tracks in each corridor).

**July 10, 2007:** MOU says it has contracted with SK Energy, the ROK's largest refiner, to supply 50,000 tons of heavy fuel oil costing \$22 million. The first shipment will be sent to North Korea on July 12.



China-Korea Relations:  
**Strategic Maneuvers for the “Sandwich Economy”**

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Asia Foundation/Pacific Forum CSIS

China’s shadow over the Korean Peninsula is growing larger, stimulating strategic efforts in Seoul and Pyongyang to draw in the U.S. As soon as KORUS FTA negotiations were concluded, the South Korean media played up the FTA as having both strategic and economic significance as a counter to the centripetal pull of China’s economic rise. Likewise, despite a quarter of delay, North Korea’s eagerness to accept a surprise visit by Assistant Secretary of State Christopher Hill in an effort to confirm North Korea’s intention to shut down the Yongbyon reactor has stimulated concern among some Chinese analysts that a rapid U.S.-DPRK rapprochement would cut China out of the picture. Meanwhile, the Sino-DPRK trade and aid relationship continues to grow, creating another source of anxiety for South Koreans worried that China is taking advantage of special concessions in economic relations with the North.

During Chinese Premier Wen Jiabao’s meetings in Seoul on April 9-10, he pressed for an early opening of FTA negotiations with Seoul, celebrated the 15<sup>th</sup> anniversary of China-ROK diplomatic normalization, and cultivated deepening economic ties. In seeming parallel with the improved mood in U.S.-DPRK relations, China and South Korea agreed to open a military hotline and exchanged top-level visits between defense ministers and army chiefs of staff. While the Sino-South Korean economic relationship continues to grow steadily, China is gradually cutting the technology gap, either because South Korean employees are willing to sell proprietary technologies for personal gain or because of China’s continuing wage advantages and increasingly modern plant.

**Strategic implications of the KORUS FTA**

The trade negotiators barely made their April 2 deadline for completing negotiations and notifying the U.S. Congress that the agreement would be considered under the expiring Trade Promotion Authority legislation, which prevents Congress from raising individual exceptions to international trade agreements negotiated by the executive branch. As soon as the negotiations were completed, the Korean media and opinion leaders highlighted the strategic significance of the KORUS FTA as an economic hedge against China’s growing dominance and as a vehicle for bolstering the U.S.-ROK security alliance. Chinese Premier Wen Jiabao wasted no time in asking to be next in line for an FTA negotiation with South Korea in an interview with Korean journalists on April 5, a few days prior to his April 9-10 visit to South Korea.

The Korean trumpeting of the FTA as a hedge against China's economic dominance was one of the motivations of the Roh Moo-hyun administration that was less publicized when the decision was made in early 2006 to move forward with a KORUS FTA; nonetheless, the decision coincides with high-level recognition in Seoul that China's economic rise constituted a source of anxiety and potential threat to South Korea in several key industries. It also marked the completion of a dramatic shift in South Korean views of FTAs. Only a few years ago they were seen as a primarily economic tool; now they are viewed as ways to achieve strategic objectives in South Korea's foreign policy. Having successfully negotiated the KORUS FTA, Korean officials seemed to be on a mad dash to complete FTAs with the European Union, Canada, China, and Japan. President Roh commented about the advisability of going forward with a China-Korea FTA in mid-May, but in so doing revealed the core of South Korean worries about the impact of a China-South Korea FTA on the ROK agricultural sector. Roh commented in an interview with *MBN* that "An FTA with China is inevitable. Some have asked why China was not first, but frankly, our agricultural situation would have needed major restructuring for such a deal. We need to strengthen the agricultural sector first with an FTA with the United States before heading for China." Negotiation of a KORUS FTA might also be seen as a means to give South Korea a leg up on Chinese and Japanese competition in the U.S. market and as a way of promoting diversification in Korean trade to forestall growing dependence on the Chinese market.

The speed of Premier Wen's call for the early initiation of Sino-South Korean FTA talks gave the impression to some in Seoul that the KORUS FTA challenged China's strategy of using FTAs to strengthen its position at the economic center of Asia. At a meeting of the Korea-China Friendship Association in Seoul, Wen again called for FTA negotiations to begin based on the results of a joint study between the two sides to be concluded early next year. The study apparently projects that South Korea's agriculture, fisheries, clothing, and leather sectors would be badly hit by a Sino-South Korean FTA, but it might provide significant benefits to the automobile, steel, and petrochemical sectors. The Korean International Institute of Economic Policy estimates that a Sino-South Korean FTA would add 2.3 percent per year to South Korea's economic growth. A KOTRA survey of Chinese business leaders revealed enthusiasm for a China-ROK FTA, with over three-fifths of those surveyed indicating that they might benefit directly from the conclusion of such an agreement. Chinese business leaders saw an FTA as likely to promote Chinese exports to South Korea.

### **Wen Jiabao's visit and other ministerial exchanges**

Premier Wen made his first visit to Seoul and the first visit by a Chinese premier in over seven years. During his two-day visit in early April, Wen participated in events designed to mark the 15<sup>th</sup> anniversary of Sino-South Korean diplomatic normalization, celebrated the opening SK Telecom's Access Research Center designed to promote joint research with China on the development of third-generation mobile phone technology, and agreed in discussions with Roh Moo-hyun to open a military hotline between the two countries, in addition to calling for negotiations on a bilateral FTA and discussing the latest diplomatic efforts to deal with North Korea's nuclear program. Wen's stopover in Seoul

was essentially a warm-up for the main event, a historic “ice-thawing” meeting with Prime Minister Abe Shinzo in Japan. Wen’s public diplomacy accentuated a sharp change in the political mood between China and Japan, a rapprochement from which South Korea draws clear benefits. But the apparent success of Wen’s visit also indirectly highlighted Roh’s failure to mend ties with Japan.

China and South Korea rapidly followed up on the agreement by Wen and Roh to establish military hotlines with an exchange of top-level military visits. South Korean Minister of Defense Kim Jang-soo paid a courtesy call within weeks at the invitation of PRC Defense Minister Cao Gangchuan to Beijing in late April, and PLA Chief of the General Staff Liang Guanglie visited Seoul in late May for further consultations on the military hotline, marking a flurry of activity in the development of Sino-South Korean military-to-military ties. None of the activities marks a strategic change in relations; one explanation for the heightened activity is that it comes in anticipation of improvements in the U.S.-DPRK political relationship following the Feb. 13, 2007 six-party agreement.

An unfortunate maritime incident occurred in mid-May that served to underscore the need for more effective emergency communications between China and South Korea. The 4,800-ton Chinese freighter *Jinsheng* collided with South Korea’s 3,800-ton *Golden Rose*, a freighter loaded with 5,900 tons of steel at Dalian harbor. The two boats collided off Yantai Peninsula amid thick fog and the *Golden Rose* went missing, but the Chinese crew did not inform authorities until at least eight hours after the collision, and Chinese authorities did not officially inform South Korean counterparts of the accident for over 21 hours. Sixteen sailors on the *Golden Rose* including seven South Koreans were killed in the accident. The incident drew a protest from South Korean Foreign Minister Song Min-soon in an early June meeting with PRC Foreign Minister Yang Jiechi on the sidelines of a trilateral meeting of foreign ministers from Japan, China, and South Korea in Jeju Island. The trilateral foreign ministers’ meeting marked the first time that the three had met independent of a regular multilateral forum, and dealt with cooperation on trilateral economic, cultural, and environmental issues. At a trilateral meeting of finance ministers on the sidelines of an Asian Development Bank meeting in Kyoto in May, Korea, China, and Japan agreed to cooperate on regional currency stabilization measures and to support efforts to further develop the Asian bond market.

### **Developments in Sino-DPRK relations**

The visit of PRC Foreign Minister Yang Jiechi to North Korea on July 2-4 marked the first high-level exchange between China and North Korea since the Feb. 13 agreement in Beijing. Although barely acknowledged by Chinese officials, an accumulation of strains in the bilateral relationship is more apparent than usual following Vice Minister Kim Gye-gwan’s unusually public attempt to distance the DPRK from China on the sidelines of bilateral talks with the U.S. in New York in March. The Chinese sat out the prolonged stalemate over the transfer of North Korean funds in Banco Delta Asia after Chinese banks determined that they would not take the risk of serving as an intermediary for the North Koreans to transfer money from accounts in Macao, choosing to help neither North Korea nor the U.S. (especially following the U.S. Treasury’s “unilateral” decision to

finalize its action against the Macao-based bank). Assistant Secretary of State Christopher Hill's surprise visit to North Korea in late June further illustrated a shift in the six-party dynamics as the U.S. showed more willingness to pursue direct contact with North Korea unmediated by Beijing. A side-effect of these developments is that the Chinese are less central to the unfolding diplomacy and briefed on a less timely basis by either the North Koreans or the Americans. Some Chinese specialists are unsettled by these developments and are anxious about the implications for China's strategic interests of an overly rapid U.S.-DPRK rapprochement.

Aside from reverberations from China's decision to back the UN Security Council resolution condemning North Korea's nuclear test, a number of additional factors have strained Sino-DPRK political relations. Long-time North Korea specialist Ambassador Li Bin has been relieved of his duties for allegedly leaking information about Kim Jong-il's visit in January of last year to foreign media sources. An apparent espionage/corruption scandal has also affected the standing of the international liaison department of the Chinese Communist Party, which plays the primary role in managing Sino-DPRK relations. Ongoing frustrations with North Korea in the wake of the nuclear test have weakened the standing of North Korea specialists within China's policy apparatus in favor of career professionals such as China's new Ambassador to the DPRK Liu Xiaoming, an America specialist with no prior experience in Korean affairs. Taken together, these developments suggest a loss of capacity and the possibility that North Koreans will continue to pursue low-level defiance of China while seeking to maintain and expand economic ties. The PRC Embassy in Pyongyang reports that Sino-DPRK trade increased by 11.8 percent in the first four months of the year. This increase is likely driven in part by Chinese investments in North Korea's natural resources sector.

### **South Korea “sandwiched” by China's economic rise**

The question of whether South Korea's economic growth will be “sandwiched” by its geographic position between high-tech Japan and low-cost manufacturing powerhouse China was raised early this year by Samsung Chairman Lee Kun-hee. That theory has been reinforced this April by a Japanese researcher, Nomura Research Institute's Ono Hisashi, who concluded at a seminar sponsored by the Korea Chamber of Commerce and Industry that South Korea is increasingly “sandwiched” by China and Japan in the areas of technology, corporate earnings, market share, and the competitiveness of the high-tech industry. Hynix Semiconductor CEO Kim Jong-kap argued in June that the theory was an exaggeration, emphasizing that China's continued growth will bring greater opportunities.

These conflicting views are informed by a divergence in performance and competitiveness vis-à-vis China in traditional manufacturing sectors vs. the semiconductor, high-tech, and financial sectors. South Korean industry continues to feel pressure from China's rising competitiveness in electronics and household appliance as well as heavy industry sectors such as automobiles and shipbuilding where South Korea has traditionally enjoyed a competitive advantage. For instance, LG Phillips has announced that it will gradually move its LCD panel manufacturing lines to China due to

rising manufacturing costs and low margins. But the semiconductor sector has led South Korean exports to China since 2005 and continues to see strong China-driven growth, whereas exports of steel and household appliances have faced stiff competition from low-cost local products.

One factor that has unfairly aided China in its attempts to challenge in some sectors has been industrial espionage involving the sale of proprietary technology developed by South Korean firms to Chinese competitors. Other Chinese efforts to promote technology transfer to China have involved hard negotiations over permission to open new plants and cases in which Chinese subcontractors have provided services to Korean automotive firms and then tried to walk away with proprietary information. At last November's Beijing Motor Show, Hyundai Motors executives suspected that Chinese companies received technology and design information for some of its popular models such as Hyundai's Santa Fe and Kia Motors' Sorento. Those suspicions now appear to have been justified. In May, nine current and former employees of Kia Motors were charged with industrial espionage for sharing proprietary information with a Chinese company on nine separate occasions. According to the prosecution, a former employee set up a consulting company and received proprietary data from current employees, which was then sold to a Chinese firm. The Korean National Intelligence Service reports over 100 known cases of industrial espionage from South Korea since 2003 that cost Korea at least \$100 billion. The estimated damages from undetected industrial espionage could amount to an additional \$100 billion.

South Korea's shipbuilding sector leads the world in market share and dominates the market for LNG carriers, so one might think that Korean shipbuilders have little to worry about from China's capacity expansion in the near-term. But China's rapid expansion (from 17.3 percent of the market to 25.4 percent of the market by tonnage in 2006) must remind South Korean competitors (which represented 40.3 percent of the market by tonnage in 2006) of the days when they were the underdog. In addition, new Chinese capacity is slated to come on-line by 2012, and China aims to have enough capacity to become the world's number one shipbuilder by 2015. The sense of crisis was heightened due to China taking the lead in total monthly orders for two months earlier this year.

South Korean industry leaders convened this quarter to weigh longer-term strategies for capturing higher-end sectors, including the launch of a major research project sponsored by the ROK Ministry of Commerce, Energy and Industry to explore a greater share in the cruise ship market. Another trend is that leading South Korean shipbuilders are starting to invest overseas. For instance, Samsung Heavy Industry and Daewoo Shipbuilding have recently made investments in China. Some shipbuilders have expressed concern about South Korean shipbuilders such as STX, which has aggressively expanded its market presence and has invested in the construction of complete production facilities at a shipyard near Dalian. Other South Korean shipbuilders worry that such investment might increase the possibility of technology leakage to Chinese competitors already on the rise, based on lessons learned by South Korean firms in the automobile sector.

On the other hand, there are new opportunities for Korean firms as China's opening proceeds. For instance, Woori, Hana, and Shinhan Banks taking advantage of the opening of China's retail banking sector and Woori Financial Holdings, Inc., along with the Korean Asset Management Company (KAMCO), have bought Chinese non-performing debts. Korean power plant supplier Doosan Heavy Industries and Construction is entering the Chinese energy sector with a contract to supply core facilities for Chinese nuclear reactors in Shanmen and Haiyang. Doosan Infracore will build a second plant in China in response to continued demand for excavators, a sector Doosan has dominated with a 20 percent share of the total market.

