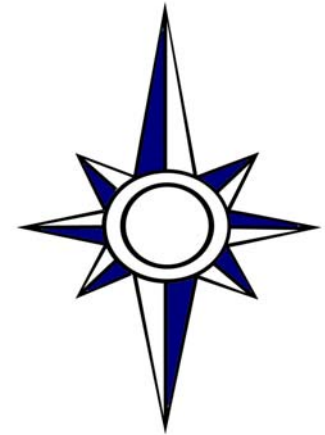




**P a c i f i c   F o r u m   C S I S**



# Comparative Connections



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

*edited by*

Carl Baker  
Brad Glosserman

2nd Quarter (April – June) 2010  
Vol. 12, No.2  
July 2010

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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 annual budget. The Forum's studies are objective and nonpartisan and it does not engage in classified or proprietary work.

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# Comparative Connections

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 US, 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 Carl Baker and Brad Glosserman, 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 US.

We regularly cover 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 US-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 Australia, India, and Russia) as events dictate. Our Occasional Analyses also periodically cover functional areas of interest.

Our aim is to inform and interpret the significant issues driving political, economic, and security affairs of the US 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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The relocation of Marine Corps Air Station Futenma on Okinawa remained the predominant issue in the US-Japan relationship and the two governments issued a joint statement in late May reaffirming a commitment to realize a plan adopted in 2006 with some modifications to be explored. Prime Minister Hatoyama then resigned as polls revealed frustration with his handling of the Futenma issue and weak leadership overall. Finance Minister Kan Naoto succeeded Hatoyama as premier and outlined his own policy priorities just weeks before an important parliamentary election. Kan stressed the centrality of the US-Japan alliance to Japanese diplomacy and reiterated the theme in his first meeting with President Obama at the G8 Summit in late June. The two leaders' first meeting was business-like and lacking for drama – exactly as both governments had hoped. New public opinion polls suggested political turmoil at home has not had a significant impact on Japan's standing globally or in the US, but some observers continued to suggest the US should lower expectations of Japan as an ally in the debate about the future of the alliance.

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Presidents Barack Obama and Hu Jintao met twice this quarter, first on the sidelines of the Nuclear Security Summit in Washington in April and again on the margins of the G20 Summit in Toronto in June. Nevertheless, tensions lingered over US arms sale to Taiwan and the military relationship remained suspended. The Chinese rejected a request from Secretary of Defense Robert Gates to visit China. The second round of the Strategic and Economic Dialogue was held in Beijing in late May, yielding agreements on energy, trade environment, and healthcare. Many hours were spent during the quarter in discussions between the two countries on an appropriate response to the sinking of the South Korean warship, but the gap was not narrowed. In June, China finally announced the long-awaited decision to allow its currency to be more flexible, though it remains unclear how fast and to what extent it will permit the *yuan* to appreciate.

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In mid-May, long-simmering political tension in Thailand erupted in the worst political violence in decades. Tentative US efforts to mediate were rejected by the Thai government, though the opposition appeared to welcome a US role. A tense calm has been restored, but the prospect for renewed violence is palpable. While the Indonesian government expressed understanding for President Obama's second postponement of a visit to his childhood home because of the disaster in the Gulf of Mexico, opposition Muslim politicians claimed the real reason for the postponement was the Israeli attack on a Turkish flotilla running Israel's Gaza blockade. A number of Muslim leaders stated that Obama wished to avoid encountering Indonesian ire. The election of Benigno Aquino III as the Philippines' 15<sup>th</sup> president was greeted by international observers as a generally fair and transparent process. The president-elect has stated he plans to review the country's Visiting Forces Agreement with the US to modify its pro-US bias. Washington continues to criticize Burma's preparations for elections scheduled for October as marginalizing the political opposition. The US is also concerned that Burma may be clandestinely importing materials from North Korea for a nascent nuclear weapons program.

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**by Robert Sutter, School of Foreign Service, Georgetown University, and Chin-hao Huang, University of Southern California**

Chinese Premier Wen Jiabao traveled to the remote Myanmar capital during a swing through Asia in May and June, marking the first official visit by a Chinese premier in 16 years. Wen had planned to visit Brunei, Myanmar, and Indonesia in April but was compelled to cancel that trip due to a major earthquake in Qinghai province. Vice President Xi Jinping advanced Chinese relations with a visit to Australia, New Zealand and Laos in mid-June. Chinese officials and authoritative media generally avoided taking sides in the deepening and increasingly violent internal crisis in Thailand. A variety of reporting and private disclosures by Vietnamese officials indicated more serious Sino-Vietnamese frictions over disputed claims in the South China Sea than previously indicated. Maneuvers by Chinese naval forces over disputed territories and related claims caught the attention of regional observers and the US, deepening concerns regarding Chinese objectives.

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

After six months of arduous negotiations, China and Taiwan signed an Economic Cooperation Framework Agreement (ECFA), including an “early harvest” list of tariff reductions. The agreement, which provides a basis for further integration of the two economies, is a milestone in institutionalizing cross-Strait relations. On Taiwan, opposition politicians continue to criticize the ECFA but months of discussion and debate have led to a gradual increase in public support and acceptance. The issue of US arms sales to Taiwan continues to complicate US-China relations. The Democratic Progressive Party’s consideration of a new 10-year platform has revealed an ongoing internal difference over cross-Strait policy. The coming quarter will see the Legislative Yuan’s review of the ECFA, Taiwan’s quest for free trade agreements with trade partners and jockeying in the run-up to the November municipal elections on Taiwan.

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

This was the worst quarter in inter-Korean relations of the near-decade that *Comparative Connections* has been covering this relationship. On the rare occasions when the peninsula makes global headlines, or even more rarely moves markets, it tends not to be good news. Thus it was on May 24-25, when for the first time in many years the world seriously wondered whether the two Koreas might go to war. On closer inspection there was both more and less to this than at first met the eye. But it was a perilous moment; and though it now seems to have passed, it leaves North-South relations in a pit from which no easy exit is apparent. As of early July, with ROK President Lee Myung-bak still smarting from an unexpected rebuff in local elections, one must conclude that North Korea’s torpedo scored a bulls-eye. Despite delivering a remarkable economic recovery and chairing the G20, “bulldozer” Lee is now on the back foot: just as Kim Jong-il intended. It was nasty and negative, but it worked. In Pyongyang’s eyes, this counts as a win – even though from any sensible perspective it is a loss for both Koreas, and their relations.

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**The *Cheonan* and China’s “Double Play”**

**by Scott Snyder, Asia Foundation/Pacific Forum, and See-won Byun, Asia Foundation**

The March 26 sinking of the South Korean warship *Cheonan* served as the backdrop for a series of high-level exchanges between China and the two Koreas. Kim Jong-il paid an “unofficial” visit to China and met President Hu Jintao in Beijing days after ROK President Lee Myung-bak’s summit with Hu. Lee and Hu held another round of bilateral talks on the sidelines of the G20 Summit in Toronto, where they pledged to strengthen the China-ROK strategic cooperative partnership despite unresolved tensions over North Korea. Premier Wen Jiabao paid a three-day visit to South Korea and met President Lee in Seoul prior to the third China-ROK-Japan trilateral meeting in Jeju. Foreign Ministers Yu Myung-hwan and Yang Jiechi also held talks on the sidelines of the fourth trilateral foreign ministers meeting. South Korea formally referred the *Cheonan* incident to the UN Security Council after results of an international investigation were released indicating that the warship sinking was caused by a North Korean torpedo. Meanwhile, Beijing has repeatedly called for “calm and restraint” in dealing with the crisis.

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

The quarter began with China’s execution of Japanese nationals convicted of drug smuggling. This was followed shortly by large scale and unannounced naval exercises in international waters near Japan that involved PLA Navy helicopters buzzing Japanese surveillance destroyers. This was followed by Chinese pursuit of a Japanese research ship operating within Japan’s claimed EEZ. Meanwhile, Foreign Minister Okada chided his Chinese counterpart on China’s being the only nuclear-weapon state not committed to nuclear arms reduction. Nevertheless, high-level meetings continued throughout the quarter: Hatoyama and Hu in April, Hatoyama and Wen in May, Kan and Hu in June. At the meetings, China unexpectedly agreed to begin negotiations on the East China Sea at an early date and proposed a defense dialogue and defense exchanges, while both sides reaffirmed commitments to build “win-win” outcomes in the economic relationship and to advance the mutually beneficial strategic relationship.

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***Cheonan* Incident Overshadows Everything**

**by David Kang, University of Southern California, and Ji-Young Lee, Oberlin College**

The sinking of the South Korean warship on March 26 turned the second quarter into a tumultuous time for Northeast Asian diplomacy. A multinational team of investigators concluded that North Korea was responsible, bringing Seoul and Tokyo closer together in a united stand against Pyongyang, while Japan’s relations with North Korea relations declined even more than usual as they continued their “sanctioning and blaming”: Tokyo placed more sanctions on Pyongyang, and Pyongyang blamed Tokyo for being used as a US “servant.” For its part, the Democratic Party of Japan found a face-saving solution to the problem of the Futenma relocation issue, putting the matter on hold due to the threat from North Korea. At the 60<sup>th</sup> anniversary of the Korean War, the region appears largely the same as it did in 1950. Both Koreas view each other as the main enemy, US alliances are the cornerstone of Japan and South Korean foreign policies, and China (and to a lesser extent, Russia) is sympathetic to North Korea and faces strong criticism from the US and South Korea.



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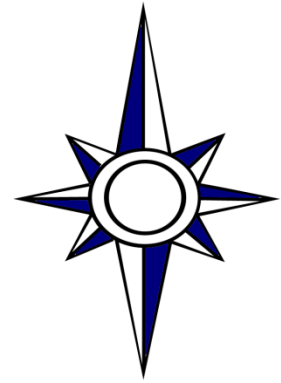
**Reset under Medvedev: *Zapad-Politik* and *Vostok 2010***

**by Yu Bin, Wittenberg University**

Unlike the relatively uneventful first quarter in China-Russia relations, the second quarter was full of confusion, crises, and even conflicts along the peripheries of Russia and China and within the Shanghai Cooperation Organization (SCO). Following the sinking of the ROK Navy corvette *Cheonan* on March 26, the Korean Peninsula experienced significant tension. On April 6, riots and violence broke out in Kyrgyzstan, leading to the ousting of the Bakiyev government two days later. Both Russia and China joined the US-sponsored UNSC sanctions against Iran, although with differing degrees of reluctance. In the midst of this activity, Moscow cautiously and conspicuously orchestrated a “reset” of its foreign policy with a clear tilt toward Europe and the US. Russia’s new round of *Zapad-Politik* (Westpolitik), eliciting quite a few surprises, if not shocks, for its strategic partner in Beijing.

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**Regional Overview:**

**Hopes and Plans Torpedoed; Strategies Outlined**

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

Hopes for a resumption of Six-Party Talks this past quarter were torpedoed when an international investigation team concluded that the ROK Navy ship *Cheonan* was deliberately attacked by a North Korean submarine. The Chinese, while scuttling plans for UNSC censure of Pyongyang, fired a warning shot of their own, denying Defense Secretary Gates' request for a China visit after the Shangri-La Dialogue in June in a sign of continued displeasure over US arms sales to Taiwan. Also once again torpedoed, this time by an oil spill, was President Obama's twice-delayed "homecoming" visit to Indonesia.

ASEAN defense officials gathered in Singapore in June for the Shangri-La Dialogue but not until after convening their fourth ASEAN Defense Ministers Meeting (ADMM) in Hanoi in May where they finalized plans for a broader multilateral ADMM Plus Eight confab to improve regional defense cooperation. If successful, the ADMM+ could render the Shangri-La Dialogue obsolete. Other regional multilateral activity included the third China-Japan-South Korea Trilateral Summit and the 10<sup>th</sup> Shanghai Cooperation Organization (SCO) Summit, while globally the G8 and G20 met for the first time back-to-back in Canada, with the G20 beginning to outshine its older more exclusive cousin.

The Obama administration published its overdue *National Security Strategy* and *Nuclear Posture Review* reports this quarter, outlining its overall strategic priorities and the (diminished) role of nuclear weapons as, together with Moscow, Washington made a New START toward its declared goal of a nuclear weapons-free world. Nuclear safety and security were very much on the president's mind as he convened the first ever Nuclear Security Summit involving leaders and other senior officials from 49 countries in Washington and applauded the success of the 2010 Nuclear Nonproliferation Treaty Review Conference in New York.

Finally, it's been a rough quarter politically in East Asia, especially in Thailand where "red shirt" protests and government reactions both turned violent. In Japan, Prime Minister Hatoyama chose to walk the plank (and took ruling party Secretary General Ozawa with him) in hopes of salvaging his party's chances in the upcoming Upper House elections while Prime Minister Rudd was also a victim of a surprise attack, in this case coming from his own party. A peaceful transfer of power did take place in the Philippines, however, and Hong Kong took another baby step toward promised universal suffrage.

## **Six-Party Talks: (un)intended victim of *Cheonan* attack?**

Rumors about the stage being set for a resumption of Six-Party Talks appeared baseless even before the final report from a South Korean-led international Joint Civilian-Military Investigation Group (JC-MIG, including US, UK, Australian, and Swedish experts). It concluded, after a “scientific and objective” review of the evidence, that the *Cheonan* had been attacked and sunk by a North Korean-manufactured torpedo and that “the evidence points overwhelmingly to the conclusion that the torpedo was fired by a North Korean submarine . . . . There is no other plausible explanation.” It was further noted that at least four submarines departed Cape Bipagot naval base – North Korea’s primary submarine base in the Yellow Sea – two to three days prior to the *Cheonan* attack, and that they returned to base two to three days following the incident, while “all submarines from neighboring countries were either in or near their respective home bases at the time of the incident.” As ROK President Lee Myung-bak said in announcing the investigation results on May 24, “with the release of the final report, no responsible country in the international community will be able to deny the fact that the *Cheonan* was sunk by North Korea.”

Thus far, China begs to differ as it continues to serve as Pyongyang’s defense attorney at the UN Security Council (UNSC) and in the court of world public opinion, calling on all parties “to maintain calmness and restraint and to properly deal with relevant issues,” in order to avoid an escalation of tension on the Korean Peninsula. This prompted President Obama to observe, during a G8 press conference, that “I think there’s a difference between restraint and willful blindness.” He also made a direct link between the Chinese response to the attack and the resumption of Beijing-led denuclearization negotiations through the currently moribund Six-Party Talks: “We are not going to be able to have serious negotiations with the North Koreans if China fails to deal resolutely with the incident.” One wonders if the attack was in part aimed at killing any prospect of talks, since Pyongyang does not appear eager to place its nuclear weapons capability on the negotiating table, especially during a period of possible leadership transition.

Seoul, firmly backed by Washington, is seeking a strong condemnation and UNSC resolution, or at least a presidential statement condemning the North’s actions but, at quarter’s end, little progress had been made and Seoul was indicating that it would be prepared to settle for a comment along the lines of that made at the Muskoka, Canada G8 meeting at the end of June. While it did not specifically blame Pyongyang for pulling the trigger – Russia was not prepared to go that far, even after its own independent investigation of the evidence – it came close enough to serve as a model for the UNSC (and perhaps for the ASEAN Regional Forum when it meets in Hanoi in July). [*Note: A UNSC chairman’s statement was finally agreed upon on July 9 which generally follows the G8 model; its impact will be assessed next quarter.*]

In the G8 statement, the leaders “deplore the attack on March 26 that caused the sinking of the Republic of Korea’s naval vessel, the *Cheonan*,” identifying it as “a challenge to peace and security in the region and beyond.” They called for “appropriate measures to be taken against those responsible for the attack,” noted that the JC-MIG had concluded that the DPRK was responsible for the attack, and then stated: “We condemn, in this context, the attack which led to the sinking of the *Cheonan*. We demand that the Democratic Peoples’ Republic of Korea refrain from committing any attacks or threatening hostilities against the Republic of Korea. We support

the Republic of Korea in its efforts to seek accountability for the *Cheonan* incident, and we remain committed to cooperating closely with all international parties in the pursuit of regional peace and security.” The G8 statement expressed “our gravest concern” about DPRK nuclear and missile activities and called on Pyongyang “to abandon all nuclear weapons and existing nuclear and ballistic missile programs, as well as proliferation activities, in a complete, verifiable and irreversible manner in accordance with UN Security Council Resolutions 1718 and 1874.”

### **China as part of the problem**

Beijing alone seems reluctant to accept this reality, despite its earlier pledge (during Wen Jiabao’s visit to Korea) to scrutinize the results in an “objective and fair manner” and “not protect anyone regarding the review.” Skepticism regarding China’s contribution to Korean Peninsula denuclearization and broader peace and security began well before the *Cheonan* incident; economic promises made during Chinese Premier Wen Jiabao’s visit to Pyongyang in October 2009 were seen at a minimum to be undercutting ROK President Lee Myung-bak’s proposed “grand bargain” and, at worst, to be violating the spirit if not the letter of UNSCR 1874, put in place after the North’s second nuclear test. But these concerns have been magnified in the wake of the *Cheonan* “incident” (as Beijing calls the attack), first by Beijing’s decision to honor Kim Jong-il’s request to visit China while the *Cheonan* investigation was underway – reportedly after being expressly and personally asked not to when President Lee met with President Hu in Shanghai several days before the visit – and then by Beijing’s “neutral” stance.

The South’s concerns center on possible future hostile acts if North Korea reaches the conclusion that its own nuclear weapons capability now serves as a deterrent protecting it from harsh international reaction to acts of aggression. Washington’s concerns echo Seoul’s but go further and deeper. UNSCR 1874 was supposed to prevent nuclear or missile components from being delivered to Pyongyang but also to restrict North Korean export of all military-related goods. There is already good evidence Pyongyang has tried to circumvent this prohibition: witness the North Korean arms shipment bound for the Middle East that was intercepted in Bangkok. North Korea is one of the very few potential sources both of technical know-how and of plutonium or other radioactive material desired by international terrorist organizations seeking a rudimentary nuclear weapon or “dirty bomb” capability. Keeping such materials out of the hands of terrorists is a core national security interest of the United States. If Pyongyang reaches the conclusion that Beijing will protect it from censure or punishment regardless of how egregious its actions, the likelihood of proliferation goes up.

The Chinese have long argued that their first priority in Northeast Asia is regional stability. Preventing proliferation, Washington’s primary goal, finishes a distant second. But it is time for Beijing to ask itself if regional stability is possible if North Korea believes that it has *carte blanche* from China to misbehave and that it has the US, ROK, and the rest of the world deterred. Certainly attacking a South Korean warship is not conducive to regional stability. This does not mean that China should “abandon” North Korea. But there are a lot of things China can and should be doing to express its dissatisfaction with Pyongyang’s behavior. Blocking or watering down UNSC resolutions is not one of them. Such actions not only undermine future regional stability; they threaten US core national security interests.

## **Shangri-La Dialogue: US remains a “Pacific Nation”**

The North Korean drama and lingering US-China tensions played themselves out at the Shangri-La Dialogue in Singapore in early June. In his prepared remarks, US Defense Secretary Robert Gates noted that Pyongyang’s nuclear ambitions and aggressive behavior “continue to undermine the peace and stability of Asia.” He identified the *Cheonan* attack as “part of a larger pattern of provocative and reckless behavior” and noted that Washington, in close consultation with Seoul and others, was “assessing additional options to hold North Korea accountable.” This reportedly includes a much-discussed major military exercise off the west coast of North Korea, which continues to draw heavy Chinese protests (which, in our view, provides additional incentive to proceed with this show of force.)

Gates’ main message was that the US “is, and will remain, a power in the Pacific” since “America’s security interests and economic well-being are integrally tied to Asia’s.” Gates outlined overall US security objectives and priorities and pledged that the US was increasing its deterrent capabilities in a number of ways, including “serious steps to enhance our missile defenses . . . renewing our commitment to a strong and effective extended deterrence . . . and the forward presence of substantial US forces in the region.” He noted that the US defense posture in Asia “is shifting to one that is more geographically distributed, operationally resilient, and politically sustainable,” highlighting the build-up on Guam as a key element in this shift.

All this was largely ignored in the international media, which focused on his comments about China and the lack of progress in achieving “sustained and reliable” military-to-military relations with the Peoples Liberation Army (PLA), especially in light of Beijing’s denial of Gates’ request to visit China. Gates defended US arms sales to Taiwan as “nothing new,” reminding China that the US does not support Taiwan independence, and asserting that arms sales are “an important component of maintaining peace and stability in cross-strait relations.”

Beijing remains unconvinced. In his prepared remarks, PLA Deputy Chief of Staff Gen. Ma Xiaotian repeated last year’s accusations that US alliances represented “cold war mentality” and were “outdated.” He avoided the topic of North Korea completely but, in another example of “willful blindness” did note that “in the face of the complicated security situation, nations concerned should remain calm and exercise restraint and avoid escalation of tension.” The Chinese continue to send Ma, rather than their defense minister or armed forces chief of staff, to the meeting and the organizers – the London-based International Institute for Strategic Studies (IISS) – continue to overlook this protocol breach and give the Chinese representative a prominent position, this time in the second plenary (right after Gates) on a panel with Japan’s defense minister and the national security advisor to the prime minister of India.

## **ADMM+ as the preferred alternative**

While eight out of 10 ASEAN states were represented at the Shangri-La Dialogue (five by their defense ministers), ASEAN has made little secret of its desire to put itself in the “driver’s seat” when it comes to regional defense cooperation and security architecture building. Hence the announcement at the fourth ADMM in Hanoi on May 10–13 that the first ASEAN Defense

Ministers Meeting Plus (ADMM+) meeting would take place in Hanoi in October. The idea of holding an ADMM+ was initially suggested at the first ADMM meeting in Malaysia in 2006.

The assembled ministers endorsed two important documents for regional security architecture, namely “ADMM Plus: Configuration and Composition” and “ADMM Plus: Modalities and Procedures.” Their stated intent is for ADMM+ to be the “cornerstone” for ASEAN and its dialogue partners to discuss defense and security cooperation. The inaugural ADMM+ is projected to be a 10+8 configuration including all ASEAN member states plus Australia, China, India, Japan, South Korea, New Zealand, Russia, and the US; Secretary Gates was quick to proclaim that he intended to attend the first ADMM+; it will be interesting to see who China sends. The 10 + 8 structure would mirror the envisioned expansion of the East Asian Summit (EAS), assuming the US and Russia ultimately join – the Russians have been beating on the door since day one and the Obama administration is discussing how to engage more fully in the EAS.

According to the *Hanoi Times*, the ADMM itself is “the highest-level forum” of ASEAN defense leaders, and provides the “necessary foundation for open and constructive dialogues regarding strategic issues at the ministerial level, as well as promoting real cooperation between armed forces” in the region. The ADMM+ meanwhile, according to this year’s host, Vietnamese Minister Phung Quang Thanh, “will not be considered a military alliance, but to cope with non-traditional security challenges especially disaster relief [and] maritime security.”

### **The “Plus Three” move forward – sort of**

In other regional multilateral activity, China, Japan, and South Korea continued efforts to carve out a distinctive regional role, divorced from the ASEAN Plus 3 mechanism that first provided them a context to meet. The past quarter witnessed their fourth trilateral foreign ministers’ meeting, which convened in Gyeongju, South Korea on May 16. The official readout from the meeting highlighted satisfaction at progress in trilateral cooperation and the desire to move further. For those who prefer to scoff at prospects for deeper regional integration, it is worth citing the meeting’s declaration, which noted “with satisfaction” that more than 50 trilateral consultative mechanisms (including 17 ministerial meetings) are in full operation, along with over 100 trilateral cooperation projects in the political, economic, and social fields.

The foreign ministers discussed the things foreign ministers typically discuss: the current situation in Northeast Asia, East Asia cooperation, the G20, dealing with the aftermath of the global economic crisis, and climate change. They expressed condolences for the loss of lives in the aftermath of the sinking of the *Cheonan* and talked about the incident, along with more broad-based discussion on nuclear policy, in particular efforts to strengthen global disarmament and nonproliferation regimes.

While official statements focused on the positive, perhaps the most interesting part of the meeting was the verbal fireworks between Japan and China. Japanese Foreign Minister Okada Katsuya took issue with China’s nuclear modernization efforts, arguing it ran counter to global disarmament trends. Chinese Foreign Minister Yang Jiechi refuted “the groundless attack” (so described by Chinese newspapers), while a Foreign Ministry spokesman labeled them “irresponsible remarks.” The exchange was reported to be quite heated, with Yang supposedly

threatening to walk out of the meeting. He urged Japan to focus on building better bilateral relations and not get bogged down with...facts.

The foreign ministers' meeting was followed by the leaders meeting, the third Trilateral Summit, which convened in Jeju, South Korea on May 29-30. Like the foreign ministers, ROK President Lee, Japanese Prime Minister Hatoyama Yukio, and Chinese Premier Wen Jiabao took up regional and global issues, offered condolences to *Cheonan* victims, and pledged to work closely to promote peace and stability. They reiterated their call for a nuclear-free Korean Peninsula and promised to keep working through the Six-Party Talks to realize the goals set out by the joint declaration of Sept. 19, 2005. In a performance worthy of finalist status on the US reality show "Dancing with the Stars," Premier Wen managed to sidestep or shuffle around all pointed press inquiries regarding the *Cheonan* attack. His promise that China "would not protect anyone," well-received by all in Korea who sought hints of Chinese objectivity on this issue, continues to prove hollow, however.

The most significant element of the meeting was the determination to push the trilateral cooperation and coordination process. They presented *Vision 2020*, which outlines cooperation and exchanges for the next decade and agreed to set up a permanent Trilateral Cooperation Secretariat in Korea in 2011 that will facilitate coordination among the three countries. They also agreed to complete a joint study for a free trade agreement among them by 2012 and to work to realize an investment treaty within the next few months.

### **Yet more common ground for the SCO**

The Shanghai Cooperation Organization (SCO) held its 10<sup>th</sup> annual summit this quarter, meeting in Tashkent on June 11. It produced the usual declaration promising to build an effective and open multilateral organization dedicated to regional peace, stability, and prosperity. The six leaders from SCO member countries -- China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan -- took up the usual topics: regional security concerns, cooperation in fighting terrorism and the spread of drugs, the impact of the global economic crisis, and cooperation. They also expressed support for Central Asian efforts to build a nuclear weapons free zone and worried about the impact of antimissile systems.

The group, which accounts for 60 percent of the territories of Euro-Asia and 25 percent of the world's population, granted Belarus and Sri Lanka the status of dialogue partners. Mongolia, India, Pakistan, and Iran are already observers. Laying the foundation for expansion of the group, the leaders also agreed on a resolution that lays out procedures for new countries to join.

### **Gasps from the G8**

For the first time, the two leading international leaders' meetings, the annual G8 Summit and the semi-annual Group of 20 Summit, were held back to back. Canada played host. Ostensibly, the meetings ratified a new division of labor, one in which the G8 would tackle political issues and the G20, which accounts for 85 percent of global wealth, would focus on economic management. It's nice in theory; in practice, both suffer the same flaw -- the stubborn ability of national interests to trump high-fallutin' statements of global concern and purpose.



We have long been critics of the G8 process. This year's meeting gave us no reason to change our minds. In their post-summit statement, the leaders noted the beginning of "a fragile recovery from the greatest economic crisis in generations," and then turned to other global challenges. In addition to almost blaming Pyongyang for the *Cheonan* attack, they also condemned Iran and North Korea for their defiance of international nuclear norms, and urged both to comply with UN resolutions. They set a five-year deadline for the stabilization of Afghanistan and demanded an end to inhumane conditions in the Gaza Strip. The declaration noted that dealing with climate change is the top priority, and the group strongly supported UN negotiations on a new global climate treaty.

This meeting produced the Muskoka Initiative, so named for the Canadian town where the meeting was held. In it, G8 nations committed to provide \$5 billion over the next five years to improve maternal, newborn, and child health globally, a sum that will be topped off by \$2.5 billion from other partners. In addition, the leaders launched the Muskoka Accountability Report, which aims to increase the transparency and implementation of commitments. We would have more faith in that effort if the leaders had turned their attention to their previous commitments. Not surprisingly, the group did not mention an \$18 billion shortfall in meeting the G8's own 2010 target of \$50 billion in aid promises.

### **Worrying signs from the G20**

Meanwhile, the G20 has been steadily rising in prominence in the aftermath of the global economic crisis. Previous meetings demonstrated a consensus on how to respond to the crisis; the ability to respond as one and to outline common steps was an important signal of political will. Unfortunately, there has been a gap between rhetoric and reality: while the leaders agreed to keep their economies open at the G20 Summit hosted by President Obama last year, the World Bank uncovered protectionist measures in 17 of the 20 members within months.

This year's meeting, held in Toronto, made plain the difficulties in mobilizing 20 nations. World leaders are divided between those who worry about the fragility of the recovery and those concerned about the snowballing deficits. Thus, the Toronto declaration warned that "while growth is returning, the recovery is uneven and fragile, unemployment in many countries remains at unacceptable levels, and the social impact of the crisis is still widely felt." It urged leaders "to follow through on delivering existing stimulus plans, while working to create the conditions for robust private demand."

It then took up the deficit hawks' case, highlighting "the importance of sustainable public finances." The declaration called for "credible, properly phased and growth-friendly plans to deliver fiscal sustainability . . . tailored to national circumstances." The developed countries agreed to halve their annual fiscal deficits as a percentage of gross domestic product by 2013.

Equally important was agreement among G20 members to redistribute power at the IMF: at the last meeting they agreed to shift 5 percent of voting rights to emerging economies. Final confirmation will come at the next G20 meeting, which will be held in Seoul in November, and then the decision has to be ratified by the IMF itself. (Most observers think a 5 percent shift

doesn't reflect the new balance of economic power. A greater shift is unlikely as it would come at Europe's expense and those governments are unprepared to accept such a move.)

It is tempting to be skeptical about the G20's prospects. The Toronto statement took up both sides of the economic debate, providing little real guidance for policy makers. Then look back at the last quote from the declaration and note that last clause: "tailored to national circumstances." That phrase pretty much neuters the statement. It means that no consensus on economic policy exists and that each government can go its own way. It provides little, if any, guidance beyond common sense and self-interest.

### **2010 Nuclear Posture Review: moving toward "no first use"**

The long-awaited Pentagon *Nuclear Posture Review (NPR)*, released in early April, was the latest in a series of speeches and initiatives (including the US-Russia New Strategic Arms Reduction Treaty (START) outlined last quarter) aimed at de-emphasizing nuclear weapons in the US security strategy. Continuing a trend that existed (but was not widely recognized) in the earlier George W. Bush administration iteration, the 2010 NPR devotes an entire chapter to "Reducing the Role of US Nuclear Weapons" and highlights this effort as one of the five "key objectives" of the Obama administration's nuclear weapons policies and posture, even while acknowledging that nuclear weapons remain a critical component of US extended deterrence. It also states unequivocally that the US "will not develop new nuclear warheads" and "will not support new military missions or provide for new military capabilities."

While the *NPR* contains a great deal of continuity and consistency in terms of US nuclear policy and strategy – it is far from the revolutionary document that some had hoped for (and others had feared) – it contains a number of significant departures from past policies. For one thing, it is unclassified. This year's document also avoids the discussion of nuclear weapons contingencies that caused so much consternation and misinterpretation in the Bush administration's report.

The 2010 *NPR* lists "*preventing nuclear proliferation and nuclear terrorism*" as the first of five key objectives, based on the understanding that "the threat of global nuclear war has become remote, but the risk of nuclear attack has increased." Nuclear terrorism is "today's most immediate and extreme danger" and the least susceptible to traditional deterrence. This raises the importance of countering nuclear proliferation, "reversing the nuclear ambitions of North Korea and Iran" being cited as key to this effort.

As alluded to earlier, "*reducing the role of nuclear weapons*" was listed as the second key objective in the *NPR*. It was here that the disarmament community's hopes were highest (and its disappointment most loudly expressed). Many were hoping for a "no first use" declaration; a clear statement that nuclear weapons would only be used in response to a nuclear attack by others. Instead, the *NPR* promised to "reduce the role of nuclear weapons in deterring non-nuclear attacks, *with the objective* of making deterrence of nuclear attack on the United States or our allies and partners the sole purpose of US nuclear weapons." [emphasis added] While the administration was not prepared to rule out first use against other nuclear weapons states, it did, however, state that the US "would only consider the use of nuclear weapons in extreme circumstances to defend the vital interests of the United States or its allies and partners."

Regarding negative security assurances, it states: “The United States will not use or threaten to use nuclear weapons against non-nuclear weapons states that are party to the Nuclear Non-Proliferation Treaty (NPT) and in compliance with their nuclear nonproliferation obligations.” Note the important caveat here: these assurances specifically do not apply to Tehran or Pyongyang unless they come into full compliance with the NPT. While acknowledging that this was intended to apply even in the event of a chemical or biological attack – which would be met with “a devastating conventional military response” – it did “reserve the right to make any adjustments in the assurance” based on the evolution and proliferation of biological weapons.

The third objective calls for “*maintaining strategic deterrence and stability at reduced nuclear force levels.*” The NPR calls attention to the New START with Russia as a significant step in this direction, and promises to pursue follow-on talks with Moscow that will also address non-strategic and non-deployed nuclear weapons. While China was a “contingency” in the last NPR, here its main role is as a partner with whom Washington wants to promote “strategic stability.”

“*Strengthening regional deterrence and reassurance of US allies and partners*” is the fourth objective. Again dashing some hopes, the NPR states that forward-deployed nuclear weapons will remain in Europe at present although their role “will be discussed” with alliance members. Dialogues are also underway with Asian allies “to reassure them that US extended deterrence is credible and effective.” While the US “will retain the capability to forward-deploy US nuclear weapons on tactical fighter-bombers and heavy bombers,” nuclear-tipped, sea-launched TLAM-N cruise missile will be retired “as redundant in the overall mix of capabilities.” The bottom line: “As long as regional nuclear threats to our forces, allies, and partners remain, deterrence will require a nuclear component.”

The final NPR objective deals with “*sustaining a safe, secure, and effective nuclear arsenal,*” not through the development of new systems but by modernizing the nuclear weapons infrastructure and sustaining the science, technology, and engineering base. Most significant here is a pledge not to conduct nuclear tests and to seek ratification and entry into force of the Comprehensive Nuclear Test Ban Treaty (CTBT).

The NPR ends with a reaffirmation that “the long-term goal of US policy is the complete elimination of nuclear weapons.” Most disarmament advocates are likely to see the NPR as a necessary and welcomed but still too modest step in this direction. For Asia it represents a reaffirmation of US extended deterrence, including but not limited to its nuclear dimension as long as nuclear threats exist. While it *de facto* offers negative security assurances to Pyongyang (or Tehran) if it chooses to come back into the NPT as a non-nuclear weapon state, it is likely to have little effect – positively or negatively – on the Korean Peninsula denuclearization effort.

### **US National Security Strategy: getting America’s house in order**

The NPR’s release was followed in May by the Obama administration’s first *National Security Strategy* (NSS) report. Not surprisingly, it reinforced the NPR’s themes regarding the nature of today’s most imminent threat: “This Administration has no greater responsibility than the safety and security of the American people. And there is no greater threat to the American people than

weapons of mass destruction, particularly the danger posed by the pursuit of nuclear weapons by violent extremists and their proliferation to additional states.” (Hence our earlier reference to halting WMD proliferation as a core US national security interest.)

The *NSS* defines the foreign policy goals of the Obama administration in broad terms and stresses that security rests not just on maintaining “military capabilities with global reach and unsurpassed resources” but also relies heavily on diplomacy and engagement, economic development and other methods of influence (i.e., US “soft power”) as well.

The strategy identifies real or potential security challenges that include: countering violent extremism and insurgency; stopping the spread of nuclear weapons and securing nuclear materials; combating climate change while sustaining global economic growth; reducing the danger of cyber threats; helping countries feed themselves and care for their sick; ending dependence on fossil fuels; resolving and preventing conflict; and reducing destabilizing risks to economic interdependence.

The *NSS* stresses the need for the US to start at home – “Our strategy starts by recognizing that our strength and influence abroad begins with the steps we take at home” – and, unlike previous editions, includes a priority to strengthen the US economic system in the era of globalization. It identifies the G20 as “the premier forum for international economic cooperation” and stresses the need to “rebalance global demand” to prevent another global economic crisis.

It is no less idealistic or evangelical than previous editions, noting that an additional facet of US national security is enhancing and supporting human rights and democratic values among nations: “We see it as fundamental to our own interests to support a just peace around the world – one in which individuals, and not just nations, are granted the fundamental rights that they deserve.” While promising “principled engagement with non-democratic regimes,” the 2010 *NSS*, like those of the Bush administration before it, puts a high priority on “the expansion of democracy and human rights abroad, because governments that respect these values are more just, peaceful, and legitimate.”

While it carefully avoids the word “preemption,” which caused a distraction and misreading of the previous administration’s reports, it does not rule out unilateral action as a last resort to protect US interests: “We will exhaust other options before war whenever we can, and carefully weigh the costs and risks of action against the costs and risks of inaction. We will seek broad international support, working with such institutions as NATO and the UN Security Council.” But, it warns, the US “must reserve the right to act unilaterally if necessary to defend our nation and our interests.” Some things never – and shouldn’t – change!

Also unchanged is the role of US alliances as “the foundation of United States regional and global security.” Chinese accusations of “cold war mentality” notwithstanding, the Obama administration, like all its predecessors over the past 50 years, see the US bilateral alliances as “fundamental to our collective security.” US alliances in the Asia-Pacific – and five out of the seven formal US alliances are located in this region – are “the bedrock of security” and “a foundation of prosperity.” The *NSS* notes the US is “modernizing” its alliances with Japan and

South Korea “to reflect the principle of equal partnership” – with a tip of the hat to former Prime Minister Hatoyama – and “to ensure a sustainable foundation for a military presence there.”

The *NSS* stresses the importance of good relations with “other 21<sup>st</sup> century centers of influence,” with the three specifically named all in the Asia-Pacific region: China, India, and Russia. It stresses the “positive, constructive, and comprehensive relationship with China that both nations seek, even while warning that “we will monitor China’s military modernization program and prepare accordingly.” It highlights the shared values and shared interests that underpin the “strategic partnership” the US is building with India, while also seeking “a stable, substantial, multidimensional relationship” with Russia. Indonesia (along with the G20) is singled out as among “emerging centers of influence” with whom the US is “deepening our partnerships.”

It ends as it begins, by stressing the need for the US to get its own house in order, noting that a “sense of common purpose is at times lacking in our national security dialogue” which puts the US at a “strategic disadvantage.” Nonetheless, it promises to “renew American leadership in the world,” a pledge many in Asia will welcome but which some still view as suspect.

### **Nuclear nonproliferation to the fore**

Building on the momentum of the US-Russia New START, President Obama hosted a Nuclear Security Summit in April. The meeting gathered 49 world leaders in Washington – the largest international gathering hosted by a US president since the end of World War II – to enhance international cooperation to prevent nuclear terrorism. The summit aimed to create a common understanding of the threat posed by nuclear terrorism, to agree to effective measures to secure nuclear material, and to prevent nuclear smuggling and terrorism; other important topics, such as nonproliferation, disarmament, and peaceful uses of nuclear technology, were left off the agenda.

The Summit produced a communiqué that backed Obama’s call to secure all vulnerable nuclear material in four years through: focused national efforts to improve security and accounting of nuclear materials and strengthen regulations, the consolidation of stocks of plutonium and highly enriched uranium (HEU), reduction in the use of HEU; promoting the universality of key international treaties on nuclear security and nuclear terrorism; calls for additional aid for the International Atomic Energy Agency (IAEA) to develop nuclear security guidelines and provide advice to members on how to implement them; and calls for the nuclear industry to develop and share best practices for nuclear security while ensuring that countries enjoy the benefits of peaceful nuclear energy (as is their right under the NPT).

Participants also agreed on a work plan that lays out specific steps that will turn commitments into reality. They include: ratifying and implementing treaties on nuclear security and nuclear terrorism; working through the UN to implement and assist others in connection with Security Council resolutions; working with the IAEA to update and implement security guidance and carry out advisory services; reviewing national regulatory and legal requirements relating to nuclear security and nuclear trafficking; converting civilian facilities that use highly enriched uranium to non-weapons-usable materials; research on new nuclear fuels, detection methods, and forensics techniques; development of corporate and institutional cultures to prioritize nuclear

security, and ensure that individuals are properly trained to protect those materials; and joint exercises for law enforcement and customs officials to enhance nuclear detection approaches.

Finally, numerous countries took steps – “house warming presents” – to show their sincerity and move the process forward. For example, Argentina joined the Global Initiative to Combat Nuclear Terrorism; the Philippines, Thailand, and Vietnam announced their intention to do the same; China announced cooperation on a nuclear security Center of Excellence; and Ukraine announced it would remove all highly enriched uranium by the next summit – half of it by the end of 2010. Looking ahead, each participating country identified a “sherpa” who would check on their country’s progress and begin working toward the next summit, which will be held in 2012 in South Korea. Participants will reach out to countries not in attendance to explain the meeting’s goals and outcomes.

### **And now for something completely different**

Buoyed by the new mood in Washington, the New START, and the success of the Nuclear Security Summit, the eighth Review Conference (RevCon) of the Nuclear Nonproliferation Treaty was a success. More than 170 states parties attended the month-long meeting at UN headquarters in New York. Following the virtual collapse of the last RevCon (held in 2005), the nuclear community feared that a second failure would fatally undermine the NPT process.

Fortunately, all participants appreciated the stakes. Some complain that the final document was just a report of the Conference president, but the conclusions and recommendations did enjoy consensus support. Most important were the 64 action items that states must follow up on to strengthen all three pillars of the NPT regime: disarmament, nonproliferation, and access to the peaceful nuclear technology. Among the action items are ratification of the New START by the US and Russia, ratification of the CTBT by the US and China (along with others), expeditious conclusion and entry into force of IAEA 21 additional protocols, and resolution of all cases of non-compliance with safeguards obligations.

Success of the RevCon may well have rested on agreement – struck in a deal with Egypt – to implement the 1995 Middle East Resolution, which calls for a conference among all concerned parties on nuclear weapons in that troubled region. The meeting will be convened by 2012; Israel, the primary target of that resolution, has said that it will not attend. Of course, there were complaints. Nonnuclear weapons states want more concrete steps toward disarmament from nuclear weapons states; in particular, specific timelines are still missing. Many governments would like to see the creation of an international legal norm that makes use of nuclear weapons illegal. Others complain that the final document did not specifically identify Iran and its failure to honor its nonproliferation obligations.

Two elements of the RevCon should be highlighted. First, while many consider disarmament a pipe dream, the terrain of the debate has been transformed. Ideas only recently considered patently idealistic are now seriously discussed. Second, the success of the RevCon shows the need to consider the NPT holistically: the only way to move forward on nonproliferation efforts is to take seriously the demand that the nuclear weapons states honor their disarmament obligations. The world cannot have one without the other.

## **Bruising political developments**

*Thailand.* Tensions in Thailand boiled over this quarter. In response to protests of increasing intensity by the “red shirts” (supporters of former Prime Minister Thaksin Shinawatra, deposed in a 2006 coup), Prime Minister Abhisit Vejjajiva invoked emergency rule in Bangkok on April 7, a move that banned public gatherings of more than five people and gave broad powers to the police and military, including the right to detainee suspects for 30 days without charge. That seemed to have little effect as 21 were killed and hundreds injured when police attempted to remove protesters several days later. On May 19, the army moved in to remove protestors from encampments in downtown Bangkok. That produced a paroxysm of violence that left 90 people dead, mostly civilians, and nearly 1,900 injured. In early July, the government extended the state of emergency for another three months in Bangkok and 19 provinces; it was lifted in five others. The crackdown ended the immediate challenge to the Bangkok government but it revealed the real size of the divisions in Thailand and made them deeper. The violence has since spread outside of Bangkok to the “red” strongholds in northeast Thailand. (For a fuller description, see Sheldon Simon’s analysis in his chapter on US-Southeast Asia relations)

*Japan.* The big news this quarter was the June 2 resignation of Prime Minister Hatoyama Yukio, who stepped down as his Cabinet’s approval ratings and the ruling Democratic Party of Japan’s prospects in the July 11 Upper House election plummeted in tandem. While the immediate reason for his resignation was the prime minister’s handling of the Okinawa base relocation issue – policy reversals will do that – dissatisfaction with Hatoyama went beyond bumbling regarding the Futenma relocation. The real issue was the DPJ government’s inability to govern, a perception magnified by Hatoyama’s indecisiveness and seemingly feckless behavior. Scandals surrounding Hatoyama’s funds and those of DPJ Secretary General and election mastermind Ozawa Ichiro also undermined the DPJ’s claim that it represented a new form of politics.

Kan Naoto stepped into the breach. His reformist credentials immediately boosted the government’s standing. Approval ratings jumped, although they have since declined. Kan has shifted focus to Japan’s economic plight, calling for restraint and getting the budget under control. The July 11 ballot will show how successful this “housecleaning” has been. (While Ozawa stepped down along with Hatoyama, his influence within the party is likely to continue without a formal position; indeed, Ozawa may prefer to work behind the scenes....so much for new politics.)

*Philippines.* Benigno S. Aquino III, the third generation of a distinguished political family, won the May 10 Philippines national election and was sworn in as the country’s 15<sup>th</sup> president on June 30. While Aquino had an undistinguished career as a politician, he rode to victory largely on the reputations of his parents: his father was a human rights campaigner who was assassinated on the tarmac of the Manila airport in 1983 when he returned from exile to fight the dictatorship of Ferdinand Marcos; his mother, Cory Aquino, took up the struggle after her husband’s death and was elected president on the People Power tide that it triggered. Many attribute his election victory to the groundswell of goodwill that followed her death last August. His simple lifestyle and an implicit repudiation of his predecessor Gloria Macapagal Arroyo (whose family members have long been suspected of corruption), was another source of appeal.

Upon taking office, Aquino promised to tackle the enduring issues of poverty and corruption. High on his list of priorities is creating an environment that favors investment and taps the skills of Philippines – millions of whom are forced to go abroad to make a living. He also promised to improve his country’s human rights record. That means breaking the power of the militias and clans that rule in some parts of the Philippines. The record to date does not offer much hope. This political change is not expected to result in any dramatic change in US-Philippine relations.

*Australia.* On June 23, Australian Prime Minister Kevin Rudd resigned, a move that marked a stunning fall from grace for the man who led Labor’s return to power after 11 years in the political wilderness. In fact, Rudd’s resignation was the result of a coup within his party. As approval ratings plummeted– they were halved in a few months – party officials feared defeat in upcoming elections. They drafted Julia Gillard, his deputy, to take over. Knowing that he didn’t have the numbers, Rudd withdrew his name for consideration at a leadership ballot, leaving office after two years, the shortest term for an Australian prime minister in some 30 years.

Rudd was victim of his own policy reversals. Calling climate change “the toughest moral and economic challenge” of our time, Rudd’s first move in office was to reverse the previous government’s stand on the issue and ratify the Kyoto Protocol and he played a key role in the Copenhagen Climate negotiations last year. But in recent weeks he pulled from consideration a carbon emissions trading scheme, a step that effectively neutered the country’s climate change plan. The second and final nail in his political coffin came when Rudd called for a tax on the “super profits” of Australia’s mining industries. While they have recorded impressive results in the recent commodity boom, the tax was an affront to the heart of the economy in the western part of the country. Moreover, Rudd had launched a campaign to win support for the levy, which also violated a pledge to not use tax monies for government PR campaigns.

Gillard is expected to put a more human face on the government. She is said to be one of the best communicators in Parliament; Rudd was considered wonkish and somewhat isolated. She was part of Rudd’s circle of confidantes and, apart from attempting to undo the damage done by his reversals, is expected to maintain many of the former government’s positions. One of her first phone conversations after taking office was with President Obama and they reassured each other of the centrality of the alliance to their relationship. It has been rumored that she will drop Rudd’s call for an Asia Pacific Community. Relations with China will continue on their current trajectory. When he took office, there were fears that Rudd, a fluent Mandarin speaker with experience in China, might move Canberra’s foreign policy line closer to that of Beijing. The relationship remains much as it was: growing economic interdependence is balanced by Australian suspicions about long-term Chinese intentions.

