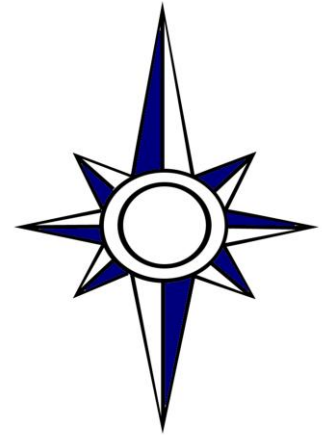




P a c i f i c F o r u m C S I S



Comparative Connections



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

edited by

Carl Baker
Brad Glosserman

3rd Quarter (July – September) 2010
Vol. 12, No.3
October 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.

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A Quarterly Electronic Journal on East Asian Bilateral Relations

Bilateral relationships in East Asia have long been important to regional peace and stability, but in the post-Cold War environment, these relationships have taken on a new strategic rationale as countries pursue multiple ties, beyond those with the 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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Table of Contents

Regional Overview:.....1

US Profile Rises, China Image Falls, North Korea Changes?

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

The US profile in Asia appears to be on the rise following Secretary of State Clinton’s highly publicized presentation at the ASEAN Regional Forum (ARF) ministerial in July and President Obama’s meeting with ASEAN leaders at quarter’s end. Meanwhile Beijing’s image took a few hits as it tried to bully Japan (successfully), the US and ROK (unsuccessfully), and ASEAN (TBD) on maritime-related issues, while essentially serving as North Korea’s defense attorney during UN Security Council deliberations on the *Cheonan* attack. Prospects for a resumption of Six-Party Talks remained low. New faces appeared in the North’s general officer ranks but prospects for Korean Peninsula denuclearization remained unchanged. Meanwhile, democracy marches on, one step forward in Japan and two backward in Burma/Myanmar, while Washington seeks greater economic integration in Asia. The US profile is expected to grow further next quarter with Obama and Clinton both scheduled for high-profile visits to the region. We’ll see what Beijing does to improve its image; we expect little progress when it comes to Pyongyang.

US-Japan Relations:.....15

Hitting the Reset Button

by Michael J. Green, CSIS/Georgetown University, and Nicholas Szechenyi, CSIS

The ruling Democratic Party of Japan (DPJ) suffered an embarrassing defeat in the July Upper House election less than a year after assuming power. Prime Minister Kan Naoto subsequently took a beating in the polls but managed to withstand a challenge from former DPJ Secretary General Ozawa Ichiro in a party presidential election marked by heated debate over economic policy. Political turmoil did not preclude active diplomacy on the part of Kan’s government, nor coordination between Washington and Tokyo on a range of bilateral, regional, and global issues including the relocation of Marine Corps Air Station (MCAS) Futenma on Okinawa; a collision between a Chinese fishing boat and Japanese Coast Guard vessels near the Senkaku Islands; and sanctions on Iran to condemn its nuclear activities. The quarter came to a close with President Obama and Prime Minister Kan taking stock of a rapidly developing bilateral agenda during a brief yet productive meeting on the margins of the United Nations General Assembly (UNGA) in New York, setting the stage for the president’s trip to Japan in November.

US-China Relations:.....25

Tensions Rise and Fall, Once Again

by Bonnie Glaser, CSIS/Pacific Forum and Brittany Billingsley, CSIS

Diplomatic confrontations over the Yellow Sea and the South China Sea were the source of new bilateral tensions this quarter. Beijing vigorously objected to the dispatch of the aircraft carrier *USS George Washington* to waters near where the South Korean corvette *Cheonan* sunk after being attacked in March, even before Washington had made a decision to deploy it. Worried about Chinese diplomatic posturing and destabilizing activities in the South China Sea, Secretary of State Clinton delivered a clear statement of US interests at the ASEAN Regional Forum meeting in Hanoi that irritated Beijing. With the US mid-term elections approaching, US frustration mounted over China's unwillingness to allow its currency to appreciate against the dollar at a faster pace. The House of Representatives passed legislation that would allow the US to impose import duties on countries that have undervalued currencies. After more than five months of delay, the Pentagon submitted to Congress its annual report assessing Chinese military capabilities. Finally, two US presidential envoys traveled to Beijing to smooth over relations and President Obama met Premier Wen Jiabao on the margins on the UN General Assembly.

US-Korea Relations:.....41

Smooth Sailing in the Wake of *Cheonan*

by Victor Cha, CSIS/Georgetown University and Ellen Kim, CSIS

The sinking of the *Cheonan* remained the predominant issue in the US-ROK relationship as both countries spent the quarter coordinating and undertaking punitive measures against North Korea for its alleged attack on the ship. The UN Security Council adopted a Presidential Statement condemning the attack but did not directly blame North Korea. The US and the ROK held their first "Two-plus-Two" meeting in Seoul. While countries reopened their dialogue channels in the hope of resuming the Six-Party Talks, there remain many challenges and uncertainties that make the future direction of the Talks unclear. Several issues remain to be resolved on the KORUS FTA as negotiators are expected to hold a ministerial meeting soon to strike a deal. The Chicago Council on Global Affairs released a report on US attitudes toward South Korea that highlighted public support for trade agreements, including the KORUS FTA, is lukewarm. Among those who viewed fair trade as critical for US interests, support for KORUS was much stronger.

US-Southeast Asia Relations:.....49

Growing Enmeshment in Regional Affairs

by Sheldon Simon, Arizona State University

The US significantly raised its profile in Southeast Asia this quarter, inserting itself in South China Sea disputes, announcing its plan to join the East Asia Summit, convening the second US-ASEAN summit, and creating an ambitious agenda for a variety of initiatives. Secretary of State Clinton proposed multilateral discussions under ASEAN auspices on the South China Sea issue. The US inaugurated naval exercises with Vietnam in early August. Washington is considering new financial sanctions against Burma, recognizing that more engagement with the military regime has not yielded the expected results. The presence of US military trainers in the southern Philippines continues to rile leftist and nationalist legislators. As a sign of growing warmth in US-Malaysian relations, Kuala Lumpur is sending a small contingent of medical personnel to Afghanistan. The Indonesian-US Comprehensive Partnership was launched in

September and Washington restored military-to-military relations with *Kopassus*, the Indonesian Special Forces.

China-Southeast Asia Relations:.....63

US Interventions Complicate China’s Advances

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

China was on the defensive this quarter, reacting to interventions by the US, including a notable statement by Secretary of State Clinton, at the annual ASEAN Regional Forum (ARF) meeting regarding the South China Sea. The ARF meeting also saw a new US commitment, backed by ASEAN, to participate actively in the East Asian Summit, raising the profile of that regional body over China’s preference for Asian-only regional groups. Further complicating China’s regional calculus were prominent advances in US relations with Vietnam shown during celebrations of a US-Vietnam anniversary in August. Chinese at first countered that the US actions were self-serving and destabilizing, which meshed with public Chinese attacks on US military exercises with South Korean forces. Later, some Chinese commentary dissented from the harsh public approach, and by the end of the quarter, the criticism subsided. For the time being at least, it appeared that China will remain focused on publicly stressing trade and reassuring diplomacy in Southeast Asia, while defending its territorial claims and continuing to build military capabilities.

China-Taiwan Relations:.....71

Slow, Steady Improvements

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

This has been a quiet but constructive quarter in cross-Strait relations. Taipei and Beijing were focused on ratifying and beginning implementation of the Economic Cooperation Framework agreement (ECFA). With Beijing’s agreement, Singapore and Taipei announced that they would consider negotiating a WTO-consistent economic cooperation agreement. This important flexibility by Beijing allows President Ma to show that ECFA has opened the door at least slightly to Taiwan’s involvement in regional trade liberalization. Despite Washington’s approval of small commercial arms sales, Beijing indicated a willingness to resume military exchanges with Washington. Nevertheless, arms sales to Taiwan remain a threat to US-China relations.

North Korea-South Korea Relations:79

Picking up the Pieces

by Aidan Foster-Carter, Leeds University, UK

The past quarter in inter-Korean relations might be called the morning after the night before. Tensions over the sunken ROK corvette *Cheonan* by no means disappeared; the less so since North Korea still denied responsibility, while the South smarted at its failure to convince key powers – China and Russia above all – of Pyongyang’s culpability. The *Cheonan* incident remains a crime and an obstacle. Yet hopeful signs are emerging that both sides realize they will have to get past this eventually and that they might as well start now. Among various small initiatives, including flood aid, the quarter ended on a hopeful note with an agreement to hold a fresh round of reunions of separated families in late October.

China-Korea Relations:.....91
Consolidating Ties with New DPRK Leadership

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

China reaffirmed its traditional friendship with a revamped leadership in Pyongyang that emerged from the historic Workers’ Party of Korea (WPK) conference that re-elected Kim Jong-il as party and state leader. Kim Jong-il visited Northeast China, holding his second summit with President Hu Jintao this year. Immediately after Pyongyang’s party conference, Secretary of the WPK Central Committee Choe Tae-bok led a senior party delegation to Beijing to brief President Hu and other officials. Meanwhile, China-ROK relations remain strained following the March 26 *Cheonan* incident, marking the lowest point in bilateral relations since diplomatic normalization in 1992. Nevertheless, there was some progress as the third China-ROK high-level strategic dialogue and the first preliminary round of free trade agreement talks were held. Beijing promoted resumption of the Six-Party Talks, sending Special Representative for Korean Peninsula Affairs Wu Dawei to meet counterparts in Pyongyang and Seoul.

Japan-China Relations:.....101
Troubled Waters

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

The quarter started well. The Kan government, emphasizing efforts to strengthen economic ties with China, appointed Niwa Uchiro as Japan’s new ambassador to China. Talks to implement the June 2008 agreement on joint development of the East China Sea began and Prime Minister Kan and all Cabinet members refrained from visiting Yasukuni Shrine on Aug. 15. In early September, Japan began the destruction of chemical weapons left behind in China by the Imperial Army at the end of the war. The quarter, however, ended in controversy. Sparked by the Sept. 7 incident in which a Chinese fishing boat operating near the Senkaku Islands collided with two Japanese Coast Guard ships, relations quickly spiraled downward. The Japanese Coast Guard detained the captain and crew setting off a diplomatic row that led to the Japanese ambassador being called in for a midnight demarche as well as the personal involvement of Premier Wen Jiabao before Japanese prosecutors released the ship’s captain on Sept. 24. China’s call for compensation and an apology went unanswered as of the end of the quarter.

Japan-Korea Relations:.....115
Same Dance, Different Floor

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

The two highlights in Japan-Korea relations during this quarter are Prime Minister Kan Naoto’s apology to South Korea for Japan’s colonial rule, and the appointment of Kim Jong-un, as vice chairman of the Workers’ Party Central Military Commission and military general in the Korean People’s Army. While these developments hold the potential to change the security landscape of Northeast Asia, Kan’s first full quarter in office reveals that Japan’s North Korea policy is likely to continue along the lines of previous Japanese administrations, at least for now: an unfavorable attitude coupled with hostility and inaction. Pyongyang’s attitude toward Tokyo, too, changed little and was rather *predictable* – it denounced Kan for apologizing only to South Korea, criticized Japan for “shamelessly” wanting a permanent seat at the UN Security Council, and demanded compensation for all of Japan’s past wrongdoings. Japan-South Korea relations appear to be moving closer, although whether Kan’s apology will change things remains to be seen.

China-Russia Relations:.....123

Peace Mission 2010 and Medvedev’s China Visit

by Yu Bin, Wittenberg University

For much of the third quarter, Russia and China were besieged by disasters of various kinds. Leaders sent each other messages to express their sympathy and support while relief materials were delivered. Bilateral relations began to gather momentum at the end of August when Prime Minister Putin attended the opening of the Russian-Chinese oil pipeline. In September, the Shanghai Cooperation Organization kicked off its *Peace Mission 2010* exercise in Kazakhstan. This was followed by President Medvedev’s state visit to China in the name of “comprehensively deepening Russian-Chinese strategic partnership relations.” All of this occurred against the backdrop of heightened tension on the Korean Peninsula after the sinking of the South Korea Navy ship in March and the rapid deterioration of China-Japan relations after Japan’s seizure of a Chinese fishing boat in early September.

Australia-East Asia/US Relations.....133

Australia Deposes a Leader and Hangs Parliament

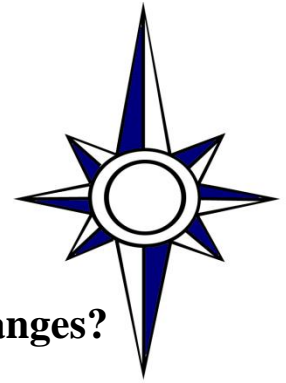
By Graeme Dobelle, Lowy Institute for International Policy

In 2010, Australia saw a first-term-elected prime minister deposed by his own party and then a federal election that produced a hung Parliament. The Labor Parliamentary caucus removal of Prime Minister Kevin Rudd on June 24 ushered in Australia’s first female prime minister, Julia Gillard, who waited only three weeks after replacing Rudd before calling a national election, seeking her own mandate from the voters. Instead, the election on Aug. 21 returned the first hung Parliament since World War II. Style changes between the Rudd and Gillard governments will be marked. But policy continuity will often be the norm, especially in foreign policy. Gillard assured that the US would remain the “bedrock” of Australia’s defense security. As foreign minister, Rudd will remain involved in shaping multilateral interaction in Asia even though his proposed Asia-Pacific Community has been dismissed. Gillard fulfilled her promise to give Rudd a senior post in her government by appointing him foreign minister. The challenge for Rudd will be whether he can put aside his deep personal hurt – and the political habits that brought him down – to serve the woman who deposed him.

About the Contributors.....151

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Regional Overview:

US Profile Rises, China Image Falls, North Korea Changes?

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The US profile in Asia appears to be on the rise following Secretary of State Clinton's highly publicized presentation at the ASEAN Regional Forum (ARF) ministerial in Hanoi in July and President Obama's New York meeting with ASEAN leaders at quarter's end. Meanwhile Beijing's image took a few hits as it tried to bully Japan (successfully), the US and ROK (unsuccessfully), and ASEAN (TBD) on maritime-related issues, while seemingly having nothing but kind thoughts and gestures for the DPRK, essentially serving as its defense attorney during UN Security Council deliberations regarding the attack on the *Cheonan*. Prospects for a resumption of Six-Party Talks remained low, despite a professed willingness by Pyongyang to return to the table (albeit as a recognized nuclear weapon state). New faces appeared in the North's general officer ranks but the (seemingly nonexistent) prospects for Korean Peninsula denuclearization remained unchanged.

Meanwhile, democracy marches on, one step forward in Japan and two backward in Burma/Myanmar, while Washington seeks greater economic integration in Asia, not just through traditional vehicles such as the Asia Pacific Economic Cooperation (APEC) "gathering of economies," but through the "gold standard" Trans-Pacific Partnership (TPP). The US profile is expected to grow further next quarter with President Obama and Secretary Clinton both scheduled for high-profile visits to the region. We'll see what Beijing does to improve its image; we expect little progress when it comes to Pyongyang.

North Korea: the more things change, the more they remain the same

The post-*Cheonan* era has clearly not yet begun, at least as far as the still moribund Six-Party Talks are concerned. Wisely or not, Seoul seems to have hinged resumption of the Talks (and almost everything else, other than humanitarian assistance) on a North Korean apology for the *Cheonan* attack, which does not appear forthcoming. While this stance has drawn criticism elsewhere, thus far it has drawn no complaints from Washington, which continues to firmly stand behind the ROK.

Beijing, meanwhile, continues to be the strongest advocate for a resumption of dialogue, arguing publicly that Pyongyang is now ready to come back to the table. Following Kim Jong-il's visit to China in late August – his second trip in less than four months – China's *Xinhua News Agency* announced that the North Korean leader had assured Chinese President Hu Jintao that he sought an "early resumption" of the Talks. The North was less specific, although earlier – in August, after a visit by Chinese envoy Wu Dawei – (North) *Korean Central News Agency (KCNA)* reported the two sides had discussed "matters of mutual concern including the resumption of the

Six-Party Talks and the denuclearization of the whole Korean Peninsula,” and that they had “reached a full consensus of views on all the matters discussed” . . . without saying what that consensus was.

Coming back to the table is one thing; denuclearization is another. Privately, Chinese interlocutors (including senior officials) acknowledge that the prospects of the DPRK giving up its nuclear weapons – the stated purpose of the Six-Party Talks – are slim to none as long as Kim Jong-il is alive. It seems that for Beijing, however, the mere *appearance* of progress would be enough, especially if China was seen at the middle of it, coaxing all players along. As alluded to above and expanded upon shortly, China’s image is in need of some uplifting and a resumption of the Talks, even if they went nowhere (perhaps especially if they went nowhere), would suit Beijing just fine.

Not so for Washington and Seoul! Spokesmen for both governments have made it clear that the two allies are in no rush to resume talks unless and until there is some sign that Pyongyang is serious about denuclearization. As Deputy Secretary of State James Steinberg noted at a Woodrow Wilson Center forum in late September, “There is simply little value in moving forward without some very concrete indication that the North Koreans are interested in implementing the 2005 statement” (which laid out the plan for denuclearization and broader regional cooperation). Talk for the sake of talking, or to “buy the same horse twice,” is not in the cards, as far as Washington and Seoul are concerned.

Pyongyang made its own views clear at the UN General Assembly in late September when Vice Foreign Minister and UN Permanent Representative Pak Kil-yon declared: “As a responsible nuclear weapon state, we are willing to join in the international efforts for nuclear non-proliferation and safe management of nuclear material on an equal footing with other nuclear weapon states.” While Pak did not specifically mention the North’s intention to return (or not) to the Six-Party Talks, numerous DPRK spokesmen have indicated that should talks (bilateral or multilateral) occur, the first order of business in any such dialogue should be discussion of a “peace regime” with the United States, to demonstrate US “sincerity” and an end to its “hostile policy” toward Pyongyang.

Pak did indicate that his government would “react to dialogue with dialogue,” while cautioning: “If the U.S. comes to dialogue with ‘sanctions,’ we will also participate in dialogue with bolstered nuclear deterrence.” Pak was also vague regarding the nature of the dialogue: bilateral between the DPRK and US, or involving all six parties. Pyongyang prefers the former exclusively while Beijing is pushing for an informal US-DPRK session to help jumpstart the next round of Six-Party Talks. Those grasping for a silver lining could read this as a relaxation of Pyongyang’s earlier demand that sanctions be lifted before any dialogue could begin. Nonetheless, the North’s insistence on being treated as a nuclear weapon state and on having a bilateral peace accord with Washington in advance of denuclearization make the prospects for a resumption of serious talks unlikely.

Laying the groundwork for leadership transition

Meanwhile, it seems clear to all that Pyongyang’s primary focus is internal. Its much-anticipated Workers’ Party Conference took place on Sept. 28 (after an unexplained delay of a few weeks:

speculation ranged from “floods” to difficulties in reaching consensus on the main business of the conclave). As expected, it proved to be a “coming out party” for number three son, Kim Jong-un (sometimes Kim Jong-eun), who was elevated to vice chairman of the Party’s Central Military Commission; a post that appears to have been created just for him. This sets the stage for him to replace his father once he dies or becomes incapacitated, which, given his ill health, could come sooner rather than later ... but it’s really anyone’s guess (and when it comes to North Korea, we’re all guessing).

The day before the meeting, Kim Jong-un was promoted to general, along with his aunt, Kim Kyong-hui, who is Kim Jong-il’s sister. In June, his uncle and Kyong-hui’s husband, Jang Song-taek, who is widely assumed to be the “regent” who will be responsible for tutoring and guiding Kim Jong-un if leadership duties are suddenly thrust upon him, was made the vice chairman of the National Defense Commission.

Little is known about the 27-(or 28 or 29) year old “Young General” as he is sometimes referred to (he does not yet seem to have an official or agreed upon moniker like Great Leader or Dear Leader), but at least everyone has now seen a more recent picture; he seems to strongly resemble his late grandfather, Kim Il-sung, which may be the best thing he has going in his favor. How much power the third Kim has, or will have, is unclear. Most observers think that the elevation of the other family members is preparation for a regency that will preserve the family’s power. Whether the transition will change North Korean policy is another open question: again, most observers don’t anticipate any significant shift. Even those who speculate that Kim Jong-un (or regent Jang Song-taek) may be more open to the “Chinese model” of economic reform, see little prospect for change when it comes to denuclearization or human rights. Pyongyang’s behavior will likely remain as opaque and belligerent as before as we all wait for Kim Jong-il to die and worry about what Kim Jong-un may try to do to establish his own *bona fides*.

Can “strategic patience” be sustained?

While there has been some rumblings to the contrary, Washington and Seoul still seem content to continue a policy of “strategic patience,” based on the assumption that Kim Jong-il has no intention of giving up nuclear weapons in his lifetime. But, while Pyongyang does not seem to mind (and may even relish) being branded an international renegade and appears capable of weathering UNSC sanctions (probably with Chinese back-door support), what it seems to object to most is being ignored. As the quarter ended, commercial satellite imagery was showing apparent construction activity at North Korea’s Yongbyon nuclear site in an area near the cooling tower that was demolished in 2008 as a demonstration of Pyongyang’s “irreversible” commitment to denuclearization. At best, it’s an attention-getting device. At worst, it represents an attempt to restart plutonium production at Yongbyon, although it remains to be seen if they could actually reactivate the reactor.

China spouts off

Meanwhile, China lived up to our last quarter’s description as being “part of the problem” as it insisted on watering down the outcome of UN Security Council deliberations on the *Cheonan* even beyond the marginally acceptable formulation negotiated with the Russians during last

quarter's G8 meeting. While the US and ROK tried to put the best possible spin on the outcome – Secretary Clinton asserted that the UNSC Presidential Statement “sends a clear message [to North Korea] that such irresponsible and provocative behavior is a threat to peace and security in the region and will not be tolerated” – it was sufficiently vague and non-accusatory (even noting North Korea's declaration of innocence), that Pyongyang declared it a “great diplomatic victory.”

What followed was the first in a series of maritime-related acts of heavy-handed diplomacy and blustering by Beijing that had people openly wondering “*Whatever happened to ‘peaceful rise’?*” Washington and Seoul, upon realizing that a strong diplomatic message was not going to be sent to Pyongyang, proceeded with plans to conduct a series of “show of force” military exercises to demonstrate their resolve and thus hopefully discourage future North Korean adventurism – an action made necessary, we hasten to point out, by China's protection of Pyongyang at the UNSC. Naval exercises were to be conducted off both coasts of the Korean Peninsula, beginning with a major exercise involving the *USS George Washington* aircraft carrier battle group off the east coast. There were reports – unconfirmed and apparently incorrect – that the carrier would deploy to the west coast as well.

That's when the madness began. Chinese People's Liberation Army (PLA) spokesmen (and other senior military officers who chose to speak) expressed outrage, proclaiming they “resolutely oppose any foreign military vessel and aircraft conducting activities in the Yellow Sea and China's coastal waters that undermine China's security interests.” China's coastal waters? Since any west coast exercise would likely take place in or adjacent to South Korean waters, somewhere in the general vicinity of the sinking of the *Cheonan*, this places it about 120 miles (roughly 195 kilometers) away from the closest Chinese landmass on the Shandong Peninsula and 175 miles (280 kilometers) from the closest city of any significance, Dalian.

These facts of geography notwithstanding, one PLA commentator warned of a possible “collision” between US/ROK and PLA Navy ships, while another threatened “If someone harms me, I must harm them.” Since when is operating in or near South Korean coastal waters – the Yellow Sea touches the North and South Korean as well as the Chinese coast – threaten China or do it harm? Do US (or ROK) ships have to get Chinese permission to sail in international waters significantly closer to the Korean mainland than to China? This is, of course, preposterous on its face, and the US Navy – which ironically had deployed the *USS George Washington* into the Yellow Sea last October with scarcely a peep – now felt compelled to send major surface combatants (no doubt eventually to include another visit by the *USS George Washington*) to the western side of the Peninsula just to remind the PLA of the meaning of international waters, not to mention the time-honored principle of freedom of the seas.

. . . . and flexes its muscles

If Beijing failed to deter Washington and Seoul from conducting naval operations in the West Sea (to use Seoul's term for that body of water), it did not itself feel deterred from flexing its muscles (and money) against Tokyo after the Japanese had the temerity to arrest a Chinese fishing boat captain after he allegedly deliberately rammed Japanese Coast Guard ships in disputed waters near the Senkaku Islands (called Daiyotai by the Chinese).

In many ways, the particulars of the Japan-China confrontation are irrelevant. While legal scholars debate exactly where the Chinese fishing boat was located, what the protocol for Japanese patrols is, which vessel initiated contact, etc., the dispute over the islands reduces to two basic facts: Japan controls the islands and China claims them. As long as that situation persists, the islands will be an issue, a source of tension, and sometimes even the cause of a crisis between the two.

In his chapter on Japan-China relations, Jim Przystup explains the details of the most recent dustup. For our purposes, there are three key points. First, the prevailing sentiment in Tokyo is that the incident was a deliberate provocation by China to test the new government in Tokyo. For many Japanese, even those who have no interest in the islands, their government “caved in” to Chinese political and economic pressure, which included not only intense diplomatic pressure but also the cancellation of several planned visits and meetings, the detention of Japanese citizens on unclear charges, and a suspected cutback in exports of rare earth metals to Japan.

The Japanese public’s response in many ways resembles the controversy over Prime Minister Koizumi’s visits to Yasukuni Shrine: even Japanese who didn’t approve of the visits didn’t think their leader should be told what to do by Beijing. For many other observers, Japan handled this just about right. The government confirmed its claim to the territory, maintained a steady course, and then released the captain to defuse the crisis – a sharp contrast to Beijing’s steady escalating belligerence. That behavior has had an impact on public opinion in Japan: one opinion poll at the end of September showed that 70 percent of Japanese consider China a threat.

Second, China’s demands for the return of the ship, the crew, the captain, and then its call for an apology smack of bullying. For a government that insists on the need to maintain “face” and on diplomatic solutions to almost every problem, Beijing’s behavior seemed hypocritical. China’s treatment of fishing boats found in its waters underscored the inconsistency in its diplomacy. The assertiveness of its claim and its tone, when coupled with similar outbursts over similar disputes – the aforementioned demand that the US not send an aircraft carrier into the Yellow Sea and the soon to be mentioned US call for mediation over disputes in the South China Sea at the ARF meeting – have alarmed many of China’s neighbors who have their own disagreements with Beijing over territory. Even South Korean interlocutors, who normally instinctively support China whenever it has a disagreement with Japan, were quick to express support and sympathy for Tokyo in the face of China’s hard-nosed response.

Finally, the standoff should end (again) any confusion about the US response to such a crisis. US officials repeated longstanding US policy: while the US takes no position on the sovereignty of the islands *per se*, it is clearly committed to defending them as they are territory “administered by Japan” and hence subject to the bilateral security treaty. The US also used the incident to quell suspicions in Tokyo about US commitments. Vice President Joseph Biden said that US efforts to improve relations with China “go through Tokyo,” reminding Japanese and Chinese that Washington puts its allies first. Biden was responding to – and dismissing – concerns that “the critical importance” of the US-China relationship in any way signaled a downgrading of Japan’s importance for the US. That should reassure Japan – until the next time Tokyo feels insecure.

South China Sea: ‘national’ vs. ‘core’ interests

A third maritime-related war of words erupted over Secretary Clinton’s remarks at the July ARF meeting that “the United States, like every nation, has a national interest in freedom of navigation, open access to Asia’s maritime commons, and respect for international law in the South China Sea.” She further noted that “consistent with customary international law, legitimate claims to maritime space in the South China Sea should be derived solely from legitimate claims to land features.” She expressed Washington’s support for a “full code of conduct” building upon the 2002 ASEAN-China Declaration on the Conduct of Parties in the South China Sea (DOC), further noting that the Obama administration was “prepared to facilitate initiatives and confidence-building measures consistent with the declaration.” (It was probably not mere coincidence that the *USS George Washington* showed up in Vietnamese waters a few weeks later to underscore the freedom of the seas message.)

Secretary Clinton’s Hanoi statement should have come as a shock or surprise to absolutely no one; it repeats longstanding US positions on freedom of the seas, peaceful settlement of disputes, and support for a more binding Code of Conduct to prevent misunderstandings or crisis in the South China Sea. Beijing apparently did not see it that way! When the subject of the South China Sea was raised at the ARF meeting – reportedly by no less than 12 of the ministers present, including Secretary Clinton – Chinese Foreign Minister Yang Jiechi reportedly left the room for an hour – (apparently to get marching orders from Beijing) and then came back and expressed outrage both over the topic being raised and over US “meddling” or “internationalizing” a bilateral issue that was none of its business, reportedly accusing Washington of plotting against China over the issue. In an apparent attempt at intimidation, he reportedly also noted that “China is a big country and other countries are small countries, and that is just a fact,” while allegedly reminding his Southeast Asian counterparts of their countries’ economic ties with China. Rumor has it that Beijing had contacted ASEAN members in advance of the meeting to urge (warn?) them to steer clear of what China had previously identified as its “core interest” in the South China Sea.

Many ASEAN representatives, both publicly and privately, commended Secretary Clinton for her strong comments on US national interests and the nature of territorial claims, which could be seen as refuting the infamous dotted lines on a 14th-century Chinese map that Beijing claims helps prove its “indisputable sovereignty” across the whole of the South China Sea. Strangely enough, her Philippine counterpart, Foreign Secretary Alberto Romulo (a holdover from the prior Arroyo administration) was not among them, asserting that the US – a treaty ally of the Philippines – should not be involved: “It’s ASEAN and China. Can I make myself clear? It’s ASEAN and China. Is that clear enough?”

Less well publicized were remarks by his boss, new Philippine President Benigno Aquino, speaking in his role as the ASEAN convening chair for the ASEAN-US relationship at the second ASEAN-US Leaders Meeting in late September in New York: “Today the issue that occupies a growing concern is the competing territorial claims within the South China Sea.” Renewing Manila’s commitment to the DOC, Aquino added that his administration “strongly supports the drafting of a formal code for the South China Sea in which claimants vow to adhere

to diplomatic processes to resolve territorial disputes. I believe this is consistent with Secretary of State Hillary Clinton's pronouncements on the South China Sea made just in July of this year, supporting collaborative diplomatic processes."

Aquino was even more direct when speaking the day before to members of the Council on Foreign Relations: "If China does push its weight around [on the South China Sea dispute], we as ASEAN will stand as a bloc and oppose that. Hopefully, we won't have to call it the South China Sea because it is not just their sea." Is that clear enough?

(Other) business as usual at the ARF

Take away the South China Sea drama and it was a pretty routine ARF meeting. Unlike last year, North Korean Foreign Minister Pak Ui-chun showed up, but did not meet bilaterally with Secretary Clinton. He did successfully lobby his ASEAN counterparts not to brand Pyongyang as the guilty party in the *Cheonan* affair; the Chairman's Statement merely "expressed deep concern" over the sinking of the *Cheonan*, indicating that it "resulted from the attack on 26 March 2010" but not mentioning the DPRK. As always, it also called for "the complete and verifiable denuclearisation of the Korean Peninsula and encouraged the parties to return to the Six Party Talks."

The ministers adopted the Ha Noi Plan of Action for the ARF and welcomed the accession of Canada and Turkey to ASEAN's Treaty of Amity and Cooperation, while opening the door for EU accession through an amendment that allows "regional organisations whose members are only sovereign states, like the EU, to accede to the TAC." They also "reiterated the importance of [Myanmar] holding the general election in a free, fair, and inclusive manner."

The ministers did not avoid talking about the South China Sea, stressing "the importance of maintaining peace and stability" while reaffirming the continuing importance of the DOC as a "milestone document between ASEAN Member States and China, embodying their collective commitment to ensuring the peaceful resolution of disputes in the area." They also called for the "eventual conclusion of a Regional Code of Conduct in the South China Sea."

Finally, the ministers supported ASEAN's decision to invite Russia and the US to join the ASEAN-led East Asia Summit (EAS). Secretary Clinton announced her intention to attend the 2010 EAS meeting in Hanoi in October to accept the group's invitation, with President Obama on tap to participate for the first time at the 2011 EAS. During a speech at the Council on Foreign Relations in Washington DC on Sept. 8, Secretary Clinton highlighted her intention to go to the EAS. Her prepared text noted that the US will be "encouraging its development into a foundational security and political institution for the region, capable of resolving disputes and preventing them before they occur." The "as delivered" text omitted the "capable of" clause, perhaps due to time constraints, or perhaps because a sense of realism crept in prior to delivery.

Obama bonds with (most) ASEAN leaders

Continuing a precedent he started last year in Singapore – one that President Bush had tried to institute a few years back – President Obama met with assembled ASEAN leaders at the Second

US-ASEAN Leaders Meeting in New York City along the sidelines of this year's UN General Assembly meeting. It was an extremely positive encounter, as both sides "welcomed the idea to elevate our partnership to a strategic level and will make this a primary focus area." The only leader not to attend, besides Myanmar's prime minister who by mutual agreement does not attend such events, was Indonesia President Susilio Bambang Yudhoyono (or SBY, as he is frequently called). This was disappointing but not surprising. Obama had three times scheduled and then postponed visits to Indonesia and SBY would have left himself open to severe domestic criticism if he came calling once again on the US president before Obama made it to Jakarta.

At the NY meeting, President Obama essentially committed himself to two future visits to Indonesia, first in November as part of his Asia tour to India, Korea (for the G20 Summit), and Japan (for the APEC Leaders Meeting), and again in 2011 for the Third U.S.-ASEAN Leaders Meeting and his first EAS appearance, both hosted by Indonesia as the next ASEAN chair.

In Manhattan, everyone was watching to see what, if anything, the assembled leaders would say about the South China Sea. It was clearly discussed and, as noted earlier, President Aquino did not shy away from making direct reference to the disputed territory in his remarks at the Leaders Meeting and elsewhere in New York. But the Joint Statement skirted the issue, merely noting that the leaders "reaffirmed the importance of regional peace and stability, maritime security, unimpeded commerce, and freedom of navigation, in accordance with relevant universally agreed principles of international law, including the United Nations Convention on the Law of the Sea (UNCLOS) and other international maritime law, and the peaceful settlement of disputes."

The White House was more specific in its "Read-out of President Obama's Working Luncheon with ASEAN Leaders," noting that "The President and the leaders also agreed on the importance of peaceful resolution of disputes, freedom of navigation, regional stability, and respect for international law, including in the South China Sea." Beijing, appropriately, had little to say one way or the other regarding the US-ASEAN meeting.

Democracy marches on

One step forward . . .

Japan has had three prime ministers in a year, confounding hopes that the Democratic Party of Japan's historic victory in last year's parliamentary ballot would transform national politics. Fortunately, Prime Minister Kan Naoto may be able to restore stability after fending off former DPJ General Secretary Ozawa Ichiro in the party presidential election held in September.

Remarkably, Ozawa, after stepping down in tandem with former Prime Minister Hatoyama Yukio (some assert, as a condition of his resignation), challenged Kan for party and national leadership. Even more remarkably, Hatoyama then endorsed Ozawa's candidacy! Up to voting day, the race looked like a dead heat, but Kan prevailed in a whopping 721-491 win. (Take that, pundits!)

Kan then reshuffled the Cabinet. For our purposes, the big change was giving Maehara Seiji the foreign affairs portfolio and moving the previous foreign minister, Okada Katsuya, to DPJ secretary general. Maehara is considered more of a hardliner than Okada, who while undoubtedly left-leaning in sentiment, got high marks from the ministry for being open minded and a quick study.

The overall impression is that the new government has abandoned Hatoyama's "plan" to rebalance Japan's relations with the US and Asia and has moved closer to Washington. While that represents, in our minds, a misreading of Hatoyama's thinking, DPJ leaders have recognized that putting alliance reform front and center is a high-risk, low-reward strategy, especially when China appears to be flexing its muscle. The new government has embraced the LDP status quo when it comes to Okinawa (at least rhetorically – it will be interesting to see if it deals with the island the same way, that is by kicking tough issues down the road). In conversations in China, frustration with Tokyo is palpable: in one discussion, the new government was called even more hardline than the LDP.

. . . and two steps back

There was considerable activity this quarter as Burma prepared for its first election in 20 years. The vote is scheduled to be held Nov. 7. Not only did formal politicking begin in early October, but the country's leaders made several trips abroad to shore up political support from key allies. No one is expecting a free and fair election.

The opposition National League for Democracy (NLD), which won the last ballot – thereby putting the kibosh on genuinely free elections – has boycotted the vote, claiming that the election will be unfair and undemocratic. It points to the banning of its leader, Daw Aung San Suu Kyi, from running as a result of a prohibition in the Constitution that appears to have been written specifically for her. (The Nobel Peace Prize laureate is scheduled to be released from house arrest days after the election.) Then there are high registration fees and other restrictive laws. Democracy proponents argue the entire new Constitution is a sham, designed to legitimate and entrench rule by the military. It's hard to argue with that, as the document effectively gives control of the legislature to the military and locks out serious competitors. Moreover, the government has announced that it will not open polling locations in some eastern border townships because the situation is too violent. Critics counter that the real reason is that those areas are antigovernment and can't be counted on to back the military.

In September, United Nations Secretary General Ban Ki-moon called for a "fair, transparent and inclusive" vote. His comments followed a closed-door meeting of the Group of Friends of Myanmar, a group of 14 nations that met on the sidelines of the UN General Assembly. He also called for neighboring countries to exert influence to encourage meaningful engagement.

His definition of meaningful engagement probably didn't match that of supreme leader Gen. Than Shwe who led a delegation of 34 generals (some in mufti, in anticipation of the upcoming vote) to China in September to get Beijing's support for the election. Officially, the visit was part of the commemoration of the 60th anniversary of diplomatic relations between the two countries. In Beijing he met President Hu Jintao and Premier Wen Jiabao, among others.

China has called for international support of Burma's political process and denounced foreign intervention in its domestic politics. China's thinking is influenced by three factors. First, there is fear that instability in the country could lead to a flood of refugees over the border as occurred a year ago, when tens of thousands of people crossed into China after a Burmese military offensive into Kokang, in northeast Shan state. Second, Beijing wants to extend its influence in a large neighbor state with resources that China would like to exploit. That ambition is aided by the fact that China is Burma's third largest trade partner, after Thailand and Singapore. China has provided more than \$8 billion in investment in the last year. (China's presence in the country is not appreciated by all Burmese, however: several bombs went off this summer that targeted Chinese businesses.) Third, construction has begun on two pipelines that provide oil and gas to China that cross Myanmar. These are of strategic significance as they will reduce China's reliance on the Malacca Strait for energy that comes from the Middle East.

The trip to China was preceded by Than Shwe's visit to India on July 25-29. That too was aimed to shore up support for the ballot. India welcomed the visit as it also seeks to extend its influence in a key regional country, but the Delhi government has not been as enthusiastic about the election as China. At the end of the day, how its ASEAN partners respond to the election will be the most important. Will they continue to bury their heads in the sand and pretend that the democratic process is moving forward or actually cooperate with Washington and others in pressing for real reform?

Trans-Pacific Partnership: a pact and a prod

While most regional economic discussions focused on the upcoming G20 and APEC meetings, hosted by South Korea and Japan, respectively, there has been some progress on the Trans-Pacific Partnership (TPP), an Asia-Pacific trade arrangement that is being championed by the US as a way to create a "gold standard" for such deals and to prod APEC to match that effort. The original TPP included Brunei, Chile, New Zealand and Singapore. The US announced it wanted to join the group in 2008 and began negotiations in 2009.

That initiative survived the change of administrations. About the same time, Australia, Peru, and Vietnam announced their interest in signing on, and Malaysia followed suit. This quarter, at the end of September, the Philippines formally informed the US of its intention to join as well. For its part, Washington (according to Secretary Clinton during her Sept. 8 CFR speech) sees the TPP, along with APEC (and ratification of the Korea-US FTA) as important to "realize the benefits from greater economic integration. In order to do that, we have to be willing to play."

The third round of negotiations on the TPP is scheduled to be held in Brunei Oct. 4. President Obama wants to have the first stage of the TPP complete in time for the APEC Leaders Meeting that he will host in Honolulu in 2011. US business groups have articulated 15 principles for the agreement to ensure that it is comprehensive and sufficiently ambitious; they too back the goal of having an agreement in time for APEC.

If the goal is to prod APEC, it seems to be working. When APEC finance ministers met in Yokohama at the end of September, they noted the TPP effort. In an interview with the *Asian*

Wall Street Journal, Japanese Foreign Minister Maehara said that he wanted to discuss with the US the possibility of membership in or accession to the TPP. And the final declaration of the US-ASEAN summit in New York on Sept. 24 also included reference to the TPP.

The road ahead

The US profile in Asia should rise significantly in the next quarter with President Obama's trip to India, Indonesia, Korea, and Japan and Secretary Clinton's visit to Hanoi to accept US induction into the EAS. Defense Secretary Robert Gates will also be visiting Hanoi for the first ASEAN Defense Ministers Meeting Plus (ADMM+) meeting and will likely at some point also visit China, now that military-to-military relations seem to be restored (at least until the next round of Taiwan arms sales).

Meanwhile, China's defense minister, who has pointedly not attended any of the Shangri-La Dialogue unofficial defense heads meetings, will be attending the ADMM+. Beijing, perhaps (finally) getting the word from the ARF, begins talks with ASEAN in October over a more formally binding Code of Conduct for the South China Sea. It remains to be seen how forthcoming Beijing will be on this and how much of a "bloc" ASEAN will be in insisting on firmer guarantees (especially since it has trouble getting its own house in order on this issue). As for North Korea, it's hard to anticipate (or even hope for) any substantive change.

Regional Chronology **July – September 2010**

July 1, 2010: South Korea turns down North Korea's proposal to hold direct military talks concerning the sinking of the South Korean warship *Cheonan*, stating that this situation should be dealt with under the Korean Armistice Agreement.

July 6, 2010: Thai government extends its state of emergency in 19 of the country's provinces.

July 9, 2010: The US and Russia successfully complete the biggest spy swap since the Cold War with the US returning Russia's 10 spies that were captured in the US in exchange for four prisoners held by Russia for spying and illegal weapons possession.

July 9, 2010: United Nations Security Council releases a Presidential Statement on the sinking of the South Korean warship *Cheonan*, which condemned the attack but does not directly blame the incident on North Korea.

July 12, 2010: Vietnam and the US celebrate 15 years of diplomatic relations in ceremonies in both Hanoi and Washington DC.

July 12-31, 2010: US Pacific Command and the Cambodian military co-host the 2010 Global Peace Operations Initiative to help train peacekeepers. More than 1,000 military personnel from 23 Asia-Pacific countries participate.

July 15, 2010: Military officials from North Korea and the United Nations Command meet in the border village of Panmunjom to discuss the sinking of the *Cheonan*.

July 20, 2010: The US and South Korea announce that they will conduct a series of large-scale naval exercises off the Korean Peninsula in the coming weeks.

July 20, 2010: The 43rd ASEAN Foreign Ministers Meeting is held in Hanoi and recommend that the US and Russia entry into the East Asia Summit.

July 21, 2010: The inaugural US-ROK “two plus two” security talks are held in Seoul with US Secretary of State Hillary Clinton, Defense Secretary Robert Gates and ROK Foreign Minister Yu Myung-hwan and Defense Minister Kim Tae-young as lead participants.

July 22, 200: The US announces the resumption of contact with Indonesia’s Special Forces unit *Kopassus*.

July 22, 2010: The 11th ASEAN plus 3 Foreign Ministers Meeting is held in Hanoi.

July 23, 2010: The 17th ASEAN Regional Forum is held in Hanoi. Secretary Clinton proffers a US mediation role for the protracted Spratly and Paracel Islands disputes.

July 25-28, 2010: The US and South Korea conduct a large-scale naval exercise codenamed *Invincible Spirit* in the Sea of Japan, that includes the aircraft carrier *USS George Washington* along with 20 other ships and submarines, 100 aircraft, and 8,000 men and women from the US and ROK armed services.

July 27-31, 2010: Burma’s Chairman of the State Peace and Development Council Gen. Than Shwe visits India for a state visit and meets Prime Minister Manmohan Singh.

Aug. 3, 2010: North Korea warns South Korean fishing vessels to stay clear of disputed border waters in the Yellow Sea and threatens a “strong physical retaliation” against upcoming South Korean naval exercises.

Aug. 5, 2010: State Department spokesman Phillip Crowley states that the US and Vietnam are discussing the provision of civilian nuclear technology to Vietnam.

Aug. 5-9, 2010: South Korea conducts its largest-ever anti-submarine exercises in the Yellow Sea near the disputed sea border with North Korea, despite the Chinese objections and the North’s threats of retaliation.

Aug. 10, 2010: The destroyer *USS John McCain* arrives in Danang for the first joint US-Vietnam naval exercise that focuses on search and rescue and damage control. The aircraft carrier *USS George Washington* participates.

Aug. 16, 2010: US Department of Defense (DoD) releases its report on military and security developments in People’s Republic of China.

Aug. 16-18, 2010: Wu Dawei, China's special envoy on Korean affairs, visits the DPRK and meets Pyongyang's lead nuclear envoy Kim Kye-kwan and Foreign Minister Pak Ui-chun.

Aug. 16-26, 2010: South Korea and the US conduct the annual *Ulchi Freedom Guardian* (UFG) exercise, a computer-based simulation involving about 56,000 ROK and 30,000 US troops.

Aug. 18, 2010: Taiwan's Legislative Yuan approves the Economic Cooperation Framework Agreement (ECFA) with China. It passes with 68 votes for and none against in the 112-seat parliament as the opposition party boycotts the vote.

Aug. 24, 2010: Thailand restores diplomatic relations with Cambodia after Phnom Penh announces that former Prime Minister Thaksin Shinawatra resigned as its economics adviser.

Aug. 26-28, 2010: Wu Dawei visits the ROK to discuss ways to resume Six-Party Talks. He meets South Korea's chief nuclear envoy Wi Sung-lac and Kim Sung-hwan, senior presidential secretary for foreign affairs.

Aug. 26-30, 2010: Kim Jong-il visits several cities in Northeast China and meets President Hu Jintao in Changchun.

Aug. 30, 2010: The US announces broadened sanctions on eight North Korean companies and four individuals for the stated purpose of limiting Pyongyang's arms trade and illicit businesses.

Aug. 30-Sept. 3, 2010: Two Chinese ships returning from the Gulf of Aden make a port visit in Rangoon, marking the first visit to Burma by Chinese warships.

Aug. 31, 2010: Wu Dawei visits Japan to discuss ways to resume Six-Party Talks.

Aug. 31-Sept. 4, 2010: Chinese Navy conducts a series of live-fire exercises in the Yellow Sea.

Sept. 1, 2010: Wu Dawei visits the US and meets Deputy Secretary of State James Steinberg.

Sept. 3, 2010: Wi Sung-lac, South Korea's top nuclear envoy to the Six-Party Talks, visits Washington to discuss ways to revive the moribund talks and Washington's recent sanctions against North Korea.

Sept. 5, 2010: US and South Korea conduct anti-submarine exercises in waters off the west coast of South Korea.

Sept. 7, 2010: Julia Gillard is confirmed as the prime minister of Australia after nearly three weeks of negotiations among political parties in an effort to form a coalition government.

Sept. 7, 2010: A Chinese fishing vessel collides with two Japanese patrol boats in the East China Sea near the Senkaku/Diaoyu Islands creating diplomatic tensions between the two countries.