### **Korea's security sandwich**

South Korea celebrated the launch of its first *KDX-III* destroyer this quarter, a 7,650-ton *Aegis*-equipped ship, the *Sejong the Great*. The launch of the destroyer was touted in the Korean press as a major accomplishment that provided new capabilities amidst strategic uncertainty as South Korea's larger neighbors are also expanding their naval capacities. The South Korean Ministry of National Defense announced in May that it has decided to construct a naval base on Jeju Island by 2014. But it is uncertain how South Korea will utilize its newfound capacities. The tendency in Seoul is to hedge against Japan, but China's long-term naval expansion may also have implications for South Korean maritime interests. South Korea's territorial dispute with Japan over Dokdo/Takeshima is well-known, but there is also a lesser-known dispute with China in the East China Sea over the tiny Leodo, claimed by both South Korea and China. Plus, accidental disputes over fisheries with China may intensify as South Korean and Chinese fishing fleets compete for limited resources. South Korea and China may need not only a military hotline, but a much more developed protocol for handling incidents at sea. Longer-term, the removal of inter-Korean tensions over the Northern Limit Line (NLL) may also be replaced by heightened disputes between China and a reunified Korea over rights to fishing grounds in that disputed area. The security implications of Korea's sandwiched geographical situation may pose dilemmas as serious for the Sino-South Korean relationship as those posed by China's economic rise for Korea's "sandwich economy."

### **Looking to the future**

August marks the 15<sup>th</sup> anniversary of the establishment of diplomatic relations between the South Korea and China. There is much to celebrate in the economic sphere, but there will be serious challenges. Competition between China and South Korea to influence the North's economic and political development, the challenges of restructuring a Sino-ROK economic relationship where South Korean companies compete with China's homegrown companies for domestic market share rather than for global market share, and South Korea's efforts to strike a right balance in its relations with China and the U.S. will likely be major themes for the near- to mid-term.

For the China-DPRK relationship, the primary challenges lie in the adjustment from the traditional special relationship to what Chinese analysts refer to as a "normal" relationship, a process that was accelerated by North Korea's nuclear test. In this respect,



the symbolism of the foreign minister rather than a senior party figure taking the lead in communicating directly with North Korea's Chairman Kim Jong-il offers a clue to Chinese thinking about the future. Meanwhile, Chinese concerns about economic instability in North Korea appear to have lessened, although there is a recognition that serious challenges remain for North Korea if a true economic recovery is to take hold. China's priority is on maintaining momentum in implementing the six-party agreements in order to provide North Korea with a stable economic environment, which Chinese analysts argue is a prerequisite for successful economic reform.

## **Chronology of China-Korea Relations April-June 2007**

**April 1, 2007:** U.S. and South Korea conclude free trade agreement (FTA) negotiations.

**April 1, 2007:** The Korea Meteorological Administration issues a nationwide warning against yellow dust from China for the first time since monitoring dust particles in 2002.

**April 5, 2007:** Korea, Japan, and China announce that their ministries of health will jointly form a \$1 million fund to fight avian influenza.

**April 5, 2007:** PRC Premier Wen Jiabao urges more rapid preparations for a PRC-ROK FTA in a joint interview with South Korean journalists.

**April 9-10, 2007:** Premier Wen visits Seoul for a summit with ROK President Roh Moo-hyun to discuss bilateral and regional economic and political issues including the North Korean nuclear problem and a prospective ROK-PRC FTA.

**April 10, 2007:** Wen participates in the opening of SK Telecom's new test bed center to promote commercialization of Chinese third-generation mobile technology, TD-SCDMA.

**April 11, 2007:** Korea and China sign an agreement between environmental ministries to cooperate in protecting 337 species of migratory birds in the two nations.

**April 16, 2007:** Five Korean shipbuilders and the Ministry of Commerce, Energy, and Industry discuss a five-year plan to strengthen high-end production in response to the aggressive expansion of Chinese shipbuilders into the low-end market.

**April 18, 2007:** Chae Tae-bok, secretary of the Central Committee of the Korean Workers' Party, meets a visiting delegation of the International Liaison Department of the Central Committee of the Chinese Communist Party led by deputy head Liu Hongcai.

**April 20, 2007:** Ono Hisashi, head of the Nomura Research Institute (NRI) Seoul office, makes a presentation at a Seoul seminar "Diagnosis of 'Sandwiched' Korean Economy and the Relevant Solutions," sponsored by the Korea Chamber of Commerce and Industry, that South Korea is increasingly "sandwiched" by Japan and China.

**April 23, 2007:** Doosan Infracore, the leading supplier of excavating equipment in China, announces that it will build a second 320,000 sq m production facility in Suzhou in addition to its current plant 500,000 square meter plant in Yantai.

**April 24, 2007:** Doosan Heavy Industries announces that it will supply core facilities for Chinese nuclear reactors to be built in Shanmen and Haiyang.

**April 23-26, 2007:** ROK Defense Minister Kim Jang-soo meets Chinese counterpart Cao Gangchuan during a four-day visit to Beijing and agrees to establish military hotlines.

**May 10, 2007:** ROK prosecutors charge nine former and current employees of Kia Motors with collusion to leak confidential data on Kia's manufacturing process to a Chinese company.

**May 12, 2007:** A South Korean freighter, the *Golden Rose*, sinks after colliding with the Chinese freighter *Jinshen* in waters off Yantai on China's east coast, killing 16 sailors (seven of whom were Koreans) and sparking a controversy given that Chinese authorities notified the Korean embassy of the accident nearly 21 hours after it occurred.

**May 21, 2007:** ROK President Roh Moo-hyun states in an *MBN* interview that China should seek an FTA with China following the establishment of a KORUS FTA.

**May 23-25, 2007:** PRC People's Liberation Army chief of the General Staff Liang Guanglie meets counterpart JCS Chairman General Kim Kwan-jin in Seoul. The two sides agree to set up military hotlines on the 15<sup>th</sup> anniversary of the normalization of PRC-ROK relations in August.

**June 3, 2007:** The South Korean, Chinese, and Japanese foreign ministers inaugurate a regular dialogue, engaging in discussions on North Korea, a three-way free trade agreement, and additional cultural exchanges. In a separate bilateral conversation, Song Min-soon requests Yang Jiechi to conduct a thorough investigation into a May 12 freighter accident in the East China Sea.

**June 5, 2007:** Central Committee of the Korean Workers' Party (KWP) hosts reception in honor of a Chinese Communist Party (CCP) delegation led by Lu Hao, member of the Central Committee of the CCP and secretary of the Gansu Provincial Committee of the CCP. A KWP delegation led by Secretary of the Pyongyang City Committee of the KWP Kim Jin-ha visits the PRC and meets CCP International Department head Wang Jiarui.

**June 11, 2007:** Newly-appointed DPRK Premier Kim Yong-il meets PRC Ambassador to the DPRK Liu Xiaoming in Pyongyang.

**June 11, 2007:** *The Korea Times* reports that Hynix Semiconductor CEO Kim Jong-kap sees China as opportunity for growth and argues that the "sandwich" theory is an exaggeration.

**June 12, 2007:** Woori Bank announces that it has become the first South Korean bank to receive approval from the Chinese government to set up a local retail banking unit.

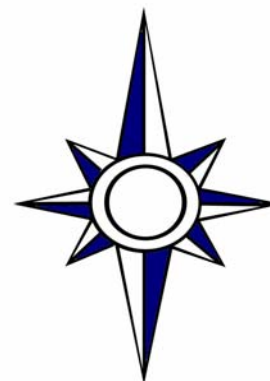
**June 13-16, 2007:** The first Korea-China-Japan Industrial fair is held in Seoul to foster industrial and commercial exchange.

**June 21-22, 2007:** Assistant Secretary Hill visits Pyongyang and meets DPRK Foreign Minister Pak Ui-chan and nuclear talks counterpart Kim Gye-gwan.

**June 26, 2007:** Woori Finance and Investment Company announces that it has bought Chinese non-performing loans with a face value of \$88 million, the largest Korean investment in Chinese non-performing debt.

**July 2-4, 2007:** PRC Foreign Minister Yang Jiechi visits North Korea; the first high-level visit since the Feb. 13 six-party agreement.





Japan-China Relations:

## Wen in Japan: Ice Melting But . . .

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The April 11-13 visit of China's Premier Wen Jiabao proved to be a public diplomacy success. Wen met with Prime Minister Abe, and, focusing on environmental cooperation, both leaders agreed to advance their strategic relationship. Wen addressed the Diet, a historic first; engaged early morning Tokyo joggers in conversation; and played catch with the Ritsumeikan University baseball team in Kyoto. Before his departure, Wen made clear that he considered his visit a success in strengthening bilateral relations. And, judging from the attention given to a mid-June meeting between President Hu Jintao and former Prime Minister Nakasone and members of the Japan-China Youth Friendship Association, so did his boss. In the run-up to the September Party Congress, the media suggested that Hu was running on a platform of improving relations with Japan. Success at public diplomacy, however, did not translate into success at the nuts and bolts level. Despite repeated high-level commitments to a resolution of the East China Sea issue, little progress was evident as the quarter drew to a close. And testing times, the 70<sup>th</sup> anniversary of the Marco Polo Bridge Incident in July and the 70<sup>th</sup> anniversary of the Nanjing Massacre in December loom on the horizon.

### Wen visit: preview of coming attractions

On April 3, Foreign Ministers Aso Taro and Li Zhaoxing met during the SAARC conference in New Delhi and reached agreement on an agenda for the visit of Premier Wen to Japan. To give concrete meaning to their strategic partnership, the visit would emphasize strengthened cooperation in the areas of energy and the environment. The foreign ministers also agreed to establish a high-level economic dialogue. Both agreed on the need to advance cooperation with the regard to energy development in the East China Sea. When Li called attention to the approaching 70<sup>th</sup> anniversary of the Nanjing massacre in December, Aso noted that 2007 would also mark the 35<sup>th</sup> anniversary of the normalization of relations between Japan and China and observed that the event should be kept in mind in thinking about the future.

The next day, one week before his arrival in Japan, Wen met in Beijing with members of the Japanese media. Wen told the media that he intended to make his visit an "ice-melting" event. The premier underscored the importance of the bilateral relationship; in terms of China's national interest, it was "irreplaceable" and expressed the hope that progress could be made on the contentious East China Sea issue. Following talks held in

Tokyo on March 29, Sasae Kenichiro, director general of the Asia and Oceanian Affairs Bureau of the Japanese Foreign Ministry, indicated that China had advanced a new proposal on the development of the East China Sea, which he thought to be in a constructive direction.” It was hoped that details would be developed during the Wen visit. Wen also raised the possibility of a second visit to China by Prime Minister Abe Shinzo later in the year. Wen called for resolution of the abductees issue through dialogue between Japan and North Korea and expressed his “understanding and sympathy” for Japanese concerns. As for the visits to Yasukuni Shrine by elements of Japan’s political leadership, Wen said the visits had “hurt the feelings of the Chinese people” and expressed the hope that it would “never happen again.”

On April 5, the Japanese Foreign Ministry announced that technical experts would meet in Beijing on April 6 to discuss issues related to the East China Sea. The following day, Foreign Minister Aso told reporters that that the Abe-Wen talks would focus on the gas field issue, a joint China-Japan high-level economic dialogue and energy related issues. For Japan, the gas field issue was a priority. Also in advance of the visit, the *Asahi Shimbun* on April 9 reported that Japan and China had agreed to facilitate disposal of chemical weapons abandoned by the Imperial Army in China by introducing mobile processing facilities. A formal agreement would be signed during the Wen visit.

### **Wen in Japan**

Wen arrived in Japan on the afternoon of April 11 and later met Prime Minister Abe at the official residence for one hour and 40 minutes. The talks ranged across many issues, including the environment, energy, economics, the East China Sea, and the fate of Japan’s abductees.

Both Wen and Abe regarded the visit as an opportunity to advance the Reciprocal Strategic Relationship agreed to during Abe’s visit to China in October 2006. Wen also offered China’s cooperation on the abductees issue and on resumption of the Six-Party Talks. The two agreed to the opening of a High Level Economic Dialogue within the year and to concrete measures to advance resolution of the East China Sea issue by the autumn. A kick-off meeting for the High Level Economic Dialogue took place April 12. Approximately 150 Chinese business executives from 50 major Chinese companies accompanied Wen to Tokyo. On the East China Sea, a joint press release stated that higher-level attention would be paid to the issues that joint development would take place “over a relatively wide area,” and the two governments would submit in the autumn a report on specific measures to be taken to advance joint development.

Abe expressed his interest in visiting China later this year and invited President Hu Jintao to visit Japan in 2008. Wen said China would “positively” consider the invitation to Hu. During the G-8 Summit in Germany, Abe met with Hu Jintao on the afternoon of June 8. Hu told Abe that at “an appropriate time” he would like to visit Japan. Hu also reminded Abe that dealing appropriately with issues of history and Taiwan is “the political basis for maintaining Japan-China relations.”

Taiwan was covered by the reiteration of well-worn talking points. Wen did not directly raise Yasukuni or other history-related issues, although he did call attention to the need for “proper handling” of such issues. To which Abe replied that it was his desire that Japan “continue moving ahead as a peaceful country.” The Joint Statement released at the conclusion of the meeting committed the government to cooperation in 10 areas of environmental protection, including drinking water, waste recycling, acid rain, climate change and the transfer of advanced Japanese environmental technologies. Wen also offered two ibises as a symbol of friendship.

At a welcoming dinner for Wen, Abe, keeping his promise to a gathering of Japanese business leaders the previous night, turned export-promoter. Abe served sushi, Japanese beef steak, and rice, observing that it would be fortunate if Premier Wen would help to broaden the appeal of Japanese culinary culture in China. In the informal, relaxed environment, Wen observed that the spring rain, which welcomed his visit, strengthened his belief in the success of his visit.

The following day, in an historic first, Wen addressed the Japanese Diet. His remarks, 35 minutes in length and televised in both countries, spoke to a future of economic cooperation and complementary economic development, a future in which China and Japan would regard economic development of the other as an opportunity, not a threat. The premier acknowledged that China, still a developing country, is beset with many serious problems, and thanked Japan for its “support and assistance” in aiding China’s modernization, adding that “the Chinese people will never forget it.” He called for strengthened bilateral coordination as a necessary building block of regional peace and stability. At the same time, while reiterating China’s “utmost efforts” to resolve the Taiwan issue peacefully, Wen made clear that China would “never tolerate Taiwan’s becoming independent. He called on Japan to recognize the “sensitivity” of the issue and handle it accordingly. Beyond East Asia, Wen called for bilateral cooperation on a global scale to meet the challenges of energy security, the environment, climate change, infectious diseases, anti-terrorism, and the proliferation of weapons of mass destruction.