*Hong Kong.* Little noticed was the vote by legislators in the Special Administrative Region to pass political reform, the first time the legislature passed major reforms to electoral arrangements since the city reverted to Chinese rule in 1997. Voting 46 to 12, the legislators agreed to add 10 seats to the legislature that would be directly elected from the 2012 election, meaning that 40 of the 70 seats would be directly elected by the public; the remaining 30 will continue to be selected by “functional constituencies” that represent business groups and associations. In addition, the committee that elects Hong Kong’s chief executive will be expanded from 800 to 1,200.



The vote was won after a last-minute change: originally, the 10 new seats were to be divided, with half directly elected, the other five selected by functional constituencies. The decision to make all the new seats the result of direct elections won over some Democratic Party legislators – and earned them the label of “sellouts” from party hardliners who continue to demand universal suffrage – the abolition of all functional constituencies – by 2012. Beijing has said that it will allow universal suffrage by 2017 at the earliest, although some question whether that date will in fact be met.

### **America’s still not quite back!**

As noted in past Regional Overviews, President Obama and Secretary of State Hillary Clinton had been fond of stressing that “America is back in Asia,” in a not-so-subtle dig at their predecessors. That sound bite continues to haunt them. After both cancelled Asia trips last quarter, Obama felt compelled to once again postpone his trip to Australia, Indonesia, and Guam as his spin doctors felt it unwise to be seen visiting the Indonesian playground of his youth (with wife and kids in tow) while oil continued to stream into the Gulf of Mexico in what he has called the worst environmental disaster in American history. Obama telephoned Prime Minister Rudd and Indonesian President Susilo Bambang Yudhoyono to tell them he could not come but “looked forward to rescheduling so that he can visit both countries soon.”

He was originally scheduled to travel there in March but first delayed and then canceled at the last minute to stay in Washington to lobby for passage of his health care legislation. He also had passed up a likely whirlwind trip to Indonesia in connection with last year’s Asia Pacific Economic Cooperation (APEC) Leaders Meeting in Singapore so that he could spend some quality time in Indonesia when he did go. The Indonesia visit now appears likely in November when President Obama goes to Japan for this year’s APEC gathering.

In its statement announcing the latest cancellation, the White House felt compelled to stress that it was not abandoning its allies: “President Obama underscored his commitment to our close alliance with Australia and our deepening partnership with Indonesia. He plans to hold full bilateral meetings with Prime Minister Rudd and President Yudhoyono on the margins of the G20 meeting in Canada,” which he did. But the damage has been done and critics of President Yudhoyono in particular have been criticizing him for being too accommodating to a fickle US president. The Obama visit, if and when it finally occurs, will be seen as largely anti-climatic rather than the soft power builder it would have originally been. Given that President George W. Bush made it to all eight APEC Leaders Meetings that occurred on his watch, a failure by President Obama to show up in November would strike a critical blow to US credibility in Asia.

## **Regional Chronology**

### **April - June 2010**

**April 2, 2010:** South Korean Deputy Foreign Minister Lee Yong Joon, Chinese Assistant Minister for Foreign Affairs Hu Zhengyue and Japanese Deputy Minister for Foreign Affairs Kenichiro Sasae meet in Jeju, Korea to prepare for a trilateral summit and foreign minister talks.

**April 2-5, 2010:** Inaugural Mekong River Commission meeting held in Hua Hin, Thailand. Participants include political leaders, multilateral donors, and experts in the field of integrated water resources management from Cambodia, Laos, Thailand, and Vietnam along with dialogue partners Burma and China.

**April 6, 2010:** The US publishes its *Nuclear Posture Review*.

**April 6-8, 2010:** Riots break out across Kyrgyzstan, leading to the ouster of President Kurmanbek Bakiyev.

**April 8, 2010:** An interim coalition government is formed in Kyrgyzstan with Roza Otunbayeva as prime minister.

**April 7, 2010:** Prime Minister Abhisit Vejjajiva invokes emergency rule in Bangkok.

**April 8, 2010:** Presidents Barack Obama and Dmitry Medvedev sign the New US-Russia Strategic Arms Reduction Treaty (START) in Prague.

**April 8, 2010:** The United Nations Security Council begins negotiations on sanctions against Iran for its nuclear program.

**April 8-9, 2010:** The 16<sup>th</sup> ASEAN Summit is held in Hanoi.

**April 9, 2010:** North Korea's Supreme People's Assembly (SPA) convenes in Pyongyang. Kim Jong-il does not attend the session.

**April 10, 2010:** Twenty-one are killed and hundreds wounded in Bangkok when the government forces attempt to evict protesters from city streets.

**April 10, 2010:** Japan's Maritime Self-Defense Force spots and tracks two Chinese submarines and eight destroyers heading southeast between the main island of Okinawa and Miyako Island, Okinawa prefecture.

**April 12-13, 2010:** President Obama hosts first Nuclear Security Summit in Washington. Obama meets several Asian leaders including Chinese President Hu Jintao, Malaysian Prime Minister Najib Razak, Indian Prime Minister Manmohan Singh, and Kazakh President Nursultan Nazarbayev on the sidelines.

**April 13, 2010:** North Korea expels the staff and seals off South Korean government-owned ventures at the Mt. Kumgang resort.

**April 20, 2010:** South Korea's Foreign Minister Yu Myung-hwan, says that evidence of North Korean involvement in *Cheonan* incident would further hinder progress on the stalemated Six-Party Talks.

**April 21, 2010:** Japan's Ministry of Defense announces that a Chinese helicopter approached a Japanese destroyer conducting surveillance activities.

**April 23, 2010:** North Korea announces the seizure of South Korean-owned buildings at Mt. Kumgang resort, accusing Seoul of heightening cross-border tensions.

**April 30, 2010:** The 2010 World Expo opens in Shanghai.

**April 30, 2010:** Burma's Prime Minister Thein Sein and about 20 other ministers reportedly retire from their military posts and apply to register a new political party ahead of elections scheduled for later this year.

**May 3-7, 2010:** North Korean leader Kim Jong-il visits China and meets President Hu Jintao.

**May 3-28, 2010:** Nuclear Nonproliferation Treaty (NPT) Review Conference held in New York.

**May 4, 2010:** Taiwan Strait Tourism Association opens an office in Beijing.

**May 7, 2010:** China National Tourism Administration and the Cross-Strait Tourism Association (CSTA) open an office in Taipei.

**May 8-9, 2010:** President Hu Jintao visits Russia as the guest of President Medvedev for the ceremony marking the 65th anniversary of Victory in the Great Patriotic War of 1941-1945. Hu meets Prime Minister Putin on May 8 and President Medvedev the following day.

**May 10, 2010:** US Assistant Secretary of State for East Asia and Pacific Affairs Kurt Campbell visits Burma and meets detained democracy leader Aung San Suu Kyi. He warns the ruling junta that planned elections would not be recognized by the international community and calls for the release of all political prisoners.

**May 10, 2010:** *Russkiy Newsweek* releases a "secret" Russian government document "Program for Effective Utilization of Foreign Political Factors on a Systematic Basis for Purposes of Long-Term Development of the Russian Federation."

**May 12, 2010:** Israeli officials say Pyongyang has been supplying anti-tank missiles, surface-to-surface rockets, and shoulder-fired air defense systems to Hamas and Hezbollah.

**May 12, 2010:** The Thai government extends a state of emergency to cover 17 provinces to prevent rural protesters from joining an anti-government rally in Bangkok.

**May 12, 2010:** North Korea claims it has accomplished "successful nuclear fusion." No details are given, but outsiders are skeptical.

**May 13, 2010:** Maj. Gen. Khattiya Sawatdiphol, who is allied with Thailand's red shirt protesters, is shot during an interview in Bangkok and later dies.

**May 14, 2010:** The US closes its embassy in Bangkok and says it is “very concerned” about the violence between the Thai government and protesters there.

**May 15-16, 2010:** Foreign ministers of Japan, China, and ROK meet in Gyeongju Korea. During a bilateral meeting Japan Foreign Minister Okada challenges China’s nuclear arms reduction.

**May 17, 2010:** South Korean Unification Ministry announces that it has requested all South Korean ministries to suspend all government-sponsored aid to North Korea.

**May 18, 2010:** South Korean Ministry of Culture and Tourism announces it requested that China exclude North Korea’s Mt. Kungang resort from its approved group tour destinations while it seeks understanding on a dispute over the North’s recent freeze of South Korean assets there.

**May 19, 2010:** Thailand authorities put Bangkok and 23 provinces under curfew after red-shirt protest leaders surrender to troops storming their barricades. Arsonists set fires in many Bangkok areas, including a shopping mall, a TV station, the stock exchange, and bank branches.

**May 19, 2010:** Japanese Foreign Minister Okada and Defense Minister Kitazawa Toshima meet Australian counterparts Stephen Smith and John Faulkner in a “two-plus-two” meeting in Tokyo and sign an Acquisition and Cross-Servicing Agreement (ACSA), under which their armed forces will provide each other with food, fuel, and logistical support during peacekeeping and disaster-relief missions.

**May 20, 2010:** South Korea announces that an international panel of experts has concluded that the corvette *Cheonan* was sunk by a North Korean torpedo, offering analysis of the damage to the ship and a fragment of a torpedo with a Korean serial number found in the area where the ship sunk as evidence.

**May 21-26, 2010:** Secretary of State Hillary Clinton travels to Japan (May 21), China (May 21-26), and Korea (May 26).

**May 22, 2010:** The US and Japan reach an agreement on the plan for relocating Futenma Air Base to another location on Okinawa.

**May 23-26, 2010:** Secretary Clinton and Treasury Secretary Timothy Geithner and their co-chairs, State Councilor Dai Bingguo and Vice Premier Wang Qishan, gather for the second meeting of the US-China Strategic and Economic Dialogue in Beijing. Over a dozen US cabinet members and agency heads make up the US delegation.

**May 24, 2010:** The US announces that the US Navy and the ROK Navy will conduct joint naval exercises in the Yellow China (West) Sea beginning in June.

**May 24, 2010:** President Obama directs all US agencies to conduct a review of their “existing authorities and policies related to the DPRK.”

**May 24-25, 2010:** The Indonesian-US Security Dialogue focuses on the roles of militaries in disaster relief, peacekeeping, counterterrorism, and bilateral military relations.

**May 27, 2010:** The US releases its *National Security Strategy*.

**May 28, 2010:** The final declaration of the NPT review conference urges Pyongyang “to fulfill [its] commitments under the Six-Party Talks, including the complete and verifiable abandonment of all nuclear weapons and existing nuclear programs in accordance with the September 2005 Joint Statement.”

**May 29-30, 2010:** ROK President Lee Myung-bak, Japanese Prime Minister Hatoyama Yukio, and Chinese Prime Minister Wen Jiabao meet in Jeju, South Korea for the third trilateral summit.

**May 30, 2010:** A UN panel accuses North Korea of continuing to export nuclear and missile technology in defiance of UN sanction. The preliminary report was compiled by a seven-member group that monitors Pyongyang's compliance with sanctions.

**May 30-June 1, 2010:** Prime Minister Wen visits Japan and meets Prime Minister Hatoyama and Emperor Akihito.

**May 31, 2010:** A Russian team, including torpedo and submarine experts, arrives in Seoul to begin its investigation into the sinking of the *Cheonan*.

**June 2, 2010:** Japanese Prime Minister Hatoyama announces his resignation.

**June 4, 2010:** The White House announces that President Obama has postponed a trip to Australia and Indonesia.

**June 4, 2010:** Kan Naoto is elected prime minister of Japan.

**June 4, 2010:** South Korea officially refers the sinking of the corvette *Cheonan* to the UN Security Council.

**June 5, 2010:** US and ROK postpone planned joint naval exercises in the Yellow Sea.

**June 5-6, 2010:** G20 meeting of finance ministers and central bank governors in Busan.

**June 7, 2010:** North Korea's Supreme People's Assembly (SPA) convenes in Pyongyang. Kim Jong-il's brother-in-law, Jang Song-thaek, who heads a Workers' Party Department, is appointed vice chairman of the National Defense Commission.

**June 7, 2010:** The UN Security Council approves a measure to extend for another year the authority of a UN body charged with overseeing sanctions against North Korea.

**June 7, 2010:** National Security Council Asia Director Jeffrey Bader says US policy on arms sales to Taiwan will not change.

**June 9, 2010:** Twelve of the 15 members of the UN Security Council, including China and the US, vote to apply sanctions against Iran.

**June 10, 2010:** A South Korea rocket carrying a climate observation satellite explodes seconds into its flight, the country's second major space setback in less than a year.

**June 10-11, 2010:** The 10<sup>th</sup> annual Shanghai Cooperation Organization (SCO) Summit is held in Tashkent.

**June 11, 2010:** Myanmar's ruling junta says it has no intention of building a nuclear weapon, saying that "Myanmar is a country that always respects UN declarations and decisions as it is a UN member country. Myanmar is not in a position to produce nuclear weapons. Myanmar has no intention to become a nuclear power."

**June 21, 2010:** The State Department releases its *Human Trafficking Report 2010* which criticizes several ASEAN countries for labor trafficking and prostitution.

**June 22-24, 2010:** Russian President Medvedev visits the US at the invitation of President Obama and attends events in San Francisco and Silicon Valley. He also attends several "summit-level negotiations" in Washington.

**June 23-Aug. 2, 2010:** *RIMPAC* 2010 is held in the waters off Hawaii.

**June 24, 2010:** Julia Gillard is elected through a leadership vote by the Labor Party as Australia's first female prime minister.

**June 26, 2010:** The US and South Korea announce that the transfer of wartime operational control of ROK military forces will be delayed from 2012 to 2015.

**June 25-26,** G8 Summit is held in Muskoka, Canada.

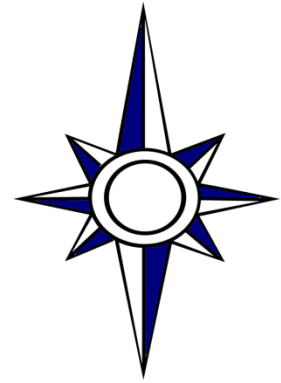
**June 26-27, 2010:** G20 Summit is held in Toronto.

**June 27, 2010:** The FBI arrests 10 people for allegedly serving for years as Russian secret agents with the goal of penetrating U.S. government policymaking circles.

**June 28-July 9, 2010:** Russian military conduct a series of drills in the Sea of Japan as part of the *Vostok 2010* strategic exercises in Russia's Far East.

**June 29, 2010:** China and Taiwan sign an Economic Cooperation Framework Agreement (ECFA) that will cut tariffs on a range of goods and services.

**June 30, 2010:** Benigno Aquino III is sworn in as the 15<sup>th</sup> president of the Philippines.



**US-Japan Relations:  
New Realism**

**Michael J. Green, CSIS/Georgetown University  
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The relocation of Marine Corps Air Station Futenma on Okinawa remained the predominant issue in the US-Japan relationship and the two governments issued a joint statement in late May reaffirming a commitment to realize a plan adopted in 2006 with some modifications to be explored. Prime Minister Hatoyama then resigned as polls revealed frustration with his handling of the Futenma issue and weak leadership overall. Finance Minister Kan Naoto succeeded Hatoyama as premier and outlined his own policy priorities just weeks before an important parliamentary election. Kan stressed the centrality of the US-Japan alliance to Japanese diplomacy and reiterated the theme in his first meeting with President Obama at the G8 Summit in late June. The two leaders' first meeting was business-like and lacking for drama – exactly as both governments had hoped. New public opinion polls suggested political turmoil at home has not had a significant impact on Japan's standing globally or in the US, but some observers continued to suggest the US should lower expectations of Japan as an ally in the debate about the future of the alliance.

**Futenma and Hatoyama's downfall**

Tension in the US-Japan relationship became increasingly evident when Prime Minister Hatoyama Yukio visited Washington for the US-sponsored Nuclear Security Summit in mid-April. In lieu of a formal bilateral meeting between leaders, the two governments arranged a brief sidebar during a working dinner at the summit. The terse nature of the discussion made headlines as President Barack Obama reportedly asked Prime Minister Hatoyama if he could follow through on his pledge to resolve the impasse over the relocation of the Futenma Air Station by his self-imposed deadline of May. A *Washington Post* columnist labeled Hatoyama the “biggest loser” at the summit for failing to secure a bilateral meeting and noted some Obama administration officials had characterized Hatoyama as “hapless” and “increasingly loopy.” This prompted widespread commentary in the Japanese media that Hatoyama had lost all credibility with Washington and was doing damage to the relationship. But two weeks later reports surfaced suggesting the Hatoyama government would largely accept the agreement reached in May 2006 to relocate Futenma from Ginowan in central Okinawa to the less populated Henoko area in the north, and would propose modifications including alternate construction methods for runways and the transfer of some base functions (namely training exercises) to the island of Tokunoshima. Bilateral consultations commenced in early May, but Hatoyama would struggle to make the case to the public after promising for months that he would respect the majority of Okinawa residents who preferred to relocate Futenma outside the prefecture.

Polls released at the end of April indicated Hatoyama had completely lost the confidence of the general public. An April 26 *Nikkei Shimbun* poll found just a quarter of the public supporting Hatoyama, with 64 percent disapproving of his performance. With respect to the Futenma issue, 72 percent of respondents in a *Fujisankei* survey also published April 26 felt Hatoyama's approach had a negative impact on the US-Japan relationship, and 87 percent considered his self-imposed May deadline impossible. Hatoyama visited Okinawa twice in May – first to admit publicly that his pledge to remove Futenma from the prefecture was not feasible and later to apologize formally for renegeing on that promise – but further antagonized the local population, which organized mass protests against the relocation of Futenma within the prefecture. Hatoyama's attempt at outreach proved too little too late and led to calls for his resignation; 49 percent of respondents to a May 14 *Jiji* news poll in mid-May considered that an appropriate step should he fail to resolve the matter.

Defense Minister Kitazawa Toshimi visited Washington May 25 to confer with Defense Secretary Robert Gates regarding the Futenma relocation plan, and three days later the bilateral Security Consultative Committee (SCC) issued a joint statement reaffirming a shared commitment to implement US force realignment initiatives outlined in a previous statement dated May 1, 2006, including the relocation of Futenma and the return of the base to the local government. The statement also confirmed an intention to build a replacement facility in the Henoko area as agreed in 2006; authorized a study on the facility's location, configuration, and construction to be completed no later than the end of August 2010; and listed other issues to be considered including the relocation of some training activities to Tokunoshima island, better environmental stewardship of bases, and shared use of facilities. The SCC concluded the statement by emphasizing the need for further outreach with local communities in Okinawa regarding concerns about the US force presence.

Amplifying the domestic political consequences of this initiative, Prime Minister Hatoyama was forced to dismiss Consumer Affairs Minister Fukushima Mizuho for refusing to endorse the decision to proceed with the existing plan. This development was ironic in that Fukushima is the leader of the Social Democratic Party (SDP), which advocated the removal of Futenma from Okinawa and convinced Hatoyama to endorse that view last year in exchange for joining a ruling coalition with the Democratic Party of Japan (DPJ) and the People's New Party (PNP). The SDP bolted the coalition on May 30, and Hatoyama found himself with a newfound understanding of the US force presence in Okinawa but no political capital to show for his epiphany.

## **Enter Kan**

Hatoyama was also criticized for repeatedly failing to control policy debates within his Cabinet and he and DPJ Secretary General Ozawa Ichiro were both tainted by funding scandals, which weakened DPJ claims to clean up Japanese politics. Several polls at the end of May listed Hatoyama's approval rating between 17 and 20 percent, marking a near 50-point decline in eight months. On June 2 he announced he was resigning and had convinced Ozawa to exit the stage with him. Finance Minister Kan Naoto and Lower House lawmaker Tarutoko Shinji ran to succeed Hatoyama as DPJ president. Kan won the party vote by a margin of 291 to 129 and became prime minister on June 4 after being elected separately in both houses of the Diet.



Kan moved quickly to differentiate himself from his predecessor in his approaches to governance, economic policy, and the US-Japan relationship. He retained 11 of Hatoyama's 17 Cabinet members but appointed Sengoku Yoshito, a powerful party veteran adept at policy coordination, as chief Cabinet secretary to centralize control of the policymaking process. Kan also placed critics of Ozawa Ichiro in prominent party posts to improve the image of the DPJ with the Upper House election looming in July. Examples include Edano Yukio, who took over as DPJ secretary general, and Gemba Koichiro, who was tasked with chairing the DPJ's Policy Research Council, abolished by Ozawa last fall but reinstated by Kan to inject more transparency into the policymaking process and strengthen coordination between the Cabinet and the party. (Gemba serves concurrently as minister for Civil Service Reform.)

Kan also changed course somewhat with respect to economic policy, focusing more on deficit reduction than social welfare spending. The Kan government unveiled a new growth strategy in June based on what Kan described as the "third approach" to revive the Japanese economy. Lamenting decades of public works spending under Liberal Democratic Party (LDP) rule (the "first approach") and increased unemployment and income disparity that resulted from Koizumi Junichiro's attempts at deregulation and economic reform (the "second approach"), Kan's "third approach" prioritizes the environment and health sectors, tourism, and regional trade as target areas for growth and attempts to shore up the social security system and reduce the deficit through caps on government spending and comprehensive tax reform. Kan conspicuously raised the possibility of a consumption tax increase, a contrast to Hatoyama who promised not to touch it for four years. The new emphasis on deficit reduction drew the ire of Ozawa, who accused the Kan government of backtracking on priorities from 2009 including the elimination of highway tolls, child allowances, and subsidies for farmers. Kan did promise to pass a bill endorsed by Hatoyama that would reverse previous efforts to privatize the postal service, or Japan Post, and was championed by Financial Services Minister and PNP leader Kamei Shizuka. Kamei resigned from the Cabinet on June 11 after the government did not extend the Diet session and decided instead to resubmit the postal reform bill in the fall. Nevertheless, the PNP remained in the coalition.

Kan also set a positive tone for the US-Japan relationship by repeatedly referring to the US-Japan alliance as the axis or cornerstone of Japanese diplomacy. Kan visited Okinawa on June 23 and promised to reduce the burden of the US force presence but also reiterated a commitment to the May 28 agreement on Futenma relocation, much to the relief of Obama administration officials. Further, during his first address to the Diet Kan took a subtle jab at Hatoyama by stating that his approach to diplomacy would be guided by realism and not ideology. This rhetorical shift signaled a fresh start for Tokyo and Washington, but Kan would first have to survive the July Upper House election before embarking on agenda-setting for the alliance.

### **The Upper House election**

The DPJ unveiled its manifesto for the Upper House election on June 17 with a primary focus on economic issues under the slogan "Restoring Vitality to Japan." The section on security and diplomacy spoke of deepening the US-Japan alliance and reducing the burden on the Okinawan people based on the Futenma relocation agreement but also repeated key themes from the 2009 election platform such as revising the bilateral Status of Forces Agreement in the spirit of a

“close and equal US-Japan alliance.” Other foreign policy priorities included the realization of an East Asian Community, support for peacekeeping operations, official development assistance, and nuclear nonproliferation.

Kan’s approval rating exceeded 60 percent when he first took office but had declined 10 points in a matter of weeks presumably because he floated the notion of a consumption tax increase. The media soon began speculating about the prospects for a DPJ majority in the Upper House and possible coalition scenarios. The departure of the SDP from the coalition and PNP frustration with the failure to pass the postal reform bill seemed to create space for other small parties seeking to capture the attention of unaffiliated voters. Foremost among them is Your Party (*Minnanotō*) founded in August 2009 by former LDP member Watanabe Yoshimi. Other disgruntled LDP members followed suit by forming parties in April including former Health and Welfare Minister Masuzoe Yoichi, who founded the New Renaissance Party (*Shintōkaikaku*); and Yosano Kaoru and Hiranuma Takeo, who established the Sunrise Party of Japan (*Tachiagare Nippon*). Former local government officials also joined the fray by establishing the Spirit of Japan Party (*Sōshintō*). Hatoyama’s resignation left just six weeks for Kan to establish momentum and the commanding victory for the DPJ envisioned less than a year ago was not at all certain. Should the DPJ fare poorly, Kan could face a challenge in the next DPJ presidential race in September – mostly like orchestrated by the ousted and bitter Ozawa Ichiro – introducing yet another layer of uncertainty to Japanese politics.

### **Bilateral engagement**

The degree of bilateral dialogue at senior levels this quarter was remarkable given the deflating nature of the impasse over Futenma. Then-Finance Minister Kan visited Washington in April and met with Treasury Secretary Timothy Geithner during the G7 and World Bank/International Monetary Fund meetings. US Agriculture Secretary Tom Vilsack visited Tokyo in April to discuss beef exports. Transportation Secretary Ray LaHood made a trip in May to meet Toyota officials regarding vehicle safety measures in the wake of several recalls and examine high-speed rail and other issues with various officials. Secretary of State Hillary Clinton also stopped in Tokyo in May to discuss Futenma, North Korea, and other challenges with Foreign Minister Okada Katsuya. Defense Minister Kitazawa and Defense Secretary Gates, after meeting in Washington regarding Futenma, conferred again on the sidelines of the Shangri-La Security Dialogue in Singapore in early June. And on June 27, Prime Minister Kan and President Obama met in Toronto at the G20 Summit and covered a comprehensive agenda including the Futenma issue, bilateral economic cooperation, North Korea, Iran, Afghanistan, Pakistan, climate change, and nuclear disarmament/non-proliferation.

Other developments pointed to potential advances in economic and security cooperation. Japan hosted two preparatory meetings for the Asia-Pacific Economic Cooperation (APEC) forum scheduled for November in Yokohama. (The US will host APEC next year in Hawaii.) US Ambassador to Japan John Roos hosted the first US-Japan Dialogue to Promote Innovation, Entrepreneurship, and Job Creation in Tokyo. Security cooperation also featured prominently as Defense Minister Kitazawa and Defense Secretary Gates joined South Korean Defense Minister Kim Tae-young for a trilateral security dialogue in Singapore. The Maritime Self-Defense Force participated in *Pacific Partnership 2010*, a humanitarian and civic assistance effort led by the US

Navy. In an attempt to move “beyond Futenma,” Parliamentary Vice Minister for Defense Nagashima Akihisa addressed a conference in Washington on June 17 and identified the air-sea battle concept from the US Quadrennial Defense Review as a central pillar of bilateral strategic dialogue and previewed themes likely to emerge in Japan’s National Defense Program Guidelines due in December. Finally, the US House of Representatives passed Resolution 1464 recognizing the 50<sup>th</sup> anniversary of the US-Japan security treaty and expressing appreciation to the people of Japan for hosting US forces.

### **Japan’s leadership credentials**

Two public opinion polls released during the quarter reflected positive views of Japan notwithstanding the political turmoil in Tokyo. A *BBC World Service* poll published April 19 found Japan the second most favorably viewed nation after Germany among 28 countries surveyed. On June 1, the Ministry of Foreign Affairs released a survey on Japan’s image in the US in which 56 percent of opinion leaders considered China to be the most important partner in Asia for the US, followed by Japan at 36 percent. Ninety percent of opinion leaders and 79 percent of the general public considered Japan a dependable ally but questions persist about Japan’s capacity for leadership. In one example, Robert Madsen and Richard Samuels of the Massachusetts Institute of Technology published an extensive essay in the *National Interest* on April 20 entitled, “Japan LLP” arguing that persistent instability in Japanese politics will prevent Japan from assuming a more assertive role in security affairs, thereby necessitating a reduced military role for Japan in the US-Japan alliance. This is not necessarily a consensus view but nonetheless continues a pattern of analysis identified last quarter introducing skepticism about the prospects for robust alliance cooperation in the near term.

### **Things to watch**

Prime Minister Kan will face his first test in the July 11 Upper House election and could face a leadership challenge from within the DPJ in September depending on the outcome. Japanese security strategy will come to the fore when a defense advisory panel established by the Ministry of Defense submits recommendations for the National Defense Program Guidelines in August. The US and Japanese governments will try to settle on the details of the Futenma relocation package by the end of August. Japan will continue to host preparatory meetings for the APEC leaders meeting. Rounding out the quarter, the United Nations General Assembly in New York presents another opportunity for a bilateral summit meeting.

## **Chronology of US-Japan Relations April – June 2010**

**April 2, 2010:** Okinawa Gov. Nakaima Hirokazu meets Defense Minister Kitazawa Toshimi in Tokyo and expresses opposition to the relocation of Marine Corps Air Station (MCAS) Futenma within Okinawa prefecture.

**April 5, 2010:** A survey released by *Yomiuri Shimbun* posts a 33 percent approval rating for the Hatoyama government and suggests 50 percent of voters do not support any political party. The

approval rating for the Democratic Party of Japan (DPJ) stood at 24 percent compared to 16 percent for the Liberal Democratic Party (LDP).

**April 6, 2010:** The Obama administration releases the *Nuclear Posture Review* (NPR).

**April 6, 2010:** Japan's Ministry of Foreign Affairs issues its annual Bluebook on foreign policy.

**April 6-9, 2010:** US Secretary of Agriculture Tom Vilsack visits Japan to discuss various issues including US beef exports.

**April 10, 2010:** Yosano Kaoru and Hiranuma Takeo, both Cabinet ministers in previous LDP governments, announce the formation of a new political party, the Sunrise Party of Japan.

**April 7, 2010:** The Bank of Japan votes unanimously to keep monetary policy unchanged with overnight interest rates held at 0.1 percent.

**April 12, 2010:** President Obama confers with Prime Minister Hatoyama during a working dinner at the Nuclear Security Summit in Washington. Hatoyama pledges to settle the issue of MCAS Futenma relocation by the end of May.

**April 14, 2010:** In his *Washington Post* column *In the Loop*, reporter Al Kamen dubs Prime Minister Hatoyama "the biggest loser" at the Nuclear Security Summit and notes some Obama administration officials consider Hatoyama "hapless" and "increasingly loopy."

**April 14, 2010:** A Tax Commission established by the Hatoyama government begins deliberations on tax reform including a possible increase in the consumption tax.

**April 15-18, 2010:** Foreign Minister Okada Katsuya visits New York to chair a United Nations Security Council debate on post-conflict peace building.

**April 18, 2010:** Former local government officials launch the Spirit of Japan Party with an aim toward competing for seats in the July 2010 Upper House election.

**April 19, 2010:** A survey by *Asahi Shimbun* shows only a quarter of the public supports the Hatoyama government.

**April 19, 2010:** Parliamentary Vice Minister for Defense Nagashima Akihisa tells the *Financial Times* the Ministry of Defense seeks to ease the ban on arms exports to boost the competitiveness of Japan's defense industry.

**April 21, 2010:** The Hatoyama government releases details of a plan to reverse the privatization of Japan Post and strengthen its position in the financial services industry.

**April 21-23, 2010:** US Deputy Special Representative for Afghanistan and Pakistan Daniel Feldman visits Japan to coordinate on regional assistance issues with Japanese officials.

**April 22, 2010:** During an appearance in the Diet Prime Minister Hatoyama repeats his pledge to resolve the MCAS Futenma relocation issue by the end of May.

**April 22, 2010:** Japan's Ministry of Finance reports exports in March 2010 increased 43.5 percent compared to a year ago.

**April 22, 2010:** Former Health Minister Masuzoe Yoichi quits the LDP and announces plans to form a new party, the Renaissance Party.

**April 22-25, 2010:** Finance Minister Kan visits Washington to meet Treasury Secretary Timothy Geithner, and to attend a G7 finance ministers' meeting and the spring gatherings of the World Bank and International Monetary Fund (IMF).

**April 24, 2010:** The *Washington Post* reports the Hatoyama government indicated it would broadly accept an agreement reached in 2006 to relocate MCAS Futenma within Okinawa prefecture, citing an April 23 meeting in Tokyo in which Foreign Minister Okada presented a plan to US Ambassador to Japan John Roos.

**April 25, 2010:** Over 90,000 Okinawans rally to oppose the relocation of MCAS Futenma within the prefecture.

**April 26, 2010:** A *Nikkei Shimbun* poll shows 68 percent of voters disapprove of the Hatoyama government with just 24 percent in favor. Sixty percent think he should resign if he fails to resolve the Futenma issue by the end of May.

**April 26, 2010:** In a *Fujisankei* poll on government policy, 72.4 percent of respondents suggest the debate over the relocation of US Marine Corps Air Station Futenma is having a negative impact on US-Japan relations, and 87.5 percent consider Prime Minister Hatoyama's self-imposed May 2010 deadline to resolve the issue impossible.

**April 27, 2010:** A judicial review panel calls for DPJ Secretary General Ozawa Ichiro to be indicted over a fundraising scandal, requiring prosecutors to revisit an earlier decision not to charge Ozawa.

**April 28, 2010:** US Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell visits Tokyo for consultations on the relocation of MCAS Futenma.

**April 28-29, 2010:** Japanese media outlets report the Hatoyama government will propose modifications to the 2006 agreement on the relocation of MCAS Futenma including alternate construction methods for a key runway and the transfer of some training functions to Tokunoshima Island.

**April 29, 2010:** *Kyodo News* poll finds a 20 percent approval rating for Prime Minister Hatoyama and a disapproval rating of 64 percent.

**April 30, 2010:** The Bank of Japan holds a monetary policy meeting and leaves guidelines for money market operations unchanged.

**May 2, 2010:** Finance Minister Kan suggests a tax increase may be inevitable to cope with Japan's public debt.

**May 4, 2010:** Prime Minister Hatoyama states during a trip to Okinawa that it would be difficult to relocate all Futenma functions off the island, contradicting a previous pledge to do so.

**May 4, 2010:** The US and Japanese governments conduct working-level talks on the Futenma issue in Tokyo.

**May 4, 2010:** Japan's Ministry of Internal Affairs and Communications reports that children under the age of 15 comprised 13.3 percent of the population, a record-low for the 29<sup>th</sup> consecutive year. Secretary Clinton issues a statement in recognition of the May 5 Children's Day holiday in Japan.

**May 4, 2010:** Japanese State Secretary for Foreign Affairs Fukuyama Tetsuro addresses the United Nations Nuclear Nonproliferation Treaty (NPT) review conference in New York.

**May 10, 2010:** US Transportation Secretary Ray LaHood pledges to scrutinize safety measures introduced by Toyota in response to a large-scale recall after meeting the company's chairman in Toyota City, Japan.

**May 12, 2010:** US and Japan resume working-level talks on Futenma in Washington.

**May 12-14, 2010:** US Assistant Secretary of State for Economic, Energy and Business Affairs Jose Hernandez visits Tokyo to discuss US-Japan economic ties including the potential for cooperation in the areas of entrepreneurship, energy, agriculture, and health care.

**May 13, 2010:** An *Asahi Shimbun* poll finds 76 percent of Okinawa residents disapprove of a reported plan to relocate most of the functions of MCAS Futenma within the prefecture, and 53 percent supported relocating all bases in the prefecture to other areas of Japan.

**May 13, 2010:** Prime Minister Hatoyama suggests his government might not be able to resolve the impasse over Futenma by the end of May as he promised.

**May 14, 2010:** *Jiji News* poll shows a 19 percent approval rating for the Hatoyama government with 42 percent of respondents citing a lack of leadership as the proximate cause and 49 percent suggesting he should step down if unable to resolve the Futenma issue by the end of May.

**May 15, 2010:** Prosecutors question DPJ Secretary General Ozawa for third time regarding a funding scandal.

**May 16, 2010:** Approximately 17,000 people surround MCAS Futenma, calling for the land to be returned to the prefecture and protesting plans to relocate the facility within the prefecture.

**May 18, 2010:** Toyota agrees to pay a \$16.4 million fine assessed by the US Transportation Department amid allegations it was slow to act on vehicle recalls.

**May 20, 2010:** The Japanese government announces the economy grew at an annualized rate of 4.9 percent in the first quarter of 2010, the fourth quarterly gain in a row.

**May 20, 2010:** A senior Toyota official testifies before the House Energy and Commerce Committee that the company has not received any evidence linking electronic throttles to unintended acceleration in vehicles.

**May 21, 2010:** Foreign Minister Okada and Secretary Clinton meet in Tokyo to discuss the relocation of MCAS Futenma, the sinking of a South Korea vessel, North Korea, Iran, and the Hague Convention on child abduction. Clinton also meets Prime Minister Hatoyama.

**May 23, 2010:** Prime Minister Hatoyama visits Okinawa for the second time to apologize to the governor of Okinawa for breaking a pledge to remove MCAS Futenma off Okinawa and explain his decision to largely accept the existing plan adopted in 2006.

**May 23, 2010:** Japan's Maritime Self-Defense Force (MSDF) vessel *Kunisaki* leaves port with medical personnel from all three branches of the SDF to participate in *Pacific Partnership 2010*, a humanitarian and civic assistance effort led by the US Navy.

**May 24, 2010:** Prime Minister Hatoyama tells reporters the sinking of a South Korean vessel west of the Korean Peninsula in March factored into his decision to largely accept the existing agreement on the Futenma relocation.

**May 24, 2010:** US Ambassador to the World Trade Organization (WTO) Michael Plunke and European Union (EU) Chargé d'Affaires John Clarke meet Japanese Ambassador Kitajima Shinichi in Geneva to express concerns regarding the lack of a level playing field between Japan Post and private sector companies in the insurance, banking, and express delivery sectors.

**May 25, 2010:** Fukushima Mizuho, minister for Consumer Affairs and head of the Social Democratic Party (SDP), visits Okinawa to reiterate her support for removing bases from the prefecture and tells the press she will not approve Prime Minister Hatoyama's relocation plan if presented at a Cabinet meeting.

**May 25, 2010:** Defense Minister Kitazawa Toshimi meets Defense Secretary Robert Gates at the Pentagon to discuss the Futenma relocation plan.

**May 27, 2010:** President Obama transmits the *National Security Strategy (NSS)* to Congress.

**May 27, 2010:** The US-Japan Dialogue to Promote Innovation, Entrepreneurship, and Job Creation conducts its first meeting in Tokyo.

**May 27, 2010:** The Ministry of Finance releases data showing exports in April increased 40 percent compared to the previous year.

**May 28, 2010:** The US-Japan Security Consultative Committee (SCC) issues a joint statement reiterating a commitment to relocate MCAS Futenma.

**May 28, 2010:** Prime Minister Hatoyama dismisses Consumer Affairs Minister Fukushima from the Cabinet for refusing to support his decision on Futenma relocation.

**May 28, 2010:** The Senate Armed Services Committee completes the mark-up of the FY2011 National Defense Authorization Act and cuts \$300 million associated with the relocation of Marines from Okinawa to Guam, “as the funding was requested ahead of need.”

**May 30, 2010:** The Social Democratic Party bolts the ruling coalition with the DPJ.

**May 31, 2010:** A postal reform bill to scale back the privatization of the Japan Post passes the Lower House of the Diet.

**May 30-June 1, 2010:** Several Japanese media outlets release public opinion polls with Prime Minister Hatoyama’s approval rating falling between 17 and 20 percent and his disapproval rating between 67 and 75 percent.

**June 1, 2010:** Japan’s Ministry of Foreign Affairs releases a poll on Japan’s image in the US in which 56 percent of opinion leaders considered China to be the most important partner in Asia for the US, followed by Japan at 36 percent. Forty-four percent of the general population considered Japan and China equally important. Ninety percent of opinion leaders and 79 percent of the general public considered Japan a dependable ally.

**June 2, 2010:** Prime Minister Hatoyama and DPJ Secretary General Ozawa Ichiro resign.

**June 2, 2010:** The White House issues a statement expressing respect for the political process in Japan and resolve to work with Japan’s next leader across a range of issues.

**June 3, 2010:** Finance Minister Kan holds a press conference and states the US-Japan alliance is the cornerstone of Japanese diplomacy.

**June 3, 2010:** The Ministry of Economy, Trade and Industry (METI) releases a new industrial policy, “Industrial Structure Vision,” as a component of a comprehensive growth strategy to be released by the government.

**June 4, 2010:** Kan Naoto is elected prime minister.

**June 5, 2010:** President Obama calls Kan to congratulate him on his election as prime minister.



**June 5, 2010:** Defense Minister Kitazawa and Defense Secretary Gates confer on the sidelines of the Shangri-La Security Dialogue in Singapore. They later meet South Korean Defense Minister Kim Tae-young.

**June 5-6, 2010:** Japan hosts the Asia-Pacific Economic Cooperation (APEC) forum trade ministers' meeting in Sapporo.

**June 6, 2010:** *Mainichi Shimbun* poll finds 63 percent of the public has high expectations of Prime Minister Kan.

**June 8, 2010:** Prime Minister Kan announces his Cabinet and retains 11 ministers from the Hatoyama administration.

**June 9, 2010:** Prime Minister Kan enjoys a 62 percent approval rating according to a poll by *Kyodo News*.

**June 11, 2010:** Prime Minister Kan addresses the Diet and describes the US-Japan alliance as the cornerstone of Japanese diplomacy.

**June 11, 2010:** Financial Services Minister Kamei Shizuka resigns to protest the decision not to extend the Diet session and pass a postal reform bill he championed.

**June 17, 2010:** The DPJ unveils its manifesto for the July 11 Upper House election.

**June 17, 2010:** DPJ lawmaker Kobayashi Chiyomi resigns because of a funding scandal.

**June 17, 2010:** Parliamentary Vice Minister of Defense Nagashima addresses a conference on the US-Japan alliance in Washington.

**June 17-18, 2010:** US Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell visits Tokyo to confer with Kan administration officials.

**June 18, 2010:** The Kan administration unveils a long-term economic growth strategy.

**June 18-20, 2010:** Japan hosts the APEC Energy Ministerial meeting in Fukui.

**June 18-21, 2010:** US Ambassador to Japan John Roos visits Okinawa to meet with government officials, community leaders and students.

**June 20, 2010:** Prime Minister Kan's approval rating is 50 percent according to a poll published by *Asahi Shimbun*.

**June 21, 2010:** Foreign Minister Okada and Secretary Clinton discuss issues including Futenma during a telephone call.

**June 21, 2010:** Japan's Environment Ministry announces the "Morning Challenge" campaign to reduce emissions by encouraging households to consume less energy at night and rise early.

**June 22, 2010:** Prime Minister Kan calls for a nonpartisan dialogue on pension reform during a debate with the leaders of other political parties.

**June 23, 2010:** Prime Minister Kan visits Okinawa and promises to reduce the burden of the US troop presence on the local population but reiterates a commitment to the May 28 agreement on Futenma relocation.

**June 23, 2010:** Finance Minister Noda Yoshihiko suggests in an interview with the *Wall Street Journal* that the Kan government might consider tax increases on high earners to raise revenue and promote income redistribution.

**June 24, 2010:** The US House of Representatives passes Resolution 1464 "Recognizing the 50th anniversary of the conclusion of the United States-Japan Treaty of Mutual Cooperation and Security and expressing appreciation to the Government of Japan and the Japanese people for enhancing peace, prosperity, and security in the Asia-Pacific region."

**June 24, 2010:** Former DPJ Secretary General Ozawa criticizes the Kan administration's discussion of a possible increase in the consumption tax.

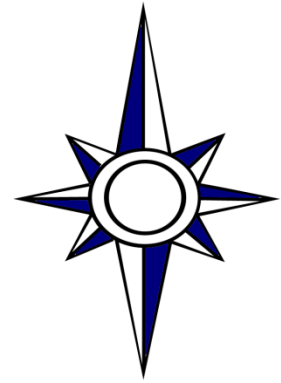
**June 24, 2010:** Gen. Oriki Ryoichi, chief of staff of the SDF Joint Staff, meets Chairman of the Joint Chiefs of Staff Adm. Michael Mullen at the Pentagon.

**June 27, 2010:** Prime Minister Kan and President Obama meet during the G20 Summit in Toronto to discuss the Futenma issue, bilateral economic cooperation, North Korea, Iran, Afghanistan, Pakistan, climate change, and nuclear disarmament/non-proliferation.

**June 28, 2010:** Ozawa Ichiro criticizes the DPJ leadership for changing the party manifesto for the Upper House election and backtracking on policies such as child allowances, the elimination of highway tolls, and direct subsidies to farmers.

**June 29, 2010:** The State Department announces the acceptance of an offer from Japan to provide skimmers and a containment boom for use in the Gulf of Mexico oil spill response.

**June 30, 2010:** Prime Minister Kan stresses the government should lead nonpartisan discussions on a possible increase in the consumption tax.



**US-China Relations:  
Cooperation Faces Challenges**

**Bonnie Glaser, CSIS/Pacific Forum CSIS**

Presidents Barack Obama and Hu Jintao met twice this quarter, first on the sidelines of the Nuclear Security Summit in Washington in April and again on the margins of the G20 Summit in Toronto in June. Nevertheless, tensions lingered over US arms sale to Taiwan and the military relationship remained suspended. The Chinese rejected a request from Secretary of Defense Robert Gates to visit China. The second round of the Strategic and Economic Dialogue was held in Beijing in late May, yielding agreements on energy, trade environment, and healthcare. Many hours were spent during the quarter in discussions between the two countries on an appropriate response to the sinking of the South Korean warship, but the gap was not narrowed. In June, China finally announced the long-awaited decision to allow its currency to be more flexible, though it remains unclear how fast and to what extent it will permit the *yuan* to appreciate.

**Strategic and Economic Dialogue, round two**

After months of tension between the United States and the People's Republic of China, the two powers convened in Beijing for the second round of the Strategic and Economic Dialogue (S&ED), May 24-25. The two days of in-depth discussions provided an opportunity for senior officials from both countries with responsibility for diplomatic and economic issues to exchange views on an ever-expanding agenda of bilateral, regional, and global problems. The talks yielded no surprises: in areas that the US and China have overlapping interests, they agreed to enhance cooperation and where interests diverge, they tried to better understand each other's positions and pledged to keep talking.

The US delegation to the S&ED numbered more than 200 people, including 15 Cabinet secretaries and agency chiefs. As the host country, the size of the Chinese delegation was even larger. Located inside the Great Hall of the People adjacent to Tiananmen Square, the talks opened with positive rhetoric on both sides. In his opening address, Chinese President Hu Jintao expressed his hope that "through candid and in-depth discussions on overarching, strategic and long-term issues of mutual interest, the two sides will enhance trust and dispel misgivings, and further push forward China-US cooperation." In addition, Hu called for maintaining close interactions, developing a pattern of mutually beneficial and win-win cooperation, strengthening coordination on regional hot-spot and global issues, and deepening mutual understanding and friendship between the Chinese and American people. Hu also reiterated language from the joint statement issued during President Obama's visit to China last November, saying, "we should respect each other's core interests and major concerns."

In her remarks, US Secretary of State Hillary Rodham Clinton lauded China's extraordinary economic growth and reiterated the importance of cooperation over competition. She

enumerated several key areas of common concern on which “there is much work to be done” – including North Korea, Iran, Afghanistan and Pakistan, counter-piracy, military-to-military cooperation, climate and energy, education, health, development, and economic recovery and growth – but expressed confidence that the second round of talks would make progress on these issues and provide a framework for “delivering real results to our people.”

In contrast with the first round of the S&ED, Clinton’s tone and message was less effusive, perhaps signaling that the high expectations the Obama administration held regarding the US-China relationship in its early months in power had given way to a more realistic stance. At the inaugural session last summer, Secretary Clinton repeatedly stated that the US and China were “in the same boat” and should row in the same direction in order to overcome the economic crisis and address a host of global challenges. This year, Clinton emphasized that the two countries have different histories and are at different stages of development. Senior Chinese officials struck a similar tone, suggesting that Beijing too had lowered its expectations of what the bilateral relationship could deliver. Vice Premier Wang Qishan noted that the US and China have differences “in history, culture, national conditions, development stage, economic structure, and market sophistication,” but now are able to manage these differences in a “more rational and mature manner.” Clinton’s counterpart, State Councilor Dai Bingguo, stated that the two countries would inevitably have disagreements and differences and echoed Hu Jintao’s call for both sides to “respect each other’s core interests and major concerns.”

Nevertheless, both sides continued to espouse the view that US-Chinese cooperation is essential. Clinton re-stated the assessment put forward by President Obama at the first round that “few global problems can be solved by the United States or China acting alone. And few can be solved without the United States and China working together.” Dai Bingguo echoed this view, noting that the chances for peace in the 21<sup>st</sup> century will be seriously undermined if the US and China are unable to establish a new type of partnership.