Sept. 7-11, 2010: Burma's Chairman of the State Peace and Development Council Gen. Than Shwe visits China and meets President Hu Jintao and Premier Wen Jiabao. They agree to deepen bilateral relations particularly in large scale projects such as oil and gas exploration and development, hydroelectric power, and infrastructure development.

Sept. 8, 2010: Secretary Clinton, in a speech at the Council on Foreign Relations, reiterates US interest in pursuing deeper engagement with regional organizations in Asia.

Sept. 13-16, 2010: US Special Envoy for North Korea Stephen Bosworth visits South Korea, Japan, and China for discussions on the feasibility of restarting the Six-Party Talks.

Sept. 15-26, 2010: Asia-Pacific Economic Cooperation (APEC) Senior Officials Meeting III (SOM 3) and related meetings are held in Sendai, Japan.

Sept. 20, 2010: Vice President Joseph Biden addresses the US-Japan Council in Washington, DC, and notes that US efforts to improve ties with China must "go through Tokyo."

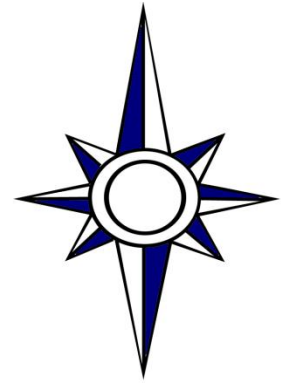
Sept. 23, 2010: Defense Secretary Robert Gates and Chairman of the Joint Chiefs of Staff Adm. Michael Mullen reaffirm the US-Japan security treaty during a press conference in response to questions regarding Japan's dispute with China over the Senkaku Islands.

Sept. 24, 2010: President Obama hosts a US-ASEAN Leaders Meeting in New York.

Sept. 26-28, 2010: Russian President Dmitry Medvedev visits China making stops in Dalian, Beijing, and Shanghai. Medvedev and Chinese President Hu Jintao oversee the signing of several agreements including energy deals.

Sept. 27-Oct. 1, 2010: The US and South Korea conduct joint anti-submarine exercises in the Yellow Sea with the intent of "sending a clear message of deterrence to North Korea."

Sept. 28, 2010: North Korea holds its third Workers' Party of Korea Conference in Pyongyang; Kim Jong-un is elevated into leadership positions.



**US-Japan Relations:
Hitting the Reset Button**

**Michael J. Green, CSIS/Georgetown University
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The ruling Democratic Party of Japan (DPJ) suffered an embarrassing defeat in the July Upper House election less than a year after assuming power. Prime Minister Kan Naoto subsequently took a beating in the polls but managed to withstand a challenge from former DPJ Secretary General Ozawa Ichiro in a party presidential election marked by heated debate over economic policy. Political turmoil did not preclude active diplomacy on the part of Kan's government, nor coordination between Washington and Tokyo on a range of bilateral, regional, and global issues including the relocation of Marine Corps Air Station (MCAS) Futenma on Okinawa; a collision between a Chinese fishing boat and Japanese Coast Guard vessels near the Senkaku Islands; and sanctions on Iran to condemn its nuclear activities. The quarter came to a close with President Obama and Prime Minister Kan taking stock of a rapidly developing bilateral agenda during a brief yet productive meeting on the margins of the United Nations General Assembly (UNGA) in New York, setting the stage for the president's trip to Japan in November.

Kan stumbles but survives

Prime Minister Kan Naoto opened the Upper House election campaign by emphasizing the importance of fiscal consolidation, but clumsily discussed a potential increase in the consumption tax and was blamed for a poor showing by his party in the July 11 poll. The Democratic Party of Japan (DPJ) secured only 44 seats (half of the 242 seats were contested) and fell 16 seats short of a majority in the chamber, potentially jeopardizing Kan's legislative agenda. The People's New Party (PNP), a coalition partner of the DPJ, won zero seats and other small parties such as Your Party, led by former Liberal Democratic Party (LDP) member Watanabe Yoshimi, refused to join a ruling coalition.

The disappointing election result and Kan's failure to form a majority coalition prompted former DPJ Secretary General Ozawa Ichiro, who resigned in June because of a political funding scandal, to resurface and hammer Kan on economic policy. Ozawa lamented Kan's emphasis on fiscal restraint over social welfare spending, which Ozawa and Kan's predecessor Hatoyama Yukio had championed. In a bizarre turn of events emblematic of the discord within the DPJ, Ozawa in late August announced his intention to run against Kan in the DPJ presidential race scheduled for Sept. 14 and won the endorsement of Hatoyama, who asked Ozawa to resign his secretary general post to cleanse the DPJ of political scandal. Ozawa, Hatoyama, and Kan, the "founding fathers" of the DPJ, found themselves on opposite sides of an internecine battle that made for great political drama but exacerbated public concerns about political stability. The race also pitted Kan's more pragmatic approach to the economy and the US-Japan alliance against Ozawa's pledge to return to the populist DPJ Manifesto of 2009, which emphasized

distributionist economic policies and greater separation from the US (though policy differences were less germane to the public than the odor of scandal surrounding Ozawa).

Kan was reelected DPJ president and retained his post as premier with a resounding victory over Ozawa (721 points to 491 in a complex system combining votes among DPJ Diet members, local party officials, and party supporters) and did not offer Ozawa loyalists any Cabinet posts in a reshuffle that followed. Some key figures were retained including Chief Cabinet Secretary Sengoku Yoshito and Finance Minister Noda Yoshihiko. Foreign Minister Okada Katsuya was appointed DPJ secretary general and was replaced by Maehara Seiji, who had been serving as transport minister. New faces included Minister of Economy, Trade and Industry Ohata Akihiro and State Minister for Economic and Fiscal Policy Kaieda Banri.

Ozawa miscalculated the degree to which public opinion, which favored Kan overwhelmingly, would impact the vote and was forced to retreat for the second time in three months, but many pundits suggested he might attempt another comeback in the spring should Kan struggle to pass a budget for fiscal year 2011 in the next Diet session. (Ozawa's indictment in early October rendered that prediction moot.)

Japanese economic and security policy developments

Surveys over the summer suggested a majority of the public supported Kan on the need to shore up Japan's finances but sought more initiative to revive the economy first. On Aug. 30, the government unveiled a \$10.9 billion stimulus package and the Bank of Japan (BOJ) announced a fresh package of loans through a special facility established in December 2009 to offer short-term loans to commercial banks at 0.1 percent interest. The BOJ then conducted a \$12 billion foreign exchange market intervention on Sept. 15, the first in six years, to stem the rise of the *yen*, which had become a drag on Japan's export-led recovery from the financial crisis. *Yen* appreciation, deflation, and fiscal consolidation emerged as the three prevalent themes likely to drive the economic policy debate and test Kan's leadership. The intervention prompted some criticism from members of Congress, but the overwhelming focus of the Obama administration and the Hill remained Chinese *renminbi* policies.

The Kan government pursued several diplomatic initiatives throughout the quarter despite the upheaval in domestic politics. Japan hosted a trilateral strategic dialogue with Australia and the US in July (meetings initiated in 2001) and dispatched Maritime Self-Defense Force (MSDF) personnel to observe a US-ROK joint military exercise and demonstrate solidarity with Washington and Seoul in the wake of the *Cheonan* incident. In response to massive flooding in Pakistan, the government dispatched Self-Defense Force helicopters to support relief efforts and provided emergency relief aid. Moving beyond the region, the MSDF antipiracy mission in the Gulf of Aden was extended for one year. On Sept. 3, Japan adopted new sanctions against Iran to implement UN Security Council Resolution 1929, a decision the Obama administration applauded in a joint statement released by Secretary of State Hillary Clinton and Treasury Secretary Timothy Geithner and one that administration officials credited with moving South Korea and Malaysia to follow suit. Prime Minister Kan then traveled to New York to attend the UN General Assembly, where he announced an \$8.5 billion pledge to support health and

education in developing countries and also identified nuclear nonproliferation and disarmament, the global environment, and peacekeeping operations as priorities for his government.

On Aug. 27 an advisory panel presented a report to Prime Minister Kan urging a comprehensive revision of security policy. The “Council on Security and Defense Capabilities in a New Era” presented recommendations for the National Defense Program Guidelines (NDPG), a five-year plan for defense policy due in December. Among its many recommendations, the Council urged a departure from core principles focused on homeland defense toward a more pro-active posture to support regional and global security. The group also suggested the government strengthen the US-Japan alliance by revising the official interpretation of the Constitution to exercise the right of collective self-defense and relaxing limits on arms exports. In most respects, the report was in line with the original proposals by a similar panel under the LDP, with the major omission being the LDP panel’s recommendation to explore Japan’s counterstrike capability. During an appearance before the Upper House Budget Committee on Aug. 5, Prime Minister Kan stated he was not inclined to consider the new defense panel’s recommended changes in policy, but the consistency between the LDP and DPJ panels’ recommendations has encourage further debate and possible movement if the political situation stabilizes next year.

Slogging along on Futenma, host nation support, and postal savings

The relocation of MCAS Futenma on Okinawa retained its position atop the bilateral agenda over the summer. Pursuant to the May 28 joint statement of the US-Japan Security Consultative Committee (SCC), a bilateral group of experts was formed to study the location, configuration, and construction method for a Futenma replacement facility near the area of Henoko, a location listed in a May 2006 agreement on the realignment of US forces in Japan. The group submitted a report on Aug. 31 comparing the original plan for a V-shaped runway on a landfill off Henoko to a counter-proposal for an I-shaped runway put forth by the Japanese government. The report stopped short of recommendations but set the parameters for subsequent discussions between the two governments. Prime Minister Kan has expressed a commitment to implement the agreement on Futenma relocation, but hinted in August that the government would first await the results of the Okinawa gubernatorial election in late November. Concerned that the election would become a referendum on Futenma that might energize anti-base activists on the left, conservative gubernatorial candidate Nakaima Hirokazu announced that he too would ask the government to move the Futenma replacement facility out of Okinawa if elected. Some analysts saw this as a blow to the government, but in the shadow-boxing of Okinawa politics, government officials in Tokyo quietly welcomed the move as a way to preserve flexibility for ongoing negotiations.

Adding to the list of potential irritants in bilateral relations, negotiations over the budget for host-nation support (HNS) commenced in July with the current special measures agreement authorizing outlays set to expire in March 2011. The Japanese government’s intention to review the budget request for the fiscal year beginning in April 2011 in an open policy contest raised concerns in Washington about the potential for cuts. At the end of September, a senior State Department official engaged a group of reporters on condition of anonymity and warned against reductions ahead of a subsequent round of negotiations.

On the economic front, the two governments resumed discussions in September regarding US beef exports to Japan, after a three-year hiatus. Japan has restricted imports since cases of bovine spongiform encephalopathy, or mad cow disease, were discovered in the US in 2003. US concerns about postal reform legislation in Japan also were addressed when Financial Services Minister Jimi Shozaburo visited Washington in mid August, assuring Under Secretary of the Treasury for International Affairs Lael Brainard that the bill seeking to scale back privatization of the postal service, or Japan Post, ensures fair competition in banking, insurance, and express mail delivery. Kan vowed to submit the legislation during the next Diet session in the fall, but passage is not guaranteed (and perhaps unlikely) given the results of the Upper House election.

The Senkaku collision: a big wake-up call for the alliance

All the negotiation over Futenma, HNS, and other security issues took on a new light in the wake of Japan's confrontation with China over the disputed Senkaku Islands. The Sept. 7 collision between a Chinese fishing boat and two Japanese Coast Guard vessels near the Senkakus prompted statements from senior Obama administration officials reaffirming the centrality of the US-Japan relationship. On Sept. 20, Vice President Joseph Biden noted during an address to the US-Japan Council in Washington that US efforts to improve ties with China had to "go through" Tokyo, kicking off a week of furious diplomacy that appeared to jump start the relationship. The reaffirmation of US alliance commitments under Article 5 of the Treaty of Mutual Cooperation and Security – reportedly uttered privately by Secretary Clinton in a Sept. 23 meeting with Foreign Minister Maehara on the margins of the UNGA in New York, and publicly by Defense Secretary Robert Gates and Chairman of the Joint Chiefs of Staff Adm. Michael Mullen in a press conference that same day – set a positive tone for diplomatic coordination. President Obama and Prime Minister Kan, who also met in New York on Sept. 23, agreed to intensify US-Japan consultations on maritime issues in the western Pacific. Overall, the Japanese press reported positively on US-Japan coordination on the Senkaku dispute, though Kan's sudden decision to return the Chinese captain on Sept. 24 was greeted with headlines across Japan proclaiming "Diplomatic Defeat." The next week Kan's support level dropped 10 points and polls showed that over 80 percent of Japanese "did not trust" China while an unprecedented 70 percent said China was a "threat" to Japan. Stories also emerged in *Sankei Shimbun* and some other publications implying that Obama and Clinton had pressed Kan to surrender the captain during bilateral meetings in New York. These stories had no credible sourcing and were predictable given the suddenness with which Kan reversed course and returned the Chinese captain. Overall, the incident deepened mutual trust between the White House and the Prime Minister's Office, with one senior US official declaring with satisfaction that, "this is how allies work together."

While the high-level meetings in New York focused primarily on China, since they took place right in the middle of Japan's confrontation with Beijing, President Obama and Prime Minister Kan also addressed developments in Northeast Asia; North Korea and Iran; Afghanistan and Pakistan; economic issues including the Asia-Pacific Economic Cooperation (APEC) forum; and cooperation in the areas of clean energy and nuclear security. Secretary Clinton and Foreign Minister Maehara followed a similar agenda. Clinton also urged the government of Japan to ratify the Hague Convention on the Civil Aspects of International Child Abduction. On Sept. 29 the US House of Representatives passed Resolution 1326 calling on Japan to adopt the

Convention and address the growing problem of abduction to and retention of minor children in Japan who are US citizens.

Futenma, host-nation support, and other issues notwithstanding, the positive energy on display in New York and the breadth of bilateral engagement overall this quarter suggest potential for more robust consultations between the United States and Japan, a welcome development as President Obama makes preparations for a trip to Japan in November for the APEC Leaders Meeting.

Fourth quarter

Japanese officials will visit Washington in early October to attend a G7 Finance Ministers Meeting and the annual meetings of the World Bank and International Monetary Fund, affording opportunities for informal consultations on institutional architecture and other financial issues. The mid-term congressional elections in the US and the Okinawa gubernatorial election, both scheduled for November, could complicate the diplomatic agendas of President Obama and Prime Minister Kan. President Obama's visit to Japan will conclude a series of declarations and events this year commemorating the 50th anniversary of the bilateral security treaty. Finally, multilateral diplomacy on climate change returns to the fore with the 16th Conference of Parties to the United Nations Framework Convention on Climate Change scheduled from Nov. 29 to Dec. 10 in Cancun, Mexico.

Chronology of US-Japan Relations July – September 2010

July 4, 2010: A poll published by *Asahi Shimbun* finds Prime Minister (PM) Kan's disapproval rating exceeds his approval rating by a margin of 40 percent to 39 percent.

July 5, 2010: A *Yomiuri Shimbun* survey shows a 45 percent approval rating for PM Kan, with 39 percent disapproving of his performance. Thirty-eight percent of respondents said they wanted the Democratic Party of Japan (DPJ) to retain a majority in the Diet and 48 percent did not. Sixty-five percent supported an increase in the consumption tax but 89 percent suggested Kan had not adequately explained its necessity. Thirty-four percent supported the DPJ, 18 percent favored the Liberal Democratic Party (LDP), and 33 percent were undecided.

July 11, 2010: The DPJ secures 44 seats in the Upper House election for a total of 106, falling 16 seats short of a majority in the chamber. The LDP picks up 51 seats for a total of 84. The newly formed Your Party wins 10 seats. The People's New Party (PNP), a coalition partner of the DPJ, wins no seats.

July 12, 2010: Prime Minister Kan, commenting on the results of the Upper House election, states he will stay on as prime minister and will not dissolve the Diet.

July 12, 2010: An exit poll conducted by *Yomiuri Shimbun* and *Nippon Television* finds 29 percent of unaffiliated voters supported the DPJ in the proportional representation portion of the

ballot for the Upper House election, compared to 52 percent in the 2009 Lower House election and 51 percent in the previous Upper House election in 2007.

July 13, 2010: State Secretary for Foreign Affairs Takemasa Koichi Deputy Secretary of State James Steinberg in Washington to discuss issues including the relocation of Marine Core Air Station (MCAS) Futenma, North Korea, and Iran.

July 14, 2010: A joint survey by *Asahi Shimbun* and the University of Tokyo suggests 53 percent of Upper House members either support or are leaning toward supporting a consumption tax hike by 2015.

July 14, 2010: The International Monetary Fund recommends Japan increase the consumption tax to 15 percent to improve the country's finances, beginning with a modest increase in fiscal year 2011.

July 15, 2010: Chief Cabinet Secretary Sengoku Yoshito announces that the National Policy Unit, established by the DPJ in 2009 to play a central role in the policymaking process, would instead take on a consulting role to the prime minister.

July 16, 2010: The government of Japan decides to extend Self-Defense Force (SDF) participation in an anti-piracy mission off the coast of Somalia for one year.

July 20-21, 2010: Secretary Steinberg visits Japan to meet Japanese officials and lead the US delegation in a trilateral strategic dialogue with Japanese and Australian counterparts.

July 22, 2010: The US and Japanese governments begin working-level negotiations over the special measures agreement authorizing host nation support for US forces.

July 23, 2010: Secretary of State Hillary Clinton and Foreign Minister Okada Katsuya discuss Futenma relocation, North Korea, Iran, and the upcoming Asia-Pacific Economic Cooperation (APEC) forum in a meeting on the sidelines of the ASEAN Regional Forum (ARF) in Hanoi.

July 23, 2010: Japan's Ministry of Defense announces it will send Maritime Self-Defense Force (MSDF) staff to observe US-ROK joint military exercises scheduled for July 25-28.

July 26, 2010: A *Mainichi Shimbun* survey declares a 40 percent approval rating for the Kan cabinet, with 80 percent of respondents stating Kan should not have to step down for the defeat suffered by the DPJ in the Upper House election.

July 26, 2010: The Ministry of Defense decides to postpone appropriations requests for the next generation FX fighter, excluding it from the fiscal 2011 budget.

July 26, 2010: Chief Cabinet Secretary Sengoku states during a press conference that a coalition with the LDP might be possible to avoid a deadlock in the Diet.

July 27, 2010: Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell, Assistant Secretary of Defense for Asian and Pacific Affairs Wallace Gregson, and Assistant Secretary of the Navy, Energy, Installations and Environment, Jackalyne Pfannenstiel testify before the House Armed Services Committee on security developments in Japan.

Aug. 2, 2010: PM Kan hints that Japan will not press forward on a final resolution to the Futenma relocation issue until after the Okinawa gubernatorial election in late November.

Aug. 3-4, 2010: State Department Special Adviser for Nonproliferation and Arms Control Robert Einhorn and Treasury Department Deputy Assistant Secretary for Terrorist Financing and Financial Crimes Daniel Glaser meet Japanese government officials in Tokyo to discuss sanctions on North Korea and Iran.

Aug. 4, 2010: The US military publishes the first issue of a Japanese-language comic book series on the US-Japan alliance.

Aug. 5, 2010: During an appearance before the Upper House Budget Committee, PM Kan states he has no plans to revise the official interpretation of the constitution prohibiting Japan from exercising the right of collective self-defense. He also vows to uphold Japan's three non-nuclear principles (not to produce, possess, or introduce nuclear weapons on Japanese territory) and limits on the exports of arms.

Aug. 6, 2010: In a speech at the Hiroshima Peace Memorial Ceremony, PM Kan states Japan as the only country to have suffered nuclear bombings has a "moral responsibility" to assume a leadership role in nuclear disarmament and nonproliferation.

Aug. 6, 2010: US Ambassador to Japan John Roos represents the US at the Hiroshima Peace Memorial Ceremony.

Aug. 6, 2010: The Japanese government decides to extend SDF participation in the UN peacekeeping mission in the Golan Heights until March 2011.

Aug. 9, 2010: Japan's Ministry of Finance reveals public debt is equivalent to 190 percent of gross domestic product.

Aug. 17, 2010: Financial Services Minister Jimi Shozaburo meets Under Secretary of the Treasury for International Affairs Lael Brainard in Washington to address US concerns about postal reform legislation in Japan.

Aug. 19, 2010: The Government of Japan decides to dispatch SDF helicopter units in support of flood relief efforts in Pakistan.

Aug. 23, 2010: Ambassador Roos meets Defense Minister Kitazawa Toshimi in Tokyo to discuss the relocation of MCAS Futenma and host nation support for US forces.

Aug. 25, 2010: Former DPJ Secretary General Ozawa Ichiro refers to Americans as “simple-minded” during a speech on politics.

Aug. 26, 2010: Ozawa Ichiro declares his intention to challenge Prime Minister Kan for the DPJ presidency in September.

Aug. 27, 2010: The Council on National Security and Defense Capabilities in a New Era, an advisory panel, submits a report to PM Kan featuring recommendations for the National Defense Program Guidelines due in December.

Aug. 30, 2010: Japanese government announces a \$10.9 billion stimulus package. Bank of Japan announces the extension of a short-term lending program for banks initiated in December 2009.

Aug. 30, 2010: Respondents to a *Yomiuri Shimbun* poll favored Kan over Ozawa, 67 to 14 percent. Kan’s approval rating stood at 54 percent, but 82 percent said the Kan Cabinet had not responded to falling stock prices and a rising yen. Fifty-eight percent said a consumption tax increase was necessary to shore up Japan’s finances, while 35 percent demurred.

Sept. 3, 2010: Government of Japan approves fresh sanctions on Iran over its nuclear enrichment program. The Obama administration applauds the decision in a joint statement by Secretary of State Clinton and Treasury Secretary Timothy Geithner.

Sept. 6, 2010: *Yomiuri Shimbun* poll finds 66 percent of the public supporting Kan in the DPJ presidential race with just 18 percent backing Ozawa. The approval rating for the Kan Cabinet stood at 59 percent.

Sept. 10, 2010: Japan’s Ministry of Defense issues its annual Defense White Paper.

Sept. 14, 2010: Kan Naoto is reelected president of the DPJ and remains prime minister after defeating Ozawa Ichiro by a margin of 721 points to 491.

Sept. 14-15, 2010: The US and Japanese governments hold technical working-level meetings in Burlingame, California, regarding bilateral trade in beef and beef products.

Sept. 15, 2010: The Bank of Japan conducts a \$12 billion foreign exchange intervention in an attempt to weaken the yen.

Sept. 15, 2010: US Representative Sander Levin (D-MI) expresses concern about Japan’s intervention on behalf of the *yen* during a hearing on China’s exchange rate policy.

Sept. 16, 2010: Japan ranks fourth behind China, Great Britain, and Canada on the list of countries considered “very important” to the US in a survey published by the Chicago Council on Global Affairs.

Sept. 17, 2010: PM Kan reshuffles his Cabinet, appointing Okada Katsuya as DPJ secretary general and naming Maehara Seiji foreign minister.

Sept. 20, 2010: The approval rating for the Kan cabinet stands at 64 percent according to a *Mainichi Shimbun* poll.

Sept. 20, 2010: Vice President Joseph Biden addresses the US-Japan Council in Washington, DC, and notes that US efforts to improve ties with China must “go through Tokyo.”

Sept. 22, 2010: PM Kan announces the “Kan Commitment,” an \$8.5 billion pledge over five years in the fields of health and education to support the Millennium Development Goals.

Sept. 23, 2010: President Obama and PM Kan meet in New York on the sidelines of the United Nations General Assembly.

Sept. 23, 2010: Secretary of State Hillary Clinton and Japanese Foreign Minister Maehara Seiji meet on the margins of the United Nations General Assembly in New York.

Sept. 23, 2010: Defense Secretary Robert Gates and Chairman of the Joint Chiefs of Staff Adm. Michael Mullen reaffirm the US-Japan security treaty during a press conference in response to questions regarding Japan’s dispute with China over the Senkaku Islands.

Sept. 24, 2010: PM Kan addresses the United Nations General Assembly and identifies development assistance, the global environment, nuclear disarmament and non-proliferation, and peacekeeping as priorities for Japan’s contributions to the international community.

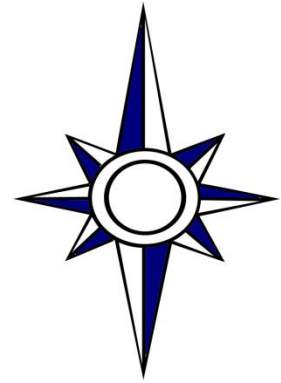
Sept. 26-27, 2010: US Ambassador to Japan John Roos visits Nagasaki.

Sept. 29, 2010: The Bank of Japan’s quarterly *tankan* survey shows business confidence improved for the sixth straight quarter.

Sept. 29, 2010: The House of Representatives passes Resolution 1326 calling on the Government of Japan to address the growing problem of abduction to and retention of minor children in Japan who are US citizens and to adopt the Hague Convention on the Civil Aspects of International Child Abduction.

Sept. 29, 2010: An anonymous senior State Department official speaks to a group of reporters and expresses concern about a possible reduction in host nation support for US forces.

September 30, 2010: A *Fujisankei* poll reveals 80 percent of the Japanese public feels the image of China has deteriorated in the wake of the Sept. 7 Senkaku incident and 71 percent considers China a threat to Japanese security.



**US-China Relations:
Tensions Rise and Fall, Once Again**

**Bonnie Glaser, CSIS/Pacific Forum CSIS
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Diplomatic confrontations over the Yellow Sea and the South China Sea were the source of new bilateral tensions this quarter. Beijing vigorously objected to the dispatch of the aircraft carrier *USS George Washington* to waters near where the South Korean corvette *Cheonan* sunk after being attacked in March, even before Washington had made a decision to deploy it. Worried about Chinese diplomatic posturing and destabilizing activities in the South China Sea, Secretary of State Clinton delivered a clear statement of US interests at the ASEAN Regional Forum meeting in Hanoi that irritated Beijing. With the US mid-term elections approaching, US frustration mounted over China's unwillingness to allow its currency to appreciate against the dollar at a faster pace. The House of Representatives passed legislation that would allow the US to impose import duties on countries that have undervalued currencies. After more than five months of delay, the Pentagon submitted to Congress its annual report assessing Chinese military capabilities. Finally, two US presidential envoys traveled to Beijing to smooth over relations and President Obama met Premier Wen Jiabao on the margins on the UN General Assembly.

Senior US officials put China in broader foreign policy context

After more than a year of ups and downs in the bilateral relationship, speeches by senior US officials this quarter shed light on evolving Obama administration thinking about China. One underlying message was that the US-China relationship has not lived up to Washington's expectations. In a speech delivered to the Council on Foreign Relations in early September, Secretary of State Hillary Clinton listed China as one of several countries that are "emerging centers of influence" with which the US seeks to deepen engagement. She called on these countries to "accept a share of the burden of solving common problems, and of abiding by a set of the rules of the road ... on everything from intellectual property rights to fundamental freedoms." When nations do not accept the responsibility that accrues with expanding influence, Clinton noted, the US will "do all that we can to encourage them to change course while we press ahead with other partners."

Talking about regional dynamics and institutions, Clinton cited China and Brazil as examples of emerging powers that "have their own notions about what the right outcome [of regional situations] would be or what regional institutions should look like, and they are busy pursuing them." Implying that this has raised concerns among neighboring states, the secretary stated that "our friends, our allies, and people around the world who share our values depend on us to remain robustly engaged." Clinton denied that the US must be forced to choose between security and values in its foreign policy. She insisted that human rights are always on the US diplomatic

and development agendas, “even with nations on whose cooperation we depend for a wide range of issues,” including China.

In a keynote speech to the Eighth Institute of International Strategic Studies (IISS) Global Strategic Review conference held in Geneva, Switzerland, Deputy Secretary James Steinberg maintained that “there is no more consequential bilateral relationship for the United States going forward than with China.” He maintained that engagement with China through the Strategic and Economic Dialogue (S&ED) had led to “some notable successes,” including cooperation in addressing the global economic crisis in the G20, President Hu Jintao’s participation at the Nuclear Security Summit in Washington, and China’s support for new UN sanctions against Iran and North Korea. Steinberg called for building “strategic trust” with China. “The test of the future,” he said, will be whether Washington and Beijing can have differences without fundamentally destabilizing their relationship.

In his presentation in Geneva, as well a set of remarks delivered at the Nixon Center in Washington, DC in July, Steinberg emphasized the regional context of US policy toward China. In both speeches, he stressed that the US approach to the region has three pillars: strengthening traditional alliances, engaging with emerging regional powers (China, India, and Indonesia in particular), and building regional multilateral institutions. At the Nixon Center, Steinberg asserted that the pace of bilateral engagement with China remains strong and the US continues to “find a broad range of areas where we cooperate with China not only bilaterally, but regionally and globally.” Admitting that there are challenges in the relationship, he highlighted the need to deepen military-to-military engagement and make progress on energy and climate-related issues.

Yellow Sea confrontation brews

After many weeks of intense negotiations, the United Nations Security Council issued a presidential statement on July 9 on the sinking of the South Korean corvette, the *Cheonan*, which had occurred in late March. Due to opposition from both China and Russia, the statement did not blame North Korea, although it condemned the “attack” and included a reference to the findings of the Joint Civilian-Military Investigation Group led by the ROK with the participation of five nations, “which concluded that the DPRK was responsible for sinking the *Cheonan*.” At the insistence of Beijing and Moscow, the statement explicitly noted that the DRPK had “stated that it had nothing to do with the incident.”

Secretary of State Clinton interpreted the presidential statement as a “condemnation of North Korea’s attack” on the *Cheonan* that “sends a clear message that such irresponsible and provocative behavior is a threat to peace and security in the region and will not be tolerated.” China’s Foreign Ministry spokesman expressed hope that the “relevant parties” would “continue to exercise calmness and restraint” and “turn over the page of the *Cheonan* incident as soon as possible.” He also called for an early resumption of the Six-Party Talks. Privately, Chinese officials and scholars maintained that there was insufficient evidence to conclude that North Korea was the perpetrator of the attack.

The failure of the UN Security Council to agree that North Korea was responsible for the attack was a disappointment to Seoul and bolstered hardliners in the ROK military and the

administration of President Lee Myung-bak who favored more confrontational ways of signaling to Pyongyang that future aggressive acts against South Korea would invite a response. This included efforts to persuade the US to dispatch the *USS George Washington* carrier battle group to the waters off the west coast of Korea near where the *Cheonan* was attacked, which prompted a public spat with China.

The episode began in June when a South Korean defense official told South Korea's *Yonhap* News Agency that the US would within a week deploy the carrier *USS George Washington* along with a US *Aegis* destroyer and a nuclear submarine "in a show of force" in the Yellow Sea. Defense Secretary Robert Gates indicated, however, that he had no knowledge of a plan to send a carrier to the waters off South Korea and a Pentagon spokesman acknowledged that joint military drills were scheduled, but denied that any decision had been made with respect to carrier exercises with the ROK. Despite these official disavowals of a concrete plan to dispatch the *USS George Washington* to the Yellow Sea, the Chinese Foreign Ministry called for the "relevant parties" to "remain calm and exercise restraint." Two weeks later, following an announced postponement of the US-ROK military exercise until July, the Foreign Ministry spokesman spoke on the issue again, saying that Beijing was "very concerned about the report" of a possible deployment of a US carrier to the Yellow Sea.

Beijing's reaction was unexpected since the objectives of the US-ROK military exercises were limited to deterring further North Korean provocations, strengthening ROK anti-submarine warfare capabilities, and bolstering the US-ROK alliance. A Pentagon spokesman stated in mid-August that "China has no reason to view this exercise, or this series of exercises, as a threat to its security," but this did not reassure the Chinese. Beijing may have had several concerns. First, a huge show of force in the waters where the *Cheonan* sunk risked provoking a violent North Korean response that could escalate out of control. Second, strong opposition among Chinese netizens to the possibility of a US carrier being deployed close to China's coast presented the danger that the Chinese leadership could appear unwilling and possibly unable to defend China's core interests.

On July 1, Gen. Ma Xiaotian, deputy chief of staff of China's People's Liberation Army (PLA), adopted a harsher stance in an interview with the Hong Kong-based *Phoenix TV*. China "strongly opposes the drill in the Yellow Sea because of its close proximity to Chinese territorial waters," Ma asserted. A week later, the Foreign Ministry spokesman echoed this tougher language, declaring that "We firmly oppose foreign warships and military aircraft carrying out activities in the Yellow Sea and other Chinese coastal waters that affect China's security interests." In the meantime, the PLA East Sea Fleet announced that one of its units would engage in live-ammunition fire training in the waters of the East China Sea from June 30 to July 5. Maj. Gen. Luo Yuan wrote in *People's Daily* that the military exercise was aimed not just at deterring North Korea, but also would be used to conduct strategic reconnaissance against China and therefore posed a threat. He reminded Chinese readers that the Yellow Sea is "the gateway to China's capital region and a vital passage to the heartland of Beijing and Tianjin," and was a frequently used invasion route in Chinese history.

Beijing's reaction, which imprudently turned the planned US-ROK military drills into an issue in China-US relations, created a dilemma for the Obama administration. A decision to deploy the

USS George Washington in the Yellow Sea risked increasing tensions with China when relations were already strained due to US arms sales to Taiwan and President Obama's meeting with the Dalai Lama earlier in the year. Yet, failing to deploy the carrier risked being seen as weak and caving in to Chinese pressure. In the end, proponents of not unnecessarily exacerbating friction with Beijing prevailed and the administration dispatched the carrier in late July to the Sea of Japan, off the eastern coast of Korea, far from the disputed waters where the *Cheonan* sank. It was agreed, however, that the carrier would sail in the Yellow Sea at a later date.

In August, the fracas continued after a Pentagon announcement that the *USS George Washington* would soon be dispatched to the Yellow Sea for exercises with South Korea. China's Foreign Ministry spokesman again urged the "relevant parties" to take China's position and concerns seriously. *Xinhua* News Agency warned the US to reconsider its plan. "Offending Chinese people is not in the fundamental interest of the US. Any activity aimed at pushing a country with a 1.3 billion populace with enormous potential would be inadvisable."

A US-ROK military drill in the waters west of the peninsula that was originally planned for early September was delayed until the end of the month. The exercise included two destroyers along with other vessels, a submarine, and aircraft. No aircraft carrier participated in the exercise. A Pentagon spokesman said that although no date had yet been set for the *USS George Washington* to operate in the waters west of Korea, it "will indeed exercise in the Yellow Sea" as it does in other international waters. He stressed again that the US-ROK exercises are not intended to antagonize China, but rather as a warning to Pyongyang. It remains to be seen how China will react when the deployment eventually takes place.

A diplomatic fracas: South China Sea

At the mid-July ASEAN Regional Forum (ARF) in Hanoi, Secretary Clinton and Chinese Foreign Minister Yang Jiechi butted heads over the South China Sea issue. Speaking after 11 out of 27 countries' representatives voiced concerns about peace and stability in the South China Sea, Clinton maintained that the US had a "national interest in freedom of navigation, open access to Asia's maritime commons, and respect for international law in the South China Sea." She expressed support for the 2002 ASEAN-China Declaration on the Conduct of Parties (DOC) in the South China Sea, and offered assistance "to facilitate initiatives and confidence-building measures consistent with the declaration." Clinton did not alter the long-standing US position of neutrality on the territorial disputes in the region and did not take a position on how the disputes should be resolved. Rather, she emphasized the need to resolve disputes without the use or threat of force and stated that "claimants should pursue their territorial claims and accompanying rights to maritime space in accordance with the UN convention on the law of the sea."

Caught off guard by Clinton's address and the large number of countries that aired concerns about the situation in the South China Sea, Foreign Minister Yang took an hour-long break and then returned to the forum with his own strongly worded statement. He argued that the situation in the South China Sea was peaceful, and that the rapid growth of trade was evidence that navigational freedom had "obviously not" been hindered. Yang also insisted that "channels of discussion" between China and ASEAN were "open and smooth." Finally, he cautioned other countries against internationalizing the South China Sea territorial disputes. "It will only make

matters worse and the resolution more difficult. International practices show that the best way to resolve such disputes is for countries concerned to have direct bilateral negotiations.” A statement posted on China’s Foreign Ministry website entitled “Foreign Minister Yang Jiechi Refutes Fallacies on the South China Sea Issue” accused Secretary Clinton of launching an “attack” on China that was “designed to give the international community a wrong impression that the situation in the South China Sea is a cause for grave concern.”

Secretary Clinton’s articulation of a more detailed and coherent US policy on the South China Sea than in the past was a result of several developments. First, a number of states have been operating contrary to the DOC, in which parties agreed to resolve territorial disputes through peaceful means without the threat of or the use of force. This trend aroused worries in Washington given the sea’s importance to commercial activity and navigation. Second, many countries in the region, concerned about the potentially destabilizing nature of these activities, had urged the US to speak out on the issue. Chinese assertiveness in particular had raised concerns in both Southeast Asia and the US. With its military modernization, China has become better equipped to pursue its own interests through methods such as unilaterally enforcing fishing bans and providing naval escorts for Chinese fishing vessels. Third, there were worrisome signs that China’s stance on the South China Sea was hardening. According to widespread reports, high-ranking Chinese officials had told US counterparts in closed-door meetings that the South China Sea was one of China’s “core interests,” suggesting that the issue was “non-negotiable” and belonged to Beijing in the same way that Tibet, Xinjiang, and Taiwan are considered to be part of China. The US sought to head off the adoption of an official position by Chinese officials that the South China Sea was a core interest, which might include claiming sovereignty over the entire maritime space rather than waters “derived solely from legitimate claims to land features,” as Clinton stated at the ARF meeting. Accordingly, US officials privately explained, the Obama administration had concluded that it was necessary to go beyond traditional statements about “what US policy does not seek to do” in the South China Sea to a clear statement of “what US policy seeks to achieve.”

Later, at the Nixon Center on July 27, Deputy Secretary Steinberg explained that the motivation behind Secretary Clinton’s statement at the ARF was to acknowledge that the issue was a concern to all parties present, and to encourage “open discussion about how to take this forward and find a more constructive way to deal with it.”

After the ARF meeting, tensions over the South China Sea issue continued to rise as voices from both China and the US criticized the other country’s behavior and intentions. From the US, military officials were especially vocal about their concerns for US strategic interests, expressing unease about China’s actions in the South China Sea and emphasizing the importance of freedom of navigation. On July 23, Chairman of the Joint Chiefs of Staff Adm. Mike Mullen stated that China was taking a “much more aggressive approach” in its policy toward international waters near its coastline. US Pacific Command (PACOM) Commander Adm. Robert Willard echoed these sentiments, saying that Chinese assertiveness in the South China Sea had heightened concern in the region. He offered assurances that the US would maintain security and protect important trade routes. Rear Adm. Richard Landolt, commander of the US Navy 7th Fleet’s amphibious force, said in an interview on Sept. 19 that China’s recent activity in the South China Sea threatened the ability of other countries’ ships to operate freely. If China wants to be seen as

a major global power, he argued, it will need to act responsibly, particularly in assisting rather than hampering freedom of navigation.

From China's perspective, the US attempt to forge a coalition against China on the South China Sea issue was part of the Obama administration's strategy to reassert US influence in the region. Clinton's speech at the ARF further exacerbated Chinese suspicions that the US was attempting to tighten its strategic encirclement of China and undermine relations between China and its neighbors. Some Chinese media sources accused the US of using "divide and rule" tactics to deal with disputes and conflicts in the international arena, while others warned that the US "intention to sow discord between China and Southeast Asian countries will be in vain." At a press conference on July 30, China's Defense Ministry spokesman Geng Yansheng reiterated that China had "indisputable sovereignty" over the islands in the South China Sea and the nearby waters. On the eve of the ASEAN-US summit in New York in September, Foreign Ministry spokeswoman Jiang Yu said, "We resolutely oppose any country which has no connection to the South China Sea getting involved in the dispute, and we oppose the internationalization, multilateralization or expansion of the issue. It cannot solve the problem, but can only make it more complicated."

As the quarter drew to a close, Washington and Beijing signaled a shared desire to defuse tensions over the South China Sea and other issues. Following a meeting between President Obama and Premier Wen Jiabao on the sidelines of the UN General Assembly, National Security Council Senior Director for Asian Affairs Jeffrey Bader portrayed the preservation of peace and stability in the South China as a win-win rather than a zero-sum issue between the US and China, commenting that "there are no principles that [Secretary Clinton] laid out that China should object to." Wen declared alongside President Obama that common interests between the US and China "far outweigh" any differences the two may have, adding that he hoped to "foster favorable conditions" for President Hu's visit to the US next year.

Economic friction intensifies: currency valuation and unfair trade practices

Economic issues remained front and center in the US-China relationship this quarter as pressure mounted from US lawmakers and industry groups to punish China for an undervalued currency that has boosted Chinese exports and deprived Americans of jobs and profits. Since the People's Bank of China announced on June 19 that it would pursue a more flexible exchange rate after keeping the currency at about 6.83 per dollar for almost two years, the *yuan* has appreciated a mere 2.2 percent. With the US unemployment rate at 9.7 percent and the US mid-term elections only months away, there are signs that the Obama administration is losing patience with China on this issue.

Two areas linked to this "unfair advantage" this quarter were whether China would be officially labeled by the Obama administration as a "currency manipulator" and what, if any, actions the US would take in response to alleged Chinese World Trade Organization (WTO) violations. In early July, the Treasury Department issued its report on world currencies (after an almost three month delay), and while the report maintained that the *yuan* was "undervalued," the Treasury did not designate China as a currency manipulator. Although such an official designation would not trigger any specific legal repercussions, it would lend support to Congress' push to impose tariffs

on Chinese imports. The next foreign exchange report is due on Oct. 15 and policymakers are again pressing for the label “currency manipulator” to be applied to China, insisting that Chinese currency policy has hindered the US economic recovery.

US frustration with Chinese trading practices was further evidenced by the submission of two new cases against China at the WTO on Sept. 15 in response to claims of discrimination against US industries by the steel industry and credit card companies. US Trade Representative Ron Kirk expressed concern that China is “breaking its trade commitments to the United States and other WTO partners” by excluding US credit and debit card companies and by unfairly restricting imports of US steel. The move was applauded by key lawmakers on trade issues. “We can’t stand by while China abuses its unfair trade laws for protectionist purposes,” said Sen. Charles Grassley (R-IA), the lead Republican on the Senate Finance Committee.

In Congress, growing frustration about the pace of appreciation of the *yuan* led to accelerated efforts to pass legislation that would allow the US to impose import duties on countries that have undervalued currencies. The proposed bill pushed by Tim Murphy (R-PA) and Tim Ryan (D-OH) allows the Commerce Department to treat “fundamentally undervalued currencies” as an illegal export subsidy so that US companies can request a countervailing duty to offset China’s price advantage. The House Ways and Means Committee approved the legislation on Sept. 24, and the bill was passed by the House of Representatives in a 349-78 vote on Sept. 29. The Senate is unlikely to take up the bill until after the November elections.

Despite a preference for diplomatic pressure over legislation to persuade Beijing to revalue its currency, there was evidence this quarter that the Obama administration’s patience was wearing thin against the background of the upcoming mid-term elections. In testimony before the Senate Banking, Housing, and Urban Affairs and House Ways and Means Committees on Sept. 16, Treasury Secretary Tim Geithner said the US shares the assessment of the IMF that the *yuan* is “significantly undervalued,” and is looking at what “mix of tools” can be used to encourage China to “move more quickly.” He also described US concerns about Beijing’s inadequate enforcement of intellectual property rights and indigenous innovation policies that provide an unfair edge to Chinese domestic industries.

If the proposed currency legislation passes, China would likely challenge the measure at the WTO, with the potential for significant legal retaliation against US businesses. Obama administration officials have therefore stressed that any legislation must be in line with WTO rules, though they have not clearly stated whether the current bill meets this test. Most observers believe that even though it is unlikely that President Obama would sign the bill, the administration views the legislation as useful pressure on China to allow its currency to appreciate at a faster pace.

In response to the escalating criticism from US lawmakers and executive branch officials throughout the quarter, China insisted that neither the value of the *yuan* nor the trade deficit was to blame for US economic woes. In mid-September, Ministry of Commerce spokesman Yao Jian refuted the charge that an undervalued *yuan* was responsible for China’s trade surplus with the US and insisted that claims that China manipulates its currency to boost foreign trade were “groundless.” Speaking to US business leaders on the sidelines of the UN General Assembly

meeting, Premier Wen Jiabao stated that “The main reason for the US trade deficit with China is not the renminbi exchange rate, but the structure of trade and investment between the two countries.” China’s Foreign Ministry spokesman said it was “unwise and also near-sighted” for the US to pressure China to appreciate the *yuan* and warned that the bill could “harm relations.”

Enforcing Iran sanctions

Another area of bilateral contention this quarter was Iran’s nuclear ambitions. In June, the UN Security Council passed another round of sanctions against Iran, this time on its military establishment, demanding the suspension of its enrichment activities and a resolution of outstanding concerns regarding the nature of its nuclear program. After resisting new sanctions for almost a year, Beijing voted in favor of the resolution, but only after its demands that the energy sector be excluded were met. Subsequently, on July 1, the US Congress passed additional unilateral sanctions aimed at squeezing Iran’s energy and banking sectors. Not surprisingly, China criticized the action and argued that additional punitive measures should not be taken that go beyond the resolution agreed to in the UN Security Council. Later in the quarter, Japan and South Korea announced their own separate unilateral sanctions on Iran.

There is concern that as other countries withdraw from business dealings with Iran, China could gain a comparative advantage by staying in the market. The State Department’s Special Adviser for Nonproliferation and Arms Control Robert Einhorn at a press conference on Aug. 2 urged China to be more cooperative in enforcing UN sanctions against Iran, which “means not backfilling, not taking advantage of the responsible restraint of other countries.” China’s Foreign Ministry spokeswoman Jiang Yu countered the charge, saying that “China’s trade with Iran is a normal business exchange, which will not harm the interests of other countries and the international community.” While China claims to follow relevant UN Security Council Resolutions (UNSCRs) to the letter, the US hopes that it will put more pressure on Iran, as well as on North Korea, by subtle means such as delaying the signing and implementation of contracts.

In mid-September, when a report by the International Atomic Energy Agency (IAEA) claimed that Iran was continuing with its nuclear program in spite of the sanctions, China called on Tehran to fully cooperate with the IAEA to assure the international community that the country’s nuclear program is peaceful in nature. Addressing the IAEA board meeting on Sept. 13, Hu Xiaodi, China’s permanent representative and ambassador to the UN and other international organizations in Vienna, said that the countries involved should utilize diplomatic efforts to resolve the issue and expressed hope that the IAEA would play a positive role in negotiations. He added that in an effort to safeguard the NPT regime and ensure peace and stability, China was willing to play a positive role and would collaborate with other states to find a comprehensive, long-lasting, and appropriate solution.