Wen, however, did not neglect history, calling on the two countries “to summarize the lessons learned from their unfortunate past and keep such lessons in their mind.” Wen put the responsibility for the war on the shoulders of “a few militarists” and acknowledged that the Japanese people “were also victims of the war.” He “positively evaluated” Japan’s official recognition of its acts of aggression and its expression of “remorse and apology.” He hoped from “the bottom of my heart that Japan will demonstrate what it expressed and promised by its actions.”

On June 19, the Council to Consider the Future of Japan and History Education, chaired by Nakayama Nariaki, former minister of education, held a press briefing to reveal the results of its four and a half month review of the Nanjing Massacre. After a study of newspaper reports from Nanjing and interviews with various informed sources, the Council concluded that Nanjing was a “fabrication.” The Council also revealed its intention to seek the removal of “groundless” photographs and accounts from China’s anti-Japanese War Memorial Museums.

On April 13, the *People's Daily* reprinted Wen's speech including lines that Wen did not read in the Diet. Those lines noted that Japan, following the war, had taken the path of peaceful development and become an important member of international society and expressed support for Japan's continuing to follow the path of peaceful development. China's Foreign Ministry's spokesperson explained that the speech at that point had been interrupted by applause and consequently the lines had been omitted. Another explanation offered "technical difficulties" as the reason.

Wen's public outreach went beyond Japan's political class. Early in the morning of April 12, Wen, dressed in a track suit, jogged through Yoyogi Koen and engaged fellow joggers in conversation on the state of Sino-Japanese relations. The picture of Wen's jog was carried by the Japanese media. The next day, he traveled to Kyoto and Osaka. In Kyoto, he visited a local rice farm and was photographed playing catch, a port-sider (lefty – naturally) with members of the Ritsumeikan University team. Before departing for Osaka and Kyoto, Wen reflected on his visit and summarized his thoughts by observing that "many people were saying that his trip had accomplished its ice-melting objective." At the baseball field in Kyoto, Wen told reporters that all in all "it can be said that the visit was a success."

### **Reaction in Japan**

Among Japan's political leadership, reaction to Wen's speech and the visit was overwhelmingly favorable. Nevertheless, among those looking for practical results, comments were more reserved. The chairman of the LDP's Policy Research Council, Nakagawa Shoichi, initially described the speech as "pragmatic" akin to "a diplomatic negotiation." Later, he revised his opinion, describing the visit as "senseless." Former Foreign Minister Machimura Nobutaka emphasized that "There will be no true friendship unless the two countries move forward outstanding bilateral issues, such as the East China Sea." Niwa Yuya, chairman of the LDP's General Council, said that the speech was "dotted with warnings, while giving consideration to Japan-China friendship."

Appearing on *Fuji TV* on April 15, Nakagawa commented that, while Wen appeared satisfied with his visit, he was not. Nakagawa went on to charge that "it is not Japan, but China that should melt the ice on such disputes as exploration rights in the East China Sea gas fields..." Acting Chairman of the Democratic Party of Japan's Policy Research Council Asao Kenichiro took a "we'll see" attitude as to whether better relations will result from the visit or whether "the two countries are just putting off pending issues." The New Komeito Policy Chief Saito Tetsuo noted that Wen had given "high marks" to Japan's apologies and ODA program and thought Japan "should take seriously the change in the Chinese government's position." Meanwhile Kamei Shizuka, acting president of the People's New Party, wondered "if our just formally shouting out welcome, welcome, welcome is enough to better future bilateral relations...." He thought China needed to "change its anti-Japan education."



On April 17, the LDP's foreign affairs conference looked for specifics on the abductees issue; what actually would China do?, asked Hirasawa Katsue. Harada Yoshiaki, addressing the East China Sea issue, asked if Japan "can really afford to feel happy that the ice has melted?" He argued that Japan should conduct its own test drilling to counter China. Three days later, the Upper House approved two bills, a Maritime Basic Law and a Law to Establish Safe Water Area for Maritime Structures, aimed at protecting Japan's interests within its EEZ. The Safe Water legislation would establish a safe area within a 500 m radius of structures, such as drilling platforms, built within Japan's EEZ and prohibit entry into the safe area without authorization from the minister of infrastructure and transport. The legislation will come into force in July.

### **High-level visits**

From April 26 through May 1, a group of LDP lawmakers headed by Kato Koichi and Yamasaki Taku visited China. The focus of their visit was North Korea. On April 28, Vice Foreign Minister Wu Dawei, China's representative to the Six-Party Talks, received Kato and Yamasaki to discuss North Korea-related issues. Also that day, they met with State Councilor Tang Jiaxuan at the official Diaoyutai Guest House. Addressing the East China Sea issue, Tang emphasized that the issue must be handled judiciously and told his guests that he hoped China would advance a new proposal during the May director general-level talks. Tang also said that the visit of President Hu to Japan in 2008 was being given appropriate consideration. On April 29, the Diet members traveled to the China-North Korea border region.

Following the trip, Yamasaki revealed that a senior Communist party official told him that China's military modernization was aimed at forestalling a move by Taiwan toward independence. In this context, Yamasaki cautioned that, in reconsidering the right of collective self defense as advocated by Abe, Japan should be sensitive to the fact that, for China, Taiwan is more important than Yasukuni. He was concerned that expanding the role of the SDF would have "a major impact on Japan-China relations."

Also during the late April-early May Golden Week period, members of the Japan-China Parliamentary Friendship Federation, led by former Foreign Ministers Komura Masahiko and Machimura Nobutaka traveled to China. On April 28, they met Premier Wen, who expressed confidence in the development of the China-Japan relationship. When Komura raised the issue of China's support for Japan's bid for a permanent seat on the UN Security Council, Wen replied that China highly valued the fact that Japan had taken the path of peaceful development following the war and hoped that Japan would play an important role in international society, beginning with the United Nations.

On June 19, in the Great Hall of the People, President Hu met with approximately 200 members and families of the Japan-China Youth Friendship Delegation who had initially visited China in 1984, and former Prime Minister Nakasone Yasuhiro, who was acting as an advisor to the group. Chinese media gave the meeting top play the following day. China Central TV's 30-minute news program opened with a 10-minute segment on the meeting and reported Hu's call for strengthened bilateral cooperation. The *People's Daily*

devoted two-thirds of its front page to the meeting. Chinese sources told the *Yomiuri* that the national coverage conveyed, in advance of the September Party Congress, Hu's determination, in a year marked by anniversaries, the Marco Polo Bridge Incident, the Nanjing Massacre as well as postwar normalization, to emphasize Sino-Japanese friendship. The sources also told the *Yomiuri* that the Communist Party's Central Propaganda Department had instructed the media not to be self-seeking in its treatment of Nanjing in light of the 70<sup>th</sup> anniversary.

## **East China Sea**

In advance of Premier Wen's visit to Japan, Chinese and Japanese diplomats met in Beijing at the end of March to explore paths to a resolution of the exploration rights issue. China offered a new proposal, which the Japanese side found "constructive." While both sides agreed in principle on joint development, they remained apart on where it should take place. Technical experts again met in Beijing on April 6.

Meanwhile Nakagawa Shoichi, in remarks delivered in Sapporo April 4, likened China's actions in the East China Sea to those of a robber engaged in breaking and entering. Showing his impatience at the government's lack of progress on the issue, Nakagawa said that it was "common sense" to tell the thief to stop. On April 11, China's National Offshore Oil Corporation (CNOOC) released its 2006 annual report, which announced the initiation of natural gas production in the East China Sea. China's Foreign Ministry said that CNOOC's activities were in accord with Chinese sovereignty and thus proper.

Following the Wen-Abe meeting, a senior METI official called the "wide area" for joint development, agreed to at the talks, essentially meaningless. Nevertheless, it was widely expected that the two sides would discuss specific areas for joint development during the scheduled director general-level talks at the end of May. On the day of the meeting, May 25, China's Foreign Ministry spokesperson Yu Jiang told reporters that the "so-called median line is based on the Japanese side's unilateral assertion. We can't accept talks on joint development based on that median line." There was "no change in China's position."

Arriving in Beijing a day before the talks, Sasae told reporters "the important thing is for China to come up with a positive, specific idea. It was his expectation that China would do so. However, during the talks, the Chinese reiterated their long-standing position that claimed sovereignty from the coast of China to the Okinawa trough, a natural extension of the continental shelf, and rejected areas near the Japanese claimed mid-line boundary as areas for joint development. China, however, was willing to consider joint development in the area of the Senkakus, inside Japan's EEZ. For Japan, this was a non-starter. Following the meeting, Sasae told reporters that China had failed to table a new plan, although his Chinese counterpart had emphasized China's willingness "to exchange views thoroughly and work tirelessly to advance cooperation."

On June 18, the *Sankei Shimbun* reported that sources close to the issue were considering a plan to shelve disputes over the EEZ boundary line and the Senkakus in favor of joint development in both regions. Also under consideration was a plan to invite international equity and participation in the form of major European and U.S. oil companies. The *Sankei* reported that the plan resembled that advanced by China in March 2006. A week later, Japanese and Chinese diplomats met in Tokyo on June 26 for the ninth round of talks on issues related to the East China Sea. Once again, the two sides were unable to reach agreement on the areas for joint development.

In an EEZ-related matter, Japanese media in mid-June reported that the Fisheries Infrastructure Development Center in Tokyo had returned to Japan's southernmost island, Okinotorishima, coral colonies developed from eggs previously harvested from the island and matured in Okinawa. The coral transplant represents an effort by Japan to protect the islets from submersion in order to buttress its claim to the EEZ extending out from the islets. China considers the islets to be rocks and thus does not recognize Japan's EEZ claim based on the islets.

### **Yasukuni**

At the end of March, the National Diet Library released a collection of documents, "A New Compilation of Materials on the Yasukuni Shrine Problems." The documents revealed that officials of the Ministry of Health and Welfare in 1966 had forwarded a list of Class-A war criminals to the shrine. (In the process of enshrining Class C, B, and A-war criminals, the Health and Welfare Ministry would submit names to the shrine for consideration with the shrine making the final decision on enshrinement.) On Jan. 31, 1969, officials of the shrine and from the Health and Welfare Ministry met to discuss the enshrinement of Class-A war criminals. At the meeting, it was agreed that it was "possible" to enshrine the Class-A war criminals. The officials, however, decided against public notification of the decision fearing adverse reaction. The meeting took place nine years before the actual enshrinement in 1978.

The documents called into question the constitutional principle of separation of state and religion. When asked about the issue, the prime minister noted that shrine, a private corporation, had made the actual decision on enshrinement, while the government had only provided names at the request of the shrine. He did not see any constitutional problem. Echoing the prime minister, Chief Cabinet Secretary Shiozaki observed that the "final decision was made by the shrine"; it was his understanding that "the ministry did not force it to decide." Meanwhile, Vice Minister of Health, Labor, and Welfare Tsuji Tetsuo told reporters the former ministry was "in charge of keeping the personal records of soldiers and civilian employees of the military ... and with presenting records as the need arose."

Reacting to the controversy, Koga Makoto, chairman of the War Bereaved Association, said that the release of the documents "has strengthened my feeling that the country must earnestly discuss matters, including the option of un-enshrining Class-A war criminals." Former LDP Vice President Yamasaki Taku took the position that "contrary to the

dominant view that Yasukuni Shrine independently decided to honor Class-A war criminals, the Health and Welfare Ministry actively pushed ahead with the action. The government is clearly responsible for it.”

On April 26, the *Asahi Shimbun* carried excerpts from the diary of Urabe Ryogo, grand chamberlain to the Showa Emperor. In his diary, Urabe wrote on July 31, 2001 that the reason the emperor had ceased to visit Yasukuni was his “strong displeasure at the enshrinement of the Class-A war criminals.” An earlier diary entry of April 28, 1988 on Yasukuni coincides with a memorandum of the same date written by the former Grand Steward of the Imperial Household Agency Tomita Tomohiko in which Tomita recorded the emperor’s displeasure with the enshrinement of the Class-A war criminals.

With the Wen visit and the Spring Festival at Yasukuni both fast approaching, Abe was asked if he would visit the shrine. In reply, he said that because a prime minister’s visit would become “a diplomatic issue in itself,” he would “not say whether I will pay homage at the shrine.” Later it was learned that, rather than visiting the shrine during the Spring Festival, Abe had made sent a sakaki tree valued at 50,000 yen as a private offering. When asked on May 8 about the matter, Abe said he wanted “to keep on showing respect for those who fought for the country and died, and praying for their souls.” When asked about a future visit to the shrine, he replied “I will not make any comments on whether or not I will visit Yasukuni or whether I paid for the offering or not because making any comments regarding Yasukuni would hurt diplomatic and political relations.”

The offering drew a surprisingly mild response from Beijing, where Foreign Ministry spokesperson Yu Jiang told the media that “The Yasukuni Shrine is a major political and sensitive issue in China-Japan relations. The two sides have reached consensus on overcoming the political obstacles and promoting cooperative relations.” It was China’s view that “the consensus should be strictly abided by.” However, on April 23, 39 members of the Diet visited Yasukuni, 37 from the LDP and two from the DJP. 120 Diet members were represented by proxies. No ministers or senior vice ministers attended.

## **Security**

In advance of his visit to the United States, Prime Minister Abe met with reporters from *Newsweek* and the *Wall Street Journal* at his official residence. Turning toward China, Abe noted China’s rapidly rising military spending. Given that Japan had no intention of matching China, he asserted the need “to make the Japan-U.S. alliance even more effective and stronger.” In a speech delivered in New York City on May 17, Tokyo Gov. Ishihara Shintaro argued that “the extent to which the United States will take responsibility for the defense of Japan is questionable.” Ishihara saw economic stagnation and social unrest in China pushing the regime toward “military adventurism.” In a conflict with China, the U.S. would not be able “to counter the Communist regime,” which had demonstrated its willingness “to kill 70 million people.” While offering that Japan’s options might include nuclear weapons, the governor called for equality in the Japan-U.S. relationship.

Toward that end the Self-Defense Forces engaged with the United States in a series of multilateral exercises. In mid-April, the MSDF conducted a joint exercise with the U.S. and Indian navies off Japan's Boso Peninsula. Vice Minister of Defense Moriya Takemasa told a press conference that the exercise was aimed at "improving the maritime skills of the MSDF," and in "boosting friendly relationships" and "promoting defense exchange" among the three countries. Nevertheless, a senior defense official anonymously told the *Nihon Keizai Shimbun*, that it was "quite natural for Japan to apply pressure on China, which has frequently encroached into Japanese territory." On May 25, the *Sankei Shimbun* reported sources at the Defense Intelligence Headquarters believed it likely that China, in late April, had tested an over-the-horizon radar in Chinese waters near the mid-line boundary in the East China Sea. Vice Minister of Foreign Affairs Yachi saw it differently, defining the objective of the exercise as "boosting friendly relations and ... not linked to China."

