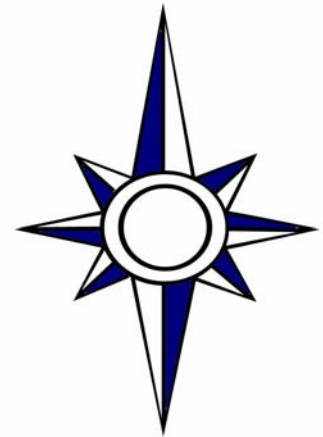




**P a c i f i c   F o r u m   C S I S**



# Comparative Connections



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

*edited by*

Brad Glosserman  
Carl Baker

4th Quarter (October-December) 2007  
Vol. 9, No. 4  
January 2008

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## Pacific Forum CSIS

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

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.

# **Comparative Connections**

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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 Carl Baker, with Ralph A. Cossa serving as senior editor, was created in response to this unique environment. *Comparative Connections* provides timely and insightful analyses on key bilateral relationships in the region, including those involving the U.S.

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

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

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**by Michael J. Green, CSIS, and Nicholas Szechenyi, CSIS**

Prime Minister Fukuda Yasuo outlined his foreign policy agenda in an address to the Diet, highlighting the U.S.-Japan alliance and international cooperation as the foundations of Japanese diplomacy. But legislation authorizing Japan’s naval refueling mission in the Indian Ocean became a political football in a divided legislature and expired, forcing Fukuda to draft a new bill and extend the Diet session twice in an attempt to continue Japan’s support for the war on terror. The importance of the bill was noted during a November summit in Washington that also covered other issues including the Six-Party Talks and concerns in Japan about a perceived shift in the U.S. position on Japanese citizens abducted by North Korea. Other developments such as a new agreement on host nation support for U.S. forces in Japan and a successful sea-based missile defense test demonstrated forward trajectory for alliance cooperation. Yet the quarter ended with other issues unresolved, namely Japan’s suspension of Indian Ocean refueling operations and Pyongyang’s failure to come clean on its nuclear programs.

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**by Donald G. Gross, Atlantic Council of the United States, and Hannah Oh, Holland and Knight LLP**

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

In December, Vladimir Putin named his preferred successor, longtime aide and fellow Petersburg DMITRI Medvedev, and appears to be stepping down – sort of. While George Bush proclaims to have understood Putin after their first meeting in 2001, most observers of Russia in the U.S. have been arguing over Putin and what his government represents for the better part of eight years. Now that the Kremlin has come forward with its own explanation, and has been bandying about the term “sovereign democracy,” the question of what Putin and the Kremlin represent is no longer hard to decipher. Meanwhile, the designation of Medvedev as the preferred successor to the presidency could be seen as a plus for the U.S. Many analysts view him as an economic liberal; most importantly, he has no known background in the intelligence or the security services. But the fact that he is a relative political lightweight leaves the door open for the return of Putin, or his retention of power as the kingmaker behind closed doors, or even as prime minister.

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**by Sheldon W. Simon, Arizona State University**

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Prime Minister Wen Jiabao’s active agenda in regional summits coinciding with the ASEAN Plus China, ASEAN Plus Three (with Japan and South Korea), and East Asia Summit meetings in Singapore in November was the highlight of the quarter. Chinese officials adhered to the line of emphasizing harmonious relations with Southeast Asian and other countries, but ran across some difficulties involving Myanmar, Vietnam, and climate change. Beijing is making a diplomatic investment in managing the unfolding crisis in Myanmar, despite its adherence to the principles of sovereignty and noninterference. Longstanding territorial disputes with Vietnam broke into the open this quarter with back-and-forth accusations and complaints.

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**by David G. Brown, The Johns Hopkins School of Advanced International Studies**

At the 17<sup>th</sup> Party Congress in October, Hu Jintao authoritatively reiterated Beijing’s desire for a peace agreement on the basis of the one China principle. Behind this positive public posture, Beijing remains deeply concerned about the referendum on joining the UN under the name “Taiwan” that Chen Shui-bian is relentlessly promoting. Yet Beijing has kept its rhetoric under control. It has pressed the U.S. to do more to stop the referendum and has worked with some success to mobilize international criticism of it. Washington has continued to make known to the public in Taiwan its reasons for opposing this referendum and, to underline the message, Washington has put Taiwan’s purchase of more *F-16* fighter jets on hold. That Chen is pushing ahead with the referendum despite international opposition only confirms that his purpose is primarily election mobilization.

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**by Aidan Foster-Carter, Leeds University, UK**

The last quarter of 2007 was significant for inter-Korean relations and began with the second North-South summit. No mere symbolic one-off event, the summit went on to produce numerous follow-up meetings. It appeared that an era of regular, sustained and largely practical intercourse between Seoul and Pyongyang had begun, at long last and irreversibly. Yet, two shadows threaten to dim this institutionalization of the South's "Sunshine" policy. On Dec. 19 South Koreans chose Lee Myung-bak as their president for the next five years. Lee has vowed to review all recent deals with the North, to demand more reciprocity from Kim Jong-il, and to link aid and other progress to Pyongyang's nuclear compliance in the ongoing Six-Party Talks. Meanwhile, Pyongyang failed to fulfill its pledge to make a full declaration of all its nuclear activities by the end of the year. Hence 2008 could go either way. The unprecedented practical cooperation may continue or be left unfinished or marking time in the face of political change.

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

The Six-Party Talks agreement on next steps in North Korea's denuclearization and the inter-Korean summit declaration shaped developments in China-Korean relations in the last quarter of 2007. Chinese Communist Party official Liu Yunshan visited Pyongyang in late October with a message from Hu Jintao. Similarly, Six-Party Talks lead negotiator Wu Dawei visited Pyongyang in mid-December to encourage counterparts to follow through on obligations to disable and declare nuclear facilities by the end of the year. South Korean telecommunications companies worked hard to gain an advantage over global competitors in China, while Korean automobile and steel manufacturers faced new challenges as industrial espionage involving proprietary technology drew an even higher profile in both sectors. China's search for financing has not bypassed the Korean equity market, as Korea's China-focused equity funds gained while the Korean Stock Exchange attempts to attract Chinese firms to list directly on the Korean exchange.

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Beijing welcomed the new Fukuda government and Japan's new prime minister made clear his commitment to building the strategic relationship with China. However, the new government in Tokyo soon became preoccupied with the passage of a new antiterrorism special measures law, Defense Ministry scandals, and the continuing pension fund imbroglio. Despite repeated commitments by political leadership in Tokyo and Beijing to joint development of the oil and natural gas resources in the East China Sea, there is no tangible resolution of the issue in sight. At the end of the year, joint development remained an aspiration. Meanwhile, as underscored by the first meeting of the Japan-China High Level Economic Dialogue, economic and business ties continued to strengthen the foundation of the bilateral relationship.



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

The final quarter of 2007 was eventful and left observers in both Japan and South Korea cautiously optimistic about bilateral relations. Both countries chose new chief executives this fall, and both promised to search for more collaboration and to begin repairing relations. Halting progress on North Korean denuclearization through the Six-Party Talks led to hope that momentum could be sustained, although Japan for the time being has chosen to be supportive but skeptical, and continued its sanctions against the DPRK. Indeed, North Korea's missed deadline for declaring its nuclear programs was a reminder that progress in relations with North Korea is never straightforward or easy. It is unclear how relations between North Korea and other states in the region will evolve in 2008.

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**by Yu Bin, Wittenberg University**

Succession politics preoccupied both Moscow and Beijing in the last quarter of 2007. The 17<sup>th</sup> Congress of the Chinese Communist Party in October paled in comparison to Putin's surprising posturing in early December to shape Russian politics beyond 2008. If his "Operation Successor" is implemented, Beijing may well live with Putin's leadership rather than his legacy for the next 16 years. Meanwhile the two countries continued to interact at global, regional, and bilateral levels. The third Russia-China-India trilateral foreign ministerial meeting was held in late October in China's northeastern city of Harbin. This was followed by the sixth annual prime ministerial meeting of the Shanghai Cooperation Organization (SCO) in early November in Tashkent. A few days later, Chinese Premier Wen Jiabao traveled to Moscow for the 12<sup>th</sup> Sino-Russian prime ministerial annual meeting.

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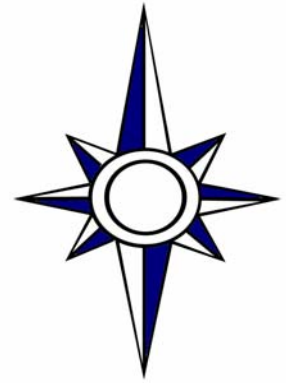
**2007 Annual Assessment: Consolidating Friendships and Nuclear Legitimacy**

**By Satu Limaye, East-West Center**

India's relations with countries in the Asia-Pacific region during 2007 were wide-ranging as New Delhi sought to consolidate and expand ties with both small and large countries. With the U.S., India was on the verge of a landmark agreement on civil nuclear energy cooperation. But there was unfinished business. In Southeast Asia, the failure to conclude an FTA blunted what has been a positive trajectory in relations. With China, India's relations crawl forward with little progress on fundamental issues such as the border/territorial dispute. With Japan, despite all the excitement, the facts on the ground remain limited. There are some more interesting openings for India in the region such as relations with Australia and South Korea, but they too are somewhat unusual rather than an established pattern. What is undeniable is that India is now a thread in the fabric of Asia. Similarly, despite the failure of the U.S. and India to conclude the civilian nuclear energy deal in 2007, the thickness of U.S.-India relations is unlikely to be diluted, even if it will take a lot of work from both Washington and New Delhi to keep them going.

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Regional Overview:

**Tentative Multilateralism and Democratic Change**

Ralph A. Cossa, Pacific Forum CSIS  
Brad Glosserman, Pacific Forum CSIS

The quarter began with high hopes, following the year's second Six-Party Talks "breakthrough," but it was all down hill after that. On Oct. 3, Beijing announced a "second phase" implementation plan that laid out a series of specific Korean Peninsula denuclearization actions to be accomplished by Dec. 31. Unfortunately, the new year tolled with the most critical of these promised actions – a mutually acceptable "complete and correct declaration" of all North Korean nuclear programs, facilities, and activities – nowhere to be found. The much-anticipated ASEAN Charter was also signed this quarter but hopes that Myanmar would somehow be penalized for its brutal suppression of peaceful protests earlier in the fall were dashed as the other members took an ostrich-like approach to the problem. The third East Asia Summit took place as scheduled, with outside observers still not fully clear about the group's objectives or its place in the greater multilateral mix. The largest multilateral gathering of the quarter took place in Bali, where those worried about global warming expelled a lot of hot air in producing a potentially useful but currently not very specific "Bali Roadmap" on climate change. The democratic process remained alive and well with new governments being elected in Australia, South Korea, and Thailand, even as China was ruling that Hong Kong would not be ready for a more representative government until at least 2017. On the economic front, 2007 proved to be a good year for Asia, with growth consistent with pre-year projections; most forecasters see only a modest slowdown in 2008, despite lingering concerns about over the fallout from the U.S. subprime mortgage crisis.

**Six-Party Talks: in need of another breakthrough!**

As noted last quarter, the Second Session of the Sixth Round of Six-Party Talks, held in Beijing from Sept. 27-30, ended with a note of anxiety as the participants reported that they needed to bring the proposed agreement on "Second Phase Actions for the Implementation of the Joint Statement" back home for final review and approval. All breathed a sigh of relief on Oct. 3 when the Chinese announced that the six parties – North and South Korea, China, Japan, Russia, and the U.S. – had all agreed on the next steps in the mutual "action for action" plan.

As laid out in the Feb. 13, 2007 initial "breakthrough" agreement, second phase actions were to include "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." The Oct. 3 agreement restated Pyongyang's February commitment, with the already shut down facilities at Yongbyon – the

5MW reactor, reprocessing plant, and fuel-rod fabrication facility – scheduled for disablement by the end of 2007. While the chief U.S. negotiator, Assistant Secretary of State for East Asia and the Pacific Christopher Hill had opined back in February that all phase two measures could be completed by the end of the year, the October agreement modified this goal to say that in return for an unspecified portion of the promised aid and assistance, North Korea would provide a “complete and correct declaration of all nuclear programs,” and the disablement of the Yongbyon facilities. Disablement of other facilities and programs (to be identified in the declaration) would come later and be followed by their eventual “abandonment.”

The Oct. 3 implementation plan also recalls Washington’s earlier commitment to “begin the process” of removing the DPRK from the State Sponsors of Terrorism List and Trading with the Enemy Act (TWEA) restrictions and states that the U.S. would fulfill this commitment “in parallel with the DPRK’s actions based on consensus reached at [U.S.-DPRK Working Group] meetings.” There still does not appear to be consensus on what this consensus is, however. While the DPRK has said repeatedly that these actions were to be taken by Dec. 31, 2007, Washington has been much more circumspect, indicating that it is contingent on the DPRK’s “fulfillment of its commitments on providing a declaration and disabling its nuclear facilities.”

The year ended without a mutually agreed-upon list or de-listing, with only partial disablement at Yongbyon and (stop us if you have heard this one before) Washington and Pyongyang each pointing a finger at the other as the source of the problem.

Both sides seemed to agree that the disablement process was proceeding in good faith. According to Pyongyang, “all the [Yongbyon disablement] operations were completed within the “technologically possible scope’ as of Dec. 31.” One of the most critical remaining disablement steps – the removal of spent fuel rods from the 5MW reactor at Yongbyon – was projected to take at least another 100 days. It could take much longer! The new year began with a warning from Pyongyang that the delay in the fulfillment of commitments by the other parties – delivery of oil, aid, and equipment “has not been done even 50 percent” and the U.S. “has not honored its commitment to cross the DPRK off the list of sponsors of terrorism and stop applying the ‘Trading with the Enemy Act’ against it” – has compelled Pyongyang “to adjust the tempo of disablement of some nuclear facilities on the principle of ‘action for action.’”

The biggest point of contention, and most serious stumbling block from a U.S. perspective, was the absence of the “complete and correct declaration” of all DPRK nuclear programs. According to protocol, this was supposed to be submitted by Pyongyang to China (as the Six-Party Talks chair) by Dec. 31; it wasn’t! Nonetheless, Pyongyang claims that it has “done what it should do,” stating that it “worked out a report on the nuclear declaration in November and notified the U.S. side of its contents.” It further claims to have addressed U.S. “suspicions” about uranium enrichment, “clarifying with sincerity that the controversial aluminum tubes had nothing to do with uranium enrichment.” No reference was made by Pyongyang to centrifuges allegedly delivered to the North through the A.Q. Khan network.

Whatever Pyongyang actually provided – the declaration has not been made public – it was obviously not “complete and correct” enough for Washington. Making matters potentially worse

were news reports that there were traces of enriched uranium on some of the DPRK's aluminum tubing examined by U.S. experts.

It is useful to recall that the “complete and correct declaration” was not just about uranium enrichment. It was supposed to provide the first full accounting of “all” the North's nuclear programs, to include (according to the Feb. 13, 2007 agreement) “plutonium extracted from used fuel rods.” As a result, Washington expects the declaration to provide details on plutonium stockpiles (presumably including any actual weapons) and bomb making facilities as well. President Bush has also asserted that there must be a full accounting of Pyongyang's proliferation activities (even though this is not stipulated in the Feb. 13 or Oct. 3 agreements). This took on a new sense of urgency after reports last quarter of North Korean suspected (but unconfirmed) aid to Syria's suspected (but unconfirmed) nuclear weapons program. For its part, the DPRK noted that it “reaffirmed its commitment not to transfer nuclear materials, technology, or know-how” in the Oct. 3 joint statement and that “this is our answer to this [the Syria] question.”

At quarter's end, the planned December round of Six-Party Talks was on indefinite hold, Secretary Hall was preparing for yet another round of shuttle diplomacy (including another “secret” visit to Pyongyang?), Washington was still calling for a “complete and correct declaration” – with Secretary Hill stressing that it was more important that it be “complete” than done quickly – and the North still steadfastly maintaining that it had already fulfilled its end of the bargain and was waiting for the others to deliver. In short, this quarter, as so many others have, ended with the process in need of yet another breakthrough.

### **ASEAN Charter: one (very) small step forward**

While the six parties were unable to meet this quarter, several other multilateral gatherings did take place as scheduled, including the 13<sup>th</sup> ASEAN Summit; the 11<sup>th</sup> ASEAN Plus Three (APT) Summit involving China, Japan, and Republic of Korea; the 3<sup>rd</sup> East Asia Summit (APT plus Australia, New Zealand, and India); and a whole host of ASEAN plus one meetings with the six non-ASEAN participants.

Most notably, the Association of Southeast Asian Nations, in commemoration of its 40<sup>th</sup> Anniversary, adopted its first formal ASEAN Charter, thus conferring “legal personality” upon this intergovernmental organization, complete with its own flag, emblem, and motto: *One Vision, One Identity, One Community*. Critics have also suggested the ostrich as the ASEAN bird, in keeping with ASEAN's continuing tendency to bury its head in the sand and pretend that regional problems will somehow go away.

These tendencies were clearly in evidence at the 13th ASEAN Summit on Nov. 20 in Singapore, when the “landmark” Charter was adopted. The Singaporean hosts had invited UN Special Envoy Ibrahim Gambari to address the assembled leaders to discuss his mission to Myanmar (a.k.a. Burma), but he had to be uninvited after several members objected. Talk about censuring the ruling junta for its horrific crackdown on peaceful demonstrators earlier this fall was quickly set aside in keeping with its principle of “non-interference in the internal affairs of ASEAN Member States,” as embodied in the new Charter, along with a redundant principle calling for

“respect for the right of every Member State to lead its national existence free from external interference, subversion, or coercion.” The Chairman’s Statement did urge Myanmar to “work towards a peaceful transition toward democracy” and to lift restrictions on Aung San Suu Kyi, while emphasizing their collective intent to “strive to prevent the Myanmar issue from obstructing ASEAN’s integration effort.”

On the plus side, the Charter also calls for “respect for fundamental freedoms, the promotion and protection of human rights, and the promotion of social justice,” and, over the earlier objection of several members (including Myanmar), calls for the establishment of an “ASEAN human rights body” (which will operate in accordance with terms of reference yet to be determined). Since, “as a basic principle, decision-making in ASEAN shall be based on consultation and consensus,” it is difficult to envision a “human rights body” with any teeth or credibility, however.

It did not have to be this way. Reportedly, the first draft of the ASEAN Charter, prepared by ASEAN’s Eminent Persons Group (EPG), called for stronger enforcement mechanisms, including sanctions (e.g. expulsion from ASEAN) for those violating the Charter. Instead, the final document says, “in the case of a serious breach of the Charter or non-compliance, the matter shall be referred to the ASEAN Summit for decision,” where the rules of consensus normally apply. The Charter does indicate that, “when consensus cannot be achieved, the ASEAN Summit may decide how a specific decision can be made,” but without any reference to how such a decision could, in fact, be made.

This is a significant diminution of the EPG recommendation that ASEAN relax its style of decision-making by adopting an “ASEAN Minus X” formula that would allow decisions to be reached without full consensus. Instead, the Charter institutes an “ASEAN Minus X” formula (without specifying what constitutes “X”) only as an escape clause to allow for “flexible participation” when it comes to the implementation of economic commitments, “when there is a consensus to do so.” By allowing those not quite ready for prime time to opt out, this could facilitate the achievement of ASEAN’s more lofty economic goals – an economically integrated single market and production base with the free flow of goods, services, and investment and facilitated movement of businessmen, labor, and capital – among those who are willing, but this remains to be seen.

The failure to adopt an “ASEAN Minus X” approach to decision-making also makes it essential that all ASEAN members ratify the Charter before it can enter into force. This could be problematic, as Philippine President Gloria Macapagal-Arroyo made clear at the informal heads of state dinner, when she announced (in a statement also released to the press) that “the expectation of the Philippines is that if Myanmar signs the Charter, it is committed to returning to the path of democracy and release of Aung San Suu Kyi.” Calling for “the full protection of human rights within ASEAN,” Arroyo warned that the Philippine Congress “would have extreme difficulty” in ratifying the Charter absent some progress along the path toward democracy, including the release of Daw Suu Kyi.

Unfortunately, Manila’s stance is the exception rather than the rule. Most ASEAN members are proclaiming, with obvious sighs of relief, that the situation in Myanmar has “returned to normal,” as if the junta’s definition of that term – a totalitarian police state without freedom of

expression, movement, due process, or even access to the internet – should be tolerated, much less a cause for celebration. Inaction over Myanmar reflects the fundamental divisions within ASEAN. Some member governments are not prepared to have their actions scrutinized, not even by an organization that they have joined and whose principles they profess to honor. Other governments admit that the failure to call members to account undermines ASEAN's legitimacy and raises the specter of its irrelevance. The Charter was supposed to help fix that. By all appearances, it won't.

### **Other ASEAN summitry results highlight cooperation**

*New ASEAN economic blueprint.* In addition to the Charter, the assembled ASEAN leadership also signed a Declaration on the ASEAN Economic Community (EAC) Blueprint, which will serve as “a roadmap for transforming ASEAN into a single market and production base, highly competitive and fully integrated into the global community by 2015.” The document calls for the elimination of import duties on all products (except some sensitive items) by 2010 for the six established ASEAN economies and by 2015 for Cambodia, Laos, Myanmar, and Vietnam. They also formally accepted the nomination of former Thai Foreign Minister Surin Pitsuwan as ASEAN's next Secretary General, effective Jan. 1, 2008.

*ASEAN Plus Three.* APT celebrated its 10<sup>th</sup> anniversary by adopting the Second Joint Statement on East Asia Cooperation to provide “strategic and practical guidance for the future development of the APT process” over the next ten years. The joint statement reaffirmed that the APT process “would remain the main vehicle toward the long-term goal of building an East Asia community, with ASEAN as the driving force.” They also adopted an APT Cooperation Work Plan, which highlighted key measures to deepen cooperation. China, Japan, and South Korea also held their 8<sup>th</sup> “Plus Three” summit, now that they are all once again on speaking terms – these meetings were deliberately avoided during the Koizumi/Yasukuni Shrine era.

*East Asia Summit.* EAS participants spent most of their time endorsing the fine work of ASEAN and the APT and reaffirming their own determination “to continue developing the EAS as an important forum for strategic dialogue and regional cooperation.” The leaders signed the Singapore Declaration on Climate Change, Energy, and the Environment, which reaffirmed and build upon the Cebu Declaration on East Asian Energy Security signed at the 2<sup>nd</sup> EAS and the APEC Leaders' Declaration on Climate Change, Energy Security, and Clean Development adopted by many of the same participants in Sydney earlier this fall. They endorsed their “leaders-led” cooperative approach (i.e., no set agenda or specific topics for discussion), but “recognized the practical need to coordinate such cooperation and ensure follow-up on our discussions,” providing a hint that greater structure may be applied at future meetings. Without specifically defining the EAS mission or objectives, the leaders did note that the EAS “should play a complementary and mutually reinforcing role with other regional mechanisms.”

### **Democracy tough on incumbents**

The democratic process remained alive and well this quarter, bringing about “regime change” in Australia, South Korea, and Thailand. In each case, the ruling party (or more accurately in the case of Thailand, the ruling junta) was voted out of office. Apparently fear of similar

consequences helped prompt Beijing to decide to defer further democratization in Hong Kong for at least another decade.

**Thailand.** Thailand's generals must be wondering what they have to do to intimidate a country. After overthrowing Prime Minister Thaksin Shinawatra in a Sept. 19, 2006 coup and ramming a constitution that institutionalized their influence down the public's throat in a referendum, the country still gave the People Power Party (PPP), the successor to Mr. Thaksin's Thai Rak Thai party, a mandate in December's parliamentary elections.

In the election, the PPP won 233 seats, while its main rival, the Democrat Party (which had the military's stamp of approval), claimed 165. The remaining seats were split among five smaller parties. The PPP platform echoed Thaksin's; it focused on rural voters, with calls for infrastructure projects, price support, loans, and the freezing of debts. Party leader Samak Sundaravej said that he would invite Thaksin to come back home, although the former prime minister is still wanted for corruption and could face trial. For its part, the Democrat Party ran what was by all accounts a lackluster campaign, failing to capitalize on its advantages and reinforcing the deep split between rural and urban politics, or between the old order and the arrivistes.

The real question is how much the PPP and Thaksin are prepared to taunt the military. The new constitution will allow the generals to maintain considerable influence even if power is transferred to the PPP. And there are doubts as to whether that will occur. The national election commission has to validate the election results and a number of races have been challenged. By the start of the new year, the commission had approved just 397 of 480 parliamentary seats. Of the 83 seats under investigation, 65 were held by the PPP. Negotiations to form a new government had not been completed at the time of this writing, even though the PPP claimed to have a majority in hand.

**Australia.** Australian politics were upended when Labor Party leader Kevin Rudd crushed the conservative coalition of Prime Minister John Howard in November's parliamentary elections. Labor picked up 23 seats to win 83 of the 150 seats in the Lower House, and bring about the first change of government in nearly 12 years. Adding insult to injury, Howard lost his own seat, only the second time in Australian history that an incumbent prime minister was not re-elected.

Rudd and his Labor Party promised continuity and change. As in other countries, Labor no longer stands for the hard left policies of the past, but campaigned on pledges to soften the impact of unbridled capitalism. Real changes should come in immigration policy – Labor rejects Howard's "closed door" – and environmental issues. As a first step, Rudd ended Australia's rejection of the Kyoto Protocol and ratified the treaty; Rudd has said that climate change would be his top priority. He has insisted, however, that there can be no Kyoto II without involving China and India, a position that puts him in lock step with Washington; keep in mind that it was their exclusion that made the original treaty so unacceptable to the U.S. in the first place.

Some analysts have worried that the new prime minister, a Mandarin speaker with experience working as a diplomat in China, would reorient Australian foreign policy. While Rudd promised to pull Australia's 550 combat troops out of Iraq (leaving about twice that number in other roles),



that move and his interest in China do not anticipate a shift in the geopolitical balance of power. Canberra remains committed to its alliance with the U.S. and China's influence over the Australian economy is not new. China is a fact of life for any Australian government (as it is for every other government in Asia) and policy must reflect that reality.

**South Korea.** In South Korea, former Hyundai CEO and flag-bearer of the conservative Grand National Party (GNP) Lee Myung-bak won the Dec. 19 presidential ballot with 48.7 percent of votes cast. He bested Chung Dong-young, an ally of incumbent President Roh Moo-hyun, who came in second with 26.1 percent of the vote, and Lee Hoi-chang, who campaigned to the right of Lee and won 13 percent of votes. The latter's candidacy presages a split in the GNP in April National Assembly elections if hardliners feel that President Lee is going to be too conciliatory toward the North.

Lee's victory was widely anticipated, the product of rising public dissatisfaction with President Roh. While there has been concern about the current government's foreign policy – there is widespread sentiment that Seoul has been too easy on Pyongyang and should demand greater reciprocity in North-South relations – the election turned on economic issues. Most Koreans were disappointed with the 4.5 percent growth of Roh's tenure and demanded more. “MB” campaigned on a “747” pledge: he will raise growth to 7 percent annually, double Korea's per capita income to \$40,000 and reach the ranks of the world's top seven economies. The president-elect's career as a businessman and mayor of Seoul made those promises credible.

The final tally was not the only suspense in the election. Lee had been accused of fraud and the return of a witness from the U.S. and the appearance of a videotape that undercut his claim that he was not involved in a stock manipulation case provided impetus for an investigation that could have disqualified him. Voters were prepared to overlook the scandals, although Lee said he would step down if found guilty. His margin of victory is likely to derail the investigation, although it could influence the April assembly vote.

Lee's win is likely to move South Korean policy back to the center. Relations with the U.S. are expected to improve and engagement with the North will be more closely scrutinized. There is little chance of radical swings in policy, however. Most South Koreans want stability in the North and Southern economic aid is one way to secure it. And it could block Chinese inroads into the North Korean economy.

Perhaps the most interesting issue for the new president will be relations with Japan. Ties between Seoul and Tokyo have been strained throughout Roh's term as he played the nationalist card to boost his dwindling support rate and push a domestic political agenda. Lee has said that he wants to build better relations with Japan and his counterpart, Prime Minister Fukuda Yasuo, is ready to reciprocate. The two governments should have ample ground for cooperation, but seizing those opportunities may be tough.

**Hong Kong.** Residents of Hong Kong were informed this quarter that they would be spared the imperfections of democracy for another decade. Putting the best possible face on an unpopular decision for most democrats, Donald Tsang, head of the special administrative region, announced that, “A timetable for obtaining universal suffrage has been set.” Unfortunately, that

date is 2017 for electing the leader of Hong Kong and 2020 for electing lawmakers. Although the election process is to begin changing in 2012, it isn't clear what amendments will be made or how the system will evolve.

Currently, only half of the 60-seat legislative council is elected while an 800-person committee stacked with Beijing loyalists chooses the chief executive position, which is currently held by Tsang. The 1997 handover agreement promised Hong Kong residents the right to elect their leaders but no timetable was set for the realization of that goal. Democrats have been pushing for a quick move to direct elections; they want direct elections for both the executive and the legislature by 2012. Beijing and their supporters in Hong Kong argue that city isn't ready. (And the deadline hands the issue to a new government in Beijing; the current leadership should be gone by 2017.)

Democrats' complaints are not limited to the timetable. It is expected that a nominating committee will select candidates that the public will vote on, ensuring that the mainland keeps close control over the election process. The decision was greeted with dismay. Democrats took to the streets in protest. Tsang called on all parties to swallow their concerns and start working to implement the Chinese decision.

### **Lots of hot air about climate change**

There is no denying the reality or significance of climate change. The awarding of the 2007 Nobel Peace Prize to Al Gore and the Intergovernmental Panel on Climate Change (IPCC), the UN institution that includes thousands of scientists at work on this issue, only ratified a shift in global consciousness. Governments have been slow to accommodate this new mindset, however. But this quarter, 190-some governments met in Bali, Indonesia to begin work on a framework for action on global warming that will go into effect when the Kyoto Protocol expires in 2012.

Kyoto met fierce resistance on two counts. Developed states (most notably the U.S. but it is not alone) complained that the Kyoto framework is unfair because it only creates obligations for industrialized states, even though newly industrializing states are generating as many greenhouse gasses. Those newly industrializing states counter that they should not be penalized and forced to clean up a problem they did not create. Governments in both camps are reluctant to accept limits on greenhouse gas emissions if they would slow their economic development.

At Bali, two weeks of contentious negotiations produced a deal that forced compromise on all participants. The "Bali Roadmap" provides an agreement in principle to cut emissions by 2050. The final deal requires developed and developing nations to commit to measurable and verifiable steps to reduce greenhouse gas emissions and participants agreed to provide aid to developing countries that will help them minimize the effects of climate change and facilitate the adoption of green technologies. Aid to developing countries will help them mitigate the effects of climate change and speed their adaptation to "greener" societies. A mechanism was established to financially compensate nations for preserving tropical rain forests.

While diplomats applauded the Bali outcome – one UN official likened the deal to the dismantling of the Berlin Wall – environmentalists were skeptical. Targets are to be agreed by a

2009 conference in Copenhagen and it will be a long slog to get those numbers. The Bali deal acknowledged the need for industrialized countries to cut emissions 25 to 40 percent from 1990 levels by 2020, but only by referring to those numbers in a footnote. Expect more such sleights of hand throughout the negotiations.

### **Economic Outlook: Asia still sets the pace**

There was no need to juggle the numbers when looking at Asian economies. While Asia has not been immune to the economic shocks of the last year – the subprime mortgage crisis, steadily climbing oil prices, and dollar devaluation – the region will continue to set the pace for the rest of the world. The Japan External Trade Organization (JETRO) forecast 11.5 percent growth in China in 2007, more than twice that of the NIEs (South Korea, Taiwan, Hong Kong and Singapore), which registered 5.4 percent as a whole, and not quite double the 6 percent registered by the remaining five ASEAN developing economies (Indonesia, Malaysia, the Philippines, Thailand, and Vietnam). As whole, JETRO predicts 8.7 percent for East Asia as a whole (excluding Japan), with 3.1 percent rate of inflation, which is in line with projections being forecast at the beginning of 2007.

The year ahead looks to slow a little, which, given concerns about overheating in China, is not a bad thing. JETRO forecasts 10.6 percent growth on the mainland with stable inflation of 3.2 percent. The NIEs are expected to grow 5 percent on average, while the ASEAN 5 will pick up the pace and record 6.1 percent growth, with inflation of 5 percent. East Asia as a whole is forecast to grow 8.2 percent in 2008, a half percentage point below the 8.7 percent registered in 2007, with inflation stable at 3.2 percent.

The International Monetary Fund (IMF) is a little more pessimistic. It forecast a still very respectable 8.0 percent growth for East Asia in 2007 and 7.2 percent in 2008. Its primary concern (as of December) was a slowdown in Chinese demand and its impact on the region. (Chinese GDP accounts for 40 percent of regional GDP, excluding Japan.) Moderation isn't bad if it helps deflate asset bubbles on the mainland. And, it should be noted, the most recent IMF forecast for China has it growing faster – 10 percent – than the previous forecast in April (9.5 percent). In other words, the Chinese slowdown is not as slow as originally anticipated, and well above the government-set target of 8 percent growth for 2007.

Asian Development Bank (ADB) estimates are between the two. It forecasts 8.5 percent growth for Asia (ex-Japan) in 2007 and 8.0 percent in 2008. The NIEs will expand 5.3 percent in 2007 and 5.1 percent in 2008. Japan, forecast to grow 1.9 percent in 2007, will slow and register 1.7 percent growth in 2008.

The ADB worries about the impact of the mortgage crisis on U.S. demand and raises the prospect of a global readjustment of housing prices. Equally disturbing are signs of financial market volatility generally, and the prospect of sudden swings in capital flows and swings in exchange rates as a result of global imbalances. ADB economists conclude “a disorderly adjustment in global payments imbalances coupled with a sharp contraction in U.S. aggregate demand and a free fall of the U.S. dollar, although very unlikely, cannot be ruled out.” Inflation, spurred by higher commodity prices and a falling dollar, is another concern. The IMF is a little

more sanguine. It concluded that, “The risks to the overall outlook for the region are broadly balanced. The possibility of financial market stress feeding into a sharper-than-expected slowdown in exports is offset by that of continued growth outperformance in China and India.”

In other words, look to Asia to continue to set the pace for global growth, but keep a watchful eye on the U.S. economy in the year ahead.

### **Regional Chronology October-December 2007**

**Oct. 2, 2007:** At least 4 Philippine Navy commandos and 10 Abu Sayyaf rebels die following an armed confrontation on Basilan Island.

**Oct. 2-4, 2007:** South Korea President Roh Moo-hyun travels to Pyongyang for the 2007 inter-Korean summit.

**Oct. 2-4, 2007:** Philippine President Gloria Macapagal-Arroyo visits China and meets Chinese President Hu Jintao in Shanghai.

**Oct. 2, 2007:** State Department spokesperson announces the U.S. has endorsed the draft joint statement that sets out the second stage of North Korea’s denuclearization process.

**Oct. 2, 2007:** UN special envoy Ibrahim Gambari meets detained Burmese opposition leader Aung San Suu Kyi for a second time, hours after talks with military rulers.

**Oct. 2, 2007:** Thailand’s coup leader Gen. Sonthi Boonyaratglin is officially named a deputy prime minister two days after retiring from military.

**October 2, 2007:** UN Human Rights Commission opens a special session on Burma with European Union countries calling for condemnation of the military junta.

**Oct. 3, 2007:** China confirms that all member states to the Six-Party Talks endorsed the joint statement drafted at the second session of the sixth round of talks held in Beijing Sept. 27-30.

**Oct. 4, 2007:** President Roh and North Korea Leader Kim Jong-il sign a declaration for the advancement of inter-Korean relations, peace and prosperity at the close of the inter-Korean summit in Pyongyang.

**Oct. 4, 2007:** Japan’s chief envoy to the Six-Party Talks says the U.S. will not remove North Korea from the State Sponsors Terrorism List unless progress is made on the Japanese abductee issue.

**Oct. 4-6, 2007:** Philippine President Macapagal-Arroyo visits India.

**Oct. 5, 2007:** Burma's military junta acknowledges that hundreds of Buddhist monks were detained during the pro-democracy uprising, but said most had been freed and only 109 remained in custody.

**Oct. 9, 2007:** Japan's Cabinet extends economic sanctions against North Korea through April 13, 2008 to "keep up the pressure on Pyongyang over its abductions of Japanese nationals."

**Oct. 10, 2007:** Taiwan marks its national day with a military parade for the first time in 16 years. Fighter planes flew above the capital, Taipei, and 2,000 troops show off military hardware through the city. President Chen Shui-bian uses a speech to hit out at China's "relentless military build-up", labeling it as a threat to world peace.

**Oct. 10, 2007:** A team of nuclear experts from the United States arrives in North Korea to finalize a plan for disablement procedures with their North Korean counterparts.

**Oct. 11, 2007:** Taiwan President Chen agrees to return as head of the ruling Democratic Progressive Party, pledging to safeguard the island's sovereignty and lead the party to election victory.

**Oct. 11, 2007:** U.S. and South Korea meet to resolve differences over beef imports with no agreement.

**Oct. 11, 2007:** The UN Security Council adopts a non-binding resolution drafted by the U.S., UK and France deploring Burma's military crackdown on pro-democracy protesters and calling for dialogue with the opposition. This is the first time the UNSC has taken any formal action over Burma. The agreement came after China lifted its objections.

**Oct. 12, 2007:** Burma rejects UN call for dialogue with the opposition saying it would follow its own plan to bring democracy to the country.

**Oct. 13, 2007:** In Thailand, UN envoy Ibrahim Gambari says that recent reports of dissidents arrested in Burma are "extremely disturbing" and calls on the junta to halt its crackdown immediately. Gambari travels next to Malaysia, Indonesia, Japan, India, and China before returning to Myanmar.

**Oct. 15, 2007:** President Hu Jintao makes a "solemn appeal" for a peace treaty with Taiwan at the opening of the Communist Party's five-yearly Congress in Beijing while insisting that independence for the island would never be tolerated.

**Oct. 15, 2007:** Japan and North Korea meet in Shenyang for talks on normalizing relations.

**Oct. 15, 2007:** Airbus delivers the first super jumbo A380 to Singapore Airlines. The airplane has 50% more floor space than 747-400 and can carry up to 853 people.

**Oct. 17, 2007:** President Bush meets privately with the Dalai Lama and bestows him with the Congressional Gold Medal in a public ceremony. China responds saying it is “strongly resentful” of what it calls a gross interference in its internal affairs.

**Oct. 17-19, 2007:** General Secretary of the Vietnamese Communist Party Nong Duc Manh visits North Korea.

**Oct. 18, 2007:** Japan, U.S., and Australia conduct a joint military exercise in the East China Sea.

**Oct. 19, 2007:** In an interview with *International Herald Tribune*, Taiwan President Chen Shui-bian dismisses President Hu Jintao’s offer of a peace treaty with China saying it would be like agreeing to “a treaty of surrender.”

**Oct. 20, 2007:** Follow-on team comprised of 12 U.S. nuclear experts arrives in Pyongyang to negotiate specific steps in implementing the agreement to disable North Korea’s nuclear facilities by the end of the year.

**Oct. 21, 2007:** North Korea accuses South Korean warships of recent intrusions into its territorial waters, saying the actions were an attempt to undermine a recent accord aimed at easing tensions. A South Korean Defense Ministry official disputes and downplays the North Korean claim, saying, “It’s a routine claim. We don’t pay attention much to it.”

**Oct. 22, 2007:** The UN announces that the military government in Burma has agreed to allow the UN’s expert on human rights, Paolo Sergio Pinheiro, to visit after refusing permission for four years.

**Oct 22-23, 2007:** South Korea and North Korea meet at Mt. Kumgang to discuss the South’s provision of energy and economic assistance as part of the Six-Party Talks agreement on the North’s denuclearization.

**Oct. 22-24, 2007:** Mongolian President Nambayrn Enkhbayar visits the U.S. During the visit, he signs an agreement setting up U.S. development aid through the Millennium Challenge Corporation, an organization that provides assistance to developing countries that enact specific political and economic reforms.

**Oct. 23, 2007:** South Korea President Roh announces that South Korea’s military presence in Iraq will be extended for another year. However, the number of troops will be cut in half, from 1,200 to 600.

**Oct 23-24, 2007:** Russian Foreign Minister Sergei Lavrov visits Japan for talks with Japanese counterpart Masahiko Komura on bilateral issues including a long-standing territorial dispute.

**Oct. 24, 2007:** The third ASEAN regional disaster emergency response exercise, (*ARDEX-07*) is held in Singapore. The purpose of the exercise series is to enhance the capacities and capabilities in joint disaster management operations.

**Oct. 25, 2007:** Former Philippine president, Joseph Estrada, is given a full pardon just weeks after he was jailed for life on charges of plunder. The pardon was granted under a policy of releasing prisoners who have reached 70 years of age and done in what his lawyers called the “national interest”.

**Oct. 25, 2007:** Protests are held around the world against the authorities in Burma. The global day of action marks the 12th anniversary of the detention of Aung San Suu Kyi.

**Oct. 26 -Nov. 4, 2007:** North Korea Prime Minister Kim Yong-il visits Vietnam, Malaysia, Cambodia, and Laos.

**Oct. 29, 2007:** Chinese government announces that it arrested 774 people over the past two months as part of a nationwide crackdown on the production and sale of tainted food, drugs and agricultural products.

**Oct. 29, 2007:** Prime Minister Stephen Harper holds formal talks with the Dalai Lama, becoming the first Canadian leader to ignore China’s warnings not to host the exiled Tibetan spiritual leader.

**Oct. 29-30, 2007:** Six-Party Talks Working Group on Energy and Economic Cooperation meets in Panmunjom. The agreement reached calls for providing 450,000 of heavy fuel oil and the renovation of conventional power production facilities in exchange for the disablement of North Korean nuclear facilities.

**Nov. 1, 2007:** Nine-member U.S. team of nuclear experts arrives in North Korea to begin supervising the disablement of the nuclear facilities at Yongbyon, which is expected to begin within a week.

**Nov. 1, 2007:** Japan orders its ships supporting U.S.-led forces in Afghanistan to return home, after opposition lawmakers refused to support an extension of the mission, saying it violated the country’s pacifist constitution.

**Nov. 2, 2007:** Burma orders the expulsion of UN country chief, Charles Petrie, after his office issued a critical statement urging the junta to heed the voices of protesters.

**Nov. 2, 2007:** Premiers from Russia, China, Kazakhstan Kyrgyzstan, Uzbekistan, and Tajikistan participate in the Shanghai Cooperation Organization prime minister meeting in Tashkent.

**Nov. 3-8, 2007:** UN envoy Gambari visits Myanmar for his second round of talks. The junta rejects his proposal for three-way talks involving detained democracy leader Aung San Suu Kyi and what they term foreign or UN “interference” in their affairs.

**Nov. 4-9, 2007:** Secretary of Defense Robert Gates visits China, South Korea and Japan.

**Nov. 7, 2007:** Russia's Parliament votes unanimously to suspend Russia's compliance with the Conventional Forces in Europe (CFE) Treaty saying the U.S. and NATO were using the pact to undermine Russia's defenses.

**Nov. 6-7, 2007:** South Korean Foreign Minister Song Min-Soon visits Canada and U.S.

**Nov. 8, 2007:** North Korea expresses gratitude for U.S. help in ending a high-seas standoff with Somali pirates, describing the maritime collaboration as a "symbol of cooperation" between the two countries "in the struggle against terrorism."

**Nov. 10-13, 2007:** At a working meeting in Shenyang, both Korea plus China agree on details of energy and alternative aid to Pyongyang under the Six-Party Talks.

**Nov. 14, 2007:** ASEAN defense ministers meet in Singapore and agree to engage defense establishments from friends and dialogue partners including the U.S., China, India, Japan, Australia, New Zealand, and South Korea "at a pace comfortable to all ASEAN countries."

**Nov. 14-15, 2007:** Peace negotiators of the Philippine government and the Moro Islamic Liberation Front meet in Kuala Lumpur and agree to begin formal talks in early 2008.

**Nov. 14-16, 2007:** Vietnam's Communist Party General Secretary Nong Duc Manh visits Seoul, the first party chief to visit in 12 years.

**Nov. 14-16, 2007:** North Korea PM Kim Yong-Il and South Korea PM Han Duck-Soo meet in Seoul to discuss implementation of a sweeping reconciliation pact signed by the North's Kim Jong-il and the South's Roh Moo-hyun. This is the first time in 15 years that the prime ministers of the two countries have met.

**Nov. 14-17, 2007:** New Zealand FM Winston Raymond Peters visits North Korea and meets Kim Yong-nam, chairman of the Presidium of the Supreme People's Assembly.

**Nov. 14-18, 2007:** The first US Navy warships (*USS Guardian* and the *USS Patriot*) to dock in northern Vietnam since the end of the Indo-China war visit the port of Haiphong.

**Nov. 14-23, 2007:** Tibet's spiritual leader, the Dalai Lama, visits Japan at the invitation of a Buddhist group to tour the famed Shinto shrine of Ise Jingu, visit local schools, and give speeches on spirituality. The visit was allowed on condition that he would not engage in political activities.

**Nov. 16, 2007:** Japan PM Fukuda Yasuo visits the U.S. and meets President Bush.

**Nov. 18-22, 2007:** The 13th ASEAN Summit and related meetings are held in Singapore.

**Nov. 20, 2007:** ASEAN Plus Three leaders meet in Singapore.



**Nov. 21, 2007:** China refuses the *USS Kitty Hawk* aircraft carrier and accompanying ships entry to the port of Hong Kong for a Thanksgiving holiday visit, and later reverses its decision on humanitarian grounds.

**Nov. 21, 2007:** East Asia Summit Leaders Meeting is held in Singapore. The 16 countries adopt a special statement on climate change urging the development of sustainable planning and management of the region's forests, improving forest law enforcement, and fighting illegal logging and other harmful practices.

**Nov. 22, 2007:** ASEAN and European Union leaders meet and endorse a five-year plan to enhance security and trade ties while urging Myanmar's military junta to speed up democratic reforms and release the pro-democracy leader Aung San Suu Kyi.

**Nov. 24, 2007:** Kevin Rudd leads Labor Party to victory in Australian parliamentary elections.

**Nov. 25-27,** French President Nicolas Sarkozy makes his first visit to China.

**Nov. 25-29, 2007:** Vietnam President Nguyen Minh Triet visits Japan, the first visit by a head of state from the communist country to its largest aid donor and one of its leading foreign investors. He was joined by key ministers and more than 100 business executives.

**Nov. 26-27, 2007:** Chinese Foreign Minister Yang Jiechi visits Washington.

**Nov. 27-29, 2007:** A team of officials and experts from five nations in the Six-Party Talks on North Korea's nuclear development conduct on-site inspections to check the country's work on disabling its nuclear facilities.

**Nov. 27-29, 2007:** South and North Korean defense ministers meet in Pyongyang to establish military guarantees needed to carry out cross-border projects set by the Korean summit leaders in October. Seoul's five-member delegation includes officials from the defense, unification, and foreign affairs ministries while Pyongyang's five-member team is comprised of only military personnel.

**Nov. 28, 2007:** The 10th EU-China summit meeting is held in Beijing.

**Nov. 28-Dec. 1, 2007:** Chinese destroyer *Shenzhen* makes the first port call by a Chinese naval vessel in Japan call since the Communist Party came to power in 1949.

**Nov. 28- Dec. 5, 2007:** Christopher Hill, assistant secretary of state for East Asian and Pacific affairs, visits China, Japan, South, and North Korea to discuss the North Korea disarmament.

**Nov. 29-Dec. 1, 2007:** Kim Yang-gon, director of the United Front Department of the DPRK's Workers' Party, visits Seoul and meets President Roh.

**Dec. 3-15, 2007:** Thirteenth UN Climate Change Conference is held in Bali, including a ministerial-level meeting Dec. 12-15. The conference was extended by a day enabling delegates to reach an agreement on a “roadmap” for dealing with climate change.

**Dec. 4, 2007:** Christopher Hill delivers a personal letter from President Bush to Kim Jong-il that urges North Korea to fully declare their nuclear programs.

**Dec. 12, 2007:** Australian Prime Minister Rudd delivers papers to the UN ratifying the Kyoto Protocol, leaving the U.S. as the only advanced economy outside the treaty.

**Dec. 12-13, 2007:** China-U.S. Strategic Economic Dialogue is held in Beijing. The high-level talks focus on issues such as trade integrity, product safety, balanced economic development, and energy and environmental cooperation.

**Dec. 14, 2007:** South Korean news agency *Yonhap* reports that North Korea responded verbally to the personal letter from President Bush to Chairman Kim Jong-il saying the North “appreciates President Bush’s letter, will fulfill its obligations and expects the U.S. to perform what it has to do.”

**Dec. 17, 2007:** Japan’s Maritime Self-Defense Force’s Aegis destroyer *Kongo* succeeds in intercepting a mock ballistic missile warhead with an SM-3 missile as part of missile defense system test carried out at sea near Hawaii.

**Dec. 19, 2007:** Lee Myung-bak is elected president in South Korea.

**Dec. 19-21, 2007:** Sung Kim, director of the Korea Desk at the State Department visits North Korea to discuss the declaration of its nuclear programs. According to sources, North Korean officials repeatedly denied the existence of a uranium enrichment program during the visit.