While such rhetoric is welcome, the extent to which China is willing to join with the international community to encourage Tehran to eschew development of nuclear weapons remains to be seen. Thus far, China has been unwilling to creatively use its own leverage on Iran, preferring instead to strictly implement the UNSCRs. Washington worries that China’s expanding commercial ties could undercut international efforts to squeeze Iran. Sen. Joseph

Lieberman warned in a statement issued in early September that if Beijing undermines the new sanctions, Congress will move to enforce sanctions against Chinese companies using authority provided in recent US sanctions legislation. “Chinese companies have unfortunately in the past been allowed by their government to pursue their commercial self-interest in Iran, exploiting the restraint of other countries,” Lieberman said. “If this trend continues, China will isolate itself from the responsible international community in Asia and around the world.”

At the end of September, Einhorn visited Beijing to discuss sanctions on Iran and North Korea. He was accompanied by the Treasury Department’s Deputy Assistant Secretary for Terrorist Financing and Financial Crimes Daniel Glaser and Special Envoy for International Energy Affairs David Goldwyn.

Pentagon releases annual assessment of Chinese military

After a delay of more than five months, the Pentagon submitted to Congress its annual report assessing Chinese military capabilities on Aug. 16. In previous years, the report had been submitted as the *Military Power of the People’s Republic of China*, but due to a change in legislation, the report is newly titled *Military and Security Developments Involving the People’s Republic of China*. The contents included information on the Chinese military from 2009.

In the report, the Department of Defense maintained that China is pursuing anti-access, area-denial and force projection through expanding its capabilities. An important element of China’s anti-access and area-denial pursuits highlighted in the report is the continued development of its missile program, which is the “most active land-based ballistic and cruise missile program in the world.” For the first time, the report indicated that “China may also be developing a new road-mobile ICBM, possibly capable of carrying a multiple independently targeted re-entry vehicles (MIRV).” China is also developing a longer-range *B-6* bomber which, when armed with a long-range land-attack cruise missile, “will enable strikes as far as the second island chain.” The PLA Navy now “has the largest force of principal combatants, submarines, and amphibious warfare ships in Asia,” but in 2009 only the number of missile-equipped patrol craft has increased.

The first of China’s new *JIN*-class (Type 094) ballistic missile submarine (SSBN) is ready to deploy, but its *JL-2* submarine-launched ballistic missile (SLBM) “appears to have encountered difficulty, failing several of what should have been the final round of flight tests.” It is as of yet “uncertain” when the new submarine will be fully operational. China is also expanding its nuclear-powered attack submarine force and “may add up to five advanced Type 095 SSNs to the inventory in the coming years.” Over the next decade, China has plans to build several aircraft carriers and the domestic “shipbuilding industry could start construction of an indigenous platform by the end of this year.” Regarding the PLA’s ability to project power, the report maintained that “by the latter half of this decade, it is likely that China will be able to project and sustain a modest sized force ... in low-intensity operations far from China,” but that it is unlikely that China would “be able to project and sustain large forces in high-intensity combat operations far from China until well into the following decade.”

Regarding Taiwan, the DoD report asserts that the balance of power across the Taiwan Strait continues to shift in China’s favor. While the number of short-range ballistic missiles (SRBMs)

deployed opposite Taiwan has not noticeably increased (numbers have held steady between 1,050 and 1,150), China is “upgrading the lethality of this force, including by introducing variants of these missiles with improved ranges, accuracies, and payloads.” With regard to a cross-Strait contingency, the report says that, “China today probably could not enforce a full military blockade, interdicting and if necessary destroying nearly all traffic into Taiwan.”

In addition to the analysis of China’s military capabilities, several new topics are discussed in the DoD report. A chapter is devoted for the first time to the PLA’s “New Historic Missions,” which were assigned by Hu Jintao in December 2004. Fulfilling the new congressional requirement for the annual report, another chapter discusses military-to-military exchanges between the US and China. It argues that “sustainable and reliable” military ties are an important part of the bilateral relationship. However, “a sustained exchange program has been difficult to achieve,” and the “on-again/off-again” nature of the military relationship has limited “the ability of the two armed forces to explore areas of cooperation, enhance mutual understanding, improve communications, and reduce the risk that misapprehension or miscalculation could lead to crisis or conflict.”

Getting Relations Back on Track

After six months of escalating tensions that began in January when the Obama administration notified Congress of a \$6.4 billion package of arms to Taiwan, Washington and Beijing seemed to recognize the need to arrest the downward spiral in the US-China relationship. With sights set on a visit to the US by Hu Jintao in early 2011, both sides began to play down their differences and create a positive narrative beginning in late August. On Aug. 25, Vice Foreign Minister Cui Tiankai arrived in Washington DC to hold the China-US vice foreign ministerial political consultations and spent a full day in discussions with Deputy Secretary of State Steinberg, Assistant Secretary of State Kurt Campbell, and NSC Senior Director for Asian Affairs Bader. According to a Chinese Foreign Ministry spokesman, the two sides agreed that maintaining sound bilateral relations serves both sides’ best interests and contributes to regional and global peace, stability, and prosperity. Moreover, they agreed that the two countries should continue to build “a positive, cooperative and comprehensive relationship”; work to maintain, deepen and broaden communication, strategic mutual trust, and practical exchanges and cooperation; and handle disputes and sensitive issues “properly.” A number of regional and global issues were discussed, including the South China Sea and North Korea. Cui subsequently met with Deputy National Security Adviser Thomas Donilon and Under Secretary of Defense Michele Flournoy.

In early September, two presidential envoys were dispatched to Beijing to smooth over relations and lay the groundwork for President Hu Jintao’s visit. Thomas Donilon and National Economic Council Director Lawrence Summers met Vice Premier Wang Qishan, State Councilor Dai Bingguo, Foreign Minister Yang Jiechi, Vice Chairman of China’s Military Commission Xu Caihou, and People’s Bank of China Governor Zhou Xiaochuan, among others. Citing officials familiar with the meetings, *The New York Times* reported that the visit was intended “to try to get the two countries focused on some common long-term goals.” One apparent concrete result of the trip was agreement by Beijing to resume bilateral military exchanges.

President Hu and Prime Minister Wen both met the US delegation, an unusual move as Chinese leaders customarily meet only foreign counterparts of equal rank. In a report on the meeting, the Hong Kong newspaper *Wen Wei Po* said that Hu called for healthy and stable ties between the two countries. “China looks positively on the fresh progress made in China-US relations, and we are willing to work together with the US in promoting the advance of healthy and stable China-US relations,” said President Hu. “I’m sure that this visit will certainly enhance mutual communication and mutual trust,” he added.

State Councilor Dai Bingguo underscored the need to carefully manage differences between the two countries. He told the US government representatives, “Strategic trust is the basis of China-US cooperation.” According to a release by the Chinese Embassy in Washington, Dai expressed China’s willingness to work with the US, increase high-level contacts, and expand cooperation in all areas in a bid to push forward China-US relations. The positive atmosphere of the meetings and the high-level treatment accorded to Donilon and Summers signaled both to China’s domestic audience and to the US that Beijing continues to attach great importance to the bilateral relationship and hopes to keep ties on an even keel in the run-up to Hu’s planned visit to the US.

On Sept. 22, on the eve of meeting President Obama on the margins of the United Nations General Assembly in New York, Premier Wen delivered a speech on US-China relations to a gathering of business leaders and scholars. Although he rebuffed charges that China’s exchange rate is undervalued, Wen said that he was optimistic that trade tensions between the US and China could be resolved. “Common interests between our two countries far outweigh our differences,” he said. The issue of China’s currency nevertheless dominated the two-hour meeting between Wen and Obama the following day. Jeffrey Bader described the conversation as “candid” and said that Obama stressed “the need for China to do more than it has done to date” and talked about the need for China to protect intellectual property rights and provide fair treatment for US companies in China. Wen reportedly adhered closely to China’s long-standing position that “reform” of China’s exchange rate mechanism will proceed gradually.

Meeting jointly with the press, President Obama characterized the US-China relationship as based on cooperation, mutual interest, and mutual respect. Noting that the two countries have cooperated to stabilize the world economy, Obama stressed the need to “continue to do more work cooperatively in order to achieve the type of balance and sustained economic growth that is so important and that we both signed up for in the context of the G20 framework.” Premier Wen also highlighted US-China cooperation, citing the financial crisis, climate change, and regional hotspot issues as examples. He expressed confidence that “differences can be well resolved through dialogue and cooperation” and that the bilateral relationship “will always forge ahead.

Looking Ahead

In the final quarter of 2010, domestic politics will be the focus of attention in both countries. In October, China will hold the fifth plenum of the Chinese Communist Party’s 17th Central Committee, where the draft of the nation’s 12th Five-Year Plan is on the agenda for approval. The following month, the US will hold mid-term elections.

Assuming that Hu Jintao's visit to the US proceeds in January as planned, the last quarter of 2010 will include a flurry of activity to prepare for the trip. Bilateral military exchanges are set to resume with a meeting of the Military Maritime Consultative Agreement (MMCA) in October. The Defense Consultative Talks are likely to be held before the end of the year, co-hosted by Deputy Chief of the General Staff of the PLA Ma Xiaotian and Under Secretary of Defense for Policy Michele Flournoy. A visit to China by Defense Secretary Gates is also under discussion.

Chronology of US-China Relations*

July – September 2010

July 1, 2010: According to *Xinhua*, Deputy Chief of General Staff of the People's Liberation Army (PLA) Gen. Ma Xiaotian says China would welcome a visit by Secretary of Defense Robert Gates, "at a time that is convenient for both sides."

July 2, 2010: GM announces that for the first time it sold more cars in China than the US.

July 5, 2010: A Chinese court finds geologist Xue Feng, a naturalized US citizen, guilty of stealing state secrets and sentences him to eight years in prison.

July 6, 2010: China denounces US unilateral sanctions imposed against Iran, saying that additional measures should not be taken outside of the UN Security Council.

July 8, 2010: After a three-month delay, US Treasury Department issues its report on currency.

July 8, 2010: China's Foreign Ministry spokesman Qin Gang says China firmly opposes any foreign warships or planes entering the Yellow Sea as well as adjacent waters that engage in activities that would negatively affect Chinese security and interests.

July 8, 2010: UN Security Council issues a presidential statement condemning the March 26 attack on the South Korean ship, the *Cheonan*, but does not blame North Korea for the sinking.

July 9, 2010: *Reuters* reports that China's exports in June increased 43.9 percent from June 2009, which was above expectations of a 38 percent rise.

July 15, 2010: Foreign Ministry Spokesman Qin Gang states, "We firmly oppose any foreign military vessel or plane conducting activities in the Yellow Sea and China's coastal waters undermining China's security interests. Under the current circumstances, we hope relevant parties exercise calmness and restraint and refrain from activities that would escalate tension in the region."

July 17-18, 2010: China holds "Warfare 2010," a military exercise held in the Yellow Sea involving troops from the Jinan Military Region and the staff of the Ministry of Transport.

* Chronology and research assistance by CSIS intern Robert Lyons and David Silverman

July 19-20, 2010: The International Energy Association (IEA) says that China surpassed the US last year to become the world's biggest energy consumer, but the US remains the largest energy consumer per capita. Zhou Xian, China's National Energy Administration spokesperson, says IEA estimates of China's consumption are too high.

July 20, 2010: China's Ministry of Commerce spokesperson Yao Jian states that Congress' investigation of China's planned investment in a steel venture in Mississippi is a protectionist measure.

July 19-20, 2010: Chinese Minister of Science and Technology Wan Gang attends the Clean Energy Ministerial Forum in Washington and meets Secretary of Commerce Gary Locke, White House Science and Technology adviser John Holdren, and other US officials.

July 21, 2010: In response to widespread piracy in China, US lawmakers petition President Obama's chief intellectual property enforcement official Victoria Espinel to press China for greater protection of intellectual property.

July 21, 2010: Testifying to Congress, US Federal Reserve Chairman Ben Bernanke states that China's undervalued currency helps to subsidize China's exports, but he cautions that Congressional action is not the preferable way to get China to act.

July 21, 2010: In response to planned US-ROK exercises, China's Foreign Ministry spokesman says that China "firmly oppose(s) foreign warships and military aircraft entering the Yellow Sea and other coastal waters of China to engage in activities affecting China's security and interests.

July 23, 2010: At the ASEAN Regional Forum in Hanoi, Secretary of State Hillary Clinton states, "The United States has a national interest in freedom of navigation, open access to Asia's maritime commons and respect for international law in the South China Sea." On the sidelines of the meeting, Clinton meets Foreign Minister Yang Jiechi to discuss bilateral issues.

July 23, 2010: During a trip to New Delhi, Chairman of the Joint Chiefs of Staff Adm. Mike Mullen says China is taking a "much more aggressive approach" in its policy toward international waters near its coastline and adds that he has gone from being "curious" to being "concerned" about China's military buildup and its intentions.

July 25, 2010: In a press release posted on the Foreign Ministry's website, Foreign Minister Yang Jiechi cautions other countries not to "internationalize" South China Sea territorial disputes between China and its neighbors.

July 26, 2010: China's Commerce Minister Chen Deming writes in a *Financial Times* op-ed article that China is open to foreign business and "will open wider in the future."

July 27, 2010: Deputy Secretary of State James Steinberg gives remarks on China at the Nixon Center in Washington DC.

July 28, 2010: In its first report on China in four years, the International Monetary Fund labels China's currency as "undervalued."

July 29, 2010: Chinese defense officials announce that naval forces conducted drills in the South China Sea on July 26.

July 30, 2010: Chinese Defense Ministry spokesman Geng Yansheng states that China has "indisputable sovereignty" over islands in the South China Sea and the nearby waters.

Aug. 2, 2010: State Department Special Adviser for Nonproliferation and Arms Control Robert Einhorn calls on China to be more cooperative in enforcing UN sanctions against Iran, saying that "means not backfilling, not taking advantage of the responsible restraint of other countries."

Aug. 5, 2010: Foreign Ministry spokeswoman Jiang Yu states that "China's trade with Iran is a normal business exchange, which will not harm the interests of other countries and the international community."

Aug. 6, 2010: Foreign Ministry spokeswoman Jiang Yu urges the US and the ROK to respect China's position and concern more seriously regarding military drills in the Yellow Sea.

Aug. 9, 2010: Vice Premier Wang Qishan meets Sen. Evan Bayh (D-IN) in Beijing.

Aug. 9, 2010: Jury in Hawaii finds US engineer Noshir Gawadia guilty of selling military secrets to China.

Aug. 10, 2010: Secretary Clinton expresses US condolences for the loss of life and damage caused by the mudslide in China.

Aug. 11, 2010: US Ambassador to China Jon Huntsman announces that the US has contributed \$50,000 for relief work in the mudslide devastated area in China's Gansu province.

Aug. 16, 2010: China passes Japan to become the world's second-largest economy.

Aug. 16, 2010: The Pentagon submits its annual report to Congress assessing Chinese military capabilities.

Aug. 18, 2010: Defense Ministry spokesman Geng Yansheng voices China's firm opposition to the Pentagon's report stating that the report "ignores objective facts and makes accusations about China's normal national defense and military building."

Aug. 18, 2010: Assistant Secretary of State for Western Hemisphere Affairs Arturo Valenzuela visits Beijing for the fourth round of talks on Latin America under the umbrella of the US-China Strategic and Economic Dialogue. He states that China's growing presence in Latin America does not pose a threat to the US.

Aug. 18, 2010: After meeting the head of the Philippine military, US Pacific Command Commander Adm. Robert Willard says that Chinese assertiveness in the South China Sea is causing concern in the region and the US will work to maintain security and protect important trade routes.

Aug. 24, 2010: The US announces it will sell “defense services, technical data, and defense articles” for Taiwan’s air defense and radar equipment its Indigenous Defense Fighter jets.

Aug. 25, 2010: Vice Foreign Minister Cui Tiankai arrives in Washington to attend the China-US vice foreign ministerial political consultations.

Aug. 27, 2010: Foreign Ministry spokeswoman Jiang Yu says: “China resolutely opposes the United States selling weapons and relevant technical assistance to Taiwan,” and calls on the US to “put an end to arms sales to Taiwan and military ties with Taiwan to avoid causing new harm” to bilateral relations.

Aug. 29, 2010: China announces that the Beihai Fleet of the PLA Navy will conduct live-ammunition exercises from Sept. 1-4, in the sea off the southeast coast of Qingdao city.

Aug. 31, 2010: A preliminary determination by the US Commerce Department’s Import Administration finds that \$514 million of aluminum products imported from China in 2009 were unfairly subsidized.

Sept. 1, 2010: China’s Representative to the Six-Party Talks, Wu Dawei, holds talks with US officials in Washington.

Sept. 1, 2010: China’s Ministry of Commerce expresses “serious concern” about US proposal to strengthen trade remedy practices, which it says will undermine order in international trade.

Sept. 6, 2010: National Economic Council Director Lawrence Summers and Deputy National Security Adviser Thomas Donilon begin a 3-day visit in Beijing.

Sept. 7, 2010: China calls on Iran to fully cooperate with the International Atomic Energy Agency (IAEA) to assure the international community that the country’s nuclear program is peaceful in nature.

Sept. 9, 2010: Commerce Department reports that the US trade deficit with China dropped slightly to \$25.9 billion, but remained the largest of all US trading partners.

Sept. 10, 2010: The United Steelworkers union accuses China of using unfair trade practices to create jobs in its clean energy technology sector and get a permanent edge on US manufacturers.

Sept. 11, 2010: Deputy Secretary of State James Steinberg delivers a speech on the US and China at an International Institute for Strategic Studies meeting in Geneva, Switzerland.

Sept. 13, 2010: Prime Minister Wen Jiabao, at a World Economic Forum meeting in Tianjin, China, states that China's trade surplus is "not intentional."

Sept. 13, 2010: In an interview with the *Wall Street Journal*, Treasury Secretary Timothy Geithner says China is doing "very, very little" to allow the *yuan* to appreciate.

Sept. 15, 2010: Commerce Ministry spokesman Yao Jian refutes assertions by members of the US congress that the undervalued *yuan* is responsible for China's trade surplus with the US.

Sept. 16, 2010: Treasury Secretary Geithner testifies before the Senate Banking, Housing, and Urban Affairs and House Ways and Means Committees on China's currency policies and the US-China economic relationship.

Sept. 16, 2010: Stephen Bosworth, US special envoy for North Korea, visits China to discuss how to resume the six-party negotiations on the denuclearization on the Korean peninsula.

Sept. 20, 2010: Rear Adm. Richard Landolt, commander of the US Navy 7th Fleet Amphibious Force, says China is making moves threatening the ability of ships of other countries to move freely in the South China Sea.

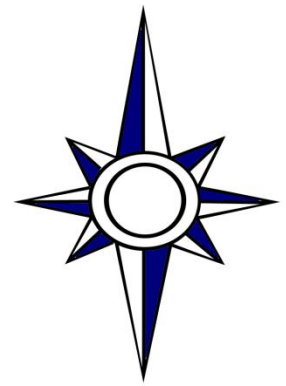
Sept. 23, 2010: President Obama meets Premier Wen Jiabao on the sidelines of the UN General Assembly and presses for China to immediately revalue its currency.

Sept. 24, 2010: US House Ways and Means Committee approves legislation that would allow companies to petition for duties on Chinese imports to compensate for an undervalued currency.

Sept. 26, 2010: The Ministry of Commerce announces China will impose import duties on US chicken products it says are being unfairly dumped on the Chinese market.

Sept. 27-28, 2010: Michael Schiffer, deputy assistant secretary of defense for East Asia, visits Beijing in an effort to lay the groundwork for renewed US-China military exchanges.

Sept. 28-30, 2010: Department of State Special Adviser on Nonproliferation and Arms Control Robert Einhorn visits China.



US-Korea Relations:
Smooth Sailing in the Wake of *Cheonan*

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The sinking of the *Cheonan* remained the predominant issue in the US-ROK relationship as both countries spent the quarter coordinating and undertaking punitive measures against North Korea for its alleged attack on the ship. The UN Security Council adopted a Presidential Statement condemning the attack but did not directly blame North Korea. The US and the ROK held their first “Two-plus-Two” meeting in Seoul where Secretary of State Hillary Clinton and Secretary of Defense Robert Gates met Foreign Minister Yu Myung-hwan and Minister of National Defense Kim Tae-young. While countries reopened their dialogue channels in the hope of resuming the Six-Party Talks, there remain many challenges and uncertainties that make the future direction of the Talks unclear. Several issues remain to be resolved on the KORUS FTA while negotiators are expected to hold a ministerial meeting soon to strike a deal. The Chicago Council on Global Affairs released a report on US attitudes toward South Korea that highlighted public support for trade agreements, including the KORUS FTA, is lukewarm. Among those who viewed fair trade as critical for US interests, support for KORUS was much stronger.

***Cheonan* round 1: UN Presidential Statement**

Tension persisted from the beginning of this quarter as countries tried to reach agreement on the UN Security Council measure over the sinking of the *Cheonan*. While tireless wrangling and unyielding negotiations between the US and China continued over the language of the Presidential Statement to be issued, North Korea threatened to start a “death-defying war” if the statement condemned North Korea for the sinking of the *Cheonan*. On July 9, the UN adopted a unanimous Presidential Statement where it formally condemned the “attack” on the *Cheonan* without directly blaming North Korea. Sin Son-ho, North Korea’s permanent representative to the UN, called the statement a “great diplomatic victory” for North Korea, and South Korea was widely divided over whether the statement adequately condemned the North, with some people expressing disappointment with the outcome. The statement was well received by the US, and *The Wall Street Journal* called it “a late-hour linguistic, if not diplomatic, victory for the United States.” US Ambassador to the UN Susan Rice stated that although North Korea was not explicitly criticized, the statement’s message to North Korea was “unmistakable” and emphasized that the language was not “neutral.” The White House also stressed that the statement represented an “endorsement” of the results of the South Korea-led Joint Investigative Group which concluded that North Korea was responsible for the sinking of the South Korean warship. (For more details on the Joint Investigate Group report, please see *Comparative Connections* Vol. 12, No.2 at http://csis.org/files/publication/1002qus_korea.pdf). Disagreements lingered over the interpretation of the Security Council’s presidential statement, but its declaration helped the US and South Korea move forward and pursue independent actions.

***Cheonan* round 2: military exercise and new sanctions on North Korea**

The Security Council's response cleared the way for both allies to take a series of strong measures against the North. On July 20, US Secretary of Defense Robert Gates and South Korea's National Defense Minister Kim Tae-young met in Seoul and announced that the two countries would conduct naval and air exercises in the East Sea for four days from July 25. To send a strong message of deterrence to North Korea, the first joint military exercises involved a US aircraft carrier, the *USS George Washington*, as well as 20 other ships and submarines, 200 aircraft, and 8,000 military personnel from both countries. Throughout the quarter, the US and South Korea conducted two more rounds of joint naval exercises, one in the southern part of the Korean Peninsula and the other in the Yellow Sea.

Another measure taken against the North in response to the *Cheonan*'s sinking was a new package of US financial sanctions that were announced by Secretary of State Hillary Clinton immediately after the inaugural US-ROK "Two-plus-Two" meeting in Seoul. In early August, Robert Einhorn, special advisor for nonproliferation and arms control, and Daniel Glaser, the Treasury deputy assistant secretary for terrorist financing and financial crimes, visited Seoul to discuss these new sanctions with senior ROK government officials. At the end of August, President Barack Obama signed a new executive order authorizing expanded North Korea sanctions, targeting the country's illicit activities such as arms sales, money laundering, narcotics trafficking, and the procurement of luxury goods. The Treasury and State Departments also blacklisted additional entities and individuals found to be engaged in the weapons of mass destruction proliferation.

'2+2' and Sanctions on Iran

There is general consensus among policymakers in Seoul and Washington that the US-ROK alliance is in the best shape it has been in recent years. The *Cheonan*'s sinking brought together two already close allies to become united against North Korea and stage a "show of force." The first "Two-plus-Two" meeting held in Seoul between US Secretaries Clinton and Robert Gates and ROK Ministers Yu Myung-hwan and Kim Tae-young exemplified an "upgrade" of the US-ROK alliance from a traditional military alliance forged in the wake of the Cold War to a more comprehensive one. In a joint statement, Clinton said that the alliance "has evolved into a strong, successful and enduring alliance" and announced the decision to complete Strategic Alliance 2015 by the next Security Consultative Meeting.

The strength of the US-ROK alliance was also put to the test as South Korea came under US pressure to join its global nonproliferation campaign against Iran and impose independent sanctions on the country. During his visit to Seoul with Robert Einhorn, Deputy Assistant Secretary of the Treasury Daniel Glaser strongly urged the South Korean government to make a decision, calling the South Korean participation "absolutely vital." Pressures mounted on Seoul particularly after Japan adopted sanctions on Iran. The situation presented a dilemma for Seoul as Iran is Korea's third-largest trading partner in the Middle East with the annual bilateral trade amounting to \$10 billion. More importantly, South's heavy reliance on Iran for oil left many Koreans concerned about a potential backlash from Tehran. Internal splits within the ROK

government delayed Seoul's response to US entreaties. While the Foreign Ministry favored sanctioning Iran, the economic ministries were more cautious, partly because they remembered that sanctions by the ROK against Tehran during the George W. Bush administration resulted in immediate retaliation against South Korean businesses operating in the country.

Despite rumors that Seoul's reluctance made Washington uncomfortable and even briefly strained their alliance, South Korea's later announcement of its sanctions on Iran reaffirmed the resilience of the alliance and eased the anxiety of alliance managers. The ROK government blacklisted 102 Iranian firms and 24 individuals and suspended, albeit temporarily, the Seoul branch of Bank Mellat, which the US accused of conducting financial transactions related to Iran's nuclear development activities. Some experts say the centrality of the US-ROK alliance and cooperation, especially in the aftermath of the *Cheonan* to coordinate their response to North Korea's provocative behavior, prevailed over South's economic interests with Iran. We believe, however, that the core basis for Seoul's agreement on the Iran sanctions stemmed from proliferation concerns that overrode business interests. The ROK could not possibly have pressed for the international community to implement counterproliferation sanctions against the DPRK and then abstain from pursuing similar policy objectives regarding Iran.

Six-Party Talks and exit strategies

There was no agreement reached among countries to resume the Six-Party Talks, despite a flurry of shuttle diplomacy during the quarter. Starting with Chinese chief Nuclear Envoy Wu Dawei's visit to North Korea in mid-August, China took the first step to start the conversation about the resumption of the Talks. Wu traveled to Seoul on Aug. 26-28 to convey the North's expressed hopes of returning to the negotiation table and discussed ways to resume the Talks. A week later, South Korea's Chief Nuclear Envoy Wi Sung-lac and his Japanese counterpart, Akitaka Saiki, each flew to Washington and met US government officials to exchange views on the issues. Then, US Special Representative for North Korea Policy Stephen Bosworth and Special Envoy for the Six-Party Talks Sung Kim took a brief East Asia tour to South Korea, Japan, and China. Reopened dialogue channels and a series of active consultations and meetings among the representatives of the Six-Party Talks triggered widespread speculation that the Talks could be resumed soon. After his meeting with Korean counterparts, Stephen Bosworth also expressed his optimism that "at some point in the not too distant future, we can be back engaged." However, he also noted that the US was not interested in talking "just for the sake of talking" and urged North Korea to show its sincerity in denuclearization through meaningful steps.

Given that the US-ROK policy agenda toward North Korea remains in the shadow of the *Cheonan*, a key precondition for the resumption of the Six-Party Talks appears to be reengagement by the two Koreas. After the US and South Korea conducted joint military exercises and ratcheted up new sanctions on North Korea, questions have emerged in both countries as to what are the next steps and when and how they are going to move beyond the *Cheonan* incident. President Obama understands the gravity of the *Cheonan* incident and has made fairly clear through National Security Council and State Department channels that the US is not interested in a return to talks until the *Cheonan* issue is resolved to the ROK's satisfaction. Should the North acknowledge the death of the 46 South Korean seamen, a possible next step might be unofficial engagement among the US, ROK, and DPRK to gauge if the North is serious

about returning to talks to discuss implementation of the 2005 and 2007 denuclearization agreements. Formal resumption of talks might then proceed on this basis. The Sept. 28 DPRK Workers' Party Conference anointed Kim Jong-il's youngest son, Kim Jong-un, as the successor to his father, thus creating a new variable whose impact on the country's nuclear policy is yet to be known. But the mere news of a leadership transition is not likely to change US policy since this policy is based not on leadership change, but, as Obama officials have often stated, on behavior change by Pyongyang regarding nuclear weapons and conventional provocations.

Former US President Jimmy Carter's visit to North Korea

Former President Jimmy Carter visited North Korea this quarter on a mission to release Aijalon Mahli Gomes, an English teacher and human rights activist from Boston, who had been detained in North Korea since this past January for his illegal entry to the country. The State Department had been laboring along with the Swedish embassy in Pyongyang to secure his release for months. In July, the North Korean media reported that Gomes attempted suicide, and a few weeks later, a US consular official and two doctors were allowed to visit him to assess his condition. They immediately called for his release on humanitarian grounds, and the State Department and President Obama continuously expressed deep concern over his health. In the beginning of August, however, Philip Crowley, the State Department spokesman, said that Washington had no immediate plans to send a high-ranking envoy to North Korea to negotiate Gomes's release. On Aug. 25, Carter flew to North Korea on what the State Department describes as a "private humanitarian mission" in the hopes of bringing Gomes back to the US.

The Obama administration emphasized that Carter's trip was a purely private visit to North Korea and was not to be associated with official US diplomatic missions or negotiations. North Korea had made it clear that it wanted a high-ranking US official to personally retrieve Gomes, but the US could not be seen making concessions to North Korea during a period of heightened tensions on the peninsula. Carter's was a compromise: his status as a former president satisfied North Korea, and he was not a current US official, meaning his visit was not official US diplomacy.

The US government has used former presidents to negotiate the release of US citizens from North Korea. Former President Bill Clinton visited North Korea in August 2009 to retrieve two US journalists, Laura Ling and Euna Lee, who were arrested for illegal entry into the country. And Jimmy Carter visited North Korea once before as a private citizen in 1994, when he convinced Kim Il Sung to freeze North Korea's nuclear program in exchange for reopening channels of dialogue with the US, eventually leading to the 1994 US-DPRK Agreed Framework. Unlike Clinton who met with Kim Jong-il during his visit, however, Carter did not have a chance to meet the North Korean leader as Kim traveled to China the day after Carter arrived in the North. There are several possible explanations for this. First, Kim's health is deteriorating. His reported absence from Pyongyang provided the excuse not to meet Carter in his condition. Second, the pardoning of Gomes, which *KCNA* referred to as a "manifestation of [North Korea's] humanitarianism and peace-loving policy," may be attributed to Kim Jong-un to build up his succession credentials. Lastly, schedules simply may not have coincided. Kim's trip to China may have been scheduled in advance and overlapped with Carter's trip to Pyongyang. What should have appeared evident to North Koreans was that the past practice of using high-

level interlocutors to pressure the US no longer worked. Both Carter and Clinton conducted purely humanitarian missions to retrieve detained US citizens in North Korea and performed no other policy function. This sent a clear signal to Pyongyang that they must deal with the Obama administration and advance the denuclearization agreements of the Six-Party Talks.

Tepid public support for the KORUS FTA

The US and South Korea worked hard to achieve breakthroughs in their negotiations over outstanding issues related to KORUS. Although the June directive by President Obama to resolve differences with the ROK by the November G20 deadline rekindled hopes for ratification of the KORUS Free Trade Agreement (FTA), the negotiators reportedly have not yet closed the gap in their disagreements over South Korea's auto and US beef issues.

While both US Trade Representative (USTR) Ron Kirk and his counterpart, ROK Trade Minister Kim Jong-hoon, reiterated their commitments to complete the negotiation before this November, Kim also noted in a recent interview with *JoongAng Daily* on Sept. 16 that the ratification by the current deadline is "not a sure thing" given the speed of the negotiations. A week after his remark, Wendy Cutler, assistant USTR for Japan, Korea, and APEC Affairs, and Choi Seok-young, deputy minister for trade at MOFAT, consulted on the timing and venue of an upcoming ministerial meeting on KORUS. USTR spokeswoman Carol Guthrie confirmed that no date and location for the meeting had been decided yet. Though there may appear to be a lack of progress, the stakes are too high for either side to allow elements of the negotiations to float in the public domain until the very last stages. Because the remaining issues are so intractable and intensely political in both countries, the negotiations will probably come down to the 11th hour with both sides seeking top-level support to break the logjam. This will require personal phone calls by President Obama to key members of Congress with the argument that passage of the agreement is not only related to trade but to the reinforcing of broader US strategic concerns in Asia.

Meanwhile, the Chicago Council on the Global Affairs released a new public opinion survey, which found that the general attitude in the US toward KORUS is "lukewarm," with 44 percent of the survey respondents expressing their support. In a report co-written by this author and Katrin Katz on this survey, it was noted that this tepid support is not particularly different in comparison to other potential US free trade agreements with trading partners: Japan (52 percent), India (45 percent), China (37 percent), and Colombia (35 percent). From this, the report offered an explanation that the current adverse conditions of the US economy, rather than specifics of each trade agreement, may have a bigger impact on general US support for Senate approval of any free trade agreements.

The report also provided two policy implications. First, it is important that the public education on the KORUS FTA should focus on strengthening the public perception of South Korea as a fair-trade country. The cross-tabulation of the survey data across countries discovered that there is a high correlation between the public perception of a country practicing fair trade and support for an FTA with that country. In the case of KORUS, 61 percent of Americans who believe Korea practices fair trade support its ratification. In contrast, 27 percent of those who say Korea practices unfair trade support its ratification. Second, given huge public concerns about jobs and

burgeoning US trade deficits, policymakers on both sides should do a better job of explaining how the ratification of KORUS can boost jobs and economic growth in both countries and create greater trade and investment opportunities. (For more details of the report, visit <http://csis.org/publication/report-us-attitudes-toward-republic-korea>)

Chronology of US-Korea Relations July – September 2010*

July 1, 2010: ROK Foreign Ministry spokesman Kim Young Sun states that South Korea rejects North Korea’s proposal for direct military talks on the *Cheonan* incident.

July 1, 2010: South Korea turns down North Korea’s proposal to hold direct military talks concerning the sinking of the South Korean warship *Cheonan*, stating that this situation should be dealt with under the Korean Armistice Agreement.

July 6, 2010: DPRK refuses to discuss the *Cheonan* incident with the United Nations Command (UNC) Military Armistice Commission.

July 7, 2010: DPRK threatens to start a “death-defying war” if the UN Security Council adopts any statement that blames North Korea for the sinking of the *Cheonan*.

July 8, 2010: China’s Foreign Ministry spokesman Qin Gang says that China “resolutely opposes” joint naval exercises that South Korea and the US plan to conduct in the Yellow Sea.

July 9, 2010: United Nations Security Council releases a Presidential Statement on the sinking of the *Cheonan*, which condemned the attack but does not directly blame North Korea.

July 15, 2010: Military officials from North Korea and UNC hold talks at Panmunjom.

July 21, 2010: The inaugural US-South Korea “two plus two” security talks are held in Seoul with US Secretary of State Hillary Clinton and Defense Secretary Robert Gates, and ROK Foreign Minister Yu Myung-hwan and Defense Minister Kim Tae-young as lead participants.

July 22, 2010: The UNC and North Korea hold a colonel-level meeting in Panmunjom.

July 25-28, 2010: The US and South Korea conduct a large-scale naval exercise codenamed *Invincible Spirit* in the Sea of Japan, that includes the aircraft carrier *USS George Washington* and 20 other ships and submarines, 100 aircraft, and 8,000 personnel from the US and ROK armed services.

July 30, 2010: Military officials from North Korea and the UNC hold their third round of talks since the sinking of the *Cheonan*.

* With assistance from Alex Bartlett, Soo Kook Kim, Jeonhoon Ha, Anna Park, Jenny Jun, and Nick Anderson

Aug. 2, 2010: Special Advisor for Nonproliferation and Arms Control Robert Einhorn and Treasury Deputy Assistant Secretary for Terrorist Financing and Financial Crimes Daniel Glaser visit Seoul to discuss new US sanctions on North Korea.

Aug. 5, 2010: South Korea kicks off one of its largest-ever naval exercises on in the Yellow Sea near the disputed western sea border with North Korea.

Aug. 6, 2010: South Korean government officials express concern that US sanctions on Iran will hurt Korean firms.

Aug. 9, 2010: DPRK fires some 130 rounds of artillery into the Yellow Sea near its border with the South.

Aug. 10, 2010: A fourth round of talks at Panmunjom ends without progress.

Aug. 13, 2010: President Obama issues a statement congratulating the Republic of Korea on the 65th anniversary of its independence from Japan.

Aug. 16-26, 2010: South Korea and the US conduct the annual *Ulchi Freedom Guardian* (UFG) exercise, a computer-based simulation involving about 56,000 ROK and 30,000 US troops.

Aug. 25, 2010: Former President Jimmy Carter arrives in Pyongyang on a mission to release Aijalon Gomes detained in North Korea.

Aug. 26-28, 2010: China's Special Representative on the Korean Peninsula Affairs Wu Dawei visits Seoul to discuss ways to resume the Six-Party Talks.

Aug. 27, 2010: Former President Carter leaves North Korea with US detainee Aijalon Gomes.

Aug. 30, 2010: President Obama signs an executive order mandating new financial sanctions on North Korea.

Sept. 1, 2010: China starts a four-day artillery exercise in waters off Qingdao.

Sept. 3, 2010: ROK top nuclear envoy Wi Sung-lac visits Washington and meets US counterparts to discuss the North Korean issue.

Sept. 7, 2010: North Korea releases the Southern squid boat *Daeseung 55* and its crew of seven on humanitarian grounds. They sail back to Sokcho port.

Sept. 8, 2010: ROK Foreign Ministry spokesman Kim Young-sun announces new sanctions on Iran over its disputed nuclear program. State Department spokesman P.J. Crowley says that the US welcomes the South Korean government's decision to impose sanctions on Iran.

Sept. 12, 2010: US Special Representative for North Korea Policy Stephen Bosworth and US Special Envoy for the Six-Party Talks Sung Kim arrive in Seoul to meet with Shin Kak-soo, the acting foreign minister, and Wi Sung-lac, the ROK's chief nuclear envoy.

Sept. 13, 2010: North Korea's ruling party delays the start of a rare conference of the ruling Workers' Party.

Sept. 13, 2010: US Special Representative for North Korea Policy Stephen Bosworth and Special Envoy for Six-Party Talks Sung Kim meet Japanese diplomat Akitaka Saiki in Tokyo.

Sept. 15, 2010: California Gov. Arnold Schwarzenegger visits Seoul and calls on the US Congress to pass the KORUS FTA.

Sept. 16, 2010: Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell testifies before the Senate Armed Services Committee, making it clear that the State Department won't get ahead of Seoul in engaging North Korea.

Sept. 16, 2010: The Chicago Council on the Global Affairs releases a new report on U.S. attitudes towards the Republic of Korea.

Sept. 16, 2010: US Special Representative for North Korea Policy Stephen Bosworth visits Seoul and meets with his counterparts.

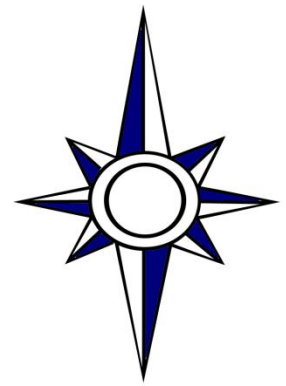
Sept. 22, 2010: White House spokesman Robert Gibbs says that North Korea will continue to face strong punitive sanctions unless it abides by its commitment to denuclearize.

Sept. 27, 2010: South Korea and the US launch joint anti-submarine military exercises in the Yellow Sea.

Sept. 27, 2010: Kim Jong-un and Kim Kyong-hui are promoted to the rank of general in the Korean People's Army.

Sept. 28, 2010: North Korea holds the Workers' Party of Korea Conference.

Sept. 28, 2010: Kim Jong-un is named Vice Chairman of the Central Military Commission of the Korean Workers' Party.



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**US-Southeast Asia Relations:
Growing Enmeshment in Regional Affairs**

The United States significantly raised its political profile in Southeast Asia this quarter, inserting itself in South China Sea disputes, announcing its plan to join the East Asia Summit, convening the second US-ASEAN summit, and creating an ambitious agenda for participation in a variety of Southeast Asia programs. On the South China Sea issue, Secretary of State Clinton proposed multilateral discussions under ASEAN auspices – an idea that did not appear, however, in the ASEAN-US summit communiqué in late September. The US inaugurated naval exercises with Vietnam in early August, coinciding with the visit of the aircraft carrier *USS George Washington*. Washington is considering new financial sanctions against Burma, recognizing that more engagement with the military regime has not yielded the expected results. The presence of US military trainers in the southern Philippines continues to rile leftist and nationalist legislators. As a sign of growing warmth in US-Malaysian relations, Kuala Lumpur is sending a small contingent of medical personnel to Afghanistan. The Indonesian-US Comprehensive Partnership was launched in Washington in September, signifying Jakarta’s special importance to the US. Washington also restored military-to-military relations with *Kopassus*, the Indonesian Special Forces unit that has been accused of egregious human rights violations in Timor, Papua, and Aceh.

Secretary Clinton asserts US interests in the South China Sea

At the late July meeting of the ASEAN Regional Forum (ARF) in Hanoi, Secretary of State Hillary Clinton stepped into the tangled dispute between China and several of its Southeast Asian neighbors over a string of strategically located islets in the South China Sea. Working around intense Chinese lobbying to keep the topic off the ARF agenda, Clinton – cooperating with Vietnam and some other Spratly Islands claimants – launched an appeal for “a collaborative diplomatic process by all claimants for resolving the serious territorial disputes without coercion.” The ground work for the US initiative was laid through visits to the region by top State Department officials, including Assistant Secretary for East Asian and Pacific Affairs Kurt Campbell and Undersecretary of State William Burns. Clinton reiterated the well-known US position that Washington remained neutral with respect to the several nations’ claims to the Spratlys. (China, Taiwan, and Vietnam claim all the islands, while the Philippines, Malaysia, and Brunei assert more limited ownership.) She also noted – as the US had in the past – that Washington was committed to preserving unimpeded maritime passage through waters around the Spratly and Paracel Islands. What is new is Clinton’s offer to facilitate multilateral talks on the islands’ future through ASEAN. Although ASEAN has been involved on the margins of the South China Sea islands disputes – in 1995 when China’s occupation of Mischief Reef was first discovered and in 2002 by promoting a Declaration of Conduct on peaceful resolution of the

disputes – ASEAN had never offered to mediate. Yet, Clinton’s proposal undoubtedly was preceded by discussions with ASEAN member countries. Of the 27 countries attending the ARF meeting, 12 endorsed the US proposal for creating a dispute settlement mechanism.

China may well have been blindsided by the coordinated US effort that probably began after senior Chinese officials in March added the South China Sea to their country’s “core interests” toward which China would brook no interference. Vietnam, Philippine, and Malaysian officials have voiced their concerns to the US about Beijing’s growing assertiveness in the South China Sea, and Hanoi has particularly been seeking to internationalize settlement of the dispute. By contrast, Beijing has insisted that negotiations must be strictly bilateral. US Pacific Command (PACOM) Commander Adm. Robert Willard in a July 19 interview *with Defense News* stated that Chinese forces have confronted Indonesia, Malaysia, Vietnam, and the Philippines in these contested areas. China’s naval buildup has permitted Beijing to increase its military presence in the region where it has escorted Chinese fishing trawlers. Southeast Asian states are also boosting their naval forces with Vietnam, Singapore, and Malaysia acquiring submarines. Thus, the potential for South China Sea skirmishes seems to be increasing.

In addition to freedom of navigation and exploration of the South China Sea seabed for minerals and fossil fuels, US interests in these waters include intelligence gathering to monitor submarine movements from the People’s Liberation Army (PLA) Navy’s submarine base near Sanya on Hainan Island as well as mapping the South China Sea floor that would make detection of Chinese submarines easier. The US Navy deploys the oceanographic research vessel *Impeccable* through these seas towing sonar gear to listen for Chinese submarines and to map the sea bottom – both activities considered legal according to the US interpretation of the 1982 UN Convention on the Law of the Sea. (China views the treaty differently, insisting that its 200 nautical mile Exclusive Economic Zone is equivalent to national waters and thus prohibits activities by other countries’ military ships.)

Since the ARF meeting, ASEAN states have remained publicly silent on Clinton’s proposal, although officials from these countries are reported to quietly support Washington’s gambit. There was one curious dissent from the Philippines on Aug. 9, when Philippine Foreign Secretary Alberto Romulo stated that the ASEAN states did not need US help in solving the South China Sea disputes. Nevertheless, diplomats in the Philippines were subsequently given private assurances that Manila welcomes views from all stakeholders, including those offered by Clinton. Later, at the ASEAN-US meeting in New York, Philippine President Benigno Aquino made it even clearer that the Philippines saw resolution of the South China Sea issue as a “collaborative diplomatic process” and strongly supported drafting a formal code of conduct.

Indonesia, though possessing no claim to the Spratly Islands, stated at the ARF meeting that no country should dominate the disputed area in the South China Sea. And, on July 8, Indonesia’s UN delegation sent a diplomatic note that for the first time openly challenged China’s claim to the entire South China Sea. Indonesia may be concerned that China’s claims to the Natuna gas fields could lead Beijing to dispute Indonesia’s ownership.

In a mid-August visit to the Philippines, Adm. Willard asserted that the US would maintain a South China Sea presence for many years to insure free navigation through its waters – a

traditional US strategic goal in the Pacific. Responding to Willard, Philippine Armed Forces Chief of Staff Gen. Ricardo Davide, Jr. stated that Philippine naval strength was negligible and, therefore, unable to defend the country's Spratly claims. Gen. Davide noted that unlike Vietnam and Malaysia, which are purchasing submarines to back their claims, Manila cannot defend the islands it has designated part of its national territory.

With Secretary Clinton's intervention at the July ARF gathering, the US has urged ASEAN to seize the diplomatic initiative for resolving the South China Sea disputes in direct opposition to China's insistence that ASEAN as an association has no standing in the debate and that the four Southeast Asian claimants should not consult together prior to ASEAN-China meetings on the Declaration of Conduct. The US initiative can be seen as part of a larger engagement policy that is updating relations with official allies the Philippines and Thailand, strengthening bonds with partners like Singapore, Indonesia, Malaysia, and Vietnam and even forging new ties with states Washington had shunned such as Cambodia, Laos, and to a lesser extent, Burma. Following its signature on ASEAN's Treaty of Amity and Cooperation in 2009 – a prerequisite for membership in the East Asia Summit (EAS) – Washington has established the Lower Mekong Initiative to assist Vietnam, Laos, and Thailand on a range of environmental, social, and infrastructure issues. The US has also pledged to send a permanent representative to the ASEAN secretariat in Jakarta. Washington restored full military relations with Indonesia, opened the *annual Cobra Gold* exercises to Malaysia, and has begun security training with Cambodia. The US is also joining the EAS, in which Washington had previously displayed little interest.

US promotes defense ties with Vietnam but continues human rights criticism

The US inaugurated joint military activity with Vietnam on Aug. 8 as part of the commemoration of the 15th anniversary of normalized ties. The nuclear-powered aircraft carrier *USS George Washington* visited off the coast of Da Nang and the destroyer *USS John McCain* making a port call and conducting the first-ever joint naval exercises that included search and rescue, damage control, maintenance, emergency repair, and fire-control operations. During the visit, Vietnam's Foreign Ministry announced that Hanoi has begun negotiations with the US on a nuclear cooperation agreement.