In mid-May, the MSDF participated in a 10-country multilateral exercise, sponsored by the Singaporean Navy, held in waters near Singapore. Participating navies included those of the U.S., China, Australia, India, and France.

Reflecting the ice-melting quality of bilateral relations, the Japanese media in mid-June reported that Tokyo and Beijing were actively engaged in finalizing plans for the visit of China's Defense Minister Cao Guangchuan, with September as a target date, well as preparations for port calls by the Chinese navy.

### **Comfort women**

The issue of comfort women continued to dog the prime minister. In the interview with *Newsweek* and the *Wall Street Journal*, Abe expressed his sympathy and regret regarding the comfort women. He reiterated his government's position to stand by the Kono Statement, which acknowledged and apologized for the Imperial Army's involvement in coercing women into sexual slavery. In mid-April, Kato Koichi met with a group of LDP lawmakers planning to visit the U.S. to head off the pending Honda resolution in the U.S. House of Representatives. The LDP lawmakers intended to explain that neither the Imperial Army nor the government was involved in the procuring of comfort women and that procurement was done on a strictly commercial basis. Kato was concerned that their visit would only "end up worsening the situation." In the end, the lawmakers decided to cancel their visit. In the June 14 edition of the *Washington Post*, in response to an advertisement "The Truth About Comfort Women," which ran in the paper at the end of April, members of the LDP, DJP, independents, professors, political commentators, and journalists joined to place a counter advertisement "The Facts." On June 26, the House of Representatives Committee on Foreign Affairs reported out the Honda Resolution by a vote of 39-2. Abe took a "no comment" stance with respect to the resolution.

Also in mid-April, a group of historians released recently re-discovered documents, submitted to the International Military Tribunal for the Far East (IMTFE) by the governments of France, China, and the Netherlands, that addressed the issue of the Imperial Army's involvement in coercing women to work as comfort women in

Indonesia, Vietnam, and China. The documents were used in evidence during the trial and contributed to the findings of the Tribunal which found the Japanese military responsible for war crimes. (The *Asahi Shimbun* had previously reported on excerpts of the documents in 1997.)

On April 20, the Abe government reversed gears on the issue. On March 16, the Cabinet, in response to a parliamentary inquiry raised by Tsujimoto Kiyomi of the Social Democratic Party, released a statement that no evidence had been found to tie the government or the military directly to the forced recruitment of comfort women. A month later, however, again in response of a Tsujimoto inquiry, the government released a second statement which said that “our country has accepted the judgment of the International Military Tribunal for the Far East and, in our country-to-country relations, we are not in a position to raise any objection to that judgment.”

### **Compensation claims**

In April 27, Japan’s Supreme Court, in a suit seeking compensation for wartime forced labor brought by Chinese plaintiffs, ruled that postwar agreements between the Japanese and Chinese governments precluded plaintiffs from bringing suit in Japan. Presiding Judge Nakagawa Ryoji observed that “Chinese people have lost their rights to judicially claim compensation from Japan, Japanese people or its companies under the 1972 Japan-China Joint Communiqué. In signing the communiqué, China renounced “its demand for war reparations from Japan.” The court, however, did recognize the plaintiffs’ “extremely large mental and physical suffering” and left open the door to “a voluntary response to individual claims.” Later that day, the Court, again citing the 1972 Joint Communiqué, ruled against a suit brought by two Chinese women seeking compensation for damages suffered as a result of being forced to serve as comfort women.

Reacting to the decision, China’s Foreign Ministry Spokesperson Liu Jianchao argued that, in signing the Joint Communiqué, China had taken a political decision to waive claims of compensation in the interest of building friendly relations between China and Japan. China, however, expressed “strong opposition to the unbridled interpretation on this clause by the Supreme Court of Japan regardless of China’s repeated solemn representation.” Liu declared the Supreme Court’s decision “null and void.” The conscription of forced labor was “a grave crime committed by Japanese militarism against the Chinese people.” Accordingly, China requested Japan “to properly handle relevant issues in an attitude responsible for history.”

On June 15, Japan’s Supreme Court rejected an appeal filed by Chinese wartime forced laborers seeking compensation from the Japanese government and 10 private sector companies. The decision reaffirmed the June 2006 ruling of the Tokyo High Court, which found against the plaintiffs based on the expiration of the 20 year statute of limitations. Japanese Courts, however, demonstrated even-handedness in dealing with war-related compensation suits brought Japanese citizens. On June 15, Sapporo and Kochi District Courts, on June 15, ruled against war displaced Japanese citizens seeking state

compensation for delayed resettlement from China and inadequate government support after repatriation to Japan. On June 21, The Tokyo High Court rejected a similar suit.

## **Outlook**

As this report goes to press, Japan's Upper House elections are less than a month away. A series of domestic political scandals, including the suicide of the minister of agriculture and loss of pension records, has eroded support for the Abe government. While Abe's diplomacy toward China has earned him high marks, the outcome of the Upper House election may affect his political future and the direction of policy toward China.

## **Chronology of Japan-China Relations April-June 2007**

**March 28, 2007:** National Diet Library releases documents related to Yasukuni Shrine.

**March 29, 2007:** Chinese and Japanese diplomats meet in Beijing to discuss East China Sea issues in advance of Premier Wen Jiabao's visit to Japan.

**April 3, 2007:** Foreign Ministers Aso Taro and Li Zhaoxing meet in New Delhi during SAARC conference; finalize agenda for Wen visit.

**April 4, 2007:** Wen meets with Japanese media in Beijing; previews trip.

**April 4, 2007:** Nakagawa Shoichi, chairman of Policy Research Council, blasts Chinese actions in East China Sea.

**April 6, 2007:** Japanese and Chinese technical experts meet in Beijing to discuss East China Sea issues.

**April 9, 2007:** *Asahi Shimbun* reports agreement to facilitate disposal of chemical weapons abandoned in China by the Imperial Army.

**April 10, 2007:** *Xinhua* reports discovery of abandoned munitions in Heilongjiang Province.

**April 11, 2007:** China's National Offshore Oil Corporation releases 2006 annual report, announcing beginning of natural gas production in East China Sea.

**April 11-13, 2007:** Wen visits Japan; April 11 meets with Abe; April 12 addresses Diet; April 13 in Osaka and Kyoto.

**April 12, 2007:** First meeting of Japan-China High-Level Economic Dialogue.

**April 13, 2007:** Lower House of Diet adopts legislation establishing procedures for national referendum to revise constitution.

**April 15, 2007:** On Fuji television program, Nakagawa Shoichi expresses displeasure with results of summit.

**April 16, 2007:** Japanese government decision to build a hotline to connect Japanese and Chinese military defense officials.

**April 17, 2007:** Maritime Self-Defense Force conducts joint exercise with U.S. and Indian Navies off Boso Peninsula.

**April 19, 2007:** Upper House of Diet approves legislation aimed at protecting Japanese interests in East China Sea.

**April 20, 2007:** In response to documents from International Military Tribunal for the Far East (IMTFE) relating to the issue of “comfort women,” Abe government reverses March 16 statement of no direct evidence linking Imperial Army or government to coercion of “comfort women”; accepts judgment of IMTFE, which found Japanese army responsible for war crimes.

**April 23, 2007:** Thirty-nine Diet members visit Yasukuni Shrine for Spring Festival.

**April 23, 2007:** Liberal Democratic Party (LDP)’s Nakagawa Shoichi announces LDP intention to set up special committee to study right of collective self-defense; government announcement follows on April 25.

**April 26, 2007:** *Asahi Shimbun* publishes excerpts from diary of former Grand Chamberlain to Showa Emperor indicating emperor’s displeasure at enshrinement of Class-A war criminals at Yasukuni Shrine.

**April 26, 2007:** 121 Coalition, a group created to support the passage of House Resolution 121 that calls upon the Japanese government to apologize for using women and girls as sex slaves, takes a full-page ad out in the *Washington Post* calling attention to the “comfort women” issue.

**April 26-May 1, 2007:** LDP Diet members Yamasaki and Kato visit China; April 28 meet with Vice Foreign Minister Wu, State Councilor Tang; April 29 visit China-North Korea border.

**April 27, 2007:** Japan’s Supreme Court rules that postwar Japan-China agreements preclude suits against the Japanese government for wartime forced labor compensation.

**April 28, 2007:** Members of Japan-China parliamentary Friendship Federation, led by former Foreign Ministers Komura and Machimura, meet Premier Wen.



**May 1, 2007:** U.S.-Japan 2+2 statement calls on China to increase military transparency.

**May 4, 2007:** The 60<sup>th</sup> anniversary of the postwar constitution; Abe calls for review of constitution to allow Japan to exercise right of collective self defense.

**May 5, 2007:** Finance Ministers of ASEAN Plus Three meet in Kyoto to discuss financial cooperation, including currency swaps; agreement reached to establish \$2.7 trillion foreign reserve pool.

**May 8, 2007:** Japan War-Bereaved Association meets to discuss issues related to Yasukuni Shrine and separate enshrinement of Class-A war criminals.

**May 8, 2007:** Abe, when asked about private offering made to Yasukuni Shrine during Spring Festival, refuses to comment on shrine-related issues.

**May 12, 2007:** *Xinhua* reports extradition from Japan of former head of state-owned enterprise suspected of embezzling public funds.

**May 14, 2007:** Upper House of Diet adopts legislation establishing procedures for national referendum to revise constitution.

**May 14, 2007:** Japanese Foreign Ministry announces expansion of visa services for tour Chinese tour groups to consulates in Shenyang and Dairen beginning May 31.

**May 14-20, 2007:** MSDF participates, with U.S, China, Australia, France, India, in 10-country multilateral exercise off Singapore.

**May 17, 2007:** Nakayama Kyoko, special advisor to the prime minister on abductees issues, visits Beijing; meets Vice FM Wu; Wu pledges cooperation on the issue.

**May 17, 2007:** Tokyo Gov. Ishihara Shintaro, in a speech given in New York City, calls for equality in the Japan-U.S. relationship.

**May 18, 2007:** Yamaha Motor company prohibited from exporting to China remote-controlled helicopters and components for nine-month period effective May 18.

**May 19, 2007:** Senior diplomats from China, Japan, and the Republic of Korea hold first-ever trilateral consultation in Beijing.

**May 25, 2007:** Chinese Foreign Ministry announces no change in policy toward East China Sea.

**May 25, 2007:** Chinese and Japanese diplomats meet in Beijing to discuss East China Sea issues.

**May 25, 2007:** *Sankei Shimbun* reports Defense Intelligence Headquarters suspects China of testing over- the-horizon radar in East China Sea.

**May 28, 2007:** Foreign Minister Aso meets China's new Foreign Minister Yang Jiechi during Eight Asia-Europe Foreign Ministers' Meeting in Hamburg.

**May 28, 2007:** Remembrance ceremonies held at Chidorigafuchi National Cemetery to honor unknown military and civilian war dead and those who died in postwar internment camps.

**May 30-June 9, 2007:** Former Taiwan president Lee Teng-hui visits Japan; June 7, visits Yasukuni Shrine to pay homage to his brother.

**June 3, 2007:** Japan, China, and ROK Foreign Ministers meet in South Korea; a first time event outside an ASEAN Plus Three, ARF, or international conference context.

**June 8, 2007:** Abe and President Hu meet in Germany during G-8 Summit.

**June 12, 2007:** Yamaha Motors announces ¥100 million award in trademark infringement suit brought in Chinese courts.

**June 13, 2007:** *Mainichi Shimbun* reports that Ministry of Defense is considering appointment of uniformed SDF officer to Japan's Taiwan Interchange Association.

**June 13, 2007:** *Nihon Keizai Shimbun* reports Beijing and Tokyo in final stages of coordination for September visit of China Defense Minister Cao Gangchuan.

**June 14, 2007:** Members of the LDP, Democratic Japanese Party, independents, professors, political commentators, and journalists place a counter advertisement "The Facts" in the *Washington Post* in response to the advertisement "The Truth About Comfort Women" placed April 26.

**June 15, 2007:** District Courts in Sapporo and Koichi reject suits brought by war displaced Japanese seeking state compensation for inadequate government support/delayed resettlement from China.

**June 15, 2007:** Japan's Supreme Court rejects appeal filed by Chinese wartime forced laborers seeking compensation; judgment reaffirms Tokyo High Court June 2006 ruling against plaintiffs on grounds that 20 year statute of limitations had expired.

**June 18, 2007:** *Sankei Shimbun* reports plan to shelve boundary issues in East China Sea and focus on joint development.

**June 19, 2007:** President Hu meets former Prime Minister Nakasone and members and families of Japan-China Youth Friendship Delegation.

**June 19, 2007:** Council to Consider the Future of Japan and History Education labels Nanjing Massacre a fabrication.

**June 21, 2007:** Tokyo High Court rejects suit by war displaced Japanese women seeking state compensation for inadequate government support/delayed resettlement from China.

**June 26, 2007:** Japanese and Chinese diplomats meet in Tokyo on East China Sea issues.

**June 26, 2007:** The House Committee on Foreign Affairs passes the Honda Resolution (HR. 121) by a vote of 39-2.





Japan-Korea Relations:  
**Treading Water, Little Progress**

David Kang, Dartmouth College  
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Although progress was made in resolving the Banco Delta Asia dispute between North Korea and the United States, and international inspectors were invited back into North Korea in June, relations between Japan and North Korea remain deadlocked, with no apparent progress or even political will to address the deep issues that divide them. Seoul and Tokyo made little progress on their history issues. However, the meeting of the foreign ministers of China, Japan, and South Korea this quarter was a positive step, and with elections coming up in Japan and South Korea, the prospect of further foreign policy changes appears likely.

**Japan-North Korea relations: not very good**

This quarter saw little movement in the stalemate between Japan and North Korea, as neither Tokyo nor Pyongyang has shown any political will to move forward toward normalizing their bilateral diplomatic relations or addressing the issues between them. North Korea announced that it saw no prospect for better relations between the two nations under the current government unless Japan changed its attitude toward key bilateral disputes. The centrality of the abduction issue in Japanese foreign policy and high political value that Prime Minister Abe Shinzo has placed on the abductions meant that Japan could not readily welcome the progress made in the Six-Party Talks. Like past quarter, Japan continued its unilateral sanctions against Pyongyang, even as its diplomatic efforts to link progress on the abduction issue with progress in stopping the North's nuclear program gained little support from other parties in the negotiations.