Round two of the S&ED brought few tangible accomplishments in areas of US priority (such as gaining Chinese support for condemning North Korea’s torpedo attack on the *Cheonan* warship, discussed below), but did reaffirm the importance of mutual cooperation, arguably Beijing’s primary objective. The meeting yielded 26 results, including agreement to strengthen exchanges and cooperation in such areas as energy, the environment, science and technology, culture, education, health, customs, nuclear security, counterterrorism, and law enforcement. The two sides signed seven documents on cooperation in nuclear safety for the AP1000 nuclear reactor, shale gas development, eco-partnerships, supply chain security, and infectious diseases, while reiterating their commitments to actively implement the US-China Memorandum of Understanding to Enhance Cooperation on Climate Change, Energy and Environment and the Ten-Year Framework on Energy and Environment Cooperation.

On issues where differences prevailed, there was a candid exchange of views and both sides agreed to continue close consultations. For example, the plenary session that was chaired by Secretary Clinton, State Councilor Dai Bingguo, Secretary of the Treasury Timothy Geithner, and Vice Premier Wang Qishan focused on development issues, but the wide gap between the two countries’ approaches to development assistance was not narrowed. On human rights, there was agreement to continue discussions on the basis of equality and mutual respect, and

specifically to continue the bilateral Human Rights Dialogue held in Washington May 13-14 with another round of talks next year in China.

In the economic track, the US lobbied with some success against Beijing's indigenous innovation policy, which gives preference to products with intellectual property developed in China over foreign competitors in the domestic market. The Chinese agreed to delay implementation of the policy to "assess public comments" and to engage in a series of dialogues with various relevant Chinese and US agencies. According to a US fact sheet released at the conclusion of the S&ED, both countries also committed to innovation policies "consistent with strong principles, including nondiscrimination, intellectual property rights protection, market competition, and no government interference in technology transfer." China also agreed to resubmit an offer to join the World Trade Organization's (WTO) Agreement on Government Procurement in July 2010, which will allow for more equitable consideration of US goods and services in China.

Beijing urged the US to loosen its controls on exports of high-technology equipment to China and asked the US to grant China market economy status. Without market economy status, Chinese firms are often at a disadvantage when facing anti-dumping probes by the US or Europe, as the production cost information they provide is regarded with skepticism. After the close of the meeting, the Chinese media reported that the US had committed to recognizing China's market economy status, but US officials claimed that no such promise had been made. Under agreements signed in 2001 when China entered the WTO, the country will automatically attain market economy status in 2016. Among WTO members, 97 have agreed to grant China market economy status, but two of China's top trading partners, the US and the European Union, have refrained from doing so.

Discussions also focused on joint efforts to promote a strong economic recovery and more balanced growth. The US Treasury Department Fact Sheet enumerated many measures taken by China to increase the contribution of consumption to its growth, which increased from 4.1 percentage points of China's real GDP growth in 2008 to 4.6 in 2009. Also highlighted was the strong growth in US exports to China, up 20 percent in the past two years. At the same time, China's current account surplus in 2009 fell by one-half from its peak, as a share of GDP, and declined further in the first quarter of 2010. The US pledged to achieve fiscal sustainability in the medium- and long-term, including reducing its deficit to about 3 percent of GDP by 2015, and to sustain post-financial crisis gains in household savings rates. The two countries agreed over the medium-term to rationalize and phase out inefficient fossil fuel subsidies that encourage wasteful consumption, reduce energy security, impede investment in clean energy sources, and undermine efforts to cope with the threat of climate change. In addition, they agreed to respectively reform their financial sectors and strengthen regulation, and enhance the legitimacy of multilateral financial institutions.

Many of the accomplishments of the second round of the S&ED were on easily agreed upon issues – trade, environment, energy, and healthcare – where US and Chinese interests converge. On security problems addressed in the strategic track – Iran and North Korea – there was greater divergence. The two sides did agree, however, to convene bilateral dialogues in the coming year on security, arms control, and nonproliferation; regional matters and policy planning; and UN peacekeeping operations.

After 100 hours of dialogue, one important consensus reached was that the S&ED is a valuable mechanism to promote the shared vision of Presidents Hu and Obama for a positive, cooperative, and comprehensive bilateral relationship. Both sides recognize there is a deficit of strategic trust, which inhibits greater cooperation, and they hold out hope that the S&ED will facilitate better understanding and enable a broadening of common interests that can underpin a genuine partnership in the future.

### **The *Cheonan* sinking: differing perspectives and interests**

A South Korean corvette, the *Cheonan*, suffered an external explosion, broke in two and sank within hours on March 26, killing 46 South Korean sailors. A five-nation investigation team concluded after two months of meticulous research that North Korea was responsible for the attack. The appropriate response to that finding was the focus of much discussion between Secretary Clinton and State Councilor Dai Bingguo at the S&ED in Beijing. In her opening speech, Clinton called North Korea a “matter of urgent concern.” She noted that the US and China had worked together to pass and enforce a strong UN Security Council resolution in the wake of North Korea’s nuclear test and called on China to once again work with the US to address the challenge posed by the sinking of the ship and to advance shared objectives for peace and stability on the Korean Peninsula.

Chinese officials reportedly were skeptical of the outcome of the investigation. One official bluntly asked Secretary Clinton why China should believe US intelligence based on its poor track record in Iraq, where the U.S. had insisted there was a nuclear weapons program, and in Belgrade, where it had accidentally bombed the Chinese Embassy. The US urged Beijing to follow Russia’s example and dispatch a team of experts to South Korea to review the evidence that has been collected, a request that China said it would consider but has yet to act on.

US officials painstakingly explained that China’s ties with South Korea had been damaged by Beijing’s selfish response to the *Cheonan* sinking. Five weeks passed after the incident before the Chinese sent official condolences to South Korea, and even then noted only that it was a tragic “accident.” When South Korean President Lee Myung-bak visited Shanghai, the Chinese leadership failed to inform him that North Korea’s leader Kim Jong-il was scheduled to arrive in China three days after his departure. The Chinese offered no explanation and showed little appreciation for the restraint exercised by Lee and his domestic political need for a prompt and harsh international response to the unprovoked attack. To US officials, it seemed that the Chinese just wanted the whole issue to go away so they could continue to play the role of good neighbor and pursue their policy of cultivating good ties with both North and South Korea.

Following the talks, Clinton told the press that the discussions with the Chinese about North Korea were “very productive and detailed” adding that “The Chinese understand the gravity of the situation.” She acknowledged, however, that China and the US often viewed things from a different perspective, and the *Cheonan* sinking seemed to be one of those cases. The only positive signal came from Premier Wen Jiabao, who privately told US officials that Beijing would not shield the perpetrator of the attack, a position that he personally conveyed to South

Korea's President Lee during a visit to Seoul a few days later. Although the Chinese promised to review the evidence, it seemed unlikely that they would point the finger at North Korea.

To date, China, along with Russia, has resisted Seoul's efforts to obtain a tough response to the *Cheonan* sinking either in the form of a UN Security Council resolution or president's statement. Throughout the quarter, Chinese officials called on all parties to "keep calm, exercise restraint and appropriately handle the *Cheonan* incident." In a bilateral conversation with South Korea's Foreign Minister Yu Myung-hwan ahead of the trilateral foreign ministers meeting among China, Japan, and South Korea in mid-May, Chinese Foreign Minister Yang Jiechi urged all parties to approach the matter based on long-term interest and the need to preserve stability and peace on the Korean Peninsula. According to a Chinese military source, Beijing worries that direct criticism of North Korea could lead to a new military provocation. US frustration with China's handling of the issue was exemplified by Chairman of the Joint Chiefs of Staff Adm. Michael Mullen in his June 9 speech to the Asia Society. Mullen expressed "dismay" that China had only given a "fairly tepid response" to the attack and called on Beijing and the international community to strongly condemn North Korea's act of aggression.

At the meeting between the US and Chinese presidents on the margins of the G20 Summit in Toronto, President Obama asked for China's support over the sinking of the South Korean warship. The following day, Obama told a press conference that he was "very blunt" on the matter with Hu Jintao and used harsh language to criticize China's policy. Noting that the US was "sympathetic" to the fact that China shares a border with North Korea and understood Beijing's call for restraint, Obama nevertheless insisted that "there's a difference between restraint and willful blindness to consistent problems." He added that "It is a bad habit that we need to break to try and shy away from ugly facts with respect to North Korea's behavior . . . under the illusion that will somehow help to maintain the peace." Obama expressed his hope that Hu would recognize that the unprovoked attack on the *Cheonan* "is an example of Pyongyang going over the line in ways that just have to be spoken about seriously." He called for a "crystal clear" acknowledgement from the Security Council "that North Korea engaged in belligerent behavior that is unacceptable to the international community."

Two days later, China's Foreign Ministry spokesman directly responded to President Obama's charges, denying that his country was hiding from the risks posed by North Korea. Qin Gang insisted that Beijing had to be more cautious in handling its neighbor and that China did not want to "pour oil on the flames." He also maintained that China does not "play favorites with any side," and that "China's position and efforts are beyond reproach."

US and Chinese tensions over the issue escalated further as the quarter ended. In response to reports of a planned joint naval exercise between US and South Korea in the Yellow Sea that could include a nuclear-powered aircraft carrier, China's Foreign Ministry spokesman expressed concern and noted that Beijing was following developments closely. He called for "relevant parties" to "remain calm, exercise restraint and refrain from doing things that could aggravate tension and harm the interest of nations in the region." A few days later, the People's Liberation Army's East Sea Fleet unusually issued a public notice saying that one of its units would engage in live-ammunition firing training in the waters of the East China Sea from June 30 to July 5.

The Chinese denied that the exercise was a response to the US-ROK exercise or was in any way related to the situation on the Korean Peninsula.

### **Bilateral meetings at the Nuclear Security Summit and the G20**

Presidents Obama and Hu held a 90-minute meeting on the margins of the Nuclear Security Summit in Washington in mid-April. The meeting produced an agreement that Iran must meet its international nuclear nonproliferation obligations. White House national security aide Jeff Bader told the press that President Hu shared US concerns about Iran's nuclear program and the overall goal of preserving the nonproliferation regime, adding that the two presidents agreed to instruct their UN delegations to work with the P5 + 1 on a new Security Council sanctions resolution, which was subsequently passed.

Meeting on the sidelines of the G20 summit – their sixth tête-à-tête in the almost 18 months since Obama assumed the presidency – in addition to their in-depth discussion about North Korea, Hu and Obama reviewed the overall bilateral relationship and exchanged views on economic matters. Hu told Obama at the outset of the meeting that China wants to “work with the US side to maintain the high-level exchanges and interactions at various other levels and deepen our practical cooperation across the board,” according to the White House. “We also want to strengthen the community in coordination with the US side on major regional and international issues to continue to move forward the positive, cooperative and comprehensive China-US relationship,” the Chinese leader said.

President Obama thanked President Hu for what he called a “very positive letter” that he had recently sent that described the “tremendous progress” that the US and China have made in improving the bilateral relationship. Both sides have worked hard to build a relationship of trust and mutual confidence, Obama noted, adding that “we have accomplished many things as a consequence of that hard work.” On the economic front, Obama welcomed China's recent decision to allow the *yuan* to move more freely against the dollar, but also encouraged Hu to implement currency reform. During the meeting, Obama reiterated his invitation to Hu to make a state visit to the US at a mutually convenient time, which Hu accepted.

### **China and UN sanctions against Iran**

An important success story in US-China cooperation this quarter was the agreement reached in the UN Security Council on a new sanctions resolution on Iran. UNSCR 1929 was passed on June 9 by a 12-to-2 vote, with Brazil and Turkey casting “no” votes. The sanctions target activity by the Revolutionary Guard, which many experts view as increasingly involved in Iran's nuclear program. The resolution also bars countries from allowing Iran to invest in their nuclear enrichment plants, uranium mines, and other nuclear-related technology. In addition, it obligates countries to inspect ships or planes headed to or from Iran if they suspect illicit cargo is aboard.

China's support for the resolution was secured after substantial diplomatic effort and a few key concessions. For months, Beijing had opposed talking about sanctions, contending that doing so would hamper finding a diplomatic solution. But Teheran's unwillingness to cooperate with the international community eventually convinced the Chinese that absent greater pressure,



diplomacy would not succeed. In early April, China agreed to begin discussions on Iran sanctions at the UN after the US restated its “one-China” policy to assuage Chinese anger over a large weapons sale to Taiwan in January. Once negotiations got underway in earnest, there was hard bargaining over the measures to be imposed. Beijing and Moscow strongly opposed sanctions against Iran’s banks, insurance industry and other trade that would hurt average Iranian citizens or normal trade. Russia and China also both resisted sanctions on Iran’s oil and gas industry. To alleviate Chinese concerns about energy security, the US and other members of the Security Council coordinated to ensure that China’s energy needs would be met in the event that Iran reduced oil supplies to China in retaliation for its support for sanctions. Chinese analysts also claim that their government won promises from Washington to exempt Chinese companies from any US unilateral sanctions that punish third-country business partners with Iran.

### **Military ties remain frozen**

Although the US and China appeared to have resolved their differences over last quarter’s US arms sale to Taiwan and President Obama’s meeting with the Dalai Lama, enabling Hu Jintao to attend the Nuclear Security Summit in April, tensions in the bilateral relationship nevertheless lingered. The most serious issue of contention was the continued suspension of the military-to-military relationship due to persisting anger in China over US dismissal of Chinese concerns about continuing arms sales to Taiwan. Prior to the S&ED in Beijing, Secretary of Defense Robert Gates requested a visit to China in June as part of a tour of several countries in Asia and Europe. His aim was to put the relationship between the two militaries back on track, but his offer was rebuffed; the Chinese simply told the Pentagon that it was “not a convenient time.”

Relations between the US and Chinese militaries remained sour and the few interactions during the quarter were disagreeable and unconstructive. In contrast to the reportedly amicable conversations at the S&ED even on issues where there was disagreement, discussions between military representatives on the margins of the formal meetings were tense. Speaking to 65 US officials at the Diaoyutai state guesthouse in Beijing, including Commander of US Pacific Command Adm. Robert Willard, Rear Adm. Guan Youfei, a vice minister at the Foreign Affairs Office of the PLA, lectured about US mishandling of the Sino-US relationship, pinning blame on the US for all the bilateral problems. Guan accused the US of being a “hegemon,” scheming to encircle China with strategic alliances, and treating China as an enemy. Although US officials attached little significance to Guan’s outburst, claiming that it was out of step with the rest of the S&ED interactions, the *Washington Post* quoted a senior Chinese official as saying that Guan’s views represented “what all of us think about the United States in our hearts.” The official also noted that the message was not “an accident,” suggesting that it had the approval of the senior Chinese leadership.

In a separate meeting on the margins of the S&ED, which *China Daily* pointedly noted took place at the request of the US, Deputy Chief of the PLA General Staff Ma Xiaotian told Adm. Willard and Assistant Secretary of Defense for Asian and Pacific Security Affairs Wallace Gregson that US arms sales to Taiwan, frequent reconnaissance operations by US naval ships and aircraft in the waters and airspace of China’s exclusive economic zones, and US laws that place restrictions on the development of bilateral military exchanges are obstacles to the stable development of China-US military ties. Ma said that US was “fully responsible” for preventing

the growth of US-China military relations and stated that the resumption of sound and steadily developing military relations would hinge on whether the US respected China's core interests and major concerns.

In June, on his way to the region, Secretary Gates complained to the press that "The PLA is significantly less interested in this relationship than the political leadership of China." Two days later, in a speech at the Shangri-La Dialogue in Singapore, Gates recalled that Presidents Obama and Hu had made a commitment to advance sustained and reliable military-to-military relations between their two countries, but that the effort to achieve that goal had been derailed by China's decision to suspend military exchanges in response to US arms sales to Taiwan. Gates insisted that US arms sales to Taiwan are "nothing new" and are an "important component of maintaining peace and stability in cross-Strait relations and throughout the region as well as a response specifically to "China's accelerating military buildup" that "is largely focused on Taiwan." He reiterated that the US does not support independence for Taiwan. Gates emphasized that there is a cost to the absence of military-to-military relations, arguing that they are essential to developing a broad, resilient US-China relationship that "is positive in tone, cooperative in nature, and comprehensive in scope."

Gen. Ma Xiaotian, responding to questions after his presentation on a panel that followed Gates' speech, insisted that China remains committed to establishing a partnership of comprehensive mutual cooperation for the 21<sup>st</sup> century and lamented that the military relationship lags behind other fields of cooperation between the two countries. Repeating the three obstacles to the smooth development of military ties that he had outlined a month earlier in Beijing, he insisted that the Chinese side was blameless. "If anyone has been setting up barriers to cooperation, it is certainly not us," he declared. Moreover, Ma asserted that the sale of arms to Taiwan is not a "normal event." Somewhat surprisingly, Ma denied that the US-China military-to-military relationship had been completely suspended, but instead described some exchanges "such as high-level dialogue" as "temporarily held up." Certain low-level mutual visits, face-to-face exchanges of views, and meetings to discuss maritime security continue, he maintained, although in reality the discussions on the margins of the S&ED are the only meetings that have taken place between the two militaries since the US arms sale to Taiwan in January.

In an apparent response to China's refusal to receive him in Beijing, Secretary Gates did not ask for a meeting with Gen. Ma on the sidelines of the Shangri-La Dialogue. US officials said that no meeting was arranged because the Chinese delegation was not at a high enough level, but that explanation was unconvincing since Gates had met with Ma at the Shangri-La Dialogue in 2008 and 2009. Gates did hold separate bilateral meetings in Singapore with military and political leaders from South Korea, Vietnam, Japan, Indonesia, India, Singapore, and New Zealand.

Several days later in a speech at the Asia Society in Washington, Chairman of the Joint Chiefs of Staff Adm. Mullen reinforced Gates' message that the US-China military relationship should be resumed. Mullen said that he had grown "genuinely concerned" about China's motives for building up its armed forces, including its "heavy investments" in sea and air capabilities and its rejection of military contacts with the US. Then he chided Beijing for its changeable attitude toward efforts to "work together, lead together, to promote regional stability."

Also in June, Sen. Dianne Feinstein, chair of the Senate Intelligence Committee, visited mainland China and Taiwan, where she discussed US arms sales to Taiwan. After her return, she raised the issue with Secretary Gates at a congressional hearing. Feinstein called the sales a “substantial irritant” in US-China relations and pressed Gates on what steps Beijing could take that would allow Washington to reconsider future arms sales to Taiwan. Gates avoided a direct response, noting only that any determination on Taiwan arms sales are “fundamentally a political decision” that is up to Congress and the White House. He added that he was “very concerned” about China’s growing anti-ship cruise missile and ballistic missile capabilities.

As the quarter drew to a close, Beijing signaled that it might be preparing to resume military-to-military ties. Several days after President Obama’s meeting with Hu Jintao in Toronto on the margins of the G8 Summit in which he urged the Chinese president to welcome a visit to China by Secretary Gates, Gen. Staff Ma stated publicly that China welcomes Gates “to visit China at a time that is convenient for both sides.” He added, however, that whether the US-China military relationship can overcome difficulties and return to a normal, stable development path will depend on whether the US is willing to respect China’s core interests and major concerns. Probably not coincidentally, the statement came just as the suspension of bilateral military exchanges passed the six-month mark after the Jan. 29 announcement by the Obama administration of a \$6.4 billion package of weapons to Taiwan.

### **China resumes RMB exchange rate flexibility**

This quarter China finally announced the long-awaited decision to allow its currency to be more flexible, though it remains unclear how fast and to what extent it will permit the *yuan* to appreciate. The announcement, however, carries the potential to defuse one of the most troublesome issues in the relationship. Many Americans complain that China gains an unfair export advantage over the US by deliberately keeping its currency undervalued. Currency manipulation was the main issue behind the creation of the Strategic Economic Dialogue in August 2006. Then Secretary of the Treasury Hank Paulson proposed the SED as a dialogue mechanism to forestall Congressional action on trade policy. From July 2005 to July 2008, China allowed its currency to appreciate approximately 21 percent. When the financial crisis hit, however, Beijing reinstated the peg of the RMB to the US dollar. Since then, and especially this year, pressure has grown from Washington for China to allow its currency to strengthen.

Recognizing that public hectoring would likely be counterproductive, the US deliberately did not push China publicly to revalue its currency at the S&ED in May. Instead, it decided to heed the warning issued by China’s Foreign Ministry spokesman Ma Zhaoxu months earlier that “wrongful accusations and pressure will not help solve this issue.” Washington hoped that Beijing would see its interests as best served by making a decision to re-introduce flexibility in the exchange rate prior to the G20 meeting in Toronto, which is precisely what happened. At the S&ED, to the surprise of many observers, President Hu specifically mentioned the exchange rate in his opening address. Hu stated, “China will continue to steadily advance the reform of the formation mechanism of the RMB exchange rate under the principle of independent decision-making, controllability and gradual progress.” Following Hu’s remarks, Treasury Secretary Geithner welcomed the Chinese leadership’s recognition that exchange rate reform is necessary for sustaining economic growth with low inflation and reinforcing incentives for China’s private

sector to shift resources to more productive higher value-added activities that will be essential to future growth.

While Secretary Geithner and President Obama seemed willing to be patient with the Chinese on the currency issue, US congressional leaders did not share the restraint. A bipartisan group of senators and congressional representatives led by New York Democratic Sen. Chuck Schumer proposed legislation on June 9 that would eliminate the advantages that China receives from its undervalued currency. Under Schumer's legislation, companies would be allowed to seek import duties to redress the undervalued Chinese currency, which would be considered a subsidy; tariffs would be imposed to counter the effect of the Chinese "subsidy."

The long-anticipated announcement came on Saturday, June 19. China's Central Bank declared that China will "proceed further with reform of the RMB exchange rate regime and increase the RMB exchange rate flexibility." President Obama welcomed the pronouncement: "China's decision to increase the flexibility of its exchange rate is a constructive step that can help safeguard the recovery and contribute to a more balanced global economy." He added that he looked forward to discussing these and other issues at the G20 summit in Toronto. Secretary Geithner's endorsement was somewhat more qualified: "This is an important step but the test is how far and how fast they let the currency appreciate."

The reaction from US business circles and experts was mixed. Some US companies like SGI, a California-based server and data storage equipment company, and Caterpillar, which sells bulldozers, large mining trucks, and gas turbines to China, were pleased because their exports would become more affordable in the Chinese market. Fred Hochberg, chairman of the Export-Import Bank of the United States, contended, however, that there was no certainty that the RMB's appreciation would significantly increase US exports. He told the *New York Times* that the key variable would be the rate at which China allows the RMB to appreciate and the extent to which it is "really market-driven." Perennial critics from Capitol Hill such as Democratic Rep. Sander Levin, chairman of the House Ways and Means Committee, saw China's announcement as nothing new: "We have seen actions like this before and it is clear that China did not allow enough appreciation the last time it adopted a policy like this one, from 2005 to 2008." Other experts such as Derek Scissors, of the Heritage Foundation, argued that the US should focus on other issues such as Chinese subsidies and the US deficit instead of the currency issue, which, he contended, has little impact on US jobs and economic growth.

Just prior to departing for Toronto, President Obama held a joint press conference with Russian President Dmitry Medvedev. When asked about China's currency, he responded with praise for China's initial step, but expressed uncertainty about whether China's actions signify the "rebalancing that we think is appropriate." Obama added that he did not expect "a complete 20 percent appreciation overnight" given the disruption that would cause in world currency markets and China's economy. He allowed that Beijing would make its decisions "based on its sovereignty and its economic platform," a message that was undoubtedly appreciated by Beijing.

In Toronto the majority of the members of the G20 welcomed the plans of the Chinese government to introduce a more flexible exchange rate, but according to a Russian Finance Ministry official, a phrase applauding Beijing's move was dropped from an early draft

communiqué at the request of the Chinese. Apparently, Beijing insisted that discussion of its currency had no place in an international forum and did not want to be singled out. As a result, the G20 members included a more general statement about the need for flexible exchange rate currencies in the final communiqué. Hu Jintao made no mention of China's currency policy in his speech to the G20 gathering, but he warned of serious global economic risks from the drastic fluctuation of the exchange rates of major currencies and the continued volatility from international financial markets.

President Obama did not shy away from seizing his long-awaited multilateral opportunity at the post-summit press conference to express US sentiments on China's exchange rate policy, however. He reiterated that an undervalued RMB has given China a "significant trading advantage" that is not "acceptable or consistent with the principles of balanced and sustainable growth" that all G20 countries have signed on to. Obama again welcomed Beijing's decision to move back toward a path of flexible exchange rates, but added that "the proof of the pudding is going to be in the eating. . . We do expect that as more and more market forces come to bear, that given the enormous surpluses that China has accumulated, that the RMB is going to go up and it's going to go up significantly. And so we are going to be paying attention over the next several months to make that determination." The US president also signaled his intention to work with US manufacturers and US congressional critics to assure an "even playing field."

### **Looking ahead**

An opportunity to further bilateral cooperation will occur in early August, when Larry Summers, director of the National Economic Council, and Tom Donilon, deputy national security adviser, travel to China at the request of President Obama to talk to China's top economic and foreign policy advisors. Hopefully, in the interest of promoting the positive, cooperative, and comprehensive relationship for the 21<sup>st</sup> century that Presidents Hu and Obama have agreed upon, Beijing will soon agree to resume military-to-military ties. Obama signaled that this is a priority for the US when he told President Hu in Toronto that the US is "looking forward to an invitation for a visit by Defense Secretary Gates in the coming months." The two countries will begin planning Hu Jintao's state visit to the US, but the trip is not likely to take place until after the US general elections, perhaps in December or even January 2011.

## **Chronology of US-China Relations\***

### **April – June 2010**

**April 3, 2010:** Treasury Secretary Timothy Geithner delays an April 15 report that was expected to declare China a "currency manipulator," saying that Chinese exchange rate policies will be discussed at the May Strategic and Economic Dialogue (S&ED) and at upcoming G20 meetings.

**April 6, 2010:** Foreign Ministry spokeswoman Jiang Yu says China does not manipulate its currency and that the "exchange rate is not the main reason behind the US-China trade deficit."

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\* Chronology and research assistance by CSIS intern Robert Lyons

**April 6, 2010:** US releases its *Nuclear Posture Review*, noting the “lack of transparency” surrounding China’s nuclear program “raises questions about China's future strategic intentions.”

**April 6, 2010:** While traveling in India, Secretary Geithner tells an Indian media outlet that it is “China’s choice” whether to revalue its currency.

**April 6, 2010:** Secretary of State Hillary Clinton holds a phone conversation with Chinese Foreign Minister Yang Jiechi to discuss bilateral ties.

**April 8, 2010:** Secretary Geithner makes a previously unscheduled trip to China, where he meets Vice Premier Wang Qishan in Beijing and discusses Chinese exchange rate policies.

**April 8, 2010:** The United Nations Security Council begins negotiations on sanctions against Iran for its nuclear program.

**April 9, 2010:** Undersecretary of State Robert Hormats speaks at Beijing’s China Institutes of Contemporary International Relations on ways to handle disputes in the bilateral relationship.

**April 12, 2010:** Presidents Barack Obama and Hu Jintao meet on the sidelines of the Nuclear Security Summit in Washington, discussing currency issues and Iran sanctions.

**April 13, 2010:** Deputy US Trade Representative Demetrios Marantis visits Beijing to discuss Chinese intellectual property rights and currency valuation issues.

**April 19, 2010:** House Ways and Means Committee Chairman Sander Levin says that “the US will act” if China does not take steps to appreciate its currency by the June meeting of the G20.

**April 22, 2010:** The US Commerce Department announces that it has set preliminary antidumping duties on imports of certain seamless pipe from China.

**April 29, 2010:** Secretary Clinton has a phone conversation with State Councilor Dai Bingguo to discuss the nuclear programs in Iran and North Korea.

**May 3, 2010:** In Beijing, Assistant Secretary of State for South and Central Asian Affairs Robert Blake and Vice Foreign Minister Wang Guangya hold a “sub-dialogue” on South Asia in which Chinese officials request US support for Chinese civilian nuclear development in Pakistan.

**May 5, 2010:** The five permanent UN Security Council members, including the US and China, support making the Middle East a nuclear weapon free zone.

**May 11, 2010:** Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell meets senior Chinese officials in Beijing.

**May 12, 2010:** A US jury convicts a Chinese national named Chi Tong Kuok of illegally smuggling sensitive communications equipment to China.

**May 13, 2010:** Secretary Clinton and State Councilor Dai Bingguo hold a phone conversation to discuss Kim Jong-il's trip to China and the investigation into the sinking of the South Korean naval vessel, the *Cheonan*.

**May 13-14, 2010:** The US and China hold a human rights dialogue in Washington. The US delegation is led by Assistant Secretary of State for Democracy, Human Rights and Labor Mike Posner and the Chinese delegation headed by Ministry of Foreign Affairs Director General for International Organizations Chen Xu.

**May 16, 2010:** US Commerce Secretary Gary Locke arrives in Hong Kong to start a 10-day trade mission to China focused on clean energy cooperation.

**May 24-25, 2010:** The US and China hold second annual Strategic and Economic Dialogue (S&ED) in Beijing.

**May 25, 2010:** Ma Xiaotian, deputy chief of the General Staff of the Chinese People's Liberation Army, meets Commander of US Pacific Command Adm. Robert Willard on the margins of the S&ED in Beijing.

**May 31, 2010:** Wu Bangguo, chairman of the Standing Committee of the National People's Congress (NPC), meet a visiting delegation of US senators led by Dianne Feinstein, chairperson of the Senate Intelligence Committee.

**June 1, 2010:** The US Commerce Department places antidumping duties and countervailing duties on Chinese steel gratings. Chinese Minister of Commerce Chen Deming urges foreign countries to stand against protectionism for the purpose of global economic recovery.

**June 5, 2010:** Secretary of Defense Robert Gates and Deputy Chief of the PLA General Staff Ma Xiaotian attend the Shangri-La Dialogue in Singapore, but unlike prior years, they do not hold a bilateral meeting.

**June 8, 2010:** The US Commerce Department sets preliminary countervailing duties of 15.72 percent on imports of drill pipe from China. In 2009, imports of drill pipe from China were valued at an estimated \$119.2 million.

**June 9, 2010:** Sen. Chuck Schumer (D-NY) announces a Senate vote is planned in two weeks that will place pressure on China to appreciate its currency.

**June 9, 2010:** Twelve of the 15 members of the UN Security Council, including China and the US, vote to apply sanctions against Iran.

**June 9, 2010:** Adm. Michael Mullen, chairman of the Joint Chiefs of Staff, says he is "genuinely concerned" about the motives behind China's military modernization, citing "heavy investments" in sea and air capabilities and its rejection of military contacts with the US.

**June 10, 2010:** Secretary Geithner testifies on China before the Senate Finance Committee.

**June 14, 2010:** The US Department of Agriculture bans the Organic Crop Improvement Association, a leading inspector of organic products, from operating in China because of a conflict of interest that compromises the certainty of the organic quality.

**June 16, 2010:** During a hearing on trade and industrial issues, Representative Sander Levin (D-MI) urges China to raise the value of its currency before the US pursues action against it.

**June 16, 2010:** Senate Intelligence Committee Chair Dianne Feinstein (D-CA) tells Secretary of Defense Gates at a hearing that US arms sales to Taiwan are a “substantial irritant” in relations between the US and the PRC.

**June 16, 2010:** President Obama writes a letter to G20 partners calling for measures to address financial reform, including market determined exchange rates.

**June 19, 2010:** The People’s Bank of China states that it will proceed further with reform of the RMB exchange rate and increase its flexibility.

**June 22, 2010:** China’s Foreign Ministry Spokesperson Qin Gang expresses serious concern over reports that a US aircraft carrier may participate in exercises with South Korea.

**June 23, 2010:** The Senate Foreign Relations Committee holds a hearing titled, “Finding Common Ground with a Rising China” addressing a variety of US-China issues.

**June 23, 2010:** Sen. Charles Schumer (D-NY), says that despite China’s announcement that it will allow greater flexibility in the exchange rate, “not enough is being done. So we are going to move our bill.”

**June 26, 2010:** The G20 Summit drops a commitment to complete the Doha Rounds of talks this year but renews a pledge to come to agreement. China’s Ambassador to the WTO Sun Zhenyu accuses the US of stalling progress on this matter.

**June 26, 2010:** Presidents Obama and Hu meet on the sidelines in Toronto to discuss bilateral ties and other major issues of mutual concern.

**June 27, 2010:** Secretary Geithner and his Chinese counterpart Vice Premier Wang Qishan meet in Toronto to discuss strengthening the economic links in place between the two countries.

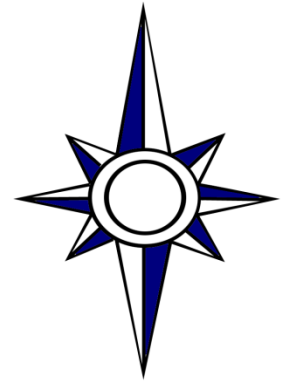
**June 29, 2010:** China’s Foreign Ministry spokesman denies that a planned PLA live ammunition exercise in the East China Sea scheduled to begin on June 30 is a response to a joint exercise between the US and South Korean navies in the Yellow Sea.

**July 1, 2010:** Deputy Chief of Staff of the PLA Ma says that China welcomes Defense Secretary Gates to visit China “at a time that is convenient for both sides.”



# Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



## US-Korea Relations: **The Sinking of the *Cheonan***

Victor Cha, Georgetown University/CSIS  
Ellen Kim, CSIS

The second quarter saw a series of major events in US-ROK relations. With the sinking of the *Cheonan* in late March, the quarter saw the possible return to armed conflict in Korea. The North Korean torpedo attack on the South Korean warship caused the two Koreas to break ties, intensified the tension along the border, and blasted hopes for the resumption of the Six-Party Talks. Meanwhile, the US-ROK alliance was at its zenith as the US showed solidarity with South Korea on its response to the provocation and put pressure on China to support a strong UN Security Council measure identifying North Korea as being responsible for the attack. The two presidents announced a delay in transfer of wartime operational control and President Obama, in a surprise announcement on the sidelines of the G20 Summit in Toronto, called for ratification of the KORUS FTA. Though these two developments were not a direct result of the *Cheonan* sinking, they were influenced by a desire by both allies to show strong, deep partnership in the face of North Korean threats, and perhaps more important, by a personal chemistry between the two leaders that is unique in the history of the alliance.

### **Broken peace over the *Cheonan***

On March 26, the ROK Navy corvette *Cheonan* sank in the Yellow Sea just south of the Northern Limit Line near Baengnyeong Island. The ship was split in half and 46 of the 106 sailors on board lost their lives. Immediately following the incident, South Korean polls found that 80 percent of the South Korean public believed that North Korea was responsible. President Lee Myung-bak held off on any immediate judgment and instead swiftly approached the US, the United Kingdom, Sweden, and Australia to conduct an independent, multinational civilian-military investigation. This group concluded on May 20 that the sinking was caused by an external explosion created by the gas bubble effect from a torpedo and that remnants of a torpedo of North Korean origin were found at the site. Therefore, they concluded that there was no other plausible explanation for the sinking other than a North Korean torpedo. These findings were supplemented by press leaks of other evidence implicating North Korea. Intelligence reports found a mother submarine and two or three semi-submersible subs leaving a nearby port in North Korea three days before the attack and returning to port three days after the attack. Members of the crew were reportedly rewarded for acts of bravery. All other countries in the region confirmed to the investigators that they did not have submarines in the area at the time of the attack. (For the official presentations of the findings, see the CSIS Korea Chair website at: <http://csis.org/event/senior-policy-group-discussion-rok-ambassador-han-duk-soo>).

On April 17, 23 days after the incident and soon after the *Cheonan* was salvaged, North Korea released its first official response, stating that the country was not linked to the sinking. In fact, North Korea's denial of its provocation is not unexpected; historically, the country has rejected allegations of its culpability by the South in its major provocations since the 1960s and thus never made an official apology to the South for its hostility over the years – at least publicly (for a list of North Korean major conventional provocations, see <http://csis.org/publication/record-north-koreas-major-conventional-provocations-1960s>). As with past provocations, what followed were Seoul's strong condemnation of North Korea's belligerent actions, Pyongyang's hostile rhetoric, and a drastic deterioration of inter-Korean relations.

Several aspects of the incident underscore the significance of this North Korean provocation. First, this is arguably the most significant attack on the South Korean military since the Korean War, clearly breaching the 1953 Armistice Agreement. Second, if the sinking of the *Cheonan* was North Korea's "test" of effectiveness of its "asymmetric" military tactics, as noted by a ROK government official, there is a high likelihood that North Korea could use those tactics in the future. Third, the incident indicates an urgent need to reinforce US-ROK conventional deterrence, both in strategy and capability, against North Korea's provocation. The US extended nuclear deterrent, although effective in deterring North Korean nuclear attacks, cannot dissuade North Korea from launching a local conventional provocation like the sinking of the *Cheonan*. The presumed purpose of such an asymmetric strategy would be to leverage the peaceful status quo to extort concessions from Seoul, who have much more invested in peace than Pyongyang. A high-ranking ROK military officer recently noted that the likelihood of a full-scale war between the two Koreas may be low but that North Korea could engage in such local provocations more frequently in the future. US and ROK officials have quietly confided their concern about another provocation, possibly in the run-up to Seoul's hosting of the G20 Summit in November 2010. Adm. Michael Mullen, chairman of the US Joint Chiefs of Staff, warned against North Korea's "follow-up activities" to the *Cheonan* incident.

### **Strong alliance in the face of conflict**

In the midst of mounting tension and fears of conflict on the Korean Peninsula, the US and South Korea demonstrated solidarity and the strength of their alliance. Shortly after the incident, President Barack Obama dispatched military support to the rescue operations and "reaffirmed" his country's extended nuclear deterrent to South Korea. The two leaders moved to bring the case to the UN Security Council and condemn North Korea for its hostile action. On the military front, the two countries enhanced their strong military posture against North Korea through close coordination of a set of military countermeasures. South Korea's Defense Minister Kim Tae-young announced South Korea's participation in the Proliferation Security Initiative (PSI), which had been sought by the US going back to the Roh Moo-hyun administration. South Korea had been resistant to partake in the PSI for fear that it would invite provocations from North Korea. To stage a firm defense posture and send a strong signal to North Korea, both countries also announced intentions to conduct joint US-ROK anti-submarine warfare (ASW) exercises that would be joined by a US aircraft carrier.

Obama administration officials confide that the *Cheonan* attack only heightened what was already a very high opinion that Obama held of President Lee Myung-bak. Their friendship

started in November 2009 when Lee hosted Obama as the last stop on an otherwise difficult first trip to Asia by the young president. In Singapore, Obama was hounded by Asia Pacific Economic Cooperation (APEC) leaders about the absence of a trade policy. In Japan, he had to contend with quirky Prime Minister Hatoyama Yukio, who sought to change the terms of the US-Japan alliance. And in China, Obama was genuinely unhappy with the lack of progress in getting Chinese cooperation on issues like climate change, currency revaluation, and counterproliferation, as well as the haughty attitude of Chinese officials in hosting the president. In this context, Seoul, as Obama officials have stated publicly, was the “best stop” on the trip.

White House officials were impressed with President Lee’s response to the *Cheonan* sinking, noting that he did not react emotionally but took a careful, deliberate approach despite tremendous pressure to retaliate. US officials drew confidence from this and were willing to take their cues from Seoul – an unusual reversal of traditional roles in the alliance. The admiration for Lee was clear at the G20 Summit in Toronto when Obama referred to Lee and Korea as the “linchpin” of US policy in Asia – an extraordinary statement that turned Japanese heads.

Meanwhile, both the US and South Korea mobilized diplomacy to gain international support on their common response to the incident. Consequently, the European Union Parliament and the leaders of the G8 countries – the US, Canada, Germany, UK, France, Italy, Russia and Japan – each passed a resolution and issued a joint statement that condemned the attack on the *Cheonan*.

However, challenges still remain as China and Russia, permanent members of the UN Security Council, are resistant to acknowledge the conclusion of the international investigation and oppose any condemnation of and tough measures against North Korea. Mounting pressures from countries fell especially on China, although it adamantly maintains its position for fear that strong actions against North Korea would further aggravate the situation in the country and threaten Chinese security interests on the Korean Peninsula. With the final decision of the UN still being in doubt, many challenges remain for South Korea and the US.

### **Six-Party Talks in limbo**

The sinking of the *Cheonan* struck a major blow to the already stalled Six-Party Talks. Although quiet efforts that were to culminate in an invitation to DPRK Six-Party Talks negotiator Kim Kye-gwan to New York for track-2 dialogues involving US officials had been underway, all conversations shut down as the result of the incident. China urged South Korea to refrain from escalating tensions without concrete evidence as that could derail its effort to resume the talks. After the investigation concluded that a North Korean torpedo had sunk the ship, however, South Korea made it clear that it would not return to the talks until the UN Security Council issued a formal condemnation of Pyongyang for its provocation.

The cacophony among the six parties does not bode well for the talks’ resumption; indeed, disputes over the *Cheonan* incident have created a new Cold War divide pitting South Korea, the US, and Japan against China, Russia, and North Korea. As the confrontation between the US and China became more intense, China’s veto to scuttle the concerted efforts of the US and South Korea at the UN could strain both US-China relations and ROK-China relations. Although the Six-Party Talks is significant in that it is the only forum that North Korea is

currently participating in that addresses its denuclearization commitments, there are growing frustration and doubt about the talks' effectiveness since North Korea's second nuclear test last year. While some people already call the talks "dead" in the post-*Cheonan* context, they could still be the only venue for countries to resume discussion of the North Korean nuclear program after UN deliberations on the *Cheonan* incident conclude.

### **The end of the OPCON debate**

The delay of the wartime operational control (OPCON) transfer was another major development in US-ROK relations. Presidents Obama and Lee agreed to delay the OPCON transfer from April 2012 to December 2015 at their meeting before the G20 Summit in Toronto. The news came out as something of a surprise given that there had been no "open" official negotiations between the two countries to re-evaluate the agreement since its conclusion in 2007.

The Blue House attributed the major reason behind the administration's decision to put off the scheduled transfer to the "transfer year 2012." Kim Seung-han, senior national security secretary to President Lee, noted that the OPCON transfer in 2012 does not bode well for the security environment around the Korean Peninsula, citing presidential elections in both South Korea and the US, a change of leadership in both China and Russia, and North Korea's declaration of being a "Powerful and Prosperous Nation" that are all scheduled in 2012. Gen. Walter Sharp, commander of US Forces Korea, called the delay a "strategic decision" and said that the result would further reinforce the US-ROK alliance.

The OPCON transfer has been more controversial in South Korea than in the US. And it is as much a "political" as a "military" issue in South Korea while it is simply a "military" issue in the US. In South Korea, there is a view that perceives the OPCON transfer as the return of "military sovereignty" from the US to South Korea. As a result, the issue had been and still is politically sensitive. For the Lee administration, the OPCON issue was a dilemma as there was fear that any attempt to override and renegotiate the deal could trigger political turmoil as in 2008 when there were massive protests against the administration over imports of US beef. Plus, asking the US to revise the agreement would not portray a good image of South Korea and strong opposition was expected from the US government.

Despite these risks, the Blue House sent the president's special envoy, Kim Tae-hyo, to the White House this past February to initiate the discussion and re-evaluate the issue. The two sides eventually agreed to defer the transfer to December 2015. The agreement could be due to the following three factors. After the North Korean launch of a long-range rocket in April 2009, its second nuclear test a month later, Kim Jong-il's stroke, and rumors about his succession plans to his youngest son, the security conditions between the two Koreas were clearly different from three years ago when Presidents Roh Moo-hyun and George W. Bush first signed the agreement. Second, the sinking of the *Cheonan* apparently changed the thinking of both Seoul and Washington on their security outlook of the Korean Peninsula and helped speed up their discussions. Lastly, the personal chemistry between Presidents Obama and Lee played a role. This was a decision that could not have been possible in the absence of trust and friendship between the two leaders.

## Rekindled hope for the KORUS

In this quarter, there was clear hope for ratification of the KORUS free trade agreement (FTA) when President Obama stated his desire to have the deal completed by the November G20 Summit in Seoul. Setting the deadline after the November mid-term election certainly leaves room for newly elected lawmakers to be free from their constituents' pressure while giving Obama leeway to make a decisive push for ratification. As South Korea is hosting the November G20 Summit, successful ratification would be favorable for the US-ROK relationship. Furthermore, this might also prop up Obama's National Export Initiative that seeks job creation and economic growth through "increased exports" to South Korea.

The KORUS FTA also made a significant step forward on Capitol Hill this quarter. On May 7, Sens. John Kerry and Richard Lugar, co-chairmen of the Senate Foreign Relations Committee, wrote a joint letter to President Obama, urging him to submit the KORUS to Congress for consideration. Speaker of the House of Representatives Nancy Pelosi stated in June that the Congress may not be able to ratify the KORUS until next year. Although her timetable reflects her political sensitivity toward the mid-term election, considering her negative or lukewarm position, the changed nuance in her recent remark sends a positive signal. President Obama's announcement also reignited the engine of the KORUS FTA as six congressmen immediately announced the launch of a working group for its early ratification.

This is not to say that all of Congress was supportive. Obama's statement in Toronto was a surprise for many, including key members like Sander Levin, who was apparently only made aware of the president's statement on the day of the announcement. As often happens on presidential trips, policies get made on the fly among the traveling team with little time for interagency coordination or Hill outreach, and this clearly appears to be the case for the KORUS announcement. Although coordination may be lacking, the policy initiatives that come out of such trips also manifest the true preferences of the president, unfettered by interagency compromises. With a clear target date, the prospect of ratification is certainly brighter than before. But, as President Obama also noted, there is "adjustment" work to be done between the two countries, especially over auto and beef. Given that Trade Minister Kim Jong-hoon made it clear that South Korea would not renegotiate the original agreement, it is likely that both countries will seek side agreements. The upcoming negotiations on the pending issues will create heated debate in both countries and the success of the KORUS FTA could be a test of the strong U.S.-ROK relations we saw this quarter.

### Chronology of US-Korea Relations April – June 2010\*

**March 26, 2010:** An explosion breaks Republic of Korea Navy vessel *Cheonan* in half and causes it to sink in the Yellow Sea near the disputed ROK-DPRK maritime border.

**March 30, 2010:** Kim Sung-chan, South Korea's Chief of Naval Operations, says that *Cheonan* did not sink from an internal explosion but from "a powerful outside pressure or explosion."

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\* Prepared with assistance from Daniel Yoon and Anna Geun Young Park

**April 1, 2010:** President Barack Obama “offers his condolences” to President Lee Myung-bak and pledges US military support to the rescue operations.

**April 2, 2010:** US Trade Representative Robert Kirk announces that President Obama wants Congress to approve “at least one of three pending free trade deals with [South] Korea, Colombia, and Panama” in 2010.

**April 5, 2010:** South Korea requests US participation in the official investigation into the *Cheonan* incident.

**April 7, 2010:** North Korea sentences Aijalon Mahli Gomes, a US citizen and formerly an English teacher in South, to eight years of “hard labor” for “illegally entering the country.”

**April 8, 2010:** South Korean Ministry of National Defense (MND) announces that in addition to the US, the United Kingdom, Australia, and Sweden have also agreed to participate in the investigation into the *Cheonan* incident.

**April 10, 2010:** Secretary of State Hillary Clinton says that North Korea may have up to six nuclear weapons.

**April 11, 2010:** President Lee arrives in Washington for the Nuclear Security Summit.

**April 11, 2010:** Secretary of Defense Robert Gates announces that the US will leave “all options ... on the table” vis-à-vis North Korea, including the use of nuclear weapons, because of their “failure to comply with the Nuclear Nonproliferation Treaty.”

**April 15, 2010:** Salvage workers raise the stern of *Cheonan* and recover 36 bodies from the wreck. Eight sailors remain missing.

**April 16, 2010:** Yoon Duk-yong, the co-leader of the official state investigation team, affirms that an “external explosion” sank the *Cheonan* after surveying the recovered wreck of the vessel.

**April 17, 2010:** North Korea denies involvement in its first official statement regarding the *Cheonan* incident.

**April 19, 2010:** President Lee declares that he will “resolutely and unwaveringly cope with the results” of the investigation of the sinking of *Cheonan* in a televised address to the country.

**April 20, 2010:** South Korea’s Foreign Minister Yu Myung-hwan, states that evidence of North Korea’s involvement in *Cheonan* incident would further hinder progress on the already stalemated Six-Party Talks, should any such evidence be found.