**Dec. 20-25, 2007:** India and China conduct a joint military exercise China’s province of Yunnan. It involves just over 100 officers and men from each side. The Chinese describe the training as aimed at “detering the ‘three evil forces’ – separatists, extremists and terrorists – and promoting the strategic partnership for peace and prosperity between China and India.”

**Dec. 23, 2007:** The People Power Party claims victory in the first Thai elections since a 2006 coup, but fails to win an absolute majority of seats, making a coalition government a necessity.

**Dec. 25-26, 2007:** Representatives from South and North Korea and China meet in Pyongyang to discuss energy and economic assistance to the North in return for disabling of its nuclear facilities. Hyon Hak-Pong, vice director general of North Korea’s Foreign Ministry, states that because economic compensation pledged by the U.S., South Korea, Japan, China, and Russia “is being delayed,” North Korea has “no option but to adjust the speed of the disablement process.”

**Dec. 27-30, 2007:** Japanese PM Fukuda Yasuo goes to China in a visit that the Chinese foreign ministry spokesman said “is of great significance for advancing sound and stable relations between China and Japan.”



U.S.-Japan Relations:

## **Distracted Governments Make Some Positive Progress**

Michael J. Green, CSIS/Georgetown University  
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Prime Minister Fukuda Yasuo outlined his foreign policy agenda in an address to the Diet, highlighting – as did his predecessors Abe Shinzo and Koizumi Junichiro – the U.S.-Japan alliance and international cooperation as the foundations of Japanese diplomacy. But legislation authorizing Japan’s naval refueling mission in the Indian Ocean became a political football in a divided legislature and expired on Nov. 1, forcing Fukuda to draft a new bill and extend the Diet session twice in an attempt to continue Japan’s support for the war on terror. Fukuda noted the importance of the bill during a November summit with President Bush in Washington that also covered other issues including the Six-Party Talks and concerns in Japan about a perceived shift in the U.S. position on Japanese citizens abducted by North Korea. Other developments such as a new agreement on host nation support for U.S. forces in Japan and a successful sea-based missile defense test demonstrated forward trajectory for alliance cooperation. Yet the quarter ended with other issues unresolved, namely Japan’s suspension of Indian Ocean refueling operations and Pyongyang’s failure to come clean on its nuclear programs.

### **Deadlock in Japanese domestic politics**

The issue at the heart of the domestic political debate last quarter was the fate of the Antiterrorism Special Measures Law (SML), first passed in 2001, which enabled Maritime Self-Defense Force (MSDF) vessels to participate in refueling operations in the Indian Ocean in support of Operation Enduring Freedom (OEF). Fukuda’s ruling Liberal Democratic Party (LDP) tried to extend the law but the opposition led by Ozawa Ichiro, head of the Democratic Party of Japan (DPJ), took advantage of its majority in the Upper House to stall and essentially kill the bill. The legislation expired Nov. 1 and the government was forced to order MSDF ships home.

On Nov. 13 the LDP passed new legislation, the Replenishment Support Special Measures Bill, in the Lower House that would narrow the MSDF mission somewhat by allowing refueling strictly for vessels involved in maritime patrols. The LDP extended the Diet session until mid-January in an effort to pass the bill but the DPJ did not compromise, guaranteeing a dramatic showdown immediately after the New Year’s holiday. Fukuda appears set to use the ruling coalition’s two thirds supermajority in the Lower House to override the DPJ’s opposition in the Upper House, but it will not be a cost-free move for him. While public support for the deployment is higher than it was late last year, the use of the supermajority is not popular with

the public. Moreover, the entire Japanese political leadership became consumed with the SML this quarter, leaving very little bandwidth for legislative progress on other critical issues.

While Ozawa appeared determined to cause a legislative train wreck to bring down the LDP, the public (and his own party) were stunned to learn that he had secretly met with Fukuda on Oct. 30 to explore modalities for compromise on the legislative agenda. The two met again on Nov. 2 and word leaked that the notion of a grand coalition of the LDP and DPJ was broached. Ozawa discussed the idea with DPJ leaders but they summarily rejected it, prompting Ozawa to shock the nation by calling a press conference on Nov. 4 and announcing his intention to resign as DPJ leader. He said he supported the coalition concept because the DPJ would struggle to win a majority in the next Lower House election and was too inexperienced to run the government on its own, a damaging statement from a politician who had spent most of the year repeating his party's vow to dethrone the LDP. He was convinced that his party had lost confidence in him by rejecting so vehemently a proposal he supported and therefore decided to quit. The DPJ leadership scrambled to engineer a response and soon asked Ozawa to reconsider, which he did in another press conference on Nov 6. This bizarre chain of events left the DPJ appearing weak but the political landscape remained unchanged. Fukuda also faced other political difficulties that further complicated his efforts.

### **Two scandals Fukuda could do without**

Fukuda had to weather two scandals that coincided with the SML debate. The first surrounded an allegation made by a pacifist group that some fuel provided by MSDF vessels in 2003 was diverted for U.S. missions in Iraq, which would have constituted a violation of the SML. The U.S. categorically denied the allegation but it was revealed that Japan's Defense Ministry misreported the amount of fuel provided during the period in question. Further, the ministry acknowledged on Oct. 30 that on two occasions the MSDF engaged in fueling operations in the Persian Gulf but that the fuel was strictly for OEF missions. Opponents of the SML legislation seized on this story to criticize Fukuda, who at that time served as chief Cabinet secretary under Koizumi. The government appeared at the end of the quarter to have made it through this problem, but only after extracting mountains of documents from the U.S. Navy.

The second scandal involves former Vice Defense Minister Moriya Takemasa and allegations that he violated the Self-Defense Force (SDF) ethics code by accepting gifts from a defense contractor and giving preferential treatment to that same firm for no-bid contracts. Reports surfaced in mid-October that Miyazaki Motonobu, a former executive director of Yamada Corp., had damaged the company's finances through fraudulent accounting, prompting a probe into his relationships with bureaucrats and politicians including Moriya. Prosecutors began a criminal investigation and Moriya was forced to testify before the Diet on Oct. 29 where he denied the allegations but acknowledged a friendship with Miyazaki. The two were later arrested along with a counterpart of Miyazaki's, creating a public relations dilemma for the Fukuda government precisely when the debate over SDF missions such as OEF was most intense.

## **Division on the abductee issue**

Fukuda also faced a serious political challenge with respect to the nuclear negotiations with North Korea. His predecessor, Shinzo Abe, rose to power because of a hard-line stance regarding the fate of Japanese citizens who had been abducted by North Korea in the 1970s and '80s. While Fukuda is known to be more pro-engagement with respect to North Korea, he nevertheless could not ignore strong public opinion on the issue even in the wake of Abe's resignation as prime minister. Fukuda stuck with the condition that Pyongyang would have to be more forthright about the fate of the abductees before Tokyo could consider aid to the regime as part of any denuclearization agreement. After it was reported that the U.S. and the DPRK reached an agreement Oct. 3 that Washington would lift the DPRK from the official U.S. State Sponsors of Terrorism List, the Japanese government and public cried foul. The 2003 U.S. State Department report on terrorism had stated that this would only happen after "progress" was made with respect to Japanese abductees. While "progress" was never officially defined by the U.S., it was quite clear that nothing was happening between Japan and the DPRK that could be considered forward movement.

The gravity of this issue became clear when *Fox News* reported on Oct. 24 that U.S. Ambassador to Japan Thomas Schieffer had sent President Bush a cable warning that the relationship with Japan could be seriously damaged if the U.S. removed North Korea from the state sponsors of terrorism list without action by the DPRK on the abductee issue. A story in the *Washington Post* on Oct. 26 noted that Schieffer requested clarification of the president's position on the abductees and expressed frustration at having been cut out of the six-party process. The details of the cable were leaked a few weeks prior to a scheduled summit between Fukuda and Bush, ensuring the inclusion of the abductee issue in an already lengthy agenda.

## **Reassurance at the Bush-Fukuda summit**

The two leaders met at the White House on Nov. 16 and engaged in a wide-ranging discussion covering Iraq, Afghanistan, Burma, Iran, realignment of U.S. forces in Japan, bilateral economic issues including beef, international trade negotiations, and climate change. But the issue of greatest import to the bilateral relationship and the health of the alliance was the abductee issue. To the great relief of the Japanese participants, Bush reiterated his support for the abductees publicly during a joint press conference, stating, "We will not forget the Japanese abductees, nor their families." However, it was not clear how that statement would impact U.S. policy if North Korea made a complete and correct declaration of its nuclear programs.

A statement released after the meeting emphasized bilateral coordination in addressing energy security, clean development, and climate change through existing frameworks such the Asia-Pacific Partnership on Clean Development and Climate (APP) and the UN Framework Convention on Climate Change meetings, later held in December in Bali. Fukuda also introduced an initiative to strengthen exchanges between the U.S. and Japan, citing the need to cement a foundation for the future of the relationship. As part of that initiative, he held a roundtable in Washington with experts from CSIS, SAIS, Georgetown, AEI and other think tanks, universities, and civil society groups.

## **Alliance initiatives and missile defense on target**

The summit agenda exemplified the global nature of the U.S.-Japan alliance, as did various developments in bilateral and multilateral cooperation this quarter. For example, in mid-October Japan hosted *Pacific Shield 07*, a three-day maritime exercise under the rubric of the Proliferation Security Initiative (PSI) that included the U.S., Australia, Britain, France, New Zealand, and Singapore. Japan and the U.S. also worked closely during the UN climate change talks in Bali to exclude specific benchmarks for emissions reductions from a new global framework for addressing climate change while encouraging developing countries such as China and India to play a more active role. On the bilateral front, the two governments reached an agreement in December on a new three-year Special Measures Agreement regarding Japan's contributions toward costs associated with stationing U.S. forces in Japan, or "host nation support." On Dec. 17, the U.S. Missile Defense Agency and Japan's MSDF announced the successful completion of a joint Aegis Ballistic Missile Defense (BMD) intercept flight test near Hawaii, signaling continued progress on a strategic and budgetary priority for the alliance. The U.S.-Japan Sub-Cabinet Economic Dialogue was held in December in Tokyo and yielded a potential breakthrough in efforts to further expand access to the Japanese beef market for U.S. exporters. Pundits in both countries had been predicting disaster on a number of these initiatives – particularly with respect to the host nation support agreement, but these successes proved the pundits wrong and demonstrated that the two governments can make progress on key priorities despite political turmoil in Japan and the reality that the presidential campaign will take center stage in the U.S.

## **Looking Ahead**

The opposition-led DPJ could not derail Fukuda's policy agenda and force a general election. Fukuda has survived even with the emergence of new scandals and continued policy paralysis in the Diet, though a showdown over the new SML could embolden the opposition and increase the likelihood of a call for a snap election. That move may prove too risky for the DPJ given the fiasco that followed the discussions over a grand coalition, making a continuation of the status quo (i.e., a divided legislature and little enthusiasm for compromise) a likely prospect.

Japan's extended absence from refueling operations in the Indian Ocean was an embarrassment, but if the SML passes in January, the ships could be back on station by February. In the meantime, the Fukuda government will showcase Japan's global leadership role in other areas as it prepares to host large summits such as the Tokyo International Conference on African Development (TICAD) in May 2008 and the G-8 Summit in July. North Korea's failure to meet a Dec. 31 deadline to provide a complete declaration of its nuclear programs will prolong the six-party negotiations and require close coordination among diplomats in Washington and Tokyo. The two governments will persevere on key economic and defense issues during a new year that will begin with political distractions in both capitals.

## **Chronology of U.S.-Japan Relations October-December 2007**

**Oct. 1, 2007:** Prime Minister Fukuda Yasuo addresses the Diet in his first policy speech and says he will focus on friendly ties with Asian neighbors while keeping the country active in international peacekeeping efforts, calling his policy “peacemaking diplomacy.” Fukuda also renews his commitment to continue Japan's naval mission supporting Operation Enduring Freedom and promises to keep friendly ties with the U.S.

**Oct. 9, 2007:** The Japanese government decides to extend sanctions against North Korea – first imposed after North Korea's nuclear test in October 2006 – for another six months, stating that Pyongyang has yet to take concrete steps to disable its nuclear programs.

**Oct. 10, 2007:** During a question and answer session in the Lower House of the Diet, PM Fukuda repeatedly rejects allegations – made in a report released Sept. 20 by the pacifist group Peace Depot – that some fuel provided for U.S. vessels by the Maritime Self-Defense Forces (MSDF) in 2003 was used for the war in Iraq. This followed a U.S. Defense Department statement declaring the allegations “misplaced.”

**Oct. 10, 2007:** A *Yomiuri Shimbun* poll shows the approval rating for the Fukuda Cabinet at 59 percent with a disapproval rating of 26.7 percent.

**Oct. 13-15, 2007:** Japan hosts *Pacific Shield 07*, a three-day maritime exercise under the rubric of the Proliferation Security Initiative (PSI). Australia, Britain, France, New Zealand, Singapore and the U.S. participate.

**Oct. 14-15, 2007:** Japanese and North Korean officials hold an informal meeting in China to advance the Japan-DPRK working group for normalization established in the Feb. 13 agreement of the Six-Party Talks.

**Oct. 16, 2007:** An *Asahi Shimbun* poll shows the Japanese public to be divided over extending Japan's refueling operations in the Indian Ocean in support of Operation Enduring Freedom, with 44 percent of respondents opposed and 39 percent in favor.

**Oct. 18, 2007:** Fukuda's Cabinet adopts a new antiterrorism bill allowing the MSDF to continue its refueling activities in the Indian Ocean. The government immediately submits the bill to the Lower House.

**Oct. 18, 2007:** Reports surface that Miyazaki Motonobu, a former executive director of defense contractor Yamada Corp., had damaged the company's finances through fraudulent accounting, prompting a probe into his relationships with bureaucrats and politicians including former Vice Defense Minister Moriya Takemasa.

**Oct. 23, 2007:** The Diet begins deliberating a bill to extend the MSDF refueling mission in the Indian Ocean.

**Oct. 24, 2007:** *Fox News* reports that U.S. Ambassador to Japan Thomas Schieffer sent a cable to President Bush expressing concern that the relationship with Japan could be damaged if the U.S. removes North Korea from the State Sponsors of Terrorism List.

**Oct. 29, 2007:** Former Vice Defense Minister Moriya testifies before the Diet as a sworn witness to explain his ties with Yamada Corp.

**Oct. 29, 2007:** A *Kyodo News* poll reveals that 42 percent of the public prefers a coalition government led by the opposition Democratic Party of Japan (DPJ) while 40 percent prefers to stick with the ruling Liberal Democratic Party (LDP.)

**Oct. 29, 2007:** A *Mainichi Shimbun* poll shows that 66 percent of the Japanese public favors pressure over dialogue with respect to North Korea.

**Oct. 30, 2007:** Ministry of Defense acknowledges that on two occasions the MSDF engaged in fueling operations in the Persian Gulf rather than the Indian Ocean but that the fuel was strictly for OEF missions.

**Nov. 1, 2007:** The Japanese government orders MSDF vessels stationed in the Indian Ocean to return home after the Special Measures Law sanctioning refueling operations as part of Operation Enduring Freedom expires.

**Nov. 2, 2007:** PM Fukuda and DPJ leader Ozawa meet to discuss modalities for cooperation on the legislative agenda and reportedly discuss a ruling coalition.

**Nov. 4, 2007:** Ozawa announces his intention to step down as president of the DPJ after the party rejects the grand coalition proposal. He recants two days later after party leaders beg him to stay on.

**Nov. 8, 2007:** Former Yamada Corp. executive director Miyazaki is arrested.

**Nov 9, 2007:** U.S. Defense Secretary Robert Gates visits Japan to meet PM Fukuda, Defense Minister Ishiba Shigeru, and other senior officials. Ishiba notes during a joint press conference that he and Gates discussed the importance of studying the deterrent effect of the U.S.-Japan alliance, including the nuclear umbrella.

**Nov. 10, 2007:** In a speech at Sophia University, Secretary Gates calls on Japan to maintain its global leadership role.

**Nov. 12, 2007:** PM Fukuda suggests during an interview with the *Financial Times* that a Lower House election could be postponed until after the July 2008 G-8 summit in Hokkaido.

**Nov. 13, 2007:** The Lower House of the Diet approves a bill to resume refueling operations in the Indian Ocean in support of Operation Enduring Freedom.



**Nov. 15-17, 2007:** PM Fukuda visits Washington, his first overseas visit since assuming office, to meet with President Bush. The two leaders cover various topics including the six-party talks, the issue of Japanese citizens abducted by North Korea, Iraq, Afghanistan, Iran, the realignment of U.S. forces in Japan, trade, and climate change.

**Nov. 27, 2007:** Former Vice Defense Minister Moriya and his wife are arrested in connection with a bribery scandal.

**Nov. 28, 2007:** The opposition-controlled Upper House of the Diet approves by a vote of 133 to 103 the DPJ-sponsored bill to halt the Air Self Defense Force's mission in Iraq.

**Nov. 29, 2007:** Prosecutors raid the Ministry of Defense in search of evidence related to the Moriya bribery scandal.

**Dec. 1, 2007:** President Bush writes a letter to North Korean leader Kim Jong-il urging his government to fully disclose its nuclear programs. Bush also sends similar letters to the other nations involved in the six-party talks on North Korea's nuclear program, reiterating his desire to resolve the nuclear standoff.

**Dec. 4-5, 2007:** Senior officials from Japan, Australia, and the U.S. meet in Canberra to discuss regional security issues.

**Dec. 5, 2007:** A Japanese parliamentary committee, the Lower House Special Committee on the Abductions Problem, adopts a resolution urging Washington to keep North Korea on the State Sponsors of Terrorism List.

**December 6-7, 2007:** The U.S.-Japan Sub-Cabinet Economic Dialogue is held in Tokyo.

**December 7, 2007:** *Kyodo News* reports that Japan will consider easing restrictions on U.S. beef imports.

**Dec. 7, 2007:** U.S. Assistant Secretary of State for East Asian and Pacific Affairs Christopher Hill meets with the Ministry of Foreign Affairs Director-General for Asian and Oceania Affairs Sasae Kenichiro in Japan to discuss Hill's Dec. 4 visit to Pyongyang.

**Dec. 8, 2007:** A survey conducted by the *Yomiuri Shimbun* and Gallup Inc. reveals that 76 percent of U.S. respondents (combining those who agree "somewhat" and "largely") think the U.S. should not remove North Korea from the State Sponsors of Terrorism List before the abduction issue is resolved.

**Dec. 12, 2007:** The U.S. and Japan successfully conclude negotiations for a new three-year Special Measures Agreement detailing Japan's contributions to costs associated with stationing U.S. forces in Japan.

**Dec. 13, 2007:** Police arrest MSDF Lt. Cmdr. Matsuuchi Sumitaka for allegedly leaking classified data on the *Aegis* radar system.

**Dec. 15, 2007:** The UN Conference on Climate Change in Bali concludes with an agreement on a new framework, the “Bali roadmap,” to address the issue. The U.S. succeeded in excluding specific targets for emissions reductions with support from Japan and Canada.

**Dec. 15, 2007:** The Diet approves a ruling coalition proposal to extend the extraordinary session through Jan. 15 to pass a new bill that would allow refueling operations in the Indian Ocean to resume.

**Dec. 17, 2007:** A *Kyodo News* poll shows a decline in the approval rating for PM Fukuda’s Cabinet to 35 percent, due in large part to the government’s failure to fully resolve a scandal over lost pension records.

**Dec. 17, 2007:** *Yomiuri Shimbun* reports the Ministry of Defense has decided to abandon the planned introduction of its next mainstay fighter aircraft (*F-X*) during the current midterm defense buildup plan, for fiscal years 2005-2009, because the U.S. will not allow the export of *F-22* stealth fighters.

**Dec. 17, 2007:** The U.S. Missile Defense Agency and Japan’s MSDF announce successful intercept flight test of a joint *Aegis* Ballistic Missile Defense (BMD) near Hawaii. This is the first time a U.S. ally ship successfully destroyed a ballistic missile target using the sea-based midcourse engagement capability provided by *Aegis* BMD.

**Dec. 24, 2007:** The Fukuda government abandons a plan initiated by former Prime Minister Shinzo Abe to create a U.S.-style National Security Council.

**Dec. 31, 2007:** North Korea fails to meet a deadline for providing a complete declaration of its nuclear programs. The U.S. and Japan issue statements expressing disappointment.



U.S.-China Relations:  
**China Signals Irritation with U.S. Policy**

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China's refusal to allow the *USS Kitty Hawk* to make a scheduled visit in Hong Kong for Thanksgiving refocused attention on bilateral differences over Taiwan and Tibet. It also raised questions about civilian-military coordination in China and highlighted the mistrust between U.S. and Chinese militaries. A series of agreements were reached to promote better relations between the U.S. and Chinese militaries during a visit to China by Defense Secretary Robert Gates and a subsequent round of the Defense Consultative Talks. Economic and trade issues were at the top of the bilateral agenda as the Joint Commission on Commerce and Trade and Strategic Economic Dialogue convened and produced some successes, although not on the niggling issue of China's currency valuation.

***USS Kitty Hawk* denied entry to Hong Kong**

The premise that U.S.-Chinese relations are mainly constructive and cooperative, despite differences on a broad number of specific issues, was called into question this quarter. The first public manifestation of tension occurred Nov. 21 when the aircraft carrier *USS Kitty Hawk*, home ported in Yokosuka, Japan, was refused permission to enter Hong Kong, where its crewmembers had planned to spend the Thanksgiving holiday. In anticipation of the carrier visit, which has been an annual Thanksgiving event in recent years, thousands of family members had flown in from U.S., Japan, and the Philippines to meet their loved ones.

When U.S. officials learned that the *USS Kitty Hawk* had been barred from entering Hong Kong, they immediately launched an effort to persuade the Chinese government to reverse its decision, enlisting Chinese Ambassador Zhou Wenzhong's help to appeal to the Chinese leadership. At the daily press conference on Nov. 22, China's foreign ministry spokesman announced the decision to permit the carrier to dock in Hong Kong "out of humanitarian considerations," but did not explain why the ship had originally been denied entry. By then, however, the carrier and its flotilla of five support ships had steamed two hours toward Yokosuka and opted not to turn around.

Commander of U.S. Pacific Command Adm. Timothy Keating described the incident as "perplexing." "It is not, in our view, conduct that is indicative of a country who understands its obligations of a responsible nation," he said in a press teleconference. Apparently, China had informed the U.S. of denials of permission for a total of nine naval vessels and one air force airplane permission to enter Hong Kong. One incident in particular—the refusal of a request by

two minesweepers seeking refuge from a storm—was especially troubling since it ran counter to traditional maritime courtesies. The ships were compelled to refuel at sea, at potentially great risk. The U.S. lodged a formal protest with China’s Ministry of Defense in regard to the series of incidents.

To avoid a storm and conserve fuel and shorten the length of time at sea, the *USS Kitty Hawk* and its flotilla passed through the Taiwan Strait on their journey back to Japan—not an unprecedented action, since the U.S. considers the strait an international waterway and regularly sails through it, although the transit of a carrier battle group is rare. Beijing was privately informed that the decision to sail through the Taiwan Strait was not intended as a political signal of U.S. dissatisfaction.

China was nevertheless miffed. A signed article in the Chinese-owned Hong Kong newspaper *Ta Kung Pao* maintained that following the reversal of the Chinese government’s decision, the *Kitty Hawk* refused to turn around “to express its displeasure.” The author added that “The traditionally megalomaniac Americans, feeling that they had been tricked, chose to demonstrate their might by returning to Japan en route the Taiwan Strait, instead of the waters east of Taiwan as they normally would.”

In a previously planned meeting with Chinese Foreign Minister Yang Jiechi, who was in the U.S. attending the Annapolis Middle East Conference, President Bush raised the issue of the aborted port call and, according to the White House spokeswoman, was assured that it was a misunderstanding. However, the following day, China’s foreign ministry spokesman denied that Yang had termed the episode a misunderstanding. Was there a problem in communication between the U.S. and China? What signal was Beijing trying to send?

Some clarity emerged on Nov. 29, when China’s foreign ministry spokesman declared that Sino-American relations had been “disturbed and impaired by the erroneous actions taken by the United States.” The Chinese official cited two specific grievances: 1) President Bush’s meeting with the Dalai Lama the previous month and the awarding of the U.S. Congressional Gold Medal to the Dalai Lama; and 2) U.S. arms sales to Taiwan, which send wrong signals to Taiwan and contravene U.S. commitments in the three Sino-U.S. Joint Communiqués.

The PRC-owned Hong Kong news service *Zhongguo Tongxun She* – which occasionally carries reporting deemed too sensitive for PRC media – carried an analysis of the incident on the same day. The article, entitled, “Kitty Hawk Incident Shows China, United States Should Pay Close Attention to Each Other’s Concerns,” stated:

The Chinese side has repeatedly made clear that the Taiwan issue involves China’s core interests and that Dalai is also a political exile engaged in separatist activities. Despite turning a deaf ear to the Chinese side’s concerns, the United States was asking for a warm welcome from China as if nothing happened; this undoubtedly was beyond reason. As its national strength keeps on increasing, China all the more needs to get the respect of relevant countries with regard to some major interests such as Taiwan. While a factor of misunderstanding might be involved in this *Kitty Hawk* incident, it cannot be

ruled out that the Chinese side, by dealing with it with rare “hesitation,” was implicitly warning the U.S. side against ignoring China's feeling.

Beijing was unquestionably irked about the exceptional reception provided for the Dalai Lama during his visit to Washington D.C. and in retaliation canceled the scheduled visit to the U.S. in late October by Wu Bangguo, the titular No. 2 in the Communist Party and chairman of the National People’s Congress. U.S. arms sales to Taiwan—even weapons that had been approved in April 2001—were far more difficult for the Chinese leadership to endure without signaling its displeasure in a way that would seize Washington’s attention. The proposal of Taiwan’s ruling party, the Democratic Progressive Party (DPP), to hold a referendum asking the people of Taiwan if they support joining the UN under the name Taiwan, has been labeled by Beijing as a referendum on reunification vs. independence in disguise. The referendum is scheduled to be held along with the Taiwan presidential elections on March 22, 2008 and will likely boost voter turnout and possibly increase the number of votes cast for the DPP presidential candidate, Hsieh Chang-ting.

President Hu Jintao told President Bush when they met in Sydney on the sidelines of the APEC meeting that the run-up to the Taiwan elections was a “period of high danger” and urged U.S.-Chinese cooperation to prevent Taiwan from achieving *de jure* independence. Privately, Chinese experts maintained that at home, Hu was under considerable pressure to abandon reliance on the U.S. to keep Taiwan’s pro-independence forces in check and instead take his own tough measures, including a limited military strike against select targets on the island, to defend Chinese sovereignty and territorial integrity.

At first, China had quietly demonstrated its dissatisfaction with U.S. arms sales to Taiwan. After the U.S. announced the sale of 12 surplus *Orion P3-C* maritime patrol craft and 144 *SM-2 Block 3A* Standard anti-aircraft missiles totaling \$2.2 billion, the PLA cancelled all bilateral military exchanges with the U.S. military for the month of October. To China’s chagrin, another weapons sale was announced on Nov.13—an upgrade to Taiwan’s *Patriot 2* missile defense systems, valued at nearly \$1 billion. Both weapons sales were part of the package that the Bush administration had approved for sale to Taiwan in April 2001, but had been delayed by the failure of Taiwan’s legislature to approve funding. The second announcement came just one week after Defense Secretary Gates’ visit to China in which he had been warned about the dangerous situation prevailing in the Taiwan Strait and was urged to cease U.S. military ties and arms sales to Taiwan. Gates had not mentioned that notification to Congress of yet another arms sale to Taiwan was imminent, which likely infuriated the PLA.

In a phone call with President Bush on Dec. 6, President Hu told his U.S. counterpart, “How to deal with the Taiwan issue is the key to stable and healthy U.S.-Chinese relations.” He further urged, “China hopes that America will make it clear that it opposes the Taiwanese authority’s recent push for a referendum on UN membership.” According to Chinese researchers, whereas all previous phone calls between U.S. and Chinese presidents were initiated by the U.S. side, this call was placed by President Hu.

Recognizing that the Chinese did not likely anticipate the firestorm of U.S. reaction to their decision to deny the *USS Kitty Hawk* and other U.S. ships’ access to Hong Kong’s port and

seeking to defuse tensions over the episode, the White House spokeswoman Dana Perino declared publicly the administration's willingness to move beyond the dispute. "I think the president believes we have good relations with China. We work cooperatively with China on so many different issues. This is one small incident. And in the big picture, in the big scheme of things, we have very good relations," Perino stated at a news briefing.

To be sure, putting the episode behind both countries was necessary. But lessons should be drawn from it, nonetheless. First, coordination between the Chinese military and the civilian side of the government must be strengthened. Prior to taking decisions, foreign reactions must be correctly forecast and taken into account. Second, strategic trust in U.S.-China relations, and especially between the U.S. and Chinese militaries, is sorely lacking. Both countries should take steps to offer strategic reassurances to remedy the trust deficit.

### **Military relations progress with Gates visit to China and the 9<sup>th</sup> DCT**

Despite China's pique over the Sept. 12 notification to the U.S. Congress of arms sales to Taiwan, Beijing agreed to accept a visit by Defense Secretary Gates in the first week in November, his first since assuming the helm at the Pentagon. Gates spent three days in Beijing, mostly in meetings with Chinese leaders and senior military officials, and then proceeded to Seoul and Tokyo, reversing the past practice of traveling to Japan and South Korea before China. The visit yielded progress toward the establishment of a telephone link between the two defense establishments; an agreement to hold additional and more complex joint naval exercises; a plan to increase exchanges between military education institutions and exchanges of mid-level and junior-level officers; and a pledge by China to open its archives that may contain information on U.S. soldiers still listed as missing from the Korean War.

As Gates' discussions with his Chinese counterparts got underway, the PRC-owned Hong Kong news service *Zhongguo Tongxun She* underscored that the two countries "urgently need to strengthen mutual trust and cooperation between their defense ministries." Gates' visit, which followed the 17<sup>th</sup> CCP Party Congress and the change in China's military leadership, is "no doubt an important stride forward" in promoting U.S.-Chinese defense ties, the article noted.

Issues raised by Gates with the Chinese included the January 2007 anti-satellite weapon test conducted by China, Iran's nuclear program, the lack of progress on a bilateral dialogue on strategic nuclear issues that was agreed upon during President Hu's April 2006 visit to the U.S., and the need for greater transparency by China to allay international concerns about its military modernization. On the Chinese side, concerns about Taiwan were paramount and were raised by every Chinese official with whom Gates met, including President Hu, Defense Minister Cao Gangchuan, Central Military Commission Vice Chairman Guo Boxiong, CMC Vice Chairman Xu Caihou, and Vice Foreign Minister Dai Bingguo.

Chinese analysts favorably compared Secretary Gates with his predecessor Donald Rumsfeld. In an interview posted on the authoritative *People's Daily* website, Shen Dingli, executive vice dean of the Institute of International Affairs at Fudan University, highlighted the differences between the two U.S. secretaries of defense. He maintained that Rumsfeld viewed problems with an ideological Cold War attitude and was willing to "even use unscrupulous tactics to

achieve a goal, he showed in the Iraq War and the fight against terrorism.” By contrast, Shen described Gates as “a person who understands cooperation” and “reasoned thinking.” Noting that Gates “has the style of a traditional strategist,” Shen averred that the new U.S. defense secretary is “more traditional and prudent” when dealing with problems.

Validating Shen Dingli’s viewpoint, Gates struck a less confrontational tone in his public comments on China’s military than Rumsfeld, who had insisted at the June 2005 Shangri-La Dialogue meeting in Singapore that no country is threatening China and therefore questioned the reasoning behind China’s military development and missile deployments. During his stopover in Tokyo following his meetings in China, Gates delivered a speech at Sophia University in which he said that did not see China as a “strategic adversary,” but rather as “a competitor in some respects and a partner in others.” He emphasized the need to “strengthen communications to engage the Chinese on all facets of our relationship to build mutual understanding and confidence.” In addition, Gates warned that China’s lack of transparency carries the risk of misunderstanding and miscalculation, and “naturally prompts others to take action as a hedge against uncertainty.”

On Dec. 3-4, Chinese and U.S. military officials met in the Pentagon for the ninth deputy-ministerial level Defense Consultative Talks (DCT). The U.S. side was led by Undersecretary of Defense for Policy Eric Edelman and included Assistant Secretary of Defense James Shinn and Deputy Assistant Secretary of Defense David Sedney. The State Department was represented by Deputy Assistant Secretary of State Tom Christensen. Senior Director for Asian Affairs at the National Security Council Dennis Wilder also joined the discussions, marking the first time that an NSC official has participated in the DCT.

China’s delegation was headed by Ma Xiaotian, deputy chief of the PLA General Staff. The inclusion of a deputy chief of staff from the Second Artillery Corps was a positive gesture by China in response to a U.S. request to include nuclear-related matters on the agenda. Discussion of nuclear issues was initiated at the previous round of the DCT in June 2006 in Beijing, when an official from the Second Artillery Corps, which has responsibility for China’s nuclear and conventional strategic missiles, joined the discussions for the first time.

Both sides exchanged views on Taiwan, Iran’s nuclear program, the *USS Kitty Hawk* episode, the North Korea nuclear issue, U.S. and Chinese nuclear doctrine and policy, and followed up on some of the bilateral initiatives that had been agreed upon during Gate’s visit to Beijing. *Xinhua*, China’s official new agency, reported that officials from the two countries “reached consensus on a wide range of issues.” Maj. Gen. Qian Lihua, director of the Foreign Office of the Chinese Ministry of Defense and a member of the Chinese delegation, characterized the talks as both “moderate and constructive” and indicated that there had been “very thorough exchange of ideas on some sensitive issues.” The Pentagon’s spokesman said the U.S. side “expressed our efforts to move forward with our defense relations with China and to promote a constructive and cooperative relationship.”

Briefing reporters following the conclusion of the DCT, Qian outlined three major obstacles to the further development of the bilateral military relationship, which he said had been conveyed to the U.S. side: 1) the upgrading of U.S.-Taiwan military cooperation; 2) the National Defense

Authorization Act for Fiscal Year 2000 and the DeLay Amendment Act, which “imposed restrictions on the development of relations between the two armed forces in 12 areas;” and 3) the lack of strategic mutual trust between the two armed forces. Qian said that China hoped the U.S. side would handle these issues “seriously” and take steps to overcome the obstacles to a closer military relationship.

During his stay in Washington, Ma Xiaotian also met separately with Gordon England, deputy secretary of defense; James Cartwright, vice chairman of the U.S. Joint Chiefs of Staff; James F. Jeffrey, assistant to the president and deputy national security advisor; and John D. Negroponte, deputy secretary of state.

### **Key meetings in economics and trade: JCCT and SED**

The 18th Sino-U.S. Joint Commission on Commerce and Trade (JCCT) session was convened in Beijing Dec. 11. The session was co-chaired by U.S. Trade Representative Susan C. Schwab and Commerce Secretary Carlos M. Gutierrez on the U.S. side and by Vice Premier Wu Yi on the Chinese side. A few significant agreements were struck. China agreed to take aim at counterfeit pharmaceutical production by regulating several bulk chemicals that are used to make fake drugs. China also pledged to suspend implementation of a pending regulation requiring new border inspections for medical devices, which U.S. manufacturers claimed would have created a barrier to exporting to China.

Two accords were signed under which China said it would register Chinese producers of food, feed, drugs and medical devices to ensure they meet U.S. safety standards and notify the U.S. when safety problems emerge. A tourism agreement will encourage more Chinese citizens to visit the U.S., and both the U.S. and China agreed to seek new ways to increase U.S. exports to the 14 fastest growing cities in China.

The U.S. was disappointed by China’s offer to only accept boneless beef from cattle less than 30 months old and insisted it would continue to seek a lifting of the ban on all U.S. beef exports to China. Progress was made on pork exports, however, with China agreeing to lift export restrictions on six U.S. pork producers.

Some of the commitments China made in 2006 that were not implemented adequately were repeated at this session with promises of follow through. For example, China reiterated its promise to reduce redundant inspections for U.S. medical devices and again agreed to eliminate the excessive capital reserve requirements that foreign telecommunication groups must meet before doing business in China.

China reported on steps it had taken since the previous JCCT in April 2006 to enhance protection of intellectual property rights in China, but no further progress was made in part because Beijing has refused to engage bilaterally with the U.S. on this issue since the Bush administration filed two World Trade Organization dispute settlement cases against China. A fact sheet distributed by the U.S. said the two sides would exchange information on customs seizures of counterfeit goods to focus China’s enforcement resources on companies in violation of Chinese laws. In 2006, 81



percent of all goods seized at U.S. borders for intellectual property rights violations were from China.

Treasury Secretary Henry Paulson led a team of six Cabinet officials and agency heads to China for the third meeting of the Strategic Economic Dialogue (SED) on Dec. 12-13. The Chinese team comprised China's Vice Premier Wu Yi and a delegation of 14 Chinese ministers and agency heads. The high-ranking teams met at Grand Epoch City near Beijing. Their discussions centered on five topics: integrity of trade and product safety; balanced economic development, including financial sector reform; energy efficiency and security; environmental sustainability; and bilateral investment.

Food and product safety were highlighted by Paulson on the eve of his departure for SED III as the number one concern in U.S. trade with China. China committed to strengthening requirements for registering and regulating companies that export food and feed products to the U.S. In addition, the U.S. will improve its ability to monitor the safety of food and feed exports coming from China.

In the financial sector, measures were agreed upon that will provide U.S. companies with new opportunities to finance and expand their sales in China. Chinese mutual funds will be able to invest in the U.S. stock market, bringing benefits to both countries. The U.S. and China agreed to a 10-year collaboration to address environmental sustainability, climate change, and energy security focusing on technological innovation and promoting the sustainability of natural resources. Specific steps related to these issues include developing low-sulfur fuels and biofuels, eliminating barriers to trade in environmental goods and services and cooperating on strategic oil stocks. The two parties also reached agreements addressing water quality, timber logging and emissions trading. In the interest of promoting greater transparency, they agreed to have rule-making systems that provide for public participation.

Responding to Chinese concerns in the JCCT and SED, the U.S. agreed to review the technologies that are banned from export to China in an effort to reduce the items on the list and facilitate high-tech and strategic trade. The U.S. also committed to continuing consultations on China's request for achieving market economy status.

Critics charged that nothing was accomplished at SED III that will help U.S. industry compete with Chinese producers. The issue of the valuation of China's currency, which was the driving issue behind the creation of the SED, was not even mentioned in the Joint Fact Sheet. A separately released U.S. Fact Sheet simply noted that the yuan has appreciated 12.2 percent since July 2005 and that the pace of appreciation accelerated from 3.4 percent in 2006 to 6.1 percent in 2007. In the sector that Paulson has pressed most vigorously for China to open up—the banking and financial services industry—China continued to resist permitting foreign investors to hold larger equity shares in Chinese state-run banks. The Chinese merely agreed to conduct studies on foreign equity participation in the banking and securities sectors.

The day after SED III concluded, House Ways and Means Committee Trade Subcommittee Chairman Rep. Sander Levin (D-MI) said he expects the committee to move on legislation next year that could address Chinese intellectual property violations such as counterfeiting and piracy,

Beijing's currency manipulation, and offer improvements to the China-specific safeguard provisions of U.S. trade law.

Two weeks prior to SED III, the U.S. won a quiet victory in a disagreement with China over alleged trade subsidies that the U.S. charged China was using to the detriment of U.S. and other foreign companies. The two countries entered into negotiations on the matter after the Bush administration filed a complaint against China last February in the WTO. In late November, U.S. Trade Representative Schwab announced that China had agreed to eliminate WTO-illegal tax breaks for Chinese companies as well as tax and tariff penalties that had penalized foreign companies trying to sell their goods in China. The negotiated settlement suggests that the administration's approach of seeking dispute settlement through the WTO is working. The subsidy case is one of four that the U.S. has filed against China in the past two years.

### **Wrapping up 2007; heading into 2008**

2007 was a year of ups and downs for Sino-U.S. relations. Although Presidents Bush and Hu did not hold a summit meeting in either Washington D.C. or Beijing, they met on the sidelines of the G-8 plus five in June and the APEC Leaders' Meeting in September and held numerous telephone conversations. Two rounds of the Strategic Economic Dialogue and one round of the Senior Dialogue were held, which provided opportunities for both sides to discuss issues in the economic and trade and foreign policy spheres respectively. High-level military visits took place and another round of the Defense Consultative Talks was convened. Progress was made in the Six-Party Talks aimed at denuclearization of the Korean Peninsula and China more assertively pressed the Sudanese government to accept a UN Peacekeeping force, bringing hope for an end to the violence in Darfur.

Challenges to the relationship in 2007 included China's test of an anti-satellite weapon in January, which remains insufficiently explained. The *USS Kitty Hawk* episode reminded both countries that bilateral trust was lacking and miscalculation was still possible. Differences also persisted on human rights. The U.S. and China agreed on the goal of preventing a nuclear-armed Iran, but disagreed on an approach to persuade Teheran to forswear nuclear weapons. Regarding Taiwan, the two countries found common ground in opposing the proposed referendum to join the UN under the name Taiwan, but differed over the implications of the referendum proceeding and garnering sufficient votes to pass. U.S. arms sales to Taiwan prompted Beijing's opposition but continued nonetheless, partly in response to China's unrelenting military buildup opposite the island.

2008 will open with another round of the Senior Dialogue led by Deputy Secretary of State Negroponte and Chinese Vice Foreign Minister Dai. Also in January, Commander of U.S. Pacific Command, Adm. Keating is scheduled to visit China. In June, another round of the Strategic Economic Dialogue will be held. In August, President Bush will travel to Beijing to attend the summer Olympics. The U.S. and Chinese militaries are planning to hold more joint exercises and expand exchanges of junior military officers. Sino-U.S. relations will remain complex and mutual distrust will undoubtedly persist, but both sides will continue to seek to preserve a stable and constructive bilateral relationship and collaborate where their interests overlap to promote regional and global peace and security.

## **Chronology of U.S.-China Relations October-December 2007\***

**Oct. 2, 2007:** The Entry-exit Inspection and Quarantine Bureau of Rongcheng City, Shandong Province, rejects 47 tons of bacteria-infected sardines manufactured in the U.S.

**Oct. 4, 2007:** The U.S. Consumer Product Safety Commission recalls more than 630,000 Chinese-made toys, key chains, and other products due to violation of lead paint standard.

**Oct. 10, 2007:** The U.S. Congressional-Executive Commission on China releases its 2007 Annual Report on human rights and rule of law in China. China voices “strong dissatisfaction” against the report.

**Oct. 11, 2007:** China’s Health Minister Chen Zhu is elected as a foreign associate of the U. S. Institute of Medicine (IOM).

**Oct. 12, 2007:** Food and Drug Administration Commissioner Andrew C. von Eschenbach visits China and meets Minister of Health Zhu Chen, Commissioner of State Food and Drug Administration Shao Mingli, and Vice Minister of AQSIQ Wei Chuanzhong.

**Oct. 12, 2007:** The Department of Commerce starts an anti-dumping probe into Chinese magnetic rubber.

**Oct. 15-22, 2007:** The 17<sup>th</sup> Party Congress of Chinese Communist Party is held in Beijing. It ends with amendment of the CCP constitution and announcement of new Central Committee and Standing Committee members.

**Oct. 17, 2007:** The Dalai Lama receives the Congressional Gold Medal in Washington and is received by President Bush for a private meeting in the White House residence. FM Yang Jiechi summons U.S. Ambassador Clark Randt in Beijing to formally protest.

**Oct. 24, 2007:** China launches its first lunar orbiter *Chang’e I*.

**Oct. 24, 2007:** Chinese and U.S. tourism officials open first dialogue meeting in North Carolina to explore ways of increasing cooperation on travel-related matters.

**Oct. 24, 2007:** China blocks a U.S. request to establish a WTO expert panel to investigate Chinese imports of films, DVDs, music and other published products.

**Oct. 31, 2007:** Vice FM Wu Dawei meets Assistant Secretary of State Christopher Hill who is attending meetings with North Korean negotiator Kim Gye-gwan in Beijing.

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\* Chronology by Wang Liang, former CSIS intern, now working at the World Bank

**Nov. 4-6, 2007:** Secretary of Defense Gates visits China under the invitation of Defense Minister Cao Gangchuan. In Beijing, Secretary Gates meets President Hu Jintao, Vice Chairman of the Central Military Commission Gen. Guo Boxiong and Vice Foreign Minister Dai Bingguo.

**Nov. 06, 2007:** China and the U.S. celebrate the 35th anniversary of the Shanghai Communiqué.

**Nov. 08, 2007:** FM Dai Bingguo and Deputy Secretary of State Negroponte have a telephone discussion on U.S.-China relations and international issues of mutual concerns.

**Nov. 13, 2007:** Department of Defense announces plan to sell three sets of *Patriot II* anti-missile equipment upgrade systems to Taiwan. China voices its strong opposition.

**Nov. 13, 2007:** The U.S.-China Economic and Security Review Commission releases its 2007 Report to the U.S. Congress.

**Nov. 17, 2007:** Alexander Karsner, assistant secretary of energy efficiency and renewable energy, visits Beijing and meets Zhang Guobao, deputy minister of the National Development and Reform Commission. China and the U.S. draft a biofuel agreement on sharing knowledge and technology to reduce greenhouse gas emissions.

**Nov. 21, 2007:** China refuses the *USS Kitty Hawk* aircraft carrier and accompanying ships entry to the port of Hong Kong for a Thanksgiving holiday visit, and later reverses its decision on humanitarian grounds.

**Nov. 26-28, 2007:** FM Yang Jiechi attends the U.S.-sponsored international Middle East Conference in Annapolis, Maryland. In Washington, Yang Jiechi is received by President Bush at the White House, and has meetings with Secretary of State Rice and Treasury Secretary Paulson.

**Nov. 29, 2007:** U.S. Trade Representative Schwab announces that China agreed to eliminate WTO-illegal tax breaks that encouraged Chinese companies to export. The Chinese also agreed to scrap tax and tariff penalties that had penalized U.S. and other foreign countries trying to sell their goods in China.

**Dec. 3, 2007:** A PLA delegation headed by Deputy Chief of Staff for foreign affairs Ma Xiaotian attends Ninth China-U.S. Defense Consultation Talks in Washington. The U.S. side is chaired by Under Secretary of Defense for Policy Eric Edelman.

**Dec. 4, 2007:** Secretary of State Rice and FM Yang Jiechi have a telephone discussion on the Iran nuclear issue.

**Dec.4-5, 2007:** Former President Jimmy Carter visits Beijing, and is received by Chinese State Councilor Tang Jiaxuan and Member of the Standing Committee of the Politburo Xi Jinping.

**Dec. 5, 2007:** Assistant Secretary of State Hill visits Beijing and discusses issues related to the Six-Party Talks with Chinese officials.

**Dec. 6, 2007:** Presidents Bush and Hu have a telephone discussion regarding bilateral relations, Taiwan, Iran, and North Korea.

**Dec. 6, 2007:** Vice FM Wu Dawei receives Assistant Secretary Hill in Beijing after Hill's visit to Pyongyang.

**Dec. 8, 2007:** A memorandum from the Department of Homeland Security says a cyber attack reported by the Oak Ridge National Laboratory may have originated in China.

**Dec. 11, 2007:** The 18th Sino-U.S. JCCT session is held in Beijing. The session is co-chaired by U.S. Trade Representative Schwab and Commerce Secretary Gutierrez on the U.S. side and by Vice Premier Wu Yi on the Chinese side.

**Dec. 12-13, 2007:** The Third U.S.-China Strategic Economic Dialogue led by Secretary of Treasury Henry Paulson and Vice Premier Wu Yi are held in Beijing.

**Dec. 19, 2007:** In its semiannual report to Congress, the Treasury Department states that China is not manipulating its currency to gain unfair trade advantage. However, the report said the Chinese yuan remains severely undervalued against the U.S. dollar.

**Dec. 27, 2007:** The RMB reaches a new high against the dollar: 7.31 RMB/dollar.





U.S.-Korea Relations:

## North Korea Disables Facilities, But Resists Declaration

Donald G. Gross, Atlantic Council of the United States  
Hannah Oh, Holland and Knight LLP

North Korea followed through on its Oct. 3 commitment to disable its nuclear facilities this quarter, but resisted giving an “complete and correct” declaration of its nuclear programs. While the disabling actions – which would prevent North Korea from producing nuclear material for at least a year – encouraged U.S. officials, Pyongyang’s unwillingness to declare its uranium enrichment program, in particular, created a potentially major obstacle in the Six-Party Talks. At the end of the quarter, the U.S. faced a diplomatic dilemma: how to incentivize Pyongyang to continue the disabling process, while pressuring North Korea to come clean on its past nuclear activities. Pyongyang insisted it had engaged in “sufficient consultation” with the U.S. on the declaration and threatened to slow down the disabling process until it received more compensation.

The election of South Korea’s conservative party candidate, Lee Myung-bak, on Dec. 19 signified that Seoul and Washington will soon likely have a more coordinated policy approach toward North Korea. Lee stressed that he would adopt a “pragmatic” approach and support large-scale South Korean economic assistance to Pyongyang – but only if North Korea first abandons its nuclear program. U.S. and South Korean officials sparred this quarter over Korea’s decision to suspend U.S. beef shipments because of the threat of mad cow disease. They proved unable to resolve this issue, although President Roh Moo-hyun and President-elect Lee pledged to work together to ratify the U.S.-Korea Free Trade Agreement (FTA) at the upcoming session of the National Assembly in February.