After the 13<sup>th</sup> round of normalization talks between Pyongyang and Tokyo collapsed in March, there have been no visible political initiatives to improve bilateral ties by Tokyo or Pyongyang. Instead, the quarter showed yet again the reactive nature of their relations to the development of the Six-Party Talks. Amid concerns that the North would miss the deadline to shut down its nuclear reactor because of the Banco Delta Asia dispute, the Japanese Cabinet approved a six-month extension of the trade sanctions on North Korea that were imposed after the nuclear test last October. According to Chief Cabinet Secretary Shiozaki Yasuhisa, the decision reflected Tokyo's ongoing concerns about North Korea's nuclear program as well as Japan's perception that Pyongyang lacked a "sincere attitude" in addressing the abduction issue. When Pyongyang failed to meet the April 14 deadline, Japan said that it was "extremely regrettable," and opposed to the idea

of setting a new deadline as “not appropriate.” In late April, Foreign Minister Aso Taro, speaking ahead of high-level Japan-U.S. security talks, warned North Korea of the possibility for more sanctions, saying that Japan would have “no choice but to go for tougher sanctions” if the current situation continued.

Prime Minister Abe’s April 27 summit with President Bush seemed to reconfirm unity between Japan and the U.S. about how to deal with North Korea when President Bush spoke of “limited patience” toward Pyongyang. However, Tokyo had to face the dilemma of maintaining its stance of “no aid to Pyongyang without the resolution of the abduction issue,” even while the U.S. moved ahead with more flexibility regarding the denuclearization of North Korea. In light of the developments in the Six-Party Talks, Japan’s options for pressure on Pyongyang appear to have been significantly reduced. For example, the *Asahi Shimbun* on May 14 reported that during Abe’s visit to Washington, U.S. Secretary of State Condoleezza Rice conveyed to him that resolution of the abduction issue would not be a precondition for dropping North Korea from the U.S. list of states that sponsor terrorism. Although the U.S. supports Japan’s position, it appears unwilling to let the abductions issue supersede resolution of the nuclear issue.

In late June, North Korea said that it was ready to return to the Six-Party Talks and allowed IAEA inspectors to visit the Yongbyon nuclear reactor site, but continued its attempt to sideline Tokyo from the negotiation processes. In an interview with Japan’s *Kyodo News*, Song Il-ho, the North Korean ambassador in charge of diplomatic normalization talks with Japan, said that Pyongyang did not see the point of holding bilateral talks with Tokyo under the six-party framework until Tokyo changes its attitude.

In the meantime, Japanese police added two more children who went missing in 1973 to its official list of abductees by the North, increasing the total to 19. In a separate investigation, the Tokyo police obtained arrest warrants for two Japanese women living in North Korea on suspicion of involvement in the abduction of two Japanese from Europe. In late June, the Japanese government’s debt-collection agency, the Resolution and Collection Corp. (RCC) moved to seize the headquarters of the General Association of Korean Residents in Japan (Chongryon) after the Tokyo District Court ruled that Chongryon would have to pay ¥62.7 billion in outstanding debts.

Finally, four North Korean defectors who had originally set out from Chongjin in North Korea, were discovered in a boat off Aomori Prefecture, Japan, and later transferred to South Korea after 14 days. Prime Minister Abe said that he would handle the matter “from the viewpoint of protecting human rights,” and the government announced that it would help the North Korean defectors. This was the first case in which Tokyo applied a law passed last year that stipulates that the government must protect and assist North Korean defectors. The *Yomiuri Shimbun* wrote on June 18 that Japan had not considered the possibility that North Korean defectors could reach Japan by boat and that the incident revealed the lack of preparedness by the Japanese government should more North Korean refugees reach Japan by boat.

## **Japan-South Korea relations: not very good, either**

In contrast to increasingly warm relations between Japan and China, Japan-South Korea relations remained chilly throughout the quarter. As Prime Minister Abe's push for his "Beautiful Japan" agenda took more concrete steps, Seoul expressed uneasiness and mistrust over such moves. While Abe brought constitutional revision to the fore for the upcoming House of Councilors election in July, a majority in South Korea voiced concerns over the national referendum bill, feeling that the step was dangerous and even indicative of Japan's resurgent militarism. During this quarter, although Japan and South Korea continued to compete over historical issues such as the "comfort women" issue and the naming of Sea of Japan/East Sea, they agreed to cooperate in important areas such energy and transportation.

### **Constitutional reform**

On May 3, Japan marked the 60<sup>th</sup> anniversary of its postwar "pacifist" constitution, as the Japanese Parliament approved a national referendum bill that set out the legal framework by which it would be possible to amend the constitution. Prime Minister Abe, struggling with plummeting approval ratings stemming from a pension fund scandal and the suicide of the agriculture minister, pledged to revise the constitution within three years and made it one of his policy platforms for the July 29 election. According to an *Asahi Shimbun* poll, Abe's approval rate went down to 30 percent in early June, the lowest since he took office. (The survey was conducted June 2-3.) However, some in Japan expressed concern that Abe has politicized constitutional revision to further his own political career, and was not allowing enough time for public discussion and debate. A *Japan Times* editorial on April 17 called the April 14 Lower House referendum bill "flawed" because it did not mandate a minimum-turnout rate by which referendums could be considered valid. The editorial also criticized Abe's "obsession" with the constitutional amendment, arguing that Abe timed introduction of the bill when the Japanese public was preoccupied with the lost pension records scandal. Meanwhile, *Kyodo News* on May 2 reported that the LDP's ruling coalition partner, New Komeito party, would uphold the first and second clauses of Article 9 of the constitution, not recognizing Japan's possible use of the right of collective self-defense, although they agreed to conduct individual research on gray areas of the constitution.

While Japanese politics was divided on the issue of constitutional reform, South Korea's notoriously fractious political parties were united in opposition to Japan's potential constitutional changes. Pro-government Uri Party spokesperson Suh Hae-suk urged Japan "to stop the move to return to militarism," while the main opposition Grand National Party spokeswoman Na Kyong-won expressed deep concern that the move would destabilize the region. Across the political spectrum, South Korean media reactions have carried similar messages, speaking of Japan's possible resurgent militarism and linking constitutional reform to Tokyo's approach to historical issues such as the "comfort women" and the history textbooks.

## Comfort women

Added to Abe's domestic problems with the pension scandal was the internationalization of the "comfort women" issue, as the U.S. House Committee on Foreign Affairs passed Resolution 121, calling for the Japanese government to formally apologize, and inadvertently strengthening the South Korean position on the issue vis-à-vis Japan. When Prime Minister Abe said to President Bush during their April summit that he is "deeply sorry about the situation in which they ["comfort women"] were placed," South Korean news media reacted by likening Abe's comment to "diplomatic comedy," as if a perpetrator was apologizing to a spectator instead of to the injured party. At the time of Abe's visit to U.S., a group of South Korean activists featured "The Truth about Comfort Women" in the *Washington Post*, saying that more than 200,000 women were forced by the Japanese government to serve as sex slaves. In June, a group of Japanese conservative politicians, professors, political commentators, and journalists responded with their own ad in the *Washington Post*. In an attempt to undermine House Resolution 121, the ad stated that "apologies over unfounded slander and defamation will not only give the public an erroneous impression of historical reality but could negatively affect the friendship between the United States and Japan." In South Korea, Yoon Mee-hyang, head of the Korean Council for the Women Drafted for Military Sexual Slavery by Japan, commented on the Japanese ad, saying that "I did not even bother to issue a statement on this advertisement because it doesn't even deserve a word of criticism."

## Defense developments

The Japanese Defense Ministry's interest in purchasing Lockheed Martin's *F-22* fighters from the U.S. to replace *F-15K* fighters caused quite an uproar in South Korea. While South Korean media detailed the superior performance and high price of the *F-22 Raptors* when compared to the *F-15K*, South Korean Defense Minister Kim Jang-soo said that if Japan obtained the jets, Seoul should have equivalent combat power in its arsenal. On May 7, South Korea's major daily *Joongang Ilbo*, while reporting that Japan's *F-22* bid could upset the regional power balance, quoted a South Korean Defense Ministry official as saying that Seoul "can't just buy equipment that we know is going to be obsolete in the near future." South Korea initiated a 15-year old modernization program in 2005 to streamline its manpower-based forces by introducing advanced weapons system such as *F-15* fighters, *Patriot* missiles, and *Aegis*-equipped destroyers.

This quarter, the South Korean Navy launched its first 7,600-ton destroyer equipped with the U.S.-developed *Aegis* combat system, named *Sejong the Great*, becoming the fifth country to have *Aegis* destroyers, along with the U.S., Japan, Spain, and Norway. In mid June, the Navy launched its second 1,800-ton attack submarine *Jeong Ji*. *Sejong* was the fourth monarch of the Choson Dynasty (1392-1910 CE), and *Jeong Ji* was the name of the Goryeo Kingdom (918-1392 CE) general who defeated the Japanese.



## **Cooperation continues**

However, despite friction over the predictable issues, Japan and South Korea signed an oil-sharing agreement on June 18 giving each other priority access to oil reserves held by the other country in case of a shortfall in national reserves. South Korea's commerce, industry, and energy minister stated that the Strategic Alliance Agreement (SAA) was intended to better cope with unexpected emergencies resulting from disruptions in the global supply of crude oil. The SAA agreement also includes annual meetings between Seoul and Tokyo to coordinate policies between oil companies and to exchange data on oil reserves and technical information. As of 2005, Japan was the second largest crude oil importer with daily imports topping 5.1 million barrels, while South Korea was the fifth largest importer, bringing in roughly about 2.3 million barrels per day.

Despite the "comfort women" and other issues that overshadowed bilateral ties, the quarter closed with an optimistic tone and promises for further cooperation as the foreign ministers of Japan, South Korea, and China gathered in Jeju, South Korea, with the intention of strengthening trilateral ties. Foreign Ministers Yang Jiechi from China, Song Min-soon from South Korea, and Aso Taro from Japan met both individually and together and agreed to cooperate for the resolution of North Korea's nuclear weapons' problem. Noteworthy was the fact that the meeting was the first time that the three countries had met as a group outside of the ASEAN Plus Three arrangement. The three countries avoided politically sensitive issues, and agreed to launch regular shuttle flights connecting Shanghai's Hongqiao Airport, Tokyo's Haneda Airport, and Seoul's Gimpo to make daytrips easier and to promote cultural exchanges.

Importantly, Aso and Song agreed to continue a joint study group working on their shared history. In April, the leaders of Japanese and South Korean historians met in Seoul to prepare for the second round of a joint history study. The Song-Aso dialogue also brought about the seventh round of the EEZ talks to continue efforts to resolve territorial issues between Tokyo and Seoul, but the negotiations failed to narrow the differences over where to draw the median line.

## **Economic relations**

The quarter's Japan-South Korea economic relations were mainly affected by the continuing trend of a weak yen and strong won and its implications for their respective economies. In South Korea, a view grew more prevalent that its economy is in trouble, "sandwiched" between Japan and China. In contrast, the Japanese economy posted record high corporate profits while various analyses say that employment and land prices have improved. During the quarter, monetary cooperation within a larger regional context marked a new breakthrough, although competition between Japanese and South Korean firms continued in the form of patent law suits filed against each other.

Continuing from last quarter, the won rose to a 10-year high against the yen in mid June, as Japan's Central Bank was projected to keep its key interest rate at 0.5 percent. According to South Korea's Ministry of Commerce, Industry, and Energy, during the

first four months of this year, South Korea's trade deficit with Japan reached \$10.06 billion, up 20.5 percent from \$8.35 billion in the same period last year. While the prediction that South Korea's 2007 trade deficit with Japan could exceed last year's record high \$24.5 billion is widely held, economic analysts ascribed the high trade deficit to the weak yen and a major blow to South Korea's export-oriented economy.

According to the *Korea Times*, on June 19 South Korea's Ministry of Commerce, Industry, and Energy decided to respond to this problem by providing concentrated support for small-and medium-sized firms to help them advance into the Japanese market. According to a Korea Trade and Investment Promotion Agency poll, of 71 smaller firms exporting to Japan, 78 percent said exports declined last year and five firms said their exports plummeted by over 80 percent.

The Japanese economy has performed better. The Shinko Research Institute reported that the operating profit of the 1,200 Japanese companies listed on the Tokyo Stock Exchange rose for a fourth straight year, and hit a record high ¥32 trillion last year. The recruitability index – the ratio of job openings to job applicants as an indicator of labor market conditions in Japan – rose to 1.06 in 2006, marking the first time that job openings outnumbered job applicants in 14 years. In contrast, South Korea's index was 0.48 during the same period. According to the *Choson Ilbo* on April 26, Japan is expected to have 2.14 jobs per job seeker next spring, the highest ratio since 1992. The daily reported that Japan's good performance resulted from the "Koizumi Reforms" that have led to a decrease in the number of government workers, and increasing support for private sector investments and start-ups. In contrast, South Korea's poor performance arose because the Seoul government increased the number of public servants. The *Choson Ilbo* also pointed out that South Korea's education system produces too many graduates with advanced degrees, far more than the market demands.

In May, on the sidelines of the Asian Development Bank's annual meeting in Kyoto, Japan, the "Plus Three" Finance Ministers agreed to pool foreign exchange reserves to better cope with financial crises. The Kyoto accord aims to develop into an Asian version of the IMF to provide a common emergency fund that could ease short-term liquidity problems in the region. The accord could also be viewed as an extended version of the "Chiang Mai Initiative," a bilateral currency swap arrangement that has failed to make much progress since being established in 2000. The finance ministers of South Korea, Japan, and China said that they agreed to cooperate with the Asian Bond Market Initiative (ABMI), and said that they should share information and strengthen policy discussions focused on potential risk factors such as a slowdown in the U.S. economy.

In mid-June, the four-day second South Korea-China-Japan Industrial Fair was held for the first time in Gyeonggi Province, South Korea. The *Choson Ilbo* reported June 14 that some 200 companies took part in an industrial pavilion to promote key businesses from each country. South Korea exhibited high-end consumer electronics, cars, and pop culture while Japan displayed its cutting-edge technology aimed at preparing for an aged society.