Political and economic relations between the two countries have been on the upswing for some time. From a low of \$600 million in 2000 when Hanoi and Washington signed a bilateral trade agreement, trade jumped to \$15 billion in 2009. Washington has also supported Vietnam's bid to join the World Trade Organization, and despite the current global economic crisis, remains one of the country's largest foreign investors. Defense cooperation actually began two decades ago with Vietnam assisting US military forensic specialists' search for MIA remains and has progressed to regular bilateral strategic dialogues covering peacekeeping, humanitarian assistance, disaster relief, nonproliferation, and maritime security, according to State Department official Joseph Yun in an interview with *Vietnam Net* published July 17.

Positive political, economic, and defense developments are tempered, however, by persistent US concerns about human rights. In her July visit to Hanoi, Secretary Clinton stated that the very fact that Vietnam "is on the path to becoming a great nation with an unlimited potential ... is among the reasons we express concern about arrest and conviction of people for peaceful dissent,

attacks on religious groups, and curbs on internet freedom.” Earlier, on July 7, a visiting group of US senators pressed Vietnam to allow free trade unions if it wants to liberalize trade with the US through a proposed Trans-Pacific Partnership (TPP) agreement. Hanoi’s Deputy Prime Minister Pham Gia Khiem responded to these criticisms on July 23 by noting that human rights are rooted in each country’s unique historical circumstances. He went on to say that President Obama had observed that countries should be allowed to choose their own paths and that human rights should not be imposed from outside.

Hanoi remains careful in its public descriptions of closer defense relations with the US. On Aug. 16, Deputy Defense Minister Nguyun Chi Vinh rejected as “wrong information” that Vietnam was forming a tacit alliance with the US or taking sides with one country against another. Rather, Vietnam is developing defense relations with a number of countries and has also entered into defense dialogues with many states, among them the US and China.

US expands presence in regional gatherings

Emerging from the ARF meeting in Hanoi, Indonesian Foreign Minister Marty Natalegawa stated that ASEAN has agreed to invite the US and Russia to join the 16-nation EAS, which holds an annual meeting that coincides with the yearly ASEAN summit. Focusing primarily on trade, the EAS also covers security and environmental issues. The Bush administration displayed little interest in joining the EAS, seeing little additional value in a one-day gathering of a large number of heads of state when the same topics were covered by the ARF and ASEAN-US dialogues. However, China’s more assertive South China Sea actions of the last two years coupled with several Southeast Asian states’ appeals to Washington have led the Obama administration to reconsider Washington’s reticence. Moreover, on July 23, Secretary Clinton stated that President Obama would host an ASEAN-US summit, subsequently set for Sept. 24. Clinton went on to describe both ASEAN and the ARF “as important pieces of a strong, effective architecture for security and prosperity in Asia. So we seek both to support these institutions and work closely with them.” While Obama won’t be able to attend this year’s EAS in October, Clinton would be there, and the president will attend next year. Stressing its future potential, Clinton said that US looks forward “to engaging with the East Asia Summit as it seeks to become a foundational security and political institution in this century.” In another sign of growing US engagement in the region, Clinton noted that US Defense Secretary Robert Gates would join the ASEAN Defense Ministers Plus 8 Meeting (ADMM+8) scheduled for October in Vietnam. Secretary Clinton will be in Hanoi at the same time for the EAS.

Problems with Burma persist

Despite efforts by the Obama administration to reassess relations with Burma, Washington decided Aug. 17 to support the creation of a UN commission of inquiry into crimes against humanity and war crimes in that country, a sign that the US is adopting a tougher policy against a regime long accused of murdering and raping its political foes. The US is also considering tightening financial sanctions against the military junta, though a senior administration official said that any new sanctions are “not aimed at the people of Burma but at its leadership.” Human rights organizations welcomed the news.

At the ASEAN summit in mid-July, several ministers stated that Burma's forthcoming general elections could be credible only if opposition leader Aung San Suu Kyi was released from house arrest. Concern was also expressed at the ASEAN gathering about news reports that Burma had received nuclear and missile technology from North Korea. The junta's possible nuclear ambitions would be at odds with Southeast Asia's nuclear-weapon free zone treaty, to which Burma is a signatory. In August, the Washington-based National Democratic Institute released a report on Burma's upcoming election, branding it "fundamentally undemocratic" and "clearly designed to guarantee a predetermined outcome, and, therefore, does not meet even the very minimum of international standards." The NDI report concluded that "Nothing in the behavior of the regime over the past 20 years has signaled anything other than a commitment to hold power at any cost."

US military role in Philippines remains controversial

The only Southeast Asian country in which US armed forces are regularly stationed is the Philippines. There, a few hundred US Special Forces rotate to the southern region to train the Philippine military in counterinsurgency against the Al Qaeda-affiliated Abu Sayyaf and to engage in civic action such as medical treatment and school construction in local villages. Begun in 1999, these activities are generally welcomed by the local population but are a source of intense criticism by nationalist and leftist legislators and media. US diplomats in the Philippines frequently have to deny that these forces are engaged in combat and restate that their mission is solely to train their Philippine allies. Thus, in mid-July, the new US ambassador, Harry Thomas, and visiting Undersecretary of State Burns insisted that the US troops were in the Philippines only for training and always at Manila's invitation. Both Philippine and US officials say that the US forces' presence is covered by the two countries' Visiting Forces Agreement (VFA). Opponents of the US deployment claim their presence amounts to a mini-occupation and that it violates a provision in the Philippine Constitution prohibiting the permanent deployment of foreign troops in the country.

Appeals to review the VFA are raised frequently in the Philippine Congress, and Secretary of Foreign Affairs Romulo in mid-August stated that he has recommended the Aquino government do so. Romulo is particularly concerned with jurisdictional provisions for US troops that may commit offenses in the Philippines and wants to see a comparison of the Philippine VFA with those of other countries where US forces are deployed. Some Philippine lawmakers, led by Sen. Miriam Defensor Santiago, go further by insisting that the VFA is not valid because it was not ratified by the US Senate. (The US signed the VFA as an executive agreement, while the Philippine Senate ratified it as a treaty.) The Philippine Department of National Defense stated on Aug. 18 that it is satisfied with the VFA as currently written, while visiting Adm. Robert Willard stated that the US regards it as an "important" agreement.

In September, the US announced an increase in financial support to the Philippine National Police from 400 to 600 million pesos for construction of police stations, equipment procurement, and overseas training programs. The US also donated several machine gun-equipped speedboats to the Maritime Police for operation in the western and southern parts of the archipelago. And, in late July, Washington pledged \$18.4 million worth of precision-guided missiles (PGMs) for use against militants in the south. Philippine military officials have also

asked for unmanned drones to hunt down Abu Sayyaf in the region. The PGMs will be the first missiles in the Philippine weapon inventory. The Philippine armed forces are significantly underfunded and ill-equipped. Since 2000, the State Department has provided about \$500 million for military and development aid for the southern Philippines in addition to another \$73 million in counter-terrorism aid.

Concern over corruption in the distribution of aid that characterized previous Philippine governments was addressed by the Aquino administration in early August after the government-based US Millennium Challenge Corporation approved a \$434 million aid package. Washington had withheld support from the Arroyo administration because it was not doing enough to fight corruption. Ambassador Thomas said approval of the pact showed Washington's faith in the new administration and its commitment to fight corruption.

US relations with Malaysia continue upswing, though human rights concerns persist

Emphasizing Malaysia's contribution to the global Muslim community as well as support for US anti-radicalism, in mid-July Kuala Lumpur announced the dispatch of 40 military personnel for humanitarian assistance to Afghanistan. In addition to medical specialists, Malaysian Prime Minister Najib Razak told President Obama last April that Malaysia was prepared to train Afghan police and civilian administrators. The two heads of state agreed that security cooperation would enhance their overall relationship.

On July 21, Sen. James Webb, at a hearing of the Asian Subcommittee of the Senate Foreign Relations Committee, praised economic ties with Malaysia, noting that the US is Malaysia's top export market with two-way trade topping \$44 billion. Nevertheless, Webb also expressed concern over "some disturbing trends in Malaysia, including cases of suppressing religious freedoms, exerting control over the justice system, and quieting dissenting political voices." A dispute to which Webb indirectly alluded is the controversial sodomy trial of Malaysian opposition leader Anwar Ibrahim. With many supporters in Washington over what has been seen in the US as a political prosecution of Prime Minister Najib's rival, Anwar stumbled when he labeled Malaysian government policies as "Zionist" in hopes of discrediting the prime minister. Instead, he succeeded only in dismaying US supporters who have seen Anwar as an advocate of religious pluralism and political moderation.

US-Indonesia relations: action on several fronts

The 2009 Comprehensive Partnership between Indonesia and the US convened the first meeting of its Joint Commission led by Foreign Minister Natalegawa and Secretary of State Clinton in Washington on Sept. 17. An Indonesian Foreign Ministry spokesman stated the commission "is recognition that America places Indonesia in a different position compared to other countries ... that Indonesia is becoming an important partner for the US in the Southeast Asian region." With six working groups, the commission features a US commitment to build Indonesia's capacity to provide world-class university education and within five years to double the number of US and Indonesian students studying in each other's country. (Currently, many more Indonesians are studying in China than in the US.) In late July, US Ambassador Cameron Hume stated that Washington would provide \$150 million to promote Indonesian higher education.

On the security front, the US Department of Defense and Indonesia's Defense Ministry have signed a framework agreement that provides for security dialogue, education, and training, equipment sales, and maritime security cooperation. The Indonesian Air Force is also sending two *C-130* cargo aircraft per year to the US for overhaul and maintenance under a Defense Department grant. But, most significant politically was the July 22 decision to resume military ties with Indonesian Special Forces (*Kopassus*) after a 12-year hiatus. Announced by Secretary Gates in Jakarta, he pointed to "the progress that Indonesia and its military has made in terms of reform and professionalization since the fall of Suharto...." The US is particularly interested in training *Kopassus* in cooperation with US intelligence and counter-insurgency agencies.

Nevertheless, some members of the US Congress oppose the restoration of ties with *Kopassus* until perpetrators of atrocities in East Timor, Aceh, and Papua have been brought to justice. Mindful of these concerns, Secretary Gates insisted that the initial steps in the restoration of relations "do not signal any lessening of the importance we place on human rights and accountability." Indonesian human rights organizations say *Kopassus* continues to perpetrate abuses, especially in Papua, a mineral-rich island with a secessionist movement. Sen. Patrick Leahy of Vermont – the leader of the Congressional opposition to renewed US links to *Kopassus* – was dismayed at the lifting of the ban: "*Kopassus* has a long history of abuses and remains unrepentant. I deeply regret that before starting down the road of reengagement, our country did not obtain and *Kopassus* did not accept the necessary reforms we have long sought."

The Defense Department says the unit, which numbers around 5,000, has reformed and that engagement will help bring about further changes. *Kopassus* deploys overseas for peacekeeping and has long been a source of Indonesia's leadership. Moreover, US officials say that military training is not on the immediate agenda. Rather, engagement will start with staff-to-staff meetings. Additionally, US military education through the International Military Education and Training (IMET) program emphasizes civil-military relations and includes human rights instruction. Still, Washington reserves the right to vet individual *Kopassus* members before they participate in US programs. It is probably not a coincidence that the US-*Kopassus* relationship was restored soon after the commander of *Kopassus*, Maj. Gen. Lodewigh Paulus, suggested that the unit might develop ties with China if the US training ban was not lifted. And, it should be noted that the Defense Department decision is not the end of the issue. A US Congressional vote continues to ban *Kopassus* forces from training in the US, though the ban does not apply to military education.

Detachment 88 – a specially trained Indonesian National Police counterterrorism task force – has been considered one of the country's most effective units, tracking, arresting, and sometimes killing some of the most notorious radical Islamists in the country. Trained and equipped by Australian Federal Police and the US FBI, Detachment 88 is advertised as one of the best Southeast Asian police operations. Nevertheless, over the past three years, the elite unit has been criticized for its propensity to kill insurgents, forgoing potentially valuable intelligence and giving radicals a rallying cry against the government. Detachment 88's increased violence against dissident activists in the Moluccas led to a US ban on training, quietly imposed in 2008 but only recently publicized by the US Embassy in Jakarta. Detachment 88's national commander, Tito Karnarian, tried to distance the unit's central authority from the Molucca

brutalities by claiming in mid-September that the Molucca Detachment 88 was not under his control but rather that of the local police – a somewhat unconvincing denial.

The spiritual leader of the notorious Jemmah Islamiya (JI) – the radical Islamist Al Qaeda-linked group behind the 2002 Bali bombings and subsequent Indonesian explosions – Abu Bakar Bashir, was arrested again as part of an ongoing government crackdown on Islamist militants following the February discovery of a training camp in Aceh. Arrested on Aug. 9 in West Java, Bashir was accused of being involved in a new strain of militant Islam in Indonesia. Bashir is charged with chairing the new organization called the Jamaah Ansharut Tæeihid (JAT). It claims to target not just the US and allied countries but also anyone opposed to the imposition of Islamic law – meaning many high-level Indonesian leaders. The elderly Indonesian cleric is accused of setting up and funding the training camp in Aceh. Unlike earlier arrests in 2002, when Bashir was only charged with spiritual leadership of JI, this time he is accused of direct involvement and funding of the terrorist camp and agreeing to head a new organization called Al Qaeda in Aceh. As in his earlier incarceration, Bashir claims that the US is behind his arrest. Police investigations insist there is evidence showing the Aceh group was planning to attack foreign embassies and hotels to reproduce mayhem on the scale of the 2008 attacks in Mumbai, India. Bashir has refused to be interrogated by Detachment 88 because he labels it a proxy for the US and Israel.

Ongoing concerns about Thai politics

Hoping to mediate the political standoff in Thailand between Prime Minister Abhisit’s Bangkok-centered “Yellow Shirt” supporters and the “Red Shirt” supporters of rural, northern Thai exiled former billionaire Prime Minister Thaksin, Assistant Secretary of State Campbell offered US good offices last May before the Thai government’s violent crackdown on the opposition. (For background, see the July 2010 issue of *Comparative Connections*.) The Thai government declined Campbell’s offer and sent special envoy Kiat Sitheeamorn to Washington to rebuke and urge the Obama administration to refrain from further interference in the conflict. In a mid-July interview with *Asia Times Online*, Kiat stated that although the US has always been ready to extend a “helping hand” when asked, “it is up to us to request, and we have not asked ... [T]here was a lack of understanding of a very complex situation.”

In early July, however, the Abhisit government welcomed the US House of Representatives July 2 resolution backing Abhisit’s national reconciliation roadmap and calling on both sides to end the crisis through peaceful and democratic means. The pro-Abhisit resolution was passed despite the dispatch of ex-Prime Minister Thaksin’s legal advisor, Noppadon Pattana, to Washington to meet with some Congressmen and explain the “Red Shirt” position. In mid-July, the US Embassy in Bangkok refused to receive a “Red Shirt” letter to the US House of Representatives asking it to rescind its pro-government resolution.

Thai officials have also criticized efforts by US Ambassador Eric John to mediate, leading to reports of a State Department probe into the envoy’s tenure in Thailand. Influential US expatriates in the country circulated a petition, according to the July 20 *Asia Times Online*, opposing John’s nomination as the next US ambassador to Burma, reasoning that his interventions in Thai politics have been “indiscreet, ill-advised and counter-productive” and that

he lacks the “cultural sensitivity or interpersonal skills for negotiations in Southeast Asia.” Also, in mid-July, Undersecretary Burns began an extensive Southeast Asia trip in Thailand for a “strategic dialogue” with Thai officials. It is uncertain whether he raised the domestic Thai political situation in his discussions.

Pressure to extradite Russian arms dealer Victor Bout

For the past decade, Washington has been trying to bring a notorious Russian arms dealer, Victor Bout, to trial in the US for gun running and support for terrorism. Bout, who inspired the Nicholas Cage film *Lord of War*, is suspected of trafficking weapons to rogue regimes, rebels, and insurgents across the globe. Caught in a March 2008 sting operation in Bangkok arranged by US Drug Enforcement Agency operatives posing as FARC revolutionaries from Colombia, Bout has been incarcerated in Thailand, fighting extradition to the US. In mid-August, the Obama administration summoned the Thai ambassador to “emphasize that this is of the highest priority to the United States.” On the other side, Russia had been pressuring Thailand not to extradite Mr. Bout. On Aug. 20, a Thai Appeals Court overturned a lower court decision to keep Bout in Thailand and granted Washington’s extradition request. The US Justice Department applauded the Appeals Court decision and dispatched an aircraft to retrieve the accused arms dealer and take him to the US where he would face a host of charges, including abetting terrorism. The Russians are particularly concerned that Bout may be willing to plea bargain his projected sentence in the US in exchange for information on the murky intersection of Russian military intelligence and organized crime. However, in late September, Bout remained in a Thai jail as Thai courts work their way through fresh charges against him for money laundering. These new allegations were lodged by the US to keep Bout locked up before the Court of Appeals granted extradition. However, now the new charges must be examined before extradition can proceed, and both the US and Russian governments are pressing the Thai courts to rule in their favor.

Human rights concerns bedevil US-Cambodian military relations

The largest multinational military exercise in the Asia-Pacific this year, *Angkor Sentinel*, was held in Cambodia in mid-July. Co-sponsored by the US Pacific Command and jointly run by the Departments of State and Defense, its purpose is to train peacekeepers with more than 1,000 personnel from 23 countries participating. The US Defense Department has funded construction of a \$1.8 million training center for the initiative. The Cambodian unit selected to host the event – ACO Tank Command Headquarters in Kompong Speu province – according to US-based Human Rights Watch is, however, notorious for human rights abuses, forcing farmers off their land and destroying their crops and homes in support of business interests connected to Cambodian government elites. In a statement issued on July 8 protesting the *Angkor Sentinel* exercise, Human Rights Watch stated that the ACO Tank Command and “many military units are little more than guns for hire, not the defenders of the Cambodian people. The US should not be training corrupt and abusive military units for global peacekeeping.” The Human Rights Watch allegations elicited a defensive reaction from Undersecretary Burns on July 18, as the peacekeeping training exercise got under way. Burns stated that US military aid to Cambodia was essential to a “healthy political system” and that “[a]ny military relationship we conduct ... is

consistent with US law ... [W]e vet very carefully participants from Cambodia and other countries.”

Thailand did not attend *Angkor Sentinel* with some Thai military officers expressing dismay that Washington was showing increased strategic interest in a country that has become more of a regional security problem than a partner in light of border disputes with Thailand and Hun Sen’s perceived meddling in Thai domestic politics. With respect to Thai-Cambodian tensions, in a meeting at the UN on Sept. 22, Assistant Secretary Campbell urged Thai Foreign Minister Kasit Piromya to compromise on the border issue and hoped that Thailand would exercise restraint.

Looking ahead: growing US enmeshment

“In for a penny, in for a pound” is an old English expression that could well describe the Obama administration’s recent enmeshment in Southeast Asian regional activities. This past quarter Washington decided to be “in for a pound” by inserting itself in the South China Sea dispute, applying for membership (along with Russia) in the EAS, and holding an ASEAN-US summit on the sidelines of the UN General Assembly. Added to these have been a multilateral military peacekeeping training exercise in Cambodia, joint US-Vietnam naval training exercises, discussions with Hanoi on sharing nuclear fuel, and Washington’s announcement that it will reengage with *Kopassus*, Indonesia’s Special Forces unit.

The two-hour ASEAN-US summit luncheon on Sept. 24 laid out an ambitious policy agenda for Washington that President Obama characterized as “unprecedented cooperation.” Covering economic development aid, public diplomacy, trade, security cooperation, and broadband wireless communication, the agenda was so diverse that the leaders agreed to set priorities, placing education, trade, and forestry at the top of their list for cooperation. The underlying concerns over the South China Sea and Burma’s coming elections, although not emphasized, received attention as well. The concluding joint statement included a veiled reference to the need to maintain peace, maritime security, and the flow of goods and freedom of navigation “in accordance with universally agreed principles of international law” – points stated by Secretary Clinton when raising the South China Sea dispute at the July ARF meeting, though there was no mention of her ARF proposal for multilateral talks, an idea China opposes. On Burma, with which the US has seemed increasingly disillusioned, ASEAN’s preference was honored as the joint statement called for continued US engagement as well as urging the military regime to insure free and fair elections, an increasingly remote prospect.

With its upcoming membership in the EAS and Secretary Gates’ attendance at the ADMM+8, the US will belong to every Asia-Pacific organization it is eligible to join. The Obama administration has decided to raise the US profile in regional political, economic, and security architecture. This will mean more high-level trips to the region as well as the need to craft policy positions on a variety of issues that heretofore have not occupied a significant position on US government agendas. There is, however, one more step Washington should take to solidify its public position in Southeast Asia: appointment of a new resident ambassador to ASEAN now that Scot Marciel has moved on. Southeast Asia appears once more after several years to be a region of importance to the US.

Chronology of US-Southeast Asian Relations

July – September 2010

June 29, 2010: Scot Marciel, currently deputy assistant secretary of state for East Asia and US ambassador to ASEAN, is nominated to be ambassador to Indonesia.

June 30, 2010: US Ambassador to Indonesia Cameron Hume dedicates \$56 million in coastal and shipboard radars, helping Indonesia to create one of the world's largest integrated maritime surveillance systems.

June 30, 2010: US Senate Foreign Relations Committee votes to extend sanctions on Burma for one more year because of the junta's civil rights abuses. The sanctions have been extended annually since the 2003 Burmese Freedom and Democracy Act came into force.

July 1, 2010: US House of Representatives passes a resolution endorsing Thai Prime Minister Abhisit Vejjajiva's 5-point reconciliation roadmap. Thailand's Foreign Ministry welcomes the resolution.

July 2, 2010: Vietnam and the US sign a Memorandum of Understanding to jointly prevent the illegal transport of nuclear and other radioactive materials. The US Department of Energy will provide Hanoi with container scanners for radioactive detection.

July 5-19, 2010: The US and Singapore Navies and the US Coast Guard engage in a Cooperation Afloat Readiness and Training (CARAT) exercise, emphasizing interoperability in anti-air, anti-surface and anti-submarine warfare.

July 12, 2010: Vietnam and the US celebrate 15 years of diplomatic relations in ceremonies in both Hanoi and Washington DC.

July 12-31, 2010: US Pacific Command and the Cambodian military co-host the 2010 Global Peace Operations Initiative to help train peacekeepers. More than 1,000 military personnel from 23 Asia-Pacific countries participate.

July 13, 2010: Laotian Foreign Minister Thonglison Sisoulith visits Washington to meet Secretary of State Hillary Clinton – the first visit by a top Laotian official since the 1975 communist victory in that nation.

July 13, 2010: In Houston, Singapore Prime Minister Lee Hsien Loong states that his country is a full participant in the global process that fights illicit money flows.

July 14, 2010: US Navy Seals and Indonesian frogmen conduct a VIP protection exercise in Surabaya.

July 17-18, 2010: US Undersecretary of State William Burns in Phnom Penh defends US military aid to Cambodia despite domestic abuses attributed to Cambodian military units.

July 17-31, 2010: The US and Indonesian Air Forces hold a joint exercise in Indonesia involving 110 US and 155 Indonesian personnel that emphasizes logistics, intelligence, and parachuting.

July 18-24, 2010: The US Embassy in Phnom Penh and the Cambodian government conduct a weeklong celebration of the 60th anniversary of diplomatic relations.

July 20-21, 2010: Undersecretary Burns visits Manila, affirming support for the new government of President Benigno Aquino III and discusses human rights, combatting human trafficking, anti-corruption, and transparency.

July 22, 2010: Secretary Clinton visits Vietnam to celebrate 15 years of diplomatic relations and criticizes the government for jailing democracy advocates, religious groups, and establishing curbs on networking websites.

July 22, 2010: Secretary Clinton meets foreign ministers of Cambodia, Laos, Thailand, and Vietnam to discuss a framework for the Lower Mekong River Initiative to which Washington has pledged \$187 million for environmental, education, and health programs.

July 23, 2010: Secretary Clinton at the ASEAN Regional Forum meeting in Hanoi proffers a US mediation role for the protracted Spratly and Paracel Islands disputes involving Vietnam, Malaysia, Brunei, the Philippines, Taiwan, and China.

July 24, 2010: An international war crimes court in Phnom Penh convicts the chief prison warden and torturer of the Khmer Rouge period, Kaing Guek Ear – known as Duch – of crimes against humanity and sentences him to 19 years in prison, taking 16 years from a 35-year sentence for time already served.

July 28, 2010: The US Navy hospital ship *Mercy* anchors off Ambon, Indonesia, to provide medical services to the local population.

July 28, 2010: Cambodia's first-ever multinational military exercise led by the US Defense and State Departments, *Angkor Sentinel 10*, ends. Its purpose was peacekeeper training.

Aug. 4-7, 2010: The Pacific Fleet command ship, *USS Blue Ridge*, visits Manila for a four-day goodwill visit.

Aug. 5, 2010: State Department spokesman Phillip Crowley states that the US and Vietnam are discussing the provision of civilian nuclear technology to Vietnam.

Aug. 7, 2010: High-level Vietnamese civilian and military officials are flown to the US nuclear-powered aircraft carrier, *USS George Washington*, steaming 200 miles off Vietnam's east coast – the first such visit.

Aug. 10, 2010: The destroyer *USS John McCain* arrives in Danang for the first joint US-Vietnam naval exercise that focuses on search and rescue and damage control.

Aug. 16, 2010: US Ambassador-designate Scot Marciel arrives in Jakarta.

Aug. 17, 2010: The US and Vietnam hold their first-ever defense talks in Hanoi, described by Deputy Assistant Secretary of Defense Robert Sher as extremely productive and successful.

Aug. 20, 2010: Thailand agrees to extradite Russian arms merchant Victor Bout to the US on arms trafficking charges.

Sept. 4, 2010: *USS George Washington* arrives in Manila for a goodwill visit.

Sept. 9, 2010: Indonesian President Yudhoyono urges President Obama to intervene personally to stop the proposed Koran burning threatened by a Florida pastor to commemorate the 9/11 anniversary. Malaysia also calls on the US to stop the pastor.

Sept. 14, 2010: Paul W. Jones assumes his post as the US ambassador to Malaysia.

Sept. 14, 2010: Vietnam's Ambassador to the US Le Cong Phung states that the two countries are in an excellent period of bilateral relations.

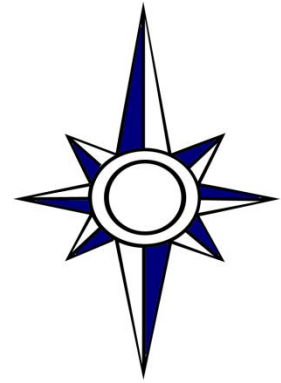
Sept. 17, 2010: Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell asks Thai Foreign Minister Kasit Piromya to seek a compromise with Cambodia over the Preah Vihear temple grounds dispute.

Sept. 17, 2010: Indonesian Foreign Minister Marty Natalegowa and Secretary Clinton hold inaugural meeting in Washington of the two countries' Joint Commission – a follow on to the Comprehensive Partnership signed by Presidents Obama and Yudhoyono in 2009.

Sept. 24, 2010: President Obama convenes a luncheon meeting for this year's ASEAN-US summit on the sidelines of the annual meeting of the UN General Assembly in New York. Topping the agenda are discussions of Burma's forthcoming "elections," the South China Sea disputes, and a variety of social, political, and economic proposals.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



China-Southeast Asia Relations:

US Interventions Complicate China's Advances

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China was on the defensive this quarter, reacting to interventions by the US, including a notable statement by Secretary of State Hillary Clinton at the annual ASEAN Regional Forum (ARF) meeting in Hanoi regarding the South China Sea. The ARF meeting also saw a new US commitment, backed by ASEAN, to participate actively in the East Asian Summit, raising the profile of that regional body over China's preference for Asian-only regional groups. Further complicating China's regional calculus were prominent advances in US relations with Vietnam shown during celebrations of a US-Vietnam anniversary in August that involved exercises with a US aircraft carrier deployed near disputed regions of the South China Sea. Chinese officials and commentary in Chinese media at first countered that the US actions were self-serving and destabilizing. Those attacks meshed with public Chinese attacks on concurrent US military exercises with South Korean forces in reaction to North Korea's sinking of a South Korean warship. Later, some Chinese commentary dissented from the harsh public approach, and by the end of the quarter, the criticism of the US and others over the South China Sea disputes and other issues subsided. For the time being at least, it appeared that China will remain focused on publicly stressing trade and reassuring diplomacy in Southeast Asia, while defending its territorial claims and continuing to build military capabilities.

South China Sea tensions and interventions at the ASEAN Regional Forum (ARF)

Background. The immediate backdrop for the interventions at the ARF meeting in Hanoi in late July included reported complaints from US defense officials, notably Secretary of Defense Robert Gates at the Shangri-La Dialogue in May, voicing US support for free navigation and stability and opposing use of "intimidation" in pursuing territorial claims and interests in the South China Sea. US determination to show military backing for its stance was underlined by Asian media reports of the simultaneous surfacing in late June of three *Ohio*-class submarines armed with hundreds of advanced cruise missiles in ports in Korea, the Philippines, and the Indian Ocean.

China long has relied on a regional approach based on growing trade and other economic contacts and bilateral and multilateral diplomacy designed to reassure Southeast Asian neighbors. As disputes in the South China Sea with regional claimants and the US have gained prominence, China has become more assertive in defending its claims. It notably reconfigured military ships for use in enforcing unilateral fishing bans, deployed strong forces from all three Chinese naval fleets in shows of force, and recently asserted that China's claims to the islands, waters, and resources of South China Sea represented a "core interest" of China that presumably brooks no compromise.

Meanwhile, Indonesia joined other regional claimants in formally disagreeing with China's claims in the South China Sea in a letter to the United Nations on July 8. In the past, Indonesia had tended to avoid direct involvement in the territorial disputes China has with the other claimants to the South China Sea – Vietnam, the Philippines, Malaysia, and Brunei. Jakarta's intervention came after confrontations between Chinese and Indonesian patrol vessels in the South China Sea on May 15 and June 23 that were reported by *Mainichi Shinbun*. In the June incident, an Indonesian patrol boat seized a Chinese boat fishing in what was seen as Indonesia's Exclusive Economic Zone (EEZ). One of the large, armed Chinese military vessels that have been converted to patrol the South China Sea arrived on the scene and demanded the release of the Chinese boat, claiming China did not recognize the area as Indonesia's EEZ. The boat was released but captured again the following morning when an Indonesia Navy ship arrived on the scene. The large Chinese patrol vessel returned and again insisted on the release of the Chinese fishing boat. The Indonesia patrol craft holding the Chinese fishing boat, being vulnerable to possible gunshots from the armed Chinese patrol boat, released the fishing boat.

China's reaction to the ARF interventions on South China Sea. Regarding the ARF meeting in Hanoi on July 23, officials and specialists in the US and Southeast Asia in private consultations in the following weeks had different views as to whether Chinese Foreign Minister Yang Jiechi had been surprised by Secretary Clinton's intervention and those of 11 other participants in the meeting raising concerns over South China Sea disputes. They also differed over whether Yang's private speech to the group in reaction to the interventions reflected China's official response or something less coherent and coordinated.

The Chinese Foreign Ministry took pains to publicize a coherent version of the points Yang made in his private remarks at the ARF on its website two days after the Hanoi meeting. Commentary in *Xinhua* and less authoritative Chinese media then took aim at the US for instigating a dispute between China and ASEAN members over the South China Sea. The Chinese comment reaffirmed territorial claims; denied resort to coercion and intimidation; urged seeking to manage and resolve territorial issues through bilateral negotiations; and warned against alleged US efforts to turn the South China Sea into an issue of international or multilateral concern, warning that such moves would “only make matters worse.”

Chinese commentary endeavored to show support among ASEAN members for China's positions, in opposition to the US intervention. It generally refrained from criticizing other ARF members over South China Sea disputes, with the exception of Vietnam, which was seen in some Chinese commentary as colluding with the US in opposition to China.

Amid its initial public reaction affirming China's claims and criticizing the US, China underlined its determination to protect its interests by deploying in late July advanced warships from its three fleets into the South China Sea for a military exercise observed by the People's Liberation Army (PLA) chief of the General Staff and the commander of the Navy. The exercise was seen abroad as the largest Chinese exercise in the South China Sea; it was shown on Chinese television and on the Ministry of Defense website on July 29. On July 30, the Defense Ministry spokesman firmly reiterated China's claims to the South China Sea in a statement *Xinhua* said was in reply to Secretary Clinton's statement at the ARF meeting in Hanoi regarding US national

interests in the South China Sea. On Aug. 26, Chinese media reported that a small manned submarine had planted the Chinese flag on the sea bed of the South China Sea.

China's Foreign Ministry spokesperson on Sept. 21 warned against "any kind of statement that might be issued by the US and ASEAN over the South China Sea" as a result of President Obama's meeting with ASEAN leaders in New York on Sept. 24. Chinese media reaction to various statements coming from the Obama meeting, some of which mentioned the South China Sea, was critical but low-key.

Reaction to the US in the East Asian Summit. Secretary's Clinton's announcement at the ARF meeting in Hanoi that the US would join the East Asia Summit (EAS) received lower-level Chinese media attention than that devoted to the South China Sea issue. On the one hand, Chinese media said that the Chinese Foreign Ministry "respects the consensus reached among the ASEAN members concerning the enlargement of the summit." At the same time, lengthy commentaries by Chinese academic and other nongovernment specialists said the US move was part of broad-ranging efforts by the Barack Obama administration to buttress the US influence around the rim of China in order to counterbalance and contain China. The efforts allegedly included the use of the *Choenan* incident to strengthen US alliances with South Korea and Japan and to threaten China with exercises in the Yellow Sea, Secretary Clinton's alleged call to internationalize the South China Sea disputes, and President Obama's summit meetings with ASEAN leaders. The Chinese commentary repeatedly warned ASEAN against "big power domination" allegedly sought by the US.

China, Vietnam, and the United States

The quarter began with reports highlighting the positive outcomes of the fourth meeting of the China-Vietnam Steering Committee on Cooperation, co-chaired by Chinese State Councilor Dai Bingguo and Vietnamese Deputy Prime Minister and Foreign Minister Pham Gia Khiem. *Xinhua* on July 2 reported that Dai said that "pragmatic cooperation between the two countries had achieved new progress." On July 7, agreements regarding the land border between China and Vietnam went into effect. Later in the quarter, Vietnam sent a delegation to China to solicit China's participation in the ASEAN-sponsored Defense Ministers Meeting in Hanoi in October.

Disputes between China and Vietnam came into public view when Vietnam, in early August, accused China of violating its sovereignty by carrying out seismic exploration near the Chinese occupied and Vietnamese claimed Paracel Islands. The Chinese Foreign Ministry spokesman promptly rebutted Vietnam's claim.

The start on Aug. 8 of a week-long series of US-Vietnamese naval activities and exercises involving a US aircraft carrier and a guided-missile destroyer with the symbolically significant name *USS John S. McCain* highlighted the recent advances in US security and other cooperation with Vietnam. It also was disclosed that the US was actively pursuing an agreement to share nuclear fuel and technology with Vietnam.

China reacted with commentary in official media that sharply criticized Vietnam and the US. A prominent Chinese security affairs commentator, Adm. Yang Yi, warned in an interview with

Phoenix Television that “Vietnam was playing a dangerous game of pitting two major powers against each other.” Comment in *China Daily* saw Vietnam working to support efforts by Secretary Clinton to “internationalize” the South China Sea issue as it sought US support to bolster its territorial claims against China. Another *China Daily* comment on the US-Vietnam nuclear negotiations saw the US seeking leverage through the deal along a path similar to the US nuclear deal with India earlier in the decade.

China-ASEAN relations – emphasizing the positive

Concurrent with and eventually overshadowing and superseding media commentary emphasizing differences between China and the US in Southeast Asia, Chinese officials and commentary pursued a steady path of optimism and cooperation in various interaction with ASEAN and its members. Foreign Minister Yang announced at the China-ASEAN Ministerial Meeting in Hanoi in late July five areas of progress focused on China-ASEAN trade under the rubric of their free trade agreement and exchanges in security, environmental and other areas. Attending the 9th ASEAN-China Economics Ministers Meeting in Vietnam in August, China’s Minister of Commerce Chen Deming said that in 2010 China had become ASEAN’s leading foreign trading partner and ASEAN had become China’s fourth largest trading partner. Chen said that ASEAN thus far in 2010 enjoyed a trade surplus with China of over \$7 billion. ASEAN trade figures usually record substantial trade deficits with China. The latest ASEAN trade figures, for 2009, show ASEAN running a \$15 billion trade deficit with China for 2009.

Meanwhile, Chinese media highlighted the remark of a visiting vice defense minister from Vietnam on Aug. 26 that “Vietnam will never become military allies with the United States.” The Vietnamese official was on a four-day stay in Beijing to see Chinese military leaders in preparation for the ASEAN Defense Ministers Meeting slated for Hanoi in October. Also, it was reported in Western media that Chinese officials had departed from past practice and allowed officials from the Mekong River Commission to assess the impact of Chinese dams on the river, especially how they affect the flow to down-river countries. The move was seen as designed to reduce criticism of China on the part of the down-river countries and other governments and organizations concerned that China’s dam building is having serious negative impacts on the environment in down-river states.

Chinese defense ties with Australia edged forward in August as the visiting Australian Air Vice Marshall Margaret Staib met in Beijing with China’s Central Military Commission member General Liao Xilong who pledged to strength defense exchanges and cooperation. China and Australia held live-fire military exercises in September. Among the various high-level Chinese defense meetings with counterparts from ASEAN member countries this quarter, Defense Minister Liang Guanglie pledged in a July meeting in Beijing with a Singapore defense leaders to advance the already active military exchanges and exercises between the two countries.

Myanmar leader visits China

Senior Chinese leaders welcomed and received Myanmar’s junta leader Gen. Than Shwe for an official four-day visit in early September. The general’s trip came as Myanmar prepares for its first national elections in nearly two decades in November 2010 and solicits Chinese

endorsement to help deflect criticisms from the international community about the fairness of the elections. The latest report from the International Crisis Group also notes that China is perhaps equally concerned with the political situation in the upcoming months and would like to ensure that any potential shifts in the military leadership in Myanmar following the elections will be able to maintain stability and order in its southwestern front. It is mindful of the violent ethnic clashes in Kohkang, Myanmar last year when up to 30,000 refugees poured into China's Yunnan province. Moreover, with increasing bilateral business, trade, and economic ties, China does not want its investments in Myanmar disrupted. According to *The Economist*, China has already invested more than \$8 billion in Myanmar this year alone, mostly in such ventures as the exploration and development of Myanmar's oil, gas, and hydropower. China's economic interest in Myanmar will continue to grow in the coming years. In early July 2010, the Ministry of Land Resources issued a study putting Myanmar on a special "watch list" for potential acquisition of such urgently needed natural resources as coal, copper, oil and gas. This will pave the way for more state-owned enterprises as well as private entrepreneurs to invest in Myanmar. Given China's concerns with security and stability along the border with Myanmar and its interest in protecting its economic interests in Myanmar, the general's visit to Beijing was not only a symbolic gesture of support and solidarity. Beijing needed clarifications and assurances that the upcoming elections in Myanmar will not upset the status quo.

Taiwan focuses on trade opportunities

Presumably in response to the controversy over the South China Sea at the ASEAN Regional Forum (ARF) meeting in Hanoi, Taiwan's Foreign Ministry issued a press release on July 29 that reiterated Taiwan's claims to the disputed sea and its territories. Taiwan officials had little to say about the greater Obama administration activism and engagement around the rim of China and in regional multilateral groups, and what this might mean for greater US engagement with Taiwan.

Meanwhile, Taiwan officials were actively pursuing trade and trade agreement possibilities with Southeast Asia as a result of the signing of the Economic Cooperation Framework Agreement (ECFA) with China in June. Taiwan's Premier Wu Den-yih on June 30 urged China not to stand in the way of Taiwan's efforts to forge free trade agreements with other countries now that the cross-Strait ECFA was signed. Taiwan's Ministry of Economic Affairs said on July 14 that the first targets of Taiwan's efforts for free trade agreements were Singapore, the Philippines, Thailand, and Malaysia.

On Aug. 5, the Taiwan office in Singapore and the Singapore office in Taipei announced they would "explore the feasibility of a bilateral economic cooperation agreement on a par with a free trade agreement." The reaction from China came from a Taiwan Affairs Office official who said "We believe Singapore will adhere to the one-China policy, and properly handle the economic and trade relations with Taiwan accordingly." Taiwan's Presidential Office said "We would like to praise China for respecting Taiwan's move to pursue an economic cooperation agreement with Singapore under the framework of the World Trade Organization (WTO)."

Hong Kong-Philippine tensions over botched hostage rescue

A 12 hour stand-off on Aug. 23 between a disgruntled former police officer and police in Manila ended with the deaths of eight Hong Kong tourists who were among a larger group of tourists held hostage by the former policeman. Chinese media reported that the hostage taker opened fire on the hostages and was killed by a police sniper. He had earlier released nine hostages, while seven other hostages were rescued, three of them in serious condition.

Hong Kong officials and media were outraged by the handling of the hostage situation, including gross malfeasance by the police and the alleged refusal of Philippine authorities to respond to urgent messages from Hong Kong leaders during and after the standoff. Chinese officials had fewer complaints about access to Philippine officials, but they and their Hong Kong counterparts strongly demanded a full accounting. Philippine President Benigno Aquino III apologized repeatedly and pledged that a full report would be shared with Chinese and Hong Kong officials.

Chinese media reported that Chinese tourists were cancelling trips to or leaving the Philippines on account of the incident. Media reports from Hong Kong focused on the fears of the 200,000 mainly domestic workers from the Philippines residing in the territory.

Outlook

After the stern Chinese reaction and later moderation seen this quarter, there is considerable uncertainty among officials and specialists in Southeast Asia and the US whether China's posture will change again regarding the US in Southeast and other parts of Asia, and concerning Chinese territorial claims and other disputes with Southeast Asian nations. They await the interaction of Chinese and US defense leaders at the ASEAN Defense Ministers Meeting in Hanoi in October for possible indicators of future trends. Whether and how China will try to punish or pressure Vietnam and other Southeast Asian states that have stood against Chinese ambitions also is subject to much speculation but few conclusions. Those concerned will watch closely the course of Chinese policy and practice with each of the concerned governments.

Chronology of China-Southeast Asia Relations

July – September 2010

July 1, 2010: China and Thailand mark the 35th anniversary of diplomatic ties. Senior diplomatic representatives reflect on the expanding ties between the two countries, including more frequent high-level exchanges, increased trade cooperation, and enhanced political trust.

July 2, 2010: Chinese State Councilor Dai Bingguo and Vietnamese Deputy Prime Minister and Foreign Minister Pham Gia Khiem meet in Beijing to co-chair the fourth round of the China-Vietnam Steering Committee on Cooperation. They agree in principle to maintain regional stability and to “properly deal with the maritime territorial issues in the South China Sea.”

July 9, 2010: According to official Chinese media, the Ministry of Land Resources issues a study putting Myanmar on a special “watch list” for potential acquisition of natural resources

such as coal, copper, oil and gas. Other resource-rich neighboring states listed in the study include Mongolia, Vietnam, Kazakhstan, Kyrgyzstan, and Russia's far eastern region of Siberia.

July 13, 2010: Chinese Defense Minister Liang Guanglie meets with Permanent Secretary of the Singaporean Defense Ministry Chiang Chie Foo. They agree to strengthen and advance military-to-military relations. Since 2008, China and Singapore have been holding an annual defense policy dialogue to discuss issues of common concern in the region.

July 14, 2010: China and Vietnam enforce the Protocol on Border Demarcation and Marker Planting, an agreement that was signed in November 2009 after 36 years of bilateral negotiations on land boundary issues. The new agreement provides a more precise boundary division, as well as regulations on the management, protection, exploitation, and use of water from border rivers and streams, and the cross-border travel of people, vehicles, and commodities.

July 19, 2010: China and Malaysia agree to establish an infectious diseases laboratory to conduct joint research to help prevent future pandemic outbreaks.

July 21, 2010: China and Indonesia celebrate the 60th anniversary of diplomatic ties. Bilateral relations reached a new level in 2005 when both leaders agreed to forge a strategic partnership. They agree to continue to deepen and broaden bilateral political, economic, and security ties.

July 22, 2010: Defense Minister Liang Guanglie meets Laotian Deputy Prime Minister and Minister of Defense Douangchay Phichit in Beijing. They discuss the current state of bilateral military-to-military relations and agree to expand cooperation on the security front.

July 22, 2010: Chinese State Councilor and Minister of Public Security Meng Jianzhu meets Singaporean Deputy Prime Minister Wong Kan Seng to discuss increasing cooperation between the Chinese public security officials with the Singapore police forces.

July 29, 2010: Singapore hosts the Fifth Conference of the ASEAN-China People-to-People Friendship Organizations. Future prospects for strengthening China-ASEAN relations in five key sectors, including the economy, culture, education, public health, and sports are discussed.

Aug. 3, 2010: The first China-ASEAN Education Minister Roundtable Conference takes place in Guiyang, Guizhou Province of China. Chinese State Councilor Liu Yandong proposes that China and ASEAN conduct a feasibility study of educational integration within the China-ASEAN Free Trade Area. Liu also announces that China will offer 10,000 government scholarships in the next 10 years for students from ASEAN countries.

Aug. 9, 2010: Chinese Ambassador to Indonesia Zhang Qiyue congratulates the 43rd anniversary of ASEAN and remarks that Beijing will continue to support ASEAN's efforts for regional integration into a single community by 2015.

Aug. 24, 2010: Defense Minister Liang Guanglie says that China will remain engaged and supportive of the upcoming ASEAN Defense Ministers Meeting in Hanoi, Vietnam in October,

particularly as it seeks to work with regional partners to manage nontraditional security challenges and build mutual trust and cooperation.

Aug. 26, 2010: Chinese Minister of Public Security Meng Jianzhu and Cambodian Deputy Prime Minister and Minister of the Interior Sar Kheng agree to increase bilateral cooperation in law enforcement, counterterrorism activities, drug control, and other transnational crimes.

Aug. 29, 2010: Defense Minister Liang Guanglie meets his Thai counterpart Prawit Wongsuwan in Beijing to discuss expanding military-to-military cooperation.

Aug. 30-Sept. 1, 2010: The maritime police units of Hainan, Guangdong, and Guangxi conduct a joint maritime patrol and control operation and a coordinated emergency response exercise in the Beibu Bay. The purpose is to examine the emergency response capabilities of China's maritime police forces, safeguard its maritime rights and interests, and combat illicit activities.

Sept. 9, 2010: Chinese Premier Wen Jiabao meets Myanmar's top leader Gen. Than Shwe in Beijing. They agree to deepen bilateral relations particularly in such large scale projects as oil and gas exploration and development, hydroelectric power, and infrastructure development.

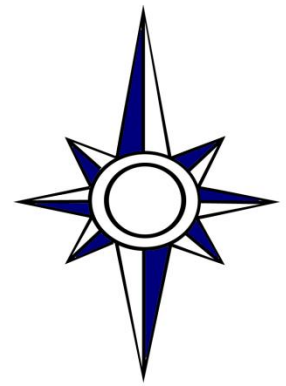
Sept. 12, 2010: Chinese Ambassador to the Philippines Liu Jianchao acknowledges the determination of President Benigno Aquino III to conduct a comprehensive investigation of the Aug. 23 hostage crisis in Manila.