### **Implementing the Oct. 3 agreement**

Shortly after reaching the Oct. 3 agreement at the Six-Party Talks, which committed North Korea to disable its existing nuclear facilities and declare its nuclear programs by Dec. 31, the State Department’s Director of Korean Affairs Sung Kim led a group of experts from the U.S., China, and Russia to North Korea on a visit to North Korea. The purpose of the group was to put “the roadmap in place, so that you get from where we are right now to a disabled Yongbyon facility at the end of this year,” according to a State Department spokesman. Under the Oct. 3 agreement, Pyongyang promised to disable its 5-megawatt experimental reactor, its reprocessing plant, and its nuclear fuel-rod fabrication facility in Yongbyon by Dec. 31.

As this visit by the experts got underway, various governments formulated public reactions to the declaration issued by North and South Korea at their Oct. 3-4 summit meeting in Pyongyang. In

this declaration, President Roh and North Korea's leader Kim Jong-il reaffirmed prior six-party agreements on the nuclear issue while calling for a declaration "to end the current armistice regime [on the Korean Peninsula] and build a permanent peace regime."

In its reaction, the State Department focused on the nuclear issue and indicated that progress on other aspects of the North-South Declaration would be contingent on whether North Korea carried out its denuclearization pledge saying "...the South Koreans made it very clear that the movement forward on the inter-Korean track was going to be tied to the six-party process. This is another validation of the importance of the six-party mechanism in being able to achieve the outcome that we and others are looking for – the denuclearized Korean Peninsula as well as a changed relationship between North Korea and the rest of the world."

Seemingly to reassure the U.S., South Korea's Foreign Minister Song Min-soon reaffirmed on Oct. 5 that negotiations on permanent peace arrangements in Korea would depend on progress toward denuclearization. "Talks on a peace regime will be in line with denuclearization," he said.

While both the U.S. and South Korea statements on sequencing the two negotiating tracks were consistent, neither statement committed them to a timetable for initiating talks on a permanent peace regime. Later in the quarter, Seoul and Washington appeared to agree that if North Korea followed through on its promise to disable its nuclear facilities and declare its nuclear programs by Dec. 31, negotiations on permanent peace arrangements to replace the 1953 Armistice could begin shortly thereafter.

From North Korea's standpoint, the most important incentive for meeting its commitments was a previous U.S. promise to "begin the process" of removing North Korea from the State Sponsors of Terrorism List "in parallel" with Pyongyang's actions. Removal from the list would allow Pyongyang to receive technical and material assistance from international financial institutions, including the World Bank and International Monetary Fund.

North Korea's ambassador at the Six-Party Talks, Vice Foreign Minister Kim Kye-gwan, interpreted the U.S. to mean that Pyongyang would be removed from the terrorist list by the end of 2007. But the State Department created some flexibility on timing by indicating that the promised U.S. action was contingent on North Korea's "fulfillment of its commitments on providing a declaration and disabling its nuclear facilities."

In late October, U.S. Deputy Secretary of State John Negroponte publicly addressed two important structural negotiating issues for the Korean Peninsula – the potential parties to a peace agreement that would replace the 1953 Armistice and whether the Six-Party Talks should evolve into a permanent multilateral security forum for Northeast Asia. On the first issue, Negroponte affirmed that China and U.S. as well as North and South Korea should be involved in the discussions: "Clearly the two most important parties are North and South Korea. But both China and the United States were involved in [the Korean War]. And therefore, we think it would make sense for the four parties to discuss the ultimate peace arrangement in the Korean Peninsula."



On the issue of a more permanent multilateral security forum, Negroponte said the U.S. might like to see this occur, but only after North Korea was denuclearized and entered into new peace arrangements for the Korean Peninsula: “We think it’s an important opportunity and one that we ought to pursue in the months and years ahead...We do not know what form this multilateral arrangement might take, but one idea to which we are giving serious thought is the potential to use the Six-Party Talks, in particular the working group on Northeast Asian peace and security, as the beginning of a more lasting structure for peace and security in Northeast Asia....As we work diplomatically to denuclearize the Korean Peninsula, and if one day we reach a peaceful settlement on the peninsula, that might be the right time to elaborate this idea of a broader, multilateral structure for security in Asia.”

At the beginning of November, a team of experts led by State Department official Sung Kim went to North Korea to continue the process of disabling North Korea’s core nuclear facilities. According to Ambassador Hill, the team’s initial actions involved “cutting some chains” to stop movement of radioactive material in the nuclear fuel reprocessing plant. Hill said that the next pressing item was “cleaning up [radioactivity] for health purposes....And this is not a process that’s going to end in a couple of days or a couple of weeks. It’s going to take a lot longer.”

About the same time, the U.S. Navy, in an unprecedented action, gave medical assistance and other support to the crew of a North Korean vessel that was attacked by pirates off the coast of Somalia. A Navy destroyer, the *USS James E. Williams*, ordered the pirates who hijacked the ship to give up their weapons. After the North Koreans overwhelmed the pirates, the Navy gave medical treatment to several seriously injured crew members aboard the destroyer. A Navy spokesman downplayed the incident, saying “it’s beyond nationality. It really comes down to a fundamental issue: we are responsible for mariners and we help all sorts of people.”

### **Controversy over a “declaration” to end the Korean War**

Some tension arose between the U.S. and South Korea in mid-November over President Roh’s proposal that the U.S., South Korea, North Korea, and China hold a summit in the near future to “declare” an end to the 1953 Armistice (which left Korea technically in a “state of war”) and establish a new peace regime. Roh made his proposal in the context of South Korea’s presidential campaign to assist the liberal presidential candidate he supported, Chung Dong-young.

Roh’s statement ran contrary to the position staked out by U.S. Ambassador to Korea Alexander Vershbow in late October when Vershbow ruled out a declaration of this kind. Vershbow said that only signing a carefully negotiated peace treaty could constitute the “legal and political end” to the Korean War. Nothing came of Roh’s proposal and it was effectively repudiated by the winning candidate in South Korea’s presidential election, former Seoul Mayor Lee Myung-bak.

### **Efforts to make Pyongyang’s declaration “complete and accurate”**

At the end of November, Ambassador Hill traveled to North Korea to assess the progress in disabling the Yongbyon nuclear facilities and to review a draft declaration of North Korea’s nuclear programs. He reported that the disabling process was moving ahead smoothly but that

there were “definitely some differences” over the declaration: “We don’t want to see a declaration in which everyone can immediately see what’s missing. We want to make sure this declaration is as complete and correct as possible.”

Reportedly, Hill found deficiencies in three key areas of the draft declaration: 1) the extent of Pyongyang’s alleged uranium enrichment program for building nuclear weapons; 2) the quantity of plutonium North Korea currently possessed; and 3) the extent to which Pyongyang had assisted Syria with a nuclear weapons program.

To strengthen the U.S. position on North Korea’s declaration, President Bush wrote letters to the leaders of all the participants in the Six-Party Talks in early December, calling for Pyongyang to make a “complete and accurate declaration” of its nuclear programs, consistent with its Oct. 3 commitment. While the letter put pressure on North Korea, it also represented the first time a sitting U.S. president had written directly to a North Korean head of state. The letter gave “face” to North Korean leader Kim Jong-il and showed the remarkable diplomatic shift from the Bush administration’s earlier refusal to deal directly with the Pyongyang regime.

On Dec. 11, Secretary of State Rice reinforced the public perception that the process of disabling North Korea’s Yongbyon facilities was proceeding satisfactorily while Pyongyang was dragging its feet on the declaration of its nuclear programs: “We’ve still got a ways to go [on disabling]. In the meantime, I can say that much of the work has gone rather well....And now we await a complete and accurate declaration from North Korea on all its nuclear activities.”

A day later, the New York Philharmonic Orchestra formally announced that it will perform in North Korea on Feb. 26, 2008, accepting an official invitation it had received months earlier. State Department spokesman Sean McCormack underscored U.S. government support for this event as a means of furthering “a different kind of relationship between...North Korea and the United States.”

Through the rest of the quarter, North Korea proved unwilling to amend the draft declaration of nuclear programs, even as it cooperated with the nuclear disabling process. The major obstacle, according to South Korean Foreign Minister Song, was Pyongyang’s declaration regarding highly enriched uranium. Washington sought a detailed admission from North Korea on the extent of its uranium enrichment program while Pyongyang continued to deny the existence of any such program.

As Dec. 31 came and went without a revised declaration, Ambassador Hill and the State Department took the view that a “complete and correct” declaration was more important than meeting the deadline. This view was premised, in part, on North Korea’s unprecedented cooperation in disabling its nuclear facilities, which also gave Washington a new window into Pyongyang’s nuclear capabilities.

Right after the New Year, Ambassador Hill embarked on a week-long trip of consultations in Tokyo, Seoul, Beijing, and Moscow in preparation for a new round of Six-Party Talks in mid-January. It seemed possible that he would also meet in Beijing with North Korea’s negotiator, Kim Gye-gwan, in an effort to resolve the differences over Pyongyang’s nuclear declaration.

On Jan. 4, North Korea's Foreign Ministry issued a public statement implying it would not make revisions to the draft declaration it previously provided to the U.S. The statement said North Korea had already conducted "sufficient consultation" on the declaration. Claiming that Pyongyang had disabled the Yongbyon nuclear complex during November and December "within the technologically possible scope as of Dec. 31," the ministry asserted that promised compensation in the form of fuel oil and steel products "has not been done even 50 percent."

Consequently, North Korea said it intended to slow down the last stage of disablement – unloading the spent fuel rods from the Yongbyon nuclear reactor – and that this would take an additional 100 days. Summing up, the Foreign Ministry said "we still hope that the Oct. 3 agreement will be implemented smoothly if all countries participating in the Six-Party Talks make sincere efforts based on the principle of action for action."

Both the White House and State Department played down the statement, indicating that the issue had not yet reached a negotiating impasse. White House spokesman Tony Fratto said "the North Koreans know what's expected of them and what the rest of the parties are looking for, and that is a full and complete and accurate declaration of their nuclear activity." State Department spokesman Sean McCormack emphasized the significant progress in disabling the Yongbyon nuclear facility: "We're breaking new ground here. This hasn't been done before."

### **Election of a conservative president**

The election on Dec. 19 of conservative presidential candidate Lee Myung-bak of the Grand National Party appeared likely to align South Korea and the U.S. much closer on policy toward North Korea. The tenure of President Roh, by contrast, has been marked by tension and distrust with the Bush administration on the North Korea issue.

During the presidential campaign and in media interviews after his election, Lee emphasized that North Korea had to abandon its nuclear program as a condition for achieving full-fledged economic exchanges with the South. He stressed that "discarding the nuclear program is the way for North Korea to step toward prosperity" and pledged to take a tougher but more pragmatic position on Pyongyang than his predecessor.

In a television press conference on Dec. 20, Lee said: "I assure you that there will be a change from the previous government's practice of avoiding criticism of North Korea and unilaterally flattering it. Criticism that comes with affection can help make North Korean society healthy and improve the lives of its people in the long run." To demonstrate his positive approach, Lee reiterated that once North Korea abandons its nuclear program, Seoul will provide economic aid over the next 10 years to boost its per capita income to \$3,000 from its current level of about \$1,300.

At the end of the quarter, news media reported that Lee's transition team was considering allocating \$40 billion for an international cooperative fund to support North Korea's economic growth. These funds would be provided in tandem with assistance from the World Bank and Asia Development Bank, according to Lee's plan.

## **Beef complicates FTA ratification in the U.S.**

At the beginning of October, South Korea's Ministry of Agriculture suspended imports of all U.S. beef after inspectors repeatedly found bone fragments in incoming shipments. Earlier in 2007, the ministry had partially lifted a ban on U.S. beef (originally imposed to prevent the spread of mad cow disease) when it agreed to allow imports of boneless U.S. meat less than 30 months old.

U.S. trade officials reacted angrily to the South Korean action, saying it would scuttle U.S. congressional ratification of the pending Korea-U.S. Free Trade Agreement (FTA). At a meeting in Seoul, chief U.S. negotiator Wendy Cutler warned that "Congress made it clear that it is necessary to reopen the [South Korean] beef market in order to consider the free trade agreement. The sooner we resolve this issue, the faster the ratification."

This controversy remained unresolved throughout the quarter as officials in both governments struggled for an acceptable compromise that would allow U.S. ratification to move forward. In the words of the head of the Livestock Bureau at the South Korean Ministry of Agriculture, Lee Sang-kil: "we are dealing with a highly sensitive issue for South Korea and the United States. It puts a bit burden on both sides."

At the end of the quarter, President-elect Lee and President Roh agreed to cooperate in seeking ratification of the FTA by the National Assembly. At a Blue House meeting, Lee praised the FTA as a "brilliant performance" by the out-going Roh administration and called for legislative passage during the upcoming parliamentary session in February. Roh responded that "though I'm not certain that I can give any great help, I agree with you and promise to do my best for ratification of the accord."

## **U.S.-Korea defense issues**

A number of important developments in U.S.-Korea defense relations occurred during this quarter:

- South Korea withdrew its 200-member contingent of noncombatant troops from Afghanistan on Dec. 14. The troops, consisting of engineers and medics, conducted humanitarian work and rehabilitated infrastructure since 2002.
- South Korea's National Assembly extended the deployment in Iraq of the so-called *Zaytun* Division for another year. The troops are assisting coalition forces with reconstruction missions in and around the city of Irbil in northern Iraq.
- At their Security Consultative Meeting (SCM) in early November, U.S. Defense Secretary Robert Gates and South Korea's Defense Minister Kim Jang-soo agreed that South Korea will assume more responsibility for the United Nations Command (UNC) when Seoul takes over wartime operational control of its armed forces from the U.S. in April 2012. The UNC oversees the Demilitarized Zone (DMZ) dividing North and South Korea, including two transportation corridors running through the DMZ.

- In early November, U.S. and South Korean military officials presided over a groundbreaking ceremony for a major new U.S. base in Pyeongtaek, south of Seoul. The long-planned construction had been delayed by a dispute between the two governments over how much each would pay for the \$11 billion project. Military officials recently reached agreement that South Korea would bear \$5.9 billion in construction costs and that the project would be completed by 2012.

## Prospects

At the end of the quarter, U.S. officials weighed how to move forward with the Six-Party Talks in the face of contradictory signals from North Korea. On the one hand, Pyongyang gave unprecedented access to its nuclear complex and allowed U.S.-led experts to proceed apace in disabling the country's capacity for producing nuclear weapons. On the other hand, North Korea showed an unwillingness to go beyond the draft declaration of its nuclear programs that it provided to the U.S. in November. While Ambassador Hill pushed for a more "complete and correct declaration," Pyongyang insisted that it had engaged in "sufficient consultations" and would make no further revisions.

U.S. State Department officials handled this situation with impressive sensitivity – pressing Pyongyang for a full declaration while reaping the benefits of Pyongyang's concessions on disabling its nuclear facilities. Clearly, Washington did not want to apply so much pressure that the Oct. 3 deal would collapse and give North Korea an excuse to resume operations at the Yongbyon nuclear complex.

Following the election of conservative presidential candidate Lee Myung-bak, North Korea is well aware that U.S. and South Korean policy on the nuclear issue will likely be better aligned for the foreseeable future. This development forecloses the traditional North Korean strategy of driving a wedge between Seoul and Washington. It should also focus Pyongyang's attention on Lee's pragmatic policy of providing billions of dollars for economic development in North Korea – *if* Pyongyang finally resolves the nuclear issue.

The current situation requires diplomatic patience and an adroit use of leverage (relying on both negotiating sticks and carrots) by the U.S. and its partners at the Six-Party Talks. By keeping an "eye on the prize" of fully disabling North Korea's nuclear complex and obtaining a sufficient declaration in the near term – without worrying unduly about a specific deadline – the U.S. is more likely to achieve the policy goals it seeks on the peninsula. Fortunately, the Rice-Hill-Vershbow team seems up to this task.

## **Chronology of U.S.-Korea Relations October-December 2007**

**Oct. 2, 2007:** At North-South Summit, Kim Jong-il and President Roh Moo-hyun discuss inter-Korean peace and investment plans.

**Oct. 2, 2007:** State Department spokesperson announces the U.S. has endorsed the draft joint statement that sets out the second stage of North Korea's denuclearization process.

**Oct. 3, 2007:** Beijing announces that a joint agreement reached at the Six-Party Talks on disabling North Korea's nuclear facilities and declaration of its nuclear programs by Dec. 31 has been approved by all parties.

**Oct. 3, 2007:** White House denies that President Bush will meet presidential hopeful Lee Myung-bak, saying that it didn't want to interfere with South Korea's politics.

**Oct. 4, 2007:** President Roh and North Korea Leader Kim Jong-il sign a declaration for the advancement of inter-Korean relations, peace and prosperity at the close of the inter-Korean summit in Pyongyang.

**Oct. 8, 2007:** South Korea resumes annual military training exercise *Hwarang*, which was delayed during the October South Korea/North Korea summit.

**Oct. 10, 2007:** U.S. nuclear disablement team arrives in North Korea to finalize a plan for disablement procedures for North Korean nuclear facilities.

**Oct. 11, 2007:** U.S. and South Korea conduct talks to resume importation of U.S. beef.

**Oct. 11, 2007:** South Korea begins environmental cleanup for 32 of 59 U.S. military facilities that will be returned to South Korea as part of 2004 land swap to reposition U.S. forces south of Seoul.

**Oct. 16, 2007:** U.S. trade officials assert U.S. Congress will not debate KORUS FTA until U.S. beef imports resume to South Korea.

**Oct. 20, 2007:** Follow-on team comprised of 12 U.S. nuclear experts arrives in Pyongyang to negotiate specific steps in implementing the agreement to disable North Korea's nuclear facilities by the end of the year.

**Oct. 23, 2007:** President Roh says his government will seek a one-year extension for South Korea troops in Iraq.

**Oct. 24, 2007:** U.S. calls for talks among the U.S., South Korea, North Korea, and China regarding ending the Korean War.

**Oct. 24, 2007:** U.S. House of Representatives passes a resolution calling on Chinese government to stop forcible repatriation of North Korea refugees.

**Oct. 24, 2007:** U.S. says it plans to share advanced surveillance aircraft, the *Global Hawk*, with South Korea by 2011.

**Oct. 29, 2007:** U.S. and South Korea discuss visa waiver program and South Korea's electronic passport progress.

**Oct. 31, 2007:** U.S. Navy assists crew of hijacked North Korea ship of the Somali coast.

**Nov. 1, 2007:** Nine-member U.S. team of nuclear experts arrive in North Korea to begin supervising the disablement of the nuclear facilities at Yongbyon, which is expected to begin within a week.

**Nov. 6, 2007:** U.S. team begins disabling North Korea's nuclear facilities.

**Nov. 6, 2007:** President Roh calls for the National Assembly to ratify the KORUS FTA.

**Nov. 6-7, 2007:** South Korean Foreign Minister Song Min-Soon visits Canada and U.S.

**Nov. 7, 2007:** President Bush encourages U.S. Congress to pass FTA.

**Nov. 8, 2007:** North Korea expresses gratitude for U.S. help in ending a high-seas standoff with Somali pirates, describing the maritime collaboration as a "symbol of cooperation" between the two countries "in the struggle against terrorism."

**Nov. 12, 2007:** South Korea and U.S. conduct ground-breaking ceremony for \$12 billion Yongsan base relocation project in Pyeongtaek, Gyeonggi Province.

**Nov. 13, 2007:** President Roh proposes immediate four-party talks on peace on the Korean Peninsula.

**Nov. 15, 2007:** House of Representatives proposes citizenship to Korean War children.

**Nov. 28- Dec. 5, 2007:** Christopher Hill, assistant secretary of state for East Asian and Pacific affairs, visits China, Japan, South, and North Korea to discuss the North Korea disarmament process.

**Dec. 4, 2007:** Christopher Hill delivers a personal letter from President Bush to Kim Jong-il that urges North Korea to fully declare their nuclear programs.

**Dec. 7, 2007:** South Korea withdraws its military forces from Afghanistan.

**Dec. 12, 2007:** New York Philharmonic Orchestra announces that it will perform in North Korea on Feb. 26, 2008.

**Dec. 14, 2007:** South Korean news agency *Yonhap* reports that North Korea responded verbally to the personal letter from President Bush to Chairman Kim Jong-il saying the North “appreciates President Bush’s letter, will fulfill its obligations and expects the U.S. to perform what it has to do.” It was unclear whether the North Korean message was from Chairman Kim.

**Dec. 19, 2007:** Former Seoul Mayor Lee Myung-bak of the conservative Grand National Party is elected president of South Korea.

**Dec. 19-21, 2007:** Sung Kim, director of the Korea Desk at the U.S. State Department visits North Korea to discuss the declaration of its nuclear programs. According to sources, North Korean officials repeatedly denied the existence of a uranium enrichment program during the visit.

**Dec. 24, 2007:** President-Elect Lee vows to revise “Sunshine Policy” with North Korea.

**Dec. 31, 2007:** North Korea fails to meet the Dec. 31 deadline for a complete and correct declaration of its nuclear programs.





**U.S.-Russia Relations:  
Putin Picks a Successor**

**Joseph Ferguson**  
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Now that the world is finally coming around to understanding the man Vladimir Putin and what it is he represents, he appears to be stepping down – sort of. In December, Putin named his preferred successor, longtime aide and fellow Petersburger Dmitri Medvedev. While George Bush proclaims to have understood Putin after their first meeting in 2001, most Russia observers in the U.S. have been arguing over Putin and what his government represents for the better part of eight years. Does he represent a true change for Russia (a democratic change for the better) or is he steering that nation back to more historically familiar, repressive patterns? Now that the Kremlin has come forward with its own explanation, and has been bandying about the term “sovereign democracy,” the question of what Putin and the Kremlin represent is no longer hard to decipher. Russia has chosen a path that is by no means unique: a mercantilist, authoritarian form of democratic government that is very familiar to Asia watchers. What is becoming apparent is that, if anything, the U.S. form of democracy is the unique model, difficult to copy and long in development. Russia and other infant democracies may arrive one day, but “sovereign democracy” is here for the time being in Russia.

Meanwhile, the designation of Medvedev as the preferred successor to the presidency could be seen as a plus for the U.S. Many leading Western analysts view him as an economic liberal; most importantly, he has no known background in the intelligence or the security services. But the fact that he is a relative political lightweight leaves the door open for the return of Putin, or his retention of power as the kingmaker behind closed doors, or even as prime minister.

**Duma elections and domestic politics**

United Russia emerged as the victorious party in the Dec. 2 Duma elections in Russia, garnering 64 percent of the popular vote. This came as no surprise, given that this is the so-called party of Putin (he has no actual party affiliation) and Putin maintains approval ratings close to 80 percent. None of the more Western-leaning, politically liberal opposition parties garnered the necessary 7 percent to maintain seats in the Duma. Instead, the “opposition” remains the Communist Party, which registered 11 percent of the votes for a not-so-close second place. Western election observers from the OSCE (Organization for Security and Cooperation in Europe) were limited to 50. In contrast, during the 2003 Duma election, 450 OSCE observers were allowed to monitor voting. Although U.S. and European officials bemoaned this fact, Russia’s response was an indignant refusal to allow “outsiders” to interfere in Russia’s internal politics.

A week after the elections, the heads of four different parties, including United Russia, forwarded to Putin their recommendation for a presidential candidate in the March 2008 elections. Their pick: Dmitri Medvedev, first deputy prime minister and Putin's political protégé from St. Petersburg. Like Putin, Medvedev worked for then-St. Petersburg Mayor Anatoly Sobchak in the early 1990s. Sobchak was a political liberal and a strong supporter of Boris Yeltsin in the early days of Russian democracy. Upon being informed that Medvedev was the preferred candidate of the pro-Kremlin parties in the upcoming elections, Putin responded, "I completely and fully support this proposal." And thus was born the candidacy of Dmitri Medvedev.

Russia watchers in the West are now scrambling to uncover the motivations and tendencies of the young Medvedev. Without going into a long, detailed description of his childhood, education, and career path, suffice it to say that Medvedev is not a member of the *siloviki*, the group of Petersburg Chekists who – like Putin – spent their early professional years cutting their teeth with the KGB, army, or the internal security services of the Soviet Union. Medvedev's name has been bandied about for more than a year as a potential successor to Putin, along with a more familiar name, former Defense Minister and current Deputy First Prime Minister Sergei Ivanov. Ivanov is a bona-fide member of the *siloviki*, and was a higher ranking member of the KGB when Putin served there. In recent weeks there has emerged a series of stories detailing a power struggle within the upper echelons of the *siloviki*. Recognizing the potential for an ugly political struggle, Putin may have chosen Medvedev because of his lack of a political power base independent of Putin himself. In Russia today a connection to Putin is the most powerful and secure power base. Based on this we can surmise that we will not have seen the last of Vladimir Putin after the elections next spring. In fact, two days after having been declared the preferred successor, Medvedev proposed that Putin become prime minister, should Medvedev win the March election. Putin has not demurred, and in fact has given every indication that he will accept Medvedev's proposal.

As for the U.S., Medvedev's impending (although by no means assured at this point) succession should be seen in a more favorable light than some of the other heretofore leading candidates, including Ivanov. Again, Medvedev has *relatively* strong quasi-liberal economic and political credentials (the word *relatively* is stressed), and he has given every indication that he is disposed to working cooperatively with the U.S. and Western Europe. Additionally, Medvedev has not been on record speaking harshly or poorly of the U.S., unlike Ivanov, Putin, and a number of other leading political figures in Russia. If Putin does continue to serve the Russian government, then at least official Washington knows with whom it is dealing, and we do not have to rehash the old "Who is Putin?" questions over the next four years.

### **Strategic issues**

An inability to sit and rationally discuss viable cooperative efforts in the implementation of a missile defense system has left leaders in Moscow and Washington red in the face. In early October, Secretary of State Rice and Secretary of Defense Gates traveled to Moscow to meet their Russian counterparts in a 2+2 meeting focusing on the missile defense system that Washington proposes to establish in Eastern Europe. This issue has vexed the two sides for

several years now, and events this fall did little to convince onlookers that the two governments can get on the same page in the near future.

At the June G-8 summit in Heiligendamm, Germany, Putin proposed the U.S. use a Russian radar facility at Gabala in Azerbaijan. Putin was hoping to dissuade the U.S. from establishing two bases in Poland and the Czech Republic. Bush promised to study the “interesting” proposal, and the two discussed the matter further at Kennebunkport in late summer. At the October 2+2 meeting in Moscow, the U.S. side announced its decision to go ahead with the construction of the European facilities while indicating that the completion of the facilities would be tied to the emergence of a legitimate missile threat from Iran. In other words, the U.S. would be prepared to put off completion of the system until it had firm proof of an Iranian ballistic missile program, thus giving the Russians impetus to help head off any incipient Iranian missile program. Secretary Gates again extended this offer two weeks later in a talk given in Prague. U.S. Assistant Secretary of State for Europe Daniel Fried also insisted that the U.S. would scale-down missile defense plans in Europe were Iran to halt its nuclear enrichment and ballistic missile programs.

The Russian side was quick to respond two days later: “We are not satisfied with any of their proposals,” Russian Defense Minister Anatoly Serdyukov said at a NATO meeting in the Netherlands. Putin was a little more blunt – as is his wont – comparing the plans for a U.S. missile defense system in Eastern Europe to Soviet intentions to install ballistic missiles in Cuba in the early 1960s.

Talks centering on the Conventional Forces in Europe Treaty (CFE Treaty) were hardly more successful. In December, as expected, Putin signed a law suspending Russia’s participation in the CFE. The moratorium was announced in July, and six months passed, as the treaty stipulates, before the suspension went into effect. In fact, the U.S. and the individual members of NATO have not ratified the amended treaty (signed originally in 1990 and amended in 1999), saying that Russia has failed to follow through with specific clauses, primarily concerning the stationing of Russian troops in Moldova and Georgia. The Russian government, however, argues that further changes to the treaty should be made based on recent NATO membership additions, such as the Baltic republics. There have been indications that the U.S. Congress may be willing to finally ratify the CFE, but Russia would have to step up and honor the 1999 Istanbul amendments.

Two more regional issues of strategic significance in U.S.-Russian relations that linger are the unresolved status of Kosovo and the impasse over Iran’s nuclear program. Both issues are tied up in UN politics, but Moscow and Washington lead the two competing camps in that organization. NATO forces have administered Kosovo since the military campaign there in 1999. Now, both Kosovo and NATO feel that the time is right for independence. Russia opposes this out of deference to its Serbian allies. Russian leaders are also worried about a precedent being set for Chechen independence. The differences between Moscow and Washington are clear on this issue, although some U.S. officials – perhaps unconvinced of Kosovo’s readiness at this juncture – have indicated a willingness to bargain with Moscow over this issue. A recent poll taken in Russia indicated that Kosovo is felt to be the most important international issue among Russians. This demonstrates the sensitive nature of Balkan politics for

most Russians. The failure to come to an agreement on Kosovo could jeopardize U.S.-Russian cooperation over Iran. Iran continues to play Russia and the West off one another. Russia recently delivered long-promised nuclear fuel for the Bushehr reactor in southern Iran, something Putin promised when he visited Iran in October. Putin was the first Russian or Soviet leader to visit Iran since Joseph Stalin in 1943.

The defense establishments and the militaries of the two nations did engage in amicable exchanges over the past quarter, including a war-gaming session between defense officials in Moscow in late October. But the top Russian general, chief of the Gen. Staff Yuri Baluyevskiy, continued to publicly criticize Washington's decision to construct a missile defense system, and did so during his visit to Washington in December.

### **Economics and energy**

For those with a stake in the Russian economy, Putin's apparent decision to remain involved in the Russian political scene was no doubt viewed as a good sign. In the last quarter it was reported that U.S. investments in Russia had reached \$67 billion in August. Russia's foreign currency reserves total over \$400 billion, which does not include the \$130 billion stabilization fund derived from energy exports. At current rates the Russian government is adding close to \$170 billion annually to its coffers. Although U.S. energy firms have received the most attention in Russia, hundreds of U.S. companies are thriving with their businesses in Russia, including Ford Motors, GM, Microsoft, Boeing, and other blue chip and smaller firms. Putin's determination to see through a smooth transition with Medvedev – or whoever may win the election – would seem to bode well for stability in the Russian economy. For this reason, many U.S. investors are happy about the current situation, no matter how the State Department or Freedom House may feel about the progress of democracy in Russia.

The news has not been all good, however, for U.S. firms. Early in 2007, the Anglo-Dutch oil giant Shell and its two Japanese partners (Mitsubishi and Mitsui) were forced to sell their controlling stake in the Sakhalin-1 project to the state-owned firm Gazprom. Exxon-Mobil has a 30 percent stake in the Sakhalin-2 oil and gas project (with partners from Japan, India, and Russia), and thus far has been commended by analysts and observers on how it has not only run the project itself, but on how it has kept the Russian government and the various ministries off its back. But recent indications are that Gazprom wants a stake in the project (Exxon-Mobil's Russian partner is the oil firm Rosneft, which has a 20 percent stake in the project). The first disagreements between Gazprom and the Sakhalin-2 consortium surfaced earlier this year concerning gas exports to China. Exxon-Mobil wants to build a pipeline to export natural gas to northern China while Gazprom wants all the natural gas produced on Sakhalin to be used for domestic consumption. Exxon-Mobil and the other consortium members would prefer to sell the gas to China at market prices. But Gazprom has its own plans for gas exports to China from fields in Eastern Siberia. Additionally, the price of natural gas in Russia is due to rise 25 percent early in 2008 and will reach international market prices by 2011. Gazprom's top management launched a broadside against Sakhalin-1 partners in December. Deputy Chairman Alexander Ananukov was quoted as saying, "We have received an extremely negative experience of foreign participation in exploration projects in Russia's East," and that foreign management of the projects is an "infringement of Russia's national interests." Not to be overlooked: Dmitri

Medvedev is chairman of the board for Gazprom. Should Exxon-Mobil get into a fight with Gazprom over Sakhalin-1, it wouldn't be a fair fight.

Russia's intentions to dominate the national energy sector have not impeded cooperation with the U.S. in nuclear energy. In December the U.S. House of Representatives passed a bill authorizing \$178 million for nuclear safety programs in Russia. A part of the Cooperative Threat Reduction (CTR) Program, the allocation would help fund storage, transportation, and the destruction of nuclear weapons material across Russia.

### **Asian Issues**

North Korea remains the primary focus of U.S.-Russian cooperation in East Asia. Signs coming from the Korean Peninsula in the wake of the electoral victory for South Korean President-elect Lee Myung-Bak have been positive. When the Six-Party Talks resume, Moscow has indicated that it will continue to cooperate with Washington and Seoul in seeing North Korea follow through on any commitments. There are indications that the Kremlin is becoming tired of Pyongyang's machinations and wishes to see this issue resolved so Russia can see economic benefits from an economically viable North Korea.

Japan and Russia continued their never-ending fruitless dialogue this past quarter. Japan remains committed to several energy projects in Russia and has seen its investment in Russia expand exponentially, especially in Moscow and St. Petersburg. Russian Foreign Minister Lavrov visited Tokyo in October to discuss Japanese-Russian investment projects and the Six-Party Talks. There has long been speculation in Japan that Putin would remain on in some capacity as a "Russian Deng Xiaoping." Some people in Japan are convinced that only Putin will be in a position to resolve the long-standing territorial dispute. This speculation is sorely lacking in its understanding of domestic politics in Japan and Russia.

In November Indian Prime Minister Manmohan Singh visited Moscow in an effort to jumpstart relations, which have stagnated over the past decade. The two governments signed agreements on space cooperation, investment, anti-narcotics trafficking efforts, transnational crime cooperation, and a deal on the possible joint development and production of multi-role transport aircraft. The Indian government has become an observer in the Shanghai Cooperation Organization, and like the Kremlin is somewhat wary of Chinese inroads in Central Asia.

### **Pending Issues**

The most important issue in the next quarter will be the Russian presidential election. For now, all signs point to a successful Medvedev candidacy, but anything could happen. A Medvedev presidency, as indicated, would be no worse for U.S.-Russian relations than has been the Putin presidency, but if the *siloviki* somehow manage to gain a stronger voice in the next administration things could get worse.

Meanwhile, U.S.-Russian relations remain barely cordial, but the two governments do recognize the mutual strategic interests that tie them together. But with presidential elections in both

countries in 2008 and as the Iranian and missile defense impasses continue to linger, there is no telling how long a further and significant deterioration in relations can be avoided.

### **Chronology of U.S.-Russia Relations October-December 2007**

**Oct. 12, 2007:** U.S. and Russian defense officials hold talks in Berlin on the status of the Conventional Forces in Europe (CFE) Treaty.

**Oct. 12, 2007:** U.S. Secretary of State Condoleezza Rice and Defense Secretary Robert Gates meet their Russian counterparts in Moscow to discuss various issues, including U.S. plans for a missile defense system in Eastern Europe.

**Oct. 14, 2007:** Russian state television airs a glowing documentary on the life and work of Franklin Delano Roosevelt.

**Oct. 15, 2007:** Vladimir Putin arrives in Tehran for a summit of Caspian nations. He meets Iranian President Mahmoud Ahmadinejad.

**Oct. 19, 2007:** Russia repays the remaining \$343.25 million of its agriculture debt to the U.S. ahead of schedule. Much of this debt accumulated during the last days of communism and in the early 1990s.

**Oct. 22, 2007:** George Bush telephones Putin and urges Russia to help persuade the Iranian government to give up its uranium enrichment efforts.

**Oct. 23, 2007:** At two different talks on the same day, President Bush (Washington) and Defense Secretary Gates (Prague) give two differing interpretations of the strategy behind the missile defense system in Eastern Europe.

**Oct. 23, 2007:** In a visit to Tokyo, Russian Foreign Minister Sergei Lavrov discusses the Korean nuclear issue and the Northern Territories dispute with Japanese government officials. He also takes time to criticize U.S. plans for a missile defense system.

**Oct. 26, 2007:** At an EU-Russia summit in Portugal, Putin compares the U.S.-led efforts to establish an anti-missile defense system in Eastern Europe to Soviet efforts to deploy nuclear missiles in Cuba in the early 1960s.

**Oct. 30, 2007:** High-ranking U.S. and Russian defense officials begin a two-day war gaming session in Moscow. The focus is on peacekeeping operations.

**Oct. 30, 2007:** The Central Electoral Commission (CEC) of Russia announces that only 50 election observers from the OSCE (Organization for Security and Cooperation in Europe) will be allowed to witness elections to the Russian Duma in December. In 2003 450 observers from the OSCE witnessed the Duma elections.

**Nov. 7, 2007:** The Russian Duma unanimously votes to suspend the CFE Treaty. The moratorium will take effect Dec. 12.

**Nov. 11-12, 2007:** Indian Prime Minister Manmohan Singh visits Moscow and meets President Putin. The two governments sign agreements on space cooperation, financial investment, drug trafficking and transnational crime, and a deal on the joint development and production of multi-role transport aircraft.

**Nov. 19, 2007:** The U.S. and Russian governments reach a deal on the safe disposal of 34 tons of plutonium.

**Nov. 21, 2007:** At an election rally in Moscow, Putin criticizes “outsiders” who interfere in Russia’s domestic politics. This is a thinly veiled call out of the U.S. and Western Europe.

**Nov. 24-25, 2007:** The Russian government arrests and jails opposition leaders who have organized protests in Moscow and St. Petersburg a week in advance of Duma elections.

**Nov. 27, 2007:** FM Lavrov visits Washington, DC and meets top U.S. officials. While there he criticizes U.S. plans for a missile defense system in Eastern Europe.

**Dec. 2, 2007:** Duma elections in Russia result in an overwhelming victory (64 percent) for United Russia, the party supportive of Putin.

**Dec. 3, 2007:** Gen. Yuri Baluyevskiy, chief of the Russian Armed Forces General Staff arrives in Washington to meet his counterpart Adm. Michael Mullen, chairman of the U.S. Joint Chiefs of Staff.

**Dec. 12, 2007:** Russian moratorium on the CFE Treaty officially takes effect.

**Dec. 13, 2007:** The U.S. House of Representatives passes a defense policy bill authorizing \$178 million for nuclear security in Russia.

**Dec. 18, 2007:** A shipment of nuclear fuel arrives in Iran from Russia.





# Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



U.S.-Southeast Asia Relations:

## The New ASEAN Charter Bedeviled by Burma's Impunity

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While the ASEAN 10 celebrated the association's 40th anniversary by initialing its first Charter giving the group a legal personality at its November Singapore summit, Burma's vicious crackdown on thousands of democracy and human rights demonstrators dampened the exultations. The Bush administration placed new sanctions on the Burmese junta, including the Treasury Department's freezing of companies' assets doing business in Burma and possibly even banks that handle their transactions. Moreover, Washington warned that an ASEAN-U.S. Trade Agreement now depends on Burma's genuine progress toward democracy – an unlikely prospect as long as the junta continues to rule. For the Philippines, Washington has promised more economic and military aid focused primarily on the restive south but partially conditioned on a better human rights performance. Human rights concerns also dominated U.S. relations with Malaysia and Thailand with respect to Kuala Lumpur's crackdown on ethnic Indian demonstrations and Thailand's harsh treatment of Muslim dissidents in the southern provinces.

### **Burma's junta spurns the U.S. and the UN**

The Burmese military's vicious crackdown on Buddhist monks and citizens protesting the ruling junta's arbitrary fuel price increases and tyranny continued from last quarter. In early October, the U.S. chargé d'affaires in Rangoon, Shari Villarosa, stated that thousands of people had been jailed and went on to note that for years Burma had suffered a "steady economic decline, the lack of educational opportunities, a deteriorating health care system, and the general lack of freedom." UN Secretary General Ban Ki-Moon similarly referred to the junta's use of force to suppress peaceful protests as "unacceptable and abhorrent." U.S. Ambassador to the UN Zalmay Khalizad emphasized that the junta's actions were having an effect beyond Burma's borders – a criterion for UN involvement – because conditions had led to the flight of refugees and the spread of infectious diseases. Countering China's claim that pressure could undermine the junta's willingness to cooperate, Khalizad stated that international pressure would "incentivize" the regime to cooperate and if that did not succeed, the U.S. would introduce a new sanctions resolution in the UN Security Council (UNSC). Despite the tough talk, however, Washington realizes that its influence on Burma is weak compared with China, India, and ASEAN.

A unanimous statement (carrying less weight than a resolution) was adopted by the UNSC on Oct. 11 that deplored the violence and called for the early release of political prisoners and all remaining detainees. The Security Council also appealed to the junta to engage in a "genuine dialogue" with opposition leader Aung San Suu Kyi, who remains under house arrest, in order to achieve national reconciliation, for which the UN offered its direct support. The junta's only response was to appoint a liaison officer to meet with Aung San Suu Kyi. On Oct. 15, the U.S.

Senate joined those condemning the junta's actions with a resolution that echoed the UNSC statement and also urged China to lift its "veto" on Burma from the UNSC so that body could do more to protect human rights in that country. China, India, and ASEAN brushed aside the U.S. appeal.

In late October, Deputy Secretary of State John Negroponte called on China and India as major Asian powers to suspend arms sales and energy investments in Burma over its political repression and to back UN calls for an end to the crackdown on pro-democracy activists. By December the State Department sadly concluded that "Senior Gen. Than Shwe and his regime have no intention to begin a genuine, inclusive dialogue necessary for a democratic transition ... as called for by the international community." The State Department also estimated that 1,800 political prisoners were still being held.

As for sanctions, there is little more the U.S. can add to the economic penalties that Washington and the EU have had in place for several years. The latest iteration has been a freeze on U.S.-based assets of Burma's military leader and 13 top officials as well as visa bans on 30 members of the junta and their families. It is unlikely, however, that Burma's leaders have significant assets in the U.S. or that their families are eager to visit. Indeed, the new sanctions appear redundant since the 2003 Burma Peace and Democracy Act already provided for asset freezes and visa bans. Moreover, U.S. trade with Burma is minimal.

One new wrinkle in U.S. sanctions could, however, have a broader impact. On Oct. 19, President Bush signed an executive order that allowed the Treasury Department to freeze the assets of "individuals who provide material or financial support to designated individuals or the government of Burma." Five U.S.-based Burmese business executives and seven companies were immediately hit with these sanctions. Singapore banks, the financial institutions of choice for Burma's generals, have reportedly slowed processing transactions from Burma to insure that their clients are not on the U.S. sanctions list. The banks may be concerned about their international reputations and the prospect of being sanctioned themselves as in the September 2005 U.S. sanctions applied to Macao's Banco Delta Asia over North Korean funds. In mid-November, a bill was also working its way through Congress to prohibit Burmese gem imports into the U.S. that were polished or cut in a third country.

Indicative of the high regard in which Aung San Suu Kyi is held in the U.S. Congress, on Dec. 18, the House of Representatives unanimously awarded its highest civilian honor, the Congressional Gold Medal, to the detained pro-democracy leader.

Undeterred by U.S., European, UN, and even some ASEAN condemnation, Burma in late October accused Washington of inciting the September pro-democracy demonstrations in hopes of installing a puppet government. Pro-government rallies staged in Rangoon by supporters of the regime carried anti-American slogans, pictures of which appeared on the government website along with photos purportedly showing U.S. prisoner abuse and children suffering from the Iraq war. In mid-November a portrait of President Bush was burned in a junta-organized rally in the northern Shan state. Other rallies throughout the country included posters deriding a "skyful of liars," naming the *BBC*, *VOA*, and *Radio Free Asia*.

In early December, the junta's information minister, Brig. Gen. Kyaw Hsan, claimed the U.S. embassy had trained activists during a three-day course at the Rangoon American Center. The Center had been accused of sponsoring similarly seditious activities in the past. The standoff between Burma and its U.S., European, and UN antagonists continues while ASEAN, India, and China remain on the sidelines.

### **For ASEAN, Burma continues to muddy the water**

On Nov. 19 at the Singapore ASEAN summit, a landmark Charter was adopted by the Association – its first full-scale legal commitment to human rights, democratic ideas, and an economic community. The timing, however, on the heels of Burma's vicious crackdown on dissent, once again exposed ASEAN's inability to discipline its members. U.S. Trade Representative (USTR) Susan Schwab, attending the post-summit series of meetings, praised the Charter's commitment to economic integration by 2015, five years earlier than originally planned. Other elements of the Charter disappointed observers both within and outside ASEAN. The principle of non-interference in members' internal affairs was maintained, undoubtedly at the insistence of the Indochinese countries and Burma. The consensus principle for decision-making also continues, in effect giving any member a veto. Also, the Charter does not mention either expulsion or suspension of members found in serious breach of the Charter's provisions and the Charter's statements on democracy and human rights carry no provisions for implementation.

Schwab warned that a U.S.-ASEAN free trade agreement would be impossible so long as Burma does not proceed toward genuine democratization. She insisted that “[t]he reputation and credibility of ASEAN ... has been called into question because of the situation in Burma.” The future of the Charter itself is problematic since all ASEAN members must ratify it within one year and President Arroyo of the Philippines has predicted that the Philippine Senate would have “extreme difficulty” doing so unless Burma moved onto the path of democracy and freed opposition leader Aung San Suu Kyi. Attempting to put a better spin on ASEAN-U.S. relations, Undersecretary of State for Political Affairs Nicholas Burns in early December affirmed U.S. support for ongoing ASEAN and UN efforts to push a dialogue between the junta and Aung San Suu Kyi. He also stated that the U.S. has “great respect for the way Singapore acted as ASEAN Chair and in hosting the [ASEAN Summit].” Nevertheless, U.S. influence on Burma's future appears to be waning as China, India, and other ASEAN members brushed aside Washington's call for an economic embargo and diplomatic isolation of the junta.

In mid-December at a U.S.-ASEAN senior officials dialogue in San Francisco, U.S. officials stated it would probably be difficult for President Bush to host the ASEAN leaders he had invited to his Texas ranch last September, considering what had happened in Burma. If the president cancels the invitation to the summit probably scheduled for early 2008, it would be the second time Bush scrapped talks with leaders of the 10 ASEAN member states within the last 12 months. In response to Southeast Asian complaints that the U.S. was ignoring ASEAN, U.S. Ambassador to Thailand Ralph Boyce stated that to the contrary, the Bush administration had upgraded its attention to the region multilaterally and bilaterally. Nevertheless, the ambassador acknowledged in a Dec. 19 interview that China may currently be more influential in the region: “Some people call it the emergence of China; its' really the re-emergence of China. It's a more

natural state of things .... [I]f other countries are going to be more active in the region, it means we have to be more active too.”

### **Military aid and human rights continue to dominate U.S.-Philippine relations**

U.S. military assistance to the Philippines and the country’s human rights situation continue to dominate bilateral relations. In October, the U.S. Senate authorized \$60 million in combined military and economic aid, \$14 million more than the U.S. State Department requested, but tied the funds to ending human rights abuses. Specifically, the U.S. Congress has been concerned about extrajudicial killings in the Philippines of journalists and others who are critical of the government. Elements of the armed forces are suspected of perpetrating the atrocities, though the government insists the killings are the result of factional disputes within leftist organizations. No one has been apprehended or charged in the slayings, and, as an incentive to the Philippine government, the U.S. Senate has offered an additional \$2 million in 2008 “subject to the progress of such official initiatives in getting to the bottom of these slayings.”

The bulk of the military aid is to modernize Philippine forces for the purpose of assisting in the global war on terror, in other words, to continue going after the Abu Sayyaf terrorist group in the south. As for the human rights concerns, in early November, a Philippine military spokesman said the armed forces now requires a “human rights clearance” for those being promoted to the rank of colonel and has set up a Human Rights Office within their commands to receive complaints from the public against their troops. Philippine human rights groups have welcomed the U.S. conditions. To receive the extra \$2 million, the U.S. Senate requires that the secretary of state report that the Philippine government is implementing the recommendations of the UN Special Rapporteur on extrajudicial ... executions. And, indeed by November, a few military personnel were reportedly undergoing pre-trial investigations for human rights abuses. Both the UN Special Rapporteur and the Philippines own investigatory group – the Melo Commission – acknowledge that rogue elements and not the military as a whole are involved. Philippine human rights organizations had testified before the U.S. Senate last summer in hearings that led to the new conditions imposed by the U.S.

Meanwhile, U.S. joint exercises and training support continue. The annual *Philbex* exercise took place in October with 3,500 Philippine and U.S. forces. The Philippine commander, Maj. Gen. Ben Dolorfino, specifically thanked U.S. Special Forces for providing intelligence to the Philippine military’s efforts in Sulu. The Philippine press reported in mid October ( *Inquirer Express*, Oct. 17, 2007) that U.S. Special Forces have actually established a “forward operating base” in Sulu where pre-positioned equipment is maintained and a small number of rotational U.S. personnel are permanently deployed. The product of a U.S. Pacific Command concept, these “lily pads” would be available to U.S. forces for joint exercises with host countries and as supply points for military activities in the region, as required. The U.S. presence in Mindanao is strategically positioned near the Makassar Strait at the southwestern rim of the South China Sea. The only problem with these developments is that the Philippine constitution prohibits the presence of foreign military bases. Therefore, neither the Philippine nor U.S. governments refer to the U.S. Special Forces deployment in Mindanao or the supply caches as permanent. Rather, the emphasis is that they are rotational for purposes of counter-terrorist training and joint exercises. The U.S. forces also include civic action in all joint exercises in the Philippines,

providing medical and dental care for local populations, building roads, school, and improving sanitation. Pacific Special Operations Command spokesman Col. Rudy Aquino pointed out: “Our activities with the [Philippine] military are in concert with the host nation’s wishes. What we do is at the invitation of the host country .... The bottom line is we do not engage in combat .... That’s a hard and fast rule, it’s a clear policy.”