Competition between major South Korean and Japanese firms continued; Japan's Hitachi sued South Korea's LG Electronics in April, alleging that LG infringed upon its plasma display-related patents. LG filed a countersuit with the U.S. District Court of Texas. According to the *Korea Times* June 18, Hitachi requested that LG give "monetary compensation for damages" and called for the court to implement a "permanent injunction prohibiting LG's plasma display panel product sales in the U.S." LG, in response, said that the dispute was because of differences in opinion over the proprietary nature of each company's technologies. LG had a similar dispute with Matsushita (2004-2005), but ended up signing a cross-licensing agreement in April 2005. The companies were the world's largest plasma TV sellers during the first quarter this year.

## **Society and culture**

The quarter witnessed cultural events between Japan and South Korea, which showed how long a history the two countries have shared. Marking the 400<sup>th</sup> anniversary of the first Korean mission to Japan, the May 19 ceremony in Shizuoka, Japan celebrated the 12 envoys dispatched from the Korea to Japan between 1607 and 1800. The envoys visited Japan from 17<sup>th</sup> century until the early 19<sup>th</sup> century with the aim of promoting peaceful relations and recognizing each other's sovereignty. Six Japanese and Korean law makers participated in the event, led by former Culture Minister Kawamura Takeo and Korean lawmaker Park Jin. In the reenactment of the mission, Park acted as head of envoys appointed by the Joseon king. In a similar vein, the *Joongang Ilbo* reported on May 14 under the title "belated reconciliation" that the descendants of leading Korean, Japanese, and Chinese military figures from Japan's invasion of the Korean Peninsula in 1592 gathered in Andong, South Korea.

With increased cultural exchanges between Japan and South Korea, a "Japanese Wave" seemed to surface in South Korea, matching the "Korean Wave" in Japan. Reminiscent of Japanese fans waiting to see Korean actor Bae Yong-joon, hundreds of South Korean fans, mostly women, showed up at Gimhae Airport near Busan to see Japanese star Kimura Takuya, a group member of SMAP, one of the most popular celebrities in Japan.

This quarter also witnessed the reemergence of the history textbook issue as Japan's Education Ministry announced the results of its examination of 2008 high school textbooks. South Korea's conservative daily *Choson Ilbo* criticized Tokyo for allowing publishers to describe the Dokdo/Takeshima islets as Japanese territory, and for changing the phrase "the 'Sea of Japan' that we [the Japanese] use" to "the 'Sea of Japan' as generally specified in world maps" when describing the Sea of Japan/East Sea. ROK's Education Minister Kim Shin-il protested Japan's "distortion of history" in a letter to counterpart Ibuki Bummei, expressing serious regret that "Japanese students would have an incorrect understanding of history and negatively affect friendly ties between the two countries."

In South Korea, seven major private colleges are considering requiring a Korean history score from the College Scholastic Ability Test to cope with competing historical claims by Korea's neighbors. Presidents of the admissions departments at Yonsei, Korea,

Sogang, Ewha, Sungkyunkwan, Chungang, and Hanyang Universities decided to pursue this possibility. According to the president of the National Association of College Admission Department Chiefs, a number of other universities are likely to adopt the policy, which Seoul National University has followed since 2006.

Attempts to “correct history” within South Korea have been taking place in the form of seizing assets gained by pro-Japanese collaborators during the Japanese colonial periods. Since the Presidential Committee decided to enact a special law to “clear off the colonial-era legacy,” less than 1 percent of the collaborators’ total land possession was confiscated. Those who oppose such governmental actions argue that it was a belated political measure that infringes on individuals’ rights. Those who agree highlight the measure’s symbolic importance. Some descendants of pro-Japan collaborators allegedly gave up filing suits against the government’s confiscation of their inherited assets.

### **The next quarter**

The summer may see movement on the nuclear issue, and the key question will be whether North Korea and Japan make any progress on the abduction issue. Furthermore, the Upper House elections in Japan will take place in July, which may have repercussions for Abe’s ability to pursue foreign policy. If the LDP and its coalition partners win a resounding majority, Abe will be further emboldened. If his party does not do well at the polls, Abe may find it harder to retain all his ambitious foreign policy initiatives. In South Korea, the presidential race is beginning to heat up, and although the election will not be held until December, candidates are already staking out positions on both North Korea and Japan.

## **Chronology of Japan-Korea Relations April-June 2007**

**April 3, 2007:** PM Abe Shinzo says Japan wants a free trade agreement with South Korea and both sides need to make efforts to resume negotiations.

**April 10, 2007:** Japan’s Cabinet approves a six-month extension of trade sanctions against Pyongyang.

**April 12, 2007:** Japan’s police adds names of two children missing since the 1970s to their official abductee list.

**April 13, 2007:** Japan’s Lower House passes a bill on national referendums in a bid to revise the pacifist constitution.

**April 14, 2007:** North Korea misses the deadline to close the Yongbyon nuclear reactor site as mandated by the Feb. 13, 2007 agreement.

**April 15, 2007:** South Korea's *Korea Times* reports that President Roh Moo-hyun warned Japan "to stay away from its misguided nationalism ... to remove a major stumbling block to regional cooperation and peace" in an article in the latest issue of *Global Asia*.

**April 16, 2007:** Japan's Chief Cabinet Secretary Shiozaki criticizes North Korea for failing to meet the deadline to close the Yongbyon reactor site.

**April 25, 2007:** A senior White House official confirms that Tokyo is considering purchasing *F-22 Raptor* fighter jets from the U.S., putting South Korea on alert.

**April 26, 2007:** The *Choson Ilbo* reports that Japan will have 2.14 jobs per job seeker, the highest ratio since 1992, next spring due to the "Koizumi Reforms."

**April 26, 2007:** Hundreds of South Korean fans greet Kimura Takuya, a popular Japanese celebrity, at Busan's Gimhae Airport. Kimura is on location in Busan to film a cinematic version of the Japanese hit drama "Heroes."

**April 26, 2007:** 121 Coalition, a group created to support the passage of House Resolution 121 that calls upon the Japanese government to apologize for using women and girls as sex slaves, takes a full-page ad out in the *Washington Post* calling attention to the "comfort women" issue.

**April 27, 2007:** PM Abe has summit with President Bush and discusses the North's nuclear program, "comfort women," and other bilateral issues.

**April 28, 2007:** Japan's FM Aso Taro warns Pyongyang of tougher sanctions if "the situation continues as it is" ahead of high-level Japan-U.S. security talks.

**May 2, 2007:** ROK government announces plans to seize assets gained during the Japanese occupation (1910-1945) from alleged collaborator families.

**May 3, 2007:** Japan's postwar pacifist constitution marks 60<sup>th</sup> anniversary. PM Abe renews his call for revising the charter.

**May 5-6, 2007:** The "Plus Three" (Japan, South Korea, and China) countries adopt the Kyoto accord to pool their currencies to prepare for financial crises in the region on the sidelines of the Asian Development Bank annual meeting.

**May 7, 2007:** *Joongang Ilbo* reports Japan's *F-22* bid could upset the regional power balance.

**May 8, 2007:** Japan's *Kyodo News* reports that PM Abe sent offerings to Yasukuni Shrine in a "private capacity" in late April. South Korea's Foreign Affairs and Trade Ministry says it was "very regrettable" and calls for a "correct perception of history."

**May 9, 2007:** South Korea's Education Minister Kim Shin-il protests the results of Japan's examination of 2008 high school textbooks over the descriptions of "comfort women," Dokdo/Takeshima islets, and Sea of Japan/ East Sea.

**May 10, 2007:** Japanese and South Korean defense and foreign affairs officials meet for one-day talks to discuss ways to resolve North Korea's nuclear program.

**May 14, 2007:** Japan's *Asahi Shimbun* reports that U.S. Secretary of State Rice informed PM Abe that resolution of the abduction issue would not be a precondition to drop North Korea from the list of states sponsoring terrorism during Abe's visit to Washington, D.C.

**May 14, 2007:** Japan's Parliament passes bill setting out referendum procedures for constitutional amendment.

**May 14, 2007:** The *Joongang Ilbo* reports under the title "belated reconciliation" that the descendants of leading Korean, Japanese, and Chinese military figures from Japan's invasion of the Korean Peninsula in 1592 gathered in Andong, South Korea.

**May 15, 2007:** South Korea's Uri Party and Grand National Party voice concerns over Japan's moves to change its pacifist constitution.

**May 19, 2007:** The ceremony commemorating the 400<sup>th</sup> anniversary of the first Korean mission to Japan is held in Shizuoka, Japan.

**May 20, 2007:** *The Associated Press* reports that the UN Committee Against Torture accused Japan of trying to whitewash its practice of forcing women to becoming sex slaves for the Japanese Imperial Army.

**May 22, 2007:** Seven private universities (Korea, Sogang, Sungkyunkwan, Yonsei, Ewha, Chungang, and Hanyang) adopt Korean history test requirement as part of college entrance examination beginning 2010.

**May 25, 2007:** South Korean Navy launches first 7,600-ton *Aegis* destroyer, *Sejong the Great*.

**May 31, 2007:** Japan's High Court rejects appeals by seven South Korean women demanding the Japanese government and Mitsubishi Heavy Industries Ltd. pay compensation for forced labor during World War II.

**June 2, 2007:** Four North Korean defectors arrive in Japan's Fukaura port by boat with an aim to reach South Korea. They are put in protective custody for two weeks.

**June 3, 2007:** FMs of Japan, South Korea, and China meet in Jeju and agree to launch regular shuttle flights connecting the three countries.

**June 13, 2007:** South Korean Navy launches its second 1,800-ton submarine *Jeong Ji*.

**June 13, 2007:** Bank of Korea reports South Korea's economic growth was lower than most Asian competitors during the first quarter due to a stronger Korean currency and high oil prices.

**June 13-16, 2007:** The second Korea-China-Japan Industrial Fair takes place for the in Gyeonggi Province, Korea.

**June 14, 2007:** A full page advertisement in the *Washington Post* – running under the header “The Facts” – is taken out by Japanese Diet members and commentators, disputing claims that Japan engaged in “forceful coercion” of “comfort women.”

**June 16, 2007:** Family of North Korean defectors arrives in South Korea after two weeks of custody in Japan.

**June 18, 2007:** Japan and South Korea sign oil sharing agreement to support each other in the event of supply disruptions.

**June 18, 2007:** Tokyo District Court rules against the pro-Pyongyang group Chongryon to repay ¥62.7 billion in debts to the government-backed Resolution and Collection Corp.

**June 18, 2007:** South Korea's LG files a counter-suit with the District Court in Texas, against Japan's Hitachi Ltd. Hitachi sued LG in April alleging that LG infringed its plasma display-related patents.

**June 18, 2007:** Tokyo and Seoul hold EEZ talks but fail to come to an agreement.

**June 19, 2007:** ROK Ministry of Commerce, Industry and Energy announces that the government will help small-and medium-sized firms advance into the Japanese market to counter the trade deficit with Japan created by the fall in the won-yen exchange rate.

**June 20, 2007:** *Mainichi Shimbun* reports that Shigeie Toshinori, ambassador in charge of Okinawa, has been named Japan's new ambassador to South Korea.

**June 21, 2007:** Japan's *Yomiuri Shimbun* reports that North Korea fired one short-range missile into the sea east of the Korean Peninsula.

**June 25, 2007:** North Korea announces that it is ready to fulfill their part of the Feb. 13 six-party agreement and allow in International Atomic Energy Agency inspectors.

**June 26, 2007:** U.S. House Resolution 121 passes the House Foreign Affairs Committee, calling for the Japanese government to formally apologize for the “comfort women” issue. The bill moves to a full House vote.

**June 27, 2007:** *Kyodo News* reports that Song Il-ho, the North Korean ambassador in charge of diplomatic normalization talks with Japan, said that Pyongyang did not see the point of holding bilateral talks when Japan does not have the right attitude.







China-Russia Relations:

## Partying and Posturing for Power, Petro, and Prestige . . .

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Russia's first-ever "Year of China" was somewhat "routinized" during the second quarter, following an extravagant opening in early 2007. Politicians, artists, journalists, and businessmen continued to flock to each country's major cities as hundreds of celebration activities took place. Normal balancing and bargaining between interlocking institutions of the two strategic partners, however, provided both progress and problems, particularly in the economic area.

Much of the festivity of Russia's China Year was in sharp contrast to Moscow's tension with Washington. It was unclear, toward the end of the quarter, how this Western "civil war" of words would affect Russia's strategic matrix with China. Moscow and Beijing were working hard to prepare the Shanghai Cooperation Organization (SCO) for two events: The *Peace Mission-2007* military exercise in Russia and a friendship treaty for SCO member states to be signed at the SCO August summit in Kyrgyzstan.

### **The party continues ... Russian style**

No real summits took place in the second quarter except a brief meeting between the two heads of state during the annual G-8 meeting in Heiligendamm, Germany. Other top officials, however, frequented each other's capital, including Russian State Duma (the lower house of Parliament) Chairman Boris Gryzlov in May and China's first Vice Premier Wu Yi in June. In early May, China's new Foreign Minister Yang Jiechi, (appointed on April 27) and his Russian counterpart Sergei Lavrov met for the first time at Sharm El-sheikh in Egypt on the sidelines of an international meeting on Iraq. Russia's new Defense Minister Anatoly Eduardovich Serdyukov (appointed on Feb. 15) met Chinese counterpart Gen. Cao Gangchuan in late June at the SCO's fourth annual conference of defense ministers in Bishkek, capital of Kyrgyzstan.

The bulk of the China Year activities were organized between functionary institutions, sister cities, and professional associations, such as friendship groups, legislative bodies, media, sports, etc. While major Russian cities such as Moscow and St. Petersburg were saturated with Chinese groups, much of these sister city activities were about business.

Perhaps the most prominent item for the China Year in Russia was St. Petersburg's "Shanghai Week" beginning June 9. China sent an impressive group of 168 top CEOs led by China's most prominent Vice Premier Wu Yi. The Chinese group was overwhelmed by 10,000 other participants, including 6,000 invited guests from 60 countries, for the 11<sup>th</sup> St. Petersburg International Economic Forum on June 8-10, the largest fair for Central and Eastern Europe and CIS states. Among the participants were 200 top executives from some of the world's biggest companies (Royal Dutch Shell, BP, Chevron, Coca-Cola, PepsiCo, Siemens, Magna, etc.), 10 presidents, 11 prime ministers (mostly from CIS states), and 64 ministers. A roundtable on Russian-Chinese investment and trade cooperation in St. Petersburg was co-chaired by Wu Yi and Russian Deputy Prime Minister Alexander Zhukov. The roundtable, however, paled in comparison to a closed-door meeting of Russian President Vladimir Putin with 100 foreign CEOs organized by the World Economic Forum. First Deputy Prime Minister Dmitry Medvedev and First Deputy Prime Minister Sergei Ivanov, two favored successors of Putin, were also in St. Petersburg for the forum, together with almost all top Russian economic officials.