Sept. 16, 2010: China and Vietnam agree to further enhance law enforcement cooperation to curb illegal border crossing, terrorism, counterfeiting, telecommunications fraud, gambling, human and drug-trafficking, and other cross-border crimes.

Sept. 17, 2010: Defense Minister Liang Guanglie meets Cambodian Deputy Prime Minister and Minister of Defense Tea Banh in Beijing. They agree to increase high-level contacts between the two armed forces and expand areas of security cooperation.

Sept. 17, 2010: Chen Bingde, chief of the General Staff of the People's Liberation Army (PLA), meets Songkitti Jaggabatara, head of the Royal Thai Armed Forces. They agree to increase bilateral military personnel training and further exchanges between their military academies.

Sept. 28, 2010: Chinese and Thai Special Forces announce that they will hold the *Strike 2010* joint counterterrorism training in Guilin, Guangxi Zhuang Autonomous Region in October. This will be their third joint counterterrorism activity and each country will send 60 members for the two-week-long training.



**China-Taiwan Relations:
Slow Steady Improvements**

David G. Brown
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This has been a quiet but constructive quarter in cross-Strait relations. Taipei and Beijing were focused on ratifying and beginning implementation of the Economic Cooperation Framework Agreement (ECFA). With Beijing's agreement, Singapore and Taipei announced that they would consider negotiating a WTO-consistent economic cooperation agreement. This important flexibility by Beijing allows President Ma to show that ECFA has opened the door at least slightly to Taiwan's involvement in regional trade liberalization. Despite Washington's approval of small commercial arms sales, Beijing indicated a willingness to resume military exchanges with Washington. Nevertheless, arms sales to Taiwan remain a threat to US-China relations.

ECFA

After signing the ECFA in June, both sides prepared for its implementation, with more potential drama on the Taiwan side. In July and August, Taipei's Legislative Yuan (LY) held two special sessions to consider the agreement. Although the opposition Democratic Progressive Party (DPP) has resorted to heavy-handed tactics to block consideration of other legislation, it chose in this instance to compromise and accept that the ruling Kuomintang (KMT) had the votes to pass the agreement. As polling indicated that ECFA had majority support among the public, the DPP concluded that there was nothing to be gained by attempting to block passage. At the second special session in mid-August, the LY first approved the ECFA and then passed the amendments to the Customs Import Tariff Act needed to implement the agreement. Afterward, DPP Chairperson Tsai Ing-wen said that when the DPP returned to government, the people would be given an opportunity to decide about ECFA.

On Sept. 10, the two sides exchanged the notifications needed to bring ECFA into effect. Over the next two years, the "early harvest" tariff reductions will be implemented. In addition, the two sides are discussing the modalities under which they will establish the Cross-Strait Economic Cooperation Committee charged with carrying out the consultations and negotiations envisaged in the agreement. The ECFA instructs the committee to launch a very ambitious array of negotiations within the next six months. Each side will be represented on the committee by a team of officials, reportedly to be led by a vice minister. This joint committee will be the most senior and important forum for regular contact between officials from the two sides. As ECFA is technically an agreement between the two authorized quasi-official associations – Beijing's Association for Relations Across the Taiwan Straits (ARATS) and Taipei's Straits Exchange Foundation (SEF) – neither side will assert that the committee is an official body. This approach has been crucial to the development of regular direct contacts between officials of the two sides over the past two years.

In the coming months, both sides will also be preparing for the sixth meeting between ARATS President Chen Yunlin and SEF Chairman Chiang Pin-kung in December. Chiang has said that Taipei's goal is to sign investment protection and medical cooperation agreements at that time.

An FTA-like agreement

President Ma Ying-jeou had said in promoting ECFA's benefits that it would open the door for Taiwan to sign agreements resembling free trade agreements (FTAs) with its trade partners and break through the isolation from regional trade liberalization that is harming Taiwan. There was much speculation in Taipei and an equal amount of silence in Beijing about whether this would happen. On Aug. 5, trade officials in Singapore and Taipei announced that the two would start exploratory talks on entering into a "WTO-consistent economic cooperation agreement." That same day the Foreign Ministry in Beijing reiterated Beijing's "consistent" position expressing the hope that relevant countries would abide by the "one-China principle." Beijing's Taiwan Affairs Office (TAO) urged Taiwan to uphold the two sides' common foundation for cross-strait relations. The Presidential Office in Taipei thanked Beijing for not blocking this initiative.

How this well-choreographed launch was arranged remains unclear, but it is unlikely that either Singapore or Taipei would have taken this step without a prior understanding with Beijing. The key was to treat the endeavor strictly as a trade issue with no broader implications. It is also noteworthy that Taipei has not rushed to launch similar talks with other ASEAN trade partners, despite the Presidential Office's statement that it would pursue other agreements. When a Philippine trade official said Manila looked forward to a similar agreement by yearend, Taipei did not move to take up the offer. Taipei appears to have decided wisely to move slowly on this front so as not to arouse suspicions in Beijing. One other thing appears clear – Beijing does not believe the Singapore-Taipei talks should set a precedent for similar talks between Taipei and its major developed country trade partners.

PRC students and degrees

It was nearly a year ago that Education Minister Wu Chung-chi announced plans for Taiwan universities to begin accepting students from China in undergraduate and graduate degree programs, noting that implementing legislation would be needed. For much of the past year, the DPP has been delaying or blocking consideration of the legislation, at times provoking physical confrontations in the LY. To accommodate a variety of opposition and societal concerns, the administration's plans incorporated a variety of restrictions, including for example: a low ceiling of 2,000 for the number of People's Republic of China (PRC) students in Taiwan, a requirement that PRC students not be given any break on tuition, and that the students should be banned from taking jobs in Taiwan.

Finally, in August, the special LY session took up and passed three amendments that would open the door to PRC degree students and also begin recognizing certain degrees earned by Taiwan students at certain PRC universities. After reaching compromises with the KMT, under which some of the restrictions would be put into the legislation rather than implemented by regulations,

the DPP decided not to further obstruct passage of the legislation. Because of the delays, PRC undergraduate students will have to wait until next fall to enroll in Taiwan universities.

In any event, after a long delay, opening the door to PRC degree students, a step of potential long-term importance to easing cross-Strait tensions, will start next year. How many PRC students will participate under the existing restrictions remains to be seen. While the opposition was delaying Taiwan's opening, Beijing in April eased the admission process for Taiwan students seeking admission to Chinese universities.

Cultural exchange

In July 2009, the KMT and Chinese Communist Party (CCP) conducted a forum on culture. For Beijing, that was a first step on a new issue highlighted in the third of Hu Jintao's Six Points which aims to "promote the exquisite traditions of Chinese culture ... so as to boost our (meaning cross-Strait) national consciousness." In September this year, PRC Minister of Culture Cai Wu led a large delegation to Taipei, where he participated in a forum on cultural cooperation with his counterpart, Emile Sheng, minister of the Council on Cultural Affairs. Minister Cai called for negotiation of a cultural agreement to complement ECFA. Taipei's participants called for governments to remove a variety of restrictions and regulations that hamper joint cultural activities by the private sector.

Security issues

Reports issued in August by the Department of Defense (DOD) in Washington and the Ministry of National Defense (MND) in Taipei both noted that the build-up of Chinese missiles threatening Taiwan continues despite the improvements in cross-Strait relations. What may be a first glimmer of light on this issue came in reports of remarks Premier Wen Jiabao made to the overseas Chinese press in New York on Sept. 23. He was quoted as saying that the missiles would eventually be removed. Unfortunately, *Xinhua* did not carry his remarks so there is no authoritative report on what Premier Wen said. Nevertheless, his comment was welcomed in Taipei, where Premier Wu Den-yih said it was a sign of goodwill. DPP Chairperson Tsai Ing-wen described Wen's remark as vague and meaningless. In Washington, the White House welcomed Wen's statement as an example of pragmatism.

In mid-August, Washington quietly approved three direct commercial sales (DCS) for US firms to supply Taiwan with hardware and services to upgrade radars for the Indigenous Defense Fighter and the Po-sheng programs. Beijing's public response was limited to a pro forma statement by the Foreign Ministry spokesman. Although Beijing had earlier threatened sanctions against companies involved in arms sales, no such action has been taken. Three weeks later, when US National Security Council (NSC) Deputy Advisor Thomas Donilon visited Beijing, President Hu Jintao indicated Beijing was open to resuming military-to-military contacts, which had been suspended after the announcement of a \$6.4 billion package of arms sales to Taiwan in January. Defense Secretary Robert Gates, who was not invited in June, now has an invitation and may visit in early October.

Elsewhere, there are signs of continuing Chinese efforts to constrain US arms sales. In January,

Beijing had asserted that the arms package was a clear violation of the 1982 US-China Joint Communiqué on arms sales – an argument that was seldom heard over the past decade. Reportedly, the Chinese tried to engage the US in a formal review of the 1982 Communiqué at the US-China Security and Economic Dialogue meeting in May, but the US did not agree. There has also been mention in Beijing of a Chinese initiative by former State Councilor Tang Jiaxuan to launch a track II process with Henry Kissinger on the arms sales issue. Why is Beijing now, after some years, again pressing the US to abide by the 1982 communiqué? Perhaps because it believes its increased power and influence will elicit a different response from the US than it did in the 1990s. However, few Chinese accept that there was a deal in the 1982 communiqué – that, on the premise that China's policy toward Taiwan was peaceful, the US would reduce arms sales. However, since the 1996 Taiwan Strait missile crisis, Beijing's declared policy of peaceful reunification has been buttressed by an increasing powerful military component.

Meanwhile, Washington is assessing Taiwan's air defense needs. A classified DOD report mandated by Congress is reportedly nearing completion. The work on that report will inform the administration's consideration of two large pending requirements: upgrading Taiwan's current fleet of *F-16 A/B* aircraft and the sale of 66 new *F-16 C/D* aircraft. Given the unclassified assessment in the published DOD report to Congress on the PLA that the balance of forces continues to shift in the PRC's favor, the classified report is likely to make a strong military case for Taiwan's need to improve its air defenses. The upgrade program should be less controversial, and hence easier for Washington to act on, but finding an opportune time for an announcement when Washington is planning for a visit by Hu Jintao in January and other high level US-China events later in 2011 will not be easy.

Following the conclusion of the ECFA, there has been speculation about moving the cross-Strait dialogue toward political issues. However, President Ma and other officials have continued to caution that attention must remain focused on economic and cultural issues. In late July, the PRC Defense Ministry spokesman said that discussions on military mutual trust measures – the PRC term for military CBMs – could begin. While MND welcomed this, the Mainland Affairs Council (MAC) in Taipei reiterated that economics would remain the main focus. In late September, Premier Wu reiterated to the LY that the time is not ripe to discuss CBMs.

Despite this caution, a cross-Strait maritime search and rescue (SAR) exercise was held in the waters between Xiamen and Kinmen in September. This exercise, which involved participation by national-level Coast Guard ships and personnel from both sides, followed an earlier exercise in the same area by local Xiamen and Kinmen SAR assets. This initiative was possible because emergency SAR operations in the area have been handled on a pragmatic humanitarian basis for some time. In addition, the Beijing media downplayed the Coast Guard involvement by describing the exercise as between the two sides' SAR associations and by noting that it was held under the umbrella of the ARATS-SEF maritime agreement, rather than describing it as a military trust-building step.

Diaoyu/Senkaku dispute

Taipei generally avoided involvement in the controversy between China and Japan over the Senkaku Islands. Taipei blocked activists from Hong Kong and Macau from using Taiwanese

fishing boats to stage a protest in the islets but allowed one Taiwanese boat to do so. Taipei's Foreign Ministry reiterated Taiwan's claim to the Diaoyutai more than once, but made clear that it was acting unilaterally and not in cooperation with China.

Other economic issues

Since July 1, 2009 PRC firms have been able to invest in a broad array of sectors in Taiwan. Chinese investment has predictably developed slowly. Taipei's Investment Commission (IC) has reported that total Chinese investment reached only \$80.47 million in the first year ending this June 30. However, the pace of investment has been increasing in recent months. Two months later, the IC reported that cumulative Chinese investment had reached \$144 million by the end of August 2010. In contrast, the IC reported that Taiwan investments in China for January-August 2010 were \$7.4 billion.

However, Taipei has disapproved one major investment. In August, the IC turned down the sale of AIG's Nanshan Insurance Co. to Primus Financial Holdings of Hong Kong. The decision cited the frequent changes in the shareholders of Primus and its Hong Kong partners as the primary reason for the denial. In fact, the concern was that much of the funding came from mainland sources at a time when PRC investors were barred from investing in the insurance sector. This major deal has subsequently been cancelled.

In July, the Hong Kong branches of the Bank of China (BOC) and the Bank of Taiwan (BOT) initiated a foreign exchange settlement arrangement that provides for direct settlement of *Renmenbi* balances, cutting out foreign banks that had previously handled the settlements as middlemen. In September, acting under the recently completed Banking MOU, Beijing authorized four Taiwan banks to open branches on the mainland and Taipei authorized the first two mainland banks to open representative offices in Taiwan. Also in September, Yangzijiang Shipbuilding became the first mainland firm to list its stock on the Taiwan stock exchange.

Looking ahead

In the coming months, Taipei and Beijing will work to establish the Cross-Strait Economic Cooperation Committee and launch the various negotiations the committee is tasked to start within six months. It is likely this process will be drawn out, just as the process of negotiating ECFA was. There was speculation that an announcement on forming the committee might be made when Chiang Pin-kung led a delegation to China in September and met Chen Yunlin, but there was no announcement indicating some procedural issues remain to be resolved. The two sides also will be preparing for the sixth round of SEF-ARATS talks in Taiwan in December.

On Taiwan, attention is focused on the five mayoral elections to be held on Nov. 27. Although cross-Strait issues are not a major factor in these elections, observers in Beijing and elsewhere will be watching the outcome closely because the results will influence the way President Ma will approach cross-Strait issues in the 15 months before he faces re-election in March 2012.

Chronology of China-Taiwan Relations July - September 2010

July 1, 2010: President Ma Ying-jeou establishes a post- Economic Cooperation Framework Agreement (ECFA) task force on investment climate.

July 5, 2010: Delegation from Guangxi leaves Taiwan after signing \$2.2 billion in deals.

July 7, 2010: Mainland Affairs Council (MAC) poll shows 61 percent support for ECFA.

July 8, 2010: First special Legislative Yuan (LY) Session convenes on ECFA.

July 12, 2010: Hu Jintao receives Kuomintang (KMT) Honorary Chairman Wu Poh-hsiung.

July 26, 2010: Bank of China (BOC) and Bank of Taiwan (BOT) branches in Hong Kong sign new cross-Strait *Renmenbi* settlement agreement.

July 26, 2010: New Second Artillery Corps base is established in Shaoguan, Guangdong.

July 30, 2010: People's Republic of China (PRC) Defense Ministry spokesman Geng Yansheng says discussions on military mutual trust can begin.

July 30, 2010: Taipei Ministry of National Defense (MND) welcomes Geng's statement; MAC reiterates that economics is still main focus.

Aug. 1, 2010: Association for Relations Across the Taiwan Straits (ARATS) Vice Chairman Zhang Mingqing arrives in Taipei for 9-day visit.

Aug. 3, 2010: Taipei's Ministry of Economic Affairs (MOEA) hosts investment seminar in Beijing.

Aug. 3, 2010: Large Hunan provincial delegation ends visit to Taiwan.

Aug. 5, 2010: Singapore and Taipei announce talks to explore possibility of a World Trade Organization (WTO)-based economic cooperation agreement.

Aug. 5, 2010: Beijing's Taiwan Affairs Office (TAO) calls on Taiwan to uphold the common foundation for cross-Strait relations; Ministry of Foreign Affairs calls on countries to abide by one-China principle.

Aug. 5, 2010: Presidential Office in Taipei welcomes Beijing's decision not to obstruct Taiwan signing economic cooperation agreements.

Aug. 6, 2010: Cross-Strait civil air talks reach agreement on additional cross-Strait flights.

Aug. 11, 2010: Referendum Review Committee again rejects Taiwan Solidarity Union's (TSU) ECFA referendum proposal.

Aug. 16, 2010: US Department of Defense (DoD) releases report on military and security developments in People's Republic of China.

Aug. 16, 2010: Guangdong Governor Huang Huahua leads large delegation to Taiwan.

Aug. 17, 2010: Second LY special session ratifies ECFA.

Aug. 18, 2009: LY passes amendments to Customs Import Tariff Act needed to implement ECFA.

Aug. 18, 2010: DPP Chair Tsai Ing-wen says when the DPP regains power, people will decide the fate of the ECFA.

Aug. 18, 2010: Straits Exchange Foundation (*SEF*) Chairman Chiang Pin-kung says his goal is to conclude investment protection and medical cooperation agreements by year end.

Aug. 22, 2010: TAO Deputy Chair Zheng Lizhong begins low-key visit to Taiwan.

Aug. 24, 2010: US State Department confirms it has notified three commercial arms sales related to Taiwan's air defense and Indigenous Defense Fighter (IDF) radar systems.

Aug. 25, 2010: China and Taiwan stage large joint anti-fraud raid.

Aug. 27, 2010: Beijing MFA calls on US to revoke recent commercial arms sales.

Aug. 30, 2010: Taiwan and Hong Kong's quasi-official trade promotion associations hold first joint meeting in Taipei.

Aug. 31, 2010: Taipei disapproves sale of Nanshan Insurance to a Hong Kong consortium that includes Chinese funding.

Aug. 31, 2010: Taipei releases MND's annual report on PRC military.

Sept. 1, 2010: Philippine Deputy Trade Secretary Adrian Cristobel expects trade pact with Taipei within one year.

Sept. 2, 2010: PRC Culture Minister Cai Wu leads large delegation to Taiwan.

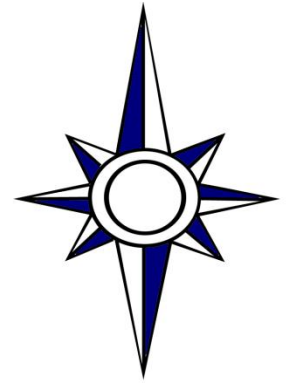
Sept. 2, 2010: Taiwan *Ministry of Foreign Affairs* launches public campaign for meaningful participation in *International Civil Aviation Organization* (ICAO) and *United Nations Framework Convention on Climate Change* (UNFCCC).

Sept. 6, 2010: White House officials Lawrence Summers and Thomas Donilon visit Beijing.

- Sept. 6, 2010:** Cross-Strait forum on culture held in Taipei.
- Sept. 8, 2010:** Yangzijiang Shipbuilding becomes first Chinese company to list Taiwan depository receipts (TDRs) on Taiwan Stock Exchange.
- Sept. 9, 2010:** Jia Qinglin meets Lien Chan in Shanghai, talks of building a consensus for dealing with difficult issues in the future.
- Sept. 10, 2010:** Jia Qinglin attends Taiwan Compatriot Association Forum and speaks of deepening exchanges.
- Sept. 12, 2010:** ECFA and intellectual property rights agreements come into effect.
- Sept. 13, 2010:** Beijing announces approval for joint cross-Strait undersea cables.
- Sept. 13, 2010:** Large Shanxi province delegation arrives in Taiwan.
- Sept. 15, 2010:** Beijing approves applications for four Taiwan banks to open branches.
- Sept. 16, 2010:** Chinese and Taiwan Coast Guard units conduct search and rescue drill.
- Sept. 18, 2010:** ARATS President Chen Yunlin meets SEF Chair Chiang Pin-kung in Kunshan, but no agreements announced.
- Sept. 18, 2010:** Vice Minister of Public Security Chen Zhimin concludes visit to Taiwan.
- Sept. 22, 2010:** Premier Wen Jiabao tells Chinese media in New York that missiles targeting Taiwan will eventually be removed.
- Sept. 23, 2010:** Taipei approves Bell Operating Company (BOC) and *Bank of Communications (BoCom)* applications for first PRC banks to open representative offices in Taiwan.
- Sept. 24, 2010:** Premier Wu Den-yih welcomes Premier Wen's statement on removal of missiles.
- Sept. 25, 2010:** Commerce Vice Minister Chen Jian leads delegation to Taiwan.
- Sept. 28, 2010:** Premier Wu reiterates that the time is not ripe for political talks or confidence-building measures (CBMs).
- Sept. 29, 2010:** US DoD announces resumption of US-China military-to-military exchanges.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



South Korea-North Korea Relations: Picking up the Pieces

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The past quarter in inter-Korean relations might be called the morning after the night before. Tensions over the sunken ROK corvette *Cheonan* by no means disappeared; the less so since North Korea still denied responsibility, while the South smarted at its failure to convince key powers – China and Russia above all – of Pyongyang’s culpability. The *Cheonan* incident remains a crime and an obstacle. Yet hopeful signs are emerging that both sides realize they will have to get past this eventually and that they might as well start now. Among various small initiatives, including flood aid, the quarter ended on a hopeful note with an agreement to hold a fresh round of reunions of separated families in late October.

Pyongyang gets away with it

Having determined by mid-May that a DPRK torpedo sank the ROK corvette *Cheonan* on March 26, South Korea spent much of the summer seeking to convince others of this and trying to work out how to respond appropriately and effectively. Neither has proved a signal success. Skepticism began at home, and remains; inadvertently fanned by official strategy immediately after the sinking when Seoul for whatever reason (perhaps to calm the markets) played down any idea of North Korean responsibility. That vacuum allowed all kinds of conspiracy theories to swirl around South Korea’s fetid and introverted blogosphere.

With hindsight one can posit two further tactical errors by Seoul, both connected to the Joint Investigation Group (JIG), which probed the sinking. It was wise to include foreign experts – but wiser had they not all been from Western countries, either staunch allies (the US, UK, Canada, Australia) or otherwise friendly (Sweden). If the panel had included Russian and/or Chinese representatives, this would have made it harder for Moscow and Beijing to profess skepticism. Second, it is unclear why only a brief summary of the JIG report was released at first, with the full document not published until Sept. 13, almost four months later. By then, positions were entrenched and minds made up; few if any will change their view now.

This is not the place to chew the *Cheonan* cud in full. The technical aspects are complex, the politics scarcely less so. There are precedents for past ROK governments staging supposed DPRK provocations, in at least one case with Pyongyang’s complicity – a show of force at the DMZ in April 1996, which scared Southern electors into voting for the Right soon after, was later revealed as having been cooked up between both sides’ intelligence services. Since the Iraq war, it would be naïve to doubt our governments’ readiness to lie, or at least (in a phrase now notorious in Britain) to “sex up the dossier.” Might Seoul have been thus tempted? At the very least there were what the conservative Seoul daily *Choson Ilbo* on Sept. 10 trenchantly

characterized as the ROK military's "little fibs and evasions to cover up its own incompetence" in the early aftermath of the sinking, which "squandered any public trust."

Full-blown conspiracy theories, by contrast, strain credulity. (A range of them can be read at www.Japanfocus.org.) If the *Cheonan* had been sunk by "friendly fire" from a US warship, it is inconceivable that such a cover-up could hold in today's media-saturated and leaky world. Or if it hit a mine or had some other accident, the ROK government had no motive to deny this and blame the North. Unlike President Kim Young-sam in 1996, President Lee Myung-bak had nothing to gain by fomenting a crisis with Pyongyang, and much to lose. By contrast, Kim Jong-il (or others) had several good reasons to show Lee sharply that he ignores the DPRK at his peril.

But back to the ripples. South Korea's strong support from its Western allies regarding the *Cheonan* was not matched elsewhere in the world. As was surely predictable, both China and Russia professed uncertainty. The latter sent its team of experts, whose report has not been published and seems unlikely to be. That silence too has fed the rumor mill, with some unexpected backwash. In a much-criticised article on Aug. 31, even a well-respected establishment figure like Donald Gregg cited Russian sources to cast doubt on Seoul's version of events.

Off-message

If Gregg's going off-message was a shock, the same can hardly be said of China's wholly foreseeable skepticism. Knowing Beijing's general line of propping up Kim Jong-il, South Korea surely cannot have expected any different. If it did, then one must question the quality of thinking in the Ministry of Foreign Affairs and Trade (MOFAT), itself currently leaderless (Foreign Minister Yu Myung-hwan quit on Sept. 4 when it was learned that rules were rigged to get his daughter a job at the Ministry).

July thus saw Seoul struggle to salvage what it could diplomatically. Both the UN Security Council and the ASEAN Regional Forum (ARF) in Hanoi produced convoluted statements, mentioning the JIG findings while avoiding pointing the finger directly at Pyongyang. The latter's envoy to the UN, Sin Son-ho, hailed the UNSC statement as "our great diplomatic victory." South Korea too professed itself satisfied – to do otherwise would be to admit defeat. But the strain showed when Foreign Minister Yu in Hanoi lost his patience with domestic *Cheonan* doubters, suggesting they go and live in North Korea if they like it so much. A similar verbal fudge looked likely at the 8th Asia-Europe (ASEM) summit in Brussels. The DPRK is not a member of ASEM, but as ever China was there to fight in Kim Jong-il's corner.

If rallying the world behind South Korea's version of events was hard, crafting an effective policy response proved no easier. Some show of force was deemed necessary, so the summer saw a whole series of war games, with one-off exercises – both solo and jointly with the US – interspersed among such regular annual military exercises as *Ulchi Freedom Guardian*. The force of all this was blunted, however, when China took strong exception to joint US-ROK naval exercises being held in the Yellow Sea, now apparently redefined as Chinese coastal waters, as Ralph Cossa noted in *PacNet #37* on Aug. 23. This compelled the allies to relocate their main joint exercise to the east rather than the west of the peninsula, a shade ignominiously.

In any case, sabre-rattling can only take you so far and risks scaring the markets. On other fronts too South Korea has struggled to hew to a clear or consistent path, notably regarding economic sanctions. Seoul's headline response was and is a ban on trade with North Korea. As President Lee put it, exchange with the North is now "meaningless." But the headline was all along highly misleading since from the start it exempted the joint venture Kaesong Industrial Zone (KIZ), which even before the "ban" accounted for most inter-Korean trade.

Own goal?

At one level it is a relief that even at the height of tension in late May neither side wanted to burn their bridges completely by letting the KIZ go under, which seemed a real possibility at the time. Yet the result is a gap between Lee's rhetoric and reality, not to mention an arbitrary picking of winners and losers among South Korean small and medium enterprises (SMEs) that have taken what is always the risk of dealing with the North. The losers are 700-odd firms who were operating outside Kaesong, many of whom had goods made in the DPRK (so-called processing on commission or POC).

It is their trade that has been halted in its tracks, with a brief initial exemption (after they protested) for goods already contracted and in the pipeline. Despite modest compensation by the government, a survey of 164 of them in September by the Korea Chamber of Commerce & Industry (KCCI) found that 94 percent had suffered losses (averaging \$826,000) since Seoul's ban on trade with North Korea. Fully two-thirds estimate that the damage is serious enough to put them out of business for good. Their DPRK partners may have fared better; reports suggest many soon replaced their ROK customers with new orders from China.

By contrast, the 120 or so ROK companies invested in the KIZ are sitting relatively pretty – though hassled in the past by arbitrary border closures when Pyongyang wanted to make a point. After a period of demanding absurdly large wage increases, the North recently settled for the usual 5 percent. So now KIZ investors' main gripe is with their own government. In another piece of gesture politics, after May, the ROK halved the number of South Koreans allowed to stay overnight in the KIZ from 1,000 to 500. The reason cited, considerations of safety, makes no sense. Were Kim Jong-il so minded, he could hold 500 Southerners hostage as easily as 1,000. The companies have complained ever since that the restriction harms their operations and by degrees the government is relenting. So much for tough sanctions.

For all practical purposes it is business as usual at Kaesong after all. One may be glad of that, but it makes palpable nonsense of President Lee's professed post-*Cheonan* policy. Indeed, continuing his strange habit of announcing hypothetical policy initiatives involving North Korea while visiting Russia (remember last year's gas pipeline, of which predictably no more has been heard since), on Sept. 10 Lee suggested that South Korea could in principle set up another zone like the KIZ – if the North first apologizes for the *Cheonan*.

Signs of a thaw

Apology or no, a mini-thaw is now under way in North-South relations. Like last summer, when Kim Dae-jung's death opened a window of what turned out to be short-lived dialogue with a high-level Northern visit to Seoul, unpredictable events lent a hand. Maybe that is the wrong adjective, as weather patterns and the vulnerability of the DPRK's badly deforested terrain render it prey to serious flood damage pretty much every year nowadays.

After the northern part of the Korean Peninsula took a battering from severe storms, on Aug. 31 the South's Red Cross offered aid worth 10 billion *won* (\$8.4 million). It had in mind emergency supplies; medical kits, food rations and the like. Replying on Sept. 4, its Northern counterpart asked instead for rice, cement, and heavy construction machinery. This put Seoul on the spot, as no doubt Pyongyang intended. South Korea used to send half a million tons of rice annually (as a loan, in theory); but none has gone North since President Lee took office early in 2008. That will now change. On Sept. 13 North Korea accepted a revised Southern aid package, to include 5,000 tons of rice and 10,000 tons of cement – but no machinery, since this could be put to military uses. The aid is due to be sent in late October.

By then other irons were in the fire too. One potential obstacle, the North's detention of a Southern squid boat (whose crew included four Chinese) since Aug. 8 for violating DPRK east coast waters was eased when boat and crew were released without charge on Sept. 7.

On Sept. 10, in the midst of their talks about aid, the DPRK Red Cross suggested holding fresh reunions of separated families to coincide with Chuseok – the Korean harvest festival, which this year fell on Sept. 22. The South responded positively, though it regarded the proposed date as too short notice. So it proved, the more so as agreement was delayed by a row over the venue. This is normally the Mt. Kumgang resort, where regular tours have now been suspended for over two years since a Southern tourist was shot dead there in July 2008.

In its fury at Seoul's steadfast refusal to resume regular tourism unless it was allowed to send a team to probe Park Wang-ja's death, Pyongyang earlier this year confiscated Southern assets (private and public) at Mt. Kumgang. These include a brand-new family reunion center built by the South – which it naturally insisted be used this time. At first the North refused to agree to this unless regular tourism was resumed, raising fears that the reunions might not go ahead. In a hopeful sign, however, a compromise was found – the North yielded and the reunions will now be held at Mt. Kumgang for a week commencing Oct. 30. A few days earlier, at Seoul's request, the two sides will meet to discuss holding these events on a regular schedule as opposed to ad hoc. As often noted here before, at the current snail's pace most of the elderly persons involved will die, as many already have, without ever seeing their long-lost kin again.

For the concession on venue, Pyongyang will expect some *quid pro quo*. It has asked for talks on resuming regular tourism. At this writing developments are ongoing, but on Oct. 4 Unification Minister Hyun In-taek – in Germany for the 20th anniversary of reunification – said the North must change its stance on the *Cheonan* if it wants the South to consider resuming cross-border tourism. That linkage will not be a welcome one in Pyongyang. Let us hope any predictable wrath does not put paid to the upcoming family reunions.

Enter the young general

Meanwhile far weightier events were taking place in Pyongyang. As widely predicted and reported, an overdue delegates' meeting of the ruling Workers' Party of Korea (WPK), scheduled for early September, was finally held on Sept. 28. At long last Kim Jong-il's third son and heir Kim Jong-un was unveiled to the world, as a four-star general – nice work, for a lad aged no more than 28: one wonders what the real generals think – and holding a key party post as co-vice-chair of the Central Military Commission (CMC). A few days later, father and son watched an artillery display along with another equally implausible new general, the dear leader's sister Kim Kyong-hui, who knows more about textiles than guns.

In conclusion, while as of early October inter-Korean ties look to be on a slight upswing, this is even more fragile than usual, dependent as it is on unpredictable wider political processes. No one can yet know whether the DPRK's implausible succession plan will succeed. If as reputed Kim Jong-un is headstrong, he may be keener to roil the waters once more than to promote calm seas. Indeed, one theory of the *Cheonan* was that it was his idea or someone acting on his behalf. As President Lee prepares to welcome the leaders of the G20 to Seoul in November, he must hope that Pyongyang will resist this prime opportunity for further provocation. Cynics might even suggest that this gives Lee an incentive to cut a deal.

Chronology of North Korea-South Korea Relations July – September 2010

July 1, 2010: A Unification Ministry (MOU) official says ROK port officials are inspecting cargoes from third countries to ensure that no DPRK goods enter the country. The week-long inspection covers Incheon, Busan, Pyeongtaek and Gunsan.

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 1, 2010: The DPRK's Committee for the Peaceful Reunification of Korea (CPRK) attacks the US-ROK agreement to delay the transfer of wartime operational control (OpCon) from Washington to Seoul for over three years from April 2012 to Dec. 2015 as “a provocative act of driving the two Koreas to an all-out war.”

July 2, 2010: The CPRK threatens “stern retaliatory measures” after South Korea's National Assembly (NA) on June 29 passes a resolution demanding strong measures to punish the North for sinking the ROK corvette *Cheonan* on March 26.

July 2, 2010: Two buses carrying Northern workers to and from the joint venture Kaesong Industrial Zone (KIZ) collide in heavy rain. ROK sources only report this on July 7. They estimate that at least 10 were killed and 36 injured. No South Koreans were involved.

July 6, 2010: North Korea's Foreign Ministry (MFA) again refuses a proposal by the US-led UN Command (UNC) to discuss the *Cheonan* at the Military Armistice Commission, saying this is a bid to deflect the North's demand to send its own inspection team.

July 6, 2010: Korea Development Institute (KDI) forecasts that the DPRK economy will shrink further this year as heightened tensions with Seoul hurt inter-Korean trade. Meanwhile in January-May DPRK-China trade was up 18 percent over last year.

July 7, 2010: North Korea's Committee for the Peaceful Reunification of the Fatherland (CPRF) threatens a "death-defying war," should the UN Security Council (UNSC) adopt any statement blaming Pyongyang for sinking the *Cheonan*.

July 9, 2010: The UNSC adopts a Presidential Statement on the *Cheonan*, which avoids directly condemning North Korea.

July 9, 2010: MOU permits two NGOs to send baby food (powdered milk) to the North, worth \$490,000. A dozen such aid shipments have been formally approved since the *Cheonan*, but Southern relief groups complain that MOU's attitude is obstructive.

July 10, 2010: Despite earlier threats, Pyongyang reacts mildly to the UNSC statement. MFA reiterates its willingness to resume the nuclear Six-Party Talks (6PT).

July 12, 2010: CPRF chides ROK Unification Minister Hyun In-taek for "reckless remarks" after he told a business forum in Incheon on July 8 that Pyongyang has made "three major mistakes": cold-shouldering the South's offer to help rebuild its economy, taking a hardline approach to the new US government, and failing to understand its own economic condition.

July 12, 2010: Rev. Han Sang-ryeol, a radical South Korean priest on an unauthorized visit to the North since June 12, meets members of the North Headquarters of the Pan-National Alliance of Youth and Students for Korea's Reunification (Pomminyong) in Pyongyang.

July 13, 2010: Standard & Poor's (S&P) tells *Yonhap* that in assessing South Korea's sovereign credit ratings it weights the North Korea risk factor more heavily now than it did a decade ago.

July 15, 2010: *Yonhap* reports that Hyundai Asan has cut 70 percent of its employees and lost sales worth \$252 million in the two years since Seoul suspended its tours to Mt. Kumgang resort.

July 15, 2010: Meeting at Panmunjom, Colonels Pak Ki-yong of the Korean People's Army (KPA) and Kurt Taylor of the UNC agree in principle to hold general-level talks about the *Cheonan*. These would be the first KPA-UNC talks at this level since March 2009.

July 17, 2010: MOU's weekly newsletter notes that Pyongyang appears to be gearing up to launch a diplomatic offensive to ease tensions on the peninsula.

July 18, 2010: North Korea notifies the South that it may discharge water from a dam on the Imjin River, for flood control reasons. It duly does so the next day.

July 20, 2010: MOU reports that at 6,953 tons, the volume of goods entering the South from the KIZ in June is hardly changed from May's figure of 7,004 tons, despite Seoul's sanctions over the *Cheonan*. Total volume for the first half of 2010 almost doubled from last year.

July 20, 2010: The UNC formally notifies North Korea of joint US-ROK naval exercises to be held on July 25. *Minju Joson*, daily paper of the DPRK government, at once denounces these as "very dangerous sabre-rattling."

July 21, 2010: In a rare "2 + 2" meeting of both their foreign and defense ministers in Seoul, South Korea and the US warn Pyongyang of "serious consequences" in the event of any new provocations and call on it to show "genuine will for denuclearisation."

July 22, 2010: Pyongyang again warns Seoul of a discharge from one of its dams.

July 23, 2010: In Hanoi Ri Tong-il, spokesman of the DPRK delegation to the ASEAN Regional Forum (ARF), warns of "a physical response" to the imminent *Invincible Spirit* joint US-ROK naval maneuvers. The same day *Rodong Sinmun* warns that "if the US provokes another war, it will only be corpses and graves that it will be presented with."

July 23, 2010: UNC and KPA colonels meet again at Panmunjom. The former proposes a joint assessment group over the *Cheonan*, while the latter reiterates its demand that South Korea must allow in a 30-man team from its National Defense Committee (NDC) to visit to probe the case.

July 24, 2010: Both MFA and the NDC castigate the upcoming ROK-US military exercises. NDC warns of "a retaliatory sacred war." The exercises proceed without incident.

July 24, 2010: The ARF meeting in Hanoi expresses "deep concern" over the *Cheonan* incident but does not identify North Korea as culpable. ROK Foreign Minister Yu Myung-hwan professes satisfaction. His DPRK counterpart Pak Eui-chun accuses Seoul of "making life difficult for us" economically, at a time when "more than ever, we need stability".

July 26, 2010: MOU says Seoul will provide \$50 million in low-interest loans to small and medium enterprises (SMEs) hit by its post-*Cheonan* ban on inter-Korean trade outside the KIZ.

July 30, 2010: ROK firms operating in the KIZ say they have accepted DPRK demands for a 5 percent pay rise for their Northern workforce, effective Aug. 1. This will raise basic pay from \$57.88 to \$60.78 monthly.

July 30, 2010: UNC and KPA colonels hold their third meeting in Panmunjom.

Aug. 1, 2010: Sources in Seoul claim Pyongyang has suffered little from the South's ban on processing-on-commission (POC) trade, having found new Chinese partners instead.

Aug. 2, 2010: MOU refuses to let the Korea NGO Council for Cooperation with North Korea, an umbrella body of over 50 Southern aid donors, visit the North, saying such a trip is inappropriate at this time.

Aug. 3, 2010: MOU reports prices of food and consumer goods in North Korea surged several-fold during February to July as a continuing effect of December's botched currency reform.

Aug. 5, 2010: Following joint US-ROK exercises in the East Sea, South Korea holds its own five-day naval maneuvers in the West (Yellow) sea. On Aug. 9 North Korea fires over 100 artillery rounds near the marine border, where the ROK war games were held.

Aug. 5, 2010: *KCNA* reports that recent flash floods affected 5,560 houses and 350 public buildings while inundating 14,850 hectares of farmland.

Aug. 6, 2010: ROK Customs data show inter-Korean trade in June totaling \$123 million, down 21 percent from May and 32 percent from April. Compared to April, Southern exports of \$56.88 million in June were down 27 percent, while imports decreased 36.5 percent to \$66.18 million.

Aug. 7, 2010: President Lee Myung-bak reshuffles his Cabinet. Against some expectations, the incumbent defense, unification, and foreign ministers all retain their posts.

Aug. 8, 2010: North Korea seizes a 41-ton South Korean squid boat, the *Daeseung 55*, with four ROK and three Chinese crew members, apparently for fishing within its exclusive economic zone (EEZ) off the east coast.

August 9, 2010: DPRK fires some 130 rounds of artillery into the Yellow Sea near its border with the South.

Aug. 10, 2010: *Yonhap* reports that the DPRK website *Uriminzokkiri* has put up 10 video clips on YouTube since registering on July 14. It remains illegal in South Korea to view this or any other DPRK media or website. By Aug. 18 total DPRK clips posted exceed 100.

Aug. 10, 2010: A fourth round of UNC-KPA talks at Panmunjom ends without progress.

Aug. 12, 2010: North Korea launches a Twitter account. The Korea Communications Commission (KCC) blocks access to it, while MOU warns that South Korean netizens seeking to reply or 'retweet' risk punishment.

Aug. 15, 2010: On the eve of the regular annual *Ulchi Freedom Guardian* (UFG) joint US-ROK war games, *KCNA* quotes the KPA General Staff as warning "Our military's reaction will be the worst punishment anyone has ever experienced ... our military and people will wield the iron hammer of a merciless response."

Aug. 15, 2010: In his Liberation Day speech, President Lee proposes a three-stage plan – first a peace community, then an economic community, and finally a national community – for reunification, plus a new tax to pay for it.

Aug. 17, 2010: In the first such trip permitted by Seoul in the three months since it brought in sanctions over the *Cheonan*, five South Koreans, including a doctor, cross the border to deliver anti-malaria kits worth \$340,000 to Kaesong city.

Aug. 19, 2010: Eleven days after seizing the *Daeseung 55*, North Korea confirms that it is holding the South's fishing vessel, which it says intruded into DPRK waters.

Aug. 20, 2010: Rev. Han Sang-ryeol returns to South Korea via Panmunjom, after over two months in the North. He is at once arrested for visiting North Korea without authorization.

Aug. 22, 2010: ROK data show that inter-Korean trade in July rose 32 percent over June, totaling \$162 million.

Aug. 24, 2010: *Yonhap* reports that North Korea's Facebook page has been deleted, under company rules which forbid platform access to operators in countries under US embargo.

Aug. 26, 2010: Kim Jong-il makes a sudden trip to China, his second in four months. He visits several cities in the northeast, meeting President Hu Jintao in Changchun.

Aug. 27, 2010: A nine-strong pan-religious ROK delegation, representing five major faiths, crosses the border in 12 trucks to deliver 300 tons of flour worth \$209,000 to the North.

Aug. 30, 2010: North Korea condemns the South for blocking access to its websites: "The traitor's group is trying in vain to shut the eyes and ears of the South Korean people with the fascist National Security Law, running counter to the era of information."

Aug. 30, 2010: *Rodong Sinmun* criticises upcoming US-ROK anti-submarine drills in the West (Yellow) Sea: "Our military and people are prepared with combat readiness to crush even thousands of foes in a single blow."

Aug. 31, 2010: South Korea's Red Cross offers aid worth 10 billion won (\$8.4 million) – medical kits, food and emergency supplies – to help North Korea after its recent floods.

Sept. 4, 2010: MOU says that 155 out of 713 ROK companies trading with the DPRK in the past year have applied for low-interest zones to compensate for Seoul's ban on trade. So far 66 firms have been lent a total of \$14.8 million.

Sept. 4, 2010: *Rodong Sinmun* attacks President Lee's proposed unification tax as an "intolerable politically motivated provocation" against the North.

Sept. 4, 2010: North and South Hamgyong and Kangwon provinces, plus Rason special city, hold Party meetings to choose delegates to the upcoming WPK Conference. Similar local-level meetings follow in other cities and provinces.

Sept. 7, 2010: North Korea releases the Southern squid boat *Daeseung 55* and its crew of seven on humanitarian grounds. They sail back to Sokcho port.

Sept. 8, 2010: In a speech marking the 62nd anniversary of the founding of the DPRK, Kim Yong-nam, its titular head of state, calls for better ties between the two Koreas based on the spirit of the two previous inter-Korean summits.

Sept. 10, 2010: On a visit to Moscow, President Lee says that he is open to the idea of a second joint zone like the KIZ, depending on Pyongyang's attitude. He also says that better inter-Korean ties "may or may not come quickly," and that Kim Jong-un "is not my counterpart."

Sept. 13, 2010: MOU says that North Korea has agreed to the South's suggestion of talks towards family reunions, to be held in Kaesong on Sept. 17. It has also accepted the ROK Red Cross's revised aid package, to include 5,000 tons of rice and 10,000 tons of cement.

Sept. 13, 2010: The ROK Defense Ministry (MND) releases the full investigative report into the *Cheonan's* sinking.

Sept. 14, 2010: Three Southern NGOs announce plans to send a total of 530 tons of flour as emergency aid overland to North Korea on Sept. 16, and duly do so.

Sept. 14, 2010: An ROK official says Seoul will soon ease the cap on the number of South Koreans allowed to stay overnight at the KIZ, from 600 to 900, as requested by Southern companies invested in the joint venture zone.

Sept. 16, 2010: KPA and UNC colonels hold a fifth round of talks at Panmunjom.

Sept. 17, 2010: At talks in Kaesong, the two Koreas' Red Crosses agree to hold reunions of separated families at Mount Kumgang during Oct. 21-27.

Sept. 19, 2010: A military source tells *Yonhap* that North Korea has deployed an extra 200 240mm multi-rocket launchers along the DMZ over the past year. These now total 5,300.

Sept. 21, 2010: *KCNA* declares that the overdue Party conference will be held on Sept. 28.

Sept. 21, 2010: *Rodong Sinmun* attacks upcoming planned joint US-ROK submarine drills. These had been due on Sept. 5-9, but were postponed because of a typhoon.

Sept. 23, 2010: Three key DPRK diplomats are promoted. First Vice Foreign Minister Kang Sok-ju becomes one of several vice-premiers. He is replaced by Kim Kye-gwan, North Korea's chief delegate to the Six Party Talks. Ri Yong-ho, Kim's deputy – not to be confused with the Chief of the KPA General Staff of the same name – becomes a vice foreign minister.

Sept. 26, 2010: MOU says that the South's rice aid will go by ship from Gunsan to Sinuiju on Oct. 25. Cement, instant noodles (3 million packs), medical aid and more will follow.

Sept. 27, 2010: On the eve of a long-awaited Party meeting, Kim Jong-il's hitherto unseen and unmentioned third son and heir Kim Jong-un is named a 4-star general at age 27 (approx). His aunt Kim Kyong-hui, a light industry specialist, is similarly promoted.

Sept. 28, 2010: At the long-awaited WPK conference Kim Jong-un is named as a member of the WPK Central Committee and (crucially) as joint vice chairman of its Central Military Commission (CMC).

Sept. 29, 2010: DPRK media show Kim Jong-un's image for the first time, briefly and as part of group shots. He would appear to have given up basketball, the passion of his youth.

Sept. 29, 2010: Korea International Trade Association (KITA), a private sector body based in Seoul, reports soaring first half inter-Korean trade. In January-June South Korean exports to the North were up 63 percent year-on-year to \$430 million, while imports rose 43 percent to \$550 million. In the same period the DPRK's \$1.28 billion worth of trade with China as usual exceeded the inter-Korean trade total of \$980 million.

Oct. 1, 2010: At a third meeting the two Koreas agree to hold family reunions at Mt. Kumgang during Oct. 30-Nov. 5. They will also meet Oct. 26-27 to discuss a regular program of reunions.

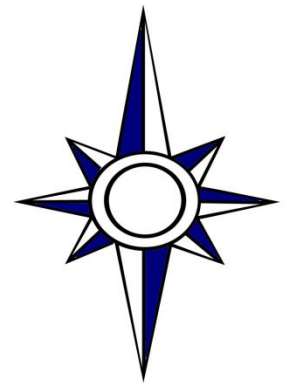
Oct. 1, 2010: The Koreas hold their first direct military talks (colonel level) in two years. These founder on the wreck of the *Cheonan*. The South insists on an apology, while the North still demands to send its own inspectors to examine the wreckage.