**April 21, 2010:** North Korea’s *Korean Central News Agency* reports that the country’s Foreign Ministry has offered to “join international efforts for nuclear nonproliferation and on nuclear material security on an equal footing with other nuclear weapons states.” The US Department of State declares that Washington “will not accept” such an accord.

**April 24, 2010:** Recovery operators raise the remaining half of *Cheonan*.

**April 29, 2010:** South Korea holds a state funeral for the 46 dead and missing sailors from *Cheonan* at Pyeongtaek Naval Base.

**May 10, 2010:** Lee Sang-woo, chairman of South Korea's Presidential Commission on National Security, argues that the transfer of wartime operational control (OPCON) from the US to South Korea, originally scheduled for 2012, should be delayed.

**May 10, 2010:** Senators John Kerry (D-MA) and Richard Lugar (R-IN), chairmen of the Senate Foreign Relations Committee, send a letter to President Obama calling for ratification of the pending South Korea-US (KORUS) FTA.

**May 10, 2010:** The US Senate passes Resolution 525 expressing "sympathy and condolences to the families ... of the sailors of the *Cheonan* killed in action" and "solidarity with the people and government of the Republic of Korea."

**May 16, 2010:** South Korea's Joint Chiefs of Staff reports that two North Korean patrol boats crossed into South Korea territorial waters in the Yellow Sea in two separate incidents and retreated after being fired upon by the Republic of Korea Navy.

**May 18, 2010:** Secretary Clinton says during a visit to Tokyo that "overwhelming evidence" indicates that North Korea deliberately attacked and sank *Cheonan*.

**May 18, 2010:** Trade Minister Kim Jong-hoon, announces the US will "likely move to ratify the pending free trade deal with South Korea [only] after ... elections in November."

**May 20, 2010:** MND formally accuses North Korea of attacking and sinking *Cheonan*.

**May 20, 2010:** North Korea's National Defense Commission announces that it intends to send a verification team to South to disprove the evidence of the *Cheonan* investigation.

**May 20, 2010:** The US House of Representatives passes Resolution 1382, "expressing sympathy to the families of those killed by North Korea in the sinking of the Republic of Korea Ship *Cheonan*, and solidarity with the Republic of Korea in the aftermath of this tragic incident."

**May 23, 2010:** President Lee Myung-bak delivers a televised address demanding an apology from North Korea and outlining his government's proposed response.

**May 24, 2010:** Defense Minister Kim Tae-young announces that South Korea will conduct "anti-proliferation exercises" in the Korean peninsula on its own as well as in coordination with the Proliferation Security Initiative (PSI).

**May 24, 2010:** President Obama pledges his support for South Korea's proposal to bring the matter of the *Cheonan* sinking to the UN Security Council.

**May 24, 2010:** The Pentagon announces that the US Navy and the ROK Navy will conduct joint anti-submarine warfare (ASW) exercises in the “near future.”

**May 26, 2010:** Secretary Clinton says that “international independent investigation [on the *Cheonan* Incident] was objective, the evidence overwhelming, the conclusion inescapable.” She further states, “We call on North Korea to halt its provocation and its policy of threats and belligerence toward its neighbors, and take steps now to fulfill its denuclearization commitments, and comply with international law.”

**May 26, 2010:** South Korea conducts antisubmarine warfare (ASW) drills in the Yellow Sea.

**May 27, 2010:** President Obama and Japanese Prime Minister Hatoyama Yukio reaffirm their support for South Korea’s proposal to bring the *Cheonan* incident to the UN Security Council.

**May 28, 2010:** China’s Premier Wen Jiabao pledges that China “will not patronize anyone” responsible for the sinking of *Cheonan*. The State Department calls on China to “support international efforts and South Korea as we consider appropriate action in the Security Council in the coming days.”

**May 29, 2010:** Premier Wen “expresses his condolences to the South Korean people and the family members of the victims for the unfortunate incident.” Premier Wen also urges haste in establishing a free trade agreement between China and South Korea.

**May 30, 2010:** Adm. Michael Mullen, chairman of the US Joint Chiefs of Staff, warns South Korea that North Korea may engage in “follow-up activities” to the *Cheonan* incident.

**June 2, 2010:** South Korea’s ruling Grand National Party suffers unexpected setbacks in nationwide local and provincial (i.e., midterm) elections.

**June 4, 2010:** President Lee Myung-bak writes the UN Security Council regarding the *Cheonan* incident, asking the body to “take action” against North Korea.

**June 5, 2010:** Secretary Gates asserts that, “the international community can and must hold North Korea accountable. The United States will continue to work with the Republic of Korea, Japan and our other partners to figure out the best way to do that.”

**June 9, 2010:** North Korea writes to the UN Security Council, claiming that the “investigation findings’ by the United States and South Korea, which had been from their announcement subject to doubts and criticism, is nothing more than a conspiracy aimed at achieving US political and military goals.” North Korea requests an opportunity to present a rebuttal against the findings of the multinational investigative committee regarding the *Cheonan* incident.

**June 9, 2010:** In a forum on inter-Korean relations hosted by the National Unification Advisory Council, Vice Unification Minister, Eom Jong-sk, asserts that South Korea will not return to the Six-Party Talks until North Korea pays its price for the *Cheonan* Incident.



**June 11, 2010:** Defense Minister Kim announces that South Korea will resume its psychological warfare after the UN Security Council carries out its action over the sinking of *Cheonan*. In a national assembly hearing in Seoul, Kim says “[the broadcasters] are on hold because South Korea and the US both think it is better that they start after UN Security Council measures.”

**June 12, 2010:** North Korea’s *Korean Central News Agency (KCNA)* reports “the attempt to resume the psychological warfare” is equal to a “full-out war declaration,” that will induce “military attacks on all battle fronts.” It says that the North’s attack will not be “a proportional one-on-one response but a merciless attack that can involve turning Seoul into a sea of fire.”

**June 14, 2010:** South Korea and North Korea both speak before the UN Security Council. The Joint Investigation Group presents its findings and conclusion that North Korea deliberately attacked and sank *Cheonan*; North Korea rebuts the accusation by citing “major doubts” and “loopholes” in the credibility of the report.

**June 14, 2010:** South Korea’s military undergoes major personnel changes following the release of a state auditor report about its “poor” handling of immediate aftermath of *Cheonan*.

**June 15, 2010:** South Korean Army troops arrive in Afghanistan for the first time since withdrawing after a spate of kidnappings in 2007.

**June 16, 2010:** President Obama announces that the US will extend its current sanctions regime on North Korea by one more year, arguing that the “existence and the risk of proliferation of weapons-usable fissile material on the Korean Peninsula continued to posed an unusual and extraordinary threat” to the US.

**June 21, 2010:** Secretary Clinton and Japan’s Foreign Minister Okada Katsuya pledge to pursue a “strong response” at the UN over North Korea’s involvement in the *Cheonan* incident.

**June 22, 2010:** Foreign Minister Yu says that South Korea will consult related countries on resuming Six-Party Talks after completing its response to the *Choenon* incident.

**June 23, 2010:** Sen. John Kerry (D-MA) calls on China to join the US and other members of the Security Council in “condemning North Korea’s recent aggression against South Korea.” Sen. Dick Lugar (R-IN) says that “Beijing is apparently strengthening its assistance to North Korea, even after the sinking of South Korea’s ship and loss of 46 sailors.”

**June 23, 2010:** Speaker of the House of Representatives Nancy Pelosi says Congress may not be able to ratify the pending KORUS FTA deal between the US and South Korea until next year.

**June 23, 2010:** The State Department renews its demand from North Korea to release Aijalon Gomes, a US citizen imprisoned in North Korea since January, 2010.

**June 26, 2010:** In their summit statement, the G8 leaders state: “We deplore the attack on March 26 that caused the sinking of the Republic of Korea’s naval vessel, the *Cheonan*, resulting in tragic loss of 46 lives.”

**June 26, 2010:** Presidents Lee and Obama hold a bilateral meeting before the G20 Summit in Toronto. At the meeting, they decide to delay Seoul’s scheduled takeover of wartime operation control of its troops (OPCON) to Dec. 1, 2015.

**June 26, 2010:** President Obama says he will push for ratification of the KORUS FTA before the next G20 Summit in Seoul in November.

**June 27, 2010:** President Obama says, the “main focus” of the US is “making sure” that there is “a crystal clear acknowledgement [in the UN Security Council] that North Korea engaged in belligerent behavior that is unacceptable to the international community.”

**June 28, 2010:** State Department spokesman Philip Crowley says the US considers the sinking of *Cheonan* to be “provocative,” but not an act of terrorism.

**June 28, 2010:** *KCNA* reports that North Korea will strengthen its nuclear capability in a new way, in response to US policy and military threats.

**June 29, 2010:** North Korea refutes criticism made by G8 over the sinking of *Cheonan*.

**June 29, 2010:** North Korea announces that any accidental clash during an upcoming US-ROK naval exercise could spark a war.

**June 29, 2010:** Foreign Ministry spokesman Qin Gang says China is more cautious in handling North Korea than the US since it has “direct and serious concerns” related to North Korea.

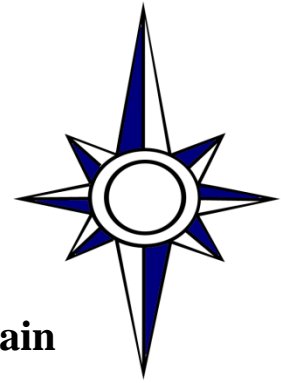
**June 30, 2010:** In response to the statement made by China’s Foreign Ministry on June 29, State Department spokesman Crowley, says, “We [the US] continue our discussions with China and other countries in New York, but we think at this point there’s little ambiguity, and we believe the international community needs to send a direct and clear message to North Korea.”

**June 30, 2010:** Reps. Dave Reichert (R-WA), Adam Smith (D-WA), and four other congressmen launch a working group for early ratification of the KORUS FTA.

**June 30, 2010:** Trade Minister Kim announces that South Korea will not renegotiate to make changes to the original KORUS FTA.

# Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



**US-Southeast Asia Relations:**

## **Thai Turmoil; President Postpones Indonesia Trip Again**

**Sheldon Simon  
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In mid-May, long-simmering political tension in Thailand between the Bangkok elite establishment and urban lower classes as well as those in northern Thailand who feel ignored by the center erupted in the worst political violence in decades. Tentative US efforts to mediate were rejected by the Thai government, though the opposition appeared to welcome a US role. A tense calm has been restored, but the prospect for renewed violence is palpable. While the Indonesian government expressed understanding for President Obama's second postponement of a visit to his childhood home because of the disaster in the Gulf of Mexico, opposition Muslim politicians claimed the real reason for the postponement was the Israeli attack on a Turkish flotilla running Israel's Gaza blockade. A number of Muslim leaders stated that Obama wished to avoid encountering Indonesian ire for his country's pro-Israeli stand. The election of Benigno Aquino III as the Philippines' 15<sup>th</sup> president was greeted by international observers as a generally fair and transparent process. The president-elect has stated he plans to review the country's Visiting Forces Agreement with the US to modify its pro-US bias. Washington continues to criticize Burma's preparations for elections scheduled for October as marginalizing the political opposition. The US is also concerned that Burma may be clandestinely importing materials from North Korea for a nascent nuclear weapons program.

### **Thai turmoil appalls US**

Two months of anti-government demonstrations in Bangkok led to the worst bloodshed and property damage in Thailand since the early 1970s with at least 88 deaths and 1,800 wounded. On May 19, the army raided the opposition Red Shirt encampment in the commercial center of Bangkok dispersing its followers. Subsequently, hundreds of opposition members have been arrested and held without trial, the assets of scores of people accused of funding the recent protests frozen, while a state of emergency declared during the violence remains in force in much of the country. Though the Abhisit government speaks of a national reconciliation program, the opposition does not seem to buy it. The army and police – charged with restoring order – are themselves split with senior officers for the most part lining up with the government while enlisted personnel tend to sympathize with the opposition. Most of the police support the Red Shirts, partly due to the fact that exiled billionaire and former Prime Minister Thaksin Shinawatra began his career as a high-ranking police officer and also because most police personnel come from the lower classes.

The Yellow Shirts – created, funded, and protected by the military, the aristocracy, bureaucracy, and urban professional and commercial classes – support the current government and represent the status quo. They forced Thaksin from office in a 2006 coup and a pro-Thaksin government

from power in 2008. Subsequently, the conflict between the Reds and Yellows this spring deteriorated into full-scale violence. Yet, there are multiple layers to the conflict, involving geographic regions (the rural north and northeast vs. the commercial center in Bangkok) as well as competing models of governance.

The US, Western governments generally, and Thailand's ASEAN neighbors have been appalled at the growing turmoil, but they are essentially bystanders. For Washington, Thailand is a "major non-NATO ally." It is also Southeast Asia's second largest economy. Prolonged political instability could weaken ASEAN as revealed in Thai-Cambodian tensions over a disputed land border and off-shore energy disputes. The two armies have skirmished over ownership of the Preah Vihear temple grounds, and the situation has been aggravated with Cambodian Prime Minister Hun Sen openly backing former Thai Prime Minister Thaksin by providing him sanctuary in Cambodia and appointing him as a special economic advisor.

While the Red Shirts attempted to enlist the US as a mediator in the dispute as early as the beginning of April, the Abhisit government has insisted the conflict is exclusively an internal Thai matter. Nevertheless, at an academic seminar in mid-April at the Johns Hopkins School of Advanced International Studies, Foreign Minister Kasit Piromya acknowledged the legitimacy of the rural Thai demands for greater political voice. By late April, as violence escalated in Bangkok and other locations in Thailand, the State Department issued a travel advisory to US citizens, urging them to avoid "non-essential travel" to the country.

In early May, the Abhisit government created a five-point road map for national reconciliation that provided for November elections, a year before the current government's term would expire. Washington quickly endorsed the plan and urged the Red Shirts to accept it. Visiting Bangkok, Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell met separately with government officials and opposition leaders, urging the latter to give a "positive response to the road map...." Nonetheless, violence continued to escalate with reports that the opposition United Front for Democracy against Dictatorship (UDD) [the Red Shirts] had formed a paramilitary wing loyal to Thaksin which, on April 22, launched grenade attacks on the Silom Road financial district. The US Embassy condemned these attacks, and reports surfaced that US and other Western intelligence agencies were providing signals intercepts and other information to the Thai government on financial transfers to the UDD from Thaksin's overseas sources. On May 10, the Thai foreign minister summoned Eric John, the US ambassador, to complain about Secretary Campbell's meetings with opposition leaders. Thai officials stated they needed no mediation from foreign partners. Bangkok was obviously concerned that US contacts with the UDD gave it a legitimacy that the Thai government opposed.

By mid-May, although Prime Minister Abhisit's roadmap seemed acceptable to a number of Red Shirt leaders, hardliners within the opposition raised a new set of conditions and refused to disband their encampment in central Bangkok. The prime minister rescinded his offer for November elections as well as the rest of the reconciliation plan. The US Embassy closed, hospitals were alerted, and the army marched on the encampment on May 15. Three days later both Amnesty International and the New York-based Human Rights Watch accused the Thai army of "reckless use of lethal force" and "firing live rounds at unarmed people who pose no threat whatsoever."

In a rare statement commenting on the internal affairs of a member state, on May 21, ASEAN underscored the importance of peace and stability in Thailand as crucial to the creation of an ASEAN Community and supported “the early restoration of law and order, national reconciliation, and a return to normalcy in Thailand,” adding that the Association was ready to help. On May 25, a unanimous resolution drafted by Sen. Jim Webb affirmed the US Senate’s support for Abhisit’s five-point roadmap, though by this time it had been withdrawn by the Thai government.

While the physical confrontation ended with the Thai military’s raid on the Red Shirt encampment and the return of thousands of protestors to their homes in the north, in June both sides accused each other of responsibility for the casualties. In addition to the human toll, more than 30 buildings were destroyed by arson, and there were multiple cases of stealing, looting, and armed robbery. Moreover, two foreign reporters were killed and seven foreign and local media personnel were wounded during the violence. The US ambassador, among other notables, called on the prime minister “to launch independent probes into recent attacks and bring the perpetrators to justice.”

In an effort to forestall further US efforts to mediate, the Thai government dispatched a special envoy to Washington to meet with members of Congress and the Obama administration in mid-June. While welcoming “suggestions,” the envoy insisted that the Abhisit government was pursuing its own reconciliation plan. US efforts “might complicate the issue even further.” Scot Marciel, the deputy assistant secretary of state for Southeast Asia, stated that in 25 years of work on the region, “I’m not sure I’ve encountered a situation as complex as the one in Thailand right now in terms of trying to understand the politics.”

### **President Obama postpones Indonesia visit for the second time**

Once again, unforeseen crises forced another cancellation – this time the BP Gulf of Mexico oil rig disaster. The June visit was to be a lengthy, substantive one to consolidate a growing friendship as well as provide time for his family to see where Obama spent several years of his childhood. The Indonesian government once again expressed understanding for the decision. A spokesman for the Indonesian president stated: “President Yudhoyono can fully understand that [Obama] needs to be in his country to handle the worst ever environmental disaster in US history.” (The leaders agreed to meet on the sidelines of the G20 Summit in Toronto later in June.)

Speculation abounded in Indonesia that the trip would be rescheduled for November, but that month seems problematic since President Obama is already committed to Seoul (G20) as well as Yokohama (APEC), and also scheduled a visit India *after* he had postponed the Jakarta visit – a decision seen by many in Indonesia as either thoughtless or a sign that Southeast Asia does not rank high on the US agenda. Nor does the US president plan to attend the ASEAN Summit in Hanoi – another indication that the “America is Back!” mantra is sounding increasingly hollow in Southeast Asia.

Opposition members in the Indonesian Parliament articulated a different explanation for President Obama's postponed visit: the Israeli naval attack on the Turkish ships' attempt to breach Israel's Gaza blockade. On June 5, Sidato Donusubroto, an opposition leader for the Indonesian Democratic Party of Struggle, stated: "The attack has provoked antipathy against Jews in various parts of the world. [Obama] may be afraid of the reactions of Muslims in Indonesia." The deputy chairman of the House Foreign Affairs and Defense Commission went on to say that President Obama should remember his 2009 Cairo speech where he stated his intention to improve relations with the Islamic world. United Development Party (PPP) Deputy Secretary General Pomahurmuzing also cited anti-Israel and anti-US rallies in Indonesia as the reason for the US president's postponement, noting that the Gulf of Mexico oil spill "is a medium-term issue that does not require ... immediate solution."

Others stated that Obama's decision was based on a desire to avoid dealing with restoration of US military links to Kopassus – the Indonesian Special Forces unit accused by Washington of human rights violations in East Timor and West Papua. Indonesia's military chief, Gen. Djoko Santoso, dismissed this explanation, noting that Indonesian-US military exercises have been regularly held since 2008 and that many US officials "have shown their interest in reviving cooperation with Kopassus. Let's hope they will succeed." While Kopassus in 2010 does not include those involved in past human rights abuses, Sen. Patrick Leahy, who authored the ban on US involvement with Kopassus, insists that "Indonesia's military officers who violated human rights cannot continue to serve in the military." A number of former Kopassus officers who had committed human rights depredations are now high-level military officers. However, the current head of Kopassus, Maj. Gen. Lodewizk F. Paulus, in mid-April, noted that human rights and humanitarian issues are now an integral part of the Army Special Forces curriculum.

On June 10, Indonesia and the US signed an agreement establishing a framework for defense cooperation that included logistics, joint training, officer exchange programs, security dialogue, and equipment procurement. The agreement did not include Kopassus. Indonesia's defense spokesman explained that the Army's Special Forces could not be part of the agreement because the US would be spending money for its implementation, and US law forbids any transfer of funds to Kopassus.

On other matters, in early May, President Obama thanked President Yudhoyono for his leadership at the 2010 Nuclear Nonproliferation Treaty Review Conference. The Indonesian foreign minister stated that his country would immediately work to ratify the Comprehensive Test Ban Treaty, an action welcomed by the US.

### **A new president for the Philippines**

On May 10, Filipinos went to the polls to elect their 15<sup>th</sup> president, a sentimental favorite and the son of the late President Corazon "Cory" Aquino and her martyred husband, Benigno Aquino, Jr. Known as "Noynoy," Benigno Aquino III has been a lackluster senator and has no relevant administrative experience. His major appeal was his heritage and no taint of corruption. His main opponent, "Manny" Villar, one of the country's biggest real estate magnates, has been plagued by corruption charges. The election was generally praised by international observers and was the first-ever featuring automated electoral machines. Noynoy's predecessor, Gloria

Macapagal Arroyo, left office under a cloud of corruption and human rights complaints. Relations with the US were strained when the Philippines withdrew their forces early from Iraq as a part of President Bush's coalition of the willing. US trade and investment in the Philippines is considered underperforming due to concerns about corruption and lack of infrastructure.

While the incoming Philippine president claims to be pro-US and has expressed concern over China's tactics in the South China Sea, in his campaign he also criticized the US for supporting the long-lived Marcos dictatorship and questioned current US foreign policy. Nor is there any indication that President Aquino has any new ideas for resolving the protracted conflict with Muslims in Mindanao. Nevertheless, the new US ambassador, Harry Thomas Jr., quickly endorsed the election's outcome by visiting the president-elect on May 23, fully a month before his inauguration. Ambassador Thomas stated his visit was "to show our respect for the Philippines election process. You are our long-term ally." Leftist Philippine legislators, particularly Sen. Miriam Defensor Santiago on June 16, urged the incoming president to rescind the Visiting Forces Agreement (VFA) with the US. She reminded him that as a senator, Aquino had supported a Senate resolution to that end so that a less "lopsided" agreement against Philippine interests could be negotiated. During the presidential campaign in April, Aquino stated he would review the VFA, saying the long-term presence of US soldiers in the troubled south should not be allowed despite their role in the fight against Islamic militancy. The main sticking point in the VFA is a provision allowing US soldiers to be detained at the US Embassy if they commit crimes in the Philippines.

### **Burma: upcoming elections and North Korean nuclear aid**

As preparations by the military junta proceed for Burma's October elections, the US has led international condemnation of the laws enacted by the ruling regime, effectively barring opposition leader Aung San Suu Kyi from participating. ASEAN leaders have also expressed displeasure with the electoral obstacles placed by the junta, though there is no indication that the Association will make a collective criticism of the election given ASEAN's noninterference principle in members' internal affairs. On May 9-10, Assistant Secretary of State Campbell visited Burma and was allowed to meet opposition leader Aung San Suu Kyi, who is currently under house arrest. After his visit, Campbell released a statement expressing disappointment in the preparations for the election and noting that if the junta's obstacles against the opposition were kept in place, the election would "lack legitimacy."

During discussions with Burmese officials, Campbell voiced concern about ties between Burma and North Korea. He reminded them about Burma's obligation under the 2009 UN Security Council Resolution embargoing arms deals with Pyongyang. Suspicious arms cargo from North Korea docked in Burma in April, leading to State Department insistence that the May 3-5 ASEAN-US Economic Ministers road show in Seattle and Washington, DC exclude Burmese representation from "all levels." Reports going back two years, including data collected by two defecting Burmese military officers, provided evidence of North Korea extending assistance to Burma for a nuclear reactor that could produce weapons-grade plutonium. Based on this information, Sen. Webb cancelled his early-June trip to Burma. Noteworthy is the fact that any Burmese effort to build nuclear weapons would be a direct violation of the treaty declaring

Southeast Asia as a nuclear weapons-free zone (SEANWFZ), which has been signed and ratified by the junta.

### **Human rights concerns**

Human rights concerns continue to strain US relations with several Southeast Asian states. In early April, Washington suspended nonlethal military aid to Cambodia after Phnom Penh deported back to China dozens of Uighurs, who had sought asylum last December. The Cambodian government blamed the US and the UN High Commission for Refugees for not finding a third country willing to accept the refugees and insisted that Cambodia was only implementing its own immigration law. The US aid suspension was offset by a simultaneous aid package from China of \$1.2 billion with no strings attached.

Also in April, US Undersecretary of State for Economic, Energy, and Agricultural Affairs Robert Hormats, while in Hanoi, warned Vietnam that human rights issues could return the country to the list of “countries of concern” for religious freedom, a designation that could carry economic sanctions. Vietnam had been on the list between 2004 and 2008. In 2009, the US was the biggest foreign investor in Vietnam and also its largest export market. Washington is also gradually improving military relations with Hanoi. Vietnam has been invited to observe US military exercises with regional partners, including *Cobra Gold* in Thailand. Additionally, there is discussion of joint search and rescue operations off Vietnam’s coast and of US training for Vietnamese peacekeepers in UN-led missions.

On June 14, the State Department published its *2010 Trafficking in Persons Report*, which listed Burma, Brunei, Laos, the Philippines, Malaysia, Thailand, Vietnam, and Singapore as countries of concern. Singapore was particularly incensed at the censure that stated city-state traffickers had tricked women from other Asian countries to enter with promises of legitimate employment, only to coerce them into the sex trade. Thailand was similarly accused, though both the US Embassy and Sen. Webb appealed to the State Department not to place Thailand on the watch list because it could curb assistance for much-needed democracy and human rights programs in the wake of the kingdom’s political violence. Thailand also complained about its listing, saying the State Department did not take into account Thai efforts to suppress trafficking. Secretary of State Hillary Clinton has made women’s and children’s rights a signature issue, calling human trafficking a “terrible crime” as she presented the annual report.

### **Malaysia’s US ties strengthened**

During Malaysian Prime Minister Najib Tun Razak’s April visit to Washington, President Obama met with him and praised Malaysia’s economic vibrancy, democracy, and cooperation with the US on security issues. The prime minister pledged his country’s readiness to assist in medical and reconstruction programs in Afghanistan and offered to assist US efforts to engage the Muslim world. In turn, President Obama praised Malaysia’s recent passage of a Strategic Trade Bill designed to thwart illegal arms transactions and prevent weapons proliferation.

In an April 14 speech at the Center for Strategic and International Studies in Washington, DC, Prime Minister Najib underlined the Obama administration’s emphasis on multilateralism “as the



preferred route to problem solving, noting that the US signature on ASEAN's Treaty of Amity and Cooperation is "an affirmation of the close ties between the United States and ASEAN." The visit also resulted in "strategic partnership" status for Malaysia. In June, the strategic partnership may have borne its first fruits when US Defense Secretary Robert Gates agreed to upgrade Malaysia's participation in the annual multilateral *Cobra Gold* military exercise from observer to participant status.

### **US takes stronger stand on South China Sea**

In Hanoi for the US-Vietnam Security Talks on June 8, Adm. Robert Willard, commander of the US Pacific Command, told reporters that the US opposes any resort to force or disrespect for international law in the South China Sea – the body of water Vietnam calls the East Sea. Earlier in Singapore at the Shangri-La Dialogue, US Defense Secretary Gates called the South China Sea "a growing concern. This sea is not only vital to those directly bordering it, but to all nations with economic and security interests in Asia." In a pointed reference to Chinese threats against oil companies considering cooperation with Vietnam, Gates said, "we object to any effort to intimidate US corporations or those of any nation engaged in legitimate economic activity." In Vietnam, Adm. Willard reiterated the well-known position that the US supports no South China Sea claimant but "What's essential is that differences be resolved multilaterally," singling out the ASEAN Declaration on the Conduct of Parties in the South China Sea as an appropriate framework. Vietnam would like to see ASEAN sustain a collective stand on the South China Sea claims, lest Beijing pick off the weaker members.

### **Looking ahead**

President Obama's planned visit to Indonesia has now been postponed twice. To understand this requires context. No US president since Franklin Roosevelt has faced such a daunting combination of domestic and international crises: the worst economic meltdown since the Great Depression, the worst environmental disaster in the Gulf of Mexico in US history, two wars – one in the Arab world and one abutting South Asia. The US is simultaneously crafting the most comprehensive financial reforms since the 1930s and a public health expansion unparalleled since the creation of Medicare in the Johnson administration. In the face of these challenges, it is hardly surprising that Southeast Asia has not risen to the top of the president's policy agenda.

Nevertheless, tentatively scheduling two new trips to South and North Asia for November before the Indonesia visit is reset and before the long-awaited ASEAN-US Summit is set is an error of omission. It sends an unfortunate signal that Asia's most economically vibrant sub-region and one undergoing significant political change is not seen as important to this administration. At the June 17 Asia Policy Assembly in Washington, DC (attended by the author), Deputy Secretary of State James Steinberg insisted that ASEAN had a central role in Asian affairs and that Indonesia is a "role model" for the region and a "critical partner" for the US. A rescheduled presidential visit would go a long way to validate these claims. Fortunately, the president must have listened to these concerns for on June 27 at the Toronto G20 meeting, the White House announced that Obama will visit Jakarta in November, making it a very busy travel month for him to Asia.

## **Chronology of US-Southeast Asian Relations**

### **April – June 2010**

**April 1, 2010:** US suspends nonlethal military aid to Cambodia following Phnom Penh's deportation to China of ethnic Uighurs seeking asylum in Cambodia.

**April 2, 2010:** Red Shirt pro-Thaksin opposition in Thailand sends a letter through the US Embassy in Bangkok thanking Secretary of State Hillary Clinton for her expression of concern about the political situation in Thailand.

**April 8-9, 2010:** ASEAN leaders, meeting in Hanoi, invite President Barack Obama to attend a second 2010 ASEAN Summit in Hanoi to be scheduled later in the year.

**April 11-12, 2010:** ASEAN leaders attending the Nuclear Security Summit (NSS) in Washington include Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

**April 11-15, 2010:** Malaysian Prime Minister Najib Tun Razak visits the US to attend the NNS and meet President Obama. US-ASEAN ties are stressed as well as a "strategic partnership" between the two countries.

**April 12-15, 2010:** Singapore Prime Minister Lee Hsien Loong visits the US to attend the NNS and urges Washington to pay more attention to his country and to ASEAN.

**April 21, 2010:** Welcoming Cambodia's inauguration of a new counterterrorism center, a US spokesman states that Cambodia's porous borders are a concern not only because of terrorist movements but also transnational crimes such as narcotics trafficking.

**April 22, 2010:** Presidential candidate Benigno Aquino III says he will review the Philippine's security treaty with the US to insure that there is no permanent US presence in Mindanao.

**April 22, 2010:** State Department spokesman Philip Crowley expresses Washington's alarm at the protracted conflict between supporters and opponents of ousted Prime Minister Thaksin Shinawatra that had led to bloodshed and calls on both sides to negotiate a settlement.

**April 26, 2010:** US Ambassador to ASEAN Scot Marciel visits Indonesia for the Joint US-ASEAN Consultative Committee focusing on capacity building in the ASEAN Secretariat.

**April 26, 2010:** The US Commission on International Religious Freedom releases its Congressionally-mandated annual report that designates Burma and Vietnam as countries of particular concern. The report also criticizes the White House for not effectively pursuing a religious freedom agenda or naming a State Department officer in that role.

**April 26-27, 2010:** Indonesia attends the US Presidential Summit on Entrepreneurship in Washington, DC, part of President Obama's pledge to broaden ties with the Islamic world.

**April 27, 2010:** The second ASEAN-US Joint Cooperation Committee meets at the ASEAN Secretariat in Jakarta.

**April 27, 2010:** The new US Ambassador to the Philippines Harry K. Thomas, Jr. presents his credentials to President Arroyo. He emphasizes the Peace Corps presence in the country with 130 volunteers working in 40 provinces.

**April 29, 2010:** The US State Department issues a travel alert for Thailand urging US citizens to avoid non-essential travel to the country.

**May 1, 2010:** The US hospital ship *Mercy* sails from San Diego for the fifth annual US Pacific Fleet humanitarian and civic assistance endeavor with visits planned for Vietnam, Cambodia, Indonesia, and Timor-Leste.

**May 3-5, 2010:** Southeast Asian economic ministers visit the US for a nationwide business tour sponsored by the US-ASEAN Business Council. Burma is excluded from the group because of its violation of the UN Security Council Resolution 1874 on arms trade with North Korea.

**May 4, 2010:** President Obama commends Indonesia's decision to ratify the Comprehensive Test Ban Treaty at the opening session of the 2010 Nuclear Nonproliferation Treaty Review Conference.

**May 4-12, 2010:** Elements of the US Pacific Fleet and the Royal Brunei Navy engage in the 16<sup>th</sup> series of *CARAT* exercises off the Brunei coast with both sea-based maneuvers and symposia.

**May 7-11, 2010:** Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell travels to the Philippines, Thailand, and Burma.

**May 9, 2010:** Assistant Secretary Campbell meets with leaders of the opposition United Front for Democracy, Against Dictatorship (UDD) in Bangkok.

**May 10, 2010:** Assistant Secretary Campbell meets detained opposition leader Aung San Suu Kyi in Rangoon.

**May 10-17, 2010:** The second iteration of *Pacific Angel 2010* takes place in Can Tho, Vietnam, with over 50 US military working on humanitarian assistance with Vietnamese counterparts.

**May 13, 2010:** The US Embassy in Bangkok closes to the public as the Thai Army begins to move against Red Shirt enclaves.

**May 14, 2010:** President Obama informs Congress that the administration plans to renew sanctions against Burma based on the ruling junta's failure to allow the political opposition a role in upcoming elections.

**May 14-21, 2010:** The US and Thai Navies engage in the *CARAT* exercise, encompassing riverine, anti-submarine, and unmanned aerial vehicle (UAV) warfare maneuvers.

**May 15, 2010:** The US Embassy in Bangkok warns US citizens against travel to Thailand because of the violence generated by the confrontation between the government and populist opponents. The Embassy also authorizes non-essential government workers and their families to leave the country.

**May 17-21, 2010:** US Undersecretary of State for Democracy and Global Affairs Maria Otero visits Indonesia to engage government officials in an array of human security issues.

**May 22-29, 2010:** Malaysian Minister of Defense Ahmad Zahid Hamide visits Washington for talks with the Pentagon, National Security Council, State Department, and leading think tanks.

**May 24, 2010:** The US Embassy in Bangkok reopens for “limited operations” after violence in the vicinity of the Embassy ends.

**May 24, 2010:** The US Senate unanimously passes a resolution drawn up by Sen. Jim Webb affirming support for the US-Thai alliance and calling for an end to violence.

**May 24-25, 2010:** The Indonesian-US Security Dialogue focuses on the roles of militaries in disaster relief, peacekeeping, counterterrorism, and bilateral military relations.

**May 26-June 5, 2010:** The US and Indonesian Navies engage in joint exercises in and around Surabaya, East Java.

**May 31-June 12, 2010:** The US hospital ship *Mercy* visits Vietnam providing medical services as part of the Pacific partnership humanitarian aid program.

**June 3, 2010:** Malaysia announces that the US has upgraded Kuala Lumpur’s participation from observer to participant in the annual multinational Thai-US exercise, *Cobra Gold*.

**June 4, 2010:** Because of the continuing crisis in the Gulf of Mexico oil spill, President Obama postpones his trip to Indonesia for the second time.

**June 4, 2010:** US Defense Secretary Robert Gates meets Indonesian Defense Minister Purnomo Yusgiantoro on the sidelines of the annual Shangri-La Dialogue in Singapore. They discuss removing the US ban on training for Indonesian Special Forces (Kopassus).

**June 7-16, 2010:** Cambodia participates in its first *CARAT* exercise with the *USS Tortuga* that includes shipboard training and jungle operations for US and Cambodian naval personnel.

**June 8-10, 2010:** The US-Vietnam Political, Security, and Defense Dialogue is held in Hanoi, focusing on peacekeeping, humanitarian assistance, disaster relief, maritime search and rescue, and nonproliferation.

**June 9, 2010:** Sen. Benigno Aquino III is officially proclaimed the winner of the Philippines’ presidential election during a joint session of the House of Representatives and the Senate.

**June 10, 2010:** The US and Indonesia sign a defense framework agreement in Jakarta covering training, procurement, and maritime security. However, the US ban on Indonesia's Special Forces (Kopassus) remains in place.

**June 10-25, 2010:** Over 100 US soldiers and airmen join Indonesian forces for the exercise *Garuda Shield 10* in Bandung on peace support and stability training.

**June 15, 2010:** Singapore objects to its inclusion in the annual State Department Watch List on Human Trafficking and counters that the US should examine its own record on immigration.

**June 16, 2010:** The eighth annual Southeast Asia Cooperation against Terrorism (*SEACAT*) maritime security exercise begins in Singapore with the US and six Southeast Asian navies tracking simulated vessels of interest.

**June 19, 2010:** US Ambassador to Indonesia Cameron Hume speaks at a seminar sponsored by the Islamic Prosperous Justice Party (PKS) on "The US View of Islam," an effort to broaden the PKS appeal as a moderate Muslim party.

**June 21, 2010:** The State Department releases its "Human Trafficking Report 2010" which criticizes several ASEAN countries for labor trafficking and prostitution.

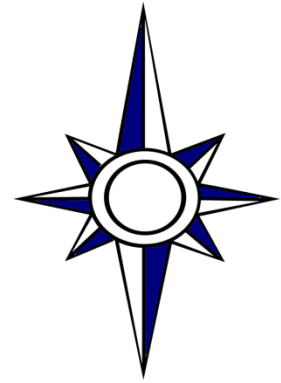
**June 21, 2010:** After a third reporter is murdered in the Philippines over the weekend, the State Department urges the Philippine government to move quickly to prosecute the perpetrators.

**June 30, 2010:** Benigno Aquino III is sworn in as the president of the Philippines.



# Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



## China-Southeast Asia Relations: Senior Officials Visits; South China Sea Tensions

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Chinese Premier Wen Jiabao traveled to the remote Myanmar capital during a swing through Asia in May and June, marking the first official visit by a Chinese premier in 16 years. Wen had planned to visit Brunei, Myanmar, and Indonesia in April but was compelled to cancel that trip due to a major earthquake in Qinghai province. Vice President Xi Jinping advanced Chinese relations with a visit to Australia, New Zealand and Laos in mid-June. Chinese officials and authoritative media generally avoided taking sides in the deepening and increasingly violent internal crisis in Thailand. A variety of reporting and private disclosures by Vietnamese officials indicated more serious Sino-Vietnamese frictions over disputed claims in the South China Sea than previously indicated. Maneuvers by Chinese naval forces over disputed territories and related claims caught the attention of regional observers and the US, deepening concerns regarding Chinese objectives.

### Relations with Myanmar

Premier Wen Jiabao's visit to Myanmar's capital city of Naypidaw on June 3 came at the end of a week-long series of visits that featured stops in Seoul for discussions over the crisis regarding the sinking of the South Korean warship *Choenan*, the third annual China-Japan-South Korean "plus-three" summit in Jeju Island, and the first visit of a Chinese premier to Mongolia in 16 years. Featured agreements in Myanmar included those covering oil and gas pipelines now being constructed across Myanmar that will link China with supply depots along the Indian Ocean, avoiding transit through the Strait of Malacca. Other accords covered improved communications facilities, a hydro-electric power station, and some aid packages. Official Chinese media said that China is Myanmar's third largest trading partner and investor after Thailand and Singapore, with trade in 2009 totaling \$2.9 billion, and Chinese investment as of January 2010 amounting to \$1.8 billion, 11.5 percent of Myanmar's total foreign direct investment. Wen also received briefings from Myanmar leaders on their plans to gradually move toward a "democratic process," with a general election slated for later this year.

Leaders of the two countries said they would strive to maintain peace and stability on the border. Myanmar efforts to disarm and control armed groups along the border prompted a crisis in 2009 when a small ethnic militia close to China was crushed by Myanmar military force, prompting more than 30,000 refugees to flee to China for a period of time. Some foreign media reporting underlined China's longstanding ties with some of the armed groups along the frontier, who served as a significant part of the 20,000 member "Burmese Communist Party" insurgent force that China trained, supplied, and publicly supported from the 1960s until the 1980s as a coercive

tool against the Burmese military regime. The insurgent force was the main threat to the military officers in control of the Burmese administration at the time. The generals in charge in Myanmar today rose to power combating the Chinese-backed insurgency, adding to their reported strong interest in seeing the independent armed groups along the Chinese-Myanmar border brought under their control. A report in the *Irrawaddy* on April 30 claimed that China's People's Liberation Army deployed more troops including air defenses on the border because of tensions between the Myanmar military and the ethnic militias close to China along the border.

### **Xi visits Australia, New Zealand, and Laos**

Chinese Vice President Xi Jinping made a four-nation trip during June 14-24, spending five days in Australia and three days in New Zealand. He endeavored to promote the already rapidly developing Chinese economic relations with both countries, trying on the one hand to make full use of the China-New Zealand Free Trade Agreement (FTA) signed in 2008 and endeavoring on the other hand to advance the protracted Chinese-Australian negotiations over a proposed bilateral FTA. Xi also emphasized the importance of growing contacts between Chinese people and those of Australia and New Zealand through Confucius Institutes, student exchanges and tourism. In Laos, Xi signed numerous agreements on trade, technical cooperation, infrastructure construction and finance. He emphasized increasing Chinese Communist Party cooperation with the ruling Lao People's Revolutionary Party as well as cooperation between the two governments. He also stopped in Bangladesh during the trip.

Chinese media highlighted the senior official's message of reassurance and building mutual trust. Relations with Australia have been troubled over the past year because of security concerns over China's military build-up, disputes over Chinese policies in Xinjiang, commercial acquisition issues, and a highly publicized criminal investigation involving the detention and conviction of an Australian businessman. Xi's visit to Australia was preceded by a visit to Australia last fall by Vice Premier Li Keqiang, which marked an important move by both governments to step back from areas of controversy and difference and to focus more on mutually beneficial common ground. [See "ASEAN and Asian Regional Diplomacy," *Comparative Connections* 11: 4 (January 2010)]. Xi departed the country before the surprise removal of Australian Prime Minister Kevin Rudd as a result of a challenge from within the ruling Labor Party. Rudd's successor, Julia Gillard, was expected to focus on domestic issues and avoid substantial change in foreign policy in leading Labor into difficult elections at the turn of this year.

Limited commentary in official Chinese media on the significance of Xi's trip included replays of some comments by Chinese experts in *China Daily*, noting that China continues efforts to show its neighbors that Chinese development and growing power are not a threat, and that China's promotion of Southeast Asian development under ASEAN's leadership is "very different" from the US, "which is unwilling to see a regionalized east Asia move out of its control." The cited comments also noted serious difficulties impeding the proposed Australia-China FTA, with one observer noting that "any concrete progress on FTA negotiations is still up in the air."



## **Crisis in Thailand**

The bloody confrontation between thousands of protesters who occupied central Bangkok districts for weeks and the Thai government arguably represented this quarter's most important regional development. Nevertheless, the Thai crisis continued to receive only low-level reporting and little comment in official Chinese media. Chinese dispatches duly accounted for the dozens of dead and many injured as the Thai government ordered security forces to end the protracted stand-off and drive out the demonstrators. They also noted the views of Chinese specialists regarding a need for compromise and the formation of a coalition government, but forecast continued impasse and turmoil. "No matter who is power, there will always be opposition in Thai society," said one Chinese specialist reported in *China Daily*. The impasse was seen by these experts as rooted in a polarization between rich and poor in Thai society that will only worsen as a result of the recent military crackdown.

## **Sino-Vietnamese tensions in the South China Sea**

Chinese and Vietnamese officials and authoritative media remained circumspect this quarter in publicly addressing ongoing disputes over territorial and resource claims in the South China Sea. However, Vietnamese officials visiting Washington were unusually direct in complaining about what they depicted as escalating Chinese military actions in the area and in seeking the support from Americans and the US government in countering China's assertiveness. A detailed assessment by the International Institute for Strategic Studies (IISS) claimed that recent Chinese Navy exercises involving passage near Okinawa and beyond the so-called "first island chain" around China were related to serious tensions with Vietnam in the South China Sea.

Vietnamese media reported efforts by Vietnam to reinforce defenses and promote economic development in islands bordering the South China Sea. They also reported complaints about Chinese harassment of Vietnamese fishermen. Chinese media reported that China was supporting Chinese fishermen being harassed by Vietnamese authorities by dispatching a large (4,600 ton) armed patrol vessel to disputed areas of the South China Sea.

The Vietnamese officials visiting Washington made the claim that for the first time China had used elements of each of the three Chinese fleets (North, East, and South) to assert its claims in the South China Sea. What lay behind this charge was unclear until an IISS *Strategic Comment* provided a persuasive and detailed explanation that remains uncorroborated by official Vietnamese and Chinese sources.

The IISS paper linked tensions in the South China Sea with unprecedented exercises involving two Chinese naval flotillas passing near Okinawa into the Pacific Ocean in March and April. The missions were the first of any size by the Chinese Navy beyond the "first island chain," the term used to refer to a line formed by the Aleutians, the Kuriles, Japan's archipelago, the Ryukyus, Taiwan, the Philippines and Borneo. A March exercise involving six ships was followed by a larger and more public demonstration of naval strength in April when a flotilla of 10 warships passed into the Pacific Ocean 140 km south of Okinawa. Japan issued a public protest over the actions of the second flotilla.

The March exercise involved six ships from the North China fleet that passed in pairs without much public notice through the Miyako Strait near Okinawa and conducted exercises with the South China fleet; the ships were active in the disputed Spratly Islands and near the Malacca Strait before returning to base in early April. The larger April exercise involved 10 ships from the East China fleet that passed in one large group through waters near Okinawa, traveled to waters east of Taiwan and conducted anti-submarine warfare exercises there.

The IISS report judged that the halt in the journey southward of the East China Fleet warships was “directly linked” to a change in the behavior of Vietnamese fishing vessels in the South China Sea. It said that large numbers of Vietnamese fishing boats had resumed ongoing harassment of Chinese patrol vessels after the North Fleet flotilla left the region in early April. By April 10, the largest Chinese patrol vessel was surrounded by 60 Vietnamese boats. The IISS believed that the Vietnamese had not expected a second Chinese flotilla. The unusually public display of Chinese naval force with the East China Fleet contingent of 10 ships passing as a group through waters near Okinawa appeared to have sent a warning to the Vietnamese boats surrounding the stranded Chinese patrol vessel. The Vietnamese boats abruptly disengaged and left the area. The IISS speculated that the East China Fleet contingent would have traveled to the South China Sea if the Vietnamese boats had not dispersed.

### *Implications*

The IISS judgment that Southeast Asian countries among others in Asia and the Pacific will have to contend with a more assertive China that is prepared to use increasing military capabilities to defend its territorial claims was widely echoed in regional media and commentary. Mainstream commentator Frank Ching warned in May that China’s military objectives go well beyond Taiwan. Writing in the Jamestown Foundation’s *China Brief* in late April, Ian Storey depicted Chinese military actions as undermining China’s “Charm Offensive” as Southeast Asian states felt compelled to buttress their militaries and engaged in other contingency efforts. Edward Wong wrote in the *New York Times* on April 23 that China’s new naval power was a direct challenge to US efforts to maintain free maritime access around the rim of Asia. Greg Torode in the *South China Morning Post* did several reports inventorying the suspicions aroused in the region and in the US by China’s military actions. Torode also disclosed that Vietnam’s moves to closer ties with the US in the face of China’s rise had seen two US Navy ships repaired in Vietnam, including one at the symbolically important Cam Ran Bay. The commander of US Forces in the Pacific, Adm. Robert Willard, told the *Financial Times* in late May referring to Chinese military actions, that “There has been an assertiveness that has been growing over time, particularly in the South China Sea and in the East China Sea.” Willard said that China’s military actions and extensive claims to islands and waters in the region were “generating increasing concern broadly across the region...”

### **Mekong River disputes**

A serious drought in the watershed of the Mekong (Lancang) River has placed China’s hydro-electric dam building and development practices along the upper reaches of the river in a negative light. Media commentators and specialists in Southeast Asia, the US, and elsewhere have focused on Chinese practices as causing serious environmental damage that is more costly

to the countries down river than any gain to be derived from China's development. China plans eight dams along the river; three are already in operation. The critical media and specialist commentaries aver that China has adopted its plans with insufficient consultation with and consideration of the interests of the down-river countries (Laos, Myanmar, Thailand, Cambodia, and Vietnam), who have been reluctant to challenge China and have little ability to constrain Chinese practices through weak international groupings, notably the Mekong River Commission.

Chinese officials and media emphasized that inadequate rainfall and not Chinese dams were responsible for the drought and low river flow along the Mekong. Contrary to past practice, China began to release water information in an effort to reassure down river countries that China's practices were not the cause of their difficulties.