U.S. lawmakers also agreed to increase military aid for Indonesia to \$15.7 million in 2008 with some of the money being contingent on Jakarta’s willingness to account for past human rights violations by the Indonesian military, access to Papua province where a small separatist army seeks independence, and the completion of a criminal investigation on the 2004 killing of a renowned Indonesian human rights activist.

### **U.S. human rights concerns in Malaysia and Thailand**

Malaysia has been viewed by the U.S. as a model of moderate Islam epitomized by Prime Minister Abdullah Badawi’s concept: *Islam hidari*. However, the country has always experienced tension between its dominant Malay Muslim community and the minority Chinese and Indian populations. While most of the friction has been found in Chinese resentment of Malay privileges through the government’s “affirmative action” toward the Malays in education, business, and other perks, in November, the Indian population engaged in two rare mass protests numbering 30,000 marchers. These demonstrations were in response to the indiscriminate destruction of Hindu temples as well as the equally sensitive issue of discrimination faced by the Indian minority, generally viewed as the least well off ethnic group in Malaysia.

The government cracked down on the dissenters, arresting leaders of the demonstrations and other government critics and threatening to try them for sedition and murder. On Dec. 10, the U.S. State Department called on Malaysia to allow freedom of expression and assembly. Department spokeswoman Nancy Beck, in an interview with *Agence France Presse*, said: “We also stated in our annual human rights report our belief that the Malaysian government places significant restrictions on the right to assemble peacefully.” The human rights report goes on to say that permits to assemble are determined by senior police and political leaders on political grounds against minorities and dissidents. Prime Minister Abdullah has threatened to invoke draconian security laws that allow detention without trial: “If the choice is between public safety and public freedom, I do not hesitate to say here that public safety will always win.” Meanwhile, the U.S. Congress-appointed U.S. Commission on International Religious Freedom has urged the Bush administration to raise the matter with Kuala Lumpur and “insist that immediate measures be taken to protect sacred sites and prevent further destruction.” Malaysia rejected the U.S. criticism. Foreign Minister Syed Hamid Albar noted that Malaysia is merely applying its laws under which police permits are required for the assembly of five or more people. And, on Dec. 15, Deputy Prime Minister Najib Razak said the U.S. should take care of its own human rights problems. If the U.S. would give a fair trial to prisoners held in Guantanamo, then Malaysia would respond to the criticism.

Washington has also expressed concern about Thailand’s treatment of 400 Muslim men who have been banned from returning to their homes in the restive southern border provinces. U.S. Ambassador Ralph Boyce stated the ban constitutes a violation of the men’s human right to

return to their homes and families. Thai army chief Gen. Anupong Paochinda stated he also was opposed to the ban and directed the Fourth Army Chief, Wiroj Buocharan, to lift it – perhaps an instance where human rights groups and international concern had a salutary effect.

### **Cambodia-U.S. ties improve; Vietnam-U.S. economic ties advance**

In efforts to improve relations with Cambodia attendant upon Chevron's discovery of oil and gas deposits in Cambodia's coastal waters and China's rising influence, the U.S. has been assisting the Hun Sen government along a variety of dimensions, including education, public health, preventing corruption – a serious problem particularly in land expropriation – and resource management with an eye toward the energy discoveries. U.S. aid for 2007 is expected to top \$65 million. To assist Cambodia's navy in protecting its coastline, last August U.S. Pacific Command's Adm. Timothy Keating offered military training and other assistance, renewing support that had been suspended a decade earlier after a 1997 coup by current Prime Minister Hun Sen, who ousted his co-premier Prince Norodom Ranariddh. In late November, U.S. Marine Corps personnel began a training program for Cambodia's National Counter-Terrorism Task Force.

Economic relations between Vietnam and the U.S. continue their upward trajectory. In early November, Deputy Trade Minister Le Danh Vinh pointed to a trade advance from \$54 million in 1995 to an expected \$11 billion in 2007. U.S. direct investment in the country since 2000 is about \$4 billion, with more than a thousand U.S. businesses operating including many leading companies such as Citi Group, Boeing, GE, Microsoft, IBM, Intel, Coca Cola and Pepsi Cola. In economic terms, Vietnam is seen as ASEAN's latest success story.

### **The way ahead**

Despite the Burmese junta's impunity and intransigence, another cancellation of the U.S.-ASEAN summit should be avoided. Southeast Asian states are very sensitive to any indications of political slights by Washington even if, as in the case of Burma's behavior, they may seem justified. ASEAN members are engaging in a diplomatic hedging strategy that includes invitations to the great powers (the U.S., China, Japan, the EU, and increasingly Russia). While Washington's actual involvement in Southeast Asia is much stronger than frequently acknowledged in the region: witness U.S. naval deployments, joint exercises, economic and military assistance, and commercial activities; symbolic politics remain important. It would be best for the Bush administration to find some way to hold the summit meeting promised by the president – perhaps by permitting a diplomat from Burma's U.S. mission to represent that country.

## **Chronology of U.S. Southeast Asian Relations October - December 2007**

**Oct. 1, 2007:** The U.S. Senate passes a bipartisan resolution calling on Burma's ruling junta to begin dialog with opposition ethnic groups and the National League for Democracy leader, Aung San Suu Kyi.

**Oct. 4, 2007:** First Lady Laura Bush urges the junta in Burma to “step aside” and calls for a UNSC resolution calling for a peaceful transition to democracy.

**Oct. 5, 2007:** U.S. Ambassador to the UN Zalmay Khalilzad, speaking before the UNSC, excoriates the Burmese junta for its suppression of peacefully protesting monks and civilians and warns the U.S. might propose a new UNSC resolution increasing sanctions.

**Oct. 5, 2007:** The U.S. Chargé in Burma, Shari Villarosa, is invited to the new capital, Naypyidaw, to meet junta members.

**Oct. 10, 2007:** While in Honolulu for a State Department conference, Villarosa says that Burma’s people “need the support of the international community.”

**Oct. 10-11, 2007:** U.S. Air Force Secretary Michael Wynne visits Singapore.

**Oct. 11, 2007:** Undersecretary of State Burns calls on Burma to release all political prisoners and refrain from further violence against the civilian population.

**Oct. 15-31, 2007:** *Talon Vision 2007*, a land- and sea-based exercise, and the concurrent Amphibious Landing Exercise (*PHILBEX*) are held to facilitate military interoperability between the U.S. and the Philippines. Bilateral medical and dental clinics and civic action projects were a major part of these exercises.

**Oct. 19, 2007:** President Bush expands financial sanctions on Burma’s leadership to an additional 14 high-level officials, while the Commerce Department blocks technology sales with dual-use capabilities.

**Oct. 22, 2007:** U.S. Chargé in Cambodia Piper Campbell states that offshore oil and gas deposits provide great potential, but managing these resources is a problem given the country’s corruption.

**Oct. 23, 2007:** Singapore is doubling its air force fighter fleet by buying 12 *F-15s*.

**Oct. 23, 2007:** Deputy Secretary of State Negroponte states China and India should suspend arms sales to Burma over its political repression.

**Nov. 2, 2007:** The Bush administration sharply criticizes the Burmese military junta’s decision to expel Charles Petrie, the UN’s top resident diplomat, from the country after he issued a statement urging the junta to heed the voices of the protestors.

**Nov. 5-7, 2007:** Commerce Secretary Carlos Gutierrez meets Vietnam’s Prime Minister Nguyn Tan Dung in Hanoi for three days of talks on expanding trade ties. Executives from major U.S. corporations accompanied Secretary Gutierrez.

**Nov. 14-18, 2007:** Two U.S. warships dock in Haiphong, the first to visit northern Vietnam since the end of the Second Indochina War in 1975.

**Nov. 15, 2007:** The U.S. Embassy in Hanoi announces \$1 million in aid to help Vietnam in the aftermath of heavy floods in the central provinces.

**Nov. 16, 2007:** U.S. Senate unanimously passes a resolution urging ASEAN to suspend Burma's membership for human rights violations.

**Nov. 18-19, 2007:** USTR Schwab meets ASEAN economic ministers in Singapore to discuss progress under the U.S.-ASEAN Trade and Investment Framework Agreement.

**Nov. 21, 2007:** USTR Schwab meets Cambodia's minister of commerce to discuss deepening trade and investment relations.

**Nov. 28, 2007:** The *USS Essex* arrives in Sihanoukville, the second U.S. warship to visit Cambodia this year. The crew conducts medical and dental clinics as well as trains with the Cambodian military.

**Dec. 2-4, 2007:** U.S. Pacific Fleet Commander Adm. Robert Willard, in Singapore, praises the "excellent defense relationship" between the two states.

**Dec. 3, 2007:** Undersecretary of State Burns visits Singapore to discuss regional and global issues with top government leaders, underlining the city-state's important role.

**Dec. 3-5, 2007:** Acting Assistant Secretary of State for Political-Military Affairs Stephan Mull visits Vietnam and states that the U.S. is helping improve the Vietnam army's capacities in relief and rescue and international peace keeping. He also discusses counter-terror cooperation and non-proliferation of nuclear weapons.

**Dec. 9, 2007:** U.S. Ambassador to Cambodia Joseph Mussomeli and UN human rights representative Yash Ghai join 500 local rights activists in a march calling for an end to corruption.

**Dec. 10, 2007:** First Lady Laura Bush speaking on International Human Rights Day calls on Burma's military junta to step aside if it is unwilling to bring about a democratic transformation.

**Dec. 11, 2007:** President Bush threatens to impose new sanctions on Burma if the military regime continues to ignore calls for a democratic transition and release political prisoners, including Nobel laureate Aung San Suu Kyi, who is under house arrest.

**Dec. 12-14, 2007:** The U.S., Singapore, and Thai Air Forces hold the opening phase of the annual *Cope Tiger* exercise in Singapore. The second phase which will involve flying exercises will be held in Thailand from Jan. 27- Feb. 5.

**Dec. 12-14, 2007:** U.S. Pacific Commander Adm. Timothy Keating leads a delegation to Vietnam at the invitation of the deputy chief of the Vietnam Peoples Army.



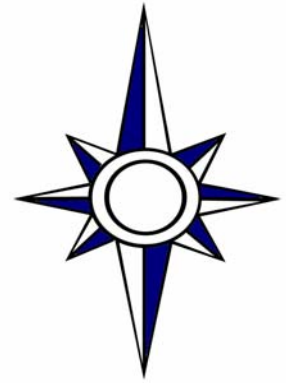
**Dec. 14, 2007:** Adm. Keating visits Laos to talk with foreign and defense ministry officials on cooperative defense relations.

**Dec. 17, 2007:** U.S. House of Representatives votes unanimously to award the Congressional Gold Medal – the highest American civilian award—to Burma democracy icon Aung San Suu Kyi.

**Dec. 18, 2007:** Forty-eight U.S. senators from both parties urge President Bush to push the UN Security Council to impose an international arms embargo on the Burmese military junta.

**Dec. 23, 2007:** The People Power Party claims victory in the first Thai elections since a 2006 military coup, but its share of votes fell short of an absolute majority, making a coalition government a necessity.





China-Southeast Asia Relations:  
**Singapore Summits, Harmony, and Challenges**

Robert Sutter, Georgetown University  
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The highlight of this quarter was Prime Minister Wen Jiabao's active agenda in regional summits coinciding with the ASEAN Plus China, ASEAN Plus Three (with Japan and South Korea) and East Asia Summit meetings in Singapore in November. Chinese officials adhered to the line of the 17<sup>th</sup> Chinese Communist Party (CCP) Congress emphasizing harmonious relations with Southeast Asian and other countries, but ran across some difficulties involving Myanmar, Vietnam, and climate change.

**17<sup>th</sup> Party Congress: “harmonious world” and Southeast Asia**

CCP General Secretary Hu Jintao's speech to the 17<sup>th</sup> Chinese Communist Party Congress in October emphasized commitment to peaceful development and greater harmony in China's international relations. Chinese government foreign affairs specialist Zhai Kun spelled out the meaning of Hu's instruction for China's relations with Southeast Asian and other East Asian countries in a prominently featured *China Daily* commentary on Nov. 19 entitled “Harmony Through East Asia Friendship.” According to Zhai, greater Chinese cooperation with Southeast Asian countries has three sets of benefits for China that will be pursued in the years ahead. Specifically, China-Southeast Asian cooperation:

- provides China with a “strategic prop” in the region by integrating the Chinese economy more closely with regional economies, by forging closer Chinese strategic partnerships with regional governments politically, and by easing security concerns over territorial issues and developing closer cooperation on non-traditional security issues;
- more closely integrates Southeast Asian development with China's regional development through such ventures as the development of the greater Mekong region and the pan-Beibu Gulf regional cooperation, and improvement of pan-Asia road and rail transportation networks; and
- supports Asian and Asia-Pacific regional organizations beneficial to China and regional countries, notably ASEAN, ASEAN Plus Three, and APEC.

**China-ASEAN Business and Investment Summit**

In the weeks prior to Prime Minister Wen's visit to Singapore, the fourth meeting of this annual summit was held in late October in Nanning and featured speeches by Chinese Vice Premier

Zeng Peiyan and ASEAN Secretary General Ong Keng Yong. Both cited many accomplishments in China-ASEAN economic relations while duly noting room for improvement.

On the latter, Zeng focused on the sore point of continued low level of Chinese investment into Southeast Asia despite burgeoning trade and large-scale Southeast Asian investment in China. He pledged that Chinese investment would increase as a result of the creation of trade and economic zones in ASEAN countries designed to help Chinese enterprises enter the region. Official Chinese media emphasized that while China expects to remain a major recipient of Southeast Asian and other international investment, amounting to over \$60 billion annually, China intends its outward investment to reach \$60 billion during the 11<sup>th</sup> Five-Year Plan period (2006-2010). Chinese media show growing Chinese outward investment figures: from \$5.5 billion in 2004, to \$12.3 billion in 2005, and \$17.6 billion in 2006. That little of this goes to Southeast Asia is not surprising as an International Monetary Fund (IMF) study, *Perspectives on China's Outward Foreign Direct Investment*, published in 2007 said that Hong Kong and Caribbean tax havens, Cayman Islands and British Virgin Islands, consistently account for 70 percent of Chinese FDI abroad. The study speculated that the large amounts are being channeled to Hong Kong and tax havens to avoid taxes and mask other objectives.

Ong Keng Yong said that the China-ASEAN Free Trade Agreement negotiations are entering a "crucial stage." He claimed that "easy things" like commodity trade agreements and the first round of service trade deals have been done, but harder issues over investment and service trade need to be addressed and agreed upon by 2010.

### **Wen Jiabao visits Singapore, participates in ASEAN, regional meetings**

Prime Minister Wen was busy in Singapore on Nov. 19-21 conducting the first visit of a Chinese prime minister to Singapore in eight years, attending the 11<sup>th</sup> annual China-ASEAN summit, the 11<sup>th</sup> annual ASEAN Plus Three Summit, the 8<sup>th</sup> annual China-South Korea-Japan leaders meeting, and the third East Asian Summit.

Wen's speech at the National University of Singapore on Nov. 19 emphasized China's continued efforts to broaden economic interchange and foreign trade and investment while it deals responsibly with environmental protection and energy consumption. Among agreements signed with Singapore Prime Minister Lee Hsien Loong on Nov. 19 was an agreement to build a modern industrial park, "an eco-city," in China's Tianjin Municipality that will replicate what Chinese media said was the "resounding success" of the first China-Singapore flagship project, the Suzhou Industrial Park, launched in 1994.

Wen's visit to Singapore was preceded by Singapore's Senior Minister Mentor Lee Kuan Yew's 27<sup>th</sup> visit to China where he met President Hu Jintao and other top leaders, including a one-hour meeting with newly appointed Politburo Standing Committee Member Xi Jinping. Lee lavished praise on Xi and averred that China's adapting to world norms has moved the country ever closer in what Lee called "Singapore's direction." A balanced view of China's development was provided in a speech "Can China Emerge Peacefully," by Singapore Foreign Minister George Yeo at the China Development Forum in Guangzhou on Oct. 12. Yeo lauded China's progress at home and abroad, but also provided a long list of domestic challenges and broad ranging

international uncertainties and wariness greeting China's rise. He urged the Chinese government to avoid past practice of "playing defense" in regional organizations and to adopt a responsible leadership role in international organizations like the UN and the World Trade Organization, while seeking to control "excessive nationalism" that adds to international fears of China's rise.

Wen's keynote speech and Chinese proposals at the 11<sup>th</sup> ASEAN Plus China Summit on Nov. 20 highlighted and pledged to build on rapid progress in trade and other relations. Bilateral trade was estimated to reach \$190 billion in 2007 and was expected to surpass \$200 billion in 2008. China and ASEAN are now each other's fourth largest trading partners. Cumulative mutual investment reached \$45.4 billion in 2007. The Chinese leader urged "follow-up actions" related to the 2002 Declaration on the Conduct of the Parties in the South China Sea in order to advance cooperation, joint development, and stability. He called for a joint expert group to study Pan-Beibu Gulf economic cooperation and urged closer military exchanges, specifically proposing exchanges among defense academies and cooperation over nontraditional security threats. At the summit, China and ASEAN also signed an agreement to insure higher quality agricultural and other food products.

At the 11<sup>th</sup> ASEAN Plus Three Summit on Nov. 20, Premier Wen and official Chinese media supported the group's emphasis on ASEAN remaining in the "driver's seat" and ASEAN Plus Three serving as the main vehicle for regional cooperation and East Asia community building. Wen called for pushing forward the creation of a free trade area in the region and greater cooperation on finance and banking. Specifically, he said the other nations should study a proposed East Asia Free Trade Area, implement the Chiang Mai Initiative (a currency swapping system created after the Asian financial crisis), and work toward an ASEAN Plus Three Regional Foreign Exchange Reserve Pool. He also called for greater ASEAN Plus Three military cooperation, urging the establishment of an ASEAN Plus Three Armed Forces Forum on Non-Traditional Security Cooperation.

The eighth meeting of leaders of China, South Korea, and Japan on Nov. 20 focused on efforts to promote the denuclearization of the Korean Peninsula through the Six-Party Talks and through their respective bilateral and other channels. The three powers agreed to hold trilateral foreign ministerial and foreign vice ministerial meetings on the Korean nuclear and other regional and international affairs in Japan by March 2008. They said that the trilateral summit, which has taken place on the sidelines of most annual ASEAN meetings since 1999, would eventually be held separately, in one of the three countries, in order to allow ample time for discussion.

### **East Asia Summit, Bali Conference—climate change, energy and environment**

Prime Minister Wen on Nov. 21 signed the Singapore Declaration on Climate Change, Energy and the Environment, the capstone of the East Asia Summit (EAS) involving the ASEAN Plus Three states, along with India, Australia, and New Zealand. Under terms of the declaration, the EAS governments vowed to carry out individual and collective actions to address climate change, improve energy efficiency, and reduce deforestation. The declaration represented a step for the regional governments leading to the UN Climate Change Conference that met in Bali, Indonesia on Dec. 3-14. In these deliberations and in various meetings and international forums over the past year, the Chinese have worked hard to promote a stance of cooperation with

international efforts to curb greenhouse gases, inefficient energy use, and environmental pollution in ways that avoid binding commitments that might curb China's economic growth.

In mid-2007, the Chinese government announced the formation of a high-level leading group on climate change, chaired by Wen Jiabao, and it issued a major report on the subject. The Foreign Ministry at that time announced that it had established a leading group in charge of international work on climate change, which was headed by Foreign Minister Yang Jiechi. Subsequently, the Chinese government appointed Ambassador Yu Qingtai as China's new "special representative of the Foreign Ministry for climate change negotiations." His role is to help implement China's domestic action plan in response to climate change, as well as to exhibit "the government's active participation in international cooperation on responding to climate change."

Wen told the East Asian Summit on Nov. 21 that China is trying to address the issue of climate change by curbing energy consumption and emissions. He highlighted the Chinese plan to reduce the amount of energy used to generate each unit of gross domestic product by one-fifth by 2010 from 2005 levels. Nevertheless, Wen emphasized that the developed countries "must bear more responsibility" on harmful emissions. In a phone call to UN Secretary General Ban Ki-moon on the eve of the Bali conference, Wen said that "while taking the lead in greatly cutting emissions, developed nations should also help developing nations to respond to climate change .... Developing nations should adopt relevant policies in accordance with their capacity, in order to make as much of a contribution as they can in combating climate change."

The Chinese Foreign Ministry spokesman clarified China's opposition to binding commitments on its energy use in asserting on Nov. 22 that "even if China's own standards for energy reductions and emission controls coincide with global benchmarks, we still adhere to the principle that no sovereign nation should be forced to accept mandatory measures imposed by another country." He added, "Third-world countries should not be forced to accept any mandatory measures."

China's positions have been supported by prominent Chinese editorials and media commentary, which emphasize that developed countries "produced 95 percent of CO<sub>2</sub> emissions from the 18<sup>th</sup> century to 1950 and 77 percent from 1950 to 2001" Therefore, developed countries bear the main responsibility for dealing with global warming. Moreover, Chinese commentary has objected to mentioning the U.S. and China as the world's leading emitters of greenhouse gases, asserting that China's carbon footprint – the CO<sub>2</sub> emissions per person per year – is about four tons for China and over 20 tons for the U.S.

China's reluctance to accept binding commitments on emissions and energy use coincides with China's slow progress in energy efficiency and pollution controls, and complications in alternative energy efforts that involve Southeast Asian countries, among others. Premier Wen told a Singapore National University audience on Nov. 19 that China this year had improved its energy consumption per unit of GDP and cut pollutant discharges; but a deputy director of the State Environmental Protection Administration told an environmental forum in Beijing the previous day that the government was likely to fail to meet its emissions control targets for the current five-year plan (2006-2010) because of continuing expansion of energy-intensive sectors in Chinese industry.

China's strong recent efforts to develop alternative nonpolluting energy have focused on hydropower, which accounts for 6 percent of China's energy supply and is growing fast. The *New York Times* in a feature article on Nov. 18 concerning Chinese dams highlighted "disorderly and uncontrolled" efforts to build power-generating dams. The environmental, social, and other complications of large dam projects like the Three Gorges Dam are well documented, but the implications of ongoing Chinese dam building projects along the Mekong (Lancang) and Salween (Nu) rivers are seen by international specialists as posing major negative risks for the livelihoods of the 70 million people who live from fishing and agriculture in the southeast Asian countries (Myanmar, Thailand, Laos, Vietnam, and Cambodia) that depend on these rivers. A recent European Parliament Report, *Clouds Ahead: China's Energy Policy in Light of Climate Change*, noted concerns with Chinese hydropower projects and also took aim at Chinese purchases of large (400,000-500,000 hectares) of land in the Philippines, and sales and proposed use of several million hectares of land in the Philippines, Indonesia and elsewhere in Southeast Asia for the production of crops that will be used to produce bio-diesel and other bio-fuel.

### **Diplomacy concerning Myanmar**

In spite of the widely acknowledged important economic ties between China and Myanmar, and in spite of Beijing's strict adherence to the principles of sovereignty and noninterference, recent developments indicate that Beijing is making a much higher diplomatic investment in managing the unfolding crisis in Myanmar. In October, the UN Special Envoy on Myanmar Ibrahim Gambari's public acknowledgement of China's mediation efforts and willingness to raise the issues of political reform and national reconciliation with the military junta drew considerable press attention. At this early stage, however, there is no guarantee for success with the subtle shifts in Beijing's approach. Thousands of demonstrators in September are still detained and the military junta remains reluctant to negotiate with opposition factions. As such, Beijing remains vulnerable to continued criticism from the international community for enabling the military junta's intransigence.

In October, Gambari visited Beijing and met with senior officials in an effort to solicit greater support from China to help resolve the political crisis in Myanmar. Gambari met with Assistant Foreign Minister He Yafei and described the closed-door meeting as constructive. In his debrief following the meeting, Gambari specifically mentioned that Beijing's efforts to help broker meetings between him and Gen. Than Shwe, the military junta leader, as well as with detained democracy leader Aung Sun Suu Kyi were helpful. He also mentioned that the purpose of his trip was to "acknowledge what they [the Chinese government] have done but also to encourage them to do more."

Subsequently, Gambari also met State Councilor Tang Jiaxuan and Vice Minister of Foreign Affairs Wang Yi. According to Chinese press, Tang expressed concerns about the current situation in Myanmar. As a close neighbor, China is particularly concerned with Myanmar's "stability, development, democracy, and reconciliation." Wang further pointed out that the two countries share a common boundary of over 2,000 kilometers. Several articles in the Chinese press have recently opined that there is growing concern in Beijing that continued instability in Myanmar could have a spillover effect. Since more than a million Chinese have crossed the

borders into Myanmar seeking job opportunities, continued upheaval in Myanmar could cause a mass exodus of Chinese migrants back across the border, creating increased social unrest in China's southwestern provinces.

In mid-November, Beijing dispatched Wang as a special envoy to Myanmar. During his visit, he met Gen. Than Shwe and three other senior officials in the State Peace and Development Council (SPDC), including Information Minister Brig. Gen. Kyaw Hsan, Foreign Minister U Nyan Win, and Labor Minister U Aung Kyi. The two sides sought to increase Sino-Myanmar traditional "*paukphaw* (fraternal)" friendship and deepen mutual cooperation. More important, the Myanmar side briefed Wang about the current state of the domestic situation and the military junta's proposed measures for political reform and reconciliation. According to Chinese press, Wang expressed an urgency for Myanmar's leaders to speed up the democratization process and improve their people's livelihood so that political stability can be achieved at an early date.

More recently, Beijing publicly called for greater coordination between concerned parties' mediation efforts to help resolve the political crisis in Myanmar. At a press conference on Dec. 20, Chinese Foreign Ministry spokesperson Qin Gang mentioned that China would continue to support the negotiation work of Gambari. China also supports ASEAN to play a bigger role and further engage Myanmar's leaders through dialogue and consultation. Beijing would also be willing to strengthen communication with the European Union to play a more positive role.

There will continue to be differences between China and much of the West on assessments of the situation in Myanmar and on the appropriate measures to pursue in its resolution; Beijing's emerging openness, however, indicates subtle shifts in its approach to Myanmar. In the November/December issue of *Foreign Affairs*, an article on Myanmar by Michael Green and Derek Mitchell points out that China's position on this issue could change as Beijing weighs its long-term interests and sees that continued alignment with Myanmar could further damage its reputation and threaten its security. North Korea is a case in point and a precedent for making such foreign policy adjustments. In fact, the authors argue that Beijing would "all the more readily do so because Myanmar occupies a less strategic position for China than does North Korea." To be sure, Beijing will not overtly undermine its policy of "noninterference" and respect for sovereignty, even with Myanmar. But, as seen in recent developments, Beijing is beginning to amend its approaches as it recognizes a building interest to do so.

### **Vietnam-China territorial dispute breaks into the open**

Though China and Vietnam in recent years have emphasized positive bilateral relations, longstanding territorial disputes over the Paracel and Spratly Islands broke into the open this quarter with back-and-forth accusations and complaints. Vietnamese media on Nov. 23 replayed remarks by the Vietnamese Foreign Ministry spokesman in answer to a query by a *Vietnam News Agency* reporter about Chinese military exercises in the Paracel Islands from Nov. 16-23. The spokesman said that the Chinese action violated Vietnam's sovereignty and "was not in line with the common perception" of senior leaders of the two countries, and was at odds with "the spirit" of the meeting between the Chinese and Vietnamese leaders at the ASEAN summit in Singapore a few days earlier. The spokesman affirmed Vietnam's sovereignty over the Paracel and Spratly Islands (the former are occupied by China, and China and Vietnam, along with four other



claimants occupy territory in the latter), and affirmed Hanoi's interest in friendly relations and peaceful resolution of differences with China.

The Chinese Foreign Ministry spokesman answered a reporter's question on Nov. 27 by saying the Vietnamese charge was unreasonable, as China has "irrefutable sovereignty" over the Paracel Islands and the Chinese military exercise was conducted "completely within the Chinese waters." He claimed that "China and Vietnam do not have any disputes" regarding the issue of China's sovereignty over the Paracel Islands and their neighboring waters.

A second round of public charges began on Dec. 4 with Vietnam's Foreign Ministry spokesman responding to a reporter's query about a "recent decision" by the Chinese People's Congress to create the Sansha administrative town in Hainan Province that would cover three archipelagos including the Paracel and Spratly Islands. Vietnam rejected the "encroachment" and reaffirmed sovereignty over both sets of islands. On Dec. 9, several hundred Vietnamese demonstrated against the Chinese action in front of the Chinese embassy in Hanoi and the Chinese consulate in Ho Chi Minh City. On Dec. 11, the Chinese Foreign Ministry spokesman reaffirmed China's territorial claim to the islands, saying China was "highly concerned" by recent developments unfavorable to friendly Sino-Vietnamese ties and called on Hanoi to "avoid harming" bilateral relations.

Anti-Chinese demonstrations occurred again in Hanoi and Ho Chi Minh City on Dec. 16. Two days later, the Chinese Foreign Ministry spokesman said the protests had damaged China-Vietnam relations and called on the Vietnamese government to stop them.

### **Assessing China's rise**

In contrast with earlier media commentaries and specialist assessments that tended to emphasize China's rise at the expense of U.S. influence in Southeast Asia, the quarter saw the publication of several in-depth assessments that offered more balanced views of China rise. *China, the United States, and Southeast Asia*, edited by Evelyn Goh and Sheldon Simon, featured contributions from 12 Asian and American specialists and concluded that there is "a strong Southeast Asian desire to sustain U.S. economic, political, and security interests as a means of externally balancing China's current dynamism" and that these regional dynamics are not likely to be seriously challenged by China's rise for the foreseeable future (up to 2015). Ian Storey's monograph, *The United States and ASEAN-China Relations*, published by the U.S. Army War College concluded that improved China-ASEAN relations have not resulted in lost U.S. influence notably because the ASEAN members are hedging by "keeping America engaged and facilitating a continued U.S. military presence" in Southeast Asia.

Articles by Donald Weatherbee and Nick Bisley in the edited volume *Strategic Asia 2007-2008* concluded that the rise of China and perceived challenges to U.S. leadership posed by Chinese-supported Asian multilateralism have not changed the underlying condition where "the United States remains predominant in the distribution of power" in Asia. *The Asia-Pacific Bulletin* on Oct. 26 assessed the results of an all-day meeting of specialists reviewing U.S. relations with ASEAN to conclude that China's trading ties and "soft power" in Southeast Asia are weaker than they might appear and that it is Japan rather than the U.S. that has something to fear from

China's rise in Southeast Asia. In this vein, a wrap-up of the Singapore summits by the *Straits Times* on Nov. 24 saw rising China facing a reinvigorated challenge from Prime Minister Yasuo Fukuda's Japan. Tokyo is taking steps China cannot by committing major funding and Japan's advanced technology to promote sustainable development in Southeast Asia. Japan also is promoting Mekong River development beneficial to down-river countries, and enhancing Japan's vision of a "comprehensive partnership" between Japan and ASEAN that is welcomed by Southeast Asian nations seeking tangible benefits from both China and Japan.

### **Looking Ahead**

2008 will provide trade, investment, and aid figures for the previous year that will allow for measurement of China's growing influence in Southeast Asia in these important economic areas relative to the influence of other powers, notably the U.S. and Japan. Top-level Chinese leaders likely will be preoccupied with the wide range of government appointment, tax, budget, and other decisions that will be announced at the 11<sup>th</sup> National People's Congress that meets in March. The Congress may provide more specific information on how China's recent emphasis on harmony will be reflected in policy and practice toward Southeast Asia.

## **Chronology of China-Southeast Asia Relations October-December 2007**

**Oct. 1, 2007:** China and Vietnam conduct a joint patrol on the shared fishing area in the Gulf of Tonkin as part of the two governments' agreement on fisheries cooperation and territorial demarcation in the Gulf.

**Oct. 2, 2007:** President Hu Jintao meets Philippine counterpart Gloria Macapagal- Arroyo in Beijing. Both leaders agree on an action plan to enhance bilateral economic ties through a five-year program for trade cooperation.

**Oct. 5, 2007:** China Southern Power Grid announces that it will begin construction of a 168-megawatt hydroelectric power plant in Laos' northern province of Bokeo. The project will cost \$340 million and become operational by November 2011. According to Laotian officials, Chinese foreign direct investment in infrastructure project in Laos amounted to \$1.1 billion between 2001 and 2007.

**Oct. 14, 2007:** According to Vietnamese media, party leaders in the Vietnam Communist Party's Politburo, the top decision-making body, will meet to decide on future foreign policy and discuss often testy ties with China. Hanoi is concerned with Beijing's assertive stance toward the disputed Spratly and Paracel Islands.

**Oct. 25, 2007:** Chinese Assistant Foreign Minister He Yafei meets UN envoy on Myanmar Ibrahim Gambari to discuss negotiations with Myanmar. Gambari notes Beijing's constructive contribution to mediation on the issue. Gambari also meets State Councilor Tang Jiaxuan and Vice Foreign Minister Wang Yi during his visit to Beijing.

**Oct. 28, 2007:** The fourth annual China-ASEAN trade and investment promotional exposition (CAEXPO) takes place in Nanning, Guangxi Autonomous Region. The two sides also hold their first ministerial meeting on food safety and product quality, alongside the China-ASEAN Business and Investment Summit.

**Nov. 2, 2007:** Chinese Communist Party (CCP) Central Committee Political Bureau member Liu Yunshan makes a two-day visit to Vientiane and meets Secretary General of the Lao People's Revolutionary Party and President of Laos Choummaly Saygnasone.

**Nov. 7, 2007:** Cambodia receives nine patrol boats from China to help combat piracy and other criminal operations on the high seas. The vessels and other facilities are worth \$60 million and are bought with a soft loan from China. This is the second time China has sent patrol boats to Cambodia. In 2005, it gave the Cambodian police six boats to combat smuggling.

**Nov. 7, 2007:** Wu Bangguo, chairman of the Standing Committee of the National People's Congress (NPC), meets Indonesian Defense Minister Juwono Sudarsono in Beijing. They sign an agreement to step up bilateral defense cooperation on the transfer of technology, exchange of military students, and the possibility of increased arms purchases.

**Nov. 12, 2007:** China and Indonesia launch a joint marine scientific expedition to study the ocean-atmospheric interactions that result in a climate mode known as the Indian Ocean Dipole (IOD). The three-year expedition is part of collaboration of Indonesia's Ministry of Marine Affairs and Fisheries and China's State Oceanic Administration.

**Nov. 16, 2007:** President Hu Jintao meets Singapore Minister Mentor Lee Kuan Yew in Beijing.

**Nov. 19, 2007:** Premier Wen Jiabao calls on the ruling military junta of Myanmar to speed up democratic reforms. He also reiterates Beijing's support for UN Special Envoy Gambari's mediation efforts between the junta and the opposition parties.

**Nov. 19, 2007:** The Chinese Ministry of Defense Peacekeeping Operations Office sponsors a China-ASEAN peacekeeping seminar in Beijing. Representatives from 10 member countries of the UN and ASEAN along with some 100 representatives from China attend the seminar. The main purpose is to explore ways to strengthen cooperation and exchanges between China and ASEAN within the UN peacekeeping regime.

**Nov. 19-21, 2007:** Premier Wen is in Singapore for an official visit to attend the 11th ASEAN plus Three Summit, the 11th China-ASEAN Summit, the Third East Asia Summit and the Eighth Meeting of Leaders of China, Japan and South Korea. Wen also meets leaders of Cambodia, Myanmar, the Philippines, Singapore, and Vietnam on the sidelines of the ASEAN meetings.

**Nov. 30, 2007:** Chinese Defense Minister Cao Gangchuan visits Thailand for the celebrations of the 80th birthday of Thai King Bhumibol Adulyadej on Dec. 5. He also meets Privy Council President Gen. Prem Tinsulanonda, Prime Minister Surayud Chulanont, and Defense Minister Boonrawd Somtat.

**Dec. 2, 2007:** Chinese Ambassador to Vietnam Hu Qianwen attends an international seminar on infrastructure development in the economic corridor between China and Vietnam. He proposes that both sides step up investments in roads and railways, ports and logistics services in the Beibu Gulf economic zones – which includes China’s Guangxi, Guangdong, Hainan, Hong Kong and Macao, and 10 coastal localities in Vietnam – to elevate bilateral cooperation on trade and investment.

**Dec. 3, 2007:** The Chinese delegation arrives in Bali to attend the UN Framework Convention on Climate Change. Su Wei, the deputy leader of the delegation, announces that China is willing to make commitments to limit emissions and that “we will do what we should and what we can do.” Su also criticized the West’s attempts to impose binding targets on developing countries like China.

**Dec. 6, 2007:** According to Thai government spokesperson Chaiya Yimwilai, China will consider Thailand’s request for nuclear technology transfer and road and railway links between the two countries through Laos and Vietnam.

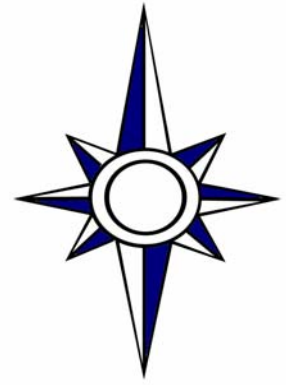
**Dec. 10, 2007:** Lao State President Choummali meets Chinese Foreign Minister Yang Jiechi in Vientiane. They agree to strengthen bilateral cooperation through more frequent inter-party and government departmental exchanges and joint infrastructure development projects under the Greater Mekong Subregion Economic Cooperation framework.

**Dec. 16, 2007:** Following similar anti-China demonstrations the previous week, hundreds of demonstrators gather in Hanoi and Ho Chi Minh City to protest China’s territorial claims over the Spratly and Paracel Islands in the South China Sea.

**Dec. 17, 2007:** Chinese Ambassador to Thailand Zhang Jiuhan and Thailand’s Culture Minister Khaisri Sriaroon sign a cultural exchange agreement to set up cultural centers in each country to promote people-to-people exchanges. With the agreement, Thailand will become the first foreign country to host a Chinese Cultural Center sponsored by Beijing as an official nonprofit institution aimed to promote bilateral exchange in culture, education, art, broadcasting, social science and other related areas.

**Dec. 20, 2007:** China releases an anti-trafficking plan. The plan, to be implemented from 2008 to 2012, focuses on illegal trafficking of women and children and would involve 28 government ministries and greater regional cooperation.

**Dec. 27, 2007:** It is reported that the Greater Mekong region, which includes Cambodia, China, Laos, Myanmar, Thailand, and Vietnam, will work with the Asian Development Bank and the Swedish government on a joint infrastructure development project for cross-border electricity supply and exchange among the Greater Mekong region that will be environmentally sustainable and help meet the growing demand for power supply in the developing economies.



**China-Taiwan Relations:  
Beijing Keeps Its Cool**

**David G. Brown**  
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At the 17<sup>th</sup> Party Congress in October, Hu Jintao authoritatively reiterated Beijing's desire for a peace agreement on the basis of the one China principle. Behind this positive public posture, Beijing remains deeply concerned about the referendum on joining the UN under the name "Taiwan" that Chen Shui-bian is relentlessly promoting. Yet Beijing has kept its rhetoric under control. It has pressed the U.S. to do more to stop the referendum and has worked with some success to mobilize international criticism of it. Washington has continued to make known to the public in Taiwan its reasons for opposing this referendum and, to underline the message, Washington has put Taiwan's purchase of more *F-16* fighter jets on hold. That Chen is pushing ahead with the referendum despite international opposition only confirms that his purpose is primarily election mobilization.

**17<sup>th</sup> Party Congress**

In his report to the Party Congress in October, Chairman Hu Jintao said that Taiwan independence forces were stepping up their activities but avoided threatening or dramatic language. Rather, he choose to make a "solemn appeal" for the two sides to discuss, on the basis of the one China principle, a formal end to hostilities and a peace agreement to construct a framework for the peaceful development of cross-Strait relations.

The White House welcomed Hu's proposal. The reaction in Taipei was mixed. President Chen rejected the one China principle and said that an agreement reached under it would be a surrender agreement. However, Hsieh Chang-ting responded by expressing interest in a peace arrangement provided it preserved Taiwan's dignity. Ma Ying-jeou also reacted positively suggesting talks based upon "one China, respective interpretations."

Despite Hu's positive tone, the PRC remains deeply concerned by Chen Shui-bian's promotion of a referendum on joining the UN under the name "Taiwan." Hu had told President Bush at APEC in September that the coming two years would be a dangerous period, and since then many Chinese officials have privately said the UN referendum threatened a crisis. Chinese concerns have been repeatedly conveyed through high-level U.S.-China contacts in Beijing and Washington with warnings that if the U.S. could not block passage of the referendum, Beijing would be forced to take some unspecified action. Some private Chinese commentators have said that adoption of the referendum would be a major incidence of Taiwan independence, implying the need to respond with force under the Anti-Secession Law.

Nevertheless, Beijing has controlled its public statements. Public expressions of concern have generally been limited to statements from the Taiwan Affairs Office (TAO) that mention the dangers but avoid threats. Conscious of its past mistakes, Beijing seems determined to avoid actions that would boost Democratic Progressive Party (DPP) prospects in the coming elections. In addition, the TAO has sought to generate some small but positive stories. For example, Beijing has indicated its willingness to resume exporting gravel to Taiwan and to permit films co-produced by Taiwan and mainland firms to be marketed in China – both steps sought by the private sector in Taiwan. Unfortunately, the good news of these stories was overshadowed by reports that Beijing had pressed the World Health Organization to send food safety notifications to Taiwan through Beijing and that Beijing had delayed for two weeks conveying a notification of corn contamination in Thailand.

### **U.S. and international views**

The U.S. government's opposition to the DPP's UN referendum had been explained authoritatively by Deputy Assistant Secretary Christensen in September. DPP spin masters in Taipei had sought to downplay differences with the U.S. over the referendum and to discount U.S. opposition as just the result of pressure from Beijing. Consequently, the Bush administration has reiterated its opposition in statements that have been well publicized and widely distributed in Taiwan. American Institute in Taiwan Director Stephen Young gave a press conference in Taipei, Christensen arranged a special briefing for the Taiwan press and AIT Chairman Ray Burghardt met the press at the end of his visit to Taipei in December. The consistent message has been that the UN referendum is "unwise, provocative, and risky." To underline its message, the U.S. has placed a hold on Taiwan's request to purchase 66 *F-16C/D* aircraft, which observers in Taipei have interpreted as a response to Chen's referendum.

Not content with this U.S. effort, Foreign Minister Yang Jiechi urged President Bush to have more senior U.S. officials voice U.S. opposition. In mid-December, TAO Vice Minister Sun Yafu visited Washington to press the U.S. to do more. Consequently, in her year-end press conference reviewing U.S. foreign policy, Secretary Rice reiterated U.S. opposition to unilateral actions by either side to change the status quo and specifically criticized the UN referendum as a "provocative" step.

Beijing has also been working to generate wider international opposition to Chen's referendum. Over the past two months, leaders from the EU, Britain, France, ASEAN, Singapore, Belarus, Russia and probably others have spoken out against the referendum. However, on a visit to China in late December, Prime Minister Fukuda Yasuo stopped short of opposing the referendum. Japan opposes Taiwan's membership in the UN, but Fukuda sees the referendum as a domestic issue that would only be a concern should it lead to a change in the status quo. Despite international opposition, Chen has repeatedly made clear that the referendum will proceed. The DPP has submitted far more than the required number of petition signatures, and there is no reason to expect that Chen will be deterred.

## **Diplomatic dimension**

The DPP's UN referendum has become a link in a vicious cycle of actions and reactions between Beijing and Taipei internationally. The more Taipei promotes its separate identity, the harder Beijing works to isolate Taipei internationally. Beijing's efforts to block Taipei have been cited by DPP leaders as justification for the UN referendum. Predictably, Taipei's allies that present its application for UN membership each year are particular targets for Beijing. In early December, Taiwan Foreign Minister Huang Chih-fang visited Central America to shore up relations partly in response to reports that Beijing was making a major push to woo Panama into switching diplomatic relations. Later in the month, the press in Malawi reported that President Mutharika had decided to recognize Beijing, possibly to win a multi-billion dollar mining contract. Taipei dispatched Deputy Foreign Minister Yang Tzu-pao to Malawi with promises of further agricultural cooperation. At his year-end press conference, Foreign Minister Huang said it was likely several of Taiwan's diplomatic allies would recognize Beijing during the 2008 election period.

## **Presidential campaign**

On Dec. 28, the Appeals Court in Taipei upheld Ma Ying-jeou's not guilty verdict in the special funds case, eliminating the uncertainty that had clouded his campaign. A guilty verdict would have made Ma ineligible to run for president. Though Beijing has carefully avoided any preferences, the course of Ma's appeal had been followed closely there as elsewhere.

The presidential campaign continues to illustrate differences in tactics and style between President Chen and DPP candidate Hsieh Chang-ting. As noted, their responses to Hu Jintao's peace agreement proposal reflected these differences. While Chen chose to reject it out of hand because of the one China premise, Hsieh's style was to appear positive by welcoming interest in talks on peace provided Taiwan's dignity was respected. The latter is a code word for Taiwan's sovereignty as Hsieh made clear during his recent visit to Japan when he was quoted as saying he would not accept one China as a pre-condition for talks.

The clearest differences between the two relate to cross-Strait economic and cultural ties. When Hsieh advocated easing the 40 percent ceiling on Taiwan firms' capital invested in the mainland, the next day Chen made clear that the ceiling would not be lifted so long as he is president. When Hsieh met Taiwan Semiconductor Manufacturing Company Chairman Morris Chang and spoke of easing restrictions on high tech investments in the mainland, Chen disparaged those comments as campaign rhetoric.

On the other hand, Chen and Hsieh can be seen as running a two-pronged campaign. Chen is focused on promoting the UN referendum as a means of mobilizing the DPP's deep green base, while Hsieh is expressing moderate views on cross-Strait issues to appeal to independent and light green voters. Chen is the fundamentalist cop; Hsieh the moderate cop. However, Hsieh does not deny his support for mainstream DPP positions. While not enthusiastic about the referendum, he supports it and has long advocated applying for UN membership as Taiwan. The differences are more of style and personality than substance.

## **Hong Kong ship visit episode**

On Nov. 23, Beijing abruptly cancelled the permission it had given earlier for the *USS Kitty Hawk* carrier battle group to make a Thanksgiving port call in Hong Kong. Several hours later as the ships were steaming away, Beijing just as abruptly notified the U.S. that the ships could come to Hong Kong after all, but it was too late to reverse their course. The refusal provoked a flood of speculation. Was this a sign of displeasure with the president's meeting with the Dalai Lama? Or about arms sales to Taiwan? The Defense Department had notified Congress some 10 days earlier of long-delayed plans to sell Taiwan equipment to upgrade its existing *PAC II Patriot* missiles. Beijing did not explain publicly what the message behind its denial was. Shortly thereafter, Foreign Minister Yang, in Washington for consultations, called on President Bush and described the episode as a misunderstanding, only to have Beijing state the next day that there was no misunderstanding. Just who in Beijing was making decisions was not entirely clear.

In time, most observers in Washington concluded that this was an ill conceived and poorly executed warning to the U.S. about arms sales to Taiwan. Foreign Minister Yang criticized arms sale in meeting Secretary Rice arguing *inter alia* that they conveyed mixed messages to Taipei about the extent of U.S. opposition to the UN referendum. Beijing is also seriously concerned by Taipei's desire to buy an additional 66 *F-16s*, though it understands that this sale will not occur so long as Chen is in office.

## **New PRC flight route in Taiwan Strait**

In early December, Beijing informed the International Civil Aviation Organization (ICAO) of its plan to establish a new over-water flight path along the mainland coast. This first ever PRC route over the Taiwan Strait is in the Shanghai Flight Identification Region (FIR) that includes airspace over the western side of the Taiwan Strait. This set off alarms in Taipei. Taipei said the route would pass at one point within 4.2 nautical miles of the mid point in the Strait, near Taipei's Air Defense Identification Zone (ADIZ), and would cut across the flight paths of planes flying from Taiwan to the offshore islands, Jinmen and Matsu, though presumably at very different altitudes. Press reports indicate that Beijing justified its request on the need for additional traffic from Shanghai to Hong Kong and Guangzhou during the Olympics. However, it also allows Beijing to assert a greater presence over the western half of the Strait in ways Taiwan sees as threatening. As Taiwan is blocked from membership in ICAO, Taipei has appealed to its friends to present its objections to Beijing's plans in that forum.

## **Cross-Strait trade**

Cross-Strait trade in the first nine months of 2007 reached \$74.1 billion, according to Taipei's Mainland Affairs Council (MAC). Taipei's exports to the mainland were \$53.6 billion, up 14.6 percent and accounted for 30 percent of Taiwan's worldwide exports. Statistics from Beijing Ministry of Commerce, which are always higher, put Taiwan's Jan.-Sept. 2007 exports to China at \$72.5 billion, up 13.7 percent. According to MAC statistics, Taiwan's imports from the mainland were \$20.5 billion up 13.3 percent. With Taipei's exports booming in recent months, export growth exceeded import growth, reversing the trend for the past couple of years.