Oct. 2, 2010: North Korea proposes working-level talks on Oct. 15 to discuss ways to restart regular tourism to Mt. Kumgang.

Oct. 4, 2010: Unification Minister Hyun In-taek says North Korea must change its stance on the *Cheonan* if it wants the South to consider resuming cross-border tourism.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



China-Korea Relations:

Consolidating Ties with New DPRK Leadership

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China reaffirmed its traditional friendship with a revamped leadership in Pyongyang that emerged from the historic Workers' Party of Korea (WPK) conference that re-elected Kim Jong-il as party and state leader. Kim Jong-il visited Northeast China, holding his second summit with President Hu Jintao this year. Immediately after Pyongyang's party conference, Secretary of the WPK Central Committee Choe Tae-bok led a senior party delegation to Beijing to brief President Hu and other officials. Meanwhile, China-ROK relations remain strained following the March 26 *Cheonan* incident, marking the lowest point in bilateral relations since diplomatic normalization in 1992. The third China-ROK high-level strategic dialogue was held in Beijing. China and South Korea also held their first preliminary round of free trade agreement talks. Beijing promoted resumption of the Six-Party Talks, sending Special Representative for Korean Peninsula Affairs Wu Dawei to meet counterparts in Pyongyang and Seoul.

China-DPRK exchanges under Pyongyang's changing leadership

The Workers' Party of Korea (WPK) held its first party conference in 44 years in Pyongyang on Sept. 28. The conference reached decisions on three main agenda items including the reelection of Kim Jong-il as general secretary of the WPK, revision of the WPK Charter, and election of the new central leadership of the WPK, with Kim's third son Kim Jong-un elected as one of the two vice chairmen of the Central Military Commission, according to DPRK state media. A month earlier, Kim Jong-il made a five-day "unofficial trip" to Northeast China on Aug. 26-30, his sixth known visit to China since 1994 and second this year after his May summit with President Hu in Beijing. Hu presented four proposals to strengthen China-DPRK ties, including to: maintain high-level contacts, deepen economic and trade cooperation, reinforce strategic coordination, and strengthen communication in international and regional affairs. Kim also visited Jilin and Heilongjiang provinces during his visit, touring local enterprises representing China's "harmonious development," according to Chinese state media.

With the consolidation of Pyongyang's new leadership on Sept. 28, Beijing and Pyongyang moved swiftly to reaffirm their traditional friendship through party-to-party exchanges. Two days after the WPK conference, Secretary of the WPK Central Committee Choe Tae-bok led a party delegation to Beijing on Sept. 30-Oct. 2 for a series of briefings with Chinese officials, including President Hu Jintao, head of the International Department of the Communist Party of China (CPC) Central Committee Wang Jiarui, and member of the CPC Central Committee Political Bureau Liu Yunshan. According to official reports, Hu asserted that North Korea "will see new achievements in their national construction under the new WPK leadership," while Choe

indicated that Kim Jong-il's decision to send a senior delegation to Beijing following the party conference demonstrates "the importance the DPRK attaches to the consensus reached by leaders of the two countries."

Mending China-ROK security ties

As China and North Korea prepared to reaffirm party and state ties, China and South Korea held the third Vice-Ministerial Strategic Dialogue between their Foreign Ministries in Beijing on Sept. 29. ROK First Vice Minister of Foreign Affairs and Trade Shin Kak-soo met China's Vice Foreign Minister Wang Guangya as well as Dai Bingguo, a top foreign policymaker, on the sidelines. The meeting produced a statement of close cooperation "under the joint strategic objectives of denuclearizing North Korea and pursuing peace and stability on the Korean Peninsula." However, no mention was made of the issues that have overshadowed denuclearization talks, such as China's failure to support Seoul's international investigation of the *Cheonan* sinking and Beijing's negative response to US-ROK military drills in July, which have revealed fundamental gaps in China-ROK political and security relations. In addition, it was unclear to what extent they discussed North Korea's political transition even though Pyongyang's party conference was held a day before the meeting and China continues to engage the DPRK politically and economically despite international sanctions.

China reacted strongly to the four-day US-ROK *Invincible Spirit* naval and air exercises held July 25-28, which were designed to send a "clear message" to Pyongyang in response to the *Cheonan* sinking. The military exercises took place weeks after the July 9 UN Security Council Presidential Statement condemning the attack without naming North Korea, the release of which suffered much deliberation and delay due to Chinese reluctance to issue a statement directly condemning North Korea for the sinking. In the run-up to the exercises, China's party newspaper, *People's Daily*, featured a series of articles quoting Chinese military leaders including People's Liberation Army (PLA) Deputy Chief of the General Staff Gen. Ma Xiaotan, who in early July affirmed that China "strongly opposed" the exercises. The paper featured a five-point criticism a week later by Gen. Luo Yuan, deputy secretary general of the PLA Academy of Military Sciences, stating that "The drill area selected by the United States and South Korea is only 500 kilometers away from Beijing. China will be aware of the security pressure from military exercises conducted by any country in an area that is so close to China's heartland."

An editorial in the *Global Times* argued that "Whatever the explanations the US and South Korea offered, the military drills surrounding China's offshore sea obviously have the intention of targeting China." It further warned of the implications for US-China relations, indicating that "Seoul may not have fully realized the consequence of upsetting China-US ties," and that "a stronger South Korea-US alliance might jeopardize the trust of Seoul with its neighbors." While South Korean analysts appear wary of such consequences, the change in the location of the exercises from the Yellow Sea to the East Sea/Sea of Japan, which appeared to be a concession to China, seemed to raise ROK concerns about US accommodation of an increasingly assertive China.

Despite the impact of *Cheonan* incident on regional relations, China has continued diplomatic exchanges with the two Koreas and other parties to seek the resumption of Six-Party Talks. China's Special Representative Wu Dawei visited North Korea on Aug. 16-18 and met Foreign Minister Pak Ui-chun, Director of the International Affairs Department of WPK Central Committee Kim Yong-il, and Vice Foreign Ministers Kim Kye-gwan and Kim Song-gi. A week later, Wu met ROK officials in Seoul on Aug. 26-28, including counterpart Wi Sung-lac, Vice Foreign Minister Shin Kak-soo, and Senior Secretary to the President for Foreign Affairs and National Security Kim Sung-Hwan. At the International Atomic Energy Agency (IAEA) directors' meeting in Vienna on Sept. 14, China's Permanent Representative and Ambassador to the UN and other international organizations Hu Xiaodi called for advancing Six-Party Talks as a "fundamental" solution to the Korean nuclear issue and a step toward establishing a permanent peace regime on the peninsula and a security mechanism in Northeast Asia.

South Korea assesses China-DPRK engagement

Occurring at the same time as former US President Jimmy Carter's visit to Pyongyang for the release of detained US citizen Aijalon Gomes, Kim Jong-il's Changchun visit has been interpreted as evidence that Pyongyang prioritizes cooperation with China over enhancing diplomatic ties with the US. However, ROK President Lee Myung-bak positively assessed Kim's China trip in terms of its potential impact on North Korea's reform and opening in remarks released by the Blue House that reflected an effort to refute the impression of Seoul's firm opposition to Chinese engagement of Pyongyang. The Changchun meeting had heightened speculation in the ROK media about DPRK efforts to secure Chinese support of a Kim leadership succession. Some South Korean analysts viewed the Hu-Kim summit as part of Chinese efforts to expand its regional clout and influence in North Korea as the DPRK economy is faced with new sanctions, recent flood damage, and mounting US-ROK political and military pressure after the *Cheonan* incident. According to Yang Moo-jin of the University of North Korean Studies, North Korea "has no one but China to turn to" as its major political and economic donor, which China sees "as a chance to tighten its influence over North Korea."

US and South Korean observers saw the Hu-Kim meeting as primarily focused on economic and trade exchanges given a deteriorating North Korean economy and Pyongyang's growing dependence on Chinese support. President Hu reportedly emphasized China's reform and opening experience as a desirable path for North Korea to follow. Although Kim's trip appeared intended to secure Chinese aid in the absence of international and ROK assistance and to legitimize a third-generation power transition in North Korea, it did not suggest real progress in multinational denuclearization talks. DPRK media reports did not cite Kim's hopes for an early resumption of Six-Party Talks as highlighted in the Chinese state media, but included Kim's statement on implementing the "historical mission to hand over the baton of Chinese-North Korean friendship to the next generation."

North Korea appeared to take several steps to reaffirm its priority on maintaining good relations with China ahead of its party meeting. *Rodong Sinmun* released a series of articles from mid-September focusing on the significance of relations with China, including editorials on current bilateral relations in their "Golden Ages," the historical legacy of the Chinese and DPRK "elder revolutionary generation," Northeast China's social and economic development experience, and

Kim Jong il's pledge to strengthen the China-DPRK traditional friendship. The issuing of new national stamps in September commemorating the DPRK's National Pavilion Day at the 2010 Shanghai Expo and the "60th anniversary of the entry of the Chinese People's Volunteers into the Korean front" also represents important state efforts to affirm long-term ties with China.

China's trade and economic ties with North Korea

According to Chinese Customs data, China-DPRK trade in the first half of 2010 amounted to \$1.29 billion, a 16.8 percent annual increase. North Korea imported \$940 million in goods from China and exported \$350 million during the period, a 25.2 percent increase in imports and 1.1 percent decline in exports. North Korea now has a \$590 million trade deficit with China, a 48.5 percent increase over the previous year, with flour imports rising by 383 percent. While costs increased by 76 percent due to soaring prices, North Korea's crude oil imports from China remained the same. Minerals and other natural resources continued to account for a large portion of DPRK exports to China. Since trade with China and South Korea make up the bulk of Pyongyang's external revenue, North Korea is anticipated to more actively seek trade with China to make up for losses in inter-Korean trade. The Korea Trade-Investment Promotion Agency indicates that China accounted for 79 percent of North Korea's foreign trade in 2009 (excluding inter-Korean trade).

China has also reportedly extended humanitarian aid to a flood-stricken North Korea amid expectations of a worsening food crisis this year. On Aug. 26, the *Korean Central News Agency* reported China's decision to send an unspecified amount of "emergency relief materials" to North Korea to support recovery from flood damage, noting President Hu's message of sympathy to Kim Jong-il. China's trade and aid ties with North Korea continue to raise concerns about the effects of those ties on international sanctions and about Pyongyang's growing economic dependence on China. According to DPRK state media, China's Ambassador to North Korea Liu Hongcai and DPRK Minister of Foreign Trade Ri Ryong Nam signed a bilateral economic and technical cooperation agreement in Pyongyang on July 29, a week after US announcements of new sanctions. The Chinese Foreign Ministry did not comment.

China-DPRK economic cooperation projects in the border regions are apparently underway, with China's designation on Sept. 3 of Jilin province as a pilot region for international trade and logistics. At the sixth Northeast Asia Trade Expo in Changchun on Sept. 2, a representative of Jilin's Yanbian Korean Autonomous Prefecture signed a bilateral economic cooperation agreement with Kim Su-yol, chairman of the Rajin-Sonbong special city People's Committee. According to its local paper on Aug. 19, the Chinese border city of Dandong launched a pilot program to manage export deals in China's currency in an attempt to boost exporters' confidence in trade deals with the North. Although the program will allow approved Dandong exporters to officially carry out business in *renminbi*, the transactions will also depend on the ability of DPRK importers to deal legally in Chinese currency. Local Customs data have indicated that up to 70-80 percent of Chinese exports to the North pass through Dandong.

China's border regions appear to be taking additional steps to improve transport infrastructure that will boost trade with the North. On Sept. 28, China completed a highway to Jilin's border city of Hunchun, shortening travel from the Changchun capital and linking Tumen city. Deputy

Governor of the Yanbian Korean Autonomous Prefecture Li Jinhao has noted that the highway will improve trade ties with North Korea by enhancing logistics to Hunchun, a point of export to DPRK. In July, North Korea reportedly leased the rights to use Chongjin port to a Yanbian-based Chinese state company while allowing the company to use the Tumen-Chongjin railroad as part of the agreement. The deal is expected to facilitate trade from Tumen city, and the firm is reportedly investing 10 million *yuan* (\$1.48 million) in construction at Chongjin.

“Double-dip recession” and China-ROK trade and investment

South Korean trade officials warn that ROK exports may face serious challenges in the latter half of 2010 given external uncertainties including concerns about a double-dip recession in the US. Official ROK figures project 5.8 percent annual growth in 2010 for South Korea and about 9 percent in the second half of 2010 for China, which recently replaced Japan as the world’s second biggest economy. Despite steady recovery in South Korea, a Ministry of Finance report in September pointed to increased risks stemming from economic slowdown in major trading partners including China. However, ROK analysts expect Beijing to introduce a series of steps to boost domestic consumption from which China-dependent exporters in South Korea such as steelmakers, automakers, chemical producers, and tech companies, will likely benefit. Analysts also predict that China’s declining trade surplus since July is an indicator that stable Chinese domestic demand will drive the global economy. Beijing launched a campaign in early September to boost imports in an effort to address its trade imbalances, focusing on advanced technology and key equipment.

Total China-ROK trade reached \$141 billion in 2009, accounting for 20.5 percent of South Korea’s total external trade and exceeding the country’s combined total trade with the United States and Japan. According to the Ministry of Knowledge Economy, South Korea’s IT exports jumped an annual 26.5 percent in August to \$13.4 billion, with China (including Hong Kong) as the biggest IT export destination accounting for \$33.12 billion in goods in the January-June period. In August, China replaced South Korea as the biggest market for Hyundai Motor Co., which sold 376,554 cars in China during January-July compared to 370,295 in South Korea, an 18 percent year-on-year increase. China became the world’s biggest auto market in 2009, posting new car sales of 13.6 million units compared to 10.4 million units in the US. In addition, market reports in July revealed that China replaced South Korea as the world’s top shipbuilding country during the first half of 2010.

After establishing its China desk earlier this year, the Korea Trade-Investment Promotion Agency (KOTRA) set up a new Foreign Direct Investment (FDI) Policy Center in an effort to attract Chinese investment on Aug. 30. China’s direct investment in South Korea reached \$160 million in 2009 according to the Ministry of Knowledge Economy, representing only 0.3 percent of China’s total \$200 billion foreign investment. But Chinese investment in South Korea is projected to reach \$1 billion in 2012 and \$2 billion in 2015, becoming the biggest source of FDI in South Korea. Chinese Vice President Xi Jinping at the World Investment Forum in Xiamen announced plans to boost foreign investment and develop China’s multinational companies, given that China is now the world’s fifth biggest foreign investor with total outbound FDI of \$56.5 billion in 2009 according to the PRC Ministry of Commerce.

Meanwhile, the ROK Ministry of Justice in July announced measures to ease visa restrictions on Chinese visitors in a bid to attract China's growing middle-class consumers to South Korea, where the number of Chinese visitors reached 1.21 million in 2009, up 48 percent from 585,000 in 2005. Steps included issuing more one-year multiple entry visas, providing visas to transit passengers, and easing rules on tourist group visas. A Chinese Ministry of Public Security report on July 9 indicated that South Korean tourists represented the largest number of foreign tourists in China during the first half of 2010, totaling 1.95 million, a 30 percent increase from the same period last year, and accounting for 15.5 percent of total foreign tourists in China.

Prospects for a China-ROK free trade agreement

A major trade concern for South Korea is the impact of the China-Taiwan Economic Cooperation Framework Agreement (ECFA), which was reached in late June and will cut tariffs in manufacturing and service sectors. Within weeks of the agreement the Ministry of Knowledge Economy set up a specialized task force to examine the effects of the free trade deal on Korea and to develop policy responses. The ECFA will likely disadvantage ROK companies in terms of price competitiveness against Taiwanese rivals, hitting the petrochemicals, electronics, and machinery sectors from 2011 when the deal is expected to be implemented.

South Korea and China began preliminary talks on their own bilateral FTA on Sept. 28 in Beijing. Lee Tae-ho, director of the FTA Policy Bureau of the ROK Ministry of Foreign Affairs and Trade, met Yu Jianhua, director general of international trade and economic affairs of China's Ministry of Commerce, in Tokyo in late September. China and South Korea concluded their joint feasibility study on an FTA in May 2010, signing only a Memorandum of Understanding (MoU) pledging to hold additional discussions on sensitive issues. The Korea Institute for International Economic Policy indicates that South Korea's agricultural and fisheries sectors are expected to face serious losses from a China-ROK free trade deal, including a decline in production of up to 20 percent of 2005 levels by 2020.

Conclusion: post-Cheonan China-Korea relations

China's response to the *Cheonan* incident sparked intense debate in South Korea regarding Chinese strategic intentions while reinforcing Chinese concerns about strengthened US-ROK alliance cooperation. South Korean analysts have suggested enhancing inter-Korean ties on the one hand or intensifying multilateral approaches on the other as strategies to counteract pressure from China. After the Hu-Kim summit, some ROK experts pointed to an emerging opportunity for reengaging Pyongyang and for Seoul and Washington to initiate an "exit strategy" from the *Cheonan* sinking. The Sejong Institute's Lee Sang-hyun argued that Seoul should play an active "diplomatic mediator" role to ease peninsular tensions and growing US-China military confrontation in the region, calling for the creation of a "permanent and stable" institution for dealing with Korean Peninsula security matters.

The *Cheonan* incident most importantly revealed the relative weakness of China-ROK political and security relations and strategic coordination despite close trade ties. This contrasts sharply with Beijing's renewed political ties with the current leadership in Pyongyang and increasing trade and economic exchanges at a time of stalled inter-Korean relations. However, the extent to

which China will be able to convince North Korea to return to multilateral denuclearization talks or follow China's example of economic reform and opening remains unclear.

Chronology of China-Korea Relations July - September 2010

July 2, 2010: The ROK Ministry of Knowledge Economy establishes a task force to examine the effects of the China-Taiwan Economic Cooperation Framework Agreement on ROK trade.

July 5-8, 2010: The Shenyang municipal government, Korea Chamber of Commerce, and ROK Consulate in Shenyang host the Global Korean Business Convention during Shenyang's annual "South Korea Week" festival.

July 5, 2010: Samsung Electronics builds its 100th elementary school in China under a project launched in 2005 to support underprivileged areas of China.

July 6, 2010: Newly elected Premier of the DPRK Cabinet Choe Yong Rim meets China's Ambassador to the DPRK Liu Hongcai in Pyongyang.

July 6, 2010: The DPRK's *Rodong Sinmun* praises China's disaster relief efforts in response to the flooding crisis in southern China.

July 9, 2010: The Korea-China Friendship Association and Korean Committee for Cultural Relations with Foreign Countries mark the 49th anniversary of the signing of the China-DPRK Treaty of Friendship, Cooperation and Mutual Assistance.

July 7, 2010: South Korea and China hold working-level trade talks in Tangshan, Hebei.

July 9, 2010: China's Ministry of Public Security reports that South Korea accounted for the biggest number of foreign tourists in China in the first half of 2010.

July 18, 2010: Reports show that China replaced South Korea as the world's top shipbuilding country during the first half of 2010.

July 19, 2010: Leading ROK steelmaker POSCO and China's Jilin province agree to cooperate in the steel, auto, construction, and energy sectors.

July 20, 2010: The ROK Ministry of Knowledge Economy announces South Korean plans to invest 40 billion *won* (\$33 million) of its national carbon fund in a biomass power generation plant in central China.

July 23, 2010: ROK Finance Minister Yoon Jeung-hyun and Chinese counterpart Zhang Ping hold bilateral talks in Seoul.

July 27, 2010: The ROK Ministry of Justice announces South Korea will relax visa requirements for Chinese tourists.

July 29, 2010: Chinese Ambassador to North Korea Liu Hongcai and DPRK Minister of Foreign Trade Ri Ryong Nam sign an economic and technical cooperation agreement in Pyongyang according to DPRK state media.

Aug. 8, 2010: The DPRK navy seizes a ROK fishing boat with four ROK and three Chinese crew members for alleged trespassing into the DPRK's exclusive economic zone.

Aug. 8, 2010: China's Deputy Public Security Minister Liu Jing visits Pyongyang.

Aug. 16-18, 2010: China's Special Representative for Korean Peninsular Affairs Wu Dawei visits North Korea and meets Foreign Minister Pak Ui-chun, Director of the International Affairs Department of the WPK Central Committee Kim Yong-il, and Vice Foreign Ministers Kim Kye-gwan and Kim Song-gi.

Aug. 25, 2010: DPRK state media reports China will provide emergency relief aid to flood-stricken areas of North Korea.

Aug. 26-28, 2010: Wu Dawei visits Seoul and meets ROK counterpart Wi Sung-lac, Vice Foreign Minister Shin Kak-soo, and Senior Secretary to the President for Foreign Affairs and National Security Kim Sung-Hwan.

Aug. 26-30, 2010: Kim Jong-il visits Northeast China and meets President Hu Jintao in Changchun.

Sept. 1, 2010: Crew members go missing from a suspected Chinese fishing boat that sinks in the Yellow Sea after colliding with a ROK cargo ship.

Sept. 2, 2010: China's Ministry of Transport sends two airplanes to search for missing crew members aboard a suspected Chinese fishing boat that sunk after colliding with a ROK cargo ship in the Yellow Sea.

Sept. 3, 2010: Chinese Embassy in Pyongyang holds a reception commemorating the 65th anniversary of World War II; DPRK Foreign Minister Pak Ui-hun attends.

Sept. 2, 2010: Yanbian Korean Autonomous Prefecture and Rajin-Sonbong People's Committee sign an economic cooperation agreement at the sixth Northeast Asia Trade Expo in Changchun.

Sept. 4, 2010: The DPRK State Stamp Bureau issues a new postage stamp marking the DPRK's National Pavilion Day at the 2010 Shanghai Expo.

Sept. 7, 2010: DPRK authorities confirm the release of four ROK and three Chinese crew members of a ROK fishing boat seized on Aug. 8.

Sept. 8, 2010: DPRK state media recognizes the role of Chinese volunteers in the Korean War.

Sept 8, 2010: Kim Jong-il sends a message to thank President Hu for his message on the flood damage in Sinuiju.

Sept. 9, 2010: President Hu sends a congratulatory message to Kim Jong-il on the 62nd anniversary of the founding of the DPRK.

Sept. 11, 2010: DPRK issues souvenir stamps to mark the “60th anniversary of the entry of the Chinese People’s Volunteers into the Korean front.”

Sept. 13, 2010: *Rodong Sinmun* hails China-DPRK relations as entering their “Golden Ages.”

Sept. 14, 2010: The 2nd Forum of the DPRK-China University Presidents is held in Pyongyang, gathering 37 representatives from 14 Chinese universities and 21 representatives from 11 DPRK universities.

Sept. 15, 2010: *Rodong Sinmun* hails the history of China-DPRK traditional friendship.

Sept. 16, 2010: *Rodong Sinmun* hails Northeast China’s social and economic development.

Sept. 26, 2010: *Rodong Sinmun* reports Kim Jong-il’s pledge to strengthen China-DPRK traditional friendship.

Sept. 28, 2010: North Korea holds the Workers’ Party of Korea Conference.

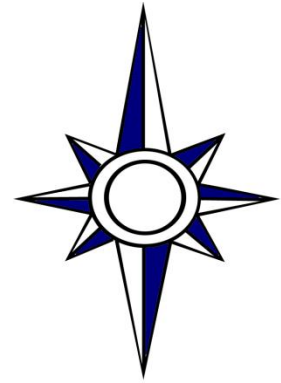
Sept. 28-29, 2010: ROK and China hold the first round of preliminary FTA meetings in Beijing.

Sept. 29, 2010: China and ROK hold the 3rd high-level diplomatic strategic dialogue in Beijing, led by China’s Vice Foreign Minister Wang Guangya and ROK counterpart Shin Kak-soo.

Sept. 30-Oct. 2, 1010: A Workers’ Party of Korea delegation led by Choe Tae Bok, secretary of the WPK Central Committee, visits China.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



Japan-China Relations: Troubled Waters

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The quarter started well. The Kan government, emphasizing efforts to strengthen economic ties with China, appointed Niwa Uchiro, former president of the trading giant Itochu Corp., as Japan's new ambassador to China. Talks to implement the June 2008 agreement on joint development of the East China Sea began in Tokyo in late July. Prime Minister Kan and all Cabinet members refrained from visiting Yasukuni Shrine on Aug. 15. In early September, Japan began the destruction of chemical weapons left behind in China by the Imperial Army at the end of the war. The quarter, however, ended in controversy. Sparked by the Sept. 7 incident in which a Chinese fishing boat operating near the Senkaku Islands collided with two Japanese Coast Guard ships, relations quickly spiraled downward. The Japanese Coast Guard detained the captain and crew setting off a diplomatic row that led to the Japanese ambassador being called in for a midnight demarche as well as the personal involvement of Premier Wen Jiabao before Japanese prosecutors released the ship's captain on Sept. 24. China's call for compensation and an apology went unanswered as of the end of the quarter.

State of the relationship: public opinion

On Aug. 16, unadjusted GDP figures released by Japan's Cabinet Office revealed that in the April-June quarter China became the world's second largest economy. Though long-anticipated, the changing of places was front page news in Japan. Meanwhile, the Japanese think tank Genron NPO and *The China Daily* released the results of their annual joint survey of public opinion. Genron polled 1,000 Japanese, while *The China Daily* interviewed 1,617 Chinese across five major cities including Beijing and Shanghai. The polling indicated that 72.0 percent of Japanese held an unfavorable image of China, virtually unchanged from 73.2 percent in 2009, while 55.9 percent of Chinese said they had an unfavorable image of Japan, down from 65.2 percent in 2009.

Behind the numbers, Japanese respondents cited Beijing's response to food safety issues as well as China's "apparently self-centered behavior" in efforts to secure natural resources, energy and food as reasons for their unfavorable image. Chinese respondents cited the Sino-Japanese War and Japan's failure to properly recognize its wartime aggression as reasons for their unfavorable image.

* 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.

While large majorities in both countries (81.5 percent in Japan and 92.5 percent in China), recognize the relationship as “important,” many said that disputes over territory and marine resources as well as a mutual lack of confidence are obstacles to the development of the relationship. In response to a multiple-choice question, 47 percent of Japanese said they perceive a military threat from China, while 52.7 percent of Chinese held a similar perception of Japan.

At the end of August, the sixth annual Tokyo-Beijing Forum met in Tokyo to discuss “Asia’s Future: Japan and China’s Contribution.” Among those participating were Wang Chen, director of China’s State Council Information Office, Li Zhaoxing, chairman of the Foreign Affairs Committee of China’s National People’s Congress, Chief Cabinet Secretary Sengoku Yoshito and former Prime Minister Fukuda Yasuo. Sengoku told participants that the two countries shared interests in exploring the possibilities for bilateral cooperation in energy, the environment, and disaster relief and that these cooperative efforts are “linked to regional as well as global peace, stability, and prosperity.” Addressing the results of the Genron NPO-*China Daily* survey, Sengoku acknowledged that there is room for improvement in Japanese feelings toward China. China’s Ambassador to Japan Cheng Yonghua called for high-level efforts to strengthen common understanding. Former Minister of Defense and LDP heavyweight Ishiba Shigeru noted that China in the past had been the world’s largest economy and that today it was not unnatural for China to aspire to that position again. Ishiba asked that China take steps to improve its transparency, but noted that it would be a mistake to call China a threat.

Japan’s new ambassador to China

On July 31, Niwa Uchiro, Japan’s new ambassador to China, arrived in Beijing. A former president of Itochu Corp., Niwa is the first private citizen to serve as ambassador to China since the normalization of relations in 1972. Niwa told reporters that he would “like to do my job with patriotism and a pro-China spirit,” and that he would spare no effort to stabilize the peace and livelihood between the two peoples. The new ambassador focused on economic relations between the two countries, including free trade agreement (FTA) negotiations, making the point that Japan should not be left behind in the FTA race among Asian countries and that it is essential that, to the extent possible, the Japan-China FTA should be advanced without delay.

Before departing for Beijing, Niwa, speaking in his individual capacity, ventured into security issues saying that China’s transparency was “increasing but still not sufficient.” He also offered the view that as an economic and military great power, it is essential to recognize that China’s words and actions have significant international impact. Touching on China’s 21 consecutive years of double-digit increase in defense spending, he said that “this perhaps was only natural for a great power.” On the pending negotiations over the East China Sea, he saw the effort as calming the waters, including the South China Sea and, linked to regional as well as global peace and stability.

State of the relationship: Yasukuni Shrine

On Aug. 8, Prime Minister Kan Naoto in a speech at Kumamoto criticized former Prime Minister Koizumi Junichiro for his visits to the Yasukuni Shrine, asserting that such visits had led to stagnation in high-level political contacts between Japan and its Asian neighbors. Earlier, on

Aug. 6, Foreign Minister Okada Katsuya told reporters that he would not pay homage at the shrine and on Aug. 15 Prime Minister Kan, all 17 Cabinet members of his government, and all top political appointees stayed away from Yasukuni. In advance of the 100th anniversary of Japan's annexation of Korea, Kan issued a statement expressing Japan's remorse and reflection. The *Yomiuri Shimbun* reported that the Chinese government refrained from commenting on the statement, but that China's dailies did carry the news under the headline "Japan's Apology, Some Asking Only Korea?" However, a supra-partisan delegation of 41 Diet members, including Liberal Democratic Party (LDP) President Tanigaki Sadakazu, LDP Secretary General Oshima Tadanori and former Prime Minister Abe Shinzo and Tokyo Gov. Ishihara Shintaro, did pay homage at the shrine.

During the run-up to the DPJ presidential election, Ozawa Ichiro told reporters that the original intent of the shrine was to honor those who had died fighting in Japan's wars and went on to point out that the Class A war criminals enshrined at Yasukuni failed to meet that qualification. Were the shrine to revert to its original intent, foreign leaders would have no grounds for criticizing visits to Yasukuni by Japan's prime ministers.

Security

In late June, Japanese media carried reports of People's Liberation Army (PLA) Navy exercises, including live-fire drills scheduled to run from June 30 through July 5. A Chinese source told the *Asahi Shimbun* that the exercises were to counter the planned US-ROK naval exercises. On July 3, two PLA warships, a guided missile destroyer and a frigate, transited in international waters between Okinawa's main island and Miyakojima. Throughout the quarter, Japanese media paid close attention to the PLA Navy, and both Chinese and US naval exercises in the East China Sea, the Yellow Sea, and the South China Sea as shown by the following reports:

- July 29 *Mainichi Shimbun*: reported with the caption "SDF Going Out to the Open Sea; Expanding Operations; Keeping an Eye on China";
- Aug. 2 *Yomiuri Shimbun*: reported on late-July PLA Navy live-fire exercises in the South China Sea carried out in advance of the ASEAN Regional Forum meeting in Hanoi and aimed at "checking" the US and ASEAN;
- Aug. 11 *Asahi Shimbun*: reported on the front page with aerial photographs the construction of land-based runways from which the PLA Air Force could practice aircraft carrier takeoffs and landings;
- Aug. 17 *Asahi Shimbun*: interviewed former US Joint Chiefs of Staff Chairman Richard Myers who observed that "China is beginning to become a major military power";
- Aug. 18. *Yomiuri Shimbun*: reported with the caption "Concerns over China's Military Expanding Blue Water Activities," including a map of first and second island chains and a summary of the US Department of Defense report on China's military;

- Aug. 19 *Yomiuri Shimbun*: reported, with photograph, Ground Self-Defense Force (GSDF) exercises aimed at landings on Japan's "distant" islands, in particular in the southwest (Senkaku) Islands, described as areas of increasing Chinese activity;
- Aug. 25 *Asahi Shimbun*: referenced US Pacific Command (PACOM) Commander Adm. Robert Willard's remarks on China's Anti-Ship Ballistic Missile (ASBM) capability and its anti-access naval strategy.

In late July, the Advisory Council on National Security and Defense Capabilities in the New Era, chaired by Sato Shigetaka CEO of the Keihan Electric Co., submitted its report to the prime minister's office. The report found the Cold War posture of basic defense capability no longer appropriate for the current security environment and called for a defense posture capable of dealing with terrorist attacks on domestic facilities, cyber-attacks on government entities, and multiple emergencies, including the Korean Peninsula, the Taiwan Strait, and "limited small-scale invasions." The panel recommended that the SDF shift from a balanced deployment pattern across the country to one that focuses on Okinawa and the Southwest Islands.

The report also recommended that collective self-defense be reinterpreted to authorize interception of missiles targeted at the US and that SDF training should include such contingencies. Easing the principles on arms exports to allow Japanese companies to participate in international development and production projects were also recommended. However, on Aug. 8, Prime Minister Kan told the Upper House Budget Committee that his government did not intend to revise the present constitutional interpretation on the exercise of the right of collective self-defense or alter the ban on arms exports and would continue to uphold Japan's three nonnuclear principles.

Earlier, on July 24, the *Sankei Shimbun* reported that the Ministry of Defense had decided to call for an increase in submarine strength from the present 18 to 20 vessels in the National Defense Program (NDP) due to be submitted by the end of the year. The build-up of submarine forces would be the first since the NDP was initially submitted in 1976. In its report, the *Sankei* also called attention to the increasing capabilities and activity of the PLA Navy. In August, the *Yomiuri Shimbun* reported that the Maritime Self-Defense Force (MSDF), in addition to the proposed increase in the submarine fleet, will submit a budget request calling for the construction of an estimated 20 surveillance ships and that the GSDF intends to submit a budget request that will support deployments to Okinawa and Yonagumi Island. The story noted that the increases were aimed at deterring Chinese naval activities.

On Sept. 10, the Cabinet approved the Ministry of Defense White Paper – 2010 Defense of Japan. It cited China's lack of transparency, rapid growth and modernization of the PLA, and the expansion of its military activities from the East China Sea to the Pacific Ocean as "causes of concern" for "the region and the international community" that required "careful analysis."

Senkaku Islands and the EEZ

On July 13, the Kan government adopted a basic program to implement the recently passed law covering Japan's distant islands. The law, which took effect on June 24, designated the distant

islands as a base point from which Japan's Economic Exclusive Zone (EEZ) is calculated and provides for measures to protect against erosion and the construction of commercial port facilities on Okinotorishima and Minamitorishima, both designated as bases of operations in the preservation of national territory. Earlier, on July 3, the Ministry of Land, Infrastructure, Transport and Tourism announced that plans to rebuild the 20-year-old concrete bulwarks around Okinotorishima are being developed.

On Sept. 7, a Chinese fishing trawler collided with the two Japanese Coast Guard ships north of one of the Senkaku Islands within Japan's claimed EEZ. After contact, the Chinese ship attempted to flee. Coast Guard ships pursued and Coast Guard personnel boarded the trawler for inspection. That evening Chief Cabinet Secretary Sengoku and senior officials from the Foreign Ministry and Coast Guard met to develop a response. Saiki Akitaka, director general of the Asian and Oceanic Affairs Bureau, telephoned Ambassador Cheng Yonghua to protest the actions of the Chinese ship.

In Beijing, the Foreign Ministry's spokesperson Jiang Yu told the media that China was "seriously concerned over the Japanese action" and had "made solemn representations with Japan." Jiang reiterated China's historic claim to sovereignty over the area and demanded that Japan's Coast Guard refrain from taking so-called "law-enforcement activities" in Chinese waters. On Sept. 8, China's Assistant Foreign Minister Hu Zhengyue called Ambassador Niwa to protest Japan's action and demand the release of the ship's captain and crew and assurances of the ship's safety. At the same time, 30-40 Chinese protestors appeared in front of the Japanese embassy and demanded an apology. The incident was headlined in China's newspapers. The next day *Xinhua* reported Vice Foreign Minister Song Tao had called in Ambassador Niwa and urged Japan to stop the "illegal interception" of Chinese fishing ships.

Prime Minister Kan took the position that since Japan's actions were based on Japanese law and strictly correct, Japan's response would continue. Chief Cabinet Secretary Sengoku noted that Chinese fishing activities within Japanese waters are increasing and the government would deal with the incident "fair-and-square in accordance with the law." The government would handle the incident "calmly" in a way that it "does not get over-heated."

On Sept. 10, the Coast Guard handed over the Chinese captain of the fishing boat, Zhan Qixiong, to prosecutors for further investigation and a decision on indictment for obstructing the Coast Guard in the execution of its duties. The Coast Guard also released statistics that showed a significant increase of Chinese fishing activity in the area of the Senkaku Islands, including one case in which close to 70 Chinese ships were confirmed as fishing illegally in waters near the islands. Meanwhile, Foreign Minister Okada told a press conference that it was "extremely regrettable" to find that the Chinese media were portraying the Japanese Coast Guard as the cause of the incident. This, he noted, was contrary to the facts and hoped Beijing would deal with the matter in a calm manner, making clear that he did not want to escalate the incident.

In Beijing, on Sept. 9, Foreign Ministry spokesperson Jiang Yu told reporters that China had dispatched "a fishery law-enforcement ship to relevant waters to conduct Fishery Administration activities according to Chinese law with an aim to safeguard fishery production as well as the safety of Chinese fishermen's lives and property."

Jiang reiterated China's historic claim to the islands and went on to say that "it is absurd and invalid that Japan applies its domestic law to Chinese fishing boats working in those waters and absolutely unacceptable to China." She called for the immediate release of the captain, crew, and the boat in order "to avoid further escalation." The spokesperson pointed to the "highly sensitive" nature of territorial and sovereignty issues and cautioned that "improper handling will have a serious impact on the overall interest of China-Japan relations. Japan should have a clear understanding of that." The next day China's Foreign Minister Yang called in Ambassador Niwa for a third time since the Sept. 7 incident. Japanese embassy sources said that Yang had reiterated China's position on sovereignty and again called for the release of the captain and the ship. On Sept. 10, Yang again called Niwa to the Foreign Ministry to protest Japanese actions.

Stepping up diplomatic pressure on Tokyo, State Councilor Dai Bingguo, at midnight Sept. 11, called in Ambassador Niwa for a meeting that lasted 45 minutes, according to Japanese embassy sources. Dai urged Japan "not to make a wrong judgment on the situation" but to "make a wise political resolution" and immediately release the crew and ship. Niwa reiterated Japan's position that the Chinese ship had acted to obstruct Japanese authorities from carrying out their official duties, while illegally fishing in Japanese waters; Japan would "solemnly handle the case in strict accordance with domestic law." The ambassador asked China to deal with issue "calmly and carefully" so as to sustain "strategic relations of mutual benefit."

Japanese authorities released 14 crewmen of the fishing ship as well as the ship itself on Sept. 13, while continuing to detain Captain Zhan. The crew arrived in Fuzhou later that day. China's netizens hailed the release as a diplomatic victory.

Also on Sept. 13, the Chinese embassy in Tokyo informed the secretariat of the Lower House that the scheduled five-day visit of Li Jianguo, vice chairman of the Standing Committee of the National People's Congress would, for "various reasons" not take place. Chief Cabinet Secretary Senkoku found the decision "extremely regrettable." Given present tensions, he thought it all the more reason for parliamentarians "to meet and engage in frank discussions away from the level of the central governments." Sengoku also intimated that, unlike 2009, a Japan-China summit would not take place this year at the UN General Assembly (UNGA).

On Sept. 14, Assistant Foreign Minister Liu Zhenmin again called in the Japanese ambassador to demand the release of the ship's captain and on Sept. 19 Vice Foreign Minister Wang Guangya took his turn with the ambassador. Meanwhile in Japan, the Ishigaki court on Sept. 20 decided to extend the detention of Captain Zhan through Sept. 29. Beijing's response was to demand his immediate release, making the point that "if Japan acts willfully, making mistake after mistake, China will take strong countermeasures and all the consequences will be borne by the Japanese side." On Sept. 21, Beijing ruled out a Wen-Kan get together at the UNGA in New York City, observing the present environment was not "appropriate" for a meeting.

In New York on Sept. 22, Premier Wen, in a speech to a gathering of Chinese nationals and Chinese-Americans, raised the political stakes when he criticized Japan for arresting the Chinese captain, finding Japanese actions "completely illegal and unreasonable." He "strongly urged the Japanese side to release the captain immediately and unconditionally." Wen continued: "If the

Japanese side insists on acting arbitrarily, the Chinese side will take new action. Japan will have to take all the responsibility for the serious consequences.” In Tokyo, Chief Cabinet Secretary Sengoku called for high-level talks at the earliest opportunity to resolve the issue. Asked if he heard Chinese media reports of Wen’s remarks, he said he was aware of the reports but had yet to confirm them. In a reply to Sengoku, China’s Foreign Ministry released a statement rejecting a high-level meeting and adding “Japan’s sneaky excuses are futile.”

At the UNGA, Foreign Minister Maehara met Secretary of State Clinton on Sept. 23. Clinton used the occasion to reaffirm that the US-Japan Security Treaty covered the Senkaku islands.

On Sept. 24, the Naha Prosecutor’s Office announced the release of Captain Zhan. At a press conference, Deputy Prosecutor Suzuki Taro told reporters that it was “inappropriate to detain any longer and continue investigations.” He explained that the decision was reached based on “considerations about the Japan-China relationship.” In Tokyo, Chief Cabinet Secretary Sengoku said that the decision to release Zhan was taken independently by the local prosecutors, while denying any influence on the part of the Kan government. Sengoku explained that he “understood that the prosecutors reached the decision based on criminal law.”

Shortly after Zhan’s release, China’s Foreign Ministry demanded an apology and compensation from Japan for its “illegal detention” of the captain. The statement, released on Sept. 25, said that “Japan’s detention, investigation or any other form of judiciary measures are unlawful and invalid...infringed on China’s territorial sovereignty ... and violated the human rights” of the Chinese people.

In Tokyo, Foreign Ministry spokesperson Sato Satoru found China’s action “groundless” and “totally unacceptable.” The following day, Prime Minister Kan announced that he had “no intention at all “of apologizing or paying compensation.” The Senkakus, he noted, “are an integral part of Japanese territory.” Kan said that the prosecutor had made his decision based on domestic law, while “thinking about the nature of the incident comprehensively.” Chief Cabinet Secretary Sengoku took a similar line and then went on to say that he believed that “we are at the stage of enhancing our strategic and mutually beneficial relationship with China.” However, he emphasized “at this point, the ball is in their court.”

Meanwhile, outside the diplomatic arena:

- The Japanese embassy in Beijing issued a caution to the Japanese community to be sensitive to the possibility of anti-Japanese demonstrations and Chinese nationalism in the context of the Sept. 18 anniversary of the Manchurian Incident; demonstrations did take place at the embassy and Japanese consulates in Shanghai and Shenyang but under police control; no injuries or property damage was reported;
- At the request of Beijing’s Public Security, authorities at the Japanese school in Beijing postponed its sports day scheduled for Sept. 18;
- In addition to the demonstrations outside the embassy, a beer bottle was thrown at the wall of the consulate in Guangzhou;

- Metal pachinko balls were thrown into the Japanese school in Taijin;
- Chinese activists in Hong Kong jostled with police in front of the Japanese consulate, while a ship with 2 Taiwanese activists entered Japan's EEZ on Sept. 13 and returned to Taiwan the next day;
- At the request of Chinese authorities, a delegation of Japanese university students cancelled their planned visit to the Shanghai expo;
- Land, Transport, Infrastructure, and Tourism Minister Mabuchi declined a request for a courtesy call by Zhang Xilong, deputy chief of China's Tourism Administration, who was attending an APEC meeting in Nara. Zhang returned the favor by not attending the Mabuchi-sponsored reception, and, at a post-conference meeting with reporters put the responsibility for the incident squarely on Japan;
- In response to the extended detention of Captain Zhan, Beijing suspended ministerial and high-level exchanges with Tokyo;
- Organizers of a Shanghai concert by the Japanese pop group SMAP announced postponement of the Oct. 10 event;
- Ceremonies marking the 20th anniversary of Fudan University's Japan Research Center, scheduled for Sept. 26, were postponed on Sept. 23;
- Representatives of China's tourist industry were reported as being asked by government officials to exercise restraint in organizing and publicizing tours to Japan;
- On Sept. 22, the organizing committee of the Asian Environmental Forum meeting announced that China's ambassador would not be making his scheduled address;
- On Sept. 22, Japan's National Governor's Conference announced that the Japan-China Governors conference scheduled to meet in Tokyo on Oct. 28 would be postponed as a result of a communication from China's Foreign Ministry.

East China Sea

On July 27, negotiations to implement the June 2008 agreement on joint development of natural resources in the East China Sea began at the Foreign Ministry in Tokyo. The Japanese team was led by Saiki Akitaka, director general of the Bureau of Asian and Oceanic Affairs, and Ishida Toru, director general of the Natural Resources and Energy Agency; the Chinese team was led by Ning Fukui, director general of the Bureau for Boundary and Ocean Affairs. Before the meeting, Prime Minister Kan told reporters that he hoped the talks would result in the East China Sea becoming a "sea of fraternity." Foreign Minister Okada said that he was deeply moved that the long-sought negotiations had actually begun. However, a senior Japanese Foreign Ministry source told the *Nikkei Shimbun* that he was not optimistic about an early conclusion of the negotiations. Another senior unidentified Foreign Ministry official involved in Japan-China

relations told the *Sankei Shimbun* that “In no time, the East China Sea will become China’s ‘core interest’ like the South China Sea.” He went on to say that “China is now a ‘military expansion’ concern for more than the United States.”

On Sept. 11, China’s Foreign Ministry, citing Japan’s “so-called legal actions” in the arrest of the captain of the Chinese fishing boat by Japanese authorities, announced postponement of the scheduled mid-September round of negotiations on the East China Sea. *Xinhua* quoted Foreign Ministry Spokesperson Jiang Yu as saying “The Japanese side has ignored China’s repeated solemn representations and firm opposition and obstinately put the Chinese captain under arrest.” Jiang warned, “Japan ... will reap as it has sown, if it continues to act recklessly.”

On Sept. 16, Foreign Ministry sources in Tokyo revealed that a Japan Air Self-Defense Force (JASDF) *P3C* had observed drilling equipment being transported to China’s offshore platform in the Chunxiao (Shirakaba) gas field. Foreign Minister Okada told reporters that drilling activities had not been observed and that, in reply to a Japanese government inquiry, Beijing had informed Tokyo that what had been observed were actions to repair the platform. Okada, however, made the point that if drilling activities were to begin, the actions would violate China’s commitments. On the evening of Sept. 17, newly appointed Foreign Minister Maehara Seiji told reporters that, if drilling activities were confirmed, Japan would take “appropriate actions.” Unidentified Foreign Ministry sources speculated that China had acted to increase pressure on Japan to release Captain Zhan, who was arrested in the fishing boat incident.

Meanwhile, in Beijing, Foreign Ministry spokesperson Jiang Yu told the media that China had “full sovereign rights and jurisdiction” over the gas field and that its activities were “reasonable and legitimate.” Jiang also confirmed that China had sent Fishery Administration ships into the East China Sea to protect Chinese fishermen and to “strengthen law-enforcement activities in our relevant waters to safeguard China’s maritime rights and interests.”

On Sept. 18, Prime Minister Kan met Foreign Minister Maehara, Chief Cabinet Secretary Sengoku and senior Foreign Ministry officials at his official residence to discuss actions Japan could take if China began drilling in the Chunxiao field. The Japanese media reported that a plan for Japan to conduct its own drilling near the Chinese facility was under consideration.