In the US, Richard Cronin of the Henry Stimson Center has released a series of reports and held an important workshop on the crisis in April, gaining the attention of US government leaders in the Administration and the Congress. The Obama government's increased interest in playing a more active role in Mekong River matters was seen in a two-day visit by Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell to Vientiane, Laos in April. According to an article in *Asia Times*, Campbell's visit involved meetings with officials of the Mekong River Commission, which maintains its secretariat in Vientiane. The Obama government in 2009 launched a Mekong River Initiative in cooperation with Laos, Thailand, Cambodia, and Vietnam, which is designed to promote good practices in river management and development.

### **Other developments**

Over 40 officials from ASEAN countries met in Beijing in April to discuss implementation of a China-ASEAN agreement on cooperation in intellectual property protection that was signed at the China-ASEAN summit in 2009. In late March, Chinese media announced that top think tanks of China and member nations of ASEAN agreed at the China-ASEAN Defense and Security Dialogue in Beijing to hold over 30 meetings in 2010 dealing with defense and security issues.

*Indonesia, Australia, Singapore, Cambodia, Taiwan*

A feature article in the *New York Times* in May highlighted the decline in anti-Chinese feeling in Indonesia amid growing interest in studying Chinese language and commercial interaction. Other reporting showed deep misgivings among Indonesians regarding what is widely seen as adverse consequences flowing from greater economic competition with China as a result of provisions of the China-ASEAN FTA that came into effect in January.

Under the headline, "Come Clean on Navy, Faulkner Urges China," Australian Defense Minister John Faulkner told the media in late April that China must be open and transparent about why it is rapidly expanding its naval forces.

Singapore Prime Minister Lee Hsien Loong in April added to international voices urging China to adjust the value of its currency, asserting that it was "in China's own interests" to have a more flexible exchange rate.

Cambodian officials announced in May that China had offered Cambodia military trucks and other aid. The offer reportedly was to compensate for the US withdrawal of an offer of military trucks to Cambodia on account of Phnom Penh's decision in December to deport 20 Uighur refugees, who were under the protection of the UN High Commissioner for Refugees.

Taiwan President Ma Ying-jeou urged approval of a proposed Economic Cooperation Framework Agreement with China as a means to allow Taiwan to sign free trade agreements with Southeast Asian and other countries. The agreement was also seen as a means to avoid Taiwan's exclusion from what Ma saw as a rapidly forming East Asian economic integration process. He urged China not to oppose Taiwan's planned trade agreements.

## **Outlook**

In view of the more assertive Chinese military profile over regional territorial and resource disputes, China faces difficulty in its continued efforts to reassure neighbors that China's rising economic and military power and reach are not adverse to the interests of neighboring countries. It also faces increased international scrutiny over dam building along the Mekong River that may tarnish China's professed image as a "good neighbor."

## **Chronology of China-Southeast Asia Relations April – June 2010**

**April 2-5, 2010:** Chinese Vice Minister Song Tao attends the first Mekong River Commission (MRC) meeting in Hua Hin, Thailand and says China is willing to increase cooperation with neighboring countries to help resolve the ongoing drought crisis. The Chinese Ministry of Water Resources also provides the MRC Secretariat with hydrological data in southwest China's Yunnan province to facilitate drought-relief measures in the lower Mekong area.

**April 8, 2010:** Wu Bangguo, chairperson of the Standing Committee of the National People's Congress, meets Wong Foon Meng, head of the Malaysian Senate, to discuss bilateral ties and parliamentary exchanges. They agree to strengthen political trust, personnel exchanges, and economic cooperation.

**April 11, 2010:** Chinese Foreign Ministry expresses "deep concern over the political situation in Thailand" after the latest clash between the anti-government protesters and the government's security personnel, which resulted in more than 800 casualties, including 20 deaths.

**April 13, 2010:** He Yong, deputy secretary of the Chinese Communist Party Central Commission for Discipline Inspection, meets Mai Truc, his Vietnamese counterpart, in Beijing. They discuss ways where the two departments can increase exchanges and cooperation on combating corruption.

**April 22, 2010:** Xu Caihou, vice chairperson of China's Central Military Commission, meets Teo Chee Hean, Singapore's deputy prime minister and minister for defense, in Beijing. They agree to forge closer and pragmatic military cooperation between their armed forces.

**April 23, 2010:** Chinese Vice President Xi Jinping meets Vietnamese Defense Minister Phung Quang Thanh in Beijing. They stress the importance of deepening their strategic and cooperative partnership, strengthening political mutual trust, and properly addressing sensitive issues.

**May 1, 2010:** Chinese President Hu Jintao meets Cambodian Prime Minister Hun Sen in Shanghai. They discuss the state of bilateral relations and agree to improve and expand political, economic, and security relations between the two countries.

**May 11, 2010:** Chinese Defense Minister Liang Guanglie meets Pol Saroeun, head of the Royal Cambodian Armed Forces, and agrees to strengthen military-to-military ties between the two countries. Both sides have witnessed increasing exchanges in senior-level military contacts in recent years and will continue to do so to build mutual trust. Chen Bingde, chief of the General Staff of the People's Liberation Army (PLA), also meets Saroeun and notes that China will continue to develop pragmatic military relations with Cambodia, including personnel training, the building of military schools, training centers, and hospitals.

**May 12, 2010:** Senior officials from China attend a conference in Danang, Vietnam to discuss drug prevention and control measures in Southeast Asia, particularly in the Greater Mekong sub-region. The participants also discuss ways to enhance regional cooperation to curb illicit drugs, trafficking, and drug-related cross-border crimes.

**May 20, 2010:** Guo Boxiong, vice chairperson of the Central Military Commission, visits Singapore and meets Prime Minister Lee Hsien Loong. They agree to continue and increase exchanges and cooperation between the two armed forces, particularly through high-level visits, joint defense and security-related discussions, joint military exercises, personnel training, and reciprocal visits of warships.

**May 25, 2010:** Zhang Xinfeng, vice minister of the Ministry of Public Security, attends the 30<sup>th</sup> ASEANPOL Conference in Phnom Penh, Cambodia. His speech at the opening ceremony of the conference focuses on increasing dialogue and information-sharing practices with counterparts in ASEAN member states to combat such transnational crimes as terrorism, the smuggling of illicit arms, human and drug trafficking, white-collar financial crimes, and cybercrime.

**May 26, 2010:** The *Vientiane Times* reports that Laos received a \$50 million loan from China to help build a bridge across the Mekong River in the Laotian province of Oudomxay. The bridge is part of the Greater Mekong sub-region north-south economic corridor project, linking the Thai province of Chiang Rai to Kunming, the capital of China's Yunnan province.

**June 3, 2010:** Chinese Premier Wen Jiabao visits Myanmar and meets Than Shwe, chairperson of the State Peace and Development Council, to mark the 60<sup>th</sup> anniversary of diplomatic relations. They agree to further advance bilateral political, economic, and military ties.

**June 4, 2010:** The Chinese National Petroleum Company (CNPC) issues an official statement on its website that the Southeast Asia Pipeline Company, one of CNPC's affiliated subsidiaries, will begin the design, construction, operation, and maintenance of the oil and gas pipelines

through Myanmar. The pipelines are estimated to be about 1,100 km, running from Myanmar's western coast to Ruili, Yunnan province in southern China.

**June 5, 2010:** Ma Xiaotian, deputy chief of the General Staff of the PLA, visits Singapore and attends the Shangri-La Dialogue Asia Security Summit. Ma's speech highlights growing tensions between Beijing and Washington.

**June 8, 2010:** Gen. Fan Changlong, commander of the PLA's Jinan Military Region, visits Myanmar and meets Thura Shwe Mann, chief of General Staff of Myanmar's Army, Navy, and Air Force. They review the state of bilateral military relations and pledge to increase military-to-military exchanges.

**June 9, 2010:** Hu Jintao sends a congratulatory message to President-elect Benigno Aquino III as the Philippines' incoming president.

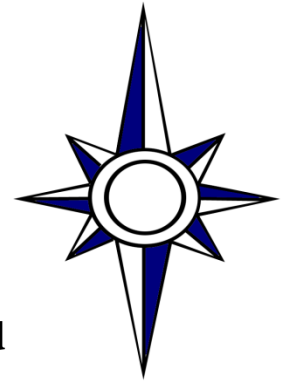
**June 16, 2010:** Xi Jinping visits Laos and meets Laotian President Choummaly Saygnasone. Xi notes that China will continue to maintain close contacts, strengthen mutual trust, and expand business, trade, and economic activities with Laos.

**June 22, 2010:** Zhou Yongkang, member of the Standing Committee of the Political Bureau of the Chinese Communist Party Central Committee, meets Troung Hoa Binh, Chief Justice of the Vietnamese People's Supreme Court, in Beijing. They agree to facilitate judicial exchanges and cooperation.

**June 24, 2010:** Chinese Vice Transport Minister Gao Hongfeng visits Phnom Penh to sign a memorandum of understanding with the Cambodian government to further deepen cooperation on infrastructure development. Tram Iv Tek, minister for Public Works and Transport of Cambodia, says that China has built more than 1,500 km of roads and bridges in Cambodia, totaling \$1 billion in recent years.

**June 27, 2010:** Hu Jintao meets his Indonesian counterpart Susilo Bambang Yudhoyono on the sidelines of the G20 Summit in Toronto, Canada. They agree to pursue development of the strategic partnership between China and Indonesia and reaffirm their commitment to enhance coordination and cooperation in regional and international political, economic, and security-related issues of mutual concern.

**June 29-July 3, 2010:** Chinese State Councilor Dai Bingguo co-chairs the fourth meeting of the Steering Committee for China-Vietnam Bilateral Cooperation in Beijing with Vietnamese Deputy Prime Minister Pham Gia Khiem.



**China-Taiwan Relations:  
Economic Cooperation Framework Agreement Signed**

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After six months of arduous negotiations, China and Taiwan signed an Economic Cooperation Framework Agreement (ECFA), including an “early harvest” list of tariff reductions. The agreement, which provides a basis for further integration of the two economies, is a milestone in institutionalizing cross-Straits relations. On Taiwan, opposition politicians continue to criticize the ECFA but months of discussion and debate have led to a gradual increase in public support and acceptance. The issue of US arms sales to Taiwan continues to complicate US-China relations. The Democratic Progressive Party’s consideration of a new 10-year platform has revealed an ongoing internal difference over cross-Straits policy. The coming quarter will see the Legislative Yuan’s review of the ECFA, Taiwan’s quest for free trade agreements with trade partners and jockeying in the run-up to the November municipal elections on Taiwan.

**Economic Cooperation Framework Agreement**

The ECFA negotiations and the political debate within Taiwan about ECFA have dominated cross-Straits relations this year. Informal negotiations have been underway almost continuously but largely away from public scrutiny, which has fed opposition suspicions. A third formal negotiation was to have been held in May but was postponed. Instead, Beijing’s chief negotiator, Ministry of Commerce Director Tang Wei made an unpublicized visit to Taipei. In late May, Taiwan’s chief negotiator, Board of Foreign Trade Director General Huang Chih-peng, told the press that if an adequate “early harvest” list was not possible there would be no agreement. In Beijing, Chinese officials told the Taiwan press that the world-class competitiveness of some Taiwan industries would have to be taken into account in the agreement. Taipei’s Straits Exchange Foundation (SEF) Chairman Chiang Pin-kung said the negotiations indicated that relations were now in a period when difficult issues had emerged.

By mid-June, however, both sides were speaking more optimistically. The third formal round of negotiations was held in Beijing on June 13. The two negotiators announced that consensus had been reached on the basic agreement and five appendixes, but not yet on the “early harvest” list. On June 24, the fourth and final round reached agreement on the “early harvest” lists and announced plans for the formal signing of the agreement by SEF and Beijing’s Association for Relations Across the Taiwan Strait (ARATS). On June 29, ARATS Chairman Chen Yunlin and SEF Chairman Chiang met in Chongqing for their fifth meeting and signed both the ECFA and an agreement on intellectual property protection. The agreement on double taxation, which was to have been signed at their fourth meeting last December, was not on this meeting’s agenda. Reportedly the divergent interests of various industry groups in Taiwan stymied Taipei’s effort to develop a coordinated position on outstanding tax issues.

The “early harvest” lists detail Beijing’s and Taipei’s commitments to reduce tariffs over the first two years of the agreement. Beijing will reduce and eliminate tariffs on 539 items, which involve 16 percent of Taiwan exports to the mainland valued at \$13.8 billion. For its part, Taipei has agreed to reduce and eliminate tariffs on 268 items, which cover 11 percent of China’s exports valued at \$2.8 billion. In addition, both sides have agreed to liberalize market access in certain service sectors, including banking. The imbalance of tariff reductions is in Taiwan’s favor despite the fact that Taiwan enjoys a large trade surplus with the mainland. This outcome reflects Beijing’s desire to help President Ma Ying-jeou win support for the agreement in Taiwan and its belief that further economic integration will advance its long-term reunification goal.

The conclusion of the ECFA negotiations provides an impressive demonstration of the two sides’ ability to reach meaningful agreements on difficult issues affecting real economic interests. As its name suggests, the ECFA is a framework agreement that, for the first time, provides a legal and institutional framework for the vibrant private cross-Strait economic ties that have developed over the past three decades. The 16-article agreement includes a Cross-Strait Economic Cooperation Committee charged with implementing the agreement and serving as an interim dispute settlement mechanism. While the short-term benefits embodied in the “early harvest” tariff reductions have attracted the most attention, the creation of the new institutional framework should have long-term implications and contribute to stabilizing cross-Strait relations.

In the midst of these negotiations, the two sides announced in early May the reciprocal opening of offices in Beijing and Taipei representing their tourism associations. These quasi-official offices are staffed with seconded government officials and are tasked with promoting tourism and dealing with the practical problems encountered by tourists. The opening of these offices was handled in a low-key manner by both sides. Nevertheless, their opening represents another significant and pragmatic step in the evolving cross-Strait relationship.

### **The domestic political dimension**

The Democratic Progressive Party (DPP) has continued to oppose the ECFA and to criticize the Ma administration’s handling of the negotiations. The administration has responded with its own publicity and with more frequent briefings for the Legislative Yuan (LY). Premier Wu Den-yih and LY Speaker Wang Jin-pyng have agreed that special sessions of the LY will be convened during the summer to review the ECFA. As the DPP proposal for a referendum on the ECFA was rejected by the Executive Yuan’s (EY) Referendum Review Committee (RCC), the small Taiwan Solidarity Union (TSU) party loosely associated with former President Lee Teng-hui proposed an alternative referendum proposal. Although the Central Election Committee gave its approval for the TSU proposal, the EY’s RCC rejected it. On June 30, the TSU submitted yet another referendum proposal.

President Ma agreed to a DPP demand that he debate the ECFA on TV with their chairperson, Tsai Ing-wen. The debate occurred on April 25 and in retrospect marked a turning point. Ma was generally seen as having won the debate and opinion polls registered a marginal increase in support for the ECFA. The DPP has searched for more effective ways to mobilize opposition to



the agreement. A variety of anti-ECFA rallies have been held around the island, including a major one on June 26. But these have not produced the large turnouts or passionate opposition that the sponsors sought. In mid-June, when officials indicated that the “early harvest” lists would likely involve far more items benefiting Taipei than Beijing, DPP Chair Tsai was reduced to expressing concern about Beijing’s motivation in offering such concessions to Taipei.

In the April 25 debate, President Ma asserted that a major goal of the ECFA was to overcome Taiwan’s marginalization in the ongoing process of regional trade liberalization. The ECFA would open the way for Taiwan to conclude free trade agreements (FTAs) with trade partners. Ma said that he would personally lead the administration’s work to conclude such agreements, a step which considerably raises the political salience of the issue and puts pressure on Beijing to respond. Beijing officials have generally avoided commenting on the issue. In May, a Foreign Ministry spokesman’s statement that Beijing opposed its diplomatic allies having official ties with Taiwan was misinterpreted as a significant policy statement on the FTA issue, which it was not. President Ma and others in Taipei later reiterated their view that as a World Trade Organization (WTO) member Taipei is free to enter into FTAs with other WTO members. Beijing leaders recognize the importance of the FTA issue to Ma and Taiwan. After the ECFA was signed, Taiwan Affairs Office (TAO) Minister Wang Yi hinted that Beijing would be flexible saying, according to *Xinhua*, that the ECFA would “help find a way to link the cross-strait economy to regional economic cooperation and in the process open expansion space for Taiwan’s economy.” Commentators in Taipei interpreted his remarks positively.

Ma administration proposals to allow Chinese students to pursue tertiary education in Taiwan and to recognize degrees earned by Taiwan students at mainland universities have also been sources of contention in Taiwan. The administration’s amendments include so many limitations designed to meet opposition criticisms that Chinese scholars doubt many mainland students will attend Taiwan universities. Nevertheless, the DPP has repeatedly blocked and delayed LY consideration of the proposals. The Kuomintang (KMT) hopes to consider these amendments during the special summer LY sessions planned to consider the ECFA. But it is doubtful they will pass in time for mainland students to enroll for the academic year that begins this fall.

### **DPP internal debate on China policy**

The DPP has begun work on a new 10-year program that will include a section on foreign and cross-strait issues. Chen Ming-tung, who served as chairman of the Mainland Affairs Council (MAC) under Chen Shui-bian, is leading the drafting of what the DPP continues to call its “China policy.” Tsai Ing-wen has explained at DPP forums held to consider the 10-year program and other occasions that the goal is to emphasize a more pragmatic approach that recognizes the importance of the wide range of cross-strait relations that have evolved over recent years and China’s changed position in the world. The press has highlighted her openness to talks with China. However, Tsai noted that any talks should be without preconditions – a long held DPP view that Beijing’s TAO spokesman predictably rejected. Tsai has also said that the DPP must not “fall into the trap of “one China” and will not deviate from its traditional pro-independence position. These statements appear designed to appeal to DPP fundamentalists.

The party's 10-year program will not be unveiled until August and will be designed in part to hold the disparate elements of the DPP together on policy matters in the run-up to the municipal elections scheduled to be held in November. That is, the program is likely to be more a political than a policy document. Given what has been said thus far, it appears now that its language will likely not provide a basis that is conducive to maintaining stable cross-Strait relations should the DPP return to government.

## **Security issues**

There is still no indication that the People's Liberation Army (PLA) has changed the continuing build-up of short- and medium- range ballistic and cruise missiles targeting Taiwan. After a recent visit to China, Sen. Diane Feinstein commented that Chinese leaders seemed willing to pull back forces targeting Taiwan. However, her staff later clarified that these were previous Chinese offers and no longer on the table. Deputy Secretary of State James Steinberg told Congress in late June that the PLA has not presented any concrete plan for reducing its missiles aimed at Taiwan.

The Obama administration is in the process of considering Taiwan's long-standing request for 66 *F-16 C/D* aircraft, but there is no indication when a decision might be made. Most US-China military-to-military contacts remain suspended by Beijing since Washington's announcement of its latest arms sales package in January. US Pacific Command Commander Adm. Robert Willard and other military officers did participate in the Strategic and Economic Dialogue (S&ED) in Beijing in May. However during the dialogue, PLA Adm. Guan Youfei gave a diatribe against the US focused heavily on arms sales to Taiwan, which Guan said proved that the US treated China as an enemy. US officials later said that Guan's presentation was out of step with the rest of the SED discussions.

In June, the PLA chose not to issue an invitation for Secretary of Defense Robert Gates to visit Beijing as part of a trip through Asia. At the Shangri-La Dialogue in Singapore, Gates accused the PLA of being out of step with China's political leaders and urged the PLA to get over their preoccupation with arms sales, which is an old issue. In response, respected PLA Gen. Ma Xiaotian reiterated Beijing's objections to arms sales and repeated the assertion that arms sales show that the US considers China to be an enemy. Subsequently, Obama administration officials stated that there would be no change in arms sales policy. The decision not to invite Gates reflects the PLA's strengthening opposition to arms sales. Their views resonate with nationalistic opinions expressed in the media and are likely to become an increasingly important domestic political pressure on the leadership to influence US arms sales policy.

President Ma and others in Taipei continue to state that the time is not ripe to pursue political issues including cross-Strait confidence-building measures. Beijing understands the political constraints on Ma and is not pressing Taipei at this time. In this environment, the most that is possible is a few modest contacts between retired officials and military officers. In April, retired Gen. Hsu Li-nung led a delegation of retired officers to Beijing for discussions with counterparts. TAO Minister Wang Yi received the delegation. In May, Taipei held a reunion of alumni of the Whampoa Military Academy that attracted a few civilian figures from the mainland.

## **International issues**

For the second time, “Chinese Taipei” participated in the World Health Assembly (WHA) in May. Health Minister Yaung Chih-liang represented Taipei and addressed the Assembly. Yaung, who has a reputation for public misstatements, told reporters in Geneva that Taipei’s goal was full membership in the World Health Organization (WHO) – a remark that does not accurately reflect Ma administration policy, which seeks observer status. Furthermore, at a time when its attention is focused on the ECFA and the related issue of FTAs, Taipei is not pressing Beijing for progress on international space issues.

In Geneva, Minister Yaung had a meeting with his Chinese counterpart, Health Minister Chen Zhu. Meetings between Cabinet ministers from Taipei and Beijing at international meetings are occurring more regularly – a further sign of the relaxed nature of current cross-Strait relations. Commerce Minister Chen De-ming met his counterpart Minister of Economic Affairs (MOEA) Shih Yen-hsiang on the margins of an Asia Pacific Economic Cooperation (APEC) energy ministerial in Japan in June.

## **Other economic and trade issues**

During the first quarter of 2010, cross-Strait trade recovered from the precipitous decline suffered during the global recession. In the second quarter, trade and particularly Taiwan exports to China grew rapidly surpassing levels that had been achieved before the recession. Taipei’s MAC estimates trade between Taiwan and the mainland, excluding Hong Kong, was \$26.8 billion in the first quarter of 2010, up 69.4 percent from the recession levels a year earlier. Taiwan’s exports were \$19.4 billion, up 73.2 percent and Taiwan’s imports were \$7.5 billion, up 60.2 percent. Taipei’s Ministry of Finance announced that Taiwan’s exports to China, including Hong Kong, reached \$11.2 billion in May 2010, an all-time record sum, which represented 43.8 percent of Taiwan’s worldwide exports.

The growth of Taiwan’s exports has been driven by the recovery of the global IT sector and the growing sales of consumer electronics and appliances in the domestic China market. For its part, Beijing has sent a series of high-level provincial delegations to Taiwan during the quarter. Typically, these delegations were led by a provincial party secretary or governor, included several hundred business representatives and reported signing large contracts. In addition, the ARATS-SEF agreements continue to provide a framework for visits by senior economic officials. PRC Vice Minister of Agriculture Wei Chaoan visited Taiwan in May, and MOEA Vice Minister Hwang Jung-chiou visited Beijing in June.

In this same period, the wave of worker strikes against foreign and domestic companies in China, which began in May, involved a number of Taiwan Invested Enterprises (TIEs). Terry Gou, the chairman of Hon Hai Precision Instruments, one of Taiwan’s largest investors in China, has said that rising wage rates in China are a reality that firms must adjust to. Foxconn, a Hon Hai subsidiary, raised worker salaries 30 percent after a string of suicides at their complex in Guangdong. The growing shortage of workers and the 2008 Labor Law are among the factors giving mainland workers new leverage. These changing labor conditions will have important

implications for TIEs. There is anecdotal evidence of TIEs responding to these pressures by moving their operations to lower-wage areas in third countries or inland in China.

### **Looking ahead**

The conclusion of the ECFA marks a significant milestone in cross-Strait relations. However, signing the agreement and agreeing on “early harvest” lists only launch a decade-long process of implementing the economic framework that the ECFA establishes. Talks in the months ahead will include discussions on investment protection and dispute resolution. Within Taiwan, the summer will see special LY sessions to review the ECFA and in the fall the LY will pass amendments to four laws needed to implement the agreement’s initial provisions and adopt a budget for trade adjustment assistance to affected industries. The DPP failed to block the ECFA, but it will play a role in these LY actions. Every trade agreement involves some losers, and the opposition will exploit dissatisfaction with the ECFA for their benefit in the November municipal elections.

President Ma has said that Taiwan must now plot its global economic strategy for the “post-ECFA” era. A speech is scheduled for July 1. One element of this strategy will be seeking FTA-like agreements with Taiwan’s trade partners. Ma’s efforts will force the Beijing leadership to confront this issue at a time when the DPP will be looking for evidence that the ECFA is not bringing the results Ma envisaged.

## **Chronology of China-Taiwan Relations April – June 2010**

**April 4, 2010:** Former Japanese Prime Minister Aso Taro makes a private visit to Taipei.

**April 5, 2010:** First TV debate between the Kuomintang (KMT) and Democratic Progressive Party (DPP) on the Economic Cooperation Framework Agreement (ECFA).

**April 6, 2010:** Shanghai Mayor Han Zheng leads a delegation to Taipei.

**April 6, 2010:** Retired Gen. Hsu Li-nung leads a delegation to Beijing.

**April 7, 2010:** Member of the Standing Committee of the Political Bureau of the CPC Central Committee Jia Qinglin receives Gen. Hsu’s delegation of retired military officers.

**April 10, 2010:** Vice President Xi Jinping receives Taiwan delegation to Boao Forum.

**April 12, 2010:** Presidents Barack Obama and Hu Jintao meet at the Nuclear Security Summit in Washington.

**April 13, 2010:** Ten-ship flotilla of Chinese Navy ships pass through Miyako Strait.

**April 13, 2010:** Premier Wu reiterates time is not ripe for political talks.

**April 15, 2010:** American Chamber of Commerce of Kaohsiung white paper mentions benefits of ECFA.

**April 19, 2010:** Taiwan university presidents support amendments allowing Chinese students to enroll in Taiwan universities.

**April 21, 2010:** DPP legislators provoke confrontation in Legislative Yuan (LY) over enrolling Chinese students.

**April 23, 2010:** Taiwan Solidarity Union (TSU) meets signature threshold for its anti-ECFA referendum proposal,

**April 25, 2010:** President Ma and DPP Chair Tsai hold TV debate on the ECFA.

**April 27, 2010:** President Ma says Taiwan will move quickly on FTAs to avoid isolation.

**April 29, 2010:** General Secretary Hu Jintao meets Wu Poh-Hsiung in Shanghai.

**April 30, 2010:** American Chamber of Commerce of Taipei editorial endorses the ECFA.

**May 4, 2010:** Taiwan opens quasi-official tourism office in Beijing.

**May 4, 2010:** Central Election Committee approves TSU's ECFA referendum proposal.

**May 5, 2010:** Fujian Governor Huang Xiaojing leads a delegation to Taiwan.

**May 7, 2010:** Beijing opens quasi-official tourism office in Taipei.

**May 10, 2010:** Ex-Premier Liu Chao-shiuan visits Shanghai for the World Expo opening.

**May 10, 2010:** Whampoa Military Academy alumni attend forum in Taipei.

**May 10, 2010:** Deputy Secretary of State James Steinberg applauds cross-Strait engagement.

**May 11, 2010:** Kuomintang reports ECFA negotiations on "early harvest" have hit a snag.

**May 11, 2010:** US-Taiwan Business Council releases report on air power in the Taiwan Strait.

**May 12, 2010:** Taiwan Affairs Office (TAO) reiterates that the 1992 consensus and opposition to independence are the basis for cross-Strait relations.

**May 12, 2010:** 136 members of US Congress sign a letter to President Obama calling for the sale of *F-16C/Ds* to Taiwan.

**May 14, 2010:** Jia Qinglin meets delegates to annual meeting of Taiwan Invested Enterprises (TIE) Associations in Beijing.

**May 15, 2010:** DPP Chair Tsai calls for pragmatic China policy and talks without preconditions.

**May 17, 2010:** People's Republic of China (PRC) Commerce Ministry Director Tang Wei leads team to Taipei for three-day ECFA discussions.

**May 17, 2010:** Taiwan Minister of Health Yaung Chih-liang leads a delegation to the World Health Assembly; PRC Health Minister Chen Zhu and Yaung hold a meeting at the WHA.

**May 19, 2010:** PRC Vice Minister of Agriculture Wei Chaoan leads a delegation to Taipei.

**May 20, 2010:** Three-day DPP sit-in calling for an ECFA referendum begins.

**May 23, 2010:** Tsai Ing-wen is re-elected DPP chairperson.

**May 24, 2010:** US-China Strategic and Economic Dialogue (S&ED) is held in Beijing.

**May 24, 2010:** Sichuan Party Secretary Liu Qibao leads a delegation to Taiwan.

**May 28, 2010:** Taipei opposes expanding Japan's ADIZ over Yonaguni Island.

**June 1, 2010:** University presidents appeal for passage of PRC student amendments.

**June 3, 2010:** President Ma says Taiwan is entitled to sign FTAs with WTO members.

**June 3, 2010:** EY Referendum Review Committee rejects TSU ECFA referendum.

**June 3, 2010:** MAC Chair Lai Shin-yuan visits Hong Kong.

**June 4, 2010:** President Ma receives American Institute in Taiwan Chairman Ray Burghardt.

**June 5, 2010:** Sen. Diane Feinstein leads a delegation to Taipei.

**June 5, 2010:** PRC Commerce Minister Chen and Taiwan MOEA Minister Shih meet on margins of APEC meeting in Sapporo.

**June 7, 2010:** National Security Council Asia Director Jeffrey Bader says US policy on arms sales to Taiwan will not change.

**June 9, 2010:** Zhejiang Gov. Lu Zushan leads delegation to Taiwan.

**June 9, 2010:** MOEA Vice Minister Hwang attends a telecom conference in Beijing.

**June 13, 2010:** Third round of ECFA consultations are held in Beijing.

**June 16, 2010:** Sen. Feinstein says China plans to pull back military forces opposite Taiwan.

**June 16, 2010:** DPP Tainan County Magistrate Su Huan-chih visits Beijing to promote local mangoes and advocates pragmatic policies after his return.

**June 17, 2010:** Deputy Secretary Steinberg says PLA has not presented missile withdrawal plan.

**June 20, 2010:** Jia Qinglin opens second Straits Forum in Xiamen.

**June 21, 2010:** China and Taiwan conduct large joint anti-fraud operation.

**June 24, 2010:** SEF and ARATS vice chairmen finalize “early harvest” lists in Taipei.

**June 24, 2010:** Yangzijiang Shipbuilding becomes the first Chinese company to apply for listing on the Taiwan Stock Exchange.

**June 25, 2010:** President Ma calls for an economic strategy for the “post ECFA” era.

**June 25, 2010:** Japan announces extension of its ADIZ over Yonaguni Island.

**June 26, 2010:** DPP holds anti-ECFA rally.

**June 29, 2010:** Fifth ARATS-SEF Meeting held in Chongqing where the ECFA and Intellectual Property Rights Agreement are signed.

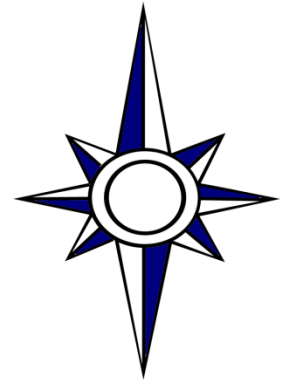
**June 30, 2010:** TSU submits a new ECFA referendum proposal.





# Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



## South Korea-North Korea Relations: On the Edge

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To state what in my country we call the bleedin' obvious, this was the worst quarter in inter-Korean relations of the near-decade (starting in 2001) that *Comparative Connections* has been covering this relationship. On the rare occasions when the peninsula makes global headlines, or even more rarely moves markets, it tends not to be good news. Thus it was on May 24-25, when for the first time in many years the world seriously wondered whether the two Koreas might go to war again – almost 60 years after they fatefully did so the first time. Fortunately both backed away from the brink. On closer inspection there was both more and less to this than at first met the eye. But it was a perilous moment; and though it now seems to have passed, it leaves North-South relations in a pit from which no easy exit is apparent. The cause, of course, is the sinking of the ROK corvette *Cheonan* on March 26. Yet this did not erupt as a crisis until late May. The course of those two months is fascinating in its own right, and has been under-examined in the welter of comment and controversy. It reveals, we suggest, an odd mix of tactical skill and strategic flailing by Seoul. As of early July, with ROK President Lee Myung-bak still smarting from an unexpected rebuff in local elections a month ago, one must conclude that North Korea's torpedo scored a bulls-eye. Despite delivering a remarkable economic recovery and chairing the G20, "bulldozer" Lee is now on the back foot: just as Kim Jong-il intended. It was nasty and negative, but it worked. In Pyongyang's eyes, this counts as a win – even though from any sensible perspective it is a loss for both Koreas, and their relations.

### Play it down, then build it up

Handling North Korea is never easy, let alone something as unexpected as a naval attack. But South Korea's official reaction has been striking for its variety – indeed inconsistency – over time, with at least four distinct phases. The sinking happened just before the last issue of *Comparative Connections* went to press. At that stage we were unusual in highlighting this incident, because the line from Seoul then was the exact opposite: to play it down.

We now know, as the *Financial Times*' Christian Oliver wrote on May 21, that "South Korean officials who were whisked to the president's war bunker on the night of March 26 thought war was imminent." But they did not let on. Although on Wall Street both the won and the Dow briefly dipped on news of the sinking, both swiftly recovered when Seoul at once classified this as a tragic mystery, perhaps an accident. Domestic opinion was fobbed off for a fortnight by focusing on the search for more survivors, even though there was no real chance of finding any in those cold waters. Meanwhile the actual survivors were kept well away from the press for as long as possible.

This phase will make an excellent case study for students of politics and media. On many counts this was smart. By defusing tensions, it bought time for a considered response. The risks were many. Short of the apocalypse of a new Korean war, which a hasty reaction could have risked – as it was, the *Cheonan*'s sister ship *Sokcho* did fire at something, supposedly a flock of birds – in a large open economy like the ROK even slight fears can roil markets and spook investors. Besides, at this stage there was genuine room for doubt as to the cause. The *Cheonan* might have hit a mine, or a reef; or its own ordnance could have exploded.

## **Unsustainable**

Yet this “softly softly” line also had its downside, and was unsustainable beyond the short term. The public soon grew restive, and (as so often) suspicious. In one episode guns were pointed at grieving relatives, which did not look good. Official silence had other costs too. It allowed South Korea's blogosphere – near-universal, but introverted and fetid – to spawn and canvas all manner of conspiracy theories. The military came out looking, if not furtive, then at least incompetent: how could they have let this disaster happen? (An inquiry by the Board of Audit and Inspection did indeed reveal a series of serious blunders.) The soldiers grew restive; at one point Defense Minister Kim Tae-young – himself a retired general, as always in Seoul – was told off by the Blue House for hinting that a Korean People's Army (KPA) torpedo was to blame. And the clock was ticking; the Joint Investigation Group (JIG) of civilian and military experts, both local and foreign, set up to look into the sinking, would have to report sooner or later.

Once the date for the JIG to announce its findings had been set for May 20, a second and in some ways opposite phase began. Careful leaks prepared the ground for the news that this was indeed Pyongyang's work. On May 11, South Koreans working in the North – a mixed bag, from archaeologists digging up a medieval palace in Kaesong to ships dredging sand for the South's voracious construction industry – were ordered home. The Unification Ministry (MOU) told a dozen other ministries and agencies to suspend their budgets for the North. It also ordered ROK firms to make no new visits, deliveries or investments across the Demilitarized Zone (DMZ).

The stage was thus set for a big media event on May 20. In fact it began a day early, when Foreign Minister Yu Myung-hwan jumped the gun by telling foreign journalists in Seoul that “it's obvious” whodunit. On May 20, the JIG duly reported, to headlines around the world. It found that a DPRK torpedo was responsible, and indeed it found the torpedo, or part of it – the steering mechanism, trawled from the sea bed by a fishing boat just days earlier. All this was widely reported around the globe, so there is no need to repeat the full details here; we shall focus on analysis. The world – mainly, in fact, South Korea's Western allies – rushed to support Seoul and condemn Pyongyang. The latter indignantly denied any culpability, as it had done ever since its first comment on April 17.

May 20 was a Thursday. Further drawing out and perhaps savoring the moment, Seoul let it be known that its official response would not come until after the weekend. On Monday May 24, President Lee gave a speech, while the Ministries of Defense, Foreign Affairs and Unification – MND, MOFAT, and MOU – held a joint press conference. This moved the affair into a third phase, which though mercifully short-lived caused a sharp intake of breath.

President Lee solemnly warned that in case of any further provocation Seoul would exercise its right of self-defense, i.e., retaliate militarily. In any case, it would resume propaganda broadcasts across the DMZ, silent since 2004. Declaring that “any inter-Korean trade or other cooperative activity is meaningless” now, Lee suspended most commercial and other exchanges with the North and banned DPRK vessels from ROK waters.

### **World markets worry**

This ROK reaction was widely perceived as hard line. In fact the markets heard war talk – and wobbled, worldwide. On May 24-25 there were other worries too, about Greece and the euro; but financial reports cited peninsular uncertainties as a main factor. A major Western bank, heavily invested in Korea, asked this writer to give a hastily convened teleconference to try to explain what on earth the Koreans were up to. (Note: I did not say North Koreans.)

It was a good question, if not easy to answer. I was able to reassure them on two counts. Lee Myung-bak wisely nowhere criticized Kim Jong-il by name. This may reflect uncertainty in Seoul as to whether the “dear leader” is fully in control and had personally ordered the sinking. Or it may just have been tact, giving Kim an exit strategy so that he can apologize and blame others sans loss of face personally, if and when – as will happen, however remote-seeming at the moment – the two Koreas find a way to move on and rebuild some bridges.

A second slight sign of hope was the Kaesong Industrial Zone (KIZ; the South calls this the Gaeseong Industrial Complex or GIC). The hope was itself twofold. First, Lee exempted the complex from his ban on inter-Korean trade. It is a hefty exception as the KIZ accounts for over half of North-South commerce. This of course undermines Lee’s statement that such exchanges are now “meaningless.” To the contrary, the last remaining inter-Korean joint venture, where some 110 Southern small-medium enterprises (SMEs) pay 44,000 Northern workers very little, is evidently still perceived as worth holding on to.

That was not immediately apparent on May 25. Pyongyang’s furious riposte to Seoul’s new measures included a threat that “All communication links between the north and the south will be cut off.” *In extremis*, closing the border could leave several hundred South Koreans – most of who commute daily across the DMZ from greater Seoul to work at the KIZ – as hostages, or at any rate stranded. Or if the North merely stopped answering the phone, as it explicitly threatened, that would suffice to sink the KIZ since cross-border passage depends on lists of names of those crossing each day being faxed North for the DPRK’s approval.

### **Kaesong: business as usual**

But it never happened. Throughout the crisis, even at its peak, the KIZ kept working and the commuters kept crossing the border. This was a first and welcome sign that both sides’ bark – even the North’s by now frantic baying – might be worse than their bite. Southern firms in the KIZ found their Northern workers keener than usual as if aware their livelihood may be at stake. One DPRK official told ROK managers not to take any machinery out of the zone unless it was leased or needed repair, saying it will be Seoul’s fault if the venture fails. And despite earlier

reports of labor shortages, MOU revealed in June that DPRK workers in the KIZ now number a record 44,000, up by 2,000 since January. That sounds like commitment.

The dawning and relief that it is still business as usual at the KIZ ushered in a fourth phase, which continues. In a word, the South backed down, leaving many scratching their heads as to what Lee Myung-bak's overall game-plan might be. Retreat was evident on many fronts. The propaganda loudspeakers have been readied, but have yet to start blaring their strident message. That is good; switching them back on was a bad idea, pointlessly provocative. The KPA had threatened to shoot them if they do start up. So a sensible retreat, but still a retreat.

Then there were the joint US-ROK anti-submarine drills in the West/Yellow Sea. Or rather there weren't, and probably won't be. They have been postponed several times, amid fears that they would rattle not only North Korea but also China – whose cooperation at the UN Security Council to condemn Pyongyang for the *Cheonan* Seoul still seeks, probably in vain.

The trade front too has seen back-pedaling. The KIZ is ring-fenced, but Seoul's ban affects some 800 other Southern firms, mainly small, who make a modest living trading with the North or having goods made there (this so-called processing on commission trade, or POC, was worth \$253 million last year). Naturally these companies are howling at the new peremptory freeze, which leaves many of them unable to fulfill contracts or with goods stuck in the North. Seoul has made some arbitrary-seeming exemptions for garlic and garments, and is hearing other grievances and demands for compensation. It all looks a bit of a mess, if not an own goal. For that matter, President Lee cut a contradictory figure at the Shangri-La Dialogue in Singapore on June 4 where he stressed the threat from the North and the need to tackle it, while also reassuring business and others that Korea is perfectly safe and a great place to invest.

### **Political fallout**

If the impact on business from South Korea's reaction to the *Cheonan* is messy, the political fallout both at home and abroad is worse. Presumably the whole JIG strategy was intended to convict North Korea, leaving no shred of ambiguity. But this approach has proved flawed on several fronts. An international team is all very well. But, except for some Swedes the team was drawn exclusively from the ROK's allies; all belligerents in the 1950-53 Korean War, the 60th anniversary of whose onset the South commemorated in late June with due solemnity and gratitude to those who gave their lives to repel that earlier attack by North Korea. Some critics make much of this bias and Russia complained at not being asked to take part. Had it been part of the team, Moscow might have found it harder to wriggle and temporize later on.

The full JIG report apparently remains unpublished for some reason. The five-page summary (available at [http://www.globalsecurity.org/military/library/report/2010/100520\\_jcmig-roks-cheonan/100520\\_jcmig-roks-cheonan.pdf](http://www.globalsecurity.org/military/library/report/2010/100520_jcmig-roks-cheonan/100520_jcmig-roks-cheonan.pdf)) has not quieted critics. Apart from conspiracy theorists with lurid fantasies of 'friendly fire' – for one example, see <http://japanfocus.org/-Tanaka-Sakai/3361> – there are specific loose ends, some technical. These are beyond our scope here, but see for instance <http://japanfocus.org/-John-McGlynn/3372>, or many articles over the past quarter in the left-leaning Seoul daily *Hankyoreh*: <http://english.hani.co.kr>.

That doubts remain means the JIG strategy has backfired, but it was arguably faulty from the outset. Painting North Korea into a corner – something Pyongyang does on its own account – is ineffectual and may raise risk. A cornered rat bites back. One theory of the *Cheonan* sees it in precisely these terms – a sharp jab by a regime that feels isolated and ignored, but is too savage and stupid to see or care that sinking a ship only makes matters worse. The article we cited last time from the center-right daily *JoongAng Ilbo* on March 25 (the *Cheonan* sank next day), urging Seoul to “give the North a card to play,” was spot-on – but alas, too late.

Even those who insist it is right to nail the criminal could surely have predicted that China and Russia would find reason not to play along. Seen from Beijing, DPRK collapse remains the worst-case scenario; the priority is to reduce tensions, not to point the finger. Hence, in early July it remained unclear what joy if any Seoul will get from the UNSC. South Korea is not seeking fresh multilateral sanctions; it would be hard to devise any on top of those already imposed under previous UNSC resolutions after Pyongyang’s two nuclear tests in 2006 and 2009. But it would welcome a strong, unanimous resolution. It may have to be content with a Chairman’s statement; a damp squib, frankly.

### **Rebuff at the polls**

More damaging for President Lee was the unexpected rebuff that voters gave his ruling Grand National Party (GNP) in local elections on June 2. With South Korea posting strong growth after a swift recovery from the global financial crisis, opinion polls had predicted an easy win for the GNP – assisted by a “north wind” from the *Cheonan*. In the past, fear of the North could be relied on to scare people into voting conservative. The center-left opposition Democratic Party (DP) accused Lee of timing the release of the JIG report to boost the GNP.

If that was Lee’s aim, it backfired badly. The DP won seven of the 16 key posts of big city mayor and provincial governor to the GNP’s six, doing even better at lower levels. In Seoul, an incumbent GNP mayor with presidential ambitions, Oh Se-hoon, almost lost to ex-Prime Minister Han Myung-sook (the ROK’s only woman premier so far), who campaigned as the “peace candidate.” Oh must now cohabit with a DP-controlled city council; the opposition won 79 of the 106 seats, as well as 21 of 24 ward headships (a GNP clean sweep last time).

What does this tell us about South Korean attitudes? One should be cautious here. Voters had much on their minds besides the *Cheonan*. A mid-term rebuff for an incumbent is not unusual – Lee’s five-year term reaches its half-way point in August. It has been quite a rollercoaster. Elected by a landslide in 2007, within months his popularity plunged amid protests ostensibly against the hasty unbanning of US beef imports, but reflecting wider unease at his ‘bulldozer’ (his nickname) propensities to charge ahead without building consensus. Skilled handling of the financial crisis restored Lee’s luster, but now voters have slapped him again.

In large part, this reflects domestic issues beyond our scope here, especially two contentious and costly projects – a new administrative city, and the “restoration” of four major rivers. As to the *Cheonan*, polls suggest a quarter of South Koreans are skeptical of the official verdict. It is hard to prove, but probably a larger number felt fearful in late May – and appear to have blamed Lee

Myung-bak for rocking the boat as much as Kim Jong-il for sinking it. For a moment South Korea looked into the abyss – before hastily putting its head back in the sand.

### **Stealing from Hyundai**

While the *Cheonan* cast a dark shadow over all else, it is not the totality of inter-Korean ties. Another big ongoing story, hardly less depressing, is the standoff over Mt. Kungang. The resort in the DPRK's southeast has now been idle for two years, since one of the 1.9 million ROK tourists who visited during its first decade (1998-2008) was shot dead after she strayed off-limits on a pre-dawn stroll. The North refused to let in a Southern team to investigate, so the South suspended the tours. Neither side has budged since, so the result is deadlock – and copious red ink for the developer, Hyundai Asan, which is close to bankruptcy.

In a campaign that began in March and was covered in our last issue, Pyongyang is now carrying out its threats to freeze and confiscate Southern property – including some owned by the ROK government – at Mt Kungang. It is also expelling the remaining staff, leaving only a minimal maintenance team. Thus far these measures are mainly symbolic – covering locks, for instance – and could easily be reversed if relations improve. But that prospect, alas, appears remote.

A more serious worry is that these facilities, worth over \$300 million, might be handed over to Chinese tour operators. They may well be used by others, which Hyundai Asan (though annoyed) says is not in breach of contract. Although ready to brave Seoul's wrath by fence-sitting over the *Cheonan*, Beijing surely draws the line at its firms handling stolen property.

### **Unhappy anniversary**

Needless to say, in the current atmosphere the 10<sup>th</sup> anniversary of the first inter-Korean summit in June 2000 went largely uncelebrated, especially in Seoul. Pyongyang used it as yet more mud to sling at Lee Myung-bak for his retreat from the former “Sunshine” policy.

In a throwback to the 1980s – some will remember the Rev. Moon Ik-hwan and “flower of unification” Im Soo-kyung, back in 1989 – a radical South Korean priest, Rev. Han Song-ryeol, made an unauthorized visit to Pyongyang for the summit anniversary, having been refused permission to go by MOU. He was duly feted in the North, and plans to return home across the DMZ on Liberation Day, Aug. 15, just as Im did. One hopes Seoul will learn from the past and not make a martyr of him. But, current attempts by the ROK authorities to criminalize “*Cheonan* deniers” for spreading false rumors are not encouraging.

### **Reshuffling the deck**

Much as this journal focuses on external relations, domestic developments cannot be ignored – especially if they affect foreign policy. One of many theories as to why North Korea sank the *Cheonan* links it to the DPRK's fitful succession process and associated power plays. Many permutations are possible. Kim Jong-il may have seen this as a gift to his son and heir Kim Jong-eun, or vice versa. Perhaps a naval commander did it to curry favor with both of them. Or the

opposite, perhaps whoever did it was trying to torpedo someone else's chances, or hopes of peace on the peninsula. Either way, the succession process wants watching.

Here, the past quarter brought movement and the promise of more to come. The Supreme People's Assembly (SPA), North Korea's rubber-stamp Parliament, having met as usual in April for a single day to approve a budget with no numbers, was unexpectedly recalled on June 7. This time Kim Jong-il showed up, and proposed his brother-in-law Jang Song-taek as vice chairman of the National Defense Commission (NDC), which is the top DPRK executive organ, outranking the merely civilian Cabinet. This cements Jang's position as the *de facto* number two man in Pyongyang, and the likely regent for and protector of Kim Jong-eun. (A reported rival for that role, Ri Je-gang, died in a mysterious but well-timed car crash on June 2.)