This extraordinary gathering of world economic power in Russia's most Westernized city was hailed by Russian media as a major success for President Putin, much needed when Russia was in difficult times with both the EU and the U.S., particularly after a difficult G-8 meeting in Germany. Nothing was wrong with this Russian style of partying. What matters more was its substance and outcome, if compared with the Chinese way of doing business.

### **Economics: progress amidst problems**

The three-day St. Petersburg International Economic Forum yielded an impressive \$3.3 billion worth of contracts signed between foreign and Russian partners, tripling the \$1 billion worth of contracts in 2006. It was unclear how much of this sum was between Russian and Chinese companies. Vice Premier Wu Yi concluded her St. Petersburg visit at the site of China's largest non-energy investment project in Russia: the Baltic Pearl residential complex. Started in 2005, the \$1.346 billion project will provide 1 million sq. meters of housing and related services for up to 35,000 residents by 2012. From here, Wu traveled to Moscow to join the foundation-laying ceremony of the Chinese Trade Center in the Russian capital. The project, with a \$300 million first phase investment from China, would provide business service with office space, hotels, exhibition centers, malls, and even Chinese gardens.

Far from St. Petersburg and Moscow but adjacent to Russia's Far East, the 18<sup>th</sup> International Trade and Economic Fair of Harbin (June 15-19), capital of China's Heilongjiang Province bordering Russia, inked almost 500 investment agreements for a total sum of \$75.3 billion. The contract amount, 23 times that of the St. Petersburg forum, was achieved without much fanfare and certainly without top Chinese leaders, except State Councilor Tang Jiaxuan (former foreign minister).

The contrast between St. Petersburg and Harbin underscored several features in Russian-Chinese economic relations. First, the Chinese market has become far more independent of the will and capacity of individual leaders, and has a life of its own. Second, the size of the Chinese market is enormous and is continuing to grow rapidly. Indeed, most (\$60.9 billion) of the \$75.3 billion contracted amount was invested by Chinese firms from other parts of the country. The sheer amount of investment, intended or actual, means there is enormous potential and a favorable investment climate in China for domestic and foreign firms. Finally, Chinese firms themselves have increasingly been active investors for both domestic and foreign markets, including Russia.

Despite these major differences between the two markets, there were quite a few other bright spots in bilateral economic relations during the second quarter:

- Bilateral economic interactions continued to grow. In 2006, the total volume reached \$33.4 billion, up 15 percent from 2005. Meanwhile, China became the fourth largest trading partner of Russia, while Russia became the eighth largest trading partner of China.
- Russia's export of electromechanical products to China between January and April 2007 showed a 53.2 percent hike to \$106 million, which was a rebound for the first time in recent years, even if this made up only 1.7 percent of the total value of Russian exports to China.
- The first unit at the Russia-built Tianwan nuclear power plant was commissioned for commercial operation (May 17). The second unit started a test run (May 1) and will be commissioned at year-end. A working group was set up to study the feasibility of installing two more Russian power units on the same site in Tianwan.

A foothold in the most rapidly growing nuclear market is comforting for Russia's nuclear power industry. In the next 15 years, China plans to launch two or three 1,000 mw power units every year to meet its goal of raising nuclear power capacity from 1.6 percent of the total power capacity to 4 percent by 2020. Still, this remains far behind the current world-wide average of 16 percent of total power consumption, let alone the U.S. share of 20 percent and France's 80 percent.

There is, however, no lasting guarantee that Russia will keep its current lead in the nuclear power sector. Not only does it have to compete with other foreign firms equipped with better technology, but Russia may face increasingly capable Chinese nuclear companies in the not-too-distant future. In May, China launched the State Nuclear Power Technology Co. (SNPTC) in Beijing, which is co-funded by the State Council and four large state-owned enterprises, including the China National Nuclear Corporation (CNNC). The new company focuses on the transfer of third generation nuclear power technologies from other countries (both Russian units are based on second-generation technology). On Feb. 28, CNNC signed a contract to buy four third-generation pressurized water reactors from U.S.-based Westinghouse Electric Co. which includes far more technology transfers than Russian Atomstroyexport was willing to make.

While China's competitiveness in the nuclear power sector is a matter of the future, several worrisome signs plagued bilateral economic relations. One of them is a considerable slowdown of the growth in bilateral trade in 2006. The 15 percent increase in the 2006 trade volume, for example, was only half of the 2005 growth rate (30 percent) over 2004. Although the first quarter of 2007 witnessed faster trade growth (28.5 percent), it is unclear if this rate will be maintained.

Trade structure continues to worsen for Russia: even if the portion of manufactured goods in Russian exports to China stopped declining in early 2007, Chinese exports to Russia are increasingly diverse with a growing range and proportion of manufactured products. In 2006, machines and equipment made up 29 percent of China's exports compared with 11 percent in 2001. Meanwhile, oil and petroleum products made up 47.3 percent of Russian exports to China. Even so, Russia accounted for only 11.34 percent of China's overall oil and petroleum product imports and was in fourth place after Saudi Arabia, Iran, and Angola.

One major lag in Russia's exports to China was the significant shrinkage of Russia's arms sales to China. In 2006, only \$200 million worth of contracts were signed; the normal level is \$1 to \$1.5 billion per year. Despite such a decline, the Russian side has not been able to fulfill some of the largest contracts signed with China, particularly the \$1.4 billion contract for 38 *Ilyushin* military cargo planes (including 34 *IL-76MD* and 4 *IL-78* refueling aircraft).

A turning point in bilateral trade may also be reached by the end of the year; for the first time since 1999, trade will be more or less even, ending the trade surplus Russia has had with China since 1999. China may have a surplus, which would have a psychological impact that few in Russia would like to entertain.

### **Pipeline delayed, gas denied?**

One factor in the shrinking Russia's trade surplus is the sluggishness in its oil exports to China. In the Sino-Russian transportation subcommittee's Moscow meeting in May, Chinese Railroad Minister Liu Zhijun informed his Russian counterpart that China was ready to import up to 45 million tons of oil from Russia by railroad. President of Russian Railways Vladimir Yakunin indicated that Russia was ready to deliver only 15 million tons of oil per year.

The long-awaited oil pipeline from Russia's Siberia to China may be a matter of time as Russian company Transneft has built about 1,000-km of pipeline for the 4,130-km Taishet-Perevoznaya Bay (Nakhodka) project. Meanwhile, a 70-km branch line from Skovorodino to the Chinese border is being constructed with \$436 million financed by China. Thirteen years after former Russian President Yeltsin first proposed it, the Siberia-Daqing pipeline may eventually pump more Russian oil to China. Other high-profile energy contracts with China, however, were either being questioned or delayed. In late June, Alexander Ananikov, deputy CEO for Russia's gas monopoly Gazprom, hinted that the timeframe for the Altai gas pipeline project – signed during President Putin's

March 2006 visit to China – may be delayed a year if talks with China are not completed in 2007.

A week before his Altai statement, Ananenko took aim at another China-bound gas export contract. This time, Gazprom wanted to block the 2004 preliminary agreement by ExxonMobil to supply China with 80 billion cubic meters of Sakhalin-1 gas. The same amount of gas should be diverted for Russian domestic needs, according to Ananenko at a meeting of the government commission for the socio-economic development of the Far East and Trans-Baikal region. While Exxon has 30 percent of Sakhalin-1 shares, which is 10 percent larger than Russia's Rosneft, Ananenko now calls for a governmental "directive" to be issued so that Sakhalin-1 gas can be sold to Gazprom in order to avoid a projected gas shortage in Russia's Far East regions.

The real reason for Gazprom's effort to block Exxon's contract is perhaps to eliminate any plans by Sakhalin-1 participants to independently sell gas to China, which, according to Gazprom Eastern Russia project coordinator Viktor Timoshilov, may be "complicating Gazprom's negotiations to supply gas to China." Gazprom's move, however, is not supported by Russia's gas exports law passed in 2006, which gives Gazprom the exclusive right to export gas but does not apply to contracts signed earlier or to production sharing agreements.

It remains to be seen how Gazprom will be able to monopolize Russia's gas exports. Cutting the gas supply to China, meanwhile, was also supported by Anatoly Chubais, head of Russia's Unified Energy System. On June 15, Russia's national grid chief passionately argued that projects to export gas from Russia to China at the expense of Russian consumers were "a strategic mistake," and "must be re-examined."

It seems that the fate of Russia's oil pipeline to China is being repeated by the gas line. If the Sino-Russian gas talks drag beyond 2008, will the new Russian president honor his predecessor's contract? There is no question that Russia should utilize its national resources for its own national interests. Russia's national credibility, too, should also be earned, preserved, and enhanced.

### **SCO on a fast track**

Unlike the sluggishness, if not stalemate, in the Russian-Chinese gas talks, the Shanghai Cooperation Organization (SCO) moved at full speed during the quarter. This included:

- April 10-12: second chief justice conference in St Petersburg;
- May 25: third security councils meeting in Bishkek, Kyrgyzstan;
- May 30: *Issyk-Kul-Antiterror-2007* (joint command and staff exercise) was conducted in northern Kyrgyzstan; and
- June 26-27: fourth defense ministerial meeting was held in Bishkek.

Much of these SCO ministerial meetings were institutionalized and therefore routine before the scheduled summit. Several salient issues, however, preoccupied SCO members in the second quarter. One of them was drafting a treaty on long-term good neighborly relations, friendship, and cooperation between SCO member states. The document will also spell out the SCO's perception of regional and global issues including those for war, peace, stability, etc.

Another major upcoming event is the *Peace Mission-2007* military exercise to take place in Russia's Chelyabinsk region. A total of 5,000 servicemen will be engaged (2,000 from Russia, 1,600 from China, and 90 from Tajikistan); 500 pieces of Russia and China-made military hardware will be involved. *Peace Mission-2007*, however, needs more coordination because it will overlap with the SCO summit. In each month of the quarter, talks were held to discuss and prepare the exercise. The final round of consultation was held during the SCO's annual defense ministerial meeting June 27 in Bishkek.

The quarter also showed signs that the regional security group was getting into a more efficient mode. On May 25, the organization's Regional Anti-Terrorist Structure (RATS) produced, for the first time, a list of 39 terrorist, separatist, and extremist organizations operating in the SCO countries. The list includes al-Qaeda, the Taliban, the Islamic Movement of Uzbekistan, Hizb ut-Tahrir, the East Turkestan Islamic Movement, and others, as well as 944 persons who were put on the international most-wanted list by SCO law enforcement bodies.

RATS' initial functioning obviously pleased the Russians. "We transfer from the signing of documents to specific measures to carry out joint antiterrorist drills and operations to intercept drug-trafficking channels," commented Secretary of Russia's Security Council Igor Ivanov during the SCO annual conference of security chiefs on May 25. "We've noticeably stepped up counteraction against challenges and threats encountered by our countries," Ivanov stressed.

China, too, seemed more willing to entrust SCO with more responsibilities. During the May session of security chiefs, China proposed two additional items for the agenda: security during the upcoming SCO summit in Bishkek and cooperation between the SCO-members to ensure security during the Olympic Games in Beijing in 2008. Kyrgyzstan, which played host for several ministerial meetings, appeared more than eager and capable of providing security for the upcoming summit. An anti-terror drill, *Issyk-Kul Antiterror-2007* command and staff exercise, was held in late May in the Issyk-Kul region in the north of Kyrgyzstan. Up to 1,000 Kyrgyz servicemen, together with officers of special services from other SCO member states, took part in the hostage-release exercise.

While Kyrgyzstan was saturated with SCO activities, this "weakest link" of the SCO – thanks to the "tulip revolution" in 2005 – is confronted, politically and psychologically, with the sensitive issue of a U.S. base on its soil. For almost two years since July 2005 when the SCO first called for a timetable for the U.S. to close its bases in central Asia, the U.S.-rented (\$150 million for 2006 in the format of aid and rent) Manas Air Base in Kyrgyzstan has been a "silent" item in SCO's agenda. The "don't-ask-don't-tell"

situation regarding the Manas base may face another round of “questioning” by SCO member states as several high-profile “accidents” in and around the base have occurred in the past two years. These included damage to Kyrgyzstan’s only *Tu-154* passenger airliner – which doubled as the president’s personal jet – in a collision with a taxiing U.S. military tanker; the killing of a Kyrgyz driver at the base by a U.S. serviceman who was not allowed to be prosecuted by Kyrgyz authorities; the disappearance and reappearance of a U.S. Air Force officer, etc.

For these reasons, among others, the Kyrgyz Parliament in the second quarter urged the government to evict the U.S. from Manas base. In reaction to the rising complaints from the locals, U.S. Assistant Secretary of State for Central and South Asian Affairs Richard Boucher indicated on June 11 in Bishkek that the question of the U.S. air base in Kyrgyzstan should be decided only between the Kyrgyz and U.S. governments, and that the SCO should not discuss this issue. Boucher’s remarks apparently triggered a rather strong reaction from both China and Russia. A week later, China’s official media went as far as to call for the U.S. withdrawal from the base, something that China had refrained from doing publicly. Russia’s semi-official periodical *Nezavisimaya Gazeta* indicated that the upcoming SCO summit would examine the base issue.

Finally, the SCO appeared in the mood and ready for outreach and possibly another round of enlargement. Throughout the quarter, several SCO member states toyed with the idea of Turkmenistan’s involvement with, if not formal admission to, the regional group. “Turkmenistan is a part of Central Asia, a part of our region. And, I believe that the position of all six countries (SCO member states) is to somehow involve the country in the integration and regional processes,” said SCO Secretary General Bolat Nurgaliyev, adding: “We really do not want a situation to remain where a component part of the Asian region is isolated.” It was not clear how Turkmen officials would receive the offer from SCO. Regardless, SCO’s secretary general had issued an invitation for the Turkmen president to join the upcoming SCO summit in Bishkek, together with an invitation to the new UN chief Ban Ki-moon.

### **Triangular petro-politik in Central Asia**

The SCO offer was against a backdrop of a new round of petro-politik centered on Turkmenistan. In early June, U.S. Principal Deputy Assistant Secretary of State for South and Central Asian Affairs Steven Mann paid a visit to Turkmenistan and expressed interest in developing a U.S.-backed network of “alternative” gas pipelines, originally proposed by the U.S. in 1999-2000, for the entire Caspian area in general and the Trans-Caspian gas pipeline project in particular. Former Turkmen President Saparmyrat Nyязow dropped the U.S. plan. Now with President Berdimuhammedow in office, the U.S. seized the moment to advance its interests.