Business and economics: rare earth

In early August, the *Asahi Shimbun* reported that Beijing in July had decided on a 40 percent cut in its export of rare earth metals, which are essential to the production of hybrid cars and domestic electronics. News of the decision led to a 30 percent spike in the price of the metals.

On Aug. 18, Kondo Yosuke, parliamentary secretary of the Ministry of Economy Trade and Industry traveled to Beijing to meet with Ministry of Commerce officials in an attempt to maintain exports at 2009 levels. Kondo’s efforts proved unavailing, with Chinese authorities citing environmental issues in the mining of the metals as well as the fact that the 2009 export target had not been fully used. Accordingly, the Chinese officials explained that even at this year’s lower level of exports, there would be no reason for concern.

Ten days later, Foreign Minister Okada traveled to Beijing to attend the High-Level Economic Dialogue on Aug. 28-29. Okada, however, failed in efforts to reach an agreement that would increase China's export volume of rare earth metals. Premier Wen Jiabao said that restrictions on exports had been adopted to avoid overexploitation and extended to China's own domestic industries, asking for Japan's understanding, while, at the same time, assuring Okada that that China would not suspend exports.

A Keidanren delegation led by Chairman Yonekura Hiromasa meeting Vice Premier Li Keqiang on Sept. 8 had no better luck with its efforts to persuade China to increase the exports of rare earth metals. Li read from the same talking points used by Wen, citing overexploitation, environmental concerns, and the need to avoid uncontrolled development as the reasons to maintain the present level of exports.

On Sept. 23, as the fishing boat controversy continued to escalate, the *New York Times* reported that industry sources had obtained information that China was moving to cut rare earth metal exports to Japan in an effort to increase pressure on Japanese industry and in turn the Kan government for a resolution of the issue. China's Ministry of Trade denied the reports.

Outlook: The final quarter of 2010 will be an exercise in picking up the pieces of the ship incident. Repairing the damage will not be an easy task.

Chronology of Japan-China Relations July - September 2010

July 1, 2010: China welcomes Japan's easing of visa requirements for individual Chinese citizens visiting Japan.

July 3, 2010: Ministry of Land, Infrastructure Transport and Tourism announces plans to reinforce breakwaters around Okinotorishima.

July 3, 2010: Two People's Liberation Army (PLA) warships transit between Okinawa and Miyakojima in international waters.

July 9, 2010: Toyota Motors says it is open to pay increases for Chinese workers and announces plans to expand production in China. Honda Motors announces plans to increase production by 28 percent in the second half of 2012. Auto parts maker Denso announces plans to expand capacity in China.

July 13, 2010: Kan government adopts basic program covering Japan's distant islands.

July 13, 2010: Japanese police authorities visit China and meet Public Security officials in connection with the January 2008 *gyoza* poisoning incident – their third visit to China and first since the March 2010 arrest of the Chinese suspect.

July 16, 2010: Strike hits Honda factory in Foshan, China.

July 20, 2010: Maritime Self-Defense Force (MSDF) Chief of Staff Akahoshi Keiji announces MSDF training fleet will make a port call in Tsingtao in mid-October.

July 20, 2010: Chief Cabinet Secretary Sengoku Yoshito informs reporters that the Kan government has decided on a comprehensive policy, including legislation, to secure remains of Japanese soldiers who died in China and Southeast Asia.

July 27, 2010: Negotiations to implement the June 2008 agreement on joint development in the East China Sea begin in Tokyo.

July 27, 2010: Chinese authorities announce July 17 arrest of three Japanese nationals for possession of amphetamines.

July 30, 2010: Japan Tourism Agency announces 5 to 6 fold increase in Chinese visitors in July 2010 over 2009.

July 31, 2010: Japan's new ambassador to China, Niwa Uchiro, arrives in Beijing.

Aug. 5, 2010: Honda Motors reports 12 percent increase to 56,688 vehicles sold in China in July 2010 over July 2009; Toyota reports an increase of 1 percent to 64,200 vehicles.

Aug. 8, 2010: Prime Minister Kan Naoto in speech in Kumamoto blames Koizumi visits to Yasukuni for downturn in Japan's relations with its Asian neighbors

Aug. 15, 2010: Prime minister and Cabinet members refrain from visiting Yasukuni shrine; 41 Diet members along with LDP Secretary General Tanigaki, former Prime Minister Abe and Tokyo governor Ishihara do pay homage at the shrine

Aug. 16, 2010: GDP figures for April-June quarter reveal that China is now world's second largest economy surpassing Japan.

Aug. 19, 2010: METI Parliamentary Secretary Kondo Yosuke tells reporters that Japan has asked China not to reduce export of rare earth minerals.

Aug. 27, 2010: Council on National Security and Defense Capabilities submits report to Prime Minister Kan.

Aug. 29, 2010: Foreign Minister Okada meets Foreign Minister Wang Jiechi in Beijing; discussion focuses on Six-Party Talks.

Aug. 31, 2010: Foreign Minister Okada meets Wu Dawei, China's special representative to the Six-Party Talks; Okada reiterates caution on resumption of Six-Party Talks.

Sept. 2, 2010: Senior Vice Minister of the Cabinet Office Hiroka Hideo announces that Japan has begun destruction of chemical weapons abandoned in China by the Imperial Army.

Sept. 7, 2010: Chinese fishing boat collides with Japanese Coast Guard ship in waters around Senkaku islands; captain, crew, and ship are detained.

Sept. 8, 2010: Japan's Ambassador Niwa is called to Chinese Foreign Ministry; China demands release of captain, crew, and the fishing boat being held by Japan.

Sept. 9, 2010: Ambassador Niwa is called to Chinese Foreign Ministry; China demands release of captain, crew, and fishing boat.

Sept. 10, 2010: Japanese Coast Guard hands over captain of Chinese fishing ship to prosecutors for possible indictment for obstructing Coast Guard in exercise of its duties.

Sept. 10, 2010: Foreign Minister Yang calls in Ambassador Niwa to demand release of captain, crew, and ship.

Sept. 10, 2010: Japanese Cabinet approves 2010 Defense White Paper.

Sept. 11, 2010: China's Foreign Ministry, citing the fishing boat incident, announces postponement of East China Sea negotiations.

Sept. 11, 2010: Okinawa officials approve prosecutor's request for detention of captain of Chinese fishing ship.

Sept. 11, 2010: Narita District Immigration Office reports the number of Chinese visitors entering Japan at Narita Airport from July through the end of August came to approximately 106,000 an increase of 1.8 times over 2009.

Sept. 11, 2010: State Councilor Dai Bingguo calls Ambassador Niwa for midnight meeting to protest Japanese actions and demand release of captain, crew, and boat.

Sept 11, 2010: Chinese surveillance ship approaches Japanese research ship on eastern side of Japan's claimed mid-line boundary; demands research activities be halted; Japan protests through diplomatic channels

Sept. 13, 2010: China cancels planned 5-day visit to Japan of vice chairman of Standing Committee of National People's Congress

Sept. 13, 2010: Japanese authorities release crew and ship.

Sept. 14, 2010: Ambassador Niwa called to Chinese Foreign Ministry; China's demands release of ship's captain.

Sept. 16, 2010: Japanese Foreign Ministry reveals that a Japan Air Self-Defense Force *P-3C* observed drilling equipment being transported to China's drilling platform in Chunxiao (Shirakaba) natural gas field.

Sept. 16, 2010: Minister of Land and Transport Maehara Seiji visits Japan's Coast Guard station in Ishigaki in connection with Chinese fishing boat incident; praises Coast Guard actions.

Sept. 17, 2010: Prime Minister Kan appoints Maehara as foreign minister.

Sept. 17, 2010: Foreign Minister Maehara warns that Japan will take appropriate actions if drilling activities are observed at the Chunxiao (Shirakaba) natural gas field.

Sept. 18, 2010: Prime Minister Kan and Cabinet officials discuss responses to Chinese actions in Chunxiao (Shirakaba).

Sept. 19, 2010: Ambassador Niwa called to Chinese Foreign Ministry; China's demands release of ship's captain.

Sept. 20, 2010: Ishigaki court extends detention of Chinese captain through September 29.

Sept. 20, 2010: China detains four Japanese nationals employed by Fujita Construction for entering a restricted military area without permission in Shijiazhuang, Hebei Province.

Sept. 21, 2010: China rules out Wen-Kan meeting during UNGA in New York.

Sept. 22, 2010: Premier Wen in speech in New York demands release of ship's captain.

Sept. 22, 2010: China's releases 2010 Diplomatic White Paper; devotes an entire chapter to China's borders and maritime rights.

Sept. 22, 2010: Japan's National Governors Conference announces postponement of Japan-China Governors Forum scheduled for Oct. 28.

Sept. 23, 2010: Secretary of State Hillary Clinton affirms that the US-Japan Security Treaty extends to Senkaku islands; Secretary of Defense Robert Gates and Chairman of the Joint Chiefs of Staff Adm. Mike Mullen make similar statements.

Sept. 23, 2010: Following APEC forum on tourism in Nara, Zhang Xilong blames Japan for fishing boat incident; warns of downturn in Chinese tourists to Japan.

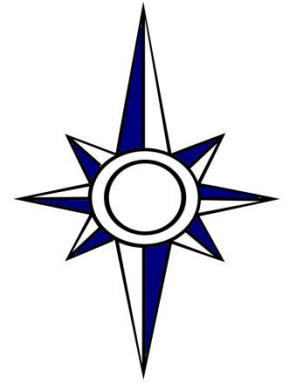
Sept. 24, 2010: Ishigaki prosecutors announce release of Chinese captain; further investigation deemed "inappropriate."

Sept. 25, 2010: Japanese diplomat meets four detained Japanese nationals in Shijiazhuang, Hebei Province

- Sept. 25, 2010:** Beijing calls for an apology from Japan over fishing boat incident;
- Sept. 26, 2010:** Prime Minister Kan refuses to apologize to China for the fishing boat incident
- Sept. 26, 2010:** Japanese embassy requests early resolution of four detained Fujita employees.
- Sept. 27, 2010:** Chief Cabinet Secretary Sengoku suggests that China pay for repair of Japanese Coast Guard ship; says China is responsible for putting relationship back on track.
- Sept. 27, 2010:** Japan National Tourist Organization announces that the number of Chinese visitors to Japan hit 1.04 million January to August, topping the 1.01 million for all of 2009.
- Sept.28, 2010:** Jiang Yu tells media that China highly values the Japan relationship but repairing relations will require the two countries to meet halfway and will require Japan to take “candid and practical actions.”
- Sept. 28, 2010:** Japanese are arrested for throwing flare at the Chinese Consulate in Fukuoka.
- Sept. 29, 2010:** Ten Chinese ships sited in waters near the Chunxiao (Shirakaba) gas field.
- Sept. 29, 2010:** Trading companies report China’s export of rare earth metals has resumed.
- Sept. 30, 2010:** China releases three of four detained Fujita Construction employees.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



Japan-Korea Relations: Same Dance, Different Floor

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The two highlights in Japan-Korea relations during this quarter are Prime Minister Kan Naoto's apology to South Korea for Japan's colonial rule, and the appointment of Kim Jong-un, as vice chairman of the Workers' Party Central Military Commission and military general in the Korean People's Army. While these developments hold the promise to potentially change the security landscape of Northeast Asia, Prime Minister Kan's first full quarter in office reveals that Japan's North Korea policy is likely to continue along the lines of previous Japanese administrations, at least for now: an unfavorable attitude coupled with hostility and inaction. Pyongyang's attitude toward Tokyo, too, changed little and remained more or less *predictable* – it denounced Prime Minister Kan for apologizing only to South Korea, criticized Japan for “shamelessly” wanting a permanent seat at the UN Security Council, and demanded compensation for all of Japan's past wrongdoings. Japan-South Korea relations appear to be moving closer, although whether Kan's apology will truly change anything remains to be seen.

Japan keeping a watchful eye on North Korea's succession

At the quarter's end, the Japanese government remained noncommittal but is apparently paying close attention to the North Korea's power transition dynamics for signs of whether there is any possible impact on the North's stance on either the abduction issue or its nuclear and missile programs. The Japanese media closely followed news about Kim Jong-un's appointment as a vice chairman of the Central Military Commission in the Workers' Party, which took place a day before the party's conference selecting “supreme leadership body.” With no prior military title, little is known about Kim Jong-un, but his new position means that he is responsible for directing North Korea's army and for formulating the party's military policies. Along with Kim Jong-il's sister Kim Kyong-hui's promotion to a Central Committee's Political Bureau member and her husband Jang Song-taek's nomination to the number two position on the National Defense Commission, it appears that a hereditary power transfer may be underway in Pyongyang. The Japanese government made no immediate official comment, but Prime Minister Kan said on Sept. 28 that Japan will “carefully monitor the situation inside North Korea.”

Kim Hyon-hui and the abduction issue

Amid the prolonged stalemate on the abduction issue, former North Korean agent Kim Hyon-hui made a four-day headline-making visit to Japan. Kim is the sole surviving bomber responsible for the 1987 bombing of Korean Air passenger flight 858, and had received Japanese language training in North Korea from abduction victim Taguchi Yaeko. The Japanese government arranged meetings between families of the abductees and Kim, who claimed to have information

about abduction victim Yokota Megumi. Reportedly her visit did not result in any new information, but Chief Cabinet Secretary Sengoku Yoshito said that the visit was “meaningful,” because it “has helped many people in the country to develop a strong indignation and interest regarding the abduction issue, which represents a violation of human rights and national sovereignty.” Japan’s Justice Minister Chiba Keiko issued a special permit for her visit because Japanese law prohibits foreigners convicted of crimes and sent to prison for more than a year from entering the country. Opposition lawmakers have criticized the government spending for her visit, which included a government-chartered airplane, helicopter, and the use of former Prime Minister Hatoyama Yukio’s summer house in Karuizawa, where she met the families of the abductees. It is reported that the South Korean government requested the tight security measures for Kim due to concerns of a possible North Korean terrorist attack.

Watching changes in the North Korean leadership, the families of those Japanese nationals abducted by North Korea urged the government to be more proactive, saying that “the current North Korean move offers a chance to get the abductees back.” Working-level bilateral negotiations between Tokyo and Pyongyang on the abductee issue were last held in August 2008; there has been little progress since then. Tokyo and Pyongyang have been at odds with each other over the fate of the abductees. North Korea admitted for the first time in September 2002 that it had abducted 13 Japanese nationals and returned five of them. Pyongyang claimed that the rest had already passed away, but Tokyo has been investigating and collecting evidence to show that there were more abductees and that some of them might still be alive. Most recently, Nakai Hiroshi, Japan’s state minister in charge of the abduction issue, said that the Japanese government received information that an abduction victim named Taguchi was alive five years ago in Pyongyang. North Korea has claimed that Taguchi died in 1986 in a car accident.

Pyongyang: Tokyo is unfair

Prime Minister Kan’s Aug. 10 statement of apology, which acknowledged for the first time the forceful nature of Japan’s annexation of Korea in 1910, drew criticism from North Korea as “nothing but a cynical ploy to evade the responsibility for the crime of aggression.” Kan’s apology, issued ahead of the Aug. 29 centenary of Japan’s annexation of Korea, did not include North Korea, which prompted Pyongyang to criticize Japan for “wanting to keep the division of the peninsula.” According to the Aug. 13 *Japan Times*, a group of North Koreans who were victims and relatives of deceased victims of Japan’s colonial rule sent a letter to Japan to demand an “immediate apology and compensation” for their sufferings. Song Il-ho, ambassador in charge of normalization talks with Japan, said in an interview on Aug. 13 that Kan’s statement “retreats” from the Murayama statement of 1995 and that it gave “a sense of disappointment and resentment to all [North] Koreans.” But he added that “the DPJ-led government in Japan can start improving relations with Pyongyang by removing sanctions that the previous LDP-led governments have imposed.”

Japan’s 2010 Defense White Paper said that North Korea’s nuclear programs and missile activities are an “extremely destabilizing factor” in Northeast Asia and pose “grave dangers” to Japan’s national security. In response, the Korean *Central News Agency* claimed on Sept. 23 that Tokyo is trumpeting “the non-existent nuclear threat” from the North to disguise its own nuclear

issue. Regarding the description of the Dokdo/Takeshima islets as part of Japanese territory, the North claimed that Japan's move is "a pretext for staging a comeback to Korea."

Japan-South Korea relations: swimming through history

Aug. 29, the day that marked the 100th anniversary of Japan's annexation of Korea, did not mark a Japanese imperial visit to Seoul as South Korean President Lee Myung-bak had once hoped. However, the two countries did make an important step forward as Prime Minister Kan, with Cabinet endorsement, officially expressed the "feelings of deep remorse and heartfelt apology for the tremendous damage and suffering brought on by colonial rule" to South Korea.

Three things make this apology noteworthy. First is the fact that it was directed solely to South Korea, with an acknowledgement for the first time that the annexation was forced. In 1995, then Prime Minister Murayama Tomiichi offered a more general official apology for Japan's aggression in Asia during World War II. Although Kan's apology largely echoed Murayama's 1995 statement, it was considered a more honest statement. Prime Minister Kan said, "As shown in their acts of strong resistance, such as the March 1 Independence Movement, Koreans were deprived of their nation and culture by a colonial rule that was against their will." In response, South Korean Foreign Ministry spokesman Kim Young-Sun said that Seoul recognized and welcomed Japan's attempt to be honest about facing its past mistakes.

Second, given how inflamed historical issues between the two countries have become in the past, it is worth noting that Seoul and Tokyo have handled the 100th anniversary of the annexation quite well and without damaging bilateral ties. Behind Japan's gesture of apology and South Korea's relatively calm acceptance lay the political will on both sides needed to improve bilateral relations amid a rapidly changing security environment in Northeast Asia.

Third, despite the view among some conservative Japanese politicians that Japan should stop "apology diplomacy," there was also greater political will on the part of the Japanese government to strengthen its working relationship with the Lee administration in order to accomplish its foreign policy goals. In contrast to former Prime Minister Koizumi's visits to the Yasukuni Shrine while at the same time officially accepting the 1995 Murayama apology, all 17 members of the Kan Cabinet decided against paying a visit to the Shrine on Aug. 15 of this year. The DPJ-led Kan administration appears to accept that Japan cannot strengthen ties with Seoul while ignoring historical issues. In an editorial on Aug. 12, the *Japan Times* made a similar point by claiming that those politicians who oppose Prime Minister Kan's apology should remember that "without showing remorse for its Asia-Pacific wars and colonial rule, Japan cannot gain the trust of its Asian neighbors."

South Korean official and public reaction to Prime Minister Kan's apology was overall positive, emphasizing in particular Kan's acknowledgement of the forceful nature of annexation, and viewing Kan's apology as a step forward from the 1995 Murayama statement. However, two reactions were consistent across the South Korean media and from the South Korean government. The first was a call for Japan to put its words into actions. For example, South Korean daily *Kyunghyang Sinmun* pointed out in its Aug. 10 editorial that Japan's behavior did not significantly change after the 1995 apology, referring to former Prime Minister Koizumi's

visits to the Yasukuni Shrine and the history textbook issue that took place afterward. A second reaction was that the apology was not “sufficient” in that it failed to mention thorny issues such as the so-called comfort women, and did not explicitly recognize the illegality of the annexation.

In fact, on Aug. 29, several hundred South Koreans rallied in Tapgol Park in Seoul under the name of “Memory of independence, future of the next 100 years,” demanding “an honest and concrete apology from the Japanese emperor to the victims and sufferers of colonial rule.” But as reported in Japan’s daily *Asahi Shimbun* on Aug. 31, there are people in South Korea – especially among the younger generations – who believe Kan’s apology was good even if its contents were not entirely as South Korean wishes.

Japan taking a backseat to China?

Another important aspect of the apology was the timing and the international context in which Prime Minister Kan made it. It seems more apparent than ever that both in Japan and South Korea there is a growing sense that Japan is lagging behind China’s military and economic – but perhaps not diplomatic – clout in Asia. As was noted around the world, this quarter marked China surpassing Japan as the world’s second largest economy. Japan’s 2010 Defense White Paper, the first under the DPJ-led government, expressed Tokyo’s increasing concern about not just China’s lack of transparency in its national defense policies but also about the overall future use of China’s expanding military power, including its naval activities. According to a report by Prime Minister Kan’s advisory panel, Japan’s Cold War-era defense policy – including its three non-nuclear principles – is no longer efficient, and the Self-Defense Forces need to enhance their capabilities to respond to contingencies. Broadly speaking, Prime Minister Kan’s apology can be understood as growing out of the overall Japanese foreign policy under these circumstances; it is meant to reaffirm the importance of its alliance with the US and build closer cooperation with South Korea.

Against the backdrop of its dealings with Beijing over the sinking of the South Korean naval ship *Cheonan*, Seoul is closely following the rising tensions between Tokyo and Beijing over the Senkaku/Diaoyu Islands. The underlying shifts in the balance of power between Japan and China appear to have become more visible during this quarter in the eyes of South Koreans due to the assertive and abrupt manner in which China handled the latest territorial dispute with Japan. South Korea’s major daily *Joongang Ilbo* on Oct. 1 editorialized that “Japan is increasingly taking a backseat to China,” listing Japan’s declining demographic trend, economic doldrums, and the diplomatic row with China as indicators.

In sum, although Japan’s description of the Dokdo/Takeshima islets as part of Japanese territory in its Defense White Paper triggered “regrets” and protests from Seoul, the quarter’s overall bilateral relations remained positive. Regarding North Korea’s nuclear program, on Sept. 22 Japanese Foreign Minister Maehara Seiji and acting South Korean Foreign Minister Shin Kak-Soo agreed that Pyongyang had to first take concrete actions before there was any chance of resuming the Six-Party Talks. This joint stance came despite North Korea’s call for the resumption of the Talks, which Beijing supported. Earlier in July, then Foreign Minister Okada Katusya expressed hope that Japan and South Korea could expand ties beyond politics, economics, and culture to include defense cooperation as well. Another positive note was that

Japan handed over colonial-era records of some 5,600 Koreans who died during forced labor at Japanese firms and mines.

Economic relations

In the larger context of the ongoing competition and interdependence between the Japanese and South Korean economies, signs of Japan's continuing economic stagnation were in stark contrast to South Korea's being the Organization for Economic Cooperation Development (OECD) country with the fastest economic recovery from the global financial crisis. For the first time in six years, Japan's Central Bank decided to sell its own currency to stem the *yen's* rise against the US dollar this quarter. While Japanese Finance Minister Noda Yoshiko said that the government would take further steps as it monitored the market, there were concerns that the measures may not work because Japan sold *yen* unilaterally. Economic recovery in the ROK was at least partly attributed to the *won's* fall in 2008, which benefited South Korean exporters.

Political leadership and South Korea's experience in the 1997 Asian Financial Crisis were possible contributing factors to the differing economic performances between Japan and South Korea in responding to the global economic crisis. The Aug. 5 *Yomiuri Shimbun* carried an interview with Choi Kyung-Hwan, South Korea's knowledge economy minister. He said that behind South Korea's economic performance in the past few years was the structural adjustment made after the 1997 Asian Financial Crisis, which helped solve the problem of excessive competitiveness and the debt problems in various industrial sectors. Choi added that President Lee's leadership and business background were also positive contributing factors.

At the same time that Japan's lost its position as the world's number two economy to China, South Korea's economic interdependence with China is rising to new heights. According to South Korea's Central Bank, between January and August this year, South Korean exports to China made up of 25.1 percent of the country's total overseas shipments, up from 23.4 percent the previous year. During the same period, South Korea's trade with China accounted for 21.1 percent of total trade, up from 20.5 percent in 2009, bringing a \$29.4 billion trade surplus to South Korea.

Society and culture

Political tension and hostility at the governmental level between Japan and North Korea have affected Japan's treatment of ethnic North Koreans living in Japan for quite some time. This quarter, according to a report by Japan's Ministry of Internal Affairs and Communications, there were no local governments that exempted pro-North Korean General Association of Korean Residents in Japan (the *Chongryon*) from paying property taxes on their facilities. Previously, the group had enjoyed exemption from property taxes due to its function and quasi-diplomatic status representing North Korea in Japan. But, worsening bilateral relations coupled with negative Japanese public sentiment over the abduction issue, in 2007, prompted Japan's Supreme Court to declare that providing tax privilege to the organization was illegal. According to the Aug. 13 *Asahi Shimbun*, there are now 94 local governments that do not reduce property taxes for the organization, while 30 provide a partial exemption. The remaining six local governments are reviewing their policy.

A similar situation exists with tuition waivers for pro-North Korean schools in Japan. Currently, those schools receive the same tuition waivers as schools for Japanese, despite still strong opposition from some lawmakers in Japan. The law was enacted in April to provide a tuition waiver for Japan's public high schools, while providing 118,800 to 237,600 *yen* annually to those who go to private and other schools. The Education Ministry decided to include pro-Pyongyang high schools after concluding that those schools have similar curricula to other Japanese schools. But some lawmakers, including Nakai Hiroshi, state minister in charge of abduction issues, are opposed to the inclusion due to the unresolved abduction issue between Tokyo and Pyongyang.

The issue of granting suffrage to permanent residents in Japan's for local elections received attention in the run-up to the July 11 Upper House election. The ruling DPJ advocates granting voting rights to permanent residents living in Japan, while conservative politicians in LDP and small parties oppose the idea. The July 3 *Japan Times* ran a story about a citizens group led by Hiroyasu Inoue from the city of Kariya as a case of opposition to foreigner voting rights: he fears that it would "threaten Japanese traditions and national security." The conservative political parties Sunrise Party of Japan and People's New Party also oppose the idea, while Japanese Communist Party and Social Democratic Party advocate it.

According to an OECD report, among its 28 member countries, Japan spent the least on education in the year 2007. At the same time, the Japanese government is trying to encourage students to study abroad by providing financial assistance. Concerned with Japanese students' "inward-looking" attitude, the Ministry of Education, Culture, Sports, Science and Technology decided to launch a "short visit" program with a budget of 1.7 billion yen that aims to send 7,000 students overseas in fiscal year 2011.

The coming quarter

The coming quarter may provide some movement in North Korea-Japan relations. Although it is unlikely that newly anointed and eventual leader "Young General Kim Jong-un" may assert himself in policymaking right away, the mere fact of his imminent rise could lead both Japan and South Korea to reevaluate policies toward the North. It is also possible that North Korea could move its foreign policy in some new direction to help Kim Jong-un solidify his role in the ruling hierarchy. However, the most likely path for the next few months – if not years – is for Kim Jong-un to keep his head down, build internal support for his rule, and avoid attempting to involve himself in any major way with foreign policy decisions.

Chronology of Japan-Korea Relations July - September 2010

July 11, 2010: Prime Minister Kan Naoto's ruling coalition loses a majority in the Upper House of the Diet following elections.

July 13, 2010: Japan's Foreign Minister Okada Katsuya "recognizes that Korean pride was deeply bruised when they lost their country" in his written interview with South Korean daily *Dong-A Ilbo*.

July 20-23, 2010: Kim Hyon-hui, the sole surviving bomber of the 1987 Korean Air passenger flight, makes a four-day visit to Japan to meet the families of those abducted by North Korea.

July 22, 2010: Nakai Hiroshi, Japan's state minister in charge of abduction issues, says that abduction victim Taguchi Yaeko was alive and well in Pyongyang six years ago. Pyongyang previously claimed that she died in 1986 in a car accident.

July 23, 2010: Japan's Chief Cabinet Secretary Sengoku Yoshito says Kim Hyon-hui's visit was "meaningful."

July 27, 2010: Prime Minister's Advisory Council on National Security and Defense Capabilities in the New Era completes its report.

Aug. 6, 2010: Japan's Chief Cabinet Secretary Sengoku Yoshito says that Japan needs to remove impediments to future-oriented bilateral relations with Seoul from a humanitarian standpoint.

Aug. 10, 2010: The Korean reunification index of the Institute for Peace and Unification Studies at Seoul National University shows that the feasibility of the integration of the two Koreas in the areas of politics, economics, society, and culture declined in 2009 for a second straight year.

Aug. 10, 2010: Prime Minister Kan apologizes to South Korea for Japan's colonial rule of Korea. Japan acknowledges for the first time the forceful nature of the annexation in 1910.

Aug. 11, 2010: The Japanese government releases the property tax collection practices of facilities for pro-North Korea General Association of Korean Residents in Japan.

Aug. 11, 2010: North Korea criticizes Prime Minister Kan for apologizing only to South Korea and for failing to settle the past.

Aug. 12, 2010: A group of North Korean victims and the families of the deceased victims of Japan's colonial rule send a letter to Japan to demand immediate apology and compensation.

Aug. 13, 2010: North Korea's ambassador for normalization talks with Japan, Song Il-ho, says that Prime Minister Kan's apology statement was "disappointing."

Aug. 15, 2010: South Korean President Lee Myung-Bak proposes a unification tax during his speech commemorating the 65th anniversary of Liberation Day.

Aug. 26, 2010: Japan sends the South Korean government the records of those who died during forced labor at Japanese companies and mines during its colonial rule of Korea.

Aug. 28, 2010: Japan's Foreign Minister Okada Katsuya tells his Chinese counterpart Yang Jiechi that the Six-Party Talks cannot easily be resumed "considering the feelings of South Korean and the South Korean government's position."

Aug. 29, 2010: The 100th anniversary of Japan's annexation of Korea.

Sept. 7, 2010: Japan's Agriculture Ministry announces that Japan is lifting a ban on South Korean poultry imports.

Sept. 10, 2010: Japan's Defense White Paper emphasizes the importance of US military deterrence and expresses concerns over China's increasing military power.

Sept. 10, 2010: South Korea expresses "deep regret" over Japan's Defense White Paper's description of the Dokdo/Takeshima islets as part of Japanese territory.

Sept. 14, 2010: Kan Naoto is reelected head of the Democratic Party of Japan.

Sept. 15, 2010: The Bank of Japan sells *yen* as currency trading opens in Tokyo.

Sept. 22, 2010: Japanese Foreign Minister Maehara Seiji and acting South Korean Foreign Minister Shin Kak-Soo agree that North Korea has to show concrete action before the resumption of the Six-Party Talks.

Sept. 27-28, 2010: Seoul, Tokyo, and Beijing meet to discuss details of setting up a permanent secretariat for trilateral cooperation.

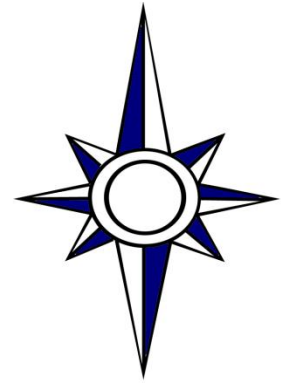
Sept. 28, 2010: North Korea holds a political conference and Kim Jong-un is appointed as vice chairman of the Central Military Committee of the Workers' Party.

Sept. 29, 2010: Families of Japanese nationals abducted by North Korea urge the Japanese government to take more proactive actions to make a breakthrough in the abduction issue.

Sept. 29, 2010: Japan's Foreign Minister Maehara Seiji says that Japan is closing monitoring developments regarding North Korea's leadership transition.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



China-Russia Relations:

***Peace Mission 2010* and Medvedev's Visit to Russia**

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For much of the third quarter, Russia and China were besieged by disasters of various kinds. Leaders sent each other messages to express their sympathy and support while relief materials were delivered. Bilateral relations began to gather momentum at the end of August when Prime Minister Putin attended the opening of the Russian-Chinese oil pipeline. In September, the Shanghai Cooperation Organization kicked off its *Peace Mission 2010* exercise in Kazakhstan. This was followed by President Medvedev's state visit to China in the name of "comprehensively deepening Russian-Chinese strategic partnership relations." All of this occurred against the backdrop of heightened tension on the Korean Peninsula after the sinking of the South Korea Navy ship in March and the rapid deterioration of China-Japan relations after Japan's seizure of a Chinese fishing boat in early September.

From Russia, with oil

On Aug. 29, Prime Minister Vladimir Putin opened the valve to pump the first cubic meters of technological oil (oil needed to fill the pipeline) into the 72 km Russian section of the 999 km Russia-China oil pipeline between Skovorodino in Russia's Amur region and Daqing in northeastern China, thus symbolically executing a \$25-billion deal for 300 million tons of oil to be shipped to China over the next 20 years (2011-2030). The Skovorodino-Daqing branch line is a spur from the 4,857 km Eastern Siberian-Pacific Ocean oil pipeline (ESPO).

The ceremony in the Russian city of Skovorodino, however, remained symbolic because the Chinese section (927 km) was still under construction, most of which had to go through one of China's most important ecological zones with dense forests and permafrost (104 km). To protect the pipelines from both frost and fires, many sections of the pipeline have to go underground at an average depth of 2.2 meters below the surface. By late September, when President Dmitry Medvedev was in Beijing, China had completed construction.

Even with the infrastructure in place, the amount of oil to be sent through the pipeline is subject to negotiations. Some Chinese argued that China should purchase the oil at a price lower than that offered at Kozmino (ESPO's terminus at the Pacific Ocean) because the distance from Skovorodino (where the spur to China branches off from ESPO) to Kozmino is about 2,000 km, but just 60 km to the Chinese border. The Russians, however, insisted on the price at Kozmino and there was no such a thing as "friendly price." At least for the first year, Russia would get the ESPO's terminus's price.

There is no question that the completion of the China spur from the ESPO oil pipeline represents significant progress in bilateral energy cooperation. China will gain additional energy security in its still expanding appetite for raw materials. For Moscow, the opening of the China spur, together with the symbolic opening of the Kozmino oil terminal in December 2009, is of global and strategic significance. “This is an important project for us as we are diversifying the supply of our strategic commodity. Until now most supplies were made to Europe ... and this is a noticeable competition to the European route,” Putin remarked at the opening ceremony in the Russian village of Skovorodino. By the time the first oil started to flow toward China, an average of 120-130 million tons of Russian oil has gone to Europe annually over the past 30-40 years. This Skovorodino-Daqing spur line could pump 15 million tons of petroleum to the energy hungry China, with the potential to double that amount to 30 million tons annually. The eventual opening of the ESPO line will enable the dispatch of 50 million tons of oil to the Pacific coast.

The Skovorodino-Daqing branch line, therefore, has been part of Russia’s energy strategy to tap into the vast Chinese potential market rather than rely solely on Russia’s traditional customers in Europe. But in the short term, Russia will become more a material supplier to the “Chinese factory,” something hard for the Russian elite to accept. This oil pipeline, therefore, has been used by Moscow as leverage for other “cooperative projects” such as Russia’s expanding foothold in China’s nuclear energy sector. It is no coincidence that President Medvedev presided over the signing of both the oil pipeline deals and those for No. 3 and 4 *VVER-1000* units for China’s Tianwan nuclear power plant. In addition, Russia is constructing two *BN-800* fast-neutron reactors in China, forming joint ventures with China to extract uranium in Russia, expanding Russia’s electricity supply to China, aggressively seeking Chinese investors to the newly created high technology industrial zone in Zelenograd (Russia’s “Silicon Valley), and implementing dozens of large-scale investment projects in Russia’s Far East, according to a 2009 “Action Plan to implement the China-Russia Treaty of Friendship, Good-Neighborliness and Cooperation (2009-2012)” and the cooperation and planning program for northeast China and Russia’s Far East and Eastern Siberia Area. In 2010, Russia plans to supply China with 12 million tons of coal and would like to increase that to 15-20 million tons per year.

According to Putin, “Our cooperation with China is not limited to just hydrocarbons. Military-technical cooperation is also of great importance and nets hundreds of million dollars. Machinery supplies are growing. Speaking of energy, Russia is China’s main partner in the field of peaceful use of nuclear energy, and equipment supplies here amount to billions of dollars... For Russia, the work in this region makes sense as long as it is aimed at developing the Far East and the implementation of this project contributes significantly to the fulfilling of this task.”

For both Moscow and Beijing, the completion of the Skovorodino-Daqing branch line represents encouraging progress for further economic interactions at a time when the Russian economy is showing signs of an upturn after a two-year slow down as a result of the global economic crisis. By late August, the Russian Economic Development Ministry raised its 2011 GDP growth forecasts from 3.4 percent to 4.2 percent. Bilateral trade is projected to reach the pre-crisis level of \$58 billion in 2008. Russia’s foreign trade surplus in the first five months of 2010 almost doubled to \$79.9 billion from \$41.9 billion. Finally, a wholesale market jointly funded by China and Russia and selling Chinese goods, which has already attracted 1,100 businesses and potentially more, opened on Sept. 16 near the Moscow Ring Road.

Peace Mission 2010

The Shanghai Cooperation Organization (SCO) held its joint antiterrorist exercise, *Peace Mission 2010*, in the Matybulak training range in Kazakhstan's Zhambyl region in September. It is the seventh exercise launched under the SCO framework since 2002 and the third multilateral one (the other two multilateral drills were conducted in 2003 and 2007). More than 5,000 troops from Kazakhstan, China, Kyrgyzstan, Russia, and Tajikistan participated. Uzbekistan decided not to join, despite an invitation. More than 1,600 armed vehicles, 100 artillery pieces, and 50 combat aircraft and helicopters were involved in the drill. China, Russia, and Kazakhstan each contributed 1,000 troops.

The scenario involved joint operations and simulations against a "terrorist" group taking up position in an urban populated area. The exercise was divided into four stages. On Sept. 10, general staff chiefs from SCO member states held "military-political consultations" in Almaty's Military Engineering Institute of Radio Electronics and Communication. Gen. Saken Zhasuzakov, first deputy defense minister and chief of the staff of Kazakhstan's Armed Forces, presided. Other participants included China's People's Liberation Army (PLA) Chief of the General Staff Gen. Chen Bingde, First Deputy Defense Minister and Chief of the Staff of Russia's Armed Forces Gen. Nikolai Makarov, First Deputy Defense Minister and Chief of the Staff of Kyrgyzstan's Armed Forces Col. Taalalbek Omuraliev, and First Deputy Defense Minister and Chief of the Staff of Tajikistan's Armed Forces Gen. Ramil Khalilovich Nadirov.

The bulk of the exercise time was allocated to the second phase (preparation on Sept. 10-13) and the third phase (simulation of a joint antiterrorist operation on Sept. 14-23) when participating units rehearsed and fine-tuned hardware and software including their interoperability. On Sept. 14-15, the participating units conducted the first stage of their air and ground operations. Russian, Kazakh, and Chinese forces coordinated and tested flight routes from the airfield to the site of the exercise and land routes for combat missions. Pilots held joint training sessions on providing air support for a joint ground operation. Chinese military aircraft such as the *J-10* fighters and the *H-6H* bombers flew from their homeland over 1,000 km into the airspace above the exercise area. This was the first time that China's military aircraft conducted a cross-border joint exercise. Over the next few days, military units rehearsed, with both simulated (twice) and live-fire drills (four times). The four separate drills included 1) fire-power preparation and breakthrough of "enemy" positions, 2) encircling and suppressing "enemies" in residential areas, 3) reserve forces joining the pursuit of fleeing "enemies," and 4) purging the "enemy" entrenched in their bases in a night operation.

The fourth and final "active" phase of the maneuvers was held on Sept. 24, when the combined forces launched coordinated ground and air attacks against 1,500 heavily armed "insurgents" occupying a border town, which included a final stage involving night operations. Defense ministers of the SCO member states came and observed the final drill.

By numbers, *Peace Mission 2010* was not the largest SCO "antiterrorist" exercises. *Peace Mission 2007*, which was held in Russia at the Chebarkul range of the Volga-Urals Military District, involved 6,000 troops, including 2,000 from Russia and 1,700 from China. More than

1,000 pieces of combat equipment, including 500 from Russia, were engaged. *Peace Mission 2010*, however, was the largest joint military exercise Russia and China have conducted outside the two countries. Russian and Kazakhstani forces did not bring in new weapon systems. Chinese forces, however, were equipped with many new weapons systems for the first time, including *H-6H* bombers, *J-10* fighters, early warning aircraft, aerial tankers, *Z-9* attack helicopter, *T-99* main battle tanks, *92B* Armored Personnel Carriers, 122mm self-propelled howitzers, etc.

One of the major differences between *Peace Mission 2010* and previous exercises conducted under the SCO framework lies in the effort to develop more interoperability among the participating units of the SCO member states. This involved more unified command and control and coordinated ground and air operations. “Troops of different countries communicate with each other more freely than before,” observed a Chinese reporter. Commandos of four countries were airlifted by the same *Mi-26* transport helicopter to the battlefield. Another difference was the more realistic circumstances under which the units rehearsed and practiced, according to Gen. Wang Haiyun, former defense attaché to the Chinese embassy in Russia.

For the PLA, the biggest benefit was to learn valuable lessons from its Russian counterpart, whose experiences in counterinsurgency (COIN) operations during the two lengthy wars with Chechen rebels (1992-1994 and 1999-2009) and “small wars,” such as the one in August 2008 with Georgia, are largely absent in the PLA’s recent history. The last large-scale military operation by the PLA, which was a brief border war with Vietnam, was fought more than 30 years ago. China’s own experiences in COIN operations and other operations are simply not adequate for the complexities and difficulties of the post-9/11 world of hyper ethno-nationalism and terrorism. Since 9/11, Chinese military academies and the General Staff have developed growing interest in the experiences and lessons of the antiterrorist operations of foreign militaries. While the US and NATO forces are seasoned in their Iraq and Afghan wars, the Russian experience is more applicable for the PLA. The Russian military’s experience in urban warfare and street combat is particularly valuable for the PLA as terrorist insurgencies have become increasingly transnational, flexible, high-tech, and lethal in their efforts to maximize terror’s impact. The seven antiterrorist exercises under the SCO framework – be they multilateral (2007 and 2010) or bilateral (2005 and 2009) – are of enormous importance for the PLA.

Medvedev “three strikes” in China

Two days after the conclusion of *Peace Mission 2010*, President Medvedev began his second official visit to China. In three days (Sept. 26-28), he stopped in three Chinese cities for three purposes: Chinese northeastern coastal city of Dalian for the past (WWII), Beijing for current politics and business, and Shanghai for the future (visiting the Shanghai Expo).

In Dalian, Medvedev visited the Russian Military Cemetery in the area of Lushun (former Port Arthur) and laid flowers at the memorial and the monument to Soviet troops. The Russian Military Cemetery in Lushun is a large burial place for tens of thousands of men and officers of the Russian/Soviet Army who died in the 20th century’s wars, including the 1904-1905 Russo-Japanese war (some 15,000), the Soviet-Japanese war at the end of WWII in China’s Manchuria (over 2,000), and the 1950-53 Korean War (several hundred). “Friendship with China is Russia’s strategic choice, it’s a choice that was sealed by blood years ago,” Medvedev told a Russian and

Chinese audience, including Mao Zedong's 73-year old daughter Li Min, after his visit to the cemetery. "We should jointly care for memory; the memory of future generations, averting any distortions of historic events; we should protect the truth about the events of that war; the more so, since there are forces, trying to distort this historic truth," Medvedev said. He also thanked China for renovating the memorial, which is one of more than 70 memorials commemorating Soviet war martyrs throughout China.

The bulk of Medvedev's stay in Beijing focused on strategic and business issues. This included meeting top Chinese leaders including President Hu Jintao, Chairman of the People's Congress Wu Bangguo, and Premier Wen Jiabao. The talks covered a wide range of issues regarding bilateral relations, regional and global politics, with the theme of how to push China-Russia strategic coordination to a new level by broadening and deepening this relationship.

President Hu opened the talks by saying Medvedev's visit would "have a powerful impact on the development of Russian-Chinese relations" and that China viewed and developed relations with Russia from a strategic and comprehensive point of view. Medvedev said that he intended to keep up the high intensity of contacts with the Chinese leadership. Indeed, this was the fifth Hu-Medvedev meeting for 2010. He also noted that Russia and China were becoming more interdependent and their future was closely interrelated. "It is Russia's diplomatic priority to develop its partnership of strategic coordination with China and will never waver," said Medvedev. Hu identified five areas for further practical cooperation:

- Expanding economic and trade investment and cooperation, improving trade structure, and maintaining steady growth of bilateral trade;
- Deepening energy cooperation, particularly in the safe and normal operation of the Sino-Russian crude oil pipeline, while promoting cooperation in petroleum industry, coal, and natural gas, and nuclear power industries;
- Broadening financial cooperation;
- Promoting regional cooperation and accelerating cross-border infrastructure projects; and
- Strengthening cooperation in high technologies and facilitating exchanges between scientific and technological personnel, and promoting the transformation of research achievements. China was also ready to strengthen cooperation with Russia in the areas of energy conservation, environmental protection, disaster prevention and relief, education, health, culture, sports, media, and tourism.

Medvedev was quoted as saying that he fully agreed with Hu Jintao's views on the further development of bilateral relations, adding that it was important to continue youth exchanges for the purpose of enhancing understanding and friendship between the two peoples.

Both Medvedev and Hu attached great importance to the bilateral strategic security consultation mechanism to deepen strategic coordination in international and regional affairs. With this, Hu emphasized that the two sides support each other's "core interests" and seek to safeguard

international strategic balance and stability. They then signed the “Sino-Russian Joint Statement on Comprehensively Deepening the Strategic Partnership of Coordination” and the “Joint Statement of the Heads of State of China and Russia on the 65th Anniversary of the End of the Second World War.” Besides the joint statements, the two foreign ministers also signed an agreement on the fight against terrorism, separatism, and extremism. The details of the antiterror agreement, however, were not disclosed.

The signing of the “Joint Statement of the People’s Republic of China and Russian Federation on Comprehensively Deepening the Strategic Cooperative Partnership” was perhaps the most important step for the deepening of the Sino-Russian strategic relations. The rather long document seems to devote equal attention to bilateral relations (Part I, 14 clauses) and world affairs (Part II, 15 clauses). In reality, Part I is largely about foreign and security issues. Clause 2, for example, is about mutual support of each other’s “core interests” (Taiwan, Tibet and Xinjiang for China and Northern Caucasus and Commonwealth of Independent States (CIS) regions for Russia). It also opposes the distortion of World War II history. Clause 3 focuses on the bilateral agreement on antiterrorism, separatism, and extremism signed by the two foreign ministers in Beijing and describes it as “a solid foundation for the two sides to work together to deal with these threats.” Clause 4 covers the global financial crisis and corresponding policies by the two sides. The remainder of part I addresses bilateral economic relations (clauses 5-10) and social/humanitarian exchanges (clauses 11-14).

In Part II, the Statement covers a wide range of global issues including the promotion of multipolarism and democratization in international relations (clause 1), coordination of macroeconomic policies for steady recovery (clause 2), global and regional stability (clause 3), UN’s bigger role (clause 4), G20 (clause 5), climate change (clause 6), arms control and proliferation (clause 7), threats and challenges in Asia-Pacific (clause 8), SCO (clauses 9 and 10), Korea (clause 11), BRIC and Russia-China-Indian trilateralism (clauses 12 and 13), Israeli-Palestine conflict (clause 14), and Afghanistan (clause 15). The two sides promised to coordinate their policies and promote global and regional stability.