Elsewhere, Premier Kim Yong-il – no relation – was sacked, possibly for last December's currency reform fiasco. Rather than bringing in new young blood, his successor is a veteran loyalist – Choe Yong-rim, aged 79. Three vice-premiers were dismissed and four appointed, including the incumbent ministers for electronics and machine-building. Three ministers got the sack, those for food and light industry – suggesting all is not well in these most basic of fields – and sport, though the DPRK's footballers had yet to crash out of the World Cup. In a striking reinforcement of gerontocracy, the new vice premiers are aged 82, 80, 77, and 72.

Other mysterious machinations, mostly off-stage, affected several senior figures. On May 13 the NDC relieved Vice Defense Minister Kim Il-chol of all posts, citing "his advanced age of 80." That strains credulity. Not only are many top positions held by octogenarians, as just noted, but Kim looked well enough at recent outings – including the funerals of other elite figures. An admiral whose rise began with the 1968 seizure of the USS *Pueblo*, he was defense minister from 1998 till 2009, when he was demoted to vice minister – a rare step. His sudden departure might reflect dissent at this demotion. Or given his naval background, the speculation in Seoul is that this is linked in some obscure way to the *Cheonan* affair.

But youth may yet have its day. On June 26 the official *Korean Central News Agency (KCNA)* briefly reported that "the Political Bureau of the WPK [Workers' Party of Korea] Central Committee decides to convene early in September ... a conference of the WPK for electing its highest leading body reflecting the new requirements of the WPK."

This is intriguing on several fronts. Though it is nominally North Korea's ruling communist party, and still an important tool of control at lower echelons, the WPK has seen its topmost organs atrophy under Kim Jong-il. Neither the rarely mentioned Politburo – most of whose members have died off – nor the Central Committee (CC) is known to have met at all in the 16 years since Kim Il-sung died in 1994. Kim Jong-il has favored the army, ruling through the NDC and informally via a kitchen cabinet of trusted cronies. The "dear leader" is also of course secretary general of the WPK, but he acquired that post irregularly; by acclamation at a series of local Party meetings, rather than being duly elected by the CC.

Hence, while the precise nature of September's meeting remains vague, like its exact date, it looks like a long overdue effort to restore a measure of due process to the Party. If this is in fact a full formal WPK Congress, it would be the first since the Sixth Congress 30 years ago in October

1980. It was then that Kim Jong-il, hitherto veiled behind coded references to a mysterious “Party Centre”, was finally revealed in the flesh. The speculation is that this new meeting similarly will finally give the world a glimpse of the enigmatic Kim Jong-eun.

While all rumors emanating from Seoul should be treated carefully – the more so now that the ROK’s riposte to the *Cheonan* includes a declared resumption of psychological warfare – it is hard not to link this news with reports that Kim Jong-il’s health is worsening. There are claims that on some of his reportedly numerous guidance visits, aides including his son are deceiving him with Potemkin factories to conceal from him how dire the economy really is. Yet Kim is no fool – unless perhaps, as other reports suggest, he is developing Alzheimer’s. In that case an already tardy succession can clearly brook no further delay, or else regime stability and continuity may be gravely imperiled. Watch this space, next quarter.

### **The economy shrank again last year**

If Kim Jong-il wants or is *compos mentis* enough to know how his economy is really doing, he could look at the latest estimates from the enemy. Each year the (southern) Bank of Korea (BOK) endeavors to compute North Korean national income. Quite how they go about this in the absence of any official data is obscure, and some scholars are skeptical. But at least a time series using consistent methodology may pick up changes, which is better than nothing.

BOK published its latest estimates, covering 2009, on June 24 – just in time for Seoul to crow about them as it marked the Korean War anniversary. (They can be accessed online at <http://eng.bok.or.kr/contents/total/eng/boardView.action?menuNavId=634&boardBean.brdid=7093&boardBean.menuid=634&boardBean.rnum=3>.) By this reckoning, North Korea’s real annual gross domestic product (GDP) shrank by 0.9 percent last year. Unlike most other countries – including South Korea, which just scraped positive growth of 0.2 percent – this had little to do with the global financial crisis but reflected local conditions, natural and man-made: “...decreased agricultural production due to damage from particularly severe cold weather and sluggish manufacturing production owing to a lack of raw materials and electricity.”

According to BOK, North Korea has posted negative growth in three of the past four years. Taking the longer view, the DPRK economy has yet to recover from the catastrophe of the 1990s, when GDP plunged by half after the abrupt ending of aid from Moscow and famine took perhaps a million lives in 1995-98. GDP today is probably still lower than in 1989.

As usual, BOK’s North-South comparisons make painful reading. It was not always thus. In a new book the US scholar Nicholas Eberstadt deploys a wealth of statistics to conclude that North Korea – the site of most of the peninsula’s heavy industry during the Japanese colonial era – outperformed the South economically for a quarter of a century after partition in 1945, and perhaps even into the 1970s. (Further details at <http://www.aei.org/book/100034>.) That halftime lead, so to speak, has now been definitively reversed. The Northern economy has collapsed into prolonged and profound ruination, while the South continues to forge ahead.



## The gaps just get wider

The result is a huge and ever-widening gap. Structurally, agriculture still contributes a fifth of Northern GDP as against just 2.6 percent in the South. Services make up 61 percent of Southern GDP but only 32 percent in the North. In overall size – using a slightly different measure, nominal gross national income (GNI) – North Korea's national income in 2009 was a mere 2.7 percent of the South's. BOK gives the numbers in ROK won. Converting them to US dollars at the rate BOK cites (\$1=KRW1,276.4), North Korean GNI in 2009 was \$22.4 billion, against \$837 billion for the South. True, the South has twice as many people: 48.7 as against 23.3 million. But this hardly helps – average North Korean per capita income too is a minute fraction of the South's, with the ROK topping \$17,000 while the DPRK's is a paltry \$960. (Some experts, including an ex-unification minister, think even this is too high. They posit a figure nearer \$300, putting North Korea among the poorest nations on earth.)

With trade figures we are on firmer ground – and the gap is even wider. According to BOK, North Korea's merchandise goods trade in 2009 totaled \$3.41 billion – a mere 0.5 percent or one two-hundredth of South Korea's \$686 billion. But this is untrue. Annoyingly, BOK like other ROK government sources persists in excluding inter-Korean trade, on the specious ground that this is not foreign. (One might expect Lee Myung-bak of all people to have gotten rid of this nonsense, just as one hopes that one of these years BOK will convert its figures to the normal global units of thousand, million and billion, rather than presenting them in the Korean *man-ok* system which uses 10,000 and 100 million to confuse the unwary foreigner.)

This year inter-Korean trade will fall, since Seoul has banned most of it (except the Kaesong zone, which accounts for over half) as punishment for the *Cheonan*. Peanuts to the South, this has been crucial for the North. South Korea is its largest market, taking almost half of its meager total exports. Last year inter-Korean trade like DPRK trade overall fell, from \$1.82 to \$1.68 billion. Yet Northern exports still crept up slightly, from \$932 to \$934 million.

Reassembling what BOK perversely separates, in 2009 North Korea's real trade totals were just under \$2 billion in exports and \$3.1 billion in imports. They are still dwarfed by South Korea's respective figures of \$364 and \$324 billion – and remember this was a bad year for the South, due to the downturn; Seoul's 2008 figures had been \$422 and \$435 billion.)

One could go on, and BOK does. Sector by sector, it is a similar story. Only in mining (coal, iron ore) is the North ahead, and then only because most of the peninsula's minerals lie north of the DMZ. The Chinese are busy buying them, the more so now that Seoul has withdrawn from the fray, but that is another story that we have told in the past.

Otherwise the multiples pile up. In 2009, South Korea produced five times more fertilizer, eight times more cement, 18 times more electricity, and 39 times more steel than the North. It even grew 2.6 times as much rice, and imported 219 times as much crude oil. And so on, and so on. Every year the gap widens further, yet Kim Jong-il refuses economic reform. It is hard to fathom a mindset that can inflict such disaster and tragedy on a once proud land and people – and whose idea of a way out of its self-dug hole is to fire a sneaky torpedo.

## Good losers

In a busy quarter all round, it was left to North Korea's footballers to remind the world that their country does not lack for talent and virtue. For the first time ever, both Koreas made it to the finals of the soccer World Cup, held in South Africa. Luck of the draw put the DPRK in a formidable group. They began quite credibly, going down 2:1 to Brazil on June 15 in a game far more evenly matched than most had expected, including a brilliant late goal from Ji Yun-nam. That was the high point. There followed a 7:0 trouncing by Portugal – who had also knocked their famous predecessors out of the 1966 competition, held in England – and a 3:0 defeat by Ivory Coast. (South Korea fared better in an easier group; they reached the last 16, only to be knocked out on June 26 by mighty Uruguay – population 3.5 million.)

As one would expect, North Korea were a disciplined team, a refreshing change from the petulant prima donnas who rule the modern game. Yet, as in 1966, this was not at the price of flair, at least on the field. Off-pitch was another story. The team kept to itself and avoided the press – with one striking exception. Jong Tae-se, known as the Asian Wayne Rooney, is not your average North Korean. Indeed, his biography and demeanor alike hint at complexities and subtleties on the ground which the current rulers in Pyongyang and Seoul alike – to both of which Jong has affiliations – seem to have lost sight of. Born in Japan to a South Korean father and a pro-North Korean mother, having attended schools run by Chongryun – the organization of pro-North Koreans in Japan – he elected to play for the DPRK; although he still holds ROK nationality, lives in Japan and plays in the J-League for Kawasaki Frontale.

A young man whose talk is as uninhibited as his style of play and who wears his heart on his sleeve, Jong cried when the DPRK anthem was played before the Brazil match. Yet his love for his adopted homeland is not uncritical. “Everybody thinks about our country as being closed and mysterious, so we have to change that,” he told *AFP*. “We can change for the better if we are more open with the way we talk to people and it would make a better team.” And a better country too. If North Korea's future must rest in the hands of an untried youth, the warm-hearted Jong Tae-se sounds a safer bet than the spoiled and callow Kim Jong-eun.

## Learn from Chun

Putting aside dreams and looking soberly ahead, it is not too soon to ponder how the Koreas will get past the *Cheonan*, as eventually they must and will. There is a precedent for this. It is rare to cite the rightly reviled dictator Chun Doo-hwan as a model for anything; in another grim anniversary this quarter, May marked 30 years since the Gwangju massacre in 1980, when Chun's paratroopers slaughtered hundreds who had risen to defend democracy. Not a few in South Korea would have cheered, if North Korea's notorious attempt to kill Chun in Rangoon three years later had succeeded. As it was, this flagrant act of terrorism, blowing up a sacred shrine on the soil of a friendly state – it took 20 years for DPRK-Burma relations to recover – killed 17 innocent senior South Koreans and four Burmese.

Less than a year later Pyongyang goaded Chun again. South Korea suffered serious floods, which killed 190 and left 200,000 homeless. The North loftily offered aid. With rare cunning and imagination, Chun said yes – no doubt to Kim Il-sung's consternation, as he now had to deliver

the goods. So in late 1984 Korea saw the unprecedented spectacle of Northern ships docking in Southern ports. Other goods – rice, medicine, clothes, cement – were brought by truck to Panmunjom and handed over. No matter that the medicine was judged unsafe and quietly warehoused. It was the gesture that counted. This led in 1985 to a year of dialogue, including the first ever family reunions. In the end the talks foundered, but it was a start.

A Korean proverb often heard during the “Sunshine” era (1998-2007), but no longer, is *Sijaki banida*: the first step is half the journey. Patently it is not. The long and tortuous history of inter-Korean relations has seen many a first step, but all too few second steps or sustained processes. If anything, it resembles the board game snakes and ladders. The *Cheonan* sinking is an especially long and nasty snake, taking things back almost to square one. But not quite. The Kaesong zone is still in business and behind their current standoff both sides now have over 20 years of shared experience to draw on and learn from – if they so choose.

Might soccer help? On June 16 Lee Myung-bak’s aides reported that the ROK president had got up in the small hours to watch the DPRK play Brazil in the World Cup finals in South Africa. His spokesman said that Lee “wholeheartedly supported the North Korean team and wished them good luck ... Inter-Korean relations have been worsening since the sinking of the warship *Cheonan*, but it is politics. As a compatriot, he really wanted them to win.”

That sounds like an olive branch – or perhaps a tacit admission that Lee has no clear idea of how to handle the North, as has been apparent ever since he was elected 30 months ago. The *Cheonan* makes everything harder, but Lee faces a choice. If he deems the North beyond all hope of salvation, then he must devote the rest of his term to urgently preparing South Korea for the tumult, risk, and costs of a Northern collapse – for which the South is absolutely not ready, on any level. Alternatively, if he sees any chance at all of warding off that calamity, then he and somebody in Pyongyang have to find a way to start talking again, somehow.

In the wake of June 2’s election defeat, President Lee is expected to reshuffle his Cabinet before by-elections due on July 28. The portfolios slated for change include unification, where the incumbent – Hyun In-taek, a hard line professor – has little to show for his 18 months in the post. An imaginative choice of a new helmsman at MOU – a ministry that Lee had at first sought to abolish, tellingly – would send a signal to Pyongyang of a readiness to try to move forward. Of course, the *Cheonan* must be atoned for. But if North and South are to find a way out, then sooner or later this tragic crime will also have to be transcended.

## **Chronology of North Korea-South Korea Relations** **April – June 2010**

**April 2, 2010:** Under the headline “Suspicion of N. Korean Hand in Sinking Mounts,” the Seoul daily *Chosun Ilbo* quotes military sources as citing a “60-70 percent chance” that the *Cheonan* was hit by a torpedo from a DPRK semi-submersible, rather than an old mine.

**April 4, 2010:** As senior defector Hwang Jang-yop arrives in Japan after visiting the US, the *Mainichi Shimbun* reports that in secret speeches after the former secretary of the North’s ruling Workers’ Party of Korea (WPK) defected in 1997, Kim Jong-il cursed him as “worse than a

dog.” A day later *Uriminzokkiri*, an official DPRK website, calls Hwang “an ugly traitor” and warns he “will never be safe.” At 87 Hwang remains an active and fierce critic.

**April 4, 2010:** North Korea accuses the South of an “armed provocation” – specifically, of firing at them – in the eastern sector of the Demilitarized Zone (DMZ). Seoul denies this.

**April 5, 2010:** The Science and Technology Policy Institute (STEPI) in Seoul, an ROK state think-tank, after a technical analysis says that the DPRK’s Linux-based “Red Star” computer operating system is mainly designed to monitor and control its users’ access to the Internet.

**April 6, 2010:** Won Se-hoon, head of the National Intelligence Service (NIS), tells the National Assembly (NA)’s Intelligence Committee that Kim Jong-il may visit China later in the month. He also says it is difficult to conclude without further evidence that North Korea was implicated in the sinking of the *Cheonan*.

**April 8, 2010:** The DPRK freezes ROK state-owned facilities at the idled Mt Kumgang tourist resort. Locks are sealed, and four workers expelled. However the expulsion does not extend to two employees of Hyundai Asan.

**April 9, 2010:** The Supreme People’s Assembly (SPA) holds its annual one-day meeting. It passes a budget without solid numbers. The Constitution is revised, but no details are published.

**April 10, 2010:** The North’s *Korean Central News Agency (KCNA)* cites military officials as threatening “decisive measures” unless Seoul stops NGOs sending critical leaflets across the DMZ by balloon. *KCNA* calls this a “despicable psychological smear campaign.”

**April 10-11, 2010:** Eight officials led by Pak Rim-su, policy director of the National Defence Commission make a surprise inspection of the Kaesong Industrial Zone (KIZ). The ROK Unification Ministry (MOU) reports that the inspectors’ questions ranged from the productivity of the KIZ’s 42,000 Northern workers to the capacity of its sewage system.

**April 12, 2010:** At the inaugural Nuclear Security Summit (NSS) held in Washington, President Lee calls on North Korea to dismantle its nuclear weapons program. If it does so, Lee offers to invite the DPRK to the next NSS in Seoul in 2012.

**April 12, 2010:** A 395-strong Chinese tourism delegation arrives in Pyongyang. The concern in Seoul is that the North’s Mt Kumgang resort may be given to Chinese firms to use or run.

**April 13, 2010:** MOU says in a report to the NA that prices and exchange rates in the North seem now to be stabilizing after a volatile period following 2009’s currency redenomination.

**April 14, 2010:** On the eve of “Sun’s Day” – DPRK founder Kim Il-sung’s birthday, Kim Jong-il promotes 100 general-grade military officers.

**April 15, 2010:** The *Cheonan*’s stern section is retrieved, containing many bodies. The whole process is shown live on ROK TV, with broadcasters suspending their normal programming.

**April 16, 2010:** South Korean investigators cite an external explosion as the likeliest cause of the sinking of the ROK corvette *Cheonan*.

**April 17, 2010:** In Pyongyang's first official comment on the *Cheonan*, *KCNA* denies any DPRK role in this "regretful accident." It accuses "puppet military warmongers, right-wing conservative politicians and... other traitors in south Korea" of "foolishly seeking to link the accident with the north at any cost," so as to divert attention from "the worst ruling crisis."

**April 17, 2010:** *Rodong Sinmun* dismisses Lee Myung-bak's "grand bargain" for denuclearizing the DPRK as "a childish and clumsy plot that does not even deserve a mention.... [It] makes us wonder how they will resolve all the issues ... such as the pullout of US troops, end of joint military exercises and a peace treaty between the DPRK and the US, all at the same time."

**April 20, 2010:** The Seoul Central District Prosecution says that two North Korean secret agents, who entered the South via China and Thailand disguised as defectors, have been arrested for plotting to kill the senior defector Hwang Jang-yop (see April 4).

**April 20, 2010:** Foreign Minister Yu Myung-hwan says there is no evidence that a third DPRK nuclear test is imminent. US State Department concurs. He adds that if Pyongyang is guilty of the *Cheonan*'s sinking, Six-Party Talks will not resume and "all options" will be reviewed.

**April 21, 2010:** A memorandum of the DPRK Foreign Ministry (MFA) reiterates its demand to be recognized as a nuclear arms state before joining global denuclearization efforts. In return, Pyongyang "will neither participate in a nuclear arms race nor produce more [nuclear weapons] than it feels necessary."

**April 22, 2010:** Zhang Xinsen, the newly arrived Chinese ambassador in Seoul, describes the *Cheonan* sinking as "unfortunate" but calls for "... more dialogue between South and North Korea as brothers to maintain peace on the Korean peninsula."

**April 23, 2010:** The DPRK General Guidance Bureau for the Development of Scenic Spots (GGBDSS) announces that it will "freeze all the remaining real estates of the south side in the Mt. Kumgang Tourist Zone and expel all their management personnel."

**April 24, 2010:** Chief of the KPA General Staff Ri Yong-ho attacks "the conservative ruling forces of south Korea" as "wicked sycophants, traitors and enemies of national reunification ... hell-bent on perpetuating national division and provoking a new war."

**April 25, 2010:** Kim Jong-il's visits include KPA Unit 586, thought to be the Ministry of People's Armed Forces (MPAF) reconnaissance bureau which handles anti-ROK operations.

**April 25-30, 2010:** The US-based North Korea Freedom Coalition holds its annual North Korea Freedom Week (NKFV) in Seoul for the first time, instead of Washington. It closes with a balloon launch across the DMZ sending radios, money and messages. Je Sung-ho, the ROK government's envoy for North Korean human rights, is among the speakers.

**April 27-28, 2010:** The GGBDSS carries out its threat of April 23, unilaterally freezing facilities at Mt Kumgang including shops, a hotel, a restaurant and golf course.

**April 30, 2010:** ROK President Lee and the DPRK's titular head of state, Kim Yong-nam, each attend the opening ceremony of the Shanghai World Expo. They do not actually meet, being seated at separate dinner tables.

**May 1, 2010:** Fighters for Free North Korea (FFNK), a Seoul-based NGO, sends 500 small balloons across the DMZ for NKFW (see April 25). Their contents include 100,000 leaflets, 3,000 US\$1 notes, 200 small radios, 200 DVDs, anti-regime materials and the full text of the Universal Declaration of Human Rights. FFNK carried out a similar exercise on April 15.

**May 3, 2010:** UN Secretary General Ban Ki-moon, a former ROK foreign minister, calls on North Korea to return to the Six-Party Talks.

**May 3, 2010:** Sources in Seoul and elsewhere report that Kim Jong-il has begun a long-awaited and nominally secret visit to China: his first since 2006 and his fifth since 2000. He returns home on May 7, apparently a day earlier than planned and possibly in high dudgeon.

**May 4, 2010:** *Minju Joson*, daily paper of the DPRK Cabinet, warns of further "punitive measures" if South Korea retaliates against the seizure of Southern assets at Mt. Kumgang.

**May 3, 2010:** *Choson Sinbo*, daily paper of pro-North ethnic Koreans in Japan, warns that "befitting counteraction will be taken" if Seoul blames Pyongyang for sinking the *Cheonan* and takes action against the North in consequence.

**May 5, 2010:** The DPRK website *Uriminzokkiri* dismisses claims that the North tried to kill Hwang Jang-yop as "a groundless act of manipulation" by Seoul. (But see April 4, above.)

**May 6, 2010:** Accusing Seoul of arousing tension, *Minju Joson* warns that "if the [South] conservative faction provokes a war, it will severely taste the power of the war deterrent that our military and people have been strengthening."

**May 7, 2010:** An unnamed ROK Foreign Ministry (MOFAT) source in Seoul refutes the idea that Kim Jong-il's visit to China means that North Korea will return to the Six-Party Talks.

**May 11, 2010:** Hyundai Asan said it incurred operating losses of 32.3 billion won (\$28.4 million) last year, plus additional losses of about 2 billion won per month this year, from the South's suspension of Mt. Kumgang tourism.

**May 11, 2010:** MOU reveals that on May 1 North Korea took a 20-strong Chinese business group around the KIZ, adding: "We're not clear about what the North is trying to achieve."

**May 12, 2010:** *Rodong Sinmun* claims that the DPRK has accomplished “successful nuclear fusion.” No details are given, but outsiders are skeptical. If true this could enable Pyongyang to make a hydrogen bomb.

**May 13, 2010:** MOU tells some 200 ROK firms doing business with the North not to visit, sign new deals or supply any further materials, lest they “suffer unexpected losses under the uncertain and murky circumstances” on the peninsula. The Kaesong zone is exempted.

**May 14, 2010:** The North’s NDC relieves Kim Il-chol, an admiral and ex-defense minister demoted to vice minister last year, of all his posts, citing “his advanced age of 80.”

**May 17, 2010:** MOU says that on May 14 it formally asked 12 Cabinet ministries or agencies to suspend their budgets for exchanges with North Korea. It says humanitarian aid is exempt, but NGOs complain they are forbidden to send even milk powder and medicines for infants.

**May 17, 2010:** Veteran DPRK political figure Yang Hyong-sop, currently vice-chair of the SPA Presidium, in the first comment on the *Cheonan* by a named senior Northern official, denounces the “puppet military fascist clique” for escalating confrontation by falsely accusing the North.

**May 17, 2010:** The 13th Pyongyang Spring International Trade Fair opens, with exhibitors from 12 countries. These include “Taipei of China,” but not South Korea.

**May 18, 2010:** Two groups of South Koreans working in the North are recalled; MOU claims they returned voluntarily. 11 archaeologists quit a joint palace excavation in Kaesong three weeks early, while 64 sand collectors working off both coasts sail home.

**May 18, 2010:** South Korea’s Defense Ministry says that investigators have found evidence pointing to a North Korean attack on the *Cheonan*.

**May 18, 2010:** MOU says a Southern manager at the KIZ was questioned and expelled on May 14 after being found with a booklet of training materials for DPRK workers in the zone.

**May 19, 2010:** Foreign Minister Yu Myung-hwan says North Korea’s role in sinking the *Cheonan* is “obvious.” The same day the DPRK Committee for the Peaceful Reunification of Korea (CPRK) accuses the “puppet group” of using the sinking as a “golden opportunity to push North-South relations to a catastrophe.”

**May 20, 2010:** South Korea’s Joint Investigation Group (JIG) of local and foreign experts publishes its findings that the *Cheonan* was sunk by a DPRK torpedo. The US, Japan, and other Western allies offer support and condemn North Korea. Seoul says it will announce its retaliation after the weekend.

**May 20, 2010:** North Korea’s NDC denies culpability for the *Cheonan* and says it will send an inspection team to the south: “The group of traitors should produce before the dignified inspection group of the DPRK material evidence proving that the sinking of the warship is linked

with us.” The NDC further threatens a “sacred war”, “unpredictable sledge-hammer blows” and much more against traitors, riff-raffs, lackeys and human scum.

**May 21, 2010:** Seoul rejects Pyongyang’s demand to send inspectors, telling it to raise this at the Military Armistice Commission. In fact the MAC has been in limbo since the North unilaterally withdrew from it in the 1990s.

**May 22, 2010:** DPRK Defense Minister Kim Yong-chun repeats the demand that the South “unconditionally” allow a Northern delegation to inspect the *Cheonan* evidence.

**May 24, 2010:** The South’s state-run Korea Trade-Investment Promotion Agency (Kotra) says that North Korea’s trade volume in 2009 fell 10.5 percent from 2008 to \$3.41 billion, with UN sanctions a major cause.

**May 24, 2010:** The ROK’s response to the *Cheonan* comes in a speech by President Lee and a joint press conference of the defense, foreign affairs, and unification ministries. Seoul will complain to the UN Security Council (UNSC). Inter-Korean trade is suspended, except the KIZ. DPRK ships are barred from ROK waters. Cross-border propaganda broadcasts will be resumed, and Seoul will react militarily to any future provocation. This rattles the markets.

**May 25, 2010:** In a vehement riposte, the North’s Committee for the Peaceful Reunification of Korea (CPRK) issues a terse 8-point statement declaring *inter alia* that “all relations with the puppet authorities will be severed,” with no further contact while Lee Myung-bak is in office. “All communication links between the north and the south will be cut off” and inter-Korean relations “will be handled under a wartime law.” Markets worldwide register falls.

**May 26, 2010:** The DPRK expels eight ROK government officials from the KIZ. It repeats a threat to shoot Southern loudspeakers if propaganda broadcasts resume. Yet the KIZ remains in operation, as do cross-border traffic and the telecoms required to approve passage.

**May 26, 2010:** The South’s Korea Rural Economic Institute (KREI) publishes an analysis of North Korea’s December 2008 census. The DPRK population is tallied at 23.34 million.

**May 27, 2010:** The KPA General Staff issues a seven-point “crucial notice.” *Inter alia*, this retracts military guarantees for North-South cooperation and exchange; threatens “merciless counteractions” if the South resumes propaganda broadcasts at the DMZ; bans “entry of the group of traitors including the puppet authorities into the DPRK;” closes North Korea’s seas, airspace and territory to “warships, airplanes and other means of transportation of the group of traitors;” and declares void agreements to prevent accidental conflict in the West Sea.

**May 27, 2010:** South Korea launches an anti-submarine drill off its west coast.

**May 28, 2010:** The final declaration of the Nuclear Nonproliferation Treaty (NPT) review conference urges Pyongyang “to fulfill [its] commitments under the six-party talks, including the complete and verifiable abandonment of all nuclear weapons and existing nuclear programs in accordance with the September 2005 Joint Statement.”



**May 28, 2010:** North Korea's NDC holds a press conference to refute the South's charges that the North sank the *Cheonan*. Maj. Gen. Pak Rim-su, director of the NDC's policy department, says: "It does not make any sense militarily that a 130-ton submersible carrying a heavy 1.7-ton torpedo traveled through the open sea into the South, sank the ship and returned home." He also criticizes Seoul for not letting the North in to conduct its own investigation.

**May 30, 2010:** MND rebuts the NDC's denials from May 28 in detail.

**May 30, 2010:** A 100,000-strong mass rally in Pyongyang denounces the South for accusing the North of sinking the *Cheonan*.

**May 31, 2010:** A Seoul official says that despite Pyongyang's threats to shut the Kaesong industrial zone (KIZ), North Koreans on-site want to keep it going.

**May 31, 2010:** South Korea's National Human Rights Commission (NHRC) says it will draw up Seoul's first "road map" for improving North Korean human rights.

**June 1-5, 2010:** *KCNA* reports mass rallies in four northerly provinces – North Pyongan, Jagang, South Hamgyong, and Ryanggang – to denounce "the US imperialists and the Lee Myung-bak group of traitors for their smear campaign against the DPRK." June 3 sees similar rallies in southern areas: Kangwon, North and South Hwanghae, and Nampo city. South Pyongan and North Hamgyong follow suit on June 4-5, completing the line-up.

**June 2, 2010:** *KCNA* reports Kim Jong-il as attending a function for the first time since May 21.

**June 2, 2010:** President Lee's ruling Grand National Party (GNP) suffers an unexpected rebuff in local elections.

**June 3, 2010:** *KCNA* calls ROK local election results an "iron hammer" against Lee Myung-bak.

**June 4, 2010:** The ROK formally refers the *Cheonan* sinking to the UN Security Council (UNSC). North Korea urges the UNSC to demand a new probe into this, and threatens "the toughest retaliation" should the world body discuss punishing the DPRK.

**June 7, 2010:** A rare second meeting of the DPRK SPA sees Kim Jong-il's brother-in-law Jang Song-taek promoted to vice-chairman of the NDC.

**June 8, 2010:** Some 40 ROK companies doing processing on commission (POC) trade with the DPRK call on Seoul to suspend its trade ban so they can honor contracts already made.

**June 9, 2010:** MOU says it has approved two civilian shipments of baby food for DPRK infants, the first humanitarian aid since the *Cheonan* findings.

**June 9, 2010:** The ROK military says it has completed installing loudspeakers in eleven frontline locations, but has not yet decided when to resume propaganda broadcasts.

**June 9, 2010:** Sin Son-ho, DPRK permanent representative at the UN, sends a message to UNSC President Claude Heller, urging a new probe into the sinking of the *Cheonan* and again warning of “serious” consequences if punishment against Pyongyang is discussed.

**June 7, 2010:** A report by the Korea Development Institute (KDI), an ROK state think-tank, says the DPRK’s currency reform last December has led to escalating inflation, economic chaos and social unrest as the Northern won plunged in value despite its redenomination.

**June 10, 2010:** A South Korea rocket carrying a climate observation satellite explodes seconds into its flight, the country's second major space setback in less than a year.

**June 11, 2010:** KDI estimates that the South’s suspension of most mutual trade will cost North Korea about \$280 million a year.

**June 11, 2010:** A GNP lawmaker quotes ROK Defense Minister Kim Tae-young as telling the NA that “we expelled 11 North Korean ships from our waters 20 times” with “no major trouble” since Seoul decided to bar passage to DPRK vessels on May 24.

**June 11, 2010:** *KCNA* briefly reports on the ROK’s failed rocket launch.

**June 11, 2010:** At a diplomatic reception in Johannesburg for the start of the soccer World Cup, DPRK ambassador to South Africa An Hui-jong follows his ROK counterpart Kim Han-soo to the bathroom, grabs his arm from behind, and threatens that Pyongyang “will not just let go” if Seoul continues to campaign globally over the *Cheonan*.

**June 12, 2010:** The KPA General Staff issues a “crucial declaration.” This repeats a warning that it will “blow up” the South’s propaganda loudspeakers, adding the threat of a “merciless strike [to] turn Seoul, the stronghold of the group of traitors, into a sea of flame.”

**June 12, 2010:** Rev. Han Sang-ryeol, a radical South Korean priest, flies into Pyongyang to celebrate the 10th anniversary of the 2000 North-South summit.

**June 13, 2010:** *Choson Sinbo* says that North Koreans watching the soccer World Cup on TV “without exception” cheered for South Korea, who beat Greece 2-1 on June 12.

**June 14, 2010:** South Korean diplomats and technical experts from the JIG brief the UNSC on the *Cheonan* for two hours. No dissent is voiced, though China and Russia are silent. The Council then hears North Korean diplomats for one hour, who deny any involvement.

**June 14, 2010:** At a meeting in Pyongyang to mark the 10th anniversary of the North-South summit, the senior DPRK figure Yang Hyong-sop says that the only way to avoid war is to implement the June 15 joint declaration signed in 2000 by Kim Jong-il and Kim Dae-jung.

**June 14, 2010:** *KCNA* reports that the DPRK has issued a new postage stamp to mark the 10th anniversary of the historic June 15 joint declaration between the two Koreas.

**June 14, 2010:** A survey of teenage Northern defectors in South Korea finds that over half (79 out of 140) watched Southern films or dramas on DVD or videotape while still in North Korea.

**June 15, 2010:** DPRK political parties and organizations issue a joint statement on the 10th anniversary of the June 15 joint declaration. This claims that the [Southern] “puppet group’s frantic moves for confrontation and war are aimed at effacing the June 15 joint declaration from the minds of the south Korean people and leaving it forgotten for good.”

**June 15, 2010:** MOU says it has approved four more shipments of humanitarian assistance to four different regions of North Korea.

**June 18, 2010:** MOU says it is assessing claims by some 800 ROK firms that Seoul’s ban on inter-Korean trade has hurt them. It warns that this does not imply a commitment to offer any or all of them emergency funding. (See also June 8 and June 11.)

**June 18, 2010:** The United Nations Human Rights Council (UNHRC) appoints Marzuki Darusman, a former attorney general of Indonesia, as special rapporteur on human rights in North Korea.

**June 19, 2010:** *KCNA* reports an unusually full schedule for Kim Jong-il. In a single day he visited a mine, an electronics factory, a co-operative farm, a machine complex and a military training facility, all in the northwest.

**June 21, 2010:** Seoul’s Foreign Ministry confirms press reports that the gas xenon has been detected near the DMZ, but denies that this means Pyongyang has conducted a nuclear test.

**June 22, 2010:** The ROK says it has a sales brochure picturing a heavy torpedo of the same type as that which sank the *Cheonan*, and bearing the message: “Guaranteed by the DPRK.”

**June 22, 2010:** At a press conference in Pyongyang, Rev. Han Sang-ryeol denounces the Lee Myung-bak administration for turning its back on the June 2000 joint declaration.

**June 23, 2010:** MOU reports to the NA that, despite the *Cheonan* tensions, the number of North Korean workers at the Kaesong IZ in June reached an all-time high of 44,000.

**June 24, 2010:** The South’s central Bank of Korea (BOK) publishes its annual estimates of North Korean national income.

**June 24, 2010:** Won Sei-hoon, director of the National Intelligence Service (NIS), tells the National Assembly’s Intelligence Committee that Kim Jong-il’s ill health is driving him to hasten the process of installing his third son Kim Jong-eun as his successor.

**June 24, 2010:** MOU says it will allow an NGO to send anti-malaria aid worth 400 million won (US\$337,000) to North Korea.

**June 25, 2010:** Both Korea mark the 60th anniversary of the outbreak of the Korean War. In Pyongyang 120,000 people attend an anti-US rally. In Seoul President Lee thanks the ROK's UN allies for their sacrifice and demands the DPRK admit and apologise for sinking the *Cheonan*.

**June 26, 2010:** G8 leaders meeting in Canada condemn the *Cheonan*'s sinking, note that the JIG found North Korea guilty, and call on Pyongyang to refrain from provocations.

**June 26, 2010:** *KCNA* reports the WPK Political Bureau as calling a very rare meeting for early September, "for electing its highest leading body reflecting the new requirements of the WPK".

**June 27, 2010:** Pyongyang rejects as "preposterous" a proposal by the UN Command (UNC) in Korea that the Military Armistice Commission (MAC) discuss the *Cheonan*. It repeats a demand to send its own inspectors.

**June 28, 2010:** The US State Department says that while the *Cheonan* sinking violates the 1953 Korean Armistice, it does not merit North Korea's relisting as a state sponsor of terrorism.

**June 28, 2010:** The KPA's Panmunjom mission accuses USFK of bringing unspecified "heavy weapons" into the truce village, and warns of "strong military countermeasures" if they are not quickly withdrawn.

**June 28, 2010:** Pyongyang says that in face of US hostile threats it will "bolster its nuclear deterrent in a newly developed way."

**June 29, 2010:** *Minju Choson*, warning that upcoming US-ROK naval drills could lead to "armed conflict and a full-scale war," threatens to "uproot the stronghold of invaders."

**June 30, 2010:** *Choson Sinbo*, reports that the DPRK soccer team returned home stony-faced on June 29, but "regained their smiles after being welcomed by their families" and supporters crowding Pyongyang's Sunan airport.

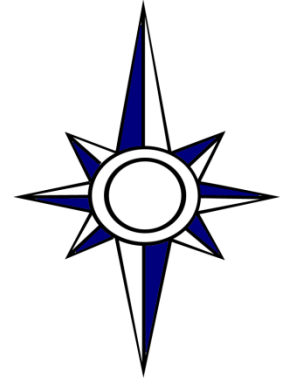
**July 1, 2010:** An MOU official says ROK port officials are inspecting cargoes from third countries to ensure that no DPRK goods enter the country.

**July 1, 2010:** Seoul Central District Court sentences two Northern spies, who entered the South in the guise of refugees, to 10 years in jail each for plotting to assassinate the senior DPRK defector Hwang Jang-yop. Both pleaded guilty and cooperated with the investigation.

**July 5, 2010:** ROK firms operating in the KIZ say they will meet Rep. Won Hee-ryong, who chairs the NA's foreign policy committee, to press for easing of restrictions imposed in May (as retaliation for the *Cheonan*) on the number of South Koreans they are allowed to hire.

# Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



**China-Korea Relations:**

## **The *Cheonan* and China’s “Double Play”**

**Scott Snyder**

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The March 26 sinking of the South Korean warship *Cheonan* in the West Sea that killed 46 soldiers served as the backdrop for a series of high-level exchanges between China and the two Koreas as China came under international pressure to provide a tough response to the incident. Kim Jong-il paid an “unofficial” visit to China on May 3-7 and met President Hu Jintao in Beijing, days after ROK President Lee Myung-bak’s summit with Hu. Kim’s delegation included senior officials from the Foreign Ministry, Worker’s Party of Korea, and the DPRK Cabinet. Lee attended the April 30 opening ceremony of the 2010 World Expo in Shanghai, where President Hu also met the DPRK’s top legislator Kim Yong Nam. Lee and Hu held another round of bilateral talks on the sidelines of the G20 Summit on June 26 in Toronto, where they pledged to strengthen the China-ROK strategic cooperative partnership despite unresolved tensions over North Korea. Premier Wen Jiabao paid a three-day visit to South Korea on May 28-30 and met President Lee in Seoul prior to the third China-ROK-Japan trilateral meeting in Jeju. Foreign Ministers Yu Myung-hwan and Yang Jiechi also held talks on the sidelines of the fourth trilateral foreign ministers meeting with Japan on May 15-16 in Gyeongju.

South Korea formally referred the *Cheonan* case to the UN Security Council on June 4 after results of an international investigation were released on May 20 indicating that the warship sinking was caused by a North Korean torpedo. Meanwhile, Beijing has repeatedly called for “calm and restraint” in dealing with the crisis. South Korean media criticized President Hu for remaining “non-committal” toward the sinking of the *Cheonan* at his summit with President Lee in Toronto, where Hu stated that “China opposes and condemns any act that would undermine stability in the region” but did not make any reference to North Korea.

### **China’s summit diplomacy with the two Koreas**

President Hu Jintao offered condolences to the families of the South Korean sailors killed in the sinking of the *Cheonan* during his meeting with President Lee Myong-Bak in Shanghai. It was his first public mention of the incident after the sinking of the ship a month earlier. Although Seoul officials expected the April summit to lead to intensified consultations with China on laying out an international response, Lee’s Shanghai trip was regarded as “halfway successful” as the leaders discussed the incident but failed to address how China would deal with the North. The Shanghai summit also dealt with economic priorities of trade and economic cooperation, bilateral free trade agreement (FTA) talks, and the G20 as an opportunity for coordination on global issues. South Korean officials and analysts have recognized the difficulty of gaining Chinese support for a joint international response to the *Cheonan* sinking even with evidence

supporting DPRK involvement. While the June 26 meeting between Lee and Hu in Toronto produced no new results in addressing *Cheonan*, they did agree to expand bilateral trade to \$200 billion by 2012 and \$300 billion by 2015 and to enhance cooperation in other areas such as education, science and technology, and culture.

Following weeks of speculation in the South Korean media, Kim Jong-il finally made appearances in Dalian, Tianjin, and Beijing in early May. According to their custom, Chinese and DPRK state media confirmed Kim Jong-il's visit to China only at the end of his five-day trip on May 7. In addition to meeting President Hu, Kim held talks with Premier Wen Jiabao and top legislator Wu Bangguo, and met other key members of China's Political Bureau Standing Committee of the CPC Central Committee, including Jia Qinglin, Li Changchun, Xi Jinping, Li Keqiang, He Guoqiang, and Zhou Yongkang. Kim's delegation included Kim Yang-geon, director of the DPRK Unification Front overseeing inter-Korean and China-DPRK relations and head of an organization tasked with attracting foreign investment; Choi Tae-bok, a leading figure in science and technology; and Kim Yong-chun, vice chairman of the National Defense Commission and North Korea's top military official. President Hu presented five proposals to strengthen China-DPRK ties, including: maintaining high-level contacts, reinforcing strategic coordination, deepening economic and trade cooperation, increasing personnel exchanges, and strengthening coordination in international and regional affairs. Kim Jong-il also toured China's major economic development zones, ports, and enterprises in Dalian, Tianjin, Beijing, and Shenyang in North/Northeast China, during which both sides emphasized "pragmatic cooperation" from a "strategic and long-term perspective."

Beijing has continued efforts to develop strategic ties with both Koreas. ROK Vice Foreign Minister Shin Kak-soo and Chinese counterpart Wang Guangya held the second China-South Korean High-level Strategic Dialogue on April 6 in Seoul, where both sides renewed their pledge to further the strategic cooperative partnership. China and North Korea also agreed to strengthen military ties during a visit to China on March 30-April 3 by An Yonggi, director of the People's Armed Forces Foreign Affairs Department, who met Xu Caihou, vice chairman of the Central Military Commission, in Beijing.

Although the South Korean government has pushed hard for China to recognize North Korea as being responsible for the *Cheonan* tragedy, Chinese leaders have consistently reaffirmed their commitment to address the case "in an objective and fair manner," sidestepping South Korean demands. China's Foreign Ministry stated that Wen's main goals during his late May visit to Seoul were to "increase mutual political trust and optimize existing cooperation mechanisms," while Chinese media highlighted comprehensive efforts to strengthen the China-ROK partnership despite renewed differences over North Korea.

Despite South Korea's focus on the *Cheonan* incident and the need for a strong response, China attempted to handle the relationship with South Korea in a business-as-usual manner. Ahead of Wen's visit, Vice Foreign Minister Zhang Zhijun expressed hopes to expand the scope of China-ROK cooperation and advance bilateral FTA talks, and Chinese Ambassador to Seoul Zhang Xinsen noted joint progress in expanding bilateral coordination channels including government agencies, parliaments, academics, and the media. Wen also met ROK National Assembly

Speaker Kim Hyung-o and Prime Minister Chung Un-chan in Seoul on the first leg of his four-nation Asia tour that also included Japan, Mongolia, and Myanmar.

### **China's "double play"**

Occurring just three days after the Lee-Hu summit in Shanghai, Kim Jong-il's visit to China in early May drew much disappointment from officials and the media in Seoul rather than raising expectations for the resumption of Six-Party Talks as hoped by Beijing. A most disappointing reality check for South Koreans who expected more from the "strategic partnership" was that Hu did not see the need to provide even an informal "heads up" to Lee that he would be hosting Kim Jong-il days later, despite the fact that China has long sought to treat the two Koreas in an equidistant fashion. As Kim began his trip, Unification Minister Hyun In-taek called for a "responsible role" by China in a meeting with Ambassador Zhang Xinsen in Seoul on May 4. South Korean TV broadcaster *SBS* warned that China was engaging in a "double play" between the two Koreas while editorials pointed out that "Chinese leaders embraced North Korean leader Kim only a couple of days after shaking hands with President Lee. The warm welcome to the Kim entourage is particularly offensive ... since it comes on the heels of South Koreans' mourning the sailors killed on the *Cheonan*." At the same time, South Korean observers have recognized that "the "strategic partnership" signed between the two countries last year must not be burned in fiery emotion and rhetoric."

Despite the affirmation of ties implicit in China's hosting of North Korea's reclusive leader, Hu Jintao attempted to emphasize the need for restraint in North Korea's behavior. In addition, there were rumors that Kim's visit ended prematurely following a luncheon with Wen Jiabao rather than following a scheduled evening of a North Korean theatrical presentation of "A Dream of Red Mansions," giving the impression that China did not meet all of Kim's expectations for the visit. Notable in President Hu's five-point proposal was the pledge to "reinforce strategic coordination ... on major domestic and diplomatic issues, international and regional situation, as well as on governance experience," which appears to challenge China's basic foreign policy principle of non-interference in internal affairs. Some Chinese analysts suggest that Hu's proposals reflect Beijing's disappointment with Pyongyang's nuclear tests that were conducted without consultation with China, and contain "very serious wording" according to Zhao Huji of the Central Party School. Zhao argues that "the South Korean media jumped to the conclusion without comprehending how the talks went ... the meeting was not just full of sweet talk. There was also a moment when China clearly stated its position."

Zhang Liangui of the Party School has indicated that "Kim's visit is of great significance" given "the DPRK leader's willingness to discuss ways to create favorable conditions to resume the Six-Party Talks." While South Koreans expressed outrage over the visit, Zhang argues that Pyongyang showed high "political wisdom" in the timing of Kim's visit, which began on the same day as the opening of the Nuclear Nonproliferation Treaty Review Conference for a one-month session at UN headquarters in New York on May 3. According to Zhang, "Although the Western media may conclude that China "support[s] DPRK's arbitrary behavior," Kim's trip, in fact, precisely signals the nation's consistent efforts to promote the resumption of the Six-Party Talks." However, Foreign Minister Yu and other ROK officials have indicated that they see no

change in Pyongyang's position after Kim's visit, and the Cheong Wa Dae (Blue House) has made it clear that "there will be no six-way talks before resolving the *Cheonan* incident."

Despite Beijing's lavish reception of Kim, other Chinese analysts also remain doubtful about the success of the visit, which produced neither a formal declaration by Pyongyang to return to Six-Party Talks nor a Chinese declaration to support industrial projects in North Korea. According to Peking University's Zhu Feng, "the visit itself was not very substantive" and "overall, there was a lack of recognition of the Six-Party Talks." Liu Ming of the Shanghai Academy of Social Sciences suggests that "there was no breakthrough" given unresolved differences including over Pyongyang's commitment to denuclearization. According to Su Hao of China Foreign Affairs University, while Kim's visit was widely seen as an effort to secure aid in return for resuming Six-Party Talks, it was more about "confirming mutual intentions to maintain a stable relationship" given uncertainties about the direction of ties after recent DPRK provocations.

### **Shanghai Expo begins, Chinese investment in North Korea remains uncertain**

"South Korea Week" was launched on May 26 at the Shanghai World Expo, where South Korea is promoting its own 2012 Yeosu Expo, which is part of a four-year agreement signed between Shanghai and Yeosu in 2008. The Korea Trade-Investment Promotion Agency (KOTRA) aims to attract 6 million total visitors at the national pavilion at the Shanghai Expo, which drew an average of 26,000 visitors per day by the end of May, and a separate business pavilion, which has served as a promotional platform for 12 major corporations including Samsung Electronics, POSCO, Hyundai Motors, and Shinsegae. According to a Korea International Trade Association (KITA) survey in May, over 96 percent of 430 Chinese respondents indicated that their visit helped improve their image of South Korean corporations and 85 percent said they would consider buying South Korean products, especially home appliances, cell phones, computers, and fashion items, citing quality and brand power. The national pavilion is also designed to promote Korean "Hallyu" pop culture.

Meanwhile, Japanese media reports in June showed that the *Cheonan* crisis has hurt China-DPRK trade and investment, indicating that many Chinese firms have begun to withdraw border area investment plans since the incident. With South Korean efforts to impose additional sanctions on the North, Chinese businesses reportedly fear financial losses when goods produced in North Korea-based factories cannot be exported to the South. South Korean reports, however, have warned against continued Chinese efforts to deepen economic cooperation with the North, citing provincial official exchanges and calls for expanding business ties.