The renewed U.S. interest in the energy-rich central Asian state was not the only great power geopolitics in the format of petrol-politik. Indeed, Washington may well be late in this round of the energy game in the region. Twenty days before Mann's Turkmen stopover, Russian President Putin spent three days (May 10-12) with his Kazakh and Turkmen counterparts, which put a damper on an energy summit (May 11-12) attended by Poland, Azerbaijan, Georgia, Ukraine, Lithuania, and Kazakhstan. However, at the last minute, Kazakhstan's president pulled out of the gathering to meet Putin and sent a representative in his stead. The Russia-Kazakhstan-Turkmenistan talks yielded agreements to upgrade existing Soviet-era infrastructure so that more central Asian gas and oil would be pumped to Russian pipelines. Already four-fifth of Kazakh's 52.3 million tons of oil to other countries in 2006 transits Russian territory. From Turkmenistan, Russia's Gazprom pays \$100 per 1,000 cubic meters of gas that it buys, well below the \$250 it charges its European customers.

Putin's successful effort to control more energy resources of the two former Soviet states was not only a blow to U.S. and European attempts to get Central Asian gas and oil off Russian hands, but may also be an effective move to compete with China for control of regional energy resources. On April 3, 2006, China and Turkmenistan signed a 30-year contract to sell 30 billion cubic meters of gas to China annually starting in 2009. Beijing sweetened the gas contract with a 3 percent, 20-year loan of \$300 million. The loan was to reconstruct the Maryazot industrial plant and to build a glass plant. This is the first long-term foreign loan that Turkmenistan has received in recent years. During the second quarter, China redoubled efforts to realize energy deals. On June 1, China's National Development and Reform Commission (NDRC) Vice Chairman Chen Deming visited Ashgabat for the sole purpose of implementing the 2006 gas agreement. Turkmen gas to China — through a pipeline through Uzbekistan and Kazakhstan to Ruche, which is being constructed by China National Petroleum Corporation (CNPC) — would be at least two years ahead of the contracted delivery of Russian gas to China, now will be delayed at least for one year.

### **An EU/German model for SCO?**

To be fair, much Sino-Russian interaction in the second quarter, including Russia's Year of China and the SCO's surge of activities, was out of the spotlight for at least two reasons, and both are related to Russia. One was the ending of the standoff between the U.S. and North Korea regarding the transfer of the latter's \$25 million assets to Dalkombank, a bank in the Far Eastern city of Khabarovs. The Russian bank later transferred the fund to North Korea. Pyongyang then took a series of steps to implement the Feb. 13 agreement of the Six-Party Talks in Beijing. In this regard, Russia acted as a useful, active, and effective mediator between Washington and Pyongyang.

Russia's contribution to resolving outstanding and dangerous international disputes, however, was easily ignored. For most of the second quarter, Russia was portrayed in the West as a deceptive, bullying, and missile-waving giant powered by dirty oil dollars. Naturally, it was Russia's difficulties with the West particularly with the U.S. — not its good and normal working relations with China — that captured the headlines.



Beijing is known for its critical view of U.S. unilateralism and missile defense policy. Yet it has so far refrained from openly siding with Moscow in the current heated rhetoric between the two. Most Chinese analyses tend to see the disputes as unlikely to lead to a new cold war. They may also need to wait and see how Putin works things out with Bush in their July 1 meeting in Kennebunkport, Maine.

The current world geopolitical wrestling between Russia, the U.S., and more recently a fast rising China, may be deceptive. Much of Russia's predicament with the West and the U.S. regards Europe, be it missile defense, NATO expansion, Kosovo, energy strategy, Russian domestic politics, etc. In this regard, European Union with a firmly embedded Germany, is highly relevant for Russia and China, as well as their collaborative project, the SCO.

To what extent Germany, which was the rotating chairman of the EU, can resolve or alleviate the current tension between Russia and the U.S. remains a question. Germany's influence on some world issues, however, is steadily growing. In the second quarter and on various multilateral occasions, Germany/EU simultaneously took on all three geopolitical giants, as well as some salient issues: climate change with the U.S.; growth and responsibility (Africa related) with China; and human rights, Kosovo, and energy supply issues with Russia. Germany also hosted in May a 5+1 conference on the Iran nuclear issue (UN Security Council permanent members plus Germany).

Despite its "honest insult" approaches to major players, Germany, together with EU, was perceived as the most friendly nation(s) for Russia and China. And by the end of the second quarter, Germany, holding the rotating presidency of both the EU and G-8, was able to keep everybody on board: a compromise with the U.S. on climate change; a \$60 billion package for Africa (including a \$30 billion U.S. pledge) to fight AIDS and other diseases; a pledge for diplomatic resolution of the Iranian nuclear standoff; engaging African and "emerging economies" (China, India, and Brazil) in G-8 outreach sessions; an interface for Russia to reduce tension, at least temporarily, with the U.S. over missile defense issues, etc. Shortly after the G-8, German Chancellor Angela Merkel managed to get the revised EU Charter passed, thus avoiding a major crisis for the EU. The impact of Germany, which is firmly embedded in EU, is set to grow in the coming years not only within the EU as a result of changing of the guard in the UK and France, but also on the world stage as both Russia and the U.S. enter presidential elections.

No EU/German "shoes" would exactly fit the SCO "feet" due to a multitude of political, social, historical, and cultural differences. Yet as a large multilateral regional forum, the SCO may well benefit from EU/German experiences. This is particularly true in the case of managing relations with Washington given its growing difficulties in Iraq and elsewhere. Indeed, it is both easy and perhaps even fashionable, to say no to Washington as anti-Americanism is rising around the world. It is more difficult and challenging in the upcoming SCO summit, however, not to move the SCO toward a more confrontational posture with the world's most powerful nation. The SCO's own interests would be better served if the regional group preserves its security and interests without making any

obvious and declared enemy. An unhappy, insecure, and somewhat isolated superpower is not in anyone's interest.

While the SCO's future is wide open, history did come to an end in the second quarter when Russia's former President Boris Yeltsin passed away April 23. Putin's constitutional era will end in a year, though it remains to be seen if he would become "Putin the Great" by taking a third term or "Putin the Ghost" by working behind the scenes. Whatever the case, a more economically powerful Russia will be the case, together with a steadily rising China, a more influential EU with Germany as its anchor and driving force, and a post-Bush America searching for its proper place in the world.

## **Chronology of China-Russia Relations**

### **April-June 2007**

**April 2, 2007:** Shanghai Cooperation Organization (SCO) Secretary General Bolat Nurgaliyev in an *Itar-Tass* interview says that the SCO is keen on seeing Turkmenistan more active in regional capacity building. Turkmenistan is not a member of the SCO.

**April 4, 2007:** The Year of the Russian Language in China opens at Beijing University of Foreign Languages. This includes a composition competition, photo exhibition, filmed works of Russian classical literature, roundtable discussion, scientific conference, and concert. It is sponsored by the Chinese Association of Teachers of the Russian Language and Literature at Beijing University, and the Russian-Chinese Friendship Society.

**April 10-12, 2007:** The SCO holds its second chief justice conference in St. Petersburg. SCO top judges pledge to strengthen cooperation in cracking down on extremist and drug-related crimes. A declaration on judicial cooperation is signed.

**April 12-14, 2007:** SCO military experts conduct the third-round of talks for the August anti-terrorism military exercise *Peace Mission-2007* to be held in Chelyabinsk. Consensus is reached on issues concerning logistics and scheme. Chief of the Russian General Staff Gen. Yury Baluyevsky and Deputy Chief of the General Staff of the Chinese military Zhang Qinsheng attend.

**April 23, 2007:** Russia's first President Boris Yeltsin passes away.

**April 24, 2007:** President Hu Jintao sends condolences to President Putin over the death of former Russian President Boris Yeltsin on April 23 at the age of 76.

**April 27, 2007:** Yang Jiechi is named China's new foreign minister.

**May 4, 2007:** China's FM Yang Jiechi meets Russian FM Sergei Lavrov at Sharm El-sheikh on the sidelines of an international meeting on Iraq's security. The two discuss bilateral relations including the Year of China in Russia, the SCO, and other major international issues.

**May 10-12, 2007:** Putin visits Kazakhstan and Turkmenistan. Russia-Kazakhstan-Turkmenistan talks are held on May 12 to discuss upgrades to existing Soviet-era energy infrastructures.

**May 11-12, 2007:** Energy summit is held in Warsaw, Poland to reduce Azerbaijani, Georgian, Ukrainian, Lithuanian, and Kazakh dependence on Russian energy. Kazakhstan president pulls out of the meeting to meet Putin and sends a representative in his stead.

**May 14-16, 2007:** Russian State Duma (the lower house of Parliament) Chairman Boris Gryzlov visits China for the second meeting of the Russian-Chinese parliamentary commission. Gryzlov meets Chairman of the Standing Committee of the National People's Congress Wu Bangguo, President Hu Jintao, and Chairman of the National Committee of the Chinese People's Political Consultative Conference Jia Qinglin.

**May 15, 2007:** The Sino-Russian transportation subcommittee under the Chinese-Russian Prime Ministers' regular meeting commission meets in Moscow.

**May 15-18, 2007:** The fourth round of consultations of SCO military experts on organizing the *Peace Mission-2007* drill is held in the Chinese city of Urumchi. China's Deputy Chief of the General Staff Zhang Qingsheng hosts; Russian delegation is headed by Deputy Commander-in-Chief of Land Forces Col. Gen. Vladimir Moltenski.

**May 17, 2007:** First unit at Russian-built Tianwan nuclear power plant is commissioned for commercial operation. The second unit had a test run May 1 and is expected to be online at year's end.

**May 25, 2007:** Third conference for SCO member states' security councils is held in Bishkek. Russia's Security Council Secretary Igor Ivanov and deputy Security Council Secretary and deputy public security minister Meng Hongwei join.

**May 25, 2007:** SCO's Regional Anti-Terrorist Structure group produces a list of 39 terrorist, separatist, and extremist organizations operating in SCO countries.

**May 25, 2007:** Fifth Russian-Chinese working group on media cooperation meets in Beijing. A protocol calls on the two countries' media outlets "to take active part" in the events of China Year in Russia in 2007 and guarantee "full and impartial coverage."

**May 25-26, 2007:** A political forum is held in Moscow at the initiative of the United Russia Party and the Chinese Communist Party. Part of the Year of China in Russia, the forum addresses the two countries' relations from a global and regional perspective. Wang Lequan, member of the CPC Central Committee Political Bureau and Secretary of the Communist Party of China of the Xinjiang Uyghur Autonomous Region, leads the Chinese group. His Russian host is United Russia leader Boris Gryzlov.

**May 30, 2007:** SCO conducts *Issyk-Kul-Antiterror-2007* exercise at the Edelweis training ground near Balykchy in Kyrgyzstan.

**May 30, 2007:** The Sino-Russian Committee of Friendship, Peace, and Development opens its seventh plenary meeting in Moscow. It adopts the 2007 plan for more than 60 activities of humanism, business, local cooperation, exchanges, etc.

**June 1, 2007:** China's National Development and Reform Commission Vice Chairman Chen Deming visits Ashgabat, Turkmenistan to implement the China-Turkmenistan gas contract signed April 3, 2006.

**June 4, 2007:** Russian and Chinese FMs Lavrov and Yang meet on the sidelines of the third Ministerial Meeting of the Asia Cooperation Dialogue in Seoul and discuss the planned deployment by the U.S. of missile defense elements in Eastern Europe, in addition to other bilateral, regional and international issues.

**June 6-8, 2007:** The 31<sup>st</sup> G-8 summit is held in Heiligendamm, Germany. The G-8 Outreach Sessions June 8 also include China, India, and Brazil.

**June 8, 2007:** Presidents Putin and Hu Jintao meet during the G-8 summit in Heiligendamm, Germany. They discussed bilateral cooperation in SCO's framework.

**June 8-10, 2007:** Eleventh St. Petersburg International Economic Forum is held in Russia.

**June 8-12, 2007:** Vice Premier Wu Yi pays an official visit to Russia at the invitation of Russian First Deputy Prime Minister Dmitriy Medvedev. She attends the 11<sup>th</sup> St. Petersburg International Economic Forum and activities related to the Year of China, including St. Petersburg's "Shanghai Week" (June 9-16).

**June 9, 2007:** St. Petersburg "Shanghai Week" begins in Russia as part of "China Year" festivities.

**June 9-10, 2007:** World Economic Forum Russia CEO Roundtable is held in St. Petersburg. Putin and top Russian economic officials meet over 100 chief executives of foreign businesses doing business in Russia.

**June 11, 2007:** Assistant Secretary of State for Central and South Asian Affairs Richard Boucher during his visit to Kyrgyzstan states that the Manas air base was a bilateral issue between the U.S. and Kyrgyzstan and that the SCO should not discuss this issue..

**June 12, 2007:** President Hu Jintao sends a congratulatory message to Vladimir Putin for Russia's national day.

**June 13, 2007:** The Russian-Chinese Youth Games opens in Moscow as part of the Year of China. Some 88 Chinese athletes compete in basketball, handball, springboard diving, synchronized swimming, martial arts, and other sport.

**June 15, 2007:** The Sino-Russian Sub-commission for sports cooperation held its seventh meeting in Moscow. A protocol is signed and China agrees to provide support and convenience for the Russian Olympic team for the 2008 Beijing Olympic Games.

**June 15, 2007:** Anatoly Chubais, head of Unified Energy System of Russia, argues that Russia-to-China gas exports at the expense of Russian consumers are “a strategic mistake” and “must be re-examined.”

**June 15-19, 2007:** The 18<sup>th</sup> International Trade and Economic Fair held in Harbin, China.

**June 19, 2007:** *BBC News* reports that Gazprom has asked the Kremlin to cancel an agreement to pipe 80 billion cubic meters of gas a year from ExxonMobil’s Sakhalin-1 project.

**June 23, 2007:** Russian Finance Ministry confirms transfer of funds from the Delta Banco Asia to North Korea was completed via Dalkombank.

**June 26, 2007:** Gazprom deputy chief executive Alexander Ananenko tells reports that if talks with China are not completed, the start of the Altai pipeline project could be delayed a year.

**June 26-27, 2007:** SCO’s fourth defense ministerial meeting held in Bishkek. A Joint Communiqué is issued and the ministers sign an agreement for the joint military exercise in Russia in August.

**July 1-2, 2007:** Presidents George W. Bush and Putin hold U.S.-Russia summit in Kennebunkport, Maine.



## About The Contributors

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