Despite this steady and rapid growth of cross-Strait trade and the current boom in Taiwan's export orders from the mainland, economic circles in Taiwan have been expressing nervousness. Taiwan banks that provide financing to Taiwan invested enterprises (TIE) in the mainland have expressed concern that China's reduction of export subsidies is hurting the profitability of TIE exporters. There have also been reports of TIE concerns about China's new Labor Contract Law that will come into effect on Jan. 1, 2008. Like other firms in China, the TIEs are concerned that the law, which is designed to protect workers, will increase costs and affect profitability. Whether these factors will actually affect Taiwan's exports and TIE profits or are just corporate gripes remains to be seen.

### **Looking ahead**

The DPP's referendum will likely remain the focus of cross-Strait attention in the months ahead. As Chen is determined to proceed and more than the requisite number of signatures have been collected, there is no reason to expect that the referendum will be cancelled. Whether one threshold for the referendum's adoption – participation by half the eligible voters – will be achieved next March is the principal uncertainty with respect to the referendum. Until then, it appears that Beijing will remain focused on preventing its adoption. This will require Beijing to continue keeping its cool in public and continuing to pressure the U.S. to voice its own concerns. In this environment, it is not surprising that there have been no talks this quarter on charter flights, tourism or other cross-Strait functional issues and no talks are likely until after the presidential election next March.

### **China-Taiwan Chronology October-December 2007**

**Oct. 4, 2007:** KMT's Vincent Siew in Washington for consultations.

**Oct. 8, 2007:** ARATS sends SEF sympathy message over Typhoon Krosa.

**Oct. 10, 2007:** In National Day address, President Chen for first time does not use term "Republic of China."

**Oct. 11, 2007:** President Chen accepts chairmanship of DPP and announces that priority will be on passage of referendum on joining UN.

**Oct. 15, 2007:** Chinese Communist Party 17<sup>th</sup> Congress opens; Chairman Hu Jintao's report calls for peace agreement with Taiwan.

**Oct. 15, 2007:** President Chen criticizes Hu's one China premise; Hsieh Chang-ting expresses interest in peace agreement; Ma Ying-jeou proposes talks on basis of "one China, different interpretations."

**Oct. 16, 2007:** 13<sup>th</sup> cross-Strait financial seminar opens in Taipei with large PRC representation.

**Oct. 17, 2007:** Legislative Yuan committees cut *Hsiungfeng IIE* missile budget by one-third.

**Oct. 18, 2007:** Hsieh Chang-ting supports permitting PRC investments in Taiwan.

**Oct. 21, 2007:** President Chen says passage of UN referendum will force U.S. to review its one China policy.

**Oct. 22, 2007** *Liberty Times* reports WHO sent a food safety notification to Taiwan via China.

**Oct. 23, 2007:** Taipei criticizes China for delaying two weeks in notifying Taiwan about corn contamination in Thailand; calls on WHO to notify Taiwan directly.

**Oct 24, 2007:** Executive Yuan eases restrictions on investments in Chinese stock markets.

**Oct. 26, 2007:** Vice Minister Ko Cheng-heng in U.S. for defense review talks.

**Oct. 29, 2007:** President Chen says vote for UN referendum is a vote against unification.

**Nov. 1, 2007:** Ma Ying-jeou denies report that KMT has scrapped 1992 consensus.

**Nov. 2, 2007:** TAO Vice Minister Sun Yafu thanks ASEAN for firm support on Taiwan issues.

**Nov. 5, 2007:** Secretary Gates visits Beijing; Taiwan a major issue in talks.

**Nov. 5, 2007:** Hsieh Chang-ting suggests easing 40 percent cap on funds invested in China.

**Nov. 6, 2007:** President Chen says 40 percent cap will not be eased while he is president.

**Nov. 7, 2007:** TAO spokesman says UN referendum is a step toward independence.

**Nov. 8, 2007:** U.S. House members propose resolution supporting Taiwan's UN bid.

**Nov. 9, 2007:** AIT Director Young's press conference.

**Nov. 9, 2007:** Hsieh Chang-ting meets Morris Chang; talks of easing IT restrictions.

**Nov. 12, 2007:** UMC Chairman Robert Tsao runs ad calling for peace accord.

**Nov. 12, 2007:** Delegation of PRC real estate firms visits Taiwan.

**Nov. 13, 2007:** DOD notifies Congress regarding sale of upgraded *Patriot II* to Taiwan.

**Nov. 14, 2007:** TAO confirms that letters with "UN for Taiwan" stamp cancellation are being returned to Taiwan.

**Nov. 15, 2007:** Taiwan Post says "UN for Taiwan" cancellations will be voluntary.

**Dec. 16, 2007:** CEC adopts voting procedures for LY election and referendum.

**Nov. 17, 2007:** TAO Vice Minister Ye in Washington DC for National Association for China's Peaceful Unification (NACPU) meeting.

**Nov. 19, 2007:** Taiwan places hold on appointment of PRC judge to WTO appellate court.

**Nov. 21, 2007:** Ma Ying-jeou begins three-day visit to Japan.

**Nov. 21, 2007:** *USS Kitty Hawk* is denied entry into Hong Kong port.

**Nov. 23, 2007:** *Kitty Hawk* goes through Taiwan Strait after being denied port call in Hong Kong.

**Nov. 26, 2007:** President Sarkozy in Beijing expresses opposition to UN referendum.

**Nov. 26, 2007:** Foreign Minister Yang Meets Secretary Rice in Washington.

**Nov. 26, 2007:** Taipei drops its opposition to PRC judge at WTO.

**Nov. 28, 2007:** Defense Minister Lee Tien-yu says Taiwan could not prevent invasion without U.S. help.

**Nov. 28, 2007:** EU-China summit in Beijing, EU opposes Taiwan referendum on UN.

**Dec. 1, 2007:** Foreign Minister Komura visits Beijing and says Japan does not support Taiwan joining UN.

**Dec. 2, 2007:** MAC Chairman Chen accuses Beijing of pressuring Taiwan businessmen to oppose UN referendum.

**Dec. 3, 2007:** PLA delegation in Washington DC for consultations.

**Dec. 6, 2007:** Presidents Bush and Hu hold phone conversation.

**Dec. 6, 2007:** DAS Christensen's Press conference for Taiwan Press and says UN referendum is "unwise, provocative, and risky."

**Dec. 6, 2007:** Taipei expresses deep concern over PRC plans to establish a new flight route in western half of Taiwan Strait.

**Dec. 10, 2007:** AIT Chairman Burghardt in Taipei for consultations.

**Dec. 16, 2007:** Hsieh Chang-ting begins four-day Japan visit.

**Dec. 17, 2007:** Moscow says UN referendum would destabilize area.

**Dec. 18, 2007:** TAO Vice Minister Sun Yafu in Washington DC for consultations.

**Dec. 18, 2007:** TAO Minister Chen Yunlin pens article in *Qiushi* attacking referendum.

**Dec. 18, 2007:** Hsieh Chang-ting in Tokyo: “I won’t accept one China.”

**Dec. 20, 2007:** LY approves 2008 budget including funds for *Patriot PAC III*.

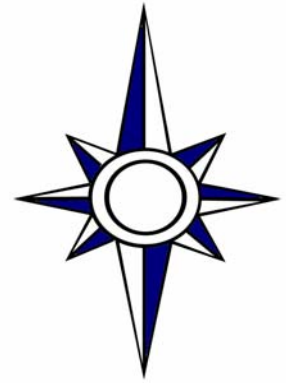
**Dec. 21, 2007** Secretary Rice reiterates U.S. opposition to referendum as provocative and Secretary Gates says U.S. will provide arms in keeping with Taiwan Relations Act.

**Dec. 24, 2007:** Singapore expresses opposition to UN referendum.

**Dec. 28, 2007:** Appeals Court upholds Ma Ying-jeou’s not guilty verdict.

**Dec. 28, 2007:** Japanese PM Fukuda visits Beijing; expresses concern about UN referendum.

**Dec. 29, 2007:** National People’s Congress Standing Committee decision on Hong Kong nixes universal suffrage in 2012.



North Korea-South Korea Relations:  
**Sunshine Deepened, only to Dim?**

Aidan Foster-Carter  
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The last quarter of 2007 was significant for inter-Korean relations in two distinct, perhaps even opposite, ways. It began with what is only the second North-South summit ever held, when ROK President Roh Moo-hyun met DPRK leader Kim Jong-il in Pyongyang. No mere symbolic one-off, as many feared, the summit produced a raft of follow-up meetings: between the two sides' premiers and defense ministers, plus numerous old and new committees and sub-committees dealing with a wide range of specific fields.

Better yet, while not without a political agenda, this many-sided cooperation mostly looked pragmatic and business-like. The result was the most intense and densest interaction so far seen between the two Korean states. Barely a day passed without them meeting somewhere, to deal with one topic or another. In a 62-year history of separation, punctuated in recent decades by several false starts, it appeared that an era of regular, sustained and largely practical intercourse between Seoul and Pyongyang had begun, at long last and irreversibly.

In our judgment that remains the case. Yet as of early 2008 two shadows, potentially dark clouds, threaten to dim this institutionalization of what Kim Dae-jung, its "onlie begetter" a decade ago, famously christened the South's "Sunshine" policy of engaging the North.

On Dec. 19 South Koreans went to the polls to choose their president for the next five years, through February 2013. The continuity candidate was Chung Dong-young of the pro-government center-left United New Democratic Party (UNDP), who as unification minister met Kim Jong-il in 2005 and is closely identified with "Sunshine." The Aesopian metaphor has stuck, even though Roh blandly rebranded this as the "policy for peace and prosperity."

But the voters rejected Chung. By the widest margin ever, they returned the conservative formerly ruling Grand National Party (GNP) to power, after a decade in the wilderness. More specifically they endorsed Lee Myung-bak, a former Hyundai CEO and ex-mayor of Seoul, nicknamed "bulldozer" for his can-do image. Lee has vowed to review all the Roh government's recent deals with the North, to demand more reciprocity from Kim Jong-il, and to link aid and other progress to Pyongyang's nuclear compliance – or lack of it – in the ongoing Six-Party Talks (SPT), involving the two Koreas, the U.S., China, Japan, and Russia.

In fact, other things being equal, the pragmatic Lee – no old cold warrior, more center than right – might find little to quarrel with in his predecessor's raft of recent agreements with the North,

most of which look businesslike and mutually beneficial. But linkage to the SPT is more problematic at this point. The nuclear talks, which made unprecedented progress in 2007 with two landmark agreements and the closure of the DPRK's Yongbyon reactor site, have hit a bump. Pyongyang's failure to fulfill its pledge to make a full declaration of all its nuclear activities by the year-end presages problems in 2008. If Kim Jong-il digs his heels in, this will create a dilemma for Lee, who despite being a new broom may not want to lose the momentum recently gained in North-South ties.

The ROK election was fought mainly on domestic issues; it was not primarily a referendum on sunshine. Polls suggest that most South Koreans support engagement with the North, as indeed does Lee Myung-bak. The tricky question now is on what terms, and how concretely to take this forward should the DPRK remain defiant on the nuclear front.

For that matter, the North too must decide what to make of Lee. Having long excoriated the GNP as traitors and pro-U.S. flunkeys, Northern media have been oddly silent since Lee was elected. Instead they reserved such venom for Lee Hoi-chang, the GNP's losing candidate in 1997 and 2002 who ran this time as an independent conservative, accusing his namesake of being soft on North Korea and generally (much as Margaret Thatcher and her acolytes used to damn more moderate Tories as "wets"). Lee HC's 15 percent of the vote, while way behind Lee MB's 49 percent, is a salutary reminder that the old Cold War hard right, which long ruled in Seoul under military dictatorships, is by no means extinct. Or put another way, combining the two Lees means that nearly two-thirds (64 percent) of electors voted right of center, while Chung Dong-young garnered just 26 percent for the center-left.

Hence 2008 could go either way. The foundations of unprecedented practical cooperation between the two Koreas may be built on – or, as so often before, be left unfinished or marking time owing to a change in the peninsula's volatile political weather.

### **Substantive summit**

Although the North-South summit on Oct. 2-4 kicked off this past quarter, we covered it in the last issue of *Comparative Connections*. Subsequent events bear out our verdict that, despite low prior expectations of a meeting whose prime purpose was patently politically partisan – to save the election for the UNDP; it failed – nonetheless this second inter-Korean summit meeting proved broadly positive, indeed substantive. President Roh Moo-hyun comported himself with dignity – not always his hallmark – and skill. He did not let the side down, nor was he taken advantage of. Rather, he signed a ground-breaking and wide-ranging agreement, full of potential long-term mutual benefit.

The proof of all puddings, but especially inter-Korean ones, is in the eating. Encouragingly, the summit was not just a one-off, with fine words left washed up as the tide turned. Rather, further meetings to begin implementing concretely what the two leaders had agreed in outline promptly followed it up. Although this commendable haste was perhaps connected to South Korea's imminent presidential election, the various areas of cooperation that have now begun had, and have, intrinsic value in and of themselves.

## **Premiers meet in Seoul**

Thus the past quarter – specifically, November – saw two further high-level inter-Korean meetings besides and after the summit, albeit one markedly more successful than the other. In mid-November (14-16), North Korea's fairly new premier, Kim Yong-il (no relation), visited Seoul. A former transport minister, Kim was an unknown quantity when in April he replaced Pak Pong-ju, a known reformer, whose sacking appeared ominous. But Kim seems cast in similar mould; he came to Seoul fresh, or possibly fatigued, from a clearly business-oriented visit to Indochina and Malaysia.

This was the first meeting of the two Koreas' prime ministers in 15 years. Back in the early 1990s, during 1990-92, there were eight such encounters, alternating between Pyongyang and Seoul. At the time these were the highest-level inter-Korean meetings ever held, at an historic moment of flux when Kim Il-sung reacted to the shock of the USSR's recognition of the ROK by himself reaching out to his foes: not only South Korea, but also Japan in the person of Shin Kanemaru, then a leading kingmaker in the ruling Liberal Democratic Party.

In late 1991 the two Koreas signed an unprecedented and wide-ranging Agreement on Reconciliation, Non-Aggression and Exchanges and Cooperation, as well as a separate accord on mutual denuclearization. Neither was implemented, since growing concern over the DPRK's nuclear activities clouded détente – eventually precipitating the first North Korean nuclear crisis in mid-1994. The 1991 accord was thus stillborn: a precedent that all concerned were well aware of when they finally met again this November.

Besides the passing of a decade and a half, the difference this time is that after the October summit the two premiers were now meeting not as principals, but in their more familiar role as agents and executors of policies determined from above. Kim and his Southern counterpart Han Duck-soo, a fellow technocrat, certainly fulfilled that function in full measure. The accord they signed was unprecedented in its dense specificity: 2,500 words, 8 chapters, 45 clauses, and (crucially) over 20 deadlines to meet again on specific aspects. (The full text can be found on the MOU's website at [http://unikorea.go.kr/english/EPA/EPA0101R.jsp?main\\_uid=2201](http://unikorea.go.kr/english/EPA/EPA0101R.jsp?main_uid=2201)).

On arrival, Kim Yong-il remarked that “no matter how good an agreement is, it ends up an empty piece of paper unless carried out.” That was a bit rich. The side which drags its feet on implementation is the North, as in having the South spend half a billion dollars to relink inter-Korean railways, but then refusing to let them be used for two years. Likewise, much of the agenda for November's meeting – as for the summit that preceded it – involved matters notionally or in outline agreed up to several years before, but never put into practice. Pyongyang's recent speedier attitude is laudable; let us just hope it lasts.

## **Freight for the future**

Take trains, as indeed one now can – if not very far. The most eye-catching and most hyped specific outcome of the summit and premiers' talks was the start, on Dec. 11, of what was billed as the first regular North-South rail freight service since the border was sealed after the 1950-53 Korean War. As at the first test runs of the reconnected cross-border railway lines in May,

Southern spokesmen waxed eloquent about an historic moment, suturing the Korean nation's sundered sinews, and so forth.

There was both more and less to this than meets the eye. The timing, barely a week before the ROK presidential election, speaks for itself. The distance is minuscule, indeed even less than had been expected. The new service was meant to connect Munsan in the South to Bongdong in the North, 20 km (12 miles) away. The latter serves the Kaesong Industrial Complex (KIC), where an ever-increasing number of Southern firms and Northern workers – about 57 and 13,000 respectively, at the last count – manufacture goods for export.

But in fact the train runs only as far as Panmun: the first station inside the DPRK, 2 km from the KIC. Bongdong station is said to have no freight loading facilities yet; it will take 2-3 years to build these. Both claims are bizarre; one smells a rat. How could this station have been built without such equipment? And how long does it take to install a few cranes?

The likelier truth is a rearguard action by those in Pyongyang who are fighting to limit such enemy intrusions. The Korean People's Army (KPA) has much to lose the more its long-guarded front line gradually becomes a front door. So the new service is largely symbolic. Moreover, apart from the first day, this train – one trip daily on weekdays in each direction – has often been running empty. Its capacity is far greater than the KIC's present needs, although the zone is slated to expand vastly. For now, firms there find it more convenient to carry on trucking their goods by road to and from Seoul as they had done hitherto.

### **Potemkin project?**

An empty train, going nowhere much, risks being criticized as a Potemkin project: all show and no substance. Yet Sunshine's defenders deny this, and they are right. For the South, this is a foot in the door. The real prize is to start rebuilding the North's decrepit infrastructure, and with any luck that will start later this year. For the encouraging new plethora of North-South committees and sub-committees includes forthcoming talks on jointly upgrading the road to Pyongyang, and the railway all the way to Sinuiju on the Chinese border. These meetings are scheduled for February and January respectively.

Both tasks will be long, and neither will come cheap. But for once a rather overused Korean proverb, *sijaki banida* – the first step is half the journey – is appropriate. Slowly but surely, not only the reunification of the Korean Peninsula's transport arteries, but the reintegration of a wider Northeast Asian regional infrastructure, are now under way. Of course, actual progress is subject to the vagaries of politics. It remains to be seen whether either a change of government in Seoul, or nuclear problems in the SPT, slow down this new process.

### **Joint shipbuilding: for real?**

Besides trains, several other projects were agreed. Two joint shipyards will be built, one on each coast at Nampo and Anbyon, starting in 2008. The former is mainly for repairs, while the latter will make hull blocks. In principle this should help South Korea's shipbuilding industry, the global number one, fend off rising competition from China. Yet at the turn of the year, in the



usual spate of articles in the Seoul press about sectoral prospects, none of those focusing on shipbuilding thought this Northern connection worth a mention. For now at least, North Korea and real commerce seem to be two separate compartments in Seoul.

Significantly, the lead ROK company for Anbyon, which may invest up to \$150 million, is Daewoo Shipbuilding & Marine Engineering (SME), the world's third largest shipbuilder, in effect state-controlled since the parent Daewoo group's 1999 bankruptcy. But the firmly private Samsung Heavy Industries, the global number two, later joined Daewoo SME and others on a survey trip to the North in mid-December. Organized by the commerce industry and energy ministry (MOCIE), this 37-strong group toured Northern shipyards and other industrial facilities. Such a follow-up visit suggests serious intent. In January, however, it appeared that shipbuilding was among the joint projects that incoming President Lee Myung-bak may reconsider.

### **Mining: hands off, China**

Also noteworthy are plans to jointly exploit North Korea's abundant mineral resources. The (South) Korea Chamber of Commerce and Industry (KCCI) reckons these are worth \$2.4 trillion, 30 times more than the South's meager endowment. The worry in Seoul is that the rights to many of these are being sold off to China – for a song. The conservative daily *Chosun Ilbo* has complained that North Korea risks becoming a fourth province of northeast China (Manchuria of old); so commerce becomes intertwined with geopolitics.

For that reason Lee Myung-bak may be loath to pull back here, nukes notwithstanding. The more so, as Pyongyang has begun to deliver. In December, 500 tons of Northern zinc worth \$1.2 million arrived: the first repayment under an earlier deal, where the South is providing raw materials worth \$80 million to upgrade the North's decrepit light industry in such basic areas as clothing, shoes, and soap, in exchange for Northern zinc and magnesite. Earlier in late November, the first batch of 200 tons of graphite from a joint venture mine close to the DMZ arrived: the long way round by boat to Incheon, rather than directly across the border.

### **Kaesong to expand**

Elsewhere, the Kaesong industrial complex (KIC), whose cumulative output so far is worth just \$200 million over several years, is set to expand greatly after the completion of its first phase on Oct. 16. At a meeting of generals in December, after much prodding from Seoul, the North finally agreed to ease red tape in the zone and let South Korean there use the internet and (possibly) mobile phones, a major security concession, as both are banned elsewhere in the DPRK. Though late starting, the precedent and model here is Shenzhen, China's now thriving special zone that abuts Hong Kong.

### **Hyundai monopolizes tourism**

Tourism too is set to grow. Nearby Kaesong city, an ancient capital, opened from Dec. 5 to Southern tourists for day trips. From next May direct flights will link Seoul to Mt. Paekdu: the peninsula's highest peak on the border with China, sacred in myth as Koreans' legendary

birthplace (and claimed just as mythically for Kim Jong-il). 2009 may also see Southern tourism extended to Pyongyang, after some false starts.

Hyundai Asan, which will run all these ventures on top of its now decade-old Mt. Kumgang resort, is evidently back in the DPRK's good books. On Nov. 3 its chairperson Hyun Jeong-eun signed a new tourism agreement in Pyongyang; the previous day she was Kim Jong-il's dinner guest. Things have not always been so smooth. At one point the Kaesong tours were offered to a rival, Lotte, and only last January KCNA fulminated against the "high fliers and tricksters of Hyundai Asan who stoop to any infamy to meet their business interests." Despite Hyundai's pioneering role and travails, not everyone in Seoul thinks it should have a monopoly of Northern tourism. Rival travel firms have complained, and threaten to sue.

### **A multitude of meetings**

Other planned cooperation includes agriculture (especially seeds), pharmaceuticals, and reforestation. Space forbids a full account of everything agreed at the premiers' meeting, but just to list the gist conveys the flavor and scale; see boxes. To run all this activity, the pre-existing joint economic committee, now upgraded to deputy premier level, held its first meeting in Seoul Dec. 4-6. This too went well, fine-tuning details. The two premiers will meet regularly as well, twice a year, to oversee the whole process.

To reiterate: The two Korean states have never set up, let alone carried out, any program of cooperation remotely close to this scale before. Two aspects are especially encouraging. First, unlike some inter-Korean activities that were merely symbolic or arguably negative in a wider context – emotional joint fist-shaking against wicked Japan, for instance – what is now planned is mostly practical, win-win business cooperation.

Second, for the most part these are not just vague plans or pious hopes, but concrete dates in diaries. Laying down schedules is the best hope that all concerned mean to deliver. Indeed, so far as one can judge – for such is the new density of activity that not all of it gets reported, even on MOU's website. As of mid-January most of these planned meetings have indeed taken place on schedule; see the Chronology, below.

### **Box 1: New inter-Korean structures**

- > Premiers to meet every 6 months; next meeting by June 2008 in Pyongyang
- > Joint Committee for Inter-Korean Economic Cooperation (JCIKEC), upgraded to vice-minister
- > Committee to Promote Special Peace and Cooperation Zone in the West Sea (CPSPCZWS)
- > Proposed Haeju Special Economic Zone
- > Two subcommittees for roads and railways under the JCIKEC
- > Subcommittee for the Kaesong Industrial Complex (KIC) under the JCIKEC
- > Subcommittees under the JCIKEC for minerals, agriculture, public health, fishery and environmental protection
- > Committee to Promote Inter-Korean Social and Cultural Cooperation (CPIKSCC)
- > Both governments to actively support inter-parliamentarian talks [no more heard on this]

## **Box 2 Inter-Korean diary dates agreed**

### November 2007:

28-30 Nov.: 9th round of inter-Korean Red Cross talks, Mt. Kumgang  
Working contacts on repair of Kaesong-Pyongyang highway and Kaesong-Sinuiju railway

### December 2007:

#### *Specific dates:*

4-6 Dec.: First meeting of the JCIKEC, in Seoul  
7 Dec.: Opening of each sides's offices at the Mt. Kumgang family reunion center [postponed]  
11 Dec.: Daily cross-border rail freight service begins from Munsan, ROK to Bongdong, DPRK, serving the Kaesong IC [This only goes as far as Panmun.]

#### *No specific date set:*

- > Joint fishing subcommittee
- > CPSPCZWS, in Kaesong
- > Subcommittee for shipbuilding and maritime transport under the JCIKEC, in Pusan
- > Second on-site survey of Anbyon and Nampo for shipbuilding
- > Geological survey for the second-stage development of the Kaesong Industrial Complex
- > First meeting of the Joint Committee for Inter-Korean Railroad Operation in Kaesong
- > Working level contacts to expedite Kaesong IC
- > Third on-site mining survey at Tanchon and elsewhere
- > Working meeting for opening direct Seoul - Mt. Paektu tourist flights, in Kaesong
- > Working contact on joint cheering squad to go by rail from Seoul to the Beijing Olympics
- > Working contact on meteorological cooperation

### By end-2007:

- > Working level contacts and on-site survey for Haeju Special Economic Zone and port
- > Initiate agricultural cooperation, including building seed production and processing facilities and genetic resources preservation facility

### First half of 2008:

- > Joint fishing to start
- > A ship block plant to be built at Anbyon, DPRK
- > Specific mining plans to be set
- > CPIKSCC to meet
- > Sample video messages to be exchanged between separated families

15 June 2008: Joint event in Seoul to mark the first inter-Korean summit in June 2000

### Within 2008:

- > Haeju special economic zone
- > Begin excavation of sand and gravel at the Han River estuary
- > Joint cheering squad to travel by train from Seoul to the Beijing Olympics

- > Second-stage construction of Kaesong IC
- > Communications centre (10,000 lines) at Kaesong IC

### **Not plain sailing**

Naturally, not everything has run smoothly. The ambitious centerpiece of the summit and premiers' plans is a proposed peace zone centered on the southwestern DPRK port city of Haeju. While on land this would in effect extend substantially the existing enclave that is the Kaesong zone, at sea its implications are more radical: a joint fishing area, in border waters in the West (Yellow) Sea that saw fatal firefights in 1999 and 2002, plus joint excavation of sand and gravel from the Han River estuary.

The problem here is that North Korea never officially recognized the Northern Limit Line (NLL), the *de facto* post-war marine border. Whereas on land the Military Demarcation Line (MDL) and Demilitarized Zone (DMZ) are formally part of the 1953 Armistice, the NLL was imposed unilaterally by the UN side when agreement proved impossible. For decades Pyongyang did not in practice challenge this, but in recent years it has begun to agitate on the issue. The North wants a line further south, but this would leave four ROK-held islands in Northern waters – which Seoul cannot countenance.

Several rounds of general-level talks at the truce village of Panmunjom have foundered on this reef. The same happened on Nov. 27-29, when the two Koreas' defense ministers met in Pyongyang. This was only the second such meeting ever; the first was in 2000, soon after the first North-South summit. While a peace zone sounds fine in principle, the North demanded that the joint fishing area be drawn entirely south of the NLL; whereas the South, more reasonably, suggested it should comprise an equal area on both sides of the line. A subsequent meeting of generals on Dec. 12-14 ran aground on the same rock.

Perhaps internal politics in Pyongyang, with the KPA pressing for a hard line, explains why the North persists with a position it must know no Southern government can accept. While some peaceniks in MOU might have compromised on the fishing zone, facing an election Roh Moo-hyun could not afford to be accused of surrendering national sovereignty. Even if he were tempted, Defense Minister Kim Jang-soo – a retired senior general, as is the norm in both Koreas – made it clear he would not yield on the NLL.

But encouragingly, this did not hold up progress elsewhere. A seven-point agreement was reached on other matters, including security guarantees for cross border economic projects. A new joint military committee, headed by deputy defense ministers, will look at ways to reduce tensions. Ministerial talks will be institutionalized, with another round to be held in 2008. All this is positive, especially since Pyongyang had long been reluctant to talk with Seoul in this area – regarding the U.S. as its sole dialogue partner for military matters.

### **No security?**

Relatedly, some in Seoul criticized the premiers' meeting for its silence on security matters, be it the nuclear issue, or a peace treaty to replace the Armistice and formally conclude the Korean

War. Yet this rests on a misunderstanding. In North Korea the remit of the premier and Cabinet are purely economic. Military matters come under a higher-ranking body: the National Defense Commission (NDC), chaired by Kim Jong-il. Hence Kim Yong-il's party comprised only civilian functionaries in fields such as transport, the environment, and health.

### **Family reunions remain limited**

While the main focus has shifted toward business, other planned North-South projects include deepening cooperation in education, culture, sport, science and technology, family reunions, and more. On reunions, the two sides' Red Crosses met for the ninth time at Mt. Kumgang on Nov. 28-30. They made some progress, but it remains to be seen if the pace and scale of reunions – poignantly few and brief so far – will expand once a newly built reunion center opens at Kumgang. Another challenge is how to get past the North's flat denial that it still holds about a thousand South Koreans: over 500 old POWs from the 1950-53 Korean War, and over 400 (mainly fishermen) abducted since. Neither will be easy, and rather than fight the South has preferred to leave it be and let other areas of cooperation grow. The next government in Seoul may have different priorities.

### **Rights and wrongs**

North Korea's domestic human rights situation is an even tougher challenge for all. On Nov. 20, for the fifth consecutive year, the UN General Assembly Committee on Human Rights passed a resolution condemning the DPRK's "very serious" human rights violations, including torture and public executions plus "all-pervasive and severe restrictions on the freedoms of thought, conscience, religion, opinion and expression, peaceful assembly and association." Sponsored by the EU and Japan, the vote was 97-23 with 60 abstentions. The latter included South Korea, which had abstained similarly three times in 2003-05 but voted aye last year, in a switch seen as linked to Ban Ki-moon's election as secretary general.

Seoul's reversion to abstention this year was reported to have been personally ordered by President Roh, "in consideration of inter-Korean relations." It was denounced by local human rights activists, a tiny band, who cut little ice in Seoul even over the ROK's own abductees held in the North for decades – in stark contrast to the priorities in Tokyo.

### **North's spy chief visits – and vice versa**

As South Korea's defense minister flew home on Nov. 29, a surprise visitor to Seoul the same day was Kim Yang-gon, whose job as director of the United Front Department in the DPRK's ruling Workers Party of Korea (WPK) makes him North Korea's *de facto* head of intelligence. Kim was the only Northern official present when Kim Jong-il met at the summit with Roh Moo-hyun, who by contrast had several ministers with him. This unannounced three-day trip was said to be to discuss implementing the summit agreement, but some in Seoul suspected a political agenda. Kim Yang-gon's team included his deputy director, Choi Seung-chol, said to be a leading policymaker on unification issues who played a key role in forging the summit accords. Their itinerary included Daewoo's shipyard on Koje Island, infamous during the Korean War for a huge camp housing – and largely run by – North Korean and Chinese POWs. One wonders if

the visitors appreciated the irony, and also why exactly an intelligence chief needs to see a shipyard. A third arrival in Seoul the very same day was Christopher Hill; again, one is curious as to who met whom.

If Kim's sudden visit was a bit rum, its quasi-reciprocation weeks later caused controversy. On Jan. 10 the *JoongAng Ilbo* – a leading Seoul daily, with ties to Samsung – revealed that on Dec. 18, one day before the presidential election, South Korea's intelligence chief Kim Man-bok, head of the National Intelligence Service (NIS), secretly visited Pyongyang. In a leaked transcript (for which Lee Myung-bak's transition team are being blamed, since they asked the NIS for a copy), Kim told his Northern counterpart and namesake over lunch that Lee was almost certain to win – but not to worry, since “Lee could make a strong case for the engagement policy ... to conservatives in the South [and] one cannot even rule out the possibility that he might seek a bolder North Korea policy.” While such a trip can perhaps be justified, press comment in Seoul accused Kim MB of sycophancy to his new master.

### **All change?**

While this flurry of meetings was exciting and novel, by mid-January it was starting to feel so last year already. In the ROK's lengthy two-month limbo between Election Day and the actual inauguration of the next president, Lee Myung-bak's transition team seized the initiative with a storm of activity and plans on every front, not least North Korea policy. Talk is cheap, and some of it is contradictory. As already indicated, Lee is a pragmatist, not an ideologue. As such he will face difficult dilemmas in striking a balance between various priorities. For instance, if he really attempts to raise North Korean human rights issues, as he has said, he will get short shrift – which is no reason not to try.

Several straws in the wind are interesting. Lee's team has indicated that future assistance to the North will be linked to its nuclear cooperation – but humanitarian aid, like the usual annual supply of rice and fertilizer, will be exempted. That is a reversal of Roh Moo-hyun's priorities. Not even Pyongyang's Oct. 2006 nuclear test moved Seoul to suspend either the Kaesong or Kungang projects, which carried on as normal. Two reasons were offered for this: one specious – that these were private-sector ventures – and the more arguable ground of long-term national interest. Instead, since it had to show displeasure somehow, the South withheld rice aid – albeit partially relenting after the North's severe floods last summer. As a result the Northern poor went hungrier, while for the elite it was business as usual. Lee surely has this the right way round; yet he too may feel the pull of *raison d'état*, especially as regards competing with Beijing for leverage in Pyongyang.

At home, Lee's people have put the wind up the Unification Ministry by suggesting that it should be abolished, no less. This would please many professional diplomats in the foreign ministry (MOFAT), who reckon that during the past five years they lost control of North Korea policy to those they sneeringly dubbed the ‘Taliban’: ideologues and amateurs, in MOU and the Blue House. While things were never really quite that simple, there is no denying that *Nordpolitik* needs to be better coordinated in future, both with Seoul's overall foreign policy, and that of its allies as well as North Korea's other interlocutors in the SPT.

South Korea may claim a special relationship with the North on many levels, from blood to law. (Even after a decade of Sunshine, the ROK and DPRK still each claims to be the only legitimate state on the peninsula.) Yet this is no excuse for a pollyanna sentimentality that evoked no genuine echo from a cynically hard-nosed Pyongyang, but only risked obscuring clear-eyed focus in Seoul on the national interest in a pinkish fog and froth – while adding insult to injury by dismissing contrary views as mere reactionary Cold War ideology. Such callow self-righteousness – or self-lefteousness – was the soft and stupid side of Sunshine (though by no means the whole of it). Such attitudes will be neither mourned nor missed.

What will be harder, but fascinating, is for Lee Myung-bak to decide how to play all this and balance competing pulls. Keen on business cooperation, and with his own ideas about how to raise North Korea's national income, he will not want to dump all Roh's new deals – though he may well tweak some of them. The key question is how far he will really take nuclear conditionality – and how Pyongyang will react to him. The former may fray; while on the latter, as per his nukes, Kim Jong-il will probably keep us all sweating and guessing. What else is new?

### **Chronology of North Korea-South Korea Relations October-December 2007**

**Oct. 2, 2007:** Roh and his 300-strong delegation drive to Pyongyang. He is greeted in Pyongyang by Kim Yong-nam, the DPRK titular head of state, and later by an unsmiling Kim Jong-il. Roh holds talks with Kim Yong-nam.

**Oct. 3, 2007:** Roh holds summit talks with a now more cordial Kim Jong-il, who asks him to stay an extra day; Roh declines. The Dear Leader does not attend a banquet hosted by Roh, nor accompany him to the *Arirang* mass games. ROK parliamentarians, industrialists, cultural figures, scientists, journalists, and others hold talks with their DPRK counterparts.

**Oct. 3, 2007:** A new Six-Party Talks (SPT) agreement is announced in Beijing. The DPRK agrees both to disable Yongbyon and declare all its nuclear facilities by the end of the year.

**Oct. 3, 2007:** *KCNA* reports that 10 Southern NGOs denounced the ROK Information and Communications Ministry for “anti-reunification acts” in demanding the deletion of some internet articles as violating the National Security Law.

**Oct. 4, 2007:** Roh and Kim sign eight-point “Declaration for Development of North-South Relations and Peace and Prosperity.” Roh returns to Seoul via Nampo, where he visits the West Sea Barrage and Pyeonghwa Motors factory and the Kaesong industrial zone (*KCNA* omits to mention the latter.)

**Oct. 5, 2007:** ROK Minister of Finance and Economy Kwon O-kyu says that Kim Jong-il “expressed keen interest in the South's oil field and gas exploration projects.”

**Oct. 5, 2007:** Hyundai Research Institute (HRI) reckons that inter-Korean cooperation agreed at the summit will cost \$11.2 billion, but could generate long-run gains worth \$150 billion: mostly

for the North. By contrast, the Korea Development Bank (KDB) estimates that the second phase of the Kaesong industrial zone alone will require \$14.9 billion. One opposition lawmaker claims the total cost will be some \$33 billion.

**Oct. 5, 2007:** State-owned Daewoo Shipbuilding and Marine Engineering (DSME), the world's third largest shipbuilder, says it will invest \$150 million to build prefabricated ship hulls at Anbyon on North Korea's east coast, a project agreed at the summit.

**Oct. 5, 2007:** Roh Moo-hyun orders his Cabinet to map out a concrete action plan to ensure the costs of peace agreement with the DPRK are estimated properly and implemented smoothly, so that it cannot be watered down or scrapped by his successor.

**Oct. 5, 2007:** ROK Defense Minister Kim Jang-soo insists that creation of a West Sea peace zone in the West Sea will not affect the integrity of the NLL, which he says the summit "successfully defended."

**Oct. 7, 2007:** ROK opinion poll reports 74 percent support for the summit, with 21 percent negative. Roh Moo-hyun's approval rating rose 10 points to 43 percent. But over half still plan to vote for conservative opposition presidential candidate Lee Myung-bak.

**Oct. 8, 2007:** In a speech to the ROK National Assembly, read by Prime Minister Han Duck-soo, Roh Moo-hyun opines that the North Korean nuclear issue "is heading toward a quick resolution." Conservatives criticize him for failing to address this at the summit.

**Oct. 8, 2007:** ROK Chief Presidential Security Adviser Baek Jong-cheon insists that any peace agreement on the peninsula depends on progress in disabling the DPRK's nuclear program under the SPT. Baek adds that the South will again demand the return of abductees and POWs at upcoming defense ministers' talks in Pyongyang. Roh Moo-hyun raised this at the summit, but Kim Jong-il did not respond.

**Oct. 9, 2007:** Roh Moo-hyun tells Russian President Vladimir Putin by telephone that the new inter-Korean concord will provide momentum to connect trans-Korean and trans-Siberian railways.

**Oct. 9, 2007:** The Seoul press reports that the defense ministry (MND) is considering establishing a bureau within the Blue House to discuss inter-Korean arms control, ahead of November's meeting of the two sides' defense ministers in Pyongyang.

**Oct. 9, 2007:** On the first anniversary of North Korea's nuclear test, *Rodong Sinmun*, daily paper of the ruling Korean Worker's Party (KWP), praises "the benevolent leader with his great sword, [who] made Korea into a strong independent state and handed our 70 million people skies of peace, skies of prosperity, skies of hopes to last forever." The implication, bizarrely, is that South Koreans too are protected by, and proud of, the North's deterrent.



**Oct. 9, 2007:** ROK Agriculture Minister Im Sang-gyu says that the DPRK wants joint ventures in fertilizers, adding that it would be of mutual benefit if Southern farmers and firms can raise silkworms and hogs and manufacture farm equipment in the North.

**Oct. 10, 2007:** Roh Moo-hyun repeats his call to create an inter-Korean ecological park in the DMZ, even though Kim Jong-il had rejected this as premature.

**Oct. 10, 2007:** Seoul protests China's arrest of four DPRK defectors at a South Korean international school in Beijing the previous day, and its use of force against ROK diplomats trying to protect them. It demands that the four North Koreans be handed over.

**Oct. 10, 2007:** The *Financial Times* quotes a senior official in Busan – the ROK's second city and the world's fifth largest port – as saying: “we are positively reviewing investing in North Korea [and] have great interest in shipping containers through Rajin.”

**Oct. 12, 2007:** Heads of the two Koreas' news agencies hold their first meeting, in Pyongyang. Kim Ki-seo, president of the ROK's *Yonhap*, proposes “active exchanges;” *KCNA*'s Kim Ki-ryong says “we are seriously studying” this – which *Yonhap* interprets as lukewarm. Both are co-hosting an exhibition of photographs of murals of Korea's Koguryo kingdom with Japan's *Kyodo News Service*, which opened on Oct. 11.

**Oct. 12, 2007:** Roh Moo-hyun causes controversy in Seoul by saying the NLL is not a territorial line but an operational military one.

**Oct. 15, 2007:** Some 20 ROK tourists are injured, six critically, in a bridge collapse at Mt. Kumgang: the resort's first serious accident in almost a decade of operation. Lack of air transport means a two-hour journey to the nearest hospital.

**Oct. 16, 2007:** Over 300 South Korean officials and business persons, including Unification Minister Lee Jae-joung, meet 100 from the North at the Kaesong industrial complex (KIC) to celebrate completion of its first phase. 57 ROK firms are there so far, employing 13,000 DPRK workers who earn \$60 per month. 220 more Southern SMEs have signed up. The second phase, adding 8.26 million sq. meters to the existing 3.3 million, will start construction in 2008.

**Oct. 23, 2007:** 300 South Koreans mark the opening at the KIC of a multipurpose building containing both factory and living accommodation. With beds for 71 Southern staff, it will house 32 SMEs, mainly making clothing, and employ 2,700 Northern workers. If successful, seven more such facilities may be built in the Kaesong zone.

**Oct. 22-23, 2007:** Six-Party Talks (SPT) nuclear delegates from both Koreas meet at Mt. Kumgang to discuss details of supplying energy and equivalent aid to North Korea.

**Oct. 28, 2007:** An ROK National Assembly research team headed by Shinn Chang-min, a professor at Chung-ang University in Seoul, estimates the cost of Korean reunification between \$800 billion and \$1.3 trillion. It says the South could cope with this, financially.

**Oct. 29-30, 2007:** The SPT working group on energy and economic assistance, chaired by the ROK, meets at the truce village of Panmunjom in the DMZ.

**Nov. 3, 2007:** Hyun Jeong-eun, chairperson of Hyundai Asan, signs new tourism accord in Pyongyang. This allows Hyundai to run day trips to Kaesong, and (from May) direct flights from Seoul to Mt. Paekdu. The day before, Hyun was Kim Jong-il's dinner guest.

**Nov. 5, 2007:** The (South) Korea Chamber of Commerce and Industry (KCCI) launches a private consultation group of business leaders to promote North-South cooperation.

**Nov. 7, 2007:** Lee Hoi-chang, who narrowly lost South Korea's last two presidential races for the conservative Grand National Party (GNP), says he will run in the election on Dec. 19 as an independent. He accuses Lee Myung-bak, as being soft on North Korea.

**Nov. 10-13, 2007:** At a working meeting in Shenyang, both Koreas plus China agree on details of energy and alternative aid to Pyongyang under the SPT.

**Nov. 13, 2007:** The (South) Korea Tourism Association (KTA), representing 20,000 small-to-medium-size ROK travel agencies, protests over Hyundai Asan's monopoly of Southern tourism to North Korea, claiming this is unfairly subsidized by state funding.

**Nov. 14-16, 2007:** As agreed at October's summit, the DPRK premier Kim Yong-il visits Seoul for the first talks between the prime ministers of North and South in 15 years.

**Nov. 16, 2007:** Kim Yong-il and ROK counterpart Han Duck-soo sign an eight-point accord of unprecedented substance, with 45 clauses and over 20 dates for meetings.

**Nov. 20, 2007:** For the fifth year running a UN committee passes a resolution condemning North Korea for serious human rights abuses. South Korea abstains, as usual – except in 2006, when it voted aye.

**Nov. 21, 2007:** KCCI publishes a report on North Korea's minerals. It reckons these are worth \$2.4 trillion, 30 times more than the South's (which consumes \$12 billion-worth annually, but is only 10 percent self-sufficient). In 2006 South Korea imported minerals worth \$60 million from the North, less than a quarter of the \$275 million taken by China.

**Nov. 24, 2007:** 200 tons of graphite, the first output from a \$10 million joint venture processing plant near Haeju, arrives by ship at Incheon.

**Nov. 27, 2007:** Three separate Southern survey teams visit the North, respectively to look into tourism to Mt. Paekdu, joint shipbuilding at Anbyon, and hog farming.

**Nov. 28, 2007:** A joint working-level meeting in Kaesong discusses repaving the Kaesong-Pyongyang expressway.

**Nov. 27-29, 2007:** Meeting for only the second time ever, in Pyongyang, the two Koreas' defense ministers fail to agree on a West Sea fishing zone due to the usual stalemate over the NLL issue. But they do agree on military guarantees for other inter-Korean projects.

**Nov. 28-Dec. 1, 2007:** Ninth round of Red Cross talks, held at Mt. Kumgang, agrees to expand separated family reunions, inaugurate video letters, look into those missing during and after the Korean War, and meet again when a permanent reunion center opens.

**Nov. 29-Dec. 1, 2007:** Kim Yang-gon, the DPRK's intelligence chief, makes a previously unannounced visit to South Korea. His itinerary includes Daewoo's shipyard.

**Dec. 4-6, 2007:** The Joint Committee for Inter-Korean Economic Cooperation (JCIKEC), newly promoted to deputy minister level, meets in Seoul and agrees further details on implementing joint projects.

**Dec. 5, 2007:** Hyundai Asan inaugurates regular day trip tours from Seoul to Kaesong.

**Dec. 11, 2007:** Daily rail freight service begins across the DMZ, travelling 10 km between Munsan in the South and Panmun in the North. The train reportedly often runs empty.

**Dec. 12-14, 2007:** Talks between generals at Panmunjom fail to break the deadlock over the NLL, ending with no joint statement or press release. They do agree on security guarantees for the Kaesong and Mt. Kumgang zones: entry and customs procedures will be streamlined, and South Koreans may use the internet and mobile phones.

**Dec. 14, 2007:** 500 tons of DPRK zinc, worth \$1.2 million, arrive at Incheon as the first payment for the South's sending materials worth \$80 million for Northern consumer industries. Although Seoul's annual supply of rice and fertilizer is nominally also a loan, MOU says this is the first time Pyongyang has ever repaid any debt to South Korea.

**Dec. 14-15, 2007:** Meeting in Kaesong, both Koreas agree on proposed joint fishing zones east of the peninsula (where there is no NLL issue). The South will provide fishing gear as payment for fish caught in Northern waters. A 20-strong ROK survey team will go North on Dec. 21-25 to start work on a joint fisheries research and storage center.

**Dec. 18, 2007:** The ROK Commerce, Industry, and Energy Ministry (MOCIE) leads a 37-strong official and business group – including representatives from Samsung and Daewoo, respectively the world's second and third largest shipbuilders – on site visits to check the feasibility of plans to cooperate in shipbuilding at Nampo and Anbyon, DPRK.

**Dec. 19, 2007:** Lee Myung-bak of the conservative opposition Grand National Party (GNP) wins South Korea's presidential election, on a platform that includes a harder line towards North Korea. Lee polls 49 percent of all votes. Ex-unification minister, Chung Dong-young, standing for the pro-Sunshine United New Democratic Party (UNDP), takes only 26 percent. The hard-right Lee Hoi-chang receives 15 percent.

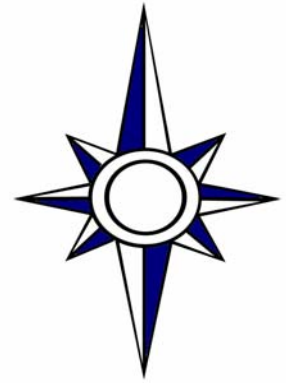
**Dec. 23, 2007:** In the first reported Northern comment on the South's new president-elect, Senior Cabinet Councilor Kwon Ho-ung, the North's chief delegate to inter-Korean talks, says he hopes this will not change "the general trend of inter-Korean cooperation."

**Dec. 25, 2007:** The two Koreas and China meet in Pyongyang to discuss supplying non-oil energy aid. This is the first formal SPT-related meeting to be held inside North Korea.

**Dec. 25-28, 2007:** The North-South subcommittee on shipbuilding and marine cooperation holds its first meeting in Busan, South Korea's second city and main port.

**Dec. 28-29, 2007:** Meeting in Kaesong, the Koreas agree to conduct a one-day survey on Jan. 31 toward establishing a joint economic area around the DPRK port city of Haeju.

**Dec. 31, 2007:** The year ends without Pyongyang making the full declaration of its nuclear activities promised at the SPT. On Jan. 4 the DPRK foreign ministry says it has given the U.S. all requisite information, and that it is other parties who are behind in fulfilling their side of the deal, such as energy aid and diplomatic concessions.



**China-Korea Relations:  
Underhanded Tactics and Stolen Secrets**

**Scott Snyder**  
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The Oct. 3 Six-Party Talks agreement on next steps in North Korea's denuclearization and the Oct. 4 inter-Korean summit declaration shaped developments in China-Korean relations in the last quarter of 2007, as China reaffirmed its peacemaking role on the Korean Peninsula. Chinese Communist Party official Liu Yunshan visited Pyongyang in late October with a message from Hu Jintao, resuming party-to-party high-level contacts with Pyongyang after a year's break. Similarly, Six-Party Talks lead negotiator Wu Dawei visited Pyongyang in mid-December to encourage North Korean counterparts to follow through on obligations to disable and declare nuclear facilities by the end of the year in accordance with the Feb. 13 and Oct. 3 agreements. South Korean telecommunications companies worked hard to gain an advantage over global competitors in the Chinese market, while Korean automobile and steel manufacturers faced new challenges as industrial espionage involving proprietary technology drew an even higher profile in both sectors. China's search for financing has not bypassed the Korean equity market, as Korea's China-focused equity funds gained while the Korean Stock Exchange attempts to attract Chinese firms to list directly on the Korean exchange.