If the foreign policy parts (Clauses 2-4 in Part I) are added, the joint statement devotes considerably greater attention to international issues. Within Part II, the document highlights “threats and challenges” in Asia-Pacific and emphasizes the following points:

- Respecting each other’s sovereignty, independence, and territorial integrity and not interfering in another country’s internal affairs;
- Reiterating the principle of equality and indivisibility of security;
- Adhering to national defense policies that are defensive in nature;
- Non-use of force or threat of force;
- No attempt or support for any actions to topple other governments or undermine another country’s stability;

- Political-diplomatic and peaceful resolution of disputes based on mutual understanding and compromise;
- Strengthening cooperation in addressing nontraditional security threats;
- Carrying out bilateral and multilateral military cooperation that does not target a third country; and
- Increasing personnel exchanges on border regions.

Given the heightened tension between China and Japan and on the Korean Peninsula, the wording indicates some consensus between Russia and China on regional security issues.

A pillar of the China-Russia strategic partnership is, however, business. This time, the two heads of state announced completion of the construction of the Russian-Chinese oil pipeline in a symbolic ceremony in Beijing. Russia will begin commercial oil deliveries to China from Jan. 1, 2011. Medvedev and Hu also presided over the signing of a dozen energy related deals including a protocol of a memorandum of understanding on cooperation on the use of coal; a strategic cooperation agreement on peaceful utilization of nuclear energy; a letter of intent on investment between the China North Industries Corporation and RUSAL, the world's largest aluminum producer; a contract on technology design for the No. 3 and No. 4 units of the Tianwan Nuclear Power Plant in Lianyungang; an additional agreement on buyer's credit for exports between Industrial and Commercial Bank of China and Russia's VTB Bank, as well as several other agreements on energy cooperation.

Even the long-stagnated military-technological sector started to show signs of life when the two reportedly discussed in their formal talks future Russian military sales to China. Russian Foreign Minister Sergey Lavrov said that new results of Russian-Chinese military-technical cooperation can be expected. "We do not have problems here. A very serious negotiation process is taking place. I am confident that its results will be known in the near future," Lavrov told journalists in Beijing. Prior to Medvedev's visit, Russian sources indicated that China is expressing interest in licensed production of certain military products, specifically, aircraft technologies. Another possible "breakthrough" might be the revival of purchasing Russian *Ilyushin*-series cargo and refueling planes.

Conclusion: Russia Day at the Shanghai Expo

The last leg of Medvedev's China visit was Shanghai where he kicked off the "Russia Day" at the Shanghai Expo. Medvedev's last visit to Shanghai was almost 10 years ago in 2001 leading him to remark that "Shanghai of 2010 is totally different." In his speech for the Russia Day ceremony, Medvedev said that the exhibition was a huge festival that has brought together great numbers of people, dozens of nations, and focused on the common idea of how a city of the future will appear.

The Shanghai World Expo is the largest World's Fair site ever. On a 5.28 sq. km area spanning the two sides of the Huangpu River, more than 190 countries and 50 international organizations participated in the expo. China expects 70-80 million visitors, including almost 100 foreign leaders. Just five days before Medvedev's visit (Sept. 23), the expo had its highest daily attendance with 631,100 visitors.

The Russian Pavilion was one of the most popular places and more than 5 million people had visited it since its official opening on May 1. This is the first expo pavilion Russia has built in 30 years. The sun-shaped structure is comprised of 12 white-and-gold towers symbolizing the 12 months of the year and sits on an area of 6,000 sq. meters. On Russia Day, more than 500 Russian artists performed in practically every platform at the Expo.

Medvedev was accompanied by Chinese Vice President Xi Jinping at the Russia Day opening ceremony and later in his visit to the Chinese pavilion. If events run their course, Xi may succeed President Hu Jintao in 2012. For many Russians, Zhang Zilin, the 2007 Miss World pageant winner, is a better known Chinese. In her speech at the Russia Day opening ceremony, Zhang said that Russia was the first of more than 80 foreign trips after winning the Miss World title in 2007. Showered with Russian hospitality in Moscow, Zhang was among the judges for the Miss Russia competition and the winner (Ksenia Sukhinova) later won the 2008 Miss World pageant when Zhang crowned her.

China-Russia relations have indeed become more comprehensive and gone well beyond the "strategic partnership."

Chronology of China-Russia Relations July - September 2010

July 22, 2010: Russian Foreign Minister Sergey Lavrov and Chinese counterpart Yang Jiechi hold a working meeting in Hanoi on the sidelines of the 43rd ASEAN Foreign Ministerial Conference.

Aug. 4, 2010: First Deputy Foreign Minister Andrey Denisov meets Chinese Vice Foreign Minister Song Tao in Moscow to discuss in "a warm friendly atmosphere" a number of topical issues in Russian-Chinese including political contacts in the current year.

Aug. 9, 2010: Chinese President Hu Jintao and Premier Wen Jiabao each send a telegram of sympathy to Russian counterparts for the losses caused by the forest fires in Russia this summer.

Aug. 16-26, 2010: Five Shanghai Cooperation Organization (SCO) member states (Kazakhstan, Uzbekistan, China, Kyrgyzstan and Russia) and three observer states (India, Mongolia, and Pakistan) take part in the *Saratov Anti-Terror 2010* drill in Russia.

Aug. 17, 2010: President Dmitry Medvedev calls President Hu and expresses condolences after a mudslide in China's Gansu Province and Russia's readiness to provide aid. Hu thanks Medvedev and expresses concern over the situation in Russia's fire-stricken regions.

Aug. 25, 2010: President Medvedev and Prime Minister Putin express condolences to Chinese counterparts Hu Jintao and Wen Jiabao over the air crash in Yichun, China.

Aug. 29, 2010: Prime Minister Putin attends the opening of the 72 km section of a pipeline in Skovorodino of the Amur region that delivers Russian oil to China.

Sept. 6, 2010: Chinese Special Representative for Korean Peninsula Affairs Wu Dawei meets Russian Foreign Minister Sergei Lavrov in Moscow and exchanges views on the situation on the Korean Peninsula and restarting the Six-Party Talks.

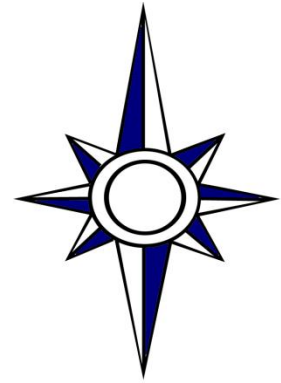
Sept. 9-25, 2010: The SCO holds its seventh joint antiterrorist exercise, *Peace Mission 2010*, in Kazakhstan.

Sept. 21, 2010: Foreign Ministers Sergey Lavrov and Yang Jiechi meet on the sidelines of the 65th session of the UN General Assembly in New York.

Sept. 26-28, 2010: President Medvedev visits China at the invitation of Chinese counterpart Hu Jintao. He visits Dalian, Beijing and Shanghai and meets Hu, Parliament leader Wu Bangguo, Premier Wen Jiabao, and Vice President Xi Jinping.

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



Australia-East Asia/US Relations:

Australia Deposes a Leader and Hangs Parliament

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In 2010, Australia saw a first-term-elected prime minister deposed by his own party and then a federal election that produced a hung Parliament. The Labor Parliamentary caucus removal of Prime Minister Kevin Rudd on June 24 ushered in Australia's first female prime minister, Julia Gillard, who waited only three weeks after replacing Rudd before calling a national election, seeking her own mandate from the voters. Instead, the election on Aug. 21 returned the first hung Parliament since World War II. The new Labor government will live on the permanent brink of defeat – fearing an MP's heart attack, a defection, a by-election. Gillard has won the right to negotiate for her policy preferences, not to impose them. Running a minority government will demand an almost unremitting domestic focus from Gillard. She has promised a more consultative, inclusive style of politics. The *Australian Financial Review* summed up the difference between the two leaders with this quote from a senior ministerial adviser: "Kevin governed from a two-man tent. Julia will need a marquee." Style changes between the Rudd and Gillard governments will be marked. But policy continuity will often be the norm, especially in foreign policy.

Gillard fulfilled her promise to give Rudd a senior post in her government by appointing him foreign minister. The challenge for Rudd will be whether he can put aside his deep personal hurt – and the political habits that brought him down – to serve the woman who deposed him. To put the Canberra question in a Washington frame: Can Kevin do a Hillary? Can Rudd be a loyal and effective foreign minister following the example set by Hillary Clinton as secretary of State?

The US relationship

When Julia Gillard took over as prime minister, her office said the first call from another leader to congratulate her came from President Barack Obama. As Gillard commented shortly after in an interview, "There is no rethinking our alliance with the US."

To celebrate the announcement of his appointment as foreign minister for the television cameras, Kevin Rudd went for a stroll around the lake in front of Parliament, accompanied by the US Ambassador to Canberra Jeffrey Bleich. Within days of being sworn in, Rudd was off on his first overseas visit. He went first to Pakistan to inspect the floods, then straight to Washington, finishing in New York at the United Nations. The care and maintenance of the US alliance is still a core concern of Australian international policy. And, being on good terms with the US matters to Australian voters.

The annual opinion survey of Australian attitudes toward the world by the Lowy Institute for International Policy produced a “warmness” ranking, showing positive feelings for other nations. Of the top five countries, Australians feel warmest about New Zealand, followed by Canada, France, Singapore, and the United States. New Zealand got 84 degrees on the warm meter, while the US got 68 degrees, consistent with last year, but well up from 60 degrees in 2007.

President Obama has rekindled the already strong affection in Australia for the US alliance. Support for the alliance in 2010 remained at record high levels, with 86 percent of Australians saying the alliance with the US was either “very important” (56 percent) or “fairly important” (30 percent). Even when Australians were distinctly jaundiced about George W. Bush, popular opinion about the alliance never went negative. During the four years of Bush’s second term, Australian backing for the alliance ranged between 63 percent and 76 percent. The warmth of Australia’s feelings toward Obama means that not much anger has been taken at the president twice scheduling, then canceling, his 2010 visit to Indonesia and Australia. Obama may be from Hawaii, but he still has some trouble flying across the Pacific.

The US alliance

Prime Minister Gillard and Opposition Leader Tony Abbott have significant disagreements on international policy. They are at odds over strategies to deal with global warming and Abbott’s Liberal-National Party Coalition expresses a bilateralist rather than multilateralist preference in foreign policy. During the campaign for the federal election, the Coalition pledged that “Australia under a Coalition government will engage with multilateral organizations where it is clearly in our national interest. A Coalition government would not proceed with Labor’s extravagant UN Security Council bid, [for 2013-2014] which has distracted from Australia’s core foreign policy interests.”

On the US alliance, though, Gillard and Abbott express the consensus that has marked both sides of Australian politics since the end of the Vietnam War. That consensus is illuminated by the continuing support of Labor and the Coalition for Australia’s military commitment to Afghanistan. Labor’s foreign policy platform for the federal election opened with a discussion of five key bilateral relationships: the US, followed by Japan, China, India, and Indonesia. Labor stated that the US is the “bedrock” of Australia’s defense and security:

“The US will continue to be the single most powerful and important strategic actor in our region for the foreseeable future, both in its own right and through its network of alliances and security relationships, of which Australia’s alliance with the United States is one. The US continues to underwrite prosperity and stability in the Asia-Pacific as it has for the past 50 years. Since 2007, the Labor Government has enhanced our bilateral relationship with the United States leading to new agreements in defence cooperation, civil-military cooperation, and counter-terrorism. We have strengthened our alliance through our increased cooperation with the United States in Afghanistan. We have managed all this while also implementing an election commitment to withdraw combat forces from Iraq.”

The Coalition's adherence to the US alliance is such a constant of Australian politics that its brief, formal foreign policy statement for the election did not bother to discuss it. The Coalition's traditional position was expressed in a speech Abbott delivered in April 2010, entitled "National Security Fundamentals." He said his approach to foreign policy would build on that of the Howard government, which held office from 1996 to 2007. As a minister in the Howard's Government, Abbott pointed to its commitment to the US-British "Anglosphere": "The Howard Government understood that the 'Anglosphere' was the heart of the Western alliance and sensed Australia's responsibilities and potential standing as a participant in it. Over the past decade our military involvement in Afghanistan and Iraq has deepened our alliance with the US, revitalised our military and broader security links with Britain and reinforced our significance in the region and the wider world." Abbott's embrace of the "Anglosphere" caused heartburn among some foreign policy specialists who saw it as sending the wrong message to Asia. But Abbott's sentiments were an accurate rendering of the beliefs of his mentor, John Howard, and of the views of past Liberal Party leaders.

Abbott was explicit that Australia's approach to the US went beyond alliance interests to embrace the values shared with the US:

"It is easy to question the US tactics and sometimes its judgment but almost never its good intentions. It is not Australia's role to be an unquestioning ally. Still, America's habitual critics should more often consider to which other country or body they would rather entrust a solution to the world's troubles. Were Australia to be directly threatened, America would primarily consider its own national interest rather than ours. We could never take American help for granted. Still, the stronger an ally we are in America's struggles the more sure an ally they should be in ours. Alliance considerations are not the most important reason for Australia's military commitment to Afghanistan but they're not insignificant either. Quite apart from the fact that America's values are invariably ours and that America's interests are mostly ours too, there's the mutual obligation dimension that any friendship involves."

Labor gave personal expression to its attachment to the US alliance with the dispatch of its previous leader, Kim Beazley, as Australia's ambassador to the US. Beazley, a former defense minister, has long expressed strong support for the alliance. Thus, it's notable that he is arguing that Australia now gives more than it gets from the alliance. Ahead of taking up his post in Washington in February 2010, Beazley penned an article arguing that the balance of advantage in the US-Australia alliance "has shifted to the Americans." This is quite a departure from how Australian strategists usually weighed the alliance since World War II and the creation of the ANZUS pact in 1952.

Beazley described what he called "a subtle change in power relations in the Australian-American alliance" as it has evolved since the end of the Cold War. "Our collaboration is much deeper, but it needs to be. In an era where regional capabilities are advancing and peer powers to the US are emerging, what was important before is now critical. We make a key contribution to American capacity in our region, particularly in intelligence and through our effective diplomacy. However, the balance of advantage in the alliance has shifted to the Americans. Likewise, the American focus is away from our region, though its interests in it are substantial. Getting this

point across to them, particularly while pursuing our own views on regional architecture, is a challenge.” He offered this checklist of what Australia brings to the alliance, presumably shifting “the balance of advantage” to the US side of the ledger:

- The joint facilities in Australia;
- Australia’s “enormous” contribution to the mutual intelligence effort in the region;
- Australia’s role in the “relatively good” counterterrorist outcomes in Southeast Asia;
- Australia’s “useful” capacity in the South Pacific;
- The Australian Defense Force is among the most interoperable with the US;
- Australia has shown “substantial” willingness to spend on the Australian Defense Force; and
- Australia has a diplomatic and policy profile in the Asia-Pacific.

Having set down the list, Beazley concluded, “We have something to trade.”

Afghanistan

John Howard began what has now become the custom of the prime minister going to funerals of Australian military personnel killed on active duty. Howard’s successors, Kevin Rudd and Julia Gillard, have followed the practice, and 2010 became the year when the death toll from Afghanistan meant Australia’s prime minister had to attend an average of one funeral a month. From 2001 to 2009, 11 Australian soldiers died in Afghanistan. Up to September, this year, 10 Australians soldiers have been killed in Afghanistan. Their bodies were flown home for burial. The television pictures of the prime minister and opposition leader attending each funeral have been a mute testimony to the Labor-Coalition consensus on the need for the military mission to Afghanistan.

The Coalition, under Howard, invoked the US alliance after the 9/11 attacks and committed Australian forces to the overthrow of the Taliban government. Labor backed the Afghanistan campaign but later opposed Howard’s commitment of Australian forces to the Iraq war. In campaigning to win office in 2007, Kevin Rudd’s approach was broadly similar to that of Barack Obama. Rudd argued that Afghanistan was the “good war” while Australia must withdraw its forces from Iraq. Labor said Rudd succeeded in withdrawing Australian forces from Iraq while maintaining the alliance.

The Labor Government raised to 1,550 the number of Australian troops in Oruzgan province, but refused to take command of the region when Dutch forces withdrew. Ambassador Beazley says

Australia's force in Afghanistan makes it "the biggest contributor outside NATO in an area well outside our strategic sphere of interest ... meeting our ally's concerns as well as our own."

In his national security speech in April, Abbott hinted that the Coalition might be prepared to send extra Australian troops saying: "It's no secret that the Americans would like additional Australian forces in Afghanistan and have refrained from making a formal request only because they have been told that it would be unwelcome.... If satisfied that the role made strategic sense and was compatible with our other military commitments, a Coalition government would be prepared to consider doing more." In the election campaign, the Abbott line on Afghanistan became more circumspect. Questioned about lifting troop numbers, the Liberal leader said, "I fully support the existing commitment to Afghanistan and in any future decisions about Afghanistan I would be very much guided by the advice of the Defence Chiefs."

Rather than increasing the commitment, the Labor government is sticking closely to a timeline that sees Australian troops completing their Afghanistan mission between 2012 and 2014. That timeline is to be the subject of formal debate in the new Parliament. The Greens Party, which opposes the Afghanistan commitment, made this debate a condition of the support pledged by its single MP in the Lower House for Labor to form a government. Thus, the Afghanistan debate that was avoided during the campaign will now take place in the hung Parliament.

One of the newly elected independent MPs who will take part will be Andrew Wilkie, a former Army lieutenant colonel who resigned as an Australian intelligence analyst in 2003 in protest at the Iraq war. He said Australia should leave Afghanistan as quickly as possible to allow the country to find its own political level. In his maiden speech to Parliament, Wilkie said there was "no hope of enduring peace" until foreign troops are withdrawn, "That we must stay in Afghanistan to protect Australia from terrorism is a great lie peddled by both the government and the opposition."

The previous chief of the Australian Defense Force, retired Gen. Peter Cosgrove, went close to some of the same thoughts in a series of lectures at the end of 2009 when he concluded of Afghanistan that "I think we can confidently say we are losing this battle." The most famous Australian soldier of the era placed Afghanistan squarely beside the failure in Vietnam. Cosgrove took much of the political sting from his comments by backing the Afghanistan mission, despite what he described as "the protracted, seemingly intractable violence." His complaint, ultimately, seemed to be about mission confusion: "Nobody would dare complain if we were cogent and crystal clear about what will constitute success and how we will get there ... We are a loyal friend accompanying others in Afghanistan because it is right but our presence is not and never has been unconditional. In Vietnam our voice was not heard. It is in our national interest that it is heard among our allies at this critical time in Afghanistan."

Cosgrove repeated his view that, in hindsight, Australia's commitment to the Vietnam War was a mistake. He offered a set of measures drawn from Vietnam that produce uneasy answers when applied to Afghanistan:

- Look not only at the reasons why we go but also at the prospects of success.

- Consider the methods that will be used to win.
- What price are we prepared to pay?
- What would be the cost of failure?
- Remember the law of unintended consequences.

Trade

On March 15, 2010, the formal start of negotiations on the Trans-Pacific Partnership (TPP) Agreement began in Melbourne, involving eight countries: Australia, the US, New Zealand, Singapore, Chile, Brunei, Peru, and Vietnam. Collectively these countries are home to 470 million people and have a combined GDP of \$16.2 trillion. Parties have agreed to hold four negotiating rounds per year. At the Melbourne talks, Australia's Trade Minister Simon Crean said the TPP represents a path toward APEC's long-term goal of a Free Trade Area of the Asia-Pacific: "The TPP will be an ambitious, 21st century agreement that will strengthen economic integration in the region. The Australian government will be seeking a high standard, comprehensive agreement that complements the WTO Doha Round. The participation of the US is an important signal of the Obama administration's commitment to the region and an encouraging sign of broader US engagement on trade policy issues."

Canberra is talking up the TPP as one of the vehicles the US will use to attempt to put new life in the long-stalled Doha Round negotiations in the World Trade Organization. In this Australian vision, the TPP is an effort to move beyond bilateral free trade deals to create regional trade networks that can then feed into the multilateral trading system. Crean called this "the cascade effect," arguing that the effort to do bilateral or regional trade treaties should not be seen as a turning away from the benefits of multilateral trade.

Australia has six Free Trade Agreements (FTAs) in place, is negotiating a further seven, and two more are under consideration. Crean said Australia's FTA with the US can help deal with any new trade barriers in the US: "Last year when the US introduced its 'Buy America' package, it was the US FTA that reinforced the Australian position and cushioned the Australian economy from this attempt to mandate the use of American products."

The effort to create a network of free trade agreements has drawn fire from economic purists in the Canberra bureaucracy, especially in Treasury and the Productivity Commission. In its briefing papers for the new Gillard government, Treasury argued that the proliferation of so-called FTAs is not helping Australia. Rather than seeing them as freeing trade, Treasury regards the deals as discriminatory bilateral political handshakes that do not deliver economic benefits. The Treasury brief to the prime minister stated that "Current approaches to preferential free trade agreements are not meeting Australia's needs. The proliferation of FTAs has not built support for multilateral liberalisation and is delivering only modest preferential market access outcomes at the cost of reduced government policy reform flexibility ... Australia is negotiating seven FTAs, including some with our most important trading partners and regional allies. The Productivity

Commission has found that the potential benefits of the FTAs under negotiation have been oversold and the negatives largely undersold.”

In a speech in February setting out his “cascade” view of bilateral-regional-multilateral negotiations, Trade Minister Crean mounted the counter-argument to Treasury. He said the breadth and ambition of trade agreements were what mattered in judging costs and benefits: “What is crucial is the quality of FTAs and what they set out to achieve. The ultimate goal has to be trade liberalisation and economic integration. The danger of bilateral FTAs is that you can be drawn back into preferential trade deals. Trade deals that favour one country, or group of countries over another, and stifle economic integration. This is not where the Australian government wants trade policy to go.” In May, Australia’s trade promotion body, Austrade, conducted a series of national seminars on trade and investment opportunities in the US.

Parliamentary Secretary for Trade Anthony Byrne said the boom in Australia’s trade with China and the global financial crisis had distracted many from the great benefits of Australia’s long-standing trade and investment links with the US: “The US is still our largest commercial trade and investment partner and services export market. In 2008-2009 two-way trade with the US was worth A\$54.7 billion, with service exports alone valued at A\$5.8 billion. In 2008, the US was also the largest foreign investor into Australia, investing A\$418.4 billion, with foreign direct investment comprising A\$95.4 billion.”

Asia-Pacific community

The Australia chapter in *Comparative Connections* in October 2009 devoted several pages to Kevin Rudd’s 2008 initiative for the creation of an Asia-Pacific Community which, in 2009, became an Asia-Pacific community dialogue. The fate of Rudd’s Community/community quest can be reported. The answer to the question Rudd posed is to be provided by ASEAN: the expansion of the East Asia Summit (EAS) to include the US and Russia.

At the May 2009 Shangri-La Dialogue, Rudd changed the name of his initiative from an Asia-Pacific Community to Asia-Pacific community (from APC to APc). The shift to a small ‘c’ reflected the regional response that there should be no new institutions and no new summits. The quest for Community became a discussion about community.

At the EAS in Thailand in October, 2009, Rudd was given time to explain his APc and the opportunity to make his case for building stronger regional architecture. His presentation drew positive comments from the leaders of Singapore, China, Vietnam, Japan, and New Zealand. There were no negative comments. For Canberra, this amounted to a tacit nod that could be used as the basis for more talks.

The terms of the APc were set out in a concept paper, completed by Richard Woolcott, the prime minister’s special envoy, and given to embassies in Canberra in the week prior to the EAS. The concept paper noted the “major shift in strategic weight” to the Asia-Pacific but pointed to “the high risk” of instability because of the “rate of growth, change and internal interaction in the region.” Woolcott said no single institution in the Asia-Pacific had the membership and mandate to address comprehensively both economic and strategic challenges: “APEC’s mandate is

economic, and its membership is so wide as to be unwieldy. The ASEAN Regional Forum has no leaders'-level meeting, can deal only with security matters, and many believe it is too large and has made insufficient progress since its inception. Meanwhile, ASEAN, ASEAN plus 3, and the EAS are each, to varying degrees, insufficiently representative of the Asia-Pacific region to be said to constitute an APc. The EAS is most representative, and has a leaders' meeting, but does not include some key countries. ASEAN, as a subregional grouping in the Asia-Pacific, highlights the importance of developing the right institutions at the right time: it has been crucial in the transformation of Southeast Asia from a region of strategic conflict into one of cooperation and consensus. Australia believes the time has now come to extend the vision that drove formation of ASEAN to the wider Asia-Pacific region. An Asia-Pacific community could be seen as a natural broadening of the processes of confidence, security and community-building led by ASEAN."

Woolcott listed what he describes as the key findings from his consultations with 21 countries after Rudd launched the APC initiative in 2008:

- A high level of interest in the APc proposal;
- "Strong recognition" that current institutions do not provide a forum for all leaders to discuss the full range of economic, security, environmental and political challenges;
- Little appetite for creating new institutions in addition to the existing forums: ASEAN, ASEAN plus 3, the EAS, APEC, and ARF;
- ASEAN's involvement in regional institutions is "crucial"; and
- A keen interest in further discussion on the Asia-Pacific community proposal.

Woolcott concluded with three "crucial" propositions on how the APc could advance the interests of all countries in the Asia-Pacific:

1. An APc will ensure the process of regional economic and financial integration continues, and that "the region as a whole strives for a market-driven regional economy that is open to the world."
2. An APc will nurture a culture of dialogue and collaboration at the leadership level to deal with emerging strategic competition: "The first steps should promote region-wide security building measures. Eventually – just as ASEAN has been able to build a degree of strategic congruence among countries beset with historic rivalries – an APc will help build a sharper sense of common regional strategic interest across all of Asia, on top of helping to ensure that regional relationships do not become adversarial."
3. An APc will be used to deal with climate change, water and food security, non-proliferation, illegal people movements, transnational crime and terrorism: "As with more traditional security challenges, such as territorial disputes, the objective would not necessarily be to reach a single region-wide position, but to use the mechanism of

regional consultation to help advance solutions be they global, regional or bilateral. As with strengthening strategic stability, it will be the habit of consultation at the highest level that requires nurturing: not because it will solve all problems but because it can make the search for solutions easier and diminish the risks of miscommunication, miscalculation and of descent into crisis or conflict.”

Australia was both stroking and shaking ASEAN in the discussion of an APc. The line from senior Canberra players was that ASEAN had a central role in the dialogue over an APc, but ASEAN had “no God-given right” to control the agenda. Getting a balance between these contradictory sentiments was a task for the track 1.5 conference on the APc Rudd convened in Sydney on Dec. 4-5, 2009. Australia sought support for the creation of an eminent persons’ group to carry forward the APc. ASEAN, led by Singapore, questioned Australia’s initiative and any further work on the idea.

The ASEAN thumbs down was publicly expressed in an article by the former Singapore diplomat Tommy Koh on Dec. 18, 2009. The flavor of the commentary was expressed in the headline used by *The Australian*: “Rudd’s reckless regional rush: ASEAN is not happy with the way the PM has pushed his Asia-Pacific proposal.” Koh wrote that Australia’s APc lacked clarity, consistency and process. He saw a disconnect between the stated view that ASEAN should be at the “core” of any future Asia-Pacific institution and the quest for a new “concert of powers and coordinating body.” ASEAN felt its “long-term goal of peace and stability and the dividends obtained to date should not be minimised or marginalised,” Koh said.

By April, 2010, Rudd conceded victory to ASEAN: if there is any new step toward an Asia-Pacific community, it will build on what ASEAN now has in place. The Rudd nod was a response to the position put at the ASEAN summit in Hanoi earlier that month. The summit communiqué said the ASEAN-plus process, the EAS, and the ARF were the institutions to be used in the building of a community in East Asia. The step forward was the formal ASEAN offer to Russia and the US to join the EAS: “We encouraged Russia and the US to deepen their engagement in an evolving regional architecture, including the possibility of their involvement with the EAS through appropriate modalities, taking into account the Leaders-led, open and inclusive nature of the EAS.” Leaders-led means, “please join us at the summit.”

The Hanoi communiqué expressed in direct terms ASEAN’s determination to stay in the driver’s seat. The term of choice is ASEAN “centrality.” The 10 leaders of Southeast Asia stressed their determination to maintain ASEAN’s central role in the emerging regional architecture, “ensuring ASEAN’s role as the driving force in regional cooperation frameworks... We agreed that any new regional framework or process should be complementary to and built upon existing regional mechanisms and the principle of ASEANs centrality.”

Rudd got the message. He responded by restating some of his Asia-Pacific community language while endorsing the ASEAN structure: “I shall continue to advocate the development of regional architecture that has the right membership and mandate to address the full spectrum of challenges confronting the region - economic, political and security.” He then named the essential membership for this regional architecture, which exactly matched the expanded EAS model. Rudd first listed China and the US (out of alphabetical order) followed by ASEAN. And

finally, the other six in the plus group: Australia, India, Japan, New Zealand, the Republic of Korea, and Russia. The nod to ASEAN was given in these words: “The inclusion of the United States and Russia in our region’s emerging architecture is fundamental to the evolution of what I call an Asia-Pacific community. In fact, so much of Australia’s diplomacy has been driven by this core concern - how to integrate in particular the role of the United States in the future broad architecture of our region. In this context I welcome very much the decision of ASEAN leaders at their summit in Hanoi on 8-9 April this year to encourage the United States and Russia to deepen their engagement in evolving regional architecture.”

Secretary of State Hillary Clinton sealed the deal with ASEAN in Hanoi at the annual Foreign Ministerial Meeting. During her fifth visit to Asia as secretary, Clinton anointed the EAS as a “foundational security and political institution for Asia.”

The winner in the community stakes is the EAS. Canberra is claiming this as a win for the dialogue it tried to have. The foreign minister in Rudd’s government, Stephen Smith, said bringing the US into the EAS is a good result: “We’ll have all of the players sitting around the table at the same place at the same time able to have a conversation, not just about peace and security, but also about prosperity. So we think we are not too far away from achieving a very good practical outcome which meets our objectives.” As foreign minister, Kevin Rudd will be involved in the detailed work on how the expanded EAS can achieve the Community/community objectives he set as prime minister.

China

China is giving Australia an economic boom and a geostrategic headache. Australia did not fall into recession during the global financial crisis because of the surging Chinese demand for Australian iron ore and coal. The China effect has delivered Australia’s best terms of trade since the middle of the last century and is predicted to push Australia’s economy back to 4 percent annual growth in the financial year that begins in July 2011. The national budget in May 2010 commented that “Australia has largely avoided the business failures and large-scale employment losses that have occurred in many other countries, providing a solid foundation for the recovery. The positive outlook is being increasingly underpinned by an improved global outlook and by our close trade links to the rapidly growing Asian region, and in particular China.”

The Rudd government’s dealings with China, though, mixed diplomatic pain with the economic pleasure. The Rudd experience was notable because his predecessor, John Howard, managed for so long (in public) to hold to the narrower, bilateral conception of what China might mean. Howard maintained a sharp focus on the trade bonanza to harvest the bilateral dividend. Utterly pragmatic, Howard sought to put other issues of region, alliance, and international system in a separate, sealed box. This was a noteworthy achievement.

Rudd had neither the character nor the personal history to emulate Howard’s approach. History, anyway, was shifting rapidly beyond that comfortable bilateral zone where it could be about trade alone. In a book on Rudd’s fall as prime minister, “Rudd’s Way”, the Canberra journalist Nicholas Stuart writes about how Beijing initially misread the China orientation of the Mandarin-speaking leader. Rudd had completed a university thesis on the protest movement in

China, had personally compared Taiwan to China, and during his time as a diplomat in Beijing had sought out Chinese dissidents: “The important point about this personal experience was that it provided Rudd with a remarkable insight into the complexity, or duality of China ... There was a tendency for many Labor sympathisers to assume that Rudd was completely sympathetic to the aims of Beijing. This was not correct.”

Rudd’s leadership offerings on China were bookended by significant speeches, two years apart, in Beijing and Canberra. The Beijing University speech in April 2008, four months after taking office, was the opening, hopeful effort to dance with China. The 70th Morrison lecture in Canberra in April, 2010, was delivered two months before Rudd was cut down by the Labor caucus, and bore the wounds of experience.

In Beijing, Rudd offered honest criticism, speaking in Mandarin, and sought to speak as a *zhengyou*, a true friend who “offers unflinching advice and counsels restraint” to engage in principled dialogue about matters of contention. Two years later, in Canberra, Rudd detailed three dark scenarios among the many possibilities facing China: (1) China as threat; (2) China as direct competitor with the US for control of the international system; or (3) China as self-absorbed mercantilist bully:

“There is a hardline view that regards China’s rise as a threat to the existing global order no matter what. There is a contrary view, espoused by some particularly in the developing world and in some parts of academia, that a new ‘Beijing consensus’ should replace the ‘Washington consensus’ with China the model for developing countries to follow. There is the associated view of China as the economic saviour of the world, emerging from the global financial crisis. Or alternatively, there is the view that China increasingly behaves as a mercantilist power, insensitive to its emerging global economic responsibilities. The truth is there are as many conflicting views in the West about China and its future as there are within China itself.”

The specter of a clash of values and interests between the US and China was a theme running through Rudd’s international perspective as prime minister, notably in the 2009 Defense White Paper. His Canberra speech on China hit some of the same notes: “Let us remember that we are now seeing the rise of a new great power alongside the continuing single existing superpower the United States. In this context, genuine engagement becomes critically necessary. History is not overburdened with examples of how such transitions in geopolitical and geo-economic realities have been accommodated peacefully. We need a new way forward.”

When talking about present issues and future prospects with China, the itchiness of recent wounds was evident. Rudd named the scars from 2009. First, there was controversy surrounding the failed Chinalco bid for the mining giant, Rio Tinto in June, 2009. Then, in July, the Australian businessman Stern Hu was arrested in Shanghai. In August, the Uighur leader, Rebiya Kadeer, visited the Melbourne Film Festival. As detailed in last October’s *Comparative Connections*, Beijing delivered a series of diplomatic cuts to express its displeasure. Chinese ministerial visits were called off, Australian ministers visiting Beijing were snubbed, and the Chinese media frothed about Australia’s less-than-friendly behavior.

The three months of diplomatic warfare Beijing waged against Australia was brought to an end by an Australia-China joint statement issued in October 2009. The “ceasefire” statement embraced a “comprehensive relationship,” acknowledged “differences of one type or another,” and pledged to “properly handle differences and sensitive issues in accordance with the principles of mutual respect, non-interference and equality ...” This binding of wounds was joined to a statement of geopolitical truth pregnant with different possibilities: “The two sides agreed that China and Australia share important common interests in promoting peace, stability and development in the Asia-Pacific region.”

Rudd’s Asia-Pacific Community/community effort was an attempt to frame his own China questions in regional terms. So was his creation in Canberra of a new think tank, the Australian Centre on China in the World. As Rudd said in his Morrison lecture, Canberra will acknowledge China’s core interests but Beijing must give equal respect to Australia: “Otherwise our engagement runs the risk of being formalistic and lacking the elements of a mature and genuine relationship that is necessary as we negotiate the shoals of the future. It runs the risk of concealing beneath it a range of tensions (both real and imagined) which cannot be resolved if they are not the subject of substantive discussion.”

China poses huge questions for Australia which stretch from trade to alliance and the shifting regional balance of power. To confront those questions, Australia now has a Mandarin-speaking foreign minister in place of its Mandarin-speaking prime minister.

70 years of US-Australia diplomatic relations

In 2010, the US and Australia marked the 70th anniversary of their formal diplomatic relationship. After four decades as a nation, Australia in 1940 decided it could no longer conduct diplomatic business with Washington via Britain. World War II meant the Menzies Coalition government wanted Australia to have its own ambassador in Washington. The following year, only weeks after Pearl Harbor, new Labor Prime Minister John Curtin made one of the seminal statements of Australia’s strategic interest: “Without any inhibitions of any kind, I make it quite clear that Australia looks to America, free of any pangs as to our traditional links or kinship with the United Kingdom.”

Curtin’s statement of Australia’s separate status and separate needs angered Churchill and outraged conservative Australians because of the break with Britain. Australia’s new ambassador in Washington was told by Roosevelt of the president’s “distaste” at Curtin’s “panic and disloyalty.” So, at the beginning, as now, the US relationship caused intense debate in Australia. Equally, both sides of Australian politics, as expressed by Menzies and Curtin, agreed on the US importance.

Marking the 70th anniversary, Ambassador Bleich said the relationship existed long before the 1940 treaty and extended far beyond words on paper:

“Before there were diplomats in each other’s capitals, there were world-travelling whalers and miners, sailors of the Great White Fleet and their gracious Australian hosts, yanks and diggers hunkered down in trenches in World War I. Our treaty in 1940

reflected all of these shared struggles and triumphs, and it illuminated a partnership that would sustain us through the darkest days of World War II and into the great dawn of our alliance. Our partnership is built on more than security and mutual defense. It is the sum of hundreds of thousands of intangible human connections created over decades. We've trusted each other. We've valued each other's freedom, self-reliance, open markets and sense of fair play. We've taken our work seriously, without taking ourselves too seriously. And when we've disagreed, we've done it without being disagreeable."

Chronology of Australia-East Asia/US Relations **October 2009 – September 2010**

Oct. 13, 2009: India-Australia Foreign Ministers Framework Dialogue is held in New Delhi.

Oct. 25, 2009: East Asia Summit (EAS) held in Thailand.

Oct. 28, 2009: The Fifth Regional Interfaith Dialogue, co-sponsored by Australia, Indonesia, New Zealand and the Philippines, is held in Perth.

Nov. 5, 2009: Defense Minister John Faulkner in Washington for talks with Defense Secretary Robert Gates on Afghanistan.

Nov. 5, 2009: Official figures show China has replaced Japan as Australia's largest two-way trading partner. Total trade with China increased by 30 percent to A\$83 billion in the financial year ending in June 2009.

Nov. 9, 2009: Sri Lanka and Australia release a Joint Ministerial Statement affirming their commitment to work together to combat people smuggling, the financing of terrorism, and related organized criminal activities.

Nov. 12, 2009: Prime Minister (PM) Kevin Rudd visits New Delhi to take the relationship with India "to the level of a strategic partnership." India and Australia announce a Joint Declaration on Security Cooperation covering counter-terrorism, defense, disarmament and nonproliferation, and maritime security.

Nov. 15, 2009: APEC Leaders Meeting in Singapore.

Nov. 25, 2009: Australia's Cabinet approves the first purchase of US joint-strike fighters. The initial 14 *F-35s* are estimated to cost of A\$3.2 billion. Australia plans to buy 100 planes.

Nov. 26, 2009: Jeffrey Bleich presents his credentials to the governor general as the 24th US ambassador to Australia.

Nov. 30, 2009: PM Rudd meets President Barack Obama in Washington for talks on climate change and Afghanistan. Rudd says Australia will not increase troop numbers in Afghanistan but will send more police and aid workers.

Dec. 2, 2009: Ahead of the UN Climate Change Conference in Copenhagen, Federal Parliament rejects the Rudd government's emissions trading scheme.

Dec. 2, 2009: PM Rudd welcomes President Obama's announcement of a new strategy for Afghanistan as "the best way forward to provide security for the Afghan people."

Dec. 3, 2009: Australia hosts a track 1.5 conference in Sydney on PM Rudd's Asia-Pacific community proposal.

Dec. 11, 2009: PM Rudd announces the creation of a National Security College in Canberra headed by former Secretary of the Department of Foreign Affairs and Trade Michael L'Estrange.

Dec. 15, 2009: Foreign Minister (FM) Smith visits Seoul for talks on the Australia-Korea Security Cooperation Initiative.

Dec. 15, 2009: Australia-Japan Report on Eliminating Nuclear Threats is released.

Dec. 16, 2009: South Korea and Australia sign a development cooperation agreement that recognizes South Korea as an important emerging donor and development partner for Australia in Asia.

Jan. 2, 2010: A 21-year-old Indian student is murdered in a knife attack in Melbourne. The death follows other attacks on Indians studying in Melbourne. India's external affairs minister says "uncivilised, brutal attacks on innocent Indians" will affect ties with Australia.

Jan. 14, 2010: The Haiti earthquake means the postponement of a trip to Canberra by Secretary of State Hillary Clinton and Defense Secretary Robert Gates, for the annual AUSMIN talks scheduled for Jan. 18.

Jan. 15, 2010: The new Cyber Security Operations Centre in Canberra, within the Defense Signals Directorate, is officially opened.

Feb. 3, 2010: Australia temporarily lifts its travel ban on members of Fiji's military regime so Fiji's foreign minister can fly to Canberra for talks with the foreign ministers of Australia and New Zealand.

Feb. 6, 2010: Defense Minister John Faulkner meets NATO defense ministers in Istanbul to discuss the security and stability of Afghanistan.

Feb. 8, 2010: A statement on Australian policy toward Burma is presented to Parliament by Foreign Minister Smith, maintaining targeted financial sanctions.

Feb. 11, 2010: Shanghai's People's Court announces details of commercial espionage charges against Australian mining executive Stern Hu and three of his Chinese colleagues, all employees of the mining firm Rio Tinto.

Feb. 15, 2010: Five Muslim men are convicted of conspiracy to commit a terrorist act in Australia and given jail sentences of 23 to 28 years. Prosecutors argued the men were planning terrorist attacks to protest Australia's military involvement in Iraq and Afghanistan.

Feb. 18, 2010: Australian Ambassador to US Kim Beazley takes up the Washington post.

Feb. 23, 2010: PM Rudd releases a Counter-Terrorism White Paper, stating "terrorism has become a persistent and permanent feature of Australia's security environment."

Feb. 26, 2010: The 50th anniversary of the Australia-US agreement to provide space tracking and communications facilities to NASA.

March 4, 2010: FM Smith visits New Delhi and meets India's Prime Minister Manmohan Singh. Smith gives assurances that Australia is taking the issue of Indian student safety seriously.

March 10, 2010: Indonesian President Susilo Bambang Yudhoyono addresses the Australian Parliament, saying relations "hit an all-time low" in 1999 during the crisis over East Timor's independence vote. Now, the two have a "fair dinkum" partnership which is "solid and strong."

March 15, 2010: First round of talks are held on the creation of a Trans-Pacific Partnership.

March 24, 2010: Australia and Japan submit a Joint Package on Nuclear Disarmament to the UN, to be considered at the Review Conference of the Treaty on the Nonproliferation of Nuclear Weapons (NPT) in May 2010.

March 26, 2010: Five *F/A-18F* fighter jets arrive at Amberley, near Brisbane. The planes are the first of 24 *Super Hornets* to enter service, the RAAF's first new fighter jets since 1985.

March 29, 2010: Australian mining executive Stern Hu is sentenced in a Shanghai court to 10 years in jail after being found guilty of accepting bribes and stealing trade secrets.

April 9, 2010: Responding to the flow of boat people, Australia places a temporary ban on processing refugee applications by citizens of Afghanistan and Iraq. The government later announces that the Indian Ocean asylum-seeker detention camp at Christmas Island is housing more than its capacity – 2,040 people.

April 19, 2010: China is accused of mounting cyber-attacks against Australia's major iron ore producers, BHP Billiton, Rio Tinto and Fortescue Metals. The claim of internet espionage is made in a TV documentary by the Australian Broadcasting Corporation.

April 23, 2010: PM Rudd announces the creation in Canberra of a new think tank, the Australian Centre on China in the World.

April 26, 2010: The Rudd government drops its scheme for an emissions trading scheme to deal with carbon pollution, citing the political problems of getting the law through Parliament.

April 27, 2010: The first coordinated maritime security patrol by the Australia and Indonesian militaries in the waters between Australia and Indonesia is completed. The patrol involves the Australian and Indonesian shared maritime boundaries to the south of West Timor.

April 27, 2010: The US and Australia renew their Acquisition and Cross-Servicing Agreement, a treaty for cooperative military logistics support.

April 29, 2010: Australia and the US agree to strengthen emergency management cooperation including during bushfires, major storms, and other severe natural disasters.

May 5, 2010: Australia and the US sign a new agreement on the Peaceful Uses of Nuclear Energy. The treaty replaces the existing 1979 agreement, which expires in January 2011.

May 5, 2010: The RAAF accepts delivery from Boeing of two *Wedgetail* Airborne Early Warning & Control (AEWC) aircraft. The A\$3.9 billion project, delayed by four years, is described as having “come a long way” on a “path has not been straightforward.”

May 17, 2010: FM Smith visits Shanghai to open Australian Pavilion at Shanghai World Expo.

May 19, 2010: The third 2+2 meeting between the foreign and defense ministers of Japan and Australia is held in Tokyo, reflecting what Canberra calls a “substantial strengthening of bilateral defence and security ties.”

May 31, 2010: The Pacific Island Forum Ministerial Contact Group convenes in Auckland for talks with Fiji’s military regime.

June 7, 2010: Two Australia soldiers on patrol in Afghanistan are killed by an improvised explosive Device (IED).

June 21, 2010: Three Australian commandos are killed when a helicopter crashes in northern Kandahar. Seven of their colleagues are wounded. It is the largest loss of life in a single incident in Australia’s deployment to Afghanistan.

June 24, 2010: Kevin Rudd is deposed as Labor leader and prime minister by Julia Gillard.

July 10, 2010: One Australian soldier is killed and another wounded following an IED attack in Afghanistan’s Chora Valley.

July 12, 2010: Fiji expels Australia’s acting ambassador in Suva, claiming Australia is interfering in Fiji’s internal affairs.

Aug. 4, 2010: The Pacific Islands Forum summit held in Vanuatu.

Aug. 5, 2010: Australia is confirmed as vice chair of the Indian Ocean Rim Association for Regional Cooperation for 2011 and 2012.

Aug. 20, 2010: Two Australian soldiers are killed when struck by an IED in Afghanistan.

Aug. 21, 2010: Australia's voters go to the polls but return a hung Parliament.

Aug. 24, 2010: An Australian is killed in Afghanistan. This brings the number of Australians killed since operations began in 2001 to 21, 10 of them so far in 2010.

Sept. 7, 2010: Labor forms a minority government. The White House says President Obama phoned PM Gillard to offer his congratulations on her successful formation of a government.

Sept 28, 2010: Three Australia soldiers will face court martial over the deaths of six people in Afghanistan. The charges are made after an investigation into a compound clearing operation in Afghanistan on Feb. 12, 2009.

About The Contributors

Carl Baker is the director of programs and co-editor of *Comparative Connections* at Pacific Forum, CSIS and an adjunct professor with the International Studies Department at Hawaii Pacific University. Previously he was on the faculty at the Asia-Pacific Center for Security Studies. He has extensive experience in the Republic of Korea, having served with the UN Military Armistice Commission and as a political and economic intelligence analyst. He also served seven years in a variety of military staff assignments in Japan, the Philippines and Guam. A graduate of the Air War College, he has an M.A. in public administration from the University of Oklahoma and a B.A. in anthropology from the University of Iowa.

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Graeme Dobell has been reporting on Australian and international politics, foreign affairs and defense, and the Asia Pacific since 1975. He currently writes The Canberra Column for The Interpreter, the blog of the Lowy Institute. Previously, he was the ABC's South East Asia radio correspondent in Singapore and was the Canberra-based Foreign Affairs & Defense Correspondent for Radio Australia from 1978 to 2008, reporting also for ABC radio news and current affairs programs. In April 2008 became Radio Australia's Associate Editor for the Asia Pacific. Assignments in his career as a correspondent have included the Falklands War, coups in Fiji, Thailand, and the Philippines, Beijing after the Tiananmen Square incident, and the return of Hong Kong to China. He is the author of "*Australia Finds Home — the Choices and Chances of an Asia Pacific Journey*," published in 2000.

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