Chinese trade figures appear to reinforce South Korean concerns, showing an 18 percent increase in China-North Korean trade to \$983.6 million through the first five months of 2010 compared to the same period last year. According to Chinese media reports, Wang Min, a top Communist Party of China (CPC) official of Liaoning province, led a delegation to North Korea on May 27 for economic cooperation talks with Worker's Party of Korea (WPK) official of South Pyongan province Kim Pyong-hae, who accompanied Kim Jong-il to China in early May. Ahead of Wang's trip, Chinese Ambassador to North Korea Liu Hongcai reportedly convened a meeting in Pyongyang of representatives of 14 Chinese investment entities on May 20 to promote Chinese trade and investment in North Korea.



A DPRK Foreign Ministry delegation also reportedly visited the Chinese border cities of Shenyang, Dandong, and Fuzin in mid-May for discussions on building a new bridge over the Yalu River, which was followed by a visit by the head of North Korea's Rajin port to the Chinese city of Hunchun on May 19 for talks on China's use of the port. According to South Korean researcher Lim Eul Chul, the DPRK wants to open foreign-owned factories in major cities beyond special economic zones like Kaesong as it faces the impact of food shortages, financial sanctions, and stalled inter-Korean ties.

China-DPRK economic exchanges have been accompanied by continued party-to-to-party and intergovernmental contacts. A WPK delegation led by Kim Chang Ryong, DPRK minister of Land and Environment Protection, made a 10-day trip to China on June 12-22 and visited Beijing, Tianjin, Dalian, and Shenyang. In Beijing, the DPRK delegation met senior officials of the CPC Central Committee, including Li Yuanchao, head of the Organization Department, and Wang Jiarui, head of the International Department. A provincial government delegation led by Jilin Vice Governor Chen Weigen also visited Pyongyang in mid-June and met new DPRK Vice Premier Ri Thae Nam.

### **China's regional trade efforts challenge South Korean competitiveness**

According to the South Korean Central Bank, the country's current account surplus with China reached \$38.4 billion in 2009 compared to \$20.9 billion in 2008, marking the biggest surplus in over a decade. In June, KITA indicated that ROK exports to China jumped 55.6 percent year-on-year to almost \$43 billion in January-May 2010, and projected a 22.4 percent annual increase in South Korea's total exports in 2010 to a projected record high of \$445 billion, given improving domestic and global conditions. A June 25 report by Korea Investment & Securities Co., however, indicated that exports to China will likely slow during the second half of 2010 as China moves to cut bank lending and investment to dampen Chinese demand, the main driver of the recovery by Asian economies. While Korean companies benefited from Beijing's stimulus program during the financial crisis, China's Ministry of Commerce on June 24 announced a revision of its home appliance subsidy program in an apparent effort to stabilize consumption amid Chinese concerns over excessive growth. The World Bank's latest China Quarterly Update predicted a moderation of Chinese growth in the second quarter of 2010 due to normalization of macroeconomic policies and property market measures since April, projecting a steady 9.5 and 8.5 percent GDP growth for 2010 and 2011 respectively.

A new focus of South Korean concerns is the potentially negative impact the China-Taiwan Economic Cooperation Framework Agreement (ECFA), which was signed on June 29, will have on ROK exporters. Under the ECFA, China and Taiwan agreed to remove tariffs on 539 types of Taiwanese goods worth \$13.83 billion and 267 types of Chinese goods worth \$2.86 billion, and Taiwanese companies will gain access to 11 Chinese service sectors including banking, accounting, insurance, and hospitals. According to KITA, 14 of the top 20 South Korean export items to China overlap with those of Taiwan, including electronic circuits, semiconductor devices, and liquid display devices, and account for 60 percent of total ROK exports to China. The implications of the ECFA for South Korean exports have led analysts to urge Seoul to push its own FTA talks with China. China and South Korea concluded a joint feasibility study on a

bilateral FTA in May but have not yet launched official trade deal talks. Instead, President Lee and Premier Wen signed a memorandum of understanding to hold additional discussions on sensitive issues at their recent meeting. The ECFA is expected to have a minimal impact on large Korean conglomerates like Samsung and Hyundai, which have China-based production facilities, since most of their products are made and sold within China. Hyundai Motor Co. on May 30 reported more sales in the Chinese market in April than in Korea for the second consecutive month.

The Federation of Korean Industries (FKI) released survey results on June 20 showing that South Korea may lose all technology advantages over China in less than four years for eight key export items such as steel, semiconductors, ships, and cars, which accounted for 64 percent of all ROK exports in 2009, representing a total of \$232 billion. To maintain competitiveness against China, the FKI has called for “an urgent need to develop new technologies through a steady expansion of investment in R&D.” A Citi Investment Research & Analysis report on June 17, however, suggested that recent wage increases in China will likely benefit ROK exporters by boosting their price competitiveness and Chinese consumer demand. Following Beijing’s June 19 announcement of a possible currency appreciation, the ROK Commerce Minister also indicated that a stronger *yuan* would have a limited impact on Korean exports as about half of ROK exports to China are re-exported to third countries. In addition, KOTRA is reportedly taking steps to better support South Korean businesses based in China by reducing its operations in advanced markets to free up resources for emerging markets like China, where KOTRA will focus on Shenyang or China’s western inland region. On May 6, the Ministry of Knowledge Economy announced the establishment of KITA’s new “China Desk” aimed to promote direct Chinese business investments.

China-ROK FTA talks were a top agenda item during Premier Wen’s meeting with President Lee on May 28 in Seoul, where Wen indicated that talks could be launched later this year or early 2011. They also agreed to cooperate in new fields of high technology, green growth, trade protectionism, G20 coordination, and global economic governance. South Korea appears reticent to pursue China-ROK FTA negotiations in the absence of KORUS FTA ratification, although it is getting harder and harder for South Korea to defer the opening of FTA talks with China. With heightened security tensions on the peninsula, Wen called for joint efforts to maintain economic policy coordination in a meeting with Korean businessmen in Seoul on May 29 and pledged to create a favorable investment environment for ROK businesses in China. China and South Korea have also focused efforts on developing a free trade area with Japan. As the coordinating country for trilateral dialogues in 2010, South Korea hosted the third trilateral summit in Jeju on May 29-30 and the fourth trilateral foreign ministers meeting in Gyeongju on May 15-16. Premier Wen, President Lee, and Prime Minister Hatoyama Yukio agreed to create a permanent secretariat in South Korea in 2011 and issued a 10-year blueprint for trilateral cooperation in such areas as economy, security, environmental protection, and cultural exchange. However, South Korean analysts remain uncertain about prospects for a trilateral FTA given stalled FTA talks between Seoul and Tokyo since 2004.

## Engaging China after *Cheonan*

The *Cheonan* incident has dominated the China-ROK diplomatic agenda and overshadowed the bilateral economic agenda. However, there is no clear evidence that the longer-term economic relationship has been affected by tensions over how to deal with the aftermath of the *Cheonan* incident. While the Obama administration has voiced strong support of President Lee's handling of the incident, China's cooperation remains essential to ROK efforts to secure a new resolution or presidential statement against the DPRK at the UN Security Council. Since South Korea is relying on Washington to make the case, the *Cheonan* issue indirectly pits Washington against Beijing and places pressure on the US to secure Chinese acquiescence to a tough UN Security Council statement on behalf of South Korea.

In response to President Obama's G20 press conference remarks criticizing China's "willful blindness to consistent problems," the Chinese Foreign Ministry spokesman on June 29 reaffirmed China's "fair and irreproachable" position, stating that "China borders on the Korean Peninsula, and we have our own feeling on the issue ... we have more direct and intense concerns." The *Cheonan* crisis has thus far strengthened alliance cooperation between the US and South Korea while also demonstrating the importance of coordination with China as both allies express frustration with Beijing's response. Seoul and Washington announced plans to conduct a joint naval exercise in the West Sea in early July. In response, a *Global Times* article on June 28 warned that such moves "would risk challenging China's strategic bottom line and its coastal defense." US-ROK military efforts to reinforce deterrence capabilities through a show of force to North Korea following the *Cheonan* sinking have raised debate among Chinese military strategists who recognize that "the joint exercise is mainly aimed at deterring North Korea" but remain concerned about the strategic implications for China.

China's current engagement efforts with Pyongyang and Seoul reflect its traditional policy of equidistance between the two Koreas, but critics have also raised questions about whether such a policy is anachronistic or truly effective in serving Chinese interests. At the same time, North Korea's continued provocations serve to undermine China's regional and global role. The G8 statement in June condemning the sinking of the *Cheonan* provides a basis for ongoing discussions at the UNSC, but the outcome depends largely on China. In turn, Seoul and Washington are also unlikely to support the resumption of Chinese-hosted Six-Party talks on Korean denuclearization without a clear resolution.

## Chronology of China-Korea Relations

### April – June 2010

**March 30-April 3, 2010:** An Yonggi, director of the Foreign Affairs Department of the DPRK Ministry of the People's Armed Forces, visits China and meets Xu Caihou, vice chairman of China's Central Military Commission in Beijing.

**April 1, 2010:** Senior DPRK lawmaker Yang Hyong-sop pledges to develop ties with China at a reception held by new Chinese Ambassador to the DPRK Liu Hongcai in Pyongyang.

**April 3, 2010:** Kim Jong-il hosts a dinner reception in Pyongyang for Ambassador Liu Hongcai, Chinese Embassy diplomats, and the visiting Tianjin women's volleyball team.

**April 6, 2010:** ROK Vice Foreign Minister Shin Kak-soo and Chinese counterpart Wang Guangya hold the second High-level Strategic Dialogue in Seoul.

**April 29-May 1, 2010:** DPRK legislator Kim Yong Nam, president of the Presidium of the Supreme People's Assembly, visits China. He attends the opening ceremony of the Shanghai World Expo and meets Chinese leaders including Hu Jintao on April 30.

**April 30-May 1, 2010:** President Lee Myung-bak visits China and meets President Hu in Shanghai before attending the opening ceremony of the Shanghai Expo on April 30.

**May 2-9, 2010:** Guan Youfei, deputy director of the Foreign Affairs Office of the PRC Ministry of National Defense, leads a delegation of relatives of Chinese martyrs killed in the Korean War in a visit to North Korea.

**May 3, 2010:** DPRK's national theater troupe Phibada Opera Troupe begins its China tour to perform a remake of the Chinese opera *A Dream of Red Mansions*.

**May 3-7, 2010:** Kim Jong-il pays an unofficial visit to China and meets President Hu in Beijing.

**May 4, 2010:** Chinese Ambassador to Seoul Zhang Xinsen pays a courtesy call to ROK Unification Minister Hyun In-taek.

**May 5, 2010:** Chinese and ROK maritime officials meet in Hangzhou and agree to strengthen information-sharing for search and rescue efforts.

**May 6, 2010:** The ROK Ministry of Knowledge Economy announces the establishment of a new "China Desk" at the Korea Trade-Investment Promotion Agency.

**May 6-7, 2010:** China, South Korea, and Japan begin their first round of consultations on a free trade agreement (FTA) research in Seoul.

**May 8, 2010:** *Korean Central News Agency* reports on Kim Jong-il's summit with President Hu Jintao in Beijing.

**May 15-16, 2010:** Foreign Ministers Yang Jiechi and Yu Myung-hwan hold bilateral talks on the sidelines of the fourth China-ROK-Japan foreign ministers meeting in Gyeongju.

**May 19, 2010:** The chief of North Korea's Rajin port visits the Chinese port city of Hunchun and holds talks with the city's mayor.

**May 20, 2010:** Chinese Ambassador to North Korea Liu Hongcai convenes a meeting in Pyongyang of representatives of 14 Chinese entities investing in North Korea.

**May 22-23, 2010:** Environment ministers of China, Japan and South Korea adopt an action plan for the first time to battle global warming, yellow dust, and other issues in the coming five years.

**May 23, 2010:** Japan, China, and South Korea trade ministers meet in Seoul to discuss regional economic cooperation.

**May 27, 2010:** Wang Min, CPC official of Liaoning province visits North Korea for economic talks with Kim Pyong-hae, WPK official of South Pyongan province.

**May 27, 2010:** China's Tianyu Group, the ROK Ministry of Knowledge Economy, Lippo Incheon Development Co. Ltd., and the Korea Trade-Investment Promotion Agency sign a \$1 billion deal to build a foreign residential area near Incheon International Airport.

**May 28, 2010:** South Korea and China agree to establish consular offices in Dalian and Jeju.

**May 28, 2010:** Premier Wen Jiabao visits Seoul and meets President Lee, National Assembly Speaker Kim Hyong-o, and Prime Minister Chung Un-chan.

**May 29-30, 2010:** President Lee, Premier Wen, and Japanese Prime Minister Hatoyama Yukio hold the third trilateral summit in Jeju, Korea.

**June 1, 2010:** North Korea issues a collection of stamps commemorating Kim Jong-il's May visit to China.

**June 1, 2010:** The ROK Ministry for Food, Agriculture, Forestry and Fisheries announces South Korea and China have agreed to crack down on illegal Chinese fishing along the inter-Korean Northern Limit Line.

**June 2, 2010:** Premier Wen in an interview with *NHK* affirms China's "impartial" position on the *Cheonan* sinking.

**June 4, 2010:** DPRK border guards shoot dead three Chinese nationals and wound another suspected of illegally crossing the China-DPRK border for trade activities.

**June 8, 2010:** China complains by raising "a solemn representation" with the DPRK regarding the killing of Chinese nationals on June 4.

**June 8, 2010:** *Rodong Sinmun* vows to strengthen China-DPRK friendship.

**June 8-9, 2010:** South Korea's Vice Foreign Minister and top diplomat on UN affairs Chun Yung-woo visits Beijing to meet Chinese counterpart Cui Tiankai.

**June 9, 2010:** The ROK Ministry of Public Administration and Security announces that South Korea's government website was attacked by hackers traced to China.

**June 10, 2010:** Liaoning provincial government issues a statement demanding the DPRK should “severely punish” its border guards involved in the June 4 border shooting.

**June 11, 2010:** Premier Wen meets South Korean children visiting Beijing for a friendship exchange with Chinese counterparts.

**June 12, 2010:** The ROK Ministry of Public Administration and Security announces that government websites of the Ministry of Justice and the Korea Culture and Information Service were attacked by hackers traced to China.

**June 12-22, 2010:** A WPK delegation led by Kim Chang Ryong, DPRK minister of Land and Environment Protection, visits Beijing, Tianjin, Dalian, and Shenyang. The DPRK delegation meets senior party officials on June 21 in Beijing, including Li Yuanchao and Wang Jiarui.

**June 14-16, 2010:** A government delegation led by Jilin Vice Governor Chen Weigen visits Pyongyang and meets new Vice Premier Ri Thae Nam.

**June 15, 2010:** The Chinese Embassy in Pyongyang announces China and North Korea will jointly produce a film marking the 60<sup>th</sup> anniversary of the Korean War.

**June 17, 2010:** South Korea’s Hynix Semiconductor announces completion of its second plant in China in partnership with Wuxi Taiji Industry.

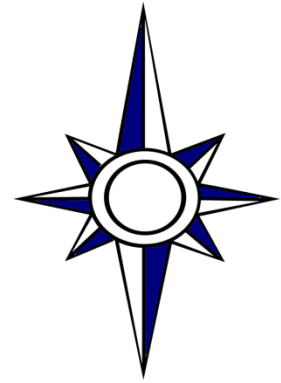
**June 20, 2010:** Two Chinese merchants are reportedly beaten to death while under investigation in North Korea for alleged spying in Jagang province.

**June 21, 2010:** The ROK Ministry of Education reports that 66,806 Koreans went to study in China in 2009, up from 57,504 in 2008.

**June 24, 2010:** ROK officials announce that the Foreign Ministry is seeking to expand the number of diplomatic missions in China by adding new missions in eight cities.

**June 26, 2010:** Presidents Lee and Hu meet on the sidelines of the G20 Summit in Toronto.

**June 28-July 2, 2010:** A delegation of China’s State Administration of Radio Film and Television visits Pyongyang and meets Yang Hyong Sop, vice president of the DPRK Presidium of the Supreme People’s Assembly.



**Japan-China Relations:  
Troubled Waters to Calm Seas?**

**James J. Przystup\***  
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The quarter began with China's execution of Japanese nationals convicted of drug smuggling. This was followed shortly by large scale and unannounced naval exercises in international waters near Japan that involved PLA Navy helicopters buzzing Japanese surveillance destroyers. This was followed by Chinese pursuit of a Japanese research ship operating within Japan's claimed EEZ. Meanwhile, Foreign Minister Okada chided his Chinese counterpart on China being the only nuclear-weapon state not committed to nuclear arms reduction. Nevertheless, high-level meetings continued throughout the quarter: Hatoyama and Hu in April, Hatoyama and Wen in May, Kan and Hu in June. At the meetings, China unexpectedly agreed to begin negotiations on the East China Sea at an early date and proposed a defense dialogue and defense exchanges, while both sides reaffirmed commitments to build "win-win" outcomes in the economic relationship and to advance the mutually beneficial strategic relationship.

**Execution**

On April 2, Foreign Minister Okada Katsuya revealed that China had informed Japan of the pending executions of four Japanese nationals convicted of drug smuggling. Okada said Japan could not ask Beijing to suspend the executions because the sentences were in accordance with China's domestic law. Later, Okada met with China's Ambassador to Japan Cheng Yonghua to express Japan's concerns. The next day, Deputy Prime Minister Kan Naoto, who was in Beijing to co-chair the Japan-China Finance Dialogue, met Premier Wen Jiabao and again expressed concerns. Wen defended the sentences as being in accordance with Chinese law.

Carried out on April 6, Chinese authorities informed Japan of the executions through Japan's Consulate in Shenyang. Afterward, Prime Minister Hatoyama Yukio noted that "each country had its own judicial system," and said that he would "refrain from making any comment that could be taken as interference in another country's internal affairs." Nevertheless, he regretted the executions. Asked about the implications of the executions on bilateral relations, Hatoyama said that his government would "make every effort to prevent cracks from appearing."

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\* The views expressed in this article are the views of the author alone and do not represent the views or policy of the National Defense University, the Department of Defense, or the U.S. government.

## Security

The *Nikkei Shimbun*, on April 18, reported that the Ministry of Defense will publish a yearly report on China's security strategy beginning in fiscal year 2010. Also indicative of Japan's growing concern with China's ongoing military modernization, the *Nikkei* reported that a specialized unit will be set up at the National Institute for Defense Studies within the next two to three years to assess it.

In an interview with *Time* magazine, Prime Minister Hatoyama acknowledged the increasing importance of China's economy for Japan's own prosperity. At the same time, he found China's transparency with regard to its military spending "not necessarily sufficient" and that Japan "will have to keep close tabs on [China's] military budget and capabilities," calling on Beijing "to boost transparency."

The foreign ministers of Japan, China, and the Republic of Korea met in Gyeongju, South Korea, on May 15. Foreign Minister Okada used the occasion to raise the issue of nuclear zero by noting that while President Hu had made positive comments at the Nuclear Security Summit in Washington, China "is the only country out of the five nuclear powers that has not made efforts to reduce its nuclear arsenal." He said that if China is not aiming to reduce its nuclear weapons, it should at least maintain the present number. Chinese Foreign Minister Yang Jiechi replied that "China has maintained its nuclear power at the lowest level needed for security" and that "Japan has no right to worry about it."

The *Kyodo* News Service reported that Yang was visibly upset and appeared to be prepared to walk out of the meeting at one point. Although he stayed, Yang later lodged a protest through diplomatic channels and did not speak to Okada during the dinner that followed the meeting. China's Foreign Ministry later reported that "Foreign Minister Yang refuted the Japanese side's irresponsible remarks." In a May 18 press conference, Okada characterized the statement as "groundless" and called for "calm and sincere discussion" of nuclear disarmament issues.

In a separate bilateral meeting, Okada raised the recent helicopter incidents and the recent People's Liberation Army (PLA) Navy exercises in seas around Japan. To deal with such incidents, the two ministers agreed to create a risk aversion mechanism involving the military authorities of both countries.

### **Troubled waters: April**

On April 7, a flotilla of 10 PLA Navy warships including *Soveremenny*-class missile destroyers and *Kilo*-class submarines conducted training exercises in the East China Sea. On the evening of April 10, the warships transited south between Okinawa's main island and Miyakojima and continued exercising in international waters to the west of Japan's Okinotorishima until April 23. Minister of Defense Kitazawa Toshimi announced the transit at a regularly scheduled press conference on April 13. While acknowledging that the transit had taken place in international waters, Kitazawa noted that a deployment of this size in waters near Japan was unprecedented. Defense Ministry sources confirmed that the Chinese ships had engaged in helicopter exercises from April 7-9. Kitazawa told reporters that his ministry would analyze the PLA Navy's



activities in detail and attempt to determine China's intentions toward Japan and that the Maritime Self-Defense Force (MSDF) would closely monitor the activities of the Chinese ships.

On April 21, the Ministry of Defense announced that earlier in the day a Chinese helicopter had come within 90 meters of the MSDF destroyer *Asayuki*, which was engaged in surveillance of the Chinese warships. Later, it was revealed that a similar engagement between a PLA Navy helicopter and the Japanese destroyer *Suzunami* had taken place on April 8 and that the Japanese government had waited until April 12 to protest the "dangerous act," just before the Hatoyama-Hu summit, which took place on the sidelines of the Nuclear Security Summit in Washington.

At a meeting of the Lower House Foreign Affairs Committee on April 21, Foreign Minister Okada acknowledged that Prime Minister Hatoyama had not raised the helicopter incident with President Hu Jintao. Meanwhile, Chief of the Joint Staff Oriki Ryoichi told the media that "over the past several years, Chinese vessels have become more active in waters around Japan and that the capabilities of the Chinese Navy have improved." The next day, China's *International Herald Leader* noted Japan's increasing nervousness regarding the activities of the PLA Navy. The article pointed out that the transit route was through international waters and therefore there was no need to notify Japan and suggested that Japan should be prepared to adjust to the increasingly frequent PLA Navy deployments.

Okada responded at a press conference that Japan could not accept China's explanation that the actions of the helicopters were necessary defensive acts and emphasized that the activities of the MSDF were necessary surveillance procedures that did not violate international law. In an April 27 interview at the Japan National Press Club, Ambassador Cheng Yonghua addressed the incidents, telling reporters that the Chinese ships were being followed by the MSDF destroyers and suggesting a lack of trust on the part of Japan.

### **Troubled waters: May**

In early May, Japan's Coast Guard announced that the Japanese research ship *Shoyo*, while operating within Japan's Exclusive Economic Zone (EEZ) on the eastern side of the mid-line boundary claimed by Japan, had been pursued by a Chinese ship and ordered to cease its activities. The Japanese ship complied, but the Foreign Ministry protested the Chinese action, on the grounds that the Japanese ship was conducting research in accordance with international law. Beijing responded that the area in question was under Chinese jurisdiction and that the actions taken by the Chinese ship were "totally proper and legitimate" and that China had never recognized the mid-line boundary claimed by Japan. On May 6, the *South China Morning Post* ran an article attributed to a retired PLA colonel that told China's Asian neighbors that "they should get used to seeing the PLA Navy in Asian waters."

Foreign Minister Okada found the incident "extremely regrettable" and said that Japan would "lodge a stern protest." On May 6, he summoned Ambassador Cheng and told him that China's actions were an "infringement on Japanese sovereignty and were absolutely unacceptable." Okada also took the occasion to make clear that April's helicopter incidents were likewise "extremely regrettable" and did not serve the cause of making the East China Sea a sea of "peace, cooperation, and friendship." In turn, the ambassador replied that the Chinese ship's

actions were “totally appropriate,” but that he would accurately report the conversation back to his government.

In a May 11 speech in Tokyo, Ambassador Cheng took up the maritime boundary issue, telling his audience that “the basic fact is that the two countries’ views are different.” Noting that the issue has been under discussion, he called for continuing dialogue to resolve the issue. As for the helicopter incidents, the ambassador said they resulted from the fact that the MSDF was “following around the Chinese Navy” while it was engaged in training activities. Turning to the broader bilateral relationship, the ambassador was concerned that the incidents had taken place “just when the two countries [militaries] were building a relationship of trust in recent years.” He was also concerned with the “bias” and “prejudice” that still exist in both countries and with the misunderstandings that result from a “mutual lack of understanding.”

### ***Gyoza***

At the end of April, Chinese public security officials traveled to Tokyo to brief Japan’s National Police Agency on their interrogation of Lu Yueting, the suspect arrested at the end of March in connection with the ongoing contaminated *gyoza* incident. Chinese officials quoted Lu as saying that he had “injected pesticide by piercing cardboard boxes packed with frozen dumpling packages with a 20 mm syringe from outside.” Lu said that he had injected the *gyoza* on three occasions in November and December 2007. Seeking additional clarification on the evidence provided, the National Police Agency continued its efforts to send representatives to China.

### **Senkakus**

On May 28, Foreign Minister Okada met with reporters to clear up Prime Minister Hatoyama’s remarks of the previous day regarding the Senkaku Islands. Appearing before the National Governors Association, the prime minister had observed that jurisdiction over the islands had yet to be resolved. Okada made clear there was “no room for dispute” over Japan’s sovereign jurisdiction over the islands.

### **High-level meetings: Hatoyama-Hu/April**

Prime Minister Hatoyama and President Hu Jintao met on the sidelines of the Nuclear Security Summit in Washington. In the close to 50-minute meeting, the two leaders took up a number of issues affecting the bilateral relationship – joint development of resources in the East China Sea, the adulterated *gyoza* incident, and the idea of an East Asian Community.

Hu began the meeting by expressing his high appreciation for the steps Hatoyama had taken to develop the China-Japan Reciprocal Strategic Partnership. Hatoyama responded by saying that he wanted to link the bilateral relationship to concrete content and went on to say that the Japan-China relationship is at the core of his East Asia Community concept.

Turning to specific issues, Hatoyama called on Hu to exercise leadership to move his government to engage in negotiations aimed at the conclusion of an agreement on the joint development of oil and natural gas resources in the East China Sea. Hu replied that he hoped to

establish a proper environment for negotiations. On the *gyoza* incident, the two leaders agreed to develop without delay a framework for food safety. Regarding North Korea, Hu said that China would work with the six-party partners toward an early resumption of the talks. Hatoyama did not raise the execution of the four Japanese citizens convicted of drug possession.

### **High-level meetings: Hatoyama-Wen/May**

Premier Wen Jiabao met with Prime Minister Hatoyama in Tokyo on May 31. They spent the first 30 minutes of their 80-minute meeting discussing the sinking of the ROK Navy corvette *Cheonan* with Hatoyama urging Wen to support efforts to bring the issue to the UN. Wen's response remains unknown, but after the meeting Japanese diplomats told the media that Chinese officials had asked them not to make it public.

Turning to the East China Sea, Hatoyama expressed concern over the "recent activities of China in the surrounding sea area." According to Japanese sources, Wen did not respond directly but indicated an interest in setting up a crisis management mechanism to deal with bilateral frictions, including military-related incidents. On the negotiations to implement the June 2008 agreement on joint development of the East China Sea, Wen agreed to begin negotiations on a treaty, revising the previously held Chinese position that negotiations could only begin "when the environment is set." According to Japanese sources, Wen said that he would like to see talks begin "as soon as possible."

The two leaders also discussed issues related to economic cooperation and cultural exchanges and signed a food safety agreement.

Wen later addressed a Keidanren luncheon. In welcoming remarks, Yonekura Hiromasa, the new Keidanren chairman, spoke to the importance of China to Japan's economic well-being, observing that "our country's business community now can no longer speak of business without China..." Wen's remarks emphasized that the rise of China is mutually beneficial and posed no threat to Japan. He went on to acknowledge the important role bilateral commercial relations have played in the China's development as a "merit" for Japan.

Two days later, on June 2, Hatoyama resigned as prime minister following his failure to resolve issues related to relocation of the Futenma Air Station. Addressing Hatoyama's resignation, Chinese Foreign Ministry spokesperson Ma Zhaoxu said "During his tenure, Prime Minister Hatoyama attached importance to Sino-Japanese relations and made important efforts to the sound and steady development of bilateral ties, which we appreciate." He added that "no matter what happens in the Japanese political situation, China will work with Japan to continuously promote the Sino-Japanese strategic partnership of mutual benefit."

### **Kan government and China**

On June 4, Kan Naoto was elected prime minister at a plenary session of the Upper and Lower Houses of Diet. Beijing welcomed the Kan government and made clear China's commitment to advancing the mutually beneficial strategic partnership. In his initial policy speech to the Diet, on June 14, the new prime minister, while reaffirming Japan's commitment to deepening the

mutually beneficial strategic partnership with China, said that the “Japan-U.S. alliance will be the cornerstone of our diplomacy....” The Democratic Party of Japan policy manifesto for the July Upper House election took a similar line toward the US, committing the party to a comprehensive deepening of relations and shifting from the Hatoyama position of building a close and equal relationship. The manifesto also called for greater transparency in China’s defense policy.

The Kan government moved immediately to clarify uncertainties raised by Prime Minister Hatoyama’s remarks on the Senkakus. On May 27, during a meeting of the National Governors Association, Hatoyama had referred to the US position that the sovereignty issue must be resolved between Japan and China. At the first meeting of the Kan Cabinet on June 8, the new government made clear that issues to resolve regarding sovereignty “do not exist.”

On June 13, Kan held a 25-minute telephone conversation with Premier Wen. According to Japanese sources, Beijing requested the call and the two leaders reaffirmed their countries’ commitment to deepening the mutually beneficial strategic partnership, to the use of the bilateral hotline, and to an early start to negotiations on the East China Sea. Wen also invited Kan to visit China, and Kan gladly accepted.

Two days later, the Kan government announced the appointment of Niwa Uichiro, former chairman of and current advisor to the Itochu trading company, as the next ambassador to China. Beijing welcomed the appointment with the expectation that he would play a positive role in the development of bilateral relations.

During a visit to Okinawa at the end of June, Prime Minister Kan acknowledged the importance of the US presence in sustaining deterrence. Meanwhile, responding to reports that Kan had advocated paying serious attention to China’s military build-up, Foreign Ministry spokesperson Qin Gang told reporters that “China is unswervingly following the path of peaceful development, does not pose a threat to anyone, nor does it accept the so-called deterrence of others. As a bilateral arrangement, the Japan-US alliance should not exceed the bilateral range, let alone targeting a third country.”

### **High-level meetings: Kan and Hu/June**

Prime Minister Kan met with President Hu on the sidelines of the G20 Summit in Toronto, Canada. Kan urged China to cooperate in responding to the *Cheonan* sinking, asking China for a “forward-looking response.” Hu replied that that sinking was a “truly unfortunate” incident and urged all countries to act with restraint and take a broad perspective on the matter. Hu also called for increased dialogue between defense officials, governments, legislators, and political parties. Kan replied that “in particular”, he “wanted to advance exchanges between defense authorities in order to build relationships of trust.” The two leaders also reaffirmed their commitment to enhance the mutually beneficial strategic relationship, to work to produce “win-win” outcomes in the economic relationship, and to continue efforts toward building an East Asian Community. Finally, Hu said that he wanted to visit Japan for the November APEC Leader’s Meeting in Yokohama and invited Kan to visit China at an early date.

## **Chronology of Japan-China Relations**

### **April – June 2010**

**April 2, 2010:** China alerts Japan to the pending executions of four Japanese nationals convicted of drug smuggling.

**April 2, 2010:** Senior Japanese, Chinese, and Korean Foreign Ministry officials meet in Jeju, South Korea to advance trilateral foreign ministers' meeting.

**April 3, 2010:** Deputy Prime Minister (PM) Kan Naoto in Beijing expresses Japan's concerns over executions; participates in Japan-China Finance Dialogue.

**April 5, 2010:** PM Hatoyama Yukio meets journalists attending a Japan-China journalist conference in Tokyo and exchanges views on Japan-China war and history

**April 6, 2010:** Executions of the Japanese drug smugglers are carried out in China.

**April 7, 2010:** *People's Liberation Army* (PLA) Navy ships conduct training exercises in East China Sea.

**April 10, 2010:** PLA Navy ships transit in international waters between Okinawa's main island and Miyakojima and conduct training exercises through April 23.

**April 13, 2010:** *Kyodo* News Service reports the Hatoyama government's intention to encourage Chinese tourists by easing regulations for individual Chinese visitors.

**April 13, 2010:** Minister of Defense Kitazawa Toshimi announces April 10 transit of PLA Navy.

**April 12, 2010:** PM Hatoyama and President Hu Jintao meet in Washington on sidelines of the Nuclear Security Summit.

**April 21, 2010:** Japan's Ministry of Defense announces Chinese helicopter approached a Japanese destroyer conducting surveillance activities.

**April 21, 2010:** Foreign Minister (FM) Okada Katsuya acknowledges that Hatoyama did not raise helicopter incident with Hu.

**April 27, 2010:** China's Ambassador to Japan Cheng Yonghua suggests Japan's surveillance of PLA Navy's training exercises indicates a lack of trust on the part of Japan.

**April 28, 2010:** Japanese Foreign Ministry issues web-site warning to travelers visiting China about the potential death penalty for involvement in drug smuggling.

**May 1, 2010:** Japan Pavilion opens at Shanghai Exposition.

**May 3, 2010:** *Asahi Shimbun* poll finds 67 percent of respondents are opposed to amending Article 9 of Japan's constitution.

**May 4, 2010:** China's Vice President Xi Jinping meets a visiting delegation from the Diet's Japan-China Friendship League.

**May 6-7, 2010:** Japan, China, and South Korea hold a working level discussion on a trilateral free trade agreement (FTA) in Seoul.

**May 6-7, 2010:** Taiwanese fishing trawler enters Japan's Exclusive Economic Zone (EEZ).

**May 10, 2010:** Japan decides to ease visa requirements for individual Chinese tourists. The change will take effect July 1.

**May 12, 2010:** Taiwan's President Ma Ying-jeou expresses hopes for conclusion of Taiwan-Japan FTA.

**May 12, 2010:** Japan announces that it will accept less than 50 percent share of investment in Shirakaba/Chunxiao natural gas field.

**May 13, 2010:** Premier Wen Jiabao meets a visiting Keidanren delegation and expresses hope for the conclusion of China-Japan-ROK FTA.

**May 14, 2010:** FM Okada says it is necessary to carefully monitor the development of China's nuclear and naval power.

**May 15-16, 2010:** Foreign ministers of Japan, China, and ROK meet in Gyeongju Korea. During a bilateral Japan-China meeting Okada challenges China's efforts at nuclear arms reduction.

**May 18, 2010:** Japanese Consulate in Qingdao is informed by Chinese Customs authorities that a Japanese national has been detained on charges related to the possession of illegal drugs.

**May 22-23, 2010:** Japan, China, and South Korean environment ministers meet in Hokkaido.

**May 23, 2010:** Japan, China, and ROK trade ministers meet in Seoul to discuss regional economic cooperation.

**May 25, 2010:** Taiwanese ship enters Japan's EEZ in Senkaku island chain to assert Taiwan sovereignty claim.

**May 29-30, 2010:** Japan, China, and ROK summit is held in Jeju, ROK.

**May 30-June 1, 2010:** Premier Wen visits Japan and meets PM Hatoyama in Tokyo; Wen commits to early negotiations on East China Sea.

**June 1, 2010:** Hatoyama government releases policy statement on his concept of an East Asia Community, saying that US involvement as vital.

**June 1, 2010:** Japan's Foreign Ministry releases a poll of US opinion leaders in which China topped Japan as the most important partner in Asia for the US – 56 percent to 36 percent. In a poll of the general public, Japan and China tied at 44 percent.

**June 2, 2010:** PM Hatoyama resigns.

**June 4, 2010:** Kan Naoto is elected as Japan's new prime minister.

**June 7, 2010:** Workers at Honda Motors affiliate Yutaka Giken go on strike in Guangzhou.

**June 8, 2010:** Kan government takes office.

**June 14, 2010:** PM Kan makes his initial policy speech to Diet. He casts the US-Japan alliance as the cornerstone of Japan's diplomacy; relations with China included with other states of Asia.

**June 15, 2010:** Kan tells Upper House that he has no intention to visit Yasukuni Shrine while prime minister and that constitutional reform not a pressing issue.

**June 15, 2010:** Tokyo announces the appointment of Niwa Uichiro as ambassador to China.

**June 15, 2010:** Workers at Toyota affiliate Toyota Gosei go on strike in Tianjin.

**June 21-25, 2010:** Toyota Motor hit by strike at its Guangzhou assembly plant; a labor agreement reached on June 25.

**June 25-26, 2010:** PM Kan attends G8 in Toronto and proposes inviting China to attend future G8 meetings.

**June 25, 2010:** Japan's National Tourist Organization reports 600,000 Chinese citizens visited Japan between January-May, an increase of 36 percent over 2009.

**June 25, 2010:** Yonagumi town assembly discusses possible deployment of Self-Defense Forces (SDF) forces to the island.

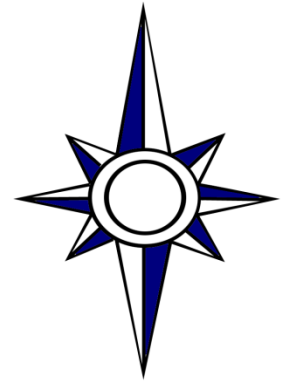
**June 26, 2010:** Upper House of the Diet passes legislation identifying Okinotorishima and Minamitorishima as "special distant islands" as preparations are advanced to begin construction of port facilities to strengthen Japan's EEZ claims.

**June 27, 2010:** PM Kan meets President Hu on sidelines of G20 Summit in Toronto.

**June 29, 2010:** FM Okada tells a press conference that G8 membership should be based on a commitment to democracy and shared values.







**Japan-Korea Relations:**  
***Cheonan* Incident Overshadows Everything**

**David Kang, University of Southern California**  
**Ji-Young Lee, Oberlin College**

The sinking of the South Korean warship on March 26 turned the second quarter into a tumultuous time for Northeast Asian diplomacy. A multinational team of investigators concluded that North Korea was responsible, bringing Seoul and Tokyo closer together in a united stand against Pyongyang, while Japan's relations with North Korea relations declined even more than usual as they continued their "sanctioning and blaming": Tokyo placed more sanctions on Pyongyang, and Pyongyang blamed Tokyo for being used as a US "servant." For its part, the Democratic Party of Japan found a face-saving solution to the problem of the Futenma relocation issue, putting the matter on hold due to the threat from North Korea. At the 60<sup>th</sup> anniversary of the Korean War, the region appears largely the same as it did in 1950. Both Koreas view each other as the main enemy, US alliances are the cornerstone of Japan and South Korean foreign policies, and China (and to a lesser extent, Russia) is sympathetic to North Korea and faces strong criticism from the US and South Korea.

**Japan's Foreign Minister Okada, "not many measures left that we can impose"**

Japan opened the quarter with a decision to extend existing sanctions against Pyongyang for another year due to a lack of progress on the abduction and nuclear issues. In fact, Tokyo has been stepping up its sanction measures against North Korea in recent years. After North Korea conducted a ballistic missile test in 2006, Tokyo banned North Korean vessels from making port calls in Japan and prohibited all imports from North Korea and exports of luxury items to North Korea. In 2009, after North Korea's second nuclear test, Tokyo imposed a total ban on exports to North Korea. This quarter, the Hatoyama administration enacted a bill to inspect cargo being transported from and to North Korea.

In response to North Korea's alleged torpedoing of the *Cheonan*, Tokyo denounced North Korea for the attack and added more sanctions to the already long list. On May 24, the Security Council of Japan – attended by Prime Minister Hatoyama Yukio and key Cabinet ministers – discussed possible responses to the *Cheonan* incident and decided to lower the cap on the amount of undeclared cash that can be carried to North Korea to ¥100,000 (\$1,097) from the current ¥300,000. In addition, the amount of money an individual can bring to North Korea will be lowered from ¥300,000 to ¥100,000. There is skepticism within the Japanese government as to the effect these measures will have on North Korean behavior, but the sanctions have limited the activities of companies and individuals that used to trade with North Korea. For example, on June 15, a trader and his wife were arrested on suspicion of exporting cosmetics to North Korea, a violation of the ban on exporting luxury items to the country.

The sudden resignation of Prime Minister Hatoyama in early June and the inauguration of the Kan administration are not likely to bring about much change in Japan's North Korea policy. Throughout the quarter, Tokyo's responses to the sinking of the warship have been consistent in two ways. First, they have supported South Korea's initiative for punitive measures against North Korea. Second, they have emphasized the need for close trilateral cooperation among Seoul, Tokyo, and Washington on North Korea policy to pressure China to support their interpretation of the *Cheonan* incident. This approach serves Japan's foreign policy objective of garnering international support to pressure North Korea to come to a comprehensive resolution of missile, nuclear, and abduction issues. Even before an official announcement of the investigation's results was made, Hatoyama made an early promise of support for Seoul's decision if it decided to bring the case to the UN Security Council and agreed to prioritize investigating the incident before resuming the Six-Party Talks. Later in June, Japan's new prime minister, Kan Naoto, during his diplomatic debut at the Group of Eight (G8) meeting, urged Chinese President Hu Jintao to "move in a similar direction," saying that China's condemnation of North Korea's behavior was "necessary."

### **Pyongyang: "disappointed" at Hatoyama's failure**

North Korea denied any involvement in the sinking of the *Cheonan* and responded by warning that it would use "ultra strong" military countermeasures if Seoul brings the case to the UN Security Council in an effort to punish Pyongyang. North Korea's UN Ambassador Sin Son-ho at a news conference blamed the US, saying that the US was the greatest beneficiary of the sinking because the incident allowed Prime Minister Hatoyama to break his campaign promise of relocating the US Marine Corps base outside Okinawa. Sin also blamed Hatoyama for "yielding to US pressure" and for deciding to keep the relocation agreement with the US intact. North Korea's *Rodong Sinmun* stated that the Hatoyama government "has no independent political initiatives," and warned that "the Japanese public's criticism and anger are increasing as time passes." A day after Hatoyama's resignation, Ro Jong-su, a researcher at the North Korean Foreign Ministry, said that Hatoyama's resignation was "his own fault" and expressed "disappointment" at his decision to relocate the US Marine Corps Futenma Air Station within Okinawa. He also accused Hatoyama of siding with the US and South Korea in blaming North Korea for the sinking and for imposing additional sanctions on North Korea during his tenure.

### **Japan- South Korea relations: friends in need**

How did the sinking of the *Cheonan* affect Japan-South Korea relations? As Seoul adopted a more hard line approach toward Pyongyang over the sinking, converging foreign policy interests in handling North Korea are bringing Tokyo and Seoul closer as strategic partners. It remains to be seen whether this momentum will spill over into thorny bilateral issues such as the granting of local-level suffrage to ethnic Koreans in Japan or the territorial dispute over Dokdo/Takeshima islets. However, throughout the quarter, Tokyo was quick and consistent in positioning itself as a strong supporter of South Korea regarding the sinking of the *Cheonan*, which was duly noted and appreciated by Seoul. Japan's support of South Korea's stance over the sinking was further highlighted by the contrast with the cautious Chinese attitude that emphasized "restraint," which caused frustration among many South Koreans. Furthermore, the different approaches taken by Tokyo and Beijing were visible in part because of the high-profile Seoul-Tokyo-Beijing trilateral

meetings among foreign ministers and head of states in May, which were both held in South Korea.

For example, on the sidelines of a trilateral meeting of foreign ministers in Gyeongju, Japanese Foreign Minister Okada Katsuya and South Korean Foreign Minister Yu Myung-hwan agreed on May 16 that a resumption of the Six-Party Talks would hinge on the results of the investigation of the sinking. Okada began the meeting by saying that Japan “has deep respect for the stand of the South Korean government, which is responding resolutely and calmly in a difficult situation,” and that Japan would “spare no effort in offering necessary cooperation.” At the May 29-30 trilateral summit in Jeju, Prime Minister Hatoyama reconfirmed that the resumption of the Six-Party Talks would wait until after Pyongyang apologizes for the sinking. During his separate bilateral meeting with President Lee, Hatoyama pledged that Japan “will take the lead in international cooperation and support South Korea’s position at the Security Council.” Before the opening of the trilateral session on May 29, Hatoyama proposed that the leaders pay a silent tribute to the deceased sailors from the *Cheonan*. Hatoyama’s gestures, including his visit to the Korean National Cemetery in Daejeon where he paid his respects at the graves of the 46 sailors, were well appreciated by Seoul.

### **Trilateralism coming age – Seoul, Tokyo and Beijing**

Although the *Cheonan* incident cast a long shadow over the security landscape of Northeast Asia, important decisions were made at the Jeju trilateral summit on May 29-30, many of which may determine the course of future cooperation in the region. President Lee, Prime Minister Hatoyama, and Chinese Premier Wen Jiabao adopted a 41-point blueprint called the “Trilateral Cooperation Vision 2020,” which calls for future economic cooperation, environmental protection, regional security, and cultural and personnel exchanges. There are at least three developments that indicate that the Jeju trilateral summit is important to Japan-South Korea relations.

First, the three leaders agreed to establish a permanent secretariat in South Korea next year. The secretariat will be set up at Seoul’s expense, and a secretary general and two deputies will be selected, while each country will take turns as head of the secretariat. Since the inaugural trilateral summit in December 2008, the gathering has taken shape as an important venue for diplomacy and exchanges among three countries and no longer just “on the sidelines of” ASEAN. Although it is too early to tell if this move signals further institutionalization of cooperation in Northeast Asia, it reflects the interests and need for the three countries to deepen trilateral cooperation amongst themselves.

Second, the decision to finish a joint study on the feasibility of trilateral free trade agreement (FTA) by 2012 is a reminder of the political will in all three countries toward that goal. According to the May 31 *Joongang Ilbo*, South Korea’s Trade Minister Kim Jong-hoon briefed the leaders about a study on a trilateral FTA that concluded that trade volume amounts to at least \$438 billion. Other areas of agreement include negotiations on mutual investments and the deepening of financial cooperation along with science innovation, standardization and the setup of employment and labor council.

Third, the summit brought regional security issues to the table. The previous two meetings have focused on economic exchanges, but this time the leaders agreed to the goal of a nuclear-free Korean Peninsula and continued cooperation to deal with the sinking of the *Cheonan*. In particular, the leaders of three countries talked about the reunification of the two Koreas. In a step away from the usual avoidance of sensitive national security issues in diplomatic venues like this, President Lee said “the goal of the South Korean government is to maintain peace in the Korean Peninsula and open up North Korea so that both North and South Korea can enjoy prosperity together. We aim to move toward peaceful reunification through this process.” In response, Prime Minister Hatoyama said it is tragic for a nation to remain divided for 60 years, and added that Japan “will provide support for creating a peaceful environment for swift Korean reunification... For that to happen, North Korea must give up its nuclear weapons.” Premier Wen responded by saying that President Lee’s idea of creating “peaceful reunification by making the Korean peninsula a land of peace and prosperity” “should be highly regarded,” and added that he “wholeheartedly agrees.” After decades of little progress on trilateral cooperation, the steps taken this quarter to institutionalize their meetings through a secretariat, and the 41-point proposal, mark a step toward coordinated actions that are consequential for relations among the three countries.

### **Toward becoming “friends indeed”**

With Prime Minister Hatoyama’s sudden resignation on June 2 amid a falling approval rating (from 72 percent at time of his inauguration to 19.1 percent when he resigned) over the Futenma relocation and funding scandal issues, South Korean President Lee welcomed his fourth counterpart, the new prime minister of Japan, Kan Naoto. (During Lee’s presidency he has already interacted with Prime Ministers Fukuda Yasuo, Aso Taro, and Hatoyama). Compared to the Roh-Koizumi era, Japan-South Korea relations in these years have been friendly, continuing to strengthen working-level cooperation in areas of security, economics, and culture. However, challenging historical issues remain. Considering that Hatoyama came into office with a pledge to face the unfortunate history between Korea and Japan, one issue that Seoul may find regrettable with his resignation is the granting of local-level suffrage to ethnic Korean living in Japan, which he had pushed but failed to complete during his tenure.