**Special worries about a "normal relationship"**

Chinese descriptions of relations with North Korea as "normal" appear to be minor alterations compared to what North Korea is seeking in its relationship with Beijing. Pyongyang's desires for a strategic relationship with the U.S. appear designed, in part, to distance the North from Beijing while sowing seeds of rivalry between Beijing and Washington. North Korean leaders appear intent on doing whatever is necessary to show that China needs North Korea more than North Korea needs China. Last year's nuclear and missile tests in the face of China's public warnings were first steps. Then came Vice Foreign Minister Kim Kye-gwan's public statements during his spring 2007 trip to New York that the U.S. was over-reliant on China in its policy toward the North. Christopher Hill's sudden June visit to Pyongyang also made Chinese analysts jumpy. Kim Jong-il's inclusion of "three or four" party language in the text of the Oct. 4 inter-Korean joint statement with South Korean President Roh Moo-hyun attempted to further humiliate and play on Chinese anxieties regarding their future role on the Korean Peninsula.

The ambiguity of the inter-Korean joint statement on this point stimulated a lively debate among Korea watchers about who might be excluded in the case of a "three party" format. South Korean interlocutors assumed that China would be the odd man out despite the North's longstanding, legally defensible position that as a non-signatory to the Korean armistice there is

no role for South Korea in the great-power game of assuring peace on the Korean Peninsula. Informal South Korean explanations that the “three-party” language originated with George Bush and that Kim Jong-il was simply deferring to a U.S. formulation were neither convincing nor helpful in clarifying the issue. As the debate developed, the Chinese Foreign Ministry reasserted its right and intent to be a part of Korean talks as one of four parties and U.S. Deputy Secretary of State John Negroponte in late October reaffirmed U.S. expectations that indeed China would be a part of talks to achieve peace on the Korean Peninsula.

In the kerfluffle over the meaning of the phrase, Roh distanced himself saying, “When I signed it, I didn’t pay too much attention to it.” But this excuse is as lame as the assertion that the idea for “three party” talks had special meaning as the intended U.S. formulation for such a dialogue format. Roh’s statement makes South Korea look naïve, but South Korean knowledge of North Korean gamesmanship would make Seoul complicit, stimulating Chinese distrust of South Korean intentions.

Peace talk formulations aside, South Korean anxieties surrounding China’s increasing economic stakes in the North Korean natural resources sector provided a powerful rationale for intensified North-South economic cooperation. The Korean Chamber of Commerce and Industries reported that 70 percent of China’s North Korea-bound investment targeted the natural resource sector and that Chinese imports of North Korean minerals in 2006 equaled \$274 million, five times South Korea’s total of \$59 million. The strong emphasis in the inter-Korean joint statement on enhanced inter-Korean economic cooperation projects, including the promise of inter-Korean cooperation to develop natural resources, appears to have been motivated in large part by competition with China. This approach is consistent with Kim Jong-il’s efforts to play off Chinese and South Korean political interests against each other by encouraging competition between them to be North Korea’s main economic backer.

Having observed these latest Korean moves, Hu Jintao took the opportunity to reestablish contact with Kim Jong-il on the pretext of updating him on the latest developments from the 17th Chinese Communist Party (CCP) Party Congress by sending CCP Central Committee Political Bureau member Liu Yunshan to Pyongyang. Liu’s visit to North Korea was the first high-level visit by a CCP official in over a year since Hu Jintao had sent Tang Jiaxuan to Pyongyang as a special envoy in October 2006, following the North Korean nuclear test. (Kim Jong-il also welcomed newly appointed PRC Foreign Minister Yang Jiechi in July 2007.) Although the stated purpose of Liu’s visit was to describe “in detail” the situation of the 17th CCP Party Congress, the visit provided an opportunity to exchange views with Kim Jong-il about bilateral relations. Liu brought with him a verbal message from Hu, reportedly expressing a willingness to continue to follow the principles of “carry tradition forward, look to the future, be friendly neighbors, step up cooperation” and make greater contributions to regional peace and prosperity. However, the intent of Hu’s message is not yet clear. Liu’s visit underscored the geographic realities that necessitate continued China-North Korea relations, implying that the relationship could not be left completely to the Foreign Ministry since it utilized the party-to-party ties that have symbolized China’s “special” ties with North Korea.

Roh Moo-hyun’s major international initiative following the inter-Korean summit involved efforts to promote a four-way summit meeting among the United States, China, and the two

Koreas to announce negotiations to establish a permanent peace regime on the Korean Peninsula. This initiative was on the agenda for Roh's meeting with Premier Wen Jiabao on the sidelines of the ASEAN Plus Three meeting in Singapore in early November. Although Wen confirmed China's willingness to participate in such a meeting – an implicit way of affirming China's involvement in the process – it was also clear that such a proposal would be a non-starter with the Bush administration absent North Korea's clear implementation of its denuclearization commitments under the Feb. 13 agreement.

### **Denuclearization Update: February 13, October 3, and December 31, 2007**

China's central role in the Six-Party Talks also offered grounds for confidence that China's role and interests in promoting a non-nuclear Korean Peninsula would continue to be secure. Despite a tendency by North Korea to elevate bilateral talks with the U.S. as the main vehicle for pursuing a denuclearization-for-normalization grand bargain, the Six-Party Talks remained the formal vehicle through which these agreements were announced and implemented. A series of working-level and high-level Six-Party Talks meetings in August and September produced a limited but concrete series of commitments involving North Korea's disablement of its nuclear facilities and a declaration of its nuclear facilities, materials, and programs.

This series of agreements was announced Oct. 3 in Beijing by Wu Dawei and described as "second-phase actions" to be taken under the Feb. 13 Implementing Agreement. These actions included specific measures under which North Korea would "disable" nuclear facilities at Yongbyon, and "provide a complete and correct declaration of all its nuclear programs" by Dec. 31, 2007, and reaffirmed its commitment "not to transfer nuclear materials, technology, or know-how." In return, the U.S. and Japan pledged their continued willingness to take concrete actions toward diplomatic normalization, including a U.S. willingness to terminate the application of the Trading with the Enemy Act and to remove North Korea from its State Sponsors of Terrorism List "in parallel with the DPRK's actions." In addition, North Korea would continue to receive promised economic and energy assistance.

Although the U.S. took the lead in carrying out technical implementation of North Korea's commitments to "disable" the Yongbyon facilities, the disabling was implemented as part of the Six-Party Talks process. As disablement proceeded, the main focus of the six parties was whether North Korea's declaration would include questions about North Korea's enriched uranium program, the scope of facilities and amount of materials produced by the North, and questions about suspected North Korean nuclear cooperation with Syria. (The latest allegations about North Korean proliferation to Syria and North Korean efforts to import restricted dual-use technologies via Taiwan in recent months underscore that negotiations must be accompanied by robust export controls and other denial strategies for preventing North Korea from obtaining sensitive materials.)

Following Christopher Hill's second visit to Pyongyang in early December to discuss North Korea's declaration, during which he delivered a letter from President Bush detailing U.S. expectations regarding the declaration, Wu Dawei visited Pyongyang to assess the progress of North Korea's disablement. South Korea's chief representative to the Six-Party Talks, Chun Young-woo, also visited Beijing prior to Wu's visit to Pyongyang to prepare a coordinated

message to the North on the expected contents of the declaration. Although Wu visited Yongbyon and confirmed that disablement was proceeding apace, there was no evidence of progress on the declaration, which is a critical hurdle that must be overcome in the course of moving from disablement to denuclearization. It became clear that North Korea would not meet the year-end deadline for presenting its declaration and that there remained significant differences between North Korea and the U.S. over the contents of the declaration.

### **Industrial Espionage Exposed**

South Korea faces no more serious threat to its economic competitiveness than industrial espionage that would rapidly sacrifice the technological advantage of Korean companies over their Chinese counterparts. In this quarter alone, two serious cases have come to light, illustrating both poor Korean corporate defenses against the threat and the temptation and willingness of Chinese companies to steal a march on their competitors. Two employees of Hyundai Motor Company were accused of attempting to share proprietary information regarding Hyundai's automatic transmission technologies for sport utility vehicles such as the Tucson, Sportage, and Santa Fe, and new designs for the latest models of Hyundai's Sonata. In this case, a Swiss company brought in to commercialize the technologies tipped off Hyundai, and the employees in question were arrested.

In a second case, former employees of Korea's largest steelmaker POSCO had left the company to start their own consulting firm, taking with them USB flash drives with over 1,000 computer files and 17 books containing proprietary information regarding the entire process of steel-making. In this case, critical information that would severely erode POSCO's comparative advantage was allegedly passed on to a Chinese counterpart for over \$5 million in promised payments before the case was discovered and the individuals in question were detained. POSCO estimated that the theft could have cost as much as \$3.05 billion in lost sales and price cuts over the next five years.

### **Telecoms and China financial plays**

Korean banks are trying to develop a customer base in China. For most Korean banks, the opportunity to service Korean customers who are already heavily invested in Chinese operations is a niche opportunity. But increasingly Korean banks are pursuing branches in China in an attempt to capture high-end Chinese retail customers who may feel more comfortable using a foreign bank than keeping their money in a local bank. Hana Bank and Woori Bank are among the Korean banks that sought permission last quarter from Chinese authorities to expand their operations in major Chinese urban centers. These Korean banks have plans to gradually expand their services to major Chinese cities as they grow their retail customer base.

A second way in which individual Koreans have sought to take advantage of the rapidly maturing Chinese financial markets is through investments in Korean-based mutual funds that are investing in the Chinese market. These funds have rapidly grown popular among Korean investors, representing 34 percent of all Korean overseas fund investments according to the Asset Management Association of Korea. However, persistent warnings in October that the overheated Chinese stock markets may be due for a major correction and a downturn in the Shanghai



equities market slowed that flow drastically. China-invested mutual funds such as Shinhan BNP Paribas Investment Trust Management's Bonjour China Fund and Mirae Asset's China Soloman Fund continue to draw hundreds of millions of dollars from Korean investors, but the level of investment dropped dramatically in late October.

Third, the Korean Stock Exchange and the KOSDAQ have actively sought to attract Chinese firms to publicly list on the Korean exchange. This is part of Korean efforts to play a more active role as a regional financial center. Although the effort to list Chinese companies has been slow, Chinese companies are beginning to list in South Korea both as an attractive financing option and as an opportunity to expand their knowledge of the Korean financial sector. China's 3NOD Digital Group, a Chinese digital audio company, was the first foreign firm to list on the Korean Stock Exchange in August, and there are predictions that up to 30 more Chinese firms may list on the Korean exchange in 2008.

Chinese institutional investors also began to actively enter Korean capital markets this quarter. Chinese international funds backed by the Shanghai International Trust and Investment Corporation and China International invested in hundreds of millions of dollars in Korean blue-chip stocks in November. South Korea's Financial Supervisory Service reported that investments from China increased to 73.1 billion won in November compared to only 2.5 billion won a year earlier. Korean financial experts expect that the Korean market will be a major beneficiary of the broader global trend of Chinese investments in hedge funds and private equity funds.

Korean telecoms continue to aggressively pursue opportunities in China, but the main focus has moved away from the booming opportunities to sell handsets of several years ago to efforts to link up with Chinese partners in order to jointly develop platforms for more advanced technological offerings. Such a strategy requires close cooperation with government owned and highly regulated Chinese counterparts as a means to capture the inside track for future sales opportunities in the retail handset market. For instance, SK Telecom has worked closely with Chinese partner China Unicom to develop new mobile platforms such as TD-SCDMA, which is designed to support expanded 3G video and internet telecom capabilities. SK Telecom has also promoted news and content development and distribution for the Chinese market through its joint venture with China Unicom called UNISK. Another component of SK's strategy involves the sale of Korean entertainment products such as pop songs and photos of Korean movie stars to China Mobile.

The Korean gaming sector also has sought to expand into China with mixed results. One hot seller from Hanbit Soft is a multiplayer role-playing game entitled "Granado Espada," which has over 4 million Chinese subscribers. NC Soft's once-popular "Lineage" role playing game has lost considerable market share but the company is betting that the release of a new game called "Tabula Rasa" will generate replacement revenues by building popularity in China.

### **Tougher direct competition crosses borders**

As Chinese companies grow more competitive, they aim to gain share in the Korean market. For instance, Chinese steel exports represent over half of all Korean steel imports, and Haier is looking to break into the Korean home appliance and consumer electronics sectors by building

service and distribution networks and identifying niche products such as electronic wine cellars as a stepping stone to increased sales of home appliances and LCD TVs. On the other hand, as many as 10 percent of Korean companies in China who responded to a KOTRA survey intend to pull out of China due to increasing labor costs and the end of tax breaks on investment in labor-intensive industries in China.

The Korean exhibition industry is finding itself under greater pressure as a result of rising competition from places like Shanghai and Macao, which have upgraded convention facilities and tourist services and have a “hotter” international reputation. Likewise, the Chinese art market boom has attracted Korean participation at Beijing’s Dashaanzi, where Chinese contemporary artists unknown a decade ago are all the rage in the international art market. Several major Korean galleries have opened in China as part of the trend.

Another form of competition involves attempts by Chinese to immigrate to Korea, often through questionable or illicit means. Over 14,450 Chinese women legally married Korean men, mostly in rural areas, where another rising concern has been exploitation or domestic violence. The number of fake international marriages involving Chinese in Korea has doubled to over 1,653 from 698 in 2004, according to South Korea’s National Police Agency, representing over 10 percent of all marriages in China. Another way of getting to South Korea for many ethnic Koreans in China involves application for education visas and enrollment in schools under false pretenses. Lost or stolen Korean passports can go for up to \$10,000 in China. Finally, the Korean Meteorological Agency issued one of its earliest “yellow dust” alerts in late December, an unwelcome Chinese import to mark the new year.

### **“Plus Three” ready to stand on its own?**

At the ASEAN Plus Three meeting in Singapore, Roh Moo-hyun, Wen Jiabao, and Fukuda Yasuo agreed to meet regularly to promote regional security cooperation, cooperate to secure the denuclearization of North Korea, and establish a new multilateral security dialogue in Northeast Asia. Following the establishment of a regular dialogue among foreign ministers of the three countries earlier in 2007, the Northeast Asian “Plus Three” leaders seem to be on the verge of delinking top-level meetings in the context of ASEAN-sponsored dialogues.

### **The Roh-Lee transition and Sino-Korean relations**

The election of Lee Myung-bak as South Korea’s new president can shift directions in South Korea’s foreign policy, including relations with China. The day following the election, Lee met with ambassadors from the four major powers and pledged to improve relations with all of Korea’s major neighbors. In his meeting with the Chinese ambassador, he pledged to continue to “upgrade” economic relations with China.

However, the initial focal point for Lee’s foreign policy has been the reconsolidation of the relationships with the U.S. and Japan. In particular, Lee has strongly supported revitalized trilateral coordination with the U.S. and Japan in dealing with North Korea. In addition, Lee’s policy toward the North emphasizes the need for greater reciprocity and will not avoid North Korea’s human-rights performance. While the Chinese Foreign Ministry spokesman welcomed

Lee's election, he stressed the need to honor the principle of noninterference when a journalist asked how China views Lee's willingness to raise human rights issues with North Korea.

While there is every reason to believe that Sino-South Korean economic relations will remain a foundation for the "comprehensive cooperative partnership" that has been the cornerstone of the relationship, Lee's initial foreign policy inclinations appear less likely to promote rapid improvement of political and security relations with China. Lee seeks to utilize the U.S.-ROK security alliance to increase South Korean political leverage to promote more effective policies of engagement with China.

Nonetheless, the development of inter-Korean relations, the sensitivity of continued implementation of Six-Party Talks agreements designed to bring about North Korea's denuclearization, and the question of whether South Korean and Chinese economic policies toward North Korea are defined by competition or cooperation will be influenced by adjustments in South Korean foreign policy under President Lee. It remains to be seen whether other political or "values" issues become greater points of contention. However, it is unlikely that such issues would challenge the economic interdependence and mutual opportunities that have characterized the relationship.

### **Chronology of China-Korea Relations October-December 2007**

**Oct. 9, 2007:** Chinese Foreign Ministry spokesman Liu Jianchao expresses China's willingness to join peace talks to replace the military armistice and end the Korean War.

**Oct. 10, 2007:** The ROK protests China's use of force against South Korean diplomats while arresting North Korean defectors at an international school in Beijing.

**Oct. 12, 2007:** Two former POSCO employees are arrested for stealing steel processing technologies and selling them to a Chinese competitor.

**Oct. 17, 2007:** The Seoul Central Prosecutors' Office announces the arrest of six drug traffickers who used Korean ports as a transit point for methamphetamine from China to Japan.

**Oct. 26, 2007:** The Asset Management Association of Korea reports a dramatic drop of capital inflows into Chinese equity funds from around 400 billion won during the first three weeks of October to less than 100 billion won, reflecting greater caution among Koreans about Chinese equity risks.

**Oct. 28, 2007:** Air service opens between Seoul's Gimpo and Shanghai's Hongqiao airports.

**Oct. 29-30, 2007:** CCP Central Committee Publicity Department head Liu Yunshan visits Pyongyang and meets Kim Jong-il to deliver a verbal message from Hu Jintao and to provide information on the 17<sup>th</sup> CPC Party Congress.

**Nov. 7, 2007:** Asiana Airlines launches new twice-a-week service from Cheongju, Chungcheong province to Beijing.

**Nov. 11, 2007:** Woori Bank launches a Chinese subsidiary in an effort to provide retail-banking services in major Chinese cities.

**Nov. 15, 2007:** Korea's Financial Supervisory Service warns that South Korean local retail investors are overly exposed to China-related equity risks.

**Nov. 18, 2007:** KOTRA releases results of a survey showing 14 companies, or almost 10 percent of survey respondents among Korean companies operating in China, are seeking opportunities to relocate or return to Korea.

**Nov. 20, 2007:** Roh Moo-hyun participates in the South Korea-China-Japan summit held on the sidelines of the ASEAN Plus Three meeting in Singapore. Roh also holds bilateral discussions with PRC Premier Wen Jiabao.

**Nov. 22, 2007:** Korean Chamber of Commerce and Industry releases report criticizing South Korean failure to compete with China in developing natural resources in North Korea.

**Nov. 26, 2007:** Samsung Electronics Company announces that it will be a sponsor of the 2008 Beijing Paralympic Games.

**Dec. 7, 2007:** Korea Electric Power Corporation announces the launch of Gemeng International Energy Company, Ltd., a joint venture with Shanxi provinces SIEG and Deutsche Bank to acquire and manage Chinese coal mines, plants, and resources.

**Dec. 8, 2007:** Dongfeng Yueda Kia Motor Company opens second factory in Yenching, Jiangsu province. The new plant cost \$800 million and has an annual production capacity of 300,000 units.

**Dec. 11-12, 2007:** Six-Party Talks Economic and Energy Aid Working Group meets in Beijing.

**Dec. 12, 2007:** SK Telecom announces that its Chinese joint venture UNISK launched a mobile telephone newsletter service in partnership with China's major state-run newspaper, *The People's Daily*.

**Dec. 13, 2007:** MBC reports that former Hyundai Motor employees were detained on charges of providing proprietary automatic transmission technology to a Chinese company in 2005.

**Dec. 17, 2007:** The *Korea Times* reports that the Korea Institute of Finance has projected that China is emerging as a "new buying power" in global equity markets. The Financial Supervisory Service reports an almost 30-fold increase in Chinese investments to 73.1 billion won from 2.5 billion won during the past year.

**Dec. 17-18, 2007:** Six-Party Talks PRC lead negotiator and Vice Minister Wu Dawei visits Pyongyang for discussions on progress in disabling North Korea's Yongbyon facilities.

**Dec. 20, 2007:** South Korean President-elect Lee Myung-bak receives a congratulatory message from PRC Ambassador Ning Fukui and affirms his willingness to "upgrade" Korea-China economic relations.

**Dec. 20, 2007:** China and South Korea open military hotlines between their navies and air forces.

**Dec. 26, 2007:** PRC Ambassador to the DPRK Liu Xiaoming hosts a New Year's reception for leading DPRK government officials including DPRK Supreme People's Assembly Presidium Vice President Yang Hyong-sop.

**Dec 27, 2007:** South Korea's Hana Bank opens its first subsidiary in China in an attempt to develop a retail network in Northeastern China.





Japan-China Relations:  
**Politics in Command: Part 2**

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Beijing welcomed the new Fukuda government and Japan's new prime minister made clear his commitment to improving Japan's relations with its Asian neighbors and building the strategic relationship with China. However, the new government in Tokyo soon became preoccupied with the passage of a new antiterrorism special measures law to reauthorize Japan's refueling operations in support of UN operations in Afghanistan, Defense Ministry scandals, and the continuing pension fund imbroglio.

Despite repeated commitments by political leadership in Tokyo and Beijing to joint development of the oil and natural gas resources in the East China Sea, there is no tangible resolution of the issue in sight. At the end of the year, joint development remained an aspiration. Even as the prime minister prepared for his late December visit to China, government and diplomatic sources were downplaying expectations that the visit would produce agreement on the issue. Meanwhile, as underscored by the first meeting of the Japan-China High Level Economic Dialogue, economic and business ties continued to strengthen the foundation of the bilateral relationship.

**Japan-China relations under the Fukuda government**

Beijing welcomed the advent of the Fukuda government. On Sept. 25, China's Foreign Ministry congratulated the new prime minister on his accession to office and expressed the hope that the reciprocal strategic relationship would continue to develop in a healthy and stable manner. China's media gave front-page play to the new prime minister, emphasizing Fukuda's interest in advancing relations with Japan's Asian neighbors and his commitment not to visit the Yasukuni Shrine. In his initial policy speech to the Diet on Oct. 1, Fukuda announced that "With China, we will establish a mutually beneficial relationship based on common strategic interests, and to work together to contribute to the peace and stability in Asia."

When presenting his credentials to the emperor, China's new Ambassador to Japan Cui Tiankai remarked that "a strengthening of mutual trust and confidence will become the foundation of the strategic reciprocal relationship." Three days later, when Cui called on him, Fukuda reiterated his support for the strategic, reciprocal relationship, expressed his intention to visit China in the near future, and made his commitment to make President Hu's visit to Japan a success. At the end of November, in response to a Chinese journalist who expressed the hope that "spring will soon come in Japan-China relations," Fukuda replied that he thought "it has already arrived." He

hoped that “It will last as long as possible, because when summer comes, something that upsets us might occur.”

### **Fukuda-Wen meeting**

Following the Nov. 16 Summit with President Bush in Washington, Fukuda traveled to Singapore for the ASEAN Summit, where he met with Premier Wen Jiabao on Nov. 20. Wen welcomed Fukuda by acknowledging his father as a signatory of the Japan-China Peace and Friendship Treaty, observing that “the Chinese people know you very well.” Wen also praised the efforts of Fukuda’s predecessor, Abe Shinzo, to develop bilateral relations, whom China regarded as “an old friend who will not be forgotten.”

Taking a broad view of the relationship, both leaders agreed on the importance of expanding bilateral exchanges, particularly among the youth and in the areas of culture and sports, and of building trust in security relations. At the same time, Wen defined the China-Japan relationship as being “at an important turning point” and urged that opportunities be seized to “move relations forward.” Specifically, Wen characterized the East China Sea issue as being “highly complex and sensitive” and called on both sides to bravely come to grips with the issue of joint development. In reply, Fukuda asked Wen to “display political leadership for an early settlement” of the longstanding dispute. Fukuda stressed that he wanted to settle the issue “for the sake of the development of Japan-China relations.” Ultimately, the two leaders agreed to “accelerate the dialogue process to appropriately resolve” the dispute, but did not commit to a specific timetable.

With regard to the past and Taiwan, Wen observed that “appropriately resolving these issues is the political basis for maintaining good Japan-China relations.” In this context, he hoped that “Japan will appropriately deal with the Taiwan issue.” Fukuda replied that there was no change in Japan’s “one-China policy.”

On North Korea, Wen expressed his understanding and sympathy with regard to the plight of Japan’s abductees and promised China’s cooperation in resolution of the issue.

Looking ahead, Wen said that Fukuda’s visit to China and Hu’s visit to Japan “will be highly significant for the development of bilateral relations.” Fukuda replied that he would visit China at an early date subject to Diet activity and that Japan anticipated that Hu would visit Japan early in 2008.

### **East China Sea: dead stop**

Shortly after assuming his post, Foreign Minister Koumura Masahiko gave an interview to the *Mainichi Shimbun*. Asked about the East China Sea dispute and Fukuda’s visit to China, he replied that “the matter is not a stumbling block to the prime minister’s visit.” Koumura also mentioned that he had recently told his Chinese counterpart that “China should go ahead and make a political decision and that Japan would respond flexibly.”



On Oct. 11, Koumura met with Chinese Ambassador to Japan Cui. Taking up the East China Sea issue, the foreign minister urged China to “make a political decision for the building of a mutually beneficial strategic relationship.” Cui replied that China wanted “to move forward for joint development so that the issue will not become an obstacle to the development of bilateral relations.” In Beijing, diplomats, meeting at the director-general level, again failed to resolve the issue of joint development but agreed to meet again in November in Tokyo.

On Oct. 31, Sasae Kenichiro, the director general for Asian and Oceanic affairs met with members of the LDP’s special committee on maritime issues. Sasae told the legislators that the Chinese had unofficially communicated that joint development was possible “depending on how Japan deals with the issue.” The *Yomiuri Shimbun* reported that in light of the change in China’s position the Foreign Ministry had decided to elevate the talks to the foreign ministers’ level. On Nov. 10, Koumura expressed the hope that “substantive progress” would be made before the prime minister’s visit to China.

The two sides met for the 11<sup>th</sup> time in Tokyo on Nov. 14 with the familiar outcome of no progress. However, the Japanese proposed to meet again before the end of the month and the Chinese agreed to consider the proposal. Chief Cabinet Secretary Machimura told reporters that “the situation ought to give rise to serious concern. As long as the lack of progress continued, the situation would clearly influence the planning of the prime minister’s visit to China.”

On Nov. 16, Chief Cabinet Secretary Machimura met with Ambassador Cui to convey the government’s intent to resolve the issue by the time of the prime minister’s visit to China. Cui replied that China “has the sincerity and resolution to jointly make efforts to settle the issue at an early time in an appropriate manner.” On Nov. 17, the *Sankei Shimbun* reported that Japanese negotiators, at the Nov. 14 meeting, had advanced an initiative that would entail joint development on the Japanese side of the disputed mid-line boundary, provided China would accept joint development in an area straddling the mid-line boundary. The Japanese proposal, however, did not extend to the area of the Senkaku Islands. According to the *Sankei* report, when a Japanese diplomat had suggested the possibility that Japan, in response to the continuing stalemate, would begin test drilling on its side of the disputed boundary, the Chinese responded that China would send PLA Navy ships into the area.

On the morning of Dec. 1, Koumura met with his Chinese counterpart Yang Jiechi to explore the East China Sea issue. While both ministers reiterated commitments to building a strategic, reciprocal relationship through dialogue and a broad exchange of views, they remained deadlocked over East China Sea issues. Koumura urged China to make a “political decision,” to which, Yang replied that the issue was “highly complex and sensitive.” Nevertheless, Yang called on the two sides to “bravely tackle the issue” and committed his best efforts to the task. Afterwards, Koumura told reporters that, while they had grappled with the issue, he was unable to say that there was any progress.

The next day Koumura met with State Councilor Tang Jiaxuan at the Diaoyutai Guest House to press for resolution before Prime Minister Fukuda’s visit. Tang suggested that the matter be taken up by vice ministers, going on to say that he wanted to give some thought to the shape of negotiations. Before meeting with Tang, Koumura, together with his delegation of ministers,

met with Premier Wen Jiabao. Again the Japanese urged a political decision to allow joint development. In turn, Wen replied that he wanted to shelve the dispute and continue discussions over how to proceed with joint development.

On Dec. 3, Kouchi met with President Hu Jintao in the Great Hall of the People. When Kouchi asked that China make a political decision in advance of the Fukuda visit, Hu urged that both sides consider the issue from a broad perspective, shelve the dispute and reach a common understanding on joint development, and carry on deliberations as equals. He approved of “accelerated deliberations and an early and appropriate resolution of the issue” but failed to set a time frame for reaching agreement.

### **Senkaku Islands**

The territorial dispute over claims to the Senkaku/Daiyutai Islands sparked briefly at the end of October. On the evening of Oct. 28, Chinese activists from the Hong-Kong based Action Committee for Defending the Diaoyu Islands entered Japanese claimed waters in the vicinity of the Senkaku Islands. The activists’ ship departed Japanese waters an hour later after being warned off by Japanese Coast Guard ships. In Beijing, a spokesman for the activists told reporters that the Japanese Coast Guard had used water cannon to repel the Chinese boat.

In response, a task force was set up in the prime minister’s office to deal with the incursion. Japan protested through diplomatic channels, emphasizing that the islands are “an inherent part of Japan’s national territory” and found the incident “regrettable.” Beijing, in turn, stressed the islands are Chinese territory, labeled the actions taken by the Japanese Coast Guard as “violations of international law,” and expressed China’s “strong opposition,” and ultimately found the Japanese protest “unacceptable.”

Upon returning to Zhangzhou City in Fujian Province, the protest group said four members were taken voluntarily into custody, transferred to Amoy city, and detained under house arrest. They were released on the evening of Oct. 31 after signing a pledge that they would not return to the islands. The *Asahi Shimbun* on Nov. 7 reported that the Hong Kong authorities, in a letter addressed to the activist group, asked them to look at the big picture – improving relations with Japan, a pending visit to China by Japan’s prime minister and a period of danger in the Taiwan Strait – in considering their actions.

### **Taiwan: Candidates Come Calling**

On Dec. 16, Frank Hsieh, presidential candidate of the Democratic Progressive Party, arrived in Japan for a four-day visit. In a speech at his alma mater, Kyoto University, Hsieh accused China of posing a threat to regional security and called on Japan to provide security assurances to Taiwan. He told his audience that it was “incorrect” to see Taiwan as “the main obstacle in both China-Japan and China-U.S. relations.” He went on to argue that “If there was no Taiwan problem, there would still be the clear and present threats posed by China’s military expansion, snatching up of natural resources and malignant economic practices.” Taiwan, a democratic nation, was not the source of the problem. In fact, the world only has a “China Problem.” Hsieh

said that, if elected, he would seek to develop Taiwan-Japan relations along the lines of the U.S. Taiwan Relations Act, which commits the U.S. to providing Taiwan with arms for its defense.

Kuomintang presidential candidate Ma Ying-jeou visited Japan, Nov. 21-23. *Kyodo News* reported that in an effort to change perceptions that he was anti-Japanese, Ma, according to a source in his party, had secretly met with “multiple Japanese government officials.” In a speech at Doshisha University in Kyoto on Nov. 21, Ma called for a Taiwan-Japan FTA and increased economic and cultural ties. If elected, he would work to increase high-level contacts between Taiwan and the Japanese government.

### **Business and economics**

On Dec. 1-2, Foreign Minister Koumura, accompanied by Minister of Finance Nukaga Fukushima, Minister of Economy, Trade and Industry Amari Akira, Minister of Agriculture, Forestry and Fisheries Wakabayashi Masatoshi, Environment Minister Kamoshita Ichiro, and Minister of Economic and Fiscal Policy Ota Hiroko, attended the first Japan-China High Level Economic Dialogue in Beijing.

Koumura and Vice Premier Zeng Peiyan co-chaired the Saturday meeting, which took place in the Great Hall of the People. Zeng took the opportunity to declare that “China’s development is not a threat to Japan, but an opportunity” and went on to acknowledge that China had benefited from Japan’s ODA program. During the meeting, the foreign ministers exchanged notes on the fiscal year ¥2007 loan, which is the final year of a program that has provided China with over ¥3 trillion in low-interest loans since 1979. The foreign ministers also signed a treaty on mutual assistance in criminal cases.

Food safety and the environment were major topics of discussion, with the two sides agreeing to cooperate on environmental issues, energy saving technologies, and food safety. The two sides also reached agreement allowing Japan to export to China an additional 150 tons of rice (China resumed imports of Japanese rice in April of this year) and increasing Chinese exports of pork, beef, and pumpkins. Finance Minister Nukaga and his Chinese counterpart Xie Xuren agreed to cooperate on regional financial issues, including multilateral currency swaps, and to increase exchanges in the area of macroeconomic policy and exchange rates. The Japanese also urged China to take steps to raise the value of the yuan.

Premier Wen pronounced the meetings a success, observing “It’s clear China and Japanese relations have taken another step forward, especially in the areas of trade and commerce.” Progress momentarily took a half step back in Tokyo, when it was learned that the Chinese had unilaterally edited the Chinese language draft of a joint press communiqué statement issued at the conclusion of the meeting, omitting the Japanese call on China to revalue the yuan. The *Asahi Shimbun* quoted an anonymous Japanese official as saying that the Chinese action “will erode the trust between the two countries,” while another labeled it a “reckless act that should not be done diplomatically.” A source familiar with the China-Japan relationship offered the opinion that the action must have been taken at the request of CCP leadership.

The Japanese released the Japanese text of the document Dec. 1, while Beijing issued the Chinese language text Dec. 3. Initial Japanese protests went through diplomatic channels, but the story became front-page news the following weekend. On Dec. 10, Foreign Minister Koumura attributed the omission to “some slip-ups.” Chief Cabinet Secretary Machimura, was less forgiving, characterizing the action as “unthinkable.” He went on to say that “issuing something that is different in content from what was agreed upon or deleting part of it is something on the order of unthinkable from the viewpoint of international practices, and it is beyond my understanding as to why that happened.”

On Dec. 11, the Chinese Foreign Ministry Deputy Spokesperson Qin Gang answered by pointing out that since the communiqué was not a “joint document,” it was “normal that the two sides’ contents are not identical.” In Tokyo, the Foreign Ministry cautioned against overreacting to the incident, given the continuing improvement in bilateral relations. A week later, Japanese media reported that the prime minister would visit China at the end of December.

Underscoring the continuing expansion in commercial ties, the *Nikkei Shimbun* on Dec. 17 reported that Mitsui Chemical and Mitsubishi Gas-Chemical, both producers of basic materials, had decided to produce high-function materials, such resins used in automobiles and electronic appliances in China. Mitsubishi Gas-Chemical is planning to invest in the construction of a polycarbonate plant in Shanghai to begin operating in 2010, while Mitsui Chemicals will invest in a Shanghai plant that will begin production in 2012 to produce phenols. The *Nikkei* story also reported that Asahi Glass has initiated production of energy-saving glass in its plant in Dalian. Meanwhile Mitsubishi Heavy Industries announced its plan to join with China’s Harbin Group to manufacture in Heilungjiang Province equipment used in nuclear power plants.

### **Ozawa in Beijing**

Democratic Party of Japan (DPJ) President Ozawa Ichiro, accompanied by 46 members of the Diet, visited China from Dec. 6-8. On Dec. 7, Ozawa met President Hu for 30 minutes in the Great Hall of the People. Also attending the meeting were DPJ Deputy President Kan Naoto, Diet Affairs Committee Chairman Yamaoka Kenji, and former Foreign Minister Tanaka Makiko, whom the Chinese asked to attend.

During the meeting Hu praised the improvement in the relationship that gathered momentum under former Prime Minister Abe and stressed the importance of strengthened relations in dealing with the problems of energy and the environment. Hu also noted that the dialogue on defense and security issues has advanced and the two countries were cooperating on the denuclearization of North Korea. Reflecting on the progress in bilateral relations, Hu stressed that “if we cooperate, we will benefit, but, if we go against each other, we will lose.” In reply, Ozawa noted that, given the different stages of political and economic development that marked the countries of Asia, peace and prosperity were unattainable “without mutual cooperation.” To that end, he described Japan-China relations as “significant” and emphasized the need to build a “relationship of trust.”

After the meeting, Ozawa told reporters that “The DPJ has carried out diplomacy. I hope our efforts will create a certain level of public confidence in our party.” Should the DPJ gain power,

the party would work “to create equal partnerships with the U.S. and China.” The delegation also met with Li Yuanchao, head of the Chinese Communist Party’s Organizational Bureau and Hu Chunhua, first secretary of the Communist Youth League.

### **History: Yasukuni and Nanjing**

On Oct. 6, speaking in Tsukushinai, Koga Makoto, president of Japan’s War Bereaved Families Association, addressed the issue of the enshrinement of Japan’s Class-A war criminals in the Yasukuni Shrine. Koga argued that Japan’s wartime leaders should be held responsible for the sacrifices and losses endured by Japan’s citizens and called attention to the study group within the Bereaved Families, now engaged in considering the dis-enshrinement of the Class-A war criminals. Koga wanted Yasukuni to be a memorial where all citizens, including the emperor, could pay homage to Japan’s war dead. Before departing for China, Ozawa called the enshrinement of Class-A war criminals “irrational,” pledged that should he become prime minister, he would not make an official visit to the shrine, and expressed his support for dis-enshrinement. Earlier, Prime Minister Fukuda told reporters that Yasukuni was a major reason for his not running in the LDP’s presidential race in September 2006.

On Dec. 13, the 70th anniversary of the Nanjing Massacre, the Nanjing Massacre Memorial reopened after a two-year period of expansion and renovation.

### **Security**

The *Nikkei Shimbun* on Oct. 9 carried a story on the shift of some Japan’s Self-Defense Force (SDF) units to Japan’s southwest. The report told of the pending 2008 deployment of 20 *F-15* fighters to Naha Air Base in Okinawa and of *Apache* attack helicopters to Saga Prefecture. The deployments are aimed at protecting Japanese territory, in particular the Senkaku Islands, in the face of China’s growing military strength. To assuage Chinese concerns over the *F-15* deployment, the Ministry of Defense characterized the transfer as “rotational.”

At the same time, the long-delayed exchange of mutual port calls, initially agreed to in October 2000, finally materialized. On Nov. 28, the PLA Navy’s *Luhai*-class destroyer *Shenzhen*, welcomed by the SDF destroyer *Ikazuchi*, anchored at Harumi pier in Tokyo Bay, marking the first-ever port call by a PLA warship in Japan.

On board the ship, R. Adm. Xiao Xinnian told reporters that China’s on-going military modernization and expansion should not be a matter of “concern,” as China’s military strategy is “defensive” in nature. Xiao added that China “does not want to be a superpower or take over the world.” China’s Ambassador Cui said that the visit “opens a new page in the two countries’ defense exchange and that advancing friendly exchanges in the security field holds important significance for the strategic reciprocal relationship.” Maritime SDF Chief of Staff Yoshikawa Eiji greeted the *Shenzhen* saying that the visit “will lead to strengthening the relationship of mutual trust between our two countries” and promote “friendship and goodwill in our bilateral relations.”

There were, however, limits to the exchange. A scheduled visit to one of Japan's *Aegis*- class warship was cancelled. On Nov. 30, Minister of Defense Ishiba Shigeru denied that the cancellation had anything to do with a reported protest from the United States.

### **Run-up to the Fukuda visit**

In the week before the prime minister's arrival in China, government officials in Tokyo and Beijing began to preview the trip and the bilateral agenda. On Dec. 21, Chief Cabinet Secretary Machimura told a press conference that he expected the talks to cover a wide range of bilateral, regional, and international issues including North Korea and the East China Sea. With regard to the latter, however, he was not optimistic. Machimura noted negotiations were continuing, but was uncertain "whether a good report can be compiled in the remaining time." Nevertheless, Japan would continue to make the "utmost effort" to resolve the issue "as soon as possible." In the end, he hoped that the visit would be "meaningful for further enhancing the mutually beneficial relationship based on common strategic interests."

The day before, Ambassador Cui, in a speech at the National Press Club in Tokyo, said that he thought that the East China Sea dispute could be resolved if both sides would address the issue from a long-term perspective and in a sincere manner. On Dec. 25, Chinese Foreign Ministry spokesperson Qin Gang released the schedule for the prime minister's visit and observed that the visit "will carry a significant meaning for the development of China-Japan relations. With regard to the East China Sea issue, Qin called for early agreement on the principle of joint development, while shelving resolution of the dispute. Nevertheless, he acknowledged that talks were at a "stalemate" but said China would continue to address the issue in a "positive and practical manner."

On Dec. 25, the *Yomiuri Shimbun* reported that China's Vice Minister of Foreign Affairs Wang Yi, formerly ambassador to Japan, had secretly visited Japan the previous week and met Vice Foreign Minister Yachi Shotaro. Seeking a breakthrough on the East China Sea dispute before Fukuda's visit, Wang advanced a proposal for joint development of new oil and gas fields in the area of the median line boundary. Government sources, however, told the *Yomiuri* that discussions had proved unavailing.

On the afternoon of Dec. 27, in a meeting with reporters at the Kantei prior to his departure for China, the prime minister said that he was relaxed about the visit and, because meetings between heads of government are rare, thought that they would "try to speak candidly." As for the East China Sea dispute, Fukuda said that while concrete discussions would be held, matters like negotiations are best handled at the working level. While an early resolution was preferable, the prime minister's comments suggested the difficulties involved.

On the morning of Dec. 27, Fukuda met leaders of coalition partner Komeito Party to discuss an initiative to establish a jointly financed Japan-China Environment Fund. On the evening of Dec. 25, Fukuda told representatives of the Chinese media that he wanted to "give concrete form to the strategic reciprocal relationship" and, building on the steps taken by Prime Minister Abe, "raise the relationship to new level." In particular, he wanted to advance cooperation on

improving the efficiency of coal-fired thermal power plants, preventing water pollution, and the structuring of a recycling economy.

## **Fukuda in China**

The prime minister arrived in Beijing on the evening of Dec. 27 to a red carpet welcome. Japanese flags decorated the streets in the vicinity of Tiananmen Square and the hotels where Fukuda stayed. His speech to a Beijing University audience was televised nationally – only the second time that a speech by a foreign leader has been given such coverage, the first being President Bush’s speech in 2005. Further, at the conclusion of his meeting with Premier Wen, the two leaders held an unprecedented joint news conference. Fukuda and Wen also played catch in the Diaoyutai Guesthouse gymnasium, with each leader wearing a red baseball cap with a scripted white C on the front.

Fukuda met Wen for two hours on the morning of Dec. 28 in the Great Hall of the People. At the start of the meeting, Fukuda told Wen that the two countries “are now facing a big opportunity and responsibility” and that he wanted Japan and China to work together for the “future of Asia and the world.” The meeting produced agreement on areas in which the two countries could cooperate which included energy, the environment and climate change, and the promotion of personnel exchanges, including military officers. With regard to the East China Sea, the two leaders agreed to seek the earliest possible resolution. Fukuda reassured China that Japan did not support efforts on Taiwan to hold referenda on membership in the UN if it would lead to a unilateral change in the status quo and that Japan’s policy of supporting peaceful resolution of cross-strait relations remained unchanged. Wen promised China’s cooperation in resolving the abductee issue and the denuclearization of North Korea.

At the joint press conference following the meeting, Fukuda told reporters that “we have only one direction to pursue for Japan-China relations ... to further reinforce ties.” As a result of the meeting, he believed that mutual understanding had deepened. Referring to the rain at the time of his April visit to Japan, Wen quoted a Chinese proverb with regard to the snow in Beijing, namely that “snow is the harbinger of a rich year.” Wen thought the relationship had “taken a step forward.” Fukuda acknowledged the existence of “various problems” but went on to say “we must seek ways to overcome those challenges.” He also noted that the relationship was no longer simply bilateral in nature but had regional and global implications. Without going into detail, both leaders agreed that “progress” had been made on the East China Sea issue.

In the afternoon, Fukuda delivered an address to a Beijing University audience. Fukuda said that Japan’s militarism represented an “unfortunate period” in its history and expressed his belief that “it is our responsibility to squarely look at it and pass it on to our offspring.” Future mistakes could only be prevented “if we properly look at the past and have the courage and wisdom to repent what we must repent.” Looking ahead, the prime minister defined Japan and China as “major presences” with “the abilities to contribute to the stability and development of Asia and the world...”

In the evening, Fukuda met President Hu who hosted a dinner at the Diaoyutai Guest House. The two leaders reaffirmed commitments to cooperate in the areas of energy, the environment,

and information technologies. Hu said that he wanted to work with Fukuda “to carve out a beautiful future for Japan and China.” He believed that the prime minister’s visit would “contribute to facilitating the mutually beneficial and strategic relationship and developing Japan-China relations.” With the Chinese government, Hu said he attached “great value to China-Japan relations.” There were, of course “delicate issues,” which China hoped to resolve “in an appropriate manner.” In reply, Fukuda acknowledged that on issues such as the East China Sea, “it is impossible to reach agreement on every aspect, but the gaps of views between the two countries are shrinking.” Hu told Fukuda that that he wanted to finalize plans for his trip to Japan as soon as possible.

Following his meetings in Beijing, Fukuda traveled by automobile to Taijin on Dec. 29, where he visited a Toyota plant and visited an Exhibition Hall, then flew to Jinan in Shandong Province. On Dec. 30, he visited the boyhood home of Confucius in the city of Qufu and returned to Japan later that evening.

## **Outlook**

The exchange of high-level visits, beginning with Prime Minister Abe’s trip to China at the end of 2006, appears to have turned a page in the bilateral relationship. For the moment, the two countries are accentuating the positive, cooperating in areas of mutual benefit, such as energy and the environment, while downplaying differences, such as the East China Sea. Provided the East China Sea remains calm, planning for the upcoming 2008 visit of President Hu should keep relations moving in a positive direction.

## **Chronology of Japan-China Relations October-December 2007**

**Oct. 1, 2007:** PM Fukuda delivers his first policy speech to Diet and commits to building a strategic reciprocal relationship with China.

**Oct. 5, 2007:** FM Koumura calls for the early resolution of the East China Sea issue to facilitate an early visit to China by PM Fukuda.

**Oct. 6, 2007:** President of Japan’s War Bereaved Families calls for dis-enshrinement of Japanese Class-A war criminals from Yasukuni Shrine to allow all Japanese, including the emperor, to pay homage at the shrine.

**Oct. 11, 2007:** FM Koumura meets new Chinese Ambassador to Japan Cui Tiankai and calls on China to make political decision to resolve East China Sea dispute.

**Oct. 11, 2007:** DPJ President Ozawa meets with the Chinese ambassador and reveals plans to visit China, Dec. 6-9.

**Oct. 15, 2007:** Director General for Asian and Oceanic Affairs Sasae meets the LDP committee on maritime issues and communicates unofficial hints from the Chinese of possible progress on the joint development of East China Sea.



**Oct. 15-21, 2007:** Chinese Communist Party National Party Congress meets in Beijing.

**Oct. 16, 2007:** Japanese national is arrested in Shenyang in connection with illegal brokering of organ transplants.

**Oct. 18, 2007:** Supra-party delegation of 67 parliamentarians visits Yasukuni Shrine during the Autumn Festival.

**Oct. 23, 2007:** Shenyang Court rejects the appeal of death sentence from Japanese national convicted of drug trafficking.

**Oct. 28, 2007:** Chinese activists who enter Japanese waters in area of Senkaku Islands are warned off by Japanese Coast Guard ships. Upon return to China, the activists are detained and freed on Oct. 31 after pledging not to return to the Senkaku Islands.

**Oct. 28, 2007:** Japan and Taiwan reach a new air agreement, allowing ANA and JAL to fly directly to Taiwan rather than using subsidiary corporations and providing new routes to Japan for Taiwan's China Airlines.

**Nov. 2, 2007:** Chinese Ambassador Cui presents credentials to emperor and emphasizes his commitment to building bonds of mutual trust and confidence as foundation of strategic reciprocal relationship.

**Nov. 10, 2007:** FM Koumura expresses hope for substantive progress in talks on East China Sea.

**Nov. 14, 2007:** Chinese and Japanese diplomats meet in Tokyo at director general-level in an effort to resolve East China Sea dispute without success.

**Nov. 14, 2007:** Source reports that former Chinese embassy official has been sentenced to death for disclosing military intelligence to Japanese officials.

**Nov. 14, 2007:** Dalai Lama arrives in Japan for 10-day visit.

**Nov. 15-16, 2007:** PM Fukuda visits Washington, D.C. and meets with President Bush.

**Nov. 16, 2007:** Chief Cabinet Secretary Machimura meets Ambassador Cui and conveys the intent to resolve the East China Sea issue before PM Fukuda visits China

**Nov. 16, 2007:** Dalian authorities refuse customs clearance and ask for explanation from JAL for in-flight magazines sent to airlines' Dalian office in which the words "Senkaku Islands" appear. A week later, following an appeal by Japanese consul, the incident is resolved and customs clearance is approved.

**Nov. 20, 2007:** PM Fukuda meets Premier Wen in Singapore on the sidelines of the ASEAN Summit meeting. They also meet South Korea's President Roh Moo-hyun.

**Nov. 21-23, 2007:** Taiwan's presidential candidate Ma Ying-jeou visits Japan and meets political and government officials.

**Nov. 23, 2007:** Dalai Lama meets Secretary General of the DPJ Hatoyama.

**Nov. 28, 2007:** PLA Navy destroyer arrives in Japan, marking first-ever visit of PLA warship to Japan and first step in agreed to reciprocal port call visits.

**Nov. 29, 2007:** Diet passes legislation providing benefits up to ¥146,000 per month to war-displaced Japanese nationals. In response, on Dec. 7 and Dec. 13, a total of 58 war displaced individuals drop suits seeking compensation for insufficient post-war support.

**Dec. 1-2, 2007:** FM Koumura leads a Cabinet delegation to Beijing for the first Japan-China High-Level Economic Dialogue. During the visit Koumura meets separately with Chinese FM Yang and State Councilor Tang to discuss the East China Sea dispute.

**Dec. 2, 2007:** DPJ President Ozawa meets Ambassador Cui to exchange views on North Korea. The ambassador reveals that Kim Jong-il has drastically reduced his alcohol consumption.

**Dec. 3, 2007:** FM Koumura meets President Hu and urges China to take a political decision to resolve East China Sea dispute.

**Dec. 5, 2007:** PM Fukuda meets war-displaced Japanese and apologizes for suffering endured.

**Dec. 5, 2007:** Chief Cabinet Secretary Machimura announces the formation of a Foreign Policy Study Council to advise the prime minister on his pending visit to China and the 2008 G8 Summit, which Japan will host at Lake Toya.

**Dec. 3-11, 2007:** Controversy emerges over the wording about valuation of the yuan in the document issued at conclusion of the High-Level Economic Dialogue.

**Dec. 6-8, 2007:** DPJ President Ozawa visits China and meets President Hu.

**Dec. 13, 2007:** In conjunction with the 70<sup>th</sup> anniversary of Nanjing massacre, the Memorial Museum reopens in Nanjing after a two-year refurbishment.

**Dec. 14, 2007:** Taiwan's representative to Japan in speech delivered at the 52<sup>nd</sup> Wakayama dialogue calls for cooperation to deal with the threat posed by China.

**Dec. 16-20, 2007:** Taiwan's Democratic Progressive Party presidential candidate Hsieh Changting visits Japan and in a Dec. 16 speech at his *alma mater*, Kyoto University, calls China a threat to regional security and seeks security assurances from Japan.

**Dec. 17, 2007:** Japanese media report that PM Fukuda will visit China Dec. 27-30.

**Dec. 18, 2007:** Japan announces the introduction of competitive bidding contracts to deal with the disposal of chemical weapons abandoned by the Imperial Army in China.

**Dec. 20, 2007:** Ambassador Cui, speaking at National Press Club, offers hope for resolution of East China Sea dispute.

**Dec. 21, 2007:** Chief Cabinet Secretary Machimura expresses doubts that East China Sea issue will be resolved before the Prime Minister's visit to China.

**Dec. 27-30, 2007:** PM Fukuda visits China and meets Premier Wen and President Hu on Dec. 29, travels to Taijin and Shandong Province on Dec. 29, and visits Confucius' boyhood home in Qufu city on Dec. 30.





Japan-Korea Relations:  
**Lost in the Six-Party Talks**

David Kang, Dartmouth College  
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The final quarter of 2007 was eventful and left observers in both Japan and South Korea cautiously optimistic about bilateral relations. Both Japan and South Korea chose new chief executives this fall, and both of them promised to search for more collaboration and to begin repairing relations between the two countries. Halting progress on North Korean denuclearization through the Six-Party Talks led to hope that momentum could be sustained, although Japan for the time being has chosen to be supportive but skeptical of North Korea's promise to denuclearize, and continued its sanctions against the DPRK. Indeed, North Korea's missed deadline for declaring its nuclear programs was a reminder that progress in relations with North Korea is never straightforward or easy. Although no country has decided to forego the process, it is unclear how relations between North Korea and other states in the region will evolve in 2008.

**Japan-North Korea relations: 'wait and see' from Fukuda & Kim**

Japan-North Korea relations continued to flounder during the past quarter although there were small signs of a shift in Japan's hardline policy toward Pyongyang. While the Six-Party Talks made important strides toward denuclearization, Japan extended its unilateral sanctions on Pyongyang for another six months over a lack of progress in the abduction issue, and pressed Washington not to drop North Korea from the list of state sponsors of terrorism. North Korea, while engaging in the Six-Party Talks, took a "wait and see" approach toward Tokyo to observe what new Prime Minister Fukuda Yasuo and his Cabinet might do to push bilateral negotiations forward. Despite the continuing pressure from families of abductees, the Japanese government appeared to soften its tone in an attempt to avoid diplomatic isolation.

Fukuda's inauguration in September did not produce a swift change from the policies pursued under Prime Minister Abe Shinzo. The quarter began with Japan's reiteration of its "unchanged stance" toward Pyongyang; on Oct. 9, Fukuda's Cabinet approved extension of the sanctions on the grounds that no specific progress on the abduction issue has been made and other conditions have not been met. In April sanctions had already been extended once after their original imposition following North Korean ballistic missile launches into the Sea of Japan/East Sea in July 2006. Those original sanctions banned port calls by the North Korean cargo-passenger ferry *Mangyongbong-92*, which had been the only direct passenger link between the two countries. In October 2006, Pyongyang's nuclear test prompted Japan to expand the scope of sanctions to include a ban on all imports from North Korea, while prohibiting North Korean nationals from

entering Japan and banning Japanese exports of 24 items, including luxury food items. According to the *Yomiuri Shimbun*, on Sept. 30, Chief Cabinet Secretary Machimura Nobutaka said that while Japan might review its policy if progress is made, currently Japan “is not in a situation in which it can stop or ease the sanctions.”

Japan’s “unchanged stance” seemed to be confirmed with its refusal to provide aid to North Korea after the six-party deal was struck in early October, when Pyongyang promised to disable its nuclear facilities, including the Yongbyon reactor, and to provide a complete declaration of all of its nuclear programs by the year’s end. While the Japanese government “valued” the progress in the Six-Party Talks, Foreign Minister Komura Masahiko clarified Japan’s position: no aid will be provided until progress on the abduction issue is made. Quoted in the *Kyodo News* Oct. 4, however, Prime Minister Fukuda sounded more positive when he said progress in the nuclear issue can be linked to produce a move toward a resolution of problems between Japan and North Korea, especially the abduction issue.

In Japan, conservative commentators and the relatives of the abductees expressed more explicit dissatisfaction over the Six-Party Talks deal. The *Yomiuri Shimbun* described the agreement as Pyongyang’s “nuclear blackmail paying dividends,” and saw it as “a bitter pill that has left a sour taste in Japan’s mouth.” *Yomiuri* argued that the joint statement only covered facilities in Yongbyon and did not mention the nuclear weapons that Pyongyang is believed to possess, nor its uranium enrichment program. According to the daily, the Japanese government remained dissatisfied on many points, but approved the document “out of consideration for the U.S., South Korea, and other participants in the Six-Party Talks.”

In November, the families of Japanese abductees headed to Washington and met U.S. top negotiator Christopher Hill and Republican lawmakers to urge them not to remove Pyongyang from the U.S. list of state sponsors of terrorism. Republican lawmakers then introduced a bill that would require the U.S. to keep the North on the list until Pyongyang comes clean about all suspected abducted Japanese, while Japan’s Parliament passed a similar resolution. The *Yomiuri Shimbun* reported on Dec. 8 that a survey revealed that 75 percent of Japanese respondents felt that Washington should keep the North on its list of state sponsors of terrorism until the abduction issue is resolved, and 76 percent of U.S. respondents agreed.

During President Roh Moo-hyun’s visit to Pyongyang in early October, Kim Jong-il said that he wanted to see what stance Japan’s new prime minister and his Cabinet take toward Pyongyang before deciding whether the North would take conciliatory steps toward Tokyo. Roh was said to suggest that Pyongyang make the first move to improve relations with Japan, according to the *Asahi Shimbun* on Oct. 6. Similarly, North Korea’s top negotiator Song Il-ho said that Prime Minister Fukuda’s dialogue-oriented policy on the North is “worthy of note,” during his interview with *Kyodo News*.

Worthy of note as well this quarter was Pyongyang’s new “songs of engagement” with the international community. The South Korean daily *Choson Ilbo* noted on Oct. 31 that North Korea’s official and quasi-official media were speaking the language of “international economic relations,” “the need to respect rules in international relations,” and “the position that it wants to develop good neighborly relations even with capitalist countries.” The Workers’ Party daily

*Rodong Shinmun* editorial on Oct. 29 said, “The time has passed when we had to carry out production and construction with our bare hands. Korea lives in the world.”

The future of Japan-Korea relations seems largely dependent upon developments in the Six-Party Talks. Even though North Korea missed the Dec. 31 deadline to declare its nuclear facilities, if it can do so early in 2008, then Fukuda is likely to have a better chance at shifting Japanese foreign policy away from the abduction dominated agenda. Small signs of change began to emerge during this quarter as well; on Oct. 25, Foreign Minister Komura said that Japan may consider the return of “some” of the still-missing Japanese as a sign of “progress” on the issue. Earlier that month, Japan also replaced language “condemning the nuclear test” with observations of “recent progress” in the Six-Party Talks when it called on the UN General Assembly to adopt a nuclear disarmament resolution calling for sanctions.

### **Japan-South Korea relations: Japan happy with President-elect Lee**

With Lee Myung-bak’s victory in the South Korean presidential election on Dec.19, both Japan and South Korea chose new chief executives this fall, which led many observers to predict that bilateral relations would improve. Earlier in the quarter, Japan kept a close eye on the inter-Korean summit for its possible impact on the South Korean presidential election and for its implications for Japan’s security in general. Tokyo was critical of President Roh’s conciliatory remarks in Pyongyang and viewed them as “indulging” North Korean leader Kim Jong-il. Although Tokyo does not seem to expect a radical shift in South Korea’s engagement policy toward the North, it welcomed the victory of Lee as a move that could bring South Korean politics back to the center. While future bilateral ties remain to be seen, both Seoul and Tokyo seemed eager to move away from history issues and rocky relations, and to search for a more mutually beneficial relationship based on pragmatism.

President Roh’s conciliatory gestures toward North Korean leader Kim during his visit to Pyongyang met with criticism both in South Korea and Japan as being “overly considerate of North Korea.” Roh’s remarks that outsiders should “not go on and on about reform and opening up to North Koreans” were not well received by the Japanese, who had just decided to extend unilateral sanctions against Pyongyang for another six months. The *Yomiuri Shimbun* wrote on Oct. 5 that Roh’s attitude was “unconditionally accepting of the current situation in North Korea,” even though key issues such as the North’s nuclear programs and the abduction issues remained unresolved. Japan’s other major dailies joined the South Korean media in criticizing Roh and largely viewed his conciliatory gestures as “playing nationalist cards to win support” in the upcoming presidential election for progressive forces in South Korea. The *Japan Times* editorialized on Nov. 24 that both President Roh and North Korean leader Kim were attempting to influence the campaign dynamic by currying favor with South Korean voters.

Thus, Lee Myung-bak’s victory in the South Korean presidential election was a great relief to Japan, especially since Lee said that he would not shy from criticizing North Korea’s authoritarian regime. In fact, an end to a decade of left-leaning presidents in South Korea might turn out to be a watershed in the bilateral relations, as the Fukuda-Lee combination could narrow differences in the two countries’ views on key issues. During President Roh’s five-year tenure, both Tokyo and Seoul have undergone important structural changes in their domestic politics as

well as foreign policy. Under Prime Ministers Koizumi and Abe, Tokyo became more hard-line, with foreign policy priorities centering on resolving the abduction issue by pressuring Pyongyang, while Seoul has grown more progressive and leaned toward the North.

In light of President-elect Lee Myung-bak's "MB doctrine," South Korea is likely to stress pragmatism in its foreign policy, while focusing on strengthening the alliance with the U.S. and searching for better cooperation with Japan. During their 15-minute phone conversation on Dec. 21, Fukuda and Lee agreed that they "share basic values" and emphasized the importance of trilateral cooperation between Japan, South Korea, and the U.S. in solving the North's nuclear issue. Lee voiced appreciation for Japan's efforts in the Six-Party Talks, while Fukuda stressed the need for friendly relations between Tokyo and Seoul for stability and prosperity in Northeast Asia. On Dec. 19, Japan's Chief Cabinet Secretary Machimura Nobutaka said in a press conference that Japan hopes for better relations with Seoul and described Lee as "a businessman-turned-politician who makes practical decisions," reported the *Yomiuri Shimbun* on Dec. 20. Machimura also said that Fukuda might attend Lee's inauguration in late February if invited.

During this quarter, a release of a report from a South Korean government panel revealed that former President Park Chung-hee tacitly approved the kidnapping of Kim Dae-jung in 1973 on Japanese soil, raising problems in both Tokyo and Seoul. The report expressed "deep regrets" to Japan over the incident, but also criticized Tokyo for "having agreed to a diplomatic settlement" without pressing the matter. Upon the report's release, Japan on Oct. 24 called for an apology from South Korea for violating Japan's sovereignty. Former President Kim Dae-jung himself told a news conference that "the Japanese government had its sovereignty infringed upon by South Korea and at the same time neglected its duty of protecting me." Chief Cabinet Secretary Machimura responded by saying, "if he really thinks so, why didn't he tell the Japanese government about it when he was serving as president," calling Kim's comment "strange." The somewhat awkward diplomatic situation was smoothed over when the Japanese government decided to settle for an expression of "regret" from South Korean Ambassador to Japan Yu Myung-hwan to Japanese Foreign Minister Komura. Prime Minister Fukuda also told reporters on Oct. 30 that Japan would not pursue the issue further, stressing the importance of seeking better bilateral ties "in a future-oriented manner."

Later in the quarter, Japan and South Korea held their 10<sup>th</sup> bilateral talks in Tokyo from Dec. 11-14, and maritime officials from Tokyo and Seoul reached agreement on fishing quotas. Following the agreement, Japan and South Korea will reduce next year's fish catch in each other's exclusive economic zone by 500 tons to 50,000 tons. According to the *Joongang Ilbo* on Dec. 19, it was the third consecutive annual drop in the two countries' fishing quotas; Tokyo and Seoul cut the amount by 3,000 tons last year and 3,500 tons in 2005.

## **Economic relations**

Japan-South Korean economic relations continued to deepen during this quarter as the two economies became more integrated. KT Corporation, South Korea's largest fixed-line telephone and internet operator, agreed to build a strategic alliance with a Japanese consortium and joined in bidding efforts for the mobile internet business in Japan, reported the *Joongang Ilbo* on Oct. 12. Hynix Semiconductor, the world's second largest manufacturer of DRAM chips, announced



its intention to increase its market share in Japan to 20 percent by the first half of 2008. The *Korea Times* reported Nov. 30 that, according to the market research firm Gartner, Elpida took first place with a 33 percent share in 2006 of the Japanese DRAM market, while Samsung Electronics held a 30 percent share.

Korea Customs Service data showed that South Korea faces a record-high trade deficit with Japan for the second straight year. The deficit was \$21.96 billion from January through September, up 16 percent from the same period last year. South Korea's trade deficit with Japan has gone up in recent years from \$11.36 billion in 2000 to \$14.71 billion in 2002 and \$24.44 billion in 2004. South Korea's dependence on Japanese technology and industrial goods were the main reasons for this record deficit.

The *Korea Times* reported an interesting survey on Dec. 11 of 340 Japanese firms operating in South Korea and 350 Korean companies in Japan and conducted by the Korea Chamber of Commerce and Industry. According to the survey, 22.5 percent of Japanese firms felt that a possible "bubble burst" was the biggest risk factor in the South Korean economy, while 13.4 percent cited labor-management and 9.9 percent worried about pay hikes. Among 350 Korean firms operating in Japan, 41.3 percent responded that the Japanese yen's depreciation against other foreign currencies -- including the Korean won and the U.S. dollar -- was the biggest risk to the Japanese economy. The survey also revealed that 69.3 percent of South Korean firms and 71.2 percent of Japanese counterparts welcomed an FTA between Tokyo and Seoul.

Competition between Japan and South Korea continued in the IT sector. Sharp Corp. sued Samsung Electronics Co. on Dec. 12 over an alleged patent violation for liquid crystal displays. In its lawsuit filed in Seoul Central District Court, Sharp Corp. expanded on a legal patent battle that had begun in the U.S. District Court for the Eastern District of Texas in August, and demanded that Samsung Electronics Co. stop sales and manufacturing of display panels and LCD TVs. A Samsung spokesman said that it would deal with the lawsuit aggressively.

The World Trade Organization has ruled that Japan's countervailing duties on computer chips made by South Korea's Hynix Semiconductor Ind. are illegal under international trade rules and ordered Japan to remove the punitive trade barrier. South Korea filed a complaint with the WTO in March last year after Tokyo imposed a punitive tariff of 27.2 percent on Hynix memory chips and accused Hynix of receiving an unfair subsidy from the South Korean government in 2002.

According to the Korea Chamber of Commerce and Industry, 307 travel agencies said that Japan was the most competitive among Asian countries in tourism infrastructure, followed by Southeast Asian countries, South Korea, and China. In terms of prices of tourism products, China ranked first, putting South Korea's tourism behind Japan in infrastructure and behind China in prices of tourism products. On Oct. 28, triangular flight operations began between South Korea's Gimpo airport, China's Hongqiao airport, and Japan's Haneda airport. South Korea and Japan have operated regular flights between Gimpo and Haneda since 2003.

## **Society and culture**

During this quarter, after the U.S. and the Netherlands endorsed a resolution on the “comfort women” issue, the call for the Japanese government’s official apology for women forcefully conscripted during the World War II continued to gain international support. Three women drafted as sex slaves by Japan during World War II testified for the first time before the European Parliament, and the Parliament adopted a resolution on Dec. 13, asking Tokyo to “formally acknowledge, apologize, and accept historical and legal responsibility” for the sexual enslavement. On Nov. 29, the Canadian House of Commons also unanimously approved a resolution and called on the Japanese government to admit its enslavement of over 200,000 women from neighboring Asian countries during the World War II. It also urged Tokyo to compensate the victims and clarify in textbooks the crime committed by the Japanese military, reported the *Choson Ilbo* on Nov. 30.

The South Korean Foreign Ministry decided to provide 1.5 billion won next year to help ethnic Korean farmers in Utoro, Japan retain their land from forced eviction. The ethnic Koreans in Utoro – a district in the city of Uji, Kyoto Prefecture – are descendants of Koreans who were forcefully migrated under Japanese colonial rule to build an air base there. When the war was over, the Japanese courts denied their property rights, and legal battles have gone on for many years. According to the UN special rapporteur in July 2005, the ethnic Koreans in Utoro have lived under the constant threat of eviction with a “lack of basic infrastructure.”

In a reverse tide from “the Korean Wave,” “the Japanese Wave” continued to rise in South Korea, as Japanese cultural products have been welcomed by South Koreans. According to the *Choson Ilbo* on Nov. 29, since South Korea opened its doors to the Japanese cultural products in January 2004, the number of Japanese movies and TV dramas has steadily risen. In 2007, a total of 81 films were shown, compared with 29 in 2004, 34 in 2005, and 51 in 2006. Big names such as Takuya Kimura, Jo Odagiri, the star of the popular Japanese film, “Mezon Do Himiko,” and Satoshi Tsumabuki from “Josee, the Tiger and the Fish” have all visited South Korea to promote their films.

In Japan, the Korean Wave continued to prosper. South Korean pop stars Boa and TVXQ won Gold Artist awards at the Japanese 2007 “Best Hit Pop Song Festival” for their record sales. Starring Korean Wave icon Bae Yong-joon, the TV drama “Taewangsingi” (“The Four Guardian Gods of the King”) has been broadcast on cable TV since Dec. 3, and will air on the national network NHK TV next year. The drama depicts the life of King Gwanggaeto, known as the Great Expander of ancient Korean history. A guidebook accompanying the drama series with photos, character sketches, plot summaries, and detailed historical background information sold out its first 30,000 copies in July. The second volume was released in October and continued to enjoy high sales according to SDD, the Japan-based distributor of the drama.

## **The next quarter**

The first quarter of 2008 will be important given North Korea’s missed deadline to declare its nuclear facilities. If North Korea can make a declaration sometime in early 2008, it is likely that momentum will build for increasing cooperation with the DPRK. However, if North Korea does

not make a declaration, it is likely that tensions will rise around the region. President Lee will need to decide how best to deal with the North, and his policies may come more in line with those of Fukuda.

Also, both Fukuda and Lee will be in the initial stages of their administrations and attempting to forge a more cooperative relationship. As of now there are no major initiatives planned in either capital, but sometime this year it would not be a surprise to see a summit between the two that has symbolic, if not substantive, meaning.

### **Chronology of Key Events: Japan-Korea Relations October-December 2007**

**Oct. 1, 2007:** South Korea's Nexon Mobile game developer announces at the Tokyo Game Show 2007 that the company has made agreements with three major Japanese mobile communication companies, Softbank Mobile, KDDI, and NTT DoCoMo.

**Oct. 2-4, 2007:** South Korean President Roh Moo-hyun and North Korean leader Kim Jong-il hold an inter-Korean summit. Roh urges Pyongyang to forge better bilateral relations with Tokyo. Kim is said to reiterate that the abduction issue is over.

**Oct. 3, 2007:** Japan says that it values progress in the Six-Party Talks as North Korea agrees to dismantle three nuclear facilities in Yongbyon and declare all its nuclear programs by Dec. 31.

**Oct. 5, 2007:** Foreign Minister Komura says that Japan accepts that a joint document between Seoul and Pyongyang does not mention the abduction issue.

**Oct. 9, 2007:** Prime Minister Fukuda's Cabinet approves the extension of sanctions against Pyongyang on the grounds that no specific progress on the abduction issues has been made as well as other conditions not being met.

**Oct. 21, 2007:** South Korean Customs Service says South Korea's trade deficit with Japan hit a record-high \$21.96 billion from January through September.

**Oct. 24, 2007:** Japan's Chief Cabinet Secretary Machimura calls for an apology from Seoul over its government's role in kidnapping Kim Dae-jung from Japanese soil in 1973 as violating Japan's sovereignty.

**Oct. 25, 2007:** FM Komura says that Japan may consider the return of "some" of the still-missing Japanese as a sign of "progress" on the abductee issue.

**Oct. 30, 2007:** Ambassador to Japan Yu Myung-whan delivers South Korea's "regrets" over its role in kidnapping Kim Dae-jung from Japanese soil in 1973.

**Oct. 30, 2007:** PM Fukuda says that Japan will not pursue the issue of abduction of former South Korean President Kim Dae-jung any further in consideration of better Japan-South Korean relations in a future-oriented manner.

**Oct. 30, 2007:** Kim Dae-jung expresses concern over Japan's conservative moves toward militarism during his speech at Ritsumeikan University, Japan.

**Nov. 11, 2007:** Relatives of Japanese abducted by North Korea during the 1970s go to Washington to ask U.S. officials not to remove Pyongyang from the U.S. list of state sponsors of terrorism.

**Nov. 19, 2007:** PM Fukuda and President Roh hold a meeting on the sidelines of the 11<sup>th</sup> ASEAN Plus Three Summit and the 8<sup>th</sup> East Asian Summit in Singapore. This marks the first summit between Japan and South Korea since Fukuda took office in September.

**Nov. 29, 2007:** Canadian House of Commons approves a resolution calling on the Japanese government to formally admit sexual enslavement of over 200,000 women during World War II.

**Nov. 29, 2007:** South Korea announces the World Trade Organization's ruling that Japan's countervailing duties on South Korea's Hynix Semiconductor Inc. are illegal.

**Dec. 8, 2007:** *Yomiuri Shimbun* reports a survey Japan shows that 75 percent of Japanese respondents said that Washington should keep the North on its list of state sponsors of terrorism until the abduction issue is resolved.

**Dec. 10, 2007:** Governors of Gangwon Province of South Korea and Tottori Prefecture in Japan hold a meeting in Chuncheon, South Korea, and agree to resume cross-border exchanges after a more than two-year standoff. The exchange programs were active between 1994 and 2005, but were suspended over the Dokdo/Takeshima islets dispute.

**Dec. 11, 2007:** Korea Chamber of Commerce & Industry survey shows that one out of five Japanese companies operating in Korea thinks that Korean economy is at risk of bubble-bursting.

**Dec. 11- 14, 2007:** Tokyo and Seoul agree at their 10<sup>th</sup> bilateral talks that they would reduce next year's fishing quota in each other's exclusive economic zones to 50,000 tons.

**Dec. 12, 2007:** Japan's Sharp Corp. sues Samsung Electronics Co. of South Korea alleging patent violations for liquid crystal displays.

**Dec. 13, 2007:** European Parliament passes a resolution on the "comfort women" issue.

**Dec. 17, 2007:** Japan's Maritime Self-Defense Force successfully conducts a test in Hawaii intercepting a missile as part of an effort to build its own missile defense system.

**Dec. 19, 2007:** South Korean *Joongang Ilbo* reports that experts in South Korea express insecurity that Seoul will fall behind in an increasingly competitive arms race over Russia's new development of missiles and Japan's missile test.

**Dec. 19, 2007:** Lee Myung-bak wins 48.7 percent of the vote with the largest margin of victory in a South Korean presidential race since democratic elections began in 1987.

**Dec. 19, 2007:** Chief Cabinet Secretary Machimura in a press conference hopes that the new South Korean President will exercise leadership so that Japan-South Korean relations will develop in a better direction.

**Dec. 21, 2007:** President-elect Lee and Fukuda have a 15-minute telephone conversation and agree to work on better bilateral ties and confirm that they share basic values.





China-Russia Relations:

## Living with Putin's Unfading Glory and Dream

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Succession politics preoccupied both Moscow and Beijing in the last quarter of 2007. The 17<sup>th</sup> Congress of the Chinese Communist Party in October – which positioned China's fifth generation of leadership, particularly Xi Jinping and Li Keqiang, for the post-Hu Jintao China five years from now – paled in comparison to Putin's surprising posturing in early December to shape Russian politics beyond 2008. If his "Operation Successor" is implemented, Deputy Prime Minister Dmitri Medvedev would be elected Russian president in March 2008 and Putin would be prime minister for the next four to eight years. Then, Beijing may well live with Putin's leadership rather than his legacy for the next 16 years as he would be eligible to "succeed" Medvedev as Russian president after Medvedev's first or second term.

Russia and China, meanwhile, continued to interact at global, regional, and bilateral levels in various issues areas. The third Russia-China-India trilateral foreign ministerial meeting was held in late October in China's northeastern city of Harbin. This was followed by the sixth annual prime ministerial meeting of the Shanghai Cooperation Organization (SCO) in early November in Tashkent, Uzbekistan. A few days later, Chinese Premier Wen Jiabao traveled to Moscow for the 12<sup>th</sup> Sino-Russian prime ministerial annual meeting. By the end of year, bilateral trade volume reached an unprecedented \$47 billion after nine consecutive years of growth from 1999 when Putin began his tenure in the Kremlin. Nevertheless, Putin's presidency has also kept the long-expected Russian oil pipeline from extending to China.

### **Putin has his cake and still eats it too**

The last quarter of 2007 will go down in history as Putin's creative unending of his presidency. On Dec. 10, he publicly endorsed Deputy Prime Minister Medvedev as candidate for the United Russia Party in the 2008 presidential election, ending months of speculation about his successor. The following day, the "other shoe" dropped when Medvedev reciprocated by announcing that once elected, he would appoint his mentor to be his prime minister. Putin would therefore be able to stay on as a government insider and maintain the integrity of the Russian constitution, at least in theory.

Putinism – meaning political stability, economic statism, and a more nationalistic and proactive foreign policy – will surely continue. Despite the West's polarized assessment of Medvedev as a liberal or as Putin's shadow, Putin's move is a sharp contrast to any succession politics in

Russia's 20<sup>th</sup> century. Previously, leadership changes have been the outcome of wars, revolutions, or coups and often led to significant if not radical changes in policy.

If Putin outfoxed the West and kept long-time Kremlinologists from seeing his soul, China's Russia-watchers were also surprised. Yet, Chinese analysis of Putin's plans to have his cake and eat it too was far less cynical and/or sinister than that of the West. Throughout December, Chinese pundits and media were feeding their curious audience with abundant and "professional" speculations. They noticed that behind United Russia Party's victory in the Dec. 2 State Duma election (winning 64 percent of the seats) was Putin's unprecedented approval rate (around 80 percent). For average Russians, the Yeltsin malaise – decline, disorder, decay, albeit with a more democratic society – was over, and Russia may have finally found its own identity and path.

For these reasons, among others, China seems cautiously optimistic about future relations with Medvedev's – and Putin's – Russia. The Chinese Foreign Ministry spokesman lost no time in calling the result of the Duma election "the choice of the Russian people." President Hu Jintao sent a congratulatory message. As soon as Putin chose Medvedev as his successor, Chinese diplomats referred to him as "a good friend of the Chinese people" because of his "contributions to the development of relations between our countries" as Russia's co-chairman of the organization committee for national years of the two countries.

Curiously, official Chinese sources have not directly commented on Putin's possible job as prime minister. When Foreign Ministry spokesman Qin Gang was asked about this prospect, his rather indirect answer was that "we pay attention to such statements and we hope that the Russian elections will be successful."

It remains to be seen how Russia's "dream team" in the post-Putin era will interact with the outside world. One thing is clear: Russia will continue to rebuild its traditional status as a major power on the Eurasian continent. In this regard, the Sino-Russian strategic partnership that has guided relations since 1996 may not be an adequate framework because it was formed when Russia was weak and disoriented in the wake of the Soviet collapse. Cooperation and coordination are, and will continue to be, the mainstream of bilateral relations, particularly in foreign policy and in a multilateral environment. Beijing and Moscow, however, may need to be more innovative to manage the emerging dissonance and strains in economic relations, military sales, and even SCO management, which were quite obvious in the last quarter of 2007.

### **Russia-China-Indian trilateralism: A new beginning?**

Moscow's pursuit of Russian-Chinese-Indian trilateralism – a brainchild of former Foreign Minister Yevgeny Primakov (1996-98) to counter U.S. unipolarity and unilateralism – has remained inconsequential and inexplicable. This seemed to change in late October when Foreign Ministers Yang Jiechi, Sergei Lavrov and Pranab Mukherjee held their third trilateral meeting in Harbin, the capital of China's northeastern Heilongjiang Province on Oct. 24. Like the first two meetings (in New Delhi Feb. 14, 2007 and in Vladivostok June 2, 2005), this gathering revealed a huge gap between its potential (the three largest Eurasian nations talking together) and its operational utility. Unlike the previous meetings, however, the Harbin meeting took several small but crucial steps toward institutionalizing the annual meeting for future growth:



- A trilateral consultation mechanism was established at the level of director-general/division head among the foreign ministries to strengthen coordination and cooperation;
- Working-level mechanisms were set up at the director-general/division head to coordinate efforts of the three nations in agriculture, disaster management, medicine and health;
- Entrepreneurs and regions will be encouraged to enhance contacts and launch cooperation among them and facilitate this process;
- There will be a focus on “pragmatic” cooperation in economic and cultural interactions.

At the end of the meeting, the three foreign ministers signed a joint communiqué that was full of high-sounding principles for the conduct of international and regional affairs: to abide by the UN Charter and international laws; to engage in multilateralism for multipolarity; to work on climate change; to promote diversity of civilizations; to strengthen cooperation in combating terrorism, organized trans-border crimes and drug trafficking; and not to target any third party nor to form a military bloc. Although these principles are in almost all foreign policy declarations of the three nations, the fact that they were jointly expressed by the three foreign ministers was significant. “[The] fact that today the three countries have decided to confirm these fundamental principles should give an important signal saying there is no alternative to cooperation in the world if we really want to respond to the existing threats and challenges,” remarked Russian Foreign Minister Lavrov in the press conference following the meeting.

From the operational perspective, this foreign ministerial trilateral resembles the SCO’s early development in that it focuses on building cooperation in functional areas at a lower level while seeking consensus and avoiding differences at the ministerial level. One example is India’s possible role in U.S. missile defense, which has been jointly opposed by Russia and China. It was never put on the agenda, nor was it mentioned in the joint communiqué. Russian and Chinese foreign ministers simply let their Indian counterpart express himself in the post-meeting joint press conference by saying that “India does not take part in such military arrangements. Therefore the question of our participation did not arise [during the trilateral meeting].”

Nor does the joint communiqué refer to Myanmar, which was discussed in the trilateral meeting. Although all three ministers opposed sanctions against Myanmar, they seemed to disagree on how things should be worked out. While China hoped that the issue of Myanmar would be “ultimately” resolved by the Myanmar government and people, and stability should be restored, Russia seemed to favor a bigger role for UN special envoy Ibrahim Gambari. India, however, looked more to the process of political reform and national reconciliation on “a broad base and equally among all stakeholders.” In other words, India saw democratization as the right recipe for Myanmar.

At the end of the day, the third trilateral meeting was considered by all three sides to be a success because of the “considerable and concrete results,” according to Lavrov, who was clearly in the

driver's seat. He went on to emphasize that "The atmosphere at the talks was friendly and sincere. These aren't just words, but a real reflection of the fact that the floor for tripartite meetings is becoming a point of mutual attraction and an instrument of mutually advantageous cooperation." Chinese Foreign Minister Yang also was upbeat as he saw "consensus on international issues gradually increasing, pragmatic exchanges and cooperation in economic and other fields gradually developing in recent years." India, the least sanguine among the trio, also got something out of the Harbin meeting. The joint communiqué actually says that "The Foreign Ministers of China and Russia reiterated that their countries attach importance to the status of India in international affairs and understand and support India's aspirations to play a greater role in the United Nations." The three foreign ministers next meet in Russia in 2008.

### **SCO: in search of new directions**

When the six prime ministers of SCO member states met in Tashkent, Uzbekistan on Nov. 2 for their sixth annual meeting, the regional organization was poised for growth in several dimensions, including its new institutional linkage with the Collective Security Treaty Organization (CSTO), its growing "pain" with potential payoffs, and its possible enlargement through the admission of new members (Iran and Pakistan) at the end of the year. At the onset of the quarter on Oct. 4, the SCO and the CSTO signed a memorandum on cooperation in Dushanbe. The document makes it possible to expand partnership of the two organizations in security issues, fighting trans-border crime, and drug trafficking. The memo may not be overly important due to the considerable overlap of membership of the two organizations. Of the CSTO's seven members, only Armenia and Belarus are not part of the SCO. Conversely for the SCO, only China is not a member of the CSTO. The document, however, was a significant gain for Moscow, which has driven the "merger" of the two groups since 2003 for the obvious reason that it is the "bridging" major power for the two groups. This "marriage of convenience" between the CSTO and SCO may be a long way from constituting an effective counter-weight to NATO, as it is commonly perceived. At a minimum, however, the two regional groups now will be able to coordinate their efforts in dealing with security-related issues.

After the signing of the security memo, the Nov. 2 SCO prime ministerial meeting largely focused on economic issues, particularly energy. Russia appeared more eager and able to regain its economic prominence in its traditional Soviet space in central Asia, where China is fast expanding its outreach and interests. A day before the meeting, a Russian official declared that the SCO enters "an entirely new stage of its development," as previously approved investment projects are implemented. He indicated that Russia "intends to adjust the program of economic cooperation between the SCO members ... in order to ensure a more active and effective implementation of the designated projects." What the Russian official had in mind was perhaps some reappraisal of these unfinished and/or delayed projects so that a more economically vigorous Russia may have a bigger role in and get more reward from these projects. The Russian official was particularly keen in bringing these unimplemented projects within "the scope of the SCO Business Council and the Interbank Council," which are "translators" of government initiatives to specific companies. Russia also pushed for the creation of a SCO "energy club" "for effective use of natural resources." The call for creating a SCO energy club was also one of the main themes of Russian Prime Minister Viktor Zubkov during the formal SCO prime ministers meeting the following day. He specified that such a club would be a planned international

“nongovernmental consultative body within the SCO” on energy industry relations between SCO member states.

Russia’s effort to institutionalize SCO economic activities, however, was not echoed by China. In his formal speech to SCO prime ministers, Chinese Premier Wen Jiabao focused instead on improving the investment environment within the SCO so that “cooperation among enterprises,” especially medium- and small-sized ones, would be facilitated. Wen emphasized that laws, regulations, and policies in this regard, including conditions for unified customs clearance, should be enhanced in a gradual manner. Meanwhile, the SCO should prioritize projects approved by all SCO member states. All in all, Wen suggested that the SCO governments and intergovernmental agencies should play a supportive and facilitating role in the SCO’s economic development, rather than being movers and shakers themselves in the market.

Nor did Wen show interest in the “energy club” to centralize energy supply and demand among SCO members. Wen’s speech never touched the topic. Russia’s effort in this regard means strengthening much of the existing energy infrastructure among former Soviet republics in Central Asia, through which much of the oil and gas is being sent from Central Asia to Russia for redistribution. The Kazakhstan-China oil pipeline commissioned for commercial operation in July 2006 with an annual capacity of 20 million tons of crude is seen by Russia as a diversion of its energy strategy. Similarly, China’s current effort to transfer gas from Turkmenistan via Uzbekistan (525 km) and Kazakhstan (1,293 km) will be another deviation from Russia’s oil politicking in the region. There is perhaps very little that Russia can do to prevent these ongoing projects between China and other Central Asian states from being completed and implemented. SCO’s energy club may make it more difficult for future large-scale projects with China. China’s lack of enthusiasm for the energy club is reflected in the 20-point joint communiqué, in which the issue appears as number seven. It remains to be seen how China’s market socialism and Russia’s economic statism will be moderated through the SCO in Central Asia.

The regional organization, however, never stopped making news. On Dec 27, Deputy Foreign Minister Alexander Losyukov announced that the SCO “will have to consider the admission of new members in the future” He specifically mentioned Iran and Pakistan, both of which have observer status. It was not clear how and why Moscow chose the end of the year to push for SCO enlargement. Losyukov’s remarks were made the same day Benazir Bhutto was assassinated in Pakistan, which triggered further instability in the only Islamic nation with nuclear weapons. It was also a time when the U.S. National Intelligence Estimate, released in November 2007, sharply raised the threshold for Iran’s nuclear weapon program, thus opening a window of opportunity for promoting relations with Iran.

### **Wen’s visit to Russia**

Premier Wen’s visit to Russia was the last stop of his multi-nation tour, which included Turkmenistan and Belarus prior to his attendance at the SCO’s annual prime ministerial meeting in Tashkent. Wen portrayed his trip to Russia as crucial when he told Russian media before the trip that China-Russia relations “are now both at their best in history and at the most important historical stage.” He specifically referred to “the next decade” as an important historical period

for both the evolution of the international situation and the development of China-Russia relations, as the premier was not sure what would happen in both areas.

In Moscow, Wen and Russian counterpart Viktor Zubkov signed nine agreements, including the joint communiqué and a basic agreement between Russia's Atomstroyexport and the Jiangsu Nuclear Power Corporation to build a second phase of the Tianwan nuclear power plant. In their talks and joint communiqué, both heads of governments pledged to broaden strategic, political, economic, and scientific cooperation between the two nations. In Moscow, Wen joined the closing ceremony of the “Year of China,” marking the end of the reciprocal China-Russia national theme years (2006-07). He also met President Putin and their meeting was said to have lasted much longer than was scheduled. Given that the visit was before Putin made his announcement regarding his successor, the extra time may well be part of his succession politicking, which, some have argued, needs China’s tacit acceptance.

After the dust settled, the Russian president sent a message Dec. 13 to President Hu Jintao in response to the latter’s congratulations on the victory of the United Russia party in the Dec. 2 parliamentary elections. In his message, Putin praised “the objective attitude of the Chinese government towards internal political processes in Russia.” “[T]his proves the strength of our bilateral partnership and strategic cooperation which we are going to further increase in every possible way.”

On Dec. 30, Putin sent another message to Hu saying that relations between Russia and China have a strong impact on the formation of a just world order. “Russian-Chinese relations provide a vivid example of friendly and mutually beneficial cooperation, based on long-term, strategic interests. Russian-Chinese political, economic and humanitarian ties have been developing vigorously, bringing visible benefits to the Russian and Chinese peoples. Strong interaction between our two countries in the world arena is an important factor of building a just world order with due account taken of civilized political-economic diversity,” claimed Putin. There was, conspicuously, no reciprocal New Years greeting from his Chinese counterpart.

### **Chronology of China-Russia Relations October-December 2007**

**Oct. 1, 2007:** President Vladimir Putin sends a message to Chinese counterpart Hu Jintao on the PRC’s 58<sup>th</sup> anniversary, saying that the level of Russian-Chinese relations is at unprecedented levels.

**Oct. 4, 2007:** Shanghai Cooperation Organization (SCO) and the Collective Security Treaty Organization (CSTO) sign a memorandum on cooperation in Dushanbe that enables expanded security cooperation between the two organizations. The document was the result of several years of consensus building from 2003.

**Oct. 23, 2007:** President Putin sends a congratulatory letter marking the 50<sup>th</sup> anniversary of the Russian-Chinese Friendship Society. The letter says that people-to-people contact “has largely helped save the Russian and Chinese peoples’ traditional feelings of empathy for each other,”

and “promoted normalization of inter-state ties and raise[d] them to the level of a trustful partnership and strategic interaction. A ceremony was held in Moscow for the anniversary.

**Oct. 23-30, 2007:** Russian Constitutional Court President Valery Zorkin visits China at the invitation of the Chinese Supreme People's Court Xiao Yang.

**Oct. 24, 2007:** Foreign ministers of India, China, and Russia hold third trilateral meeting in Harbin, in Heilongjiang Province. The ministers “thoroughly discussed” “key global issues.” Special attention is given to cooperation in East Asia, the Asia-Pacific Region, and the SCO.

**Oct. 24-29, 2007:** A delegation of the Chinese People's Political Consultative Conference (CPPCC) led by Vice Chairman Li Zhaozhuo visits Russia. Li meets Deputy Chairman of the Russian Federation Council Dmitry Mezentsev.

**Nov. 2, 2007:** The 6<sup>th</sup> SCO Prime Ministers Meeting is held in Tashkent.

**Nov. 5-6, 2007:** Premier Wen Jiabao visits Russia for the 12<sup>th</sup> annual prime ministerial meeting with Russian counterpart Viktor Zubkov. Wen meets Putin and joins the 2<sup>nd</sup> Russian-Chinese Economic Forum in Moscow. Nine agreements, including the joint communiqué, are signed.

**Nov. 7-10, 2007:** The 11<sup>th</sup> round of strategic consultations between the General Staff Headquarters of the Chinese and Russian military are held in Moscow. PLA Deputy Chief of the General Staff Ma Xiaotian and Deputy Chief of the General Staff and Russian Chief of Intelligence Directorate Alexander Rukshin jointly chair the consultation in a “frank and friendly atmosphere.” Ma also meets Chief of the General Staff of the Russian Armed Forces Yury Baluyevsky.

**Nov. 12, 2007:** The Russian-Chinese Forum on Economic and Legal Issues is held in Vladivostok. Participants include Russian Supreme Arbitration Court President Anton Ivanov, presidential envoy in the Far-Eastern federal district Oleg Safonov, Chinese Foreign Minister Yang and Commerce Minister Bo Xilai.

**Dec. 13, 2007:** President Putin sends a message to President Hu in response to the latter's congratulations on the victory of the United Russia party in parliamentary elections on Dec. 2. In his message, Putin praises “the objective attitude of the Chinese government towards internal political processes in Russia,” and says “[T]his proves the strength of our bilateral partnership and strategic cooperation which we are going to further increase in every possible way.”

**Dec. 30, 2007:** Putin sends greetings to President Hu saying that relations between Russia and China have a strong impact on the formation of a just world order.





India-Asia Pacific relations:  
**Consolidating Friendships and Nuclear Legitimacy**

Satu Limaye  
East-West Center

India's relations with countries in the Asia-Pacific region during 2007 were wide-ranging as New Delhi sought to consolidate and expand ties with both small and large countries from Singapore to Australia to South Korea. With the U.S., India was on the verge of a landmark agreement on civil nuclear energy cooperation. But in India's relations with both Asia and the U.S. there was unfinished business. In the case of Southeast Asia for example, the failure to conclude an FTA agreement despite long, complex and sometimes quite testy negotiations blunted what has generally been a positive if incremental trajectory in India-Southeast Asia relations. With China, India's relations crawl forward year by year with little progress on fundamental issues such as the border/territorial dispute. With Japan, for all the excitement of the Abe-Aso tenure with India, the facts on the ground, especially on economic relations, remain limited. There are some more interesting openings for India in the region such as relations with Australia and South Korea, but they too are somewhat unusual rather than an established pattern. What is undeniable is that India is now a thread in the fabric of Asia. Similarly, despite the failure of the U.S. and India to conclude the civilian nuclear energy deal in 2007, the thickness of U.S.-India relations is unlikely to be diluted, even if it will take a lot of work from both Washington and New Delhi to keep them going.

**India-China Relations: From "Sino-Indian Friendship Year" to "India-China Year of Friendship through Tourism"**

The year 2007 saw neither dramatically positive nor negative developments in Sino-Indian relations. It is perhaps symbolic of the efforts to keep ties hopeful and the limited (even lowered) expectations that the two countries have moved from marking the 55<sup>th</sup> anniversary of bilateral relations in 2005 through the "China-India Friendship Year" in 2006 to declaring 2007 the "India-China Year of Friendship through Tourism." Tourism, though growing between the two countries, is hardly the vehicle by which Sino-Indian relations are going to be transformed, particularly outstanding issues such as territorial and border disputes. Nevertheless, China's National Tourism Authority (CNTA) opened an office in New Delhi in August while India promised to do so in Shanghai and the two sides held the first China-India Tourism Forum in which some 120 industry delegates participated.

India's current approach toward relations with China was explained by External Affairs Minister Pranab Mukherjee who, while speaking to the Indonesian Council on World Affairs on "India's Growing Engagement with East Asia" in June 2007, said "While we remain fully conscious of

our outstanding differences with China, including on the boundary question, the basic paradigm of our approach is to seek an all-round development of ties, without allowing these differences to define the agenda of the relationship.” China’s approach to relations with India was somewhat more upbeat, with Chinese President Hu Jintao declaring in the same month, during a meeting with Indian Prime Minister Singh in Berlin, that “The development of Sino-Indian ties is now on a fast track.”

The focus in 2007 remained on two areas: the unresolved border and territorial dispute and commercial ties. There was also a step forward on military exchanges and security discussions.

Three rounds of the Special Representative Talks on the India-China border and territorial disputes were held during 2007 – in mid-January, late April, and late September. China’s representative at the three rounds was Vice Foreign Minister and Special Representative Dai Bingguo; India’s was National Security Advisor and Special Representative M K Narayanan. There was no discernible progress and the statements on the talks were notably factual and terse. In June 2007, during the Hu-Singh meeting in Berlin, President Hu reportedly said “It is the common strategic goal for China and India to resolve the border issue, a problem left by history, at an early date.” This statement seemed to bridge China’s position that this was a long-term problem requiring a “right” approach and India’s insistence on speeding up movement toward resolution. In November, Chinese Premier Wen Jiabao meeting with Prime Minister Singh on the sidelines of the ASEAN and East Asia Summit (EAS) meetings in Singapore said that “We are happy to see that both sides have the willingness and resolve to settle their border issue left over from history.”

On commercial ties, both sides reiterated throughout the year that they would seek to achieve \$40 billion in trade by 2010. Wen reaffirmed this when meeting Singh on the sidelines of the 12<sup>th</sup> ASEAN summit as did the Chinese Foreign Minister Yang Jiechi during China’s participation as an observer at the 14<sup>th</sup> South Asia Association for Regional Cooperation Summit held in New Delhi in April. There was also discussion of a joint study group to examine a possible free trade agreement, although no major announcements were made. Another area of dialogue on economic matters was the Second China-India Financial Dialogue held in early December in Beijing.

Aside from border/territorial and commercial relations, there were a number of other forms of Chinese and Indian interaction during the year. There is even evidence that the two sides are seeking to widen the range of contacts. In February, Chinese Foreign Minister Li Zhaoxing visited India to kick off the Year of Friendship through Tourism and the two countries announced the formal start of a bilateral hotline and the establishment of new consulates in Kolkata and Guangzhou as well as tourism offices in New Delhi and Shanghai. In June, a Chinese delegation visited India to discuss energy issues with the Central Electricity Regulatory Commission (CERC). An Indian official is cited as saying the “The delegation [held] talks with CERC on its regulations on tariff, power trading, open access, transmission (and) unscheduled interchange charge.” And in November, a delegation led by the Chief Justice of India K. G. Balakrishnan, visited China to return a visit by the president of the Supreme People’s Court of China to India from April 2-7, 2007. These exchanges follow up on a 2003 Memorandum of Understanding on Cooperation between India’s Ministry of Law and Justice and the Supreme People’s Prosecution Service of China. Perhaps the most important “irregular” visit of the year



was that of Indian National Congress Party President Sonia Gandhi to Beijing in late October when she met both President Hu and Premier Wen. Gandhi was one of the first foreign leaders to meet newly appointed Chinese leaders following the 17<sup>th</sup> Chinese Communist Party Congress.

Another area of Sino-Indian discussion related to India's efforts to conclude a nuclear deal with the U.S. and to get support for the deal in the Nuclear Suppliers Group (NSG), of which China is a member. In September, Indian Foreign Secretary Shri Shivshankar Menon met Chinese Foreign Minister Yang and Chinese State Councilor Tang Jiaxuan to consolidate the India-China Strategic and Cooperative Partnership. The nuclear issue likely figured in these talks. Following a meeting of Indian and Chinese leaders on the sidelines of the 13<sup>th</sup> ASEAN summit in Singapore in November, the Ministry of External Affairs (MEA) spokesman said that "Premier Wen was forthcoming and supportive of international civil nuclear energy cooperation with India."