One sour note amidst the generally positive atmosphere of Japan-South Korea diplomatic relations this quarter was the continuing dispute over the Dokdo/Takeshima islets. The Japanese government approved all five elementary school textbooks that claim Japan’s sovereignty over the islets. In response, South Korea’s National Assembly approved a resolution on April 2 that condemned the Japanese claim and demanded that the Japanese government withdraw its authorization of the controversial textbooks. The resolution says, “This year marks the 100<sup>th</sup> anniversary of Japan’s forceful annexation of Korea ... Instead of repenting and apologizing for its military past and seeking a historic advancement of future-oriented Korea-Japan relations, Japan is concentrating on reactionary actions by distorting and concealing the truth.” Foreign Minister Okada during his meeting with Foreign Minister Yu in May called for “restraint” in dealing with the territorial issue.

While the 100<sup>th</sup> year of Japan’s annexation of Korea has thus far been rather uneventful with no visit by the Japanese Emperor to Seoul and no granting of suffrage to ethnic Koreans in Japan,

there was a notable move toward reconciliation this year. A joint declaration was issued by 105 Japanese and 109 Korean academics, writers, and attorneys on May 10 in Seoul and Tokyo, calling for the Japanese government to acknowledge that Japan's annexation of Korea 100 years ago was null and void. The statement says the annexation was "unjust and illegal," and an "act of imperialism realized through military force that pushed away all protests, including one staged by the Emperor of Korea."

The two countries have maintained different interpretations on the 1910 annexation treaty. South Korea has argued that the 1965 Treaty of Basic Relations, which stipulates that "all treaties or agreements concluded between the Empire of Japan and the Empire of Korea on or before Aug. 22 are already null and void," makes the 1910 annexation treaty illegal. Japan has viewed the annexation as valid at least during the colonial rule, because the two sides signed the treaty on an equal footing. The joint statement initiated by a professor emeritus at the University of Tokyo, Wada Haruki, acknowledged that the South Korean interpretation is the correct one. The statement was also signed by Mitani Taichiro from the University of Tokyo who was the Japanese chairman of a bilateral history study panel. Following the May 10 statement, Korean and Japanese lawmakers are making efforts to adopt a similar statement by August, but the response from Japan has been lukewarm, with little media coverage within Japan.

The quarter's good news on historical issues is that Prime Minister Kan said on June 15 during a House of Councilors plenary session that he will not make a visit to the Yasukuni Shrine during his tenure. He said that "an official visit by the prime minister or Cabinet members is problematic," because class-A criminals are enshrined there.

### **Deepening bonds: economy, culture, and society**

On May 30, about 50 business leaders from Japan, South Korea, and China adopted a joint statement at the Second Business Summit on Jeju Island, urging their governments to sign a trilateral FTA and introduce a visa waiver program. Top executives from the Federation of Korean Industries, the Japan Business Federation and the China Council for the Promotion of International Trade called for swift settlement of the Chiang Mai Initiative Multilateralization (CMIM) system, which came into effect on March 24, 2010. Other proposals include measures to protect intellectual property rights, recognize professional licenses of each country, increase the number of direct flights linking major cities of the three countries, and develop tourism.

On the monetary front, the Bank of Korea and the Bank of Japan agreed to extend their \$3 billion *won-yen* currency swap agreement for another three years. The two central banks originally concluded the deal in May 2005 to prepare for liquidity shortage. On June 13, South Korea announced measures to limit the amount of capital used in foreign exchange derivatives trading for domestic and foreign banks to reduce the level of financial volatility. According to the June 14 *Mainichi Shimbun*, the South Korean *won* fell 25.7 percent in 2008 and rose 8.2 percent in 2009, showing sharp swings. South Korea will be chairing the G20 meeting this year and has been calling for the creation of financial safety nets to reduce capital volatility.

According to 2009 PPP (purchasing power parity) GDP (gross domestic product) data from the US Central Intelligence Agency's World Fact Book, Japan ranked fourth with \$4.14 trillion after

the European Union, the US and China, while South Korea ranked 14<sup>th</sup> with \$1.36 trillion. The report shows that South Korea's 2009 per capita GDP was \$28,000, the 49<sup>th</sup> largest among the surveyed countries, while Japan was 42<sup>nd</sup> with \$32,000.

Kan Naoto, Japan's new prime minister, proposed "a third way" for the Japanese economy, seeking economic growth through social security programs with revenues from increased taxes. According to Kan, the first way, often employed by the previous Liberal Democratic Party (LDP) governments, was to expand demand through public works such as construction and dams. The second way was to emphasize small government and regulatory reform, which was pursued by former Prime Minister Koizumi. Through Kan's "third way" approach, the Japanese economy should spend money both to increase employment and to create demand. The success of his approach remains uncertain, as an increase in the consumption tax rate, which is considered necessary, has already hurt his approval rating only a month after his inauguration.

Adding to the trend of trilateral cooperation between South Korea, Japan and China, the three countries decided to launch an online library, bringing together contents from their national libraries. According to the May 12 *Asahi Shimbun*, the first Asian digital library is planned to be launched in a year or two. So far, the National Library of Korea has digitized 210,000 books, Japan has digitized 720,000, and China has digitized 160,000 volumes.

According to the June 8 *Arirang News*, Korean studies programs are becoming popular in Japanese universities in part thanks to Korean celebrities, movies, and soap operas. The University of Tokyo recently decided to open a Korean Studies Research Center, which will become the university's first research center focusing on a single Asian country. The center will receive annual funding of \$200,000 for five years from the Korea Foundation. Its research areas will emphasize Korea's modern culture, including "the Korean wave."

Although granting of local-level voting rights to permanent residents living in Japan is going nowhere fast, soccer player and North Korean citizen living in Japan, Jong Tae-se, also known as "North Korea's Rooney," has been the object of curiosity and interest from world media during the World Cup. An *AP* report likened him to Beckham because he likes cars, rap music, clothes, and regularly changes his hairstyles. According to one report, his cause is to let the world know of the existence of "zainichi," or ethnic Koreans living in Japan. On the question of North Korea's controversial foreign policy behavior, he said, "you don't cut off your parents from your life just because they've made mistakes. I, too, can't betray my parents who have raised me." Although North Korea lost every game it played in South Africa, they did manage to score a goal against Brazil. Jong did not score, despite predicting he would score "a goal in every game."

### **The coming quarter**

The coming quarter will involve more maneuvering over how to deal with North Korea, although there is little likelihood there will be any major changes in any of the governments' strategies. North Korea is unlikely to back down in the face of sanctions and muscle-flexing, and Seoul and Tokyo will not lessen their pressure on the North. Thus, an extended period of stasis is possible, with much belligerent rhetoric but little actual change on the peninsula. For Japan-South Korea relations, continued cooperation on policies toward the North will bring them closer, but will not

resolve their territorial or historical disputes. Meanwhile, further trilateral coordination with China on economic issues and the increasingly close and complex economic relations of Japan and South Korea continue apace, in parallel with but not necessarily affecting diplomatic or political relations in a substantial manner.

## **Chronology of Japan-Korea Relations** **April – June 2010**

**April 2, 2010:** South Korea's National Assembly approves a resolution requesting that Japan withdraw approval of elementary school textbooks that show the Dokdo/Takeshima islets as Japanese territory.

**April 5, 2010:** North Korean defector Hwang Jang-yup meets Japan's minister in charge of the abduction issue.

**April 9, 2010:** North Korea's 12<sup>th</sup> Supreme People's Assembly is held to approve government activities. Kim Jong-il does not attend the session.

**April 9-11, 2010:** A joint survey by Japan's *Yomiuri Shimbun* and South Korea's *Hankook Ilbo* shows that 57 percent of Japanese respondents think that Japan-South Korea relations are good while only 24 percent of South Korean respondents think bilateral ties are good.

**May 10, 2010:** About 200 South Korean and Japanese academics, writers, and attorneys announce in a joint statement that the 1910 annexation treaty is null and void.

**May 15-16, 2010:** Foreign Ministers from China, South Korea, and Japan hold a meeting in Gyeongju, South Korea.

**May 16, 2010:** Foreign Ministers Okada Katsuya and Yu Myung-hwan meet on the sidelines of the trilateral foreign ministers' meeting in Gyeongju.

**May 17, 2010:** South Korean *Dong-a Ilbo*, quoting Japan's May 15 *Sankei Shimbun*, reports that the Yokohama branch of the Japan Teachers' Union boycotted the right-wing middle school textbook due to many "inaccuracies," and created their own materials.

**May 22-23, 2010:** Environment ministers of China, Japan, and South Korea adopt an action plan for the first time to battle global warming, yellow dust, and other issues in the coming five years.

**May 23, 2010:** Japan, China, and South Korea trade ministers meet in Seoul to discuss regional economic cooperation.

**May 24, 2010:** Prime Minister Hatoyama and Cabinet ministers discuss Japan's possible responses to North Korea over the sinking of the *Cheonan*. Hatoyama calls President Lee Myung-bak to offer Japan's support for Seoul's punitive measures against North Korea.

**May 27-28, 2010:** A UN panel queries Japan about children's rights with reference to ethnic Korean school children that might be excluded from the high school waiver program.

**May 28, 2010:** Japan's Diet enacts a special measures bill into a law that enables inspections of cargo moving between Japan and North Korea.

**May 29, 2010:** The third tripartite summit of South Korea, Japan, and China is held on Jeju Island, South Korea.

**May 30, 2010:** Business leaders of South Korea, Japan, and China issue a joint statement at their second Business Summit on Jeju Island, urging their governments to pursue a three-way FTA.

**May 30, 2010:** According to South Korean government data, the Dokdo/Takeshima islets are estimated to be worth of 1.09 billion won (\$920,000), which marks a 6.3 percent increase from last year due to the discovery of natural resources and the increase in public interest.

**June 2, 2010:** Hatoyama Yukio resigns as prime minister of Japan.

**June 3, 2010:** South Korean Foreign Ministry spokesman Kim Young-sun expresses hopes for a mature, future-oriented relationship with Japan's next leader upon Hatoyama's resignation.

**June 3, 2010:** North Korea expresses disappointment at Prime Minister Hatoyama's resignation for his yielding to US pressure over the Futenma relocation issue.

**June 4, 2010:** Democratic Party of Japan selects Kan Naoto as its new leader.

**June 8, 2010:** Kan takes office as Japan's prime minister.

**June 8, 2010:** According to *Arirang News*, Korean Studies is gaining popularity in Japanese universities partly because of the Korean Wave.

**June 13, 2010:** South Korean financial authorities announce measures to curb capital volatility.

**June 15, 2010:** North Korea holds a news conference and warns of military response if the UN Security Council condemns its country over the sinking of the *Cheonan*.

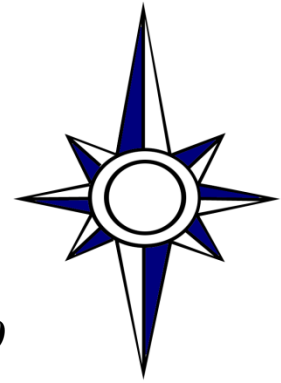
**June 15, 2010:** Prime Minister Kan says he will not visit Yasukuni Shrine as prime minister.

**June 15, 2010:** A trader and his wife are arrested in Japan on suspicion of exporting cosmetics to North Korea against Japan's ban of exporting luxury items to the North.

**June 26, 2010:** The G8 meeting agrees to endorse the results of the international investigation led by South Korea on the sinking of the *Cheonan*.

**June 26, 2010:** President Lee and Prime Minister Kan meet for the first time on the sidelines of the G20 Summit in Toronto.





**China-Russia Relations:**

**Reset under Medvedev: *Zapad-Politik* and *Vostok 2010***

**Yu Bin**  
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Unlike the relatively uneventful first quarter in China-Russia relations, the second quarter was full of confusion, crises, and even conflicts along the peripheries of Russia and China and within the Shanghai Cooperation Organization (SCO). Following the sinking of the ROK Navy corvette *Cheonan* on March 26, the Korean Peninsula experienced significant tension. On April 6, riots and violence broke out in Kyrgyzstan, leading to the ousting of the Bakiyev government two days later. Both Russia and China joined the US-sponsored UNSC sanctions against Iran, although with differing degrees of reluctance. In the midst of this activity, Moscow cautiously and conspicuously orchestrated a “reset” of its foreign policy with a clear tilt toward Europe and the US. Russia’s new round of *Zapad-Politik* (Westpolitik), eliciting quite a few surprises, if not shocks, for its strategic partner in Beijing.

***Cheonan* sinking**

From the time the *Cheonan* sunk on March 26 to the release of the investigation report on May 20, tensions on the peninsula have gone from bad to worse. The two Koreas dismantled almost the entire inter-Korean diplomatic, humanitarian, and economic framework that had been put into place over the past two decades. The result is that in 2010, the 60<sup>th</sup> anniversary of start of the Korean War (June 25, 1950), the ROK and DPRK are back to the precarious relationship of June 1950. The biggest difference for today’s Korea is that Russia and China have not been willing to back North Korea’s militant policies. However, nor do they accept the verdict of the “international investigation,” performed by the ROK and its allies, plus Sweden.

The situation on the Korean Peninsula was at the center of Russian and Chinese diplomatic, political, and strategic interactions during the quarter. In almost all the numerous meetings – the April 15 BRIC (Brazil, Russia, India and China) Summit in Brasilia; May 8-9 at the 65<sup>th</sup> anniversary of VE Day for WWII; the 10<sup>th</sup> annual SCO Summit in Tashkent; and June 26, 2010 on the sidelines of the G20 Summit in Toronto, Canada – the situation in the Korean Peninsula topped the agenda. Diplomats worked overtime to coordinate policies and exchange information on the subject. On April 20-22, Deputy Foreign Minister Alexei Borodavkin had “a thorough exchange of views” in Beijing with Wu Dawei, China’s special representative for the Korean Peninsula nuclear issue, and others in “a friendly and constructive atmosphere.” At the end of the consultation, Borodavkin was received by Foreign Minister Yang Jiechi. On June 3-4, Russian Foreign Minister Sergei Lavrov also discussed Korea during his official visit to China.

Despite their frequent interactions and common concern for the stability of the Korean Peninsula, Beijing and Moscow have approached the Korean crisis differently. During the second quarter,

China had its own “best” and “worst” experience regarding North Korea. First, DPRK leader Kim Jong-il paid an unofficial visit to China on May 3-7, the first since January 2006 and the fifth since the turn of the century. In June, however, three Chinese nationals were shot to death while doing business at the China-North Korean border. Two days later, two Chinese nationals were reportedly “dead” in North Korea while being detained as “spies.” In both cases, China demanded explanations. China, however, tried to separate these bilateral incidents from the *Cheonan* sinking, because Kim's unofficial visit to China was arranged long before the incident. The goals of China's North Korean policy, including inviting Kim to visit China, are to reduce tension, restart the denuclearization process, and gradually open up and reform North Korea.

Unlike China's stake and leverage regarding Korea, Russia's influence is relatively weak and indirect in both the economic and diplomatic spheres. Russia's approach in the current crisis has been driven by a strategic calculation – it does not want to see instability and conflict in the peninsula. Unlike in 1950, when Stalin unleashed Kim Il-sung for the perceived “loss” of China due to the triumph of Mao's indigenous communist movement in China, the current crisis and its likely escalation may further diminish Russia's interests in Northeast Asia for at least two reasons. First, Russia's posture in the Asia-Pacific is both economically and militarily much weaker. Second, heightened tension or conflict on the peninsula would bring back a more assertive US and Japan. Therefore, a cautious approach and close collaboration with China is in Russia's best interests. No wonder then that various Russian sources have questioned the outcome of the international investigation. Nor do they see any motivation on the part of North Korea to create such a crisis.

Still, Russia took advantage of whatever opportunity arose from the crisis. On May 31, four submarine and torpedo experts from the Russian Navy arrived in South Korea to participate in the ongoing international investigation into the *Cheonan* sinking. After a week-long examination of the available “evidence,” the Russian experts reportedly remained doubtful. The real reason for Russia's caution is to avoid taking a firm stance on the findings of both South Korea and those of its own experts, as it has too much to lose by supporting either side.

### **Kyrgyzstan in turmoil**

If the stakes in Korea are larger for China, Kyrgyzstan is more clearly in Russia's sphere of interests, largely because Kyrgyzstan is part of Russia's near-abroad, or post-Soviet, space. Moreover, Kyrgyzstan is at the intersection of the interests and spheres of gravitation for major powers in Central Asia – a crossroads of different civilizations and political systems.

Unlike the 60 years of enmity between the two Koreas, Kyrgyzstan seemed to degenerate into violent riots almost overnight in early April. In a matter of a few days and after several hundred deaths and thousands of wounded, President Kurmanbek Bakiyev was ousted and fled to the south before exiling to Belarus on April 19. An interim coalition government was formed on April 8 with Roza Otunbayeva as prime minister, who is said to be well-known in Moscow, Washington, China, and Europe, and is characterized as “not pro-Russian, not pro-American, not pro-Chinese, but pro-Kyrgyz. She is moderate.” Throughout the quarter, violence and even ethnic cleansing continued in certain parts of the nation, causing hundreds of thousands to flee or be evacuated to other nations.

The making of the Kyrgyz “revolution,” however, was a long process. The nation never really recovered from its 2005 “Tulip Revolution.” In its aftermath, corruption, inefficiency, low economic growth, plus the traditional “north-south” division (Bakiyev represents the south while Otunbayeva the north) continued to divide its political elites and the population. In comparative terms, Kyrgyzstan is the poorest of all the former Soviet Central Asian republics (and almost without mineral resources, unlike its more fortunate neighbors) with a per capita GDP of \$1,000 and deeply in debt (\$2 billion with a \$5 billion GDP). The dire economic conditions, plus the price hikes for water and electricity by the Bakiyev government, turned the frequent anti-government rallies in late March to early June into large, angry demonstrations across the nation.

Kyrgyzstan had been a rather active player in, as well as playground, for major power politics among Russia, the US, and China. Indeed, Kyrgyzstan is the only country in the world that has both US and Russian bases on its soil. Both Russia and the US have been working to build their second base in Kyrgyzstan some 200 km from the Chinese border. Meanwhile, most of its foreign trade is with China – accounting for more than two-thirds of Kyrgyzstan's imports. Therefore, the interests of all three powers are at stake. China always fears that unrest on its periphery will cause a great stir in its Western provinces, including the Xinjiang-Uyghur Autonomous Region. Russia, too, has long been bothered by the rise of Islamism on its southern flank. For the US, Afghanistan was its regional focus of attention and Washington was satisfied with the ability of ousted President Bakiyev to provide ready access for a steady flow of supplies for the US and NATO military operations in Afghanistan.

In the early stage of the violence, the immediate reaction in Moscow was that Russia would not intervene and that it would choose to support any leader who gains the upper hand. On April 7, the Russian Foreign Ministry released a statement denying Moscow's involvement in the events. President Medvedev said the events in Kyrgyzstan were an internal affair of that country.

Kyrgyzstan's “internal” upheaval, however, followed a few years of worsening relations with Moscow after Bakiyev failed to live up to his agreement with Moscow to close the US military base in Kyrgyzstan. In February 2009, Bakiyev announced the impending closure of the US base in Manas in exchange for a large package of Russian aid. Russia then allocated Bishkek a non-repayable grant of \$150 million and a soft loan of \$300 million, while writing off Kyrgyzstan's debt of \$180 million. By July 2009, it appeared that the base was simply renamed a “transit center” and even expanded. Moscow gave the appearance that it did not object, but it was shocked by Bishkek's behavior and stopped payments on the assistance packages. In the same year, Bakiyev also reneged on an agreement he signed with President Medvedev to establish a military training center in Kyrgyzstan for the Collective Security Treaty Organization (CSTO). According to the *Moscow Times* (online), a media outlet critical of Russian government policies, the Kremlin had been in close touch with opposition leaders long before the turbulent events in April and quietly supported their campaign to depose Bakiyev. The Kremlin's strategy was to gradually build internal pressure on Bakiyev and orchestrate a parliamentary protest to make him step down. A series of hasty and uncoordinated decisions by the opposition to initiate mass rallies in major cities, however, overtook the Kremlin's planning. How actively Moscow was undermining the Bakiyev government remains a question, but it was quite obvious that the Kremlin simply refused to prop up a regime that was clearly corrupt, bankrupt, and manipulative.

What happened in Kyrgyzstan seemed to be the last Russian effort to restore its past primacy, real or imagined. That is, Russia has been assiduously getting back much of what it lost in the color revolutions a few years ago. According to Russian analyst Tatyana Stanovaya, Ukraine is now leaning toward Moscow, which scored a major victory by securing a new 25-year lease for its Black Sea fleet. Georgia lost face and territory in the war of August 2009. And Kyrgyzstan's Tulip Revolution has now been overthrown, a clear victory for Moscow.

Regardless, Moscow did act promptly this time. First, Prime Minister Vladimir Putin quickly backed Otunbayeva's interim government. On April 8, then opposition leader Otunbayeva held telephone conversations with Putin and met representatives of the US Embassy. Second, Putin affirmed support for the people of Kyrgyzstan and promised to allocate emergency assistance (a \$20 million grant and a \$30 million easy-term loan, plus 25,000 tons of oil products). Last, Russia immediately dispatched 150 paratroopers to the Russian airbase in Kant to safeguard Russia's facilities and provide security to Russian diplomatic mission and other institutions.

### **China's Kyrgyz blues?**

Of the three major powers (Russia, US, and China), China adopted the most visible wait-and-see approach toward the Kyrgyz violence. One reason was that China had perhaps the least viable policy alternatives for the riots and power struggle in Kyrgyzstan. Another reason was a belief that almost all major opposition leaders, including interim Prime Minister Otunbayeva, were China's "friends." Nevertheless, Chinese businessmen suffered heavy losses and property damage. Beijing quickly decided to withdraw its nationals from the Central Asian state.

A pressing concern for China was whether Kyrgyzstan would be able to remain in the SCO if internal stability continued to deteriorate. On April 19, the Kyrgyz interim government promised that it planned to continue to be part of the regional security group. On the same day, the Chinese government allocated \$3 million in humanitarian relief and \$1 million as direct financing for the Kyrgyz interim government.

Throughout the second quarter, it looked like Moscow and Washington interacted frequently and smoothly to stabilize the situation, while China was waiting for the dust to settle. Only at the end of April did Russian and Chinese diplomats get together to coordinate policies toward Kyrgyzstan when Russian Deputy Foreign Minister Grigory Karasin and Chinese Ambassador to Russia Li Hui met in Moscow to discuss the situation in Kyrgyzstan and Central Asia as a whole. "The parties have agreed to continue to exchange their views on the current situation in Kyrgyzstan and the forms of cooperation for the sake of stabilizing the republic," the Russian Foreign Ministry said in a statement. On June 15, Russian First Deputy Minister of Foreign Affairs Andrey Denisov met Ambassador Li at the latter's request for information on the latest developments in Kyrgyzstan as well as peace and security issues in Central Asia.

China seemed to adopt a more active approach on Kyrgyzstan in mid-June, several days after the 10<sup>th</sup> annual SCO Summit in Tashkent, Uzbekistan. A day after Denisov and Li met in Moscow, a Chinese Foreign Ministry delegation was sent to Kyrgyzstan. The group was led by senior diplomat Gao Yusheng, a veteran in Central Asia affairs and former ambassador to Uzbekistan, Turkmenistan, and Ukraine as well as the former SCO deputy secretary. The Chinese diplomats

met with leaders, foreign minister, interior minister, chairman of the National Security Service and personalities from all walks of life, as well as diplomatic missions of Russia and the US in Kyrgyzstan. The group was more like a fact-finding mission, but seemed to anticipate a more substantive and proactive approach by Beijing. On June 26-29, Russian and Chinese Deputy Foreign Ministers Alexei Borodavkin and Cheng Guoping met in Moscow for an unusual four-day meeting to discuss the Kyrgyzstan situation. The Chinese Foreign Ministry released a statement after the talks saying that “At a time of complexity and instability of the international situation, when both countries are at an important phase of their development, the further intensification of Chinese-Russian relations, strategic partnership, and interaction are very important and timely.”

Meanwhile, according to Russian media outlet *Interfax*, China appeared to be more interested in the possible role of the CSTO to maintain and restore stability in the region. CSTO, however, is handicapped by its own charter, which only allows for collective military operations in response to an external threat or attack.

By the end of the quarter, China’s Central Asia policy seemed at a crossroad. On June 21, the influential *Global Times* [*Huanqiu Shibao* 环球时报], a subsidiary of the official Party organ *People’s Daily* [*Renmin Ribao*], ran an anonymous op-ed piece with a forceful title, “No More Withdrawal! China May Be Compelled to Get Involved in Central Asian Conflict,” [不能一味退让 中亚问题中国或被卷入冲突], with the following main points:

- China’s passivity during the Kyrgyz crisis is by no means a matter of choice, but because of China’s limited ability to influence the regional chemistry.
- China’s do-nothing approach cost China considerably in that its trade with Kyrgyzstan almost completely stopped at the height of the crisis. In the future, China should not just get out of the region, but may be forced to get involved in the conflict in Central Asia.
- The Kyrgyz crisis indicated that China’s presence in the region is rather fragile and without capacity to directly influence in times of crisis. This time, China’s only choice was to pull out, resulting in many Chinese nationals having to abandon their properties.
- As the gateway for China’s energy imports from Central Asia, chaos in Kyrgyzstan is a nightmare for Chinese energy importers. For the sake of its own interests, China should not evade problems, but will have to play a more active role for regional security.
- US and Russian power is indispensable for the stability of Kyrgyzstan. Unfortunately, it appears that both have cast China out of the resolution of the Kyrgyz crisis through political and economic means. China was correct to avoid involving itself in the “trouble waters” in Afghanistan. However, China cannot be at ease with neighboring states like Kyrgyzstan where China’s transit energy lifelines are in the hands of other powers. A free ride is by no means an easy ride.
- The political situations in some countries around China’s periphery are not stable. Many are in transition with complex social problems. With weakened governing capacity, the

situation could spin out of control once turbulence appears, having a destructive effect on the entire region. No major power seems willing to get involved in disturbances along its peripheries, however, most did get in, albeit reluctantly. Can China always be an exception?

- China may not continue to be aloof. The price of being a major power is to encounter those unpleasant problems from time to time. From now on, China should dare to take a few steps forward, and China's public opinion needs to support the government's experiments even if some of those first "steps" are not steady.
- Resolve is crucial. China should adopt a new posture in its interactions with the US and Russia along China's peripheries, particularly in Central Asia. China cannot search for its own space forever in the shadow of the US and Russia. Nor should China pull back for fear of upsetting one of them.
- The SCO experience shows that China has capabilities for a bigger role in Central Asia; China's economic clout is indispensable for the prosperity of the region. Although the US and Russia have a strong political presence in Kyrgyzstan and have been quite "intimate" with one another in dealing with the crisis there, the "cracks" between them are big enough for China to have a foothold in the area. So long as China has the courage, its current capability will be able to digest any consequences of its actions.

The authoritative tone of the anonymous piece was quite unusual in a mass-circulated daily with extensive coverage on international news and Chinese foreign policy. It looks like a trial balloon for more active involvement in Central Asian affairs, at least partially because of China's growing economic presence, particularly in energy exploration and transportation. The large number of ethnic Uyghurs in Kyrgyzstan (about a quarter of a million) is also a potentially destabilizing factor for China's sensitive Xinjiang area.

To what extent China's more proactive posture in the area will affect others remains to be seen. In the aftermath of the Kyrgyz crisis, China quickened its diplomatic and security engagement in the region. From May 23-29, Chinese Defense Minister Liang Guanglie toured Pakistan, Turkmenistan, and Kazakhstan. The large fact-finding group of China's diplomats sent to Kyrgyzstan shortly after Tashkent's annual SCO Summit was another case in point. In late March, Afghan President Hamid Karzai paid an official visit to China and was accompanied by his defense minister who met his Chinese counterpart Liang Guanglie in Beijing. The latter promised more assistance to the Afghan military. Already in late 2009, China started training Afghan (and Iraqi) mine sweepers as part of the UN program.

### **SCO in the shadow of Kyrgyzstan unrest**

In 10 years, the SCO has encountered two types of challenges. In 2001, the sources and nature of the challenge were largely external: 9/11 and Afghanistan. Toward the end of the first decade of its existence, chaos and violence in Kyrgyzstan reveal a growing, and perhaps long-term, challenge to the regional security group. There was no question that the SCO was able to absorb

the impact from Kyrgyzstan's "Tulip revolution" in 2005. The socio-economic condition created political turbulence five years before continued to worsen and deepen.

The current Kyrgyz crisis occurred when the SCO was in full swing in several of its functional areas. It was making final legal preparations for admitting new members, observers and partners (In 2009, Sri-Lanka and Belarus were granted the status of partners in SCO dialogue). In early April, both India and Pakistan started seeking full membership after several years of observer status. For years, Iran has not hidden its aspiration to become a full member. SCO's Regional Anti-Terrorist Structure (RATS) was actively planning to hold regular sessions for rapid information exchange to identify and fight terrorists. A day before the outbreak of large-scale demonstrations in Kyrgyzstan, the UN and the SCO signed a document in Tashkent to promote cooperation in various fields, including security. UN Secretary General Ban Ki-moon told journalists that his visit to Uzbekistan was "very constructive." On April 6, when violence started to spread in Kyrgyzstan, SCO defense ministers were meeting in Moscow for the final round of consultations for the *Peace Mission 2010* anti-terrorist exercises to be held in Kazakhstan in September. These developments were followed by other routine activities leading to the annual summit in June: the 5<sup>th</sup> session of the SCO Security Councils' secretaries on April 22-23 and SCO foreign ministers meeting on May 22.

What happened in Kyrgyzstan demonstrates both the strength and weakness of the SCO. On the plus side, the fact that the SCO continues to function in spite of the Kyrgyz crisis demonstrates its organizational "normalcy" if not its resilience. The SCO, nonetheless, also failed as a group to provide immediate assistance to one of its members in turmoil, let alone prevent it from happening. In the early phase of the crisis, active coordination between member states was almost nonexistent. Member states pursued their own course of action according to their own interests and capabilities. Even the most capable major power (Russia) failed to respond to the request from the Kyrgyz interim government for direct intervention.

In the longer term, the SCO perhaps needs to address several imbalances regarding its structure, symbolism, and substance. While continuous growth is necessary and even desirable, consolidation of the existing structure is perhaps more important. Diversity in the members' political, cultural, and economic constructs, though unavoidable in the case of the SCO, can be an asset but also limits its ability to deal with emergencies. Ordinary people, not just the elites and dignitaries, of the SCO members need to receive more tangible benefits from the deepening and broadening of the SCO operations.

In the wake of the first wave of violent Kyrgyz demonstrations in late April, Uzbek President Karimov, who holds the 2010 presidency in the SCO, remarked that "[T]he main issue is to make the population of SCO member-states feel that the organization exists and contributes to the steady development of their economies and to raise the prosperity of the people." A more intrusive SCO, however, would mean less sovereignty for its member. It is unclear, in both conceptual and practical terms, if the SCO member states are ready for that.

The SCO, however, was forced to react to the Kyrgyz crisis. During the 5<sup>th</sup> session of the SCO Security Councils' secretaries on April 22-23 in Tashkent, participants discussed "counteracting the emerging challenges and threats" and "the mechanisms of interaction in fighting terrorism,

separatism, drug- and weapons-trafficking and other common threats.” In his remarks, Chinese representative Meng Jianju linked the global financial crisis to economic and social stability of SCO member states and urged further coordinating and cooperative mechanisms within the SCO framework.

Kyrgyzstan also topped the agenda of the SCO’s annual foreign ministers’ meeting in Tashkent on May 22. While being committed to the independence, sovereignty and territorial integrity of the Kyrgyz Republic, SCO foreign ministers were ready to give it the necessary support and assistance. The normal agenda for the meeting was preparations for the SCO summit due in June. Two additional items discussed were the status of efforts to hold an international conference on Afghanistan in Kabul in July and drafting rules for new members’ admission. Afghanistan remained the top concern for SCO foreign ministers. A notable pre-condition for SCO admission is that a country under UN sanctions cannot seek membership.

A new wave of violence broke out in southern Kyrgyzstan (Osh) while the SCO was holding its annual summit on June 10-11 in Tashkent. In the “Tashkent Declaration” issued at the close of the summit, the SCO agreed to assist Bishkek in faster legitimization of the new authorities there in the run-up to a national referendum scheduled for June 27.

There were “a record number of representatives” attended the Tashkent summit, including Afghan President Hamid Karzai as a guest of honor. The notable exception among the participants was Iranian President Ahmadinejad, who “received an invitation in due time” according to Chinese and Russian sources. Part of the reason was the much publicized SCO draft documents “regulation on procedure for future membership expansion,” which legalizes a process for future membership expansion and also prevents countries that are under UN sanctions from being admitted to the organization. President Medvedev called these rules “an important internal corporative document,” a suggestion that SCO states with different preferences finally reached consensus. At least for Russia and China, the SCO should not be viewed as being in opposition to the rest of the world.

Beyond Kyrgyzstan and Iran, the SCO Summit in Tashkent emphasized its traditional concerns such as fighting the “three evil forces” (terrorism, separatism, and extremism), safeguarding security and stability, and advancing pragmatic cooperation. For China, Kyrgyzstan’s unrest highlighted the vulnerability of its fast-growing energy pipeline infrastructure through this vast region known for both its abundant resources and socio-politico-strategic fluidity. President Hu Jintao seized the summit to propose that relevant parties should work out some legal documents for the safety of the cross-nation pipelines.

In Tashkent, the SCO members also seemed to take a more pessimistic view about the apparently deteriorating situation in Afghanistan. The joint declaration signed at the end of the summit points to the SCO’s proximity to Afghanistan and the vulnerability to Afghan-originated drug-trafficking. Alexander Rar, an expert from the Russia-Eurasia Center, noted that “the drug threat has been more dangerous than a threat from international terrorism. For Russia, coping with the international drug business has become the major objective now.” Russian President Dmitry Medvedev went so far as to propose adopting a SCO antidrug strategy for 2011-2016.



Russian and Chinese presidents held separate talks on political contacts, cooperation in solving pressing international problems and trade and economic relations. In Tashkent, President Hu made a six-point proposal on boosting SCO cooperation, including strengthening mutual trust, stepping up counterterrorism efforts, improving SCO institutional building and decision-making mechanisms, and promoting its transparency and inclusiveness.

### **Moscow “resets”**

It was almost certainly coincidental that the Russia-US New Strategic Arms Reduction Treaty (START) was signed in Prague on the very same day (April 8, 2010) that a coup occurred in the midst of violent demonstrations in the Kyrgyz capital of Bishkek. Despite the fact that the military base issue was at the heart of Moscow’s displeasure with the ousted Bakiyev government, Moscow never made it a condition for sending humanitarian aid to the interim Kyrgyz government. Nor did Washington try to maximize its own interests at the expense of Moscow’s. Instead, a curious yet tacit maneuvering was taking place – Washington seemed to be “respecting” Russia’s privileged status in Kyrgyzstan as part of Moscow’s zone of interests, while Moscow appeared to understand the utility of Manas airbase for the Afghan war. Indeed, it is becoming increasingly clear that the US and NATO’s ability to sustain – not necessarily win or lose – the war in Afghanistan is in Russia’s interest. The Kyrgyz crisis, therefore, was turning into a timely opportunity, in conjunction with the New START, for a series of reciprocal actions between Moscow and Washington, some of which were to the disbelief and discomfort of Beijing.

In a way, drafting and the final signing of the New START initiated a rapid warming process between Russia and the West: Vladimir Putin kneeling at the memorial to the Polish officers murdered by the Soviet forces at Katyn (April 7); Medvedev ending a 40-year sea-boundary dispute with Norway (April 28); NATO soldiers marching in Red Square on V-E Day (May 8), etc. During the preparations for the SCO Summit in June, Uzbekistan went as far as to suggest granting observer status to Washington. It was unclear how Moscow reacted; the initiative was said to have been actively opposed by China.

Signs of US-Russian intimacy were either picked up or predicted by the *Moscow Times*, a leading liberal media outlet. On April 13, an op-ed piece used the term “reset” as part of its title “Obama’s Nuclear Doctrine Could Boost Reset.” The rest of the world would have to wait for almost a month before Moscow dropped the “second shoe” on May 10 when the *Russkiy Newsweek* released a “secret” Russian government document titled “Program for Effective Utilization of Foreign Political Factors on a Systematic Basis for Purposes of Long-Term Development of the Russian Federation.” The document calls for significant tilt of Russian foreign policy toward the West (EU and the US) in exchange of Western political acceptance and economic/technology assistance to Russia’s modernization. The document was drafted by the Russian Foreign Ministry and was approved by President Medvedev in February. The document was intended for official use only. Then, just one day after Chinese President Hu Jintao left the V-E Day celebration in Moscow, the “secret” document was leaked to the public.

The leaked document defines the EU and the US as the main sources for Russia’s modernization, and clearly marginalizes China in Russia’s strategic matrix. The only reference to China in the

document is in its brief discussion of the BRIC group, which is not defined as the center of the world's political and economic order. Dmitry Trenin, director of the Carnegie Moscow Center and perhaps the most authoritative interpreter of Russian foreign policy, identified four main factors for the reset: the Georgia war of 2008, which drew the limits of how low the Russian-US relations could and should go; the global economic crisis, which revealed the fundamental flaws in Russia's energy-fueled growth; the Obama factor, which removed the principal irritants in Russian-Western relations; and finally, China's relentless rise and Russia's increasingly junior status in the strategic partnership relations with China.

To be sure, many "new" elements in the reset document were already articulated by top Russian leaders, including President Medvedev's talk to the Russian Federal Assembly (parliament) in 2009 when he stated that Russia might have to opt for borrowing European standards, if Russia did not have time to develop its own. He also spoke of the fact that modernization requires technologies and investments, and if Russia must get them somewhere, then this should be first and foremost from the Western world and the European Union. Russia's Westpolitik of the 21<sup>st</sup> century, therefore, was well on its way before the "leak."

To China's disappointment and even shock, the "leak" occurred on the same day that Foreign Minister Sergei Lavrov told the Russian Federation Council (Upper House) that Russia was ready to help settle the dispute between China and the Dalai Lama and that Russia was interested in the "normalization in relations between Beijing and the Dalai Lama." China's official reaction to Lavrov's Tibet "reset" was rather measured when the Foreign Ministry spokesman reiterated China's long-held posture that Tibet is China's internal affair. China's media and commentators, however, were both bewildered and annoyed. Even before this Tibet episode, Russia's gradual but significant moves toward the US-sponsored sanctions in the UN Security Council against Iran had left China in the cold, something that many in China did not expect from their strategic partner.

Russia's reset move still depends on US reciprocity: the U.S. Congress is yet to ratify the New START, approve a "123 Agreement" on US-Russian cooperation in the civilian nuclear sphere, remove the Jackson-Vanik amendment, and support Russia's accession into the World Trade Organization. By the end of the quarter, however, few, if any, would dismiss the warming momentum in US-Russian relations as Medvedev's US tour (June 22-24) almost brought back Gorbachev's "good-old-days" excursion through the US (San Francisco, Stanford campus, Silicon Valley, to Washington). And then the familiar "spy bug" appeared as the US side publicized the roundup of an 11-person Russian spy ring.

To what extent Russia and the US will be able to continue the reset process remains to be seen. Perhaps both Medvedev and Obama need such a reset for their respective 2012 re-election efforts. It is a question, however, if others in Russia and the US share the same passion for a long-term and strategic reset of Russo-US relations. One thing that is quite certain is that there is little China can do to influence the reset. Nevertheless, events in the second quarter also demonstrated both the potential AND perhaps the limit to Russia's reset (with Obama's assistance).

The reason for caution is this: Medvedev's Westpolitik in the 21<sup>st</sup> century is preceded by similar attempts by Russia's political elites. Almost all of them were rebuffed by reality in Russia and Russia's relationship with the outside world. The list includes Putin's own Westpolitik, twice during his tenure (immediately after he took over from Yeltsin when he tried to correct his mentor's "China excessiveness" and his post-9/11 unrequited pledge of "allegiance" to Bush's war on terror). Yeltsin made his own circle in the 1990s; Gorbachev in the 1980s; Khrushchev in the 1960s; and even Vladimir Lenin's moment of "New Economics" in the 1920s, which was followed by decades of brutal Stalinism. Even those great Tsars/Tsarinas – turned modernizers/Westernizers such as Alexander II (1818-1881), Catherine II (1729-1796), and Peter the Great (1672 -1725) – could not escape Russia's duality between the West and non-West, and between modern and pre-modern. For Russia's political and intellectual elite, then and now, efforts to become totally Western by shedding Russia's "Asianess" proved to be painful and pitiful, as it means turning Russia's "structural" advantage in the civilized interactions into a disadvantage and self-denial.

The emerging US-Russian intimacy – or "honeymoon" in the words of Andrew C. Kuchins, senior fellow at the Washington-based CSIS – was in sharp contrast to the difficult relationship between Washington and Beijing following the Obama administration's decisions in early 2010 to sell Taiwan \$6.8-billion worth of weapons and to meet the Dalai Lama, plus the Google "hiccup." The combined effect of these developments almost prevented President Hu Jintao from traveling to Washington for the Nuclear Security Summit on April 12-13.

### ***Rim of the Pacific 2010 vs. Vostok 2010?***

By the end of the second quarter, two large-scale naval exercises were unfolding across the Pacific Ocean. The biennial *Rim of the Pacific 2010 (RIMPAC)* war games – the world's largest international maritime exercise involving 14 nations, 34 ships, five submarines, more than 100 aircraft, and 20,000 military personnel – were in high gear in the waters off Hawaii at the end of June. Ships converged on Pearl Harbor from countries around the Pacific including Australia, Canada, Japan, Singapore, and South Korea, as well as from the West Coast of the US.

In the West Pacific, *Vostok 2010* strategic exercises (June 28-July 9) were picking up steam. The drill involved at least 20,000 troops, and up to 70 warplanes and 30 warships, the largest military exercise undertaken by Russia since the end of the Cold War. On July 4, President Medvedev boarded the *Peter the Great* missile cruiser to observe the drill.

The scale of these drills is reminiscent of the Cold War, when the US and Soviet navies routinely matched each other's maneuvers. This time, however, none of them had a specified target, which means anyone can be the target.

## **Chronology of China-Russia Relations April – June 2010**

**April 2, 2010:** Gen. Ma Xiaotian, PLA deputy chief of staff and chairman of the China Institute for International Strategic Studies, meets Sergey Karaganov, president of the Foreign and Defense Policy Council of Russia, Nikolay Bordyuzha, secretary general of the Collective

Security Treaty Organization (CSTO) who were visiting China for the 2<sup>nd</sup> Symposium on “China and Russia in New International Environment” in Beijing.

**April 6-8, 2010:** Riots break out across Kyrgyzstan, leading to the ouster of President Kurmanbek Bakiyev.

**April 8, 2010:** An interim coalition government is formed in Kyrgyzstan with Roza Otunbayeva as prime minister.

**April 14, 2010:** President Dmitry Medvedev and Prime Minister Vladimir Putin offer condolences to President Hu Jintao after a devastating earthquake of 7.1-magnitude hit China’s Qinghai province.

**April 15, 2010:** Presidents Medvedev and Hu meet at the BRIC (Brazil, Russia, India, China) Summit in Brasilia ahead of the original schedule because Hu cut his short after the earthquake in China’s Qinghai Province.

**April 15-16, 2010:** BRIC holds a two-day summit in Brasilia. Chinese President Hu Jintao attends only one day. Chinese State Councilor Dai Bingguo attends the second meeting of BRIC senior representatives on security issues.

**April 20-22, 2010:** Russian Deputy Foreign Minister Alexei Borodavki holds consultations in Beijing with Wu Dawei, China’s special representative on the Korean Peninsula nuclear issue, and Assistant Foreign Ministers Cheng Guoping, Hu Zhengyue and Liu Zhenmin. Borodavkin meets Foreign Minister Yang Jiechi on April 22.

**April 22-23, 2010:** The SCO Security Councils’ secretaries hold their fifth session in Tashkent.

**April 23, 2010:** Russia refuses to grant the Dalai Lama an entry visa requested by Russia’s Association of Kalmyk Buddhists.

**April 26 & 30, 2010:** The Russian Emergency Situations Ministry delivers two consignments of humanitarian cargo (weighing more than 65 tons, worth about 37 million rubles) to China’s Qinghai Province where a deadly earthquake caused severe damage.

**April 29, 2010:** Russian Deputy Foreign Minister Grigory Karasin and Chinese Ambassador to Russia Li Hui discuss in Moscow the situation in Kyrgyzstan and Central Asia.

**April 29, 2010:** Russian Minister of Economic Development Elvira Sakhizadovna Nabiullina meets Chinese Ambassador to Russia Li Hui in Moscow. They exchange views on how to deepen economic and trade cooperation between China and Russia.

**May 3-7, 2010:** DPRK leader Kim Jong-il makes an unofficial visit to China.

**May 8-9, 2010:** President Hu Jintao visits Russia as the guest of President Medvedev for the ceremony marking the 65th anniversary of Victory in the Great Patriotic War of 1941-1945. Hu meets Prime Minister Putin on May 8 and President Medvedev the following day.

**May 10, 2010:** *Russkiy Newsweek* releases a “secret” Russian government document “Program for Effective Utilization of Foreign Political Factors on a Systematic Basis for Purposes of Long-Term Development of the Russian Federation.”

**May 13, 2010:** Foreign Minister Sergei Lavrov states that Russia is ready to help settle the dispute between China and exiled Tibetan spiritual leader the Dalai Lama, and that Russia is interested in the “normalization in relations between Beijing and the Dalai Lama.”

**May 18-20, 2010:** A Russian State Duma (Lower House) delegation, led by State Duma Chairman Boris Gryzlov, pays an official goodwill visit to China at the invitation of top Chinese legislator Wu Bangguo. Gryzlov meets President Hu and Vice President Xi Jinping.

**May 19, 2010:** Chairman of the Communist Party of the Russian Federation Gennady Zyuganov starts his seventh visit to China. He meets Vice President Xi and travels to Nanjing and then tours the World Expo in Shanghai.

**May 22, 2010:** SCO foreign ministers meet in Tashkent to make preparations for the SCO Summit and discuss the situation in Kyrgyzstan. Foreign Minister Lavrov holds a brief working meeting with Foreign Minister Yang Jiechi.

**May 24-27, 2010:** Viktor Ivanov, director of Russia’s Federal Drug Control Service (FDCS) visits China. He meets Zhou Yongkang, member of the Permanent Committee of the Political Bureau of the Central Committee of the Communist Party of China and Meng Jianzhu, minister of Public Security of the People’s Republic of China. They discuss trafficking of narcotics from Afghanistan and its impact on the Xinjiang-Uyghur Autonomous Region of the PRC.

**May 31, 2010:** Liao Xilong, director of the PLA General Logistics Department, meets visiting Deputy Minister of Defense Vera Chistova in Beijing.

**June 3-4, 2010:** Foreign Minister Lavrov visits China. He meets President Hu, State Councilor Dai Bingguo and Foreign Minister Yang.

**June 4, 2010:** DPRK border guards shoot dead three Chinese nationals and wound another suspected of illegally crossing the China-DPRK border for trade activities.

**June 8, 2010:** China complains by raising “a solemn representation” with the DPRK regarding the killing of Chinese nationals on June 4.

**June 9-12, 2010:** Gen. Ma Xiaotian, deputy chief of general staff of the Chinese PLA, and Lt. Gen. Lichiyak, deputy chief of general staff and director of Main Directorate for Operations of the General Staff Headquarters of the Russian armed forces, jointly preside over the 13<sup>th</sup> round of strategic consultation in Moscow.

**June 10-11, 2010:** The 10<sup>th</sup> annual SCO Summit is held in Tashkent.

**June 22, 2010:** Minister of Natural Resources and Ecology Yuri Trutnev and Minister of Environmental Protection Zhou Shengxian sign a protocol on cooperation in the environmental protection and trans-boundary water resources.

**June 23-Aug. 2, 2010:** *RIMPAC* 2010 is held in the waters off Hawaii.

**June 26, 2010:** Presidents Hu and Medvedev meet on the sidelines of a G20 Summit in Toronto.

**June 28-July 9, 2010:** Russian military conduct a series of drills in the Sea of Japan as part of the *Vostok 2010* strategic exercises in Russia's Far East.

**June 26-29, 2010:** Russian and Chinese Deputy Foreign Ministers Alexei Borodavkin and Cheng Guoping, meet in Moscow to discuss Kyrgyzstan issue.

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