India and China also continued interactions in the context of trilateral discussions with Russia. In 2007, two summits of the so-called China-Russia-India Trilateral Dialogue were held.

India and China also held defense and military activities during the year. In late May, Indian Chairman of the Joint Chiefs of the Staff Committee and Army Chief of Staff General Joginder Jaswant Singh visited China and met Foreign Minister Yang. Following the visit, the two sides announced that India and China would conduct their first-ever joint army training exercise. In November, India and China held the first-ever defense and security consultations as called for in the Memorandum of Understanding (MoU) on Enhancing Defense Cooperation signed in May 2006. The meeting was co-chaired by Qian Lihua, director of Foreign Affairs Office of China's Ministry of Defense and Bimal Julka, joint secretary in India's Ministry of Defense. And finally from Dec. 20-25, the first India-China joint military training exercise, *Hand-in-Hand 2007*, was held in China's Chengdu military region. According to Indian Wing Commander RK Das, "[t]he focus of the exercise will be a special anti-terrorism drill. The Chinese value our long experience in handling insurgency and terrorism." An armed Reconnaissance Company of the PLA and an equivalent strength of Indian troops participated in the exercise that included establishment of a joint command post, joint battle decision-making and anti-terrorism drills.

## **India-Taiwan**

India and Taiwan also interacted during 2007. The biggest event of the year in India-Taiwan relations was the mid-June visit of Taiwan presidential candidate and leader of the Kuomintang Ma Ying-jeou to New Delhi where he met with serving Indian government ministers and opposition party leaders. Ma expressed interest in scientific and economic cooperation with India. Prior to his visit, in April, the Republic of China (ROC) and India had signed an MoU for cooperation in the fields of science and technology. Ma is the first Kuomintang leader to visit India since Chiang kai-shek visited in 1942. India adheres to a one-China policy and had reaffirmed that policy as recently as November 2006 when President Hu visited New Delhi. During Ma's visit, China called on New Delhi to adhere to the one-China policy.

India and Taiwan also pursued commercial ties during the year. In early September, Indian Vice Minister of Commerce and Industry Ajay Shankar led a trade delegation to Taiwan. Democratic

Progressive Party Chairman Yu Shyi-kun addressed the Indian delegation, citing common values and encouraging greater trade and other economic cooperation. At the end of the conference, Director General of the India-Taipei Association (ITA) T.P. Seetharam, stated “It’s not a problem of whether Taiwanese companies will invest in India but how and when they will do so. Taiwanese businesses are currently exploring India in every aspect.” And, Secretary of India’s Department of Industrial Policy and Promotion Ajay Shankar said “We’re at the beginning of a very exciting story. India and Taiwan are now more closely intertwined.” Almost 2,000 Indian software engineers are working in Taiwan. Subsequently, in mid-September, Taiwan’s first industrial exposition called *Taitronics* was held in Chennai, Tamil Nadu state in southern India.

A report issued in early September by Taiwan’s Cabinet-level Council for Economic Planning and Development (CEPD) established the goal of having India as one of Taiwan’s top 10 trade partners by 2015. At present, India is Taiwan’s 25<sup>th</sup> ranking partner, accounting for less than 1 percent of Taiwan’s trade. On the investment side, Taiwan has about 70 investment projects in India worth about \$400 million in 2007. Among the problems cited by Taiwan officials in doing business in India is the Indian government’s unwillingness to establish a “single window” service channel exclusively for Taiwan.

As part of an effort to promote commercial interaction on Sept. 14, a Taiwanese tourism delegation arrived in India to promote Indian tourism to Taiwan. Some 20,000 Indians traveled to Taiwan in the first half of 2007, outpacing last year’s numbers. This is the second tourism delegation from Taiwan to visit India. Indians hope for an easier visa application process and cheaper accommodation facilities in Taiwan.

### **India-Japan: “Japan-India Friendship Year”**

India-Japan relations remained active in 2007. Former Prime Minister Mori Yoshiro was dispatched to India in February to officially open the Japan-India Friendship Year and the Year of Japan in India. But the highpoint of the year was the visit in late August of Prime Minister Abe Shinzo to India. Abe became the first Japanese prime minister to address India’s Parliament.

During Abe’s visit, the two countries issued a *Joint Statement on the Roadmap for New Dimensions to the Strategic and Global Partnership between Japan and India*. This 39-point initiative is meant to follow up the Strategic and Global Partnership announced during Prime Minister Singh’s December 2006 visit to Japan though there are no major new or dramatic proposals in the joint statement.

Abe’s public comments during his visit focused on economic issues. For example, he told a business audience that “We attach importance to an early conclusion of a high-quality EPA [Economic Partnership Agreement].” He also called on the two countries to expand trade, saying that “[o]ur bilateral trade should reach \$20 billion in the next three years [by 2010].” Two-way trade between Japan and India in 2006 was estimated to be about \$8.5 billion. Meanwhile, India’s Commerce Minister Kamal Nath acknowledged the potential for much more trade and other economic ties, telling a Japanese business delegation accompanying Abe that “We have had strong cultural ties and bonds of heritage, but the economic component of our relations has been weak.” Nath also set as a goal attracting \$5 billion in foreign direct investment from Japan

over the next five years. In 2006, Japan invested only about \$540 million in foreign direct investment or just 3 percent of the total received by India. Some survey data conducted among Japanese businesses does suggest more interest in India, but facts on the ground demonstrate that constraints to major enhancements in Japan-India commercial ties remain. India and Japan over the past few years have pursued a number of institutional arrangements for enhancing commercial ties. In 2007, a Japan-India strategic dialogue on economic issues was launched with a first meeting in mid-July.

Earlier in the year, other exchanges between Japan and India focused on energy, economic, and tourism relations. In April 2007, India and Japan held the first Japan-India Energy Dialogue in Tokyo. Japan's side was headed by Minister for Economy, Trade and Industry Amari Akira and India's by Deputy Chairman of the Planning Commission Montek Singh Ahluwalia. One initiative launched was to foster energy efficiency and the development of energy infrastructure. In late April, Japan's Minister for Land, Transport and Infrastructure Fuyushiba Tetsuzo visited New Delhi and held meetings with, among others, India's Minister for Tourism Ambika Soni and Prime Minister Singh. Fuyushiba announced that Japan had "appointed eight registered travel agents in India and those processing visa applications through them would not be required to furnish certain documents." He also called on India to relax rules on Japanese citizens, saying "[o]n simplification of visa procedures, I handed over a letter from our foreign minister for Indian Foreign Minister Pranab Mukherjee seeking more cooperation and an early agreement on the issue." Fuyubashi made a similar overture to India's prime minister during their brief meeting.

Later in the summer, Japan's Minister for Economy, Trade and Industry Amari visited New Delhi for wide-ranging discussions with his Indian counterpart Minister of Commerce Nath. The three main subjects of discussion were reportedly early conclusion of the Doha Development Agenda (DDA), the Delhi-Mumbai Industrial Corridor project that Japan is largely financing, and the negotiations on the India-Japan Comprehensive Economic Partnership Agreement. The two ministers issued a release that stated "The ministers reviewed the status of India-Japan Comprehensive Economic Partnership Agreement negotiations and directed negotiators to expedite the conclusion of negotiations within the agreed timeframe." However, there was no indication of the "agreed timeframe" and the joint statement issued during Abe's visit simply stated that "the two leaders directed their respective negotiators to actively pursue and complete the negotiations as soon as possible."

No major new political or security initiatives were announced during Abe's visit either. On the issue of Japan's support for a possible U.S.-India nuclear deal in the context of the NSG, the joint statement said only that "The two leaders shared the view that nuclear energy can play an important role as a safe, sustainable, and non-polluting source of energy in meeting the rising global demand for energy. They looked forward to constructive deliberations at the relevant international fora with respect to the international civil nuclear cooperation framework under appropriate IAEA safeguards with India." In March MEA Mukherjee traveled to Tokyo for the first foreign minister-level strategic dialogue with his Japanese counterpart Aso Taro. He also held talks with Defense Minister Kyuma Fumio. Japan and India welcomed plans for the India, U.S., Australia, Japan, and Singapore four-day naval exercise *Malabar 07-2* in September.

With Abe, a major proponent of improving relations with India, leaving office, it was not clear how far and fast Japan-India relations could move forward. In November, India's PM Singh met for the first time with new Japanese Prime Minister Fukuda Yasuo on the sidelines of the 13<sup>th</sup> ASEAN Summit in Singapore. According to press reports, the leaders pledged to continue their strategic and global partnership as well as regular high-level exchanges. Singh and Fukuda also agreed to speed up projects under the Special Economic Partnership Initiative and to strengthen cooperation on issues such as UN Security Council reform and climate change.

### **India-South Korea**

India-South Korea ties showed continued development during 2007, including in the security and defense realms. In May, the first-ever meeting of Indian and South Korean defense ministers was held in New Delhi. According to Indian Defense Minister A.K. Antony "The military field needs to keep up with the development of the two sides' economic cooperation." South Korean Defense Minister Kim Chang-su replied that "[t]he talks this time are expected to pave the way for the two nations' relations to be upgraded to strategic partnerships." Both sides agreed, based on an Indian proposal, to conduct joint maritime and antiterrorism exercises.

Meanwhile, talks on a Comprehensive Economic Partnership Agreement (CEPA) continued. This process was launched in March 2006 and seven rounds of talks have been held thus far. In July 2007, the two sides met to pursue further discussions and initial offers particularly relating to rules of origin and coverage of items under a potential CEPA. The economic element of India-ROK relations was also pursued during MEA Mukherjee's September visit to South Korea at the invitation of Minister of Foreign Affairs and Trade Song Min-soon. The two ministers held bilateral meetings and co-chaired the 5th ROK-India Joint Commission. They expressed satisfaction at the progress made in negotiations on the CEPA and reiterated their desire to conclude the negotiations by the end of 2007. They also welcomed the steady growth in bilateral trade and investment, and expressed their confidence that the trade target of \$10 billion could be achieved before 2008. In 2006, bilateral trade was worth about \$7 billion. The two sides also discussed an updated double taxation avoidance agreement.

The year ended without any clarity on ROK support for India in the NSG. An Indian Ministry of External Affairs spokesman was quoted as saying only that "[a]s and when the matter is taken up as the NSG, we hope they may take a positive view."

### **India-Southeast Asia Relations**

India-Southeast Asia ties both with ASEAN as an organization and with individual member countries remained active throughout 2007. However on key issues such as conclusion of an FTA, the year ended without success. India participated in two ASEAN summits in 2007 because the 12<sup>th</sup> ASEAN Summit was rescheduled from December 2006 to Jan. 12-15, 2007 due to Typhoon Seniang. The 13<sup>th</sup> ASEAN Summit, marking the 40<sup>th</sup> anniversary of the organization, was held in November in Singapore. India participated in these summits both as an ASEAN Dialogue Partner and as a member of the East Asia Summit, which was convened following both ASEAN summits.

The main subject of discussions between India and ASEAN as an organization related to the conclusion of an ASEAN-India Trade in Goods Agreement. Talks dragged on throughout the year. Just prior to PM Singh's arrival for the November 2007 ASEAN summit, it became clear that the India-ASEAN FTA would not be signed as hoped. The main obstacles relate to tariffs on palm oil, refined palm oil in the case of Malaysia and Indonesia, and, for Vietnam, the main concern is duty cuts on pepper and black tea.

Even more worrying for India, however, were indications that for all the growth in India-ASEAN trade, India was falling steadily behind China. A report by the Federation of Indian Chambers of Commerce and Industry (FICCI) on India-ASEAN trade noted that in the decade between 1997 and 2006, India's share in ASEAN trade has moved marginally up from 1 percent to 1.6 percent, whereas during the same period China's has gone up from 3.7 percent to 11.4 percent. A second difficulty for India is that imports from ASEAN have risen much higher than exports to ASEAN following an overall pattern in India's international trade.

ASEAN is one of India's multilateral approaches to cooperation with Southeast Asia. Another is the Mekong Ganga Cooperation (MGC), which was launched in 2002 as an initiative by six countries – India, Cambodia, Laos, Myanmar, Thailand, and Vietnam to promote cooperation in tourism, culture, education, and transport. In September, India hosted a delegation of about 100 Buddhist pilgrims from Cambodia, Laos, Myanmar, Thailand and Vietnam as part of an initiative to promote cultural exchanges within the framework of MGC. India also continued outreach to individual members of ASEAN in a largely constructive way.

### **India-Singapore: and now a Joint Ministerial Committee for Bilateral Cooperation!**

Singapore remained the nexus for India's relations with the rest of Southeast Asia in 2007. In June, during a visit by India's EAM Mukherjee, the two countries launched a Joint Ministerial Committee for Bilateral Cooperation as well as an India-Singapore Strategic Dialogue. The former mechanism is the first institutionalized ministerial-level bilateral forum between Singapore and India that will set the broad framework and direction for the development of cooperation, complementing other official mechanisms such as those between defense, foreign, and economic ministries. Both leaders also announced the launch of the India-Singapore Strategic Dialogue, which is a Track 1.5/2 mechanism comprising government officials, MPs, industrialists, strategic thinkers, and media representatives. During the visit, and while introducing the Indian foreign minister prior to his lecture "India's Foreign Policy Priorities", Singapore Minister for Foreign Affairs George Yeo reiterated that "Singapore supports India as a Permanent Member of the UN Security Council."

On the defense and security front, India and Singapore continued to build ties. In October, the two countries signed an agreement under which Singapore can use Indian military bases for five years in return for payment. The agreement was signed during a visit by Singapore's Permanent Secretary for Defense Chiang Chie Foo with India's Defense Secretary Vijay Singh at a two-day India-Singapore defense policy dialogue held in New Delhi.

## **India-Thailand: a state visit to mark 60 years of bilateral relations**

In 2007, India and Thailand marked 60 years since the establishment of diplomatic relations. A key event was the late June state visit to India of Thailand's Prime Minister Surayud Chulanont who stated that "[f]or both governments, this means further strengthening our economic partnership, deepening our linkages, minimizing barriers and maximizing access for our products and capital." During the visit, the two countries signed an MoU on Enhanced Cooperation in the field of Renewable Energy and a Cultural Program. The two countries' prime ministers also noted with satisfaction that trade had crossed the \$3 billion mark (double the level of trade in 2001) with the implementation of the Early Harvest Scheme of the India-Thailand FTA and set a target of \$4 billion by the end of 2007. Thai Foreign Minister Sawanit Kongsiri, during his PM's June visit, told an audience in Mumbai that "[d]ue to the implementation of Early Harvest Scheme of the FTA framework in 2004, tariffs of 82 items have become zero. This fast-tracking has led to unprecedented levels of bilateral trade." Both sides indicated an expectation that trade would reach \$7 billion by 2010. However, there was no firm indication of when a full FTA could be concluded though both sides expressed an interest in reaching agreement. On Dec. 1, a Thai official was quoted as saying that India had lost interest in a bilateral FTA due to its pre-occupation with an India-ASEAN FTA. Chana Kanaratanakilok, the deputy director general of the Department of Trade Negotiations at the Commerce Ministry, told the *Bangkok Post* "We have been trying to push India to send us the new list of duties so that we can calculate from our side, but it seems as though they are more focused on concluding the Asean-India FTA. From our side, we are totally ready to implement it and all things have been worked out, but a trade deal is a bilateral one, if one side is not ready then we cannot force upon them."

Meanwhile, Thailand remains an important source of foreign investment into India, accounting for some \$830 million in approved FDI across a range of industries including food processing, hotel and tourism. In October, India's Minister for Northeast Development Mani Shankar Aiyar told an *Investment Week* audience in Bangkok that India sought Thai investment in northeast India, especially in infrastructure, food processing, and handicraft sectors.

In the statement during the state visit, the two countries also expressed interest in expediting negotiations and implementation of pending defense and security-related agreements and MOUs. India also expressed gratitude for Thailand's participation in efforts to link India's "Look East" policy with efforts to promote developments in India's troubled northeast region. In April, Thailand's Minister of Commerce Krirk-Krai Jirapaet came to India to participate in the 3rd Northeast Business Summit in New Delhi and also traveled to the northeastern states of India. During the visit, India and Thailand signed an MOU for technical cooperation in the fields of standardization, certification, testing, and training. This is the first step before eventually signing a Mutual Recognition Agreement between the two national standards' bodies. The goal of this process is facilitate trade between the two countries by ultimately removing requirements for repetitive testing and inspections of each other's goods.

## **India-Myanmar: complicated**

Relations between India and Myanmar were mixed in 2007. The bilateral focus continued to be on handling militants fighting India who are operating from Myanmar and energy and economic

ties. Of course the protests in Myanmar starting in mid-August and running through the killings in October also complicated relations.

Following a January visit to the country by EAM Mukherjee, an official Indian statement noted that “[w]hile welcoming Myanmar’s commitment not to allow its territory to be used for activities inimical to India, [Mukherjee] sought their continued and sustained cooperation in this regard.” This suggests that India wants Myanmar to do more. Separately, during Indian Minister of Defense AK Antony’s first visit to Nagaland (in India) since taking office in early January, he is reported to have ruled out joint operations with Myanmar’s security forces to combat militants operating against India from Myanmar territory. During Mukherjee’s visit to Myanmar, the two sides also discussed trade, energy, and infrastructure ties, including the need to conclude Bilateral Investment Promotion and Protection Agreement and an Agreement on the Avoidance of Double Taxation. Earlier, Union Minister of State for Commerce Jairam Ramesh had announced that India planned to open a new border trade station with Myanmar at Pangsupsass. A press report claimed that Mukherjee said that “we decided to give a favorable response” on selling arms to Myanmar during a visit to that country. However, at the time, no new military sales were announced and details about India’s military transfers to Myanmar remain sketchy. India has confirmed providing the junta with two used British-made *BN-2 Islander* light transport aircraft. But, news reports have denied that they have been fitted for military use. Reports about other military sales such as light artillery, tanks, and armored personnel carriers have not been verified. Indeed, in December, reports emerged in the U.S. press citing unnamed Indian officials as confirming India had ceased military sales to Myanmar – as noted in First Lady Laura Bush’s comments about Burma.

Another important visit was that of Union Home Secretary V.K. Duggal to Myanmar in February to meet his counterpart Brig. Gen. Phone Swe on a range of bilateral issues including action against militant groups operating against India from bases in Myanmar.

A negative development occurred March 16, when Myanmar informed Indian companies Gas Authority of India Ltd (GAIL) and ONGC Videsh Ltd (and other stakeholders) that it planned to export natural gas found in blocks that they had been exploring to China. According to India’s Minister of State Petroleum and Natural Gas Dinesh Patel, “[I]n the meeting held in Feb[ruary] 2007 between Myanmar government and PetroChina, Myanmar decided that the gas from A1 and A3 [blocks] would be sold to China through the pipeline route.” The minister went on to say that this news had been conveyed to Indian concerns on March 16 despite the fact that a year ago, on March 9, 2006, Myanmar and India had signed an agreement with GAIL acknowledging GAIL a “preferential buyer” of gas from A1 and A3 blocks. Patel reported that at the time of the March 16 announcement, “[GAIL] impressed upon the other partners and Myanmar government that its pipeline offer was still the most competitive and offered optimum value for them due to proximity of India to these fields. However, the Myanmar government stuck to their decision to sell the gas to China.”

India’s response to the junta’s crackdown was widely criticized in the U.S. as being mild. India expressed concern and suggested that the release of jailed opposition leader Aung San Suu Kyo would be helpful. In late October, Prime Minister Singh, returning from a visit to South Africa, was quoted as saying that “Violence and suppression of human rights is something that hurts us.

Having said that, we have to recognize that Myanmar is our next door neighbor and sometimes it does not serve the objective you have in mind by going public with condemnations.” And MEA Mukherjee, meeting with his Chinese and Russian counterparts in Harbin in late October expressed support for UN Special Envoy Ibrahim Gambari’s efforts, but rejected sanctions, saying “[t]here should not be any sanctions at this stage.” However, it may be the case that India gave stronger messages to Myanmar’s leaders privately, and even that it acted strongly by ceasing arms exports, if indeed these reports are confirmed.

### **India-Vietnam Relations: 35<sup>th</sup> anniversary of relations is “A Year of Focus”**

India and Vietnam have been long-time friends, but their bilateral relations have been limited. With 2007 marking the 35<sup>th</sup> anniversary of the establishment of India-Vietnam diplomatic relations, Vietnam announced that India would be a country of “focus” for its foreign relations. Vietnam reiterated its support for both India’s access to civil nuclear energy and for India’s seat on the UN Security Council. Vietnamese Ambassador to India Vu Quang in an interview said “[w]e support India in its peaceful use of nuclear energy like any other country.” But, Vietnam is not a member of the NSG and therefore it cannot support the U.S.-India nuclear directly when and if it comes before that group.

One area that received considerable attention during the year was economic relations. At least from Vietnam’s perspective, economic ties have not kept pace with political ones. The Vietnamese ambassador said, “Our political relations have been excellent but the economic and trade ties have not been commensurate with that.” He noted that there is substantial potential for growth in commercial ties between the two countries. India, which has already gained rights to explore two blocks in Vietnam, has the opportunity, through competitive bidding, to gain more blocks. However, the ambassador noted “if India is not competitive, the resources will go to China” and apparently added that Chinese procedures “are faster” than India’s. Vietnam has in particular invited India to invest in Vietnam’s plans to establish refineries and other ventures. One positive note that is that India is among the top 10 investors in Vietnam following the signing of a deal for Essar Steel of India to build a plant valued at \$527 million. During the Feb. 12 Joint Commission meeting in New Delhi co-chaired by MEA Mukherjee and visiting Vietnamese Deputy Prime Minister Pham Gia Khiem, both sides noted that bilateral trade have reached somewhere between \$900 million and \$1 billion in 2006 and set a goal of reaching \$2 billion by 2010.

The high point of the year came in July when Prime Minister Nguyen Tan Dung made a state visit to India. A number of agreements were signed during the visit including an MOU on Cooperation in the Field of Fisheries and Aquaculture, a Cultural Exchange Program, and a Work Plan in the Field of Agriculture for the period 2007-09. This was the first visit by a Vietnamese prime minister in a decade. Nguyen and his nearly 200-member delegation also met business and industry leaders in Kolkata and Mumbai in addition to Delhi. The two countries signed a “Joint Declaration on Strategic Partnership” which upgrades the 2003 “Joint Declaration on the Comprehensive Cooperation Framework between India and Vietnam.” During his visit, Nguyen again highlighted investment opportunities in Vietnam saying “I would like to tell the Indian business delegation to please come to Vietnam because it is a safe and effective destination for their investment.” He also mooted what appeared to be an idea for a free trade



agreement saying “We will do whatever we can to promote a free trade agreement between India and Vietnam.” Or, perhaps he was referring to disputes between India and Vietnam in the context of India-ASEAN trade talks.

In October, India’s Minister for Home Affairs Shivraj V. Patil visited Vietnam and held meetings with President Nguyen Minh Triet and Prime Minister Nguyen Tan Dung as well as talks between officials of India’s Home Ministry and Vietnam’s Ministry of Public Security. Patil reportedly offered training courses in the fight against high-end economic crimes and terrorism and signed an agreement on legal assistance in criminal issues.

In late November, the third India-Vietnam Security Dialogue was held in New Delhi and hosted by Defense Secretary Singh. At the dialogue’s conclusion, it was announced that future defense cooperation would be focused on, among other things, “supply of naval spares, ... shipbuilding, and radars.”

### **India-Indonesia relations**

Ties between India and Indonesia have seen progress, particularly since the November 2005 visit of Indonesian President Susilo Bambang Yudhoyono to India when the two countries signed a “New Strategic Partnership.” In 2007, the two countries built on relations by convening, in mid-January, the First Joint Defense Cooperation Committee in Jakarta since the ratification of the Defense Cooperation Agreement between Indonesia and India in December 2006.

In mid-June, EAM Mukherjee visited Jakarta for the 3rd Joint Commission meeting between Indonesia and India. Mukherjee and Indonesian Foreign Minister N. Hassan Wirajuda reviewed bilateral relations since the establishment of the New Strategic Partnership. They reiterated the aim of reaching \$10 billion in bilateral trade by 2010.

### **India-Philippines: A state visit to India by the Philippines president**

In early October, Philippines President Gloria Macapagal-Arroyo made a state visit to India. The two countries signed an agreement on the establishment of a Joint Commission on Bilateral Cooperation to be chaired by the respective foreign ministers and a joint declaration for cooperation against international terrorism. The Joint Commission is to deal with cooperation in areas such as natural gas, defense, security, transnational crime, agriculture, mining, information technology, and health and pharmaceuticals. On terrorism, the focus is to be on capacity-building and countering the financing of terrorist acts. Both sides noted that commercial ties remain minimal and far below potential with trade valued at only about \$750 million. President Arroyo was quoted as saying that “As one of the neighbors of India in the East Asian region we are happy to be here to move the integration of our economies forward.”

### **India-Laos & India-Cambodia**

In December, the Prime Minister of Cambodia Hun Sen made a state visit to India (an earlier planned visit was cancelled due to the death of a former Indian prime minister) accompanied by 12 Cabinet members and six agreements were signed including: (i) Agreement on Transfer of

Sentenced Persons, (ii) MOU on Cooperation in the Field of Water Resource Management, (iii) MOU on Foreign Office Consultations between India and Cambodia, (iv) Work Plan under MOU on Agricultural Cooperation for 2007-2008, (v) Agreement on Line of Credit for Cambodia, and (vi) MOU on Cooperation and Technical Assistance between the Cambodian National Petroleum Authority and the ONGC Videsh Limited.

India also announced \$35 million in low-interest loans for three development projects in Cambodia. The funds will help develop the Stun Ta Sal River, and purchase water pumps and build an electricity network linking Cambodia's northern provinces of Kratie and Stund Treng. In November, speaking to students graduating from the National Institute of Education in Phnom Penh, Prime Minister Hun Sen stated that "[I]n the near future, I will go to India and sign with the Indian side to get \$35.5 million in aid to build an electricity network from Kratie province to the Lao border, and the finance will also spend for [sic] restoring irrigation system of the Stun Ta Sal River and buying water pumps."

India continued in 2007 under the Indian Technical and Economic Cooperation program to provide computer training to Lao nationals at Indian universities. Each year approximately 80 Lao nationals participate in ITEC programs.

### **India-Australia Relations: Forward Progress**

India-Australia relations were active in 2007, but marked by uncertainty following the defeat of Prime Minister John Howard in national elections. In February, Australian Government Minister for Trade Warren Truss led a 50-member business delegation to India for the 16<sup>th</sup> Joint Business Council (JBC). "India has become Australia's 11<sup>th</sup> largest merchandise trading partner, growing faster than any of our top 30 export markets. Two-way trade in goods and services has increased to more than \$12 billion in the last financial year," Truss said. He also opened a new Consulate-General office in Chennai and announced the launching of Utsav Australia (Celebrate Australia), a sustained marketing and promotions program to raise awareness of Australian business and industry among the Indian business community. In late June, India's Steel Minister Ram Vilas Paswan led a high-level delegation to Australia. A prime purpose of the visit was to gain Australian support for Indian companies buying stakes in coking coal firms in order to ensure access to raw materials to support capacity-expansion in India's steel sector. This support was gained. Minister Paswan was quoted as telling the Press Trust of India that "Australian Federal Minister for Industry, Tourism and Resources Ian McFarlane has assured me all possible help in fast-tracking these acquisition ventures, which are critical for India's capacity-expansion in the steel sector."

Throughout the year, there was much back and forth regarding Australian support in the NSG for a U.S.-India nuclear deal and possible uranium sales to India. Following a meeting between Indian Special Envoy Shyam Saran and Prime Minister Howard at the end of March, Howard is quoted as saying that "It is likely we will support that (Indo-U.S. civil nuclear) agreement in the suppliers group." He went on to say that "We see India as a very responsible country." In August, Howard announced that he would be willing to negotiate a uranium supply deal to India if the U.S.-India nuclear deal is fully completed. Peter Garrett, Labour Party environment spokesman, was quoted in October as saying "Deal or no deal between India and the U.S.,

Labour won't support the sale of uranium to a non-NPT signatory." With the defeat of Howard's government in national elections, the Australian position is now unclear. However, both sides have ample time for consideration because the U.S.-India nuclear deal at the end of 2007 remained stalled.

On the defense front in July, Brendan Nelson made the first trip by an Australian minister of defense to India in two decades. An agreement was signed between the two countries to enhance maritime cooperation, hold joint naval exercises, and protect classified information. This agreement follows up a March 2006 MOU on defense cooperation signed during Howard's visit. According to an unnamed Australian defense official, during the past months efforts have been made to build defense ties. "Areas where we are seeking increased cooperation are in low-level military exercises and professional exchanges in niche areas like flying instructor training, clearance diving, and (maritime) passage exercises," she said. Navy-to-navy talks had been opened in January and a joint navy operations working group was held in April in New Delhi. There were plans for similar talks between the air forces. That initiative could lead to increased maritime surveillance flights over the Indian Ocean to improve shipping security.

### **U.S.-India Relations in 2007: pause in the nuclear narrative**

In 2001, in these pages, it was argued that the U.S. and India were *Stuck in a Nuclear Narrative*. Last year, in bringing the narrative up to date, it was noted that the passage by the U.S. Congress in mid December 2006 of legislation that would enable civil nuclear cooperation between the two countries constituted a major development in the storyline. In 2007, however, the narrative brought new surprises. In late July, after a series of sensitive and complex negotiations, Washington and New Delhi announced that they had completed negotiations on civil nuclear cooperation and that "The next steps include India negotiating a safeguards agreement with the IAEA and support for nuclear trade with India from the 45 member Nuclear Suppliers Group. Once these additional actions have been completed, President Bush will submit the text of the agreement to the U.S. Congress for final approval."

As the summer wore on, however, there was mounting evidence that within India there was still no consensus to move to the next steps. The stunner came Oct. 15, 2007 when, during a phone call with President Bush, India's Prime Minister Singh stated that "certain difficulties have arisen with respect to the operationalization of the India-U.S. civil nuclear cooperation agreement." There has been much discussion since about the precise specifics and reasons for the change in stance. What is known is that the leftist parties and other opponents of the deal were able to intervene to prevent the Indian government from moving fully ahead with the agreement. As matters stand at the end of 2007, it appears that India has had conversations with the IAEA regarding an India-specific safeguards agreement and continues to seek support from members of the NSG but cannot go ahead fully with signing a formal safeguards agreement with the IAEA. In any event, even if that agreement can be completed quickly, and all indications are that it can be, and if NSG approval can be gained – which will be trickier but likely doable – the U.S. Congress will have to still give final approval. However, with U.S. elections "around the corner" (a year away is around the corner in this year's presidential politics) and a very busy and politically charged congressional calendar ahead, whether the deal can be wrapped up and

delivered before the Bush administration's term is over remains to be seen. The U.S.-India nuclear narrative never disappoints. Stay tuned.

## **Chronology of India-Asia Pacific Relations January - December 2007**

**Jan. 7-9, 2007:** Singapore Deputy PM Jayakumar leads a delegation of officials and businesspersons to India to attend the Pravasi Bharatiya Divas. The annual event brings the overseas Indian community to India for networking opportunities and seminars.

**Jan. 12-15, 2007:** India participates in the 12<sup>th</sup> ASEAN Summit in Cebu, Philippines as an ASEAN dialogue partner and as a member of the East Asian Summit (EAS).

**Jan. 14, 2007:** Chinese Premier Wen Jiabao meets Indian PM Manmohan Singh on the sidelines of the East Asian Summit.

**Jan. 16-18, 2007:** The 9<sup>th</sup> round of talks on the India-China Boundary Question is held in New Delhi.

**Jan. 17-24, 2007:** Singapore Minister for Foreign Affairs George Yeo visits India with stops in Bangalore, Kolkata, New Delhi, and Amritsar. He meets senior Indian officials and speaks to an Indian business conference.

**Jan. 19-21, 2007:** External Affairs Minister Pranab Mukherjee visits Myanmar.

**Jan. 23, 2007:** India and U.S. sign a letter of intent in New Delhi on promoting linkages between small and medium enterprises of the two countries.

**Feb. 11-14, 2007:** Chinese FM Li Zhaoxing visits India and kicks off the Year of Friendship through Tourism. Li and EAM Mukherjee announce the formal start of a bilateral hotline and the opening of new consulates in Kolkata and Guangzhou as well as tourism offices in New Delhi and Shanghai.

**Feb. 13, 2007:** Union Home Secretary V.K. Duggal visits Myanmar to meet his counterpart Brig. Gen. Phone Swe on a range of bilateral issues including action against militant groups operating against India from bases in Myanmar.

**Feb. 13-14, 2007:** Mori Yoshiro, former PM of Japan, visits India as special envoy. He attends the opening ceremony of the Japan-India Friendship Year – Year of Japan in India 2007 and the 34th Joint Meeting of India-Japan Business Cooperation Committee.

**Feb. 14, 2007:** India-China-Russia Trilateral Foreign Minister's Meeting held in New Delhi.

**Feb. 16, 2007:** The 4th Session of the India-Malaysia Joint Commission is held in New Delhi with Malaysian Foreign Minister Dato' Seri Syed Hamid Albar and India's MEA Mukherjee heading their respective delegations.

**Feb. 21-24, 2007:** India's Foreign Secretary Shivshankar Menon visits the U.S. where he co-chairs, with Deputy Secretary of Commerce David Sampson, the 5<sup>th</sup> Meeting of the Indo-U.S. High Technology Cooperation Group that brings together industry and government experts in the areas of information technology, bio-technology, nanotechnology, and defense technology.

**Feb. 26-March 2, 2007:** Australian Government Minister for Trade Warren Truss leads a 50-member business delegation to India for the 16<sup>th</sup> Joint Business Council. Truss opens a new Consulate-General in Chennai and announces the launch of Utsav Australia (Celebrate Australia), marketing and promotions program to raise awareness of Australian business and industry among the Indian business community.

**Feb. 27, 2007:** The 13<sup>th</sup> meeting of the India-Vietnam Joint Commission on Trade, Economic, Scientific and Technological Cooperation, chaired by the two countries' foreign ministers, is held in New Delhi.

**Feb. 28, 2007:** The U.S. and India Joint Working Group on Counterterrorism meets to discuss strategies for fighting global terrorism. Acting Coordinator for Counterterrorism Frank Urbancic chairs the U.S. delegation and Additional Secretary for International Organizations at the Ministry of External Affairs K.C. Singh heads India's side.

**March 8-9, 2007:** Asano Katsuhito, senior vice minister for foreign affairs, visits India to attend an India-Japan symposium and to discuss bilateral relations.

**March 22-23, 2007:** MEA Mukherjee travels to Tokyo for the first foreign minister-level strategic dialogue. He also holds talks with Minister for Defense Fumio Kyuma.

**March 28-31, 2007:** Shyam Saran, special envoy of India, visits Australia to meet senior officials regarding India's proposed nuclear deal with the U.S. Saran also exchanges views with the Joint Parliamentary Committee of Foreign Affairs, Defence and Trade.

**April 2, 2007:** India and the U.S. sign an MOU to renew their commitment to work cooperatively on environmental issues. The MOU focuses on air quality, water quality, toxic chemicals and waste, and the management of environmental agencies.

**April 10, 2007:** The first U.S.-India Defense Joint Working Group meeting is held in New Delhi. The working group was envisaged in the New Framework for the U.S. and India Defense Relationship signed in June 2005. It conducts a midyear review of the work overseen by the Defense Policy Group, which is the apex dialogue mechanism for the India-U.S. defense relationship.

**April 20-22, 2007:** The 10<sup>th</sup> round of India-China border talks are held in New Delhi with China represented by Vice FM & Special Representative Dai Bingguo and India by National Security Advisor & Special Representative M K Narayanan.

**April 23, 2007:** India and Japan hold the first Japan-India Energy Dialogue in Tokyo. Japan's side is headed by Minister for Economy, Trade and Industry Amari Akira and India's by Deputy Chairman of the Planning Commission Montek Singh Ahluwalia.

**April 23-25, 2007:** To promote greater cooperation between the U.S. and Indian aviation sectors, the U.S. Trade and Development Agency (USTDA), in cooperation with the Indian Ministry of Civil Aviation (MoCA) and other organization from both countries sponsor a high-level U.S.-India Aviation Partnership Summit in New Delhi.

**April 30, 2007:** Japan's Minister for Land, Transport and Infrastructure Fuyushiba Tetsuzo visits New Delhi and launches the Japan-India Tourism Exchange Year and discusses a new initiative to ease visa procedures for Indians traveling to Japan.

**April 30-May 1, 2007:** Foreign Secretary Menon visits Washington for the 5<sup>th</sup> Meeting of the India-U.S. Global Issues Forum as well as numerous other meetings with senior U.S. officials on a range of issues including the bilateral civilian nuclear agreement.

**May 7, 2007:** President George Bush and PM Manmohan Singh discuss by telephone the G8 Summit scheduled for June. According to an official Indian statement, "[t]he Prime Minister conveyed India's commitment to work with other countries to deal with the problems of climate change and global warming. The two leaders also emphasized the importance of a successful conclusion of the Doha Development Round of multilateral trade negotiations."

**May 23, 2007:** Chairman of the Joint Chiefs of the Staff Committee and Army Chief of Staff General Joginder Jaswant Singh visits China and meets FM Yang Jiechi. Following the visit, an announcement is made that India and China will conduct their first-ever joint army training exercise.

**May 30, 2007:** ROK Defense Minister Kim Jang-soo meets Indian Minister of Defense A.K. Antony in New Delhi. This is the first-ever defense ministerial talks between the two countries. Discussions reportedly focus on promoting defense cooperation including naval exercises and potential trade in defense materials.

**May 31-June 2, 2007:** Under Secretary for Political Affairs, R. Nicholas Burns visits New Delhi for discussions on the proposed bilateral civil nuclear cooperation agreement.

**June 3, 2007:** Defense Minister Antony visits Singapore. The two countries agree to continue to expand defense links.

**June 4-7, 2007:** Subodh Kant Sahai, India's minister of state for food processing industries, visits the U.S. for meetings with Secretary of Agriculture Mike Johanns and discussions about

the post-harvest and food processing initiatives in India and the India-U.S. Knowledge Initiative in Agriculture.

**June 7, 2007** Chinese Vice FM Dai meets a delegation of 100 young people from India headed by Indian Minister of Youth Affairs and Sports Mani Shankar Aiyar.

**June 7, 2007:** Chinese President Hu meets PM Singh in Berlin. State Councilor Tang Jiaxuan also attends.

**June 11-15, 2007:** Taiwan KMT leader and presidential candidate Ma Ying-jeou visits New Delhi, the first KMT leader to do so since Chiang kai-shek visited in 1942.

**June 15, 2007:** First Japan-India High Level Policy Consultations on Economic Development are held in New Delhi. The discussions center on India's development policy and Japan's overall policy on economic cooperation for India.

**June 12-14, 2007** India and Indonesia convene the First Joint Defense Cooperation Committee in Jakarta since the ratification of the Defense Cooperation Agreement between Indonesia and India in December 2006.

**June 18, 2007:** EAM Mukherjee visits Jakarta for the 3rd Joint Commission between Indonesia and India where he and Indonesian FM N. Hassan Wirajuda review bilateral relations since the establishment of the New Strategic Partnership in November 2005.

**June 18-20, 2007:** EAM Mukherjee visits Singapore; a Joint Ministerial Committee for Bilateral Cooperation and an India-Singapore Strategic Dialogue are launched.

**June 24-29, 2007:** Steel Minister Ram Vilas Paswan leads a delegation to Australia, including Perth, Sydney and Brisbane. A prime purpose of the visit is to gain Australian support for Indian companies buying stakes in coking coal firms in order to ensure access to raw materials to support capacity-expansion in India's steel sector.

**June 25-27, 2007:** Thailand's Prime Minister Surayud Chulanont makes a state visit to New Delhi to mark the 60th anniversary of the establishment of diplomatic relations between the two countries. An MOU on Enhanced Cooperation in the field of Renewable Energy and a Cultural Program are signed.

**June 27-28, 2007:** Commerce & Industry Minister Kamal Nath visits Washington to give a special address at the 'Global India Summit' organized by the U.S.-India Business Council to mark its 32nd anniversary, meet senior U.S. officials, and deliver an address at the Carnegie Endowment for International Peace on "The Doha Agenda - Delivering on Development."

**June 30-July 4, 2007:** Japan's Minister for Economy, Trade and Industry Amari Akira visits New Delhi for wide-ranging discussions with Minister of Commerce Nath.

**July 4-6, 2007:** Vietnam's Prime Minister Nguyen Tan Dung makes a state visit to India on the occasion of the 35th anniversary of the establishment of diplomatic relations between India and Vietnam.

**July 11, 2007:** PM Singh and President Bush hold a telephone call in which they expressed satisfaction at the strong India-U.S. bilateral relationship and spoke about the forthcoming discussions between the national security advisers of both countries.

**July 11, 2007:** Australian Minister of Defense Brendan Nelson makes the first trip by an Australian defense minister to India in two decades.

**July 17, 2007:** Japan's Deputy Minister for Foreign Affairs Kohno Masaharu visits India for the first-ever Japan-India Strategic Dialogue on Economic Issues.

**July 17-20, 2007:** Under Secretary of State for Political Affairs Burns and Foreign Secretary Menon hold four days of meetings in Washington regarding outstanding issues in the 123 agreement. They announced that they "will now refer the issue to our governments for final review."

**July 27, 2007:** MEA Mukherjee and Secretary of State Condoleezza Rice make a Joint Statement on the completion of the civil nuclear negotiations between the two sides.

**Aug. 6-7, 2007:** M. K. Narayanan, national security adviser of India, visits Japan to hold discussions on bilateral and international issues in preparation for the visit of PM Abe to India later in the month.

**Aug. 14, 2007:** President Bush calls PM Singh to convey the greetings of the government and people of the U.S. on the 60th Anniversary of India's Independence.

**Aug. 16, 2007:** India's External Affairs Minister makes a statement to the national Parliament in which he provides the "factual position" regarding two concerns expressed by members – India's right to test nuclear weapons and continuity of fuel supply. Regarding testing he says "There is nothing in the bilateral agreement that would tie the hands of a future government or legally constrain its options. A decision to undertake a future nuclear test would be India's sovereign decision, resting solely with the Government of India." Regarding continuity of fuel supply he says "The bilateral cooperation agreement contains elaborate provisions in Articles 5 and 14 to ensure the continuous operation of India's reactors. These include fuel supply assurances, the right to take corrective measures, and a strategic fuel reserve for the lifetime of India's reactors in case of cessation of cooperation."

**Aug. 20, 2007:** China National Tourism Authority (CNTA) opens office in New Delhi. This is the first Chinese tourism promotion office in India.

**Aug. 21-23, 2007:** Japan's PM Abe visits India. He becomes the first Japanese prime minister to address India's Parliament and the two governments issue a Joint Statement on the Roadmap for New Dimensions to the Strategic and Global Partnership.



**Aug. 21, 2007:** Australia's Naval Chief Vice Adm. Eric Shalders holds talks with Indian defense and military officials, the first visit by an Australian naval chief to India in 20 years.

**Sept. 4, 2007** India, the US, Australia, Japan, and Singapore begin a four-day naval exercise called *Malabar 07-2*.

**Sept. 5-12, 2007** India hosts a delegation of about 100 Buddhist pilgrims from Cambodia, Laos, Myanmar, Thailand, and Vietnam as part of an initiative to promote cultural exchanges within the framework of Mekong Ganga Cooperation (MGC).

**Sept. 14-15, 2007:** EAM Mukherjee visits Thailand for 5<sup>th</sup> Joint Commission meeting.

**Sept. 14-16, 2007:** India and Taiwan industry associations hold a collaborative exhibition in the south Indian city of Chennai to promote bilateral trade and commercial ties.

**Sept. 16-18, 2007:** EAM Mukherjee visits South Korea and co-chairs 5th ROK-India Joint Commission. Both countries express the hope of concluding negotiations on the Comprehensive Economic Partnership Agreement (CEPA) by the end of 2007 and meeting a \$10 billion trade target before 2008.

**Sept. 17-18, 2007:** Foreign Secretary Menon meets Chinese FM Yang and State Councilor Tang to consolidate the India-China Strategic and Cooperative Partnership.

**Sept. 24, 2007:** A U.S.-India Memorandum of Cooperation on public transportation is signed to facilitate cooperative activities to address India's urban infrastructure needs.

**Sept: 24-26, 2007:** The 11<sup>th</sup> round of the Special Representatives talks on India-China boundary question is held in Beijing.

**Sept. 27, 2007:** EAM Mukherjee leads the Indian delegation at the Major Economies Meeting on Energy Security and Climate Change, convened by President Bush.

**Oct. 1, 2007:** EAM Mukherjee meets Myanmar FM U Nyan Win at a UN General Assembly meeting. According to an official Indian statement, "the External Affairs Minister expressed concern at the current situation in Myanmar, noting that as a close and friendly neighbor, India hoped to see peace, prosperity and stability in Myanmar. The Minister also expressed the hope that the process of national reconciliation and political reform, initiated by the Government of Myanmar, would be taken forward expeditiously. Further, he suggested that the Government could consider undertaking an inquiry into recent incidents and the use of force."

**Oct. 4- 6, 2007:** Philippines President Gloria Macapagal Arroyo makes a state visit to India accompanied by seven Cabinet ministers and a 41-member business delegation. The two countries sign a total of eight declarations, agreements and MOUs including an agreement on the establishment of a Joint Commission on Bilateral Cooperation and a Joint Declaration for Cooperation to Combat International Terrorism.

**Oct. 10, 2007:** India and Singapore sign an agreement under which Singapore can use Indian military bases for five years in return for payment. The agreement is signed during a visit by Singapore's Permanent Secretary for Defense Chiang Chie Foo with India's Defense Secretary Vijay Singh at a defense policy dialogue in New Delhi.

**Oct. 15, 2007:** President Bush and PM Singh discuss the Doha Round and the India-U.S. Civil nuclear agreement by telephone.

**Oct. 23-25, 2007:** EAM Mukherjee visits Harbin, China for the third India-Russia-China Foreign Minister level meeting – the second such meeting in 2007.

**Oct. 26, 2007:** Chinese President Hu Jintao and Premier Wen Jiabao, a member of the Standing Committee of the Political Bureau of the CPC Central Committee, meet Indian National Congress Party President Sonia Gandhi.

**Oct. 29, 2007:** EAM Mukherjee speaks by telephone with Secretary of State Rice.

**Nov. 6-10, 2007:** A delegation led by the Chief Justice of India, Justice K. G. Balakrishnan, visits China to return a visit by the President of the Supreme People's Court of China to India from April 2-7, 2007.

**Nov. 12-13, 2007:** India and China hold the first-ever defense and security consultations as called for in the MOU on enhancing defense cooperation signed in May 2006.

**Nov. 12, 2007:** Singapore FM Yeo meets EAM Mukherjee in New Delhi for discussion of bilateral relations.

**Nov. 21, 2007:** The 6th ASEAN-India Summit is held in Singapore on the sidelines of the 13<sup>th</sup> ASEAN Summit.

**Nov. 21, 2007** Chinese Premier Wen meets PM Singh on the sidelines of the ASEAN and EAS Summits in Singapore and says that "We are happy to see that both sides have the willingness and resolve to settle their border issue left over from history."

**Nov. 21, 2007:** Singapore Senior Minister Goh Chok Tong and PM Singh meet following the EAS. This is the first meeting between the two since January 2006.

**Nov. 29, 2007:** The India-U.S. joint working group on counter-terrorism meets to discuss bilateral cooperation in fighting the global menace of terrorism.

**Nov. 30, 2007:** India's Information and Broadcasting Minister P.R. Dasmunsi announces that "The Cabinet at its meeting yesterday evening gave its approval for tariff elimination/reduction on 555 products through a protocol of amendment of India-Singapore Comprehensive Economic Cooperation Agreement (CECA)."

**Nov. 30, 2007:** EAM Mukherjee makes a statement to Parliament regarding a rally organized by the Hindu Rights Action Force (HINDRAF) in Kuala Lumpur, Malaysia. The minister says “We have friendly relations with Malaysia and we are in touch with the Malaysian authorities in the related matter.”

**Dec. 4, 2007:** The Second China-India Financial Dialogue is held in Beijing.

**Dec. 7–10, 2007:** Cambodia PM Hun Sen, accompanied by 12 Cabinet members, makes a state visit to India during which six agreements are signed.

**Dec. 11-12, 2007:** Myanmar Deputy FM Kyaw Thu visits New Delhi. According to an official Indian statement, talks were “marked by the friendship and cordiality that mark relations between India and Myanmar as close neighbors.” The two sides also signed an MOU for the establishment of the India-Myanmar Centre for Enhancement of Information Technology Skills (IMCEITS) at Yangon.

**Dec. 20-25, 2007:** The first India-China Joint Military Training Exercise “Hand-in-Hand 2007” is held. One armed Reconnaissance Company of the PLA and an equivalent strength of Indian troops participate in the exercise that included establishment of a joint command post, joint battle decision making and conduct of anti-terrorism drills.



## About The Contributors

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